

The requirements for a SME heading to integrated solution sales

A work in progress paper

Pauliina Lehtimäki, Olavi Uusitalo, Marko Lehtimäki

Tampere University of Technology, Department of Industrial Management, Tampere, Finland

Abstract

For growing number of firms which have earlier relied on their product and manufacturing based approaches, the combinations of products, services, and for example software are becoming an essential part of their growth or survival strategies. These large and complicated packages are called integrated solutions. In this paper we discuss about the key elements which companies should consider when heading to offer greater added value to their customers with integrated solutions. Among the most important factors are the ability to manage and form provider networks, and increase the level of business understanding and value perception within own company. We inspect these elements with company level, evaluating what a single company should do? That is why we apply sales process approach as tool for analysis. Our interest is focused on the technology based SMEs; those companies hold the greatest potential if they succeed in shifting their focus as more customer-centric.

Based on our preliminary findings, we introduce a three-dimensional framework, in order to reveal the linkages between integrated solutions (Davies et al. 2006), understanding customer business (Technology Industries 2003, p. 20) and a network of suppliers (Ford et al. 1990, Håkansson and Johansson 1992, Håkansson and Snehota 1995). We focus on the challenges of technology based SMEs. On the one hand the challenges include the understanding of customer's business and value creation process, and on the other hand the product and service offering of the own company and the network partners.

Keywords Technology Industry, SME, sales, marketing, sales process, product sales, solution sales, value based sales

Introduction

According to recent business strategy literature firms should concentrate less on making stand-alone physical products, and more on delivering high-value services and customer-focused solutions (Cornet et al., 2000, Bennett et al., 2001; Galbraith, 2002). This is also the case for technology based SMEs. It seems that salesmen lacking competencies create a bottleneck for SMEs entering the new international markets and deepening their existing international customerships? Moreover, firms are working in marketing and sales according to Levitt (1960): Marketing is emphatic to the customer and intends to solve customers' problems while sales is heading to fulfil its own budgets.

Extending the offering is one of the developing trends in the future (Jalkala, A. & Cova, B. & Salle, R. & Salminen, R.T. 2009, p. 6). However, little has been written about the role of the supplier organizations, networks and the implications that their participation has on the customer's overall value perception (Brady et al. 2005). The aim of this paper is to contribute to this gap. We emphasise integrated solutions and technology based SMEs taking step toward a supplier of integrated solutions. Here the complexity of the offering sets several kinds of challenges for marketing (Davies et al. 2006) and in the case a SMEs to the sales activities.

ARA-model (activities, resources, actors) describes the network relationships (Ford et al. 1990, Håkansson and Johansson 1992, Håkansson and Snehota 1995). In the ARA-model, actors refer to the participating members of a network from individual to group levels. These actors carry out the value activities of the network and actors have different roles in network cooperation. These actors are intentionally developing their operations towards their goals through the network. In addition, actors have partial control over each other's resources through interlinked relationships.

THEORY

Evolution of integrated solutions

Manufacturing companies are rushing away from being only technology or product suppliers. Customers are expecting complete solutions to their problems, not only stand-alone products. Manufacturers are bundling their products together and adding for example software and services to their products, and the reason for this is clear; these packages create more value than the customers can create for themselves by buying only stand-alone products (Galbraith 2002, p. 194). In this paper we refer to integrated solutions, as we mean these complete packages consisting physical products, software, services and consultation.

The trends towards integrated solutions can be traced back to the 1980s when large infrastructure projects (power, water supply, transportation, telecom, etc) were planned (Brady, T., Davies, A., Gann, D., M., 2005). Same authors go on stating that during the 1990s IT equipment suppliers like IBM and Sun Microsystems responded to the customer needs and took the responsibility for supplying and installing integrated hardware and software systems, and also providing support throughout the product life cycle.

Manufacturing companies have traditionally based their businesses on effective production processes, manufacturing capital goods in a cost-efficient way. Later they found a profitable business in selling spare parts, and finally also support services, such as training and maintenance (Windahl, C., Andersson, P., Berggren, C., Nehler, C., 2004).

Increased competition and pressure for lower costs forces companies to offer more and more complex solutions, and as for example in project marketing the enlargement of the offering is one of the developing trends in the future (Jalkala, A. & Cova, B. & Salle, R. & Salminen, R.T. 2009, p. 6). This complexity makes the new solutions more difficult to install, build up and ramp-up. Sometimes the benefits of the new systems are also more difficult to perceive or understand to the customer. This all makes the interaction between the seller and buyer more and more important and more challenging.

Networks as resources

Following the guidelines of this paper and starting to provide complicated integrated solutions is a demanding task and it couldn't be implemented overnight. Traditional processes of a manufacturing company hardly support such challenges. Galbraith (2002) discusses about difficulties of delivering solutions and says that the challenge to the supplier is to create an organization that can deliver the solutions. He builds models for delivering solutions, but also concludes his analysis by saying that the company that desires to create and deliver solutions to its customers needs an organization that is a challenge to manage.

Powell (1990) analyzes the same challenges and proposes that the shift from traditional hierarchies to networks would be the answer. He finds many facts that back up his point of view, for example flexibility, quickness, possibility to small businesses to team up with giant companies, and access to latest innovations outside the single company boundaries. In this study, we rely on these findings and go on analyzing the networks as enablers for integrated solutions.

The network is a product of its history in terms of all memories, investments in relationships, knowledge, routines, etc. Since most partners must accept the changes within the network, the changes tend to marginal and closely related to the past. Stability and development are closely linked. Improvements in certain parts of the network need stability in others, and vice versa. Stable relationships can be crucial when one partner tries to change the use of certain resources. Actors in the network can act. Relationships can facilitate mobilization of large parts of the network when great changes are required. The network model suggests mechanisms where stability and change not only co-exist but are actually interdependent. (Håkansson and Johanson, 1992)

In this study we apply the idea of ARA-model (activities, resources, actors), which describes the network relationships (Ford et al. 1990, Håkansson and Johansson 1992, Håkansson and Snehota 1995). These networks may also be seen as communication system and in well structured networks all the actors should know what is happening. Through the ARA-linkages the network also takes into account the information from other networks. Thus, giving an individual actor an opportunity to know what happens in many technological areas.

Conclusion is that increasingly complicated integrated solutions need new organizational forms. Networks and networked organizations provide tools for these organizational challenges. In this study networks are the most important organization models, and the level of the networkedness between solutions providers is the key variable in our framework.

Sales process

Levitt (1960) discussed about the tasks of sales and marketing and highlighted the importance of solving customer's problems instead of just filling sales man's own budgets. Levitt's solution for companies struggling with fierce competition was to define their businesses more broadly, think about energy instead of just petroleum, as his famous example from oil business states. Today, Levitt's ideas are still up to date.

As development efforts within technology based SMEs are concerned, sales and marketing activities are not usually the most common subjects. Sales is sometimes understood as an automated process, like logistics or billing, which happens by itself without radical interruptions or needs for extra efforts. This study highlights more value-adding point of view to the new market acquisition. Special attention will be paid on the challenges of the SME-sector, for example as the firms are entering the new markets or deepening their existing customerships. As companies are heading to more sophisticated and demanding packages, meaning integrated solutions, they are facing new challenges. Galbraith (2002, p. 200) discusses about how to organize product-oriented companies towards more customer-centric, and highlights that large-scale solutions create a new demand for talent for account managers, customer decisions will be made at higher levels in buying organizations which requires more senior and more sophisticated account managers.

As we inspect the sales activities and evaluate the needs which integrated solutions mean to companies providing them, we suggest the process approach to sales. This approach has been illustrated by numerous authors, and it is easy to find a good number of sales process models. To mention a few, for example Futrell (1999, p. 212), Alanen, Mälkiä (2005, p. 15), Lahtinen, Isoviita (2001, p. 209), Rope (2002, p. 239) and Kotler (2003, p. 654) have build a models of their own. In this study we choose the Kotler's model with some modifications, meaning that the phases of preapproach and approach are combined, because they are quite close to each other, and Kotler's model with seven steps is quite complicated, other models have typically four or five steps.

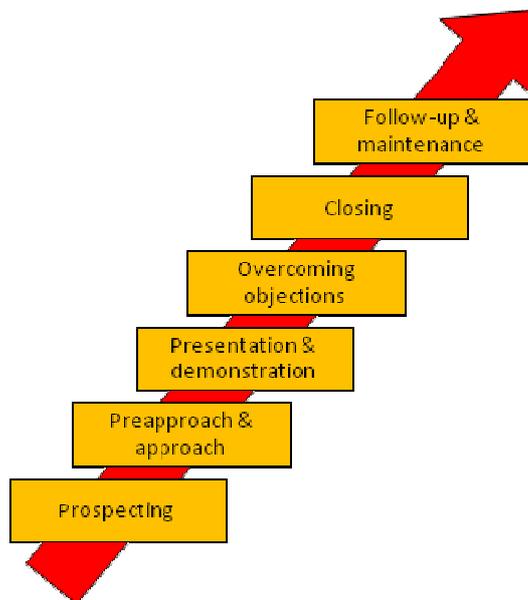
In the picture 1 our version of sales process is shown. Process begins with prospecting in order to recognise and indentify the best prospects. Prospects have to be qualified, meaning they have money, authority and desire to buy (Futrell, 1999, p. 213).

Preapproach is the action the salesperson must perform before contacting the potential customer. A carefully planned prospecting and preapproach will lead to a successful approach, which is the first step, where the sales actually meet the customer face to face. This is a first step of the sales process, which is also visible straight to the customer.

According to Kotler (2003, p. 655) there are three different styles of sales presentations such as the canned approach, formulated approach and need-satisfaction approach. If this classification is

considered, the most suitable approach to our purposes is need-satisfaction approach, which is based on customer's needs and desires on which sales builds the presentation.

Professional way of handling objections is also a part of the broader skills of negotiation (Kotler, 2003, p. 656). Logical resistance can be for example objections to delivery, price or the company characteristics. By using positive attitude and right questions a skilful salesperson can turn customers' objections into a reason for buying (Kotler 2003, p. 656). The well known fact of sales work is "All that matter is closing the deal". The highlight of the sales process is closing, and without a successful closing the whole sales process is a failure. The final step of the sales process is follow-up and maintenance, which is often called also the after sales phase. This phase includes all the actions towards the customer after the purchase is made.



Picture 1. Sales process based on Kotler's 2003 model.

The conclusion is that the sales process is our tool in this study for company-level inspection of the buyer-seller interaction in technology based SMEs. It gives the framework for evaluating the competencies of the provider companies and the network of them.

Business understanding

The foundations of successful marketing and sales of integrated solutions lay on deep understanding of how to create value for the customer and help the customer to achieve its goals (McDonald & Woodburn 2007, Ulaga & Chacour 2001). Within a company the sales emerge from the sale of physical products to the sale of integrated solutions via the services and know how (Kosonen, 1991).

Moreover, it is not enough to just to know the customer's current and explicit needs; the secret is in identifying also the hidden and future-oriented needs of the customer. This requires the understanding of value perception. Brady et al. (2005) state that integrated solutions providers add value by providing combinations of products and services that create unique benefits for each customer. They also say that becoming a solutions-focused means that providers have to understand how value is created through the eyes of the customer.

This understanding and ability to provide added-value is developed step-by-step, starting from understanding of how customer purchases. Operating at this level means that supplier organization has the traditional role of machine supplier. The following levels are understanding customer's operations, processes and finally understanding customer's business. This development of supplier competencies is described for example by Technology Industries (2003, p. 20).

This need for enhanced capabilities is also backed up by Windahl et al. (2004) as they conclude their own analysis by saying that companies need an extended set of competences to succeed in providing integrated solutions.

As a conclusion of the business understanding we propose it as a building block of our framework. As greater value is provided by increasingly complicated integrated solutions, the level of business understanding should rise.

CONCLUSIONS OF THE THEORETICAL PART

Based on the literature review, we introduce a three-dimensional framework, which consists of networkedness of actors (Ford et al. 1990, Håkansson and Johansson 1992, Håkansson and Snehota 1995), understanding and knowledge of the customer's business (Technology Industries (2003, p. 20) and complicated customer solutions, namely integrated solutions (Davies et al. 2006). Picture 2 describes the possibilities of technology based SME in achieving stronger position and higher margins. Business understanding is shown in x-axis, and the development steps of required competencies is described in detail in Technology Industries (2003, p. 20). It states the evolution of these competencies starts from understanding how customer purchases. Operating at this level means that supplier organization has the traditional role of machine supplier. The following levels

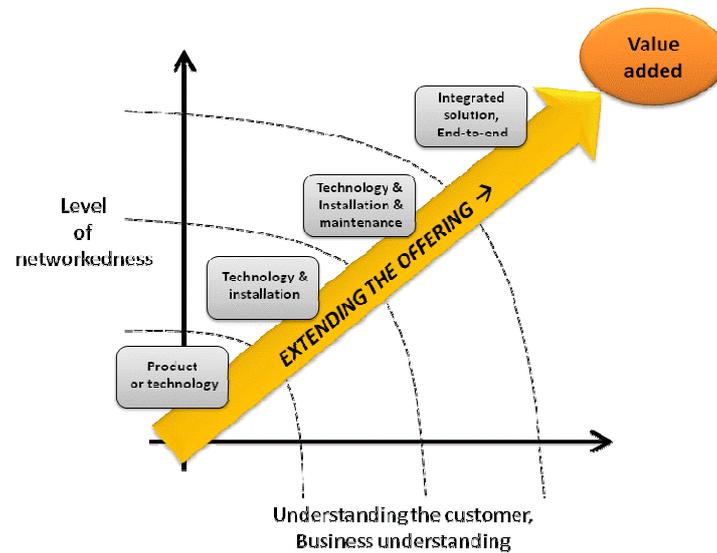
are understanding customer's operations, processes and finally understanding customer's business. The level of networkedness is shown by the y-axis.

The combination of networkedness and business understanding is concretized with the examples starting from the situation where the SME in question provides only physical products or supplies specific technology. In the next phase the installation of the product or machine, for example, is included in the package, and in the third level the company is seriously entering in the service business by providing the continuous maintenance and repairing services. From this point on, the customership and cooperation covers not only the sales and assembly, but also the whole life cycle of the machine, for example. The deeper understanding of the customer's business is needed here, what is the earning logic (Näsi & Neilimo 2006, p. 27-31) of the customer and what are the characteristics of the production process? Is it continuous, what is the price for stopped production and what are the accepted risks? In the fourth level company is establishing the position of the value provider dealing with integrated solutions. At this point company must change its whole business idea (Normann, 1975), and forget technologies or products (mobile phone, trucks, etc) and start to define ideas of communication or logistic solutions, for example. As company provides more added value to its customers and deals with wider solutions, its networking abilities become crucial asset in competition, and in some cases it must evaluate the networking possibilities with its competitors (Brandenburger & Nalebuff, 1998).

Formerly introduced ARA-model is important, because our interest is especially on the challenges of the technology based SMEs. Networking is the key strategy for these SMEs to widen their customer base (Ford et al. 1990, Håkansson and Johansson 1992, Håkansson and Snehota 1995), and in this study we evaluate the linkages between networkedness of companies and their ability to enter new markets.

Integrated solutions are described in detail for example by (Davies et al. 2006), here also interesting is that what are the implications for the company's other activities when it is shifting its position as a product supplier towards a position of the value supplier (Davies et al. 2006, p. 20). Our idea is that providing more complex solutions means wider business opportunities for the company, but it is also far more demanding, especially as far as sales activities are concerned.

The third element of our inspection is business understanding. The steps within deepening understanding is described by Technology Industries (2003, p. 20). The wider and more general approach to business understanding is provided by Näsi and Neilimo (2006), who build a bridge to strategic thinking and to the classic writings and ideas of Porter, Mintzberg, Chandler, Prahalad, and Hamel, for example.



Picture 2. Three dimensional framework for extending the offering in technology-based SMEs.

Methodology:

This study examines the processes of technology based SMEs as they are pursuing to the new markets and deepening their customerships. The key issue in this development is to be able to provide integrated solutions which also means higher added value. As explained earlier with picture 2, the critical elements in this process are increased business-end understanding and ability to operate in networks.

The goal is to increase understanding related to the challenges occurring as more and more complex solutions are offered to customers in order to provide comprehensive solutions and services to their needs. Literature review is the starting point of the study. The method of this particular study is case analysis, which is preferred strategy when “how” or “why” questions will be asked as well as when the researcher has only little control over events and the focus of phenomenon is within some real-life context (Pettigrew 1990, p. 268).

The ingredients to the presented three-dimensional framework are collected when working in the real-life business world with entrepreneurs developing their businesses and personal competencies. Important source of knowledge and information in this study is authors’ experiences in consultation, teaching, research, lecturing and business development. Pauliina Lehtimäki has worked with research and education of sales and sales management from 2006, operating with mostly SMEs and their challenges for developing competencies for example. The important source for data is also an analysis of the expectations for sales activities, which was conducted by Pauliina Lehtimäki. It consists data from 111 companies’ sales development projects, collected during 2001-2008.

Marko Lehtimäki has consulted sales and sales management during 2005-2009, managing customers from industry, telecom and ICT. Olavi Uusitalo has held the position of professor of marketing from 2001 at Tampere University of Technology.

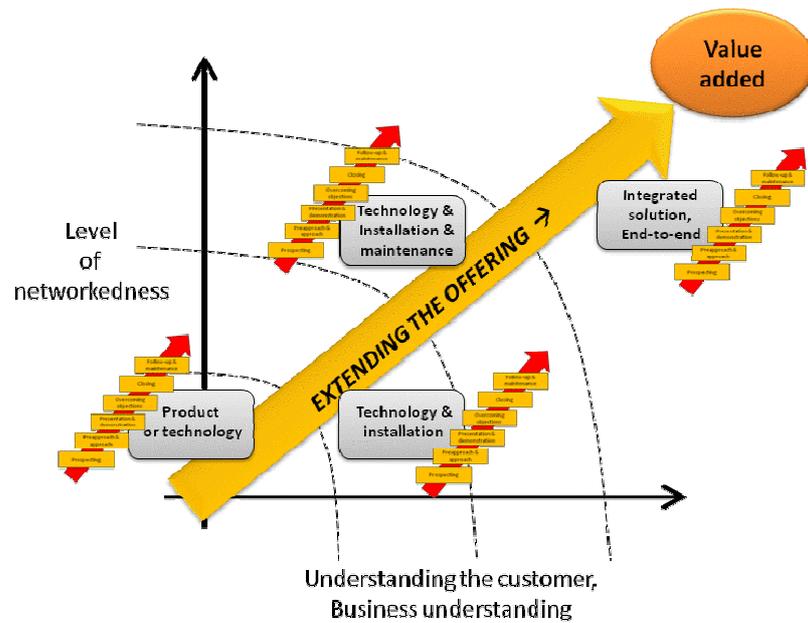
The product of this knowledge is the framework which is shown and explained as picture 2. It displays the key elements which companies have to take into consideration as they enter the fierce competition of today's market. In the theoretical part of this paper the literature review was done in order to find theoretical background for the presented framework. In this study we propose that this framework should be put under an extensive test, in order to evaluate its general applicability.

This testing means applying also the principles of action research to this study. The presented model should be used in real life context, and techniques of data gathering and analysis will be put into practice. Guiding lines to this work are presented for example by Reason (1994, p. 328) who evaluate the principles of participative inquiry, and underline that the lived experience of people is the starting point of inquiry, and "through the actual experience of something we may intuitively apprehend its essence". Here this means that the lived life and work done with businesses and businessmen has brought some ideas, namely picture 2, and in this study these ideas will be further tested and evaluated. For these purposes a case company will be suggested. This company should be a technology based SME, seeking opportunities to expand its businesses by widening its market areas or supplied solutions.

RESULTS

As a result of this paper we propose a solution which is a combination (pic. 3) of presented framework (pic. 2) and our illustration of the sales process (pic. 1). Our basic framework shows the key elements which should be considered as companies are heading to more customer-centric approaches by providing integrated solutions, these elements are the level networkedness and the ability to understand the customer and especially customer's business and value perception.

Our approach is now in the company-level, what the companies should do in order to succeed with integrated solutions, what are the needs for strategy, structure, processes, rewards, and people (Galbraith 2002)? If we are about to find answers what are the key elements when companies are taking steps (Teknologiatoollisuus 2003) towards greater added value, we must have analyzing tools for company-level inspection. As earlier stated, sales process is a way of inspecting company and its activities as it operates with customers. That is why we combine our earlier frameworks in picture 3, and deepen our analysis of integrated solutions providers in their different development phases.



Picture 3. The combination of frameworks.

We also suggest that further research should be done with this new framework, and for example following questions should be answered; What are the characteristics for the company only providing plain products what are the most important bottlenecks for its development? As the level of networkedness increases, what are the critical points in the sales process? What are the changes in the sales process as the level of business understanding rises in the companies? And finally, if we compare a company providing state-of-the-art integrated solutions and company providing stand-alone products, what are the main differences between them?

What kind of development path and guidelines we can provide for a technology based SME which want to become as a provider of integrated solutions? In order to answer these questions we will apply our framework to case companies.

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