

Raw Material Increase (RMI)

Raw Material Increase (RMI) allows the partners in a sourcing agreement to regularly review the “market cost” of a specific raw material, which is used in the manufacturing of the sourced component.

RMI is a cost reduction process, which applies to both sourcing and supplying organizations. It provides for “price adjustments” to be made in case of significant swings (up or down) in the price of the raw material over the course of the agreed sourcing period, normally one year. The RMI process must be defined as part of the sourcing agreement. Depending on the type and use of the raw material, RMI can be critical cost factor to both parties, particularly where the raw material involved has a volatile market price, such as oil, aluminium, copper, & platinum, all of which are used extensively in manufacturing.

The process allows for the evaluation of the average raw material cost during the period, according to a defined Index, such as the Dow Jones-UBS Commodity Index. If the average price increases or decreases by more than a defined (in sourcing agreement) percentage (i.e. 10%) during this period, then the parties to the contract meet and agree the level of “price adjustment”, normally in the form of a debit or credit to the supplier.

RMI is an important part of Cost Improvement. To save you the effort and expense of developing your own RMI procedure, we will provide you (for a reasonable fee*) with our standard detailed procedure, which can be easily adapted to your organization. Should you need additional support, we can also provide you with an expert to get your RMI process up-and-running. Just let us know how we can help.