

APTTUS[®]

SELLING IN THE MODERN DIGITAL SERVICE ECONOMY



WHITE PAPER



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INTRODUCTION

SELLING IN THE MODERN DIGITAL SERVICE ECONOMY

Innovate or die. It's the harsh truth that businesses face today. Startups with fresh thinking and new, innovative business models are ratcheting up the competition and threatening to displace incumbents. Companies like Amazon, Uber, and Netflix have turned entire industries on their heads, and in some cases rendered old business models obsolete. For businesses to succeed today, they must provide additional services to customers that are perceived to offer greater value than their tangible core products alone.

In recent years, there has been a rapid surge in the number of companies that offer products of all types (spanning hard goods, digital goods, and services) through a subscription model, commonly referred to as Anything-as-a-Service (XaaS). The current list of Fortune 500 companies contains more service companies and fewer manufacturers than previous decades. In fact, manufacturing is transforming to the point where standalone products are the new "loss leaders" while services are the new revenue drivers¹. A recent McKinsey analysis across 30 industries found that average earnings-before-interest-and-taxes (EBIT) margin for aftermarket services was 25%, compared to 10% for new equipment².

This market shift, fueled by advances in technology, catalyzes new sales and delivery models that enable buyers to browse, buy, and pay for diverse products and services through multiple channels with unprecedented speed and convenience. The seminal challenge enterprises face today is modernizing and evolving their business processes to offer an easier, better, and more personalized buying experience for customers.



When everything is consumed as a service, buying hinges on how easy and painless it is to procure products, especially complex ones, in concert with other offerings like subscription services, professional services, and aftermarket services. As a result, savvy businesses are automating processes and investing in new Quote-to-Cash (QTC) systems that provide the necessary agility to respond to changing customer needs and manage complex sales and renewals of multiple product and service types.

Selling in the Modern Digital Service Economy addresses enterprise challenges in a XaaS market environment, recommends solutions that enhance revenue-generating operations, and spotlights competitive advantages derived from end-to-end QTC solutions.

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1. Salesforce, "Connected Manufacturing Service," 2016
 2. McKinsey, "Industrial aftermarket services: Growing the core," July 2017

THE NEW NORMAL: SELLING PRODUCTS PLUS SERVICES

In today's modern digital service economy, selling "as-a-service" offerings is increasingly complex. And more challenging for sales organizations.

Majority of B2B companies sell services or subscriptions along with core product offerings. Of the four categories -- complex products, subscription, professional services, aftermarket services -- more than half of the companies sell at least two of the four, while a rising number sell products in all four categories. This trend will continue as companies modernize product procurement processes to include various services in an effort to provide an easier, better, and more personalized buying experience for customers.

Selling services has traditionally been a cumbersome, inefficient, and additive process. Inadequate automation and rigid tools hinders the ability to efficiently pull together disparate quotes or orders then rapidly advance them through processes tied to contracting, invoicing, and revenue recognition. The selling motion often fails to match innovation in the service-based economy or the speed and agility required for a modern business. Until recently, there has been no solution in the market to seamlessly configure and combine complex products (both hard goods and digital), subscription offerings, and services in a single quoting transaction.



MANAGING COMPLEXITY

Organizations are seeking tools to improve complex Configure, Price, Quote (CPQ) operations.

Business processes have to be flexible enough to simultaneously manage product and pricing complexity (without sacrificing economies of scale) while supporting different sales channels (i.e., direct, partners, and e-commerce) and departmental functions. Selling digital goods and value-added services along with highly customizable products has become increasingly common and important to enterprises seeking decisive business advantages.

CPQ software helps enterprises manage complexity by consolidating and rationalizing the knowledge and rules needed to tailor offerings to unique customer requirements. At the same time, CPQ solutions eliminate manual steps in processes, reducing errors while increasing visibility into buying patterns and selling practices.

THE 3 PILLARS OF COMPLEX CPQ PROCESSES

The concept of complex CPQ processes is being redefined as it encompasses much more than sophisticated manufacturing styles, like Engineer-to-Order (ETO) or advanced Configure-to-Order (CTO). Enterprises today must account for three major dimensions when gauging the complexity of processes and requirements for supporting technology:

1

CUSTOMER ENGAGEMENT MODELS:

How the business reaches, wins over and manages prospects and customers on an ongoing basis.

2

SOLUTIONS PACKAGING:

How product offerings and services are packaged, priced, and marketed.

3

FULFILLMENT METHODOLOGIES:

How an enterprise fulfills its promises to its clients and partners.

CHARACTERISTICS OF COMPLEX CPQ



CUSTOMER ENGAGEMENT MODELS

Multiple Channels

—

Customer Segmentation

—

Vertical & Regional Strategies

—

Sales & Marketing Alignment

—

Customer Lifetime Value



SOLUTIONS PACKAGING

Services & Product Bundles

—

ETO & CTO Manufacturing

—

Pure Services

—

Mass Customization

—

Nested Configurations

—

Advanced Pricing

—

Subcontracting



FULFILLMENT METHODOLOGIES

Available-to-Promise
Lead Time Management

—

Lean Inventories &
Supply Chain

—

Just-in-time
Production

—

Outsourced Logistics
& Delivery

CUSTOMER ENGAGEMENT MODELS

Customer engagement models address business concerns around buying and selling experiences, market coverage, channel strategies, and strategies for nurturing customer lifetime value (CLV).

Go-to-market strategies can be complex depending on how companies attempt to penetrate different regions, industry verticals, and customer segments. To ensure consistent messaging and buying experiences while avoiding the cannibalization of sales, enterprises must coordinate marketing and selling efforts across multiple channels -- direct sales, online sales, and partner channels. Typical sales cycles for complex products and services may require specific sales methodologies, engineering resources, or the assistance of subject matter experts.

Customer relationship management, renewal opportunities, account expansion, and upselling and cross-selling strategies are also critical for margin and revenue growth. As a result, collaboration with partners or within an organization is necessary. It's important to maintain these relationships as most sales come from existing customers or repeat business.

Example: To avoid disrupting the buying experience, manufacturers for heavy equipment, such as tractors, sell their products through multiple channels. A growing number of consumers now want to configure and buy products through dealers but expect to pay for the equipment in a usage-based model. Manufacturers must have the agility to support these new buyer expectations without cannibalizing the profitability of more traditional buy/lease and warranty revenue models. As a result, commercial buyers can go online to view offers and specifications or explore suitable dealers before finally configuring products and executing purchases at a dealer site.



SOLUTIONS PACKAGING

Solutions packaging addresses business concerns around how products are organized, priced, promoted and sold in target markets, either directly or indirectly.

Products today are more sophisticated than ever. Just look at equipment within advanced manufacturing, which are often accompanied by complex services, leasing agreements, subscription-based pricing, and aftermarket services (e.g. Maintenance). Or consider when CPQ tools are applied to pure services, like insurance, where items in the agreement do not necessarily represent specific stock keeping units. In these cases, the items are more conceptual, comprising definitions of obligations and conditions.

As a result, enterprises often offer solutions packages where complex matrices of components and pricing are managed in addition to traditional product hierarchies. Supporting increasingly differentiated product bundles also may require coordination with third parties, with subcontracting specific bundle components to partners being a common approach.

Example: Advanced manufacturers of industrial machinery can offer an array of Configure-to-Order (CTO) permutations with alternative components at a very granular level. For instance, a medical imaging firm with reprogrammable, numerically-controlled equipment can choose from different software packages as well as services for monitoring machine health to mitigate downtime. Alternatively, packaging and pricing could also be dictated by outcomes, like committing to support over 1,500 scans per year.



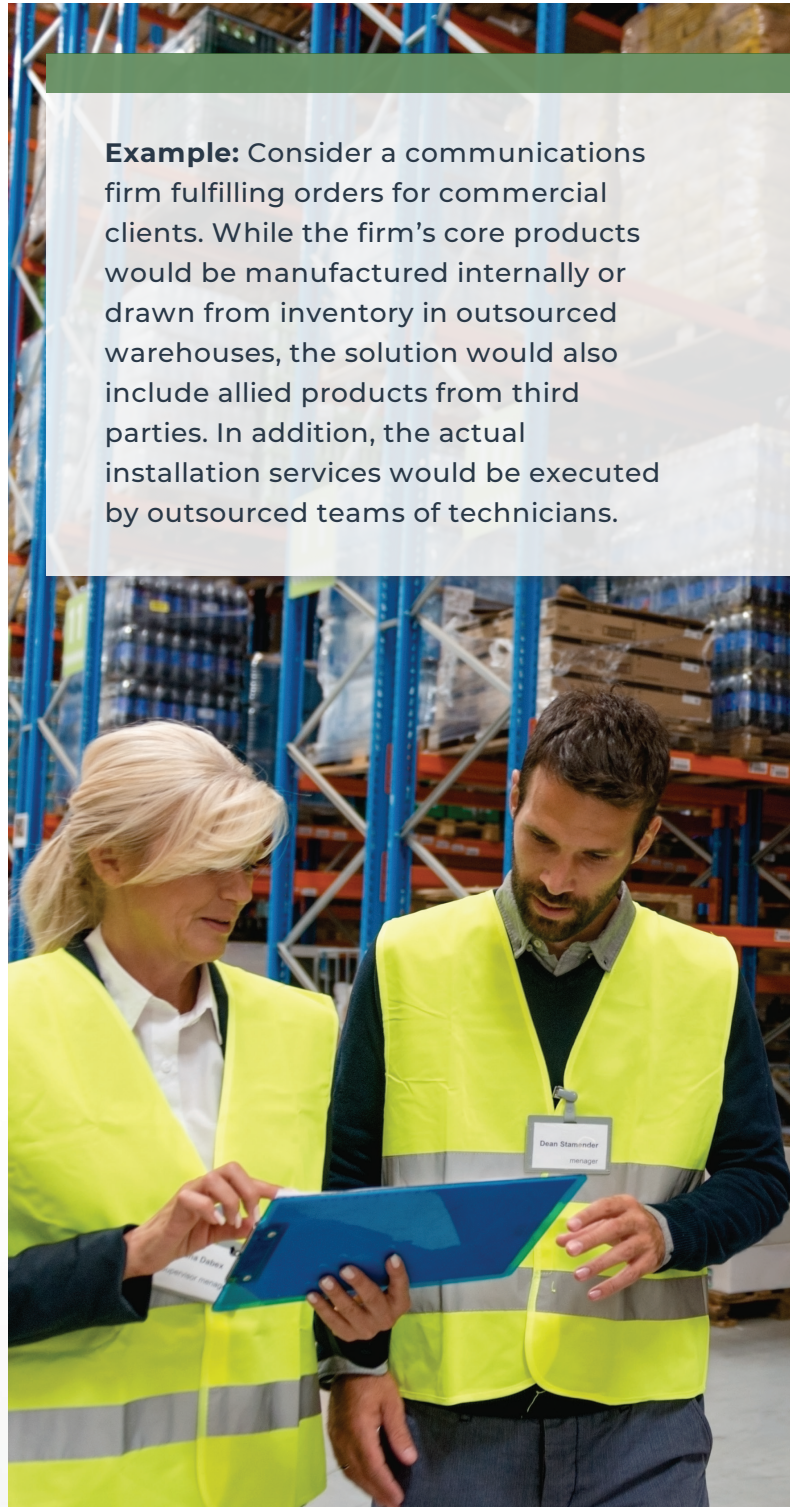
FULFILLMENT METHODOLOGIES

Fulfillment methodologies address business concerns around how to best deliver on promises and obligations to customers.

The more complex the product and service offerings, the more concern there is with ensuring the contracted products or orders can be fulfilled. This is especially true for Engineer-to-Order (ETO) and outright customizations, which can be extremely intricate. Enterprises must also carefully manage the availability of parts and materials for highly componentized Configure-to-Order (CTO) assemblies. In Built-to-Order (BTO) manufacturing, it's important to monitor lead times to support just-in-time production and lean inventories.

Additionally, supply chains must be closely monitored, particularly if functions are outsourced to partners. Some of the most commonly outsourced functions include: Warehouses and transportation networks, telecommunications field service, or implementation work in high technology. Effective execution leads to improved customer retention, stronger loyalty, further sales opportunities, and more efficient management resources and margins.

Example: Consider a communications firm fulfilling orders for commercial clients. While the firm's core products would be manufactured internally or drawn from inventory in outsourced warehouses, the solution would also include allied products from third parties. In addition, the actual installation services would be executed by outsourced teams of technicians.



SELLING SUBSCRIPTION SERVICES

“With 80% of customers demanding new consumption models, such as monthly subscriptions and on-demand delivery, the world of one-and-done sales is gone forever.

- The Economist

In the age of Amazon and Spotify, consumer-focused businesses have led the way in transforming the shopping experience. With a few clicks of a mouse or a couple of taps on a smartphone, consumers can have personalized shaving supplies delivered to their doorsteps or sign up for monthly music streaming services.

As consumers experience the convenience of agile and flexible shopping experiences in their personal lives, they have also come to expect new levels of flexibility and seamlessness B2B commerce in their professional lives. The first transaction is a gateway to a lifetime of business, which can be comprised of a mix of products and services that must be maintained, upgraded, and renewed over time.

In the XaaS economy, the critical point of the sales relationship is no longer limited to the original purchase — it lasts for the entirety of the customer

relationship, which might include upsells, cross-sells, cancellations/returns, add-ons, renewals, and more.

This means a successful sales experience must support the ability to efficiently and effectively configure, price, and quote a mix of products and services that match buyer needs, while also ensuring fulfillment and billing cycles are properly executed. For productive long-term relationships, renewals and follow-on sales must also be skillfully and efficiently handled.

Subscription products and services give businesses the opportunity to stand out in crowded, global markets and cater to the needs of an increasingly diverse audience. By going to market with a mix of goods and services -- such as warranties and professional services -- businesses acquire multiple avenues to deliver value as they build long-term relationships with their customers and partners.

OFFERING AFTERMARKET SERVICES

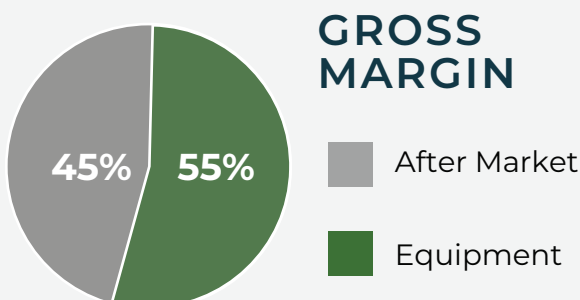
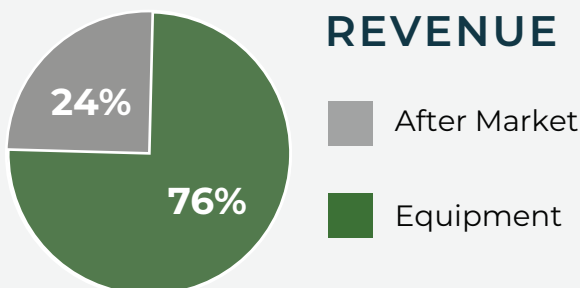
“Businesses earn 45% of gross profits from the aftermarket, although it accounts for only 24% of revenues.”

- AMR Research

Enterprises often sell aftermarket services, also known as maintenance contracts. In these situations, hundreds of assets might be linked to a single entitlement so it's critical to integrate a service contract. Aftermarket services are typically a low percentage of revenue, but a high percentage of margin for many industrial manufacturing, high-tech, or medical device companies.

There are a variety of business benefits that come with selling aftermarket services. For instance, it creates opportunities to cross-sell and upsell customers with existing or newly purchased equipment. Businesses need to quickly provide accurate quotes for aftermarket services that generate high-margin recurring revenue and increase “stickiness” for lower-margin equipment sales. Additionally, selling aftermarket services provides enterprises with more visibility into the end-to-end product lifecycle.

Determining which assets are unprotected and how much to sell maintenance contracts continues to be an incredibly complex and manual process. Traditionally, businesses relied on spreadsheets to manage the quotation processes for their service program, but many brands today look for a solution that can automate and significantly simplify and accelerate the process.



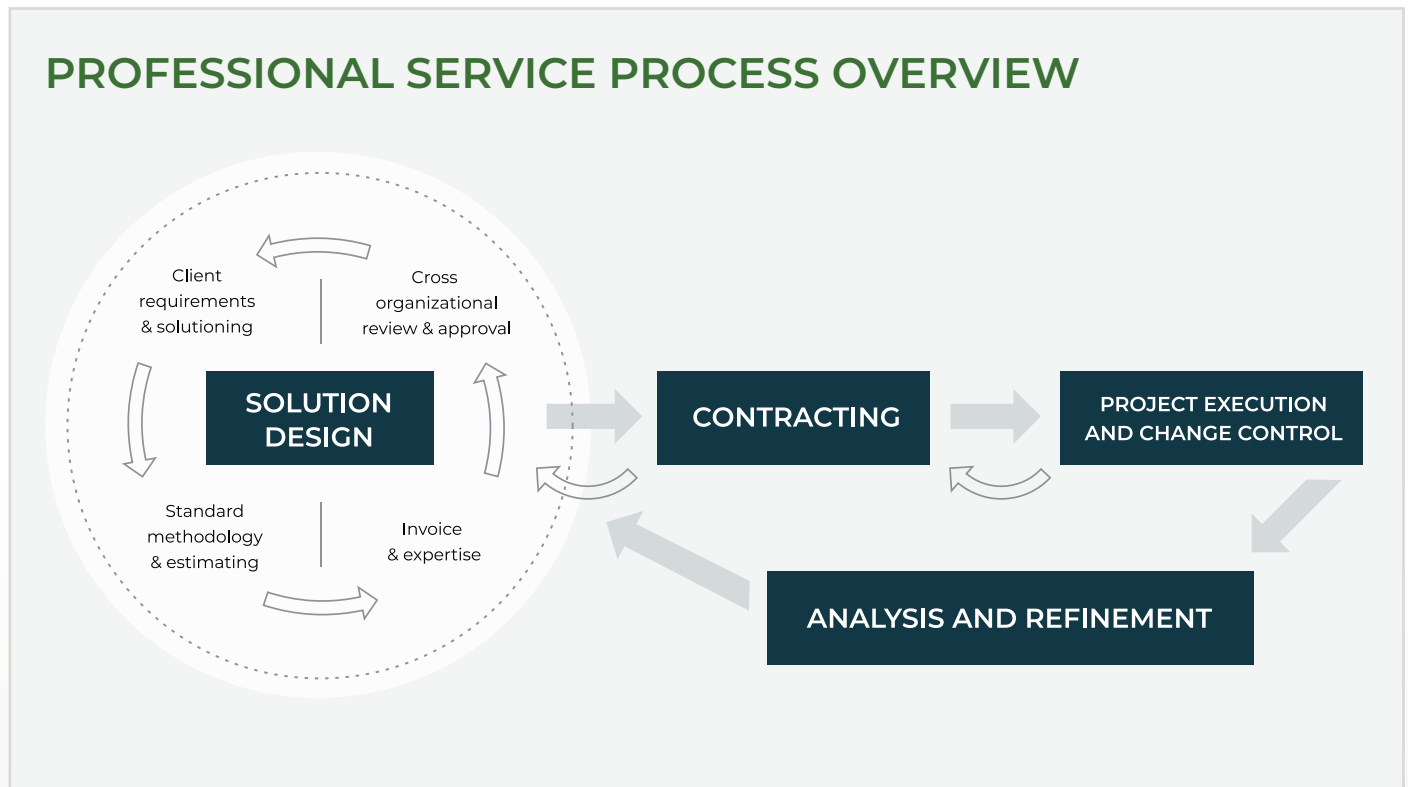
MANAGING PROFESSIONAL SERVICES

Companies that sell complex products also typically have a professional services team that manages the installation or implementation of the solution.

Professional services may be the most complex sale of all as it takes a great deal of effort to accurately determine the scope of a project, estimate the cost, negotiate terms, deliver a proposal, and execute a contract. This complex and iterative process often involves numerous stakeholders and service delivery domain experts.

Professional services projects can be billed based on time and materials or based on a fixed cost. For fixed cost bids, the closed loop system provides feedback on actual costs versus projected budget, which allows companies to refine their estimation assumptions. Machine learning can also be used to assess risk.

This graphic shows how complex and iterative the professional services project lifecycle can be.



A Quote-to-Cash (QTC) suite and CPQ module can iterate through the solution design process until an estimate is created and accepted. That estimate, or quote, is then converted into an agreement which can include both master service agreement (MSA) and statement of work (SOW) language.

The MSA is largely based on the clause library while the SOW is based on clauses associated with the tasks and level of effort determined in the discovery process. The redline process is then used to iterate through the contracting phase before the quote is passed to the professional services automation (PSA) tool upon acceptance.

THOUGH EXTREMELY COMPLEX, PROFESSIONAL SERVICES PROJECTS CAN BE SIMPLIFIED IF THE PROCESS CAN:

- Facilitate accurate estimation and execution with integrated CPQ, PSA, or Contract Lifecycle Management (CLM)
- Generate accurate professional services estimates
- Identify scope through questions
- Convert estimates into SOWs through integration between CPQ and CLM



MODERNIZING THE MIDDLE OFFICE: FULL SPECTRUM QUOTE-TO-CASH

If a business sells a combination of products and services, shouldn't its Quote-to-Cash (QTC) solution support them all?

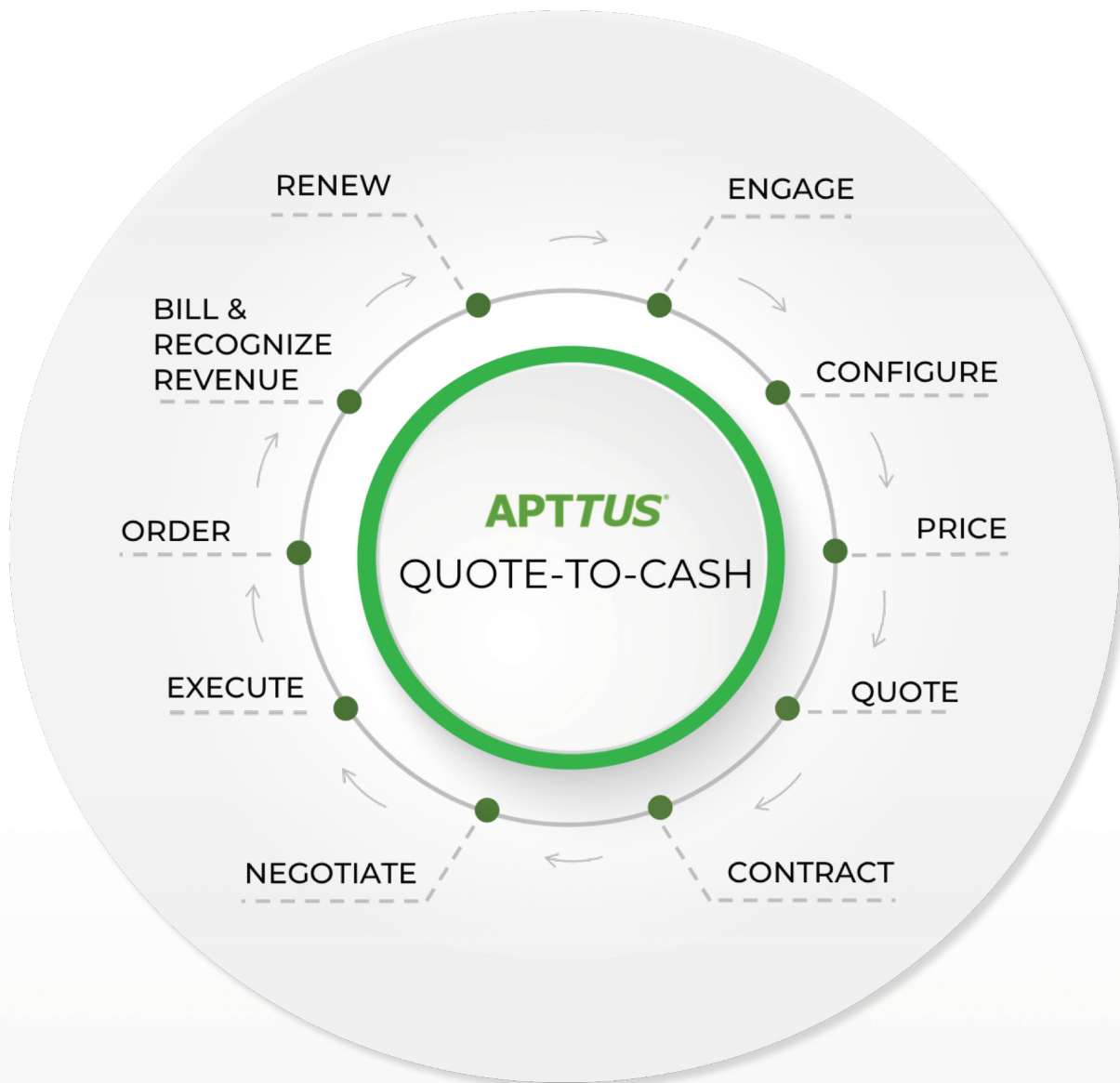
To excel in today's digital service economy, enterprises must modernize their "middle office" to deliver a positive buying experience to the customer. This requires a QTC solution that provides seamlessly integrated business processes, data-driven intelligence, and flexibility to quickly adapt to changing customer needs.

Historically, organizations invested heavily in Customer Relationship Management (CRM) and Enterprise Resource Planning (ERP) systems to manage their front and back office processes, respectively. Only recently have more businesses come to realize that Middle Office processes are arguably the most critical to revenue-generating functions. Middle Office processes cover the point when a customer expresses intent to purchase a product or service to the vendor's acquisition of revenue, naturally bridging the gap between front office and back office operations.

THE MIDDLE OFFICE HAS BECOME A SOLUTION SPACE THAT COMPRISES THE FOLLOWING CORPORATE FUNCTIONS:

- Facilitate the closing of deals and transactions, especially complex ones in the B2B service economy (e.g. Deal desk, subject matter experts, engineers)
- Do the heavy lifting for the front office in planning, managing and optimizing product, pricing and incentives for markets
- Enable planning, execution and administration of multi-channel e-commerce (e-commerce, partner commerce, dealer networks)
- Consolidate intelligence on revenues and costs across processes, departments and channels
- Determine the success of a business model (revenues, margins, growth) and need for mid-course corrections

Within this domain of revenue-generating processes, businesses configure the best offerings for complex products and services, manage pricing, generate quotes and contracts, enforce and meet legal obligations, capture and orchestrate orders across all channels, and ensure accurate billing and revenue recognition. One can imagine the enormous benefits when these often manual, disjointed, and challenging processes are automated and simplified by a single solution.



APTTUS OMNI: MIDDLE OFFICE PLATFORM FOR FULL-SPECTRUM QTC

Apttus is the only provider that delivers a Middle Office platform for Quote-to-Cash. Its platform, Apttus Omni, serves as the commercial backbone for enterprises operating in the services economy. With Omni, Apttus enables “Full-Spectrum” QTC including product selection, solution configuration, and price negotiation of any combination of complex products and services. Vital downstream and adjacent functions for contracting, ordering, invoicing, recognizing revenue, renewals, and more are integrated and automated on Apttus Omni’s single platform. Moreover, Apttus’ Full-Spectrum QTC can support any sales channel, from direct sales to partners to self-service e-commerce.

APTTUS’ FULL-SPECTRUM QTC COVERS A VARIETY OF PRODUCT AND SERVICE OPTIONS:



Complex Products

Purpose-built to work with the most sophisticated catalogs in the world and address advanced configuration capabilities for complex products and subscription services together. Seamlessly integrates with ERP systems.



Subscription Products

Easily manages and renews subscriptions comprising a mix of products (digital and services), usage-based billing, and revenue recognition.



Aftermarket Services

Recommends and links configured products with required or associated services.



Professional Services

Enables accurate estimation and execution for support teams, integrating CPQ with Contract Management capabilities.

CONCLUSION

Enterprises that sell a combination of products and services need the functional sophistication and versatility of a Middle Office platform that equips them for success in the modern XaaS economy. A seamless QTC process provides an efficient and positive buying experience for the customer and further separates your business from the competition. Apttus Omni is the only Middle Office platform that supports B2B organizations selling complex products and services, enabling enterprises to automate, streamline, and optimize their most important business processes – generating revenue and managing key commercial relationships.



CUSTOMER EXAMPLES

THE EMBRAER STORY

Embraer is one of the largest commercial jets manufacturers in the world with 18,000 employees and more than 8,000 airplanes delivered.



CHALLENGES

- Legacy solution difficult to maintain
- Changes to system required IT or consultant assistance
- Required flexible solution integrated with Salesforce
- Lack of support for document generation

“We’ve achieved great business outcomes from our adoption of the Apttus Omni: Intelligent Middle Office Platform. I’m very impressed with the benefits we’ve seen across our sales, executive management and legal teams.

Daniel Feichas,

Business Development, Embraer

SOLUTION

Apttus Omni

- Configure Price Quote (CPQ)
- Contract Lifecycle Management (CLM)

OUTCOMES

- 50% reduction in time to approve pricing & quotes
- 90% reduction in time to renew technical publications
- 20% increase in selling time
- 80% reduction in time spent generating reports

CUSTOMER EXAMPLES

THE LENOVO STORY

Lenovo is a \$45B Fortune 500 company that manufactures one of the world's widest portfolio of connected products, including smartphones, tablets, PCs, and workstations as well as AR/VR devices and smart home/office solutions.



CHALLENGES

- CPQ tool could not handle Device as a Service (DaaS) business model
- Reps don't know which configurations yield the highest profit
- Inexperienced sellers over-discount
- Time-consuming, manual processes

SOLUTION

Apttus Omni

- Configure Price Quote (CPQ)
- Contract Lifecycle Management (CLM)
- Billing Manager
- Machine Learning
- Order Manager
- Revenue Recognition
- X-Author for Excel

OUTCOMES

- \$2.25B in expected annual revenue lift
- Significant decrease in quoting & approval times (days to minutes)
- More time to focus on high value tasks
- CPQ implemented in less than 4 months
- Ability to generate subscription billings (monthly, quarterly, yearly), including tax (with third-party integration)

“The implementation of Apttus CPQ was critical not just in transforming our business and sales execution, but also in allowing us to spend more time engaging our customers. We're excited to be a part of the cutting edge of Quote-to-Cash technology and the many benefits it will bring to Lenovo.

Scott Ottman,

Vice President, Inside Sales and Sales Operations, Lenovo North America

CUSTOMER EXAMPLES

THE MOBILEIRON STORY

MobileIron is a publicly traded software company that provides the secure foundation for companies around the world to transform into Mobile First organizations. They specialize in solutions for mobile device management and enterprise mobility management.



CHALLENGES

- Revenue leakage
- Limited visibility into QTC workflow
- No infrastructure for automated quoting, renewals, & billing
- Manual processes
- Delays and poor forecasting

“With Apttus Omni, the invoices created in our CRM system are automatically pushed to our ERP system every 15 minutes. The volume of transactions we have to send to our ERP system is huge, so to automate this process is a huge time saver.

Hindu Somashekar,

Director of Business Applications

SOLUTION

- Configure Price Quote (CPQ)
- Billing Manager

OUTCOMES

- 88% reduction in QTC cycle time (45 min to 5 min)
- Increased deal size
- Improved recommendations, upsells, and renewals processes
- Reduced monthly time spent on manual billing processes
- Improved billing accuracy and forecasting
- Full spectrum of QTC needs, including configuring and billing a blended business model of one time payments, subscriptions, and aftermarket services



ABOUT APTTUS

Apttus is a Silicon Valley-based global provider of Apttus Omni, the Middle Office platform that allows enterprises to automate and optimize their most critical revenue and commercial relationship management processes. Apttus is powered by the most advanced technologies from Salesforce, Microsoft and IBM.

Analysts rank Apttus as the global gold standard for Quote-to-Cash (QTC) and Contract Lifecycle Management (CLM) solutions. Apttus' innovations include Max, the company's Applied Artificial Intelligence that enables enterprises to achieve superior business outcomes. Apttus partners with a world-class ecosystem. Apttus customers include hundreds of the world's mid-sized organizations and the who's who of the Global 2000.

For more information, visit [apttus.com](https://www.apttus.com).

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