



Procurement-One Network
Corporate Cost-Reduction Services
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Procurement-One Network

Corporate Cost-Reduction Solutions for Small to Midsize Companies

Cost-Reduction Tip #13: Cost-Reductions Through Use of Cost-Indexes



Greetings!

Cost-Reductions through the use of Cost-Indexes

Cost Indexes: Cost indexes are powerful tools for reducing or controlling costs for both new purchases or contract renewals. Cost indexes show the rise and fall of prices, whether goods, commodities, services, labor, or utilities. When you negotiate "well" your spend categories, a 20% (or more) savings is typically available.

The most commonly used cost indexes are the Producers Price Index ([PPI](#)), Consumer Price Index ([CPI](#)), Employment Cost Index ([ECI](#)) and [OES](#) data, all which are free through the US BLS.

Additionally, the Risk Management Association ([RMA](#)) is a private company that provides corporate income ratio benchmarks (by industry type and revenue size) for a fee, which can be very useful in comparing the profit and gross margins of suppliers that you are evaluating and negotiating.

PPI Index:

The Producer Price Index (PPI) measures the average change over time in the selling prices received by domestic producers for their output. The PPI can both measure how end-prices or input-prices may have decreased over recent history to provide a basis for a price reduction on a current purchase.

Additionally, it me be used to control any future increase to actual market conditions.

Sample: (Commercial and Industrial Electric Power as cost input to Mfg)
Index Example 111.4/118.3 = 0.942 (or a 5.8% decrease)

[1982=100 unless otherwise indicated]

Commodity	Commodity code	Other index base	Index		
			Oct. 2019 ¹	Jan. 2020 ¹	Feb. 2020 ¹
Residential electric power, Mountain.....	0541-21018	12/07	118.3	110.9	111.4
Residential electric power, Pacific.....	0541-21019	12/07	165.4	168.8	169.8
Commercial electric power.....	0542		194.9	193.9	194.2
Commercial electric power.....	0542-21	12/90	170.6	169.7	170.0
Commercial electric power.....	0542-2101	12/90	170.6	169.7	170.0
Commercial electric power, New England.....	0542-21011	12/07	150.3	151.6	151.6
Commercial electric power, Middle Atlantic.....	0542-21012	12/07	100.2	103.9	105.2
Commercial electric power, East North Central.....	0542-21013	12/07	126.0	126.4	125.9
Commercial electric power, West North Central.....	0542-21014	12/07	133.5	131.3	129.9
Commercial electric power, South Atlantic.....	0542-21015	12/07	108.0	106.2	106.3
Commercial electric power, East South Central.....	0542-21016	12/07	127.2	128.6	128.0
Commercial electric power, West South Central.....	0542-21017	12/07	110.7	104.8	105.1
Commercial electric power, Mountain.....	0542-21018	12/07	122.3	113.6	113.4
Commercial electric power, Pacific.....	0542-21019	12/07	133.4	135.8	136.4

CPI Index:

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

It is useful as a gauge to show general inflation, and is available to view USA wide or by a specific US region.

The CPI can both measure how consumer prices and inflation may have decreased over recent history to provide a basis for a price reduction, but typically is used to control future pricing.

Sample:
Index Example: Change from Feb'19 to Feb'20 = +2.3%

Table 4. Consumer Price Index for All Urban Consumers (CPI-U): Selected areas, all items index, February 2020
 [1982-84=100, unless otherwise noted]

Area	Pricing Schedule(1)	Percent change to Feb. 2020 from:			Percent change to Jan. 2020 from:		
		Feb. 2019	Dec. 2019	Jan. 2020	Jan. 2019	Nov. 2019	Dec. 2019
U.S. city average	M	2.3	0.7	0.3	2.5	0.3	0.4
Region and area size(2)							
Northeast	M	2.4	1.0	0.3	2.3	0.6	0.7
Northeast - Size Class A	M	2.5	1.0	0.3	2.6	0.7	0.7
Northeast - Size Class B/C(3)	M	2.2	1.0	0.3	2.0	0.5	0.7
New England(4)	M	2.5	0.9	0.2	2.2	0.6	0.7
Middle Atlantic(4)	M	2.3	1.0	0.3	2.4	0.6	0.7
Midwest	M	2.1	0.7	0.3	2.5	0.4	0.4
Midwest - Size Class A	M	2.3	0.7	0.2	2.7	0.5	0.5
Midwest - Size Class B/C(3)	M	2.0	0.7	0.4	2.4	0.3	0.3
East North Central(4)	M	2.0	0.6	0.1	2.6	0.5	0.5

ECI Index:

The Employment Cost Index (ECI) is a quarterly economic series detailing the changes in the costs of labor for businesses in the United States economy. It is published by the BLS's "Employment Cost Trends" division.

It is useful as a gauge to show labor cost increase or decrease by quarter and labor type (**by % change**).

The ECI can show how labor costs may have decreased over recent history to provide a basis for a price reduction, but typically is used to control future pricing.

Sample: Index Example $113.6/111.5 = 1.019$ (or a 1.9% increase)

Table 9. Employment Cost Index for wages and salaries, for pr industry — Continued

(Not seasonally adjusted)

Occupational group and industry	Indexes (Dec. 2005 = 100)			
	Mar.	June	Sep.	Dec.
Manufacturing				
2011	111.5	112.0	112.5	112.7
2012	113.6	114.0	114.6	114.8
2013	115.7	116.4	116.9	117.2
2014	118.0	118.9	119.4	119.8
2015	120.8	121.8	122.3	123.0
2016	124.0	124.9	125.7	126.2
2017	127.1	127.9	128.7	129.3
2018	130.4	131.3	132.0	132.9
2019	134.2	135.2	136.1	137.1

OES Index

The Occupational Employment Statistics (OES) produces employment and wage estimates annually for nearly 800 occupations. These estimates are available for the nation as a whole, for individual states, and for metropolitan areas.

It is useful as a gauge to show current labor wages by labor type(**by \$**).

The OES can show how labor costs may have decreased over recent history to provide a basis for a price reduction, but typically is used to control future pricing.

Index Sample: Actual Idaho annual wage for Sales Managers (May'19) = \$105,080

May 2019 State Occupational Employment and Wage Estimates Idaho

Display All records Filter Table by Text: Text search table:

Occupation code	Occupation title (click on the occupation title to view its profile)	Level	Employment	Employment RSE	Employment per 1,000 jobs	Location quotient	Median hourly wage	Mean hourly wage	Annual mean wage	Mean wage RSE
00-0000	All Occupations	total	727,160	0.7%	1000.000	1.00	\$17.00	\$21.58	\$44,890	1.1%
11-0000	Management Occupations	major	41,680	1.5%	57.312	1.05	\$35.33	\$41.03	\$85,350	1.2%
11-1021	General and Operations Managers	detail	14,600	2.2%	20.079	1.23	\$32.01	\$38.98	\$81,080	1.3%
11-1031	Legislators	detail	360	12.4%	0.489	1.37	(4)	(4)	\$25,160	6.7%
11-2011	Advertising and Promotions Managers	detail	110	17.6%	0.149	0.87	\$33.40	\$33.53	\$69,740	2.1%
11-2021	Marketing Managers	detail	990	11.1%	1.365	0.76	\$50.19	\$56.20	\$116,900	4.6%
11-2022	Sales Managers	detail	1,470	6.5%	2.019	0.74	\$41.75	\$50.52	\$105,080	3.0%
11-2030	Public Relations and Fundraising Managers	broad	270	7.0%	0.377	0.70	\$37.67	\$42.59	\$88,580	3.3%
11-3010	Administrative Services and Facilities Managers	broad	830	5.9%	1.139	0.54	\$36.17	\$37.55	\$78,100	3.0%
11-3021	Computer and Information Systems Managers	detail	1,440	5.1%	1.983	0.67	\$49.05	\$51.64	\$107,410	2.2%
11-3031	Financial Managers	detail	2,970	3.8%	4.085	0.92	\$39.41	\$46.28	\$96,260	1.8%
11-3051	Industrial Production Managers	detail	660	4.9%	0.902	0.71	\$45.41	\$48.69	\$101,280	2.3%
11-3061	Purchasing Managers	detail	270	5.8%	0.372	0.76	\$43.24	\$47.89	\$99,610	4.3%
	Transportation, Storage, and									

RMA Ratio Sample:

Risk Management Association ([RMA](#)) Annual Statement Studies is a comparative industry benchmark report that comes directly from the financial statements of small and medium-size business clients of RMA's member institutions.

Income ratio's can be helpful to confirm your candidate supplier(s) profit ratios are inline with industry averages and potentially provide a negotiation basis. One must thoroughly understand RMA's data before use.

Theoretical Example: A specific industry's average "Operating Profit" is 15%, but your candidate supplier "Operating Profit" is 35%. This creates an opportunity to review for potential cost-reduction.

INCOME DATA		
Net Sales	100.0	100.0
Gross Profit		
Operating Expenses	84.9	85.4
Operating Profit	15.1	14.6
All Other Expenses (net)	4.3	4.1
Profit Before Taxes	10.9	10.4

***"When you manage a spend category 'well'
a 20% (or more) savings results"***

******Webinar Coming Soon******

Corporate Cost-Reduction Tools for Execs Bootcamp

Procurement-One offers our Clients the following corporate cost-reduction solutions:

1. WEBINARS & BOOTCAMPS: Cost-reduction Bootcamps (online or onsite).
2. SUBSCRIPTION ACCESS: Affordable Monthly Advice Access programs.
3. PERFORMANCE-BASED INITIATIVES (no out-of-pocket fees).

We are pleased to provide you our free **Self-Assessment Savings Opportunity** worksheet. **Free Download:** [Self-Savings Estimator Worksheet](#).

Please feel free to contact us at:

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