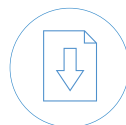


Beyond Sales: Why Manufacturers Need to Look at CPQ through a New Lens

By Lou Washington



You'll learn:

- The two missions of CPQ
- Five back-end processes where business breaks down
- How business can rethink CPQ implementation to affect these processes



Start a conversation about CPQ at a business meeting and chances are colleagues will assume you are going to talk about selling and sales tools.

Isn't that what CPQ is?
Isn't it a system that prevents inaccurate quoting, impossible product configurations or flat-out making product promises to the customer that your enterprise can't keep?



The short answer to the question is yes; that is part of CPQ. But, the fact is, CPQ goes way beyond assisting the sales rep with pricing and configuration problems.



The Two Missions of CPQ

Configure-price-quote (CPQ) technology performs two overarching critical missions for manufacturing companies and their customers.

The first mission of CPQ is to **Get the Right Product**. This means, in a high-level sense, that the sales rep and the customer are of a single mind in terms of a product being quoted, sold and manufactured. It means you are selling what you meant to sell and buying what you meant to buy. This is what most people think of when they hear CPQ.

The second mission of CPQ is to **Make the Product Right**. This is where CPQ moves beyond the point of sale. It has huge implications for the manufacturer and for the overall satisfaction of the customer. This is a side of CPQ that has been previously overlooked, but is perhaps the technology's greatest utility.

Manufacturers are starting to see CPQ beyond the point of sale—something more akin to a strategic utility. But what's driving this new view of CPQ?

How Business Slips through Process Cracks

There is ample opportunity between the conclusion of the sale and the delivery of the product for an order to get messed up. And even if the order is fulfilled to the customer's expectations, there are still areas of efficiency and productivity that manufacturers need to examine to ensure they are maximizing the value of every sale. These issues include:

- Seeing valuable engineering, product management or operations managers spending hours every week vetting orders in lieu of doing their own jobs.
- Unintended interruptions of production schedules to accommodate troubled, inaccurately specified jobs that require special parts, supplies or manufacturing processes.
- Wasted inventory and excess supply-chain expenses due to misunderstood specs or inaccurate configurations and requirements.
- Excessive expense on returns, field repairs and modification of defective products delivered to customers.

A recent study estimates that engineers alone spend almost a third of their time doing non-productive work. Engineers are too valuable to waste on these types of activities. There are considerable lost-opportunity costs associated with engineers who are checking orders instead of innovating.¹



By ignoring these issues, manufacturers are jeopardizing future business opportunities and putting profit margins at risk. It's this gap between front- and back-end processes that businesses need to bridge, and they should be looking to CPQ to do it.

When you look beyond the sales execution element, you will see how CPQ is now able to perform as a:

- Resource that liberates back-office, expert personnel from the drudgery of checking orders and vetting
- Planning tool that gives manufacturing a heads-up on planning and scheduling
- Facility to streamline the supply chain and control inventory
- Way to combat waste in the form of unfinished goods, factory returns, expensive product recalls and excess inventory
- The primary system to ensure customer satisfaction

Additionally, companies are relying on CPQ as the critical element in implementing global strategies because it provides scalability control for pricing, product content and format over multiple channels. CPQ enables the mining of data useful to decision-makers in the product-planning and management areas. This is why CPQ usage, adoption and roles are growing at an accelerating rate.²

There is much more to CPQ than helping sales reps quote the right price. There is more to it than making sure bicycle tires aren't ordered for cement mixers and priced as automobile tires. There are five critical ways CPQ can impact the organization beyond sales.

Making and delivering a product that is 98% correct is failure.

1. Making the Product Right

Manufacturing 4.0 or Advanced Manufacturing is driven by **technology** and **data**. Together these two elements combine to deliver on the promise of the lean, productive, demand-driven and customer-responsive manufacturing enterprise.

CPQ is where the data begins. The data comes from the customer, is guided by sales and it feeds the manufacturing process the information it needs to *Make the Product Right*. CPQ acts as a proxy for engineering, finance and manufacturing during the earliest phases of the process.

Making the product right starts with *Getting the Right Product*. You can't gather parts and supplies or schedule production cycles and logistical arrangements for a finished good without accurate, correct product specifications.

Making and delivering a product that is 98% correct is failure. The customer will not be satisfied with a well-made product that does not fully address their needs.

Consider Fassi Cranes. Fassi makes custom-made cranes for use all over the planet. It is an extremely complex, highly variable (30,000 configurations) product. Using CPQ, Fassi is able to achieve 100% configuration accuracy. They are able to instantly move configurations from the field directly into their ERP 24 hours a day with perfect accuracy.



CPO is the bridge between customer desire and the efficient and profitable making and delivery of high-quality product in fulfillment of those desires. CPO does this by:

- Eliminating “illegal” or improper configurations from being created and entered into the ordering and manufacturing process
- Gathering all specifications, BOMs and WBS requirements in advance. This eliminated surprises for engineering, production scheduling, shop floor, supply chain, distribution or aftersales support
- Fostering efficiency and lean practices in relation to inventory levels, supply-chain interactions and production scheduling
- Facilitating reduced time-to-market for new products by supplying better data and inputs directly from the customer

2. Order Accuracy Driven by Customer Wants and Needs

Customers have specific expectations. These include product functionality, reliability and performance, delivery requirements and pricing. Right there in the customer’s office, the sales rep is wired into the configuration and pricing engine. Together, the customer and the sales rep walk through the specifications. These are documented and plugged into the pending sales order.

Getting this right is where being customer-driven starts, and that is really what being “lean” is all about. Delivering value to your customer is delivering what the customer wants, when they want it, how they want it and at a price that reflects their perception of that value.

Defining lean: “A lean organization understands customer value and focuses its key processes to continuously increase it. The ultimate goal is to provide perfect value to the customer through a perfect value creation process that has zero waste.”
– Lean.org

CPO accomplishes all of this this by:

- Rationalizing the customer’s view
- Identifying and Isolating customer value drivers
- Eliminating order-entry errors
- Equipping the sales rep with specialized internal knowledge to ensure relevant and proper product-selection choices
- Bringing guided-selling functionality to bear to facilitate the identification of specific customer needs and desires
- Eliminating internal bottlenecks associated with order-entry errors, improper application of product solutions and getting customer inquiries and questions quickly answered
- Helping the buyer visualize the product solution prior to committing to an order

All sales channels can benefit from this technology. Indirect sales can use CPQ with the same facility and result that your direct sales force experiences. Distributors and dealers value reliability and consistent performance on the part of suppliers. CPQ ensures loyalty and better performance from your indirect channel because you are a reliable partner that is easy to do business with.

This is where CPQ really delivers value in the back office. Before CPQ, engineers, product managers and production managers would need to review each order before accepting. Not only does this delay the processing of the customer's order, it means these resources are not performing the work they are paid to do.

For PANalytical, a European-based analytical instrument maker, streamlining this process saved them €180,000 annually. Andre Balogh de Galantha, Business Improvement Manager for PANalytical, stated, "Our aim is to have 'zero tolerance' for technical errors. ..." CPQ made this goal attainable and saved substantial money as well.

3. The Price Is Right

Pricing has the same critical impact. If you average 96% accurate pricing over the course of a year and if you are working with a 20% margin on list, your 96% accuracy is costing you \$4 for every \$20 of margin. A four-dollar pricing error translates into a 20% reduction in margin; you can't afford that. Getting the price correct is essential to making your profit number.

In real numbers, Carrier Refrigeration used CPQ to cut its quotation errors by 50%. According to Alexis Amblard, Controller for Carrier, this alone resulted in an annual savings of €250,000.

By integrating the pricelist with the configuration system, the sales rep is able to provide a firm quotation for the customer for their specific finished product complete with the configuration-driven pricing changes. This ensures that there will be no surprises when the invoice hits the customer's payables desk.

You and your customer will know that the price is right, and you will know why the price is right. Accurate pricing driven by customer value perception is reinforced with



Carrier Refrigeration used CPQ to cut its quotation errors by 50%.

CPQ regardless of how your product is priced. Value can be perceived by product functionality, usage level, usage conditions or any number of variables. CPQ will support any pricing model.

Pricing must support profitability, customer satisfaction and the delivery of value. CPQ does this by:

- Nurturing trust on the part of the customer by eliminating pricing mistakes
- Handling complex pricing such as CTO and ETO product projects with accuracy and speed
- Making sales more efficient and less likely to incur unnecessary costs
- Freeing up internal resources such as engineering and production operations by building their expertise into the CPQ technology
- Eliminating wasted actions by leaning out the front-end process

The link between pricing and value must be evident to your customer. When these two elements are not linked, the pricing issues are more likely to turn into an arm-wrestling match designed to obtain discounts and pricing concessions. These discussions become moot in light of linked value and price.

4. Quality Built into Products and Processes

Knowing what is to be built before initiating the building process ensures that there will be less waste and fewer defects during the production process. CPQ enables this by defining acceptable tolerances, unique usage requirements, capabilities and limits in advance. Production defects are reduced or eliminated by providing advanced notice to the production line that will allow for the accommodation of unique needs associated with a specific project.

The customer's definition of quality is also understood in advance. This is essential to a positive customer experience. You can't satisfy a need that is not understood. The customer's needs, expressed in terms of quality requirements, should never be a surprise. These needs are as important as any product spec or other expectation the customer may have.

Understanding the customer's definition of quality is essential to a positive customer experience.

CPQ facilitates and enables quality by building products that are perfect and preventing the construction of imperfect products. This is accomplished by:

- Connecting and automating the entire sales process
- Delivering accurate and complete data to CRM, ERP Order Management and Production Scheduling in advance and in accordance to contractual expectations of the customer
- Streamlining approval and vetting processes to eliminate waste and costly, time-consuming sign-off processes
- Eliminating material waste from defective builds
- Promoting lean inventory practices to prevent cash from being tied up in shelf inventory
- Assuring products are delivered on time and in alignment with customer expectations
- Eliminating expensive field fixes and factory returns by getting it right the first time

Quality is a word that almost every company loves to toss into their promotional discussions. CPQ is the manifestation of real quality in practice, production processes, product performance and customer expectations.



5. Delivery – When, Where and How

When the product rolls off the assembly line, the job is still not done. There is still the matter of getting the product into the customers' hands. Most customers will have specific needs in this area.

All special delivery requirements as defined by the customer should be entered into the order and again understood well in advance. This is another role for CPQ.

As finished goods are completed on the product line, packaging and delivery are adjusted to meet the customer's requirements. These details are all part of the customer experience, and it is indeed a place where otherwise flawless performance can fall down and destroy a positive customer experience.

A perfect product is no longer perfect if it is not delivered as required.

Nothing will destroy a customer relationship faster than ignoring deadlines, delivery hour requirements and specifics regarding delivery location. A perfect product is no longer perfect if it is not delivered as required.

CPQ helps to ensure that this critical end-of-process task is performed flawlessly by:

- Including packaging specifications in the sales order and communicating those requirements to all interested parties.
- Including specifics regarding delivery locations. Delivering a large piece of machinery to an executive suite will ensure that you get the kind of attention you don't want.
- Making sure that delivery hour restrictions are well understood and communicated through your logistics operation.

Delivery is part of quality, but it is too often left out of the planning and order fulfillment processes. It's like having the proper follow-through in a golf swing. The customer will not see it as an unimportant detail. It is critical to the satisfactory completion of the initial stage of the sale. Don't hook or slice the delivery.

Takeaway: Limited Views Limit Growth

CPQ impacts business enablement far beyond the confines of helping sales match the right price to the right product. CPQ facilitates lean, efficient manufacturing by eliminating errors. It enables Sales to spend more time closing business and less time chasing expert knowledge around the enterprise. CPQ ensures that customers have a positive and rewarding experience when doing business with your company. Collaboration across the entire process will not just happen on its own.

Mary Shaklett, President of Transworld Data and an authority on marketing and technology, calls for two specific requirements to instill seamless cooperation between front and back office: collaborative planning and an order feedback loop. CPQ provides both of these requirements.³

Specific actions recommended will vary with almost every company, but a few initial common steps would be to:

- Measure engineering and product-management effort related to order review
- Measure inventory waste in terms of unfinished or returned goods
- Measure expense related to installed or delivered product that's found to be defective or unsatisfactory

CPQ is, of course, useful in its traditional role, but it can do so much more when it is utilized across the entire business-process spectrum. By only limiting CPQ to a sales role, companies looking to utilize the technology, or those needing to bridge dangerous gaps in the manufacturing process, are only limiting themselves, their bottom line and their ability to grow.



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