

Freudenberg Improves Procurement Process

Volatile commodities markets and an intensified focus on aggressive cost savings targets demanded that Freudenberg Household Products (FHP), an international manufacturer of cleaning products ranging from brooms and mops to sponges and brushes, re-examine its spend management process.

The Aurora, Illinois-based company, a subsidiary of German-owned Freudenberg Group, is a leader in almost all countries based on its detailed knowledge of the market, product innovations, and a pronounced customer orientation.

FHP considers its global quality system to be critical for all its businesses, but particularly for those, like big-box retailers, that have the tightest margins and most exacting standards for their preferred suppliers, of which FHP is one.

The manufacturer had been experiencing an extraordinary growth spurt that manifested itself in high profits and healthy margins, but the management team clearly understood the toll an unpredictable world commodity market could exact.

“FHP considers its global quality system to be critical for all its businesses ...”

They also recognized that, although their internal teams were knowledgeable, experienced, and adept, they needed extra horsepower to drive a supply chain cost savings initiative.

Finding the Right Resource

After a competitive review process, FHP selected USC Consulting Group (USCCG) to bring that horsepower to the table. According to Dave Wunar, FHP's U.S. manufacturing and purchasing manager, the consulting group also brought the kind of broad experience and deep supplier knowledge necessary to jump start the effort. “Most importantly, the actual process was laid out from A to Z so that it was readily transferable to our folks here, who could be completely immersed in it and have the opportunity to use it on an ongoing basis,” said Mr. Wunar.

FHP was primarily concerned with reducing the cost of raw materials and improving the process by which they were procured. To that end, the first order of business was to assess FHP's entire supply chain to

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determine exactly what was purchased, from whom, and define the order of importance of activities ranging from supply guidelines and logistics to marketing. This led the team to focus its initial efforts on sourcing and production. USCCG proposed a structured approach designed to achieve cost reductions in the spend categories of transport, display cartons, banderole, and flexible packaging. A second series of activities focused on direct materials and components of the product offering.

Applying the Elbow Grease

The consultants began by analyzing spend, grouping it into supply base categories, setting priorities, and then developing a category strategy. They developed supplier metrics, followed by product and service specifications and parameters, which allowed them to proceed to assessing value engineering opportunities - either reducing cost or improving function - within each category.

“Developing the supplier guidelines was a very critical component to what we did,” Mr. Wunar commented. “Putting it into a format that was easy to use and allowed us to compare apples to apples was important. We could pass it on to anyone within a number of days. I think the spend cube is another great tool that allows us to see what it is we’re buying and manage our spend.”

According to Jerry Moody, head of USCCG’s spend management practice, “We used the spend cube to

analyze data pulled from FHP’s SAP enterprise system and develop reports that showed, by category, the items and suppliers they were involved with. That will ultimately enable FHP to lay out an implementation plan for other categories in which they purchase.”

The consulting team’s ultimate assignment was to balance supply market characteristics to FHP’s spend pattern.

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To achieve that, they conducted a broad-based supply search that, in some cases, included as many as a hundred or more suppliers, from which a manageable number were selected for comparison via a comprehensive supplier assessment, which allowed them to vet reliable supplier resources.

“In today’s competitive environment,” said Mr. Moody, “suppliers are constantly bombarded with requests for quotes. A lot of viable suppliers have begun to shy away from providing quotes to potential customers because their hit rate has

historically been low. Part of our process is to evaluate potential suppliers’ capabilities, capacities, and willingness to participate in a sourcing process. This is one area where we devoted a great deal of energy, first, to identifying potential suppliers, then connecting with them via phone and e-mail to lay out the program, describe the potential customer, and explain our role in the process. We make it clear to them that we’re following a process in which they’ll be involved from start to finish.”

“This pre-qualification allows us to foster a confidence between USCCG and the supplier that ultimately transfers back to the client, FHP in this case. That goes a long way in helping both the customer and the supplier reach a point where they can comfortably exchange information and find the proper alignment that drives not only a lower cost, but better quality, service, delivery, and responsiveness.”

He also noted, “The other elements our firm provides are databases, resources, and time to research potential suppliers. Most businesses, like FHP, simply don’t have the resources to dedicate to a program like this.”

“From our perspective, coordinating those two things made a huge difference for us in selecting the suppliers we ultimately chose,” Mr. Wunar observed. “It’s also interesting to note that, in two of three categories, we selected incumbents. One thing this engagement proved was that our purchasing department does a pretty darn good job.”

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FHP North America Headquarters

“Nonetheless, we don’t have the time or the people to dedicate to an effort like this because we are trying to run the business on a regular basis.”

Mr. Wunar also pointed to the value of anonymity that USCCG provided in the early phases of the supplier vetting process. “[It] allow[ed] us to kind of hide behind a veil while we selected a small group of suppliers. By the time they knew who we are, they knew what was happening and had confidence in the process and the bid.”

FHP was able to expand its supplier base to some degree, as well. “We found an absolute gem of a new supplier,” Mr. Wunar said. “They are amazing in terms of their capabilities, expertise, engineering, and design. Their assessment was one of the best we’ve ever done, so that was an excellent find. We also identified another very viable candidate, who, despite the fact we decided to stay with our incumbent, will get future opportunities to bid on new business. This is something we probably would not have done without this process.”

The Results

Early results have proven the initiative worthwhile. “For the first four categories we looked at,” Mr. Wunar reported, “we saved, on average, 13 percent.”

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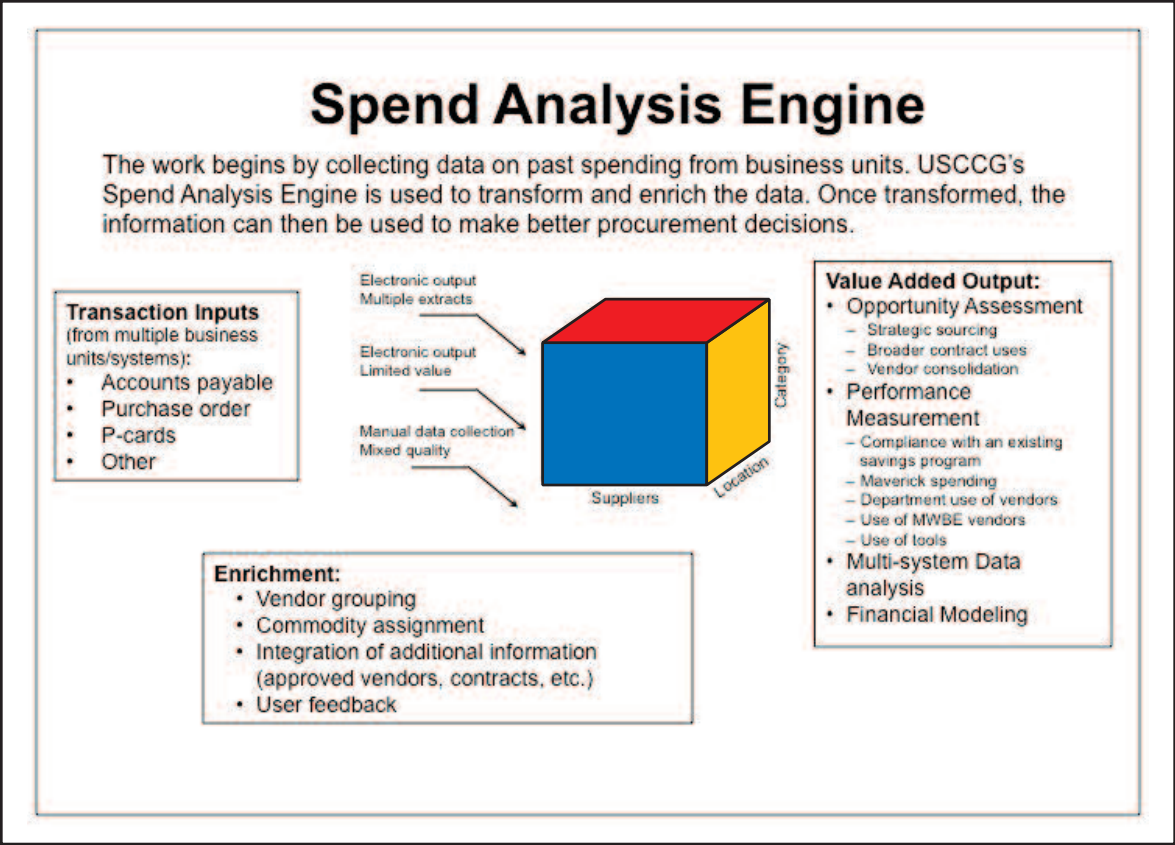
Over time, FHP expects even greater financial gains, not to mention the many indirect benefits that may not be quantifiable.

Their next target is the world’s four most volatile commodities – steel, plastic, cotton, and sponges – with expectations of similar savings.

About Freudenberg Household Products

Freudenberg Household Products is a leading international manufacturer of branded goods including household cloths, cleaning products and laundry care products, and is the leader in virtually all markets in which it competes. The business recorded sales of nearly \$1 billion in 2010 with about 2,400 employees globally. Freudenberg Household Products is a wholly-owned subsidiary of the Freudenberg & Co. Group. For additional information, please visit us at <http://www.o-cedar.com>.

Freudenberg & Co. Group of Germany is a family of companies specializing in seals and vibration control technology, nonwovens, filtration, lubricants and release agents, and other specialty business areas. The Freudenberg Group generated sales of more than \$7.13 billion and had 34,000 employees in 2010. For additional information, please visit www.freudenberg.com.



USCCG's Spend Engine

USCCG's suite of spend analysis tools includes an innovative Spend Analysis Engine, aka "the spend cube," that enables our spend management analysts to access, explore, and manipulate large datasets from a variety of sources, without IT assistance.

This Spend Analysis Engine is significantly different from conventional spend analysis tools in three important ways:

- It gives users the power to create their own datasets quickly and easily;
- It permits large datasets to be analyzed without the encumbrance of rigid hierarchies and data structures; and

- It can analyze and assess an enterprise-size data set on an ordinary laptop computer with a few clicks of the mouse.

USCCG's professionals can learn more about clients' data in a few hours than they normally could in weeks or even months. It's a tool that encourages experimentation, which in turn leads to important insights about buying and spending behavior.

The Spend Analysis Engine allows point-and-click creation of data dimensions and measures, along with real-time construction and deconstruction of data hierarchies. This eliminates the time, expense,

and technical resources needed to make changes using conventional data warehouse tools. Clients can quickly identify who is buying what, how much is going to which vendors, how one group's spending compares with others, and how spending and demand compare to previous periods or to other benchmarks.

Further, the tool is powerful enough to be used alone, yet cost-effective enough to be used in concert with other enterprise tools. The Spend Analysis Engine can be deployed on a laptop, a desktop computer, or a server in any number of configurations.

USCCG Tops in Client Satisfaction Ratings

USCCG clients continue to demonstrate solid satisfaction with the consulting firm's performance. Here are the latest survey results.

Overall Satisfaction95.7%
95.7 percent of USCCG clients expressed overall satisfaction with the firm's work, while 79.7 percent said they were "extremely" or "very satisfied".

Willingness to Rehire90.6%
90.6 percent of its clients would consider hiring USCCG for other engagements, while 69.6 percent said they were "extremely" or "very likely" to do so.

Learn more about what USCCG's clients have to say about the company's work by visiting its website at www.usccg.com.

Personnel90.6%
90.6 percent rated USCCG personnel as "exceptional" or "very good."

Willingness to Recommend87.7%
87.7 percent of the firm's clients said they were "very" or "somewhat willing" to recommend USCCG to a friend or professional colleague.

Results88.4%
88.4 percent of clients said the results the consulting firm achieved for them "met" or "exceeded expectations".



First we make it work. Then we make it last.®

For more information contact us at **800-888-8872** or visit us at www.usccg.com.

Metrics is a publication of USC Consulting Group, LLC, specialists in business performance improvement. In coming months you'll read more about how USCCG works and how we help executives go about the process of significantly improving their organizations.
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