

# Procurement Cost Reduction Program

Procurement competitiveness strengthening for business target achievement

## ■ Critical Issues

- In our efforts to reach our business targets, we need a larger procurement cost reduction.

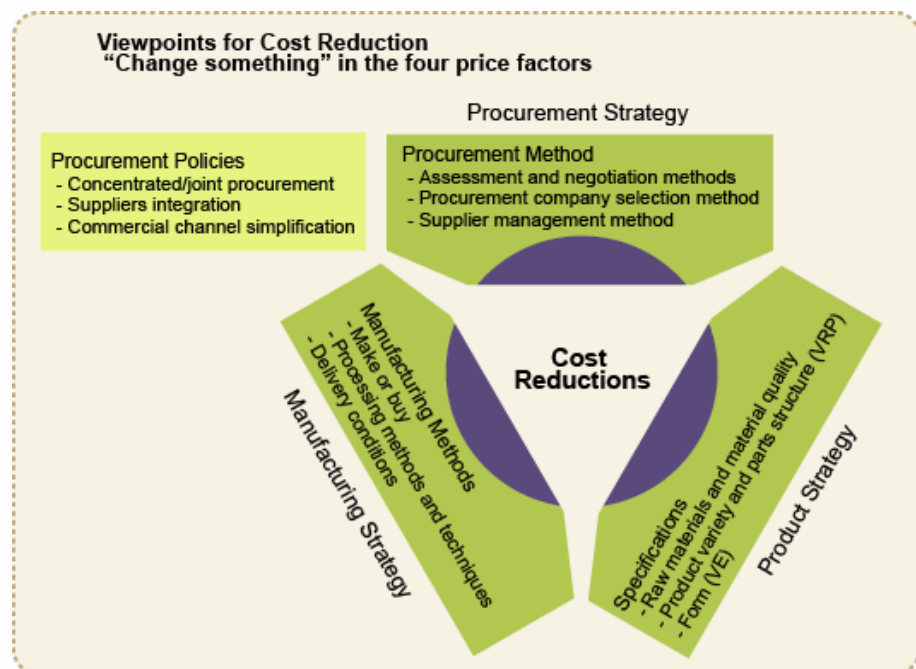
- We want to enhance our procurement competitiveness.

Recently, the role played by the procurement function in the profit strategy is greatly increasing, and we believe that more companies than before are trying to realize large cost reductions in this area. On the other hand, haven't you ever thought that "Our procurement cost reductions aren't going as well as we had thought", or "I feel we may be reaching the limit of cost reductions possible in our regular annual cost reductions"?

In order to realize large cost reductions, it is important to consider the procurement marketplace environment change, and to implement measures that are different from those used previously or those that could not previously be implemented.

## ■ JMAC Concept

The four important factors in price determination are "purchasing methods", "manufacturing methods", "specifications", and "procurement policies", and for cost reduction it is necessary to "change something" for each of the price factors. JMAC has further broken down these four points into details as the "CR50 Viewpoints", and uses this to support the development of appropriate cost reduction measures while considering the company's product characteristics and purchasing characteristics.



# Procurement Cost Reduction Program

Procurement competitiveness strengthening for business target achievement



## JMAC Features

### Features of procurement cost reductions by JMAC

JMAC believes that the following six points are important for large scale procurement cost reductions. Through conducting cost reduction activities, it is possible to enhance the level of each point and to realize a major cost reduction effect.

#### Target development

- The individual procurement target prices necessary to achieve the overall business targets are clarified.
- The progress and the method for the targets are always visually managed.

#### Procurement assessment capability

- The procurement price is assessed according to the details such as the rate, yield, and man-hours.
- Measures are developed for closing the gap between the target price and the estimated price, and logical negotiations are implemented.

#### Procurement information capability

- When conducting cost reductions, new procurement candidate suppliers are constantly searched for, and estimates are requested and assessed.
- When searching for new procurement candidate suppliers, organizations inside and outside the company are fully utilized, and information is collected from the global marketplace.

\* Working closely with customers, JMAC conducts activities to achieve the targets, such as gaining an understanding of the current situation, arranging issues, investigating promotion procedures, establishing and implementing action plans, and confirming the results. (JMAC does not, in principle, directly introduce actual suppliers for procurement purposes.)

## Results

### Results of procurement cost reductions

#### Office and home electric company F

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>- Background: Required to achieve new product targeted cost</li> <li>- Aims: Realize the above requirement together with enhancement of next product development foundation</li> <li>- Organization: Business divisions cross-sectional type project</li> </ul> | <ul style="list-style-type: none"> <li>- New product target cost reduced 20% (Assessment; 12%, VA; 8%)</li> <li>- Reorganization of cost development mechanism</li> </ul> |
|--|---|

#### Automobile parts (functional products) company B (Production bases in Japan, U.S., Europe, South Asia, and various countries in Southeast Asia)

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>- Background: Product cost competitiveness increasing</li> <li>- Aims: Global supply chain strengthening</li> <li>- Organization: Head office purchasing division</li> </ul> | <ul style="list-style-type: none"> <li>- Procurement cost reduction 11% annually</li> <li>- Building of sourcing DB</li> <li>- Building of structural education system and global buyer training</li> </ul> |
|---|---|