



Switching to software: how product companies can learn to sell solutions

With the rise of digital technology, the software component in many products, ranging from washing machines to machine tools, has grown increasingly important. This has given the manufacturers an opportunity to become solution businesses – a switch that can deliver great business benefits.



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Over recent decades, with advances in digital technology, many companies have found that what they sell has ceased to be a product containing software, and has become the software itself contained within the company's hardware as an integrated customer solution.

This means that many product (or hardware) businesses are becoming solution (or software) businesses. Becoming a solution business offers great opportunities because it allows companies to increase sales rapidly without necessarily increasing costs – since, once the initial software development has taken place, the costs incurred for extra sales are often relatively trivial. But making the switch from being a product business to being a solution business

is far from straightforward. It requires a transformation in how the company markets, sells and supports its offerings.

Our assignment

We recently carried out a project to help a large industrial products manufacturer get more from its solution portfolio. The business had a long and prestigious history in machine manufacturing. But it had, over time, become the provider of a range of solution offerings as a result both of acquisitions and internal developments.

The marketing department of the business recognized that it lacked experience in selling solutions and asked EY to help the company identify what changes it needed to make to better market and sell integrated software solutions.

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Why selling solutions is different from – and more complicated than – selling products

When selling a product, what you are selling and its benefits tend to be very tangible. Pricing is also relatively straightforward, for example, customers are likely to understand why larger, more powerful motors – or smaller, more sophisticated ones – are more expensive.

When selling solutions, however, far more explanation must be given to the customer. The specific benefits of software functionalities are not straightforwardly tangible, so they

and any differences in pricing need to be explained.

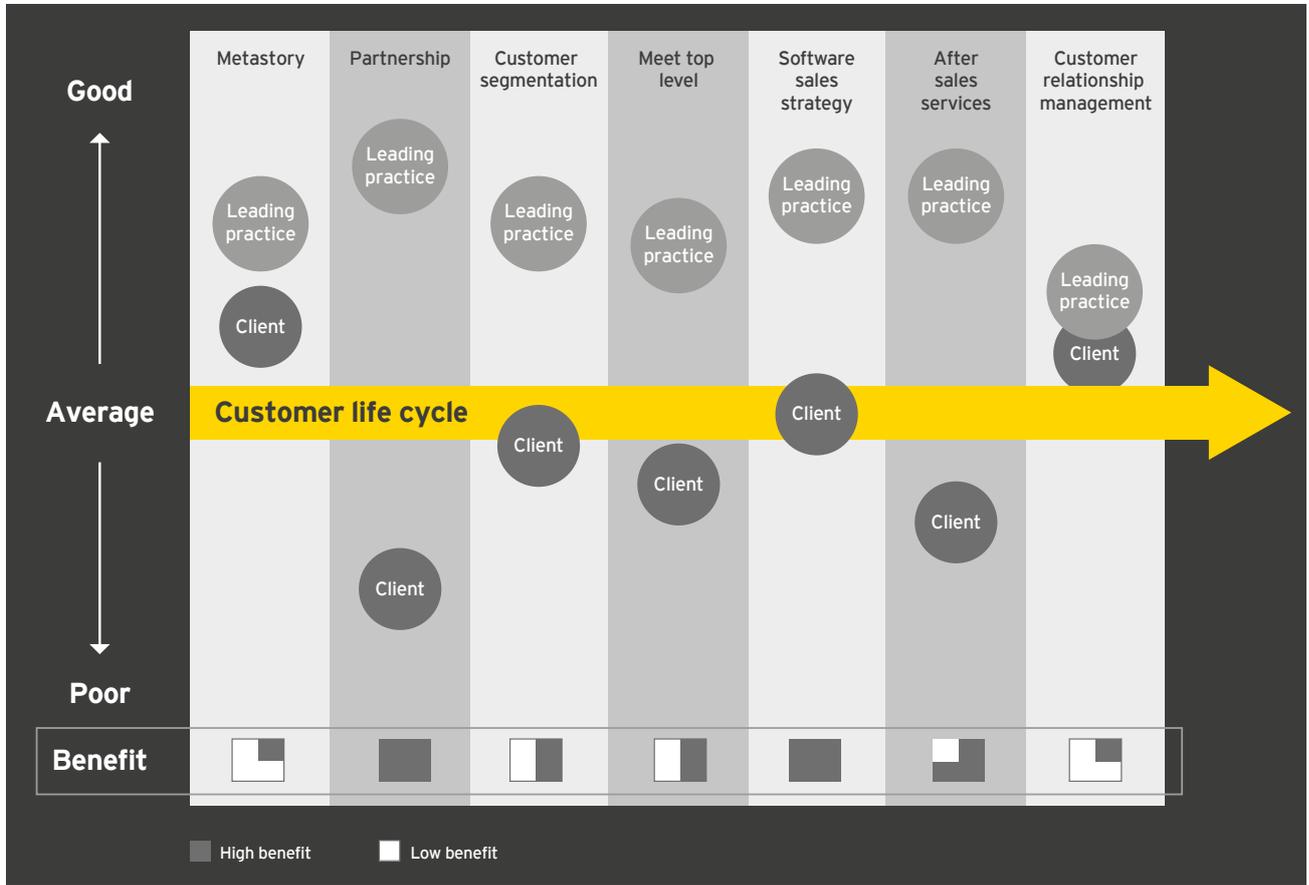
The idea of selling solutions rather than products is also relatively new, so a solution company needs to ensure it makes clear to customers exactly what it is they are buying. And when selling solutions, companies need to focus on solving specific client problems, so greater effort is needed to understand each individual customer.

How we carried out the assignment

We compared the company with a selection of its main competitors on seven key stages of solution business:

- ▶ Establishing a metastory
- ▶ Developing partnerships and ecosystems
- ▶ Focusing on specific customer segments
- ▶ Engaging with the top level
- ▶ Building a solution sales strategy
- ▶ Promoting after-sales service
- ▶ Enhancing customer relationship management

Figure 1. Improvement opportunities for software marketing: comparison with competitors



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Establishing a metastory

Companies making the transition to selling solutions will need to establish a new metastory – an explanation of what the company does, who it can help and how it can help them. Having the right metastory is particularly important for solution companies because software tends to be updated and developed over time. This means clients need to have confidence that the company will develop the solution successfully and that the solution company itself will remain sound during the contract period.

Our client for this assignment had a very strong metastory as a hardware company, but it needed to translate that into a strong metastory for its business. It also needed to work harder to explain the specific value of its solutions for different customer groups.

Developing partnerships and ecosystems

Product companies can often sell and, if necessary, install their products on their own. But for solution companies, the business model is more complicated, with revenues coming, in roughly equal proportions, from three main sources:

- ▶ Subscription fees
- ▶ Annual service fees
- ▶ Implementation and consulting fees

The wider range of revenue streams means that service companies need a wider range of skills and expertise. Because of this – and because serving customers in different industries requires specialist knowledge – solution companies tend to rely on other companies, known as “solution partners,” to carry out much of the work selling, implementing and supporting their solution.

As a general rule, solution companies should focus on managing large accounts and leave solution partners to cater to smaller customers. This allows the company to focus its efforts and to sell to a wide range of customers without excessively building up its organization.

To be successful, a solution company will need to carefully develop its partnership strategy, making sure it does not establish new partnerships in regions or sectors where it is already strong. And it will need to work proactively with partners, involving them in large projects, including them in marketing materials and directing suitable clients to them on the basis of the partner’s region and specific area of technical expertise.

Although the client for this assignment had built up its partnership network, it needed to work more closely with its partners to develop new business, and it needed to promote its partners more in its marketing materials.

Focusing on specific customer segments

Solutions are less tangible than products and their benefits may be different for each customer. So it is vital for solution companies to tailor their marketing to a range of customer groups. This requires them to use reference cases – case studies showing how the solution has helped a specific client.

Reference cases help to show the specific benefits the solution may have for a potential client. But they need to be region- and industry-specific: a Chinese heavy machinery manufacturer, for example, is unlikely to want to know how a solution has been used by a US consumer products manufacturer.

Solution businesses often have to start by investing in building up a portfolio of reference cases in target regions and industries by offering solutions at a reduced price. This is because, before buying, customers will want to see the solution in operation – to see how well it works and to see in what situations it has been successful – and are unlikely to pay full price if the solution company cannot yet show this to them.

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Our client had already secured many reference cases. But it needed to gather them together into one system and make them more easily available, both internally and externally.

Engaging with the top level

Once adapted and implemented, new solutions tend to have a larger effect on the wider organization than products do and, if they fail to deliver as expected, are far harder to replace. This means that while decisions to buy products tend to be left to an organization’s technical professionals, the decision to buy new solutions is often the responsibility of the senior leadership team.

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So, for companies moving into marketing solutions, there often needs to be a change in the media channels used. For example, while a motor manufacturer would be likely to promote its products in dedicated engineering journals, a company marketing an integrated solution should rather advertise in business journals of the kind read by senior business leaders.

Another important way to engage with senior executives is to hold business fairs featuring speakers from companies that have used the solution. These give potential customers a chance to meet with executives who have experience with the solution, and to exchange information about how the solution can help them with real business problems.

Our analysis showed that our client needed to increase its presence in the media in order to raise its profile among executives. We also recommended that it should hold more industry-specific customer events.

Building a solution sales strategy

Central to establishing the right sales strategy is the creation of a portfolio management matrix. This involves plotting the company's solution offerings onto a graph with target client groups on one axis and, on the other, sales channels, e.g., regional sales teams, partners serving different sectors and the company's own sales force.

By looking at where different solution offerings occupy the same space on the matrix – i.e., they are targeted at the same customer group and served by the same sales channel – a solution company can identify synergies and opportunities to offer bundles (different solutions sold together as a package). A complete IoT business aims to bundle all four segments into one integrated solution.

Our analysis showed that our client could improve how it targeted customer groups by focusing on offering the right product mix via the appropriate sales channel.

Promoting after-sales service

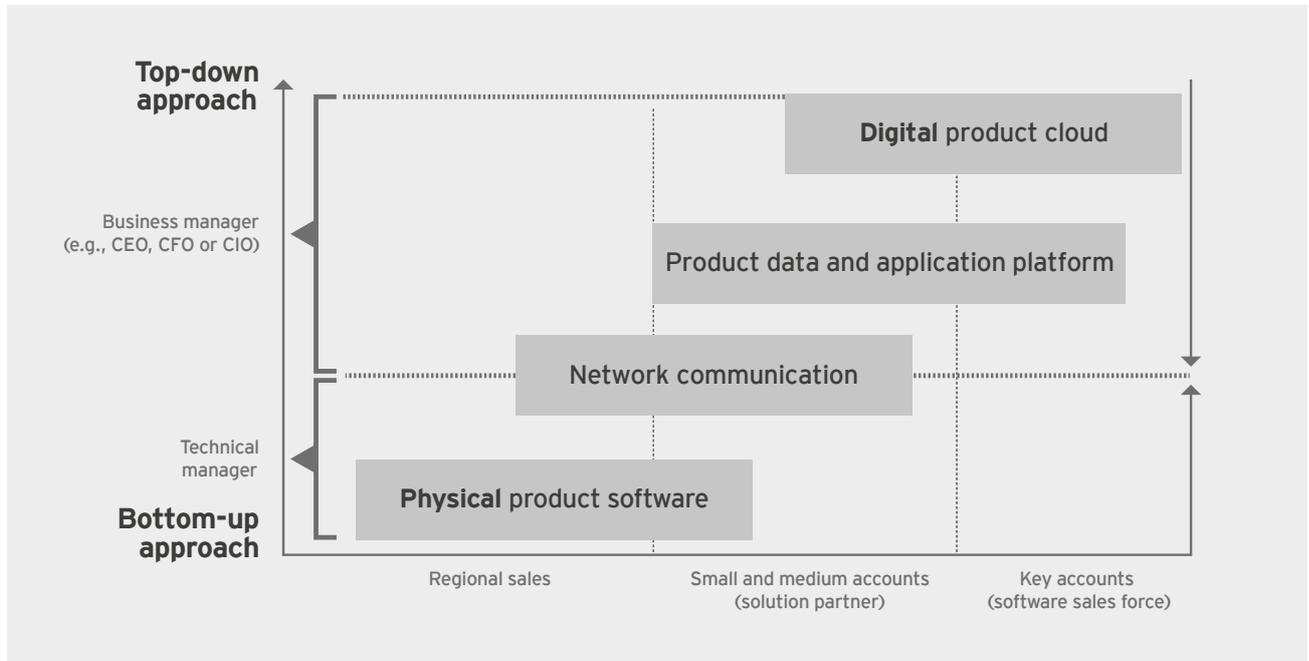
Putting a focus on after-sales care offers solution businesses big opportunities. Not least because clients will want to be sure that they get the latest updates and will want to know that any problems they have with the solution will be fixed for them because they are unlikely to be able to fix it themselves.

The fees for maintaining an installed solution can add up to the equivalent of another sold solution every five years. But to make a success of after-sales service, companies making the switch to solutions will need to:

- ▶ Improve their service organization to prepare it for increased demand

- ▶ Create differentiated maintenance contracts offering different response times and train service staff to strictly adhere to the terms of these
- ▶ Train and incentivize the sales force to promote and sell service contracts (rather than offering them as a free incentive to encourage sales)

Figure 2. Proposed sales and partner strategy for software solution business



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- ▶ Develop partnerships to allow the company to focus on serving larger clients, while smaller customers are served by a solution partner (preferably the one that implemented the solution for them in the first place)

During the assignment, we found that our client needed to place greater emphasis on selling maintenance contracts. It also needed to explain more clearly to customers the benefits of service contracts.

Enhancing customer relationship management

Customer relationship management (CRM) is increasingly important for businesses of all types, but it is particularly important for solution companies. This is because, to make sales, a solution company needs to spend more time with customers than a product company does, if it is to understand customer problems and explain the benefits of the solution.

One essential idea that companies must keep in mind is that CRM is not just software that can be bought. It is a whole new mindset, requiring a significant change in how much of the organization operates. In particular, a mindset shift will be required among the sales team.

The work of the sales department in CRM is vital in enabling an organization to:

- ▶ Capture what the company learns about customers
- ▶ Secure reference cases
- ▶ Prioritize customers and assign the right resources or solution partners to them
- ▶ Identify cross-selling and bundling opportunities

Sales team members must be encouraged to overcome their reluctance to share contacts. This will require a careful program to explain why CRM is so crucial and to establish what is – and what is not – acceptable use of other team members’ contacts.

Because our client had built up much of its software business through acquisitions, it had inherited multiple CRM systems. The first step it needed to take was to integrate its CRM into a single system.

Making the transition

Our client for this assignment was in the machine industry, which has been at the forefront of the shift from products to solutions. However, the continuing digital revolution and the rise of the internet of things mean that many more companies, from all sectors, are likely to find software becoming a core part of their business. And, regardless of how they started, many more companies will find that their ability to create, sell and support solutions plays a crucial role in determining their future success. ■

