Paper profits
Improving supply chain operations, procurement and integration at a major paper company

Abstract

A major global packaging systems and paper manufacturing company wanted to solidify its competitive position and reduce costs. But decades-old procurement and supply chain practices posed a barrier to new and better ways of working. The company is now on the path to saving more than $40 million annually, while realizing the full benefits of a merger.

The challenge

Companies in the paper industry focus a lot of attention on the production line. As long as the machines keep rolling, everything else in the business is secondary. This focused approach worked well enough in the past. But over time, the costs and inefficiencies of traditional operating practices can really add up.

Breaking free from deeply entrenched behaviors and practices usually requires a major event or crisis. In this case, the catalyst for change was a major merger and change in leadership. The CEO had worked with Deloitte in the past and understood the powerful impact that an analytical approach and fresh perspective could have on a mature business.

Although the company was already the dominant player in its market segments, its underlying operations were rife with inefficiencies. Each business unit and production operation had its own way of doing things. Systems and processes were obsolete or non-existent. And most operational decisions were largely based on gut feel and rules-of-thumb stemming from years of experience on the job. This informal and outdated approach sometimes produced the right results. But often it didn't — costing the company millions in excess spending and wasted effort.

How we helped

Deloitte tapped talent from Deloitte Touche Tohmatsu member firms in the U.S., U.K., Netherlands and Sweden to help the company in its efforts to improve its manufacturing and supply chain operations. This team included specialists in direct and indirect procurement, supply chain management and process manufacturing, along with professionals with deep experience in key cost categories such as wood, chemicals and maintenance and repair operations (MRO). The team helped the company conduct a rapid diagnostic analysis to identify and prioritize opportunities based on business impact, complexity and potential for success. Many parts of the business had evolved informally over the years and had never been subjected to rigorous analysis and benchmarking, so the diagnostic results were quite revealing. After helping the company develop a business case, the team worked closely with the company's leaders and staff to help them capitalize on improvement opportunities in two broad areas.

Sourcing and procurement. This set of initiatives focused on reducing external spend for direct materials (e.g., chemicals, wood/fiber), indirect materials

(e.g., MRO, contract labor, packaging) and freight. Deloitte supported specific activities undertaken by the company to:

- Evaluate the external supply market by analyzing commodity market drivers, potential suppliers and high impact savings opportunities.
- Identify and test various sourcing approaches (e.g., competitive RFPs, auctions, pricing strategies), as well as procurement and inventory policies.
- Develop a sourcing strategy and implementation plan addressing change management challenges and operational impacts.
- Facilitate supplier negotiations, conduct due diligence on potential suppliers and develop final contract award strategies.
- Evaluate, select and plan the transition of multi-site freight management to an outsourcing provider.
- Design a new strategy, operating model and organization structure to drive and sustain additional savings.
- Forecast, monitor and report cost savings to ensure savings targets were met, and monitor organizational compliance with the new procurement practices.

Supply chain operations. This set of initiatives focused on improving product and information flow and reducing inventory and waste across the company's supply chain. Deloitte supported specific activities undertaken by the company to:

- Redesign sales and operations planning processes to improve enterprise-wide planning and enable the company to strike a better balance between supply and demand, and between internal and external sales.
- Establish more accurate forecasting and demand planning capabilities, including a new statistical forecasting process, organization structure and tools.
- Reduce operational complexity. Streamline manufacturing processes, reduce the number of SKUs and standardize customer contract terms.
- Improve the end-to-end flow of information, and create a synchronized supply chain with a single demand pulse across all business units.
- Optimize inventory for MRO parts at several large production sites.

Deloitte worked side-by-side with the company to help them in their efforts to design and execute the new strategy. We helped them identify the required capabilities, and then implement standardized processes and systems across business units so the changes would stick.

Solution

The improvement initiatives had a broad impact throughout the entire company, increasing efficiency and aligning business activities across all lines of business. Different parts of the enterprise can now coordinate their procurement efforts and material flows to increase operating efficiency, and can take advantage of their combined buying power to negotiate better prices and contract terms.

The cost analysis looked at factors such as freight and handling — not just materials costs — which helped the company better understand its sourcing options and make more informed buying choices. In addition, their standard procurement process was supplemented with a new Web-based auction process that helped the company secure lower prices for certain types of materials.

Another breakthrough resulted from modeling the key raw material flows into the paper mill, and creating a decision tool to weigh tradeoffs between different sources of supply. The tool provided the company's experienced raw materials buyers with weekly total cost information to supplement their deep market knowledge. The solution included a dedicated analyst to drive the new process, and a clearly defined method for refreshing the data.

Overall, the company was able to reduce its ongoing procurement costs by more than six percent, saving the business nearly $40 million a year. Significant reductions were achieved in all cost categories, and in some areas the savings exceeded 50 percent of the original spend. In addition, the company is able to generate a single, streamlined demand signal that flows from customers through converting operations to the paper mills. They also expect that these improvements will have a dramatic impact on their bottom line and reinforce their position as a market leader.