

Reducing Total Acquisition Cost (TAC)

Total Acquisition Cost is the sum of all costs associated with the delivery of a product or service to your customer. It normally includes some or all of the following costs:

- Customer order entry & processing
- Suppliers raw material, processing costs and added value activities
- Acquisition of bought in materials and services
- Quality costs
- Assembly or conversion
- Inventory & Waste or yield
- Freight - inbound and outbound
- Administration
- Cost to receive and make ready
- Order / delivery size costs
- Supplier Supply Chain planning

Supply Chain Excellence's TAC tool is designed to allow in depth analysis of costs for either a purchase category or finished product which has been identified for study. It is not intended to replace existing costing systems, as it relies on data from these and other sources. The tool focuses attention on opportunities to reduce cost by highlighting the key cost drivers and sources of waste. Our interactive workshops then develop action plans which deliver both immediate and longer term sustainable cost reductions.

Objective - Identify and eliminate/minimize all non value-added activities in the supply chain for a nominated product group

Emphasis - Total acquisition cost of supply and the value it brings to the end product. It is not intended to:

- replace existing costing systems - it relies on data from these and other sources.
- become a full Value Stream Mapping exercise - it should be simple to implement

Delete - eliminate non added-value activities

Reduce - minimize or eliminate usage

Downgrade - ensure appropriate quality that is 'fit for purpose'

Substitute - identify and introduce alternative products or processes

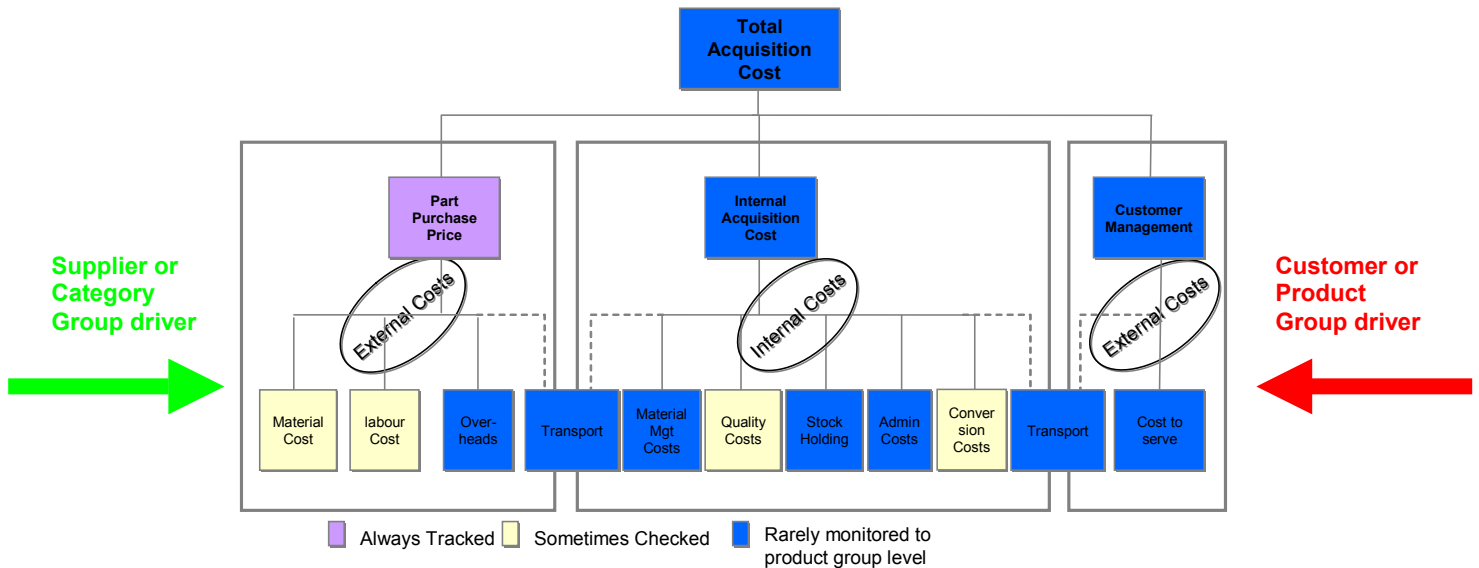
Replace - use something else

Standardize - minimize or eliminate complexity

Integrate - mesh in the processes and activities of production between purchaser and supplier

Supply Chain Excellence TAC Process

TAC relies on establishing templates corresponding to the common acquisition and supply routings utilized within your business and inviting teams to identify cost anomalies at the supplier, product and customer group level.



Benefits from TAC can be defined in two ways:

1. Direct (hard) savings - Reduction in actual costs, e.g.
 - less packaging
 - lower component costs
 - lower production costs
 - lower transport costs
 - shared investment
 - lower inventory
2. Indirect savings - Efficiency improvements, e.g.
 - shorter set up times
 - simpler purchase to pay process
 - reduced stockholding or VMI
 - lower process costs
 - NPD support
 - transfer of tasks

Note: may be possible to accumulate efficiency improvements to derive hard savings.