

Improving Accuracy of TCO Estimates for New SKUs

More-Accurate Forecasting for Consumer Products Customers

The Challenge

Consumer products manufacturers are among the most cost-conscious economic actors, and a high percentage of costs of goods sold is supplier related. With consumers demanding ever-more differentiated and customized products, new SKUs are essential to growth and profit margins. Yet, new SKUs represent a risk, as it is difficult to forecast total cost of ownership (TCO) using standard techniques.

At every stage of operations, forecasting, sales, and manufacturing, suppliers factor in their own margins of error based on their insights and histories. Thus, the TCO

model is based on a series of cumulative estimates and forecasts. Additionally, suppliers build security margins into their pricing due to the time lag between planning and execution. This all results in inflated or skewed TCO estimates.

In the end, potentially viable launches may be abandoned for marginal cost differentials, low margins generated on new SKUs, or costly postlaunch reduction initiatives performed. Hence, deriving a TCO figure that is as accurate as possible is critical to the sustainable success of a new SKU.



Deriving a TCO figure that is as accurate as possible is critical to the sustainable success of a new SKU.



The Opportunity

The SAP® Ariba® Sourcing solution enables comprehensive and accurate assessment of the TCO for new SKUs by allowing identification of alternative sources of supply, quality assurance (QA), capacity, logistics, packaging, and timing – including finding the supplier’s “sweet spot,” the additional quantities the supplier will produce at marginal costs because fixed costs have been amortized.

The e-auction tool can significantly speed up the sourcing process, allowing users to run different scenarios as required volume and specifications change throughout the course of the project. Economies of scale and distribution models can be shared and evaluated with suppliers, allowing buyers to lock in prices, terms, and conditions at the project stage.

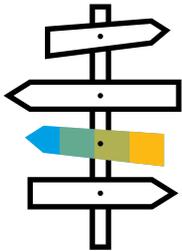
E-auction also allows manufacturers to test alternative scenarios for different SKU options, including raw

materials, perfumes, packaging, labeling, logistics, disposal, and QA, with a variety of suppliers at the project stage. The optimization of these elements can reduce capital expenditure.

SAP Ariba Sourcing delivers accurate and committable TCO estimates at the project stage for different alternatives and variables of the new SKU in a competitive and interactive environment. It also lowers the TCO estimate risk that comes with a new SKU by reducing uncertainty through collaborative, real-time information exchange.

Let’s Work Together

To learn more about how you can use SAP Ariba solutions to address the challenge of producing accurate TCO estimates for new SKUs, along with other consumer products challenges, please [contact us](#) or visit our [strategic sourcing](#) solution page.



The e-auction tool can significantly speed up the sourcing process, allowing users to run different scenarios as required volume and specifications change throughout the course of the project.

