Configure-Price-Quote (CPQ) – Best Practices
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1. Configure-Price-Quote (CPQ) – Overview

Configure-Price-Quote (CPQ) as it is known today is not new concept and has been in operations and called various names prior to widespread use of the term CPQ in early 2010s.

In simple layman's terms, CPQ is widely identified as a business process chain that provides an ability for a particular user (be it a sales person or a consumer browsing products online) to configure and price the products (Software, Machinery, Services etc.) accurately and quickly and be able to produce high quality Quote. Although the above statement on CPQ is 100% accurate, the CPQ process just does not end at Quote. In-fact, it is a starting point to trigger many of the critical downstream business processes across Sales Operations, Manufacturing, Fulfillment, and Finance Operations.

The main purpose of this blog is not to deep dive into key CPQ standalone program must have's such as Modern User Interface, Guided Selling, Effective Rules Engine, Pricing & Discounting Functionality, Effective Workflow functions etc. There are tons of information available online and from very capable CPQ vendors to deep dive these functions.

Instead, in our blog we will share with you the Bigger Picture and deep dive 'The Road Usually Less Travelled'. We will focus on fact-based reasons why many CPQ transformation initiatives overrun by millions of dollars and go through multiple roll out delays and significant scope reductions.

In the following sections we will describe various scenarios applicable to multiple industries and we will highlight various key points that are often overlooked (resulting in significant inefficiencies) during CPQ driven business process transformation initiatives

2. CPQ Transformations – Why Many Fail Or Are Significantly Overrun

Often, we constantly come across following quotes while executing CPQ transformation initiatives: -

Master Data Isn't Our Issue; Manufacturing Team Has Nothing To Do With What We Do; Finance Team Should Have No Inputs To Our Quoting Processes; We Want To Stick To Our Deadlines

Point we are trying to make, and highlight is the fact that true success of a CPQ transformation initiative cannot be merely measured by few key and critical CPQ relevant KPIs ONLY.

To get the most optimal companywide results, we must look at the macro level, think strategically, break silos, and most importantly, the leaders must make bold decisions and think beyond standalone CPQ program success. In the following sections we will describe various scenarios applicable to multiple industries and we will debunk many of the myths and misconceptions and highlight various key points that are often overlooked (resulting in significant inefficiencies) during CPQ driven business process transformation initiatives

3. CPQ Transformation – Industry Perspective

Now before we deep dive further into CPQ and key business processes it touches, let's quickly look at overall *'Quote to Cash'* Process from CPQ perspective for two key industry sectors.

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a. Manufacturing Industry – Quick Overview

Figure 1: Traditional Linear 'Quote to Cash' Lifecycle

As seen from the process flow illustrated in Figure 1, traditional Quote to Cash cycle is linear in nature and depending upon Business Applications landscape, there may be multiple systems in place to handle various specific functions. For Example, you may have a SaaS application to enable Sales team to be able to create and prepare quotes, and then you may have multiple flavors of ERP applications to perform Manufacturing, Supply chain, and Finance functions.

Business Process Focus Areas	*Industry Sectors*
1. Make to Order (MTO) 2. Engineer to Order (ETO) 3. Assemble to Order (ATO)	1. Semi-Conductor 4. Bio-Medical 2. Capital Equipment 5. Automobile 3. Medical Devices 6.Aerospace/Defense

b. Software Industry – Quick Overview

As the name suggests, in Software Industry, we are typically selling Software as a Service (SaaS) and in direct contract to age old way of selling perpetual licenses, corporations typically will have business models whereas licenses or being sold on term bases.

A customer (or a consumer) will typically subscribe to a particular software and or services initially and then anytime during the lifecycle of the subscription, the customer can always initiate/request changes (additional software, changes to terms, additional seats for existing software purchases, downgrades, cancellations etc.). By default, due to enormous amount of possible changes to existing subscriptions, handling Software 'Quote to Cash' process provides its own unique set of challenges

Figure 2: Software Subscription 'Quote to Cash' Lifecycle

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| Business Process Focus Areas	Industry Sectors
1. Software Bundling 2. Software Configuration 3. Pricing & Discounting	1. Fintech 2. Software (SaaS) 3. Services

4. CPQ Transformation – Critical Success Factors

In the following sections we will evaluate many key CPQ relevant Critical Success Factors both from Manufacturing and Software industry perspective. Prior to launching your organization's CPQ transformation, it is prudent to take a step back, evaluate the following broad critical success factors, and then recalibrate as needed.
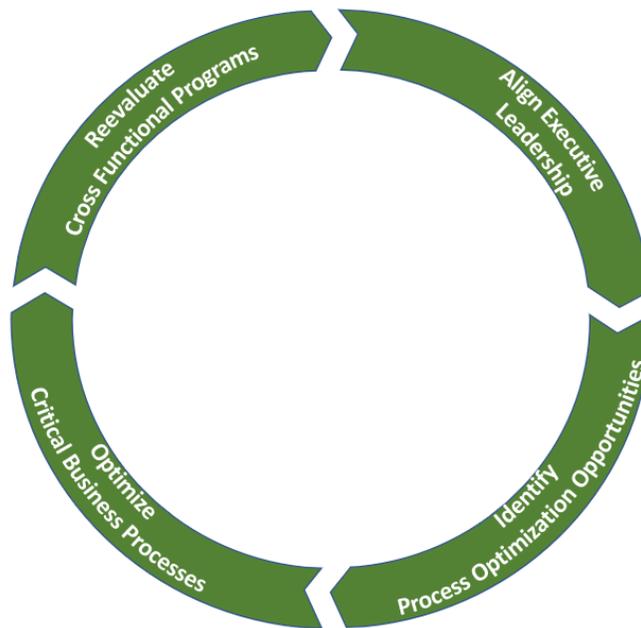
Figure 3: CPQ Relevant Critical Success Factors

a. Reevaluate Cross Functional Programs

It is critical to get foundational understanding that CPQ transformation isn't a standalone solution. What and how we set it up will have major impacts on every downstream business processes (refer to Figure 1 and 2 in sections above). Some of the following items will assist you in getting a solid understanding of other transformational programs running withing your organization.

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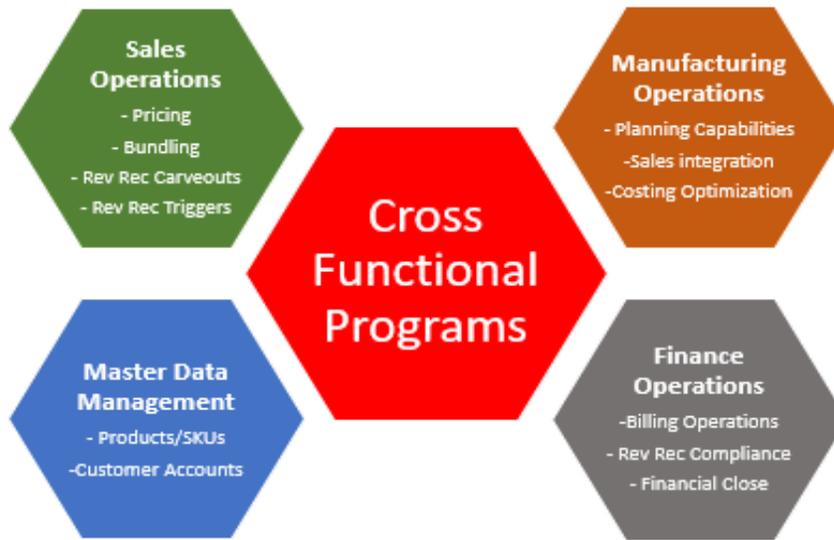
Figure 4: 'Must Evaluate' Cross Functional Programs

b. Align Executive Leadership

It is equally critical for program leaders to constantly update Executive leadership early in the process and gain alignment. It becomes more relevant if there are many competing programs and priorities internally within an organization which may cause many existing transformation programs to overlap, resulting in top leadership to take bold decisions and pivot in certain cases. Refer to the illustration below for general areas where Executive alignment becomes a key.
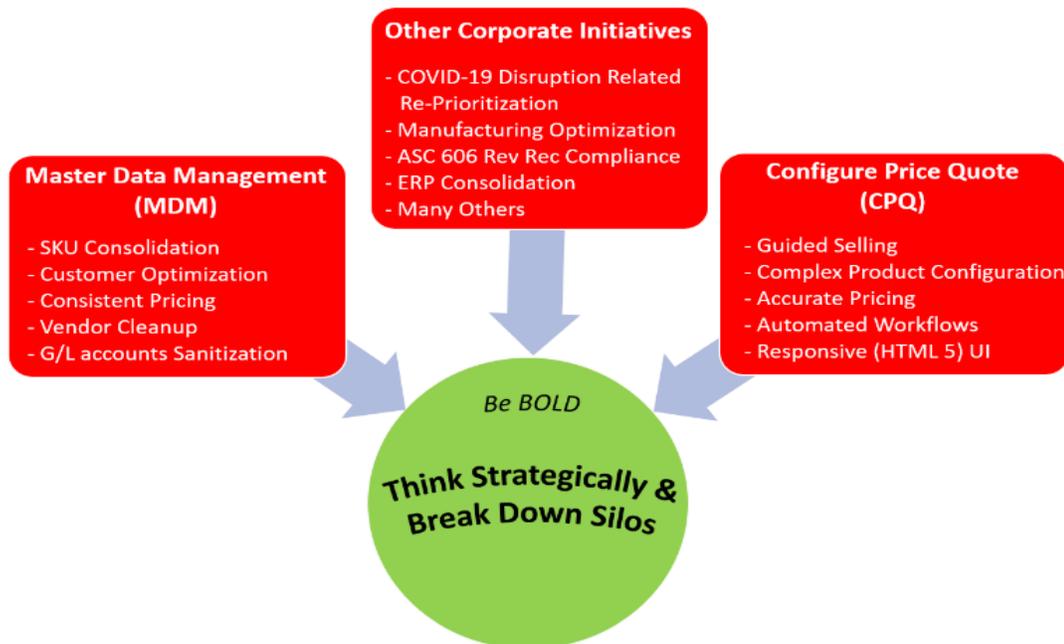
Figure 5: Sample Corporate Initiatives and Need to 'Be Bold'

c. Identify Business Process Optimization Opportunities

Referring back to Figure 4 and Figure 5, it becomes clear that within any corporation, there will be multiple and competing programs running in parallel, and it becomes critical to identify and prioritize key business process optimization areas especially from a Configure Price Quote Transformation program perspective.

d. Optimize Critical Business Processes

Prior to launching CPQ transformation program, it is highly recommended that following business process areas be evaluated and optimized. Streamlining of CPQ relevant business process areas will most certainly result in optimized and on-time CPQ program roll out with minimal last-minute scope reductions. Refer to Table 1 below to analyze and prioritize items for your organization.

Evaluate and Prioritize Fundamental Considerations – Matrix Review

#	CPQ Foundational Considerations	Description	Industry Relevance	
			Manufacturing	Software
1	**Master Data Management**			
1a	SKU Consolidation	Consistent depiction of Products/SKUs globally, SKU Optimization via Product Configuration, Removal of duplicate SKUs	☑	☑
1b	Customer Sanitization	Global view of Customer Accounts, Removal of duplicate Customer Accounts	☑	☑
2	**Sales Operations**			
2a	Bundling Capabilities	Consistent business process for optimized bundling capabilities, enabling sales team to bundle products during quoting process, Having consistent and scalable 'Rules Engine' to bundle compatible products and services	☑	☑
2b	Pricing Capability	Ability to price the bundles appropriately and consistently, providing flexibility to sales team to offer discounts. Efficient system driven process for discounting and price override capabilities	☑	☑
	Rev Rec Carveouts	Ability to determine Revenue Carveouts using ASC 606 5 step process for Customer Orders	☑	☑
3	**Manufacturing Operations**			
3a	Planning Optimization	Ability to accurately drive MRP demand driven off firm customer order	☑	☒
3b	Costing Optimization	Ability to capture and calculate actual production costs (material, Overhead, and Labor) & ability to calculate Work-In-Progress (WIP) costs for Percentage of Complete (POC) calculations as required by ASC 606	☑	☒
4	**Finance Operations**			
4a	ASC 606 Rev Rec Compliance	Ability to properly carve out and recognize revenue based upon pre-defined milestones	☑	☑
		Ability to account for constant changes to ever changing subscriptions	☒	☑
		Ability to recognize revenue based upon Percentage of Complete (POC) based upon Work-In-Progress (WIP)	☑	☒
4b	Costing Optimization	Ability to properly account for and defer associate costs along with Revenue	☑	☒
		Ability to tie production related costs to a given customer order for proper cost allocation	☑	☒
5	**Integration Considerations**			
5a		Identify back end ERP Applications that CPQ tool will interact with	☑	☑
5b		Formulate strategy around Master data sync (Products/SKUs, Customers, Pricing etc.) between CPQ tool and other business applications	☑	☑
5c		Articulate a clear Integration strategy (iPaaS) for real time communication of CPQ application with back end ERP and other applications	☑	☑

Table 1: Evaluate and Prioritize Fundamental Considerations

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5. CPQ Transformation – Sample Execution Plan

Irrespective of the industry vertical that your organization falls under, reviewing, aligning, and adjusting your organization's program execution aspirations, will certainly be beneficial. Every Organization will have somewhat different flavor or business processes that must be optimized prior to launch of CPQ program. Use the following as general guideline and adjust based upon your Organization's needs
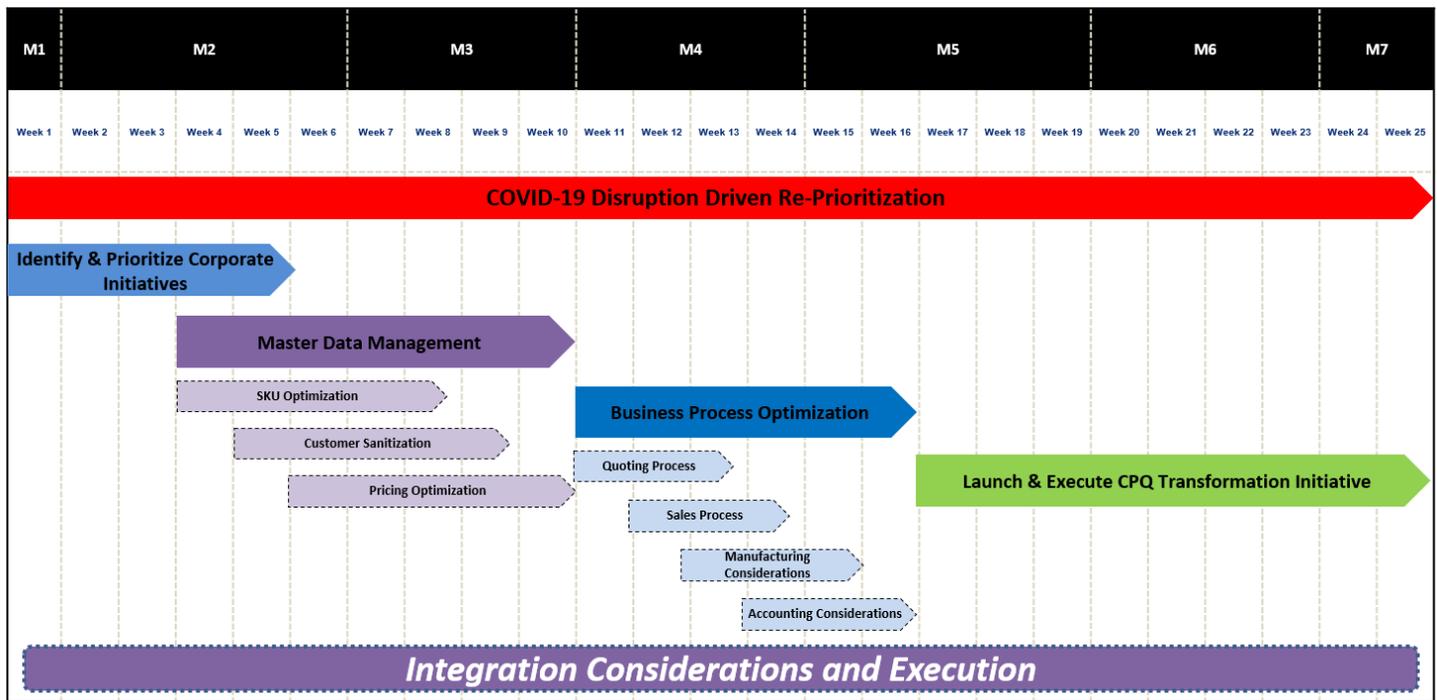

Figure 6: Sample CPQ Transformation Program Timeline

6. CPQ Technology – Vendor Selection

While corporations can embark on business process optimization in preparation for CPQ adoption, it is equally important to conduct proper research and thorough vetting of CPQ application vendors. Since the purpose of this white paper is to   provide general guidelines on process optimization opportunities surrounding CPQ program, we have not focused on independent evaluation of key CPQ vendors. Our team has vast experience in deploying various CPQ solutions and have significant experience with industry leading CPQ software solutions. Reach out to our experts at Silicon Valley Consulting Group for any questions related to this topic.

7. CPQ Transformation – Scoping

While on paper, it is simple to lay out and strategize on plans to optimize the business processes across various functions, the reality is that to get all aspects of optimization address in one go is not realistic. It is recommended that as part of the scoping/blueprint phase, your team collaborates with parties (Business, IT, Technology Vendor, System Integrator etc.) to properly identify scope and defer optimization items (that are not critical to business operations) to a later phase. Refer to the Table 1 in Section 4 of this white paper to get a starting point for your analysis.

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It is always a best practice to follow 80/20 rule as it is easy to spend 80% of time and energy to solve a scenario which happens say once every month. In other words, effort should be made to focus on satisfying 80% of the business functionality. It is critical to follow lean six sigma driven principles.

8. How 'Silicon Valley Consulting Group' Can Help

Our team (www.svcgcorp.com) has tremendous experience transforming businesses across the globe and has extensive experience across multiple Industry Verticals.

Specifically, our team has global experience in addressing CPQ challenges and have advised many corporations across industry verticals (Manufacturing & Software) to optimize their processes around CPQ initiative.
Our team can aid in any of the topics listed above and many more as you either look to optimize or start your CPQ driven transformation journey.

Please email us at svcg@svcgcorp.com or visit our website www.svcgcorp.com for further details.

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