

CASE STUDY

Fortune 100 pharmaceutical company engaged The Smart Cube to enhance its commodity procurement strategy and manage volatility



Business Challenge

A Fortune 100 Pharmaceutical company was witnessing overdrawn budgets and increased spending due to ineffective purchase planning, and less-than-optimum outcomes from negotiation discussions.

The client wanted to ensure cost containment, effective budgeting and optimum supplier negotiations, by staying abreast of

market movements of key categories and commodities.

The procurement CoE team engaged The Smart Cube to access the specialist intelligence, resources and expertise needed to address this challenge.



The Smart Cube solution

The Smart Cube developed a customised solution to provide inflation analyses for key commodities across multiple business units. This required leveraging a blend of capabilities including specialist commodity expertise, secondary research, statistical modelling techniques and advanced analytics.

More than 250 commodities were in scope, including: Chemicals, Intermediates, Acids, Petrochemicals, Metals, Agro, Minerals, Paper, Resins, Solvents, Engineering Plastics, and Fuels.

The market movement solution was built on a rigorous methodology to analyse inflation:

- ▶ **Cost drivers for various spend categories were identified and analysed. Existing contracts were reviewed to identify formulae and indices being used**
- ▶ **Factors and variables that could be correlated with price movements of key commodities (agricultural, metals, fuels, resins, petrochemicals, minerals) were identified**

- ▶ **Statistical relationships between various shortlisted variables (feedstock supply, exchange rates, supply-demand, Forex rates, GDP, etc.) were determined, and the forecast model was tested by calculating historical prices and measuring deviations from actual prices**

- ▶ **The cost structure, spend, commodity forecast and current contract data was collated, to develop inflation forecasts at category, regional and global levels**

The Smart Cube commodity experts worked closely with the procurement team in driving negotiations and contracting decisions based on the expected market movements.

Commodity inflation forecasts were presented through an automated self-service dashboard on an online platform and mobile app for ease of use by the finance team and category managers.



Results

The Smart Cube provided the client with ongoing analysis and insights into inflation across spend categories and commodities, to enable effective and precise budget planning and avoidance of superfluous costs.

Category and commodity buyers used the platform developed as part of the solution to simulate the impact of expected market movement on their contracts.

The exercise delivered tangible business benefits to the client in FY2016, including:

- ▶ **\$20m savings through dedicated commodity forecasting**
- ▶ **Over \$6m impact of market movement neutralised through improved supplier negotiations**



Value delivered

- ▶ **Decision enhancing insights:** Presenting fact-based arguments during supplier negotiations put the client in the driving seat, and led to successful outcomes in line with the objectives
- ▶ **Category strategy development:** Understanding the underlying fundamentals of the commodities – how they perform, why prices change etc. – creates the basis for a sound and informed category management strategy
- ▶ **Long-term value:** Establishing a process to track and model inflation across key commodities regularly, and on a long-term basis, provided the client with information that will enable better sourcing decisions, budget planning and supplier management going forward



The Smart Cube is a global provider of research and analytics solutions, primarily serving the CPG, financial services, retail, life sciences, energy and industrials sectors.

Addressing the needs of businesses in the intelligence age, our customised solutions provide a truly connected approach, delivered by talented minds and strengthened by **Amplifi**, our organisational intelligence platform, rich with knowledge, cutting edge tools and advanced analytics.

We work with a third of companies in the Fortune 100, helping them make smarter decisions, accelerate value and gain a competitive edge.

Headquartered in the UK with additional offices in the USA, Switzerland, Romania and India.

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