GEP CASE STUDY

HOW A FORTUNE 500 CPG COMPANY SAVED 20% ON KEY RAW MATERIAL CATEGORY BY PARTNERING WITH GEP



A Fortune 500 CPG company had to adapt to a changing egg market with rising demand and fewer suppliers due to industry consolidation. It partnered with GEP to optimize its $14 million egg sourcing category. GEP took a data-driven approach to transition the company's pricing model, enhancing cost transparency and resulting in significant savings that helped the company control costs and stay competitive in the industry.

OBJECTIVES

- Improve resilience to rapidly changing egg market
- Understand cost drivers to help control rising costs
- Ensure supply continuity amid wave of M&A activity resulting in supplier consolidation and vertical integration
- Optimize $14 million in total category spend

APPROACH

- Conducted value assessment comparing egg white, egg yolk and whole egg powder to align product formulations with consumer preferences
- Analyzed cost per volume ratios to understand pricing differences across various formulations
- Transitioned company from layer-based (indexed) pricing to feed-based open book pricing approach
- Facilitated cross-functional meetings to improve understanding of supplier price strategies and managed RFx process with suppliers

RESULTS

- Enhanced cost transparency
- 9% negotiated savings on overall category spend
- 11% additional cost savings through reformulation based on optimizing cost per volume ratio for each SKU

RISING DIRECT MATERIAL PRICES AMID A SHRINKING SUPPLIER LANDSCAPE

A Fortune 500 consumer packaged goods (CPG) company with operations across the globe and a diverse customer base faced the challenge of adapting to a rapidly changing market for eggs.

Global health and protein trends caused demand for eggs, particularly egg whites, to skyrocket. Concurrently, the egg industry saw a surge in strategic mergers and acquisitions (M&A), resulting in both company consolidation and vertical integration.

To optimize its egg category and maintain its competitive advantage, the company needed to retain suppliers and manage rising direct material prices in the face of a shrinking supply base. With approximately $14 million in total spend in this category, the company turned to GEP to develop a comprehensive approach.

A DATA-DRIVEN APPROACH HELPED ENHANCE SUPPLIER NEGOTIATIONS

GEP conducted a value assessment of egg white, egg yolk and whole egg powder to optimize product formulations in line with consumer perceptions. As a next step, a thorough assessment of the company's spend helped uncover why certain suppliers could offer more price-effective formulations and pinpointed the key factors contributing to pricing differences.

Insights from market analysis and spend data indicated that feed costs accounted for 60%-70% of the total cost for the egg suppliers. As a result, GEP recommended that the company transition from layer-based (indexed) pricing to feed-based pricing through a comprehensive Request for Proposal (RFP) process.

To understand process variations among different suppliers, foster transparency and ultimately improve negotiation positions, GEP conducted on-site visits to supplier locations and facilitated cross-functional meetings for the client to gain a better understanding of supplier pricing strategies and provide suppliers with an opportunity to revisit their bids in areas identified as uncompetitive from the RFP analysis.

PRICING MODEL TRANSITION DROVE ENHANCED SAVINGS AND COMPETITIVENESS

The comprehensive approach implemented by GEP yielded significant results. Transitioning from layer-based pricing to a feed-based pricing model significantly enhanced cost transparency and resulted in 9% negotiated savings on the overall category spend.

By identifying the cost per volume ratio for each SKU, the company unlocked additional savings opportunities through reformulation. This led to an impressive 11% additional cost savings.

By partnering with GEP, the company not only optimized its egg sourcing category but also positioned itself for greater cost transparency and control. In a dynamic CPG industry, GEP helped the company achieve strategic cost efficiencies and maintain competitiveness.

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