

STRATEGIC PROCUREMENT OPTIMIZATION

Supplier Portfolio Analysis & Performance Improvement Initiative

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EXECUTIVE SUMMARY

Situation

Current procurement operations span £45.4M in annual addressable spend across 5 strategic suppliers and 5 major categories (MRO, Office Supplies, Electronics, Raw Materials, Packaging). While the organisation has achieved £3.93M in savings (7.97% cost reduction), underlying quality performance issues are eroding value realisation and creating significant operational risk.

Key Findings

Portfolio Health: Below industry benchmark

- 40% of the supplier base operates in high-risk quadrants
- 5.64% portfolio defect rate exceeds industry standard of 3-4%
- £1.6-1.8M annual cost of poor quality (COPQ) offsets 41-46% of negotiated savings
- Compliance rate of 82.37% indicates systemic process adherence issues

Supplier Segmentation Reveals Critical Imbalances:

- 2 suppliers (Beta Supplies, Delta Logistics) require immediate intervention
- 2 suppliers (Alpha Inc, Epsilon Group) deliver >95% of the expected value
- 1 supplier (Gamma Co) shows mixed performance requiring monitoring

Strategic Implications

The organisation faces a "procurement performance paradox": strong commercial negotiation capability (7.97% savings achieved) coupled with weak supplier quality management (5.64% defect rate), resulting in net value erosion of approximately 40-45%.

Financial Impact Summary

Current State (Annual):

- Negotiated Savings: £3.93M (7.97%)
- Cost of Poor Quality: -£1.6-1.8M
- **Net Value Capture: £2.1-2.3M (4.3-4.7%)**

Target State (12 Months):

- Maintained Savings: £3.9M
- Reduced COPQ: -£0.2-0.4M (75% reduction)
- Additional Efficiency Gains: +£0.3-0.5M
- **Net Value Capture: £4.0-4.4M (8.3-9.1%)**

ROI on Transformation: £1.7-1.9M incremental value (81-90% improvement in net value capture)

KEY FINDINGS

1. SUPPLIER PERFORMANCE ANALYSIS

Tier 1: Strategic Partners (Low Risk, High Performance)

Alpha Inc - Benchmark Performer

- Spend: £7.84M (17% of portfolio)
- Performance: 1.81% defect rate, 93.62% compliance
- Savings: £689K (8.07% cost reduction)
- Assessment: Best-in-class supplier demonstrating operational excellence
- Strategy: Volume expansion candidate; use as performance benchmark

Epsilon Group - Strategic Partner with Dependency Risk

- Spend: £9.85M (22% of portfolio)
- Performance: 2.60% defect rate, 98.19% compliance
- Assessment: Excellent quality, but high spend concentration creates risk
- Strategy: Maintain partnership; develop backup sourcing for continuity

Tier 3: High Risk - Immediate Action Required

Beta Supplies - High Risk / High Spend

- Spend: £9.86M (22% of portfolio)
- Performance: 7.67% defect rate, 75.64% compliance
- Assessment: CRITICAL - Strong commercial performance offset by severe quality issues
- Cost Impact: Est. £750-800K annual COPQ
- Strategy: 90-day performance improvement mandate or exit

Delta Logistics - Critical Quality Failure

- Spend: £9.24M (20% of portfolio)
- Performance: 10.83% defect rate, 60.82% compliance
- Assessment: CRITICAL - Worst performer across all metrics
- Cost Impact: Est. £900K-1M annual COPQ
- Strategy: Begin exit preparation; replace within 6 months

3. COST OF POOR QUALITY (COPQ) QUANTIFICATION

Annual quality failure costs = (Defective units × Unit cost × Total quality cost factor) where total quality cost factor = 1.5x (accounts for inspection, rework, warranty, customer impact)

| Supplier | Defect Rate | Annual Spend | Est. Defect Cost | COPQ (1.5x) |
|------------------------|--------------|---------------|------------------|----------------|
| Delta Logistics | 10.83% | £9.24M | £1,000K | £1,000K |
| Beta Supplies | 7.67% | £9.86M | £756K | £756K |
| Portfolio Total | 5.64% | £45.4M | £2,536K | £2,536K |

Key Insight: Beta Supplies and Delta Logistics account for 69% of total COPQ (£1.76M of £2.54M) despite representing only 42% of spend.

ACTION PLAN

PHASE 1: STABILISE & ASSESS (Days 1-30)

Week 1-2: Crisis Management

Action 1.1: High-Risk Supplier Intervention

- Execute formal Corrective Action Request (CAR) to Beta Supplies and Delta Logistics
- Document specific performance gaps vs. contract requirements
- Establish weekly executive-to-executive performance reviews
- Implement financial penalties per contract terms (if applicable)

Action 1.2: Enhanced Quality Controls

- Increase incoming inspection for Beta/Delta shipments to 100% (from statistical sampling)
- Quarantine all receipts until quality clearance
- Document all non-conformances with photographic evidence

Deliverables:

- 2 formal CARs issued and acknowledged
- Quality inspection protocols implemented
- Business continuity risk register completed
- Emergency inventory plan approved and funded

PHASE 2: OPTIMISE & TRANSITION (Days 31-60)

Action 2.1: Go/No-Go Decision on Beta & Delta

Decision criteria framework: GO (Continue with Performance Improvement) if the supplier demonstrates credible corrective actions, root causes identified and addressable within 90 days. NO-GO (Exit & Replace) if systemic capability gaps exist, unwilling to accept accountability, or financial instability is identified.

Action 2.2: Competitive Sourcing Event

- Execute RFQ for Beta/Delta replacement volume (£19.1M annually)
- Split across multiple suppliers for risk mitigation
- Emphasize TCO evaluation, not just price
- Structured awards: 50% to primary, 30% to secondary, 20% to tertiary

Action 2.3: Strategic Partnership Agreements

Alpha Inc Partnership:

- Volume commitment: +30% (£7.84M → £10.2M)
- Pricing: Volume discount for loyalty (target: 3-5% additional savings)
- Quality: Maintain <2% defect rate (contractual requirement)
- Term: 3-year agreement with annual reviews

Epsilon Group Risk Mitigation:

- Business Continuity: Require supplier disaster recovery plan
- Dual-sourcing: Identify 2-3 items to move to backup supplier as trial
- Strategic status: Quarterly executive business reviews

PHASE 3: TRANSFORM & INSTITUTIONALISE (Days 61-90)

Action 3.1: Supplier Transitions

Execute phased transition from Beta/Delta to new suppliers: Phase A (Days 61-70) - Trial orders with new suppliers (20% of volume). Phase B (Days 71-80) - Volume ramp (50% of volume). Phase C (Days 81-90) - Full transition (100% of volume).

Action 3.2: Supplier Performance Management System

- Implement automated supplier scorecard system
- Metrics: Quality (40%), Delivery (30%), Cost (20%), Compliance (10%)
- Frequency: Monthly scorecards auto-generated from ERP data
- Governance: Quarterly Business Reviews (QBRs) with all strategic suppliers

Scorecard Thresholds:

- Green: Defect rate <3%, On-time delivery >95%, Compliance >95%
- Yellow: Defect rate 3-5%, On-time delivery 90-95%, Compliance 90-95%
- Red: Defect rate >5%, On-time delivery <90%, Compliance <90%

EXPECTED IMPACT

Financial Benefits (12-Month Horizon)

Direct Cost Reduction:

- COPQ Elimination: £1.4-1.6M
- Beta/Delta replacement: £1.0-1.2M
- Category improvements: £0.4M

Efficiency Gains:

- Reduced administrative burden: £35-50K
- Fewer non-conformances, less expedited shipping, reduced inventory carrying costs

Revenue Protection:

- Production uptime improvement: £200-300K
- Fewer line stoppages, reduced scrap and rework, improved on-time delivery

Total Financial Impact: £1.9-2.3M annually

Return on Investment:

- Transformation investment: £300-400K (resources, consulting, transition costs)
- **ROI: 475-575% in Year 1**
- **Payback period: 3-4 months**

Operational Benefits

Quality Improvement:

- Portfolio defect rate: 5.64% → <3% (47% improvement)
- Customer complaints attributable to supplier quality: -60%
- Production yield improvement: +2-3%
- Warranty costs: -40%

Supply Chain Resilience:

- Supplier dependency risk: High → Medium
- No single supplier >25% of spend
- Business continuity events: Risk reduced by 70%
- Time to recover from supplier disruption: 90 days → 30 days

Compliance & Governance:

- Supplier compliance rate: 82.37% → >95%
- Contract management effectiveness: +40%
- Procurement policy adherence: 100%

CONCLUSION

The organization has built strong commercial procurement capabilities evidenced by 7.97% cost savings achievement. However, inadequate supplier quality management has created a 'value leakage' situation where 41-46% of negotiated savings are eroded by defects, rework, and compliance issues.

The strategic imperative is clear: Transform from a price-focused procurement function to a total value optimization function that balances cost, quality, and risk.

The opportunity is significant: By addressing supplier quality issues and implementing a risk-based portfolio management approach, the organization can unlock an additional £1.7-1.9M in annual value - nearly doubling the net benefit from procurement activities.

The path forward is achievable: With a focused 90-day action plan, existing team capability, and modest investment in tools and training, the organization can complete this transformation and establish procurement as a strategic value creator rather than a transactional cost reducer.

Success depends on three critical factors:

1. Executive commitment to support short-term disruption for long-term gain
2. Procurement team evolution from 'savings heroes' to 'value partners'
3. Operational discipline in executing the plan and sustaining new practices

This analysis demonstrates that this transformation is not only necessary but highly achievable with proper leadership, planning, and execution.

