

Client Profile

Client: *The Small Equipment Division of Construction Equipment Manufacturer (OEM)*

Product Lines: *Small construction equipment lines*

Headquarters: *United States*

Revenue: *Parent Company, >\$50 Billion USD*

Participating Client Functions

- Product Development
- Global Purchasing
- 6-Sigma Blackbelts
- Supply Chain
- Supplier Partners

Expertise Used in Project

- Spend Analytics
- Commodities Management
- Financial statement analysis
- Historical trending
- Cost Modeling
- Negotiation Support
- Value Engineering/Analysis

“I was skeptical that we could achieve the results promised. This seemed like such a big project, but we all moved through it step by step, day by day... and we got the results we wanted”

CLIENT ENGINEERING DIRECTOR
ASSIGNED AS FULL-TIME CLIENT LEAD
FOR THE PROJECT

A leading construction equipment manufacturer reduces product spend by \$6.7 million annually using Product Cost Management



Challenge

The small equipment division of a large industrial equipment company (the client) had a very different business model than other divisions. Large equipment divisions of the parent company sold low volumes of very profitable and high revenue products with low competition, allowing them to bear higher overheads. The client division sold high volumes of much smaller, lower priced machines in a market with nimble lean competition.

During the height of the recession, the client division was unprofitable and under heavy pressure from the corporate parent to reduce cost of goods sold (COGS) by \$7 million in the first year, including \$5 million of annually recurring savings. Most of the client's COGS came from purchased parts, and the client realized that it needed reduce the cost of direct material spend. However, the client needed to return an equal or greater amount of value to the suppliers, if the client asked for price reductions or the client risked destroying its supplier relationships and/or driving suppliers out of business.

Discovery and Solution

The client retained HA and HA's consulting partners to orchestrate this value identification and exchange. Three consulting teams were formed: Supply Chain, Supplier Needs, and Spend Pricing/Cost. HA was responsible for the Pricing/Cost team, which delivered the majority of needed hard savings.

During the planning phase with the client, it became clear that trust in the product cost numbers calculated was very important. In order to negotiate confidently and successfully with suppliers, the client needed to trust the should-cost numbers from the HA Pricing/Cost team. Moreover, the suppliers needed proof that the cost analysis by the Pricing/Cost team was fair and reasonable.

Because Product Cost Management sits in the space among engineering, purchasing, and suppliers, HA worked with all of these functions to gather the information needed for cost analysis (e.g. materials, capital, labor rates, overhead, etc.). Then HA led a team of not only consultants, but also the client's own 6-sigma black-belts and master black belts to analyze cost for the 20 highest-spend suppliers in 5 months.

To build trust in the analysis with the supplier, Hiller Associates did not calculate a single point “should cost,” but used the HA Product Cost Triangulation Framework.

“Being part of the costing team was very interesting. I learned a lot. It was a little surprising how little rigor we applied to pricing in the past.”

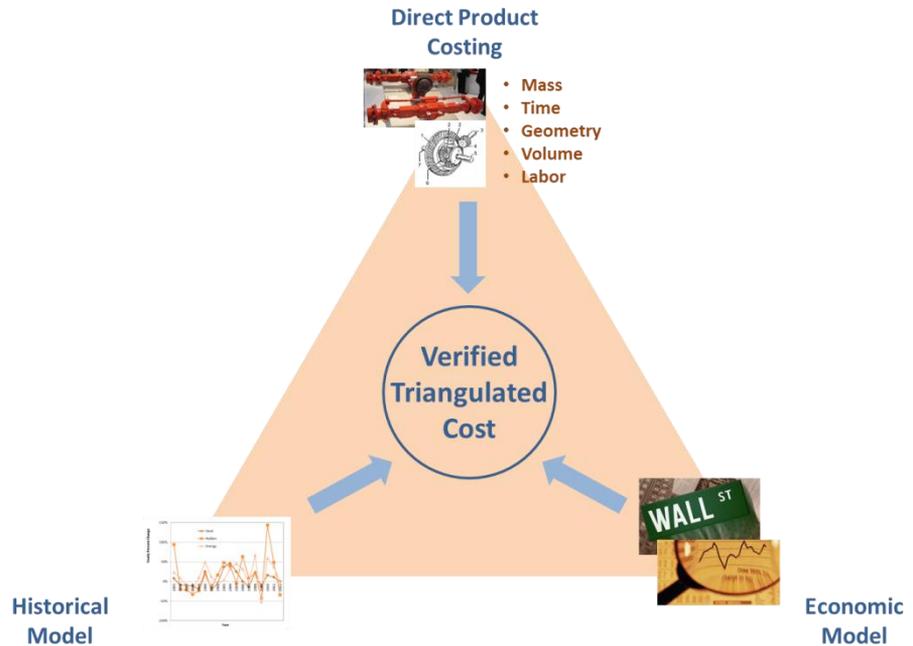
CLIENT 6-SIGMA BLACKBELT
WORKING ON THE PRICING/COSTING TEAM

About Hiller Associates

Hiller Associates is a business performance consultancy that specializes in Product Cost Management (PCM), helping discrete manufacturing companies reduce product cost, whether the product is before or after launch.

Our practice sits in the nexus between design engineering, finance, purchasing, and manufacturing. HA has helped Fortune 1000 clients save tens of millions of dollars through our Product Cost Management engagements. If you have a challenge with Product Cost Management in culture, process, roles, or tools we would like to help.

- Economic Costing** – a top down analysis of supplier prices based on financial statements from the supplier and its industry comparables
- Historical Trend Modeling** – an examination of the changes in costing inputs, such as raw material, energy, etc. over time vs. the historical supplier pricing
- Direct Product Costing** – a variety of cost modeling techniques based on the suppliers unique products



Each of the three cost analyses in the HA Triangulation Framework use different methods to create three independent assessments. Together, the three methods help to self-correct one another and provide a verified, triangulated cost that both the OEM client and supplier can trust as solid data point around which to negotiate and collaborate.

Results and Impact

Over the 6 month engagement, over 21 suppliers, accounting for \$175 million of OEM spend were analyzed. The supplier cost and pricing team led by Hiller Associates identified \$6.7 million of extra profit for the client, not including the savings identified by the other consulting teams (supply chain and supplier needs).

HA’s identified cost opportunities were leveraged into even more savings by the client’s purchasing team.

The impact of the assignment and subsequent client actions was to improve the client division to be among the most profitable in the parent company.

