

MAG45

■ integrated supply solutions
a solar group company

How to lower your TCO: The 7 drivers behind a potential 27% reduction

Go beyond purchase-price savings to create measurable value across Procurement, Supply Chain and Operations.



Why this guide

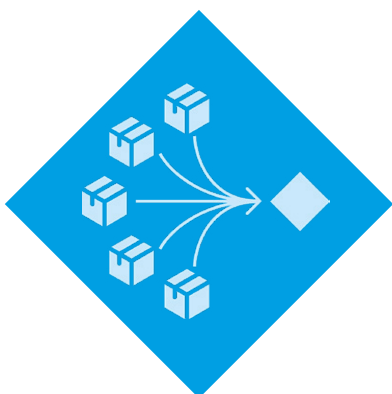
Most manufacturers focus their procurement resources on the categories with the highest spend. Strategic categories, direct materials and key suppliers receive the most attention, analysis and negotiation effort. As a result, they are also where most cost-reduction programmes focus.

The tail does not. The hundreds of low-value parts that sit outside the strategic spotlight, connectors, fasteners, cable assemblies, or small electronic components, take a fraction of the spend but a disproportionate share of effort. They quietly drive costs in places most cost-reduction programs overlook: supplier management, order lines, leadtimes, inventory, freight, compliance, and the time your own team spends chasing them.

Total Cost of Ownership (TCO) captures that broader picture. It includes the unit price, but also everything around it, the cost of buying, holding, moving, documenting and supporting each part across its life. That broader view is where the meaningful savings sit.

This guide introduces the seven drivers that, applied together, lower the TCO of your tail supply. They are not theoretical. They are the same drivers that delivered a 27% TCO reduction at one leading high-tech manufacturer. We will return to that case at the end.

We have grouped the seven drivers into three practical areas: source better, hold smarter and run leaner processes. The seven drivers in this guide cluster around those three areas.



SOURCE BETTER



HOLD SMARTER



RUN LEANER PROCESSES

1. Supplier consolidation

A typical manufacturer manages hundreds, sometimes thousands, of suppliers across its tail supply. Each one carries a cost that has nothing to do with the parts themselves: onboarding, qualification, contract management, audits, accounts-payable overhead, performance reviews. Multiply that by hundreds, and the unmanaged supplier base can become a significant hidden cost within procurement.

Supplier consolidation, reducing the tail to fewer, better-managed suppliers, is the first driver because it unlocks the others. Fewer suppliers mean lower management cost per supplier, more leverage on the ones that remain, and a smaller surface area for risk. MAG45 does not simply become one replacement supplier; it manages the supplier complexity on the customer's behalf.

WHAT TO MEASURE

Active suppliers ♦ tail suppliers ♦ % of 1st-year suppliers consolidated ♦ cost per supplier (loaded with management overhead).



2. Strategic sourcing & price optimization

Strategic sourcing is rarely applied to the tail. A Strategic Sourcer typically spends the day with sourcing direct materials, defining category strategies, seeking market benchmarks and negotiating contract terms. The effort per SKU in this role is high - too high for tail supply. The result is price variance across sites for the same part, prices that have not been benchmarked in years, and missed volume leverage.

Bringing strategic sourcing to the tail, as part of a disciplined TCO methodology, closes that gap. Categories are restructured, volumes pooled across sites and entities, prices harmonized to the best-available terms.

This is the only one of the seven drivers that lowers unit price. The other six lower the cost around the part.

WHAT TO MEASURE

Price harmonization / reduction % (Year 1).



3. Inventory & working-capital optimization

Most tail supply is managed by rule of thumb. Buyers order what has been ordered before, or what fits the supplier's minimum order quantity. Safety stock goes up after a stock-out and rarely comes back down. The result is inventory that ties up working capital without earning its keep.

Total cost of ownership in supply chain is particularly sensitive to inventory, in two ways. The first is obvious: less stock means lower holding cost (storage, handling, obsolescence write-offs). The second is less obvious but often larger: the capital tied up in that stock has a cost, measured by your weighted average cost of capital (WACC). Reduce inventory, and you free capital that earns its return rate elsewhere.

To optimize daily operations, Vendor Managed Inventory ensures the supplier holds the stock and replenishes against actual consumption, against agreed levels and lead times. Just-in-time delivery brings the same discipline to inbound flows.

WHAT TO MEASURE

Inventory / stock holding factor of tail spend ♦ inventory reduction % ♦ holding cost % ♦ WACC.



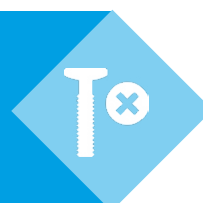
4. Material availability & consumption control

Lower inventory only works if the right part is still there when production needs it. Stock-outs stop the line, drive expedited freight and cost far more than the part itself. At the same time, untracked or over-issued consumption inflates use, hides waste and distorts the demand signal that drives replenishment.

Material availability and consumption control bring visibility and discipline to both sides. The right item is available in the right quantity at the right time, and actual consumption is measured rather than estimated. The combined effect is fewer line stops, less waste, and a cleaner basis for the previous driver to keep inventory low.

WHAT TO MEASURE

On-time-in-full (OTIF) for tail parts ♦ stock-out incidents per year ♦ expedited / rush order share ♦ consumption accuracy ♦ kitting accuracy.



5. Transaction & process efficiency

Every quote, purchase order, invoice, and delivery receipt has a cost. That cost is similar whether the order is for five euros or five thousand. So in the tail, where order values are small but volumes are large, the process cost can easily exceed the price of the parts themselves.

Reducing that process load is one of the most direct levers on TCO. Consolidation collapses many small orders into fewer large ones. One supplier means one set of POs, one set of invoices, one set of deliveries.

◆ *It is easier to manage one invoice with 20 items than 20 invoices with one item.*

WHAT TO MEASURE

Annual POs, invoices, deliveries ◆ reduction % per category ◆ cost per quote ◆ cost per PO ◆ cost per invoice ◆ cost per delivery receipt.



6. Freeing up internal capacity

For most manufacturers, the most expensive employees are also the ones spending too much time on the tail. Engineers chasing missing parts. Quality teams hunting documentation. Buyers managing micro-orders. That time has a direct cost, employee hours multiplied by the employees' hourly rate, and an opportunity cost: the strategic work those people are not doing instead.

When the tail is outsourced to an integrator, that time comes back. The savings are real (hours times rate) and the wider impact on innovation, on quality improvement, on strategic projects, is larger still.

WHAT TO MEASURE

Number of employees exposed to the tail ◆ employee hours per year ◆ hours saved % ◆ employee hourly rate.



7. Risk & compliance management

The tail is where compliance risk hides. Each low-value part carries documentation requirements, material declarations, regulatory obligations (PFAS, REACH, RoHS, MDR), and supplier-quality expectations. Because no single part is strategic, that work is often spread thin across many people and many systems, with predictable gaps.

Managing risk and compliance at the source, through supplier qualification, traceable documentation and proactive monitoring, removes the hidden cost of audit findings, supplier issues, rework, and supply chain disruption. These are among the most underestimated TCO costs in the tail, and don't appear on a P&L. They show up the moment something goes wrong.

WHAT TO MEASURE

Audit findings per year ♦ compliance documentation coverage ♦ supplier risk score ♦ supply disruption events ♦ cost of compliance activities and rework.



The seven TCO drivers: key metrics at a glance

1

SUPPLIER CONSOLIDATION

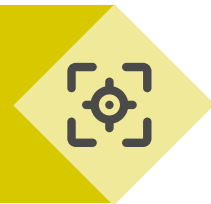
Active suppliers • tail suppliers • % of 1st-year suppliers consolidated • cost per supplier (loaded with management overhead).



2

STRATEGIC SOURCING & PRICE OPTIMIZATION

Price harmonization / reduction % (Year 1).



3

INVENTORY & WORKING-CAPITAL OPTIMIZATION

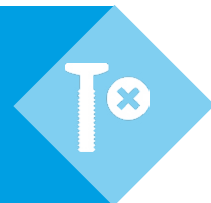
Inventory / stock holding factor of tail spend • inventory reduction % • holding cost % • WACC.



4

MATERIAL AVAILABILITY & CONSUMPTION CONTROL

On-time-in-full (OTIF) for tail parts • stock-out incidents per year • expedited / rush order share • consumption accuracy • kitting accuracy.



5

TRANSACTION & PROCESS EFFICIENCY

Annual POs, invoices, deliveries • reduction % per category • cost per quote • cost per PO • cost per invoice • cost per delivery receipt.



6

FREEING UP INTERNAL CAPACITY

Number of employees exposed to the tail • employee hours per year • hours saved % • employee hourly rate.



7

RISK & COMPLIANCE MANAGEMENT

Audit findings per year • compliance documentation coverage • supplier risk score • supply disruption events • cost of compliance activities and rework.



How a leading high-tech manufacturer achieved 27% TCO reduction

A Dutch high-tech manufacturer in Eindhoven, with more than 1,500 employees building complex modules for the semiconductor industry, faced a familiar tension: rapid growth, but a procurement model that did not scale with it. The strategic categories were under control. The tail was not.

The customer asked MAG45 to design a scalable solution. The starting point was a full scan of the tail supply, which surfaced improvement opportunities across the seven drivers above. Those were translated into a TCO business case, with TCO reduction as the headline KPI.

Implementation was phased. Vendor Managed Inventory first, to stabilize inventory and remove the ordering load. Tail supply consolidation second, to take the supplier base from many to one. Just-in-time delivery and kitting brought the operational flow in line.

The combined result was a 27% TCO reduction. Beyond the number, the customer reported reduced internal workload, higher supply chain reliability, and the agility to grow without procurement overhead growing with it.

♦ *"By looking at the entire organization, everyone was involved. We did it together and experienced the benefits together." - Client's Procurement Manager*



From scan to savings

A TCO methodology is not built on intuition. It is built on data. You need to take these three steps to get the picture:

1. Map the tail using the Pareto principle. Suppliers, SKUs, transactions, inventory positions, freight flows, compliance status. Most of this data already exists; it has not been pulled together.

2. Build the business case. Translate the relevant TCO drivers into a business case based on an agreed baseline, clearly separating recurring savings, working-capital release, cost avoidance and released capacity. The case is the bridge between the operational change and the financial decision.

3. Implement in phases. Start where the early wins are clear, keep KPIs visible, expand from there.

Want to know where TCO savings hide in your own tail supply?

This guide is a structured starting point. The next step is a free consult, where we will look into your own case. That is what turns a directional set of drivers into a real business case.

Let one of our experts help you and request your consult at mag45.com/request-consult

Request your free TCO scan

About MAG45

MAG45 is a brand-independent tail supply integrator. With more than 75 years of experience in machine-building environments. Instead of, we take operational ownership of the non-strategic part of the supply chain for high-tech, medical and industrial manufacturers, so internal teams can focus on what really matters. MAG45 is part of the Solar Group.

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