

# **Clean Sheet Cost Model: Helping Companies to Optimize Spend Portfolio & Achieve Significant Savings**



Understanding factors that impact raw material pricing is important for procurement organizations to realize their saving goals.



## INTRODUCTION

With people finding it easier to source non-packaged food, the pressure on packaged food companies has increased substantially. Moreover, the growing popularity of private label ranges is providing stiff competition to companies operating in the consumer packaged goods industry. Manufacturing companies using pre-processed ingredients in production are facing challenges in realizing their saving goals and optimizing spend portfolio.

## ABOUT THE CLIENT

The client is a leading consumer packaged goods company with revenues exceeding \$ 13 billion. It produces food products through its manufacturing facilities present in more than 10 countries across the globe. The client sought to identify and implement cost-saving methods to reduce its overall spend in the European countries such as Switzerland and Belgium. Moreover, the client wanted to explore the best market atmosphere for sustained growth amid changing consumer habits, rising pressure from activist investors, and increasing competition from private labels.

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SAVING METHODS**

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## BUSINESS CHALLENGES

Upon analyzing the client's spend, SpendEdge's analyst team identified that the cumulative annual spend on premixes was more than \$20 million, contributing to the client's overall spend portfolio.

The long term relationship of the client with a major premix manufacturer was promoting single-sourcing in the company. This was resulting in upward incline in the price of premixes and affecting the supply of raw materials. Moreover, the depreciating value of currency and suboptimal weather conditions were adding to the woes.

The client was also facing predicaments in optimizing the cost of premixes due to the limited visibility into the primary cost drivers contributing to the overall premix cost.

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# OUR APPROACH

Analyzing the client's sourcing strategy and premix requirement, SpendEdge recommended a clean sheet cost model to help the client achieve its objective of reducing overall spend. They engaged with the client to identify the key cost drivers impacting the overall cost of premix. They analyzed the cost of packaging, logistics, losses owing to wastage and other factors contributing to the rising cost of premixes.

After analyzing, SpendEdge's experts focused on getting the raw materials at best prices for the client. They requested a quotation from suppliers against cost drivers identified and conducted a detailed analysis of quoted prices. They also compared the quoted prices with industry benchmarks to negotiate favorable price terms with suppliers.

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IDENTIFYING COST  
SAVING  
OPPORTUNITIES**

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## SOLUTIONS OFFERED

The solution offered by SpendEdge helped the client to develop a mutually beneficial periodic review and price mechanism with suppliers. Also, it helped the client perform market benchmark assessment and finalize suppliers and cost of premix. In addition, the clean sheet cost model helped the client realize savings of 10% for the category. The solution offered also involved:

- Building a mechanism for the supplier to hedge foreign exchange for the client, thereby mitigating forex fluctuation risks.
- Establishing a supply chain model connecting the premix manufacturer and the client's raw material supplier to reduce costs.
- Negotiating the costs of direct materials with the supplier.
- Reducing the overhead expense allocations through supplier negotiations.

**WONDERING HOW TO  
ACHIEVE SIGNIFICANT  
COST SAVINGS**

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# HOW TO DEVELOP A CLEAN SHEET COST MODEL?

Clean sheet cost model can be considered as a financial model used to identify cost reduction opportunities. It provides a database of input costs and helps companies understand the drivers of each product's manufacturing and delivery costs. A clean sheet model uncovers the procurement or design changes necessary for businesses to produce the greatest savings. The steps involved in the process to develop insights are:

## #1 Collection of data

It is vital for businesses to identify and collect relevant data through different sources in order to develop a clean sheet cost model. These sources can be

- Procurement systems
- Enterprise resource platform (ERP) systems
- Supplier invoices
- Spend Analysis

## #2 Identification of cost components

After collecting the data, it is important to expand all key components driving cost of products. These components can be:

- Materials
- Labor
- Conversion costs
- Overheads
- Logistics

## #3 Analysis of cost drivers

In addition to the key components, it is crucial for companies to identify all cost/process factors. It may need the following sources:

- Experts
- Open data sources
- Internal data bases
- External third-party databases

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INFORMATION**

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