FEATURE

Scalable lead-to-cash operations for Industry 4.0

Building out sales and back-office capabilities for a scalable XaaS business

Jagjeet Gill, Deepak Sharma, Maximilian Schroeck, and Anne Kwan

In an XaaS environment, leaders are looking to meet changing customer needs by transforming their lead-to-cash value chain. In the 16th article in our series on digital industrial transformation, we examine how to institute a scalable yet flexible omnichannel sales process.

Introduction

Shifting to an as-a-service purchasing model can present challenges across the business, as managers, IT departments, and business units adjust. But moving to *selling* via XaaS can be far more complex and even disruptive. Growing and thriving in this decade of omnichannel sales demands providing ever-speedier delivery and a consistent user experience across channels, even while constantly refashioning systems.

Offering bundled solutions—the heart of XaaS selling—may require partnering with other vendors, which by itself exacerbates complexity. And workarounds, however inevitable at first, hardly constitute a lasting fix. The upshot: Companies looking to institute a scalable yet flexible omnichannel sales process while meeting customers' unique needs are required to implement a sustainable lead-to-cash cycle that allows effective customer outreach and collaboration with partners.

In discussing how companies are looking to meet rapidly changing customer needs by transforming their lead-to-cash value chain in an XaaS environment, this article, 16th in our series on digital transformation, takes on the key challenges that leaders face, from scalability to customer experience to compliance. Each of the four sections—lead to opportunity, quote to order, order to invoice, and invoice to cash—addresses the implications of evolving business models on processes and policies, looks at key success metrics to track against critical capabilities, and discusses representative case studies.
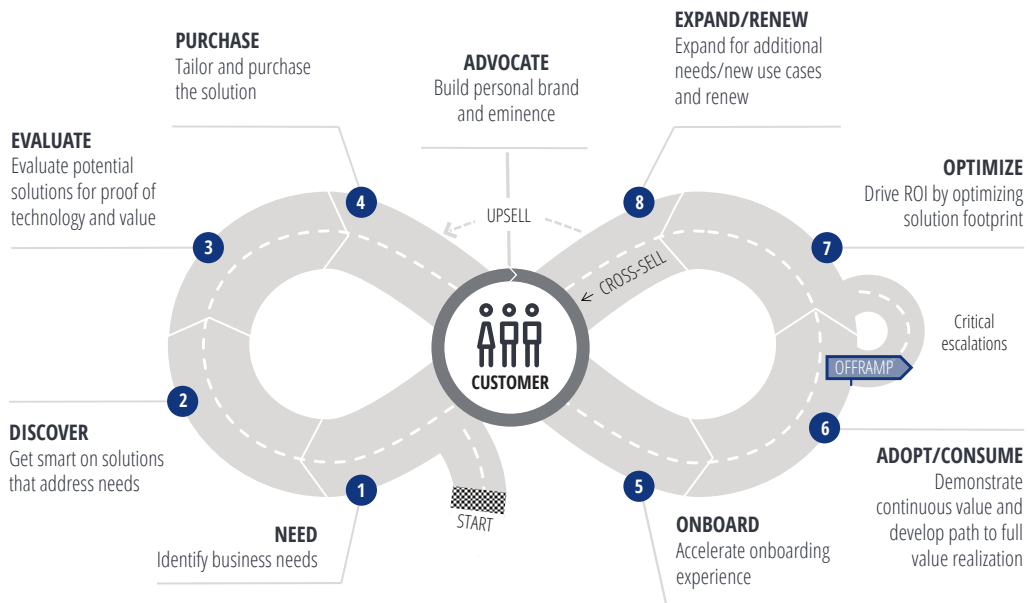
THE STARTING POINT: A CUSTOMER-CENTRIC AND DYNAMIC ENGAGEMENT MODEL

Moving to as-a-service requires a fundamental change in business models, from linear to always-on, a concept we established in this series' first installment.[1] Organizations must transition to digital industrial business models that are based on solutions and platforms and allow companies to capture value through subscription models. These models also allow companies to quickly scale up and down their usage of particular vendors' services and pay for only the services consumed.

For example, adding Internet of Things (IoT) insights to existing solutions can dramatically alter the value proposition and help penetrate new customer segments by offering data—and analytics—driven services. AB SKF, a traditional Swedish manufacturer of bearings and seals, transformed its business from *selling products* to *selling solutions*.[2] SKF is embedding its ball bearings with sensors designed to transmit performance data of the machines in which they are installed. Through the sensors, the company can collect bearing performance data and proactively advise customers on maintenance and operating needs; this reduces machine downtime, accident rate, and overall maintenance cost for customers. Additionally, customers are charged a variable fee based on the outcome, regardless of whether productivity met the targets. For SKF, the transformation helped them move to a customer-first mindset. Moreover, the analytics-driven solutions have opened an array of cross-sell opportunities. This data-driven

FIGURE 1

XaaS selling motion life cycle

PURCHASE
Tailor and purchase the solution

ADVOCATE
Build personal brand and eminence

EXPAND/RENEW
Expand for additional needs/new use cases and renew

EVALUATE
Evaluate potential solutions for proof of technology and value

OPTIMIZE
Drive ROI by optimizing solution footprint

UPSELL

CROSS-SELL

CUSTOMER

Critical escalations

OFFRAMP

DISCOVER
Get smart on solutions that address needs

ADOPT/CONSUME
Demonstrate continuous value and develop path to full value realization

START

NEED
Identify business needs

ONBOARD
Accelerate onboarding experience

Source: Deloitte analysis.

approach toward selling has thus far been a win-win for SKF and its customers.

Unlike the traditional one-time sell-and-renew linear models, the XaaS model continuously engages the customer throughout the life cycle. This principle guides a customer's journey through adopting, consuming, and managing XaaS solutions. Figure 1 represents this infinity loop with the customer and defines key stages in a typical XaaS journey.

Additionally, this infinity loop represents how the XaaS model is driving an increasing need to keep customer journey seamless and building a dynamic engagement model culture in the organizations. Organizations adopting as-a-service business

models should recognize the *customer mindset* imperative before proceeding with multidimensional considerations such as overall adoption strategy, business models, operating models, and cost.

"XaaS has brought the customer imperative into the spotlight. A continuous customer engagement model is paramount, and it is achieved by truly locking into the customer's mindset and needs, architecting a holistic view of the customer journey, and using this as a north star to build customer solutions and business processes—with customer empathy as a guiding principle."

— Sumit Dhawan, president of VMware

There are several success stories of companies leveraging cloud-based XaaS offerings to boost their earnings and gain market share. In the third quarter of 2019, Adobe posted record quarterly revenue, boosted by a 24% year-over-year increase in subscription revenue (which now accounts for all of Adobe's sales). Similar to Adobe, 75% of companies that use XaaS models confirm that subscriptions constitute more than half of their enterprise IT portfolio. According to Deloitte's 2021 Everything-as-a-Service (XaaS) study, some 54% of companies reported that they have achieved access to cutting-edge technologies through XaaS business models.[3]

Making the XaaS transition

As mentioned in this series' first article,[4] effective shifts to digital business models should be grounded in five guiding questions (figure 2). Only with the right strategy and business models in place, organizations need to address the question of business capabilities required to enable the digital business.

While the end-to-end XaaS transaction value, introduced in a previous installment,[5] is critical for the transition, organizations primarily need to transform their lead-to-cash engine to ensure that

FIGURE 2

Digital industrial transformation framework

Digital industrial transformation begins with strategy, which is carried through to redesigning talent models, transforming processes, and retooling technology. Leaders screen each decision to confirm that it will contribute to agility, promote digital adoption, and deliver value to customers.
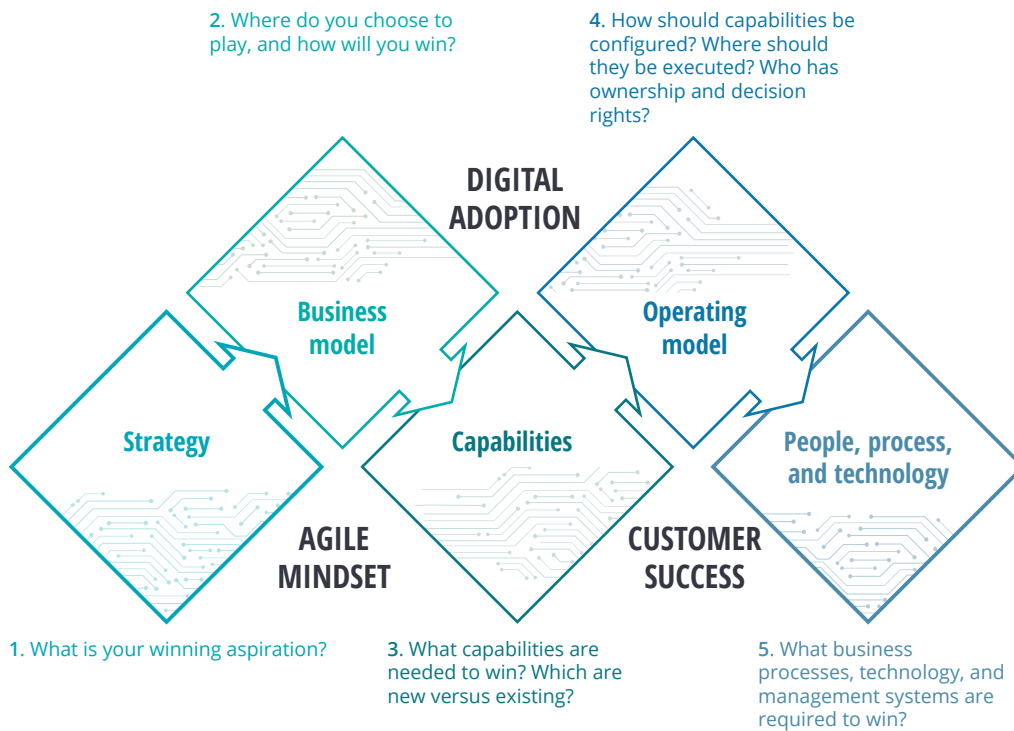
Note: This figure has been sourced from a Deloitte publication. For more, please see: Maximilian Schroeck et al., *Digital industrial transformation: Reinventing to win in Industry 4.0*, Deloitte Insights, June 17, 2019.
Source: Deloitte analysis.

inside-out supports outside-in needs and demands. While most lead-to-opportunity capabilities do not differ significantly between XaaS and traditional business models, certain capabilities require a tectonic shift. Shifting the sales mindset to sell as-a-service solutions over traditional products can be challenging, primarily because compensation of traditional product sales is relatively straightforward. By contrast, XaaS-based sales compensation is spread over time and calculated based on multiple dimensions such as customer retention rate, total contract value, and profitability, which may create a perception of lowered commissions and complicate reconciliation among sales teams. The situation is further complicated because certain parts of the organization (such as customer service or customer success) can now be wrapped within the cost of XaaS subscriptions and need new means to meet their targets. This might further lower the motivation to generate quality leads and sell as-a-service solutions.

To address this challenge, organizations should look to align their revenue attribution, sales commission, forecasting, and quota allocation capabilities with XaaS business model needs. In traditional businesses, spreadsheets can support most of these capabilities; organizations offering as-a-service solutions should strive to automate these capabilities as much as possible because the business rules can quickly become too complex to be supported manually.

Lead to opportunity

For this capability group, leaders need to reevaluate the overall lead and opportunity hierarchy and mapping, with organizations selling solutions (often including multiple services) instead of traditional products sold one at a time.

The channel supporting an XaaS business also requires special consideration against these capabilities—for example, managers would need to revamp a partner portal for tracking and managing leads and opportunities, and to set up a dedicated capability for partner relationship management.

To digitize these capabilities, organizations heavily rely on cloud-based CRM tools and deploy peripheral toolsets for lead scoring, etc. Analysts see the global CRM market growing by US$33.5 billion during 2019–23,[6] largely due to the perceived benefits of cloud computing. .

Some important benefits of a cloud-based CRM tool that would most affect sales and presales teams include:

- Out-of-the-box capabilities to streamline lead-to-opportunity capabilities for XaaS business models

- Out-of-the-box connectors to peripheral systems for lead-to-opportunity capabilities

- System access anywhere and everywhere with or without an internet connection

- Mobile and tablet compatibility, in addition to laptop support

- Easy-to-install plug-ins available on various platforms to extend the tool's capabilities

CASE STUDY: LEAD TO OPPORTUNITY
A pure-play software solutions company sought to enhance the value of a separation through business transformation enabled by cloud infrastructure. Within the lead-to-opportunity space, it faced major challenges in effectively managing its customer data, marketing campaigns, and channel activity. Furthermore, it was failing to follow up effectively on its new business sales, leading to missed renewal opportunities and customer attrition.

FIGURE 3

Lead to opportunity

STEP 1
Capture
leads

STEP 2
Score
and prioritize
leads

STEP 6
Convert
opportunity
into quote

Lead to
opportunity

STEP 3
Qualify
and convert
leads

STEP 5
Forecast
and qualify
opportunity

STEP 4
Create
account and
opportunity

Source: Deloitte analysis.

To address such issues, leaders overhauled the CRM platform to better integrate with downstream *configure, price, quote* (CPQ), billing and finance systems. This enabled the organization to effectively track deals, improve renewal rate, forecast deals accurately, and provide a 360-degree customer view. It also streamlined the lead qualification and conversion processes.

To promote its SaaS business, the company also revamped its online web-presence and e-commerce platforms aggressively, training sales reps to sell cloud products more effectively and to encourage customers to subscribe to its online services.

While it is important for organizations to implement the right capabilities, it is critical that they track operational KPIs for these capabilities. It will help them define their periodic goals, quantify progress, and assess performance against industry benchmarks. Key capabilities and KPIs for the lead-to-opportunity space include:

FIGURE 4

Key capabilities and metrics required for a scalable lead-to-opportunity process

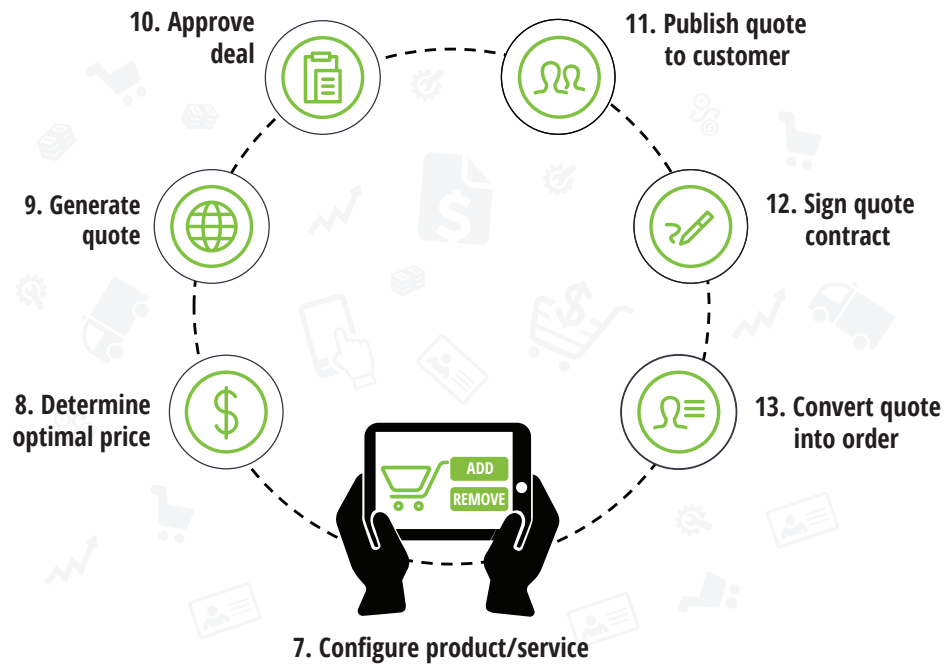| Capabilities	Description	Select KPIs recommended for tracking
Lead conversion and routing	Ability to automate assignment of leads to the right sales teams	Lead-to-opportunity conversion rate
Opportunity and prospect management	Ability to implement 360-degree customer view, enabling tailored marketing, sales approaches, products, and services new to customer segments	% increase in average sales
Sales-plan development and forecasting	Ability to notify and mobilize resources to meet sales forecasts	Average sales cycle time (days)
Sales compensation management	Ability to effectively align and automate alignment of sales staff incentives with strategic objectives	Sales compensation and benefits expense (as a % of total sales expenses)
Trial (try and buy) management	Ability to initiate a click-through trial program of products and services	Trial conversion rate %

Source: Deloitte analysis.

Quote to order

Once the opportunity is generated, the next phase is to pursue that opportunity and generate quote for the customers. *Quote to order* primarily comprises a company's ability to configure, price, and generate quote for a product or service, seamlessly draw up a contract based on that quote, and publish that contract to the customer for review and signatures—all from within a single tool. While CPQ capabilities have matured across traditional as well as as-a-service business models, there are areas in which XaaS business models require more advanced, automated, and low-touch capabilities. These capabilities include offering standardization by adopting attribute-based product master data, pricing analytics, and automated deal management. These solutions implement more complex features than their traditional counterparts to support pricing related to variable and on-demand consumption. The degree of precision has also become critical for minimizing revenue leakages, largely due to the shift in overall deal size and payments moving from one time to recurring.

FIGURE 5

Quote to order

- 10. Approve deal
- 11. Publish quote to customer
- 9. Generate quote
- 12. Sign quote contract
- 8. Determine optimal price
- 13. Convert quote into order
- 7. Configure product/service

Source: Deloitte analysis.

Traditionally, companies have customized deals and products to meet customer requirements. In the XaaS world, bespoke deals can generate operational inefficiencies—standardization is key for success. This can be achieved by adopting an attribute-based product model, standardizing product hierarchy across products and business units, and adopting a common nomenclature across all products.

Pricing analytics, too, can be critical for increasing success probability, helping to provide the right price at the first time and shorten the overall sales cycle. Pricing analytics can also help identify effective upsell and cross-sell opportunities and thus should be tightly integrated with the CPQ system, contract management, and customer hierarchy to provide real-time pricing guidance.

> *"XaaS pricing done right requires a value-based pricing approach—one directly linked to the outcomes and value the company is delivering customers. This value will be enhanced by delivering streamlined and frictionless buying experience across all of the recurring customer events in the lead-to-cash operations process."*
>
> *— Maggie Laird, chief pricing officer at Hitachi Vantara*

While providers adopting XaaS service models aim to standardize offerings and deals, there will always be exceptional scenarios that push the deal tolerance limit. How do we address these exceptions? Companies will need to automate their deal management processes as much as possible, ideally by defining a metrics structure that outlines tolerance limits across multiple criteria and the

next level of approvals required. Once this type of structure has been defined, deal approval can be achieved through a simple workflow integrated with a CPQ tool.

Figure 6 captures the list of key capabilities and metrics that organizations should implement to achieve a scalable and robust quote-to-order process.

FIGURE 6

Key capabilities and metrics required for scalable quote-to-order process

Capabilities	Description	Select KPIs recommended for tracking
Guided selling	Questionnaire based workflow to guide potential buyer to select the right product or service and associated features to meet their needs	Sales self-serve ratio (%)
Offering configuration and pricing	Ability to configure offering based on desired set of features and adjust price in real-time based on features selected and applicable promotions and discounts	Configure-to-quote cycle time (days)
Multilanguage support	Ability to quote and sell deals in multiple countries, languages, and currencies	Configure-to-quote cycle time (days)
Quote management	Ability to manage and track a quote through its life cycle, from quote configuration to contract creation	Opportunity-to-quote cycle time (days) First-time-right index: quote (%)
Manage renewals and retention	Ability to retain and expand business with current customers by improving the proactivity and effectiveness of customer/account management processes	New orders versus renewals (%) Customer renewal rate (%)
Contract template library and authoring wizard	Ability to quickly populate a contractual agreement using automated prompts	Quote-to-contract cycle time (days)
Electronic signatures	Ability to send a contract directly to the customer through the tool for the customer's signature	Quote-to-contract cycle time (days)
Quote conversion	Ability to convert a quote to a contract or a legal document automatically, pulling in all relevant information required for legal compliance	Quote conversion index (%)

Source: Deloitte analysis.

CASE STUDY: QUOTE TO ORDER

To achieve 2.5x growth in the next five years, with 80% subscription revenue, a technology solution company wanted its leaders to transform a perpetual business into an XaaS one. This required redesigning of business capabilities and technical architecture to support XaaS business models at scale. Among the several other challenges, the company had a complex technology ecosystem with siloed quoting capabilities across acquisitions.

To address this key issue, it rearchitected its legacy and segregated product SKUs to a modular attribute-based structure and pricing model to avoid SKU proliferation and reduce time-to-market for new product deployments. This change enabled a single and scalable product master across the enterprise and facilitated improved bundling and cross-selling opportunities.

Further, the company consolidated CPQ systems across the enterprise and implemented a single CPQ cloud solution along with a rule-based pricing configurator to enable standardized quote experience for all products and more precise values for additional quotes to existing customers.

Order to invoice

After a quote is approved, it is converted into an order. This conversion is another key area in which XaaS requires discourse from the constructs of the traditional model. In XaaS business models, organizations typically sell complex solutions that are a combination of multiple offerings such as software, hardware, and professional services.

These solutions increase the complexity of order-management processes to the extent that traditional order-management capabilities struggle to support them. To enable the transition to the new model, organizations initially opt for a workaround and create multiple quotes and orders to support XaaS models, but as the XaaS business grows, this multiple-quote and multiple-order approach begins posing challenges and leads to the creation of complex, manual processes across the organization.

The impact of this manual approach is on contracting, revenue recognition, and finance reporting processes and can lead to high risk of revenue recognition and reporting errors. Thus, the organizations should always strive to adopt a "one quote—one order—one invoice" principle to optimize order-management processes and downstream financial processes.
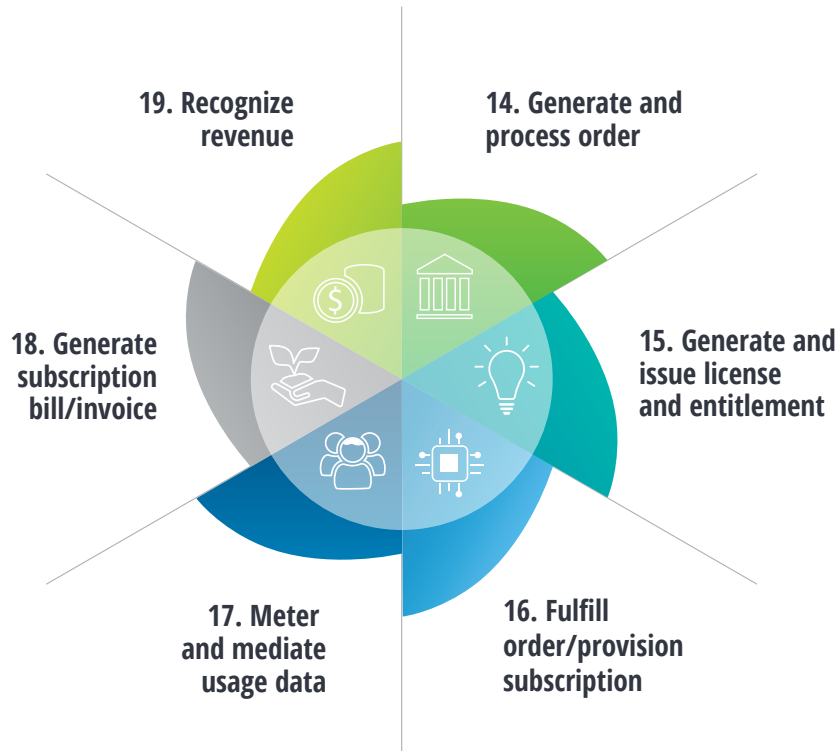
Entitlement management is an equally important focus area for XaaS business models. In XaaS service models, entitlement management is critical to promote employee efficiencies, reduce support costs, and prevent revenue leakage by linking billing and entitlements to form a closed loop. To tackle this step, organizations should start their entitlement capability journey by establishing a common understanding of entitlement across products and business units, embedding entitlement discussion across the customer/partner life cycle. Organizations should also look to adopt a flexible and adaptable data model, as data management is often the most significant dependency for entitlement management solutions.

> "To scale L2C business operations effectively, take a customer / partner journey approach and foster a culture of experimentation across the enterprise. This is key to understanding what customers really want and how they may consume product and service. Differentiate and automate experience across the lifecycle for key personas to enable ease of doing business."
>
> — Charles Chen, principal product manager F5 Networks

FIGURE 7

The order-to-invoice cycle

19. Recognize revenue

14. Generate and process order

18. Generate subscription bill/invoice

15. Generate and issue license and entitlement

17. Meter and mediate usage data

16. Fulfill order/provision subscription

Source: Deloitte analysis.

FIGURE 8

Key capabilities and metrics required for scalable order-to-invoice process

Capabilities	Description	Select KPIs recommended for tracking
Order generation	Ability to automatically initiate an order as soon as the customer signs the legal quote or issues a purchase order; this expedites the fulfillment process	Contract-to-order cycle time (hours) Touchless orders (%)
Order processing	Ability to package up the order per specification with minimum manual intervention	Manual intervention index First-time-right index: order (%)
Entitlement/asset generation	Processes and systems that allow customer to register and activate the product or service to be ready-to-use based on the entitlement and customer information in the installed base	Entitlement and license delivery cycle time (hours) Activations accuracy rate (%)
Order fulfillment	Ability to manage information and fulfillment of both hardware and software orders together without the need to handle it on multiple systems	Average fulfillment time (days) % of usage records generated with no revision

Source: Deloitte analysis.

CASE STUDY: ORDER TO INVOICE

A large enterprise hardware company, having failed to keep up with market and technology changes, was undergoing a tumultuous operational crisis. Its lead-to-cash business processes were resource-intensive and bespoke, and revenue growth had flattened. It needed a new business model to survive in the Industry 4.0 era.

To penetrate new market segments, leaders looked to transition from a traditional purchasing model to an XaaS model. Over the course of eight months, the company designed and defined the key blueprints to iteratively becoming a digital business; it overhauled its legacy processes and adopted agile capabilities that supported its ambitions toward scaling in the cloud. Specifically, it standardized its pricing and configuration rules by offering preconfigured bundles. It also simplified its quote approval hierarchy to process deals faster (less than 10 minutes versus five days) and significantly enhanced its contract management life cycle. Standardized product offerings shrank the average contract length from 150 pages to 11 and reduced order processing from three days to 15 minutes. This enabled its services organization to focus more on what is important: nurturing the customer relationship.

Invoice to cash

This is the ultimate stage in the cycle yet requires a complete overhaul in most cases to support XaaS models. Subscription billing and invoice management are critical capabilities of this process that is required to enable any XaaS business model, demanding more than just deploying a subscription billing platform. Enabling these capabilities requires a fine balance of flexibility and standardization, operational efficiency, and customer experience. Key considerations such as customer account hierarchy, invoicing flexibilities, finance reporting structure including fixed assets management, and revenue recognition should be

embedded as early as possible in the entire lead-to-cash life cycle.

Usage management is another critical capability in which organizations with traditional business models typically lack maturity. However, one-third of the XaaS adopters in our survey cite usage optimization as a critical feature.[7] Traditional products were never designed to meter customer usages and communicate back to the provider. Further, the provider infrastructure was never set up to collect this data, analyze it, and charge the customer based on usage. There are no industrywide standards available to enable this process. As a result, each product and business unit created their own method for usage collection and management. This strains the overall billing capability, causing expensive errors such as incorrect invoicing. Organizations can best address this issue by deploying a centralized usage management platform on which all usages are collected, analyzed to generate customer insights, and fed into billing and customer service capabilities.

The other focus area of this process is revenue recognition. Revenue recognition[8] and accounting processes for XaaS solutions are fundamentally very different than most legacy solutions have in place. For a license or a one-time purchase, revenue recognition is done once, when payment is received, in contrast to XaaS, for which revenue is recognized based on usage through the term of the contract. Changing an existing financial process geared toward legacy solutions to cater to XaaS solutions can be surprisingly complex. Ancillary processes around intercompany accounting and financial reporting would need corresponding updates.

Finally, the overall finance reporting structure needs to be evaluated. As discussed earlier, XaaS business models require a new revenue attribution policy as this transition will drive changes in finance reporting structure. In XaaS business

models, the provider retains ownership of some hardware, such as servers; these will require changes in fixed asset management capabilities. Further, the AR systems and payment reconciliations will need to be tuned up to manage the influx of high-volume periodic invoices. Thus, engaging finance early in the conversation is critical to enabling a sound XaaS business model.

FIGURE 9

Key capabilities and metrics required for scalable invoice-to-cash process

Capabilities	Description	Select KPIs recommended for tracking
Generate bill/invoice	Ability to link usage-based systems with billing systems to automatically generate invoices, including option to create both online and offline invoices, and link them to payments and collection systems/processes	First-time-right index: billing (%) Manual-intervention index: billing (%) Average invoicing duration (days)
Process receipt	Ability to receive and apply customer payment/remittance advice information for credit card, debit card, ACH, wire transfers, etc. and manage unapplied/on account payments	Conversion rate by payment method
Manage credit memos	Ability to seamlessly apply and suspend credit memos to invoices	Automated credit memos (%)
Manage customer statements	Ability to generate personalized usage-based notifications for customer-specified bill thresholds—e.g., bill amount exceeds a defined personal threshold	Automated customer statements (%)
Manage dunning	Ability to configure system-generated notifications that request payment from the customer on products sold or services rendered	Dunning cycle
General ledger management	Ability to appropriately allocate and recognize revenue across the mix of orders and contracts based on the relative standalone selling prices of each performance obligation within a contract and the revenue recognition and deferral rules	Days to quarter closing

FIGURE 9 **(Cont'd)**

Capabilities	Description	Select KPIs recommended for tracking
Tax management	Ability to assess the tax implications on deals involving multiple business offerings—e.g., SaaS and traditional offers	Effective tax rate
Report revenue	Ability to support new disclosure requirements, including contract balances, disaggregation of revenue, remaining performance obligations, and qualitative disclosures, as well as other management reporting requirements	Accounts receivable turnover
Forecast revenue	Ability to forecast revenue across channels based on bookings, invoicing of components of a bundle, and/or waterfall revenue schedules	Forecasting variance
Project accounting	Ability to consolidate and/or align financial accounting and analysis functions	Automated management reports (%)

Source: Deloitte analysis.

CASE STUDY: INVOICE TO CASH

A leading global provider of software-defined application delivery services traditionally sold its core hardware and software products via a perpetual go-to-market model. Due to the fast-changing technological landscape, leaders recognized the need to shift to subscription and consumption-based business models that demand new routes to market and flexible deployment options.

Existing business and technical capabilities were unable to deliver the new business models at scale, so the company embarked on a digital transformation journey through a series of priority initiatives across the quote-to-cash life cycle to enable customer-centric and as-a-service capabilities.

The company enabled a high degree of automation across order-to-invoice through adoption of digital tools, including enabling end-to-end business processes and architecture to enable the shift to consumption-based business model and engaging a leading billing technology vendor to add flexible billing capabilities for subscriptions, including amendments and renewals. Leaders adopted next-generation licensing models to enable digitization for usage, including architecting a licensing enforcement solution allowing for new product licensing models—for example, software-only and capacity-based—and implementing product telemetry services for software metering required to enable a flexible consumption-based business model.

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Conclusion

Transitioning to a XaaS-based model cannot serve as a panacea for any organization's issues. But it does present a significant opportunity to scale and can set your organization on a path for long-term growth and success. The key to starting this transformation journey is identifying the gaps in your organization's capabilities and prioritizing initiatives based on their relative business value and ease of execution.

Organizations that have already transitioned to XaaS and are struggling to scale should look closely at these capabilities, identify gaps, and implement a robust lead-to-cash capability value chain. In Industry 4.0, offerings are getting complex, ecosystems are expanding with multiple partners and vendors, and customer expectations are rapidly changing. With this increased complexity and market pressure, organizations must implement a scalable lead-to-cash value chain that can be a strong backbone.

"Success in a lead-to-cash transformation requires a trusted partnership among IT, business, and product R&D teams. Simplifying and standardizing business processes and policies is a joint business and IT effort. Acquisitions typically add further challenges due to diverse XaaS business models, so a key success metric should be reducing complexity as companies are integrated. IT can bring enterprise architecture and associated vendor ecosystem perspectives to transform the end-to-end processes across sales, pricing, quoting, billing, and revenue recognition."

"Ultimately, a true XaaS transformation at scale requires a focus on customer, partner, and employee experience. Simply optimizing your company's operations isn't success—optimizing the experience to drive ease of doing business with the provider is success."

— Brett Colbert, VP of enterprise architecture and data at Salesforce

Endnotes

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