

Cincom Manufacturing Business Solutions

Driving Information Closer to the Buyer

WHITE PAPER

Cincom In-depth Analysis and Review



SIMPLIFICATION THROUGH INNOVATION™



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Foreword on Vehicle Manufacturing

Transportation vehicles, as well as the technologies they are built on, have changed dramatically over the last decade. It's no longer just about who the manufacturer is, but rather what are the payload requirements, routes, and maybe most importantly, the type of fuel. Today's complex political, environmental, and budgetary conditions all are playing significant roles in a vehicle procurement process that used to offer simple choices. Cleaner, quieter, smarter, more efficient vehicles are available for fleet replacement, but the choices and issues related to the available technologies can be daunting. It has become very evident that the rationalization of the procurement experience has every bit as much to do with the complexities of the vehicle life cycle as it does the vehicle content.

Executive Summary

There's a strong undercurrent of change reverberating through all businesses today. What's happening is that the lessons from the last recession and over-reliance on technologies versus processes have served up a much-needed wake-up call to the approaches to sourcing, producing and servicing products. The message is clear that core business processes must be at the center of go-to-market strategies and the direction companies take in managing their growth going forward. It's clear that for any company to ever get to their revenue objectives, they must pay attention to these process areas. This is especially true in the areas of procurement and strategic sourcing. What's happened is nothing short of a revolution that's being driven by manufacturers who demand that technology contributes to stronger financial performance and growth.

Business Challenges Are All About Processes

When you consider how critical business processes are – and that these are at the heart of the revolution your customers want – you see how critical it is for any company to become more process-centric than ever before. From both our experience and research at Cincom Systems, we've seen the following process areas make the largest and most lasting contributions:

- **Quote-to-order** – This is one of the core processes that is revolutionizing how businesses think about their channels and how they stay relevant to their customers. Manufacturers from many vertical markets found that quotes and proposal pipelines were the key to surviving economic downturns and capitalizing on market growth when it emerged.
- **Cash conversion cycle** – Another core process that drove the process revolution was the cash conversion cycle that strove to provide perfect alignment of customers' requirements and needs and the final delivered product – the more complex the product produced, the higher the risk and the greater the need for cash conversion cycles that work. Companies struggling to survive tough economic times found that the quicker they could reimburse their channels and the more accurately they could serve their direct customers with complex, made-to-order products, the more efficient the financial cycles of their companies became as well. Financial measures of performance over time showed the value of streamlining the cash conversion cycle – from lowering Days Sales Outstanding (DSOs) to driving up order accuracy and giving companies the ability to synchronize product introductions. This process was also core to the customer process revolution.
- **Assemble-to-order, build-to-order, configure-to-order and engineer-to-order** as integrated processes to production and not just extended sales strategies. Typically companies chose to-order strategies with the hope of filling up excess production capacity or finding increased margins. After the process revolution, quotes and proposals were the commitments made and kept by successful companies. The integration of these systems within companies nearly always spelled the difference between them delivering or not delivering value.
- **Distributed order management** no longer locked inside the four walls of a company. Another critical process that drove customers to revolutionize their businesses was having order management become core to sales and fulfillment strategies.

- Sales configuration and pricing – a lethal combination that was an overlooked process. Manufacturers and service companies alike struggle with setting correct expectations on price and delivery. And when you consider that much of the pricing done today is off of Microsoft Excel spreadsheets despite millions of dollars in ERP systems, you get a sense of why the customers are driving a revolution in all business processes. Both McKinsey & Company and the Harvard Business Review have researched and reported on how powerful pricing strategies are in either delivering profitability or losses quickly. Yet so many software vendors wanted to do price optimization – the elegant and very powerful analysis of pricing to a market – and didn't want to deliver on the needs of companies to just control when and where their prices were presented, in which quotes and proposals – and most important of all, having a process for controlling how the prices were changed.

Solution Strategies

Lasting change takes a series of gradual steps to accomplish, and that's certainly true when it comes to fundamentally changing how any manufacturing company re-aligns its business processes for greater profitability. Cincom Systems sees the following progression of steps as delivering the most value over time when it comes to re-architecting core processes in your company:

- **Re-evaluate processes as they are today and set reasonable benchmarks.**

This is a critical first step since you need to have a baseline measurement of performance that accurately defines where you are today so that improvements can be measured from both the automation of tasks and the selective application of technology.

- **Define a set of core metrics that best represent your sales, operational and service needs.**

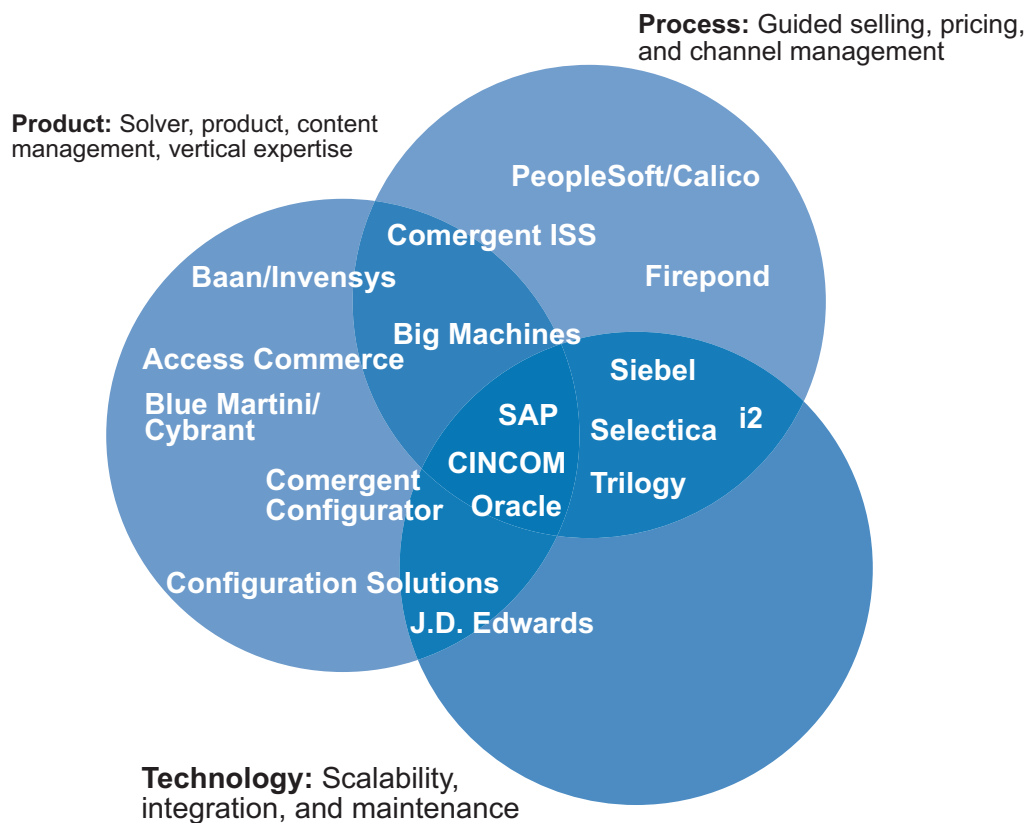
It's critical to not set too many metrics of performance as the task of capturing and reporting them will start to outweigh your ability to do anything with the data. Instead, create a streamlined scorecard you can use for monitoring the improvement in quote-to-order, cash conversion cycle/assemble-to-order, build-to-order and engineer-to-order strategies.

Metrics to consider for your scorecard include the following. These are the ones that are most often used. For a complete table, see the Appendix.

- Accuracy of orders – Companies have found that when orders have dropped below 60% accuracy, there is something systemically wrong with the order capture, fulfillment and service aspects. Monitoring this metric on a monthly basis gives you a very clear insight into what's happening with your customer-facing order processes – or more plainly put, how you are serving your channels and customers with order capture.
 - Cost per configured customer order – While this isn't a commonly reported statistic, it's critical to do the hard work to get this figure and track it monthly. The extra effort is worth it because you get a great measure of before-and-after profitability in your order workflows when you define a process to capture the cost per configured order. Even manually redefining this process creates greater value, and having this metric of cost per configured customer order should drop because of your efforts.
 - Order cycle times for standard versus configure-to-order products – this is a telling statistic that will have a major impact on inventory turns for pick/pack/ship versus semi-customized products, versus the engineer-to-order products custom built to a customer's exact specifications. Cycle times will show improvement even before any software is used to automate quote-to-order processes.
 - Days Sales Outstanding (DSO) – This is the average number of days your customers take to pay their invoices. Many companies will break this out for both standardized and customized, or to-order products. The reason companies will do this is that often DSOs for the to-order products are longer than DSOs for standardized ones. Often the bigger the gap the greater the potential for improvement. DSOs for configured products can be significantly improved through the use of quote-to-order systems.
- Start re-architecting proposals, quote-to-order, pricing and any other process workflows that regularly impact your channels and customers. Both Cincom Systems and AMR Research have seen that even small improvements in customer-facing processes can yield big results. Getting these initial results first will validate that your selection of strategies is on track, and when software is selectively applied to these problems, progressively improving results are typically delivered.
 - Build a business including an ROI analysis for selectively applying software to quoting, proposals and pricing. By this time, you're starting to build a track record of results from re-defining these customer-facing processes. The next step is to take a hard look at the software investment and its potential impact on the processes that are showing initial positive results. Cincom Systems can provide templates for handling ROI analysis of your specific to-order strategies. The bottom line on this point is that the larger the number of symptoms of broken processes the higher the ROI. AMR Research and Gartner Group have both defined sales configuration systems as having proven ROI.

- Selecting a vendor that can deliver. The sales configuration marketplace is populated with both best-of-breed and ERP vendors, yet neither completely dominates the market. Figure 1, Combining Process, Product and Technology Defines the Configuration Landscape, shows how vendors in this market arena compare with each other. Notice at the intersection of product, process and technology, there are vendors that have a strong ability to execute on process-centric workflows. There are several key take-aways from this graphic to consider when looking at a sales configurator:
 - Vendors in just one of the three areas are either using another core business to finance their sales configuration products or are facing consolidation.
 - Vendors in two of the three areas have referenceable customers and are at risk of being consolidated out of the market.
 - Vendors in all three areas including Cincom have the best track record at translating to-order strategies into an increase in financial performance as measured by a core set of metrics taken since the first steps of their strategies.

Figure 1: Combining Process, Product and Technology Defines the Configuration Landscape



Appendix: Measuring the Impact of To-order Strategies

Figure 2: Making an Impact on ROI

Areas of Measurement	Baseline: What to Measure	Example of Benefits
Company metrics	Project costs and expenses	Used as the baseline for defining ROI
	Data on your company	
	<ul style="list-style-type: none"> • Current revenue and customer data 	Baseline for quote-to-order performance
	<ul style="list-style-type: none"> • Number of orders per year/average size 	Inventory turns driven by configuration
	<ul style="list-style-type: none"> • Number of direct sales/distributors 	Reach of configuration strategy into channels
	<ul style="list-style-type: none"> • Current inventory and costs 	Inventory turn savings
	Data on your customer	Revenue contribution
Marketing	<ul style="list-style-type: none"> • How many, average revenue per and attrition rate 	Revenue contribution
	<ul style="list-style-type: none"> • Cost of customer service/customer 	Cost reductions driven by configuration
	Cost of marketing collateral and sales information	75% reduction in marketing collateral printing costs
	Product introduction time frames	30%-60% decrease in cost/lead
	Number of quality leads generated	25%-40% increase in leads for configured products
	Time frame from lead generation to face-to-face contact	Lead-to-sale increases of up to 30%
	Conversion rate from shopper to buyer	
Sales	Customer acquisition costs	
	Proactive sales calls by telesales	Reduction in order cycle time from 17-33 hours to 30 minutes
	Current value of and margin on individual orders (upsell/cross-sell)	Increase in customer face time from 25%-50%
	Average sales price per order	Sales productivity up 9%-26%
	Order cycle time	Order cycle times down 65%
	Cost of sales	DSO reduction from 60 to 29 days
	Customer retention	
	Increase number of new customers	New customer increases of 10%
	Revenue from new customers over time	Increase in cross-sell and upsell by 33% in aggregate
	Percentage of time devoted to revenue-generating activities vs. administrative	
Quote and order	Training costs	
	Profitability of channel	P&L reporting by channel program
	Average costs to complete an order	95% reduction in costs to complete order
	Average revenue loss per order due to elapsed time to complete an order	Configuration and quote time reduced by a factor of 30
	Capacity for processing orders	Order accuracy up to 100%
	Bad/incomplete/inaccurate orders	Incomplete order reductions of 20%
Engineering	Write-offs due to pricing errors	Over 100% ROI on automating special pricing requests from manual to electronic
	Average revenue loss per order due to delay in fulfilling and provisioning an order	
Engineering	Costs and time lag in engineering configure/quote support	20%-50% reduction in engineering support

Areas of Measurement	Baseline: What to Measure	Example of Benefits
Fulfillment	Cost of fulfilling or provisioning an average order	10% reduction in days sales of inventory
Customer service	Number of change orders; labor, scrap, rework, and inventory due to incorrectly configured systems	
	Number of customer complaints	98% reduction in cost of simple requests to customer service
	Number of calls to call center/sales/support, for price of product, in stock, order status	500 calls per week for order status reduced to 70
	Revenue lost due to customer churn	
Warranty and returns	Returns and warranty costs for incorrectly ordered items	10% reduction on warranty waste
	Labor costs that can be deferred to other projects	Decrease in order rework from 15% to 2%
Qualitative indices	Customer satisfaction and loyalty	
	<ul style="list-style-type: none"> Increased mindshare with customer, produce quote/configuration accurately and quickly 	Greater resales rates to existing customers
	<ul style="list-style-type: none"> Good user experience with ability to accommodate range of buyers, from novice to expert 	Higher customer satisfaction scores
	<ul style="list-style-type: none"> Easier to do business with 	Customer retention; greater forecast accuracy for launching new products to existing customer base
	Brand	
	<ul style="list-style-type: none"> The ability to conduct commerce via the internet, thus perceived as sophisticated 	Make-to-order and build-to-order sales strategies deliver greater sales of higher margin products
	<ul style="list-style-type: none"> Extend brand identity to the web; general expanded brand awareness 	Consistency of branding across channel partners and franchises
	Internal	
	<ul style="list-style-type: none"> Exposure to new markets and customer insight 	Cross-sell and upsell strategies fine-tuned for the needs of specific audiences
	<ul style="list-style-type: none"> Data is more accurate and customer-ready 	Real-time performance data of make-to-order, build-to-order, and configure-to-order strategies
	Employee	
	<ul style="list-style-type: none"> Expertise is leveraged, quicker knowledge transfer 	Product Manager becomes center of product information management; freed up to handle major opportunities and future roadmap decisions
	<ul style="list-style-type: none"> Reduced administrative duties for experienced people 	Capture product rules and constraints to free up experts to gain additional knowledge and serve top customers
	Channel/Sales	
	<ul style="list-style-type: none"> Improved channel and trading partner relationship 	In-depth technical answers and greater responsiveness
	<ul style="list-style-type: none"> Product and pricing information released to all channels, rapidly and as needed 	Pricing execution consistent across all channels for all customers; greater control of pricing strategies
	<ul style="list-style-type: none"> Increased consistency and collaboration in selling and service processes, across channels 	Synchronizing product introductions across all channels for make-to-order, configure-to-order, build-to-order and engineer-to-order
Competitive edge		

Recommendations

Cincom sees this collection of strategies from assemble-to-order through build-to-order to the most complex of configurations, engineer-to-order, as having the potential to deliver significant ROI to companies that choose to implement them. Here are recommendations based on research completed in this arena:

- Configuration strategies are no panacea for disorganized and ineffective processes. Companies have bought into these strategies thinking they would also redefine processes for faulty order workflows, disconnected configuration tools, and ignored channels all at the same time. The first step needs to center on figuring out why existing processes don't work and if any to-order strategies can solve the problem.
- Take a serious look at how to control maverick purchasing in conjunction with quote-to-order systems today. Going from manual to electronic, many companies are realizing triple-digit ROI gains. In fact, many are reporting 100% gains in the time required to complete tasks and eventually win business when a full-time approach to handling purchasing is in place to cut down on maverick buying.
- Refuse to have configurators exist only as islands in your company; make them part of a strategic sourcing effort. The size and sophistication of companies that are complacent about their procurement strategies is startling. Leaving money on the table, these companies need to re-evaluate their commitment to strategic sourcing and orchestrated procurement, and focus strongly on making quoting work across all business units.
- Create a roadmap showing how both the complex ETO and the relatively simple ATO strategies will be used as part of your purchasing strategies. Manage ETO and configuration in your company like you would manage a product. Focus on the end-user or customer, build a roadmap of what functionality you will need to serve those customers, and also track performance that is relative to the plan. Include training milestones and change-management goals in the roadmap.

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