

Markus Wiederstein & Bernd Straub

STUDY INTO VALUE AND COST MANAGEMENT IN LEADING COMPANIES: CONSIDERABLE POTENTIAL REMAINS UNTAPPED.

In many companies, cost optimisation is primarily applied to current series' and in tendering processes, leading to a strong focus on commercial optimisation in procurement. Several organisations are looking to optimise total cost of ownership (TCO) in early development phases – i.e. where the influence on cost is at its greatest.

What is the current situation regarding cost management for leading companies in the manufacturing industry? Are cost only being optimised on a business-area basis, or are there instances of overarching value management? Are potential savings across interfaces being realised?

As one of the leading German management consultancies in the areas of value and cost management, we advance the following hypothesis: the only way to identify potential savings across interfaces is to integrate development, purchasing, operations, and sales as closely as possible; and only by doing this can the cost structure of the company as a whole be optimised.

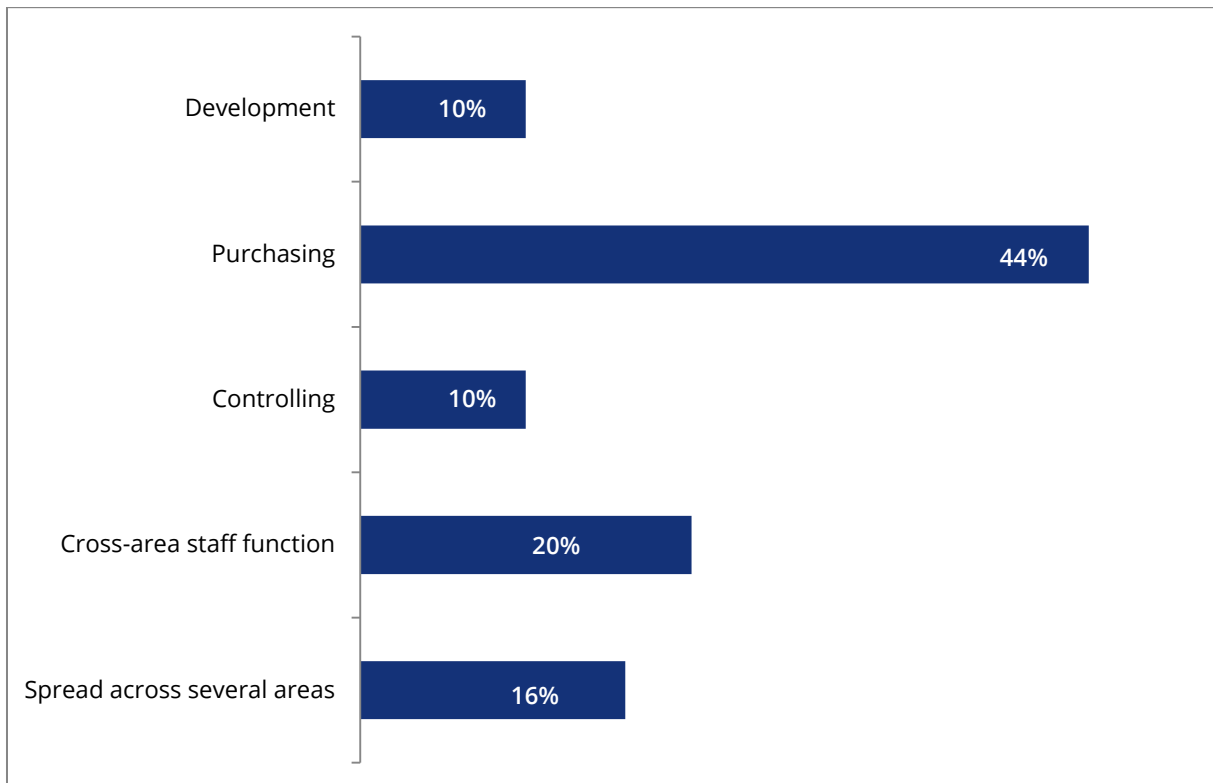
Are there any companies in which this model is already being implemented? In order to find out if it is, in November/December 2014 we conducted an internet survey to shine some light on the current state of cost management.

A total of 127 people from 43 different companies took part in our survey, with 69% of the respondents coming from Automotive (of which 39% were in OEMs and 30% at suppliers). The second largest industry represented in the survey was mechanical engineering, with 20% of participants; other industries from which survey participants came were aerospace, defence, and energy. Responses came from large groups and *Mittelstand* companies, with 65% of participants coming from organisations with more than one billion Euros in turnover.

While the respondents' roles within their companies were quite heterogeneous, there was notable clustering around classic cost management areas: the majority of participants were in management positions, principally as heads of areas such as purchasing, development, controlling, and cost management.

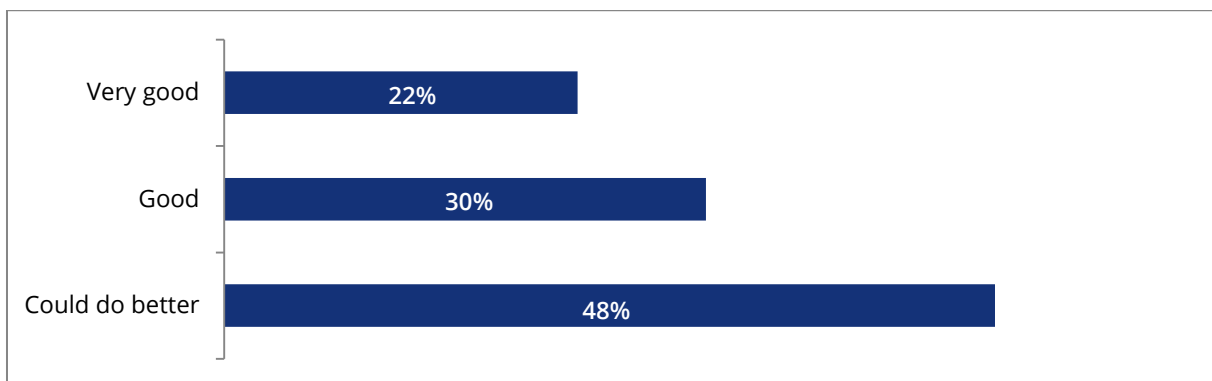
Our online survey was composed of nine questions which allowed us to image the overall situation regarding cost management across companies from the manufacturing industry in the German-speaking countries.

QUESTION 1: IN WHICH AREA OF YOUR COMPANY IS COST MANAGEMENT CURRENTLY LOCATED?

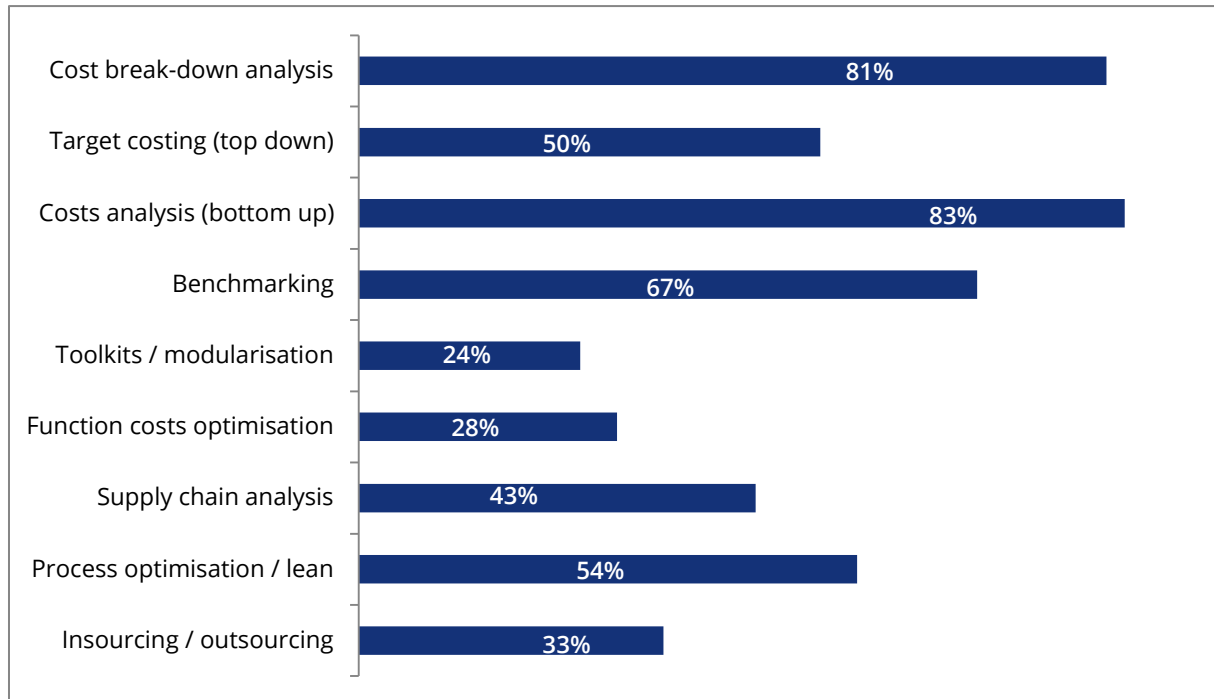


➤ RESULTS AND CONCLUSIONS:

- In almost 45% of all companies, cost management is located in the purchasing department;
 - cost management is therefore often understood as a purchasing initiative;
 - the focus is on the tendering phase and on optimising current series' – i.e. those areas in which the leverage effect of product value design is very limited in view of the fact that cost optimisation measures cannot be implemented economically (tools, trialling);
 - internal value creation is mostly not considered.
- In only 20% of companies is cost management established as cross-area staff function or located in finance, allowing it to act as a neutral negotiator between company areas (think "cost as lingua franca").
- Despite the fact that the greatest influence on cost as they are created is in development, this department bears cost responsibility in only 10% of cases.

QUESTION 2: HOW DO YOU RATE THE PERFORMANCE OF COST MANAGEMENT IN YOUR COMPANY?**➤ RESULTS AND CONCLUSIONS:**

- 22% of companies surveyed rated their cost management as 'very good'. These companies were primarily car makers and suppliers. The contradictory judgements given by various participants from different areas of the same companies are of interest: frequently, different people in the same company rate their cost optimisation as everything from 'very good' to 'could do better'.
- Across all industries, almost 50% of the companies in the survey see their cost management as needing to improve.

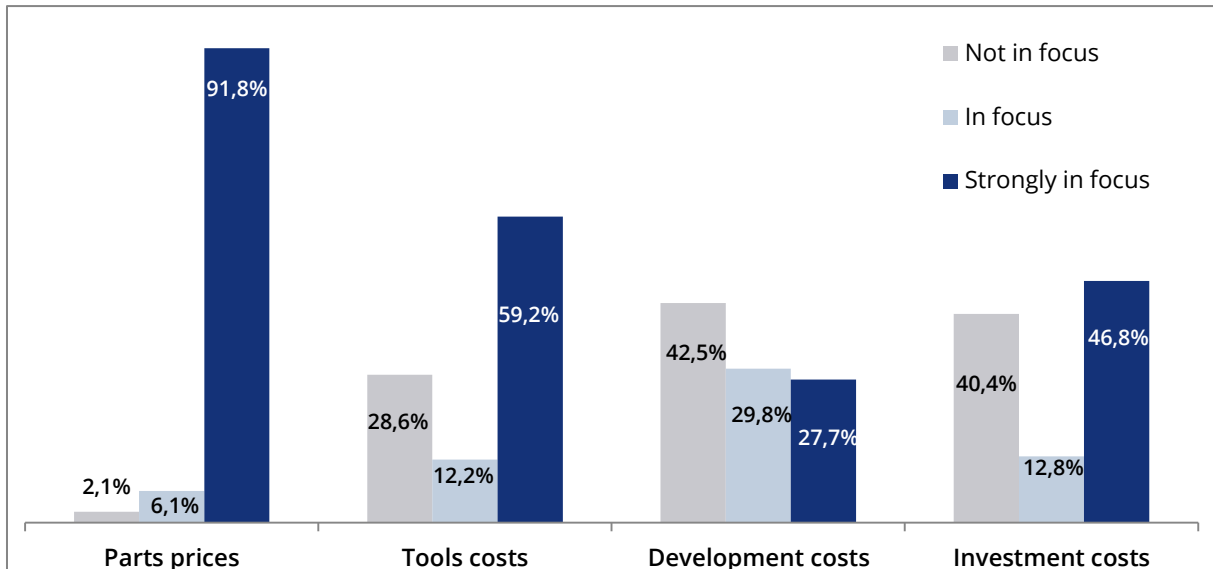
QUESTION 3: WHICH COST MANAGEMENT TOOLS AND METHODS DO YOU APPLY?

Respondents could select more than one answer

➤ RESULTS AND CONCLUSIONS:

- The classic levers in purchasing – cost break-downs and bottom-up cost analyses – were named by more than 80% of respondents as habitual tools and methods.
- Two thirds of companies surveyed carry out benchmarking.
- Only one quarter of companies make use of the substantial leverage potential inherent in early-phase product value design, toolkits/modularisation, and function cost optimisation. Here too, Automotive is ahead, followed by Energy.
- With not even 40% of all companies using supply chain optimisation (double overhead impact, best-cost countries), considerable cross-area potential in the value-creation chain is remaining untapped.
- Due to the strong focus on purchasing, there is also potential left underrepresented in the area of in/outsourcing.
- In addition, the survey participants named the following instruments: deeper localisation, LPPM, global footprint, tear-down, reference calculation, parametric cost models, and supplier workshops.

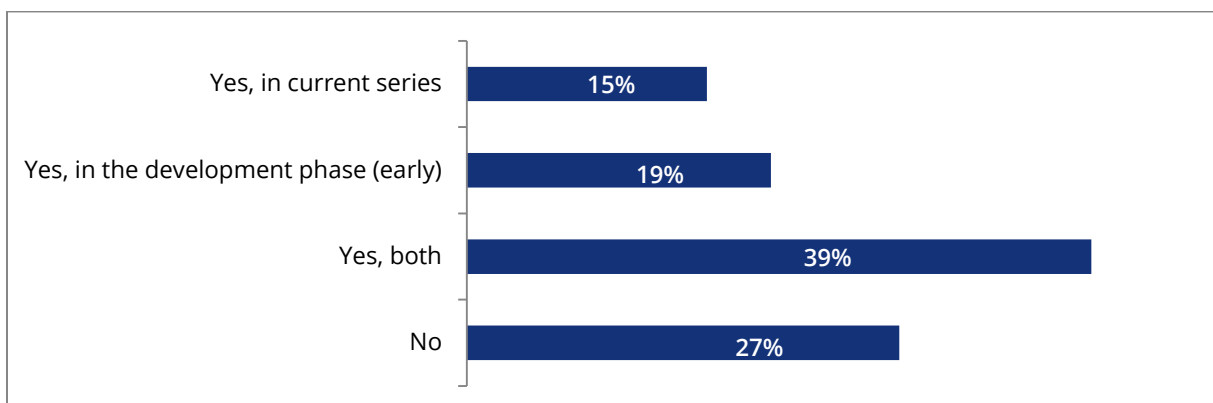
QUESTION 4: WHERE DOES YOUR COST MANAGEMENT FOCUS LIE?



➤ **RESULTS AND CONCLUSIONS:**

- Almost all respondents report a strong focus on optimising parts cost.
- Almost 60% are working on optimising tools cost.
- For 73% of participants, development cost are hardly in focus or not at all; the picture is similar with regards to investment cost e.g. production facilities and equipment procurement.
- Above all, industries with short product life-cycles (such as the car industry) apply a very limited focus to one-off cost such as tools, development cost, and investment cost; one-off cost have a greater leverage effect for products with small series runs.

QUESTION 5: DO YOU APPLY VA AND VE (VALUE ANALYSIS / VALUE ENGINEERING) DURING PRODUCT DEVELOPMENT?



➤ **RESULTS AND CONCLUSIONS:**

- The participants had differing interpretations of value analysis/value engineering, as shown by queries we received and exchanges on this topic with the companies concerned at a later date.
- Just under 30 % of respondents do not apply VA/VE in the development phase, despite the fact that they have the highest influence on cost at this stage.
- On the whole, the figure of 58% of respondents who responded stating that they apply VA/VE in the early development phase is remarkable inasmuch as this methodology is, when compared to responses to question 3, not covered by the tools required to a corresponding degree (i.e. toolkit/modularisation, function cost optimisation).
- This applies to all industry sectors.

QUESTION 6: HOW MANY MEMBERS OF STAFF DO YOU CURRENTLY HAVE IN COST MANAGEMENT, AND WHAT ARE YOUR FUTURE PLANS IN THIS REGARD?

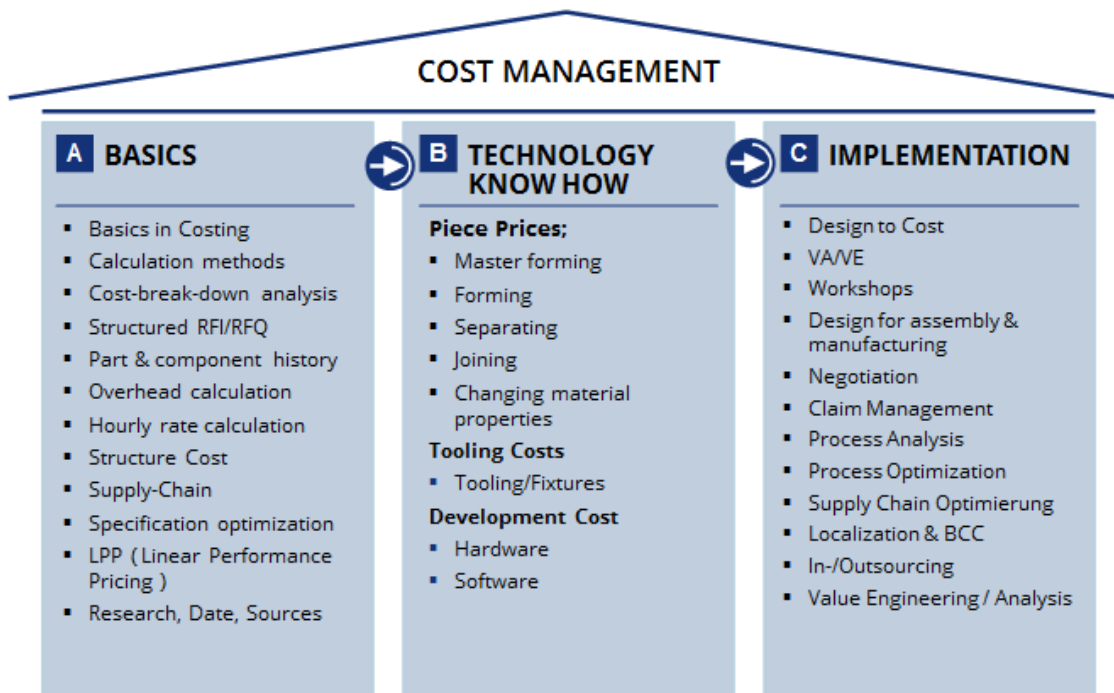


➤ **RESULTS AND CONCLUSIONS:**

- The image varies strongly between industry sectors.
- In the mechanical engineering sector, there are plans for what amounts in this industry to a sweeping expansion in cost management resources (i.e. doubling of staff in some cases); at the same times, when compared to car makers, the targets of 5-10 members of staff are low.

- In the automotive industry, the trend is for stable staffing: while there a plans for a light increase in resources in some companies, others responded that they would be cutting resources in this field.

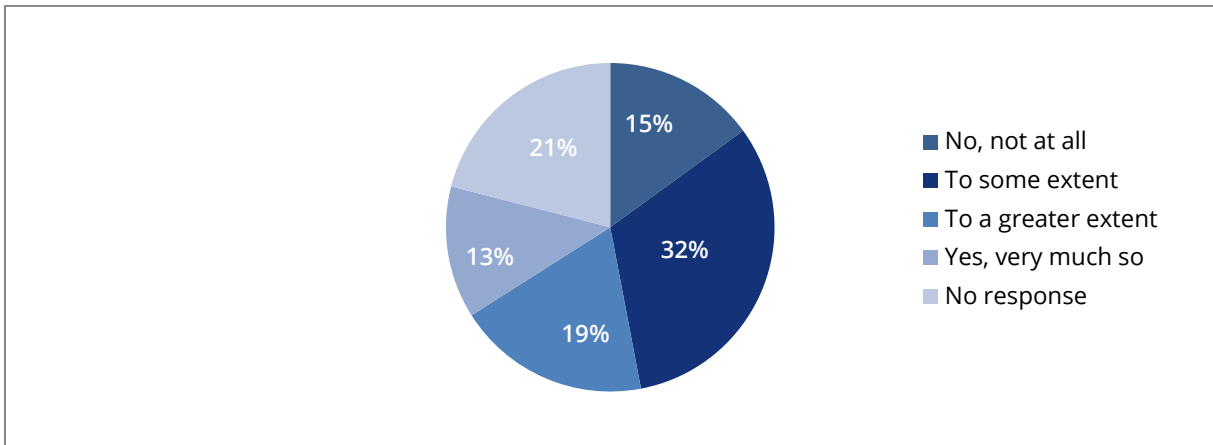
QUESTION 7: DO YOU OFFER TRAINING FOR YOUR COST MANAGEMENT STAFF?



➤ **RESULTS AND CONCLUSIONS:**

- 75% of respondents are increasing their focus on training, confirming that there is neither a broad knowledge base nor a wealth of specialist industry-specific qualified cost managers available on the employment market, meaning that staff must be trained in these specific areas.

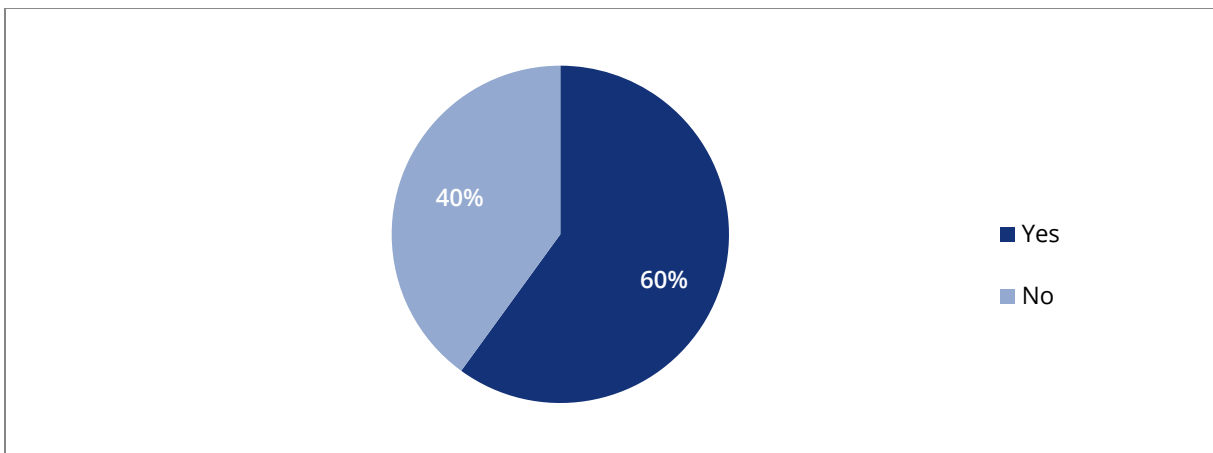
QUESTION 8: DOES YOUR COMPANY OPERATE A STRUCTURED KNOWLEDGE MANAGEMENT PROGRAMME?



➤ **RESULTS AND CONCLUSIONS:**

- Only 13% of respondents have a good or very good knowledge management programme.
- More than two thirds indicate that they need to take action in this area.
- Despite the advance of the digital era, there is still little by way of consistent and structured knowledge management – not even in Automotive.
- 21% of participants did not answer this question.

QUESTION 9: DOES YOUR COMPANY HAVE A STANDARD-ISSUE SET OF TOOLS AND METHODS?



➤ **RESULTS AND CONCLUSIONS:**

- 60% of those surveyed responded that they had a standard-issue set of tools and methods. This is a surprisingly high figure given the extent to which the survey revealed deficiencies with regard to knowledge management – an area to which standard toolkits and methodologies are closely correlated.

CONCLUSION AND TAKE-AWAYS

The aim of our online survey was to image the current situation with regards to cost management in the manufacturing industry; we also wanted to find out to what extent a consistent and integrated value and cost management approach is being applied. From the results, we were able to draw the following conclusions:

1	In OEMs, cost management is viewed as a "service provider for the purchasing department", not as an independent competence centre which allows for integrated solutions across development, purchasing, and finance ("cost as lingua franca").
2	As a general rule, cost management is in need of optimisation: this is due to a lack of acceptance in many companies and a dissonance between the reported and the actual situation of cost management – and intensity with which it is implemented.
3	Cash-flow relevant cost blocks are rarely taken into serious consideration, yet the importance of one-off cost is increasing, particularly with reference to both the reduction in product life-cycles and higher product variance.
4	The automotive industry has as a whole reached peak staff resources in cost management; mechanical engineering has learned the lessons from Automotive and is expanding cost management resources.
5	There is shift in staff resources towards bundling capacity in the early cost optimisation phase.
6	Despite the advent of the digital age and the ease of accessing information, most companies have almost no structure knowledge management programmes.

Outlook and challenges: Industries with long product life cycles, high security requirements and product variance, and low product runs (e.g. Aerospace) are well advised to concentrate on value analysis and value engineering in the early development stages; furthermore, with regard to performance-related pay on all staff levels (right up to company boards), the current KPIs used set conflicting aims. To close with a critical question: how can there be any kind of consistent internationalisation strategy on the basis of what is, to date, a deficient and insufficient implementation of cost management at a country level? Benefit from our expertise in value and cost management: our experienced consultants will be happy to travel with you on your company's journey to a holistic approach. By integrating all company areas, you will be able reach optimal power transmission and unleash the full potential of your organisation. POLARIXPARTNER has a track record of over 500 projects successfully completed in this area.



YOUR EXPERIENCED CONTACT AT POLARIXPARTNER.



Markus Wiederstein – Managing Director & Partner

- More than twelve years' experience as a consultant to the manufacturing industry, mainly in automotive
- Restructuring and efficiency initiatives
- Managing and implementing worldwide cost-reduction initiatives
- Purchasing optimisation and best-cost country sourcing
- Design to cost, benchmarking
- Building up structures and processes for cost and value analysis
- International target costing

MARKUS WIEDERSTEIN

POLARIXPARTNER GmbH
Graf-Siegfried-Str. 32, 54439 Saarburg, Germany
www.polarixpartner.com

Tel. +49 6581 8290-211

Mob. +49 151 52742511

Fax +49 6581 8290 100

E-mail Markus.Wiederstein@polarixpartner.com



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