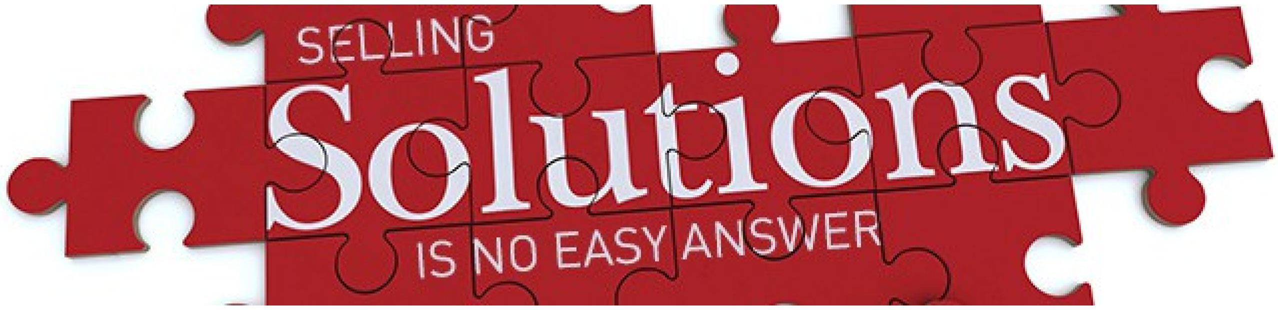
REAL WORLD. REAL LEARNING

TOMORROW'S CHALLENGES



SELLING SOLUTIONS IS NO EASY ANSWER

By IMD Professor Wolfgang Ulaga and IMD Senior Research Fellow Jean-Louis Barsoux – December 2013

IMD
Chemin de Bellerive 23
PO Box 915,
CH-1001 Lausanne
Switzerland

Tel: +41 21 618 01 11
Fax: +41 21 618 07 07
info@imd.org
www.imd.org

Companies trying to differentiate themselves from their competitors are urged to become "solution providers," not just sellers of products and services. But selling solutions is no easy answer.

Jumping to "Solutions"

The impetus to become a solution provider is driven by the need for differentiation and the ambition to grow. The defensive goal is to escape the threat of commoditization that has encroached into many sectors. The offensive goal is to extract more value from the company's expertise. Selling solutions makes a lot of sense. But translating that strategy into a genuine advantage can prove elusive.

Companies that try to transform from a focus on selling products to providing true customer solutions don't always get the returns they anticipate.[i] Research shows that only around a quarter of aspiring solution providers actually meet their targets. About the same number actually lose money, while the remainder achieve only modest returns.[ii] They may generate higher revenues while their margins decline.[iii]

So what goes wrong? Three key failings account for most of the problems: misconceived solutions, mispriced solutions and misaligned solutions.

Misconceived Solutions

Sometimes the solution itself is flawed and customers simply don't perceive it as value adding. For example, selling customers a printer, PC, screen and software is not regarded as a solution, just a quantitative bundle – and the proof is that customers want to pay less for it, not more.

The concept of solution selling is often misappropriated for marketing purposes. It is not enough to package combinations of products and services and call them solutions. Sales people need to work with customers to understand their problems before designing solutions. The key question is "What customer headache are we solving?"

Solutions providers can create more attractive value propositions by focusing on outcomes that are of real relevance to the customer, as opposed to internally defined quality standards. The metrics should reflect how the customer measures success. For example, SKF, the world's largest ball-bearing manufacturer, started selling services to minimize machinery downtime, more critical to certain customers than ball-bearing price or quality.[iv] Similarly, when France-based Michelin started proposing "fleet solutions" to its big customers, it switched from selling tires to selling kilometers.[v]

Mispriced Solutions

Offering a meaningful solution is one challenge. But companies also have to ensure that the additional expense involved in proposing and implementing a solution is offset by the additional revenues recouped over time. They have to be rigorous in aggregating the full costs of the solution – and in assessing the *value* of the solution for the customer. This calls for a mindset shift. While products and services were traditionally priced on a "cost-plus" basis, solutions should be priced according to the customer's willingness to pay.[vi]

Sellers need to assess what the solution is worth to customers and what costs are taken out of their system – and clearly, the answer will differ between customers. For example, when Australia-based explosives company, Orica, decided to provide blasting solutions rather than blasting products, it reduced its customers' labor, operational and capital costs. Quarries no longer had to keep blast planners, drillers, and shot firers on the payroll or to inventory explosives.[vii]

As well as stripping out costs, the solution may bring revenue enhancement opportunities (based, for example, on productivity improvements). So making a meaningful assessment of the overall economic benefits for the customer requires deep understanding of the customer's processes and may call for the joint input of technical and operational people, not just sellers and marketers.

Of course, getting customers to accept the new value-based pricing approach becomes a challenge in itself. Sales people will have to be able to educate buyers about the total cost of ownership – of which the price of the product is just one element – and the tangible savings in areas including labor, materials, energy or replacement costs.

Misaligned Solutions

Solutions that are both compelling for customers and lucrative for sellers can nevertheless fail because the company's structure and systems are poorly aligned with the solution. Organizational inefficiencies can eat up the higher returns.

Companies too often underestimate the level of change needed to deliver solutions. In particular, they try to preserve the historical power structure while adding an integrative solution to the offers which cuts across the traditional organizational turfs. It is difficult to create "seamless solutions" if our critical competencies remain located in silos – whether product-based, functional or geographical.

Organizational structures and processes also need to be re-aligned for more coordinated action. It is not just the sales force whose metrics and incentives need to be redesigned. Rewards throughout an organization must support a solutions-focus and the satisfaction of front-end customers rather than endorsing individual and unit performance. The company will also have to replace processes and IT systems that do not support integration with knowledge-sharing processes that collect and build on client knowledge.

There is little point in exhorting employees to be more collaborative, customer-focused or solutions-oriented if they are constantly running up against policies, working arrangements, incentives or competency deficiencies that constrain their actions.

Ultimately, cooperation can be facilitated, but it cannot be mandated. A key to promoting such a context is the top management example. A recurrent failing among companies that struggle with the move into solutions is lack of leadership commitment. It requires visible, vocal and continuous involvement from top management.

Wolfgang Ulaga is Professor of B2B Marketing and Strategy at IMD. He directs the Strategic Marketing in Action (SMA) program and teaches on the following programs: Advanced Strategic Management (ASM), Foundations for Business Leadership (FBL), Strategic Marketing in Action (SMA), Master of Business Administration (MBA) and Orchestrating Winning Performance (OWP).

Jean-Louis Barsoux is a senior research fellow at IMD.

[i] Michel, S. (2010) "From producer to service provider: Why some companies fail to make the transition," *Tomorrow's Challenges*, TC-028-10, April.
[ii] Ulaga, W., & Reinartz, W. (2011) "Hybrid offerings: How manufacturing firms combine goods and services successfully," *Journal of Marketing*, 75(6): 5-23.
[iii] Reinartz, W. J. & Ulaga, W. (2008) "How to sell services more profitably," *Harvard Business Review*, 86(5): 91-96.
[iv] Kashani, K. (2006) "Fighting commoditization: Strategies for creating novel customer values," *Perspectives for Managers* (IMD), no. 137, October.
[v] Karsenti, G., & Ulaga, W. (2009) *Le business model des services* (Paris: Editions d'Organisation).
[vi] Michel, S., Brown, S. W., & Gallan, A. S. (2008) "Service-logic innovations: How to innovate customers, not products," *California Management Review*, 50(3), 49-65.
[vii] Adrian Ryan interviewed by Paul Hunter (2009), featured on IMD's exclusive Corporate Learning Network "Wednesday Webcast" series, February 11.

Related Programs

STRATEGIC MARKETING IN ACTION - http://www.imd.org/sma

Winning in tough markets
Program Director Wolfgang Ulaga

- Boost your strategic thinking about the evolving competitive landscape and understand how to create and capture more value
- Gain insights into drivers of customer value, behavior and choice and align different stakeholders to improve customer satisfaction and loyalty
- Formulate a differentiated value proposition for a customer-focused strategy and brand platform incorporating social media
- Meet the challenge of implementing your strategy and gaining internal support

ADVANCED STRATEGIC MANAGEMENT - http://www.imd.org/asm

Driving sustainable business results
Program Director Albrecht Enders

- Sharpen your analytical skills and strategic leadership effectiveness
- Prepare to boost performance at individual, team and business-unit levels
- Ensure your organization is keeping ahead in a constantly changing business environment
- Understand how to best address your particular business challenge