

BEST PRACTICES IN ELECTRICAL SUPPLIES PROCUREMENT



Introduction

Electrical supply is one of the key spend categories under MRO for automotive OEMs and part manufacturers. Growing demand across industries is one of the key price drivers for electrical supplies and thus the large buyers are exploring different strategies for cost optimization and higher ROI. Yet, the Procurement function of most of the companies often struggle with the purchase of electrical supplies, primarily because of fragmented supply base, inefficient MDM strategy, and poor adoption of procurement policies.

Many companies face the issue of maverick buying of electrical supplies that results in increased purchasing costs and decreased leverage due to lack of purchasing synergies. As procurement of electrical supplies is often decentralized, it results in engagement with numerous suppliers, which gives rise to inefficiencies. Similarly, huge dependence on a single supplier would reduce bargaining power due to lack of competition and would put the business in a constant risk of supply risks and operational failure. In such a scenario,

Supply Rationalization is the solution procurement professionals often resort to.

Supplier rationalization is the key to realize negotiation savings while developing mutually beneficial and long lasting relationships with suppliers. This article highlights some of the key challenges in managing electrical supplies category and strategies adopted by leading procurement organizations to overcome the same.



The Many Challenges of Electrical Supplies Procurement

Lack of spend visibility

The greatest hurdles in the procurement of electrical supplies are the vast range of products involved, their categorization and accuracy in demand forecasts. The diversity in terms of the products and the suppliers across geographies makes it difficult to get spend visibility at the SKU level. This challenge is exaggerated when procurement is decentralized. With no national or global contracts in place, it is almost impossible to achieve standardization and spend visibility. Due to inconsistent information about products and purchases, it is common that business units identify the same items in many different ways across their

systems. These factors lead to overstocking and unplanned purchases resulting in higher cost of purchasing and spend fragmentation.

A wide range of product specifications

Automotive OEMs and part manufacturers require a vast range of electrical components such as cables, switches, connectors, fuses etc. to support their manufacturing process and each of these components are further classified by their product specifications such as material, voltage frequency, wattage, fuse rating etc. Also when procurement functions are responsible for different business units or regions working in silos, the company ends up buying a large number of these

products with a vast range of specifications from a large number of suppliers resulting in inefficiencies.

Risk of Counterfeits

To make matters worse for procurement professionals, it is observed that electrical devices are one of the most common items that face the threat of counterfeits in the industry. Several electrical suppliers have been identified who refurbish and sell substandard or defective equipment components to manufacturing companies. This represents a challenge in creating a supply base that can provide cost benefits without neglecting the quality of supplies.

Key Levers used for procuring electric supplies

1. Supply-base rationalization

Engaging with the right type and the right number of suppliers is the key strategy leveraged by large buyers of electrical supplies. Companies are reviewing their existing supply base to identify opportunities to reduce the total number of suppliers and contact points. A leaner supply base reduces the overall time, effort and administration costs spent towards procurement along with the hard savings it brings-in in form of volume discount and reduction in logistics cost.

The industry is also responding to this requirement of buyers through enhancing their offerings, coverage, and services. Below are the key market dynamics enabling supply base rationalization for electrical supplies.

- a. Leading suppliers offering integrated and managed services
- b. Increased M&A in the supply base
- c. Increasing prevalence of B2B marketplaces

2. Adopting vendor managed inventory (VMI)

VMI is the practice of outsourcing the management of inventory levels/stocks to a specialized service provider. When adopting VMI, the service provider manages the inventory, tracks usage, schedule to replenish the inventory, and provides reporting for budgeting requirements and assists in forecasting future needs. Many of the leading distributors of electrical supplies have started offering VMI service. VMI is more suitable for the products for which demand is volatile and/or where the inventory carrying cost is significant. It can significantly reduce the procurement cost for large volume buyers with multiple manufacturing sites.

3. Establishment of a price review mechanism:

Establishment of a price review mechanism plays a key role in promoting a win-win situation between buyers and suppliers in multi-year contracts. Most of the large buyers enter a clause for price review mechanism into the contract in agreement with the supplier based on which the prices of the electrical supplies would

be revised for the contract period. The adoption of PRM brings-in transparency and reduces the effort and time spent towards negotiating with the suppliers every few months.

Below are the key success factors for effective PRM.

- a. PRM should be quantifiable
- b. It should be well explained in the contract
- c. The mechanism should be linked with the indexes which are available to both the parties
- d. Index and their weights should be aligned with the supplier's cost structure
- e. In the case of a large number of products with different cost structures, buyers can establish few categories ensuring homogeneity of cost structure within each category. E.g. For wires, the prices of copper, aluminium, and polymer can be tracked on a regular basis to track or forecast any change in the prices. For switches and adapters, prices for different grades of polymer can be tracked. For fuses, the prices of ceramic materials can be monitored

In addition to above-mentioned strategies, buyers are exploring different means for cost optimization and ensuring uninterrupted supply. Companies are revisiting their master data management and reviewing the taxonomies they use for sourcing and procurement (large buyers prefer UNSPSC and e-Cl@ss) to improve spend visibility and to avoid spend leakages. Vending machines with user-based access also are being used for MRO supplies for spend control, but it is mostly used for tools, PPE and other MRO items.

Information about supplier landscape, key market trends and the internal organizational requirements is enabling procurement professionals in identifying which procurement best practices would be the right fit for the company. By staying cognizant about the market developments the procurement professionals would be better placed in formulating and implementing strategies that ensure leaner supply chain, streamlined operations and increased cost savings in the procurement of the Electrical supplies.



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