

“Cost Estimating” manufactured parts for an RFQ is one day-to-day problem that confronts manufacturing shops around the globe, many of which feel like they just have to live with it.

IT DOESN'T HAVE TO BE THAT WAY!



This article debunks 5 myths surrounding cost estimating for manufacturing. We have uncovered these myths over the years through talking with thousands of estimating managers, customer surveys, trainings, and on-going feedback. We will expose these myths and offer suggestions and improvement opportunities that can save or greatly improve your business. Loser jobs obviously result in poor profits. Overpriced quotations may force your customers to seek out your competition.

Review these 5 cost estimating myths busted below:

❖ “IT’S A NUMBERS GAME - IF WE JUST GET MORE QUOTES OUT WE’LL WIN MORE JOBS”

This can actually come back and bite you financially. Your customers may be initially impressed when they receive a quick quote, but not when over time the pricing greatly fluctuates. Inconsistencies will cause suspicions about a supplier which results with your customers requesting fewer quotes from you and more quotes from your competition. It’s not the 1980’s anymore...smart buyers have independent cost benchmarks and quote analytics to weed out inconsistent bidders.

❖ “USE 1 SHOP RATE FOR ALL EQUIPMENT AND EVERYTHING WILL BALANCE OUT IN THE END”

Balancing acts are for circus people - any good accountant knows that. If you price jobs on low cost equipment verses high priced machines your smart customers might be run from your shop. At a greater cost though...your smarter customers will only ask for parts processed on your expensive equipment. This makes your sales team happy...but how happy will your management and the owners be when profits are less than anticipated?

❖ “IF WE LOWER OUR PRICE THEY’LL ALWAYS BUY FROM US?”

While this may seem truer than the first myth, just lowering the price may only work until the recorded profits are down. We have found that by offering consistent numbers, with details to back up (defend) the numbers our customers are more successful. Over time, they get more orders and retain more happy customers by using a consistent, systemic approach.

❖ **“JUST USE THE LAST ESTIMATE. OUR HISTORICAL PRICING KEEPS US WINNING ORDERS”**

Historical pricing is just that... a price for a particular point in time. No one knows the current price unless it is estimated again on better and faster equipment. The historical price may be a good starting point, but effective cost estimating systems actually do more than provide a historical template. They help track data and update information quickly, reducing errors through built-in formulas and much more.

Also, with smarter customers wanting more information and better answers, it can be rather time-consuming trying to effectively defend someone else's guesstimate, let alone your own. Guesstimates become liabilities which cost money and... you run the risk of losing the confidence from your customer which can lead to more lost sales and ultimately... lost customers.

We have found that by not relying on historical pricing you have a much better chance of consistently beating your competition while attaining higher profits.

❖ **“DELIVER THE QUOTE FIRST AND THE JOB IS YOURS”**

There have been many successful economies where this example has performed well. While being quick to deliver a quote is certainly one determining factor, you might find your smart customers also want more than just speed. They want accuracy, consistency and the ability to update the quote with a quick response from you. They may want to change features, swap a material, modify quantities, and/or substitute purchased parts. And they should expect a quick and consistently accurate response to their update request. Most guesstimates lack critical knowledge and supporting information which can create delay problems in their response. This can lead your customers to your competition for higher quality estimating or lower pricing.

Around the globe, MTI Systems, Inc. has been successfully providing software and services to manufacturers in a wide-array of industries. Costimator, which provides cost estimating, process planning and quoting, has become a favorite tool of estimators.

Since 1982, Costimator continues to help companies overcome these myths and other challenges. By using a database-designed system users get more than just speed, accuracy, and consistency... they get the ability to instantly update and respond to customers, in most cases, while right on the phone.

We hope these busted myths provide you the encouragement to explore new opportunities for estimating. Our team is ready to answer your questions and help you build a more profitable customer base. Contact us now for your demonstration to learn how Costimator can work for your manufacturing environment.