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Maintaining Competitiveness and Margins in Tender Markets:

Helping customers without destroying your balance sheet

MAINTAINING COMPETITIVENESS AND MARGINS IN TENDER MARKETS

HELPING CUSTOMERS WITHOUT DESTROYING YOUR BALANCE SHEET

POV of article: Companies must understand the value clients derive from their products and systematically decide who they should tender/not tender to.

Numerous companies, particularly suppliers who are dealing in either commodities or in scenario where switching costs are low for customers, face an increasing challenge of how to satisfy their customer requirements without significantly decreasing EBITDA. In this POV executive summary, Thinking Dimensions (TD) examines this issue and possible solutions resulting in EBITDA neutral/increase through a sanitized client case.

Example Issue: Material Supplier Case

George, the director of sales with a leading material supplier has faced similar requests from customers and potential new customers almost daily for the past three years: "***Please decrease my sales price as we enter into our next tender/RFQ together***". At the same time, George's company is facing regular increases in input-material costs as well as energy and labor. The dilemma - either the company finds a way to increase prices or it risks substantial decrease in margins. To complicate the situation, competitors who have faced declines in their orders are aggressively targeting customers to attempt to maintain volumes.

All TENDERS are not Equal.

Verify Value and Examine Your Company's Decision Making Process to Maximize Time, Effort and Return.

Solution Step 1: Clarify Competitive Advantage- Verify the Value

Many customers have chosen to work with Georges' company for over 15 years, however the question is: Does the company even know why those customers should choose to work with them any longer? It is critical that the company understands very clearly why customers are choosing to use them versus a competitor; It is not only because of a pricing advantage, rather because the customer gains some real or perceived value (competitive advantage) through the supply. It is critical to Ask, Consider, Evaluate, and Examine with the customers to understand major areas including:

1) What advantages does the customer receive from working with our company relative to:

    a. Production capacities - ability to fill large orders with short lead times
    b. Scrap reductions
    c. Flexibility in order lot sizes
    d. Transport, Billing, Storage, Administration, and ordering costs
    e. Credit costs particularly compared to foreign suppliers requiring LC and factoring

2) What technical advantages is the customer receiving from my supply relative to:

    a. Safety in both production and for the final end users-today and in the future
    b. Aesthetics
    c. Environmental Impacts
    d. Certifications and re-testing not required as a result of the product/material
    e. Supplier Preferential Requests from the end customer

For each of these potential advantages, the client company must also ensure they can clearly understand how to measure the value.

The essential value customers derive from your products or services fit into 4 categories that define competitive advantage:

-Innovation

-Efficiency

-Quality

-Customer Responsiveness

Solution Step 2: Evaluate Tender Customers against Set Criteria to determine who to Invest / NOT Invest in

In addition to clearly verifying value of products and services, it is particularly important in tender driven markets to determine where to invest time in winning. One error companies make is to enter into "more tenders" in an attempt to win business- as opposed to investing in the important tenders where the company can and will demonstrate the right to higher margins and profitability. To determine which tenders are important companies can:

1) Assess past RFQ/tender bids to understand:

   a. Win/Lose Rates (bid vs. actual) by Customer
   b. Win/Lose Rates by SKU and Major Product Group
   c. Win/Lose Rates by Geography
   d. Win/Lose Rates by Customer Industry and Application
   e. Common and Diverse criteria applied to tenders where the company has competed

2) Balance historical data with market intelligence and visible strategic assumptions to determine:

   a. Power and value of company patents and intellectual property to customer
   b. Market and environmental trends which will impact demand for materials
   c. Customer geographic locations of end consumption and production/service delivery
   d. Potential Win/Lose rates that are predicted for each tender/group of tenders
   e. Real Cost-to-Serve customer/market included in tender calculation process

Impact: Case Outcomes

1. "Feeling Driven" to Data Driven Decision Making

The analysis for both George and his sales teams around the world was an exercise they thought they understood, though had never undertaken themselves. The results were surprising in that there were certain areas where the company had a clear solution - and by clarifying where this was possible they were able to increase their value proposition (i.e. margin). Importantly, this was also the first major step in having management move from a "feeling driven" sales environment to one where the consideration of common criteria and data played a major role in the decision making processes.

2. Low to Higher Win Ratio with the Right Customers

Second, by working on tenders where the company stood a higher chance to win, the time and effort of the sales and support teams were maximized in the pursuit of long-term contractual agreements.

Conclusion:

The focused growth that organizations desire must be profitable and sustainable – which is much easier said than done. For companies to truly optimize their organization's time and efforts in the tender process they must make conscious decisions with set criteria. In addition, they must make the effort to examine and understand the drivers of value for their customers and develop the fortitude to say NO to tenders that do not fit their strategic aims. In this case – fewer tenders add more to the bottom line.

Move from GUT feel to a SYSTEMATIC process to drive decision making with tenders. This will increase your

WIN RATIO

and

EBITDA

This article was authored by Diego Miglioranzi of Thinking Dimensions' Italy office.

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Thinking Dimensions is led by Drs. Charles Kepner and Mat-Thys Fourie who have over 60 years of combined thought leadership in decision making and process consulting. Today, Thinking Dimensions Partners and Associates in over 20 countries throughout the ASIA-PACIFIC, EMEA and AMERICAS regions deliver expedited results on pressing business issues.