

AUTOMATED QUOTING DRAMATICALLY INCREASES YOUR PROFITABILITY

An overview of the benefits of an automated quoting solution for EMS providers.



Automated quoting dramatically increases profitability.

An ideal automated quoting system would consist of four functional modules, which are not only integrated with each other but also with the ERP environment.

- a module for Bill-of-Materials (BOM) processing, to convert any customer BOM in a complete, error-free (scrubbed) and consistent list of materials, fit to produce a product
- a module for automatic and semi-automatic material costs and availability data collection, backed by a decision support system to quickly analyse the large amount of data collected for a project
- a module for factory simulation based manufacturing costing, to rapidly and accurately analyse the real manufacturing costs of a product in a virtual setting
- a module for quote calculation and generation in which materials, manufacturing and other applicable costs are recalculated with detailed and customer specific markups and discounts for quote generation.

There are 3 main reasons why using an automated quoting process will definitely increase your bottom line results, whilst providing a better service for your customers.

A. The Commercial reasons:

Automated quoting increases value for clients and customers.

It dramatically increases your competitiveness and effectiveness. Meanwhile, your bottom line results will improve significantly and be more predictable.

- You will satisfy your customers with fast, clear and accurate quotes. Your company will likely be the first supplier to provide an accurate quote within the requested lead-time and it will therefore set the benchmark for the competition.
- Your quoting service makes you stand out from the crowd as an efficient and professional supplier, whilst your existing customer base will highly appreciate your unparalleled quoting services.
- Buying from your company becomes easy and simple. You can spend quality time on your customers. It reduces barriers to entry and it reduces frustrations or hurdles when your customers wish to repurchase products.

You are aware of your costs, allowing you to price correctly.

Many companies determine their prices without accurate and detailed substantiation of their costs. Detailed knowledge of the material and manufacturing costs, not forgetting any cost aspects, allows you to apply the right margins and perhaps even allows better pricing based on facts.

It dramatically increases the value for your commercial team.

It will help to shorten your sales cycle, increase your closing rate and lengthen your client relationship. Your sales and account managers can negotiate from a position of strength. They can negotiate on the razor's edge because they know exactly how far they can go without entering the red zone. In addition to that, rapidly presenting detailed facts in an open book negotiation is not only impressive, but it places confidence in the calculation methodology that is used and saves both your customer and your company a lot of time and frustration.

Starve your 'losers' and feed your 'winners'.

Accurate costing immediately reveals which customers are most deserved and for which customers additional costs will always have to be incurred. When you take these additional costs into consideration in your quoting process your 'losers' will eliminate themselves, because higher prices will be offered to them to compensate for the issues they create. They will either accept the higher prices or they can be left to the competition. And when you keep paying for the issues as a commercial or strategic decision, at least you will know what affect this will have on your company's profits. You can spend a portion of the time and money that is saved on better service for your winners. This will greatly boost your profitability.

B. The Financial reasons:

It will lower your costs and minimise your risks.

Your quoting team is expensive. An automated quoting process will reduce the process by several hours (if not days) per quote. The annual savings will be unimaginably large.

Having a fast, accurate and consistent quoting process takes the pressure off your quoting team as they can generate consistent, reproducible and accurate quotes time and again. Every hour saved by increased efficiency can be spent in a more useful and profitable way.

An accurate quoting process minimises the risk of losing an order perfectly suited to your production environment or winning an order with a questionable margin because of a mistake in the calculation or an overlooked production complication. It eliminates the risk of being unaware you are making a loss on manufacturing and financing it with the profit on materials.

When sold, the 'imperfect' orders will be sold for the right price, compensating for efficiency losses and the increased attention of staff.

Production calamities are very expensive. Any reduction in pressure on the quoting team will lead to fewer errors in quotes and subsequently fewer calamities and corrective actions during production. The company's dependency on individual quoting specialists is also reduced. And quoting automation allows highly structured training and guidance of new quoting staff, whilst assuring the ongoing profitability of your business.

You can influence the costs of attrition.

Attrition, a necessary evil, is primarily the EMS responsibility. Attrition is the surcharge on component quantities for handling and production losses and the compensation for repair and service part consumption. It is worth accurately determining the applicable percentages and absolute quantities by comparing the true component consumptions with the estimated percentages and implementing improvements in the quoting tool. Annually, this yields significant financial and environmental benefits because of lower inventory.

The costs of excess material purchase can be reduced.

An automated quoting system assists in the decisions concerning ordering quantities in relation to minimum order quantities (MOQ's) of components, because more vendor scenarios can be processed in a very short time. Discussions with customers about excess material costs due to minimum order quantities and the storage of the material become less difficult and more effective. Automatic economic order quantity (EOQ) calculations are also a great help in these discussions. A stock reduction is important as having a lot of inventory, plus the limited shelf life (e.g. solderability) are a drag on your cash flow and on your gross profit margins.

No costs will be forgotten.

Forgotten costs are expensive. These will immediately negatively impact your margin. Subsequent discussions with customers about forgotten costs are painful and success is not guaranteed. An automated quoting system will guide the operators in the quote preparation process and no costs will be overlooked once defined in the system.

Eliminate hidden (internal) costs.

For some costs, it doesn't make sense to spend time manually analysing the best possible solution. Quite simply, this takes too much time. The costs are higher than the gains. An automated quoting system enables the different scenarios to be calculated and the right selections to be made quickly, easily and consistently.

For example: at first glance, it may be financially interesting to source materials for a project from different vendors to get the best prices. However, buying from multiple vendors means creating multiple internal administrative processes. Often EMS businesses don't know what their internal costs are for an administrative P.O. process cycle (e.g. the cycle of issuing a P.O., processing an order confirmation, processing the incoming goods, processing an invoice, processing a payment and all other related activities). Investigations show cost levels between 25 and 150 Euros/Dollars per administrative process cycle. Therefore, especially for smaller jobs, it would be beneficial to source material from as few vendors as possible. This will undoubtedly increase the material costs for a quote somewhat, but you will have significantly lower uncovered internal (invisible) costs.

You can systematically lower your overheads.

A professional quoting system will enable you to scrutinise your base expenses and eliminate non-strategic expenses that just don't add value to the company or to the customer. It also will help you to determine the financial impact on your overheads and your hourly rates when hiring additional indirect staff.

C. The Manufacturing reasons:

You can re-evaluate workflows and manufacturing systems for greater efficiency.

By consistently comparing the costs calculated for the quote with the actual costs after you have produced the order, you can fine-tune your virtual factory model and costing engine for ever better results. The improved rules are implemented immediately.

Computers do the boring repetitive work.

Every minute that your skilled workforce doesn't spend on boring and repetitive work will increase your productivity, decrease your costs and lower your risk. All money you save by eliminating costs that don't add value to your company or to your customer will drop very quickly to your bottom line.

But what about developing an automated quoting system yourself?

Be strategic about where you invest your company's money!

Buying a professional 'off-the-shelf' quoting tool versus designing and/or developing an internal tool from scratch is an important strategic decision.

Remember:

- You are not in the business of developing commercial software tools. The development of a professional quoting tool, including the time spent on extensive test sessions and including writing the entire source code documentation and the system manuals, will cost an unpredictable amount of money.
- The process of defining the correct requirements list and the creation of the data model alone, before even one line of code is written, will not only be very expensive, but it will utilise a considerable amount of your internal staff capacity and it also poses a huge risk of catastrophic failure.
- It is a hard fact that generally the estimates of the costs to develop such a complex software tool from scratch are hundreds of per cent too low.
- Maintaining and updating the internally developed tool will be an uncontrollable financial drain for many years.
- You will almost always develop something more or less tailor-made for your company, which would make it very hard if not impossible to sell your solution to others in order to share the costs.
- A perfectly working quoting system is a major commercial advantage for your company. You don't want to share this strategic competitive edge with other EMS companies.
- Unless you subcontract the development to a professional organisation with a corresponding price tag, you will be very dependent on only a few or even one single programmer, which may be the highest risk of all.

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