



Quote-To-Order

An Enterprise Strategy - White Paper

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Fact: Every organization prepares quotes and/or takes orders.

All 'for profit' companies that deliver goods or services provide some form of quote to their prospects and/or create orders to fulfill a commercial agreement. This is the starting point for all commerce to occur.

Fact: 9 out of 10 companies treat quoting separately from ordering.

Most companies hold their sales teams accountable for preparing quotes while another group is responsible for processing the orders. There is not a consistent relationship between the responsibility of preparing quotes and processing orders. The majority of companies do not have a clearly defined process flow that articulates the various groups that impact the quotes and orders.

Fact: Quote-to-order process is the least automated and least measured area of an enterprise.

Companies address systemization and automation in different ways. Those companies that have large investments in ERP systems typically manage their ordering functions within an entry system or directly in the ERP system. They may even attempt to manage quotes through the ERP system. It usually results in a cumbersome, slow process of preparing quotes and proposals as the ERP system may contain complete product and pricing information; however, it is typically incapable of generating a proposal or interfacing with sales-oriented systems.

A second typical solution is to prepare quotes through a Customer Relationship Management (CRM) system. However, seldom are they capable of generating proposals or passing the critical order data to a fulfillment system for delivery of goods and services.

The third most common solution is to create a quote tool of some form. It may be a spreadsheet, database or custom-built quoting tool. The challenge becomes maintaining the integrity of the pricing and product tables, generating updated proposals and passing order data to back-end systems for processing. Many times companies will have multiple tools to accommodate different product lines or market segments.

Finally, with the disjointed methods of creating quotes, proposals and orders, the focus on measurement is non-existent. Seldom can companies create a measurement that would show the effectiveness of the process in quote conversions, average order size, cost of preparing quotes, proposals or orders.

Fact: Quote-to-order process impacts Revenue, Profitability and Customer Satisfaction

The quote-to-order process is the single link between top-line, bottom-line results and customer satisfaction. No other process is as critical for maximizing the value of capturing revenue in a profitable way and meeting the needs of customers. This process takes on the collective intelligence of the enterprise. The impacts of an accurate quote, proposal and ultimately an order makes the flow of all data and processes within an enterprise work smoothly that creates value for the customer, the company and it's employees, and finally the shareholders. A quote, proposal or order that has an error, could be disastrous to all those involved.

Who cares?

Any executive who is leading a growing enterprise needs to care deeply about their quote-to-order processes. Revenues and profits are at stake. Quoting and ordering is a function of every company, but seldom do companies take an enterprise view of their process and comprehend all the departments and personnel that impact it. So what does it mean to have a system in place to handle quotes, proposals and orders that that are 100% accurate? It means enabling your sales channels to define customer requirements and easily provide a solution that meets their needs. It means quickly producing an accurate quotation that meets customer expectations and that the company can deliver. It means empowering your sales channels to push a good quote to an order in seconds with one click of the mouse. Having a unified quote-to-order solution in place provides your sales channels with more sales time, increases quote and order volumes, eliminates order errors and delivering on promises. It requires focus at the executive level and effort in all areas of the process to create a flow that capitalizes on the collective intelligence of the company.

No matter what the method for growing is, a significant inhibitor in many companies is the quote-to-order entry process. Growth increases complexity and disperses collective intelligence, which is exactly what is required when doing the simple business function of generating quotations and processing orders. This study is meant to analyze this problem and tie it to the negative financial results that most companies experience. It will go one step farther and provide insight on strategies any company can deploy to prevent or eliminate the problem.

Top Line and Bottom Line Growth

Companies in all industries go through growth cycles where sales growth accelerates, slows down or actually reduces from year to year. There are many challenges that can be identified that have direct or indirect impact to the speed and consistency of sales growth. The ultimate goal of all 'for profit' organizations is to grow at a profitable and consistent rate to meet the owners/stockholders expectations. Consistent growth is not always a manageable task as there are many different economic situations that create challenges to those expectations. In times of accelerated growth, the need to change processes is important, but typically ignored. A guaranteed result of growth is the addition of complexities across the enterprise. Consequently, processes and methods that worked well yesterday in many cases become inhibitors today. Take the simple business function of generating quotations. Growth normally causes product, service and pricing changes that manifest into a long, difficult and error-prone quoting process. Most companies answer with creating some form of a quote tool in the form of a spreadsheet, database, price list or other custom-built solution to handle the increased

complexity and volume. This approach often fails as it does not incorporate an enterprise-wide strategy on placing the company's collective intelligence in the hands of its sales channels. Rather it relies on a snapshot of time and ignores the evolutionary process of implementing change.

When sales begin to stagnate or decline, there often is a push to provide sales tools in the form of Customer Relationship Management (CRM), Sales Force Automation (SFA) or Sales Methodology to the sales channels. Typically, the results that were expected for many reasons never quite materialize or are not measured. The expectations set during the evaluation process did not take into account all the external impacts to the sales process that actually occurs. The interactions with different groups outside the sales teams, which historically have been in different silos within the enterprise, do not have the same priorities to increase sales. The next logical step is to add the engineering and production expertise to the sales organization to alleviate the need for increasing the speed of the sales process.

Profitability is dependent on the accuracy of the orders that enter into the production systems. Orders that are flawed create an accelerating cost to correct as they proceed through the back office systems. If the error is not identified and corrected early, the cost of rework could create a loss for the business that order represents.

Customer Satisfaction

Customers are hard to find and maintain. However, it is much easier to keep a customer than to find a new one. For most companies, the cost of sales and the time invested in the sales cycle make it attractive to retain existing customers. Too often however, customers report very low satisfaction ratings after the sale making retention and growth a challenge. There are many reasons negative impressions set in, but the most common factor is that companies do not deliver on what was promised in the sales cycle, and most of that points back to the quote-to-order entry process. One company interviewed related that they lose a significant % of their customers every year due to a high rate of order errors. A manual and time intensive quote process leads to order errors that leads to mis-configured solutions delivered to customers. This begins a snowball effect that leads to profit and confidence erosion, which ultimately leads to customer defections. On the positive side, another company interviewed said that they had only lost two customers in their 13 years of existence. One from not paying their invoices and the other company left due to their requirements not being met. The second prompted a change to their quote-to-order process and systems.

Understanding customer requirements and meeting those needs through quoting, proposing and delivering the goods or services that satisfy those expectations will make retaining customers financially attractive. Both company and customer benefit from that relationship. The process is critical to success; however, speed and accuracy are required to maintain that relationship.

Financial Challenges

There are many challenges that face each organization as it experiences growth. In the quote-to-order process, one of the most significant challenges is an error due to product or service complexity that does not meet customer requirements. Costs associated with errors in the manufacturing or delivery process can easily take all the profit from the sale or worse cost significantly more to complete.

The second is the cost of sales as a percentage of revenue. This is also easily quantified, however, seldom is there a clear action plan to remove the excess costs. Many companies struggle with understanding the costs associated with sales. Typically, the bulk of the costs are

people costs that may not be captured due to not clearly understanding the quote-to-order process and all the people that impact it.

The next group of challenges is not as easily quantified; however, they are reflected in lost or slow sales and include inaccurate quotes and proposals, inordinate amount of time to quote and errors or omissions. Quotes or proposals that are inaccurate or have the wrong company name or wrong product configuration all contribute to losing a customer before the first contract is signed. Before these types of losses even occur, there is an increased sales cost with no associated revenue or customer.

Large numbers of manufacturing companies have adopted a 'lean manufacturing' system to help eliminate waste and reduce error rates. The 'lean manufacturing' process improvement may not identify errors in the order process unless it violates standards established in the plants. Typical companies do not have the same requirements applied to the quote-to-order process that ensures there are not any errors in the orders sent to the delivery organization. Orders need to be error free upon entry into the system for the system to be cost effective, and all orders begin with a quote.

Quoting and Ordering Complexities

Product or solution complexity presents a unique set of challenges both internally and to customers and prospects. The sales cycle is dramatically longer with a complex set of component parts or services that are either expensive or difficult to configure. Customer needs drive the process; however, it takes significant effort to understand and quantify the requirements.

Customers are now expecting solutions that are more complex, custom engineered or highly customized to their specific needs. This presents some difficult process challenges that rely heavily on product experts to be involved with every quote.

Companies will typically involve engineers, architects, technicians, production specialists and other support roles in the sales process just to ensure they accurately understand the customer requirements and design a solution to meet those needs. Since those roles do not exist within the sales organization, a new complex interaction is required; however, the priorities have not been defined that would align the goals of the overall process. One answer is to move those roles into the sales organization, which now has substantially increased the cost of sales.

Automation and Tools

Most organizations desire to improve certain areas of their sales that typically include lower cost of sales, accelerate sales, increase sales volume and order size, shorten sales cycle, reduce time to quote and propose and improve accuracy of quotes and proposals to 100%. Seldom is the quote-to-order process automated in such a way to capture and engage the collective intelligence of an enterprise. The tools usually are one dimensional in nature and only function to serve a specific need such as a quote tool that will calculate a specific price for a specific configuration. What it does not provide is the matching of customer requirements to product or service configurations, generate a proposal, create an order and ultimately create a bill of materials/services that can be error free and meaningful to the delivery organization.

The advent of configuration engines has alleviated some of the challenges. However, unless companies are willing to invest in really understanding the process, those efforts will yield the

same results as before, only with greater speed. Automation should be considered when defining a quote-to-order strategy and process.

What can you do?

Quote-to-Order (Q2O) Strategy

Is the Q2O process worthy of an enterprise strategy? How important is the protection of revenue, profit and customer satisfaction? Endeavor Commerce believes an enterprise strategy for quote-to-order that captures the collective intelligence of the entire company is critical to the success of the company. The development of this strategy will define and give structure enabling consistent topline and bottom-line growth and dramatically increase customer retention and satisfaction. A key goal is to make it easier for customers to buy and buy again.

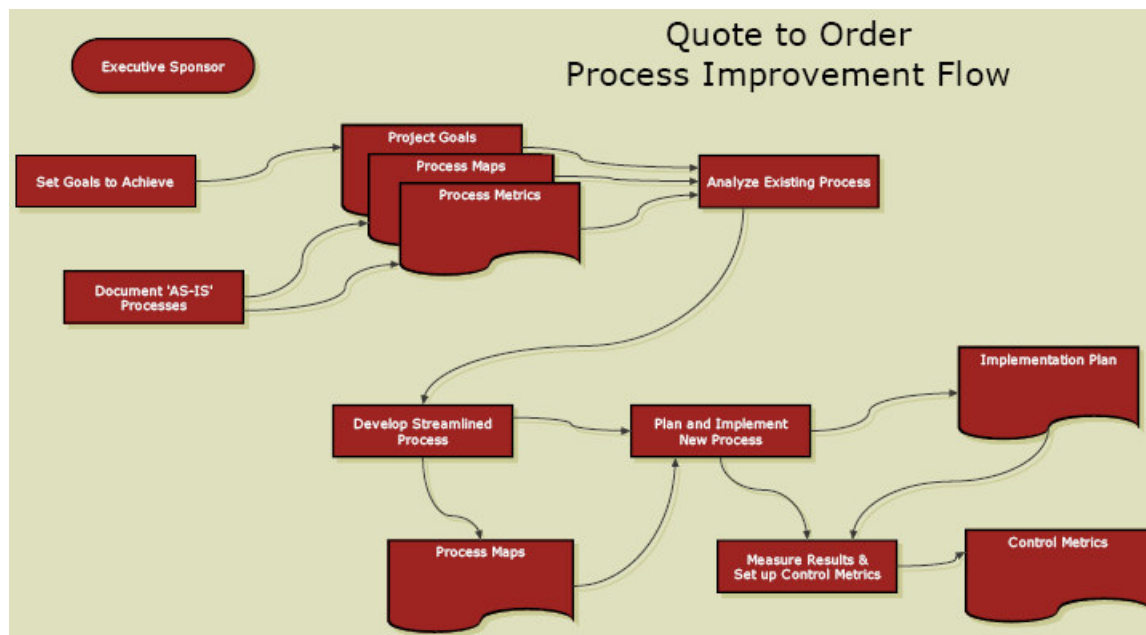
Define Quote-to-Order (Q2O) Process Structure

The Q2O process should be structured to enable all business processes. The next logical step after developing an enterprise strategy is to define and develop structure that follows the strategy with parameters around business segments that serve differing markets. The discrete process for a commodity-type product offering with few configuration choices will differ from a highly customized process service. The application of the enterprise strategy should still be the same along with the priority of supporting the sales process; however, different steps or activities may be required for each of the segments.

Define a Roadmap

The plan to improve the Q2O process must be a strategic business initiative.

Sponsorship of the plan resides with the executive team responsible for Sales and Marketing for the company.



Set Goals

The goals need to be defined and the expectations set that the project will generate increased revenue, reduced cost of sales and a repeatable sales process. For one company interviewed, their goals were to Increase Sales, Decrease Cost of Operations, Improve Customer Satisfaction and Improve Decision Making.

Capture Current Process and Metrics

The Q2O processes should be documented with the 'as is' state to understand where the complexity, duplication and disconnected flows exist. This part of the project is important to portray as complete a picture of the existing processes as possible. This is the basis for the next phase, Analysis. The gathering of metrics occurs during this phase. Metrics provide the performance measurements of the current process.

Analyze Process

Evaluating the process, metrics and defining the requirements are key activities during this phase of the project. The subject matter experts and decision makers must be involved to produce a meaningful requirements document and issues list. Decisions will be made regarding the business rules for product configurations, discount programs, measurements that will give a view of process performance and delegation of authority.

Develop Streamlined Process Flow with Metrics

The new Q2O process flow should take into consideration the prioritized issues from the analysis, resources and tools available, and the goals of the process improvement project. The overall objectives of streamlining the process should be to simplify the complex sale, reduce the activities that do not add value to the process, reduce the number of interactions to complete the process, delegate authority to the lowest level possible and employ tools that will provide consistent, highly accurate quotes and proposals. Metrics will be developed that can be easily generated that don't create a burden on the process to capture.

Implement New Process

The implementation of the new process will require focused effort on the part of all the process participants, a well planned project, role definitions and a process champion. The crossing of organizational boundaries will frequently require the cooperation of senior managers in each of the organizations, congruent priorities and appropriate goals defined to ensure success for the entire process.

Measure Results

Monitoring the progress of the process can now be measured against the goals set out at the beginning of the strategic initiative. The metrics have been implemented and it is incumbent upon the executive sponsor to map the original goals to the results of the defined metrics over a period of time sufficient to extrapolate the projected benefits. One company mentioned earlier reported the following results against their goals three months after deploying a Q20 solution:

Critical Success Factor	Technology Enabler	Business Benefits
Increase sales	Agility - creating new platform for growth	<ul style="list-style-type: none"> Overall sales \square > 5% International sales \square 100% Operating margin improved Time sales has for direct customer interaction \uparrow 35%
Reduce costs of operations	Supportability - automated operations and business processes	<ul style="list-style-type: none"> Order entry errors \square 60% Order time to manufacturing \square 65% Order processing costs \square 50% Order processing FTEs¹ \downarrow 20%
Improve customer satisfaction	Availability - easier way of doing business with customers and suppliers at lower cost	<ul style="list-style-type: none"> Customer call time per sale \downarrow 65% Customer procurement related costs \downarrow Customer product returns \downarrow 50% Customer service requests \downarrow Customer fulfillment cycle time \downarrow
Improve decision making	Manageability - real-time analytics	<ul style="list-style-type: none"> Integrated logistics \uparrow 100% Automated financials < 30 minutes to run company-wide reports\

These become the basis for on-going performance as the organization acclimates to the new process and adjusts to capitalize on other benefits.

¹ Full-time equivalent (FTE)

Recommendations

Start with an Enterprise Strategy Consultation. This consultation is focused on the enterprise view of companies with multiple divisions/entities that have distinct products, services or market segments. The objectives of the consultation is to provide guidance to the overall strategy development related to Q2O initiatives, deliver a framework to develop the strategy, and recommendations for developing a roadmap for each of the organizations.

Participate in a Top Line Assessment. A Top Line Assessment is focused on the examining key business drivers for each company/segment that facilitate business growth through improved quote-to-order process. By understanding the process and the key business drivers, your consultant can identify and recommend solutions that can help attract new customers and improve the relationships with existing customers.

Through this assessment time, realizations are made that help the business focus on the most important activities to be addressed and a timeframe for when they need to be completed. High-level processes are prepared and analyzed to determine where the most significant challenges can be addressed and recommendations developed that are meaningful to the company.

Summary

Commit to making your Quote-to-Order process an enterprise strategy. There is a direct correlation to top-line and bottom-line performance as well as customer satisfaction. The Quote-to-Order process is the defining link between every area of your business and it demands attention. Once a strategy is in place, assign key financial metrics to the strategy. It is at this point that applying a Quote-to-Order software solution is appropriate, and that will lead to measuring your progress. Finally, rely on the Quote-to-Order experts at Endeavor Commerce to help you and expect a significant return on your investment.