

# How Data Driven Insights (Nearly) Took Me On A Lime Adventure From London To Mexico



By Simon Frost

Founder of Frost Procurement Adventurer shares his experience.

One of the many pleasures about working in Procurement is the sourcing of new materials that I previously knew little about. What are the unique characteristics of the material and how does it get used to best effect? Is it in plentiful or short supply and how is the recent China-US trade war impacting pricing? Or maybe there is a new processing technology revolutionising the quality of the material?

During the last year, one such new material has taken me on an exciting adventure. Ordinarily at this moment, I'd share with you details of the material and the client for whom I sourced it. However, in this case, the end result was so good that naturally the client requested I stay silent lest their competition could replicate our recent win! What I can share with you is some of the techniques I used during the adventure as these are known in the industry.

To stop you and I getting terribly confused, I'm going to need to invent a simple parallel example with a fictitious client and materials. So, let's imagine my client is a luxury perfume brand called Parfumier Exotique and that they asked me to source their fragrant lime essence for their range of perfumes:

- The material - lime essence, made from fresh Mexican lime oil
- Additional material used in the essence - glycerine
- My key partner at the client - Isabelle

[NB All numbers used throughout the article are 100% fictitious]

Previously, essences were sourced by Parfumier Exotique's co-manufacturers. My assignment for Parfumier Exotique entailed insourcing the procurement team, creating the procurement strategy and operating platform, formulating and implementing the material category plans and training the team.

On the topic of training, when it comes to a procurement team's core competencies, I'm old-school. I believe that the procurement professional must master the art of the procurement process and category management. Too often I see over-emphasis on systems and data at the expense of the basics such as understanding specifications, total cost analysis and supplier relationship management – the people element really matters!

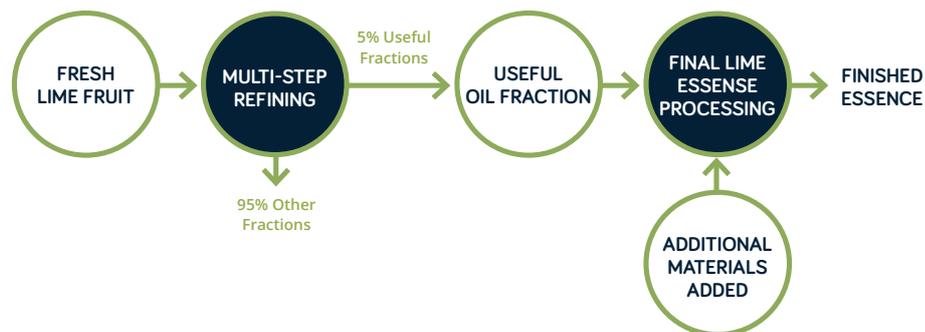
At this moment, may I introduce you to Isabelle? Having recently graduated, Isabelle had been at Parfumier Exotique just 4 months in a demand planning role when it was agreed that I would train her up to be Parfumier Exotique's first procurement expert. With some 20 years separating us, it wasn't long before Isabelle and I entered the debate of the use of data and technology to drive procurement excellence versus reliance on the more traditional methods. By using lime essence as an example and with the pleasure of an adventure to Mexico, I will share with you how this played out.

Isabelle and I started by asking that critical question at step 1 of the sourcing process, "Is it worth us investing the time and effort to focus on the sourcing of the lime essence? What value can we derive?". A back-of-the-envelope calculation resulted in a clear 'YES'. The price Parfumier Exotique was paying for lime essence was almost 40 times greater than Mintec showed was the price for fresh limes used to make lime essence. Something was awry!

Isabelle and I immersed ourselves in learning about the growing of limes and extraction of lime oil. We researched specifications, we learnt the difference between the multitude of fractions produced and we created a material flow diagram:

## Material flow diagram

fresh lime fruit to lime essence.



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# Using Mintec Analytics

Using data from Mintec we derived the 'should-cost' model, which in simplified terms was:

MULTI STEP LIME OIL REFINING	USD/T
Fresh lime fruit	200
Usable lime oil fraction	5%
After cleaning and fractionation, lime equivalent value	4,000
Oil refining costs, packagin, overheads, delivery	1,000
Lime oil (packed)	5,000

LIME ESSENCE PRODUCTION	USD/T
Lime Oil	5,000
Additional Material - glycerine	1,000
% Lime Oil	50%
% Glycerine	50%
Lime Oil Component	2,500
Glycerine Component	500
Production Losses at 10%	300
Sub Total Materials	3,300
Supplier Production & Overheads	500
Packaging	200
Supplier Profit	1000
FOB Mexico port	5,000
Mexico to Europe	200
DDP Parfumier Exotique Europe	5,200
Comparison of estimated cost model vs actual cost	
Actual cost	10,000
Delta	4,800

“ By sharing the draft cost model with the lime essence processor, it enabled us to agree a commercial model for future contracts.

As you can see, we accounted for some of the cost difference between fresh limes and finished lime essence but there was still USD 4,800/T to understand.

Leaving a wintery England behind, we headed to Mexico seeking answers about the USD 4,800/T. And through meeting suppliers, the answers presented themselves:

- The glycerine being used needed to be of a higher quality than we'd predicted to ensure a highly fragrant finished essence. So, USD 1,000/T for the glycerine was an under-estimation.
- It transpired there were several export agents involved in the supply chain each taking a hefty cut but adding little value.
- The lime essence processor was over-paying for the lime oil.
- There were some other materials being used in the lime essence that needed to be included in the cost model.
- The lime essence processor was making more profit than they should have been.

We addressed all of these points reducing the finished price by a sizeable 40%. There were other benefits besides this:

- By sharing the draft cost model with the lime essence processor, it enabled us to agree a commercial model for future contracts. So, Isabelle can save time by only needing to update key costs such as the market price for lime oil.
- By running various scenarios on the lime oil price and how it correlates with other citrus oils such as orange oil, Isabelle is able to give Parfumier Exotique's Finance Team a meaningful price forecast for budgeting purposes.

## PRICE TREND LIME OIL CORRELATED TO ORANGE PERA.



Source Mintec Analytics

After closing the contract with the supplier, Isabelle and I reflected on the question: "Will ever more powerful data systems result in category management becoming obsolete? Or can category management and data systems complement each other?"

Isabelle's summary was: "Category management and the procurement process has given me the framework to source lime essence. It's flushed out valuable insights, helped me engage with my colleagues and kept me focused on delivering the end result. Our Mintec data system has given me accurate and credible numbers for use in the cost model and it's saved me a lot of time trying to find the same information elsewhere".

I concur with Isabelle's view, to which I'd add:

- Train your team properly in category management and get the basics right.
- Only use category management tools and concepts that add value. Tools like SWOT, Porter's 5 Forces and Kraljic's matrix can be useful but sometimes get applied for the sake of it.

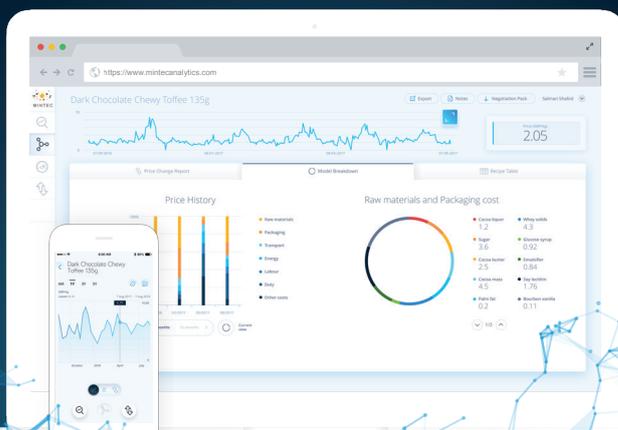
- Pick the right data systems, and then use them to their full effect.
- You may start by creating your cost model in Excel. Once you have, if possible, automate it to benefit from up-to-date numbers from your data system.
- Draw meaningful insights from analysis you do using your data system. Ask yourself, "So what? What action are we going to take?"

To wrap up, the old school techniques and powerful data driven insights go hand-in-hand complementing each other to deliver a strong result. I just hope the next 'new' material I am involved with takes me on as interesting a journey as that of lime essence...OK, maybe not lime essence but you've stayed with me until the end of this article, so it can't have been too bad an example!

Learn more about how Simon is helping re-energise and train procurement teams to deliver excellent sustainable results

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