nexdigm

Case Study

A Consumer Healthcare Company

Service(s) offered: **Procurement: Category Management Support, Strategic Sourcing**

Sector/Industry: **Healthcare**

Improving Supply Chain Resiliency through Strategic Sourcing in the US

Overview

A leading consumer healthcare company in the United States faced substantial supply chain challenges due to its heavy reliance on suppliers based in China. Changes in import tariffs significantly increased the company's costs, encompassing transportation, customs, and port fees. Additionally, any supply chain disruptions necessitated costly air freight solutions, further straining the budget. In addition to these cost increases, the company faced prolonged delays and extended lead times for inventory shipped by sea. Port congestion and erratic shipping schedules, exacerbated the situation, further complicating the company's supply chain management and overall budget.

Recognizing the unsustainable nature of these challenges, the client sought to transition its supplier from China to local distributors within the United States. This strategic move aimed to enhance cost avoidance, reduce lead times, and mitigate the risks associated with international supply chains.

Case Highlights

- USD 0.56 million of air freight cost avoided.
- USD 192 million of NTS (Net Trade Sales) protection by moving to a local distributor.
- 30 days of safety stock creation.

Challenge

The client entrusted Nexdigm to spearhead this critical initiative, which involved several key challenges:

1. Supplier Transition: Identifying and establishing new local suppliers in the US who could meet the pricing agreements while maintaining or improving raw materials' quality.
2. Communication and Coordination: Facilitating active and focused communication with both internal and external manufacturing sites to ensure sufficient space capability and capacity, thereby maintaining an optimal safety stock for the organization.
3. Inventory Management: Developing a strategy to efficiently manage slow and obsolete inventory coming in from China and ensuring suppliers in the US could cycle it through within a six-month period to minimize holding costs and maintain inventory relevance.

Solution

To address the challenges faced by the consumer healthcare company, Nexdigm implemented a comprehensive and strategic solution. The team conducted a detailed Total Cost of Ownership (TCO) analysis, breaking down all associated costs with the current process. This included costs related to manufacturing in China, customs clearance fees to get the inventory to US suppliers, and transportation expenses. The analysis provided the client with a clear understanding of the financial implications of maintaining their existing supply chain model. Furthermore, Nexdigm presented a business case comparing the existing model with the proposed local distribution model. The comparative analysis of the two supply chain models highlighted potential cost avoidance and improved supply chain resilience, enabling the management to make an informed Go/No-Go decision. Based on the positive outcome of the business case, we assisted them in finding suppliers in the US, incorporating the following key elements:

Tripartite Pricing Agreement: Ensuring new local suppliers adhere to the existing pricing agreements, maintaining the quality of the raw materials, and being cost-effective.

Safety Stock Management: Establishing a 30-day safety stock, with the flexibility to extend to 45-60 days based on forecasts and requirements. This measure aimed to create a buffer against potential supply chain disruptions and ensure a steady inventory flow.

SLOB Inventory Management: Requiring suppliers to identify and inform about slow and obsolete inventory (SLOB) at least six months in advance. This proactive approach enabled the company to manage and cycle through outdated inventory efficiently.

Impact

The implementation of Nexdigm's strategic solution yielded significant positive outcomes for the consumer healthcare company. Through careful planning and execution, the company was able to enhance its sourcing efficiency, safeguard NTS, and realize substantial cost avoidance.

By transitioning to local suppliers, the client successfully avoided more than USD 0.5 million in air freight costs due to reduction in expensive emergency shipping. This led to cost saving and contributed directly to the bottom line. The move to local supplier safeguarded ~USD 190 million in NTS. Additionally, establishing a 30-day safety stock, with the option to extend to 45-60 days, offered an essential buffer against supply chain disruptions. This proactive measure not only enhanced inventory management but also improved the company’s ability to respond to market demands without delays.

For more information on this case study, please write to us at:

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You can also visit our website to know how our services resulted in tangible business benefits:

www.nexdigm.com