

20/20 Vision for Marketing Breakthroughs

The Chase for Higher Value

**Are You Trapped Between a Product Company
and a Solutions Company?**



**By Steve Bassill
&
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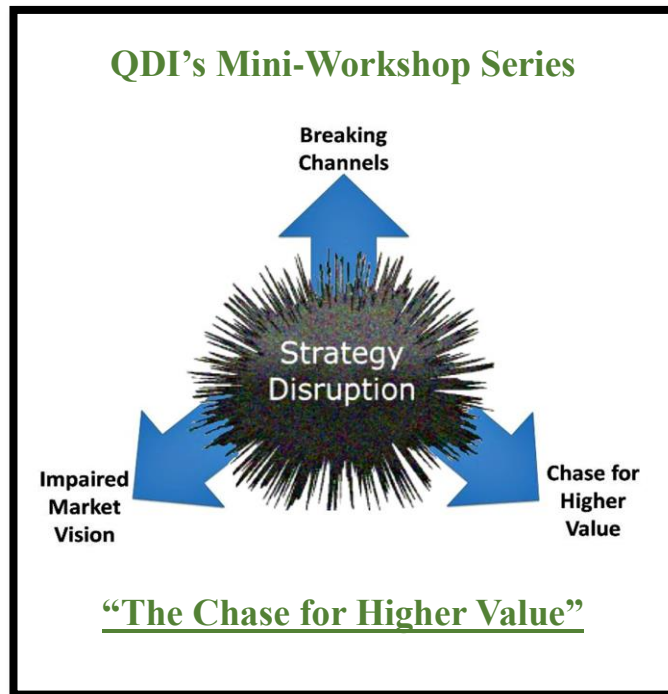
For over 15 years Mr. Bassill and Mr. Barr have lead QDI to help companies develop channel strategies that build market power.

Learn the keys to success in the transition from selling products to services.

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Many industrial marketers are trying to make the transition from selling products to providing customers total solutions. As many have found out, this is a daunting task. As we will see, the operational requirements and level of change necessary to effectively sell and support solutions are substantial. Often the costs, risks and level of change required to pursue this strategy are too great for companies to digest, resulting in under-resourcing the strategy and effectively killing it before it has a chance to blossom.

So, what makes creating a solutions business such a compelling strategy? There are many forces that motivate companies to move into the solutions arena. Some of these include:



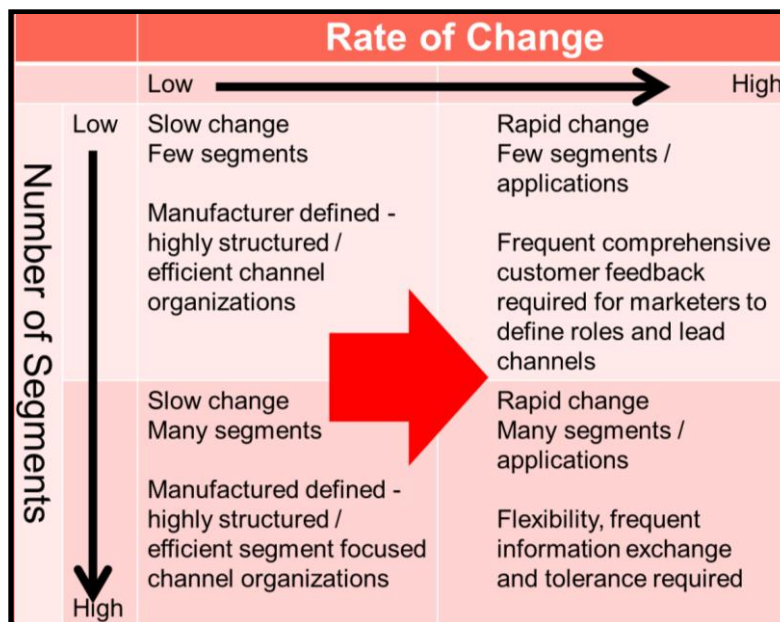
- **Providing solutions allows you to sell a larger "bundle", thereby increasing revenue**
- **Providing solutions can raise margins and minimize direct price competition**
- **The solution seller often controls the brands within the sale**
- **Solution providers are more valuable to their customers and therefore get more access to the customer – resulting in more opportunities to innovate in products and services**
- **Solutions providers see the business earlier than the component suppliers and can increase overall market presence for component sales.**

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What makes it so difficult for companies to transform to effective solutions sellers? To start with, it's necessary to understand where you are coming from and where you have to get to in order to be successful. Most "product" companies are successful because they have built a very effective marketing infrastructure. The distribution channels, sales organization and support groups have honed themselves into a smooth running, cost effective machine.

Using this chart as a reference, most marketers who are trying to get into the solutions business are in the "low" rate of change quadrants, which means they have developed

very structured marketing delivery systems (organizations and channels to serve customers). Entering the solutions business will move these businesses to the right, forcing them to develop new levels of knowledge



about the market and channels as they learn their way to becoming world class solutions providers.

While there are very powerful reasons to transform your business into a solutions company, navigating this level of change is difficult for most organizations. Let's look at the requirements, risk and cost to do so.

The three types of challenges that make creating a solutions company such a daunting task are: the "Operational Requirements", the "Risks," and the "Costs" to get it done. Let's examine each.

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Operational Requirements

If you are going to sell solutions you need to develop several new capabilities, particularly in the solutions development and delivery arena.

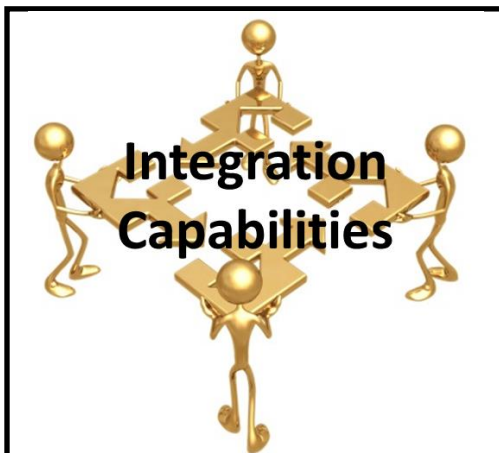
First, you will need sales capability to see the opportunity for a solution sale in the



formative stage while you still have an opportunity to impact the solutions design. Even if the solutions have already been defined, it is highly likely that it has been designed around the capabilities of other suppliers. Seeing and designing these opportunities requires different sales skills than product sales:

- 1) **Your sales team needs presence to the decision-makers who determine the scope of the solution – this is often a higher level contact than the person who makes the decisions about individual products.**
- 2) **Your sales team needs the capability to design and sell a new “vision” of a solution.**

The visioning of solutions and recognizing them in the market requires an engineering team that works closely with sales. This team has to have the ability to help the sales



team define the solutions you are offering to the market. These solutions can range from “packages” that are pre-defined to custom solutions.

You will need the integration capability to package your solution for the customer. This will require controlling logistics between you and any channel partners

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who are part of the solutions delivery. Finally, you will need the post-sales support capability to “work out any bugs” and modify future solutions, often on the go.

As you can see, developing these operational capabilities will require significant resources. Keeping this issue in mind before you even start to enter the solutions business, it is critical to identify the profit streams that will make this a successful venture. These could be profit streams for you or for your channel partners that will justify investment and risk for both parties.

There are many potential profit streams, such as shown below, and each should be understood and quantified in building the profit model for this business.

1. Engineering /design fees
2. “Build / construction fees”
3. Reseller margins - on the components you purchase
4. Product manufacturer margins - on the components you manufacture
5. Training fees
6. Support services & maintenance contracts.



The sales force will be uncomfortable presenting new fees while product management, based on established practices in other industries, will insist they are reasonable.

Without an understanding of your market drivers and evolution, the internal conflict will slow sales ramp-up and leave money on the table.

Developing the business model and building the capabilities to deliver services are both daunting tasks, but if you do not have a strategy that points your sales and marketing organizations towards the right opportunities, there is a very high risk that you will find yourself chasing too many prospects, but not buyers.

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Risks

The risk of failure is high. Failure includes high sales and engineering cost with low



revenue. Failure includes low margins because lower than expected sales or greater variation in the type of sale prevents the organization from becoming efficient. These are just symptoms of the failure to develop a highly targeted customer strategy – a failure that drains your marketing, sales and engineering resources by chasing prospects instead of buyers.

There are also significant channel conflict risks. You already have channels in place that are selling components. Some of these channels may already be selling some types of solutions, or you already

have OEMs or Systems integrators in place who purchase your components for their solutions. Both organizations will see you as a new competitor and potentially not buy your components.

Not only will you face conflict with your third party channels, but you will also face confusion within your own sales force. Who sells solutions for you? If it's your traditional sales force, then this may divert them from their traditional sales activity. If it's a new sales group, then they may conflict or compete with your traditional sales group. What changes will this require of the sales compensation plan? Will this require different levels of sales personnel such as account managers, applications specialists or product specialists?

Realizing these risks, companies need to be cautious of “low-level success.” “Low-level success” means that you make an occasional sale, just enough to keep from shutting down the effort. However, if all the cost of the program were actually accounted for, you would see substantial losses from the effort. “Low-level success” is caused by a lack

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of targeting. You win the random sale or the sale where you have a “superstar” representative, but can’t sustain a business on these sales.

Costs



The last issue that needs to be addressed is the cost. It is obvious that you will need to invest in capabilities to be a solution provider. However, there are additional capabilities that are less visible but essential to being successful.

Knowledge building is a core competency that you need to develop for this business. Your existing infrastructure has not been built to be a rapid knowledge building entity. However, to be successful entering the solutions space, you will have to build knowledge about customer and market opportunities. This includes answering the question, “Where could you bring unique solutions? This also includes knowledge about the competition and developing an understanding of who would traditionally supply this customer with solutions in the area of his business that you are addressing. Is it the:

1. OEM
2. Design / Build engineering firm
3. Systems integrator
4. Distributor
5. Engineering firm and contractor
6. Or other supplier?

What changes and investment are required to become a rapid-learning organization that can identify the advantages you bring to the market (or to each prospective customer)?

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Finally, how will entry into the solutions business impact your internal support organizations? What investments will be required in accounting and control cost, insurance and liability cost, HR skills and training capabilities?

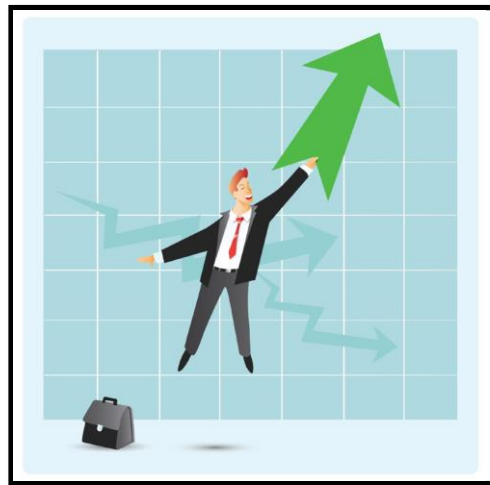
If you worried about all of these issues all the time you would get nothing done. To help focus on the important issues, here are guidelines as to what to worry about at each stage of your evolution from Product to Solutions seller.

“How Big? How Fast?”

Success in becoming a solutions sales company starts with understanding the level of investments you must make to be successful. To do this, you have to be able to answer these two questions: (1) “How big is the market that will buy my solution?” (2) “How fast will this market develop (or how fast can you penetrate the market)?”

To answer these questions you must know:

- Who will buy your solution? **Hint:** It isn't everyone who buys your product.
- Why they will buy? **Hint:** What does the solution provide that the product doesn't?
- What support do they need to buy? **Hint:** Look to the new user.
- When will they buy? **Hint:** How much longer is the purchase cycle?



We have seen too many companies enter markets with the attitude, “I have a great solution. All I need to meet my goals is 1% of this market.” If you can't define who that 1% is or answer our four questions above, then you are doomed to a high risk venture, and likely failure.

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We have seen companies whose launch plans assert “all the buyers want their labor saving solution.” However, our research has found that most buyers realized the solution required shrinking staff, and viewed the solutions as a threat to their empires. Understanding which companies, and buyers within those companies, actually value your offering, and why, is fundamental to the success of a solutions business.

Answering these four questions will provide the insight needed to:

1. Define Your Operational Requirements

- Sales capability
- Engineering capability
- Integration capability
- Post-sales support capability
- Profit streams
- A strategy that points your sales and marketing organizations at the right opportunities



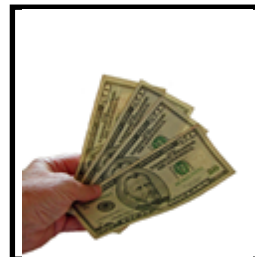
2. Manage Your Risk

- In advance, Identify potential channel conflict and how significant it will be
- Target high probability adopters to manage the investment of valuable engineering resources
- Identify the infrastructure you need to put in place, and how to control this network to reduce the risk of creating a new set of competitors
- Define the elements of the most compelling customer value proposition to reduce the risk that you will be upstaged by a “more-complete” solutions provider



3. Control Your Cost

- Identify investments you must make
- Define internal costs you must add to the business



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Taking the time to answer these questions before you invest too much time and resources in becoming a solutions provider assures that your first step in this business transformation will be successful. QDI can work with you to answer these questions.

Give us a call to discuss how we can help you make the move from a product to a solutions company and achieve the benefits of increased revenue, higher margins, greater brand control, and greater customer access.

Where Clients Ask QDI for Help

New Products / New Markets	Develop market insight to <u>speed</u> launch and ramp-up while <u>reducing the risks</u>
Channel Issues	Provide <u>clarity</u> regarding conflict, performance, and go-to-market options
Share Growth	Discover market drivers and determine <u>strategy opportunities</u>

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