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***The Toolbox*-Pricing Trends and Cost Savings for 2010**

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Why now? My degree originally is in Economics. Review of past recessions and market behavior, predict what will happen next. Everyone is now dangerously Lean.

Dr. Hoagland spoke on this time and again. 2001—the millennium Y2K aftermath—it took several years to work down the spikes in inventory laid in, anticipating it. Now we're back in the same situation. Low inventories, depressed sales, high unemployment, uncertainty. Everyone is running XTREME Lean, hedging a commitment. ISM's ROB-(Report On Business), is still tracking upwards indicating slow increased growth in manufacturing.

Remember, there is typically a 5-6 month lag between the reporting of new durable goods purchases for new machinery and prototyping for new products. Only then do you see increased hiring to coincide with the new machinery deliveries, and a ramping up of production on new products.

I see a spike in job postings has already started since January. I have been watching that indicator closely, being in my 10th month of unemployment now. That will bring-- later this year, increased demand for non-existent or limited distributor inventories. You main suppliers trimmed their raw materials stocks way back 6 months ago or longer as the economy deteriorated. When the economy picks up further, demand will rise, supplies will be low, lead times will be climbing. They are already hitting 6-8 weeks or more, on many commodities. That is what web alerts and indications are from Purchasing Magazine in their trending. Prices will rise to whatever the market will bear. Basic Economics 101—Voila!! It will be back in full swing--Supply and Demand. You want it bad enough, you will either pay the asking price or you may even have to bid on it.

Even my lawn fertilizer quote for this coming Spring, had a fine print caveat in November 2009 warning—prepay and lock in these prices, which are expected to go up a minimum of 6 percent January 1st, 2010. That taken into account and the fact I am still unemployed, I cancelled the advance sign-up for services. I will either go without a green lawn, or find a way to do the work myself again, on a more limited budget.

Purchasing Magazine's, www.purchasingBIZconnect.com website, gives weekly announcements now of commodity price increases. More were listed on Weds.2-24-10, mentioning specifically ethylene and polyethylene, integral in many chemical compounds and plastic resins—milk cartons, bottles, polybags etc. I predict we will see 12 percent or higher inflation by fall, on many manufacturing commodities. We have a Perfect Storm brewing! The job postings are seeking strong negotiators and cost savers. And, they want you to be watching for supplier stress and financial shakiness. That means new employers are already anticipating a tough year for price stability in raw materials.

If you have no inventory, low sales and have been a slow customer to your major suppliers over the last nine months, you have little or no bargaining position to hold prices moving forward. Beware, these circumstances will test your mettle. You may have to become quite creative, to seek alternative measures to reducing costs internally or procedurally, when price reductions won't be available through normal negotiations. A job interview last week in Detroit, confirmed that. It was a topic of discussion during the interview. No bargaining position with the company's single source suppliers. They did not know what they were going to do.

- Price increases—how is your management going to handle them? Are they already being told by your customers, no price increases will be allowed? Have you discussed your cash flow situation with the CFO/finance. How much are they backing you in negotiations. What are they expecting from you? These are questions you have a right to ask since you are committing company funds as their agent.
- Inventories at your business or factory, are they exceptionally lean right now?
- Lead times—are you seeing them increase by a week more every 4-6 weeks already?
- Think about your strategy to win price concessions or to even hold prices. What are you able to offer your suppliers as a trade off? Have you even given it much thought? You better now, while you can. Combined the two of you might find mutual savings.

Cost Savings, examine if your firm or organization distinguishes between Cost Savings and Cost Avoidance. Savings normally is negotiated, because you were going to have to pay more. Cost avoidance, typically is--you ask and suddenly find, "yes your supplier is able to hold the price" for another month or maybe 3 months. He held off the price increase, maybe through your collaboration. Avoidance is normally initiated by you. Savings can result from negotiation and specification changes or other factors. Recently there was a month and a half discussion on the differing views of savings and cost avoidance on Linked In. Quite fascinating, but boy are there a lot of differing management opinions toward the two definitions. Some organizations flat out refuse to recognize avoidance reporting, they think it is not quantifiable! I would like to hear your feedback on this matter. Maybe you'd like to see some of the points of LinkedIn comments.

Go smarter. . . collaborate more, involve your suppliers sooner and from the very beginning. Find out what they are thinking and fearful of. Ask if they will share how they plan on meeting rising demands over the next six months with high uncertainty. Explore your methods of ordering, consumable packaging, pallets etc that could be collected and returned for re-use, especially if your supplier delivers via their truck. Distributors and local sources can benefit here. No area is unimportant during these discussions.

Take a look at your processes, like RFQs, expediting or acknowledgment processing. Wasted time and duplication cost money and loss of productivity. Now is the time to rid the process of the redundancy. For every hour you free up, there is time to do something else in place of it. Time is money, just ask the big boss! They don't want to see anyone idle these days, nor do they want time frittered away on wasted effort, or extra trips to the store or plumbing shop. We do it ourselves at home on the weekend, start a project then buy the items we need, two or three at a time, over 3 or more trips to the hardware. Maybe it is a guy thing! I've done it! Maintenance people do that on company time. Sometimes they shop, not knowing what they really need.

Look at your local suppliers and frequent trips by engineers and maintenance to pick-up a can of this or a bottle or bundle of that. Often, the individual price may be $.20 to $.30 higher per unit, than if you bought an unopened package or case. The trip may just be a make work exercise costing your firm valuable time and additional cost. Package lot sizing and release quantities consistent with your actual usage over a month can yield significant savings to your bottom line. Order patterns can be very wasteful since distributors and stores don't like open, loose items on the shelf or in a drawer. Drill bits, parts cleaner, paper towels and sandpaper can nickel and dime a company badly. So just be on the alert. And look under every rock and under each bush. Never know what you might flush out. Happy hunting. Come-on Spring! How 'bout a little Sunshine? dt