ROI Strategy

How to convince the customer that he needs your solution.

Situation

- With the current slowdown in the economy today, prospective business customers are curtailing their spending plans and increasingly scrutinizing all expenditures, especially new ones.
- Prospective customers are demanding a growing level of financial rigor from vendors - asking for proof that the product or service offering is an overwhelmingly compelling financial opportunity.
- This is not the perfunctory value-added, increase revenue, reduce expenses, yadda-yadda dance that we all have been through - these customers are serious.
- This is a demanding environment for all vendors, but especially so for those with new and innovative offerings, like most start-ups, where there is no established track record of success to justify the cost.
- This is not a new obstacle for vendors, but the convergence of the constraints of the economic slowdown, the pace of technological evolution and innovation, and the complexities of the new economy is making this now both a daunting challenge and a significant opportunity.

Approach

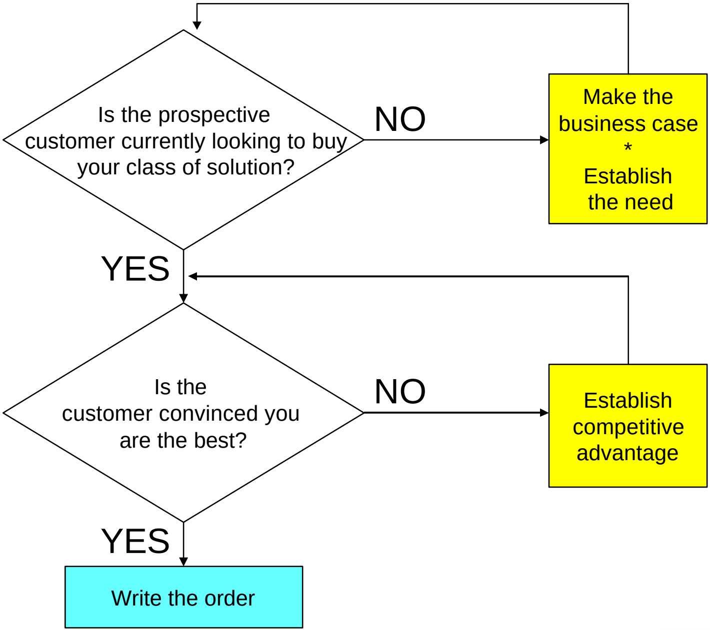
- The issue at hand is how to convince the prospective customer that their business will be better off after having purchased your *solution* than before; that is, *create the need* for your solution. Let us also agree that if you are successful in this first endeavor, the prospective customer will spare no effort in shopping for every possible alternative source for this type of solution, comparing them to yours, and ultimately buying what they consider to be **their** best solution.

- This is clearly two steps - creating the need or justifying the solution and competing for the deal. Although these are two very different evaluations done by the prospective customer, everything you do in the first will influence your ability to succeed in the second (as always, if you have no competition, the second step is meaningless AND I have a bridge to sell you......). Therefore, the challenge is to successfully create the need while optimizing the environment for the competitive battle. See page 4.

- The KappaEast approach to developing an effective ***ROI Strategy*** consists of three phases:
  - **I - Building the business case**: how to understand and satisfy the criteria for justifying a financial outlay - how to convince the customer that this is worth doing. See page 5.
  - **II - Creating the winning playing field**: using the competitive strategy to tune the ROI strategy toward establishing a favorable positioning for competitive advantage.
  - **III - Providing the weapons**: highlighting the critical tactics for effective selling execution.

- The work involved in carrying out the above three phases is highly dependent on the vendor products/services and the expected scope of customer decision processes. Following are broadly applicable Guiding Principles spanning the three phases. See page 6.

Where are we?


Is the prospective customer currently looking to buy your class of solution?
NO
Make the business case
*
Establish the need
YES
Is the customer convinced you are the best?
NO
Establish competitive advantage
YES
Write the order

Make the business case - establish the need

The customer perspective on whether to shop for this class of solution:

I am not aware that this class of solution will improve my business, at least to the extent that would justify the time and expense of implementing it - prove it (through any/all the following means):

- ## Financial analysis impact
  - Most rigorous, theoretically correct approach, typically a standardized cash flow methodology.
  - Decision criteria of payback, NPV, IRR not well understood, usually mean involvement of financial analyst types.
  - Requires significant effort in debating/negotiating assumptions on analysis parameters, operational impact, then conversion into financial costs and benefits.
  - Never provides basis for any future follow-up to verify initial claims.
- ## Financial reporting impact
  - A more practical approach reflecting the requirement that the proposed solution improve the reported financial results of a specific business entity.
  - Decision criteria of earnings, operating income, budget, etc. are specific to the business entity responsible for the purchase of the solution and the overall corporate environment.
  - As with the above, significant effort is involved in establishing costs and benefits but the process is more accounting driven and specific reporting rules must be adhered to.
  - Usually provides a means of verification, depending on the impact of other changes.
- ## Operational impact
  - A phase of analysis that precedes the above two and that may be sufficient to establish the need, especially if the organization is already experiencing problems in the areas impacted by the solution.
  - Decision criteria of productivity, quality, response time, etc. involve debating/negotiating assumptions around the impact of the solution and usually some form of substantiation.
  - References, 3rd party expert analysis, white papers all enter the process at this point as sources of verification for the claims of operational impact.
  - Operational metrics may evolve at this stage and persist through vendor selection and the establishment of performance parameters for the selected vendor.

Guiding Principles

- As with any selling situation, and this is a selling situation, the first step is to understand the customer's requirements - how must you convince the customer that making this expenditure is worthwhile? See the previous page.

- The above may be part of a formal internal process that the buying team must satisfy to obtain approval/funding for the expenditure or it may be a more arbitrary hurdle created by the buying team themselves. In the former you may get more cooperation from the buying team in trying to sell the expenditure through what should be a clearly defined process. In the latter, the process may be more varying, ill-defined and at times, arbitrary. In any case, you must endeavor to understand the criteria and the process.

- Many vendors invest far to much time and money constructing *the definitive analysis* for their offering and therefore set themselves up to spend an additional inordinate amount of selling resources attempting to sell the analysis to the prospective customer, with little hope of success. These vendors miss the point. The point is to have the customer buy-in to an analysis - any analysis - that satisfies their criteria. And, buy-in comes from participation. So, the customer must be engaged in a process of analysis/discovery, arriving at an answer that they are committed to AND that meets their criteria - the right answer.

- The critical preparation is the creation of an analysis framework, including all the salient components of costs and benefits and their relationships to the decision criteria. The purpose of the framework is to enable the sales team to promote and manage the engagement of the customer in the analysis process, always in pursuit of the right answer. The framework provides quick feedback about what mix of cost/benefit assumptions yield a right answer and what mix will not, always keeping the sales team ahead of the customer in the analysis/discovery process.

- Key to achieving the customer engagement is the development of *ROI teasers* in the following categories. Again, the goal is not agreement but engagement:
  - Reference statistics - a sample of significant financial results achieved with previous customers.
  - Hypotheticals - a sample of "fact-based" hypothetical financial results potentially available to a customer.