# aPriori

How to Use

Fact-Based Negotiation to Get the Best Price on Purchased Components

Conducting fact-based negotiations is an effective cost reduction strategy when sourcing components. This infographic will explain how to leverage a product cost management (PCM) platform to conduct more effective fact-based negotiations.

VISIBILITY	CONSISTENCY	THROUGHPUT
to Cost at the Earliest Stages of Design	of Cost Culture Across Your Organization	to Cost Optimize a Larger Percentage of Your Products

How Do You Use a Product Cost Management Platform to Enable Fact-Based Negotiations?

A product cost management platform should provide you with a complete breakdown of information so you can understand how the manufacturing cost is calculated, such as:

- Material Costs
- Labor Costs
- Overhead Costs
- Tooling Investments
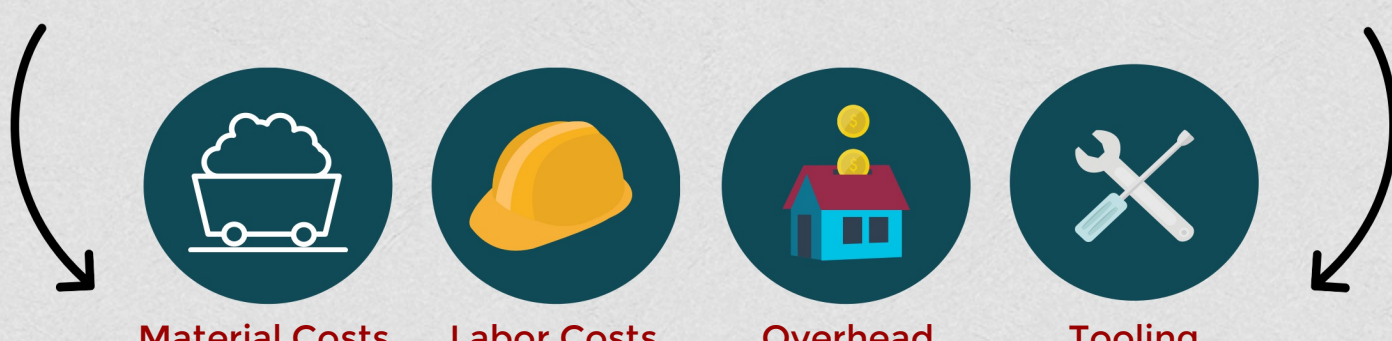
During fact-based negotiations, this detailed component cost and manufacturing information guides discussions with your supplier, helping you focus on the biggest gaps between your cost estimate data and theirs. This is a much more effective practice than saying "your price is too high" or "I want a 10% reduction in costs."

A Conversation Centered on MFG Cost Data is **More Effective** Than Saying... "Your Price is **TOO HIGH!**"

① Narrow Down Your Targets

1. When looking for cost reduction opportunities among existing components:

Determine the scope of what you're going to negotiate by prioritizing those items that represent your highest spend.

2. Engage the supplier in the discussions and the overall difference.

3. When you estimate the costs for the components that you have chosen as candidates for re-negotiation:

Ensure your estimate is based on accurate and complete information. The correct material and volumes includes any secondary processes such as paint, polishing, or heat treatments, etc.

You want to have the most accurate cost estimate possible when conducting these negotiations. Your overall number does not have to be exact. It just has to have high detailed mfg data for you to be able to negotiate effectively.

② Identify Outliers

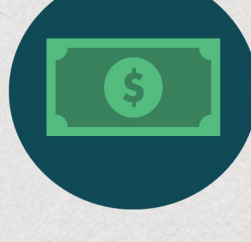"Engage the supplier in **discussions** and the **overall difference.**"

Next, you want to identify outliers:
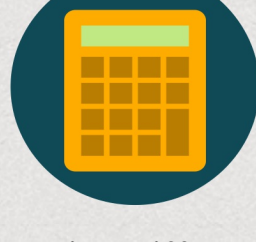
Parts for which... The price difference between what your product cost management platform estimate they should cost & What you are paying > 25% Or what you consider to be a significant enough difference to be called an outlier.
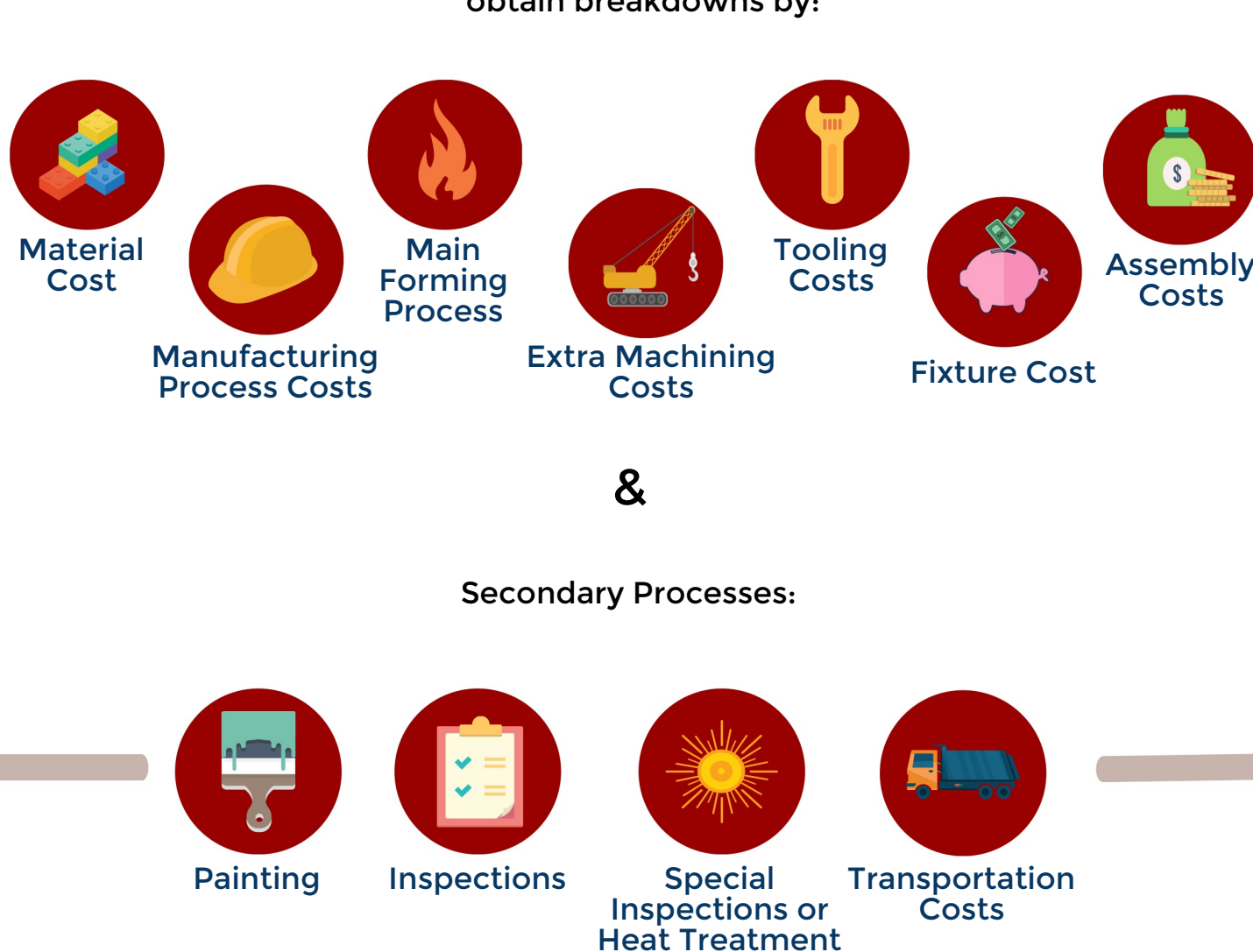
If you don't find a reasonable resolution for the cost difference, then you need to investigate the details and begin the process of negotiation.

③ Comparison: Get Detailed Cost Breakdown for Outliers from Suppliers

Many companies ask for a detailed breakdown of the cost right from the start. If you have not, the first step is to obtain a breakdown of the cost.

Most times you should be able to obtain breakdowns by:

- Material Cost
- Manufacturing Process Costs
- Main Forming Process
- Extra Machining Costs
- Tooling Costs
- Fixture Cost
- Assembly Costs

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Secondary Processes:

- Painting
- Inspections
- Special Inspections or Heat Treatment
- Transportation Costs

You want this detailed cost breakdown to compare to the estimate you generate with your product cost management platform.

④ Conversation: Engage Your Supplier in a Dialogue About the Differences

Next, identify where your biggest differences are in the detailed cost breakdowns so you can focus your cost savings investigations.

Is your biggest difference in material costs?

Is it a case where the material utilization is not as good as you had expected?

Is the manufacturing process different?

What are the setup costs?

What batch sizes are they running?

What are their labor costs?

Do these match your assumptions?

Identify the largest differences and then investigate the reasons behind them.

⑤ Issue and Outcome: Manufacturing Process & Production Volume

It's important to find out how the supplier is making the part, so you can compare it to what your product cost estimating tool is suggesting. If they are different, find out the reasons as to why the discrepancy is there.

You may find out the supplier has limited capabilities, which may have been acceptable when your volumes were low, for example, but when your volumes go up, you may not be using the best supplier.

When your volumes go up...

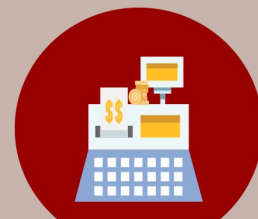you should see the cost savings you agreed too or...
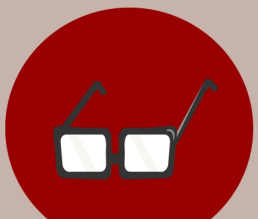
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In Summary...

aPriori has pioneered a new class of product cost management software that helps sourcing teams overcome time and information obstacles and achieve significant product cost savings. How? Through real-time, precise product cost information.

With aPriori, sourcing professionals always know precisely how much a part or product should cost to produce. Access to precise "should cost" information enables sourcing experts to easily identify where they are overpaying for outsourced parts and to have better, more collaborative negotiations with suppliers. The result is significant product cost savings en route to meeting (or surpassing) cost reduction goals.

- Identify
- Focus
- Investigate
- Cost Savings

aPriori

aPriori's product costing software generates detailed cost estimates and connects all members of your product team to relevant views of cost data – from sales to supplier, from concept to customer.

Find Out More:

www.apriori.com

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