



## ***Case Study #3*** ***Sourcing Direct Materials***

Convergence provides capabilities to enable more effective sourcing of direct materials. Convergence doesn't sell direct material sourcing solutions; we prepare the data that is necessary for a company to realize major cost savings typically not achieved while sourcing direct materials. The following case study describes why most companies don't realize significant cost savings with direct material sourcing, what capabilities convergence provides to be successful and the benefits our customers have achieved in this area..

### **Why is it so hard to source direct materials?**

Most companies are severely handicapped when it comes to sourcing direct materials and the reason is lack of data. Most data for direct materials is wrapped up in files that are not accessible or easy to search including: part drawings, specification documents, requirements documents, etc. With these data challenges it's hard for a company to source multiple similar items to achieve economies of scale or to control the number of suppliers and mitigate duplicate inventories. Most companies have not been able to face up to this challenge because they have no way to obtain this data easily.

Vendors who claim they tackle this issue typically fall short. For example: spend analysis software vendors will analyze your data and cut your direct material spend at a high level, e.g., spend by commodity category or spend by vendor. In these situations you typically end up with some nice looking graphs but little guidance on what to do next to start saving money.

### **Convergence's approach to preparing data for effective direct material sourcing.**

Convergence prepares the necessary data to effectively source your direct materials. Typically, the best cost reduction opportunities are around similar items that are purchased by different groups in your company. The first thing we do is classify these items into a common classification structure. It's important that the classification structure contains detailed attributes so the data is properly segmented into categories. We provide the necessary training to set up the proper classifications; most customers typically fail when they try to do this themselves. Once the data is classified, attribute information can be loaded into the software following accepted guidelines. Once the data has been validated, it's ready to be analyzed for sourcing. Here is a summary of our key capabilities for direct material sourcing:

- Classification manager – manages the categories and attributes for purchased items (e.g., taxonomy, item structure, etc.)
- Item clusters – analysis application to help you identify sourcing clusters which are logical groups of items to source in a single sourcing event
- Item relationships – allows parts to be mapped to both actual manufacturers and vendors you purchased from; typically they are different. This way engineers can find the preferred parts to use

Once your data has been cleansed for sourcing and sourcing clusters have been identified, your data can now be exported to sourcing applications. Convergence has established relationships and integration with direct materials management software vendors like Co-Exprise. These software companies can effectively manage the actual transaction process between your company and direct material suppliers.



### **What are the benefits to better direct material sourcing?**

With good data, sourcing professionals can attack cost reduction in a much more effective manner. Rather than just pressure your vendors for better pricing, persuade them with better data. When you can source more items in a single sourcing event, it will put your preferred vendors in a better position to obtain more business with you; creating a win-win situation for both you and your suppliers. If you are a company that uses a lot of raw materials in your products, wouldn't it be nice to source all of your 4140-35 Round Bar to just a few select suppliers who meet both your cost and quality standards?

### **Proven benefits we can provide to Direct Material Sourcing.**

Here are just some of the benefits CDS offers to companies based on our past experience. Most of the benefits listed are recurring benefits. Benefit description including (%) average improvement:

**Average part cost savings 15-25%**

**Improvement in throughput of sourcing direct materials 300%**

**Parts rationalization 30-60%**

**Reduction in time preparing for sourcing events 100%**