IBM's Route to Market Strategy

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Introduction

This case study examines how IBM formulated and implemented a strategy for Routes to Market that was based upon observation of clients' buying behaviours and aligned with their economic value as customers. The case describes how IBM identified seven preferred RTMs and assigned them to individual transactions; and how it developed a common terminology, sales management system and metrics across its product range and geographical operations to put the RTM strategy into practice. It looks at how the new strategy was introduced within IBM, and the effect that this had in terms of redeployment of investment and resources, as well as the result in terms of sales. Finally, the case illustrates how, in adopting its RTM Simplification Strategy, IBM shifted from a product-centric to a more customer-centric approach to the market.

The case study is based on the following:
• a presentation by Kevin Bishop, IBM's UK Director of Marketing at the time, and now VP IBM.Com for NE Europe and subsequent conversations
• a series of conceptual diagrams encapsulating the processes that drive the RTM strategy.
• a glossary of definitions and common terms used by IBM's marketing and sales teams.

Background

IBM's involvement with third party distribution channels began in the 1970s, when it started working with applications providers, accrediting them as agents when they introduced new clients. During the 1980s the advent of personal computing saw it work with resellers and independent software vendors (ISVs) for the first time, and in the 1990s, it began experimenting with a wide range of channels as the technology became simpler to use and more and more people wanted to use it.

The 1990s was a time of booming sales for technology companies, and IBM was no exception. At this time, it had reinvented itself as a conglomerate of many small high-growth businesses of 50 people or so, all trying to be best in their respective niche. Each of these product-based businesses had its own set of competitors; and each had built its own channels to serve the specific needs of its customers. What's more, there was little in the way of common definition, systems or processes to establish the cost effectiveness of individual channels; the proliferation of routes to market was chaotic and involved significant duplication.

The dot com crash and economic slowdown in 2001 signalled a sea change in technology-related markets. Kevin Bishop, who at the time was director of distribution channels for IBM in the UK, Netherlands, Ireland and South Africa puts it thus:

> "The market shifted. Clients were no longer interested in technology for technology's sake. Instead, they asked: "where's the benefit?" So it was time for us to re-evaluate our entire company structure, our whole way of working."

New business models had changed the way that people were buying technology. At one end of the market, companies like Dell were selling direct to customers, competing keenly on price through its lean supply chain. But the more important innovation was the information Dell provided its customers, enabling them to work out their own configuration and ultimately driving customer satisfaction. At the other end of the spectrum, consultancy firms like Accenture were effectively seizing a slice of the high-level market through focusing on business outcome rather than technology. These new models had influenced customers' expectations; doing business the old way was no longer an option.

From selling to marketing

IBM's focus had hitherto been on selling, and its channels had been the vehicle through which sales were delivered. But now it paused to consider the abrupt change in buying behaviour and how it should respond. In 2002, three questions were posed:

• what had happened to cause changes in buying behaviour?
• where were those changes in behaviour?
• how could a multi-channel strategy respond to that?

At the same time, the role of the Marketing function within the organisation came under scrutiny. Three new objectives were established:
• the company should be driven by clients and markets and not by technology;
• Marketing should be judged on the success of the business, and not just be about advertising and communications;
• Marketing should lead the transition to a more organised, client-focused and segmented channel system.

It was also recognised that delivery channels must be inherent to the strategic choices IBM would make about product offerings; and that the company needed to design more than marketing campaigns: it needed programmes that were as much about educating the sales force and deployment of channel resources as they were about communications. The technology downturn meant that a new channel strategy would also be expected to reduce costs.

Same firm, different modes

In analysing buying behaviours, IBM made a key insight: that the same company, even the same individual buyer, could behave in different ways when buying different products. When buying PCs for desktops, for example, their choice would be largely driven by product comparison; but when making a purchase that entailed organisational change their motivation would be more around successful outcome. What this meant was that a simple segmentation around customer size was not sufficient to form the basis of an effective channel strategy.

IBM's "nine cell blanket" (see Figure 1) codified the array of possibilities. On the vertical axis, clients are segmented according to their value; on the horizontal, three behavioural modes are presented: Commoditized and Simple Transactions; Technology Platform & Related Services Decisions; and Integrated Solution Consulting Engagements. A simple transaction could be buying additional desktop PCs or mainframe storage: in either case the buyer is expected to be familiar with the product. The second type of transactions are typically those carried out by technology experts, for example network security products. And the third category tend to be complex business changes, for example process re-engineering or applications hosting, in which the buyer groups would include both experts and non-experts.

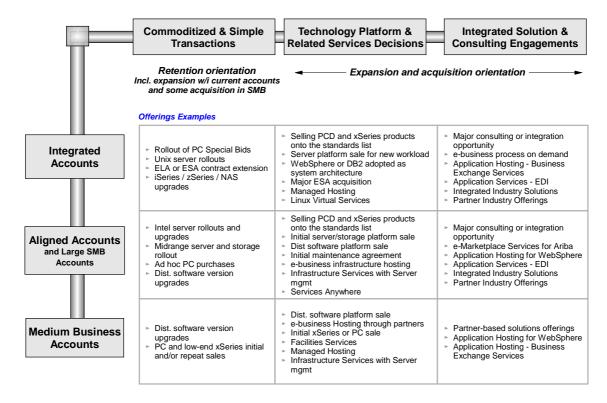Specific transactions were then mapped directly onto this chart.

	Commoditized & Simple Transactions	Technology Platform & Related Services Decisions	Integrated Solution & Consulting Engagements

Retention orientation
Incl. expansion w/i current accounts and some acquisition in SMB

← *Expansion and acquisition orientation* →

Offerings Examples

	Commoditized & Simple Transactions	Technology Platform & Related Services Decisions	Integrated Solution & Consulting Engagements
Integrated Accounts	▸ Rollout of PC Special Bids ▸ Unix server rollouts ▸ ELA or ESA contract extension ▸ iSeries / zSeries / NAS upgrades	▸ Selling PCD and xSeries products onto the standards list ▸ Server platform sale for new workload ▸ WebSphere or DB2 adopted as system architecture ▸ Major ESA acquisition ▸ Managed Hosting ▸ Linux Virtual Services	▸ Major consulting or integration opportunity ▸ e-business process on demand ▸ Application Hosting - Business Exchange Services ▸ Application Services - EDI ▸ Integrated Industry Solutions ▸ Partner Industry Offerings
Aligned Accounts and Large SMB Accounts	▸ Intel server rollouts and upgrades ▸ Midrange server and storage rollout ▸ Ad hoc PC purchases ▸ Dist. software version upgrades	▸ Selling PCD and xSeries products onto the standards list ▸ Initial server/storage platform sale ▸ Dist software platform sale ▸ Initial maintenance agreement ▸ e-business infrastructure hosting ▸ Infrastructure Services with Server mgmt ▸ Services Anywhere	▸ Major consulting or integration opportunity ▸ e-Marketplace Services for Ariba ▸ Application Hosting for WebSphere ▸ Application Services - EDI ▸ Integrated Industry Solutions ▸ Partner Industry Offerings
Medium Business Accounts	▸ Dist. software version upgrades ▸ PC and low-end xSeries initial and/or repeat sales	▸ Dist. software platform sale ▸ e-business Hosting through partners ▸ Initial xSeries or PC sale ▸ Facilities Services ▸ Managed Hosting ▸ Infrastructure Services with Server mgmt	▸ Partner-based solutions offerings ▸ Application Hosting for WebSphere ▸ Application Hosting - Business Exchange Services

Figure 1: The 'nine cell blanket' covering the breadth of IBM's portfolio

Seven paths

With so many different product and service offerings, and a long list of distributors, internal client and support teams, telesales and web-based channels, the potential number of combinations and permutations in which these could be assembled for individual transactions was potentially almost limitless. What IBM did next was to identify seven 'preferred routes to market' which could between them cater for its entire range of products and transaction types; and to map these onto the matrix of transaction types. See Figure 2.

The routes to market (RTMs) are labelled with the name of a channel, but importantly these represent the 'leading channel', not the sole channel involved in the route, as a number of internal and third party units may work together on the customer relationship. Route 1, which addresses the most complex engagements, is led by Global Services, now renamed Business Consulting Services, IBM's consulting arm which includes the former Price Waterhouse Coopers consultants. At the other end of the spectrum, simple sales are directed to the Direct Teleweb route to market (numbered 7), even for major accounts. IBM's field sales force still has a vital role for large technology projects, as shown by route 5. The other routes are led by different categories of intermediary – independent software vendors, systems integrators and solution providers.
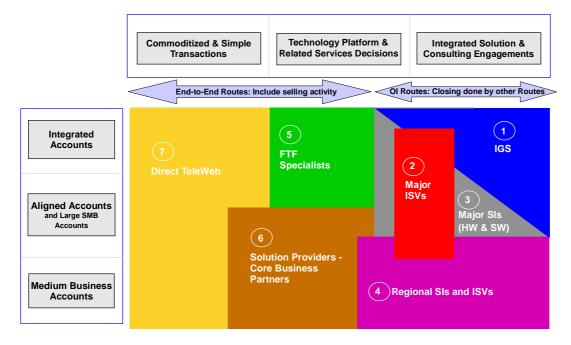

Figure 2: The route to market coverage map

The process of mapping preferred channels onto the array of transactions involved two main considerations. The first was to examine IBM's client set to analyse the profitability of each client and the cost of servicing that client. This was achieved through a global account management project, which enabled IBM to make decisions about allocating resources such as direct client teams or telephone teams. In tandem with this exercise, IBM carried out benchmarking of successful multi-channel models, both internally and externally, looking at companies such as Dell and Hewlett-Packard.

The second consideration was to look at the capabilities of different channels, and particularly how these were changing, and to take a judgment – with the help of research – on which channels were likely to prove more relevant and valuable in future. For example, the trend towards buying business solutions rather than technology products was anticipated to create a more important role for software integrators.

Consideration of IBM's future positioning also played a part in this process, as the company was moving towards revenues increasingly dominated by providing services.

Although RTMs were assigned to individual clients as a result of this process, the final arbiter would be the client itself. IBM recognised that these were *preferred*, not *prescribed* channels, and that ultimately, clients must be serviced through a channel that "works for them". Furthermore, the RTMs do not map precisely and neatly onto the nine cells on the customer/transaction matrix. One reason for this is that part of the delivery is dependent upon third parties, whose own business model would be aligned with IBM to a greater or lesser extent, depending upon its share of their business.

There was no preconceived notion as to the number of preferred channels that should be adopted, beyond a desire that it should be kept in single figures, and the initial range of around thirty were whittled down to the final seven – each of which would represent a sizeable segment of business. The assignment of each role within a channel was designed to reflect the existence of a sizeable resource with a distinct capability.

It was also recognised that the mapping of the seven preferred RTMs onto the 9-cell blanket could not be permanently fixed, but needed to be dynamic, to respond to changes in the market.

Designing the detail of the seven RTMs was achieved through taking reference examples, and codifying best practice. This was internal in most cases, with

external input where IBM had less experience. In the case of working with Systems Integrators, for example, there was a complication in that IBM had itself been a Systems Integrator and was perceived as competition. So a third party consultancy provided advice in this area.

Each preferred route to market (RTM) is clearly defined in terms of 6 stages (as illustrated for route 1 by Figure 3): Relationship management; Opportunity Identification; Opportunity Ownership; Fulfilment Administration; Implementation; and Post Sales support. The resource responsible for each of these stages is identified at primary, secondary and a third 'deselected support' level. So for each client account, for each product, who does what throughout the buying cycle is clearly defined. The seven preferred RTMs form the focus of IBM's channel investment; however, there is a get-out clause whereby a 'Unit-specific' RTM can be adopted to address unique requirements.

In Preferred Route 1, the resources are almost exclusively internal to IBM; the process diagram is used to delineate different roles within IBM and establish the hand-offs. In Preferred Route 6, Solution Providers, it is mainly about providing the same demarcation between third party resources; only when assistance is required are IBM resources called in. In each case, the diagram enables individuals – whether internal or third party – to know what part they play at what stage of the cycle.

Third parties working together – for example an ISV working with a reseller that provides operating software to support an application – to sell whole solutions constitute what in IBM parlance is a 'Value Net'. To some degree, the preferred RTMs can be seen as the business processes of the Value Net.

Once this multi-channel strategy was in place, IBM recognised that it would have to devote marketing resource not just to clients, but equally to the Value Nets.

Preferred Route 1: IGS
IGS Business Value-Led Route for Integrated and Aligned Accounts

	Rel Mgt	Client Rep Relationship Management				
		OI	OO	Fulfillment Admin	Implementation	Post-sale TS
Primary Resource	‣ Client Coverage Team (Incl. IGS Relationship Mangers)	‣ Client Team Team and IGS CSP/CSL	‣ IGS Principals	‣ CSO	‣ IGS Services	‣ IGS, as specified in engagement
Secondary Support Resources	‣	‣ FTF Solutions Specialists	‣ FTF Solution Specialists ‣ FTF or TeleSale Brand Specialist ‣ ISV (if required) ‣ Tech Support*	‣ FTF Brand Spec ‣ Direct TeleWeb	‣ Subcontracted Partner or Brand Services	‣ ITS, LS Support (Entitled) ‣ ISV (If required) ‣ e-support
Deselected Support Resources	‣	‣ Tech Support *	‣ Business Partners	‣ Business Partners	‣ Brand Tech Sale Specialist	‣ Brand Tech Sale Specialist

* See appendix for detailed technical support resource requirements

Route Definition: IGS Client Services Principals and Leaders that identify business problems and design and deliver solutions, pulling through IBM product platforms
- Includes SO sales and delivery teams that manage customer IT operations and have opportunities to specify product platforms
- IGS team will manage opportunity for total solution, but will required support from IBM direct (FTF or Telesales) to delivery specific product proposals
- In 2003, the S&D Solution Specialists may supplement IGS as primary opportunity owner as IGS increases account coverage and brand platform skills.

Figure 3: Defining the route to market - example for route 1

Esperanto in all channels

For all of this to work, it was essential that everyone – IBM business units, third parties –spoke the same language, so that, for example, a "qualified lead" meant the same thing to everybody. IBM decided to formalise its sales process, by carefully analysing what processes were carried out at each stage in the client buying cycle. The result was SSM – the Signature Selling Method (Figure 4). This formalised language was then enshrined in a single global sales management system, enabling IBM to track the pipeline of opportunities across the business as a whole. A grid arranging products down the vertical axis and opportunities identified by customer types, country and initiating channel as well as the owning channel across the horizontal axis, has become a key tool in controlling the business for IBM. It is reviewed each week against historical tracks in place since 2002, and enables the company to compare what is in the pipeline with what was expected. Such grids enable IBM to identify 'blockages' in the pipeline – for example, a problem where leads are not progressing from validated to qualified in a particular channel – and to take remedial action, perhaps allocating greater resources.

CUSTOMER BUYING STEPS

1	2	3	4	5	6	7
Evaluate Business Environment	Develop Business Strategy and Initiatives	Recognize Needs	Evaluate Options	Select Solution Option	Resolve Concerns and Decide	Implement Solution and Evaluate Success

Customer agreement with outcomes & progress

Identified	Validated	Qualified	Proposed	Won

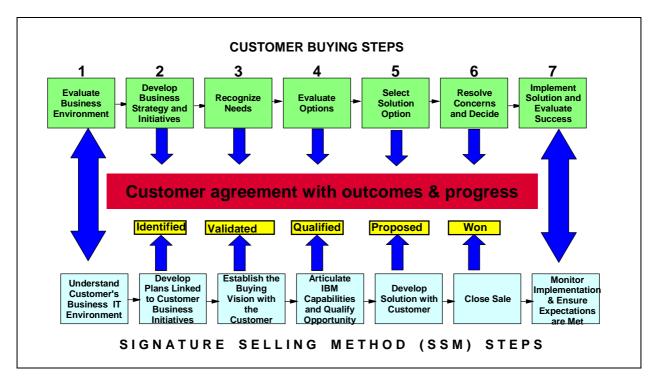| Understand Customer's Business IT Environment	Develop Plans Linked to Customer Business Initiatives	Establish the Buying Vision with the Customer	Articulate IBM Capabilities and Qualify Opportunity	Develop Solution with Customer	Close Sale	Monitor Implementation & Ensure Expectations are Met

SIGNATURE SELLING METHOD (SSM) STEPS

Figure 4: Standardising the sales process - the Signature Selling Method

All change

So how do you implement a new strategy – a strategy designed for every country, every marketing channel, and which touches almost every part of the business – in a company on the scale of IBM? The answer was to launch a fully-resourced change management project. To ensure that the introduction of the RTM Simplification Strategy would be a success, a number of points were key:

• The project was dovetailed with IBM's annual planning cycle, so that change was instigated through the core planning process, rather than as a separate and potentially conflicting process.

• Clear executive sponsorship was obtained at the highest level – including the chairman and CEO, as well as the worldwide head of sales and distribution.

• A pilot was established in Spain, chosen as a market of significant size, and where the preferred RTMs were all relevant.

• The final component was a re-working of incentives packages so that these were aligned to the new approach, to bring IBM and third party people on board. In particular, client managers had the small, simple transactions taken out of their incentive scheme; in future, they were only required to get involved in these transactions when something went wrong. Some of this money could be re-distributed to resellers in the small business segment, in the form of discounts. At the major consultancy project end, targets were set in relation to cross-IBM revenues, so that people were no longer focused simply on their line of business.

In all, the implementation of the RTM Simplification Strategy took around five months in late 2002 and early 2003.

Effects

The potential effects of such a radical shake-up to the whole sales and marketing organisation of IBM were clearly profound. When the shares of revenues were subsequently examined for 'Opportunity Ownership', covering the negotiation and sale itself, it was found that there had been a modest shift from the face-to-face teams to business partners and IBM.com. There had been some shift in allocation of headcount and investment accordingly.

When Opportunity Identification – essentially the generation of leads – was reviewed, the results were more startling. Relative to the 4th quarter of 2002, in 2003 the share of leads resulting from F2F client coverage fell by 22 per cent; this was taken up by other channels, most significantly the telephone channel and business partners. The lesson drawn was that, in the early part of the buying process, people wanted to do much of the work on their own, either by the web, trusted advisers or other intermediaries. In this, they had been educated by the likes of Dell to seek out information and make their own decisions. As a result of these findings, IBM was able to shift a significant part of its F2F sales force into other responsibilities, such as providing support and service once a customer was up and running. It also led to an increased investment in micro-sites for different industries, geographies and for particular communities, such as the City.

Refining the model

Once the new channel strategy was up and running, IBM wanted to gauge its success – not least so that the model could be refined. This was defined in terms of the profitability, and the customer satisfaction, achieved by each of the RTMs. Analysis of profitability enabled IBM to see where it was adding costs without adding benefit. Satisfaction was measured by moving from annual or bi-annual client-based surveys, to feedback based on individual transactions. Some 10 per cent of all transactions were sampled for client satisfaction, which could be linked back to the RTM. The seven preferred RTMs remained the same seven, but changes were made to the way in which they would operate. This is an ongoing process.

Wider ramifications

As a consequence of its RTM Simplification Strategy IBM's business has changed in a number of ways. These include:

• Marketing now spends more time and effort on understanding the marketplace, rather than on market size and growth.

• The 'anarchy' that previously prevailed in use of channels has been curtailed and the seven preferred RTMs are readily manageable.

• The total cost of managing RTMs is estimated to have been reduced by around 50 per cent. There has also been significant reduction in the cost of support programs and marketing communications, since these are now aligned with the seven preferred RTMs.

• Channel enablement has become a critical part of the Marketing function – accounting for around one third of Marketing budget.

• Using standardised reporting tools across the business has enabled IBM to benchmark its RTM processes against the competition – a feat that was previously unattainable.

• Client satisfaction has increased, but so has people satisfaction, both internally and among business partners, as people now understand what they have to do and where they add value.

• The RTM strategy now has a built-in flexibility as channel usage can be modified, and resources allocated, in response to the changing needs of the market. What doesn't change are the standardised processes, systems and language which are at the heart of IBM's multi-channel strategy.

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