



From caterpillar to butterfly

Transform your business model and turn into
a solution provider

Increasingly, companies are not just offering products or services, but customised solutions integrating different products, services and technologies in order to escape the commodity trap. However, it is not straight forward for a company to transform into a solution provider. This study outlines a ten-step plan for companies to make this transformation successfully. It also examines how companies in Flanders are moving towards providing solutions.

“Reinventing oneself as a solution provider requires a transformation from a product-centred approach to a genuine customer-centred one.”

Solutions are *the* solution

Solutions are growing in importance. They are different from products and services in that they are specifically designed to respond to customer demands and requirements. They involve a significant degree of integration, combining products, technologies and services, based on customer requirements.

Another aspect of solutions is the high added value for the customer's business. Integrated solutions offer customers the possibility to enhance their revenues and reduce costs, assuming part of the risks and responsibilities that customers face.

Drivers for the development of solutions

More and more manufacturers are integrating all kinds of services into their offering, including financial services, maintenance, spare part management, upgrades and updates, consulting, marketing support, training, operational services, etc. Companies in the service sector are also moving towards solutions, by forming alliances with product suppliers or other service providers, in order to meet their customers' requirements even better.

Atlas Copco develops industrial equipment such as assembly lines and power tools. For a long time, Atlas Copco's strong technical background was sufficient to give it a major competitive advantage. However, in the last 5 to 10 years, its competitors have caught up and technical features are now less significant for the products developed by Atlas Copco. As a response, the company is investing heavily in developing services, which will increase its added value.

Many companies' products have become so commonplace that a new strategy is required. Customer demand for services is also growing. They are outsourcing what they consider to be non-core activities and skills and have higher expectations of their suppliers.

The trend towards vertical disintegration is also leading to increased demand for solutions. Instead of wanting to control the whole value chain – from raw material to finished product – companies are increasingly focusing on their core business, while aiming to limit the number of third parties involved. In other words, solution providers are preferred partners and one-stop shops, integrating the offers of other suppliers and controlling complex technologies.

A business model for solutions

This business model serves as a blueprint for all solution providers, regardless of their offering or sector.

- > **Value proposition:** the solution provider designs, builds, integrates, maintains and/or updates a fully operational solution to meet the customer's needs. This solution has high added value, greater than the sum of the different parts. In order to achieve this, the solution provider must excel in seamlessly integrating the various products, services, expertise and technologies. It must offer a wide range of after-sales services and support customers with consulting throughout the lifecycle of the solution. It may also provide purchase financing in return for a share in the value generated by the customer using the solution.

Two years ago, the Belgian division of printing product manufacturer Xerox introduced its Enterprise Marketing Services, offering a solution for optimising every customer touchpoint in terms of marketing efficiency and effectiveness. For example, Xerox created a campaign for car manufacturer d'Ieteren. A group of target customers planning to buy a car in the near future was selected from a database of potential customers. Using digital and print channels, each of these customers was approached with a personalised message. The conversion rate demonstrated that the optimised communication resulted in reduced costs and increased revenues. To achieve this, Xerox integrated data from databases, IT systems, printing and digital technologies and created a direct marketing campaign, for which it used specialist advertising agencies.

- > **Customers:** the ideal customer is open to co-creating an integrated solution and developing a long-term relationship with the solution provider.

A solution provider should target customers with similar needs, generating reusable modules. Of course, the customer must also be prepared to pay for the solution. That is why senior-level decision-makers are the best contacts: they have a global overview of the total value created by a solution.

- > **Value chain:** by integrating internal and external services and components into an operational solution, a solution provider assumes a greater share of the value stream. In order to do so, it needs to build long-term relationships, not just with customers, but also with suppliers and partners.

Companies with a network of dealers present an additional challenge. Defining from the outset who can expect which share of the cake helps to avoid conflicts. For instance, perimeter solution provider Betafence traditionally works with dealers, but clearly states in its communications with them that it will take responsibility for major projects such as police and military installations itself.

- > **Cost architecture:** the principal element in pricing a solution is the added value created for the customer. Solution providers also seek a balance between customisation and standardisation. By repeating reusable solutions in an adapted form, solution providers generate skills and economies of scale.

Solution providers develop innovative revenue models, based on usage, results or generated value, for instance. In the case of Atlas Copco, this is a combination of monthly service fees and a performance-based rate, such as per car produced. For the customer, this means that costs go up or down as tools are used more or less often.

- > **Value network:** solution providers maintain excellent contacts with potential customers, external suppliers and partners, competitors, industry experts, etc.

Solution providers stand out due to their customer-focus and the added value they actually create for their customers. Integration and repeatability are decisive factors here. By developing repeatable solutions and excelling in integration, a solution provider offers superior added value, resulting in higher profit margins for customers.

How do you organise your move towards solutions?

In order to reorganise to become a solution provider, the whole business has to be aligned. The transformation requires a change of the company's culture and values, structure, processes and competitive capabilities, as well as incentives and measurements.

The company has to switch from a product-centred to a customer-centred approach. Both the internal organisation and the partners must be convinced of this.

A solution provider excels in project management and (system) integration. Skills are also required in areas such as customer service, bid management, industry intelligence, consultative selling, networking, etc.

Incentives, measurements and pricing must include customer-centric variables such as customer satisfaction and lifetime value of a solution.

Moving towards solutions in 10 steps

The move towards solutions differs for every company and is seldom linear. The transformation changes the DNA of a company fundamentally and affects the entire business model.

Step 0. To move or not to move?

Weigh up the opportunities offered by solutions compared to the current business model, how integrated the company has to become in order to provide solutions and how well it can cope with a complete transformation and the associated disruption.

Step 1. Convincing the entire organisation

Full dedication and support from top management and employees is required. Communicate and explain the importance of solutions, not just among employees, but also among partners and external suppliers.

Step 2. Developing and reinforcing a customer-oriented mindset

A customer-oriented mindset must be central to all processes, structures, customer touchpoints, communication, etc. Knowing what customers want and good long-term relations are crucial.

Step 3. Segmentation of customers

Establish those customers who are open to solutions and on whom the company is focused. Bear in mind that if these customers have similar demands, this can generate reusable modules.

Step 4. Engaging in first projects with key customers

Team up with some key customers. Keep an open mind and search for new partners and suppliers with the relevant capabilities. Next, gather all knowledge generated from implementing solutions. When the first solutions are being developed, it is a good idea to give key employees such as sales people, system engineers or account managers the freedom they need.

Step 5. Closer involvement of marketing

Positioning yourself as a true, reliable solution provider is crucial at this stage. So, send a clear and consistent message. A separate logo for solutions avoids confusion.

Step 6. Systematic development of front end and project teams

Setting up modular and cross-functional teams needs to become a well-oiled process. Account teams and sales people need to be able to grasp customer needs and sell solutions using consultative selling skills. This is the time to acquire the necessary capabilities. All information gathered through this learning process is useful for the development of new solutions in the future.

Step 7. Aligning the back end to support solution offering

The back end must also be customer-oriented, flexibly set up and create new components and solutions. This requires the right functional capabilities, which must be acquired by a company if necessary.

Step 8. Pulling it all together

Front and back end must be brought into line by aligning the IT systems, rewards and incentives structures and business performance criteria. The strategic centre balances standardisation and customisation and stimulates the development of repeatable modules. It also invests in partnerships, with customers and suppliers.

Step 9. Performance management

Keep investing in applying solutions. Measure and monitor results at several levels: project level, customer level, etc. Set realistic goals and long-term milestones.

Step 10. Moving the entire company towards solutions

The previous nine steps can be applied to the whole company or to an individual business unit. In any case, the transformation remains a process of trial and error. But with the necessary flexibility this transformation can be achieved.

How solution-minded is Flanders?

A quantitative study of 72 cases shows that the majority of companies (60 percent) view solutions as a priority. Twenty-three percent of cases have reached an advanced stage in the development of solutions. Just 1 percent of respondents said that they were not yet fully engaged in this.

For companies moving towards providing solutions, this accounts for 40 to 50 percent of turnover. For 26 percent, this amounts from 60 to 100 percent. The respondents see solutions growing in importance over the next three years.

The questionnaire submitted to several c-level executives from Flemish companies confirms the results of the qualitative study as far as the definition and characteristics of solutions and solution providers are concerned. Of the services offered, operational (60 percent) and consulting services (over 70 percent) stand out. Financial services (30 percent) are offered less often.

The main drivers for providing solutions are strengthening ties with customers, increasing demand for services and looking for new market opportunities. Those surveyed see several major benefits of solutions. They actually do improve ties with customers and they offer the possibility of a differentiated offering and a competitive advantage.

The number one challenge is finding the right employees. Other challenges include pricing and standardisation. Obtaining support from top management is not a challenge: in 75 percent of cases this support is already there.

Conclusion

By combining value-added services with their offering, solution providers pursue stronger customer ties, higher profit margins and a competitive advantage. Other advantages include greater customer loyalty, acquiring new customers and rapid market adoption of complex technologies. For these reasons, companies in Flanders are also moving towards providing solutions. However, this implies aligning the entire organisation, for which the ten-step plan presented here can serve as a guide.

Reference:

From caterpillar to butterfly. How to transform your business model to turn into a solution provider. by Marion Debruyne, Deva Rangarajan and Caroline Baert (Flanders DC Knowledge Centre at Vlerick Business School), 2012.