

POWERING A PROFITABLE SALES ORGANIZATION: HOW CPQ CUTS COSTS

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Report Highlights

p2

Best-in-Class CPQ users average five times greater growth in revenue year-over-year.

p4

Best-in-Class CPQ users can see 4-fold growth in net profit over a five-year span.

p6

Best-in-Class sales organizations are 2.2x as effective at minimizing the number of people, functions, etc. required to develop and deliver quotes/proposals to buyers.

p9

Best-in-Class CPQ users can save \$1 million in sales rep replacement costs over 10 years.

Aberdeen Group research shows that Best-in-Class sales teams are 2.2 times as effective at minimizing the number of people, functions, and systems required to generate a quote or proposal. Such research provides a clear validation for the performance and efficiency benefits of configure price quote (CPQ) technology, but what about the bottom line? In this research report, Aberdeen Group will dive into the hard numbers to uncover how enhanced sales performance from CPQ translates into more profitable sales operations.

2

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Best-in-Class CPQ Users Defined:

In October and November 2015, Aberdeen surveyed 206 end-user organizations to understand their sales best practices. Along with cited use of CPQ technology, the performance metrics used to define the Best-in-Class (top 20%), Industry Average (middle 50%), and Laggard (bottom 30%) among these sales teams are:

- 88% customer retention rate, vs. 75% among Industry Average, and 34% for Laggard firms
- 8.5% average year-over-year increase in total team attainment of sales quota, vs. 0.8% for the Industry Average, and a 4.2% decrease among Laggard respondents
- 4.3% average year-over-year increase in average deal size, vs. 3.1% and 0.4% increases for Industry Average and Laggard respondents, respectively.

Configure Price Quote Produces Quantifiable Sales Returns

Aberdeen Group research shows that the majority of sales leaders (58%) now manage their sales organizations from a bottom line, profit-focused perspective — as opposed to the traditional, top-line, “anything goes to hit our sales number” approach. Of course, the bottom line approach dictates that any investment in sales technology, such as a configure price quote (CPQ) solution, must be evaluated with an eye to profitability.

Aberdeen Group’s report, *Visibility, Insight, Impact: Simplifying Complex Sales Processes with CPQ* (June 2016), shows that there are significant performance benefits achieved through this technology. Sales leaders, however, still often need to connect the dots between sales performance and business performance. In support of such efforts, Aberdeen Group looked at segment of CPQ users achieving Best-in-Class (defined in sidebar) levels of sales performance. By doing so, we found some rather compelling evidence for the impact of CPQ.

Best-in-Class CPQ users average 5 times greater growth in year-over-year revenue compared to All Others (15.7% vs. 2.6%). In concert with this revenue growth, Best-in-Class CPQ users also see, on average, a 4.8 times greater annual increase in profit margins compared to All Others (12.7% vs. 2.2%).

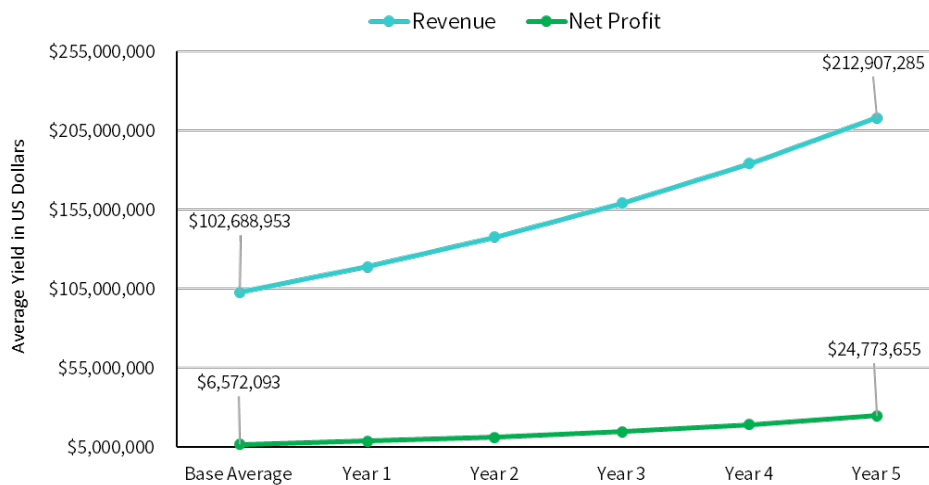
Along with these demonstrated year-over-year increases for Best-in-Class CPQ users, Aberdeen can also project the kinds of long-term organizational performance benefits the implementation of CPQ makes possible. This kind of analysis can help sales leaders make a clear, concise case for the potential rewards of CPQ investments.

Starting with demographic data from Aberdeen’s total respondents, an average annual revenue benchmark was calculated to be \$102.7 million in total organizational earnings per

3

year. Using a conservative average profit margin of 6.4% derived from all United States industries through a [2015 New York University study](#), Aberdeen was also able to establish a profitability baseline. Using these two benchmarks, Aberdeen applied the 15.7% annual revenue growth rate and 12.7% annual profit margin growth rate enjoyed by Best-in-Class CPQ users to produce the projected organizational performance shown over a five-year span in Figure 1.

Figure 1: The Impact of Best-in-Class CPQ on Revenue and Net Profits Projected Over 5 Years



Projections based on Best-in-Class CPQ user performance data

n=206

Source: Aberdeen Group, July 2016

Best-in-Class CPQ users drive 5x greater annual growth in profit margins.

While Figure 1 may only be a projection, it emphasizes the predictable and attainable revenue and profit advantages that correspond with effective CPQ deployment. Over this five-year span, Best-in-Class CPQ usage would foreseeably double a \$102.7 million company’s original annual revenue to become a \$212.9 million company. This example company would also multiply its net profit almost fourfold, from \$6.6 million to \$24.8 million.

4

Best-in-Class CPQ users reduce sales rep attrition by 3.9% year over year.

Related Research:

Putting CPQ in Play to Simplify Complicated Sales Workflows (June 2016)

Revenue and Profit Are Rewards of CPQ, But What About the Risks?

With high-reward opportunities often come high-risk uncertainties. In the case of CPQ, however, a major component of its high-yield value to sales organizations is in its capacity to mitigate risk and uncertainty. In *Putting CPQ in Play to Simplify Complicated Sales Workflows* (June 2016), Aberdeen research showed that Best-in-Class sales organizations were 32% more likely than All Others to attribute the ability for sales workflows to be managed by sales admins and leaders (no need for coding, programming, or IT) as a “strong” or “very strong” organizational success factor, compared to All Others. CPQ helps to make such direct sales operational effectiveness possible.

A byproduct of improving sales workflow effectiveness and ease of quote/proposal production (both of which make closing easier) is improved seller retention. Best-in-Class sales organizations average 64% of all sales personnel hitting their quotas, compared to just 49% for All Others. Sales reps who hit their quotas rarely get fired ([unless they're detrimental to team culture, a.k.a. "jerks"](#)), and they're often unlikely to walk away from steady, secure commission checks. Nevertheless, while the benefit of seller retention may be self-evident, the cost of seller attrition often goes overlooked.

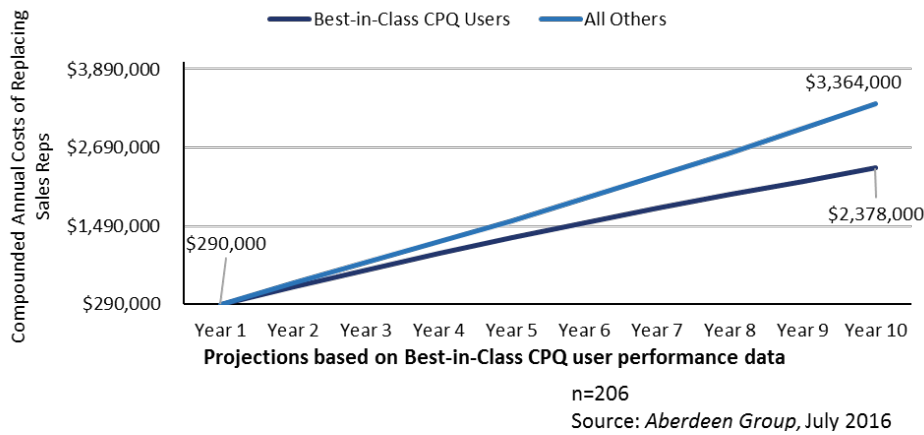
On average, [Aberdeen has calculated](#) that the cost of replacing a typical sales rep is \$29,000 and takes an average of 7.3 months to fulfill that replacement. Across our 206 sales survey respondents, the average sales team headcount came out to 29 sellers. Assuming a fairly reasonable 33% seller attrition rate (a [2015 study](#) of Software-as-a-Service (SaaS) sales teams from the Bridge Group yielded a 34% average seller attrition rate for that industry), the average number of sales reps lost per year comes out to 9.7. To make the math easier (and to avoid hiccups like a .7 person), let's say it's 10 reps lost per year, thus producing an average of \$290,000 in

5

replacing sales reps per year. Suffice it to say, for most organizations, over a quarter of a million dollars in annual rep replacement costs constitutes a significant risk.

Aberdeen’s study of Best-in-Class CPQ users, however, shows that this cohort is aggressively mitigating this risk by reducing the sales attrition rate by an average of 3.9% year-over-year. When compared to their underperforming peers, whose rep attrition grows at a rate of 2.7% year-over-year, the margin of competitive advantage in cost savings only widens. In Figure 2, like Figure 1, this pattern has been extrapolated over a long-term span, in this case, 10 years, to further emphasize the advantage of CPQ.

Figure 2: Best-in-Class CPQ Users Save \$1 Million in Sales Rep Replacement Costs Over 10 Years



While, again, there are a lot of factors at work in Figure 2, the critical takeaway is that CPQ helps to significantly mitigate a sizable organizational risk in sales rep attrition costs.

In other areas as well, Best-in-Class companies are compounding their returns from CPQ by mitigating risks. Aberdeen’s report, [Five Fundamentals for Best-in-Class CPQ Deployments](#) (June 2016), showed that top performing sales organizations are 2.2 times as effective as All Others (67% vs. 31%) at reducing the number of resources required to develop and deliver quotes and proposals

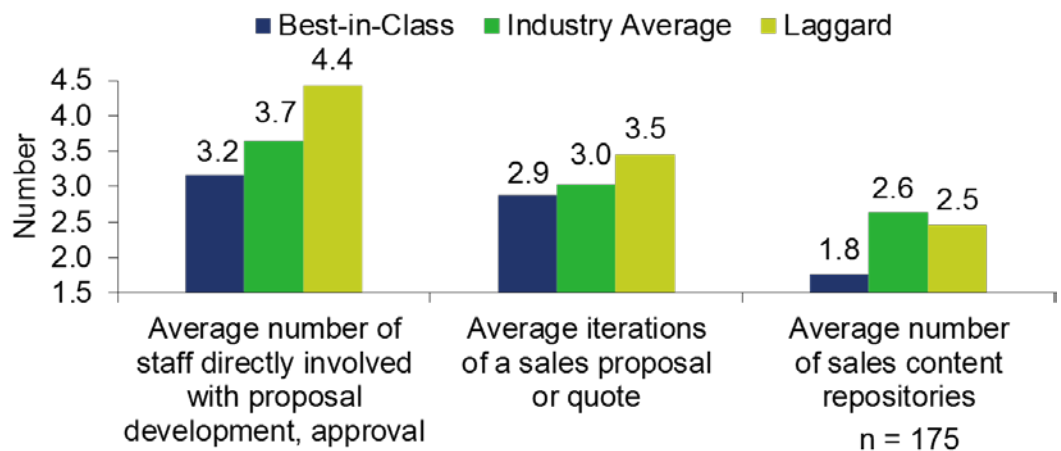
Related Research:
Five Fundamentals for Best-in-Class CPQ Deployments (June 2016)

6

Best-in-Class CPQ users can see 4-fold growth in net profit over a five-year span.

(Figure 3). Along with this overarching principle, Best-in-Class sales teams also show improved performance in specific personnel, production, and resource management metrics, as noted in Figure 3.

Figure 3: Best-in-Class Sales Efficiency Metrics Made Possible with CPQ



Source: Aberdeen Group, December 2015

What makes the findings here so significant is that they represent a line-by-line opportunity to cut inefficiencies (and as a result, costs) in a manageable, trackable fashion. Fewer people involved means fewer hours of overhead employee costs associated with completing a sale. Reducing proposal iterations means a more swift and seamless path to sealing a deals for buyers and sellers alike. The point being, thanks to CPQ solutions, these cost-reducing and profit-building moves can be made in a pragmatic, incremental manner.

Making the Possibility of Profitability a Reality with CPQ

Thus far we have highlighted the revenue and profit rewards from, as well as some of the risks mitigated by, CPQ solutions. In short, we’ve made a clear business case for “why” organizations should

7

invest in CPQ. That leaves the question of “how” one achieves these results relatively open. Aberdeen’s [*Five Fundamentals for Best-in-Class CPQ Deployments*](#) describes, in rich detail, the steps organizations must take in this direction. Since the intent of this report is primarily to explore and explain CPQ’s impact on sales profitability, the steps are summarized below:

- ➔ **Set the bar with benchmarks.** From approvals, to proposal/quote win-loss rates to iterations, to errors, and beyond, objectively measure the baseline averages for business-as-usual activities before implementing CPQ.
- ➔ **Construct change management workflows.** Deploying CPQ inevitably changes how sales teams sell – don’t fight the change; plan for it. Whether it’s small group pilot programs, undisruptive training sessions, a calendar of CPQ competency checkpoints, or a unique process all your own, ensure that your organization can be proactive and adaptive, not reactive, in its roll out.
- ➔ **Identify and assimilate “A-Player” best practices.** Customer-facing workflows and diagnostic, guided-selling questions within the CPQ solution are meant to align company capabilities and customer needs. Top performing sales reps are often experts at creating these points of convergence; build CPQ deployments to extend and amplify the expertise of these “A-Players” to the sales team as a whole.
- ➔ **Integrate effort-reducing technologies.** For ensuring order fulfillment or compliance with customer-specific parameters, integrating CPQ with enterprise resource planning (ERP) systems prevents human error or time lost from “checking what’s in stock.” For minimizing data entry, integrating CPQ with CRM can keep sales reps from

8

Best-in-Class CPQ users save \$1 million in sales rep replacement costs over 10 years, compared to costs incurred by their underperforming peers.

having to reconstruct or re-report conversations. The right combination of tools can truly complement and enhance your CPQ deployment; be sure to consider this combination from the beginning.

→ **Ensure situational awareness and preparedness.**

Whether ensuring that a seller can present on a tablet or mobile device if a presentation turns into a walking meeting, or curtailing a customer-facing portal that's not working properly, Best-in-Class organizations build flexibility into their CPQ deployments. No two buyers are exactly the same, so elite organizations engineer their workflows and solutions to accommodate any realistic scenario.

What is also particularly useful in restating these explanations of how to implement CPQ effectively is that these points also reemphasize and reinforce the profitability case for why as well. For one, benchmarking present revenue performance and profitability can show direct ROI of CPQ implementation. Moreover, benchmarking things like the length of the sales-cycle or number of people involved, can also help to explain how more revenue was won over the same time span, or how fewer people involved in approvals yielded less overhead thereby resulting in greater profit. The same goes for planning out cycles for change, scaling A-Player performance to the rest of the team, increasing the value of other technologies through integrations, and expanding the utility of CPQ for relevant situations, such as mobile environments and live presentations.

Conclusion & Key Takeaways:

9

Overall, CPQ is such a competitive solution for enhancing a business's financial performance because it directly supports operational performance by its nature. While the majority of this report has focused on numbers, the fundamentals of CPQ technology are what really make the magic happen.

Thanks to this technology, companies can more effectively cater to and deliver upon buyer needs and expectations without breaking the bank in profit margins or breaking promises about what can be delivered. Price, which Aberdeen identified as the top cause of lost or dispute-delayed deals (as cited by 73% of respondents), can become a trackable, optimizable promise of value, rather than a typical point of contention. And finally, quotes or proposals that may have once taken weeks to pull together can now take at most, a few days, and at best, a few hours or even a few minutes to produce. When building a case for CPQ's impact on the bottom-line, these are the points that are best kept as top-of-mind.

When it comes to building the business case for CPQ, remember the following:

- **Align expectations for a CPQ deployment to deliver on steady, year-over-year revenue and profit growth.** Best-in-Class CPQ users average 5 times greater annual growth in revenue, and increase profits at a 4.8-fold greater rate year-over-year compared to their peers. CPQ delivers value by simplifying complicated sales processes into systematic, scalable processes. The returns from CPQ should also come in systematic, predictable patterns.
- **Look to CPQ to deliver value over the long haul.** Aberdeen's projections show that a company starting with a baseline annual revenue of \$102 million and a net profit of \$6.6 million can double its revenue and multiply net profits by 4 times over a 5-year span.

10

- **CPQ's ability to help keep sales reps can help cut additional costs.** Best-in-Class CPQ users may save \$1 million in sales rep replacement costs over 10 years, compared to costs incurred by their underperforming peers. Stemming the tide of sales rep attrition by making sales success easier is one of the many ways CPQ addresses the many line items that must be managed for a profitable sales organization.
- **CPQ's rewards are maximized in the mitigation of sales operations risks.** Case in point, Best-in-Class sales organizations are 2.2 times as effective as All Others (67% vs. 31%) when it comes to reducing the amount of resources required to develop and deliver quotes and proposals.

For more information on this or other research topics, please visit www.aberdeen.com.

Related Research

[*Visibility, Insight, Impact: Simplifying Complex Sales Processes with CPQ*](#); (June 2016)

[*Five Fundamentals for Best-in-Class CPQ Deployments*](#); (June 2016)

[*Putting CPQ in Play to Simplify Complicated Sales Workflows*](#); (June 2016)

[*It's All About Those Skills: Best-in-Class Competencies That Support CPQ Deployments*](#); (March 2016)

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11

About Aberdeen Group

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