

White Paper

A Great Opportunity!

IMPROVING NEW BUSINESS PROPOSALS

Jerry Scrivo
Brian D. Krichbaum

March 30, 2013

© eTurboTools Inc.
All Worldwide Rights Reserved
www.eTurboQuote.com



A Great Opportunity!

IMPROVING NEW BUSINESS PROPOSALS

When you receive a request for quote (RFQ), you have an opportunity to gain additional sales. An RFQ is evidence that the requestor is interested in doing business with you; if your proposal is the lowest cost or highest value proposition.

An RFQ is often viewed as evidence that you are pre-qualified and on the approved supplier list. Likely, this is the result of intensive selling efforts. While it is tempting to celebrate the success of being allowed to submit a proposal, remember that submitting proposals is not why you are in business. There are three possible outcomes when a company responds to a request for quote, but only one of them can rightfully be called success.

1. The proposal is “**TOO HIGH**” – you may lose the business and the potential profit.
2. The proposal is “**TOO LOW**” – you will gain the business and proceed to lose money on the additional sales.
3. The proposal is “**JUST RIGHT**”- you win the business and make reasonable profits.

Your resources aren't unlimited. We can only produce so many products and generate so many cost estimates. So how do we get to the success case more often?

3 STEP APPROACH TO GROWTH:

1. **RESPOND TO MORE RFQ'S MORE QUICKLY:** Improve your process so that existing resources can respond to RFQ's more quickly, allowing more proposals to be presented to potential customers.
2. **IMPROVE THE QUALITY OF PROPOSALS:** Modify your tools so that the quality of your proposals improves. Errors made while preparing cost estimates can be greatly reduced by developing and using costing templates, standardizing labor and overhead allocations, and developing a database of the cost of purchased parts and materials.
3. **BECOME MORE COST COMPETITIVE:** Improving understanding of cost drivers is the first step in reducing costs. Often we focus on the wrong things because we just don't know,-- really know,-- where the money goes.

A successful overhaul of your proposal generating process will focus on all three. Better process, better tools, and better understanding will yield higher profits. This requires improving the process in two primary arenas.

GETTING STARTED: UNDERSTANDING YOUR COSTS

In order to generate a winning proposal you must first have a good understanding of your cost of doing business. Do you know how much it costs to run each piece of machinery in your plant or in your office? It isn't as overwhelming as it may seem.

Equipment:

Make a list of the equipment in your facility. You already know which pieces of equipment are the major cost drivers, focus on those for now. Find the energy consumption rates for each, the maintenance and upkeep costs, and the original purchase price. You're already well on your way to understanding a big piece of the cost picture. With a little luck, you will also uncover an opportunity for costs savings by upgrading to newer, more efficient equipment.

Facility:

Do you own or rent your facility? Either way, you can easily calculate the cost of occupying the space. How much does it cost to heat the building, repair the roof, or to fix the floor. Just make a list and then add it up. You'll be surprised to find how much you already know. Don't assume your accountant knows more about the business than you do, he doesn't.

Labor:

How much do you pay for labor? Maybe you are unionized, or maybe you contract your labor from a third party. Either way, you have to pay the people who work for you.

Direct labor costs go beyond the costs paid to employees in wages. Government regulations have added many costs to being an employer, and you need to identify and understand each cost element. It can differ from place to place, but here is a short list of many of the costs you need to consider.

1. Wages
2. FICA and Medicare
3. Health Insurance
4. Unemployment Insurance
5. Workmen's Compensation Insurance
6. Vacation and Holiday Pay
7. Overtime Pay

Raw Materials and Purchased Parts:

It may seem to go without saying, but it is important to truly understand what it is costing you to procure the materials you need to manufacture your products. Seldom does the price on the purchase order reflect the total costs.

Who pays for the shipping and packaging? How much does it cost? What about scrap or defective products? Don't forget duties, taxes, and other fees.

UNDERSTANDING YOUR SYSTEM: STANDARDIZING SUCCESS

1. DATA TABLES

The best way to standardize the major cost parameters is to put the information in tables. This helps to ensure that you always use the same, standardized information. It decreases the time it takes to prepare proposals and increases the accuracy.

Labor Cost Table:

Identify the categories of labor costs for your facility. It may be by department, or by workcell. In a small facility, you may choose to categorize by employee. However you choose, make sure to take the time to write it down so that you always use the same, standardized numbers. For each category, calculate the direct labor rate, the variable overhead allocation, and the fixed overhead allocation.

Create a Raw Materials Cost Table:

Identify the raw materials that will be needed to produce the product or service being quoted. Obtain cost from purchasing or from supplier quotes. Take the time to tabularize the information so you will always use the same, standardized numbers. For each raw material, calculate the unit cost for quantities typically purchased, that is: the cost per pound, the cost per square foot, or by whatever unit of measure is used in the purchasing process. When using these materials in a quote, you will need to convert from the units used in purchasing to the units needed in the end product. A computerized material cost database can greatly simplify these unit conversions.

Create a Purchased Components Table:

You also need a list of purchased components that are used in the finished product. These costs are obtained from potential suppliers using your company's purchasing process. The resulting cost information is entered into a purchased components database to ensure that the same costs are used from quote to quote. You'll need a process to confirm they are current, but having a data table makes it possible to work with standardized information developed in previous quotes.

2. BUILD COST TEMPLATES:

Although not universally true, most organizations build only a few different type products. There may be dozens, hundreds, or even thousands of different “stocking units”, but most of these are only minor variations on a common product family. But you wouldn’t know it by watching the proposal process.

Start by making a list of the products you make. You may choose to categorize these by the product line, or by the process families used to make them. But make the list, you’ll find that it isn’t overwhelming large.

From this list you can start making standardized bills of material (BOM) and bills of process (BOP) for each. Don’t worry about perfection, the key is standardization. These standardized lists become the foundation for your proposal templates. Every time you use one, every time you improve one, your proposals get better, and the quality of your estimates will improve.

One of the key elements of a lean manufacturing system is standardized work. In fact, “lean manufacturing” can’t really exist without standardized work. Think of these costing templates as standardized work for the cost estimating process.

GET TO WORK: BUILDING COST ESTIMATES

1. BILL OF MATERIAL

In order to prepare a valid cost estimate, you must know what you are being asked to build. When the end product isn’t known, there is little chance to get the estimate correct.

Often the RFQ will not provide all the information needed. But if you have taken the time to start building your templates, or standardized estimates, you have a good reference point to start from. A call or visit to the customer might be required to confirm your conclusions, but you will be able to demonstrate that your experience and knowledge allow you to ask the right questions. You might even be able to offer the customer a more efficient solution.

2. PREPARE LABOR ESTIMATES:

When no relevant prior experience exists, labor estimates can be difficult to get right. Estimators try to identify tasks, adding the times for each to arrive at a total labor cost. But this method will nearly always yield the wrong result. Instead, identify products or subassemblies that are similar in process or design that you are familiar with. It is always easier to identify and estimate differences than it is to develop an estimate from scratch. As you build and improve your database,

you will find there are less and less truly unique products to be estimated; rather you will apply what you already know in different and unique ways.

In fact, skilled estimators do this by instinct. The key to developing a successful estimating process is to systematically identify the key variables that truly impact the labor requirements. Once again, standardization and templates provide the key to unlock this puzzle.

In some cases, you will find there are multiple viable methods for the manufacture of the product. When working with templates and standardized data, the estimator can quickly and accurately explore the impact of alternative processes on total labor cost. Since this is usually one of the largest cost components in a proposal, evaluating alternatives and selecting the optimal scenario is truly a value added step in the estimating process.

3. TOOLING AND CAPITAL EQUIPMENT:

Tooling and capital equipment is really no different than other elements of cost. You will build, buy, or use existing equipment to produce the product. Understanding the current utilization of your equipment and identifying exactly what you need to handle the new business is key. Once you understand what the costs will be, then you can decide how or who should pay those costs. Will your customer pay for the capital up-front, or will you amortize it into the piece price? What is the Return on Investment (ROI) and what are the risks you are incurring by making the purchase?

LET US HELP!

At eTurboQuote, we are cost estimating and manufacturing experts. We have taken our years of experience in engineering, operations management, and cost estimating and developed a unique tool to make the standardizing of your cost estimating process easy. And it is easy to use, most companies will find that they are up and running with eTurboQuote within a couple of weeks.

And if you need help, we're here for you. We can provide a team to train your staff, to help load the tool with the data needed, and to put together a concise data management plan so your data always stays current.

But best of all, eTurboQuote is your tool. While powerful, it is flexible. You can make it work for you, in the way you want. Let us help you get started today.