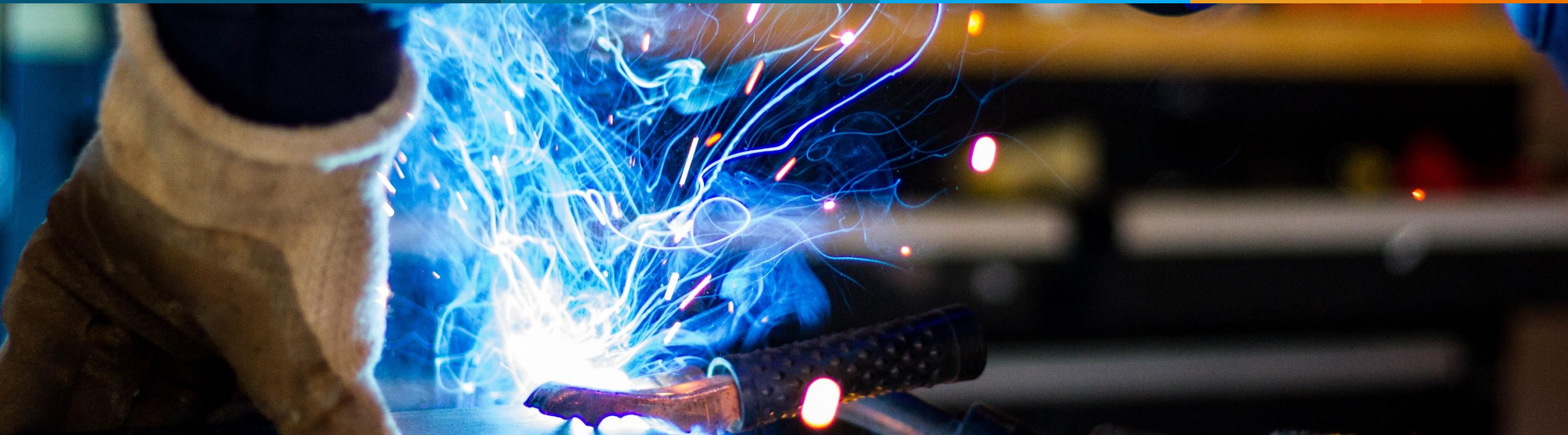


WHITEPAPER

Roadblocks To Profitable ETO/MTO Manufacturing Sales: How Configure-Price-Quote (CPQ) Software Can Help





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WHAT IS CPQ?



The acronym stands for: **Configure Price Quote** and labels a sales software solution that helps businesses with either complex products and solutions, or complex cost structures, to configure, price, and generate a quotation for their customers.

[Gartner](#) defines it as an "integrated set of software applications supporting the configuration, pricing and quote generation activities that accompany solution and negotiated selling." CPQ comprises "pricing engines, proposal generators, quoting systems, and rules or constraint engines, and are complemented by approval and authorization workflows."

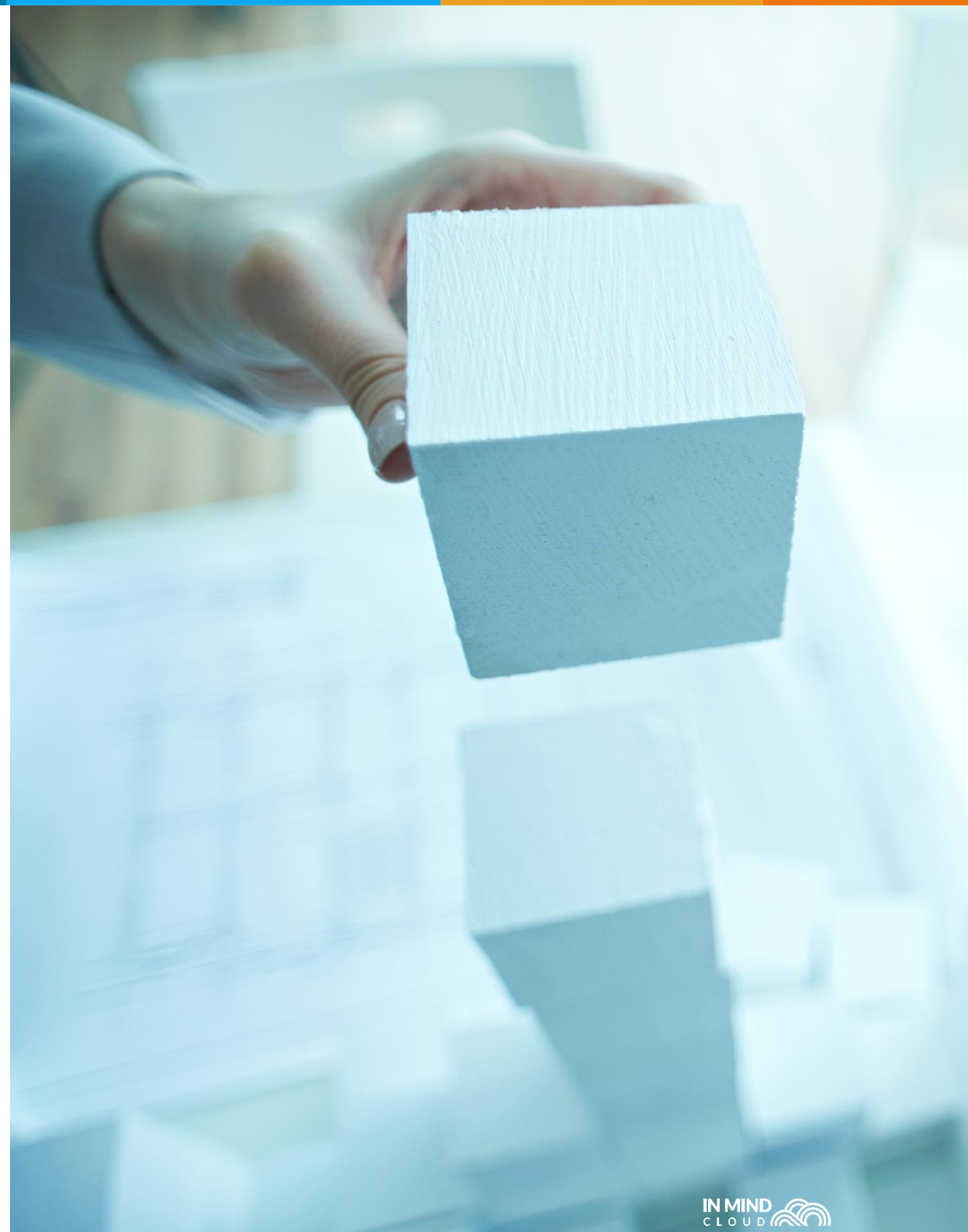
In other terms, [CPQ is a software solution](#) that sales people in B2B environments use to automate the central component of their customer relationship - the sales quotation following an RFQ (Request for Quotation) or RFI (Request for Information).

OTHER NAMES FOR CPQ SOFTWARE

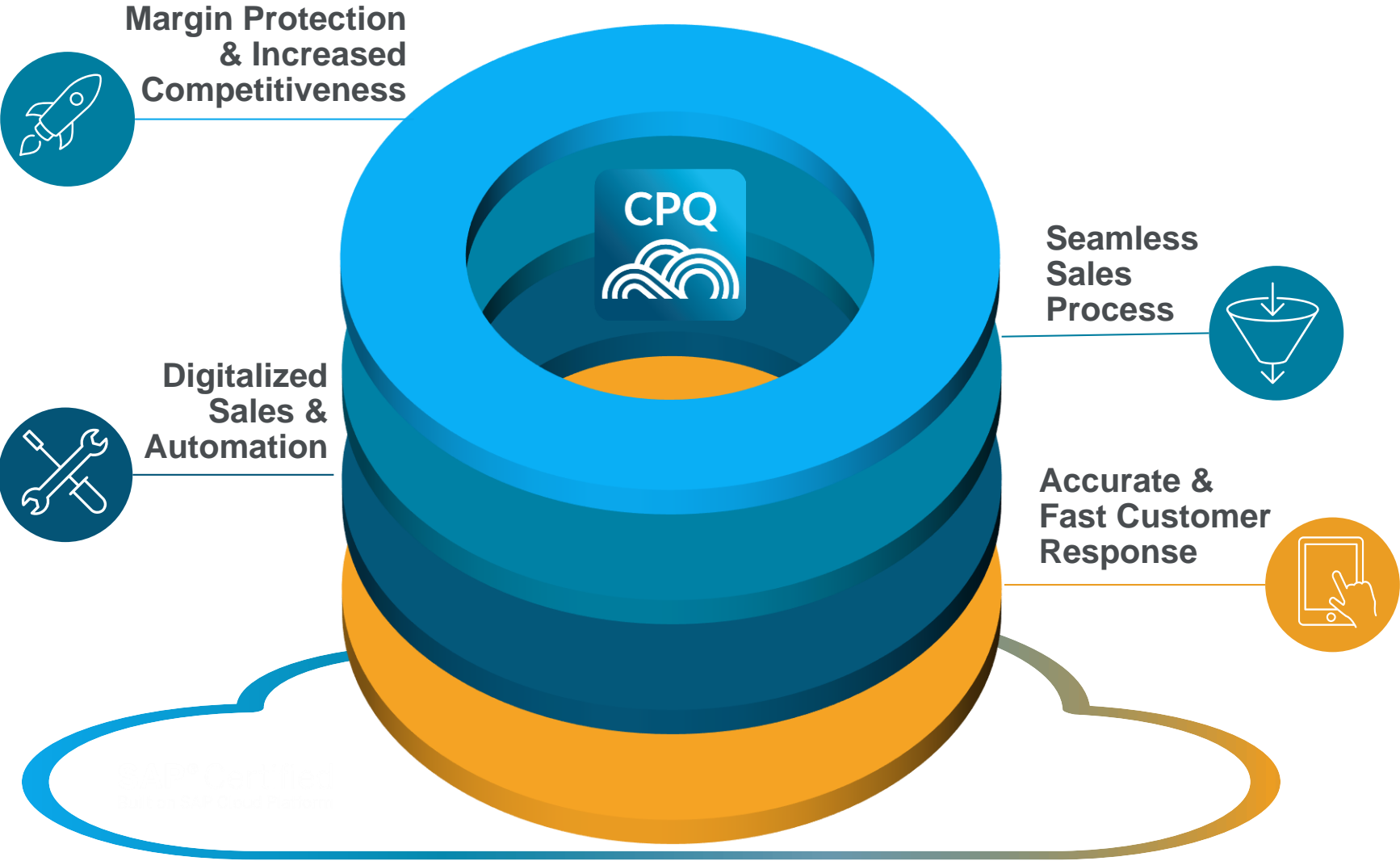
CPQ is often named diversely, depending on the industry and the focus of the usage.

Other labels for a Configure-Price-Quote solution may be:

- Pricing Optimization Software
- Pricing-to-Quotation tool
- Sales Configurator
- Product Configuration Software
- Sales Automation Tool
- Proposal or Quote generator
- Quote-to-Cash software
- Costing Calculation software



EXPECTED BENEFITS OF CPQ SOFTWARE



EXPECTED BENEFITS OF CPQ SOFTWARE

The power of a Configure-Price-Quote (CPQ) system lies in the direct elimination of errors and inefficiencies. The software enables sales teams to swiftly produce accurate, professional quotes and proposals for every individual customer. Having a streamlined and much shorter pipeline lowers the entire cost of sales. Additionally a smart CPQ system presents predictive up- and cross-selling opportunities to increase deal sizes and empowers a smooth collaboration of sales and engineering and purchasing teams via automated routing and approvals.

These are the benefits you can expect from implementing a CPQ system:

1. **Margin Protection and Increased Competitiveness** via costing/configuration error elimination, pricing optimization methods and increased deal values
2. **Digitalized Sales & Automation** improving revenue prediction
3. **Seamless Sales Process** lowering costs of sales and IT maintenance costs
4. **Accurate & Fast Customer Response** increasing customer satisfaction and improving customer retention rates

THE THREE ROADBLOCKS TO A SMOOTH MANUFACTURING SALES PROCESS

In Manufacturing, Engineering, or High-Tech businesses, the sales process is often extremely complex. The characteristics of the business, particularly in engineering-to-order (ETO) or made-to-order (MTO) scenarios, lead to processes that are long and complicated, and can deliver poor revenue results in the end.

The reasons why can be quite diverse but we have identified three main road blocks that prevent manufacturing businesses from getting the most out of their sales process:

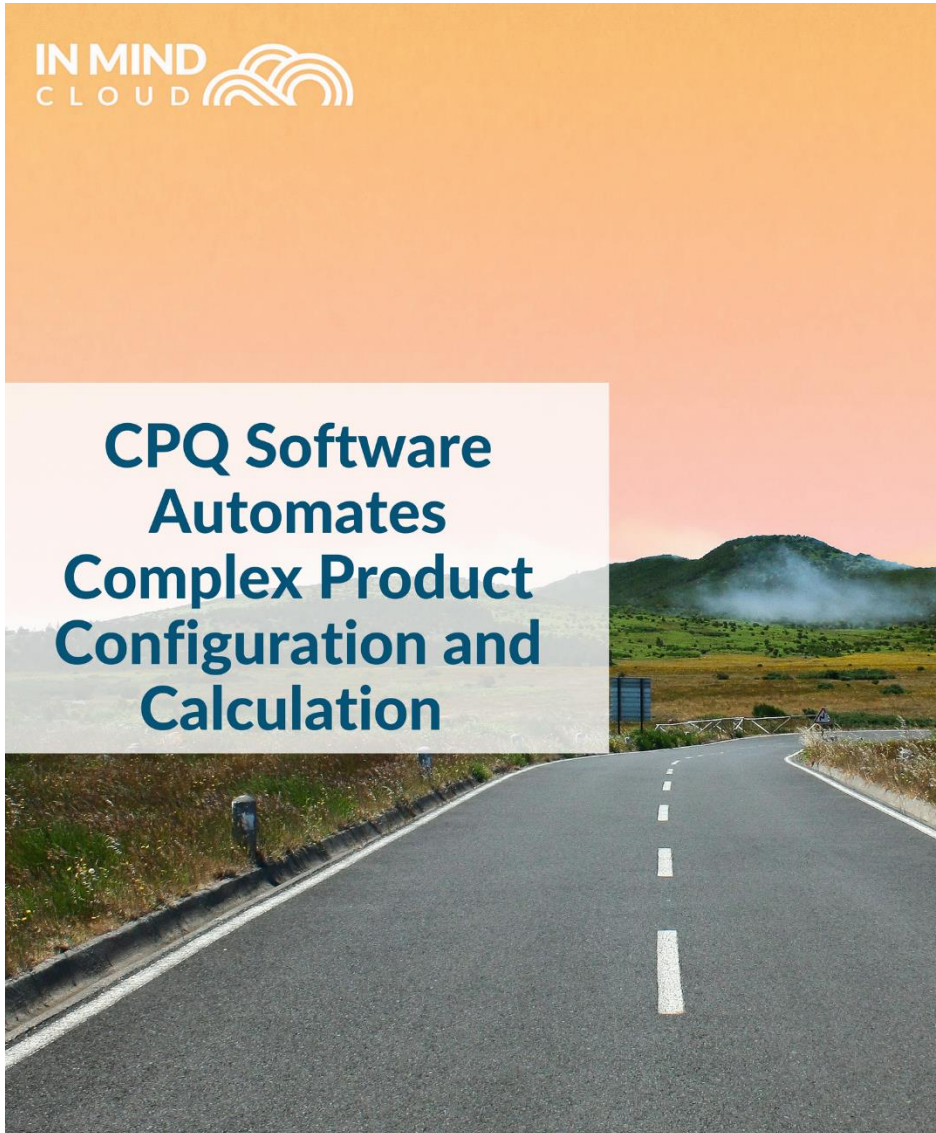
1. **Product Configuration Complexities**
2. **Lack of Pricing Transparency**
3. **Approval Delays And Bottlenecks**

At the same time, manufacturers are not exempted from dwindling margins and increasing global competition in a race fueled by [digital transformation](#) and [Industry 4.0](#).

When it comes to automation and digitalization of sales one of the first options to look at for manufacturing businesses is a Configure Price Quote (CPQ) software. How can a CPQ software become a real asset for industries that are looking to boost their revenue in a sustainable way?



PRODUCT CONFIGURATION COMPLEXITIES



CPQ Software Automates Complex Product Configuration and Calculation

In engineering-to-order (ETO) and made-to-order (MTO) scenarios, there are two main challenges for sales teams. Firstly, the products that are to be sold to the customer do not exist, and need to be completely configured for the quotation. Secondly, the products are not assembled and will only be produced once the order is received. In these scenarios, configuration and quotation can become extremely complex, since it deals with products that do not physically exist.

With the implementation of a CPQ tool that integrates with the ERP system, **complex calculations can automatically be done inside the system, even the more complicated ones.** This results in a quotation process that is much more efficient, and configurations that are much more likely to be accurate. Customers can reduce their quotation time from two weeks to only a couple of days, saving precious time for more value-added activities.

PRODUCT CONFIGURATION COMPLEXITIES

Product Modelling Can Be Done Directly in CPQ

Another problem in manufacturing businesses is that they need to perform the product modelling in the ERP before being able to create the quotation. This modelling is complex, takes a lot of time, and in ETO or MTO scenarios the sales person must configure a product that may not be sold afterwards.

However, with a [manufacturing-tailored](#) Configure, Price, Quote software, the **whole product modelling can be done directly in the software**. There is no need to configure all the products in the ERP system beforehand.

If the customer wants to do changes to the quotation or the configuration, any modification can be very easily done directly within the CPQ system. Furthermore, when the quotation is approved, the bill of materials (BOM) is directly transferred to the ERP without any additional manual steps. This feature saves a considerable amount of time and eliminates error risks, making the sales process much more efficient. It brings a real competitive advantage to any manufacturing business that wants to simplify their sales processes, even in very complex scenarios.



PRODUCT CONFIGURATION COMPLEXITIES



Better Product Configuration Equals Maximized Sales Opportunities

In engineering and other manufacturing industries, product catalogues are usually very extensive and can include thousands of references. Our customers often tell us that some of their sales representatives do not know what they can offer to their customers. Consequently, they end up losing key opportunities. For the same reason, **cross- and up-selling is difficult and the sales team often limit themselves to the most well-known products.**

Once these manufacturing businesses implement a Configure, Price, Quote software, their sales teams can make highly customizable quotes that result in a higher customer satisfaction and a higher closing rate. Indeed, the configuration logic that is created in the CPQ makes the configuration process much more intuitive and the final proposal can perfectly meet the customer demands. This same logic favours up- and cross-selling, which appear in a very clear manner in the quotation, thus allowing the customer to choose what services and products to buy. [Customer satisfaction](#) therefore increases and drives greater profitability to the business.

LACK OF PRICING TRANSPARENCY

External and Internal Pricing in CPQ Allows for Higher Accuracy: Case Study

One of our customers is a Mechanical Engineering company and supplier of the automobile industry. This customer had really complex pricing schemes which involved depreciation over time. Before implementing a CPQ, they had to do all these calculations manually, with the input of the engineering and the finance department. They also had to fill in up to 50 different documents before giving their customers a final quotation.

The likelihood of errors and giving an inaccurate price was therefore very high. For a business with slim margins, you can imagine the disastrous consequences if a mistake was made.

A CPQ adds real value to any business, as all these price calculations, whether external or internal, are done by the system. **All the pricing information is instantly at hand for the sales team and managers.** The cost schemes inside a manufacturing-tailored CPQ allow not only an agile and speedy product configuration, but also the use of the most accurate prices available.



External and Internal
Pricing in CPQ Allows
for Better Accuracy

IN MIND
CLOUD 

LACK OF PRICING TRANSPARENCY



CPQ Uses Real Production Costs to Enable Better Margin Control

IN MIND
CLOUD

CPQ Uses Real Production Costs to Enable Better Margin Control

Product complexity, especially in engineering-to-order (ETO) or made-to-order (MTO) scenarios, has a direct impact on profit. The actual product margin becomes difficult to estimate. So when the sales team prepares the quotations, the costs are only “assumed” to be correct, and the applied margins over those costs remain theoretical. This has a direct impact on the company’s revenue.

Under usage of a CPQ system, **the actual, real costs can be directly and almost instantly compared with the ones used in the quotation**, when the production process starts. This is essential to check the profitability of the “Lot size 1” strategy, fundamental in many manufacturing companies. It also allows the company to greatly increase the accuracy of the whole sales process. The control over the margin is largely enhanced.

LACK OF PRICING TRANSPARENCY

3. CPQ Facilitates Consistent Price Management Through the Cloud

We have already written about how implementing a [CPQ hosted in the cloud](#) can bring advantages to any business. Nevertheless, this becomes particularly true regarding manufacturing industries and their complex costing scenarios. Here, the need for the most accurate costs has a vital importance – the cost-efficiency of the whole business depends on it.

A Configure, Price, Quote software in the cloud allows the data to be always synchronized and up-to-date. Moreover, the business will save on costly maintenance that on-premise services need. Using a cloud CPQ guarantees consistent data management – including product costs and pricing. Consequently, the cost information is always updated, leading to a better overall financial performance of the company, since the management has the necessary tools to handle the margins.

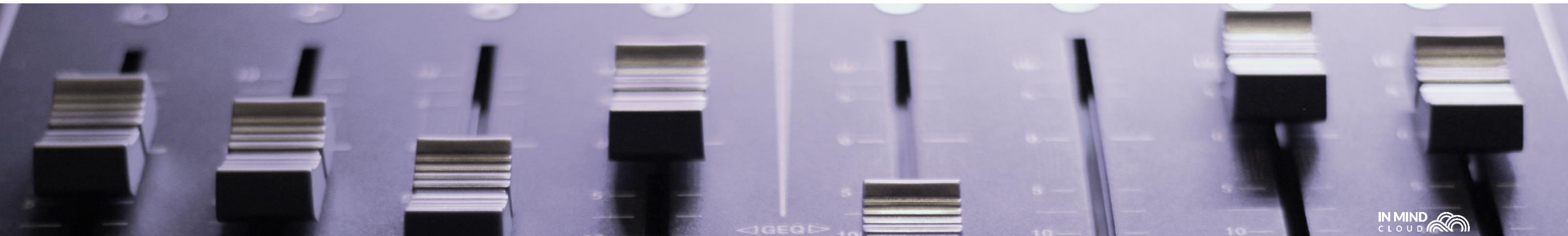


APPROVAL DELAYS AND BOTTLENECKS

In complex ETO and MTO scenario cases, **the engineering experts need to frequently control the quotation and contribute their input.** They also need to make sure that the products in the configuration are the right ones and can actually be produced. This process usually takes place outside of the ERP and CRM system. It can consume a lot of time and inaccuracies easily occur along the way.

At the same time, this issue does not only pertain to the engineering department, but also the finance department. Indeed, the management accountants need to make sure that the quotations include the suitable margins to guarantee profitability of the transaction.

With a Configure, Price, Quote solution, these different inputs can be streamlined within one system. They are therefore much easier to control and margin errors can be reduced significantly. Different departments can work together in tune, saving time and money. In a [study conducted by Aberdeen](#), it was concluded that a best-in-class sales team using CPQ software were 65% less likely to be challenged by exception rules. For engineering, this means less time lost in analysing and approving custom configurations done by the sales team.



APPROVAL DELAYS AND BOTTLENECKS



Once the quotation is finished and before it is sent to the customer, the sales team needs to get the approval of their sales manager. Depending on the company defined trigger factors, sales will also need approval of higher management. In many companies these approval processes are done outside the system, often using e-mails or forms.

This impacts negatively the productivity of the process negatively in the following ways:

- 1. On one side, the sales representative needs to be on the lookout to get the approval and waiting times occur.**
- 2. On the other side, the approving managers might lose track of the number of quotations to be approved.**
- 3. Furthermore, the details of the quotation such as the configuration and costing calculations are not all available in one place and may cause difficulties for the approving party.**

In short, there is a lack of control on the whole process. CPQ helps to make that process controlled and automated. Depending on the discount rate, for example, the sales person needs to get the approval of the manager, who will automatically receive an email with the notification. The full process is accessible in CPQ and the manager has much better control on activities. The workflows in CPQ are also completely customizable and adapt perfectly to the particularities of the manufacturing business.

SUMMARY

A CPQ software not only **simplifies complex product configuration and calculation**, it helps to **improve the efficiency** of the whole process. This applies even to engineering-to-order (ETO) and made-to-order (MTO) scenarios, where very complicated configurations need to be done. The ability to configure the product directly in the CPQ without having to go through the ERP saves an enormous amount of time and brings a real competitive advantage to the manufacturing businesses.

The manufacturing, engineering or high-tech industries have specific needs regarding pricing and costing to be able to achieve **a profitable sales process**. A CPQ software helps those companies to achieve a high transparency on costs. They can therefore better manage the margins that they need to apply to their products. The financial performance of the company is thus improved, achieving a better profitability – and boosting its revenue.

With a Configure, Price, Quote system, manufacturing and engineering businesses can also manage all the input and approval processes in one place. CPQ cuts the inefficiencies from the different departments involved in the quotation process (sales, engineering, finance).

For any company in the engineering, manufacturing and high-tech industry, implementing a Configure, Price, Quote tool will boost the productivity of every person involved in the quotation process. The company will therefore deliver more value and will gain competitive advantage.



PROFITABLE MANUFACTURING SALES WITH CPQ

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