Universidad del Rosario

A cost-saving analysis for the Wet Wipes' Global Portfolio to achieve Third-Party Manufacturers network consolidation in Unilever

Trabajo de Grado

Ana María Estupiñán Palacio

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Abstract

Unilever is fast moving consumer goods multinational company headquartered in London, England. The wet wipes portfolio is part of the Beauty and Personal Care and Home Care departments. Its current supplier base is made up of 37 suppliers, 4 from which represent 80% of the total spend for 2021. Its size causes issues in terms of communication, supplier relationship management, and a loss of control of the global wipes supply chain, making it more difficult to be globally competitive.

In order to diminish these issues, the Orion Programme was created. It aims to consolidate the suppliers' networks from different product categories in order to drive cost savings. The wipes' portfolio is one of the workstreams assessed within Orion. This initiative covers the Global Wipes Tender for Unilever, in which 15 suppliers from all around the world where sent a Request for Quotation for the 9-SKU portfolio previously built with specific product format specifications, and annual volumes based on the 2021 spend.

From the 15 suppliers asked to quote, only 12 sent their quotations. Purchasing Prices were assessed, concluding that the most competitive supplier is K, which is located in Vietnam. From the 9 SKUs included in the brief, Supplier K offered the best price for 8 of them. The analysis was done for the first and second best offers per SKU. Then, landed costs were calculated for the suppliers with the first and second best offers, in order to have an overview on the real savings the company would be getting.

Costs such as shipping, customs, risks, and overhead, besides the already given purchasing price, were considered to calculate the landed cost per SKU per supplier. Suppliers C, K, O, F, J, and N showed to be the most price competitive ones in terms of landed costs. Based on this information, two scenarios were built considering the two main

goals of Orion: increasing cost savings (most price competitive base) and consolidating the supplier network, allowing to meet demand On Time In Full (most resilient base).

A decision matrix was done in order to decide which was the best scenario considering the following criteria: landed cost, responsiveness, complexity, CapEx and vertical integration. After the evaluation, it can be concluded that the best alternative for Unilever is to award the business to the suppliers that offer the most competitive price. Despite the fact of having higher complexity (number of suppliers) and less resilience (no local-to-local supplier for NA), this scenario will benefit the company more than a resilient supplier base due to higher cost savings and lack of capital investment.

Key words: Cost-saving analysis, wet wipes, global tender, Unilever, outsourcing.

Resumen

Unilever es una multinacional de bienes de consumo de rápido movimiento con sede principal en Londres, Inglaterra. El portafolio de toallitas húmedas forma parte de los departamentos de Belleza y Cuidado Personal y Cuidado del Hogar. Su base de proveedores actual está compuesta por 37 proveedores, 4 de los cuales representan el 80 % del gasto total para 2021. Su tamaño provoca problemas en términos de comunicación, gestión de relaciones con proveedores y una pérdida de control de la cadena de suministro global de toallitas, lo que hace que sea más difícil ser globalmente competitivo.

Para disminuir el impacto de estos problemas, se creó el Programa Orión. Su objetivo es consolidar las redes de proveedores de diferentes categorías de productos para impulsar el ahorro de costos. La cartera de toallitas húmedas es uno de los flujos de trabajo evaluados dentro de Orión. Esta iniciativa cubre la Licitación Global de Toallitas para Unilever, en la que 15 proveedores a nivel global fueron tenidos en cuenta para una Solicitud de Cotización para el portafolio de 9 referencias previamente construido con especificaciones de formato de producto y volúmenes anuales basados en el gasto de 2021.

De los 15 proveedores a los que se les pidió cotizar, solo 12 enviaron sus cotizaciones. Se evaluaron los Precios de Compra, concluyendo que el proveedor más competitivo es K, que se encuentra en Vietnam. De las 9 referencias incluidas en el portafolio, el Proveedor K ofreció el mejor precio para 8 de ellas. El análisis se realizó para la primera y segunda mejores ofertas por referencia. Luego, se calcularon los costos totales para los proveedores con la primera y la segunda mejor oferta, para tener una visión general de los ahorros reales que obtendría la empresa.

Costos como envío, aduana, riesgos y gastos generales, además del precio de compra ya dado, fueron considerados para calcular el costo total por referencia por proveedor. Los

proveedores C, K, O, F, J y N demostraron ser los más competitivos respecto al costo total. Con base en esta información, se construyeron dos escenarios considerando los dos objetivos principales de Orión: aumentar el ahorro de costos (base más competitiva en precios) y consolidar la red de proveedores, lo que permite satisfacer la demanda On Time In Full (base más resiliente).

Se realizó una matriz de decisión para decidir cuál era el mejor escenario considerando los siguientes criterios: costo total, capacidad de respuesta, complejidad, CapEx e integración vertical. Luego de la evaluación, se puede concluir que la mejor alternativa para Unilever es otorgar el negocio a los proveedores que ofrezcan el precio más competitivo. A pesar de tener mayor complejidad (cantidad de proveedores) y menor resiliencia (sin proveedor local para Norte América), este escenario beneficiará a la empresa más que una base de proveedores resiliente debido a mayores ahorros de costos y falta de inversión de capital.

Palabras clave: Análisis de ahorro de costos, toallitas húmedas, licitación global, Unilever, subcontratación.

Chapter 1: Research set-up

1.1. Introduction

In the last couple of years, building good-quality relationships with suppliers has become a priority in every business' strategy. In fact, adapting a more strategic approach with key suppliers can bring huge long-term benefits for companies. It is important for each enterprise to have a solid and strong supplier base in order to achieve their goals easier. Having good relationships with suppliers can lead to increase customer satisfaction, take advantage of great deals, excellent support from the supplier's side and overall excellent service regarding delivery time, material quality, cost, flexibility, and willingness to help and maintain the relationship over the years (Prajogo & Chowdhury, 2010).

Unilever is a multinational consumer goods company that works within three main divisions: beauty and personal care, food and refreshments, and home care. They have several products that are produced in-house, however, since they handle thousands of SKUs, outsourcing is also necessary. In this case, it is important for Unilever to work on maintaining their relationships with all suppliers, including raw material suppliers and third-party manufacturers in order to achieve their service level successfully, besides getting the best overall performance they can.

Since Unilever works in geographical clusters around the world, in some cases, the local markets tend to innovate inside them, leading to a loss of control of the global network, causing issues when trying to increase competitiveness. Even though Unilever has this issue with different workstreams, it has been discovered that the wipes workstream (which works across the Beauty and Personal Care and Home Care divisions) currently has 37 third party manufactures for the global outsourcing production. Moreover, only 4 suppliers make up the

80% of the total spend for the wipes' portfolio in 2021, which makes it important not only to understand why they have such a wide supplier base, which lacks consolidation and harmonization, and causes issues regarding communication, volume-deals, responsiveness, amongst others, but also optimize it in order to reduce these effects within Unilever.

The following paper aims to consolidate and harmonize the supplier's base (third-party manufacturers) for the wipes workstream inside Unilever in order to go from 37 current suppliers to have between 5-10 suppliers by the end of 2024. Also, throughout the development of this research, it is aimed to assess the hidden costs of moving volumes from one supplier to another.

1.2. Company Profile

Unilever is a British Multinational consumer goods company headquartered in London, England. Unilever products include food, condiments, ice cream, tea, coffee, pet food, toothpaste, beauty products and personal care products, amongst others. Unilever owns around 400 brands, and its products are available in around 190 countries. They are currently divided in three divisions: beauty and personal care, food and refreshments, and home care, with turnovers of €21.1 billion, €19.1 billion and €10.5 billion for 2020, respectively. Unilever spent €800 million on Research & Development in 2020 for their teams to develop their brands and products as a force for good. Moreover, they spend €19 billion a year on raw and packaging materials to make products, and €13 billion on services. As a matter of fact, 67% of their agricultural raw materials are sustainably sourced. Unilever has over 290 factories, which are powered by 100% renewable electricity and send zero non-hazardous waste to landfill. They also work with over 700 third party manufacturers.

The Beauty and Personal Care division (BPC from now on) is the division with the highest turnover in Unilever. It currently has 5 product categories, including Skin Care, Skin Cleanse, Hair Care, Deodorants & Fragrances and Oral Care, distributed among different clusters, including Europe, North America, LATAM and Southeast Asia. There are both in-house and outsourced production within this division, where 46% of the total SKUs are produced by third party manufacturers, with a total spend of €1.6 billion with 364 suppliers in total.

Due to the high number of CMs Unilever works with for the BPC division, a new initiative called Orion Programme was created. This project aims to transform CM partnerships to accelerate and fuel Unilever BPC growth by creating a competitive edge through a responsive and segmented sourcing network. One of the main purposes of this project is to redefine the CM partnership driving growth through innovation partners and transformational consolidation to attain a competitive network of partners meeting Unilever's innovation, cost and agility needs. Orion works within 4 main workstreams: aerosols, wipes, high value density liquids and oral care. Each of these has its own masterplan depending on the current situation and the clusters they are involved in. Since this paper will cover the wipes portfolio, no other workstreams will be assessed.

It is also important to highlight that as long as this program attains only third-party manufacturers, it is handled both by the Procurement Team and the Third-Party Manufacturing Operations Team. Procurement is involved due to the need to contact both current and new suppliers to whom a Request for Quotation (RFQ) is sent, followed by negotiations depending on the first overview on the results to finally provide with a showcase to the managers of the possibilities the business has. Also, the Third-Party Manufacturing Operations Team is involved during the development of the Orion Programme because they are the ones in charge of monitoring and managing the interactions with third-party vendors (Reciprocity, 2020). Thus, they become extremely important when implementing any type of change in the supplier base for contract manufacturers.

1.3. Problem statement

The Third-Party Manufacturing Operations global team inside Unilever is currently facing issues due to the high number of Collaborative Manufacturing Units (CMs from now on) they work with. One of the workstreams that has already been identified to be causing issues is the Wipes Portfolio, which works across the Beauty and Personal Care and Home Care divisions. Its spend for 2021 was around 50M EUR, distributed among 37 suppliers, 4 of which make up the 80% of the total spend. Wet wipes are a commodity, reason why there is no actual added value perceived by having such a high number of suppliers. Instead, this causes issues in terms of communication, supplier relationship management, and an overall loss of control of the global wipes supply chain, making it more difficult to be globally competitive.

The problem Unilever currently faces lies in how big their supplier base for wet wipes is, which will be tackled by running the Orion Programme mentioned above. This paper aims to contribute to the accurate materialization of this initiative by benchmarking the different partnerships the company can have, throughout the analysis of the real costs and the hidden costs Unilever must incur (total landed cost).

1.3.1. Current situation

The wet wipes portfolio includes three main categories: Skin care, Skin cleanse and Home & Hygiene. Whereas Skin Care and Skin Cleanse belong to the BPC division, Home & Hygiene belongs to the Home Care division. The reason why these are analyzed in the same portfolio is due to the manufacturing specifications these wipes have. Most of the times, CMs that produce skin care and skin cleanse wipes, also have the capability to produce home & hygiene wipes. Since the main purpose is to have the most harmonized and consolidated CM base for wipes while optimizing cost, all these categories are quoted together.

It can be seen that the spend for the global wipes workstream was reduced in 2021 to around 50M EUR from 80M EUR in 2020 due to a Covid behaviour change, despite the new need to have personal cleansing wipes. As a matter of fact, the spend is equally distributed across the three categories mentioned above (almost one third each). Besides, the wipes portfolio works within several clusters: Europe, Latin America, NAMET & RUB[1], North America, South Asia, SEAA[2] and Unilever International, having almost 82% of the total spend on wipes within Europe and North America. The supplier base for the wipes workstream is currently made up of 37 sourcing units. From these, just 4 suppliers (10% of them) make up the 80% of the spend, 40M EUR.

The Orion Programme has into its scope the tender that was run for global wet wipes, where 15 suppliers were requested to quote the brief. Whereas some of these suppliers already work with Unilever, others are new possible CMs. As a matter of fact, all of them had already gone through a first supplier evaluation in which they were approved by the Procurement team, according to their capabilities, quality, capacity and service level. Hence, the next step is to assess the real and hidden cost there might be when choosing the most optimized supplier base.

1 North Africa, Middle East, Turkey and Russia, Ukraine, Belarus
2 South East Asia and Australasia

1.3.2. Desired situation

Unilever aims to achieve more than 200M EUR savings by the end of 2024 with the Orion Programme, including all product categories within the BPC division. The goal is to have a strategic and optimized network of less than 100 partners, in total. By this time, there should be a robust process to prevent ongoing CM proliferation.

For the wipes portfolio, the expected savings correspond to 7.1M EUR by the end of 2024, divided as follows:

Year	**Expected savings (€M)**
2022	1.8
2023	2.8
2024	2.5
Total	**7.1**

Figure 1. Expected savings for Wipes 2022-2024

Besides that, Unilever wants to harmonize and consolidate their CM base for the wipes portfolio to go from 37 current suppliers to have ideally less than 10.

1.3.3. Gap

The way in which Unilever will go from the current situation to the desired situation is the proper execution of the Orion Programme. This project has a masterplan for each workstream, so the goal is for each team to follow the masterplan that corresponds. The masterplan for the wipes portfolio is shown in Figure 2. This masterplan shows what is going to be done to achieve the CM harmonization and consolidation that Unilever is looking for inside the BPC division for the wipes workstream. The steps mentioned cover the main actions that will be taken over Q1 and Q2 2022, which correspond to the alignment that needs to be done before materializing the changes inside the company in terms of contracts and manufacturing/technology transfer.

Phase	**Steps**
Project Scoping / Scenarios	1. Cost benchmarking with current available data. 2. Shortlist of current and new suppliers. 3. Insights from all categories, brands, functions on future plans.
Tender preparation & supplier capability mapping	1. Meetings with current supply base. 2. European brief for baby wipes (Zwitsal). 3. Connect with current supplier of European Baby Wipes to review possible retender of business. 4. Global Brief built and issued to selected suppliers.
Portfolio Harmonization/Simplification	1. Identify opportunities cross brand/categories to take into long term network changes. 2. Ideas need further exploration and savings opportunities defined.
Tender Execution & Scenario Analysis	1. Receive feedback from global brief. 2. Analysis of global brief feedback.
Results Briefing & Final Solution Sign-Off	
Handover to clusters	

Figure 2. Masterplan for Wipes Portfolio 2022

For the company, the gap corresponds not only to the steps shown in Figure 2, but also to the materialization of the findings, which needs to be implemented by each cluster. However, this paper will cover the Tender Execution & Scenario Analysis only, which means that the main focus is to run the tender together with the Procurement Team, so that the results can be analyzed and a final showcase of the different possibilities the business has can be shown.

1.4. Company Goal

Unilever’s goal is to reduce the number of third-party suppliers they currently have manufacturing contracts with for the Global Wipes Workstream from 37 to less than 10 by the end of 2024.

1.5. Researcher Goal

This paper aims to benchmark the possible suppliers Unilever can work with to produce wipes for the Beauty and Personal Care and Home Care divisions in order to analyze the different options the company has to distribute the participation of suppliers, intending to go from 37 current suppliers to less than 10 by the end of 2024. This paper also seeks to understand the hidden costs there might be by moving production volumes from one sourcing unit to another.

1.6. Research Questions

Chapter 2

1. What is Supplier Relationship Management?
2. What is cost-saving analysis?
3. What are the hidden costs of outsourcing?

Chapter 3

4. How is the spend for wipes currently distributed between sourcing units inside Unilever?

5. What are the specifications for the wipes portfolio that were quoted?

Chapter 4

6. What are the results of the tender that was run?
7. What are the landed costs of the quotes received for the global wipes portfolio?

1.7. Justification of methods

Question	Justification	Data type	Research type	Sources
Q1	Since this paper will evaluate the different options Unilever has to outsource the wipes production, knowing the importance of a good supplier relationship management is key. This will help to understand what is crucial when choosing a supplier and building a relationship with it.	Qualitative	Desk	(Ellram & Carr, 1994) (Carr & Pearson, 1999) (Schiele, 2019) (Gerhard & Ghoshal, 2004) (Landau, 2021) (Gindner, Rajal, Zimmermann, Tognoni, & Geissmann, 2015) (Dyer, Sung Cho , & Chu, 2002) (Hoek, 2013)
Q2	One of the main goals of this research is to determine the best supplier base for the wipes production inside Unilever through a global tender based on a cost saving analysis. The results on the tender will be assessed through cost benchmarking, which is the reason why it is important to understand this term.	Qualitative	Desk	(Gerhard & Ghoshal, 2004) (Schiele, 2019) (Sheth & Sharma, 1997) (Schiele, Horn, & Vos, 2011) (Arnold, 1999) (Hesping & Schiele, 2016) (Li, 2013) (Holt, 1998) (Lehtonen & Virtanen, 2022)
Q3	In addition to assessing the actual cost to be incurred by Unilever in	Qualitative	Desk	(Giertl, Potkany, & Gejdos, 2015)

	moving volumes to the proposed new supplier base, this research aims to discover what the hidden costs of this movement are.			(Bertrand & Motlow, 1998) (Burton, 2013)
Q4	To be able to do a comparison it is necessary to know the current situation Unilever sits in. This will allow to compare the tender results and calculate savings.	Quantitative	Field	(Unilever, 2022)
Q5	Each supplier might have different terms and conditions for its quote, so knowing what is actually being quoted becomes very important to understand the real benefits and drawbacks from each of them.	Qualitative and quantitative	Field	(Unilever, 2022)
Q6	This is the first step to run the tender analysis. Organizing the data is crucial in order to do an actual comparison with realistic results. Showing the results of the quotes given by the suppliers is the first thing to do and will help to complete a full end to end comparison to determine what the best alternative for the supplier base of Unilever for the Wipes portfolio is.	Qualitative and quantitative	Field	(Unilever, 2022)
Q7	In order to come to a conclusion regarding Unilever's supply base for wipes, it is important to run an end-to-end analysis. This research question aims to harmonize information so that a like for like comparison can be done.	Quantitative	Field	(FedEx, n.d.) (2021-2022 Global Ocean Freight Internal Rate Card) (Jani, 2022) (International Trade Organization, n.d.)

Figure 3. Justification of methods

1.8. Limitations

Some of the limitations found throughout the development of this research paper is the fact of some of the hidden costs being analyzed based on assumptions/estimations, such as risk and overhead costs. It is very hard to build accurate scenarios with real cost savings when the information is owned by several people inside the company, different in between them, with several templates, and in general, being very hard to consolidate.

Another limitation was the fact of suppliers not sending the quotes already in the incoterm asked (which required to go back to them before processing the information), or with the appropriate cost breakdown (Raw Material, Packaging Material and/or Conversion Costs), making it more difficult to assess in the most accurate way possible its results and implications.

Chapter 2: Literature Review

The first key step in the research journey is to understand the background in which it takes place. In the following chapter, the concepts such as Supplier Relationship Management, methodologies to achieve cost savings and hidden costs of outsourcing will be assessed. Understanding these concepts is key since they will be the framework in which the analysis will be based on.

2.1. Supplier Relationship Management

In the last decades, the notion of purchasing within companies has changed. Whereas in the past it used to be the simple act of buying, in more recent years purchasing is also seen as a strategic function (Ellram & Carr, 1994). In fact, “CEOs of leading companies began to recognize the opportunity to strategically manage their resources in order to increase their firm’s competitiveness.” (Carr & Pearson, 1999, p. 498). This led to a change in how procurement was perceived by organizations, becoming a value-added activity which could be considered as a resource when managed strategically.

> Traditionally, purchasing has three main objectives: (1) ensuring safe, timely and sufficient supply at (2) appropriate quality with (3) the lowest possible costs. Reflecting the growing importance of suppliers for the prosperity of a firm, two novel objectives may be added, namely, (4) facilitating innovations from and with suppliers and (5) ensuring competitive advantage to the firm by guaranteeing privileged access to sources of supply. (Schiele, Purchasing and Supply Management, 2019, p. 48)

In addition to this new perception of purchasing, it can also be seen that manufacturing companies are faced with a dynamic economy world where the demand is unstable, new trends come in faster than ever, inflation rises rapidly, and product life cycles become shorter. The hunger of companies to continually cut costs, increase savings, achieve service levels and focus on their core has pushed many to outsource if not all, some of their production. Taking into account the dependency these companies acquire on third party manufacturers and strategic procurement, managing close and trustworthy relationships with their supply base becomes a priority (Gerhard & Ghoshal, 2004).

Supplier Relationship Management (SRM) is a way to manage the interaction between a firm and its suppliers, who can supply goods, materials and/or services. The main goal is to cultivate and strategize a better working relationship between a company and its suppliers to improve their performance in relation to a manufacturing business (Landau, 2021). It has been observed that managing supplier relationships successfully can benefit the company by reducing costs, driving and monitoring performance of suppliers, managing supply risk and compliance, and foster business development and innovation (Gindner, Rajal, Zimmermann, Tognoni, & Geissmann, 2015).

For instance, cost reduction can be achieved by the continuous optimization of operations in a partnership with suppliers, which goes beyond the traditional procurement strategy stated above. Making sure to have a good relationship with a company's suppliers also allows the company to focus on key performance indicators that support business objectives by driving and monitoring the performance of key suppliers in a transparent and collaborative way. Moreover, it allows supply risk and compliance to be managed with responsible sourcing, ethics and regulatory requirements. Finally, business development and innovation can be enhanced by the identification and implementation of opportunities together with strategic suppliers, creating long-term value for them both (Gindner, Rajal, Zimmermann, Tognoni, & Geissmann, 2015).

For an organization to be able to implement SRM successfully, complementary processes need to be considered (Figure 4). The first process that enables a company to drive more value out of the relationships with its suppliers is Supplier Segmentation. All companies should understand there are two types of suppliers: strategic partners and durable arms-length suppliers (Dyer, Sung Cho , & Chu, 2002).

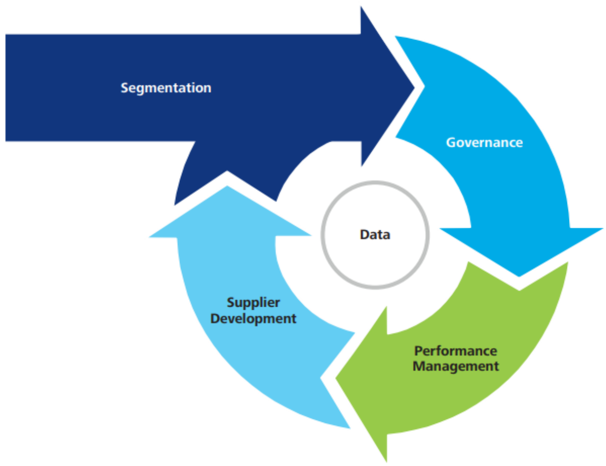

Figure 4. Core complementary processes for SRM. (Gindner, Rajal, Zimmermann, Tognoni, & Geissmann, 2015, p. 2)

Whereas the strategic partners are the suppliers that input high value goods or materials, which are key in terms of product differentiation; durable arms-length suppliers are in charge of providing standardized inputs that do not differentiate the final product nor creates or contributes a competitive advantage for the company (Dyer, Sung Cho , & Chu, 2002). “Organizations should therefore concentrate their resources on a limited number of relevant strategic suppliers” (Gindner, Rajal, Zimmermann, Tognoni, & Geissmann, 2015, p. 2).

All companies should focus on building and maintaining strong and trust-worthy relationships with its strategic partners not only by making sure these are world class suppliers in terms of their overall capabilities, but also through the assurance of high levels of communication with them, the provision of managerial assistance, and the making of relation-specific investments. On the other hand, double arms-length suppliers do not need the same allocation of resources. Instead, these relationships are characterized by more frequent price benchmarking, less communication, less assistance and fewer investments. Nevertheless, building long term relationships is important in order to realize economies of scale in production to minimize the cost (Dyer, Sung Cho , & Chu, 2002).

The prioritization of these relationships is done taking into account the spend and more specific criteria, depending on the company. Identifying the proper criteria according to the needs of the company is key because these will lead to the proper segmentation of suppliers, which is a prerequisite to set up effective SRM programs (Gindner, Rajal, Zimmermann, Tognoni, & Geissmann, 2015).

The second process corresponds to the SRM Governance. An effective governance must be established in order to foster SRM value. In simple terms, the company must assign specialized teams to manage the relationships with strategic partners. Most of the times, these teams are outside of the Procurement team, and they need to take ownership of the relationships and must be able to, for instance, define and drive strategic roadmaps together with the suppliers. Assigning a team to perform these tasks allows the company to monitor the performance of the suppliers, as well as to enhance better relationships with them due to the recognition and dedication given to them (Gindner, Rajal, Zimmermann, Tognoni, & Geissmann, 2015).

Next comes the performance management. Measuring the operational performance becomes a priority when trying to create strategic supplier relationships. “Performance management involves the setup and continuous tracking of operational measures which are mutually agreed with [strategic partners] through SRM governance” (Gindner, Rajal, Zimmermann, Tognoni, & Geissmann, 2015, p. 3). Measuring and monitoring the performance of key suppliers leads to ensure the results stick to the goal, and in case they do not, to identify any deviation and implement the corrective measures. Most common issues when measuring performance, as well as the best practices that can be done, are shown in Figure 5.

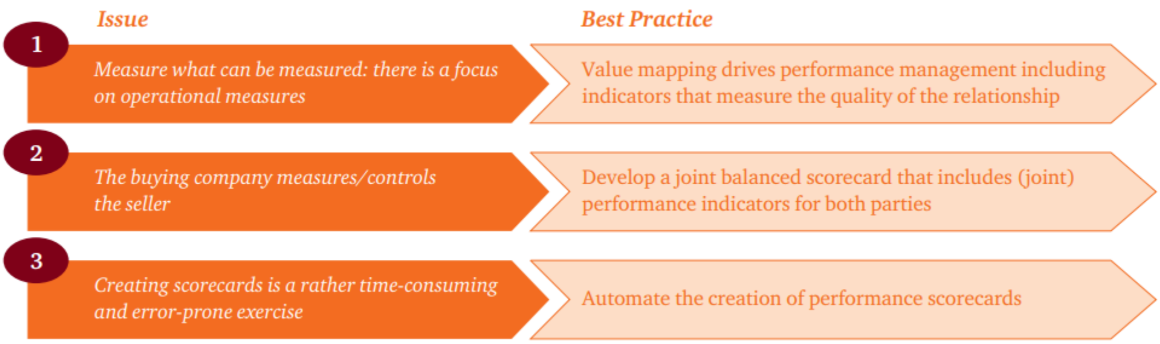

Figure 5. Issues and best practices in Performance Management. (Hoek, 2013, p. 29)

The last process to successfully implement SRM is Supplier Development. After suppliers have been segmented, a governance has been stablished and the performance has been measured, it is time for business to grow. These processes create a suitable base for the company and its suppliers to drive growth together by undertaking value creation activities.

> This would typically involve sharing of plans between the two entities and jointly defining initiatives that create long-term value for both organisations, such as:
>
> • Innovation agenda, aligning supplier's creative efforts to business needs and providing the right platform to enable appropriate feedback on innovation proposals.
>
> • New market penetration/product development, leveraging strengths and knowledge of both organisations
>
> • M&A[3] and/or joint ventures to gain or expand capabilities.
>
> (Gindner, Rajal, Zimmermann, Tognoni, & Geissmann, 2015, p. 3)

It is worth to highlight that the implementation of new strategies such as SRM can be very challenging for companies due to the high level of stress and strain changing environments can produce. Gindner et al. (2015) suggest companies to select the right

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[3] Mergers and Acquisitions: general term that describes the consolidation of companies or assets through various types of financial transactions, including mergers, acquisitions, consolidations, tender offers, purchase of assets, and management acquisitions.

partners, align internally and externally, establish mutually beneficial relationships, select meaningful KPIs and share information, and manage the change in order to overcome the challenges that can be found in the road in the best way possible.

It can be seen that Supplier Relationship Management becomes important when companies rely more and more on their suppliers to accomplish their tasks, which are directly related to satisfying demands, achieving service levels and reducing costs, among others. Companies should definitely include SRM in their agenda if they want to drive growth, fuel innovations and create strategic partners that are key when turning competitive in the market, and staying that way.

2.2. Cost-Saving Analysis

In the manufacturing and retailer world, achieving cost savings is a must. This is the reason why several strategies are developed inside companies, such as SRM described above, in order to reduce costs and increase savings as much as possible. It can be seen that the procurement team plays a critical role in performing this task. Procurement is responsible for managing the activities related to buying, planning and policy, research and development, service selection, among others. They make sure that what is being bought has “the right quality, the right quantity, at the right time, at the right price from the right source with delivery at the right place” (Gerhard & Ghoshal, 2004, p. 167). It is common for this team to implement different strategies to achieve cost savings, such as Sourcing Levers.

Sourcing Levers “describe sets of tactics used to operationalise sourcing strategies as a combination of coherent activities in a sourcing category. The levers are the ‘tricks’ used by purchasers to achieve cost savings” (Schiele, Purchasing and Supply Management, 2019, p. 66). Since sourcing levers are implemented by procurement, they can be classified into the different purchasing approaches. According to Sheth & Sharma (1997), there are two approaches to address organizational buying: transaction oriented and relational oriented. While the transaction-oriented approach refers to the mere process of buying, the relational oriented one unleashes a supplier relationship process, philosophy that was addressed in the previous title.

As stated by Schiele, Horn, & Vos (2011), sourcing levers can be classified in seven more specific categories. Whereas the fisrt three categories fall under a transactional oriented approach, the last four belong to a relational oriented approach:

1. The pooling of demand and volume bundling
2. Price evaluation through enhanced negotiation concepts
3. International sourcing
4. Product optimization
5. Process optimization
6. Supplier integration strategies
7. Commodity-spanning levers

Each of the sourcing levers mentioned above will be addressed in the following paragraphs:

1. The pooling of demand and volume bundling

This lever refers to the aggregation of volumes, which can be done internally within the same company or with different small, smiliar companies (usually part of one parent company). Although the type of materials or goods that are bundled depends on the industry, the purpose is the same: trying to either leverage the buying power by consolidating volumes with a bigger company, or trying to achieve economies of scale in order to reduce costs (Arnold, 1999).

2. *Price evaluation through enhanced negotiation concepts*

Negotiation is key in this lever. The main goal is to analyze the cost structure of the price given by suppliers, often including cost breakdown, so that the company that is outsourcing can compare and make decisions accodingly based on the findings. Companies also need to perfom price evaluation to analyze supplier’s bids and cost structures to understand the impact of the cost on the company and what drives it (Hesping & Schiele, 2016). There are several methods to run price evaluations, such as auctions, game theory, price/quality method, amongst others. Price evaluation will be further discussed in the following title.

3. *International sourcing*

This strategy considers the extension of the supply base to determine competition in the supply market (Li, 2013). Even though this lever is called international sourcing, it also allows new local sourcing units to broaden the supplier base. The widenig of the sourcing strategy may lead to get better offers by current or new possible suppliers, identify competitive players abroad and help suppliers to develop capability and experience (Hesping & Schiele, 2016).

4. *Product optimization*

Product optimization is often identified as managing product logic strategies to reduce costs. This means that something in the product is being changed and it can be either noticed by the consumer or not. For instance, it might represent the replacement of certain material for another one cheaper (which serves the same purpose) in order to drive savings, or to slightly (or not) change the product nature to create a cheaper version (Schiele, Horn, & Vos, 2011). Product optimization goes beyond the procurement team and ofter requires help from the Research and Development Team (R&D) and from the Marketing Team.

5. *Process optimization*

This lever considers the effectiveness and efficiency of the processes between buyer-supplier. It is more related to the way in which these interactions occur, and how to make them as efficient as possible. For example, implementing electronic data exchange in terms of planning, forecasting, replenishment, resource sharing, among others, can help reduce transaction costs, which will fall into overall cost savings (Hesping & Schiele, 2016).

6. *Supplier integration strategies*

It can be seen that supplier integration strategies fall under the Supplier Relationship Managemnt scope. It contemplates the building of a long-term relationship, mutually beneficial, with specific suppliers that allow participation in innovation projects, open book costs, open data from both sides, etc (Schiele, Horn, & Vos, 2011).

7. *Commodity-spanning levers*

While the six strategies described above consider one sourcing category, this strategy analyzes the possible relations between them. It can be possible that some products share the same (or similar) components, making it feasible for the company to buy from the same supplier for both products. This implies that the volumes that would be acquired from a supplier (raw material A, used to manufacture both Products 1 and 2), might affect the volume from other sourcing categories (raw materials B and C, used to produce exclusively Products 1 and 2, respectively). The more raw material A is bought (at a cheaper price, to follow the cost savings logic), the more raw materials B and C need to be bought, which not necessarily means that the overall cost will be reduced (Hesping & Schiele, 2016). In simple words, this lever entails a holistic perspective of the purchasing process by analyzing “the interplay and potential trade-offs between different materials or services” (Schiele, Horn, & Vos, 2011, p. 323).

The sourcing levers described above show different strategies companies can use in order to leverage their sourcing potential. Although they do not provide a general orientation for buying activities (this is actually provided by strategic goals), they describe the activities that help goals to be achieved (Hesping & Schiele, 2016). The conceptual framework for sourcing levers is shown in Figure 6.

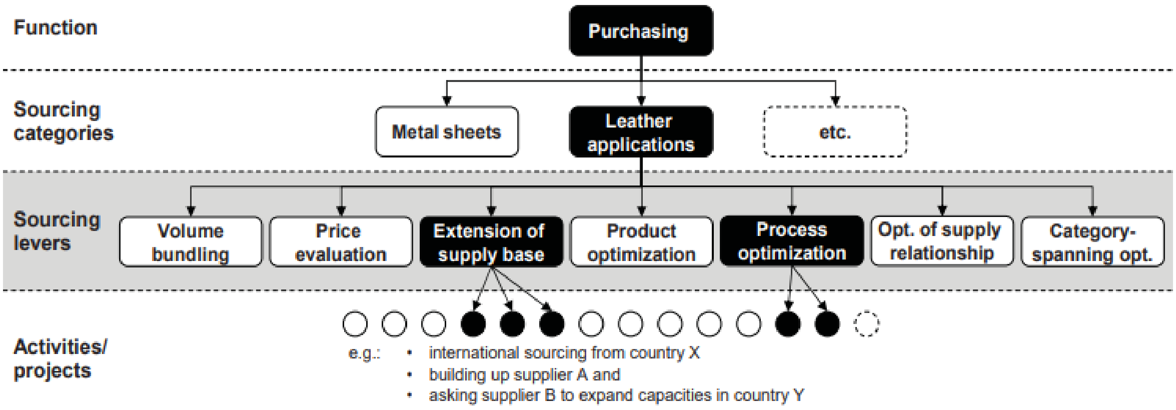

Figure 6. Conceptual framework for sourcing levers. (Hesping & Schiele, 2016, p. 476)

After defining the seven categories for sourcing levers, it can be seen that whereas the first three levers, which have a transactional approach, most of the times require only procurement people, the last four usually entail the help of other departments such as R&D or logistics. It is important to highlight that not all of the levers can be used at once, but it is often recommended to find the best mix of them to implement depending on the industry, nature of the business and company, sourcing categories, etc.

2.2.1. Price evaluation

There are several methods to run a price evaluation. Doing so is important for the second lever (price optimization) since its scope covers the analysis of the cost structure of different suppliers. In most cases, a price evaluation is done after a tender was run. This means that the company interested on outsourcing releases a Request for Quotation (RFQ) to certain suppliers depending on the needs previously identified in order to get quotations back, run an analysis and award contracts to suppliers, depending on the outcome. Some methodologies for price evaluation are: Bespoke approaches (BA), Multi-Attribute Analysis (MAA), Multi-attribute utility theory (MAUT), Multiple regression (MR), Cluster analysis (CA), and Multi-criteria Decision Analysis (MCDA) among others (Holt, 1998). These methodologies will be briefly described in the following paragraphs.

Bespoke Approaches is a methodology that does not follow a formal output mechanism. It considers a flow diagram to make decisions based on binary questions and subjective interpretation. Although it is possible to have quantitative data in the binary decisions, there are no numeric measures that allow a comparison between suppliers (Holt, 1998).

The Multi-Attribute Analysis considers the decision-making through the analysis of several attributes that correspond to each alternative. Attributes must be measured (could be in a qualitative or quantitative way) in order to run the analysis, which has as output an aggregate score for each supplier, based on the scores assigned to each attribute (Holt, 1998). In addition, the Multi-Attribute Utility theory “is an extension of MAA and […] utilises 'utility' to quantify the subjective components of MAA.” (Holt, 1998, p. 155).

Multiple Regression is a statistical method used to predict the behavior of a dependent variable considering the effect of several independent variables. This method is used for price evaluation in order to prequalify suppliers (dependent) based on attributes (independent). As long as key criteria are different from one industry to another, this model needs to be built for specific industries. Although it requires further investigation, it is a good option to predict the performance of a supplier based on established attributes (Holt, 1998).

Cluster Analysis entails the evaluation from a cluster perspective, meaning that the suppliers are assessed in smaller groups. This leads to a more specific analysis since attributes can be more specific depending on the criteria used (Holt, 1998).

Finally, the Multi-Criteria Decision Analysis approach considers overall scores per tender based on an additive value function (AVF). “The AVF is composed of partial scores of the tenders with respect to each award criterion and weights of the award criteria” (Lehtonen & Virtanen, 2022, p. 167). The function that expresses the MCDA is shown in Figure 7.

$$V(x) = \sum_{i=1}^{n} w_i v_i(x_i)$$

Figure 7. MCDA function. (Lehtonen & Virtanen, 2022, p. 167)

“V(x) is the overall score of tender *x*, *wi* ≥ 0 is the weight, *vi(xi)* is the partial value function of award criterion *i* and *xi* is the measurement level of tender *x* on the measurement scale of criterion *i”* (Lehtonen & Virtanen, 2022, pp. 167, 168). The value range of *vi(xi)* goes from 0 to 1 so that the best score is assigned to 1, the worst to 0 and the ones in between are assigned to a score between 0 and 1. These scores show the final ranking of the tenders, in which the best offer will be the tender with the highest score.

Most of these methodologies rely on empirical and practical research. Given all the variations it has, the most common one is the MCDA.

2.3. Hidden costs of outsourcing

The three titles above show the importance of managing relationships with suppliers and ways in which cost savings can be achieved, more specifically through price evaluation. Although it was not explicitly mentioned, it is important to highlight that these topics involve both material sourcing as well as finish goods sourcing. Hence, addressing the term *outsourcing* becomes important. Outsourcing "is understood as a transfer of internal business activities or group of related activities to an external producer or service provider who is able to offer the required service at the agreed date and at the agreed price" (Hunter, Saunders, Boroughs & Constance, 2008, as cited by Giertl, Potkany, & Gejdos, 2015, p. 1081). Outsourcing can include both finish goods and services.

This concept can be interpreted in different ways and the way in which its benefits are perceived can also vary accorndingly. In general, there are five reasons why companies outsource: (a) refocusing on a company's strategic activities, (b) the economies of scale realized by the service provider, (c) reorganization policy, (d) technological reasons and (e) the globalization of markets (Bertrand & Motlow, 1998). However, moving a business' strategy to implement the use of outsourcing usually entails a set of risks and costs poorly studied. The identification of risks and ways to tackle them, as well as considering the cost of outsourcing is critical. Despite the need to study them both, this paper will cover only the latter due to its nature.

According to Dvořace & Tyll (2010) (as cited by Giertl, Potkany, & Gejdos, 2015), outsourcing costs can be classified in three categories: production costs, transaction costs and hidden costs. Production costs relate to the invoice provided by the supplier for the finish good or service[4], transaction costs include the costs associated to looking for new partners and awarding contracts, and the definition of hidden costs is still very controversial.

To begin with, the difference between price and total landed cost should be cleared up. Whereas price is associated to the production cost (also known as purchase price), which

[4] This definition could vary depending on the incoterm used for the negotiation. The price to which the author refers is ExWorks.

includes raw materials, packaging materials and suppliers' conversion cost, the total landed cost refers to production cost + transaction cost + hidden costs. In fact, the latter usually adds up 14% to 60% of the purchase price (Burton, 2013). The landed cost is the real cost companies will incur when outsourcing, which is why hidden costs will be discussed further in the following paragraphs.

1. Cost of an outdated outsourcing strategy

This cost refers to the reassessment of the current outsourcing portfolio in terms of emerging markets, logistic costs and flexibility. As we face a dynamic environment with changing demands, companies should focus on making sure the manufacturing locations and revenue typologies (where and how sold) are aligned to minimize cost. For instance, sourcing locations in South America might suit better a fast-growing market in Brazil rather than a sourcing unit located in India (Burton, 2013).

2. Cost of management and coordination of contractors

A new set of activities, thus people who perform these activities, is required when outsourcing. Most companies opt to dedicate a team exclusively for managing relationships and daily interactions with suppliers: Third-Party Manufacturing Operations Team. Wages and travel expenses should be taken into account under this umbrella, as well as supplier evaluation and the cost of doing it wrong (choosing wrong in terms of capability, capacity, quality, etc) (Burton, 2013).

3. Cost of subpar inventory performance

The cost of subpar inventory performance is directly associated to flexibility. When sourcing locations are far away from market locations, both production and transport lead time are key. As lead times increase, flexibility decreases, and so does the company's capability to tackle changing demands. Inventory costs mean "more inventory in the global pipeline, more mismatches between supply and demand, more shrinkage from variances (count errors, theft, weak disciplines, and so forth), and more excess and obsolete inventory" (Burton, 2013, p. 11). Safety stock becomes the main character to tackle this type of issues.

4. Cost of unplanned logistics activities and premium freight

Managing global supply chains can bring several benefits to companies, but also can bring a couple of drawbacks that, if not well managed, can represent a huge loss for the company. Cost of unplanned logistics activities and premium freight can appear due to a lack of proper planning in the logistic process and excessive inventory handling. This type of cost is related to the subpar inventory performance as it is the most common way in which companies try to solve low flexibility issues: last minute air freight[5] (Burton, 2013).

5. Cost of inappropriate sales and operations planning

Most of the times outsourcing increases complexity, and so do risks and costs. The lack of sales and operations planning can cause miscommunication in the process resulting in either lack or surplus of inventory, thus increasing unplanned logistics or holding stock cost, accordingly. All parties involved should be honest in terms of demand, capability, capacity, lead times and so on to avoid these extra and unnecessary costs (Burton, 2013).

6. Cost of poor or substandard quality

This cost is difficult to quantify and can represent up to 20% of the company's revenue. Obvious quality issues such as scrap, rework, repair, and so forth can be quantified

[5] Road transport is also a possibility but since this is a global supply chain context, it is not common.

but prevention, detection, internal failure, and external failure can be more challenging. In this scenario it is preferred to implement proactive prevention such as preventive maintenance, rather than reactive solutions (Burton, 2013).

7. Cost of cash flow

Longer, more complex and riskier supply chains usually lengthen cash-to-cash cycles, resulting in slow or no cash flow at all. Most of the times long production and transport lead times lead to long cash flow cycles. Besides, the use of different currencies can also affect this type of cost. According to Burton, (2013), one of the ways to address this cost and minimize it is usually moving manufacturing locations closer to the market.

8. Cost of unplanned and unforeseen risks

This cost is very broad because it covers any type of risk that was not initially contemplated by the company. Theft, copying of products and even natural disasters are included in this last cost. Contingency plans, such as resilience strategies, are a must, as they help to minimizing the cost (Burton, 2013).

Outsourcing assessments to decide whether they are beneficial or not are key. Since today's environment is dynamic and rapid-changing, companies need to be clever enough to find the right balance between in-house production and outsourcing, if there is the possibility. It is suggested for companies to design models to make right evaluations and therefore make accurate decisions based on all the costs described above, including situational risks and a holistic view of the supply chain. It is worth highlighting the importance of assertive communication between suppliers and buyers to build a mutually beneficial relationship.

2.4. Key learnings

- Managing supplier relationships successfully can benefit the company by reducing costs, driving and monitoring performance of suppliers, managing supply risk and compliance, and foster business development and innovation.

- A successful SRM implementation requires complementary processes such as supplier segmentation, governance, performance management and supplier development.

- The sourcing levers are strategies used to achieve cost savings in terms of sourcing. There are seven types of sourcing levers, which can be classified between transaction oriented and relational oriented levers: volume bundling, price evaluation through enhanced negotiation concepts, international sourcing, product optimization, process optimization, supplier integration strategies and commodity-spanning levers.

- Price evaluation is done based on a bid launched by a company to compare purchasing prices from different suppliers. This can be done for raw materials, services and/or finished goods. There are different ways in which the results of a tender can be analyzed.

- The Multi-Criteria Decision Analysis approach considers different criteria to analyze each bid. The evaluator can choose which attributes will be taken into account and run the analysis in order to determine the best option(s) depending on the priorities established before.

- Outsourcing strategies can also entail hidden costs that are worth to assess. Some of them are: the cost of an outdated outsourcing strategy, management and coordination of contractors, subpar inventory performance, unplanned logistics activities and premium freight, inappropriate sales and operations planning, poor or substandard quality, cash flow, and unplanned and unforeseen risks.

Chapter 3: Unilever's Global Wipes Tender: preparation

As a result of the Orion Programme initiative, the global wipes tender for Unilever was run. 15 suppliers were Requested for Quotations (RFQ) based on the brief that was issued. The following chapter will describe Unilever's wipes situation before the RFQs were sent and the criteria used to build the brief on which the whole tender is based. Doing so will help understand the assumptions made to start the cost saving analysis considering the desired narrowing of the current supplier base. The data used in the following chapter was retrieved from the 2021 Global Spend for Wipes database found in Unilever's software: (Unilever, 2022).

3.1. Unilever's Wet Wipes Portfolio

As it was mentioned in the first chapter, Unilever's Wipes Portfolio is made up of wipes that belong to the Beauty and Personal Care and Home Care business units. To be able to optimize its CM Network to reduce the number of sourcing units and increasing savings, it is necessary to understand the current portfolio.

There are three different product categories for the wipes' portfolio: Skin Care, Skin Cleansing and Home & Hygiene. Whereas the first two belong to the Beauty and Personal Care business unit, the latter belongs to Home Care. Each category has different product formats, shown in Figure 8.

Business Unit	Product category	Product format
Beauty and Personal Care	Skin Care	Facial Wash Wipes
		Facial Wash Mask Sheet
		Facial Make-up Remover Wipes/Pads
	Skin Cleansing	Skin Cleansing Wipes
Home Care	Home & Hygiene	Disinfectant Wipes
		Multipurpose Non-Abrasive Wipes
		Large Surface Wipes

Figure 8. Product formats per product category. Own creation.

Besides the different product formats, Unilever's products can also be divided by brands, which can belong to different product formats and, in some cases, to different product categories, as Seventh Generation, which has disinfectant wipes and skin cleansing wipes. Brands such as Simple, Noxzema, Pond's and St.Ives belong to the Skin Care category; Baby Dove, Baby Seventh Generation, Zwitsal and Lifebuoy to Skin Cleansing; and Seventh Generation, CIF, Domestos, Glorix and Lysoform to Home & Hygiene, amongst others.

Figure 9. 2021 Spend per product category (brands). Own creation.

Figure 9 shows how the 2021 spend is distributed between brands per product category. Looking at the graph, it can be said that the split in spend between product categories is balanced. Also, it is visible that the brands that represent the highest spend are: Simple for Skin Care, Baby Dove and Baby Seventh Gen for Skin Cleansing and Seventh Generation and CIF for Home & Hygiene. The percentages of the contribution per product format and product category can be found in Figure 10.

Product category	Product format	Spend EUR	% product form	% product category
Skin Care	Facial Wash Wipes	14.907.024	27,4%	36,7%
	Facial Wash Mask Sheet	3.953.887	7,3%	
	Facial Make-up Remover Wipes/Pads	1.140.221	2,1%	
Skin Cleansing	Skin Cleansing Wipes	16.623.997	30,5%	30,5%
Home & Hygiene	Disinfectant Wipes	10.130.355	18,6%	32,8%
	Multipurpose Non-Abrasive Wipes	7.686.174	14,1%	
	Large Surface Wipes	43.311	0,1%	
Total		**54.484.969**	**100%**	**100%**

Figure 10. Spend in EUR per product format 2021. Own creation.

The data shown above corresponds to the global volumes for the wet wipes' portfolio. However, understanding how these products are distributed worldwide in terms of markets (clusters) is important since a decision-making in regard to sourcing units will be happening. Clusters in Unilever are divided as follows: Europe, Latin America (LA from now on), NAMET & RUB, North America (NA from now on), North Asia, SEAA, South Asia and Unilever International (UI from now on). Figure 11 and Figure 12 show the split of 2021 spend for wipes between clusters. It can be seen that even though this is a global portfolio, almost 82% of the total spend corresponds to the products sold in European and North American markets.

	Cluster							
Product category	**Europe**	**Latin America**	**NAMET & RUB**	**North America**	**North Asia**	**SEA A**	**Sout h Asia**	**Unileve r Interna tional**
Skin Care	17,6%	1,0%	0,8%	7,0%	4,1%	2,9%	0,2%	3,1%
Skin Cleansin g	14,0%	0,9%	0,7%	13,0%	0,0%	0,0%	0,4%	1,6%
Home & Hygiene	11,0%	0,5%	1,2%	18,8%	0,2%	0,1%	0,0%	0,9%
Total Spend	**42,6%**	**2,4%**	**2,6%**	**38,8%**	**4,4%**	**3,0%**	**0,7%**	**5,6%**

Figure 11. 2021 spend per cluster. Own creation.

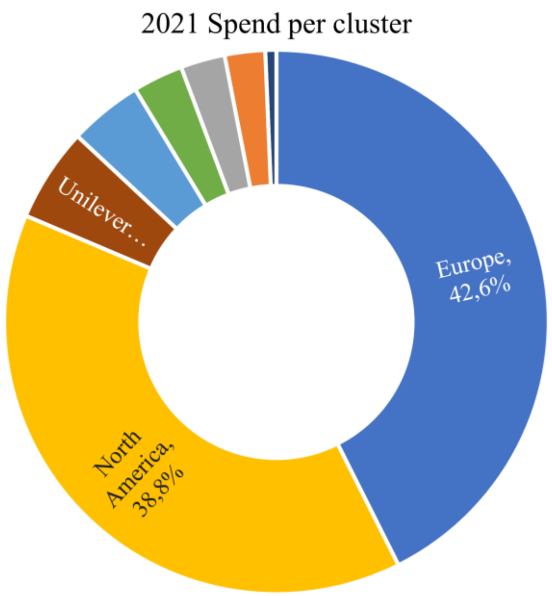

Figure 12. 2021 Spend per cluster. Own creation.

3.2. Current Unilever's Wipes Supplier Base

Based on the information illustrated above, it is important to understand how the supplier base is currently distributed in order to supply the clusters with the corresponding product formats. Up to June 2022, Unilever works with 37 suppliers for the wet wipes global portfolio. These suppliers are located in 25 different countries around the world, including United States, Germany, Italy, Singapore, China, Australia, Brazil, Turkey, among others. In terms of spend, suppliers in United States, Germany, Italy and Singapore made up more than the 86% of it in 2021. Nonetheless, more than the countries where suppliers are located, it is important to assess the number of suppliers who represent the highest spend.

Figure 13 shows the suppliers who represent the highest spend for the global wipes portfolio, their locations and clusters they supply. Based on the information exposed in it, it can be concluded that 5 suppliers (out of 37, which represent the 13,5% of the total suppliers), made up 84,4% of the 2021 spend. This means that the other 86,5% of the suppliers represent only 15,6% of the 2021 spend, which is €8,5 Million.

Supplier	2021 Spend EUR	% Total Spend	Country	Cluster supplied
A	17.359.151	31,9%	Germany	EU, NA, SEAA, UI
B	15.541.905	28,5%	United States	NA
C	8.659.844	15,9%	Italy	EU, NA, UI
D	2.680.709	4,9%	Russian Federation	LA, NAMET & RUB, North Asia, UI
E	1.732.013	3,2%	Netherlands	EU
		84,4%		

Figure 13. Wipes suppliers with the highest spend for 2021[6]. Own creation.

[6] Suppliers' names will be shown as A, B, C,…, throughout the paper for confidential and practical purposes.

Figure 13 also indicates there are 3 global suppliers and 2 local to local (L2L) suppliers. However, it is important to mention that global suppliers are biased to be supplying some clusters more than others. For instance, out of the total spend for supplier **A**, 75% corresponds to the European cluster and the other 25% to NA, SEAA, and UI. Another example is supplier **C**, where 96,5% from its total spend is dedicated to supply the European market and the other 3,5% to supply NA and UI.

Another important metric to take into account is the number of suppliers serving each cluster, considering that one supplier can supply one or more clusters. Figure 14 shows the number of suppliers involved in supplying each cluster.

Cluster	% Total spend	Number of suppliers
Europe (EU)	42,6%	5
Latin America (LA)	2,4%	8
NAMET & RUB	2,6%	8
North America (NA)	38,8%	10
North Asia	4,4%	2
SEAA	3,0%	5
South Asia	0,7%	1
Unilever International (UI)	5,6%	10

Figure 14. Number of suppliers per cluster. Own creation.

It is important to note that these variables are not directly related, which means that as there is more spend in a cluster, there are not necessarily more suppliers. For instance, there is Europe and UI, where the former has 42,6% of the total spend but only 5 suppliers, whereas the latter has only 5,6% of the total spend and 10 suppliers, which is twice Europe’s. Having these imbalances for some suppliers creates inefficiencies in the process and therefore, the need to have a better, more optimized, and harmonized supply base.

3.3. Brief building and issuing

After understanding the framework on which the Global Wipes Tender for Unilever is based, building the brief comes next. The *brief* is the document that is sent along with the Invitation to Tender for suppliers to know the criteria of the tendering in order to quote. In this case, it includes total volumes, volumes per market, product specifications in terms of fabric, impregnation liquid, packaging and logistics, and additional comments such as required compliance based on market regulations.

The brief was built considering the information given by the Research & Development department (R&D) for product specifications and the information retrieved from Unilever's database for forecasted volumes (global and per market). Since this paper will cover the cost-savings analysis to drive a reduction in the number of sourcing units for the portfolio worked, no product specifications will be addressed.

To be able to issue the brief it is critical to identify first the SKUs that will be quoted, which are the most representative ones. Then, the suppliers to which the brief will be sent need to be chosen.

As it is shown in Figure 9, the brands with the highest 2021 spend within each product category are: Simple, Baby Dove, Baby Seventh Gen (SVG Baby), Seventh Generation (SVG) and CIF. The SKUs that would be included in the brief were chosen based on this information. From each product category and brand, the SKU with the highest spend was identified. Then, it was checked together with R&D whether the product was a good sample of the product format and product category. From the 449 SKUs that belong to the wipes' portfolio, 9 were included in the brief (Figure 15), including each product category and format, brand, description, cluster, pack configuration and annual volume in packs.

Besides the brands mentioned above, an Innovation Project was included in the brief in order to look for CMs that can produce it. Dove Hand Sanitizing wipes belong to Project Seven, an innovation that was launched due to covid.

Incumbent supplier	Country	Product category & format	Brand	Unilever SKU Description	Cluster	Wipes per pack	Annual volume in packs	Total BIC per pack EUR	Total Spend
A	UK	Skin Care - Facial Wash Wipe	Simple	Simple Facial Wipes 25ct EU	Europe	25	22.000.000	0,43	**46.991.750**
A	UK	Skin Care - Facial Wash Wipe	Simple	Simple Facial Wipes 25ct NA	NA	25	3.000.000	0,72	
B	US	Skin Cleanse - Baby wipes	SVG Baby	SVG Baby Wipes 12p 64ct	NA	75	5.900.000	1,01	
A	UK	Skin Cleanse - Baby Wipes	Baby Dove	BabyDove Wipes Sensitive Natural EU	Europe	75	5.800.000	0,75	
A	UK		Baby Dove	BabyDove Wipes Sensitive Natural NA	NA	75	2.700.000	1,00	
R	US	Skin Cleanse - Hygiene wipes	Dove	Dove Aloe & Euc- Shea Butter & Warm Van 20ct pouch	NA	20	2.400.000	1,14	
R	US		Dove	Dove Aloe & Euc- Shea Butter & Warm Van 40ct canister	NA	40	1.100.000	1,83	
B	US	Home and Hygiene - Disinfectant wipes	SVG	SVG Disinfectant 6p 70ct	NA	70	6.500.000	2,12	
C	Italy	Home and Hygiene - Multi Purpose Wipes	CIF	CIF Wipes Punkin Ocean 60ct	Europe	60	6.000.000	0,63	

Figure 15. SKUs for RFQ. Own creation.

The annual volumes were calculated based on the SKUs that have similar specifications, which was also done together with R&D. The SKU base shown in Figure 15 covers 86% of the 2021 spend, including the top clusters: Europe and North America. Current pricing for these 9 SKUs is also shown above (Total BIC[7] per pack EUR). The price includes international freight, which means that these prices are the basis against which the quotes will

[7] Bought in Costs (purchasing price)

be compared. Figure 15 also shows the current sourcing unit that supplies each SKU and its location.

Spend shown in Figure 15 (almost €47 Mill) will be the one that is going to be used to compare the landed cost from the different suppliers in order to run the cost-savings analysis. It is worth to note that since the spend covered represents 86% of the 2021 total spend, there is still an opportunity in that missing 14% to achieve cost savings.

On the other hand, the suppliers to whom the RFQ was sent were chosen by the Global Procurement Team. This was a process done along with the different procurement teams from each cluster, including Europe, North America, Latin America, and SEAA, following the supplier selection methodology already established in Unilever. From the 15 suppliers that were requested to quote, only one is a new supplier (F) whereas the other 14 already have awarded businesses with Unilever (not necessarily wipes). Selected suppliers are listed in Figure 16.

Suppliers shown with a star (*) in Figure 16 are part of the 5 suppliers that made up the 84,4% of the 2021 global spend for wet wipes. All suppliers listed went through a supplier evaluation process first in order to be chosen. This means that this paper does not intend to perform a supplier segmentation/evaluation (which was already done by procurement) but intends to evaluate the different options Unilever has to create partnerships seeking a CM consolidation and achieving proposed cost savings.

Supplier	**Country**	**Type**
A*	UK	Incumbent
F	Czech Republic	New
G	USA	Incumbent
H	USA	Incumbent
I	USA	Incumbent

J	India	Incumbent
K	Vietnam	Incumbent
L	China	Incumbent
M	USA	Incumbent
C*	Italy	Incumbent
N	Turkey	Incumbent
O	Multi	Incumbent
E*	Netherlands	Incumbent
P	Brazil	Incumbent
Q	Mexico	Incumbent

Figure 16. Suppliers selected to participate in the Tender. Own creation.

After the definition of the product specifications and details that would be included in the brief and the selection of suppliers, the brief is ready to be issued.

3.4. Key learnings

- The brands that represent the highest spend in 2021 per product category are: Simple for Skin Care, Baby Dove and Baby Seventh Generation (SVG Baby) for Skin Cleansing and Seventh Generation (SVG) and CIF for Home & Hygiene.

- Almost 82% of the total spend for wet wipes in 2021 corresponds to the products sold in European and North American markets.

- Up to June 2022, Unilever works with 37 suppliers for the wet wipes global portfolio. These suppliers are located in 25 different countries around the world, including United States, Germany, Italy, Singapore, China, Australia, Brazil, Turkey, among others.

- 5 suppliers (out of 37, which represent the 13,5% of the total suppliers), made up 84,4% of the 2021 spend (almost €46 Mill). This means that the other 86,5% of the suppliers represent only 15,6% of the 2021 spend, which is €8,5 Million.

- As there is more spend in a cluster, there are not necessarily more suppliers. Europe and UI are a clear example, where the former has 42,6% of the total spend but only 5 suppliers, whereas the latter has only 5,6% of the total spend and 10 suppliers, which is twice Europe's.

- From the 449 SKUs that belong to the wipes' portfolio, 9 were included in the brief, including each product category and format, brand, description, cluster, pack configuration and annual volume in packs.

- The SKU base chosen for the brief covers 86% of the 2021 spend, including the top clusters: Europe and North America.

- The spend covered by the Global Wipes Tender represents 86% of the 2021 total spend.

- Supplier selection was done by different procurement teams inside Unilever.
- 14 out of the 15 selected suppliers already have businesses with the company (incumbent suppliers, not necessarily of wipes). There is only 1 new supplier.

Chapter 4: Unilever’s Global Wipes Tender: results

The brief was sent to the selected suppliers so that they could come back with a quotation. The following chapter illustrates the results of the quotations sent by the different suppliers, besides the turning of that purchasing price into a landed cost so that a like for like comparison could be done. Quotations were asked to follow the specifications mentioned in Chapter 3: Unilever’s Global Wipes Tender: preparation, besides including the cost breakdown into raw material cost, packaging cost and conversion cost. Also, the incoterm that was asked for suppliers to quote was FCA.

4.1. Tender results: purchasing prices overview

The RFQ had deadline of 3 weeks after it was issued. It is worth to say that a couple of suppliers took longer than the initial deadline to send their quotes. Even though most of the suppliers already had business with Unilever, some of them did not quote for several reasons. Figure 17 shows the tender status after it was closed. Suppliers L and P did not respond the RFQ. They confirmed that they had received the brief, but after several attempts to contact them to have the quote back, there was no response. On the other hand, supplier M withdrew from the tender due to the fabric they use, which does not meet the specifications of the brief. Therefore, only 12 quotes were evaluated.

Figure 17 also shows the number of SKUs each supplier quoted. The brief included SKUs with different specifications included the how they are folded, the juice, the count per pack, if it is pouch or canister, etc. Hence, not all the suppliers have the capability to produce all SKUs. This number will help understand each quote better and the possibility of a long-term partnership with the respective supplier.

Supplier	Country	Quote status	SKUs quoted
A	UK	Received	6
F	Czech Republic	Received	7
G	USA	Received	7
H	USA	Received	9
I	USA	Received	7
J	India	Received	5
K	Vietnam	Received	9
L	China	No	0
M	USA	No - Only cotton based	0
C	Italy	Received	5
N	Turkey	Received	9
O	Multi	Received	6
E	Netherlands	Received	6
P	Brazil	No	0
Q	Mexico	Received	2

Figure 17. Tender status. Own creation.

Tender raw results can be seen in Appendix A: Bought in Costs per supplier FCA. The results are shown with the breakdown between raw material cost (RM), packaging material cost (PM) and conversion cost (CC). Raw materials include fabric and juice, pack material includes primary and second packaging, and conversion cost relates to labor, utilities, margin, and others (such as transport, depending on the supplier).

Although suppliers were asked to provide their quotes with the cost breakdown for these categories, not all of them met this requirement. Having the cost split is useful to understand the cost structure of each supplier, if they are vertically integrated or if, for instance, they are buying the fabric from other suppliers, and their transparency, among others. Also, it is key in the process of consolidating long-term supplier relationships. However, the scope of this paper is limited to understanding the Bought in Costs (BIC – also known as Purchasing Price) per supplier, as well as logistics costs, to identify partnership options for Unilever, reason why the cost breakdown will not be assessed and could be assessed further in other investigation, instead.

The quotes were handed in different currencies based on the country each supplier is located in (GBP, USD or EUR). Appendix A: Bought in Costs per supplier FCA shows prices already converted to EUR. Exchange rates used were: [1 GBP : 1,19 EUR] ; [1 USD : 0,95 EUR].

Figure 18 shows the first best offer per pack found in the quotations along with the supplier who offered that price and its location. As it can be seen, there is a clear competitive advantage owned by supplier K in terms of BIC: out of the 9 SKUs that were quoted, 8 have the best offer provided by it. Besides, Figure 18 illustrates the foreseen savings in terms of BIC in regard to the current pricing shown in Figure 15 (Savings %: column 5).

Brand	**Cluster**	**Annual volume in packs**	**Second best offer/pack**	**Savings %**	**CM**	**Country**	**Incumbent Supplier**	**Real savings EUR**	**Savings contribution %**
Simple	Europe	22.000.000	**0,31**	28%	K	Vietnam	A-UK	**2.659.251,5**	13%
Simple	NA	3.000.000	**0,31**	57%	K	Vietnam	A-UK	**1.228.369,7**	6%
SVG Baby	NA	5.900.000	**0,59**	42%	K	Vietnam	B-US	**2.498.895,8**	12%
Baby Dove	Europe	5.800.000	**0,59**	22%	K	Vietnam	A-UK	**939.310,8**	5%
Baby Dove	NA	2.700.000	**0,59**	42%	K	Vietnam	A-UK	**1.126.068,3**	6%
Dove Pouch	NA	2.400.000	**0,26**	77%	K	Vietnam	R-US	**2.090.494,0**	10%
Dove Canister	NA	1.100.000	**0,89**	52%	K	Vietnam	R-US	**1.042.735,8**	5%

SVG	NA	6.500.000	**0,93**	56%	F	Czech Republic	B-US	**7.778.333,3**	38%
CIF	Europe	6.000.000	**0,49**	23%	K	Vietnam	C-Italy	**865.415,6**	4%
								20.228.875	

Figure 18. Best BIC offers per pack per SKU.

All SKUs show significant savings (above 20%), being Dove Pouch NA the SKU with the highest one (77%). This percentages represent the savings achieved in the price per unit (pack), meaning it does not take into account the volume per product. With these costs, there would be more that €20 Million savings, of which SVG NA represents the 38%. It can be seen that SVG NA is the SKU that has the highest savings opportunity in EUR (more than €7.7 Mill) and represents more than the third part of the total savings that could be achieved. On the contrary, CIF EU is the SKU with the smallest part of the savings (4%).

In order to put in evidence more supplier competitiveness, Figure 19 shows the second-best offer per SKU. It can be seen that the savings contribution to the real savings in EUR has a similar behavior compared to the data shown in Figure 18: whereas the highest savings contribution is from SVG NA, the lowest one is from CIF EU. Total real savings reach €15.7 Mill, made up mainly from J, an Indian supplier. It is worth to mention that supplier J's quote included 5 SKUs only, of which all appear as the second-best offer, accordingly.

Brand	**Cluster**	**Annual volume in packs**	**Second best offer/ pack**	**Savings %**	**CM**	**Country**	**Incumbent Supplier**	**Real savings EUR**	**Savings contribution %**
Simple	Europe	22.000.000	**0,37**	15%	C	Italy	A-UK	**1.418.084,8**	9%
Simple	NA	3.000.000	**0,39**	45%	F	Czech Republic	A-UK	**974.693,6**	6%
SVG Baby	NA	5.900.000	**0,62**	39%	J	India	B-US	**2.310.603,3**	15%

Baby Dove	Europe	5.800.000	**0,62**	17%	J	India	A-UK	**754.209,7**	5%
Baby Dove	NA	2.700.000	**0,62**	38%	J	India	A-UK	**1.039.900,5**	7%
Dove Pouch	NA	2.400.000	**0,31**	72%	J	India	R-US	**1.971.814,7**	13%
Dove Canister	NA	1.100.000	**0,99**	46%	N	Turkey	R-US	**932.827,5**	6%
SVG	NA	6.500.000	**1,21**	43%	K	Vietnam	B-US	**5.897.125,0**	38%
CIF	Europe	6.000.000	**0,56**	11%	J	India	C-Italy	**416.559,6**	3%
								15.715.818,7	

Figure 19. Second best BIC offers per pack per SKU.

Even though these numbers seem promising, international transport is still missing to be calculated. Hence, the following title will show the landed cost per SKU per CM in order to illustrate the real savings.

4.2. Purchasing prices turned into landed costs

As mentioned above, besides the BIC, including other costs like shipping, customs, risk and overhead is necessary to calculate landed costs. Shipping cost includes the international freight, could be by ocean or road, as well as packing, handling, etc. Customs consider duties, taxes, tariffs, other fees, among others. Risk costs refer to the cost of avoiding risks such as insurance, compliance, quality, safety stock inventory, etc. Finally, overhead costs, also known as operating costs, include purchasing staff, diligence cost, travel, amongst others (FedEx, n.d.).

The landed cost was calculated for the top performers identified in Figure 18 and Figure 19, besides current partners such as supplier A and C. Some of the current suppliers were not asked to participate in the tender because they had already been identified to have performance issues (quality, price, service level, etc). Hence, the full list of the landed costs per SKU per supplier for suppliers A, F, J, K, C, N and O can be found in Appendix B: Landed cost per supplier.

4.2.1. Shipping cost

Unilever is a multinational company that has its own internal rate card for ocean freight. The logistics team is specialized in all logistics costs, and most of the times, transport of goods/materials is fixed by Unilever. Suppliers were asked to quote on FCA Incoterm because all the port handling, transport and insurance would be assumed by Unilever. Freight rates were taken from 2021-2022 Global Ocean Freight Internal Rate Card. For the road transport, an estimate of 5% was calculated, claimed by Jani (2022), Global Collaborative Manufacturing Manager for BPC. For NA volumes, the transport was estimated to either New York's port or Newark's port (port district of the New York-Newark metropolitan area). For European volumes, transport was calculated to either Felixstowe or Liverpool port.

The ocean freight rate includes BAF (Bunker Adjustment Factor), Base Rate, OTHC (Origin Terminal Handling Charges), DTHC (Destination Terminal Handling Charges), and road transport per unit[8]. Moving in 40ft containers and using single stacking are the assumptions made in order to calculate the cost. See Appendix C: Pallet Configuration to go through the pallet configuration per SKU. This numbers were used to calculate the transport cost per unit (pack), which is different depending on the number of packs that fit in a container (size, pack format and wipe count are key).

[8] SKUs with ocean freight rate do not need the calculation of extra road transport since it is already included in it.

4.2.2. Customs

Traded products can be classified in different Harmonized System (HS) codes, which are commonly used in trading processes for goods. These codes are used by authorities around the world to assess duties and taxes (International Trade Organization, n.d.).

Wet wipes included in the brief fall under the HS codes 3401 11 and 3401 19, which consider Soap and organic surface-active products and preparations, ..., and paper, wadding, felt and nonwovens, impregnated, coated, or covered with soap or detergent. Based on the information provided by the Customs Team, it was confirmed that these codes represent 0% customs duty rate to be shipped to United Kingdom (European volumes) and United States (NA Volumes) regardless of the origin country.

4.2.3. Risk

One of the risks that needs to be tackled is demand variations. Unilever should be able to satisfy the demand and have a responsive supply chain in order to not lose sales, to not decrease customer satisfaction, and to maintain service levels (at least 90% On Time In Full-OTIF). Unilever aims to have two months (8 weeks) of safety stock when the manufacturing of the products is done overseas and there is no local supplier for resilience (assumption made by the Supply Chain Team): its cost is €2/pallet per week. Also, there is a €2 fee per pallet in and pallet out.

4.2.4. Overhead

There are no additional operating costs associated to the wipes tender since the team that is dedicated to managing third party relationships is already created and running, no travel costs need to be assumed yet, contracting costs will not be assessed yet, and, in general, the company already incurs in the operating costs associated to the process. There is no difference between suppliers in this cost.

Based on the assumptions made in regard to shipping, customs, risk and overhead costs, the landed cost can be calculated. Results for landed costs for suppliers A, F, J, K, C, N, and O are shown in Appendix B: Landed cost per supplier. Considering these prices, Figure 20. Best offer per pack EUR. Own creation. was created. This table shows the best offer per pack found, which includes BIC, transport (ocean and road, accordingly), customs and safety stock when needed.

Brand	**Cluster**	**Annual volume in packs**	**Best offer per pack**	**Savings %**	**CM**	**Country**	**Incumbent Supplier**	**Real savings EUR**	**Savings contribution %**
Simple	Europe	22.000.000	**0,39**	11%	C	Italy	A-UK	**1.014.659,8**	9%
Simple	NA	3.000.000	**0,50**	30%	K	Vietnam	A-UK	**657.705,4**	6%
SVG Baby	NA	5.900.000	**0,89**	12%	O	Multi	B-US	**732.666,9**	7%
Baby Dove	Europe	5.800.000	**0,70**	7%	C	Italy	A-UK	**313.894,8**	3%
Baby Dove	NA	2.700.000	**0,70**	31%	C	Italy	A-UK	**834.926,4**	7%
Dove Pouch	NA	2.400.000	**0,43**	62%	K	Vietnam	R-US	**1.691.095,4**	15%
Dove Canister	NA	1.100.000	**1,21**	34%	K	Vietnam	R-US	**686.851,2**	6%
SVG	NA	6.500.000	**1,33**	37%	F	Czech Republic	B-US	**5.156.896,7**	46%
CIF	Europe	6.000.000	**0,62**	2%	O	Multi	C-Italy	**88.905,6**	1%
								11.177.602	

Figure 20. Best offer per pack EUR. Own creation.

It can be seen that out of the 7 suppliers that made it to the second round of evaluation, 4 are listed as having the best offers per SKU. The table can be read as follows (first row as example):

- For Simple Europe, the annual volume corresponds to 22 million wipe packs.

- The Supplier that offers the best price per pack is C, which is located in Italy.
- Supplier C offers €0,39 per pack for Simple Europe, which represents 11% savings compared to the current pricing (€0,43 per pack, supplied by supplier A -located in UK-, as shown in Figure 15).
- Considering volumes and offer per pack, supplier C offers real savings for more than €1 Mill, which is 9% of the total savings achieved (more than €11 Mill) by contracting each SKU with the CM that handed the best offer in the tender.

The same logic can be used to analyze the other SKUs. For instance, it can be seen that there is a huge savings opportunity by optimizing the SVG NA CM network. More than €5 Million can be saved in a year with this SKU, representing a saving of 37% compared to the current price (€2,12 per pack, by supplier B located in the US).

Conversely, there is Dove Pouch NA, the SKU that has the highest saving per pack compared to the current price (62%), but in the total savings, its contribution is only the 15%. This is caused due to two main reasons: the volumes per SKU, in which SVG NA's volume is almost three times Dove Pouch NA's one; and the savings in EUR per pack, in which whereas the best offer for Dove Pouch NA saves 70 cents per pack, and the one for SVG NA saves 79 cents.

Figure 20 also shows that the most competitive CMs are: C in Italy, K in Vietnam, O in US and EU –Spain, Germany, Israel, Poland–, and F in Czech Republic. While suppliers O and F are vertically integrated, C and K are not. This feature provides insights in terms of flexibility since there would be only one supplier involved in negotiations if volumes need to change for the vertically integrated suppliers, whereas for the non-vertically integrated ones it would require more complexity, thus less flexibility.

On the other hand, Figure 21 illustrates the second best offer per pack per SKU. This table is interpreted as Figure 20. In this case there are 5 suppliers that offer the second best price. Some suppliers already appeared in the analysis for the best offer per pack, such as K, F, and C. However, 2 new suppliers come to the top performers: J in India and N in Turkey.

It is worth to highlight the case of CIF Europe, in which there is no saving but an oncost instead. When compared to the current pricing shown in Figure 15, this SKU has a higher price in the second best offer. It can be seen that the supplier who quoted this price is the same incumbent supplier Unilever has for CIF Europe (Supplier C). One of the main purposes of the tender is to achieve cost savings through CM consolidation, which makes it interesting to see how the same supplier, instead of lowering the price of an incumbent SKU, increases it. This can happen due to inflation and/or different price increases for raw materials, packaging materials, among others.

Brand	**Cluster**	**Annual volume in packs**	**Second best offer/ pack**	**Savings %**	**CM**	**Country**	**Incumbent Supplier**	**Real savings EUR**	**Savings contribution %**
Simple	Europe	22.000.000	**0,39**	10%	K	Vietnam	A-UK	**923.023,5**	12%
Simple	NA	3.000.000	**0,58**	20%	F	Czech Republic	A-UK	**422.155,2**	6%
SVG Baby	NA	5.900.000	**0,98**	3%	K	Vietnam	B-US	**182.750,3**	2%
Baby Dove	Europe	5.800.000	**0,72**	4%	J	India	A-UK	**189.997,2**	3%
Baby Dove	NA	2.700.000	**0,72**	29%	J	India	A-UK	**777.249,9**	10%
Dove Pouch	NA	2.400.000	**0,47**	58%	J	India	R-US	**1.588.661**	21%
Dove Canister	NA	1.100.000	**1,45**	21%	N	Turkey	R-US	**421.948,5**	6%
SVG	NA	6.500.000	**1,67**	21%	K	Vietnam	B-US	**2.958.602,1**	40%

CIF	Europe	6.000.000	**0,64**	-1%	C	Italy	C-Italy	**-26.951,4** **7.437.436**	0%

Figure 21. Second best offer per pack per SKU. Own creation.

The information exposed in this chapter will be useful to create the different alternatives that show the partnership options Unilever has. Chapter 5 will assess the possible scenarios to finally conclude what the action plan is.

In addition to the analysis of the first and second best offers, the variation between BIC and landed cost can be evaluated. Figure 22 shows the percentage the extra costs represent compared to the purchasing price in average per supplier (including SKUs divided by cluster – NA and EU). This extra cost (assessed as hidden costs in this paper) includes shipping, customs, risk and overhead costs.

Based on the information illustrated in Figure 22, it can be concluded that, in general, importing goods to North America is relatively more expensive due to the extra costs that need to be incurred. It can be expected for suppliers in Europe to have higher hidden costs to move products to North America than moving them inside Europe. However, the same happens with suppliers coming from Asia, such as J and K, where the percentage of hidden costs is higher in NA than in EU.

Supplier	**Country**	**EU**	**NA**
A	UK	5%	37%
F	CZ Republic	5%	41%
J	India	22%	50%
K	Vietnam	32%	51%
C	Italy	5%	53%

N	Turkey	13%	56%
O	US & EU	5%	5%

Figure 22. Landed cost vs BIC per supplier. Own creation.

4.3. Key learnings

- Out of 15 suppliers, only 12 quoted successfully.

- Bought in Costs (BIC) includes raw material cost (fabric and juice), packaging material cost (primary and second packaging) and conversion cost + others (labor, utilities, margin, others).

- Supplier K, located in Vietnam, is the most competitive one in terms of BIC (which is assessed as a whole under the scope of this paper).

- SVG NA is the SKU that represents the highest savings opportunity for the company.

- Based on first and second best offers, the most competitive suppliers and the ones that made it to the landed cost calculation were: A*, F, J, K, C, N, and O. Supplier A did not show to be price competitive, but it was advised from the R&D and Marketing team that they are a strategic partner that needed to be taken into account.

- Landed cost includes BIC, shipping, customs, risk, and overhead costs.

- To calculate landed cost the following assumptions were made: products moved in single stacked 40ft containers, safety stock of two months for overseas suppliers.

- Freight rates were retrieved from 2021-2022 Global Ocean Freight Internal Rate Card. For the road transport, an estimate of 5% was calculated.

- 0% customs duty fees since HS codes 3401.11 and 3401.19 are tax free to be imported to the US and UK.

- Out of the seven suppliers that were assessed under landed costs, only 6 appear as either the first or the second best offer: C, K, O, F, J, N. Supplier A (incumbent supplier for Simple and Baby Dove) is not price competitive.

- Expected savings are more than €11 Million when awarding the businesses to the suppliers who offer the best price, as shown in Figure 20.

- Hidden costs are higher when importing to NA than to/inside EU.

Chapter 5: re-designing Unilever's supply base for the Global Wet Wipes portfolio

After assessing the tender results, scenarios need to be created taking in consideration criteria other than mere cost. Hence, the following chapter aims to describe the alternatives the company has in order to build partnerships while driving cost savings, along with the criteria used. The Multi-Criteria Decision Analysis is the proposed method to assess the different scenarios. However, this method contemplates more than three alternatives so that the assigned scores make sense (since the worst criteria is awarded a 0). Thus, the regular decision matrix method will be used instead.

5.1. Alternatives

For the Global Wipes Tender analysis, two options will be considered:

1. Most price competitive supplier base
2. Most resilient supplier base

These alternatives were established according to the main purposes of the tender. One of them is to achieve cost-savings, as shown in Figure 1. Therefore, the first scenario will be to assess a supplier base made of the most price competitive suppliers. Since the goal is to save money, the best landed costs will be the basis of the CM network for option 1. On the other hand, Unilever also seeks to build a consolidated supplier network that allows to meet demand OTIF. In light of this, flexibility and supply chain responsiveness become a priority. Consequently, looking for a more resilient CM base is the main goal of the option 2.

The implications of each option are described as follows:

1. Most price competitive supplier base

This scenario suggests the awarding of the business to the most price competitive supplier per SKU. Figure 20 shows in each row which is the most competitive supplier: C, K, O, and F. As it was mentioned above, implementing this alternative tackles one of the needs that are intended to be solved through Orion, to drive cost-savings. Figure 23 shows the estimated annual spend for this option, which represents a saving of 23,79% based on the spend tendered.

Brand	**Cluster**	**Annual volume in packs**	**Best offer per pack**	**CM**	**Country**	**Annual Spend**
Simple	Europe	22.000.000	**0,39**	C	Italy	8.471.925
Simple	NA	3.000.000	**0,50**	K	Vietnam	1.501.664
SVG Baby	NA	5.900.000	**0,89**	O	Multi	5.231.987
Baby Dove	Europe	5.800.000	**0,70**	C	Italy	4.032.433
Baby Dove	NA	2.700.000	**0,70**	C	Italy	1.877.167
Dove Pouch	NA	2.400.000	**0,43**	K	Vietnam	1.033.049
Dove Canister	NA	1.100.000	**1,21**	K	Vietnam	1.329.476
SVG	NA	6.500.000	**1,33**	F	Czech Republic	8.633.937
CIF	Europe	6.000.000	**0,62**	O	Multi	3.702.510
						35.814.148

Figure 23. Spend for Option 1. Own creation.

2. **Most resilient supplier base**

In this option, the main goal is to build a supplier base based on resilience, which refers to ensuring a minimum of 90% OTIF, besides having local backups in case of unexpected crisis. This alternative presumes global suppliers as well as local to local suppliers to increase responsiveness against demand changes.

The main benefit of this scenario is the reduced number of suppliers: 2 would be global suppliers (K and J), one cost competitive (K) and the other one vertically integrated (J), and the last one (O) will be part of a resilience plan in order to not compromise demand satisfaction. The best feature of Supplier O is the fact that it has multiple sites up and running, both in the US and UK. This allows Unilever to have resilience in both markets with the same supplier.

Figure 24 shows the estimated annual spend for Option 2 (almost €39 Million), which represents savings for 17,15% based on the spend quoted in the brief. It can be seen that Simple’s volume is split between suppliers K and O. The latter is the supplier chosen for resilience, which means that the stock equivalent to two months will be awarded to it (3.38 million packs).

Brand	**Cluster**	**Annual volume in packs**	**Offer per pack**	**CM**	**Country**	**Annual Spend**
Simple	Europe	18.615.000	**0,39**	K	Vietnam	7.168.404
Simple	Europe	3.385.000	**0,49**	O	Multi	1.653.437
Simple	NA	3.000.000	**0,50**	K	Vietnam	1.501.664
SVG Baby	NA	5.900.000	**0,89**	O	Multi	5.231.987
Baby Dove	Europe	5.800.000	**0,72**	J	India	4.156.330
Baby Dove	NA	2.700.000	**0,86**	J	India	2.325.392
Dove Pouch	NA	2.400.000	**0,43**	K	Vietnam	1.033.049
Dove Canister	NA	1.100.000	**1,21**	K	Vietnam	1.329.476
SVG	NA	6.500.000	**1,67**	K	Vietnam	10.832.231

CIF	Europe	6.000.000	**0,62**	O	Multi	3.702.510
						38.934.481

Figure 24. Spend for Option 2. Own creation.

5.2. Criteria

The scenarios described above will be assessed according to the following criteria:

1. *Landed cost*

As it was mentioned in Chapter 4, the landed cost includes the BIC, shipping, customs, risk, and overhead costs. However, to evaluate options 1 and 2, calculated costs are: BIC, shipping (ocean freight and road freight, accordingly), customs and safety stock. Each of them will be assessed according to the landed cost of each SKU regarding its most competitive CM. The higher the score, the lower the total landed cost.

2. *Supply chain complexity*

Supply chain complexity refers to the size of the supplier base. The more suppliers a supply chain has, the more complex it is. Managing relationships and daily tasks creates unnecessary complexity in production processes. It is directly related to the number of suppliers per market. The higher the score, the less complex the supply chain is, which means that it has less and smaller relationships to manage.

3. *L2L suppliers (resilience)*

It has been discovered that building a strong and trustworthy global supplier base is absolutely necessary to achieve optimized network. Hence, global suppliers are a must. Resilience considers L2L (Local to local) suppliers that can be used to satisfy demands when unexpected changings occur. The main benefit of having these suppliers is the flexibility and rapid response there might be. The higher the score, the most resilient de scenario is.

4. *Investment (CapEx)*

Covers if an alternative requires capital investment. The higher the score, the less investment it requires.

5. *Vertically integrated supply chain*

Considers how vertically integrated a supply chain is. If there are suppliers that buy raw materials from other companies, then there is less control over the costs and, thus, over the supply chain. A high score in this criterion means that the alternative suggests working only with vertically integrated suppliers. A low score means no suppliers are vertically integrated.

Figure 25 shows the description (and score) of each alternative in regard to each criterion described above. The only criterion that has a different weight is the landed cost (2/6), due to the importance to drive cost savings (led by Orion initiative). Other than this, criteria 2, 3, 4 and 5 weight (1/6) each. Criteria will be assessed with a score between 1-3, depending on the scales per criterion described above.

		Option 1		**Option 2**	
Brand	**Cluster**	**Volume in packs**	**CMs**	**Volume in packs**	**CMs**
Simple	Europe	22 M	C - ITALY	18.6 M 3.4 M	K - Vietnam O - EU**
Simple	NA	3 M	K - Vietnam	3 M	K - Vietnam
SVG Baby	NA	5.9 M	O - US*	5.9 M	O - US*
Baby Dove	Europe	5.8 M	C - ITALY	5.8 M	J - India
Baby Dove	NA	2.7 M	C - ITALY	2.7 M	J - India
Dove Pouch	NA	2.4 M	K - Vietnam	2.4 M	K - Vietnam
Dove Canister	NA	1.1 M	K - Vietnam	1.1 M	K - Vietnam

SVG	NA	6.5 M	F - CZ REPUBLIC	6.5 M	K - Vietnam
CIF	Europe	6 M	O - EU**	6 M	O - EU**
Criterion	**%**	**Score**	**Comments**	**Score**	**Comments**
Landed cost	33%	3	Landed cost: € 35.8 M	2	Landed cost: € 38.9 M
SC complexity	17%	1	4 suppliers: 1 global, 1 L2L US, 3 L2L EU	3	3 suppliers: 2 global, 1 L2L EU, 1 L2L US (same supplier covers L2L demands in EU and US)
Resilience	17%	2	Yes for EU, which has 2 L2L suppliers. No for NA, Supplier O will not support other brands besides SVG Baby.	3	Yes, local suppliers in both markets to increase responsiveness
Investment	17%	3	No	1	Yes, Supplier O requires $1.5 M CapEx to implement canister line in the US.
Vertically integrated	17%	2	Yes, Suppliers O and F are vertically integrated: owns fabric production (non woven)	2	Yes, Suppliers J and O are vertically integrated: owns fabric production (non woven)
		2,33		**2,17**	

Figure 25. Decision matrix. Own creation.

Based on the information shown in Figure 25, it can be said that the best option for the company to implement is Option 1, which has the highest score (2,33 vs 2,17). Even though its complexity is higher in this scenario than in Option 2, it is the one that brings more savings to the company, gives some resilience in the European market, requires no additional investment and is half vertically integrated. Issues in terms of resilience can be tackled with consignment stocks in the brands that require it. Something to highlight about this alternative is the awarding of the business to a new supplier which has no current business with Unilever. After the supplier evaluation done previous to this investigation, this gives the company the opportunity to broad its possibilities and get to know potential good-quality strategic partners.

5.3. Key Learnings

- Two scenarios were assessed: most price competitive supplier base and most resilient supplier base.

- The criteria used to compare these scenarios were: landed cost, supply chain complexity, resilience (L2L suppliers), capital investment and vertical integration. They were assessed with scores between 1-3, accordingly.

- The best alternative for Unilever is to award the business to the suppliers that offer the most competitive price.

Chapter 6: conclusions and recommendations

The following chapter aims to state a conclusion on the research that has been developed throughout the paper. Based on the desk and field research done, it is possible to conclude what will be the best option for Unilever to implement in order to unlock cost savings and consolidate their CM network for the wet wipes global portfolio. Also, the recommendations and action plan will be shared to materialize the findings.

6.1. Conclusion

This research paper's main purpose was to benchmark the possible partnerships options Unilever has to produce wet wipes for the Beauty and Personal Care and Home Care departments. These possible partnerships were evaluated based on the Global Wipes Tender that was run among 15 suppliers for 9 SKUs previously defined based on highest 2021 spend. It is important to note that the cost used to do the comparison was the landed cost, which was calculated by including purchasing price (FCA Incoterm), shipping, customs, risk and overhead costs (hidden costs).

Purchasing prices provided by different suppliers were compared. Based on this comparison, it is possible to conclude that the most price competitive supplier is Supplier K, located in Vietnam. It interesting to highlight that although this supplier is not vertically integrated, it handed the best offer for 8 out 9 SKUs issued in the brief, for both NA and EU markets.

On the other hand, landed costs were also assessed, leading to a possible scenario in which the business was awarded to the most price [landed cost] competitive suppliers. Through this analysis, 6 suppliers were identified to have best first and second offers per SKU (C, K, O, F, J, N).

Two different scenarios to establish the supplier base for the wipes' portfolio were evaluated in a decision matrix. Results show that the best alternative is for Unilever to award the business to the most price competitive suppliers. Despite the fact of having higher complexity (number of suppliers) and less resilience (no local-to-local supplier for NA), this scenario will benefit the company more than a resilient supplier base due to higher cost savings and lack of capital investment. Vertical integration was also assessed but it was found that the number of suppliers that are vertically integrated is the same for both scenarios, so it does not create any competitive advantage for any of them.

6.2. Recommendations

Unilever is a worldwide Fast-Moving Consumer Goods company. Due to its size, it uses both in-house production and outsourcing strategies. Since the wipes portfolio has been presenting issues related to its CM network, it is important to tackle this as soon as possible and in the best way possible. As it was mentioned before, Orion Programme seeks to drive cost savings through CM network consolidation, which means that this is a long-term implementation and evaluation project.

This paper concludes that Unilever should re-design its current wipes supplier base into a price competitive supplier base. In order to materialize the savings proposed in this research and taking into account that the decision has not been made yet, the company should first go back to current suppliers to initiate discussions to either match the best offer or definitely exit them. After this, a final decision should be made on the new supplier base that will meet the wet wipes' global demand. Along with this decision, the full real cost needs to be calculated (landed costs shown in this paper are estimated costs) so that a full overview in the real cost and savings can be done. Later, Unilever should match the end dates of the current contracts with the current supplier base to define with the new supplier base when the first purchasing order needs to be placed. This information will be helpful to understand and plan the transition that is going to be made to go from the current supplier base to the proposed supplier base.

A detailed implementation plan for the company to follow is shown below.

	1st Phase	**2nd Phase**	**3rd Phase**	**4th Phase**
What?	Start negotiations with current suppliers in order to either match purchasing prices or definitely exit them.	Taking into account the results found in the previous phase, a decision needs to be made. This decision will also be based on a real cost analysis that will show the real cost (no estimations).	Define the ending dates of the current contracts, regardless of the decision made in the previous step. Then, place first purchasing orders with new suppliers in order to satisfy the demand, accordingly.	Based on the dates got from the previous step, a long transition plan needs to be designed. This step is to understand, plan, and design the transition plan through which real savings will be materialized.
Who?	Saad Jani, Global Collaborative Manufacturing Procurement Manager for BPC. Procurement leader currently taking over some Orion Programme workstreams, including Global Wet Wipes.	The decision needs to be made by the leads from each Business Unit/Business group, based on the recommendations made by the technical team (Procurement, Research & Development and Procurement).	Procurement Team (coordinators) need to check for these dates since they are the ones that manage the contracts with suppliers.	Coordinators from the Planning, Portfolio & Innovation team need to take over this task in order to create the guidelines, steps and goals that need to be achieved in order to materialize savings.
When?	Short-term goal. Needs to be done as soon as possible, preferably in the following month (June 2022).	Short-term goal. Needs to be done as soon as possible, preferably in the following month (June 2022).	Mid-term goal. This step actually depends on when the current contracts end. However, the plan is to have the dates ready (ending contract dates and purchasing order placement dates) by the end of August 2022.	This is actually a very wide step, which contemplates several tasks. Here on, the long-term implementation begins. This needs to start parallel to the third phase in order to have enough time to plan and indeed materialize the

				changes in the supply base.
Where?	Meetings need to be held via MS Teams since this is a global CM network and scheduling meetings in person can be very hard due to time, availability, cost, etc. Held under Procurement's scope.	Meetings need to be held via MS Teams since this is a global team (R&D in North America, Procurement in Europe and Supply Chain in SEAA). Findings will be shared online with the Business Units/Business Group leaders.	Databases inside Unilever, to look for the ending contract dates and place purchasing orders. Done under the Procurement's scope.	Done under the Planning, Portfolio & Innovation team. Internal online meetings need to be held in order to align all the stakeholders and design a plan that suits everyone the best.
Why?	It is important that Unilever creates strategic long-term partners. As it was mentioned above, some of the current suppliers were included in the tender and provided quotes, accordingly. However, prices handed by other suppliers were better than the ones handed by the suppliers that currently work the wipes portfolio. This becomes an issue because from a marketing and R&D perspective, they rather work with certain current supplier, while supply chain proposes to contract with a new supplier to fuel savings growth. Going back to current suppliers gives them the opportunity to keep the business and	Calculating real costs is important due to several reasons. First, having a real number will motivate the team to actually meet it. Second, the spend will be affected by the cost. If the real cost is under/overestimated, savings to be added to the Orion report will not be accurate. Also, it has happened in different scenarios that the cost estimation varies from the real one, which can be either good or bad, depending on the case, for the company. On the other hand, it is possible to see that quotes can be analyzed as many times as you want, which can help create scenarios, but the real deal is to actually make a decision to further continue with the implementation	This is the first step into the materialization of the change. By checking when do current contracts end and when to place purchasing orders, Unilever ensures that the demand is met and that the change is real.	The main goal of all the actions taken before (during the elaboration of this paper and the previous implementation phases) is to actually see changes within the workstream. Although all steps are important, planning how this initiative will be done in small steps and short-term quantifiable goals is key. It will lead to have an organized schedule on what to do, when to do, who needs to do it and have further details on each action. The department in charge of running this "last" step (it is actually the beginning of the real change), will need to plan the actions specific people need to take in order to achieve, by the end of 2024, a completely transformed CM

	generate value for them and Unilever. Even if they cannot meet the best offer but they can for instance, reduce safety stocks by enhancing resilience, or implement promotions, it is very likely that the relationship will grow beyond a supplier-buyer interaction, resulting in Unilever keeping the business with them.	plan and deliver real savings.		harmonized network, along with the expected cost savings and the respective product logic innovations, the latter being under R&D’s scope.

Figure 26. Action plan. Own creation

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