Software company rises as price configuration takes off

March 17 2017, by Evan Ramstad, Star Tribune (Minneapolis)

FPX, a pioneering Minnesota software company that survived three decades of industry change, is accelerating its product development with an infusion of capital from a new owner.

The company has long provided software that lets businesses configure, price and quote their products - a souped-up version of the experience consumers get when they go to a car website and build and price a model.

The market for such software is getting bigger. For many years, companies used such programs, known as configuration engines or CPQ systems, chiefly to arm their sales forces with a tool that could price out a deal.

These days, more and more buyers of sophisticated products - from industrial tools to military helicopters and big data systems - want the capability to price the goods themselves. They have been shaped by the experience of making, as consumers, those build-to-order choices for cars and other items like PCs.

"The internet has spoiled all of us," said Chris Lords, head of product development. "No longer do we have to call a salesperson and try to figure out what we want and have them come back with a quote. We can educate ourselves. We can figure out everything we want."

In addition, businesses are seeing a big change in their sales forces. As

older workers retire, companies are losing people who knew shortcuts and hurdles in putting deals together.

"The people that were used to working in Excel spreadsheets are retiring," Lords said. "It's a new, younger generation coming in that has different expectations. Because that generation doesn't understand all the configuration rules and all the complexities that the people who have been doing it for decades know, there's a need to drive that into the technology."

The market evolution is giving new life to FPX, a company that started in the southern Minnesota city of Mankato in the 1980s as Clear With Computers, one of the first makers of sales force automation software. It became known as Firepond Software in the 1990s.

Firepond went public in 2000, faded after the dot-com bubble burst a year later and was acquired. Over the next decade, it changed hands and names several times, but it survived because it had working capital and a base of steady, large corporate customers.

David Batt, who became the company's chief executive in 2013, said it has retained some customers, such as Daimler Trucks, from its start 30 years ago. It took "a little bit of luck" to last so long in an industry as volatile as software, Batt said. "The company invented a product that became a category," he said.

As demand for CPQ software morphed and the market grew, Batt drove the company to make its products available on more platforms. For years, Firepond worked chiefly with the products of Salesforce Inc., a San Francisco-based maker of customer relationship management software. As FPX, its products now work across SAP, Oracle and Microsoft CRM platforms.

With FPX software, companies sharply cut the length of time it takes to put together a price quote or an order for a customer. For one manufacturer of computer servers and related hardware used in data centers, FPX's software can configure a quote in less than 30 minutes, a process that used to take that company four weeks. In addition to the time savings, Batt said, "that eliminated million of dollars in discretionary discounts they had to offer to make errors right with their customers."

Last month, FPX was rated a "strong performer" in a report on CPQ products by market research firm Forrester, which gave the software firm its highest possible score on 15 criteria, including user experience. That accolade came just weeks after FPX was mentioned favorably by another influential market researcher, Gartner, in its survey of CPQ suppliers.

Both market-research firms estimate speedy growth for such software vendors as more business-to-business transactions occur online. Gartner estimates 20 percent annual growth for CPQ software in the U.S. through 2020. FPX, after several years of flat sales, is growing strongly again, Batt said, and is nearing $100 million in annual revenue.

With the industry changing so fast, mentions by analysts can affect not just the sales of FPX products but the company's market value and strategic prospects. The company was purchased in April by HGGC, a Palo Alto, Calif.-based private equity firm that provided more working capital and amped up its research and development budget.

FPX has since hired more developers in the Twin Cities area and Mankato, where it maintains strong ties with Minnesota State University, Mankato. It recently relocated its biggest office to a different tower in suburban Minneapolis and moved another office in suburban Dallas, where Batt works. The company has a direct sales force that is deployed

around the country and two European cities but also relies on IT services firms like Accenture to sell its software.

FPX contends with several direct competitors, including comparably sized firms such as Apttus and larger ones like Salesforce and Oracle. But, in many companies, the biggest obstacle for FPX is the existing pricing system that was usually developed internally.

"Probably our biggest competitor is still an IT department," Lords said. "It's not really as much competing against other CPQ vendors as it is someone going back and forth between build vs. buy."

As a result, the decision to hire FPX often rises all the way to a company's chief executive. "You have to have buy-in all the way up because it is driving" return on investment, Lords said.

In addition to pushing its software onto a greater variety of enterprise systems, FPX in recent years has been focused on adapting its products to be used on mobile devices.

Now, FPX is working on two innovations that should speed up the time it takes for a user to put together a quote request. One is natural language capability, which would let a customer say what they want in a product or system rather than clicking through multiple menus. The second is a predictive capability that would fill in menus and options as the system sees what a customer is doing.

"This is a system that completes configurations based on past behavior," Lords said. "The secret sauce is the algorithms that learn this behavior."

Both capabilities exist in consumer e-commerce, but they require more sophistication for complex products businesses tend to buy.

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Citation: Software company rises as price configuration takes off (2017, March 17) retrieved 20 April 2024 from https://phys.org/news/2017-03-software-company-price-configuration.html

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