Cost Reduction through Strategic Sourcing: A Case Study of Walmart

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Cost reduction is the process used by companies to decrease their costs and increase their profits. Depending upon the company products and services, the strategies can vary a lot. Many companies are facing cost reduction problems because they don't have proper cost reduction techniques. All decisions of the product development process affect costs. Capital is the crux of a business because it gives more benefits therefore every business should have a proper cost reduction technique. Companies typically introduce a new product in the market without focusing too much on cost.

Good cost reduction requires following things to do.

You must increase your revenue faster than your expenses go up.

You must decrease your expenses while sustaining revenue.

Your company must improve its productivity.

Company should develop a perfect cost reduction plan because the cost reduction strategies allow you to control your business costs and maintain the process charges. Your cost reduction strategies or plans, should include your goals and explain the possible outcomes. The cost reduction plan helps you to manage your expectations and similarly the business turnaround plans. Once you have come up with a cost reduction strategy, you can figure out ways to reduce maintenance cost and gain an edge against your competitors and increase your profits.

Profit or ROI (Return on investment) is the main aim of all businesses. Proper cost reduction techniques help to maintain the costs of a business. That gives more benefits to a business.

SPEND ANALYSIS: A PREREQUISITE FOR STRATEGIC SOURCING

It's an old adage it was easy to know where you want to go unless you know where you're starting. In today's challenging environment, it is critical for sourcing organizations to know where spending is occurring. Financial statements show expense categories, but not suppliers. Accounts Payable reports show where cash went but not what it was for. Neither shows what business unit made the expenditure together in order to get past the starting point—and to move on to strategic sourcing.

Strategic sourcing is a method of managing procurement processes for an organization in which the procedures, methods, and sources are constantly re-evaluated to optimize value to the organization. Strategic sourcing, which is considered a key aspect of supply chain management, involves elementssuch as examination of purchasing budgets, the landscape of the supply market, negotiation with suppliers, and periodic assessments of supply transactions.

An spend analysis enables to consolidate spend data and leverage the purchasing power of your entire enterprise across multiple systems and businesses. Data enrichment can then map the relationships between the "who", "for what" and "with whom." The end result is actionable data that your company can use to develop plans to control expenditures and identify sourcing savings opportunities.

Specifically, spend analysis allows your sourcing organization to:

1. Identify saving opportunities
2. Prioritize spend categories
3. Increase spend under management
4. Improve negotiation leverage
5. Identify off-contract spend; and
6. Improve procurement operations.

Many organizations currently use a manual or semi-automated process to analyze spend data. However, companies often compromise efficiency, speed of data updates, general accuracy, and analytical and reporting capability by following this approach.

Reducing costs is essential in today's economy. Unfortunately, most managers have limited applicable experience in how to do so in a sustained manner. Mistakes in cost-reduction can damage morale, productivity, and can even precipitate a corporate death-spiral. Experts recommend independent cost reduction consultants, but most companies don't seek external help Their reasons sometimes make sense, but more often it derives from emotionally based fear and results in poorly thought-through strategies at an extremely vulnerable time for everyone. Some of the most common and defeatist rationalizations that prevent companies from seeking needed help to reduce costs and keep them that way may sound similar.

Here are some constructive facts:

Companies may have excellent relationships with their suppliers, but it's an inescapable fact that continuous competition improves the breed and reduces cost. Cost-reduction is irrelevant if it doesn't fall directly to the bottom line, and companies and executives must constantly pursue it aggressively in this economy despite fuzzy fears to the contrary.

There is a fundamental, if not insurmountable, problem in asking seasoned employees to successfully review their past actions and make them continually more cost effective going forward. It seems that companies "ought" to be able to initiate and run effective cost-reduction programs themselves, but in reality they can't—at least not in a timely and well structured manner. For reasons of budgets, staffing, expertise, priorities, timing, politics etc. the opportunities go unmined and the potential savings go unrealized. Cost-reduction consultants do this for a living, not just during recessions, and are experts and know all the tricks. External Cost-reduction programs should be win-win initiatives, structured and empowered to encourage company-wide cooperation. Senior management must play a key role in cost reduction programs, helping overcome the fear and concerns lower-level employees might surface in an attempt to avoid embarrassment and for fear of losing control—or worse.

A great strategic sourcing methodology is where companies start looking for quantum savings from their supply chain. This is the latest evolutionary stage of purchasing and is characterized by real time data exchanged between suppliers and purchasing, contracting for long-term relationships, and purchasing involving multi-functional communication.

Many different models exist for a good strategic sourcing methodology. However, every company that has executed this business philosophy shares certain basic components to their own execution. Generally, strategic sourcing is implemented with the goal of applying purchasing savings to some other aspect of the business.

A proven cost-reduction expertise and programs is Strategic Sourcing, this can be useful in Transportation & Freight, Finance, Marketing & Sales, IT, Energy, Manufacturing, and HR retail. Following is the case study of strategic sourcing in retail of US based Giant of retail: Walmart.

CASE STUDY:

WALMART’S SUPPLY CHAIN MANAGEMENT AS “STRATEGIC SOURCING”

Riding a rising five-year trend, retail juggernaut Walmart® grossed $476 billion in the fiscal year that ended in January 2014, up from $408 billion in fiscal 2010, according to The Wall Street Journal’s Market Watch.

Put another way, Walmart’s revenue comes to 81% of what the National Restaurant Association says the entire U.S. restaurant industry made in 2013.

That income was generated by more than 4,100 stores and fed by a sprawling supply chain, ranked 14th in 2014 by research and analyst company Gartner. Walmart has held a place among Gartner’s top 20 supply chains since 2010.

In detailing its 2014 rankings, Gartner called Walmart a “perennial supply chain powerhouse” and said the company that the National Retail Federation ranks as the world’s top retailer in 2014 based on global sales has a “mature supplier collaboration process” supported by technology.

Walmart uses its mammoth purchasing power to shape suppliers’ behavior which also drives down costs.

The evolution of Walmart’s supply chain includes three elements, distribution practices, operating its own fleet of trucks and technology. Benefits from its supply chain efficiency result in time savings, more cost-effective inventory management and improved product forecasting.

Decades in the Making

The retailer started dealing directly with manufacturers in the 1980s, giving suppliers the job of managing inventory in its warehouses. The result was something called vendor managed inventory, or VMI, that smoothed irregularities of inventory flow which helped ensure products were always available on store shelves.

The process involved cooperation and collaboration with suppliers that produced a more efficient supply chain with technology connecting everything.

Walmart was tapping technology even before it developed VMI when in 1975 the company started using a computer system for inventory control in its distribution centers and warehouses. Walmart’s inventory management now funnels information from stores such as point-of-sale data, warehouse inventory and real-time sales into a centralized database. The data is shared with suppliers who know when to ship more products.

By 1987, Walmart had its own satellite system that allowed voice and data communication between all segments of the company, according to CIO Online, a website for chief information officers.

By 1989, Walmart saw the benefits of its supply chain management when its distribution costs were 1.7% of its sales, or less than half Kmart's cost and just under a third of what Sears was spending at the time, according to Arkansas Business.

Beyond Technology

Walmart's SCM process is not based entirely on technology. The company has a sprawling network of nearly 160 distribution centers covering almost 120 million square feet and all within 130 miles of the stores it supplies, according to MWPVL International, a supply chain and logistics consulting company. About 81% of Walmart merchandise passed through those centers in 2013. The retailer also instituted cross-docking at its warehouses, a method that moves inventory directly from arriving or departing trucks. Products are taken from an arriving truck and packed in a truck bound for a store without lengthy storage in the warehouse.

The result is lower costs for inventory storage, reduced transportation costs and products spend less time in transit.

Walmart also uses its own trucking fleet and drivers, maintaining high minimum standards for its thousands of drivers, including three years and 250,000 miles of driving experience and no preventable accidents in three years, according to Truckers Logic.

The chief benefit of cost controls is that they lower the company's overall expenses. By limiting the amount of money employees can spend, the company places a cap on how much money can go out the door. This allows the company to keep more cash on hand, or to invest larger amounts of money in other ways, such as in capital expenses or paying down debt.

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