Cost Methods & Collaboration in the NA Automotive Industry
Today’s Presenter:

**Joff 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 Presenter:

Mike Wynn
Sr. Director, Advanced Purchasing Dynamics

- >20 years manufacturing consulting experience
- Joined APD in 2012
- 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
Introducing APD

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 savings with big data analytics for purchasing

- 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
Top Purchasing Cost Performers Know

- What does it cost?
- What should it cost?
- Is there a gap?
- What is the plan to close the gap?
- What is the plan to reduce the should-be costs?

Yes
No
Does collaboration matter?
When we act in a competitive way......

- Price reduction pressures imposed by more powerful buyers on suppliers significantly reduces suppliers’ willingness to share and invest in new technology*

- When suppliers decide which automakers get their best new features and technology, they tend to favor the automakers that treat them well.*


**Automotive News, Editorial, May 12, 2014
Automakers could have earned $1.4 billion more last year if they improved their relationships with suppliers.

*Planning Perspectives, as reported in Automotive News, August 4, 2014*
The Opportunity

Gap to Optimal Pricing

Cost Knowledge & Collaboration

- Piece Price: 8-18%
- Cost Breakdowns: 6-13%
- Should be Cost Models: 3-7%

Open Book Costing

Optimal Pricing

Collaborative Cost Reduction
The Opportunity

Cost Knowledge & Collaboration

Gap to Optimal Pricing

Price Focus
- Piece Price: 8-18%

Cost Focus
- Cost Breakdowns: 6-13%
- Should be Cost Models: 3-7%

Value Focus
- Open Book Costing
- Collaborative Cost Reduction

Optimal Pricing

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Price Focused

Buyer waits on design to be 100% complete

Price is determined by price based market test
## Sourcing

<table>
<thead>
<tr>
<th>Price Focused</th>
<th>Cost Focused</th>
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</thead>
<tbody>
<tr>
<td>Buyer waits on design to be 100% complete</td>
<td>Buyer waits on design to be mostly complete</td>
</tr>
<tr>
<td>Price is determined by price based market test</td>
<td>Price is determined by cost based market test</td>
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<td>Price Focused</td>
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Providing Sales with Estimates

Price Focused

Buyer resists
## Providing Sales with Estimates

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<td>Buyer resists</td>
<td>Buyer able to with some level of uncertainty</td>
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<td>Cost Focused</td>
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Cost Collaboration (VA/VE, Kaizen)

<table>
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<tr>
<th></th>
<th>Price Focused</th>
<th>Cost Focused</th>
<th>Value Focused</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difficult-impossible without knowledge of cost structure</td>
<td>Possible</td>
<td></td>
<td>Optimal</td>
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</table>
## Supplier Willingness to be a Partner

<table>
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<tr>
<th>Price Focused</th>
<th>Cost Focused</th>
<th>Value Focused</th>
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</thead>
<tbody>
<tr>
<td>Low</td>
<td>Wary - Supportive</td>
<td>Optimal</td>
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</table>
45 Survey Participants

Automotive Revenue

- $3 Billion
- $1 to $3 Billion
- $500 Million to $1 Billion
- $300 to $500 Million
- $100 to $300 Million
- >$100 Million

Automotive as a % of Total

- 100%
- 75% to 99%
- 50% to 74%
- 25% to 49%
- <25%

Products

- Powertrain
- Interior
- Chassis
- Exterior
- Other (please specify)
- Electrical
- Engine components
- Fasteners
- Raw Materials

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Does your company support cost sharing?

No - 22%
Yes - 78%

When?

- Quotes for New Business
- Price Increases
- Material Cost Update
- Other
Types of Information Shared

- PROCESS CYCLE TIMES: 86%
- PLANT HOURLY COSTS: 79%
- COST OF CAPITAL EQUIPMENT: 41%
- PLANT SALARY COSTS: 34%
- SUPPLIER (NEXT TIER DOWN) INVOICES: 24%
- SUPPLIER (NEXT TIER DOWN) PRICING/QUOTES: 21%
- SUPPLIER (NEXT TIER DOWN) COST BREAKDOWNS: 17%
Who prepares the cost breakdowns

- Sales: 52%
- Operations: 12%
- Finance: 18%
- Other: 18%
Is sharing cost information helping?

Day to day business
- Beneficial: 16%
- Detrimental: 16%
- Neutral: 68%

Future sourcing
- Beneficial: 61%
- Neutral: 23%
- Detrimental: 16%
Do your customers provide detailed feedback?

- Yes: 25%
- No: 75%
How OE’s Negotiate

<table>
<thead>
<tr>
<th>Company</th>
<th>Collaborative</th>
<th>Both</th>
<th>Competitive</th>
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</thead>
<tbody>
<tr>
<td>Toyota</td>
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<tr>
<td>BMW</td>
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<td>Honda</td>
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<td>Mercedes</td>
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<td>GM</td>
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<td>Nissan</td>
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<td>Hyundai/Kia</td>
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<td>VW</td>
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Is the negotiation approach chosen by the buyer or is it a result of a company philosophy?

![Bar chart showing the negotiation approach of various car manufacturers.](chart.png)
Does the negotiation approach vary widely from buyer to buyer?

- Honda
- BMW
- Mercedes
- Toyota
- Hyundai/Kia
- FCA
- Nissan
- VW
- GM
- Ford

Yes  No
Changes over the past 2 years

GM
Mercedes
BMW
Ford
Honda
Toyota
VW
Nissan
FCA
Hyundai/Kia

More Collaborative
Unchanged
More Competitive

More Competitive
Neither
More Collaborative
What types of models are being used?

<table>
<thead>
<tr>
<th>Type of Model</th>
<th>GM</th>
<th>Ford</th>
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</thead>
<tbody>
<tr>
<td>Knowledge-based quote (Regional) Developed using actual best practice cost</td>
<td>22%</td>
<td>25%</td>
<td>21%</td>
<td>8%</td>
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<td>40%</td>
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<tr>
<td>Knowledge-based quote (Hyper-optimized) Uses best practice cost drivers</td>
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<td>Attribute-based quotes. Developed using regression analysis to identify</td>
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<td>Open book. Developed using actual shop floor data, accepted by both parties</td>
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How Buyers Use Models
How are models used?
Moving away from LTA’s?

- GM
- Ford
- Honda
- FCA
- Toyota
- VW
- Nissan
- BMW
- Mercedes
- Hyundai/Kia

0% 20% 40% 60% 80% 100%

Yes No
How Tier 1’s Negotiate
Is the negotiation approach chosen by the buyer or is it a result of a company philosophy?
Does the negotiation approach vary widely from buyer to buyer?
Recommendations from the Dark Side

- Know how your customers / buyers negotiate
- Be consistent in your quoting methods
- Keep your history
- Continue to reward the collaborative customers/buyers
Cost Methods & Collaboration in the NA Automotive Industry