TECHNOLOGY SALES & MARKETING –

# Party Like its 1999?

## Q&A

*Tom Pisello, CEO and founder of IT business value selling consultancy* ***Alinean*** *and ex-Managing VP at Gartner, discusses the latest IT spending research, highlighting key opportunities for improving the sales and marketing of IT solutions.*

### Q: Is 2006 shaping up to be a good year for IT spending growth?

**A:** The latest survey results were just released by IDC, and it looks like there is some cause for celebration. Worldwide annual growth in global IT spending is expected to be 6.3% in 2006, with annual growth in software sales leading the way at 7.0%. Annual growth in hardware sales and services are less, but still healthy at 6.0%.

Compared to 2002 where growth was a dismal -31% for system vendors and -18% for service providers, these are happy days. But these growth figures are still a far cry from the pre-bubble burst years of 1999 through 2001, where double digit growth was the norm.

### Q: Do the latest increases in IT spending mean good things for IT Sales and Marketing executives?

**A:** Indeed, the growth presents some great opportunities for the savvy IT solution provider. IDC's CMO Advisory Practice projects that the global marketing budgets of IT vendors will increase by 7% on average in 2006. This is the greatest year-on-year increase in spending in five years.

For historical perspective, in 2005 technology marketing spending was up 6.4%, in 2004 spending was up 5.8%, while in 2003, tech marketing spending was down 1.7%.

However, as with the five prior years, increases in tech market spending are outpacing the overall growth in the IT marketplace, meaning that the landscape is becoming ever more competitive and customers are getting harder and harder to reach. As any sales and marketing executive can tell you, every dollar of revenue earned by IT solution providers is getting harder to come by.

### Q: How is IT spending changing for small and medium enterprises?

**A:** Right now, SMB IT spending growth is set to eclipse the enterprise, growing by a healthy 7.2%, up from 4.8% for 2005 – this according to Forrester latest research. With this recent rise, SMB spending is said to now account for almost 48% of all IT spending.

Small and medium businesses have come alive as of late, and there is a real race on to address this marketplace, particularly with new simplified solution sets, on-demand applications (SaaS) and strong channel / reseller relationships to help reach these buyers.

## Q: On average, how much do IT firms spend on marketing?

**A:** On average, IT firms invest 3.6 percent of their revenue on marketing, with software vendors spending the most, at 6.5 percent of revenue, Hardware makers spending some 3.7 percent of revenue on marketing, while IT service firms spend a paltry 1.1 percent of revenue on marketing.

Three important trends on where this money goes:

1) Skilled marketing staff is becoming more important: The tooth to tail ratio, the amount of program spending to people has taken a surprising turn, with 63.5% of spending on programs, a migration of more spending on people from a mix of 66% in 2004.

2) Focus of spending is on lead generation versus awareness building: Another trend we see is that more of the budgets are being focused on the front end demand generation part of the sales and marketing process versus later stages such as awareness building and engagement. It is becoming more expensive to gather attention and hence the higher spending earlier on in the process.

3) Sales tools are gaining in importance: As customers get harder to reach, investments in case studies, white papers and interactive on-line tools have grown - now 17% of total marketing budgets, second only to Advertising (23%) and Events at (19%) and ahead of direct marketing investments (13%).

## Q: Why are buyers getting harder to reach?

**A:** Frugal buyers are the norm - driven to be skeptical by a lack of demonstrated value from prior investments and increased investment governance.

Vendors know that from every prospect they will hear “show me the money”, with over 90% now requiring ROI proof before the project gets approved, and over 85% saying the demand for business value analysis has increased or remained the same.

The issue for vendors is that even though almost all buyers require justification, most are not capable of doing the cost-benefit analyses themselves. As a result, over 81% of buyers expect the vendors themselves to quantify business value of proposed solutions. We see that many buyers invite multiple vendors in to provide different business cases and perspectives, then use the best analyses as their own justification to get economic approval.

Vendor analysis is so important that prospects view the ability to justify solutions as a key differentiator, with over 61% rating solution providers value assessment ability as important in the selection process.

But skeptical buyers are equally cautious about vendor provided ROI, and only 17% of buyers we surveyed had a high degree of trust in vendor value assessments.

The paradox is that buyers rely on vendors to deliver cost justification analysis, but they are not trusting of the results. Third party research and tools seem to help with the skepticism, as well as vendors providing the analysis in a collaborative and cooperative fashion.

## Q: Are marketers focused on the right messages to overcome the skepticism?

**A:** A recent CMO Council and KnowledgeStorm survey to "Define What's Valued Online” indicates that marketing messages are still missing the mark. In the survey, buyers were asked what they liked least from vendor messages, particularly on-line content. The number one pet peeve for technology content was "hype and puffery of offering"; number 2 was "poor communication of business value proposition"; and number 3, "too few proof points that evidence ROI."

Clearly on-line experiences need to move from the current product catalog approach - promoting traditional feature-function and price, to a more personalized, interactive and quantified value-oriented approach.

Recently, we have worked with several vendors who are re-tooling their website to provide value-oriented content including vertical case studies, research, interactive capability / maturity/opportunity assessments and on-line ROI and TCO tools. An example of this is SAP's small and medium business campaign which contained value-oriented / interactive ROI tools: http://www.sap.com/valuecalculator/SMB/SAP_GrowingBusinesses_Calculator_content.epx

These efforts are receiving great response rates and feedback, but are point solutions to a broader messaging problem. In these campaigns a particular portion of the site is beefed up with effective value-oriented content – but the entire experience / site is not value oriented. We have yet to see a major vendor re-orient their entire site to overcome these pet peeves and move from product catalogs to true business value interaction.

## Q: Are marketers focused on the right buyers today?

**A:** A recent IDG/CXO media survey indicated that business and IT executives where making most of the buying decisions - including defining requirements, specifying brands and ultimately approving the purchase. However, most IT sales and marketing efforts are heavily focused on mid-level decision makers.

With these targets in mind, we see that IT marketers are too focused on the solution's technology, products, features, price, performance and technical / tactical buyers.

Based on the buyer's decision making process revealed in this survey, the focus should be instead on the client's unique Goals and opportunities, business issues, the potential value of the proposed solutions, top and bottom-line impact and executives / economic buyers.

## Q: What can sales teams expect for the rest of 2006?

**A:** According to Selling Power in a survey of sales executives this March, the sentiment is that in 2006 it will take more time to close each sale and more calls get to a decision. Unfortunately, the longer the sales cycle, the greater the chance for a "no" decision.

To address this issue, technology companies are currently investing heavily in CRM – an estimated $1.5 billion in 2006, up 8% from 2005.

Unfortunately our surveys indicate that CRM helps sales productivity - the efficiency of the sales process, but not selling effectiveness. Traditional CRM investments have little to no reported impact on reducing the number of visits, reducing sales cycles or other measures of selling effectiveness.

Addressing selling effectiveness needs to be a key discipline of sales leadership in order to overcome skeptical customers and lengthening sales cycles. To address this issue, we are seeing an emerging ecosystem of solution providers that work in conjunction with current CRM solutions to address improving how effective sales professionals are at engaging with clients. These solution areas include:

1. Automated proposal builders
2. Account Intelligence
3. ROI and TCO tool vendors
4. Industry Researchers
5. Value-oriented sales training companies

The trend will be that these solutions quickly mature and consolidate to form a complete sales effectiveness solution set as part of a more well rounded CRM solution which addresses efficiency AND effectiveness.

## Q: What is your bottom-line advice for technology sales and marketing going forward?

**A:** A couple of take-aways from the research and metrics are:

1. Move from product speeds and feeds to a more value-oriented focus – what opportunities does the prospect have and what quantified value can the solution deliver.
2. Engage prospects with active and personalized versus passive content to break through the noise and keep them engaged once you have their attention
3. Go beyond CRM investments to provide empowering tools to help improve selling effectiveness – helping sales to deliver value oriented messages and quantified ROI evidence to prospects.

*Tom Pisello is currently the CEO and founder of business value selling consultancy Alinean and an ex-Managing VP at Gartner. He has been dedicated to using business value measurements to prove and improve the return on IT for the past 16 years. More information on the latest IT sales and marketing research and tools can be found at: http://www.alinean.com. Tom Pisello can be reached at tpisello@alinean.com*

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