



5 Places to Find Savings Using Detailed Supplier Quotations

by Adam Thor, Manager, Total Cost Management
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In our desire to buy at the lowest price and learn more about the cost drivers of the products we buy, many of us require suppliers to provide detailed cost breakdowns as a part of their quotations. The breakdowns capture suppliers' costs and manufacturing information including raw material cost, labor rates, number of operators, burden rates, scrap percentages, SGA and Profit margins and much more. Based upon our experience here are the top 5 areas where we have found savings opportunities:

- **SG&A Rates** – Manufacturers have significantly reduced fixed costs in response to the economic downturn. According to an OESA survey, the majority of automotive suppliers can now operate profitably at sales volumes that are 30% lower than 2008. Have the SG&A rates on your supplier quotations changed to reflect the lowering of fixed costs? Many of these suppliers are publicly traded companies which report SG&A rates openly. Compare what suppliers are quoting on their cost breakdowns to what they are reporting publicly. Ensure these numbers are consistent and if not challenge the cost breakdowns accordingly.
- **Raw Material Costs**– All manufacturers know that the cost of raw materials has varied significantly over the past few years. Analyze supplier quotes over time and against competitors quotes to identify inconsistencies and opportunities.
- **Purchase Components Markup** – Many times suppliers mark up purchased components another 5% - 25% and pass that along to the customer. Most of these components are typical day to day components such as clips, seals, tape, etc. where market research would validate the components cost. Spot check purchase component costs to see if they may be extreme. Also ask for invoices to verify these cost if necessary.
- **Overstated Labor Rates** – Suppliers will build in "extra costs" into their labor rates and quote a higher rate than what they are actually paying. If you feel the supplier rates may be high, research the U.S. department of labor for typical labor rates in the region (if in the U.S.) and measure against what the supplier is quoting. Also, compare labor rates of the supplier's past cost breakdowns with current cost breakdowns to see if they are consistent in their rates.
- **ED&D Costs** – Engineering, development, and design cost is an area that has been difficult to verify, but one way of doing this is by annualizing the costs and determining whether this is reasonable or not. For example, we recently came across a scenario where a supplier quoted a cost of \$1.98 per part for ED&D. The volume for this simple part was around 200,000 annual units. This meant the customer was paying \$396,000 per year ($\$1.98 \times 200,000$) in ED&D cost just on this part alone. Assuming a design engineer salary is \$80k/yr, this meant the supplier was quoting approximately 5 fulltime engineers dedicated only to this part. It turned out the supplier only had 4 full time engineers working in this department. ED&D costs should only represent the cost associated with the part.