

SUMMARY

The Revenue Acquisition (RA) Process is the core business process by which a company drives its product portfolio – what new business it acquires, what products it drops, and how prices are set. To work well, the RA process must involve collaboration among many diverse activities – sales, finance, engineering, estimating, manufacturing purchasing and executive oversight. As practiced today, RA is labor intensive, error prone, and hobbled by poor information. This inefficiency exists in a context of intense business pressure coming from mergers and acquisitions, staff turnover, online auctions, globalization, staff cutbacks, and OEM-forced price reductions. The impact of these factors is exacerbated by disparate, incompatible IT systems. Patchwork systems, whether paper-based or digital, are no longer sufficient to give suppliers what they need, i.e. a RA process that will ensure:

- Greater global visibility into customer opportunities
- Faster response to more RFQs
- Greater accuracy of variable and fixed cost estimation
- Higher win/loss percentage on more profitable business
- Better transitioning from “component” to full “systems” capabilities
- Increased responsiveness to customers

While problems with RA in the automotive supplier sector are generally acknowledged, there is little hard information on how the process is actually working. Most agree the model is broken. Precisely how broken, and in what ways, is not known. To help build a foundation for constructive change, the Center for Automotive Research at Altarum conducted a quantitative study of the RA process as practiced by automotive suppliers.

The research proceeded in two phases. The first was a survey of 1st and 2nd tier automotive suppliers. The intention was to determine the current state of suppliers’ RA practices, to provide guidance on process improvement, and to offer a glimpse of the consequences of change. The second phase combined the survey data with industry information to construct economic models of the cost and revenue benefits of improving the RA process.

The RA process is principally characterized by a large number of time-consuming requests for quotations (RFQ). Respondents’ companies see an average of 495 RFQs per year, each requiring an average of 134 hours of labor effort. Respondents expect the number of RFQs they receive to increase by about 28% over the next few years.

The information environment that supports RFQ activity is characterized by large volumes of information, but by information that is often neither accurate nor widely available throughout the organization. Costing models typically show a 25% variation between estimates and actuals. Post-award analyses of performance are common both upon notification of a win or loss, as well as after project launch to check on post-production performance as compared to assumptions made during bid preparation.

Historical data relating to the RA process, while often available, are not used systematically. Deliberate use of that data is made in more than 90% of the cases, but there are few criteria for systematically using that information to understand what happened and why. (Those criteria exist in only 30-40% of the respondents' companies.) Even if such criteria were established, rigorous use of information would be difficult because while much useful information does exist, it is not centrally located nor easily accessible by staff members who need it.

With few exceptions, useful databases are available in over 70% of the cases for a very wide range of information. However, those databases tend to be local and have limited executive access. Ratings on "visibility throughout the company" seldom go above 40%.

One consequence of this information context is respondents' low confidence that their companies will meet revenue and margin goals. About 45% of the respondents have less than 75% confidence that their companies will meet those goals, and 20% have less than 50% confidence. Missed deadlines are common. Nearly 24% miss the customer's initial submission deadline costing large suppliers an estimated \$3.5 billion in lost opportunity sales. Furthermore, the "hit rate" for new business is 25%.

The Revenue Acquisition model developed as part of this research reveals that even minor improvements in the RA process would make substantial contributions to a supplier's bottom line. Taking labor rates and RFQ value into account, modest improvement in these rates will have substantial revenue implications. For large suppliers, a 2% win rate improvement would result in a 5.7% increase in company revenue or \$270 million. For small companies, a 2% improvement in the hit rate would result in a 9.5% increase in company revenue, equaling \$17 million.