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Improving Your Managed Services Selling Model

Part One of a Four-Part Series
Exploring the Managed Services
Operating Model Maturity
Continuum

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Improving Your Managed Services Selling Model

In our paper [How to Succeed with Managed Services](#), we explored the factors driving the opportunities around Managed Services and outlined a framework for the Managed Services (MS) operating model, which is depicted below:

Managed Services Operating Model Framework



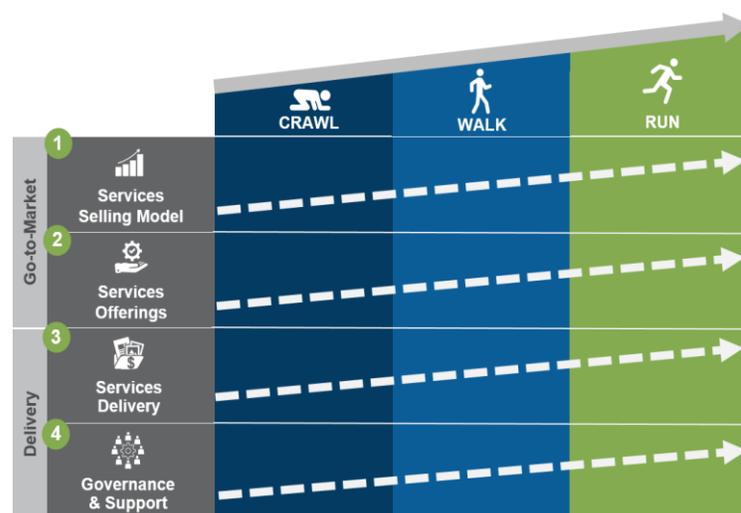
In the paper, we also introduced the notion of a “crawl-walk-run” maturity continuum that technology providers must navigate to build a successful and profitable MS business (depicted below), and promised to follow up with a series of papers exploring this continuum in greater depth.

Each paper in the series will focus on one of the four dimensions of the MS Operating Model Framework, delving into how the organization, processes, policies, and technology change as companies progress through the “crawl-walk-run” maturity continuum.

This paper marks the first in the four-part series, and it will zero in on the Services selling model dimension of the framework.

Companies aspiring to grow their Managed Services business should benchmark their current operating model against this continuum, and identify and prioritize the elements critical to achieving successful growth.

Managed Services Operating Model Maturity Continuum



Services Selling Model: Setting the Stage for Managed Services Success

Having an effective go-to-market model for marketing and selling Managed Services is critical to enabling successful growth. Many companies have solid Managed Services offerings, but don't realize their full growth potential because of problems with their Services selling model.

We often see this in companies that have a legacy of core hardware or software products. These companies may have begun offering Services as an adjunct to their products, reliant on a selling model tuned to product sales. Then, as Services grew in scale and complexity, the companies' sales models failed to adapt. It is common for such companies to have a single sales force that focuses on product and tightly-related product support services. These companies often don't properly educate and motivate the sales team to sell Managed Services, and Managed Services sales are primarily "pulled-through" by product or traditional Services sales, such as Maintenance and Professional Services.

To ensure that Managed Services offerings reach their full potential in the market, there are five critical go-to-market elements that must be addressed:

1. Dedicated Managed Services sales specialists
2. Proper incentives for the broader sales team to sell Managed Services
3. Effective Managed Services sales training, enablement, and marketing
4. Standardized and efficient Managed Services quoting and scoping
5. Pull-through of product sales by Managed Services

1. Managed Services Sales Specialists

Having dedicated MS sales reps is a key factor for enabling MS revenue growth. In immature Services businesses, we typically see the sales function as totally reliant on core product-focused sales teams. As the Services sales model moves from crawl to walk, Services sales specialists are added to assist the core sales team with services sales opportunities. MS opportunities are often complex; it is unlikely that a product-oriented sales team will have the necessary skills to maximize MS sales. The most mature MS businesses have an adequate number of dedicated MS sales specialists with strong consultative selling skills in addition to technical offering knowledge. For customer accounts in which Managed Services represents the majority of revenue, account management may be led by dedicated MS sales reps.

The experience of two very large IT product and services companies highlights the importance of having dedicated MS sales reps. One company embraced the industry-wide shift from hardware to software and services; the second company continued to prioritize hardware. The first company created a dedicated team of solution sales specialists that focused primarily on selling Managed Services. This investment in MS sales specialists, combined with a higher investment in MS offering development and delivery technology, resulted in superior profit performance compared to the second company; the first company's MS operating profit was higher by nearly two percent of revenue, even while bearing a higher selling cost (two percent of revenue higher).

2. Sales Team Incentives

Adequately incentivizing the broader sales team (e.g., account reps) to sell Managed Services is critical for success. However, we routinely observe companies with compensation plans that discourage the pursuit of Managed Services business, effectively preventing them from tapping into a ripe source of recurring revenue. Sales plans often value MS sales lower than product sales, or worse yet, don't give quota credit for MS sales at all. In contrast, mature MS businesses have sales compensation plans that reward recurring Services sales.

There are many ways to reward MS deals in sales compensation plans. A separate Services quota can be built into the commission plans with attainment of this quota being required to reach target compensation. Another strategy is to over-weight Services sales in compensation plans. For example, Services sales can be based on the total contract value (TCV) of a multiyear booking instead of on revenue in that single year. Services revenue can also be counted as a multiple of product revenue. Incentives can also be provided for Services sales beyond the standard commission plan. For example, commission accelerators can be based on attaining both Services sales AND overall quota targets. There are multiple approaches to providing the sales team with incentives to sell MS offerings; the critical point is choosing one, as doing so is an important MS growth lever.

One of our clients, which provides hardware and software to the video equipment industry, had virtually no Services business beyond some extended warranties. A key enabler to their launch of a formal Services business was an aggressive incentive to the sales team: Services sales were factored in at double the TCV of the contract. Within two years of launch, Services backlog represented over 10 percent of annual revenue and had a significant positive impact on the company's overall valuation.

3. Sales Training and Enablement

Effective sales training and enablement is another key element in fostering MS growth. In low-performing Services businesses, there is often little investment in communication of MS offerings to the core sales team. There may even be an "us versus them" attitude between MS sales reps and the core sales team. Conversely, high-performing organizations develop succinct and compelling sales enablement and marketing assets while also investing in deployment of the offerings. These assets should include:

- **Offering Definition** – a crisp summary of the offering in business terms that is easily understood and not overly technical
- **Target Customer** – clear identification of the customer to be targeted by the offer, both in terms of segment (e.g., SMB retailers) and buyer (e.g., stores operations leader)
- **Value Proposition** – the economic value of the offering stated in quantitative, customer terms; an ROI calculator is an excellent tool to provide this quantification

- **Differentiators** – a compelling explanation of why your company’s offer is superior to those provided by competitors; competitive battle cards can be a good communication vehicle for the sales team
- **Case Examples** – proof of customers’ attaining clear financial benefits from the successful implementation of the MS offering is extremely valuable, not only for marketing to customers, but also to boost credibility with a skeptical, risk-adverse sales team

One example of this in practice is a large IT company that successfully grew its MS business by requiring that half of its investment in new offerings be devoted to deployment (e.g., marketing, sales enablement, “lighthouse” customers, sales specialists).

4. Efficient MS Scoping and Quoting

Efficient policies and practices around the scoping and quoting of MS contracts is an important enabler of MS growth. The key is finding the right point between two extremes: overly custom vs. rigidly standardized. Overly custom scoping and quoting makes it very difficult for the core sales team to identify and qualify an MS sales opportunity in its early stages. In this case, the process is bogged down because offerings are not standardized enough, every discussion requires a specialist, and there is lack of clarity on acceptable service level agreements (SLAs). The opposite extreme where all MS offerings are rigidly standardized can be equally problematic. In this case, MS offerings are often sold on a component/SKU basis and deals are contracted without sufficient involvement by specialists in the scoping. The inability to provide any customization based on the nuances of the opportunity inevitably results in unprofitable contracts and unhappy customers.

The effective scoping and quoting midpoint provides enough clarity and tools to the broader sales team to enable them to do the initial qualification and to ensure they don’t overpromise on SLAs. One of our clients developed simple, one-page offering cards that were crystal clear on the default SLA options, the acceptable upsell SLA options, and the unacceptable SLA metrics for the most important elements of the offer. This clear direction helped greatly reduce the time and energy spent on negotiating SLAs. Adhering to clear policies on timing and process for deal review and approval is another critical element in efficient quoting.

5. Pull-Through of Product

The role that Managed Services plays as a component of a company’s full offering portfolio is a key indicator of MS maturity. In less mature organizations, the focus is on product and traditional maintenance and support deals, with Managed Services either attached to these deals or sold afterwards to the existing installed base. However, in mature MS organizations, the dynamic shifts and Managed Services becomes a driving force that pulls through hardware and traditional Services (while still continuing to be attached to traditional product sales). As more industries shift to X-as-a-Service, there is higher likelihood that Managed Services will be the lead offering. This focus on pull-through of product requires the Services business to consider two important topics:

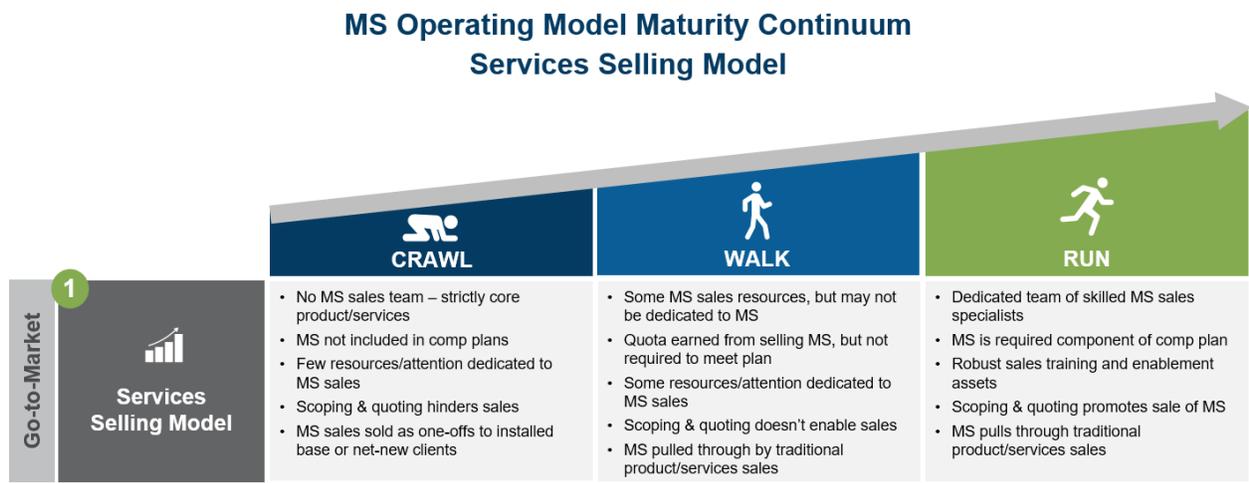
- **Constructing offering bundles that include product:** This can range from simply bundling a product lease into an MS offering to changing the nature of the pricing and revenue streams

for the bundle. An example of this is a medical equipment manufacturer, providing an MS service to a hospital customer and pricing based on the number of diagnostics processed.

- **Setting product sales targets for the MS business:** As an MS business grows, it has the opportunity (and obligation) to pull through product, both through bundling with Managed Services and through leveraging the relationships with customers that are primarily MS accounts.

Formulate an Improvement Plan

Our experience working with numerous technology companies and their Services businesses has demonstrated that an effective Services operating model is at least as important to revenue and profit growth as choosing the right offerings. The Services selling model is the first of the four critical dimensions to examine in your company; assess your position on the maturity continuum below, and then develop and execute the priority initiatives to improve.



To ensure you receive the deep dive papers on the remaining three MS operating model dimensions, be sure to [subscribe to our quarterly newsletter, Waterstone Currents](#).

Waterstone Management Group helps technology companies and investors create measurable value by identifying and capitalizing on disruptive growth opportunities and driving excellence in Services, Cloud, and Customer Success performance. Should you have any questions on this topic or wish to explore how Managed Services can help your company unlock new revenue streams, please contact:

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