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STRATEGIC MANAGEMENT

BUILDING A SOLUTIONS-BASED ORGANIZATION

Seems like every company today says it aims to “partner” with its customers and become a “solutions provider.” But saying it and doing it are two different things.

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“We need to become a customer-focused, high-value, solutions provider!” the CEO thundered. With that, the eyes of every member of the senior staff turned on the senior VP for sales, P.J. Harris. Believing the CEO was absolutely right, Harris immediately set the sales staff to work on “customer solutions.”

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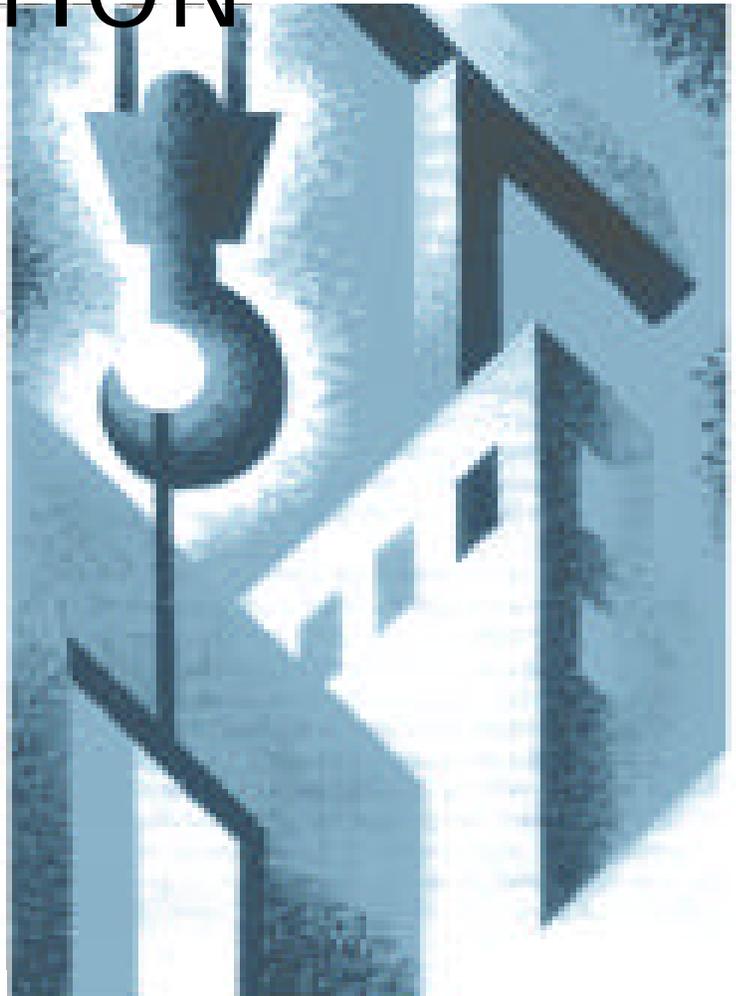
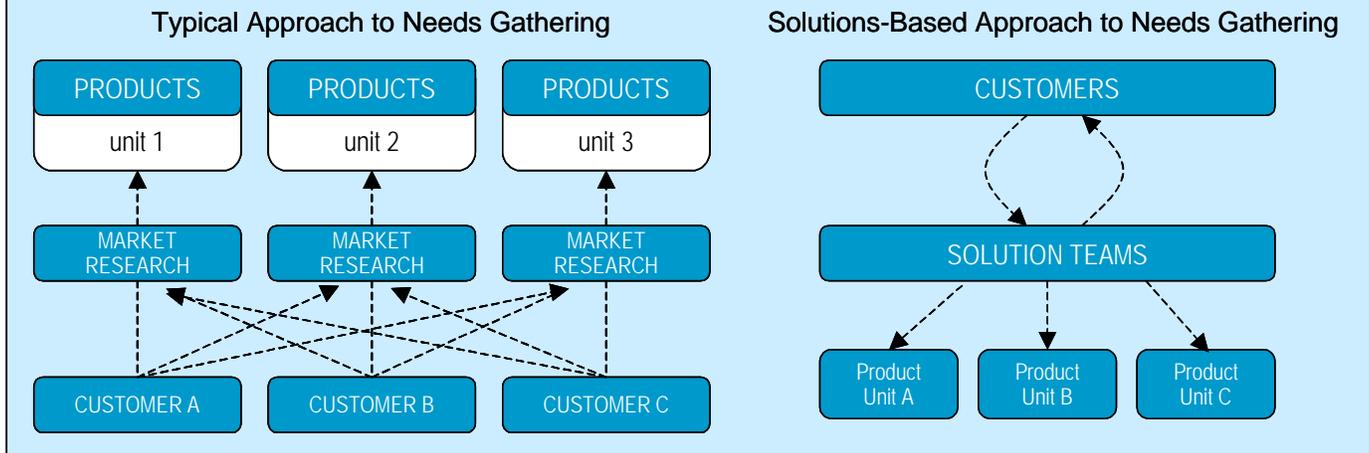


Figure 1: Needs Gathering



P.J.'s sales people, serving as the customer's advocate, worked diligently across multiple functions and business units to assemble the unique combination of product and service components that could solve a customer's problems. And some of them became successful as solutions providers. Those who had the most experience, the closest links to customers, and the strongest internal networks — not to mention the personal fortitude to spend time serving as customer advocates — devised and sold solutions that thrilled their customers.

In the following quarter, however, P.J.'s numbers drifted lower. Because it took so much time to assemble each solution, the best sales people tended to work on fewer accounts. The rest of the staff lost business, either because they couldn't supply solutions as quickly as their customers wanted or because they never fully grasped the changes required to become a true solutions provider. P.J.'s people simply weren't winning on a consistent basis, and their customer relationships weren't generating the value they could.

Many executives can readily sympathize with P.J. Harris. They're finding that making the shift from a product-centric to a solutions-oriented organization can shake the organization to its very roots. At the same time, they realize that it's essential that their company be something more than a vendor with a product.

The good news is that it's not necessary to embark on a major reorganization in order to become a solutions-based organization. Marketing, product development, and sales can lead the charge, as long as the ultimate goal is to align the entire organization with the solutions strategy.

That realignment can take place over time, as the company addresses the six success factors that provide the foundation for developing a solutions-based organization: (1) Drive solutions design from an understanding of customers' needs and patterns of their business issues; (2) augment internal capabilities by partnering to provide complete solutions; (3) create a solutions-development

process that breaks through autonomous product units: (4) evolve the sales approach to reflect the differences between selling products and selling solutions; (5) create lower cost channels to continue to drive product revenue; and (6) focus on the organization dimensions most critical to creating a solutions-ready environment.

Know the Customer's Business as Well as You Know Your Own

Yet another market study won't help a company develop effective solutions. Solutions design must reflect an understanding of customers' needs and of the patterns of their business issues. Therefore, companies must study their customers' entire enterprise rather than focus on specific product lines (see Figure 1).

There are several approaches to building robust needs-gathering capabilities. Many firms have adopted technology-driven processes (e.g., customer relationship management systems) that continually bring the customer "closer" to the marketing organization. These technologies can be extremely powerful.

Technology is not a panacea, however. Some firms have found it more effective to move marketing "closer" to the customer by adding marketing professionals to sales teams. If this isn't possible, the company must, at a minimum, ensure that marketing actively participates in account-planning sessions.

Whatever approach a company takes, the goal is to guide solutions definition by continually gathering information and communicating it to the marketing organization.

Find Partners Who Can Help You Provide Complete Solutions

If a company has been bold in defining its solutions opportunity, it is unlikely that it will have the resources to supply all of the required solutions components (e.g., products, services, financing). Inevitably, it must create partnerships that fill these gaps. However, the partner selection process

is fraught with pitfalls. It's all too easy to create a patchwork of responses to a large customer's business requirements or to enter into too many partnerships. Either misstep can produce an unwieldy morass of relationships and service agreements that dilute the organization's focus.

The process of finding the "right" solutions partners — partners that will provide lasting strategic benefit — takes as much thought as evaluating a major acquisition opportunity. The process has five vital steps:

- The company must begin by clearly and carefully defining its technology, skill, capability, or knowledge gaps.
- It must develop screening criteria that address not only those gaps, but also whether the potential partners' strategic and operating principles are compatible with its own.
- It must avoid a sunk-cost mindset by developing a risk-adjusted business case for the partnership opportunity and a means to measure performance against these expectations.
- It should state explicitly the advantages the new partnership provides the customer and each participating vendor.
- It must develop and agree to explicit service level agreements.

These five steps take a significant investment of time, effort, and perhaps even money. But the alternative — addressing solutions gaps by hastily selecting among the known candidates — is a shortsighted approach that often fails to deliver optimal value to not only to the company but also to its customers.

Break Through Autonomous Product Units

When individual product units are designed around a product-development process, decision makers typically focus on maximizing value to the unit rather than to the company as a whole. This mindset can stop solutions development processes in their tracks.

Combating the problem doesn't require a mass reorganization of product-development, however. In fact, mass reorganization can significantly disrupt the company. A better choice is to "overlay" a solutions-development capability on top of existing product-development capabilities.

Establishing solutions teams comprised of the right people with the appropriate level of decision-making authority is key to the overlay process. Effective solutions demand the company's best thinking, and they must also serve the individual product units' interests. Therefore, team members should come from multiple product units. Members should have authority to define the value proposition, determine the pricing strategy, and select alliance partners. Solutions teams that lack decision-making authority spend more time brokering decisions across product units than on bringing solutions to market.

The success of the overlay process also depends on visible support of the company's top leaders. Strong support from the top will reinforce the teams' decision-making authority and demonstrate commitment to the solutions orientation. And the company's executive compensation plan must reflect that commitment. If it is heavily weighted toward overall company performance, rather than individual product unit performance, managers' budgeting decisions and development priorities will reflect the solutions orientation.

Make Sure Your Sales People Sell Solutions, Not Products

In a traditional product-selling environment, the customer is responsible for everything from defining the problem and the purchase requirements to identifying appropriate suppliers and determining how their products

Figure 2: The New Sales Process

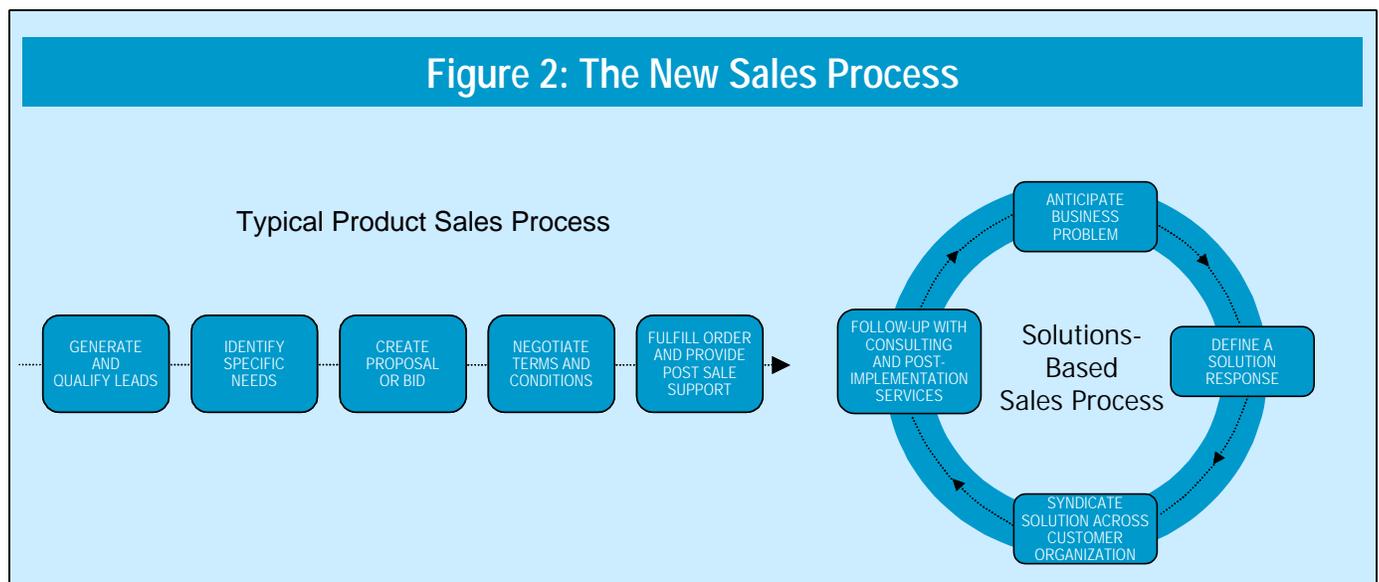


Figure 3: Needs Gathering



should be integrated. The supplier simply responds to the request for proposal or purchase order and fulfills the order.

In contrast, a solutions provider is a business partner that helps customers at every stage of the process, from initial opportunity identification to post-implementation support (see Figure 2). This means sales people must perform a new set of activities, such as helping the customer “sell” the effort internally, and the company must redesign the sales process and sales management approach to reinforce the new set of key activities.

Create Lower Cost Channels to Continue to Drive Product Revenue

When companies redirect sales efforts to selling solutions, sales people may devote less attention to pure product sales. This can be a mistake. Purchasers of large-scale solutions often need replacements and upgrades of the components of the larger solutions. Companies have found that by supplementing a solutions sales force with lower-cost and broader-reaching channels for product sales, they can grow not only solutions revenue, but also product revenue from new and existing customers.

Companies can also use these lower-cost channels to supplement the direct sales force. When customers order products through lower-cost channels, the company can keep the overall price of the product lower and encourage the direct sales force to focus on helping the customer solve high-priority business issues.

The two primary channels for continuing or even accelerating product sales are building a network of distributors and building a Web-based sales capability. Either alternative has dramatic implications for the organization. Companies must address such questions as: How is intimacy maintained with important customers? What new processes need to be put in place to support the channel? What are the implications for order fulfillment and customer service?

Create a Solutions-Ready Environment

The organization dimensions most critical to creating a solutions-ready environment are: (1) knowledge-building, not training; (2) management processes and leadership, not just structure.

In a solutions environment, it is important to be adaptable and nimble, because the sales process for a solution is much less predictable than the sales process for a product. In fact, effectively creating, selling, and supporting solutions requires a new, more flexible set of competencies within the marketing, sales, and service organizations than traditional sales. Sales associates must be able to identify and understand customer needs, match appropriate solutions to those needs, and justify the business case for making a greater investment in a solution.

These skills are more effectively taught through sharing and application of knowledge than through traditional classroom training. Each marketing, sales, and service professional need not be an expert in all aspects of a solution, but all of them must know how to bring to bear the collective intelligence of the organization on each decision and customer interaction. They must have access to real-time information for the specific situation, in order to have the greatest impact on performance (see Figure 3).

Traditional product companies can also increase their solutions orientation by building effective management processes and leadership. In particular, management must be able to measure performance for particular solutions. Measurements by product line will be of little help to executives trying to make decisions at a solutions level. And financial measures alone are not enough. Managers also need to track specific measures of competency levels within marketing, sales, and service and specific metrics associated with alliances or partnerships.

In addition, for each solution there will be multiple initiatives underway, ranging from solutions definition to part-

ANATOMY OF A SOLUTIONS-BASED ORGANIZATION

Providing a solution requires more than simply cross-selling products or wrapping products with services and financing capabilities. Real solutions address a customer's business issue or imperative. They are comprised of all the necessary products and services that will improve a customer's business performance. They are not restricted by a company's internal capabilities or driven by a product unit's latest innovation.

The most successful solutions providers are those that have bolder vision of their role — a vision that aspires to directly improve the customer's business performance. They look beyond analyzing their own value chains to understanding the customers' value chains. When they understand the sources of value that drive customers' profitability and competitive position, these solutions providers can craft solutions that visibly add value, solutions that leverage their unique capabilities to meet customer needs. If they lack all the necessary capabilities and cannot develop them internally, they acquire them from another company through an alliance, partnership, or acquisition.

The boldest solutions providers move beyond the traditional role of vendor and become their customers' business partners. This partnership ultimately allows the solutions provider to help the customer set strategic direction and budget priorities.

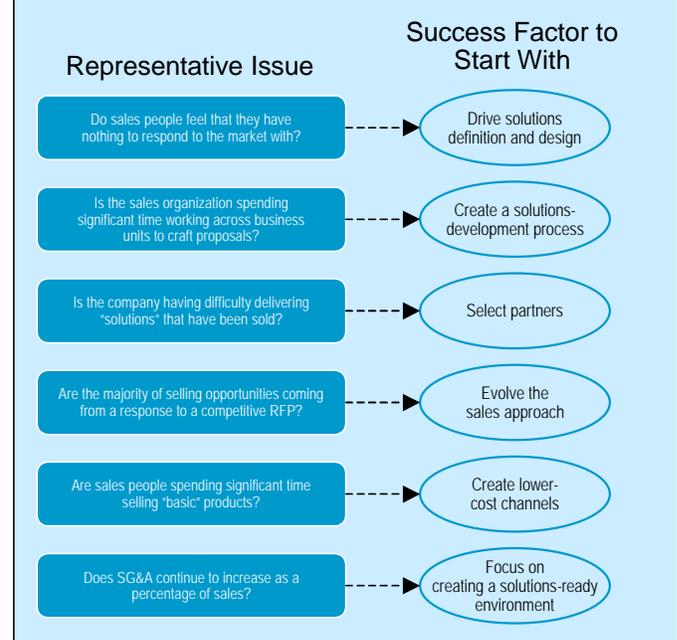
Successful solutions providers realize that there is a correlation between customer loyalty and successful delivery of solutions. And they realize that the companies that think and act the most boldly will be the most successful.

ner selection to knowledge building. It is critical that managers have an effective way to manage and integrate the various initiatives, both within an individual solution and across the entire solutions portfolio. Once effective management processes are in place, the leadership team can provide the guidance the organization needs and can accurately assess the organization's solutions capability.

Take Big Steps, One at a Time

Moving to a solutions-based organization is not easy. Each critical success factor is a major undertaking in and of itself. Each must be approached holistically, with an understanding of what levers (e.g., incentives, skills, process) will

Figure 4: Success Factors



effect the greatest change. Because implementing a drawn-out transformation program can drain resources and dramatically increase the risk of failure, the more successful companies attack one or two solutions competencies at a time. The challenge is to identify which factor will be the most effective catalyst for accelerating the organization's development of solutions capabilities (see Figure 4).

The migration to solutions is not an all or nothing venture. Today, many successful companies are building on existing product excellence and developing complementary services and products to deliver a "one-stop" response to customer business issues. Companies that can find ways to accelerate this migration to a solutions focus will realize the promise of improved margins, stronger customer relationships, and additional means of competitive differentiation. For many companies with a strong product heritage that are looking for a way to reposition themselves in the market, building a solutions-based organization may be just the solution they are looking for. ♦

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