



## Case Study: Direct Global Steel

**Industry:** Manufacturing

**Category:** Indirect Materials

### Project Statistics:

Historical Spend Amount:	17,093,670
Unconstrained savings \$ and %;	-289,504 or -1.7%
Final award scenario spend amount;	17,828,224
Estimated final savings \$ and %;	-734,553 or -4.3%
Number of suppliers:	4
Number of items:	11
Historical Sourcing Method:	Standard RFQ and Verbally

### Problem:

Buying tinplate, or the coated steel used in the production of food cans, is a risky process for businesses. One choice is to buy domestic steel which is readily available with short lead times. However, domestic steel is becoming more and more expensive as the world wide steel market (especially for special runs) has been escalating. A second option is to buy cheaper foreign steel but foreign steel mills are usually booked to capacity, lead times are long and transportation is lengthy and expensive. Steel buyers need to weigh the risk of purchasing too much domestic steel and going over the packaging budget against buying foreign steel and not getting enough in time for food shipments.

A large, European food manufacturer company investigated alternate materials for food packaging, including using non-ferrous materials. However, customer feedback revealed that the British market preferred the taste of tin in their food. The company looked to CombineNet to help create a reliable and cost-effective method for sourcing tinplate.

### Goal(s):

The company's goal was to create a cost-model that allowed them to evaluate the decisions involved in assessing varying delivery costs, steel mill capacities and also look at alternatives in steel supply.



The ultimate goal was to stave off a 10% increase in cost. Their existing – verbal – agreements for the next three year contract specified the use of foreign steel only with no option to get lower than a 10% cost increase.

### **Process:**

The company conducted one round and involving five European suppliers. (No U.S. suppliers chose to participate.) CombineNet worked with the company to create a bid collection process to allow suppliers to enter specified steel pricing and then enter alternates, or “expressive bids” based on delivery, capacity, and can manufacturing techniques (coil, sheet and thickness of each).

The company’s sourcing team also allowed steel suppliers to set unique conditional prices based on contract terms. The company asked suppliers to give them alternative contract periods and associated prices to take advantage of supplier knowledge about steel industry conditions.

### **Results:**

Using CombineNet’s *Decision Guidance* optimization engine resulted in less than a 5% increase in cost with only 23% of the awarded capacity coming from a single offshore mill. The CombineNet solution resolved this company’s supply risk issue and allowed them to utilize domestic steel manufacturers and achieve their ultimate cost goal with a marginal 2.6% increase.

By allowing suppliers to submit their best offers as alternates to the specified product, the company was able to make the best decision on which steel source and format to purchase. Their decision to purchase foreign steel in a coil format was a direct result of new access to information about suppliers’ capacities and capabilities. Instead of trying to make buying decisions using spreadsheets and face to face negotiations, CombineNet’s *Decision Guidance* optimization technology provided the company with a reliable and cost-effective method for sourcing tinplate.