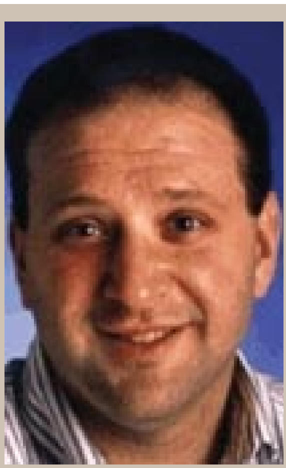
Reducing cost of goods sold by one per cent

On the income statement of most discrete manufacturing firms, cost of goods sold, COGS, is typically in the range of 70-95 per cent of revenue. For many of those same companies, net income is typically in the range of 3-8 per cent of revenue. Looking at a representative company who's COGS is 80 per cent of revenue and whose net income is five per cent of revenue; if you can reduce COGS by one per cent (to 79.2 per cent of revenue), that savings goes directly to the bottom line, increasing net income to 5.8 per cent of revenue thus increasing net income by 16 per cent.



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Most discrete manufacturers believe they can achieve a modest one per cent savings in their COGS. According to Frank Azzolino, President and CEO of aPriori (www.apriori.com), which produces cost management software, "Giving our customers accurate, predictive, real-time product cost estimates along with their understanding of the leveraged effect that reducing COGS has on net income (and the profit opportunity that this represents) is one of our primary value drivers."

Cost information in most organizations is fragmented throughout the enterprise. Critical pieces of cost information are spread across independent silos within an organisation in different functions like engineering, planning, manufacturing, sourcing, and finance. This situation typically results in estimates that do not include all relevant information required to make accurate and predictive product cost assessments.

The cost management platform uses innovative, patent protected technologies, and is capable of using design information driven off of MCAD geometry. Additionally the ability to model production facilities (including machine capabilities, raw materials, and facility cost structure) and the specific cost accounting methodologies, accurate predictive, allow "forward looking" real time cost estimates.

This cost information leverages existing information and data systems in a single cost platform, captures company specific costing practices, and makes this information available across the enterprise and accessible by any user in the organisation.

Calculating ROI on a Cost Management Platform

Hard Savings: Direct cost of goods sold (COGS) savings – by providing real time visibility to predictive cost information, the cost impact of decisions and trade-offs made at any point during the development through production process is always known. COGS reductions are directly quantifiable and measurable.

Soft savings: Cost estimation time savings – cost management platform cost estimates are provided real time, for instant usage in decision making. Long waiting periods for cost estimates are eliminated. Product cost information can be used as a true parameter in making decisions and trade-off's.

- **Faster time to market** – cost targets are achieved and verified earlier in the process. The critical path to product launch is no longer dependent on achieving and then verifying that cost targets have been met.
- **Reduction in cost related rework** – knowing product costs at all times during the development through production and delivery reduces the risk (and surprise) of missed cost targets at product launch. Reducing this risk reduces the need for of cost reduction rework/redesign efforts.

With cost management platform capabilities, predictive, forward looking cost estimates are available throughout the development through production delivery process, which improve accuracy and continually converge on the true economic cost of the product. i2.0

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