OPTIMIZATION OF SALES AND TENDERING SET UP IN THE EPC INDUSTRY

Practices observed on how to increase hit rates, reduce selling expenses, and transform into a top performer

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Major players in the Engineering, Procurement, and Construction (EPC) industry report a wide range of selling expenses with varying degrees of sales effectiveness. To better understand the dynamics at play influencing performance, measured by e.g., order intake and hit rate, CYLAD Consulting undertook a study to identify best practices for an effective Sales and Tendering set up.

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In the course of the study, we reviewed and analyzed the landscape of EPC players in Europe. As a deep dive we conducted detailed interview-based analysis involving over 15 industry experts from selective companies which were assessed along five key dimensions: Selling expenses & effectiveness measures, Organizational set up, Sales process & governance, People & capabilities, and KPI reporting & tools. Evidence gathered from interviews with C-level executives, key account managers, and sales directors as well as data analysis from market /annual reports revealed 4 key insights EPC players should observe to transform into a top performer.

1

Spend smart and reduce unnecessary expense

Selling expenses in the EPC industry are commonly measured as a percentage of total revenue. Major players in the industry report a wide range of selling expenses from as low as 2% to as high as 7% of revenue. The ndustry average sits on the higher end of this range at 5.3%. Selling expenses in this context are comprised of overall sales costs as well as marketing, offer, and travel costs.

5.3%
Average industry selling expense

Taking a deeper look into the root cause for such disparity among players' level of expenses reveals several influencing factors. On one hand, a company's portfolio impacts the level of expense. For example, companies with highly tailored solutions experience much higher selling costs than those players with a greater degree of modularization and standardized offerings or even selling "machinery products off the shelve".

Another factor is the organization's process landscape. Organizations which implemented a "smart effort practice", i.e., applying significantly different levels of effort for each offer type (one of its kind re. technology, country and/or customer versus known plant setup in known country/environment for customer with long-term relationship), face significantly lower costs than those following a "one fits all" effort philosophy with the aim to cover any potential risks and opportunities.

Ultimately, combining this smart effort practice with agile methodology employing standardized calculation and pricing logic will lead to fast turnovers (from initial customer request to final offer) with lower costs per proposal.

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For organizations operating in the higher range of selling expenses, several short-term levers may be utilized to redirect spending in order to influence hit rates and reduce the effort exerted per order intake:

- **Reduce overhead of all functions considered in proposal work,**
- **Review internal transfer rates and margin policies (e.g.,between technology hubs, between technology hub and execution organization) and provide transparency across all entities,**
- **Implement slim risk buffer approaches – identifying and assessing all relevant risks of a project during proposal phase will shoot up your expenses without necessarily reducing the final risks.**

2

Slim organizations and lean processes drive higher hit rates

Best practice organizational setup includes:
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- **1 Head of Sales**
- **4 Sales Managers**
- **1 BD Manager**
- **2 Layouters**
- **4 Offer Preparation FTEs**
- **2 Software Engineers**
- **2 KAMs (if needed)**

Organizational set up is an important consideration for companies seeking to improve performance. A slim organization contributes to greater aptitude for sales effectiveness. Among the sample surveyed, organizations require an average of 19 FTEs to generate 100m EUR in order intake (OI). That equates to an order intake of 5.3m EUR per sales FTE. It follows that players with lower sales effectiveness (with regards to generated OI per sales FTE) exhibit a higher than average number of FTEs per 100m EUR OI. In fact, companies with higher sales effectiveness have a relatively uniform organization set up. Normalized to sales OI of 100m EUR, this typically consists of 14-16 FTES broken down into 1 head of sales, 4 sales managers, 1 business development manager, 2 "layouters", 4 FTEs for offer preparation and concept design, and 2 software engineers. Depending on the industry and portfolio up to 2 Key Account Manager (KAM) can be added to the team.

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Our benchmark of top performers in the industry revealed best practice hit rates in the range of 30-40% compared to an average hit rate of only 25-30%. In addition to the role organizational structure plays in sales effectiveness, processes also contribute to a given players' hit rate. Top performers have implemented an agile proposal process, with high levels of standardization. This enables them to respond to more proposals with the same total effort compared to competitors. Another process improvement involves the sign-off process.

Best practice shows that lean sign off processes allow quicker response times to the customer, i.e., one sign-off committee instead of multiple sequential alignment/decision gates; participants if the sign off committee are limited to relevant decision makers – depending on the size and/or risk or strategic importance of a proposal, committee members can be replaced by an equivalent of the next higher hierarchy level.

Taking organizational set up and process design into consideration, there are concrete, targeted measures that companies can take to improve their hit rate. These can be summarized along two aspects:

2 measures to improve hit rate

Rigorous sales funnel management

Leverage competitive advantage

(a) First, companies must implement a rigorous sales funnel management. It is critical to be selective at early decision gates to focus sales efforts on those offers with a high win probability (e.g. due to unique selling propositions and/or competitive costs). Best industry performers (with hit rates in the range of 35-40%) perform rigorous filtering at the go-/no-go decision point. This means that for the 60% of requests which are rejected, no effort is exerted in preparing a bid. Note that some businesses achieve hit rates as high as 90%, however this is only the case for niche segments and/or providers of unique portfolio elements.

(b) Second, it is critical to leverage competitive advantage. Product development should be market driven. For example, targeting volume business and focusing on standardization with competitive pricing will secure a higher likelihood to win, leading to profitable and sustainable growth.

3 Use fewer but connected tools with reliable data

Many leaders have witnessed organizations with a multitude of tools, some used for like purposes, and many not fully utilized at all. Such fragmented and chaotic IT landscapes perpetuate inefficiencies. Moreover, when it comes to client proposals, it creates complexity in cost calculation and inhibits transparent up-to-date information. Best practice industry examples use only 3-4 tools in aligned ecosystems which cover the gamut of sales functionalities.

An IT reset may seem daunting, but the path to simplicity is straightforward.
First, avoid usage of multiple, similar tools. This simple elimination of duplicates can enable efficient collaboration between engineering and sales who now operate within the same tool landscape for offer and execution. Second, improve and secure updated information stored within tools. This can be achieved with data governance practices and by facilitating exchange between tech centers and sales teams.

THE RIGHT CONTENT UPLOADED IN FEWER TOOLS
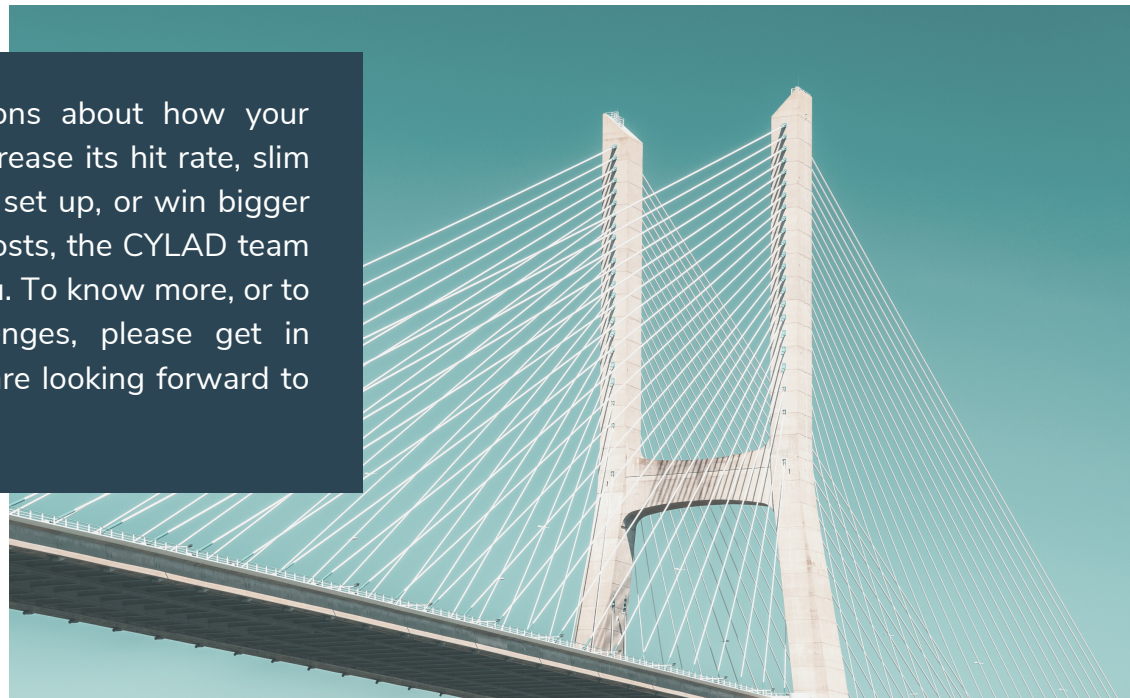WILL DRIVE EFFICIENCY REDUCING
BOTH COMPLEXITY AND COST.

4 Forget the silver bullet, rely on tried and tested mid-term measures

While there is no catch-all, quick win measure to transform the sales and tendering set up, leaders can rely on a set of tried and tested actions to implement in the mid term and transform their organization.

Summed up, the following measures can help secure sustainable growth:
- Improve interfaces between internal technology, operations and sales hubs·
- Implement product standardization/modularization principles
- Keep to product standards·
- Integrate a market-driven product development concept·
- Close the price gap to the competition
- Review target pricing for internal suppliers
- Refine the sales strategy (focus on which countries/customers/products to address)
- Slim down the organization
- Simplify tools·
- Improve data reliability

If you have questions about how your organization can increase its hit rate, slim down the tendering set up, or win bigger contracts at lower costs, the CYLAD team is ready to assist you. To know more, or to discuss your challenges, please get in touch with us. We are looking forward to your message.

CYLAD Consulting likes to thank the effort and time invest from the various interviewees and discussion partners along the study and beyond.