



Should Cost Estimating Payback Scenario

Initial Situation:

Part Type: Power Operated Door System
 Quantity: 100 per year
 Cost Issue: This was a new product design for the OEM. One prototype had been built in the internal model shop for proof of concept. The OEM required pricing from suppliers for varying quantities: 1, 10, 25, and 100.

Should Cost Estimating Activity:

An RFQ, including a manufacturing data package with a 2D Drawing, 3D CAD models, and the AS specifications for welding, heat treatment, and riveting, 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”. The result of the fact based “Should Cost Estimate” by MSR was a summary as shown below:

	Quantity 1	Quantity 2	Quantity 3	Quantity 4
Assembly Quantity:	1	10	25	100
Setup:	\$80,863.43	\$8,086.34	\$3,234.54	\$808.63
Labor:	\$39,085.81	\$39,085.81	\$39,085.81	\$39,085.81
Material:	\$20,958.01	\$20,958.01	\$20,958.01	\$20,958.01
Scrap Allowance:	\$79,986.79	\$16,746.99	\$7,241.23	\$1,047.90
Total Unit Cost:	\$220,894.04	\$85,775.63	\$70,519.58	\$61,900.35

The Should Cost Estimate for Non-Recurring Expenses was \$2.99 million

Negotiating Scenario:

The quotations that were returned deviated greatly from the above fact based Should Cost Estimate. The best qualified vendor’s response was approximately 1.9 times the above values at the order quantity of 25 per quarter, 100 units per year.

Should Cost Solution:

With MSR’s fact based Should Cost Estimate, the supply chain controls the pricing. The buyer was able to negotiate a much lower price for the assembly. All potential suppliers were given the Should Cost Estimate and asked to re-quote.

This generated supplier alternatives that were closer the Should Cost Estimate. The final negotiated price with the winning supplier was approximately 1.5 times the Should Cost Estimate at the order quantity of 25 per quarter, 100 units per year. Non Recurring Expenses were negotiated separately close to the Should Cost amount.

Value Recovered from Should Cost Estimate Activity:

Best initial quoted price:	\$132,612.07 x 100 =	\$ 13,261,207.00
Negotiated close to Should Cost price:	\$106,244.80 x 100 =	\$ 10,624,480.00
Annual Savings from using Should Cost Estimate from MSR:		\$ <u>2,636,727.05</u>

Please contact us for more details about this scenario. We can show the back-up information on the individual components and sub-assemblies that resulted in the values in the summary table above.