

Evolving from a Product-Focused Business to a Solution Provider (Part One)



When you read the title of this article did you ask yourself: Why should I worry about changing my business? I am successful at doing what I've always done for customers who will purchase what they always purchase. That is exactly my point. Business today is very different from what it was five years ago. Today, we hear about globalization, sustainability, the economy, everyone looking to do more with fewer resources, inflation fears, health insurance costs, etc. As the business climate changes so must the players who expect to prosper in the long term.

In order to cope with the changing business climate, we must create a competitive advantage for our businesses. Part one of this article discusses ways to create a sustainable competitive advantage and introduces the concept of selling solutions. In addition, I will discuss ways to identify solutions for which your customers will actually pay you. In Part Two, I will discuss the tactics of creating, commercializing and pricing solutions.

Business schools teach us that there are three ways to create a sustainable competitive advantage: Price, monopoly and differentiation. It is possible to compete on price for a limited time but, because of globalization, there is always

someone bigger, newer or with lower costs. So, achieving a sustainable advantage based on price is extremely difficult. For example, in the 1970s, Japan exported low priced cars to the US. Now, Japanese cars are mainstream and Korean cars are less expensive than either American or Japanese cars. In the near future, Chinese exports will capture the price sensitive buyers. After that, it will likely be exports from India. There is always a newer, lower cost supplier entering the marketplace.

In general, monopoly is a non-sustainable strategy due to global trade regulations. Although some businesses such as Google, eBay and Microsoft were able to create a quasi-monopoly, those advantages are slowly disappearing. Monopolies can work under three circumstances:

1. When the market served is so limited that very few people want to participate.
2. When the capital costs to enter are astronomical and there is too little opportunity to make money.
3. When there is patent protection, though the monopoly will last only until the patent expires.

This leaves differentiation. How does an SGIA member differentiate himself

or herself from other members? While the use of commercially available capital equipment limits options, there are a number of ways to differentiate your business while sticking to your core competencies:

1. Provide truly memorable customer service. Make sure you are customer focused and that everyone understands that customers are why they have a job. Provide everyone with the tools, training and authorization to consistently exceed customer expectations.
2. Provide incredible quality. This is important, but may not be an actual differentiator; it is quickly becoming the price of entry into the game.
3. Provide unique solutions that satisfy customers' needs.

In the remainder of this article, I will discuss differentiation as a concept, explain how solutions make a business unique, describe the prerequisites from the customer's perspective and advise you on how to start this journey.



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What is the basis of differentiation?

In today’s business world this simple summary holds the key:

Customers do not buy technology, they do not buy products and they do not buy features. Customers only want to pay money to make problems go away.

Making customers’ problems disappear requires creating solutions. Today, solutions are synonymous with innovation. Peter F. Drucker once defined innovation as: “The

integrated system of great power.”

And we define “old, known, existing elements” as not only your core business of specialty graphics, but also many of today’s value added services like installation, kitting, warehousing, etc. While they may be new to some of you, they are “old” to most of your customers.

In addition, the following is according to a 2004 report from the Printing Industry Center at RIT:

According to NAPL, the only way in which printers can combat the current challenges they are facing, as well as remain competitive, is by offering services. To be successful, the following issues need to be considered by printers:

- Cost of additional services
- Altering perspectives of internal clients to accept change
- Marketing the company more effectively to ensure achievement of strategic and business goals
- Changing client’s perspective to expect and request diversified services.

And that was six years ago! The more things change, the more they stay the same.

What does this mean for a SGIA member?

This new thinking may complicate your business life. Where before you were worried about maintaining and growing your core business and creating and implementing value-added services, you are now encouraged to do these things while combining them in innovative ways to offer unique solutions.

Let us see what that really means. Figure 1 was modified from a McKinsey article describing the “Three Horizons” and shows that business heads must think simultaneously about three timeframes that have different challenges. To keep your sanity, you could assign each horizon to someone in your company. If one person tries to manage all three timeframes, they might focus only on the urgent (today’s product business) to the exclusion of the important (the services and solutions horizons). Despite flexibility, most people gravitate to the horizon in which they are most comfortable — at the expense of the other two.

Now we know why we should change, but where do we start? Amazon founder and CEO, Jeff Bezos, suggests two approaches: 1) Inventory your skills and competencies and ask: “What else can we do?” 2) Ask: “Who are our customers and what do

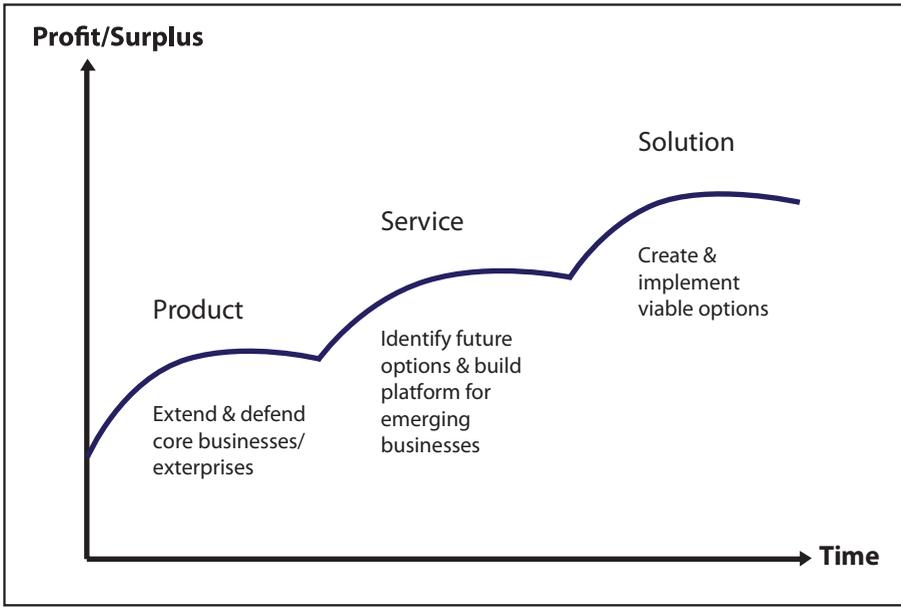


Figure 1

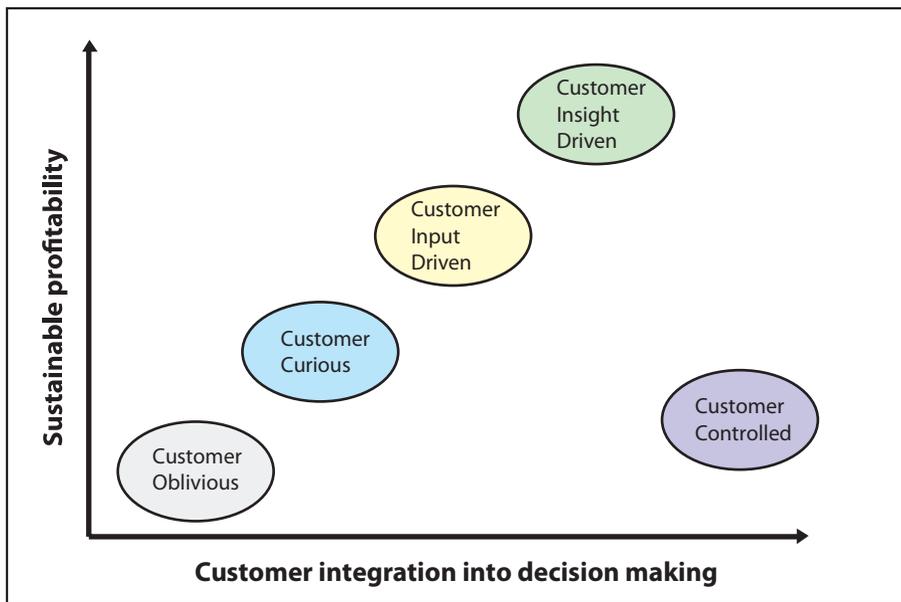


Figure 2

design and development of something new, as yet unknown and not in existence, which will establish a new economic configuration out of the old, known, existing elements. It will give these elements an entirely new economic dimension. It is the missing link between having a number of disconnected elements, each marginally effective, and an

they need?" The first approach does not hit a home run, but puts you on a path of steady advancement. The second approach may strain your resources, allow only one initiative at a time and run you the risk of failure. I suggest that you combine your efforts: Do what you do best while you also work with a select group of customers with similar needs to develop unique solutions. As Cisco Systems CEO, John Chambers, says: "Listen to customers. If you ask, they will tell you exactly what to do." And from an IBM White Paper: "Customers will expect to have a hand in developing products and service approaches that meet their needs through co-creation." Michele Harris of Applied Marketing Science sums it up best: "The bottom line is that customers usually aren't very good at describing solutions. But when properly asked, they're very good at describing their needs - what they like, what they don't like, what makes their lives hard or easy, what they wish for and what they're trying to get done. And after all, it's not the customer's job to come up with the solution - that's the developer's job! Their job is just to articulate their needs."

A Note of Caution

Working with your customers as you think about creating unique solutions is critical. This process is so widely used that it has a name: Voice of the Customer (VOC). While I believe in this process, you must be sensitive to the amount of customer input you take and act upon. If you turn your business completely over to your customers, you will lose control and see a drop in profitability (see Figure 2).

Solutions

A solution is the performance of tasks designed to address a client's business issue(s) or need(s) for a fee. It incorporates those services that offer the customer a one-stop shopping solution by increasing efficiency and reducing consumer costs, and therefore, increasing the value of the product.

Customers have five basic needs when purchasing a solution:

1. Convenience: One-stop shopping, one interface person, one invoice, one scheduler.
2. Control: Release shipments, choice of shipping depending on urgency, onsite quality inspection.
3. Dependability: Fulfilling promises without excuses, dependability, consistency.
4. Personalization: Treat each order

and/or shipment as an individual event while still providing the advantage of a single, integrated solution.

5. Trust: If customers do not trust your company and the individual selling the solution, they will not be interested at all.

What are some of the better solution approaches?

1. Service Aggregation: Combine your products and services in a way that provides value to the customer. For example, accept an order for multiple prints of multiple masters and ship sets to multiple locations, but send only one invoice.
2. Service Integration: Bundle your products and services along with services and products from others. For example, you design and print banners, ship either ground or air depending on schedule and cost and, when it arrives, you coordinate the installation using third party installers. Again, send one detailed invoice covering both your and your partners' services.

In summary, growth and business survival will be dependent upon your ability to provide differentiated services. Creating and implementing new solutions are the most practical method of differentiating your business from others. These solutions must be based on input and cooperation from your customers. However, to have the chance to participate in this exciting journey, you must earn the trust and confidence of your customers.

In Part Two, I will address the tactics of developing, commercializing, pricing and selling solutions.

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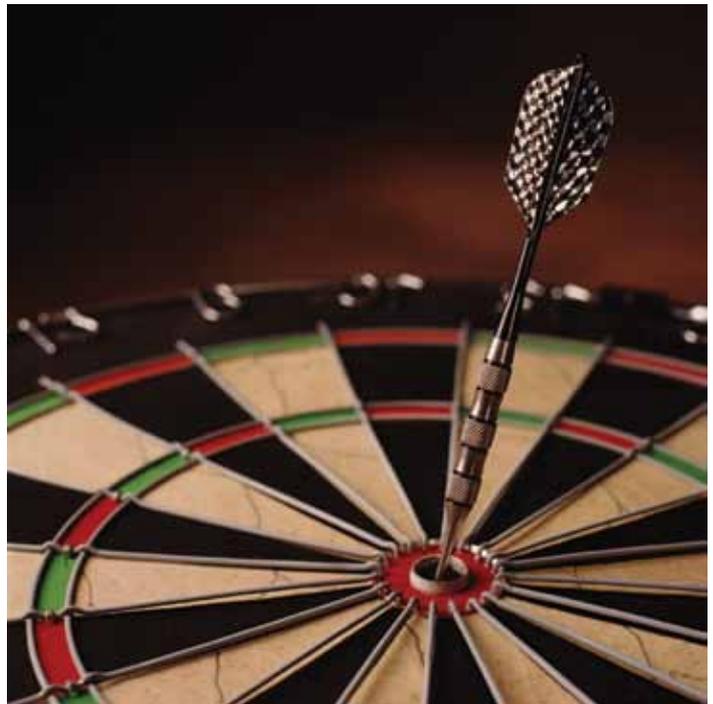
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Evolving From a Product-Focused Business to a Solution Provider (Part Two)

Moving from a goods provider to a goods and services provider requires presenting a new value proposition for your customers.



In Part One of this article, I discussed the strategy behind moving your business from being product-focused to being solutions-focused while balancing both to solve your customer's problems. In Part Two, I discuss the five steps to follow to move successfully toward providing solutions. I call these steps a "plan for distinction."

Step One: Pick the Customer Segment to Target

This is a strategic initiative and should be approached with due diligence. When initially starting this process, concentrate on your existing customers because:

- You know a lot about them.
- You have an ongoing relationship with them.
- You have earned their trust.
- If the above are not true, either rethink your objective or your target customers.

First, identify a customer segment that you and your team believe will be ready to purchase a solution from you. This process is called segmentation. Three frequently used techniques that help you gain insight into how to segment are:

1. **Voice of the customer:** There are many methods by which you can systematically collect customer input such as focus groups, surveys, employee feedback, complaint management, sales feedback, social networking, trade shows and users groups. Basically, it's all about asking and listening in a structured format.
2. **Active listening:** Employees who face customers must ask leading (open-ended) questions and then listen to and carefully record their answers/insight. Use this technique to help you acquire the voice of the customer.
3. **The five Ys:** Use this technique when you hear a new or interesting piece of information and need to get clarification: Ask "why?" Ask why again when you hear the answer. This technique, if repeated about five times, will generally get you to the root of the initial comment. Try it with your associates or family and see how it helps you focus on the basic information you are seeking.

Once you identify a target group, narrow it down to a small, high-probability-of-success list of customers. Each company must find its own combination or balance of the following criteria:

- **Total annual revenue and profit:** The more they spend with you, the more opportunities you have to provide solutions to make their lives easier. However, higher revenue customers may not be the most profitable.
- **Geography:** Working with a few customers in one area makes ongoing face-to-face communications easier and more cost effective than dealing with customers all around the country.
- **Common requirements:** Replicating solutions without re-inventing internal processes removes a lot of the risk inherent in this approach.
- **Projected lifetime value:** The longer you believe your customer will "stick," the better the return on your investment.
- **Industry leaders:** Valued as a reference or case study.
- **Future sales potential:** Leverage your investment.
- **Fits into your strategic plans:** No explanation necessary.



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Step Two: Scope Out Potential Services and Acquire Capabilities

Based on your target segment and your in-depth interviews with “loyal” customers, you can identify potential services to offer. You are ready to prioritize these options and make a preliminary decision. Here are some discussion points:

- What is the potential of each service?
- Likelihood of success
- Market size
- Ease of implementation
- Projected ROI
- How does it fit with your overall business strategy?
- Alignment with internal capabilities
- Synergy with products and other services
- Little conflict with your culture
- Ease of motivating the sales force
- Can we successfully deliver on the promise?

Moving from a goods provider to a goods and services provider requires presenting a new value proposition for your customers. During this process, managers talk about their company’s ability to create customer value by:

- Assuming responsibility for the entire challenging task of developing, supporting or managing a complex business system
- Tailoring the service offering to meet each customer’s unique needs
- Enabling customers to concentrate on developing the competencies needed to successfully compete in their own line of business

To deliver on these promises you must make sure you have the right processes, people, infrastructure and alignment with customers’ needs. If you like the service but it needs additional capabilities, how will things fit? Does it fit with your existing business? Is it compatible with current pay rates, hourly versus salaried wages, ease of outsourcing and skill availability? You may be tempted to skip this step, but do so at your own risk!

Step Three: Commercialize the Initial Service

This step consists of two major processes:

Preparing marketing communications and pricing. Marketing and communications equals messaging. One common topic is branding, which is what you promise to do and how you will describe this promise. Questions to ask yourself include:

- Can you envision the outcome?
- What are the benefits to your customers to purchase this solution?
- Can you qualify the results in terms that resonate with your customer?
- How will you present the message on your corporate Web site?
- Do you use printed brochures? (You must prepare whatever works best for your organization. The same goes for contracts, acceptance documents and payment terms.)
- How will you utilize social networking and other direct communications (e.g., newsletters, blogs, etc.)

Pricing solutions is more art than science. Arriving at the correct price evolves from in-depth discussions with potential customers (“customer intimacy”). You should know enough about the value you provide so you can estimate both tangible and soft costs. The difficult part is quantifying the value of what you deliver, so be prepared to demonstrate an analysis of value by quantifying the following benefits:

- Revenue generated: The new service will help them increase the top line.
- Costs saved: How much could you reduce their expenses?
- Productivity increase: Will they be able to do more with the same or less?
- Time saved: Will they become more agile or flexible?

If you bundle existing services, determine the total value and discount before discussing pricing. Also, if you include other vendor’s products or services, add a management fee. Finally, include a reasonable profit, but don’t be greedy. Remember that you must make money, so know your costs. If you get into detailed price negotiations, then you did not sell the value.

Here are some pricing challenges you will face:

- Discounting: Prices must be based on customers’ received and perceived value, not costs and margin and not

competitor pricing. Since you are creating unique solutions, you do not have competitors. In case you feel uncertain about pricing, recall that surgeons don’t discount, and if they do, you should look for someone else.

- Transition from free to fee: Will you now charge for something that was free? How will you handle the transition?
- Internal obstacles to selling services: Your sales people (and others) may think that you are treating the customer unfairly (see Step 4 for more details).

Step Four: Prepare to Sell

You must ensure that your sales force is prepared to sell the new solutions packages. Some considerations are:

- Will they be selling to the same people they currently call on or will the decision makers be higher up in the organization?
- If selling higher, does your sales force know how to communicate near the top? Will they have to change their dress, use different communications strategies or attend training? What is your plan?
- Solutions require a consultative sell. Information must be shared, value communicated and trust and commitment demonstrated.
- Motivation
 - Get sales staff involved early in the internal process. They must have confidence that you can deliver on your promises so they don’t disappoint “their” customers.
 - Teach consultative selling to build customer trust. Listening, asking questions and making suggestions is different from quoting from a price list and discussing proven capabilities.
 - Selling solutions is also risky for a salesperson. Make it worthwhile with special incentives and bonuses, etc.
 - Provide focused training. Sales people must be confident to be successful and training helps them adapt to their new environment.

Step Five: Sell and Adapt

When you know what you want to sell, how to price it and how to deliver it,

contact your most likely customer and start selling. The initial efforts should use at least a two-member team. One person works with the customer while the other observes, provides feedback, helps if the primary person is struggling and provides general material and moral support.

Expect glitches in these initial efforts. Embrace problems and obstacles as they arise. Since you were up front with your customer about your limited experience with solutions, they likely will be supportive and try to assist you toward success. If they help, they should be rewarded. For example, 15 months while paying for 12, or some other incremental service at no cost for the first year.

After each encounter, it is critical to hold an in-depth review. Document what worked and what did not and share this with everyone who will be in the same position. Reserve judgment, objectively learn and teach and do not punish.

All of this takes a lot of work, but the benefits are significant: Survival, growth, new revenue streams, more loyal customers, happier employees and, most of all, new customers with new opportunities.

Summary from the Inside

Make sure everyone understands the coming changes and energize them with

recognition and inexpensive rewards. Make this process fun! Find ways to keep engaging your customers by assigning key accounts to senior executives who will ask the right questions and collect important information. Some basic questions to include are: What keeps you up at night? What is important to you? What does your company do that you wish someone else would? What can we do to help us both make money and gain a competitive advantage? At the management level, keep the doors open for debate and make sure all employees talk to each other and are keeping communication open. Remember, you lead by example. It is not what you say, but how you act it out.

Summary from the Customers' Perspective

Customers want value, of course, but what else? They want you to understand their business and help them derive greater value from their investment. They want problems simplified and want to see the return on their investments. They want to know of best practices and have you be their strategic partner and trusted advisor. By following these five important steps, you will be able to successfully provide your customers with the right solutions for their business.

After each encounter, it is critical to hold an in-depth review.

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