



Industrial Fiberglass Specialties, Inc.

4867 Chambersburg Road

Dayton, Ohio 45424

(513) 236-3582

Why are our prices high?

Or, how to interpret bids?

06-25-90

Page 1 of 4

Is the "low price" your best buy?

From time to time we receive reports from the field that on a particular quotation there is another supplier that is substantially below Industrial Fiberglass Specialties' price. There has been occasion when it has even been reported that someone else's prices are less than half of what Industrial Fiberglass Specialties has quoted. How can this be?

This bulletin will look at some of the factors that can lead to differences in quoted prices on a bid-type inquiry.

1. **Somebody Made a Mistake:** We once had a sales manager (since retired) who had the saying, "It is not always the high bidder that made the mistake." There are some purchasers of FRP equipment that deliberately use the purchasing strategy of inquiring of seven to ten fabricators, knowing that one of them will probably make a mistake in their pricing.

This does not mean that we do not make mistakes in interpretation of specifications or pricing (obviously we try to keep them to very few). For this reason we encourage our distributors to get themselves in a situation where they can get a competitive "second look" on the inquiry. We do find there are legitimate reasons, by "adjusting" the specifications to better fit our standards, for making price adjustments.

Knowledgeable buyers of FRP equipment will deliberately discard and not consider a quotation that is significantly below the median. As an example, in one recent inquiry for FRP composite pipe, of five bidders, three were grouped closely together in price, one was slightly higher, and one was over thirty percent lower than the next quotation. Even though the low bidder was a fully qualified and competent shop, the customer "threw out" their proposal. They wisely decided they did not want their equipment to be built by someone that had made a mistake and might be tempted to "cut corners" to recover.

2. **The "Hungry" Fabricator:** There are times when a fabricator, just to keep the doors open and people on the payroll, will use the pricing strategy of covering variable costs only and, hopefully, some contribution to the fixed cost. Profit considerations go out the door. This is one of the reasons that we encourage our customers to carefully check and analyze the financial resources of the fabricators they are considering. Will that fabricator be around to stand behind and service that equipment, especially if they take too many jobs just to "keep the doors open?" We have noticed that when a fabricator gets very aggressive about buying backlog, it is often a tip-off that the business is for sale. It is easier to sell a business that has a booming backlog.



Industrial Fiberglass Specialties, Inc.
4867 Chambersburg Road
Dayton, Ohio 45424
(513) 236-3582

*Why are our prices high?
Or, how to interpret bids?*

06-25-90

Page 2 of 4

Again, the more knowledgeable buyers will discard these types of "low-ball" quotations because they know the fabricator will, again, be trying to take short cuts to cut the losses, or will "sock-it-to the customer through the pricing of change orders. (We know of one pipe fabricator that deliberately uses the strategy of looking for projects that he knows will have lots of changes coming once an order is let. He then "buys" the project, knowing that he will make it up on engineering changes.)

3. Lower Manufacturing Costs: Many times this is the area that most people put the "blame on" if someone is high. In reality, this area is probably the least likely explanation for price differences.

A. Material Costs: Material prices paid by fabricators are pretty constant throughout the industry. Some very large pipe manufacturers, such as Smith Fiberglass and Ameron, have annual blanket contracts that do allow them to purchase at prices which are probably five to seven percent below the normal list. Other pipe manufacturers, such as Ciba Geigy (now Ameron), Fibercast, and the departed OCF made their own resins and/or glass to give them an advantage in this area.

These advantages in materials often are more than offset by increased overhead and burden carried by their larger organizations. On large jobs, probably most qualified fabricators are receiving the same pricing. Industrial Fiberglass Specialties certainly is purchasing as "sharply" as we can. Because of our volume we probably enjoy some price savings over the smaller fabricators.

B. Labor Costs: Some small garage shops and small fabricators undoubtedly pay their workers less than Industrial Fiberglass Specialties. Among its peers, Industrial Fiberglass Specialties' labor rates are in line with the rest of the industry. A fabricator that is experiencing high personnel turn-over may have some labor advantage because a higher percentage of his work force will be inexperienced and thus at a lower hourly rate. There are some fabricators we know that use this turn-over policy deliberately to keep their labor rates lower. Obviously, this strategy is fraught with problems of lower quality and lower labor efficiencies. We believe Industrial Fiberglass Specialties' labor costs are little different than other similar qualified competition.

C. Burden and Overhead Expenses: Again, the garage shop obviously has a lower overhead and burden. It will not be able to offer the customer many of the services offered by Industrial Fiberglass Specialties, including engineering assistance, sales assistance, design information, etc. Compared to its peers, Industrial Fiberglass Specialties is "lean, mean, and trim." If Industrial Fiberglass Specialties has a pricing problem, it is not because of high overheads and burdens.



Industrial Fiberglass Specialties, Inc.

4867 Chambersburg Road

Dayton, Ohio 45424

(513) 236-3582

Why are our prices high?

Or, how to interpret bids?

06-25-90

Page 3 of 4

4. **Manufacturing Efficiencies:** There can be differences in the efficiencies in the different production processes employed. For example, Ameron on their Series 3000 pipe and Smith Fiberglass, with their continuous manufacturing processes for small diameter pipe would have such a production efficiency advantage. In very large diameter pipe, the sixty-foot mandrels of HP Composites give them a production efficiency edge. Because of our unique method of method of making fittings, and very efficient winding equipment for medium-size pipe, we believe that Industrial Fiberglass Specialties has an advantage in these areas. It should be remembered that quality costs, and there are no true short cuts in much of the custom work that we do.

5. **Freight Advantages:** Freight is a costly consideration, when quoting on a delivered basis. We are shipping a lot of air, and the carriers charge accordingly. It for this reason that the FRP industry has tended to be regionalized. The higher the dollar value of the equipment, the less the freight is as a percentage, and thus the less of a selling factor. There is not a lot we can do to overcome this problem of freight.

6. **Commission Advantages:** On many occasions when we have checked to find why there is a competitive difference between our price and that of a competitor, we have found that the competitor was selling direct in that area without having a distributor's "mark-up" involved. We believe that, long-term, the advantage of having a representative or distributor in a territory far outweigh the small additional cost. The distributor can better serve the customer on a continuing basis - providing initial engineering assistance, hand-holding, post-sale follow-up and service, etc. If the customer expects this type of service, then he must also realize that it does add an additional cost increment to the sale. We do not like to see jobs sold at reduced commission or margin levels, but at some times it becomes a necessity that we both must reluctantly agree to do so.

7. **Marketing Advantages:** The best way to gain a price advantage is at the time the specifications are written. The more complete, detailed, and comprehensive the specifications, the better the competitive situation for Industrial Fiberglass Specialties. If the competition gets their products specified, with special requirements tied to their sizes, configurations, and unique manufacturing situations, then we are at a disadvantage. Likewise, if you can subtly guide the specifications, we can almost guarantee that you can preclude competition from being an effective price competitor. Give us a call on specific jobs, so we can provide input as to how you can gain the marketing advantage.



Industrial Fiberglass Specialties, Inc.

4867 Chambersburg Road

Dayton, Ohio 45424

(513) 236-3582

Why are our prices high?

Or, how to interpret bids?

06-25-90

Page 4 of 4

8. **Just Because:** Sometimes there will be a price difference "just because" that particular supplier wants the job. Maybe the order is a fore-runner of a much larger job and he is trying to keep the competition out and from getting their foot in the door. Recently we lost a pipe job, after we actually had the written purchase order, because the competitor came back in and cut their price over fifty percent off of list. The indications were that he did this just to keep us out of that particular account. These are unique situations and must be handled on a one by one basis. One of the best means a combating this method of pricing is to flatly point out to the customer what the competitor is doing, why they are doing it, and that we will still be around for their next orders.

9. **Interpretation of Specifications:** There can be honest differences in interpreting specifications. Many specifications are written so poorly that one fabricator can interpret that the customer is looking for a Chevrolet, and another interpreter could, just as easily, determine that he requires a Cadillac. We tend to interpret these ambiguous specifications on the basis of whether the customer wants and is willing to pay for Industrial Fiberglass Specialties quality. This can make a sizeable difference. This is the reason it pays a distributor to work closely with the customer on their specifications before the inquiry is quoted. Then once the quotation is made, to review with the customer, in detail, our quotation and how it might vary from others he has received. It pays to "Know Thy Competition." Understand how the competition's equipment might not measure up to the customers expectations, or to the levels of excellence being quoted by Industrial Fiberglass Specialties.

In summary: Many factors can lead to differences between quotes on reinforced fiberglass plastic equipment. You can help minimize these differences by guiding the specifications before the inquiry, and then quoting on a detailed basis, reviewing with the customer your quote and the quotes from the competition. Success in securing the order may come helping the customer understand why the equipment you are proposing is his "Best Buy", when evaluated on cost per year of service life.