Changing Nature of

Technology Sales

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Remember When Technology Was Fun?

The economy was thriving. Business embraced the thought of cool new technology. IT departments were well funded and practically running their own businesses within the business.   It was a heady time! Then the bubble burst, the economy tanked and technology sales went from fun to drudgery to downright torture. Constant restructuring and downsizing made if difficult, if not impossible, to build customer confidence. Revenue pressures made meeting quota, not the customer, king.

In an effort to combat the downward trend of spending, "solution selling" became the mantra. However, for the most part, all solution selling ended up being was products wrapped up in marketing speak. Few technology vendors invested in fully understanding the customer's business challenges. In a declining market with increased competition, that was hardly surprising. Deep down, vendors knew they should be paying more attention to the customer, but the quarter-to-quarter revenue pressure made it nearly impossible.

At AZtech Strategies, we wanted to understand, from a customer perspective, what will drive technology investments in this new environment. We had a theory. We believed technology is an enabler of business. As such, the business strategy is what creates opportunity. We believed the real sales opportunity will come from outside of IT as individual departments and business units seek to improve performance.

Spending is starting to improve. It doesn't look anything like it did a decade ago, but there is cause for optimism. However, IT Departments have taken it on the chin for not working to improve links between technology investments and business objectives. Combine that with the fact that many of the mega investment projects companies invested in failed to deliver the expected value and you have a more challenge-selling environment than the industry has seen to this point.
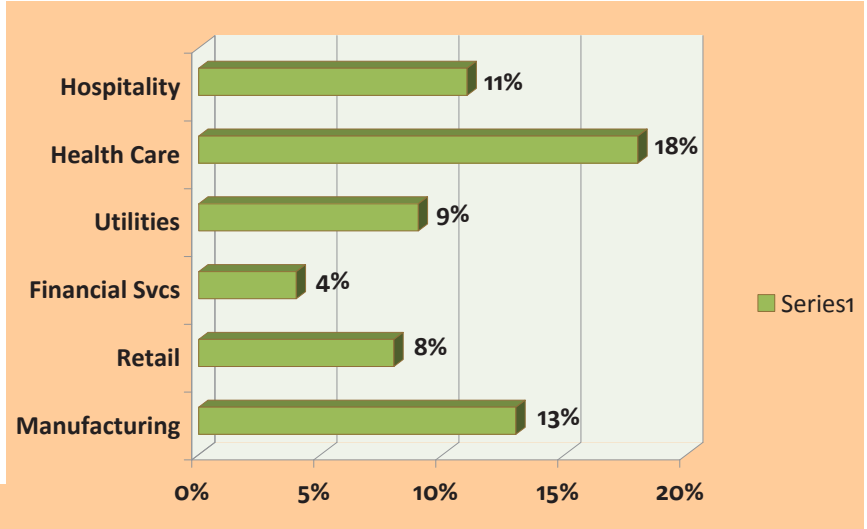
Methodology

In the spring of 2008, in partnership with the Ponemon Institute and Siemens Enterprise Networks, we developed an email and telephone survey. We surveyed, in total, 55 US Companies. We surveyed an average of three people per company: C-level executives, IT Leaders and Functional/ Business Unit Leaders. Respondents were primarily very large enterprise organizations from a variety of verticals.

The goal of the survey was to understand how companies view several business enabling technologies and the understand the drivers and barriers to investment.
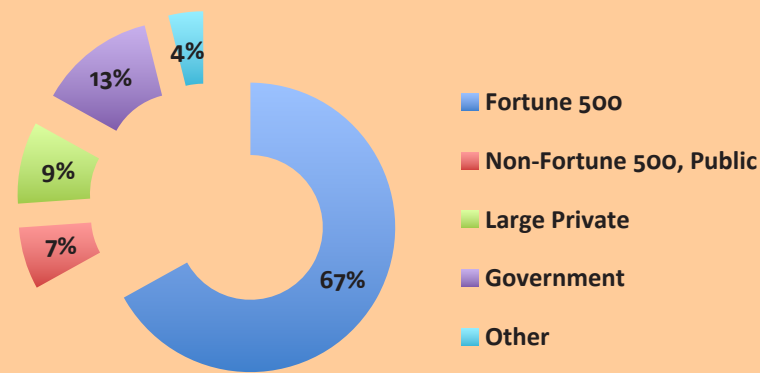
This paper is a brief overview of the findings.

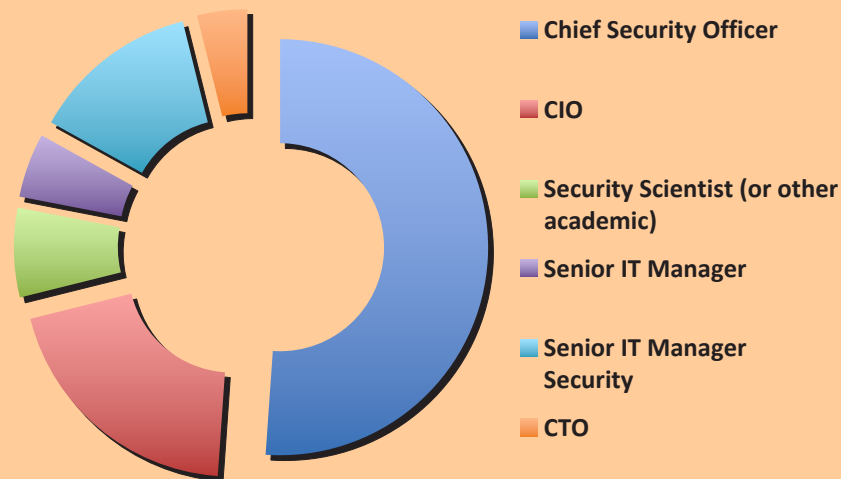## Profile of Participating Customers

Respondent Industries

Industry	Percentage
Hospitality	11%
Health Care	18%
Utilities	9%
Financial Svcs	4%
Retail	8%
Manufacturing	13%

Respondent Organization Type

- Fortune 500 — 67%
- Non-Fortune 500, Public — 7%
- Large Private — 9%
- Government — 13%
- Other — 4%

Respondent Position Levels

- Chief Security Officer
- CIO
- Security Scientist (or other academic)
- Senior IT Manager
- Senior IT Manager Security
- CTO

Who's Driving IT Demand?

IT Departments view themselves as a service organization to the rest of the business. As such, they aggregate requirements and seek out solutions. From their own perspective and that of vendors, they are the number one driver of IT demand. They are not the only driver though. Within the enterprises we surveyed, the functional groups are increasingly bringing technology requirements to IT in order to improve their performance.
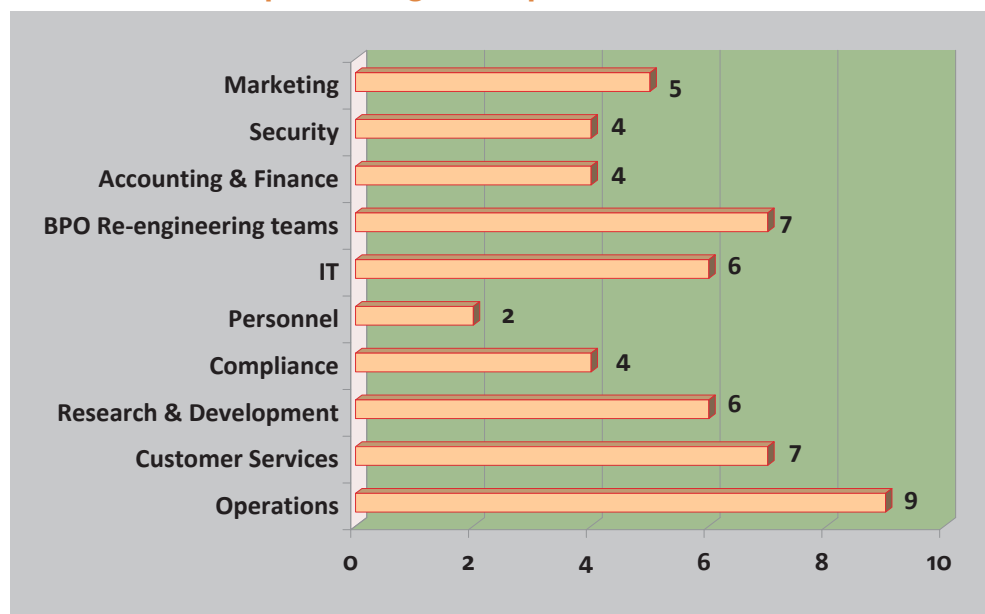
In order to be successful selling, it is critical vendors understand the strategy and business objectives of influential groups such as Operations, Customer Service and Business Transformation Teams. Equally important is educating these non-IT audiences as to how enabling technologies can impact their business.

Categorizing Business Impact

We felt, understanding how customers view various technologies is a critical step to uncovering the hidden selling opportunity found in the functional groups. We asked customers to classify a set of business enabling technologies in one of four ways: Creates Competitive Advantage, Drives Revenue, Cuts Costs or None of These. This list is not meant to be all-inclusive.

The results showed companies struggle to associate technology investments with revenue generation. With few exceptions, only the most obvious categories (e.g. SFA, CRM) were considered to have the ability to drive revenues. Companies were more likely to categories technology investments as delivering competitive advantage or cost cutting. The disappointing finding is that, on average, just an average of under 25% of respondents felt these technologies

Functional Groups Driving IT Requirements

Functional Group	Value
Marketing	5
Security	4
Accounting & Finance	4
BPO Re-engineering teams	7
IT	6
Personnel	2
Compliance	4
Research & Development	6
Customer Services	7
Operations	9

could not be classified as any of the three business impacting categories.

However, our telephone interviews delivered intriguing insight into this finding. The respondents, who stated these technologies failed to drive revenue, create competitive advantage or cut costs were split between IT Managers and functional / business group leaders.
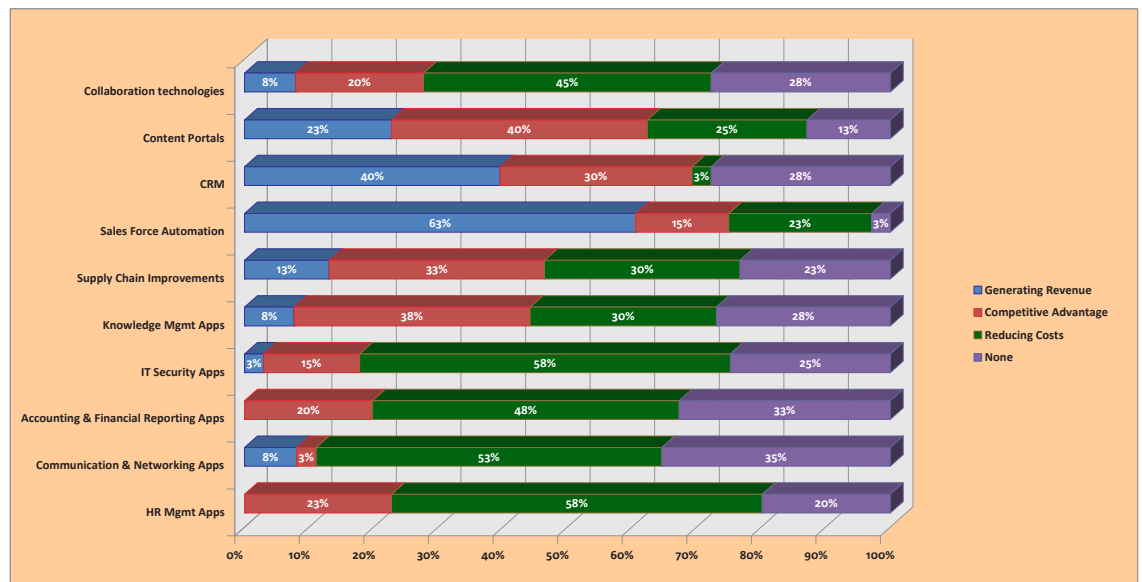
For the IT Mangers, they simply weren't accustomed to thinking about the technologies listed in terms of driving revenue or creating competitive advantage. They struggled to even articulate the structure of such a justification.
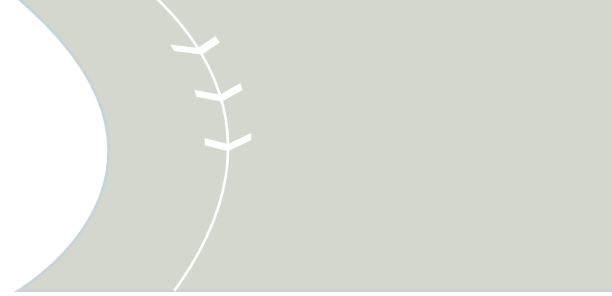
The functional group leaders, however, made their judgment based on a combination of past experience and knowledge (or lack thereof). Their rationalizations for how they categorized each investment revolved around two areas: poor implementation resulted in negative impact to the business and lack of upfront strategic assessment. Their comments indicate the issue at hand is deeper than the typical "technology isn't linked to business objectives." Rather, it is about whether the business conducted a thorough due diligence before moving forward.

Most significant IT investments have a downside through initial deployment.

Evaluation Objectives in Tech Investments

Technology	Generating Revenue	Competitive Advantage	Reducing Costs	None
Collaboration technologies	8%	20%	45%	28%
Content Portals	23%	40%	25%	13%
CRM	40%	30%	3%	28%
Sales Force Automation	63%	15%	23%	3%
Supply Chain Improvements	13%	33%	30%	23%
Knowledge Mgmt Apps	8%	38%	30%	28%
IT Security Apps	3%	15%	58%	25%
Accounting & Financial Reporting Apps		20%	48%	33%
Communication & Networking Apps	8%	3%	53%	35%
HR Mgmt Apps		23%	58%	20%

Functional group leaders complain IT rarely factors that into their ROI calculations and decision criteria; nor do they create adequate plans to mitigate the negative impact.

Further, these functional leaders feel both vendors and their IT peers do a poor job explaining the positive impact technology investments will have on their specific business results. Interestingly, our research revealed growing interest in understanding business-enabling technologies outside of a purchasing environment. In other words, it's not enough to hear the justification for the technology as part of an RFP. If a technology truly has the ability to drive revenue and/or create competitive advantage for their business, these leaders want to know about it.

I laugh when I see all the articles out there about 'The Business of IT.' Teaching the geeks to talk about technology in business terms. Why is there a translation required? Why don't vendors invest in educating the rest of us too? Because I think the vendors don't quite know how their products can benefit our business. I think they just have a product they want to sell. Go ask Cisco how their products drive revenue for me. Bet they look at you with a blank look.

However, these functional leaders admit, they are a difficult audience to attract. The challenge is two fold. They are tired of being sold to and they have doubts vendors really understand their business. This audience is most likely to look to their peers for information and feedback. Reaching them requires creative thinking and an altruistic approach. To impact this group, vendors need to be willing to educate for its own sake, not in order to make the short term sale.

Strategic Criteria Necessitates Strategic Justification

The ever-increasing pressure to link technology and business objectives is changing how organizations cost justify investments. ROI remains an important criteria, but the ability to accurately measure results remains elusive. Two methods for determining the value of technology investments are increasing in popularity:

Activity Base Costing - Instead of relying on automation or detailed logs, managers are simply asked to estimate how much time their staff spends on a given activity, in order to generate a cost estimate of its expense. Once managers determine what staff and resources are used for a given activity, they then divide that by unit cost, estimate in percentage terms which groups or departments use that service, and allocate costs accordingly.

Surveys – a decidedly low-tech approach – but, when used in conjunction with employee and customer sat surveys, companies are finding it creates a compelling story.

TCO is waning in terms of importance. The primary reason is TCO is usually a vendor calculation and hence considered very biased.

TCO is famous for proving a multi-million dollar technology expenditures is more logical and contained than a smaller one, which is likely to spin out of control. I find it far too biased of a calculation. CIO, UK Education

I wish there were a magic spreadsheet, but there isn't. We make a lot of noise about measurements, but it's just that, noise. We don't really do a good job of follow up. CIO, US

Investment Evaluation Questions:

Do we have a strategic plan that places technology investments in the context of our business' mission?

What is the desired outcome of this investment? How can it be measured?

Is it most important to achieve competitive advantage, generate revenue or to cut costs?

What is the result of doing nothing?

ROI / TCO Metrics

As stated earlier, when technology investments are viewed as generating revenue or driving competitive advantage, research indicates that traditional metrics such as Total Cost of Ownership (TCO) and Return on Investment (ROI) are less critical in decision-making.

In fact, only 42% of US companies consider TCO important.

45% actually consider TCO unimportant or irrelevant.

Importance of ROI & TCO

Legend:
- Irrelevant
- Not Important
- Unsure
- Important
- Very Important

9% | 16% | 29% | 13% | 33%
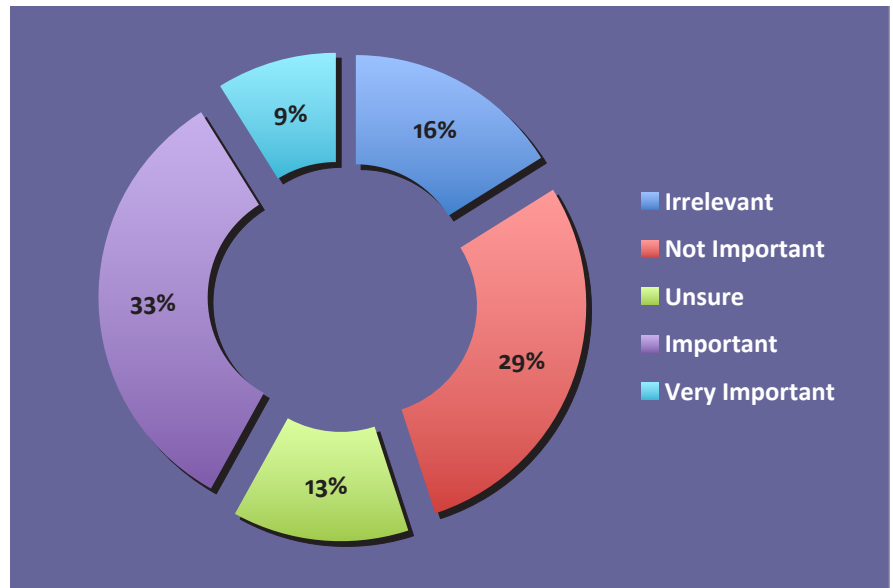
I would say ROI still plays an important role in our decision-making, but TCO, especially when you're talking about evaluating an investment that's going to drive competitive differentiation, really doesn't come into play.   IT Director

I'm dead in the water if I stand in front of the Board and justify a purchase based on TCO. I've just taken what I thought was a strategic purchase and put it in the realm of tactical cost savings. Can you say budget slashed?!   CIO
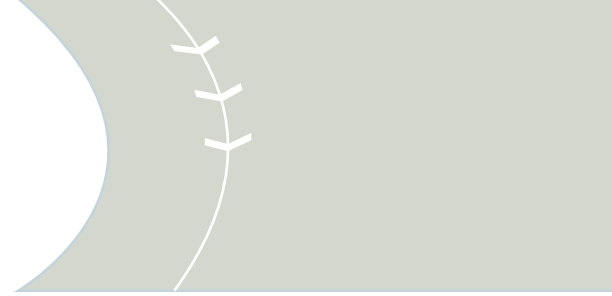
Enter the Channel

Almost without exception, customers expressed frustration with technology manufacturers' sales forces. Customers stated that the manufacturers' view tends to be too "next sale" oriented and fails to recognize there are forces outside of IT driving requirements and making decisions. Technology investments are typically part of larger process re-engineering or customer relationship initiative projects. As a result, customers depend very heavily on Consulting Firms, Systems Integrators and Service Providers. In the area of emerging technologies though, the challenge is often these 3rd parties lack the depth of insight required to adequately represent and justify the investments and articulate the benefits.

I'm not sure what most manufacturers sales people are thinking, even the senior executives seem to miss the point. [In IT] we are aggregators of requirements. We don't create them; we are a service to the business. This is particularly true of the vendors with emerging technologies. They rarely, if ever sell to other groups. VP, IT

It's very difficult to justify large investments in emerging communications applications or services. Intuitively, everyone nods and agrees it's a wonderful concept, but at the end of the day, the immediate benefit is something we can achieve with the technology we have today. The vendors have not done a good job educating their partners on the long-term value proposition and vision. COO

Customers are frustrated by the continuing struggle of many technology vendors to adequately support their Go to Market partners. Multi-channel Go-to-Market strategies are far from new. IBM began its transformation in the early 90s. Oracle, Sun, Lucent/Avaya, Nortel all started transforming their businesses in mid- to late 90s. By now, customers expect a degree of seamlessness between manufacturers, consultants/integrators and service providers. Of late, they are expecting the ability to deliver multi-partner solutions (vendor, strategy consultant and service provider).

At minimum, this borderless relationship between the manufacturer and its channel partners, for the customer, translates to:

- Global pricing availability

- Global SLAs that leverage the competency and capacity of each partner by geography

- Single point of accountability

- Governance/escalation paths that minimize finger pointing during implementation thru management and conflict during selling.

- Easy access to strategy and technical information

- Account planning and support

I'm beginning to feel like a broken record. I've participated in 10 of these types of surveys (although this one is more interesting) in the past year. I keep saying – support your partners!!!! Giving them pricing and access to information. Keep your sales force under control. But no one listens. VP, IT Systems & Infrastructure, US

I am quite keen on seeing companies learn to govern themselves. There are too many fiefdoms in most of our vendors. There must be more global consistency. That's not global domination mind you. It's consistency. Uniform polices and practices. Director, Operations

Most of vendors are global companies. I refuse to believe they can't understand the concept of global pricing and SLAs. Don't they want the same thing from their vendors? Treat me like you want to be treated! CTO,

The Importance of the Customer's Customer

As organizations continue to "virtualize" and extend beyond borders, their customer is taking on a critical role in technology investment decisions.

In 60% of the companies interviewed, their customer plays a role in technology purchases. It is most commonly related to determining requirements. However, surprisingly, 4% in the US actually help make the final decision.

As the quotes indicate, the implications are far reaching. Delivering superior support not only to direct customers, but to and through partners is critical to long-term success.

Equally important is creating an intelligence gathering process that uncovers the role of customers as well as the most prominent partners across the customer's entire value chain.

The selling environment is so complex now. We're really struggling, as I'm sure all our partners are. It's so much more than that tired "solution selling" model. It's about understanding the entire value chain at our customers. CTO, US Service Provider

Collaboration is mission critical for us. Our customers join us in all major technology decisions.   CIO

We are no longer an island (no pun intended). We must integrate with our most strategic customers systems and processes. Our technology investments must create value for them. Director IT, UK

Conclusion

The selling landscape for Technology Vendors is frustrating to say the least. Customers are sending very mixed messages while seeming to be in an endless state of "just looking."

They are evaluating and piloting, but not buying.

IT spending outlooks predict increases, but enabling technologies, investments are lagging.

Customers want to understand the vision from technology leaders, but hold them at arms length insisting on working through consultants, integrators and service providers.

The opportunity lies in investing in improving Go to Market Partner Support and educating the functional group leaders. Technology selling can't about technology; it must be about improving business.

About AZtech Strategies

Formed in 1998, is a woman owned small business whose mission it is to empower information services and technology companies to expand beyond their traditional channels into new and innovative channels where they can not only increase sales, but dominate mind share.

AZtech believes that too often, companies become so entrenched in their existing Go to Market strategy, the creativity and innovative thinking that made them successful is lost in the minutia. Through its thorough understanding of, and real life experience in, channels, both direct and indirect, AZtech is able to create multi-channels strategies designed to optimize existing channels while growing new ones. AZtech understands that, above all, current revenue streams must be protected. We will never advocate a change so radical that existing revenue is threatened. Rather we will help create a migration path to a new and more profitable strategy.

Unlike many consulting companies, the Principals of AZtech remain intimately involved with every project, enabling us to provide an unparalleled level of value and expertise. AZtech Strategies assures its clients that the Principal, who sold our services, delivers our services.

We are a boutique shop by design. Our founders decided, before the first client, that AZtech Strategies would be dedicated to providing high quality, high value consulting.

The Leadership Team of AZtech has 4 characteristics critical to your success:

- **IMAGINATION**
- **ENERGY**
- **EXPERIENCE - decades of real world knowledge**
- **COMMITMENT - to your success**

AZtech Strategies, LLC

The Channel Convergence Experts.