

NUCLEUS
RESEARCH

CPQ RETURNS \$6.22 FOR EVERY DOLLAR SPENT

ANALYST

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THE BOTTOM LINE

Nucleus analyzed the returns of configure, price, quote (CPQ) deployments over the past five years and found businesses averaged over six dollars gained for every dollar invested over a three-year period in the class of solutions. The primary value drivers of CPQ solutions include increased revenue, reduced operational costs, increased sales employee productivity, decreased time to close, and improved customer satisfaction. As companies are looking to digitize more processes and unify business areas on a central platform, CPQ serves as a natural bridge between ERP and CRM, making it an ideal beginning step in a full-scale cloud transformation. That in mind, we expect investment in CPQ technology to accelerate significantly in the next few quarters as more companies look to standardize operations on a unified cloud platform.

OVERVIEW

As both business-to-consumer (B2C) and business-to-business (B2B) sales spaces optimize for e-commerce (necessitated by COVID-19 shutdowns and ensuing changes to buyer behavior), buyers' demand for speed and flexibility over their ordering activities have drastically increased the complexity of the sales process. Enterprise-scale organizations and even mid-sized corporations now have massive product catalogs with hundreds of thousands of SKUs. Compounded by potentially millions of customization options for services, discrete manufacturing, and consumer goods, pen and paper sales approaches are no longer an option. Sales teams must leverage software-as-a-service (SaaS) technology to manage their day-to-day activities to remain competitive in today's digital landscape. Configure, price, quote (CPQ) solutions originally started as digital catalogs to help salespersons search for products and track pricing. Within the last decade, vendors have rapidly increased the solution scope of their offerings. Users can leverage modern CPQ solutions to support the entire quote-to-cash process, establish more sales channels, and enable new payment methods to capitalize on multiple business models and deepen their market penetration.

From the analyzed case studies conducted from 2015 to 2020, Nucleus determined the primary drivers for investing in CPQ software and the anticipated returns. Case studies were conducted over a range of markets, industries, and company sizes. Nucleus found that, on average, companies recouped \$6.22 in benefits per \$1 invested in CPQ deployments within the first three years.

CPQ RESPONSE TO COVID-19

With the pandemic shutting down brick-and-mortar locations earlier this year, consumers are forced to turn to e-commerce sales channels. Even as countries and states lift pandemic regulations, businesses must adjust to the new norm of an economy increasingly focused on online sales for the long-term. CPQ solutions enable all available sales channels, as well as subscription and usage-based billing options.

Nucleus found that users leveraging dedicated CPQ solutions were able to mitigate the financial impact of COVID-19 best. Features such as self-service customer portals, third-party dealer portals, and extended reality (XR) customization and visualization tools greatly expanded the end user's selling power and supported customer base. Simplifying the sales process via guided workflows allows sales teams to remain effective while working from home. Industry emphasis on artificial intelligence (AI) and analytics for continuous improvement has also increased sales margins as machine learning algorithms generate

pricing recommendations to maximize profit and identify cross and up-sell opportunities. Leading CPQ solutions even enable AI suggestions to guide sales conversations in real-time. As businesses leverage modern CPQ solutions to accelerate sales cycles, they further reduce the need for customer support and relevant positions.

KEY BENEFITS

An analysis of Nucleus ROI case studies shows that CPQ delivers business value in all use cases. Nucleus attributes the low cost to benefit ratio of 1:6.22 over a three-year period to five primary value drivers of a modern CPQ implementation.

- Increased revenue. Businesses leveraging CPQ solutions to enable new sales channels and payment methods see the greatest returns to their investments as they attract new customers and support new business models. Incorporating current and historical data including customer buying behavior, forecasted demand, and inventory levels, among others, AI features optimize pricing to maximize the return on closed deals and generate product mix suggestions for cross and up-sell opportunities. Analytics surrounding the sales process can also be used to evaluate the performance of products, sales personnel, and promotional events for informed decision-making.
- Reduced operational costs. The CPQ provides accurate and up-to-date pricing and product options to reduce quoting errors. Furthermore, configurable controls allow managers to eliminate over-discounting by their sales teams. As software vendors grant both users and their customers greater control over the configuration process, human error is significantly reduced on the seller's side, thus eliminating returns and re-work costs. Integration with CRM, project management, and ERP solutions allows users to feed CPQ generated product configurations to the manufacturing team directly. This further reduces manufacturing errors and the associated downstream costs.
- Increased sales employee productivity. Self-service portals reduce touchpoints along the sales process reducing the labor requirements for sales teams. Guided workflows and automatically generated pricing and product mixes streamline the sales process. Time saved by sales

**For every dollar spent
on a CPQ deployment,
businesses receive an
average of \$6.22 in
returns within 3 years.**


employees can be diverted to other value-add tasks, such as lead generation and relationship management. Additionally, integration with ERP and billing systems reduces invoice management functions and eliminates the number of reconciliations to expedite the monthly close process.

- **Faster time-to-close.** CPQ solutions help expedite one of the most time-consuming manual processes in sales, quote generation. Traditionally, sales reps would refer to a pricing guide to search the required items and build a spreadsheet with the product configuration and pricing. This could take over two weeks in some cases, creating a bottleneck in the sales pipeline. By leveraging a CPQ solution, this process can be expedited by over 90 percent to take less than an hour (in virtually all cases) and remove any potential human error from the process. This gets a quote to the customer faster and eliminates any lag time that existed when the process was done by hand.
- **Improved customer satisfaction.** Anywhere friction can be removed from a sales process, customer satisfaction is improved. By substantially reducing wait time, the most common source of frustration can be easily mitigated. Additionally, self-service configuration options and XR capabilities allow buyers to fully customize their orders and increases their trust in the ordering process. Since human error is removed from the quote building process, customers can be assured that what they are quoted for is what will be delivered, ensuring long-term satisfaction and reducing costs incurred from incorrect orders.

LOOKING AHEAD

It is well-documented that more companies than ever before are looking to modernize their IT stacks; those that have not already are migrating applications and workloads to the cloud. Those that have already begun cloud transformation journeys have rapidly accelerated the timelines, looking to bring more business units and departments to a unified cloud platform. The benefits of breaking down data silos for cross-departmental analytics and 360-degree visibility to the health and state of the business are well-known; additionally, the cloud allows users to access the solutions from anywhere, on any device, which is vital for enabling productive remote working.

CRM and ERP are two of the largest and most complex applications that a company can operate; they are typically kept separate as they involve different business units and different data. However, as more companies are looking to centralize to a single platform, connecting sales processes with billing and reconciliation (or CRM and ERP) to enable true lead-to-cash is an increasingly common goal. Since CPQ is naturally positioned between



sales and billing in the workflow, CPQ technology serves as an ideal stepping stone for organizations looking to integrate CRM and ERP. With this in mind, we expect the already strong demand for CPQ technology to grow as organizations of all sizes, beyond typical mid-market and large enterprises with complex product offerings, look to invest in CPQ technology. To be successful, vendors must deliver a CPQ solution that is tightly integrated (natively or via APIs/connectors) with CRM and ERP applications and can be deployed and adopted quickly without significant lag time. Companies like Apttus, Salesforce, Infor, Oracle, DealHub, and PROS have demonstrated track records of delivering value-add CPQ solutions with positive ROI.