

IHS ECONOMICS AND COUNTRY RISK

# IHS Pricing and Purchasing Service

Timely insight for effective buying negotiations  
and strategic material purchases



## Enabling smarter purchasing decisions and supply chain cost savings

The IHS Pricing & Purchasing Service enables supply chain cost savings by providing timely, accurate cost and price analysis. Armed with a better understanding of suppliers' cost structures and market dynamics, organizations can effectively negotiate prices, strategically time buys, and boost the bottom line.

With a database of more than 80,000 historic prices and thousands of price, wage and input cost forecasts, IHS offers more coverage than any other provider in the market. IHS has been providing forecasts of key commodity, labor, and input costs since 1970 -- helping define the purchasing advice industry.

### Comprehensive Data and Analysis to Cover All Your Spend Categories

- Wages and benefits
- Industry machinery and equipment
- Building materials
- Electricity and gas
- Transportation and logistics
- Electronic components
- Nonferrous metals
- Ferrous metals
- Petroleum products
- Paper and packaging
- Steel
- Chemicals and plastics

### Detailed 10-year forecasts and analysis of prices, costs, demand, productivity, and margins enable clients to:

#### Time Buys

- Identify the best time to purchase raw materials, locking in favorable prices today, to avoid price increases later.

#### Benchmark Costs

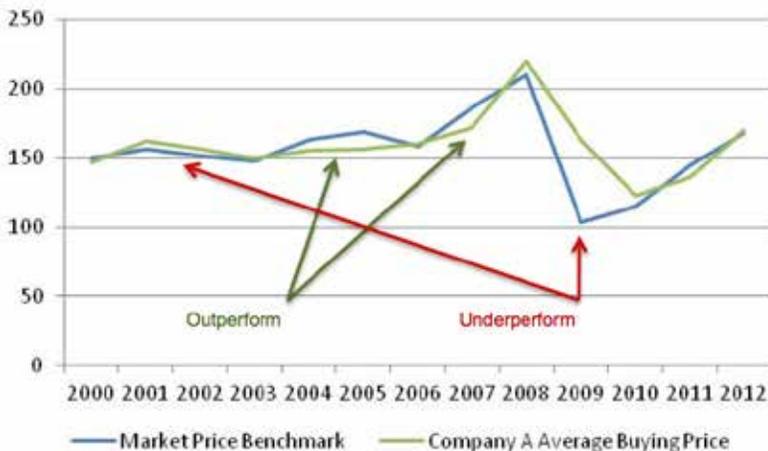
- Evaluate costs, market conditions, regional price differences in order to take advantage of tactical market opportunities.

#### Estimate Costs

- Gain valuable market intelligence to quantify key inputs, examine critical supply issues, and more effectively estimate a project's final cost.

#### Evaluate Pricing

- Negotiate forward pricing contracts for improved cost planning, analysis, and savings over the life of a contract.



IHS brings clarity to difficult markets by measuring prices and escalation rates industry-wide, so you can see where you fit in.

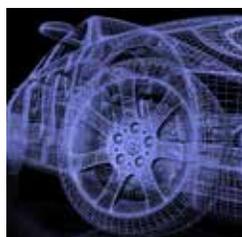
## Our clients have reaped cost savings from applying insight from the IHS Pricing & Purchasing service to their business processes



"I buy aluminum for my manufacturing operations. The Commodity Price Watch provides monthly analysis on price changes and the fundamentals driving key costs to help me get the best deal on the items I buy."



"I am a defense contractor looking for price indices to be used in escalator clauses. I use the Cost Planner to evaluate ten-year annual forecasts for prices and wages, so I can choose the best index."



"I work in auto manufacturing and lock into contracts for steel and fabricated metal buys. I use the written analysis from the Supply Manager so I know whether or not to accept price increases, or to hold out for a better offer."



"Some of mining and energy companies' biggest costs are labor, metals, chemicals, and fuel costs. The IHS Capital Cost Planner provides detailed information on market drivers, material prices and wage rates."

## Proven Cost Modeling Framework Based on Input Cost Breakdowns

### Sample stainless steel forecast

Key Input CostsShare	Historical and Forecast Data											
		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>LABOR</b>	<b>51.8%</b>											
Average Hourly Earnings, Fabricated Metal Products (US\$/hour)	23.2%	16.17	16.53	17.00	17.49	17.94	18.13	18.25	18.62	19.07	19.53	20.04
% Change		2.3	2.2	2.8	2.9	2.6	1.1	0.7	2.0	2.4	2.4	2.6
<b>DIRECT MATERIALS</b>	<b>48.2%</b>											
Merchant Bar Carbon Steel, Spot Price (US\$/Short Ton)	4.9%	572	650	920	772	791	885	848	725	775	802	782
% Change		12.3	13.7	41.5	-16.1	2.5	11.8	-4.1	-14.5	7.0	3.4	-2.4
Structural Shapes Carbon Steel, Spot Price (US\$/Short Ton)	4.4%	658	761	1,004	745	752	860	778	668	744	768	749
% Change		19.9	15.5	32.0	-25.8	1.0	14.4	-9.5	-14.2	11.4	3.3	-2.5
Price, Bolts Nuts Rivets and Washers (2003=100.0)	3.9%	119.3	126.0	133.5	132.0	131.8	134.9	136.7	136.1	136.4	138.1	141.5
% Change		3.8	5.6	6.0	-1.2	-0.1	2.4	1.3	-0.4	0.2	1.3	2.4
Price, Fabricated Metal Products (2003=100.0)	9.1%	117.1	122.1	131.2	131.8	132.8	137.5	139.6	141.0	142.9	146.0	148.6
% Change		4.1	4.3	7.4	0.5	0.8	3.5	1.5	1.0	1.3	2.2	1.7
Price, Iron Foundries (2003=100.0)	11.8%	121.1	126.0	146.1	140.9	148.6	158.9	165.4	165.0	165.4	168.8	172.4
% Change		4.5	4.0	16.0	-3.5	5.4	6.9	4.1	-0.2	0.2	2.0	2.2
Price, Steel Foundries Except Investment (2003=100.0)	4.0%	124.0	133.6	140.6	139.2	144.1	149.2	155.0	157.3	160.8	162.8	163.3
% Change		6.5	7.8	5.3	-1.0	3.5	3.5	3.9	1.5	2.2	1.2	0.3
Price, Copper Foundries Except Die Castings (2003=100.0)	5.2%	159.4	178.5	189.2	177.9	204.5	224.7	217.8	220.3	215.6	206.2	210.7
% Change		33.0	12.0	6.0	-6.0	15.0	9.9	-3.1	1.2	-2.1	-4.4	2.2
Price, Supplies for Manufacturing Industries (2003=100.0)	4.9%	110.0	111.2	116.4	114.7	117.5	123.2	124.9	125.5	127.0	129.0	130.8
% Change		3.4	1.1	4.7	-1.5	2.4	4.9	1.3	0.5	1.3	1.6	1.4
<b>INDIRECT COSTS</b>	<b>28.6%</b>											
Compensation, Private, Management, Business, Financial (2003=100.0)	15.7%	108.4	111.7	115.4	116.3	118.5	121.3	123.8	126.6	129.8	133.7	137.8
% Change		2.7	3.1	3.3	0.8	1.9	2.4	2.1	2.2	2.6	3.0	3.1
Compensation, Private, Professional, Scientific, Technical (2003=100.0)	12.9%	110.2	115.2	120.2	122.2	124.2	127.4	129.6	132.7	136.6	140.9	145.6
% Change		3.4	4.6	4.3	1.7	1.6	2.6	1.8	2.4	2.9	3.1	3.3

# Hands-on Web-based data wizards allow clients to analyze a single buy or evaluate the performance of an entire supply chain

## Powerful Tools for Category Managers, Buyers and Cost Estimators

The IHS Cost Analyzer: provides access to thousands of global prices and wages. Allows users to construct and save composite reports that track product and input cost escalation

Key features include:

- Quarterly forecasts for detailed spot market prices, producer and consumer price indexes, and industry and occupational wages
- Ability to easily create custom workbooks, including composite forecasts
- Two separate modules deliver forecasts based on functional application

## Cost Analyzer Modules

The Cost Analyzer gives you two separate modules that deliver our forecasts in unique ways, based on your functional application:

The [Cost Analyzer](#) platform allows clients to perform customized cost analysis with access to over 3,000 global prices and wages. Clients can construct and save composite reports that track product and input cost escalation. These reports are automatically updated with each new forecast.

The [Purchasing Analyzer](#) module is designed to help improve supplier negotiations. This tool allows users to compare prices to input costs and analyze productivity trends and demand conditions, providing the total market perspective for over 250 sectors. Most importantly, the Purchasing Analyzer delivers the commodities' underlying cost structure, along with price movements of their key input costs, to help clients better understand suppliers' cost structures.

The screenshot shows the 'Cost Analyzer: Select Series' window. It includes a 'Select Series' section with a 'Commodity group keyword' field and a 'Mnemonic search' field. Below this, there are two tabs: 'By Industry' and 'By Geography'. The 'By Geography' tab is active, showing a tree view of countries and their respective commodity series. A table at the bottom displays the selected series data for various steel and iron products in China, with columns for quarters from 2011 Q1 to 2012 Q3.

Short Label	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3
China, Spot Price, Discrete Steel Plate, Units: US\$/Metric Tonne	760.902	762.535	750.077	684.106	660.000	750.091	775.995
Percent Change Year Ago	29.545	10.204	17.062	-0.789	-13.291	-1.632	-3.455
China, Spot Price, Heavy Melt Steel Scrap, Units: US\$/Metric Tonne	552.066	578.022	591.144	565.020	540.000	540.478	563.972
Percent Change Year Ago	31.916	25.593	35.679	22.223	-2.186	-6.495	-4.596
China, Spot Price, Hot-Dipped Galvanized Steel, Units: US\$/Metric Tonne	871.072	890.746	892.647	794.990	751.000	844.756	855.802
Percent Change Year Ago	16.085	12.255	19.292	-1.388	-13.784	-5.163	-4.128
China, Spot Price, Iron Ore, Import Price to China, Units: US\$/Metric Tonne	178.733	175.767	175.900	141.000	138.000	151.794	165.074
Percent Change Year Ago	36.195	10.015	27.927	-11.395	-22.790	-13.639	-6.155
China, Hourly Wages, Manufacturing, Units: Chinese Yuan/hr	13.458	13.902	14.350	14.804	15.234	15.710	16.203
Percent Change Year Ago	13.493	14.168	14.484	14.468	13.197	13.011	12.913

The IHS Cost Analyzer provides access to thousands of global prices and wages. Allows users to construct and save composite reports that track product and input cost escalation.

## CASE STUDIES - TIMING WHEN TO BUY

### Building Materials Manufacturer Saves 10-15% on Aluminum

#### Client Need:

A European building materials manufacturer wanted to secure an optimal aluminum contract price.

#### IHS Solution:

IHS expert, John Mothersole, accurately predicted a significant unwinding of aluminum prices. The client, armed with that forecast, floated aluminum purchases on the spot market for a few months before locking in a contract price at a 10-15% lower rate.

#### The Result:

A building materials manufacturer in Europe saved 10-15% on aluminum purchases.

### Major Oil & Gas Company Saves \$10 Million on Steel Buy

#### Client Need:

A major oil and gas company was concerned about the rapid rise in steel prices and was considering locking prices for the following year after a 100% run-up. Their supplier implied more hikes were to come.

#### IHS Solution:

IHS provided client with insight and analysis not to panic and advised against purchasing steel now or forward. Given the market fundamentals, we expected prices to spike temporarily and drop back down to the previous levels over the next couple of months.

#### The Result:

The clients accordingly waited to purchase and saved over \$10 million on the purchase due to IHS recommendations.

### Leading Shipping Company Saves \$1 Million in on Polyethylene Buy

#### Client Need:

This case study comes from a leading shipping company and involved a major buy decision for polyethylene (PE). The client wanted a consultation regarding the latest trends in PE availability and pricing. He was trying to estimate the cost of PE for several potential projects that would require buying 10,000,000 pounds of PE. More importantly, the client wanted to time his purchases to take advantage of the lowest pricing point projected for the next 12 months.

#### IHS Solution:

After discussing the issue with the client, an IHS petrochemical analyst, advised him to make the entire purchase right away in order to lock in current market prices. Price anticipated that PE prices would surge virtually non-stop based on strengthening demand, tight supply and soaring energy input costs. The client followed his advice. PE prices skyrocketed and the client saved his organization nearly \$1 million.

#### The Result:

The client saved \$1 million on their polyethylene buy.





## CASE STUDIES - COST INSIGHT

### Manufacturer Saves \$2.2 million on Contract Negotiation

#### Client Need:

A recreational boat and water sport equipment manufacturer was paying too much for engines from automobile manufacturers. He needed these engines to power inboard and outboard motors.

#### IHS Solution:

IHS data showed that the price of motors, as measured by PPI3714201NS, had been declining fairly continuously. Further, IHS analysts forecasted the decline to continue for the next several years. The client confronted its supplier with this information, along with the IHS forecast of flat or declining prices for engine components, to document a lack of underlying cost pressure. The bottom line: the client won a break in contract price for engines, resulting in a \$2.2-million savings.

#### The Result:

The client saved \$2.2 million on one equipment contract negotiation.

### Global Electronics Company Saves \$60 Million

#### Client Need:

As part of a company-wide cost-containment initiative, a global electronics company asked IHS to assist its purchasing department in developing a formal cost-benchmarking model. The project involved assembling a model that tracked and forecasted material cost inflation by commodity, equipment component, or service.

#### IHS Solution:

In the first stage of the project, IHS and the company's purchasing department analyzed the company's material purchases. Over 300 separate "buys" were identified for which procurement data was maintained internally. Each buy was assigned an escalation measure – either an actual market price or a price or cost index. The second stage of the project involved developing forecasting models for each assigned price measure.

The final model yielded escalation measures-both historical and forecast-against which the company's own data was compared. This exercise provided an objective third-party benchmark of the purchasing department's performance in managing cost inflation.

After an initial period of evaluation, the model is now used as a strategic tool to establish performance targets for the company's purchasing managers.

The net result is that, as part of a broader Best Cost Producer strategy, the benchmarking model has helped them achieve substantial cost savings in materials procurement. The client estimated \$60 million in cost savings!

#### The Result:

The client saved \$60 million using the service for cost benchmarking!

### Chemical Company Maximizes Procurement Cost Savings

#### Client Need:

A chemical company was looking to unlock cost savings in their supply chain.

#### What IHS Did:

IHS provided the tools and data for the company to build a composite index of their spend. Armed with this information, the user went to the market asking for a reset on price.

#### The Result:

The user saved \$8 million, approximately 10% of spend for the category.

## CASE STUDY - CUSTOM AUDIT

### The US Department of Defense Saves \$520.6 million

#### Client Need:

IHS has a long history supporting the aerospace and defense industry. Price forecasts are employed in long-term contracting between the US government and private parties via economic price adjustment (EPA) clauses. These projected costs are adjusted every year based on the actual data reported by the US Bureau of Labor Statistics (BLS). One series that heavily relied upon by the US government and aircraft manufacturers is the employment cost index (ECI) for total compensation in aircraft manufacturing. This series is utilized in countless contracts, and volatility in the series wreaked havoc on EPA calculations.

Their supplier made pension contributions of \$8 billion between 2002 and 2005 and reported these to the BLS. The pension cost their supplier incurred during the time under CAS accounting standards was only \$1.1 billion, however. Therefore, \$6.9 billion of the pension funding reported was a pre-payment credit, and not a change to compensation of employees. The BLS, however, counted the \$8 billion in contributions in their estimations of the cost to employers of having employees, rather than the \$1.1 billion. Therefore, the ECI for "Compensation, Aircraft Manufacturing" registered wild spikes. These spikes were not, in fact, a reflection of changes in compensation for workers, but changes in the funding of pension trusts. Therefore, the ECI was not reflective of compensation at this time. Because the series was utilized in so many contracts, the US government found itself beholden to major payouts based on the change-in many cases, to the supplier itself.

#### IHS Solution:

With the assistance of IHS, the US Department of Defense Inspector General's (DoD IG) office was able to estimate what the true changes to compensation were excluding the pre-payment pension credits reported by their supplier. IHS provided new projections of compensation changes going forward based on these estimations. The DoD IG's office then recalculated contract adjustments with their supplier for the Air Force C-17, the Navy F/A 18 E/F, and the Army Apache Longbow using the estimated series. As a result, the US government avoided significant costs that would have been incurred based on the ECI as reported by BLS. In the wake of the adjustment, the DoD IG's office offered their sincere thanks to IHS, saying, "[b]ecause of your support, we were able to calculate price adjustments on the multiyear contracts that were significantly less than those based on the improperly inflated aircraft manufacturing index and we were able to avoid a cost of \$520.6 million for DoD and the taxpayers."

#### The Result:

IHS played a vital role in ensuring proper contract adjustments resulting in enormous cost savings for the US Department of Defense. IHS helped the US Department of Defense and US taxpayers saved \$520.6 million!



## Benefit from our breadth of market expertise and our proven cost modeling framework

The IHS Pricing & Purchasing Solution incorporates data and expertise from the product suites of IHS CERA, MSS (Market Survey Systems), ODS-Petrodata, IHS Fairplay, IHS McCloskey's, IHS iSuppli, and the Chemical Market Associates, Inc. (CMAI) —making the Pricing & Purchasing Solution the most comprehensive source of forecasts, data and analysis to help our customers avoid cost overruns and get the most out of price declines.

### Why IHS?

With a database of more than 500,000 historic prices and thousands of price, wage and input cost forecasts, IHS offers more coverage than any other provider in the market.

IHS has been providing forecasts of key commodity, labor, and input costs since 1970 --helping define the purchasing advice industry.

## For more information

To learn more about the IHS Pricing & Purchasing product suite, visit [www.ihs.com/pricingpurchasing](http://www.ihs.com/pricingpurchasing)

### ABOUT IHS

IHS (NYSE: IHS) is the leading source of insight, analytics and expertise in critical areas that shape today's business landscape. Businesses and governments in more than 150 countries around the globe rely on the comprehensive content, expert independent analysis and flexible delivery methods of IHS to make high-impact decisions and develop strategies with speed and confidence. IHS has been in business since 1959 and became a publicly traded company on the New York Stock Exchange in 2005. Headquartered in Englewood, Colorado, USA, IHS is committed to sustainable, profitable growth and employs about 8,800 people in 32 countries around the world.

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