THE 70% LEVER

Structural material cost: the primary EBITDA lever in industrial businesses

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Execution-Led Value Creation

Material cost is the largest controllable EBITDA lever in industrial businesses.

In most companies, it represents 60–75% of the cost base – yet it is still managed as a sourcing exercise. The result: savings pipelines look strong in reviews but fade before reaching the P&L.

Real impact comes only when material cost is treated as an operating model issue – **linking engineering, procurement, and operations** in one execution system.

Addressed structurally, **material cost reduction of 5–10% within 12–24 months** is consistently achievable – and visible at EBITDA level.

The Two Execution Tracks

Track 1: Architecture-Led Optimization

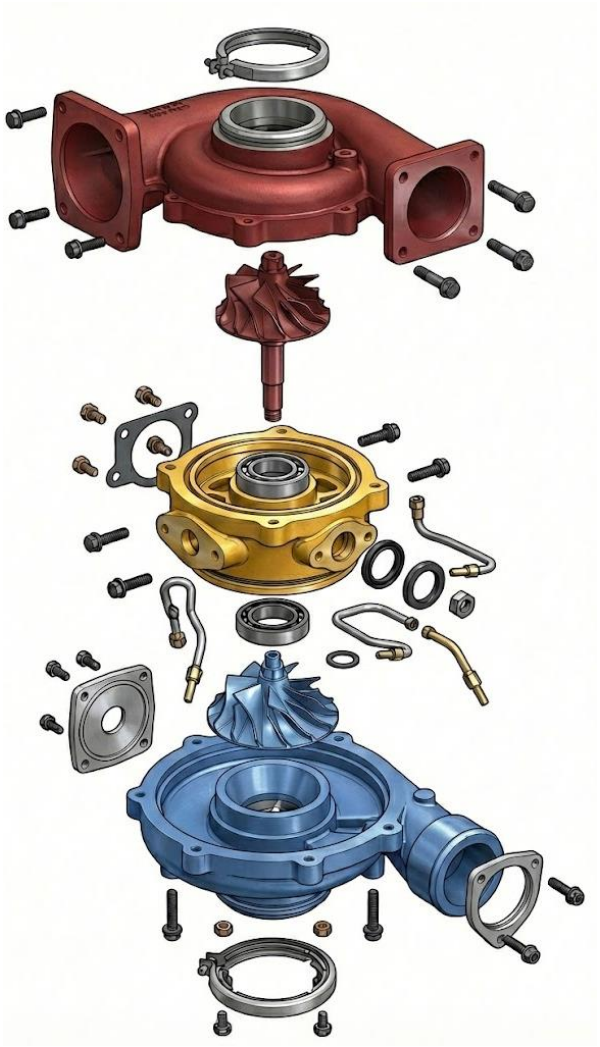
This track is reserved for a core product with a definitive design where the 10/70 Rule applies: approximately top 10 components drive 70% of total product costs. Success here requires a targeted, **component-level structural** intervention.

- **The Cross-Functional Review:** Traditional "discount requests" are replaced by structured technical-commercial reviews. Engineering design assumptions and commercial data are reviewed jointly. This allows tolerance relaxation, feature elimination, and supplier leverage resets to be executed in one decision cycle.

Material cost is a cleaner lever than labor restructuring– delivering 5–10% in banked cash by bypassing the social friction and organizational paralysis of headcount reduction.

- **Technical Integrity & Validation:** Findings from the review are categorized into implementation horizons: from immediate 'Legacy Fixes' needing no R&D, to complex structural shifts requiring full R&D validation. Technical leadership remains the ultimate gatekeeper of product performance.

Exploded view identifying the 10/70 cost-drivers in a definitive assembly



- **LPP as a Diagnostic Validator:** Linear Performance Pricing (LPP) tests price-to-physics alignment. Outliers reveal either over-specification or supplier complexity premiums. This enables targeted intervention instead of blanket negotiation.
- **Qualification & Industrialization:** Operationalization costs and efforts are built into a structured industrialization roadmap. Implementation only proceeds where ROI is verified.

Architecture is Destiny: Challenging a single legacy tolerance on a high-value component can unlock a double-digit margin reset where blanket negotiations fail.

Track 2: Variant-rich: Commercial Cluster Management

This track applies to variant-heavy product portfolios where

customization destroys purchasing leverage.

Procurement typically fragments into thousands of negotiations with limited scale. The shift is from component-level optimization to **commodity-optimization**.

The Strategic Move: The Feasibility Filter

Execution without prioritization is wasted energy. Before any action is taken, a rigorous **Feasibility Filter** is applied to the entire spend based on:

- **Purchase Order Volume (POV)**
- **IP ownership**
- **Technical complexity**
- **Inspection requirements**
- **Supplier footprint**

The output is a simple A-B-C segmentation that determines where structural intervention is worth the effort.

The LPP Execution Engine

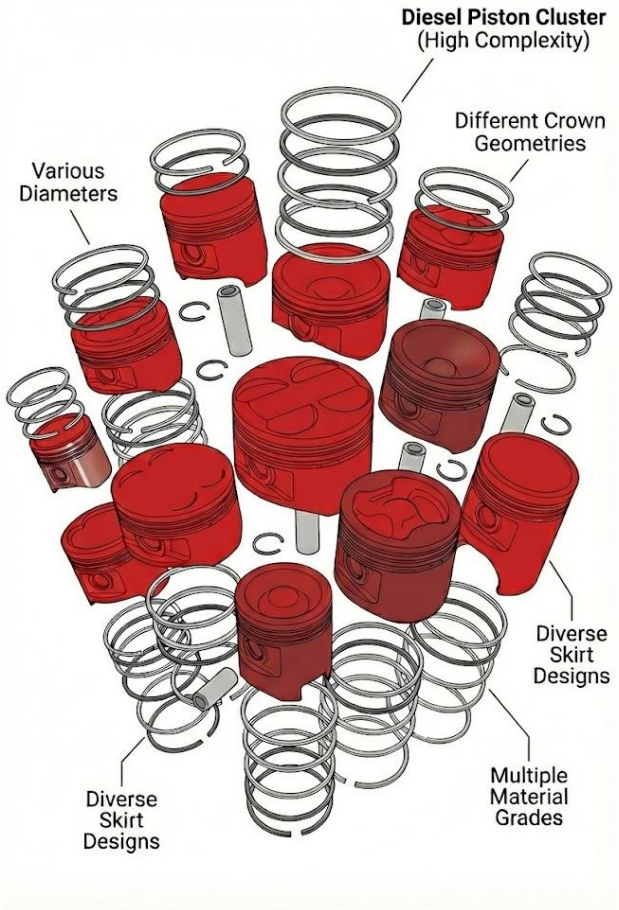
Plotting an entire commodity against a performance driver (e.g., weight) reveals structural price dispersion.
Hidden low-cost performers emerge and define the new target price line. This resets commercial positioning across the cluster.

Bulk Qualification & Industrialization

Because this track involves migrating families of parts, the process is standardized. Quality teams qualify the supplier's manufacturing process and material certifications rather than inspecting every variant.

Qualification or re-qualification is taken up only when a favorable ROI of 12-18 months is given.

The Cost of Complexity: Visualizing the 'Variant Mess' in Industrial Portfolios



The two tracks are not mutually exclusive – the appropriate combination depends on the product architecture and portfolio structure of the business.

Tracks 1 & 2 reset the product architecture; Indirect Governance locks the operational cost base.

The Structural Outcome: Platform and Module Logic

Both tracks converge on the same destination. Track 1 eliminates over-engineered cost from the core product. Track 2 consolidates purchasing leverage across the variant portfolio. Together, they create the conditions for two durable structural improvements.

Platform standardization locks in the gains by preventing variant creep from rebuilding the cost base. Once a component architecture is optimised, standardisation across the platform ensures that future product decisions don't silently reverse the savings.

Functional module integration moves the organisation from managing loose parts to deploying pre-tested assemblies – externalising sub-tier complexity, simplifying engineering requirements, and enabling commercial customisation without structural cost penalties.

These are not parallel workstreams. They are the compounding effect of executing Tracks 1 and 2 with discipline.

Indirect Spend: Control the Consumption, Not Just the Price

Indirect procurement does not fail in sourcing. It fails in control.
Most organisations cannot explain what they are spending – only what they spent.

In industrial businesses, indirect material represents a substantial cost base that is never properly interrogated. Capex and Opex are conflated, one-time effects are treated as structural savings, and volume-driven reductions are mistaken for procurement performance.

The result is predictable: **what looks like significant savings on a slide typically collapses once volume, timing, and accounting effects are stripped out – and rarely translates into the P&L.**

The Capex/Opex Firewall

Capex and Opex must be separated before any target is set.

The EBIT mechanics are fundamentally different: Opex reductions flow directly; Capex savings flow only through depreciation and amortisation (D&A) – typically at ~12.5% per year over an 8-year asset life. A €10m Capex saving translates into ~€1.25m annual EBIT impact. **The remainder is accounting spread, not operational performance.**

Collapsing both into a single target produces numbers that are simultaneously overstated and impossible to track.

If spend is not controlled upfront, it cannot be saved downstream.

Effect Classification

Once the baseline is clean, every spend movement must be classified: sustainable, one-time, volume-driven, or postponed. This is not an accounting exercise – it is the gating mechanism for every savings claim.

Volume-driven reductions reverse with recovery. Postponed spend returns in the next cycle.
Only structurally removed cost counts.

The Governance Engine

With a clean baseline, governance replaces negotiation as the primary control mechanism.
Savings are lost long before procurement negotiates them.

The objective is not better buying. It is preventing uncontrolled spending before it happens.

- **Cut obligos** – open commitments in limit orders are actively closed instead of being passively carried forward, eliminating the most common source of untracked spend.
- **Early procurement involvement** – procurement is embedded in the approval process before commitments are made, closing the leakage point where discretionary spend is authorised without commercial challenge.
- **Zero-based approval logic** – the baseline for each category is zero, not the prior year, with alternative sourcing evaluated as a matter of course.

P&L Lockdown

Savings exist only when they are locked into the budget.
If the budget is not reset, there are no savings – only temporary underspend.

PO-level tracking ensures deviations are visible early – not at year-end when correction is no longer possible.
Savings that are not embedded in the budget are systematically reabsorbed by the organisation.

When executed in sequence – baseline transparency, effect classification, governance anchoring, and P&L verification – indirect spend becomes controllable.

Not through procurement excellence, but through management discipline.

From Paper Savings to Banked EBITDA

Most cost reduction programs stall at the same point: between identification and execution. The savings are real. The suppliers are willing. The analysis is sound. But the organisation absorbs the initiative, the budget is never reset, and the P&L looks the same twelve months later.
The three-track system – architecture-led optimisation, commercial cluster management, and indirect governance – is designed specifically to close that gap. Each track has its own execution logic, its own diagnostic tools, and its own P&L verification mechanism. None of them depend on organisational goodwill to deliver. And none of them count until **net working capital impact** is confirmed – a price reduction that silently extends payment terms is not a saving.

The result shows up in the bank, not just on slides.

Case snapshot
In a recent engagement with a global industrial manufacturer, the combined program unlocked over €150m in structural cost reduction – across a €1.5bn purchase order volume base over three years.