CASE STUDY

International Fixed To Flex Strategy Yields 23% Saving

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The Company:

Our client is an American Fortune 200 company founded in 1912. Today it produces engineered fasteners and components, equipment, consumable systems and speciality products. Headquartered in Chicago, its businesses operate in 53 countries employing 45,000 people.

The Background:

Alfa Energy has worked with the client in Italy since 2016. Traditionally the local team renewed the business's supply contracts with fixed term, fixed price arrangements, typically for 12 months. However this strategy failed to deliver optimum pricing, given that contracts were secured on a cyclical basis, and not always at fair market value over the longer term. This strategy also removed the opportunity to take advantage of better prices, often just a few weeks later.

The Challenge:

> managing commodity price risk and increasing long term price stability

Fixed term supply contracts were favoured at plant level as it gave the operating businesses budget certainty. However, the task of fixing prices for 12 months during market volatility and achieving an optimum unit price is always going to be challenging. Alfa Energy was keen to demonstrate to the group both at plant and corporate level, a number of alternative options for managing commodity price risk and increasing long term price stability, rather than the traditional fixed price, fixed term route.

The Solution:

From late 2019 to early 2020 Alfa Energy worked with a number of the Italian business's management team and the corporate office. We presented various flexible contract options to the group, explaining the different dynamics of how each contract and strategy worked, as well as how energy is purchased in tranches. We employed a simple trigger purchasing strategy utilising pre-set high and low market points. The policy was implemented with weekly e-mail updates from Alfa Energy's risk analyst, involving the client's corporate team, where global and in-country market dynamics were reviewed, and recommendations passed to the sites locally. As the commodity market moved towards either of these pre-set positions, discussions were held to review buying/holding decisions. This strategy approach means, although approval for purchases is needed, less interaction is required from the client's team in order to make decisions.

By setting budgets with carefully selected Capital at Risk thresholds based on current market volatility, we were able to complete all purchasing ahead of the agreed budget setting process. This was the ultimate goal driving the strategy.

The Result:

cost savings
year on year
with 23% in 2021

Moving from a fixed price to a risk managed flexible contract strategy provided us with the opportunity to make consecutive cost savings year on year with 23% in 2021 and a further 3% improvement on this for 2022. It demonstrated that there are alternatives to a fixed price procurement process, and while that process might deliver budget security, it does not always optimise delivered prices. The new approach we implemented not only meets the budget cycle requirement, it has also delivered an optimum price in volatile market conditions.

Commenting on the overall result, our clients representative, (Senior Strategic Sourcing Analyst) commented: "the result exceeded expectations, not only by driving out cost, but also managing price volatility with a defined strategy. We want to thank the Alfa team for their tenacity and on-going management of our pan European estate."