

Organic produce supplier harvests big savings with new corrugated packaging source.

Client:

A growing organic produce grower, harvester and packager in California's central valley.

Challenge:

Our client was looking to reduce their corrugated packaging spend as a result of increased volumes and a \$100 per ton increase in the cost of pulp and paper over the previous year. Their suppliers were two of the largest in the industry, but since they were small relative to the suppliers' other clients, they lacked the leverage needed to attain the best pricing and service levels.

The existing contracts were also slanted in favor of the suppliers and contained evergreen clauses with drawn-out renewal timelines making them difficult to change.

Process:

Our initial analysis showed that opening up the bid process to a broader supply base and creating greater transparency would result in a supply partnership that was more beneficial to the client.

Solution #1 - Enhanced bid process

Our first step was to expand the clients potential supply base. The initial bid conducted by our client had been limited to only the two incumbent suppliers. With more suppliers, of various sizes, participating in the bid process, our client could open themselves up to savings and more favorable supply dynamics through greater competition.

Before the bid process was rolled out, however, we worked with the client to create broad internal user groups to generate a detailed portrait of the ideal supplier qualifications and relationship. These groups represented employees from across the company; from machine operators to marketing managers, who all interacted with the corrugated packaging in one degree or another. Together,

they not only collaborated on a model for the most effective business relationship with their future supplier, but documented every exact specification necessary for all corrugated packaging products bought through that supplier. This process led to the development of detailed RFI and RFQ documentation, and even resulted in several supplier facility visits. The client was now better equipped to compare terms between bids and set high, but achievable expectations for supply partners.

Solution #2 - Drafted comprehensive supply agreement

Once the client decided on a supplier, we helped them develop a new, more comprehensive Supply Agreement that was mutually beneficial to our client and the supplier. The new agreement contained features including clearly spelled commercial terms and material escalation / de-escalation clauses as well as lead-times, forecast communications, expectations for competitive pricing, reasons for termination beyond breach of contract, assurance of supply, and other legal commitments as agreed upon by both parties.

Furthermore, the new Supply Agreement served as a baseline for other packaging material contracts that would be executed as our client continued to roll out their new sourcing process.

Performance Results:

- 22% reduction in baseline corrugated spending
- \$2 million cost savings
- Incremental cost avoidance from increases in pulp and paper index increases

Conclusion:

By moving away from the larger suppliers, the client made it's spend more valuable to smaller suppliers bidding for its business. In turn, these suppliers offered better deals and sought to provide the company with attractive service offers. Lastly, bolstering the bid process and Supply Agreement documentation left nothing to mystery in the customer-supplier relationship, thereby creating a win-win, non-contentious relationship for the duration of the multi-year agreement.