SAP® Sales Cloud

E-Book

The CPQ Buyer's Guide

THE BEST RUN **SAP**

Executive Summary

There's no reason that deals need to be held up by a lengthy quote process – CPQ technology automates it, and it also provides a host of other benefits that help sales reps close bigger deals in ways that lead to greater customer satisfaction. But first, businesses must recognize that they're ready to buy CPQ, and then understand their specific needs in selecting the right CPQ solution. Knowing the questions that must be asked and answered makes selecting a CPQ solution much easier.

Once the technology has been selected, the business must then understand the rules it uses to create quotes, and configure the CPQ solution to function based on those rules. Getting this configuration right is the key to quick adoption by the sales force and the first step toward maximizing the return on your CPQ investment.

Introduction

The art of sales is a much-discussed topic, especially among salespeople. Every step of the process – from initial contact with the customer to the close of the deal – is discussed, analyzed and rehashed. Techniques are proposed, pitfalls are identified, and deals are dissected, whether they result in a win or a loss.

One aspect of the process, however, is taken for granted: the creation of quotes and proposals. The process that's in place to develop quotes is what it is – inscrutable to sales, unchangeable, and opaque in many cases. It's also a danger area for your deals, where mistakes are frequent, approvals can be slow in coming, delays are many and the seeds of customer dissatisfaction may be sown.

Because of the increasingly complex mix of products that vendors are offering, the manual approach to quote creation is becoming rapidly obsolete. What will replace it? CPQ solutions, which automate the process, make it much easier to propagate changes in catalog items and product descriptions, and automate the approval process to speed deals to conclusion and at the same time protect margin. But most businesses have never heard of CPQ, let alone implemented a solution. How do you know when you're ready to buy, how do you select a solution that's the right fit for your business needs, and how do you make that solution work with the other parts of your software ecosystem?

We'll address those issues – and more – below.

What is CPQ? Why do I need it?

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Configure Price Quote is a somewhat simplistic name for the set of tasks that CPQ actually performs. At a high level, CPQ is a tool that automates many of the administrative tasks that sales reps and sales managers must do to close sales. In reality, CPQ provides a tool that helps the sales process at multiple points, and makes the buying experience better for the buyer, optimizes margin for the seller, and enables the sales rep to appear more knowledgeable and responsive. Here is a short description of the major features of a fully-functioned CPQ product:
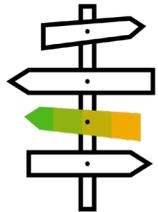
Guided Selling

For complex sales, this tool is extremely helpful: with some input from the sales rep, CPQ can suggest next steps, up-selling opportunities and best practices in real time. The same technology that automates sales rules also automates selling workflows, and helps sales reps sell according to the needs of the customer based on past experience with similar customers.
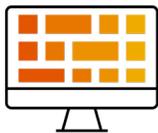
Product Configurator

This feature simplifies the quote process by helping to suggest products based on the type of sale – new sale, upgrade, renewal, and so on. Incompatibility between features can be flagged automatically, and sales reps can use side-by-side comparisons and product specifications to help buyers make the best decisions. Up-selling and cross-selling opportunities are automatically highlighted, so sales reps have the best options for increasing deal size served up to them just as they need them.

What is CPQ? Why do I need it?

Product Catalog and Pricing Guidelines

Companies using old approaches to developing proposals and quotes usually had a catalog and a pricing book – one company had a 1000-page product book and a 575-page pricing book, for instance – and reps had to manually use these documents to search for product numbers, product data and prices in order to build a quote. CPQ builds the data in these documents into the system and makes them easily searchable: quotes can then be built through a point-and-click basis, helping to eliminate the mistakes endemic in manual quote creation. Changes to the catalog can be propagated immediately, a major savings in time and expense from the change process needed for paper catalogs.

Document Production and Management

Of course, CPQ automates the production of proposals, quotes, license agreements and RFPs -that's one of the technology's bread-and-butter capabilities. But it also helps sales find the content it needs during the sales process. Data sheets, diagrams, case studies and other content associated with a product can be called up and delivered to the customer as the quote is built. Sales doesn't have to hunt through your website to find the content that can help tip a deal in your favor.

Automated Approvals

Your approvals aren't given arbitrarily by your sales managers – there are a set of rules and criteria that dictate which deals pass muster and which ones don't. Why not automate those rules and criteria? Doing so builds speed into the process; automation means that quotes don't sit on managers' desks until they can get to them, so they can be approved faster. Customers are happier – they get what they need from you more quickly – and managers get time back in their busy schedules. And if a quote doesn't get an approval, sales reps can quickly get to the task of modifying it for re-submission.

Signs you need CPQ

Adding technology to your selling process is not an exercise that should be taken lightly. Responsible businesses read the signs and act when the time is right – doing otherwise can mean lost opportunities (if too late) or lost investment (if done too early).
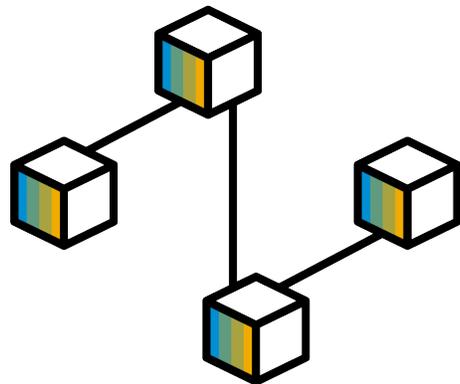
CPQ is a good example of this. Not every business needs CPQ – it's found a comfortable niche among businesses of a certain size in the area of industrial equipment manufacturing– but its usefulness is being discovered by new markets (most notably, telecommunications, high-tech, life sciences and healthcare). How do you know if the time is right for you to make the move to CPQ? Here are six criteria to keep an eye on.

1 **Product Complexity Outstrips Sales Reps' Capacity to Keep Up**

As catalogs grow and customers come to expect more options, sales reps are placed in a difficult spot: They have to be trusted advisors and sources of knowledge about their products, but the variety and complexity of those products is exploding. Unless a sales rep has a photographic memory, the rep is not going to have a grasp on the entire product line and possible customizations. In that event, the rep will sell what he or she knows – which may or may not be the best choice for the customer, or the most profitable for your business.

Examine sales activity and look for focus on specific products. If you see different reps focusing on different products in their deals, unless they're working products they're assigned to, there's probably a bit of this phenomena at work in your sales operations. If that's the case, it's time to consider bringing CPQ into action.

Signs you need CPQ

2 **Upselling Doesn't Meet Expectations**

Products added to your catalog that seem like sure-fire upselling opportunities are a great idea – unless no one can find them in your catalog. At companies with complex product mixes, this may be the case; a sales rep at the end of a deal isn't going to interrupt the closing process to go on a wild goose chase for that perfect up-selling opportunity. As a result, that sure-fire up-sellable product may seem like a dud.

CPQ guides reps toward those up-selling opportunities – it prevents the up-sale from getting away. That's part of the reason Aberdeen found that the average deal size for businesses with a CPQ solution was 105 percent greater than the average deal for businesses without CPQ: no upselling opportunity went unnoticed or unacted upon by sales reps.

3 **Sales Reps are Spending More Time Building Quotes than Selling**

Quotes can take a long time – four days to a week when product offerings are particularly complex. That cuts into the one thing your company can't buy or make more of: time, particularly that of your sales reps. The time they spend creating quotes is time that they aren't selling. That's no good for them and it's certainly no good for your business.

If your reps are working fewer deals and generating less revenue even as you add more products to your catalog, it may be that the reps are being forced to budget more and more time for quote and proposal generation. If that's the case, it may be time to automate that part of their jobs and get them back to selling.

4 **Mistakes are Costing You Big Bucks**

Mistakes are rife in manual quote creation, which makes sense because it's a lot of tedious, repetitive activity. Those errors can be very expensive. Take the case of a manufacturer of boiler systems – mistakes in configuration that were only discovered once the very expensive, very large product arrived at the customer's destination annoyed the customer, but they also resulted in massive costs to the manufacturer.

CPQ systems have been found to reduce mistakes by 40 percent, according to Aberdeen. Tedious, attention-sapping tasks have been automated in everything from factory line work to building security – so why are sales people still preparing proposals when they could be automated by a system that can do it better and with fewer mistakes, save the organization thousands of dollars a year, avoid customer ill will, and free sales reps up so they can sell?

Signs you need CPQ

**5** **Margin Takes a Beating from Discounting**

Sales reps want to close deals, and the ability to offer discounts is helpful in achieving that. But when your product mix is complex, your reps can't know every product, let alone the margin on every product. That can lead them to apply discounts that cut into your overall margin, especially in complex, bundled sales.

Yelling at reps to pay closer attention is not useful – they're there to sell, not to memorize your catalog and all the behind-the-scenes numbers that other parts of your organization should be in charge of. CPQ allows you to build in rules that prevent discounts that dip below a certain level of margin, contingent on the products included in the deal. Doing this takes a load off managers, who won't be forced to compute margin before giving deals their approvals. Which brings us to...

6 **Deals Die While Proposals Await Approval**

This is perhaps the saddest indicator that you need CPQ of them all: your reps complete the arduous task of generating complicated quotes, battling with huge catalogs and books full of pricing rules, only to have their quotes end up on the desk of an overworked sales manager who can't give his approval until he duplicates all their work and makes sure the deal uses current information, respects margin, and is as error-free as possible. Meanwhile, the customer has become impatient and, in the intervening four days between the proposal's creation and its approval, the customer has gone out and found another vendor – one who could deliver a proposal in less than 30 minutes.

Automation of approvals allows a proposal to get the OK quickly and accelerate the sales process. It makes your sales people happier (they close the deal and get their commissions quicker) and it makes your customers happier (getting the products they need faster) – and it takes work off the back of the sales manager.
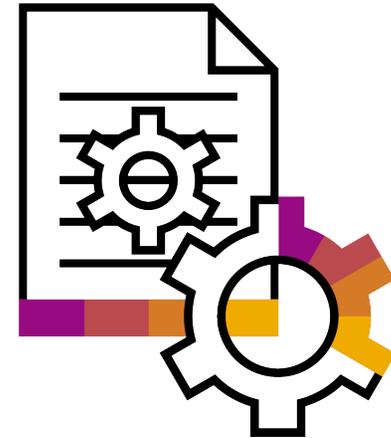
Assessing your needs: Key questions

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What do you look for when selecting a CPQ solution? Besides the basics, there are some other things to consider. Any responsible software purchase involves the creation of a set of requirements; these are the most basic ones for CPQ.

1 **On-premise or in the cloud?**

By now, your organization has probably hashed out an approach to the delivery method by which you obtain and use your software. On-premise software is managed on your servers, by your IT team; you pay up front for it (with an annual maintenance charge), and the responsibility for maintenance, security, back-up and updates is all yours. With cloud-based applications, you pay on a monthly basis (usually, as part of an annual contract); hosting, maintenance, security, back-up and updates are handled by the software provider. Over time (generally, about three to five years), cloud-based software license costs will exceed the costs of on-premise applications' license costs, but on-premise software still requires an ongoing investment in IT hardware and talent that often tips the scales back in favor of cloud-based options.

Assessing your needs: Key questions

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2 **Does it integrate with your existing applications?**

CPQ shouldn't exist in a silo – it can draw and provide helpful data to your CRM, ERP, and marketing automation applications. To do so, however, means it needs to integrate with those systems, and do so gracefully. Otherwise, you're looking at significant expense – not just now, but every time any of these applications are upgraded and break your custom-built integrations. Understand what applications you're using to collect and control customer and product information and make sure that your choice of CPQ solution will integrate with them as closely as possible.

3 **Which features do you need – and will need in the future?**

This is the most basic of all requirements exercises: listing features to create a checklist that all contenders must match. But it's easy to overlook things in

CPQ – and it's easy to fail to spot areas where growth could quickly hamper your CPQ choice's effectiveness. For example, if today you sell only within the U.S., you might not include multi-currency support among your requirements. But the odds are good that growth may soon make that a requirement. Do you use a percentage-based or volume-based pricing structure, and might you change between the two in the future?

Also, look for the features you need for your business. Do you offer services as well as products? If so, you need the ability to manage pricing for both within your CPQ solution. Do you offer – or plan to offer – a mix of manufacturing styles – assembled-to-order, configure-to-order, engineered-to-order, and componentized products? Make sure the CPQ solution is flexible enough to accommodate them all. Flexibility is a critical attribute to look for, especially if your business is changing.
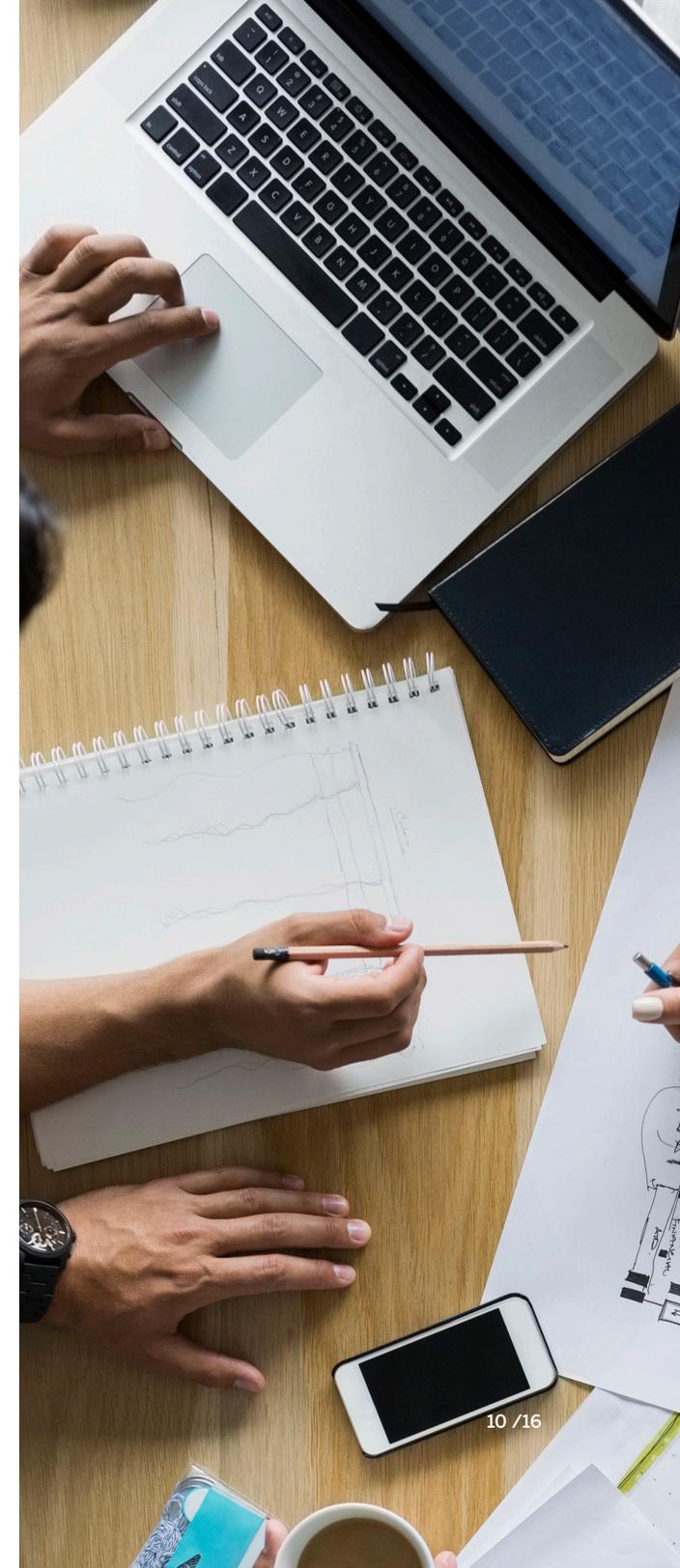
Assessing your needs:
Key questions
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4 **On-premise or in the cloud?**

Many CPQ vendors offer CPQ as their only product or as one of a small number of products. This differs from vendors like SAP, who also offer CPQ as part of a suite. In circumstances where a CPQ solution is needed urgently, the impulse can be to lean toward stand-alone vendors – but this can lead to integration costs and delays that offset any perceived time benefits a stand-alone solution seems to offer.

A well-organized suite does not require a rip-and-replace attitude toward existing systems. Instead, its components often integrate with legacy systems (many times, using built-in integrations) and provide a pathway for bringing in new functionality (for example, using quote information as part of compensation, or tracking the correlation of customer experience and satisfaction against time to quote).
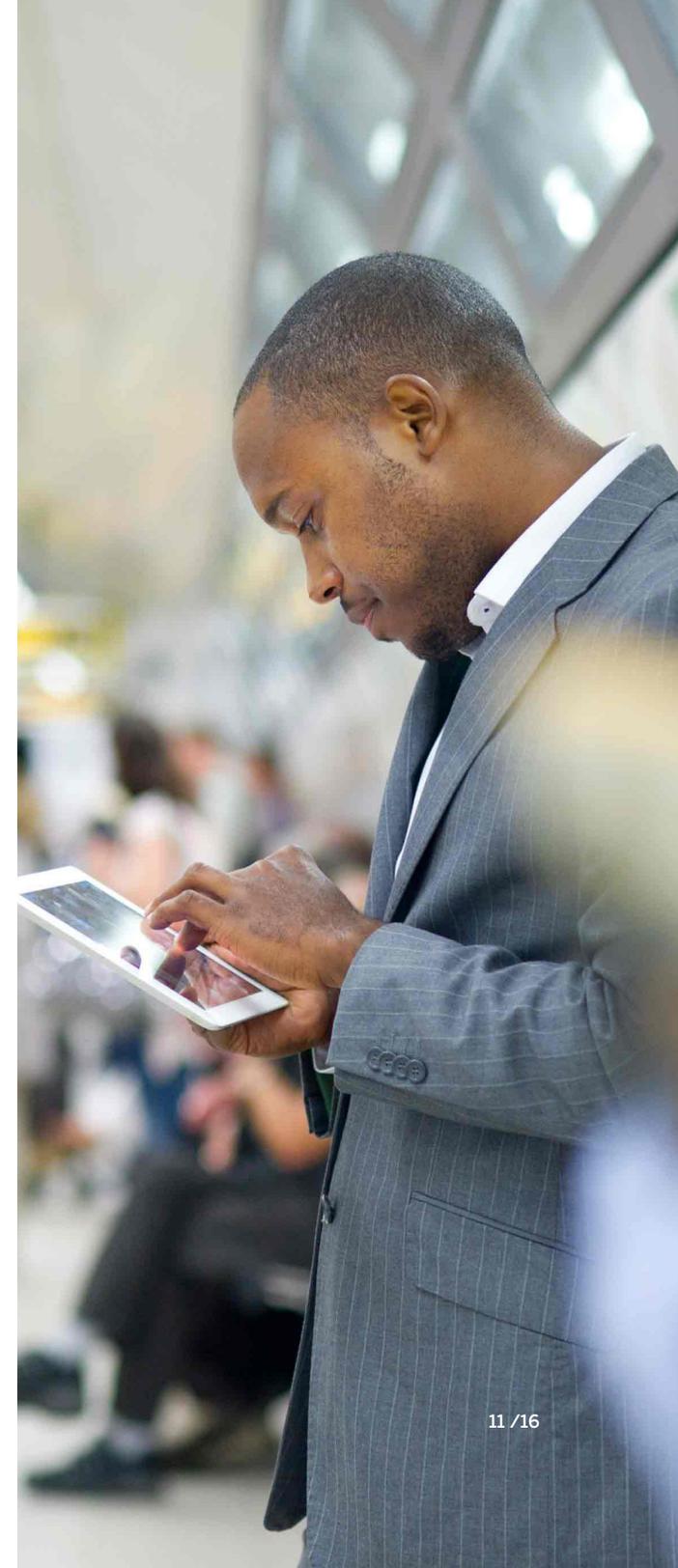
Salesforce.com native vs. non-native

Because CPQ complements CRM very well, many vendors build applications on Salesforce.com's Force.com architecture. These "native" applications integrate neatly with Salesforce and spare users many of the integration expenses of non-native applications. But going native also has some limitations.

While CRM is data-intensive, CPQ is compute-intensive. CPQ relies on complex algorithms that re-compute configuration solutions in real-time with every user click, and also (in parallel) compute the pricing that goes with that configuration. At the same time, the CPQ solution may also generate a complex proposal, contract, and bill of materials.

That requires a lot of computing power – and the Force.com environment is a shared computing system. That means many companies run their applications

simultaneously from the same compute engine. To ensure that an application in the environment doesn't use up too much computing power (and thereby negatively impact the performance of other applications), limits are imposed on each application in the environment. That can limit the performance of CPQ and somewhat negate the performance improvements that are CPQ's reason for being.

As a result, most native CPQ applications are targeted at the SMB market. To be as effective as possible, CPQ needs to have access to and be able to update virtually any data in the CRM system. But it's not mandatory that a CPQ application be built on a CRM vendor's platform for it to be tightly integrated. In fact, there are several ways that CPQ and CRM can effectively communicate and integrate, with the CPQ application itself being hosted in the same computing environment. For example, products such as SAP CPQ have "business user" mapping tools that enable data integration (in both directions) between any fields and objects (standard or custom) in either application, without the need to learn

Force.com programming techniques. For deeper integration between CPQ and CRM systems, look for services from enterprise-grade CPQ vendors. All of them are adept at this. But don't stop with CRM. As CPQ systems continue to evolve, integration with other applications in the lead to money process are becoming more important. Integration with commission calculation systems, motivation systems, learning systems, contract management systems and coaching systems will continue to drive additional value to CPQ users.

For deeper integration between CPQ and CRM systems, look for services from enterprise-grade CPQ vendors. All of them are adept at this. But don't stop with CRM. As CPQ systems continue to evolve, integration with other applications in the quote to cash process are becoming more important. Integration with commission calculation systems, motivation systems, learning systems, contract management systems, and coaching systems will continue to drive additional value to CPQ users.

Implementation, set-up and maintenance
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As with any enterprise software, implementation can be a difficult and drawn-out process without a coherent plan and an experienced implementation team on your side (either internal or external). Because CPQ solutions run using your pricing, products and tools, it's critical that you outline these clearly so that the implementation team can set the system up right the first time.

Before any work starts, develop a roadmap for what your goals for CPQ are. Start by benchmarking your current processes – this is the only way to understand the impact of CPQ and whether it's tuned properly once it's deployed. Review your current proposal creation and quoting practices and compare them to understood best practices; the areas where the two differ are areas for extra attention during the implementation phase.

In this early stage, your concerns are not necessarily about technology – they should be about the people who will be working with CPQ. The relevant stakeholders must be ready to rally around CPQ and during the consultation and design phase. This can be more difficult than it would seem; CPQ is a complex technology with many implications for sales. While all of them are good, it's important to explain them clearly to the stakeholders early on. Once they understand how CPQ can alter how they work, they can provide useful feedback and make the implementation more precise in its first iterations.

Many larger enterprises opt for multiple instances of CPQ for different products, services, and business processes. This only makes sense if there are clear, rigid delineations – if there's a chance that products or services may creep across boundaries, use a single instance, since it's likely your business will head in that direction over time anyway, resulting in a need to unify your CPQ instances.

In any event, you'll need to assign a CPQ administrator. The administrator's

Implementation, set-up and maintenance
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task will be to use the input from stakeholders, and the rules and objectives you provide, to identify dependencies and relationships among your product options. The creation of a preliminary model of your component relationships is a wise step to take before adding the components to the CPQ system. Understanding these relationships will make it much easier and faster for the administrator to create options and groupings and define product configuration rules.

These rules will be crucial in avoiding quoting errors. They will take several forms – most often focusing on compatibility, visibility, and must-select rules. An example of these rules would be a compatibility rule that prevents a salesman from selecting two options that don't work together. These rules should be defined in business terms – not in technical jargon – so that it's easier to create and, later, modify them within the CPQ system. These rules must also include criteria for the automation of deal approval.

They should also include aspects of the proposal generation process that help sales in other ways. For instance, associating the right content with the right products and bundles will put that content at the sales rep's fingertips – and help him sell more effectively.

Once the CPQ system is configured, test it – thoroughly. As soon as new rules are created, test them, and test the entire system once it's totally configured. Bring in sales reps to exercise the system the way they plan to use it in the future, and look for areas where the system doesn't work as expected. This will help ensure that, when the system is officially rolled out, it works as advertised.

This is important, because nothing kills adoption faster than confusion and anger among your sales force. Demonstrating the benefits of CPQ early – and avoiding any deal-damaging glitches – is the key to winning over the sales force and gaining widespread adoption of CPQ.

Conclusion
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CPQ takes one of the most arduous tasks sales reps face and makes it a point-and-click operation. It delivers the right content to them (and, through them to the buyer), helps them recognize up-sell opportunities, and gives them the ability to sell all of your products, not just the products they are most familiar with. This doesn't just help the sales rep – it enhances the buyer's experience, and ensures that your business delivers the solution that's the most precise fit for his or her needs.

To do that, you need to select a CPQ solution that's built to accommodate the right size of business, which can work with other applications in the quote to cash process without costly and time-consuming integration, and which can scale as your business grows. It should be delivered in a way that minimizes time spent on technical issues and allows your administrator to focus on adapting the system to changing business needs and selling strategies.

You also need to consider a deployment strategy that delivers all these benefits to users in sales immediately and with a minimum of glitches upon roll-out. If you select the right CPQ system and deploy it effectively, adoption by your sales force will be enthusiastic and the results of your efforts should be visible in short order.

Want to learn more about generating better, faster deals? Check out SAP CPQ.

SAP® Sales Cloud

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