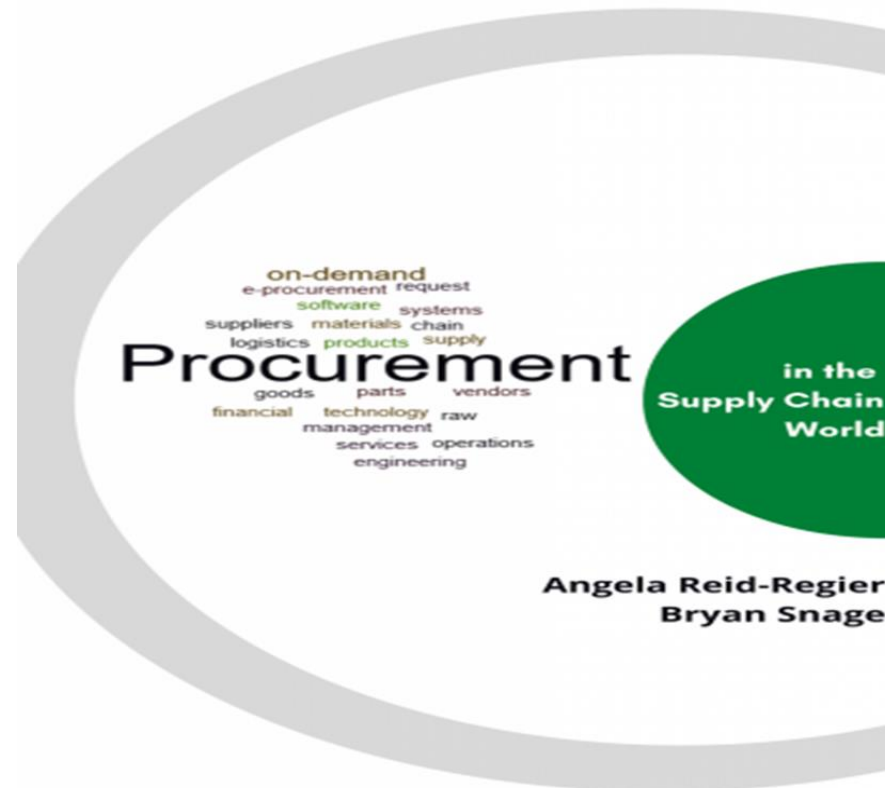


Procurement in a Supply Chain World

Chapter 5: Evaluating Price



Accessibility Statement

- This PowerPoint is compatible with assistive technology
- Images have alternative-tags applied
- Complex images have long descriptions and are available in the notes section of each slide
- We welcome your feedback if you notice an area not addressed, please contact the authors listed here

Learning Objectives

- Apply different methods of price analysis to determine if the price offered by the supplier is fair and reasonable.
- Perform a cost analysis to determine if the price offered by the supplier is fair and reasonable.
- Calculate the Total Cost of Ownership to compare different suppliers' pricing.
- Consider the Learning Curve when evaluating supplier pricing.
- Understand discounts that may be applicable to supplier pricing.

Introduction

A buyer determines if the terms and conditions they propose are fair, reasonable, and competitive by:

- Comparing prices
- Doing a Cost Analysis
- Completing a Total Cost Analysis
- Considering learning curves
- Considering applicable discounts.

Price Analysis

- A method of looking at a price and deciding if the price is fair and reasonable

Methods of Price Analysis

Methods of Price Analysis:

- Competition Analysis
- Analysis of Previous Prices Paid
- Compare Price Sold to Public Sector Contracts
- In-House Estimate
- Market Price Analysis

Cost Analysis

A process of analyzing each individual cost element that makes up the final price that may include:

- Direct and indirect labour
- Direct and indirect materials
- Tooling costs
- Overhead
- Equipment
- Administrative expenses
- profits

Total Cost Ownership (TCO) Analysis

A TCO **analysis** includes the purchase price of items and other costs expected to be incurred during the life of the product.

- This may include:
 - Acquisition costs
 - Use
 - Administration
 - Maintenance
 - Disposal
 - **Other: transportation, quality, inspection, rework, storage, warranty, tooling**

(LINCS in Supply Chain Management Consortium, 2017))

Learning Curve Analysis

Learning Curve is defined by APICS (2011) as “a phenomenon where the labour content of large manufacturing projects, such as aircraft, decline steadily as cumulative production increases. This decline in labour content is predictable and related to a doubling of production. The curve takes the form of an exponential decay curve”

Quotations from suppliers should consider supplier's costs will decrease as volumes increase.

Discounts

In negotiating prices, a buyer should be requesting discounts such as:

- Quantity Discounts
- Cash Discounts
- Trade Discounts

Key Takeaways

Your job as a buyer is to negotiate a fair and reasonable prices for goods and services. You can do this by:

- Comparing prices
- Doing a Cost Analysis
- Completing a Total Cost Analysis
- Considering learning curves
- **Considering** discounts.

References

LINCS in Supply Chain Management Consortium. *Supply management and procurement certification track*. March 2017. Version: v2.26. <https://www.skillscommons.org/bitstream/handle/taaccct/14294/LINCS%20Supply%20Management%20and%20Procurement%20Content.pdf?sequence=1&isAllowed=y>.