

## MANAGEMENT ADVISORY SUCCESS STORY

### FINANCIAL PERFORMANCE ASSESSMENT FOR CONTRACT SUPPLIER PROCUREMENT ORGANIZATION

A client's purchasing team wanted a financial review of their key supplier, a publicly traded company, so they could identify potential areas of leverage in contract negotiations.

Schneider Downs was selected to create a key findings report based on a review of 10 years of public financial statements, earnings call presentations and transcripts, investor relations presentations and proxy statements.



#### The Impact of Management Advisory

We performed a deep quantitative and qualitative analysis for the supplier and then indexed to comparable companies in the industry. Key findings included:

- » **Performance to Contract:** We compared the supplier's operating margin to the stated contract with the client, which appeared to show nearly a 5% margin opportunity.
- » **Profit Efficiency:** When compared to the selected peer group, the supplier was ranked at the top or near the top for each profitability and efficiency metric, including Gross Margin and Operating Income as a percentage of sales, Return on Sales, Return on Assets, Return on Invested Capital and Return on Equity. These results provided insight into how efficiently the company was able to generate profit.
- » **Expense Efficiency:** The supplier's operating expenses as a percent of revenue had decreased substantially from 16.3% in 2016 to 11.5% in 2020. This showed our client that the supplier was gaining leverage on operating expenses.

After assessing historical financials, we provided several recommendations to the client, including:

- » **Negotiate target cost savings for each contract:** The supplier's profitability was significantly higher than the current contract target performance. By negotiating planned cost savings and lowering target costs for which contract margin is based, the supplier could share cost savings through operational efficiencies.
- » **Evaluate margin by product and product category:** The client could perform a financial analysis to evaluate pricing and profitability for each product to determine areas of further negotiation.
- » **Assess the value the supplier is providing:** Although the client was focused on supplier profitability, we recommended that they also assess the value the supplier is providing. Non-financial aspects such as product quality, timeliness of service and other qualitative areas could provide additional negotiating leverage.

#### About Schneider Downs Management Advisory Services

The Schneider Downs Management Advisory team has a wealth of senior-level experience with all types of organizations, from large corporations to middle-market companies. Our team provides independent opinions without bias, backed by decades of experience across industries and a focus on value-driven results. We offer creative approaches to complex issues, with an emphasis on data-driven solutions and process efficiency.

For more information on how the Management Advisory team can assist your organization, contact Michael P. Hart at [mhart@schneiderdowns.com](mailto:mhart@schneiderdowns.com) or 216-543-0821.