

Fundamentals of Cost Analysis

Objectives

This module is part of the EIPM Certifying Courses Level 1. This is a fundamental training. The objective of this module is to provide participants with the basic knowledge to understand how suppliers calculate their costs and their selling price. The following topics will be discussed:

- Supplier's fixed and variable costs
- How suppliers allocate fixed costs
- How to justify investment in fixed costs
- How to calculate depreciation impact on costs
- Margin and Profit calculation
- Productivity opportunities and impact on cost
- TCO analysis

Following this module, participants will be able to:

- Understand the use of suppliers' cost breakdown
- Appreciate how suppliers calculate their cost when pricing their product or service
- Build-up the cost structure of a supplier, on condition that they obtain the assumptions
- Calculate cost impacts on change of specification, volumes, operations, etc.
- Determine strategies to negotiate a fair price
- Understand the Total Cost of Ownership approach and its use in purchasing

Target group

- Buyers at any level who wish to learn how to use cost breakdown and TCO decision-making tool to better negotiate price reductions with suppliers.

Duration and location

- 2 days on the Archamps Campus (France).

Methods and tools

- A business case study is used
- Enables participants to analyse each major category of cost.
- Participants constantly challenge the current paradigms and take innovative decisions
- The participants work in small teams of 3
- They share experiences
- They learn by making smart decisions and some errors

Content

The first part of the two-day session will be based on a series of exercises to understand how suppliers build up their cost to generate their price to customers. This fundamental knowledge will provide buyers with the background to build-up the cost structure of a supplier. We will explore the following concepts:

- Fixed and variable costs
- Allocation of fixed costs
- Investment and depreciation
- Margin and profit calculation
- Productivity opportunities

Second, we will present a TCO model which is a decision-making tool to help buyers to identify cost improvement opportunities which go beyond supplier price.

PHASE	CONTENT
DAY 1	<ul style="list-style-type: none">• Analyse the supplier current costs and how to set a sales price• Direct materials impact on cost• Fixed assets impact on cost• Understand direct labour• Investigate different methods to depreciate investment costs (tooling for example)• Investigate subcontracting and marginal costing
DAY 2	<ul style="list-style-type: none">• Impact of larger order to reduce fixed costs• Allocation of fixed costs• Focus on fixed cost drivers• Integrate warranty costs into supplier priorities• Compute results by using ratios and measures to ascertain• Are supplier costs being reduced?• How much of the benefits come to us?• Are increased sales orders bringing lower prices?• Are the allocations equitable?• Are we covering TCO (Total Cost of Ownership)?