

# CAMPS

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**ADVANCED MANUFACTURING**  
PUGET SOUND

## Managing Supply Chain Costs

Leadership Forum

March 28, 2017



PARKER | SMITH | FEEK



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## PRESENTER

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# Carey Suto

Director of Supply Chain

Western Integrated Technologies

<http://www.westernintech.com/>



# Western Integrated Technologies

Managing Supply Chain  
Costs

Carey Suto

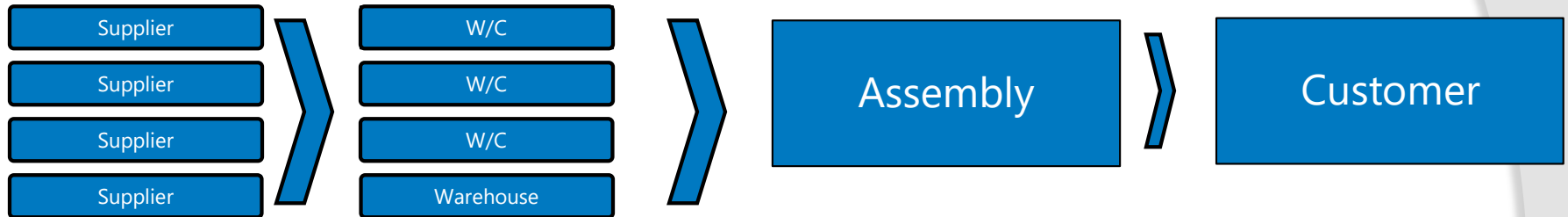


# Discussion Topics

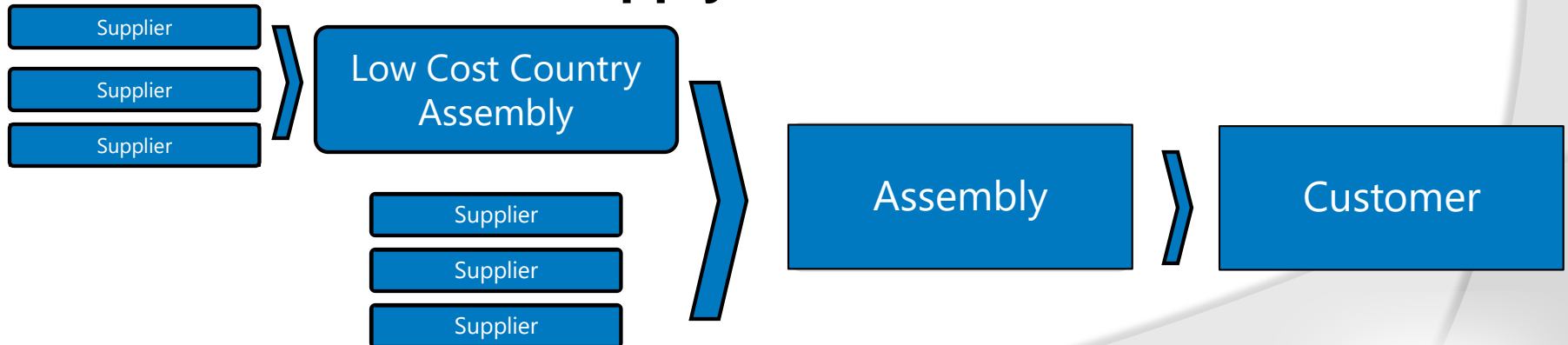
- Responsibility of Supply Chain Managers
- Set Performance Goals
  - Objective Goals
- Market Test Commodities
- Ancillary Cost Drivers
  - Logistics, MRO, Hidden Costs
- Supply Chain Collaboration

# Supply Chains Compete

## Supply Chain A



## Supply Chain B



# Supply Chain Responsibility

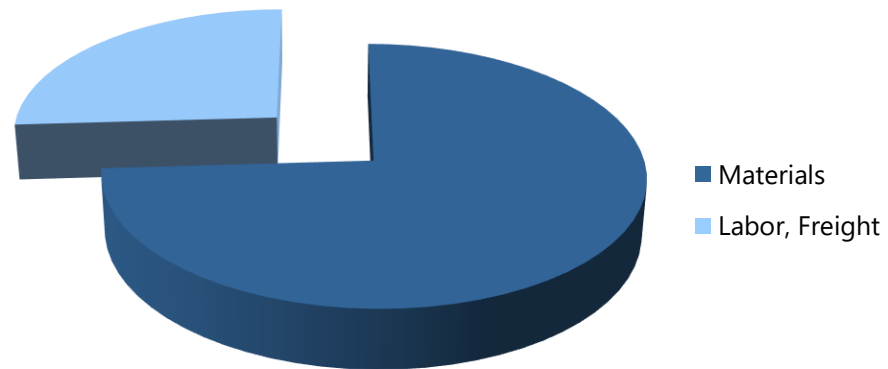
- Mitigate Risk in Supply Chain
  - Quality
  - Delivery
  - Cost
- Sustainable
  - Collaboration

# Supply Chain Cost Drivers

- Materials
  - Major component of COGS
- Logistics
  - Pacific NW is not an optimal location for managing inbound freight costs
- Maintenance, Repair, Operations (MRO)
  - Often overlooked
- 'Hidden Costs'
  - Warranty
  - Field Repairs



# COGS



# COGS Breakdown

Item	Value	Percentage of COGS
COGS	\$13.5M	
Purchased Materials	\$10.0M	74%
Labor	\$ 3.14M	23.3%
Freight Costs	\$ 0.360M	2.7%

# Penny Saved, Penny Earned

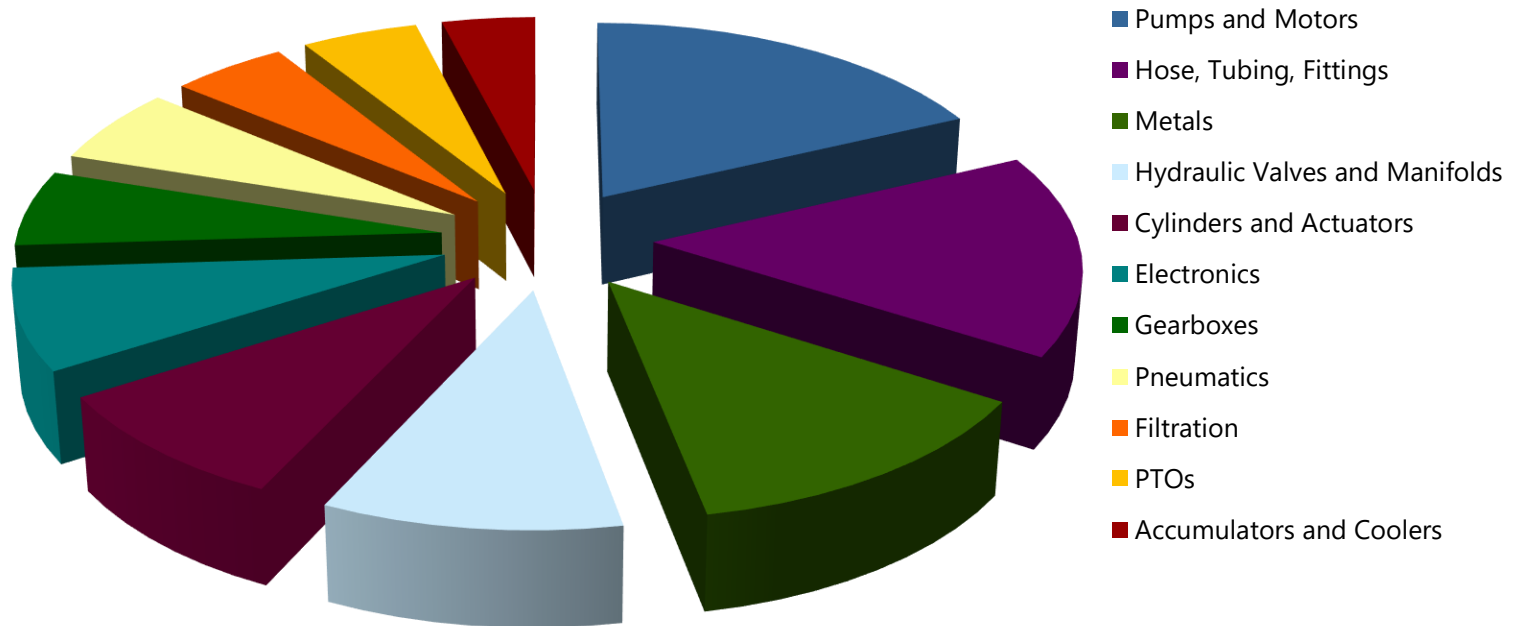
## 'Power of the Dollar'

	Material Cost Savings	Sales Increase
	(\$25,000)	\$500,000
Operating Income Impact (5% OI)	\$25,000	\$25,000

# **Market Test Commodities**



# Material Spend by Commodity



# Market Test Commodities

- Identify your suppliers competition
- Send out quote packages
- Analyze results based on total cost
  - Historical Quality and Delivery
  - Supplier geographic location
  - Annualized material cost impact
  - Integration
    - Range from EDI Transactions to on-site support

# Objective Goal Setting

2018 Material Cost Savings	2018 Goal	2018 Actual
1% Net Reduction	(\$100,000)	(\$)

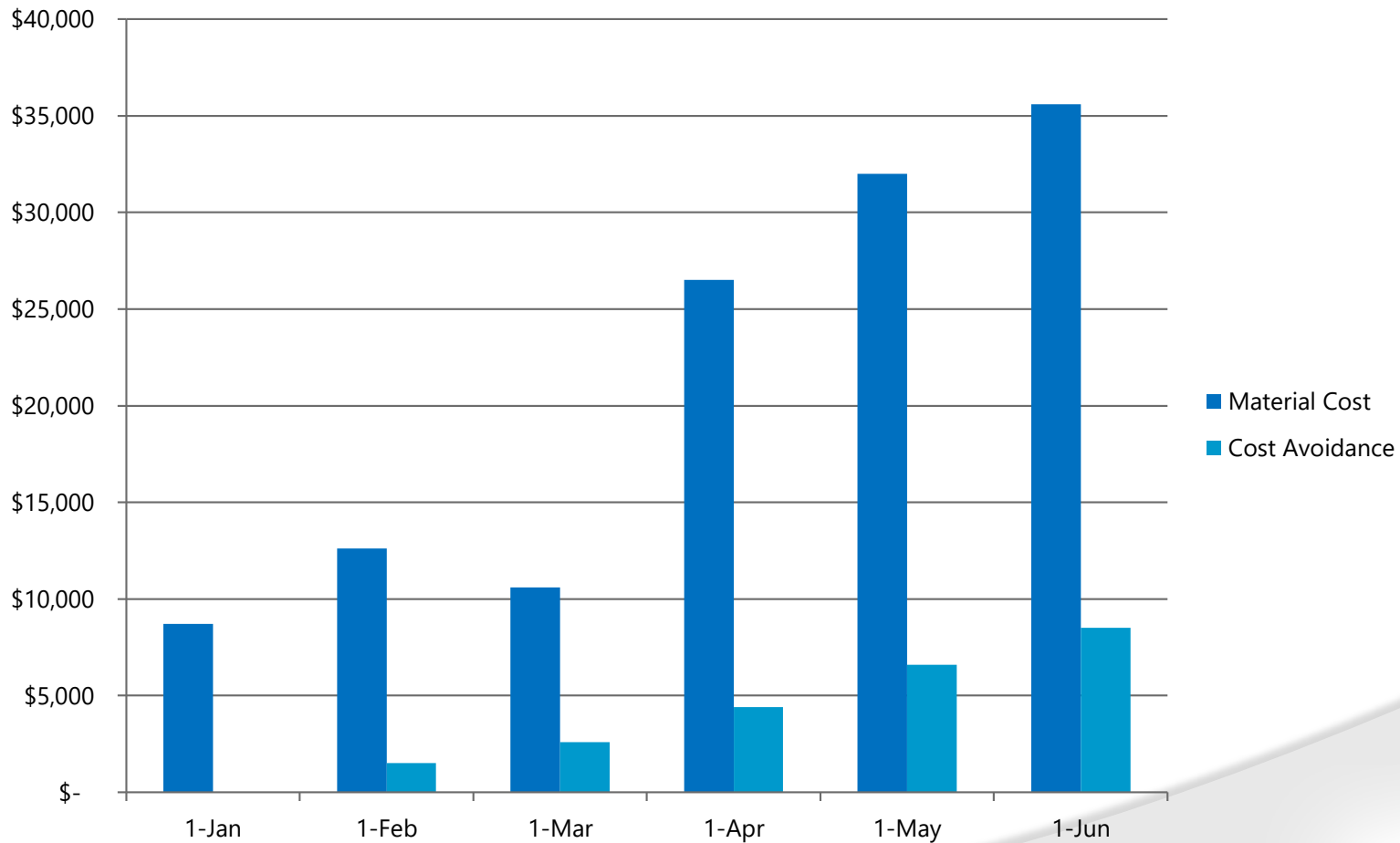
2018 Cost Avoidance	2018 Goal	2018 Actual
.5% (based on previous year expense)	(\$50,000)	(\$)

# Track and Report Cost Movements

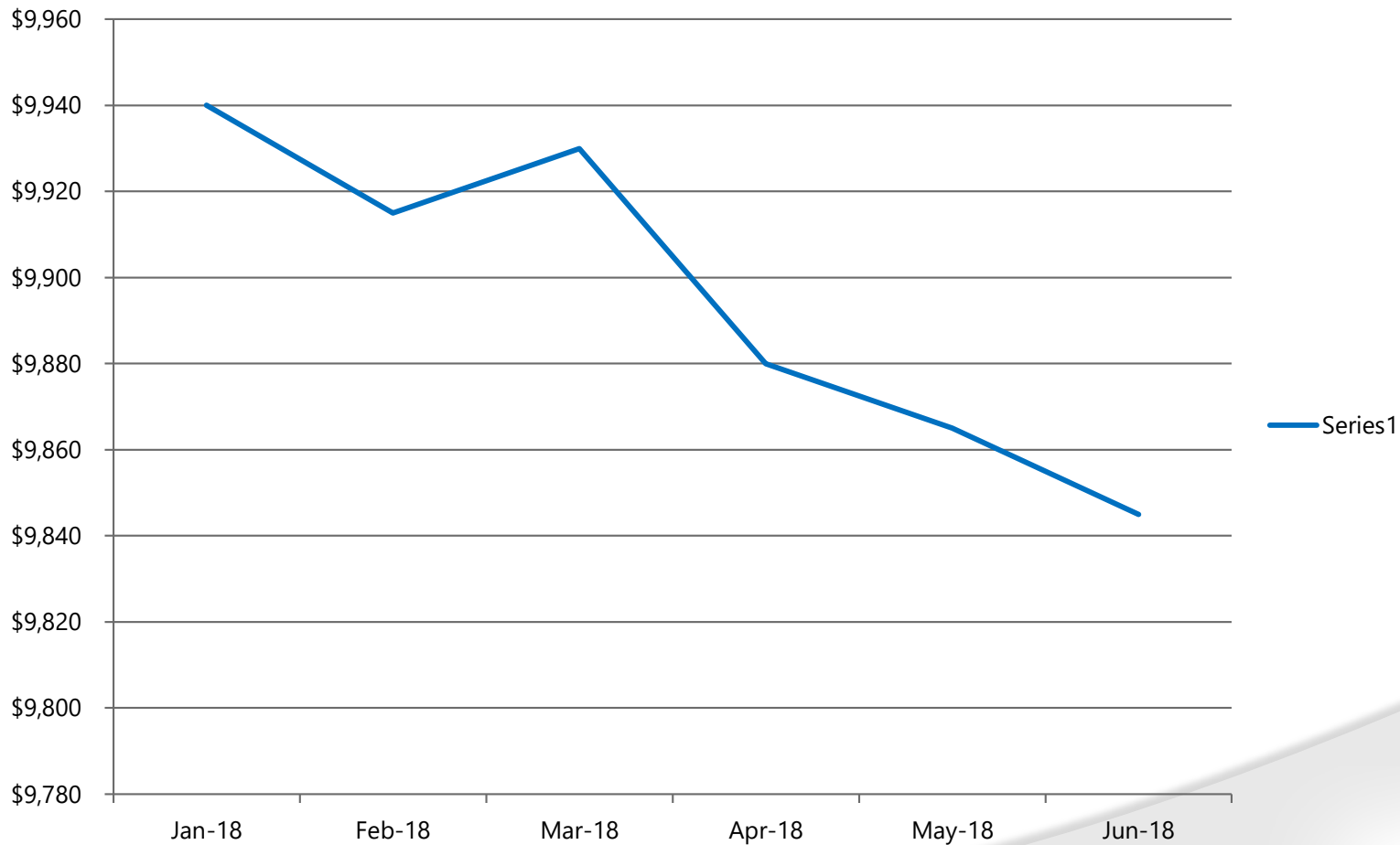
- Report on Pending Cost Movements
  - Eg., supplier notifies of cost change
  - Quantify and Report
- Report on Actual Cost Movements
  - Celebrate successes
  - Discuss threats
  - Define independent verification
- Track and Report Cost Avoidance
  - Mitigation through negotiated solution



# Track Cost Movements



# Validation of Cost Movement



# Track Raw Material Costs

## 5 Year Copper Spot



# Currency Exchange Rates (RMB/USD)



# Currency Exchange Rates (CDN/USD)



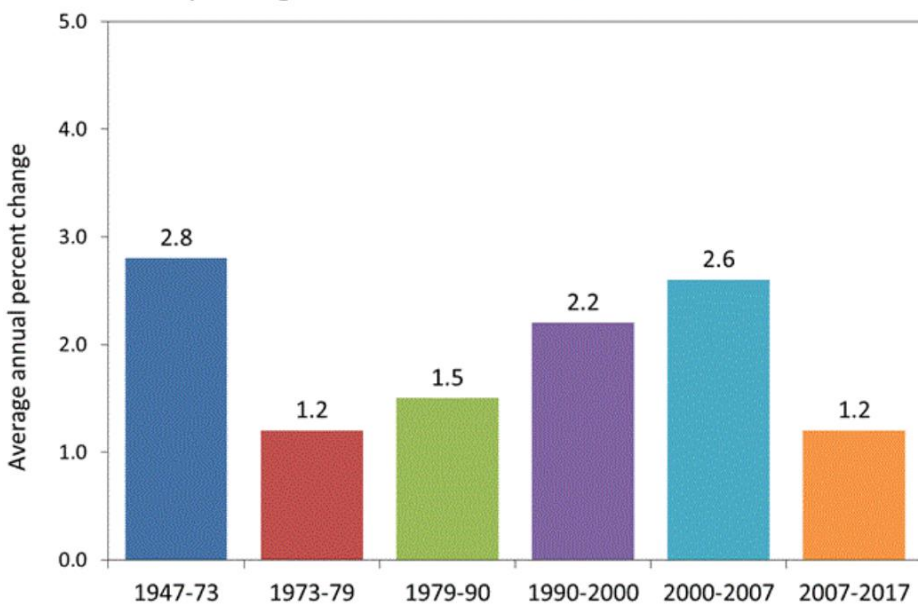
# Material/Labor/Overhead

Cost Driver	Content	Cost	Comment
Material	1 lbs. Copper	\$3.20/lb.	Uncontrollable
Labor	4 minutes	\$4.00	Controllable*
Overhead		\$2.80	Controllable*

\*It is debatable if Labor and Overhead is 'Controllable'. I take the position with Suppliers that both cost drivers can be offset through productivity gains.

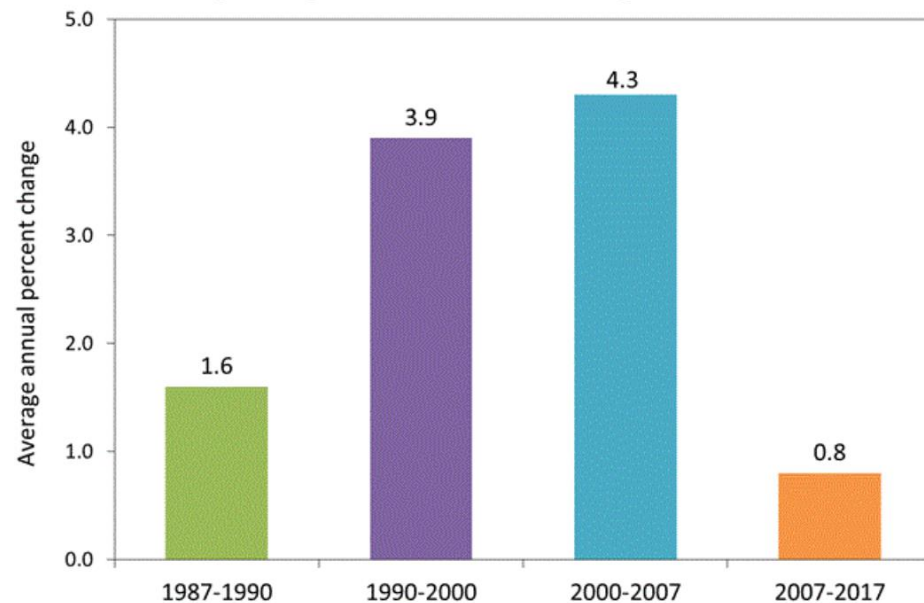
# Productivity Gains

Productivity change in the nonfarm business sector, 1947-2017



Source: U.S. Bureau of Labor Statistics

Productivity change in the manufacturing sector, 1987-2017



Source: U.S. Bureau of Labor Statistics

# Indexing Raw Materials and Currency

Index Date	Part Cost	Primary Material	Material Weight	Material Cost/lb.
Dec. 2015	\$10.00	Copper	1 lb.	\$2.00
Feb. 2018	\$11.20	Copper	1 lb.	\$3.20

Index Date (USD/CAD)	Part Cost in USD	Currency Exchange Rate CAD/USD)	Part Cost in CAD	Impact
January 2016	\$10.00	\$ .686	C\$ 14.58	
February 2017	\$11.49	\$ .788	C\$ 12.69	C\$ +1.89



# Ancillary Costs Drivers

- Freight Costs
  - PNW is not optimal location to manage logistics costs
- Maintenance, Repair, Operations (MRO)
  - Manage and market test contract renewals
- Hidden Costs
  - Rework, Warranty, Field Repairs

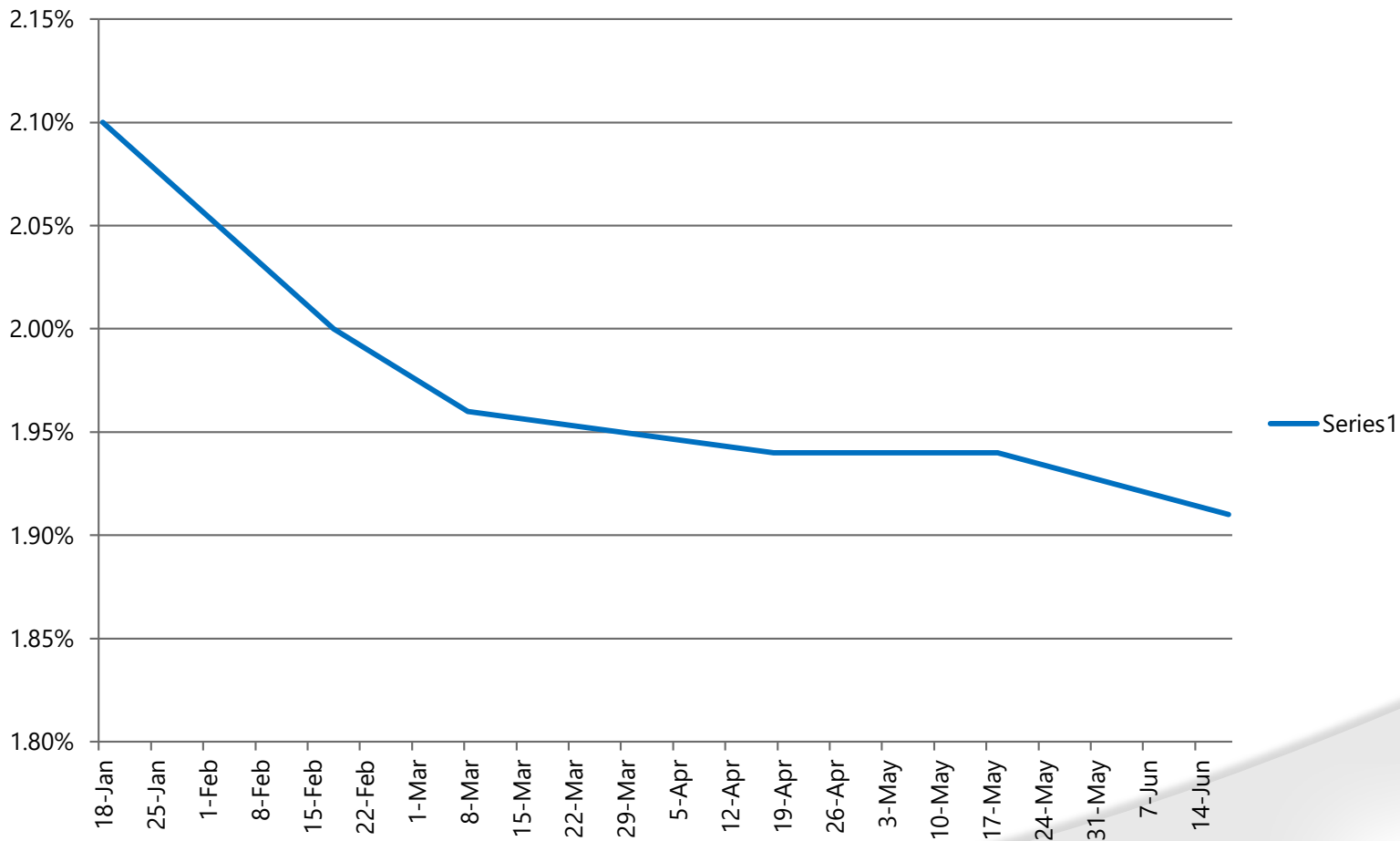
# Ancillary Costs Drivers

2018 Freight Reduction	2018 Goal	2018 Actual
1% Net Reduction	(\$3,600)	(\$)

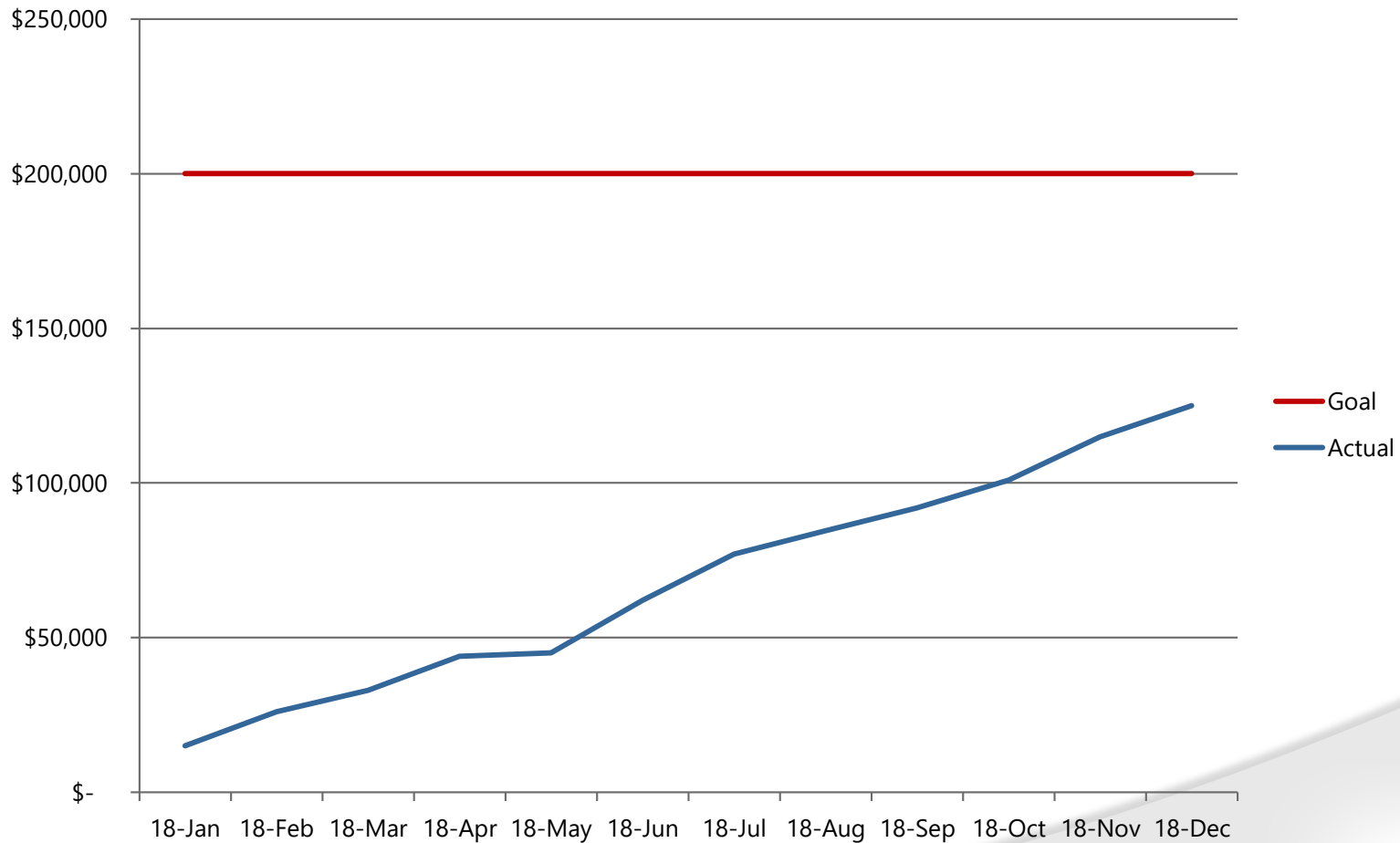
2018 MRO Cost Movement Goal	2018 Goal	2018 Actual
1% Net Reduction	(\$5,000)	(\$)

Hidden Costs	2018 Goal	2018 Actual
1% of Sales	< \$200,000	(\$)

# Track Freight Costs % of Sales



# Hidden Costs as % of Sales



# Supply Chain Collaboration

- 'Club'oration
  - Leverage Supply Base to meet cost objectives
    - Creates win/lose
    - Increases risk of Supply interruption
- Collaboration
  - Create win/win
  - Helps assure reliable supply
  - Requires Enterprise wide commitment

# Power of Collaboration

- You Tube Link:

- <https://www.youtube.com/watch?v=s2XLJASbCwY>

- Computer Link:

- [..\Downloads\Fastenal Case Study with Red DOT.mp4](#)

# Summary

- Mitigate Risk in Supply Chain
  - Evaluate if your business has a balanced focus on costs and new sales
  - Validate market position within commodities
  - Track and validate cost movements
  - Remember to look at ancillary cost drivers
    - Freight, MRO, Warranty
  - Collaborate with your business partners
    - Create sustainable supply chains

The background of the slide is a blurred photograph of a warehouse interior. In the center, a person wearing a red safety vest and a blue shirt is walking away from the camera. To the right, there are tall metal shelving units filled with numerous blue plastic bins, organized in rows. The lighting is industrial, and the overall scene suggests a busy logistics or manufacturing environment.

***FASTENAL***<sup>®</sup>

**Case Study**  
**Red DOT Corporation**



# QUESTIONS:

# APRIL ROVING ROUND TABLES

**CAMPS Manufacturing Members will be hosting three separate, simultaneous Plant Tours on  
April 12th, from 10:00am to 12:00pm.**

## REGISTER FOR THIS TOUR



814 44th Street NW, Suite 103 / Auburn, 98001

The Belshaw Adamatic Bakery Group brand is applied to all retail bakery equipment for the North American market, including donut production equipment, fryers, convection ovens and deck ovens.

Tour Belshaw's 120,000 sq. ft. production facility and see where they design and manufacture their equipment using state-of-the art machine tools and quality craftsmanship.

## REGISTER FOR THIS TOUR



18825 67th Avenue NE / Arlington 98223

Mid-Mountain Materials, Inc. engineers and manufacturers solutions for high-temperature resistant applications in industries around the globe.

Tour their plant and see how their vertical integrations give them the ability to provide a competitively priced product, with a shorter lead time and increased quality control.

## REGISTER FOR THIS TOUR



2040 15th Avenue W / Seattle 98119

GM Nameplate creates nameplates to provide a wide variety of custom solutions from small components to completely assembled devices.

All of GMN's facilities are ISO-9001 certified and operate under Continuous Improvement, Lean and Six Sigma manufacturing principles. Tour their facility to see first hand how their focus on quality assurance and workplace efficiency has guided their success in highly regulated industries, like medical and

SAVE THE DATE

# 2018 Manufacturing Conference

**INNOVATING FOR OUR FUTURE**

**June 7th, 2018**

Meydenbauer Center  
Bellevue, WA

# THANK YOU



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