V-Guard Industries: Enhancing profitability through supply chain transformation
Client profile

V-Guard Industries Limited (VGIL) is a leading consumer electrical & electronics brand in India. With its headquarters in Kochi, Kerala, the company has a pan-India presence with multiple product categories including house wiring cables, stabilizers, pumps, fans, electric/solar water heaters, batteries, and home UPS/inverters. VGIL operates predominantly via an ‘Asset Light’ model, utilizing contract manufacturers/vendors for ‘controlled sourcing’ its product requirements from the original equipment manufacturers (OEMs).

Opportunity

VGIL has experienced exponential growth over the years with the current revenue at $275 million. Market and Product expansions over the years have placed the company’s supply chain under significant stress. This coupled with the company’s ‘asset light’ manufacturing model, seasonal demand patterns of its products and the pan India distribution requirement necessitated the relook at the design and implementation of a robust supply chain.

Accenture Strategy teamed with VGIL to help it design and implement a robust supply chain solution encompassing SCM strategy, sourcing, sales & operations planning, logistics, quality management and new product development.

Solution

With its highly-variable seasonal product demands and significant contract manufacturing model—which has inherent production control challenges —VGIL set its sights on a supply chain that would integrate sourcing and planning functions seamlessly with its OEMs. To this end, Accenture Strategy helped it formulate a bespoke solution based on a number of distinct levers.

To establish efficient supply chain sourcing, the team focused on achieving total control of the bill of materials (BOM)—the comprehensive list of raw materials, components and assemblies required to build or manufacture their products. Key levers that were employed include:

Volume consolidation. A BOM explosion of each product category revealed the highest-spend items. The recurrence of these items across various product categories offers an opportunity to consolidate and offer higher volumes to the supplier. This consolidated volume, in turn, helped source efficiently.

Mega supplier management. Given the large number of products and OEMs, there were multiple supplier relationships in the organization—for the same material and for different materials. These mega suppliers—those who have a sizable chunk of the business—were identified and corporate relationships were established.

Joint negotiations & Incumbent negotiations. Raw material constitutes 80-90 percent of VGIL’s purchases from OEMs. With such high spend, tier-two material sourcing was critical. To improve sourcing efficiency, joint negotiations with the OEMs, tier-two and tier-three vendors were conducted. This was important as many of the OEMs did not have the bargaining power that VGIL possessed. With vendors being more comfortable negotiating with VGIL, this helped cement stronger relationships and improved efficiency. Successful negotiations to reduce cost were carried out with the incumbents by either consolidating volumes or through reverse auctions.
Organization re-alignment. The sourcing team was re-organized by category. A matrix structure helped with tier-two and tier-three negotiations with the suppliers, in which category experts/buyers negotiate and fix prices for the consolidated requirements across product categories.

To address the key supply chain planning challenges related to highly-seasonal demands, limited back end supply chain flexibility and a sub-optimal distribution network, several supply chain levers were implemented:

Segmented supply chain strategy. Stock-keeping units (SKUs) were segmented on demand variability, volume and frequency, stage in product lifecycle, supply characteristics and product margins. A differentiated supply chain strategy was then defined for each SKU segment.

Integrated demand and supply planning. Each month, a demand-supply balancing exercise was conducted for a rolling three-month period to reach consensus on division-level forecast, supply and inventory. In-month demand and supply reviews were done for product categories moving into or out of peak season so as to identify potential sales losses or excess inventory, and corresponding changes were made in supply plans.

Network optimization. An optimal distribution network, consisting of mother warehouses, hubs and spokes, was implemented to improve customer service, optimize system-wide inventory, minimize mal-distribution of stock and execute rapid redistribution of inventory when required. A distribution requirement planning process was implemented to regularly replenish warehouses and further minimize mal-distribution of inventory.

Supply chain-wide collaboration and visibility. A supply chain visibility portal was implemented, along with standardized process and timelines to exchange information with key tier-one vendors.

Capability development and organization alignment. A supply chain planning team was established to run integrated planning processes comprising both in-house talent and new recruits.

Results

The four sourcing levers worked effectively to establish an efficient and best in class sourcing function across product categories and commodities. One new own manufacturing facility was set up for stabilizers by VGIL, based on a detailed supply chain and make/buy analysis and recommendations.

An integrated Sales & Operational Plan was institutionalized in VGIL, through which the Finished Goods (FG) inventory was optimized and availability against forecast improved.

In addition to the above, effective core supply chain planning processes have been institutionalized in VGIL and key personnel have been trained to sustain these in the future.

"Accenture was selected based on its credentials for a comprehensive SCM Transformation at V-Guard, with the twin objectives of 'value creation' and 'capability development'. Accenture’s approach of 'I do, We do, You do' was effective in institutionalizing transformational changes at V-Guard, especially in S&OP planning, sourcing/procurement, inventory management, availability enhancement, NPD and Quality. Consequent to the professional and effective approach engagement outcome is well received across the organization."
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Accenture Strategy operates at the intersection of business and technology. We bring together our capabilities in business, technology, operations and function strategy to help our clients envision and execute industry-specific strategies that support enterprise wide transformation. Our focus on issues related to digital disruption, competitiveness, global operating models, talent and leadership help drive both efficiencies and growth. For more information, follow @AccentureStrat or visit www.accenture.com/strategy