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5 Keys to Getting Maximum Benefit from Detailed Cost Breakdowns

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Building manufacturing cost knowledge is a crucial success factor for buyers in controlling and reducing costs for many commodities. Manufacturing cost knowledge enables buyers to build actionable commodity strategies, to negotiate effectively and to maximize the benefits from collaborative cost reduction tools such as VA/VE and Kaizen.

A key tool in understanding manufacturing cost is the use of detailed cost breakdowns obtained from suppliers when quoting new business, or when pricing changes due to design or economic conditions. In our experience, the benefits buyers get from detailed cost breakdowns correlate/s/ directly to how effectively those breakdowns are used. Following are five of the top problems we have seen with breakdown usage and some tips for addressing them:

- **Assuming one size fits all** – Manufacturing processes vary widely based upon the product being purchased. For example, stamping processes differ greatly from casting processes. To capture these differences and keep the breakdowns as simple as possible, it is best to have breakdowns that are specific to the commodities being managed.
- **Having breakdowns that are too long or complex** – We believe that while breakdowns can help buyers understand the key cost drivers in manufacturing costs, they should not be utilized to capture every single detail of a manufacturing process. Buyers who strive to fully understand all aspects of manufacturing costs through a cost breakdown tend to construct breakdowns that are too long or complex. This can create supplier resistance to completing the breakdowns and makes it more difficult for the buyer to analyze. At worst this complexity leads to breakdowns not being used or used ineffectively. Cost breakdowns need to be used with other tools like plant reviews in order to build effective cost knowledge.
- **Assuming suppliers know their costs and know how to fill out your cost breakdown** – Many suppliers, especially smaller suppliers, do not track their cost as closely as others; so do not assume that all suppliers will know how to convert their costs into your breakdown format. When you run into this scenario with a supplier, use it as an opportunity to access the details of their costs and help the supplier in assigning costs to their manufacturing activities, usually done with the assistance of finance or cost estimating.

Content for this article was gleaned from APD's training course *Understanding and Managing Material Cost*. For information on APD training contact APD at 734-927-0836 or visit www.apurchasingd.com.



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- **Launching without a strategy** – We have found that while many companies are utilizing cost breakdowns in their quoting process those that have launched cost breakdowns with a clear and concise strategy are much more successful in obtaining the desired information from their suppliers. Utilizing a common strategy will communicate a consistent message to suppliers and create trust between the supplier and yourself.
- **Not analyzing the information provided on a consistent basis** – Some companies are asking for cost breakdowns but not consistently utilizing the information in their quote analysis; suppliers will eventually catch on to this and fill in the cost breakdowns with inaccurate information. If you are asking or requiring suppliers to fill out cost breakdowns take the time to analyze the information and give feedback based on data given.

Building cost knowledge is key for buyers to effectively manage material cost on many commodities. By avoiding these common mistakes, you can maximize the benefits in quoting prices and establish a good foundation for commodity strategies and use of collaborative tools like VA/VE and Kaizen.

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