Negotiating Better Results with Should-Be Cost Models

- ***Better Decisions***
- ***Better Results***

Welcome to the Webinar

Attendees will be in listen only mode

A recording of this presentation and the slides will be available on procure-force.co

Webinar attendees who complete the webinar feedback survey will receive the slides by email

Better Decisions
Better Results

Today's Presenter

Jeoff Burris

Principal, Advanced Purchasing Dynamics

- >30 years manufacturing purchasing experience
- Founded APD in 2004
- Helps clients make their investment in purchasing a competitive advantage

Today's Producer

Jon Homrich

Client Support,
Advanced Purchasing Dynamics

- Project Management Leadership for Consulting and ProcureForce Implementation
- Helps clients make their investment in purchasing a competitive advantage

What to Do if Your Purchasing Practices Are Not Providing Should be Costs – Parts 1 & 2

- Available on demand:

http://www.apurchasingd.com/knowledge-center/on-demand-webinars/

Strategic Cost Negotiations

- Thursday June 14
  9:00 am - 5:00 pm

- $495

- Understanding cost detail
- Optimizing usage of cost breakdowns
- Negotiating with detailed cost knowledge

http://www.procureforce.co/event/strategic-cost-negotiations/

Better Decisions
Better Results

Making Purchasing a Competitive Advantage

Execution

Implementing projects that improve the bottom line

- Savings roadmaps with specific cost savings actions for each commodity
- Should-be cost model development
- Strategic sourcing implementations for sustainable savings

Technology

Unlocking cost data to enable Better Decisions\Better Results

- E-sourcing tool simplifies quoting and supplier management
- Develops should-be cost models for side-by-side quote comparison
- Identify opportunities for savings based on variance analysis of supplier quotes

People

Enhancing the capabilities of your purchasing team

- Purchasing Placement (direct hire or contract)
- Buyer skill development training:
  - Strategic negotiations
  - Commodity leadership
  - Understanding and managing costs

Customized solutions; There is no one size fits all approach.

We Help Clients Implement Knowledge-Based Cost Management in Three Ways . . .

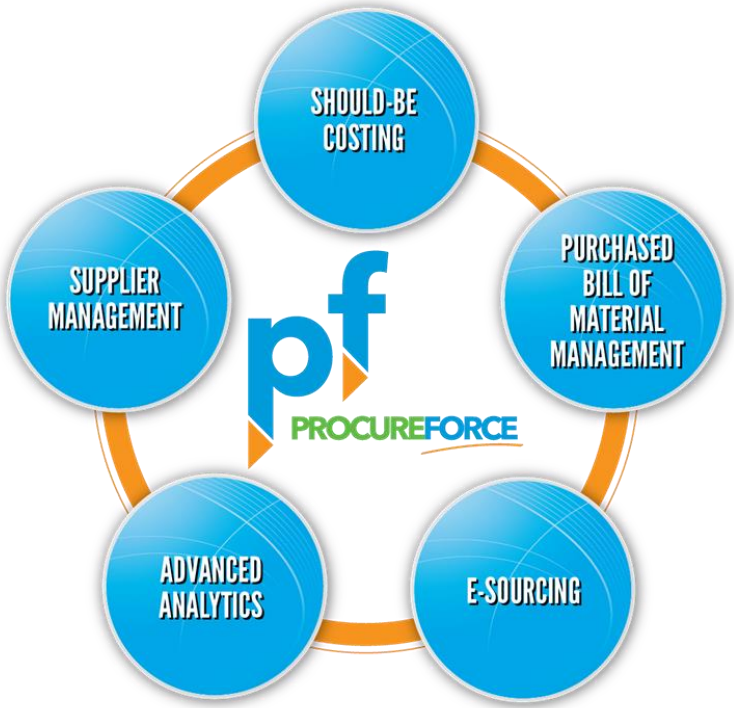
1. **Turn-key Projects** that provide the maximum leverage of our expertise and time

2. **Execute-and-Mentor** where we deliver the early stages and guide the client's staff to complete the project while internalizing capabilities

3. **Technology Transfer** approach that relies on the client organization to execute

ProcureForce: Built on Knowledge Gained from 14 Years of Cost Engagements

Better Decisions, Better Results



ProcureForce is the big data analytic tool that enables purchasing to make better decisions and achieve better results though:

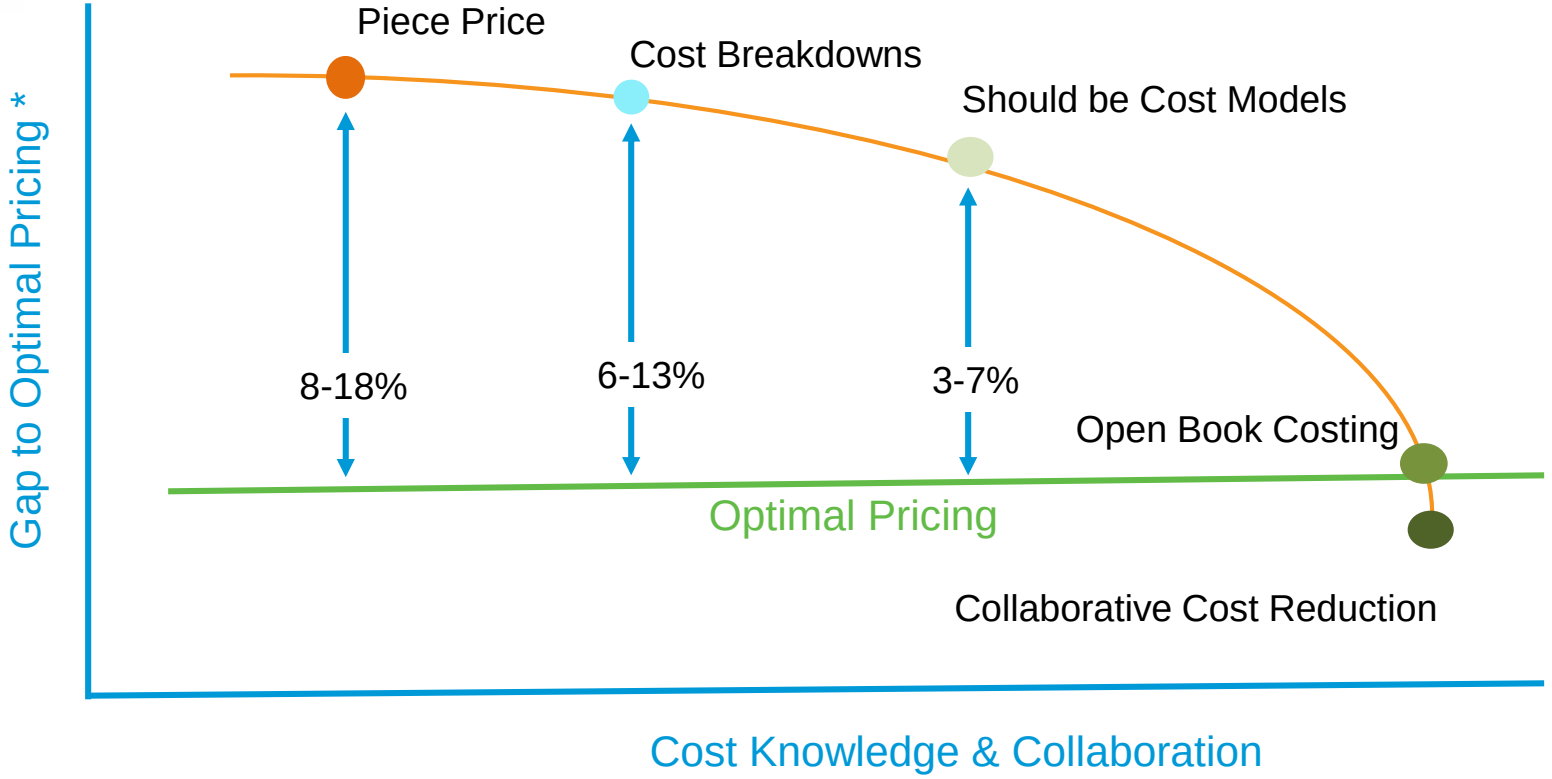
- The ability to build should be cost models to estimate and validate supplier pricing.
- Realtime monitoring of purchased Bill of Material costing.
- Efficient e-sourcing providing buyers with more time for analysis and management.

Better Decisions
Better Results

Today's Objectives

- Provide an overview of critical success factors that help purchasing negotiate better results with should-be cost models.

The Opportunity



* Based upon APD engagements 2004-2018

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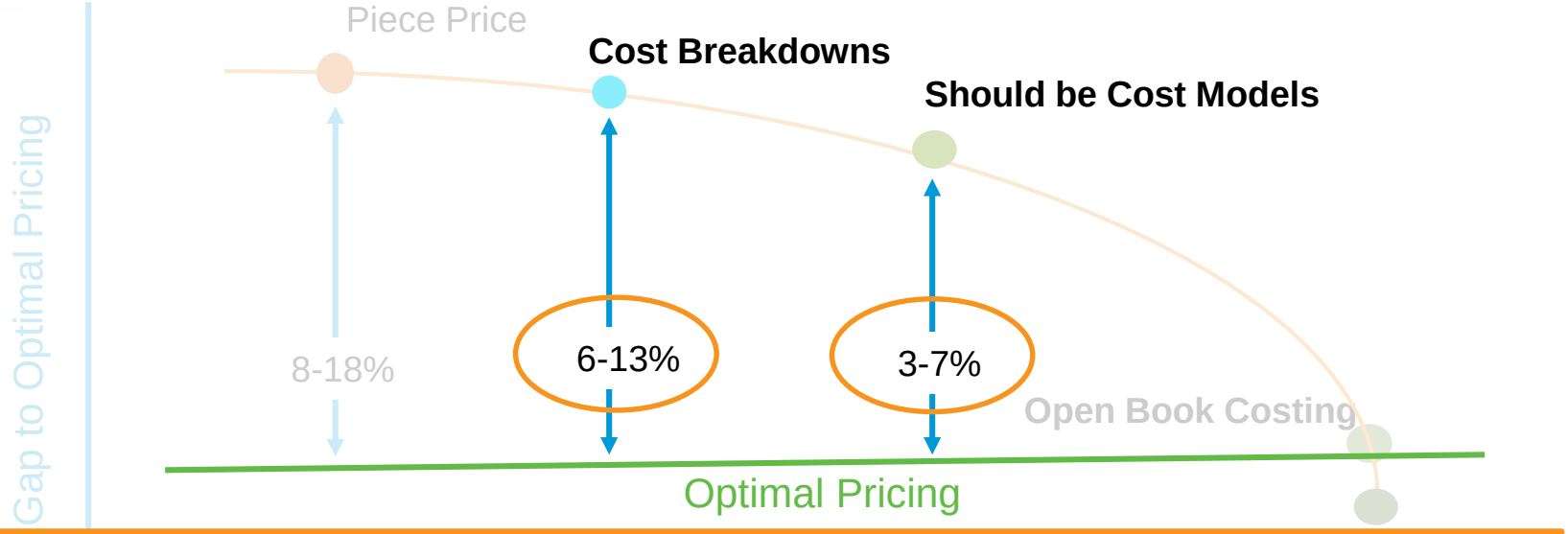
Better Results

There is a wide variation in results achieved



Buyers can create credible should be cost models using data from supplier quotations.

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Buyer Interests

- Obtain the lowest price possible while the supplier makes a reasonable profit
- Build cost and process knowledge

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Building Cost and Process Knowledge

- Helps obtain the lowest price possible while the supplier makes a reasonable profit
- Gives buyers greater credibility when justifying supplier pricing internally
- Builds buyers' resumes

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Cost Knowledge is Gained by:

- Understanding detailed cost breakdowns
- Understanding of supplier cost structures
- Developing should-be cost models to apply to a commodity or like family of products
- Reviewing detailed supplier manufacturing costs

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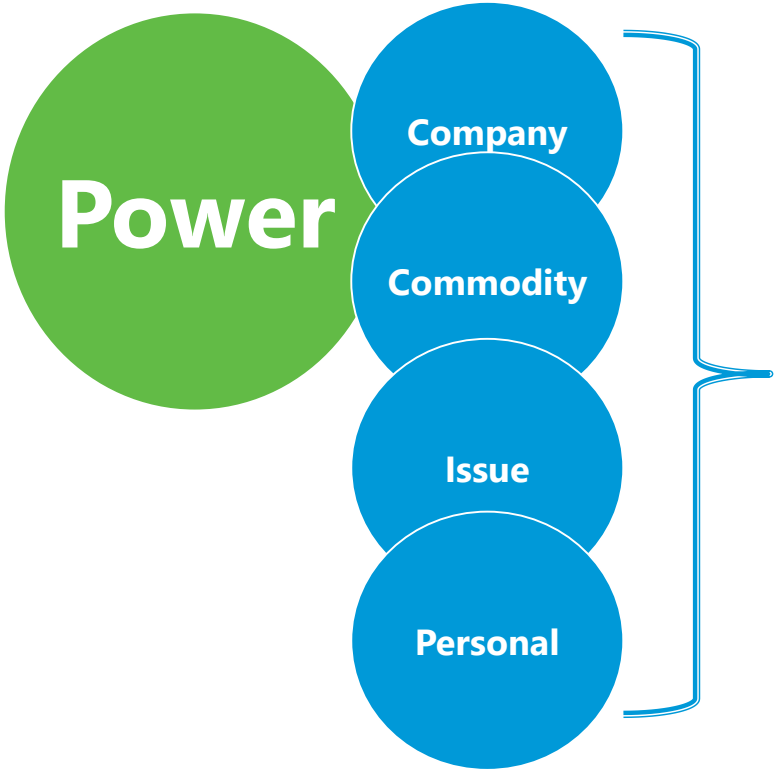
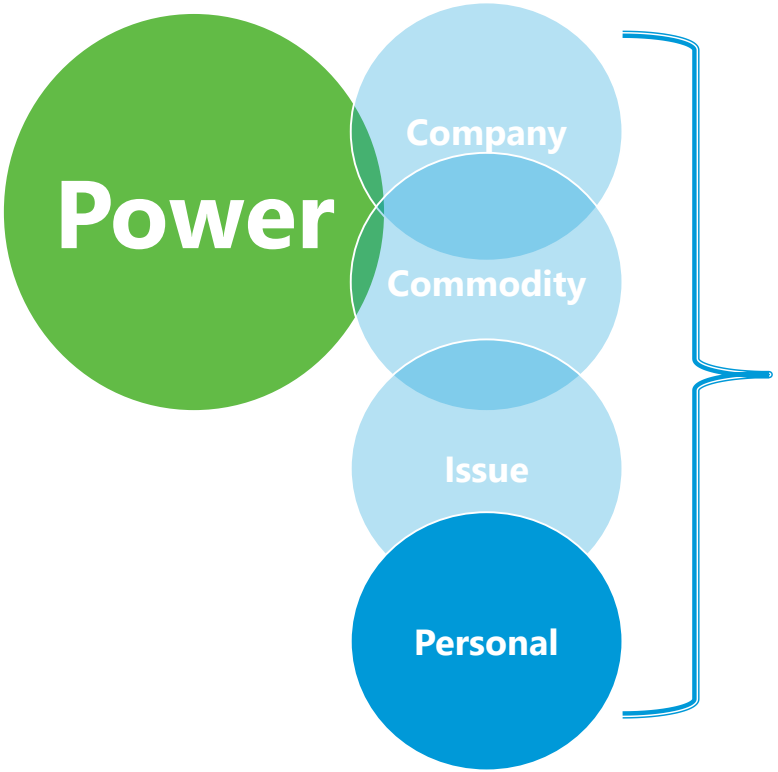
4 Areas of Power



Increase power through preparation

Better Decisions
Better Results

4 Areas of Power



Increasing personal power is key

Sources of Power

Personal

- Preparation
- Negotiator much more likely to build a history of solid, cemented agreements
- Negotiator is Trustworthy
- Negotiator is seen as an “on-the-ball” individual with more authority and power

How to Ruin Trustworthiness

Personal

- Present cost models as fact even though they are only models/estimation tools
- Share supplier confidential information
- Make threats you can not back up
- Say one thing; do another
- Allow suppliers to change their quotes without rationale

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Steps for successful negotiations

- Develop estimate and obtain supplier quotations
- Analyze the quotes and refine the estimate
- Review quotes with suppliers
- Refine the estimate
- Determine next steps:
  - Negotiate with one supplier
  - Conduct a second RFQ using the estimate as a target

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Develop estimate and obtain supplier quotations

- How does the supplier quote compare to:
  - Other supplier quotes
  - Their historical quotes
  - Cost model
- If there are differences/anomalies can you explain them?
- Are there differences in the physical part attributes that explain differences to historical parts?

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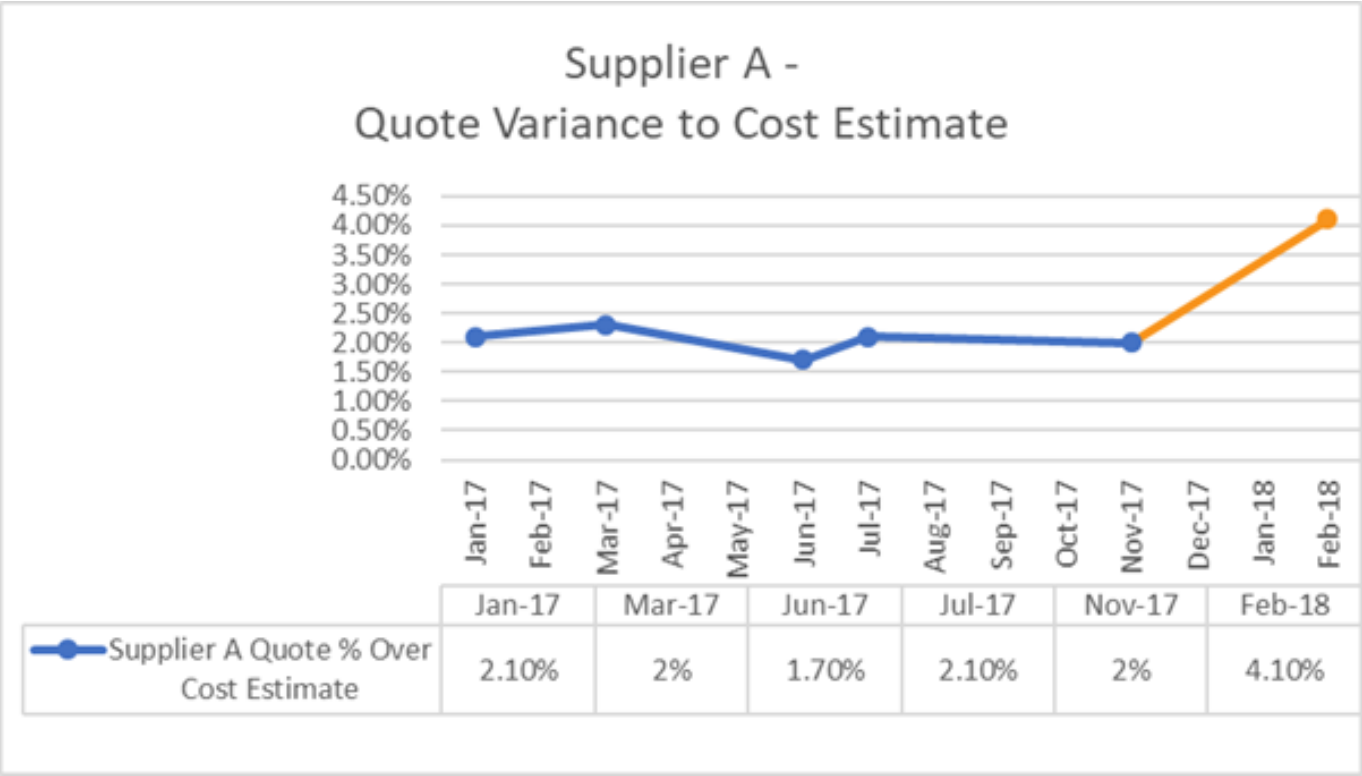
Know how quotes compare to the model



	Jan-17	Mar-17	Jun-17	Jul-17	Nov-17	Feb-18
Supplier A Quote % Over Cost Estimate	2.10%	2%	1.70%	2.10%	2%	4.10%

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Review quotes with suppliers

- Prepare – Review their quote
- Ask questions about their quote
- Listen, Listen, Listen, Listen
- Take notes
- Repeat what you have heard

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Steps for successful negotiations

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From Price to Statistical Model – 14 Weeks

Wire Harnesses

Profile

- Specialty vehicle OEM
- Highly customized

Situation

- 12 suppliers – US and Mexico
- Short lead times on 30% of spend leaving no time for competitive sourcing
- No history of detailed cost breakdowns

Process

- Utilized multi round market test of 10% of total spend

Achieved

- $220k/16% savings
- Obtained and verified detailed cost breakdowns
- Identified 4 low cost producers
- Developed statistical models for Mexico and US

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From Limited Cost to Open Book – 20 Weeks

Metal Fabrications

Profile

- Specialty vehicle OEM
- Invested in metal fabrication when key supplier went out of business

Situation

- CEO questioned competitiveness of in-house mfg
- 12 fabrication suppliers
- Limited detail on cost breakdowns

Process

- Utilized multi round market test verified with open book costing of most cost competitive suppliers (6)
- Utilized Strategic Sourcing Process

Achieved

- Savings of $1.4 mils / 12%
- Established cost models to use with all fabrication suppliers to manage ongoing pricing for new and revised parts
- Reduced supply base from 12 to 4-5 BIC suppliers while closing internal manufacturing

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From No Price to Statistical Model – 22 Weeks

Powdered Metal Components

Profile

- Complex assembly powertrain manufacturer
- Refocusing business to core and non-core processes

Situation

- PM production viewed as non-strategic
- 100 components to source
- No supply Base
- No history of detailed cost breakdowns.
- Limited review of cost competiveness on 30% of spend

Process

- Utilized multi round market test in awardable lots
- Engaged 22 suppliers in first round

Achieved

- Achieved $182k/10% reduction
- Identified low cost supply base
- Developed statistical model for US

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Negotiating with Should-Be Cost Models

- Obtain the lowest price possible while the supplier makes a reasonable profit
- Build cost and process knowledge

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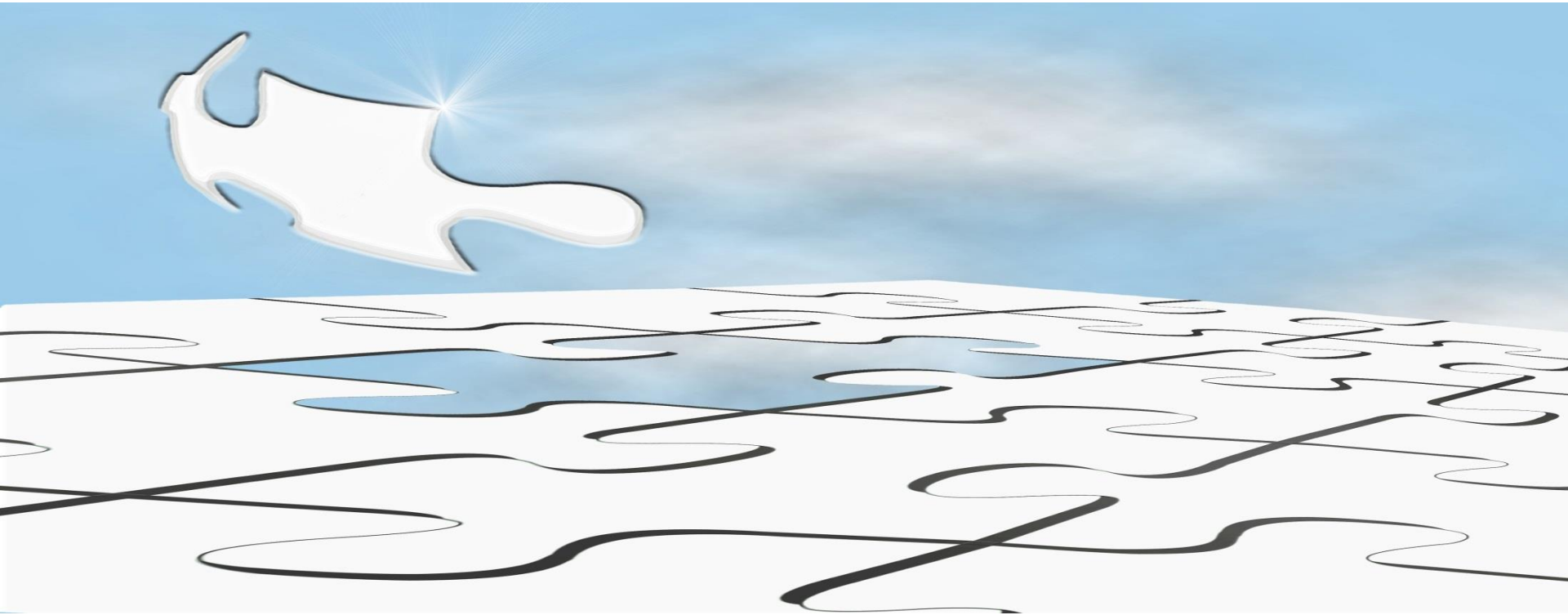
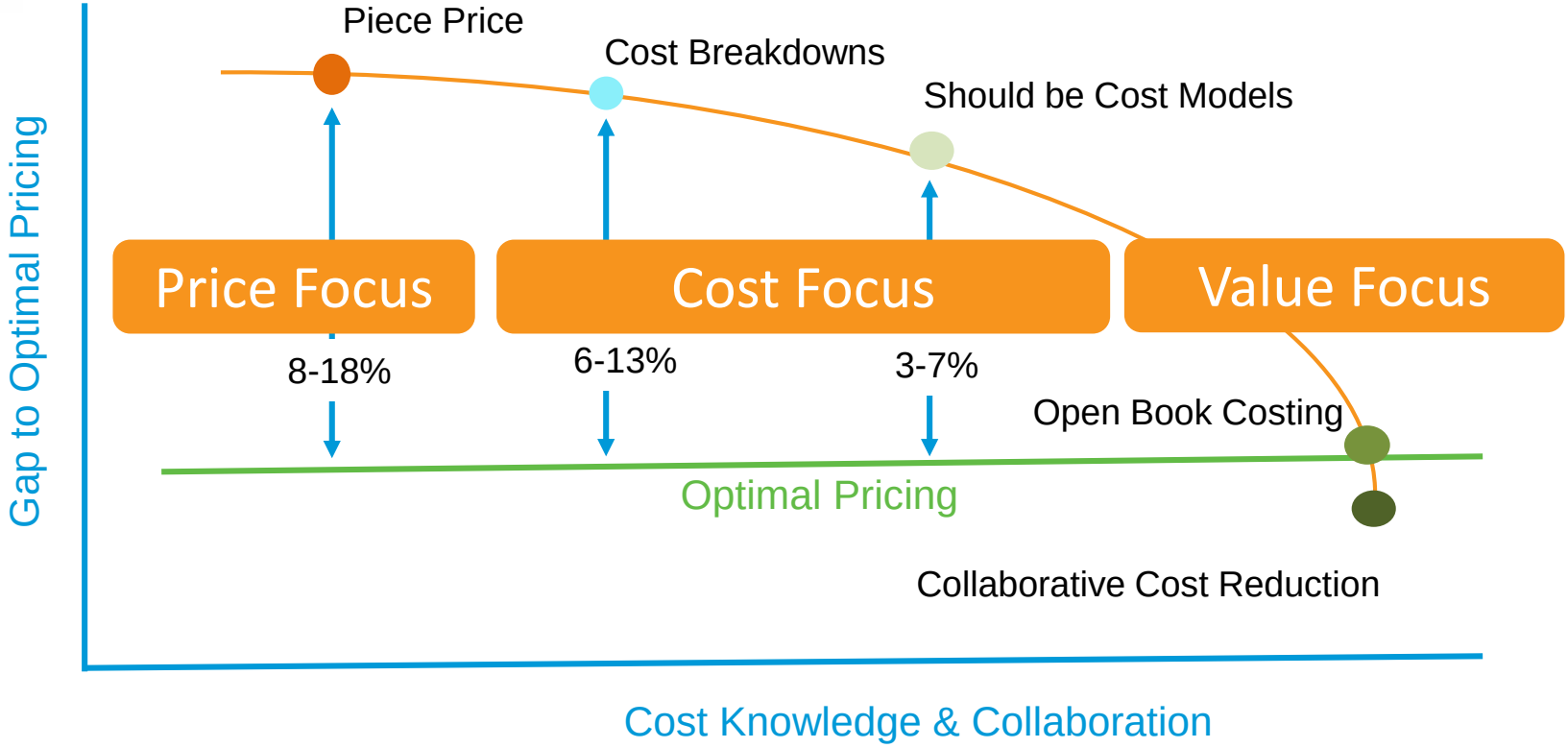
Final Questions



The Opportunity



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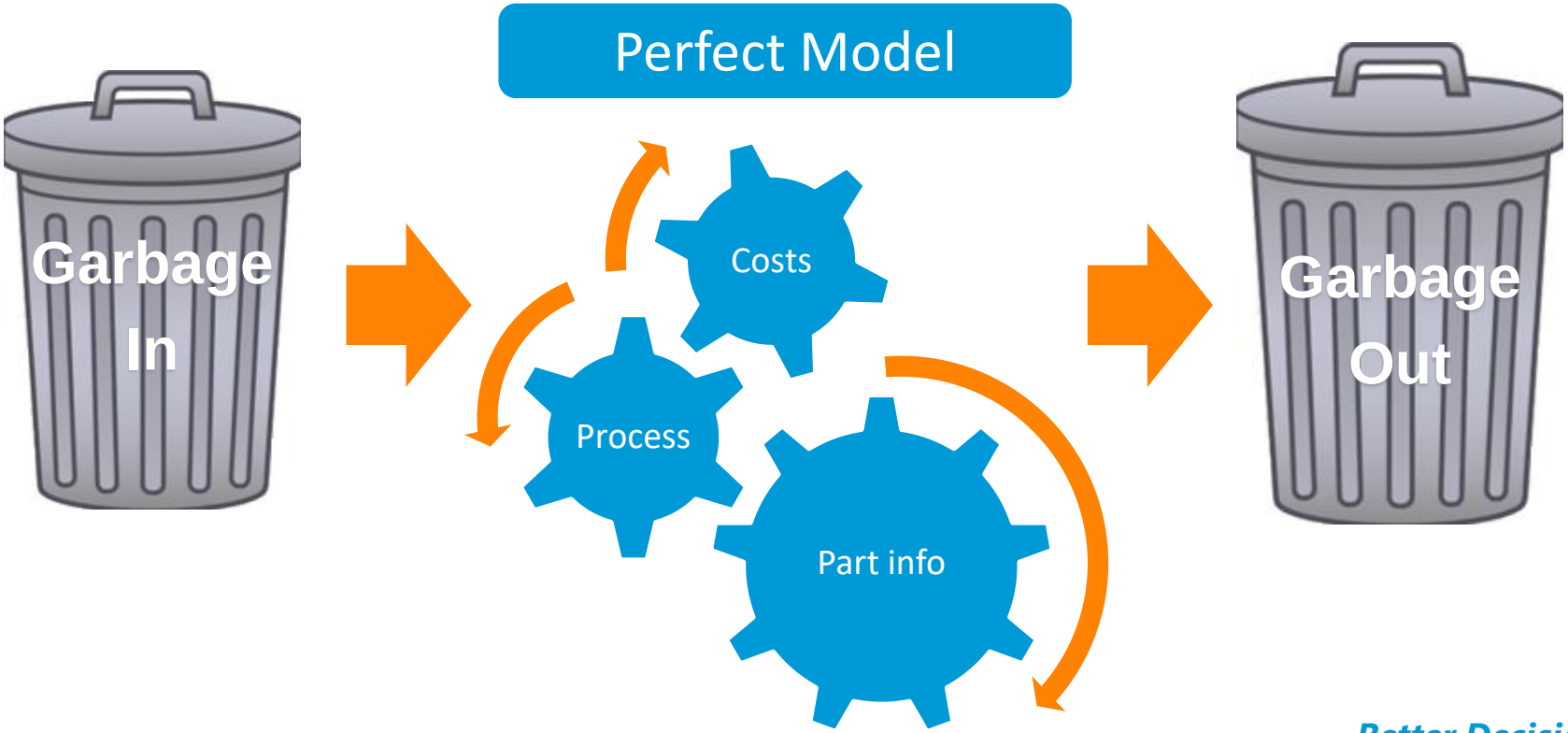
Ensure Quote Accuracy



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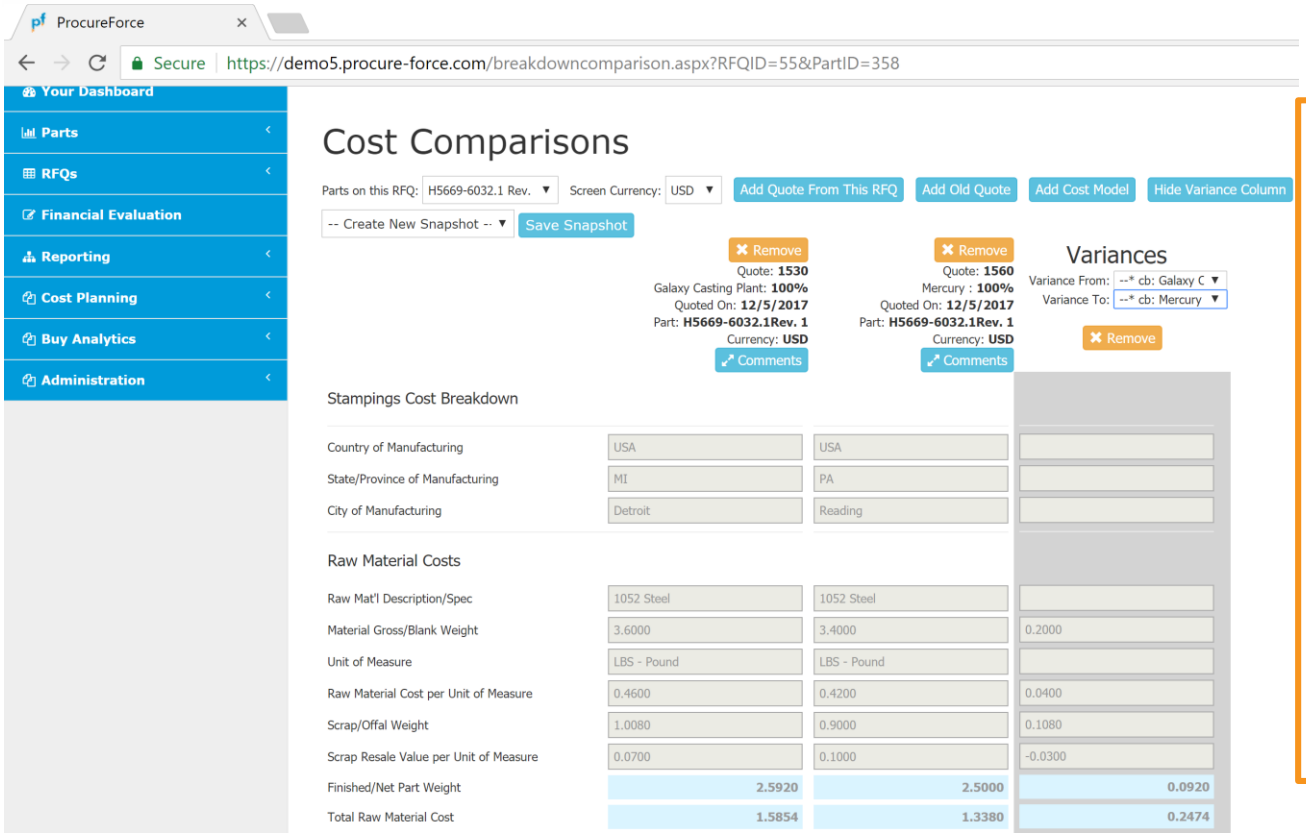
Cost Breakdown Best Practices



- Customers can create an unlimited number of commodity specific detailed cost breakdowns.
- Buyers can compare detail between suppliers and against any historical quote.
- Buyers can create a variance analysis between supplier quotes

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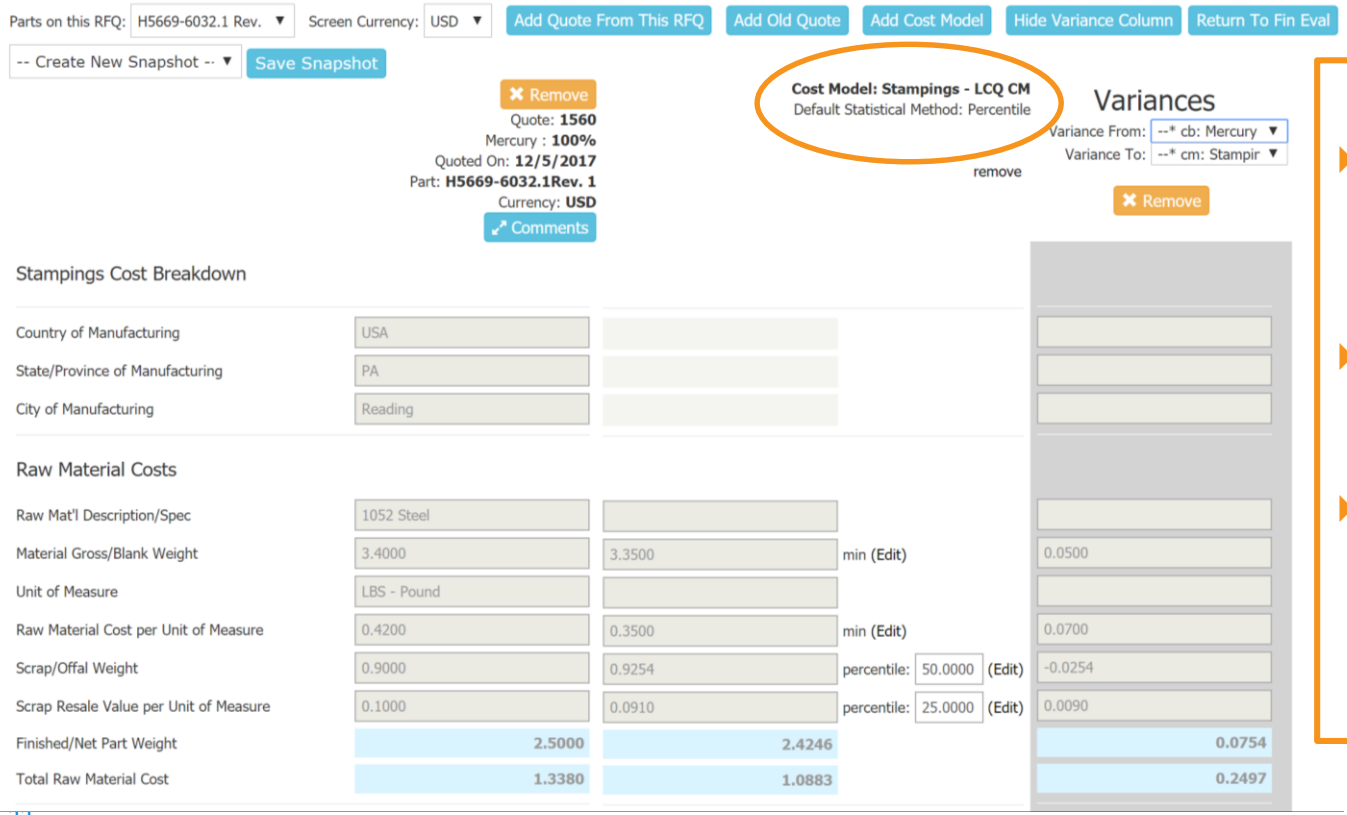
Cost Models



- Customers can create an unlimited number of should be cost models.
- Buyers can easily compare models to supplier quotes.
- Buyers can create estimates for new or redesigned parts using cost models.

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Model Development Method

- Use existing data
- Utilize a sourcing or resourcing event

Method	Time to complete (Existing data)	Sourcing / Resourcing Event
Variance analysis	1 week	4-8 weeks
Statistical Model	2 weeks	4-8 weeks
Regression Model	2 weeks	4-8 weeks

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