40 Ways to Reduce Cost

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A. Price

1. **Ask the supplier to provide a cost breakdown of the quote and to identify the elements of cost.**
   - Ask the supplier to include profit or fee in this breakdown.
   - Ask them to specify what factors [cost drivers] most influence their price?
2. **Ask if the supplier will certify that they have submitted the lowest pricing for the services or goods? [If yes, ask next question.]**
   - If you find a lower price,
     is the supplier willing to match it?
3. **Ask how their pricing is tied to productivity, economic behavior as well as cost.**
   - [Buyer's note: Federal government reports provide data on productivity gains. Use this data to rationalize prices.]
4. **Ask if any part of the pricing is based on projected rather than current, actual costs.**
   - If so, ask them to show you cost projections.
   - Determine the assumptions on which they based their projections.
5. **Ask the supplier to explain what costs are covered by G&A expenses. Upon review, ask for example:**
   - Why are you paying for advertising expenses for recruiting new customers when you are already a long term customer not benefiting from the advertising effort?

6. **Ask if the schedule [or delivery point] were changed, would that affect the supplier's offer?**
    - How?
    - Why?
7. **Ask the supplier that since [materials, or subcontracted] costs are significant, can they provide the information needed to assess the pricing of sub-tier suppliers.**
    - Ask from which suppliers they are buying supplies or services. [Perhaps you can help them negotiate lower pricing.]
    - Ask if they are leveraging their spend
    - Offer to allow the supplier to purchase products and services under your company's long-term contracts

B. Price Changes

- Use these questions for negotiating Price Changes. Situations that frequently give rise to a price change are:

A. Substantial changes in underlying costs
B. Changes in market demand
C. Sharp changes in technology
D. A change in behavior by one or more rival firms

- Know which is the cause of your cost changes. If (a) or (c), pursue value analysis. If (b) or (d), you could have negotiation opportunities.

8. **Determine what percentage of the Cost of Sales is represented by the increases / decreases in:**
    - Labor
    - Material, or
    - Overhead.
9. **Ask how can you offset this price increase with cost efficiencies or process / product substitution.**
10. **For price increase due to new facility:**
    - How did the supplier justify this new facility to management?
    - Ask them to show the calculations for ROI without a price increase.
11. **Tell the supplier that you need to see documentation that this price increase is based on absorption of costs beyond their control.**
    - Ask what can they show you to prove that fact.

12. **Note that other suppliers for this commodity have not requested price increases.**
    - Ask why should you not shift the business to them.
13. **Ask how the price increase history compares against the Producer Price Index.**
    - [Realize that these indexes reflect what suppliers report they are charging – not necessarily market price. Negotiate to keep price increase below PPI.]

C. Price / Cost Reduction

14. **Ask the supplier that based on the quality of the product / service, are they willing to extend the warranty period?**
15. **Provide an estimate of what you feel the product or service "should-cost". In other words, create an independent cost estimate.**
    - Ask the supplier to explain why their prices / costs are higher.
    - Develop an independent cost estimate before the supplier's prices and cost are reviewed
16. **If the offer is firm fixed pricing, would the supplier be willing to accept an hourly rate contract with this price as the maximum?**
    - [Particularly if you believe that the supplier has over-estimated the work involved and can finish sooner and at lower cost.]
17. **If the offer is firm fixed pricing, but, since it is based on a fluctuating commodity market, would the supplier be willing instead to link pricing to a standard index for price determination at time of shipment?**
    - [If yes, evaluate if this gives you an advantage.]
18. **Ask if the supplier's price offer includes yearly cost-reduction guarantees.**
    - [If no, insist they be included.]
19. **Ask the supplier if they would object to building in value analysis clauses with cost sharing once yearly cost-down targets are achieved.**
20. **Ask what discount will be offered if you allow the contract to be used by another business unit as well [to give possibility of additional volume].**
21. **Ask how much pricing could be lowered if you agree to link partial payments to the deliverables required at each of the milestone dates.**
22. **Ask if costs in the supplier proposals reflect labor cost reductions resulting from learning curve volume.**
    - Ask the supplier to explain how they accounted for the learning curve(s).

23. **Provide your target cost based on market pricing.**
    - Ask what steps must be taken for the supplier to meet it.
24. **Ask what additional value the supplier can offer for the price that competitors do not.**
25. **Inform the supplier that your research, historical pricing, and the range of quotes received lead you to believe the market price of this product / service is significantly lower than what you quoted.**
    - How does the supplier justify the increased cost? [Be prepared to tell them an approximate number – don't bluff.]
26. **Ask if the supplier would be willing to lower prices immediately by a specific percentage if you can put a contract in place by [year end, end of quarter….].**
27. **Ask if the supplier would agree to allow you to send in six sigma [or Quality, or SME] team to see if costs can be lowered by process improvements.**
28. **Ask if the supplier is willing to put a cap on design [or testing or material] costs as a percentage of total expenditure for the life of the contract.**
29. **Ask if the supplier is willing to guarantee the same labor rates for all work performed in each job category for the life on the contracts, including change orders.**
30. **Ask if you award a specific contract to the supplier, what level of discount can be expected on other services, such as training and maintenance.**
31. **Ask if the key personnel on specific contracts are replaced mid-stream with new players, will the supplier agree to reduce their labor rate to account for the learning curve?**
32. **Ask if features offered are standard to the industry, why does the supplier quote show separate charges for these services?**
33. **Provide the proposed performance scorecard [or SLA] for work.**
    - See if the supplier will accept payment minus 10% for the basic, 'satisfactory' work and make up the balance with a 10% incentive payment if they achieve the higher standards.
34. **Since your quantities are estimates, determine how much volume is needed to reach the next discount level.**
    - Determine the level of price reduction.
35. **Ask suppliers for alternate proposals.**
    - What creative ideas does the supplier have to reduce costs?

36. Ask what the impact of price would be if you aggregated all the spend under one agreement

37. Let the supplier know that work can be done substantially less expensively in India, China, or another region.

- Ask the supplier what they are doing to increase productivity or lower costs to compete.
- [After receiving answer ask whether you can build in a year-over-year price decrease?]

38. Look into other locations / divisions of the supplier to find out if your company bids one against another.

- Ask questions such as…'I know rates / costs are lower in your Kentucky facility. What would the pricing be if the work were to be done there?'

39. Find the division with the lowest prices provided by any supplier for a given service or commodity.

- Ask what your supplier can do to drive pricing down to that level [don't reveal names].

40. Ask how much excess capacity the supplier has if volume or needs were to grow.

- Ask if pricing of the initial work covers both fixed and variable costs.
- Ask if the supplier is willing to price any extra volume only to cover marginal [variable] costs.