

UNDERSTANDING COST

for retail fixture and permanent Point of Purchase materials

PROCUREMENT – is primarily focused on *PRICE*

“**Price**” is the value that will purchase a finite quantity, weight, or other measure of the goods or services required

“Market value can only be defined by comparing the prices from various supply options – BUT this is only as good as the suppliers who are participating”

SUPPLY CHAIN MANAGEMENT (SCM)

– is primarily focused on *COST*

“**Cost**” is the amount that has to be paid to get something. In business, **cost** is usually a monetary valuation of (1) effort, (2) material, (3) resources, (4) time and utilities consumed, (5) risks incurred, and (6) opportunity forgone in production and delivery of goods and or services

“If you don’t understand the cost, it is like being a buyer in a Middle Eastern bazaar, the price that will be offered is the one the trader thinks he can get away with”

1. SUBSTRATE COST

Identify the cost of the raw materials

Understand how prices are moving

Ascertain how price fluctuations can impact final price

2. LABOUR COST

Identify the cost of labour

Understand the impact of overtime

Use these insights to seek more efficient production methods

3. MACHINERY COST

Know what machinery is being used

Ascertain what overhead is being applied

4. UTILITIES COST

Identify key utility costs

Understand how energy prices impact final price

5. TOOLING COST

Know exactly how much is invested in tooling

Ensure this is a one-off cost and not applied to subsequent orders

6. FACTORY MARGIN

Gain an indication of supplier margin

Ensure that this is fair, sustainable but is not profiteering

7. LOGISTICS COST

Always separate out logistics costs, including packaging

Understand both Ex-factory and Delivered Duty Paid (DDP)

“Understanding cost provides an objective benchmark against which offered prices can be compared and negotiated against”

If you would like more information on how **LeanPie** can transform your shopper marketing supply chain, please feel free to contact

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