



STREAMLINING PROCESSES OF THE SOLUTION PROVIDER

ENHANCING CONTRACT LIFE CYCLES
TO IMPROVE CUSTOMER SATISFACTION

In some companies, life-cycle economics are also highly relevant. Sales cycles are brief, but aftermarket sales and service cycles may be very long and thus offer opportunities for 10 or more years of recurring revenue.



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EXECUTIVE SUMMARY

MAKING THE TRANSITION TO A SOLUTION-CENTRIC BUSINESS MODEL

Companies in high technology, industrial machinery, and other manufacturing and distribution industries are often highly subject to profit-eroding forces such as commoditization. These firms, recognizing that they can create value by providing a combination of products and services designed to solve customer problems, are transitioning from a product- to a solution-centric business model. Through this shift in focus, they are expanding target markets, differentiating their offerings, stabilizing their own revenue streams, and accelerating profitable growth.

While there are many challenges to executing the solution provider model, from organizational issues to meeting accounting requirements, companies can put in place best practices to enhance their chances for success. These best practices include finding the right balance of products and services to meet market needs and aligning activities across sales, service, and marketing. Further, they involve establishing advanced contract management processes, which encompass the full contract life cycle covering contract offering, execution, and maintenance.

By pursuing best practices – in particular, by streamlining advanced contract management processes with an appropriate enabling software application – solution providers can improve crucial business metrics such as perfect-order rates and adherence to service-level agreements (SLAs). This can substantially increase their opportunities for long-term success.

Offering complete solutions can often deliver significantly higher profit margins than the original products.

BENEFITS OF THE SOLUTION PROVIDER MODEL

BLENDING PRODUCT AND SERVICE DELIVERY

By creatively combining products and services, solution providers can clearly differentiate their offerings relative to competitors.



Many manufacturing and distribution firms that are dependent on technology innovations are highly subject to forces such as commoditization that erode margin and market share. Executives of these companies often believe that they must determine whether their business model should focus on product sales or service delivery.

In these companies – including those in high tech, telecommunications, industrial machinery and components, and consumer products – it's made sense to focus on products, since profit margins can benefit from economies of scale and automation. The product-focused company is not burdened with providing labor-intensive and customized services, especially if it has achieved a high degree of product standardization. Instead, the company can concentrate on selecting the right set of product

attributes, managing the product life cycle, developing efficient mass production, and driving down costs.

But these firms are recognizing that blending services with product offerings can provide significant benefits to the bottom line. This is particularly true if the more comprehensive offering is presented as a solution to customers' business problems. In many of these technology-focused industries, products are already customized to meet customers' specific business process or integration needs – and the products must be augmented with maintenance, technical support, training, and other services. By packaging their various offerings to meet identified needs and marketing them as such, companies can shift away from a pure product focus. Offering complete solutions can

often deliver significantly higher profit margins than the original products.

And business customers do want solutions. These customers will purchase products or services, but what they are really hoping is to address the issues they face. For example, a company selling temperature-sensing instrumentation to support manufacturing processes might determine that what customers really want is production-line reliability – and the supplier shifts to offering monitoring solutions that support high uptime.

By considering the range of options when creating new offerings – including procured products, embedded software, maintenance contracts, financing services, and so forth – companies can meet customer needs in ways that go well beyond delivering a stream of finished goods and spare parts.

Sustaining Value Delivery to Achieve Profitable Growth

The companies most likely to prevail in the long term are those that focus on delivering value-adding solutions to their customers, because they are meeting underlying demand and developing an understanding of real needs. And while a company may profit handsomely by developing a software or semiconductor product that sells millions of versions in a standard form, that product will inevitably mature.

Commoditization may then motivate the company to achieve differentiation, pricing power, and growth by tailoring the product and coupling it with services to offer a complete, value-driven business solution for its customers. This way, the company's revenue streams will stabilize and become more secure – and profitable growth will not be highly subject to the vicissitudes of the economy or dependent on product demand alone.

By creatively combining products and services, solution providers can clearly differentiate their offerings relative to competitors. For example, a company might offer customers different ways to consume their products and services – like a traditional auto-rental provider that offers cars by the hour. Some companies offer financing options that lower the initial cash outlay, and depending on the industry, that can be a differentiator. Another option is to develop a stellar delivery ecosystem that raises barriers to competitors' entry – for example, by achieving on-time delivery performance that can't be easily replicated. In fact, since 1995, many large firms in the computer industry have increased their percentages of revenue from services by upward of 20 percentage points. This shift has been based on a recognition that processing, data storage, and networking products were maturing, and that combined offerings of products and service would help secure long-term, profitable growth.



THE ROAD TO BECOMING A SOLUTION PROVIDER

KNOWING YOUR BUSINESS, ADDRESSING ORGANIZATIONAL CHALLENGES

Key Attributes: Customer Insight, Partner Relationships

While companies delivering value through technical innovation are usually well positioned to adopt the solution provider model, other characteristics can have an impact as well. For example, a company with good insight into how customers use its products – and that tailors products and services to support end users – is in a strong position to become a solution provider. Thanks to its deep knowledge of its customer base, the company can craft new business solutions that add unique value relative to competitive offerings.

Moreover, when there is little or no standardization in the target market with respect to pricing, packaging, and features, the company has the freedom to develop tailored solutions. In rapidly changing PC markets, for example, the firm is in an even stronger position to provide business solutions that earn high margins and have strong customer appeal.

Leveraging a partner ecosystem for product and service delivery is also a good way to become a solution provider. For example, a manufacturer of climate

control systems can quickly scale deployment of tailored solutions by collaborating with its partners, which have additional insights into customer needs at the local level. The manufacturer can make use of the partners' networks for efficient and effective distribution. And partners can help answer localized needs for humidity control, for example, or an energy-efficient means of dealing with temperature fluctuations. Furthermore, it is much harder for competitors to copy a strong partner network than it is to copy products.

Challenges of Becoming a Solution Provider

Though the benefits may be clear, the journey to becoming a solution provider may not be easy. First, you may face organizational barriers that inhibit the necessary alignment among sales, service, marketing, manufacturing, and other groups with a stake in the status quo – and with different ways to measure performance. Managers may argue that fixed costs will rise unacceptably or that the benefits of standardization will be sacrificed. Sales staffers may express concern that they're not accustomed to selling tailored services with the products that they promote.

Keys to success include establishing advanced contract management processes and coordinating activities across sales, service, and marketing.

Another challenge encompasses revenue recognition. Companies accustomed to large cash inflows from product sales will have to exercise patience. Ongoing solution sales – while offering a stable revenue stream – do not typically offer the up-front revenue boosts that product sales provide.

Given these challenges, developing a business plan that demonstrates superior value to be attained over the long run is central to the concept. A well-considered plan can help you secure the broad organizational buy-in necessary for success.

BEST PRACTICES FOR SOLUTION PROVIDERS

ACHIEVING BALANCE AND ALIGNMENT

Achieving the right balance between products and services is a cornerstone. Shifting too far in one direction or the other can hurt revenue streams and profitability – while an appropriate blend can build long-term durability into business models.

Another key is thinking differently. Traditional manufacturing businesses focus on economies of scale, but in some companies, life-cycle economics are also highly relevant. Sales cycles are brief, but aftermarket sales and service cycles may be very long and thus offer opportunities for 10 or more years of recurring revenue. Economies of scope also become important when

services come into play. Specifically, you should determine how to leverage knowledge and relationships when identifying services to offer, since training, testing, design, and maintenance tend to be labor intensive. Other keys to success include establishing advanced contract management processes and coordinating activities across sales, service, and marketing.

Establish and Enable Advanced Contract Management Processes

Once you have made the decision to adopt the solution provider model, your company will need to establish business processes that ensure efficient and

effective delivery. An advanced contract management process will enable you to combine physical, financial, and service products into a single, configurable solution offering. This process – encompassing contract offering, execution, and maintenance – consists of the following high-level stages (see Figure 1):

- Solution composition – The offer is prepared, including payment terms and the contract validity period, encompassing hardware, software, services, and financing, for example.
- Solution split – Multiple business documents are prepared, such as those covering sales order fulfillment, the usage-based service contract, warranty agreements, and rental contracts.

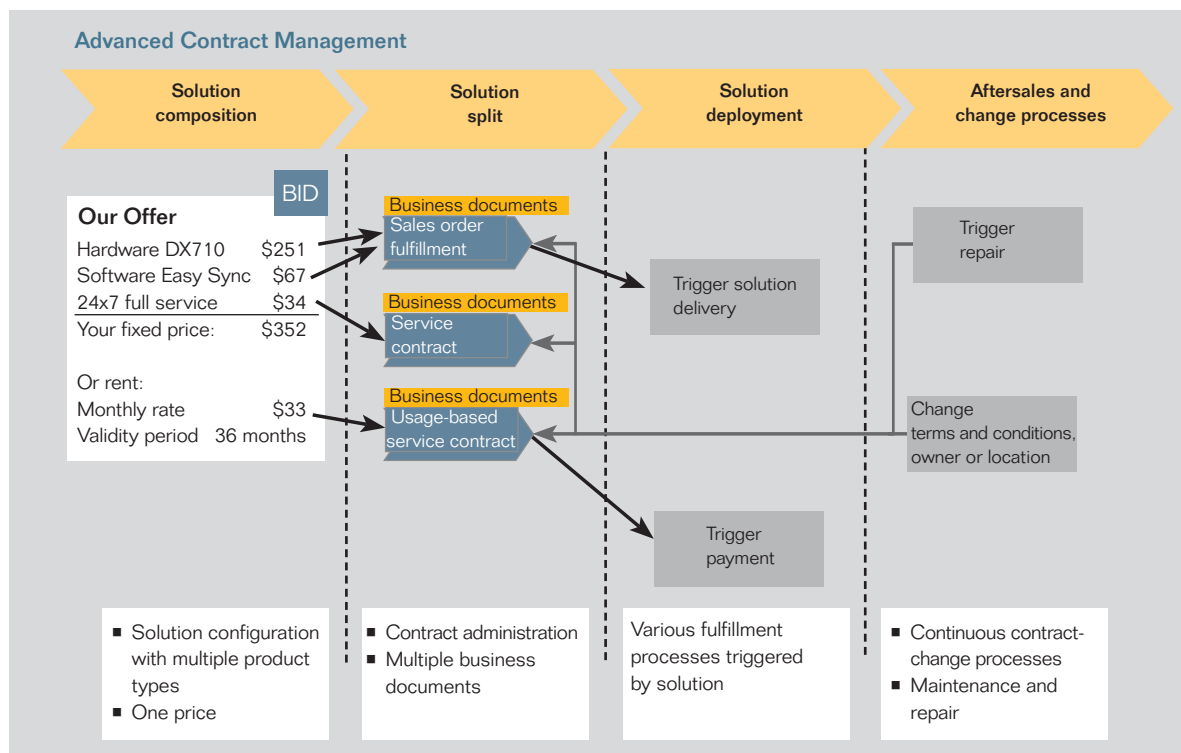


Figure 1: Contract Management Along the Solution Life Cycle

- Solution deployment – Various fulfillment processes are initiated, such as shipment, service technician scheduling, meter readings, and invoicing.
- Aftersales and change processes – Continuous postsales and contract change processes are executed, including maintenance, repair, and alterations in terms and conditions, as well as contract change-related billing.

As with any business process implementation, you should define measurable targets – aligned with business strategy – and monitor them over time. The rates for achieving perfect orders – encompassing error-free order entry, shipment, invoicing, and so forth – are a valuable metric, for example, and perfect-order rates depend on streamlined fulfillment and billing processes. Also, note that about 80% of solution provider orders involve significant changes before they are fulfilled, so it's important to refine the order change process to sustain high perfect-order rates.

You can build measurable performance targets into the solution as an additional component of the offering. For example, your company can establish SLAs, providing metrics that guarantee uptime and quality of the solution provided.

Leveraging Networks

Logistics and information networks are important considerations as you establish contract management processes. In many cases, a solution provider will choose to outsource these networks, which may encompass inbound and outbound logistics, scheduling and consolidation services, and Internet-based product information access and transaction processing. You might also deploy Web 2.0 services to enable community development and collaboration for members of the network.

For open, outsourced networks (those available to any company), the benefit for the solution provider is that the network has been well tested and the costs are known. On the other hand, the company may choose an internal or otherwise closed and proprietary network, which excludes competitors and allows more control over operations by the solution provider. It's more likely that a closed network – because of its uniqueness in the market – will confer a competitive advantage to the solution provider.

Coordinate Activities Across Sales, Service, and Marketing

As these advanced contract management processes are established, it's beneficial to align activities across sales, service, and marketing. It's important to achieve 360-degree visibility into customer interactions across these channels. In particular, every interaction

across sales and service should be leveraged as an opportunity to sell solutions. You need to support cross-sell, up-sell, and other sales approaches with the right business processes, software, and marketing campaigns, and have visibility across interaction channels. You should also develop deep insights into how your customers use your products – even if they're handled through partners – to leverage these insights across channels.

Sound pricing policies are crucial to consider as your contract management processes are put in place. Well-crafted policies will be mindful of the alignment of sales, service, and marketing, since the stakeholders will have had a voice in developing and maintaining pricing rules. It's important to keep the policies simple; they should enable customers to understand the solution adoption cost (total cost of ownership) and build their own internal business cases. Policies should be straightforward to implement and allow you to easily monitor planned versus actual costs. Importantly, the policies should enable competitive pricing strategies and position your firm to achieve profitable growth over the long run.

Logistics and information networks are important considerations as you establish contract management processes.

AN INTEGRATED APPROACH YIELDS SUPERIOR PERFORMANCE

CONTRIBUTING TO A 360-DEGREE VIEW OF CUSTOMER INTERACTIONS

Of course, the contract management process does not exist in isolation; it must integrate with business planning, sales, accounting, manufacturing, marketing, and many other internal decision-making and execution processes. Data derived from contract transactions should be integrated with other company data to build databases for evaluations covering a range of issues, from solution pricing to customer service. Moreover, third parties often collaborate with the solution provider, necessitating process and data integration that extends well beyond company boundaries.

To achieve superior performance, you need business software supporting your core contract processes that facilitates process integration. For example, integrating contract processes with financial solutions will streamline invoicing and financial cycles, enabling a more efficient end-to-end order-to-cash process and helping ensure compliance with legal regulations such as the Sarbanes-Oxley Act. Integrating contract processes with marketing information will contribute to a 360-degree view of the customer and allow you to fine-tune marketing campaigns. Links to supply chain applications are highly valuable, providing information (such as available-and capable-to-promise dates) when fulfillment depends on physical distribution of goods.

In addition, the solution should handle the high-level stages discussed above according to the specific processes

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established for your business and appropriate for your industry. The solution should enable you to scale interactions from your smallest to your largest customer, ensuring that you sustain your brand reputation and can continue to serve customers well as their businesses grow.

Support for Advanced Contract Management from SAP® CRM

The SAP® Customer Relationship Management (SAP CRM) application supports advanced contract management processes including contract offering, execution, and maintenance throughout the full life cycle of a contract. The solution supports standard service contracts as well as enhanced functionality for service provision, including quantity-value contracts, usage-based service contracts, and time-phased service contracts. The solution also provides functionality to support:

- Master contract features encompassing contract templates and mass change operations
- Package pricing, including enhanced package quotation functionality and follow-up document creation

- Automation of contract processing and activation, ensuring preservation of and access to key information (such as contract start date) for all relevant processes
- Third-party integration, providing interfaces for data exchange with remote service vendors – particularly valuable for monitoring critical devices such as medical equipment

SAP CRM is integrated with the full array of SAP solutions covering enterprise resource planning, supply chain management, supplier relationship management, and more. Thus, SAP CRM contract management functionality can support complete end-to-end customer-facing processes including those involving value-added services.

Find Out More

To find out how SAP can help your company enhance the contract life cycle to improve customer satisfaction, call your SAP representative today or visit us on the Web at www.sap.com/crm.

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