

Supply Chain News: Kraft Hopes to Save \$300 Million through Supplier Rationalization

Number of Strategic Suppliers to be Cut in Half – to 35,000!

SCDigest Editorial Staff

The recession is causing many companies to look at how they can simplify and standardize their businesses to take out additional supply chain costs.

Kraft Foods is among those on that bandwagon, having already closed some three dozen manufacturing plants that will provide annual savings of over \$1 billion dollars.

Now, the company says it is going to go hard at rationalizing its supplier base and driving more standardization into what it buys.

At a conference last week, Kraft CFO **Tim McLevish** said, "We're narrowing our number of strategic suppliers to fewer than half the current 70,000. We'll select those that offer sustained competitive advantage and who can grow with us."

That will still leave the company with some 35,000 strategic suppliers around the globe, but would nonetheless represent a strong move towards sim-

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plifying Kraft's business.

Almost in parallel, **Julia Brown**, VP of Procurement at Kraft, told the Reuters News service that "We're essentially taking a white sheet of paper and saying 'what is the right number of suppliers to support this particular category, who are they, what is the capability we need for now and in the future, and does the current supplier base have that?'"

Brown added: "This is probably the first truly holistic view we've taken," after years of acquisitions.

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Kraft informed its supplier base in March of its plan to reduce its total vendor base – putting them on notice that they would be competing with each other to remain in the Kraft "club" of strategic suppliers. It is dangling the prospect of longer contracts for those that make the grade, implicitly saying that lower prices may get you a longer deal.



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The company says that while many brands will need to maintain their own sources of supply to meet specific needs, it believes there are areas, such as packaging materials, that can benefit from a more centralized procurement approach.

The company said this is just one of several initiatives, most with supply chain implications, that the company is pursuing, with aggressive goals for improvement (see graphic nearby).

For example, Kraft also says it probably has too many existing "specifications" for procured goods, such as ingredients - as many as 40,000 worldwide. "So we're looking at where does it make sense to be more standardized," Brown said.

CFO McLevish added: "Only where there's a difference that adds consumer value will we differentiate. We think the cost savings from this alone will be quite substantial."
