Product Cost Management
Improves Supplier Negotiation

By Julie Driscoll

The ability to source effectively has a direct impact on profitability and time to market for manufacturers. As a supplier, your ability to win a bigger share of the amount of outsourced manufacturing is dependent on your ability to respond to request for quotes (RFQs) more quickly and accurately than your competition. Certain product cost management software tools can help take the guesswork out of the process for both manufacturers and suppliers. Here are some tips on how to best use these tools.

For manufacturers working with suppliers: Companies that outsource large portions of their manufacturing work typically lose some of their production expertise and, along with it, knowledge of the best methods of production. As such, it's more difficult to understand what a part or mold "should" cost given the many factors involved, including the cost of labor, materials and manufacturing; production logistics; and supplier profit margins.

Product cost management software can help fill this information gap by enabling the manufacturer to quickly generate precise "should-cost" estimates for outsourced parts and products. These estimates can incorporate all product cost drivers, including material, tooling, labor and overhead. This information can be used in several ways: to validate supply base cost information; to highlight cost outliers and identify potential material, utilization and manufacturing process alternatives; to focus efforts on the most valuable and highest impact opportunities for the company; to provide sourcing teams with target "should-cost" information for comparison with supplier quotes; and to open up new lines of discussion with suppliers about better ways to produce a part or product.

The point is to forge more strategic and agile supplier relationships that continue to reduce costs and speed time to market.

The point here isn't for manufacturers to use the information to beat up suppliers on price. It's to provide facts that help both sides identify opportunities to produce a part or product more cost-effectively, and to forge more strategic and agile supplier relationships that continue to reduce costs and speed time to market.

For suppliers responding to request for quotes: "First in usually wins" is a common refrain from both suppliers and manufacturers. Speed of response is everything, but the supplier has to be confident it is also providing accurate infor-
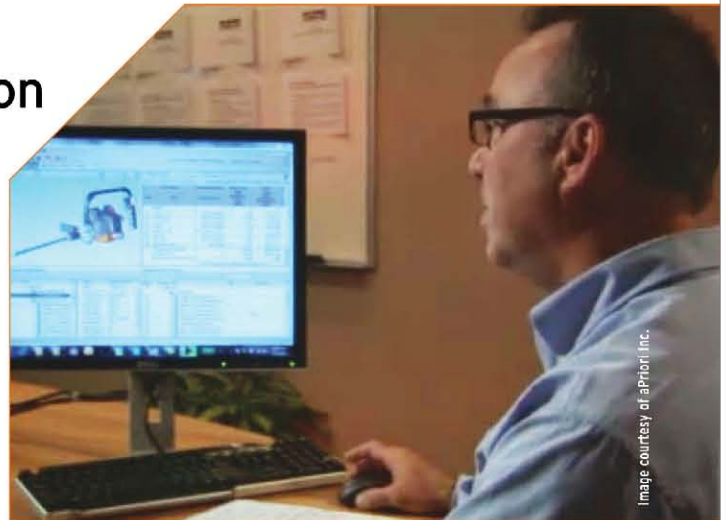

Product cost management software enables the automatic calculation of a "should-cost" estimate for a part based on design information.

Image courtesy of aPriori Inc.

mation that ensures a reasonable profit.

Many suppliers today depend on manual quote generation, which is highly specialized and time-consuming. It is also subject to the "tribal cost knowledge" of the different individuals estimating a specific part. Product cost management software tools can help suppliers address these challenges on several fronts by enabling them to automatically calculate a should-cost estimate for a product or part based on information about a part's geometry (design), materials and production volume. These software tools can also help suppliers quickly consider more efficient and lower-cost manufacturing processes for a part based on factory capabilities, as well as help to support fast and accurate recalculation of costs as parameters are adjusted during the negotiation process.

With this type of detailed cost information at hand, suppliers can enter the negotiation process from a position of strength and confidence, ultimately improving win rates and increasing revenue and margins.

No matter which side of the equation you are on, the proper product cost management software tools can inform your process and enable a win-win result. **MMT**

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