



Configure, price, and quote (CPQ) capabilities

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Many companies are moving away from traditional business models to flexible consumption-based ones—a transition that requires reengineering the value chain and realigning teams to the new business model. In our previous articles, we talked about the capabilities and technology platforms needed to support a flexible consumption model (FCM) in the as-a-service economy. In this article, we discuss one key aspect of the go-to-market capability, which is the CPQ processes of the lead-to-cash cycle. It's essential to align the CPQ processes with the flexible consumption strategy to enable direct sales, channel partners, and customers to easily configure, price, and quote as-a-service solutions.

CPQ processes in flexible consumption business models provide capabilities to support a diverse set of products portfolio, complex offerings with multiple features, and complex pricing structures. With expanding customer channels and partners, and the increasing complexity of product structures and pricing strategies in consumption-based models, the approach for CPQ needs to be transformed for efficient sales operations. Such a CPQ process can have the capabilities depicted in figure 1.

Figure 1. CPQ capability map

Configure, price, and quote





Potential benefits of CPQ

CPQ offers a range of potential benefits for companies transitioning to flexible consumption models.

Supports diverse products with complex pricing: With FCMs, customers pay only for the products or features they use. This means organizations need to develop and offer their products and services in a modular fashion (standard and nonstandard bundled offerings). Pricing is defined for each feature, and there's flexibility to set discounts and margins at various levels, such as bundle, deal, and line item.

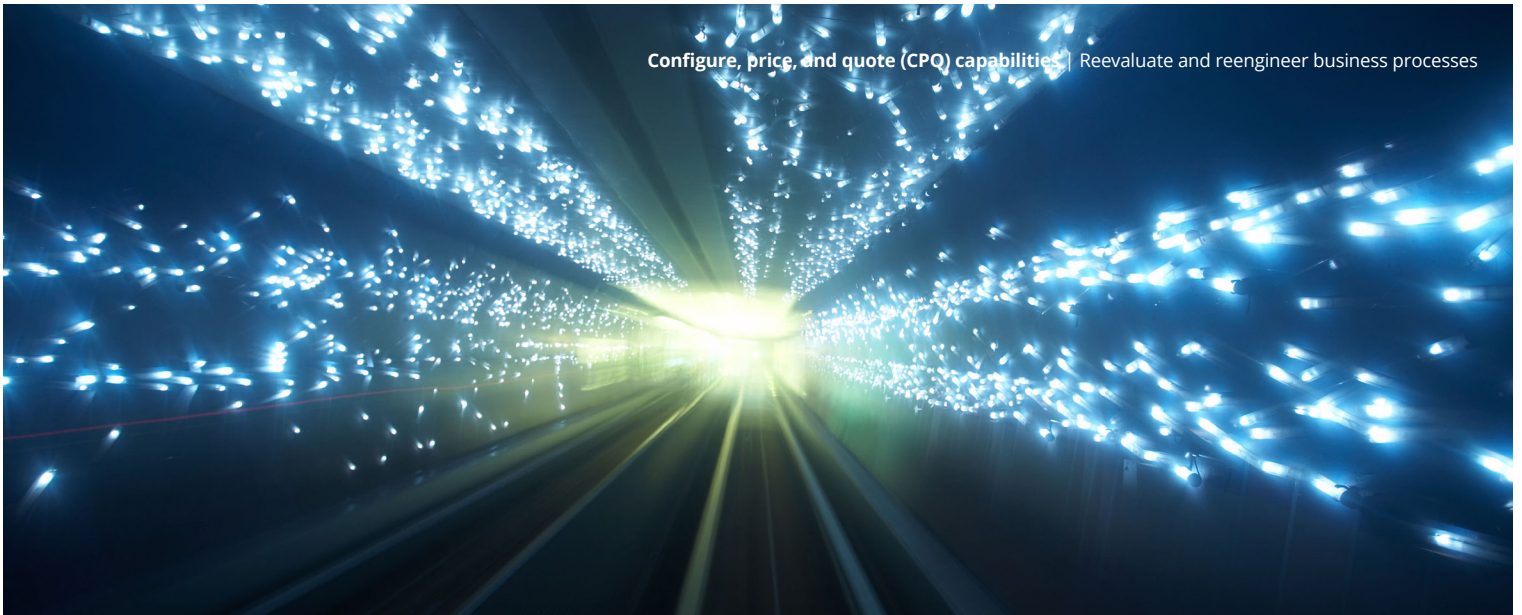
Shortens sales cycle: A well-designed CPQ process integrates organizations with their channel partners in the sales cycle. Organizations can define the steps to auto-validate and auto-book a segment of incoming legal quotes to orders, reducing the overall time within the sales cycle. The time required by sales reps to interact with other teams to gather information and seek approvals and responses can be reduced by clearly outlining rules for approval management and streamlining the processing of all requests. Sales reps can also quickly analyze the effectiveness of each deal by determining potential cost, margins, profitability, and other key performance indicators (KPIs) to ensure that the deal is aligned with business objectives.

Some of the key metrics that are relevant for managing CPQ process include: quote accuracy rate, quote turnaround time, standard to nonstandard deal ratio, quote conversion rate, and self-service quote ratio.

Helps reduce inadvertent quoting errors: Manual configuration of quotes often leads to errors, which in turn can lead to revenue loss and erosion of customer confidence. Developing optimal quotes is a challenge in the case of complex products and large orders. CPQ helps ensure error-free sales quotes and proposals that align with customer requirements. Through business rules, discounts are capped, and quotes don't fall below a defined margin value. At the same time, automated quote generation increases quoting accuracy and sale closure rate, while decreasing fallout rate.

Key considerations for CPQ

- Reevaluate and reengineer business processes**
 The CPQ process for flexible consumption will need to support a range of capabilities, from flexible pricing mechanisms to smarter renewal management.
- Align and integrate with upstream and downstream processes**
 Companies will need to adjust and enhance their current quote-to-cash processes to accommodate flexible consumption.
- Assess and align architecture with business processes**
 System architecture needs to evolve from monolithic to scalable and modular architecture to support the flexibility of CPQ processes.
- Train and reskill workforce**
 Successful adoption of the CPQ processes and system require proper training and reskilling of sales operations team and channel partners.



Reevaluate and reengineer business processes

Enterprise companies with traditional business models tend to develop siloed teams and disjointed processes over time. In addition, the startups and small-medium businesses tend to have manual and nonstandardized processes, as focus is on revenue growth. To enable configuration of diverse and complex as-a-service offerings and efficient flow of information (e.g., pricing) across sales and channel partners, and reduce sales cycle time, CPQ process for flexible consumption models should consider the following:

- **Guided selling:** Traditional business models rely primarily on preconfigured bundles. Consumption-based models, on the other hand, are typically best served by a guided-selling process that uses consumption history and other customer data—as well as preconfigured bundles and partner-specific product options—to design bundles.
- **Dynamic configuration:** Automated rules, attributes, and hierarchy-based configuration with ability to handle a combination of hierarchies for complex as-a-service offerings.
- **Flexible pricing:** CPQ should support relevant monetization mechanisms, such as flat subscription, tiered pricing, consumption-based pricing, or outcome-based royalty. A flexible consumption CPQ process should allow dynamic

pricing based on market conditions, easy distribution of pricing data across channel partners, and point-of-sale systems, and support complex pricing rules.

- **Smarter approval management:** Instead of using offline approvals, the CPQ process should be based on workflows and business rules. Apart from streamlining the approval process and reducing approval times, this approach also helps in maintaining audit trails. Business rules should allow provisions for parallel approvers; reroute approval requests; and define auto-approval workflows for specific product bundles with preset discounts based on customer and partner qualifications.
- **Auto renewal management:** The renewal management process will need to be enhanced to support consumption-based models. It should allow representatives to use existing entitlements and revise auto-generated renewal quotes for upsell, cross-sell, co-term, or return-to-support opportunities, if needed.
- **Asset-based ordering (ABO):** Many CPQ vendors are proactively enabling ABO functionality in their solutions, thereby moving this functionality from back office to front office. ABO enables an organization to treat hardware and software as an “asset” during the sales, delivery, and support life cycle.

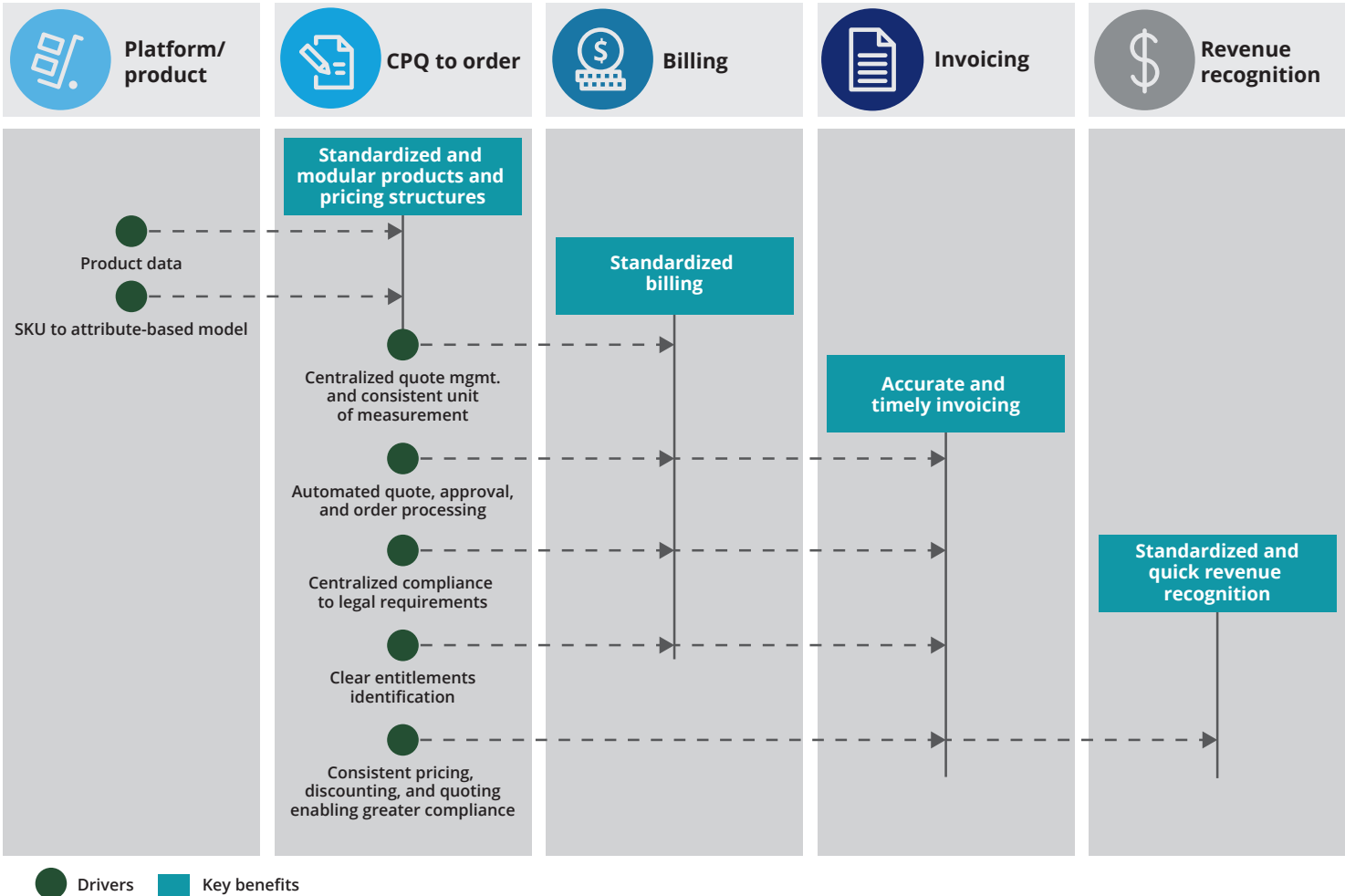
This enables an organization to have a 360-degree view of all products and services purchased by the customer.

- **Standardized downstream processes:** Standardization of downstream processes such as subscription management and billing can make the overall sales process more predictable and repeatable, lowering maintenance costs and increasing order velocity. In addition, standardized processes typically yield cleaner and richer data, which can be used to model deal insights for better decision making.
- **Future Opportunities and Renewals:** CPQ platforms can determine pipelines and forecast orders based on customer buying patterns. It also triggers alerts for product upgrade and renewals.

Align and integrate with upstream and downstream processes

The CPQ journey yields great rewards but is also fraught with challenges. CPQ process is integral to multiple upstream and downstream processes across the offer-to-cash life cycle (see figure 2). Adopting CPQ requires carefully evaluating and redefining each of those processes. Adjustments can range from changing the way product and service offerings are designed (SKU-based to attribute-based model) to altering how revenue is recognized (one-time up front to ratably over the period of subscription term).

Figure 2. Interaction of CPQ with other processes in order-to-cash cycle



In traditional business models, organizations often create a unique identifier, known as a stock-keeping unit (SKU), for each product and service. To expand customer base and drive sales, the sales team often customizes product attributes and pricing terms resulting in multiple SKUs per product (SKU proliferation). SKU proliferation can result in operational inefficiencies such as increasing the sales cycle and higher operational cost due to convoluted product configuration and pricing business rules.

Prior to starting the CPQ transformation journey, organizations should simplify product structures (e.g., standardize pricing attributes, reduce product variations, etc.) and rationalize associated SKUs or move to an attribute-based product data model. An attribute-based model can provide multiple benefits such as increasing deal velocity, reducing pricing errors, reducing compliance risk, and improving channel partner operations.

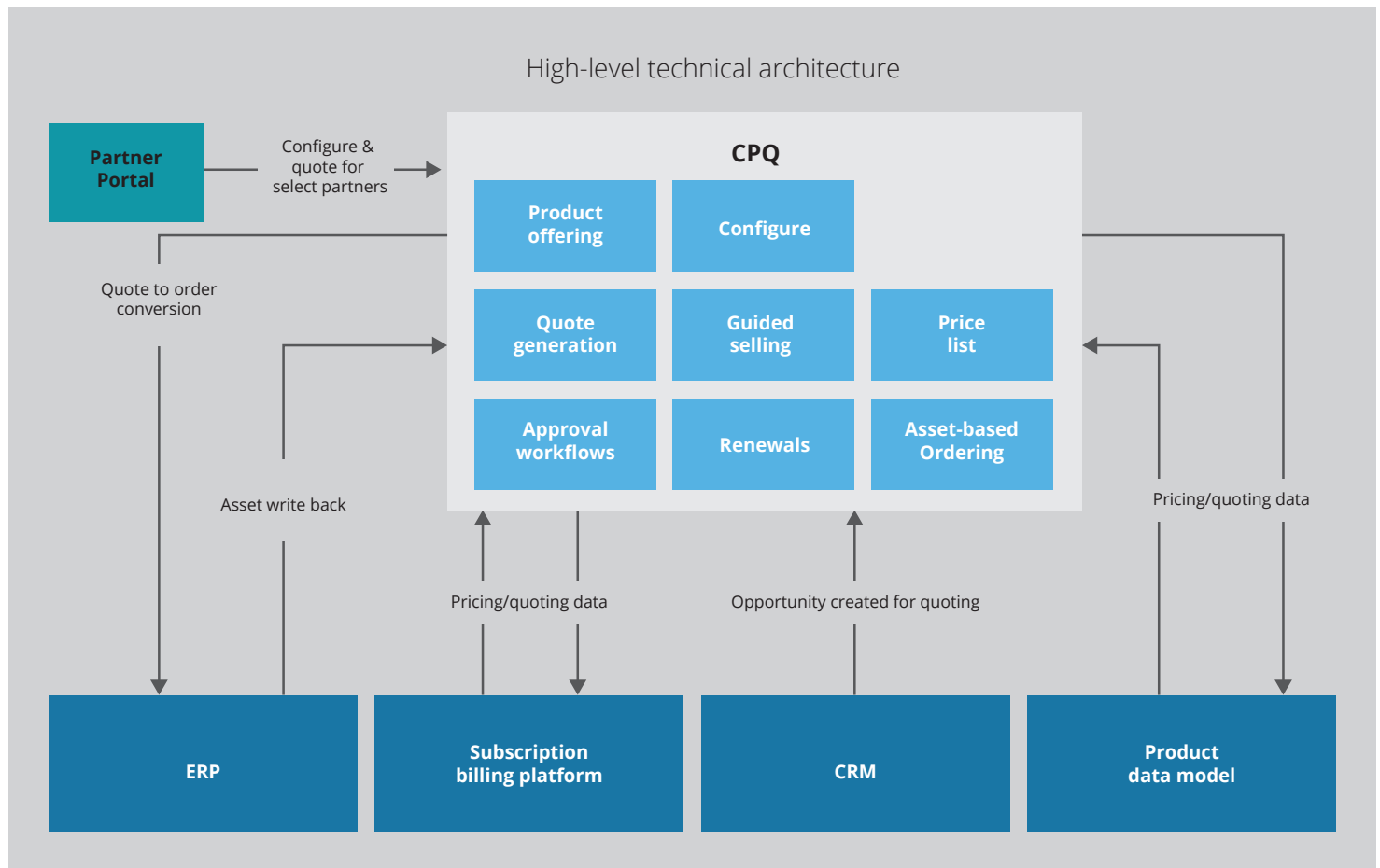
Assess and align architecture with business processes

For a CPQ system to support flexible consumption, the architecture needs to move from a monolithic application base that works on a set of static rules to a scalable and modular one that allows customer data to be mapped to different services at different times. As opposed

to linear and discrete models of the past, models that support flexible consumption need to accommodate a tiered pricing structure, subscription billing, and recurring revenue. Such an evolution would require an evaluation of existing applications, integrations, and infrastructure to identify

and address individual gaps. The resulting new architecture (see figure 3) should be able to break open the silos and bring together all teams involved in the lead-to-cash process—from sales to collections.

Figure 3. CPQ high-level technical architecture



Train and reskill the workforce

It's critical for teams involved in the sales process to embrace and adopt the new CPQ process and system. This means they will have to be trained on new business processes for their daily operations. Sales operations and channel partners should be well trained on new CPQ capabilities, such as asset-based ordering and guided selling, to communicate with and quickly respond to

prospects and customers. In addition, the transition will require teams to move from traditional tools to new digital solutions. These solutions, which are often cloud-based, can provide better functionality but also call for a different user interface and workflows. Training programs need to be carefully designed to equip teams with the knowledge to perform their day-to-day

operations following the transition. These changes, while fundamental, aren't easy to achieve. Redefining roles and responsibilities of business functions, deep-dive trainings, pilot runs, and closely monitoring the transition are essential for ensuring successful implementation and adoption of CPQ processes.

Let's talk

Every organization should differentiate itself through exclusive product offers and pricing structures, making it imperative to get the most out of CPQ capabilities. A streamlined CPQ process that integrates all relevant teams (sales, service provisioning, and invoicing—as well as external partners) is difficult to design, yet it's essential for the successful transition to flexible consumption-based models.

At Deloitte, we understand the complexity of this challenge. We've worked with numerous companies to develop capabilities across the entire lead-to-cash cycle that support flexible consumption—from defining a roadmap and establishing an architecture to reskilling their workforce. Let's talk about what this change could mean for you.

Contact us

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