Opportunity's Knocking in The Front Office

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SIMPLIFICATION THROUGH INNOVATION®

Over the past decade or so, there's been so much buzz around process improvement that it's tough to find a manufacturer that hasn't been TQM'd, kaizen'ed, Six Sigma'd, ISO'd or continuously improved somehow or other. Certainly, it's easy to assume there's no "low-hanging fruit" left.

But guess what? Everyone seems to have been so focused on driving the last dollar of inefficiency off the shop floor that they've almost entirely overlooked the front office. In so doing, they've missed some extraordinary ways to save a buck–and take a lot more profit to the bottom line.

A recent Cincom survey of IT decision-makers supports that idea.

Some 54 percent of companies in the survey said their strategic plan makes no reference to front-office processes, and 46 percent set their IT budget based on the strategic plan. That means that half the companies surveyed don't plan to address front-office issues.

We also found that 31 percent set their IT budgets based on what they spent last year–another reason front-office automation continues to fly under the radar.

Improvements Pay Big Dividends

Although 75 percent of the companies surveyed report no plans to evaluate front-office Infrastructure or processes in the next 12 months, the positive spin is that 25 percent will do just that–and gain a significant competitive advantage in the bargain.

The following real-world examples illustrate where improvements in the quote-to-order process can pay off, especially for build-to-order companies:

- Opportunity for faster turnaround times. At some companies, it takes 40 hours to turn around a formal quote once a sales rep gathers the necessary specifications. A closer look at the steps involved may show only four hours of real heads-down work in those 40 hours.

The remaining time gets spent waiting for someone to review and approve the numbers, or just to work through their in-box. That same idle time on the shop floor would never pass muster.

- Reducing rework rates from as high as 250 percent. Some of the companies we've talked to are building every product that goes through their factory 2.5 times, because of errors that occur along the way. Those could be human errors or some other kind of mistake. Either way, it drives the cost structure out of whack.

To be profitable, a company usually needs a rework rate of less than 15 percent. Companies that have a rework rate of less than two percent will probably become a market leader.

- Uncovering and eliminating additional hidden costs. Orders lost to the competition because of slow turnaround often average 20 percent of total sales. Perhaps excess headcount is required in engineering for checking proposals and schematics, or additional costs are buried in lack of integration with ERP, SCM or CRM systems? A detailed look at the process can uncover these extra costs.

By automating the quote-to-order process, some Cincom customers cut turnaround time on quotes down to four hours, and eventually took those four hours down to 15 minutes.

> *"What if you could give customers the answer they're looking for in 15 minutes, when the competition still takes a whole week to do it?"*

Other automation success stories: 20 to 50 percent reductions in engineering support, 10 percent reductions in warranty costs, and order cycle times reduced by up to 65 percent.

Capture Institutional Knowledge

In addition to speeding up turnaround time, automating a company's quote-to-order process leverages an organization's "institutional knowledge" to cut down on errors and rework.

Consider for a moment the complex communication issues involved. The sales rep might not capture the right specifications or communicate them properly to the inside staff. An internal expert might get things wrong or forget that the company faced this same design problem five years ago–or at another division–and "reinvent the wheel." And of course, because people are people, the expert may simply miscalculate or have his mind on other things at the time.

To address this issue, we recommend that companies capture their best practices and historical experience in a knowledge base that can be refined over time. This approach involves two unique system components aimed at eliminating human error:

- A knowledge engine. During the assessment phase of a project, list all the process steps, attributes and expected outcomes. The knowledge engine sorts through the list, rearranges it and takes out all the illogical, "humans-know-best" steps. Examples include unnecessary multiple approvals, or knee-jerk re-examination of past best practices we continue to treat as new.
- A constraint engine. Create a truth table containing all possible combinations to eliminate faulty logic. For example, if you're building this option, you cannot do A, B or C. But if you want that other option, you can do A or B but not C. Mapping this eliminates a lot of potential for error, because you can only choose a valid option.

Capturing knowledge in a systematic way like this is a lot more reliable than the low-tech approach some companies use, which is to sit down their grizzled experts and have them ramble into a tape recorder.

Mapping all the steps, attributes and outcomes gives you a graphical view of the knowledge you have on hand, and–perhaps even more important–shows you where it's missing. That solves the classic problem most companies face, which is, "We don't know what we don't know."

Toward a More Perfect Order

Benchmarks vary from one industry to the next, but many build-to-order companies shoot for a realistic rework rate of 10 to 15 percent. Some are even able to get close to 0 percent rework.

Certainly the 250 percent mentioned earlier is on the high side. But if companies can move from 250 percent down to five percent or even lower, the impact on cost structure is extraordinary. And those lower costs provide a significant advantage over a competitor still struggling to get to the industry average of 15 percent.

There's another metric that companies use, called the Perfect Order Rate. As the name suggests, it measures how many orders end up "on the money," 100 percent acceptable when delivered to the end customer.

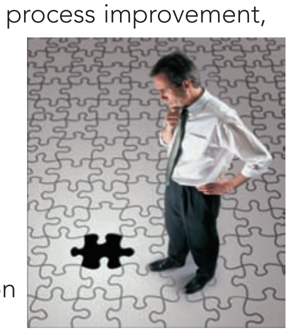
Cincom and AMR research shows that a three percent improvement in the Perfect Order Rate generates an additional one percent profit margin. For a $1 billion company with a 10 percent profit margin, an increase to 11 percent takes another $10 million to the bottom line.

Where Does It Hurt?

Would you benefit from improving your quote-to-order process this way? The first step is to get a handle on exactly where the pain is, and how intense you feel it. Ask these questions for starters:

- Are products coming off the end of the line that can't be delivered because of miscommunication errors that crept into the process somewhere along the line?
- Are you chronically late on shipping dates? Is the problem due to rework or stop-and-start errors?
- How much business are you losing to competitors that swoop in and steal business because you can't respond quickly enough?
- Is the cost of rework saddling you with high internal costs, so that you cannot price competitively?
- How much are you spending on back-end warranty work that you could eliminate earlier in the production process?
- Are customers dissatisfied with escalating lead times?

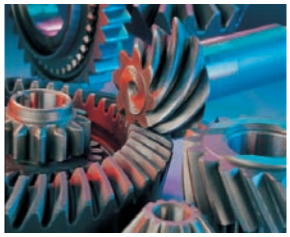
Getting accurate answers to these questions and building a business case for quote-to-order process improvement, will likely involve huddling with the sales and finance departments. It may be that sales could help champion the idea internally, in the interest of closing more deals and building top-line revenue.



Similarly, finance can help sell the idea because of the clear impact on profit margins. It may not be too much of a stretch for finance, since most CFOs and controllers have already been looking at streamlining internal processes like the purchase-to-pay and order-to-cash cycle.

Key Selling Points

When you're building a business case for a quote-to-order process improvement project, these three main selling points are likely to have the most impact on decision-makers:



1. You can reduce costs, improve profit margins and decrease overall cycle times. In Cincom's experience, companies that automate the process recover their initial investment within a year, which is dramatic by any measure.
2. Shrinking the quote-to-order cycle gives you substantial competitive advantages over other companies in the industry that are behind the curve on understanding and implementing these changes. Many companies that reduce the amount of rework necessary can close more deals in less time, while boosting overall customer satisfaction.
3. Capturing and systematizing institutional knowledge reduces extra costs and is a longer-term but no-less-valuable payoff. For instance, in 10 years or so, a lot of companies will begin losing their internal experts to retirement, and those left behind won't have the same level of expertise. Now is the time to get all that experience into a knowledge base.

Perhaps the most compelling reason to champion a quote-to-order initiative is the bottom-line payoff. You can build a tangible business case, showing that quote-to-order improvement raises top-line revenue by five percent on average, and reduces order error rates by 80 percent. On average, that translates into customer retention gains on the order of 25 percent. Those results ought to raise eyebrows in the C-suite.

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