

Winning the battle but losing the war: The problem with low initial purchase price strategies

You're getting shut out because your bids are too high. Arm yourself with data on the total cost of a mold in your next bid and save your potential customer from making a bad decision.—**David M. Bowers II**

In the last five years, mold manufacturers have seen OEMs place increasing emphasis on low initial purchase price when awarding contracts. In this scenario, purchasing agents solicit an excessive number of bids (say 20) and ultimately contract with an Asian toolmaker offering savings of 30%-40% over domestic bids. The cost savings, so the thinking goes, flow straight to the corporate bottom line.

The problem with this approach, as you may already know, is twofold: First, it doesn't eliminate costs so much as shift them from capital to operating budgets; and second, it eliminates opportunities to engineer more quality and a better return on investment into the mold. OEMs may win in the short term with initial savings, but the resulting self-inflicted wounds of uncertain quality and a lower ROI don't help win the war for increased market share.

As the CEO of a domestic tooling manufacturer, I can't pretend I don't have a dog in this fight, so it's encouraging to report that some of my customers who have taken the low initial purchase price route to Asia are starting to see its futility as a long-term strategy. In the interest of full disclosure, I should add that my company has established partnerships with Asian toolmakers, but this was a considered decision designed to support our single-source approach, executed

with boots-on-the-ground due diligence, and we assume responsibility for quality and delivery.

Low initial purchase price doesn't



Domestic mold manufacturers have obvious advantages over their offshore competition when molds require maintenance or repairs.

eliminate costs so much as it absolves the mold manufacturer of responsibility for a number of essential tasks. Mold manufacturers offering a low initial purchase price have to curtail mold optimization. They probably can't add the cooling channels needed for faster cycle times. Finally, they have to assume that the buyer is comfortable with a mold engineered for a shorter life span, one that takes a forgiving attitude toward dimensional and flash tolerances and will

require higher maintenance costs. Just think how pleased the buyer's maintenance department must be to learn that they'll be funding incremental mold services out of their MRO budget!

And let's not forget that Asian toolmakers start with a cost handicap, having to budget for shipping, air freight if there's a problem with ECOs or reworks, import duties, and taxes. There's also the line item for consulting or brokerage fees. Low-bid toolmakers have to protect their profit and the only way to do so is by tossing things overboard—things like tool-grade steel and QA. To top it all off, you have little or no recourse in the event of poor quality and performance, or worse, issues like intellectual property theft.

Inject a comprehensive understanding of costs with TCO

Rather than allowing purchasing departments to take a silo-based view, focusing on short-term cost savings without considering the long-term effects on other departments and their operating budgets, the enterprising domestic supplier should sit down with the customer to define the mold's total cost of ownership (TCO), whether it's sourced from a domestic or an Asian supplier. This is the quickest way to expose the weaknesses of the low initial purchase price strategy.

Going with the low bid fails to ask the critical question, "What is the true cost of the mold?" Tier One vendors would be better served to calculate the projected TCO, a process that helps select the best mold manufacturer. TCO calculates everything from beginning to end—design and development, the time required to move from mold prototype to production tool quantities, shipping, the back and forth of design matura- •



Want to know how to get that business back? Search for "onshore vs. offshore molds" at plasticstoday.com/imm.

tion and optimization, operation, and finally, maintenance, repair, and overhaul.

TCO is a well-established metric for asset-intensive industries because it supports planning and acquisition for assets that are depreciated over several years, such as IT, test equipment, rotating assets, manufacturing technologies, and vehicle fleets. A TCO analysis of mold bids offers a more detailed understanding of the vendor relationship, and fully defines attendant responsibilities and costs over three to five years. Most importantly, it offers an opportunity for domestic tool manufacturers to compete with Asian toolmakers.

The American Mold Builders Assn. (Rolling Meadows, IL) has published a brochure called “Know the True Cost of Your Molds,” which features a worksheet for calculating actual mold costs (additional disclosure: I’m a member of AMBA and support its mission). The worksheet, which is available at the organization’s website, lists domestic and offshore costs side by side. When you complete this worksheet, it’s interesting to note how much of the import bid’s bottom line is determined by nonvalue-added costs—incremental charges for travel, shipping, import duties, brokerage or consultant fees, ECOs and reworks, and mold maintenance. These higher costs use dollars that engineers might otherwise spend onsite, reviewing



JMMS offers maintenance and repairs on legacy tooling. This 20-year-old mold for a returnable packaging manufacturer will undergo complete refurbishment.

tryout data and optimizing the mold to lower cycle times and improve quality. Together, they constitute what I think of as a “nonvalue-added tax,” costs that do nothing to improve mold quality and place additional responsibility and cost pressure on the mold buyer.

If your prospect is still skeptical, you may also want to provide references—one or two OEM vendors who’ve been burned by a failure to examine TCO projections. You may even know OEM vendors who have dealt with what I think of as the “nightmare scenario,” in which an offshore moldmaker takes the drawings, cashes the deposit check, and then demonstrates how hard it is to pursue charges of IP theft in a foreign jurisdiction. OEMs that go with the low initial purchase price often learn the hard way that their TCO increases in unplanned and unwelcome ways. Chances are they’ve had to assume responsibility for whatever problems cropped up in the mold’s development, all the way to installation and for the next three to five years of operation.

The benefits of single sourcing

TCO analysis presents an opportunity for domestic tooling manufacturers. To capitalize, they should look for ways to assume responsibility and add value; winning single-source status improves the opportunity to make a fair profit while providing Tier One vendors with the quality, delivery, and pricing that they need.

Asian toolmakers aren’t going away,



A two-cavity injection mold ready to ship to a Tier One automotive vendor. The mold has completed two rounds of tryout and is ready for texture implementation.

but forward-thinking American tooling manufacturers can partner with the best of them (hint: they’re the ones who compete on the basis of value instead of price). Adding Asian toolmaking capabilities supports competitive baseline pricing, while allowing the domestic manufacturer to add value in the design, engineering, and service phases of the mold’s life span. It also means the OEM

can hold the domestic tooling manufacturer accountable.

Single sourcing encourages a deeper understanding of the customer’s business, offers more opportunities to add value and control quality, and strengthens the relationship. Our company has business relationships stretching back decades. Toolmakers who win with low initial purchase price usually can’t make the same claim. Experienced purchasing agents and design engineers can agree: Selecting new vendors takes staff time that could be used for something else.

Once a Tier One supplier finds a mold manufacturer who understands that molds are a strategic investment in quality, the two can focus on working together to support continuous improvement. The key word here is “strategic.” Short-term savings are worthless when they don’t support the OEM’s strategic quality objectives. Domestic mold manufacturers that offer a true strategic partnership are better positioned to support these objectives. ■

David M. Bowers II (david.bowers2@jmmoldsouth.com) is CEO of JMMS Inc. (Easley, SC; www.jmmoldsouth.com), a tooling company that makes molds and dies for a wide range of industries, including the automotive, appliances, lawn and garden, power generation, and returnable packaging markets.



● Contact information
 American Mold Builders Assn. |
 www.amba.org