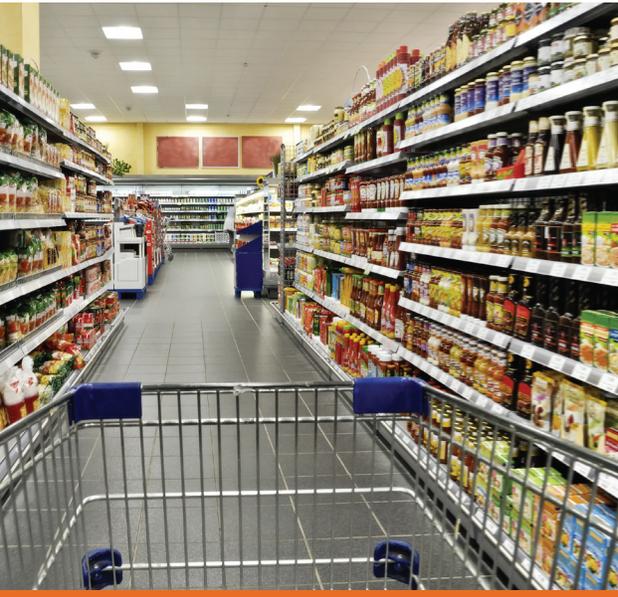


# CASE STUDY

## SUPERMARKET SPENDING ANALYSIS



Spending analysis serves up 17% savings for supermarket with supplier.

**“Customers don’t always understand what their rebate should be based on spend volume. Contracts are often written that a percentage is given back to the customer as long as they spend a certain amount. In fact, in some cases, our fee actually comes from a percentage of that rebate.”**

**-CCM Director of Procurement**

### CHALLENGE:

In 2018, when a growing multi-billion dollar, supermarket chain decided to review how much it was spending on office products, it wasn’t a simple matter of accounting. The supplier of office products to the grocer’s employees also happened to be the co-sponsor of a number of annual, high-profile events underwritten, in part, by the supermarket. Reviewing a multi-million dollar office-products contract and possibly negotiating better terms, while ensuring its business partner continued to sponsor these events, would take equal parts analysis and tact.

When our spend management experts, learned of the situation, representatives contacted the grocer’s head of procurement to offer an initial analysis of the office products supplier’s contract. After completing an analysis of how the grocer might better manage its expenses and reduce costs, LAC Group showed the savings could equal hundreds of thousands of dollars in one year.

### Two factors propelled the grocer to act on CCM's initial review:

- 1** The supermarket is an innovative company, and the managers overseeing the contract were interested in hearing what else could be done to strike a better deal, albeit one fair for all parties involved.
- 2** Gross profit margins for the grocery business are, on average, about 1%. Efficiency and centralization in operations helps to offset some of this low margin.

### THE SOLUTION:

Once the grocer gave us the go-ahead to proceed with an audit of the contract, we looked at the office products supplier’s individual stock keeping units (SKUs), pricing and which items were on-contract and off-contract. Vendors earn a larger profit margin when customers pay for products that are off-contract, and we dug into whether the grocer’s day-to-day spending was aligned with the type of products reflected on its current contract.

## On-contract versus off-contract purchases

Over time, the ratio of items a customer buys outside the core catalog of supplies can begin to widen. And as people grow accustomed to ordering and using, for instance, a better grade of paper or pen or calculator, the annual spending can grow beyond the contract amount originally budgeted for.

## Volume rebates

CCM also examined the supermarket chain's rebate based on its volume of spending.

Some companies, such as the supermarket in this case, choose to forgo the rebate and apply any savings uncovered to a re-negotiated price for goods bought in the future.

## Benchmarking by product SKUs

Because CCM has built – and continues to update – a software database of pricing and SKUs for the products sold by an array of vendors, the company knows the cost of goods at any particular time and can conduct a benchmark analysis. The analysis shows a customer what they are being charged versus what others are paying. No single company's procurement department would have enough samples of data to make this sort of comparison. And, generally, they are negotiating their contracts every three years, so customers aren't tracking pricing with enough regularity.

## Quarterly invoice tracking

Customers will often say that they have analyzed the top 20 office supply products purchased and compared the pricing to what's available on the market. While a comparison like this might seem reasonable at first, CCM looks at every item a customer purchases quarter over quarter and whether or not these items have been marked up or if there has been a change in SKU. Unless a customer is tracking its invoices this closely each quarter, it is extremely difficult to find savings and re-negotiate a contract.

Other consultants provide this type of service. But they don't take the granular approach of parsing data the way CCM does.

## RESULTS:

Once CCM had prepared an exhaustive analysis, our team met with the supermarket's office-products supplier and listened to the representative's perspective.

As a result:

- Working with the supplier and the grocer on favorable terms for everyone involved, CCM was able to re-negotiate the contract.
- The grocer was able to not only preserve the good relationship it had with its supplier, including the co-sponsorship of the events, but also reduce its spending on office supplies by 17%.
- With CCM's custom software at its disposal, the grocer is also able to track usage of office products ranging from staplers and pens to paper and ink cartridges across its nearly 90 locations each month.

**“CCM was able to build a spending model that we would not have enough data to construct. Their data-driven approach accurately showed us what we should be paying for each on-contract and off-contract product.”**