Getting Your Money's Worth from Your Configure-Price-Quote Solution: Calculating CPQ ROI

By Frank Sohn

A Quantitative Approach to CPQ ROI

To achieve the most benefits from CPQ, customers should ensure that:

1. **The best CPQ solution was selected** – There are many CPQ solutions available, and they are specialized for various use cases and industries. A customer needs to make sure they select the CPQ solution that best suits their business case.

   Depending on the complexity of the use case, this may happen with or without external help. In any case, if the customer selects the wrong solution, it will considerably limit the ROI they can achieve.

2. **The best CPQ system integrator was selected** – It is not enough to select the best CPQ software. It is also critically important to select a system integrator that can implement the CPQ solution so that it achieves the desired business outcomes.

   The selected system integrator should have a good working relationship with the CPQ vendor so they can collaborate on desired business outcomes for their customers. Customers may want to consider selecting the system integrator with a similarly thorough process as the CPQ vendor.

"… if the customer selects the wrong solution, it will considerably limit the ROI they can achieve."

3. **The project foundation is solid** – While this may sound like common sense, it does not always happen. In general, there are four different pillars that need to be in place to have a solid CPQ project foundation:

   - **Availability of project- and change-management skills** – Most CPQ projects require agile project-management skills or a mix of agile and waterfall project-management skills, aka "hybrid project skills." If a customer does not want to fully rely on a CPQ vendor or a system integrator, they need to have these skills in-house.
   - **Project plan has achievable timelines** – Be sure to set stretch goals that are achievable! There is a high chance of losing team and management support and excitement if one timeline after another is missed!
   - **Project objectives are achievable** – To set aggressive project objectives is very common, but it is counterproductive to set goals that cannot be achieved. This can and will negatively impact team excitement and commitment.
   - **Future CPQ users are ready and willing to use the CPQ solution** – Only a CPQ solution that is actually used can bring the desired return on investment. Think about this from the start, otherwise there is a good chance that teams will look for ways to work around a CPQ solution.

Before a customer can start calculating (estimating) or measuring ROI for a CPQ solution, they need to specify their business goals and determine how detailed their ROI calculation needs to be. This means it is necessary to have a closer look at their current business processes.

Let's use an example to look at this in more detail.

Business Case Example

After Manufacturing Company ABC analyzes its sales processes, they learn that they need, on average, eight business days to issue a quote. From its customers and prospects, they know that the average time for their competitors to issue a quote is five days.

To reduce their eight-business-day quote turnaround time (the high-level business objective is a "shorter sales cycle") they dig deeper into business-process steps like "configuring the product," "pricing the product" and "getting approvals for requested discounts."

They determine that the sales team requests a 30% or higher discount on 60% of all quotes. To get all required discounts approved typically takes five days. In this simple scenario, it is obvious that the business goal should be to provide more discount guidance to the sales team to prevent them from offering these high discounts.

This example also shows that it is not always easy to gather all the necessary business data for a high-quality ROI calculation.

Calculating the ROI

To start the ROI calculation, a customer, or an advisor they work with, typically starts by performing a business-process analysis, which may start with questions like this:

- Which route-to-market causes the most issues?
  - o Sales
  - o Channel sales
  - o E-commerce
- Which area (configure, price, quote) causes most of the issues?
  - o Products quoted are not buildable → Product Configuration
  - o Products quoted at too much of a discount → Pricing
  - o Quotes are hard to read → Quote
- What type of customer experiences the most issues?
  - o B2B customers
  - o B2C customers
  - o Public sector customers

It may be necessary to gather much more business data depending on the expected quality of the ROI calculation. This additional data can be collected in various ways like asking sales teams to get feedback from customers or sending out questionnaires.

Now that we know what benefits a CPQ customer can expect, and what pre-conditions have to be in place to increase the likelihood of success for a CPQ project, we can go ahead and actually use a simple example to calculate a CPQ ROI.

Simple CPQ ROI Example

- Customer ABC issues 1,200 quotes per year. Each quote has an average value of $5,000.
- With a new CPQ solution, they expect to issue 1,800 quotes per year with an average value of $5,100.
- Old quote value is $6,000,000 → 1,200 quotes x $5,000.
- Desired quote value is 9,180,000.00 = 1,800 quotes x $5,100.
- Based on previous-year data, 70% of quotes convert to orders.

Related Fees

- Annual software license fees for the CPQ software = $250,000.
- One-time implementation fees for the CPQ solution = $650,000.
- Other related fees like training of sales team and new computers are estimated at around $75,000 per year.

Conclusion

The investment into the CPQ solution will pay off in the first year.

Income:

Instead of an order value of $4,200,000

→ $6,000,000.00 * .70 (quote-to-order conversion rate)

The projected order worth is $6,426,000

→ $9,180,000 * .70 (quote-to-order conversion rate)

Which is an increase of $2,226,000.

Fees:

$250,000 (software license fees) + $650,000 (implementation fees) + $75.000 (other related fees) = $975,000.

ROI for CPQ investment in first year is $1,251,000.00 → Income ($2,226,000) – Fees ($975.000)

The ROI Calculation – What to Keep in Mind

This simple example shows that the ROI calculation can quickly become fairly complex, especially when a lot of data is used. Plus, when more data estimates (or guesstimates) are used, the chances for inaccurate results may increase considerably. Therefore, the recommendation is to focus on high-impact business processes and solid data related to them.

As a rule of thumb for ROI calculations, remember:

- Measure when the CPQ project efforts start paying off. The faster the better!
- Ensure that the expected benefits are higher than the expected fees (capital expenses and operational expenses).
- Focus on projects that show the highest ROI.

"Every customer needs to decide how much effort they want to put into an ROI estimate/calculation before a buying decision is made."

Some additional notes to keep in mind:

- Generic CPQ ROI calculators provide only limited benefits because they make assumptions that may not apply to a customer use case. To have "high-quality estimates," personalized, "high-quality" data has to be used.
- All numbers that are used before a buying decision for a CPQ solution is made are estimates! Every customer needs to decide how much effort they want to put into an ROI estimate/calculation before a buying decision is made.
- To measure actual results, after the CPQ solution has been implemented, customers are advised to set key performance indicators (KPIs) and metrics.

About Frank Sohn

Frank Sohn is an Industry Analyst and CPQ expert with 20+ years of experience in configure, price, quote; business transformation; quote-to-cash; merger and acquisition and project/program management. He has hands-on experience with maintaining CPQ tools, teaches pricing classes and regularly meets with many different CPQ vendors, system integrators and customers. Frank has worked for large corporations as well as startups and is based in Fort Collins, Colorado.

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