



**Cost Counts  
in a Negotiation**

Click to add subtitle

MLTweb © ML Taylor 2008 1

---

---

---

---

---

---

---

---



**Agenda**

1. Why Cost?
2. Direct vs Indirect Costs
3. Strategies and Tactics
4. Path Forward & References

MLTweb © ML Taylor 2008 2

---

---

---

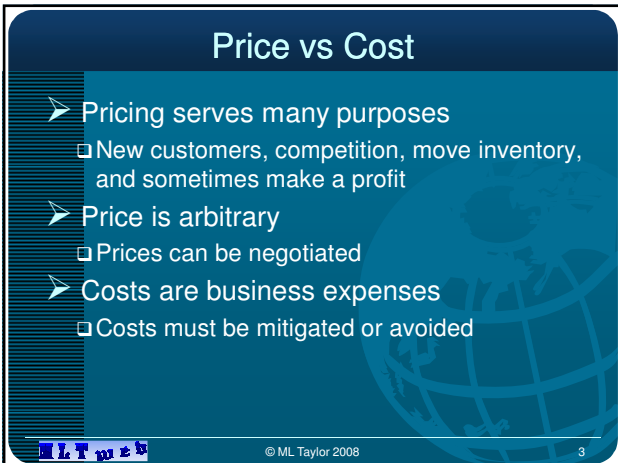
---

---

---

---

---



**Price vs Cost**

- Pricing serves many purposes
  - ❑ New customers, competition, move inventory, and sometimes make a profit
- Price is arbitrary
  - ❑ Prices can be negotiated
- Costs are business expenses
  - ❑ Costs must be mitigated or avoided

MLTweb © ML Taylor 2008 3

---

---

---

---

---

---

---

---

### Pricing Models

- Market based
- Market share
- Competition based
- Loss Leader



MLTweb © ML Taylor 2007

---

---

---

---

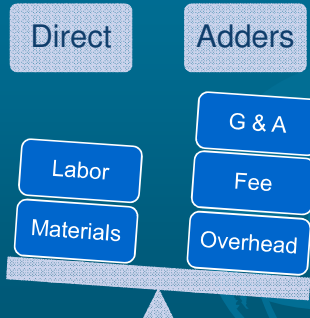
---

---

---

---

### Seller Costs = Buyer Price



© ML Taylor 2008 5

---

---

---

---

---


---

---

---

### Real Life Tactics

- Baker's Dozen
- Buy 11 – get one free
- Price Break if you buy 12
  - ❑ Do these tactics increase sales?
  - ❑ Why do they work?
  - ❑ Is the supplier negotiating?
  - ❑ What is supplier leveraging?



MLTweb © ML Taylor 2008 6

---

---

---

---

---

---

---

---

## Why Cost Analysis

- Why Cost Analysis
  - [www.mltweb.com/tools/why\\_cost.htm](http://www.mltweb.com/tools/why_cost.htm)
- Changes which can increase TCATCO
- Price escalation
- Post award changes, rejections, partial cancellations, spare parts, reorders, outages

MLTweb

ML Taylor 2007

---

---

---

---

---

---

---

---

## Direct Materials

- Raw materials needed to make the product
- As a large/small percentage of total cost
- Material substitution, subcontracting, strategic materials, inventory value, acquisition costs

MLTweb

ML Taylor 2007

---

---

---

---

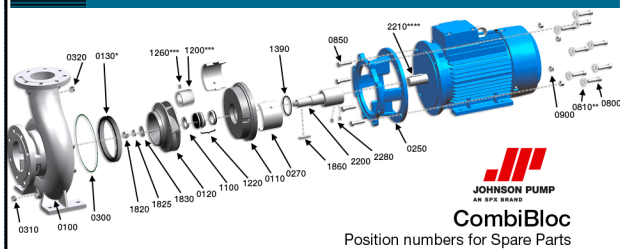
---

---

---

---

## Direct Cost items



MLTweb

© ML Taylor 2008

9

---

---

---

---

---

---

---

---

### Direct Labor

- Labor to fabricate and provide service
- As a large percentage of total cost
- Labor categories
- Learning Curve, setup time, efficiency

MLTweb ML Taylor 2007

---

---

---

---


---

---

---

---

### Indirect Costs



MLTweb © ML Taylor 2008 11

---

---

---

---

---

---

---

---

### Why Negotiate Cost?

- Contract relationship = exchange of value
- Quality / Accuracy = more cost
- Motivation / speed = more cost
- Risk avoidance = more cost
- Contingencies / unknown factors >cost
- Cost Value is relative

MLTweb © ML Taylor 2008 12

---

---

---

---

---

---

---

---

**example**

- When General Mills & Costco team up to sell consumers an 8lb box of Cheerios
  - ❑ What are they using for leverage?
  - ❑ Do we buy it?

**❑ Are we negotiating?**

MLTweb © ML Taylor 2008 13

---

---

---

---

---

---

---

---

---

---

**Negotiation Strategy**

- Aim to reduce Total Cost of Acquisition
- Look for opportunities to avoid direct costs
- Look for ways to leverage expenditure to maximize the return
- Increase the contract value by including extras
- Evaluate Seller's costs

MLTweb ML Taylor 2007

---

---

---

---

---

---

---

---

---

---

**Gathering Data**

- The power of a solicitation
- Fact finding
- Factory visits
- Industry news
- Asking questions
- Separating facts from fiction
- Purchasing Records

MLTweb ML Taylor 2007

---

---

---

---

---

---

---

---

---

---

### Manipulating Price

- What is the value to seller of offering quantity discounts?
- What does it cost the seller to offer quantity breaks?
- Parametric Pricing
- Bulk pricing
- Distributor discounts

MLTweb ML Taylor 2007

---

---

---

---

---

---

---

---

### Break Even Analysis

- Fixed Costs vs. Variable Costs
- Calculating profitability and quantity
- From a buyer's perspective to amortize direct costs of special tooling

MLTweb ML Taylor 2007

---

---

---

---

---

---

---

---

### Cost Variables

- 100 or Not
  - [www.mltweb.com/tools/100\\_or\\_not.htm](http://www.mltweb.com/tools/100_or_not.htm)
- Scrap and rework
- Residual value & beneficial reuse
- Quantity and trade discounts
- Consolidated purchasing agreements
- Long term-relationships

MLTweb ML Taylor 2007

---

---

---

---

---

---

---

---



