SAP® CPQ: The Best Thing to Hit Manufacturing Since the Industrial Revolution
SAP® CPQ: Managing Product Complexity in the Manufacturing Industry

The manufacturing industry has never been as difficult to navigate as now. Fierce overseas competition, rising wages, and increasingly expensive supply chains mean cost management is more important than ever before. On the other hand, manufacturing companies walk a fine line as the regulatory landscape becomes ever more stringent. New laws crop up frequently, governing everything from product safety to waste disposal to financial reporting and transparency, and compliance costs quickly add up.

To stay competitive, manufacturing companies must continue to innovate, finding ways to meet the demands of their customers better and better. As a result, many companies have abandoned the one-size-fits-all model, expanding and diversifying their product offerings and tailoring them to their customers’ needs.

These new offerings, while advantageous to customers, have also significantly slowed the sales process, particularly in the area of quotes and proposals. Sales reps have had to learn a whole new vocabulary for expressing and pricing these added complexities, thereby increasing their workload and extending the length of time it takes to generate proposals and get them out the door.

SAP CPQ Alleviates the Pain

In response to all these challenges, companies have had to adapt by being more responsive and agile. And while little can be done about staving off global competition or halting federal and state legislation, companies can take control of how they approach customers’ increasingly complex demands without sacrificing their own margins.

The fact is, the pressure is on for sales reps to move deals through the pipeline faster. More deals closed means more revenue. This is an area where technology can have a tremendous impact.

The SAP® CPQ solution offers one of the most effective ways of speeding up the buying process, automating the generation of quotes and proposals to help close deals faster and for larger amounts. This is a huge step up from the current process, which is, by and large, handled manually. And incorporating machine learning and artificial intelligence with SAP CPQ streamlines the process even more.

SAP CPQ integration with SAP Variant Configuration empowers front-office sales reps to quickly create precise complex configurations. Manufacturers can leverage their existing investment in Variant Configuration while boosting the productivity of their sales team.
Benefits

SAP CPQ software offers significant benefits to manufacturing companies. The main ones are described in the sections that follow.

Faster sales cycles

The generation of complex quotes and proposals is a common culprit for why deals in the manufacturing industry take so long to conclude. Made-to-order and highly componentized product configurations, complex pricing methodologies, nonstandard terms, and add-on services are now the norm. Likewise, product sheets have lengthened and grown more complicated to reflect all the moving parts. In fact, SAP CPQ was created specifically to help the manufacturing industry handle the shift towards complexity.

In a manual process, sales reps lose valuable selling time searching through catalogs and pricing guides and checking with engineers for dependencies and restrictions in order to add all the bells and whistles specified by the client. Once completed, quotes end up in another kind of limbo: waiting for approval. Managers essentially have to duplicate the work of the rep, double-checking his or her results to ensure accuracy before finally advancing the quote to the customer. The whole process can be excruciatingly slow and tedious, especially when the customer’s patience is on the line.

SAP CPQ utilizes a “wizard,” which is based on preprogrammed data and previous work, to generate quotes. Setting up the system is completely customizable, and once in place, runs without a hitch. Using it becomes a mere point-and-click operation. Automation of approvals is similarly painless. SAP CPQ that’s AI-enabled builds on this efficiency by adding machine learning to automatically arrive at optimal pricing recommendations based on customer attributes and historical sales data. This eliminates sales rep guesswork, speeds sales, and increases deal sizes. It also shortens the ramp-up time for new sales reps, who don’t have to worry that they’re pricing themselves out of a deal.

Margin protection

Discounting and extending payment terms are perfectly acceptable sales tactics, and ambitious reps take advantage of them to make the sale. Managers are usually accepting of this tactic – until it impinges on margins. At other times, reps are unaware of the extent to which their discounting eats into revenue – making calculations of that sort is the job of an entirely different department, after all. And while managers know how much these kinds of deals can impact the bottom line, tracking them is no small feat.
SAP CPQ has built-in “guardrail” capabilities that limit the amount of discounting allowed, so that margins are never at risk. It also minimizes pricing mistakes that can render deals unprofitable. And approval workflows can be built in for potential exceptions, setting into action triggers that alert managers and allow them to make the final call. SAP CPQ with AI also takes into consideration customer- and channel-specific pricing to support channel partners.

Error avoidance

Manual processes are bound to lead to mistakes, especially in areas as detail-oriented and repetitive as generating quotes for complex products. These errors introduce frustrating delays that risk extending the sales cycle, or worse, turning away customers. SAP CPQ, when configured correctly, will always generate accurate quotes, proposals, and RFPs. The beauty of an automated process means that peace of mind is a guarantee: Salespeople guide customers only to what can be manufactured and delivered.

Sales performance improvement

An important ancillary advantage of SAP CPQ is its effect of improving customer satisfaction by improving the performance of the rep. It offers a form of guided selling, helping salespeople navigate the bewildering array of products they would otherwise have trouble memorizing, even aiding them in branching out of their comfort zone of tried-and-true solutions. Custom-tailored configurations can be arrived at in a matter of seconds, giving customers almost instant gratification as well as a better perception of the rep, and by extension, the company. Customers get the same kind of ease and speed they experience in the consumer world.

In this scenario, up-selling is also a cinch. SAP CPQ suggests better configurations, or even creates bundles to take advantage of products that are frequently purchased together. Using machine learning, SAP CPQ analyzes historical data, customer attributes, and buying patterns to spot appropriate upsell and cross-sell opportunities. Salespeople can win bigger deals and meet their quotas faster while customers get what they need right from the start.
Cost savings and profitability

SAP solutions, in general, have come a long way since their early days and are now quite affordable. On-premise solutions – and their attendant installation, configuration, and maintenance costs – were standard in the past. But SAP CPQ, which is offered in software-as-a-service (SaaS) form, makes the cost of upkeep and upgrade negligible.

Its ROI, on the other hand, is significant. The Total Economic Impact of SAP CPQ, an SAP-commissioned study conducted by Forrester Consulting, quantifies several benefits, including 234% ROI and a 12-month payback.

Out-of-the-box AI capabilities in SAP CPQ mean that companies can easily adopt the advanced technology. There’s no need to hire a data scientist.

And for customers using the Variant Configuration service, integration with SAP CPQ means they can continue to leverage the power of Variant Configuration by reusing the product configuration models they’ve built over the years and the pricing logic from their ERP systems. This integration also reduces administrative costs by enabling companies to build sales rules in a business-friendly interface.

Closing the loop

Finally, consider the role of SAP CPQ in the grand scheme of the sales cycle. It may not be the main sales enablement tool in a company’s arsenal – a CRM solution is most likely to nab that spot. However, it can work alongside a suite of other technology-driven solutions to guide a rep through the sales cycle, from beginning to end. Its unique point of view can give the rep visibility into that last blind spot at the end of the sales funnel, right before the finish line. Moreover, SAP CPQ is part of an entire quote-to-cash process that includes contract lifecycle management, billing, and more. Taking a holistic approach that encompasses your core ERP systems and front-office commerce, service, and marketing applications ensures superior customer experience.
Conclusion

Increasing product complexity is a competitive advantage that manufacturing companies have implemented to keep up in our modern business climate. But the impact this shift has had on the generation of quotes and proposals is a negative one. Luckily, technology can help.

For manufacturers who wish to focus on larger goals, the SAP CPQ solution can decrease the time it takes to get to a sale, increase margins, reduce errors, free up time, improve sales performance, and better equip salespeople. It’s a win-win situation for all.