

## Should Cost Estimating Payback Scenario



### Initial Situation:

Part Type: High volume fastener  
Quantity: 800,000 per year  
Cost Issue: On an annual re-order, the supplier quoted an increase in price from \$2.15 each to \$4.25 each. Because the quoted price was more than a 5% increase, the supply chain was required to seek additional quotations.

### Should Cost Estimating Activity:

An RFQ, including a manufacturing data package with a 2D Drawing, a 3D CAD model, and the AS specification for the fastener, was sent to several current and potential suppliers.

MSR Inc. was provided with the same manufacturing data package that was provided to suppliers with the RFQ and asked to provide a "Should Cost Estimate" without knowing the current market cost. The result of the fact based "Should Cost Estimate" by MSR was a Should Cost value of \$1.85

### Typical Negotiating Scenario:

Previously, the negotiation would be driven by the Supplier's price of \$4.25 each and the final agreed price would be close to a "split the difference" value of \$3.20, an increase of \$1.05 each. There would be no factual basis for the supply chain to counter the supplier's quote.

### Should Cost Solution:

With MSR's fact based Should Cost Estimate, the buyer controls the pricing. The buyer was able to seek a "Should Cost Compliant" source for the fasteners. To be qualified as "Should Cost Compliant" a supplier would be given the Should Cost Estimate document and offered the opportunity to provide the components for the Should Cost price. From the field of suppliers submitting quotations, two of them agreed to the price in the Should Cost Estimate.

This generated three supplier alternatives. The first is that the current supplier has the opportunity to become "Should Cost Compliant" and adjust his price to the Should Cost Estimate value. The second and third alternatives are the two new suppliers who are willing to be "Should Cost Compliant"

### Value Recovered from Should Cost Estimate Activity:

Quoted price current vendor:	$\$3.20 \times 800,000 =$	\$ 2,560,000.00
Should Cost Compliant vendor:	$\$1.85 \times 800,000 =$	\$ 1,480,000.00

Savings from using Should Cost Estimate from MSR: \$ 1,080,000.00

Please contact us for more details about this scenario.