

Summary:

In all sorts of industries, companies that traditionally have made and sold stand-alone products are changing their strategies. They are creating high-value solutions by integrating products and services – even merging the supplier’s and customer’s operations – to solve a complete customer problem. Solutions are proving lucrative for many companies, even as profitability and growth of their products have come under pressure. In the case of IBM, \$38 billion of its revenue – 43% of the total- now comes from the solutions-related businesses it has developed since the early 1990s. And the financial markets have rewarded IBM for its durable shareholder value built upon hard-to-copy capabilities, light capital investment, and customization that resists commoditization. Thus IBM improved its market-to-book ratio by 600% between 1990 and 1999.

Why haven’t more companies followed IBM’s migration from a product-centric organization to a solutions-centric organization? The trouble is that the very strengths of a product-focused business can hinder its efforts to become a successful solutions provider.

The author has prescribed the following to help companies make the transition:

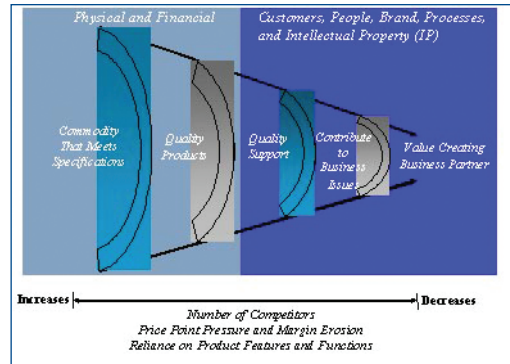
- Build value propositions for customer outcomes. Don’t develop boundaries for meeting customer needs based upon what can be embedded into your current product offerings. In developing solutions, managers must start with a desired outcome for a customer that could encompass a range of needs.
- Don’t go it alone - other companies can play a part in solution development. Suppliers, distributors, customers and even direct competitors may have an important role to play in providing products, services, skills, and market knowledge to extend your customer relationships.
- Choose your customer. The best customers for solutions may not be existing customers for products; they may be upstart companies looking for others to manage non-core pieces of the business, have no established loyalties, and are open to productive partnerships.
- Develop a strong center. Additional value will only be realized, though, if the solutions provider has a strong center (leadership) that adds two essentials to the mix: forceful direction for solutions and effective links between the product-focused back end of the organization and the solution-focused front end.

BVC Opinion:

Very well written and very much on target, the article presents some challenges and some suggestions. **At BVC, we have some suggestions too.**

Convincing senior executives to turn away from existing customer relationships is extremely difficult, especially during turbulent economic times. In some cases, shedding existing customers may be the right thing to do, but you must drive hard analysis to understand how much wealth each customer creates for you today, and based upon your company’s value proposition, how much wealth they will create for you tomorrow. Existing profitable customers should be viewed as a platform to fund your “product to solution” migration. **Our opinion is that the “product to solution” migration should be more evolutionary than revolutionary.**

The author introduces concepts associated with a traditional value creation system. He makes an excellent point regarding change management, stating that a company’s traditional strength may limit their ability to migrate past a product-focus. At BVC, we have developed the following value continuum to help companies determine exactly where they are along the “product to solution” migration, their key source of value creation, and the resulting impact on their finances and competitive position.



It is very difficult to define how to create value beyond your product – so imagine that your product is the ante to enter the game and your intangible assets are the chips to win the game. The game is won by understanding your customer’s need (now the deck is in your favor) and making intelligent bets (both tangible and intangible) when others (competitors) can’t match your moves.

Questions to Put Pieces Together:

- Do you know what your customers are worth today and what they could be worth a year from now? How about three years from now?
- How do you create value for your customers – beyond product features and functions?
- What experience are you creating for your key customers? What would it take for your customers to replace you with another supplier?
- Do you view key processes as strategic assets of the company – designed to deliver consistent and repeatable results to your customers?
- Is your account planning process product-focused and transaction based or solution-focused and value based?
- Are you delivering a clear and consistent message internally and externally to establish a meaningful and differentiated market position?

And Finally:

We all have customers. Some are external and some are internal. And we all have suppliers; external and internal. This thinking applies in all of these circumstances.

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