4 Costing & Quoting Blind Spots

That Lose Manufacturers Thousands in Overlooked Margin Every Month…

Fix these blind spots to capture yourself, an easy $25,000, $50,000, $100,000, or even more, in previously overlooked margin this month or next.

A Costing & Quoting Awareness Guide for Manufacturers

By Brian Delfield, CPA, a 25+Year Manufacturing CFO Leader

TIME INVESTMENT PROMISE: 9 minutes reading this guide will reveal breakthrough insights that will change your view of costing, sales, and operations forever

4 Costing & Quoting Blind-Spots

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Are you a manufacturer who quotes and/or proposes on new business? Are you a CFO, CEO, CRO, or Owner, and you are interested in landing more good business that propels better bottom-line results?

If so, this could be the most important guide you will ever read, as it will reveal how to identify and win a lot more good business & margin that you are currently missing out on, by fixing four quoting blind-spots that are inadvertently losing you thousands in margin everyday… It's a quick read with fresh insight & new ideas provided.

Blind-Spot #1 - NOT putting your best sales & pricing foot forward on your quotes & proposals.

Here is a simple but important question for you.…

"Why should your target customer choose to do business with you, for your target price...
…over every other option available to them in the marketplace?"

Every quote or sales proposal needs to clearly answer this, and the better you answer it, the higher your pricing can be too. And the answer might vary some across different customers, based on the precise niche or segment you are targeting.

Obviously, you need to deliver a technically sound, quality product, but there are many service-related things every manufacturing business does, too, sometimes well, and sometimes not so well. This service side of manufacturing has much variance between vendors and provides you an opportunity to boldly tell buyers why you are different or better.

Manufacturers often rely on their reputation, but don't always detail that reputation's attributes and present them boldly & directly to justify a higher price. This is part of "positioning" your quote or proposal. Don't ever assume the buyer and/or his decision-making colleagues adequately know or understand your value based on the technical features and service attributes you know inside and out, but they may not. You must spell them out in detail for first timers, and should constantly remind repeat customers about them, too. You need to better document your "reputation" into niche-specific & customer-specific value proposition(s).

Also, most manufacturers provide pseudo commitments, but they do not properly present and get credit for them in their quote or proposal. So, these too should be spelled out, too. All this can propel higher pricing instead of commodity discounting. So, you must describe your total value proposition in a way that adequately differentiates you from competitors

On top or your technical features and quality assurance, here are some of the key services that buyers need & want and if you do provide them and can properly present them, you will stand out from the competition.

- On time Delivery…and…Faster Delivery
- Help and Guidance on Complex Purchases
- Buyers get what they buy: Qty, Quality, LT
- Minimize customer inventory carrying costs
- Buy from a technically current vendor
- Buy from a financially sound vendor
- More certainty on A items (vs B or C items)
- Courtesy, speed, & action by Sales & CSRs
- Speed & accuracy in invoicing
- Understandable shipping documents
- Quality packaging for product delivery
- An easy, "no brainer" relationship
- Reliability, dependability, & predictability
- Reducing total cost amounts
- Knowledge, competence, and follow-up
- Be transparent when problems arise
- Willing to fix problems when they arise
- Knowledge of your customers' offerings
- Preparedness for sales & service calls
- Mastery of digital portals
- Tech educ about what they are buying
- Easy read technical docs, price lists, & quotes
- Early notice of shipment or QA problems
- Warning about discontinuance of items
- Quick reaction to new or revised needs

Blind-Spot # 2 - Accidentally LEAVING EASY MARGIN on the table when you do pricing for your best customers, products, or niches.

This is your best niche(s) that you do very well in, and your service attributes and value are well regarded, but, also, where you are inadvertently, leaving easy margin on the table.

This happens because of a **little known, price-limiting flaw inside most Cost-Plus, Hourly-Rate and Industry-Formula pricing models**, and results in up to one third of a manufacturer's sales volume, your Segment A, of better customers, products, or niches being underpriced via mistaken thinking about being satisfied with achieving "acceptable" gross margins, instead of understanding the real value delivered vs the competition, and pricing higher accordingly. The gap between Cost-Plus, Hourly-Rate, Industry Formula, "acceptable gross margin" pricing, and "unique value provided" pricing, can usually support a straightforward 5%, maybe 10%, increase in your current price on your Segment A best business. That 5% to 10% more is all incremental margin that drops directly to your bottom-line.

So please focus pricing outward on your unique value created and presented (i.e. benefits from your: technical features; on-time delivery; faster lead-time; and key service attributes) vs inward at "acceptable gross margin" rates, and test, test, test, higher pricing here in your best customer segment.

This reasonable pricing tweak has the profit power to translate into 25% or more to your bottom line over the course of a year.

Blind-Spot # 3 – Unnecessarily LOSING good business to the competition in both primary and overlooked markets.

These are competitive situations you sometime lose, over your too-high of pricing and your reluctance to go lower, because of fears about "losing money" or "too low of margin" per your Cost-Plus pricing model's minimum gross margin amounts.

Over any year, much business can be lost or passed on due to concerns about “losing money” or “too low of margin”, as calculated via historical Cost-Plus pricing models based on traditional cost accounting assumptions.

However, when looked through the prism of quoting RELEVANT costs - *those costs actually incurred by this order that would not exist without its occurrence….*versus quoting IRRELEVANT costs – *those costs that would be here/incurred regardless of the order….*much of this lost business can actually be “profit-contributing” to your P&L, and therefore should be smartly won by “strategic pencil sharpening”

Let’s, explain a bit further…

You see, when you fully understand the cost accounting assumptions underneath your Cost-Plus, Hourly-Rate or Industry Formula pricing models…they tend to say “all manufacturing costs are variable” – (both labor & allocated overhead on top of normal materials), but when you look holistically at your finances…you will see much more of a **fixed cost** structure in terms of both labor and overhead.

This common but flawed “all variable-cost” thinking is built on wobbly cost accounting assumptions that are over 100 years old and come from an ancient time when labor was paid on piece rate, and overhead was simply spread on top, because it was insignificant.

Today’s reality of scarce skilled labor, paid per hour, not per piece…plus automated processes, and continuous improvement…create fairly-fixed cost structures inside most manufacturers (review your weekly payroll register to see for yourself) ...and when you combine this fairly-fixed cost structure with the perishable nature of manufacturing capacity, you actually create *“Empty Airplane Seat Opportunity”*.

So, just like an airline’s plane taking off with empty seats, which if sold, contribute nicely to the airline’s bottom line, a manufacturing business invisibly mimics this potential on a weekly, monthly, and quarterly basis.

With “Empty Airplane Seat Opportunity”, you can identify and skim “cream” off competitive situations and feel good about sharpening the pencil some, and generating, profit contributing, marginal revenues with little, to no incremental operating cost.

This smart Relevant Cost & Capacity Analysis strategy can easily contribute 50% more to your bottom line over the course of a year.

Yes, perishable “Empty Airplane Seat” capacity readily exists, and/or can be easily realized, in most manufacturing businesses via these simple ways.

- More capacity is just generally available…as your production schedule typically has room for more work within your standard industry lead times.

- More capacity is quickly realizable … as people often work at the pace of the load in front of them…so a busy/full shop, is almost always a more productive-output shop, creating more available

capacity for those that look for it.

- More capacity can be scheduled out…so negotiate longer or flexible lead times in exchange for more competitive pricing…and profitably fill known schedule holes with profit contributing work.
- More capacity can be found …most shops have older, less efficient, but still output-effective equipment that can be profitably activated in a full/busy shop to better leverage fixed expenses.
- More capacity can be productively generated …focus your LEAN improvements and TOC productivity tactics on the scarce capacity that is needed most, or technical support that often limits selling efforts.
- More capacity can be profitably incremented… the contribution margin available from new sales usually far exceeds the marginal cost of incremental staff, overtime, or add-on equipment.

You really should take advantage of this unique profit leverage provided by your available "Empty Airplane Seats" now.

Blind-Spot #4 - Too much focus on order by order, transaction gross margin, instead of smarter long-term calibration around LIFETIME CUSTOMER VALUE.

As you start to understand the "Empty Airplane Seat Opportunity" that exists in your business because of inherently available, or easily generatable capacity, combined with fairly-fixed operating costs (including much of labor), you need to move from judging new business on order by order, transaction gross margin, and instead really look closely at the customer's lifetime contribution margin potential for consistently filling "Empty Airplane Seats" …monthly, quarterly, and annually…you need to use more annuity thinking and less transaction thinking.

You should, of course, always present as much value as you can to your customers via your details-described, Unique Value Proposition and then price quotes & proposals as high as you can, while still winning them.

But, as I have seen time and time again… winning profit-contributing, repeat business has always resulted in more bottom-line profit than losing this work.

Case Study: About How to Win Overlooked Margin in the Real World

Let's say we have a business, **ACME Manufacturing** that makes metal assemblies for a variety of industry verticals including Aerospace, Medical, Construction, and Automotive. They are $20 million in sales with about 100 people on the payroll. Their bottom-line profit is about 5% or $1,000,000. Materials and commission typically run 50% of a sales dollar and the company has upgraded most of its primary equipment over the last 10 years.

ACME operates in the cost-plus world and performs its costing and quoting with long followed conventional methods. It has set a 20% fully loaded gross margin hurdle rate (which includes materials, labor, and mfg overhead allocated amounts) as its minimum acceptable return in pricing business.

ACME has a strong value proposition for about 30% of its business (its “A” market segment) and gets no push back on a 27% gross margin price; about 7 points more than their hurdle rate. As is typical, sales reps and management are happy with this price as it is deemed a better than average return for the company’s efforts.

Since everyone is so happy with the gross margin rate, the Sales team has never thoroughly examined these customers’ perception of value. As it turns out for about 1/3 of this 30% or $2 million worth, ACME’s value proposition is amazingly strong. ACME dominates this niche with a combination of engineering, specialty machining, and fast turn-around. Unbeknownst to ACME, this segment would be willing to pay 10% more in a market price, but because no one has ever tested it, the incremental revenues are not realized.

Also, about two years ago ACME lost a major piece of business, about 10% of its current volume or $2 million. Their former customer’s volume has since increased, and they are now looking for another “backup” supplier. This original “B” market segment business went away because the reduced gross margin of 15% was deemed unacceptable. Now $500,000 of this business is available again if ACME can meet the competitive price. For the foreseeable future they have adequate room in the production schedule so most of this business will fit into the shop’s current capacity and staffing profile with maybe some occasional overtime on one semi-constrained work center.

In addition, ACME just recently received an inquiry from a “C” market prospect in the consumer goods arena. ACME rarely competes in the consumer goods vertical, as it is ultra-competitive with tremendous pricing pressure from China. About $1,500,000 of business is on the table but the estimated fully loaded gross margins hover near 0%.

The conventional management mode of operation would be to ignore each of these opportunities; missing the first one completely and thinking the other two are just bad business. But let’s take a closer look.

First up, let’s calculate the money left on the table with too low of pricing to our strong value proposition, “A” market niche. So its $2 million x 10% of additional market price = $200,000 of incremental revenue and no change in out-of-pocket costs. Pretty easy money, if we go out there and get it.

Second, let’s look at the $500,000 opportunity from the old customer. Yeah, conventional gross margin is only 15%, but is that relevant? I don’t think so. We have the capacity to do the business, so the only relevant items are the out-of-pocket materials and commission (normally 50%, but margins are a little tighter here so make it 55%) and our assumption about overtime on the one work center, maybe $30,000 per year. So $500,000 less 55% materials and commission, less an increase in OT payroll of $30,000 equals a potential incremental contribution to overhead and profit, or what I like to acronym as: C-TOP, of $195,000.

Lastly, let's look at the consumer goods opportunity. Wow, 0% gross margin… that looks bad, conventional wisdom tells us there is no way to make money here right? Well, let's examine the opportunity more holistically.

First, we don't want to run this on our primary work centers as those are now getting filled up and whatever is remaining is best served reserved for our primary "A" market customers.

But wait… ACME still has a bunch of old and mostly idle equipment available, not state of the art like our upgrades, but still capable work horses. They can set up a dedicated cell for the consumer goods project and staff with four new operators. So, what are the relevant costs here? Well, materials and commissions will run 80% on this work, 4 operators will run $30,000 each or $120,000 per year, because this is rarely used older equipment maybe some additional supplies, electricity, and maintenance are in order, let's reserve $40,000. So, what is our annual C-TOP here…$1,500,000 less 80% materials and commission less $120,000 for operators less a miscellaneous of $40,000 equals C-TOP of $140,000. That's a nice profit add-on from so-called 0% gross margin business.

By taking three unconventional actions the company has improved its bottom line from $1 million to $1.53 million *(the strong value proposition niche price increase-$200,000; plus recapturing a portion of old product line-$195,000; plus adding on perceived low-end "C" market business-$140,000)* a more than 50% profit improvement and an enhancement of bottom-line margins from 5% to about 7% of sales. Not too bad for just upgrading one's thinking from a rigid cost accounting mode to a more "cash economics" focused overlooked margin analysis.

So… how many lost profits do you have missing from your business? How is your company's traditional costing & quoting methods hurting your competitiveness?

Think about it a bit, the answer may truly scare you.

Let's Wrap this Up…

Today, I teach and implement my contrarian sales, costing, and quoting ways but I'm far from the inventor, that credit goes to Dr Eli Goldratt, the genius developer of TOC (the Theory of Constraints), first revealed in the original LEAN Book**, THE GOAL**. And quietly implemented by thousands of his clients over the years, which is how I derived much of my sales, costing, and quoting analysis approach too…as a student of TOC, and a past client of Dr Goldratt, who taught me his little-known secrets about sales, cost, and quote analysis tied to understanding value presentation, cost relevancy, capacity availability, and work-flow, which rapidly improve financial results inside any manufacturer's operations.

SEE WHAT TO DO NEXT, ON NEXT PAGE

What to Do Next: for Owners, CEOs, and Finance Managers

Discover Brian’s Fractional CFO Services

- Special Project Assistance
- Profit Achievement Coaching
- Financial Management Partnering

And Get Help with All Things MFG Finance Related…

- Costing, Quoting, Pricing
- Operational Financial Analysis
- Customer Margin Analysis
- Financial Reporting Accuracy & Timeliness
- Financial Productivity Levers
- Daily Profit Tracking
- AI Office Automation
- Cash Management
- Strategic Tax Reduction
- Accounting Process Improvement
- Banking & Fund Raising
- Mergers & Acquisitions
- IT, HR & Admin Issues
- Sales Process Improvement

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About Brian Delfield, CPA –25+ Yr Manufacturing CFO Leader

Costing & Quoting Innovation for All MFGs; Fractional CFO Help for Small Businesses

- *Deep Experience running Manufacturers and helping* ***solve all variety of Financial and Operational problems...*** *While Also* ***Achieving Profit and Valuation Goals.***
- *Get Brian's seasoned* ***Manufacturing Business Insights…*** *That's Been There and Done That…with* ***25+ years of results leadership*** *across Finance, Operations, & Sales…overcoming many management challenges while* ***co-leading multiple manufacturing businesses****… with early career experience as a* ***Big Six CPA****, as well as recent time in private equity.*
- ***Manufacturing Finance Expert*** *in Costing & Quoting, Cash Management, Accounting Process Improvement, Rapid Financial Reporting, M&A, and Banking Relationships.* ***Multi-Disciplined Expertise****: managing HR, IT, Sales & Marketing, and LEAN production initiatives.*
- *Tap into Brian's profit-improvement* ***"Secret Sauce"*** *…his expert know-how of Goldratt's* ***Theory of Constraints (TOC)*** *management process and how to apply it to any manufacturing business to find overlooked profit and margin boosts via tweaks in their sales, costing, & quoting processes.*

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What Others Think About Brian

Brian's ways are innovatively different, but here is a whole list of references who know how effective he is…contact information provided upon request:

- Jon Alexander – President Dowco Marine
- Bob Boginski – VP of Sales – Liberty Systems
- Craig Butler – Co-Owner – Hausmann Johnson
- Henry Camp - CEO Shippers Solutions
- Joe Firnrohr – Co-Owner - Liberty Systems
- Jeff Floom – Managing Partner – FSB&W
- Troy Fischer – Former Owner – On Target Mailing Services
- Michael Gryczka – Sr VP – National Exchange Bank
- Brad Hansen – President – Reynolds Presto Products
- Mark Hadding - Chairman - Jobba Technologies
- Tom Misgen – Former CEO – G & O Inc
- Aaron Neff - CEO - Hawkeye Engine-
- Jeff Rideout – CEO – Blue Chip Leadership LLC