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How to collaborate to cut costs

By Ron Nussle Jr. -- 7/13/2006

A recent independent survey found that CEOs have elevated cost reduction from the #3 strategic priority two years ago to the #2 slot today (moving revenue growth down to the #3 position). At stake for midsize companies is what the Aberdeen Group estimates is more than \$134 billion in missed supply savings opportunities.

Executive management understands how to use integrated product development teams to drive revenue growth. It's time to use integrated cost reduction (ICR). Ignore that and you're leaving money on the table.

ICR uses a collaborative approach to cost reduction that includes engineering, supply, design, marketing, and production all working simultaneously with partners/suppliers. It is designed to rapidly and systematically identify cost reduction opportunities in a product.

While use of commodity leveraged negotiations or low-cost-country sourcing can yield short-term savings, they have unintended side effects that appear within 18-24 months and work against both customer and partnering supplier's interests.

The ICR process seamlessly integrates four proven and most widely used productivity tools: Six Sigma in quality; value analysis/value engineering (VA/VE) in design and purchasing; Lean manufacturing in production; and supply chain and e-procurement tools in procurement and logistics.

VA/VE focuses on design changes to lower direct labor and raw materials. Lean manufacturing focuses on conversion costs and the waste of queues and set-up time. Six Sigma focuses on reducing variation and the resulting costs of poor quality in the form of scrap, re-work, and repair wastes. Supply chain re-engineering focuses on the many opportunities to reduce costs in the supply chain itself. Finally, e-procurement tools address the opportunities to achieve cost reductions that improve cost efficiencies in procurement and supply management operations. ICR integrates all of these practices and then relies upon collaboration between functional areas and partners/suppliers to deliver the results.



RON NUSSLE JR. is author of "Integrated Cost Reduction," published by Purchasing.

The single biggest challenge of moving from a single-silo approach to the integrated cost reduction process is being able to develop a discipline to systematically take cost and inefficiencies out of your operations at many levels at the same time. While an integrated/collaborative approach yields superior results, it has the following challenges:

- How do you keep the process on track?
- How do you ensure the cross-functional participants collaborate and stay engaged?
- How do you enable the engagements to be completed in two days or less?
- How do you document and focus all of the brainstorming without limiting creativity?
- How do you eliminate the natural lack of trust and openness between customer and suppliers to sharing internal cost information?

The ICR process systematically uses a rapid seven-phase process and a set of software tools to ensure repeatability and consistent results. These seven phases are discussed in more depth in "Integrated Cost Reduction" (by Ron Nussle and Jim Morgan, Reed Press, 2004), and in a subsequent article in *Purchasing* (November 20, 2003 issue). By following a repeatable, collaborative process, it is possible to generate results across the entire corporation, independent of product or individuals. This is the power of using integrated cost reduction as opposed to the "ad hoc, let 'em each do it their own way" approach to cost reduction objectives.

The ICR process has been employed in six mid-sized corporations. See www.purchasing.com/speakingout to [read case histories](#).



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