

CHALMERS



How to create value with solution offerings

A study investigating key factors for industrial B2B companies when providing differentiable solutions

*Master of Science Thesis in the Master Degree Programme,
Entrepreneurship Business Design*

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Abstract

Commoditization and increased global competition is forcing prices down for many industrial companies. One way of responding to this is offering solutions rather than just products, as this increases the opportunities for differentiation, and thereby a value based pricing. The purpose of this master's thesis is to identify and prioritize the most critical aspects industrial B2B companies must consider to provide differentiable solutions. To fulfill the purpose, the thesis investigates how to accomplish these key factors and major challenges related to providing solutions and transforming towards becoming a solution provider. A solution provider is in this study defined as a company that integrates products, services and knowledge to customer-specific combinations, which enhance value creation by solving problems and proactively identifying business opportunities together with the customer.

The thesis work began with a literature review and a pre-study, during which workshops were held with experts within the field of solutions. This resulted in eight potential key factors for selling solutions, which were tested and discussed during 26 personal interviews with sales managers representing Swedish based industrial companies. Finally, a smaller case study with a few selected companies was performed, with the aim of refining and verifying the analysis as well as providing deeper understanding of some important aspects. The empirical study resulted in narrowing down the eight key factors to four, namely:

- Select customers with the highest potential to create value by using the solution;
- Discover new opportunities for customers to earn or save more money;
- Identify and create synergies between products, services and knowledge;
- Demonstrate the solution's potential to create value for the customer.

Challenges highlighted by the interviewees were lack of managerial support and organizational readiness, quantifying potential and created value, and reluctance towards changing the incentive system, something that might be needed for transitioning towards becoming a solution provider.

The main conclusion from this study is that to be able to provide differentiable solutions and becoming a well-performing solution provider, companies need to make substantial changes in several parts of their business model. The main business model parts to transform are the key activities, value proposition, customers and relationships. Especially important elements connected to these areas are business case driven sales and educating and supporting cross functional sales teams, providing them with a holistic responsibility. Furthermore, selecting and continuously prioritizing customers, while obtaining reciprocal and trustworthy relationships is considered important.

The companies that manage to implement and adapt this study's most critical key factors in their business model will have great opportunities to gain competitive advantages and gain differentiation by providing solutions.

Acknowledgements

During the spring of 2013 we have written a master's thesis within the area of industrial engineering and management at Chalmers University of Technology. During this study we had the responsibility to plan and execute a whole project meeting different stakeholders' needs, and the thesis work has provided us with valuable knowledge for our future professional careers.

We would like to express our gratitude to all of those who have contributed to this thesis. First of all we want to thank our supervisor at Chalmers, Bowman Heiden, for his support and guidance. We might not always have reached an agreement, but every discussion has proven to be highly valuable to the results and relevance of our study. We appreciate Bowman's insightful expertise and knowledge regarding our research topic.

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The interviewees in this thesis represent the following companies: Alfa Laval, Damen Shiprepair, Ericsson, ESAB, Gambro, Göteborg Energi, Husqvarna, Kongsberg, Metso Power, Rolls-Royce Marine, Scania, SKF, Swisslog, Toyota Material Handling, Volvo and Wärtsilä. In addition to these, a number of the interviewed companies have chosen to be anonymous in this study.

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Mikael Furu & Jonna Olsson

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Introduction

This chapter aims to provide the reader with a background, explaining the reasoning behind the thesis. The chapter begins with a discussion about the concept of providing solutions, presenting examples, opportunities and challenges. The purpose of the thesis is then stated alongside research questions and delimitations.

Background

An unstable world economy together with increasingly dynamic and sensitive business cycles pressures actors' profitability and growth potential. Furthermore, as globalization increases competition worldwide, products are at risk of easily being copied and prices are falling (Kowalkowski & Kindström, 2012). Products become commodities since they no longer have any differentiable content that can be controlled and protected as a property and new value propositions have to be created, often by building strong relationships (Heiden, 2013). When the market matures and the uniqueness of attributes in the vendor's offering diminish price competition arises; this commoditization presents traditional product vendors with decreased sales margins (Kindström, 2010).

To ward off the increased competition and to minimize the risk of product commoditization, companies try to differentiate themselves by expanding their horizon from purely supplying stand-alone products into also offering more complete and complex solutions, often by bundling products with complementary services and software (Galbraith, 2002; Kindström, 2010; Kowalkowski & Kindström, 2012). The included services intend to operate, maintain or finance the delivered product throughout its lifetime (Davies, Brady & Hobday, 2007). An important reason for expanding the value proposition by including services is that knowledge serves as foundation for competitive advantage and economic growth (Vargo & Lusch, 2004). This advantage is an effect of the inseparability and perishability of services, making them difficult to copy or imitate (Lovelock & Gummesson, 2004). The expansion to viewing knowledge as the main source for competitive advantage pressures the sales force to be innovative and entrepreneurial; today, vendors cannot just provide their customer with a large product catalogue to choose products from but rather they need to provide insight (Sommer, 2013), which put pressures on the sales teams due to the need of intensive sales processes. This further requires the skill to capture the knowledge about each customer's business activities; turning it into value for the customer (Ericson, 2013).

To capture and create more value for the vendor's customers to differentiate the attributes in the offering towards its competitors may be obtained by providing solutions, but how this is performed in practice is the main challenge investigated in this thesis. This since still many vendors tends to focus on products and not on the other values that the offering may bring. Even though providing solutions by adding the vendor's knowledge as attributes in the offering is seen as a one way to meet financial pressures in competitive markets and decrease the risk of commoditization.

1.1.1 The characteristics of a solution provider

To address current economic challenges, companies are moving from selling stand-alone products towards providing solutions by being service oriented and customer centric in both the customer value proposition and in the value creation (Galbraith, 2002; Kowalkowski & Kindström, 2012).

Galbraith (2002) defines service orientation as managing to innovatively combine complementary services into the original product offerings while viewing services as the main revenue stream. The traditional dominant logic is product orientation, which focus on tangible and homogenous resources, embedded value and transactions whereas service orientation focus on intangible and heterogeneous resources and co-creation of value together with the customer (Vargo & Lusch, 2004). The change from product orientation to service orientation is fundamental for economic exchange (Vargo & Lusch, 2004).

Kowalkowski and Kindström (2012) argue that a customer centric company must be more focused on relations than transactions, and that the aim should be to try and find as many products as possible to serve each customer with, rather than trying to serve as many customers as possible. To create a competitive advantage, customer centric companies should work actively with trying to understand customer needs and creating unique customer specific offerings, which enhance the value in use for the customers (Galbraith, 2002; Kowalkowski & Kindström, 2012). In selling products or services, customer centric companies should emphasize the benefits created for customers, rather than technical specifications regarding the offering (Kowalkowski & Kindström, 2012). Since what gets measured gets done, it is important for customer centric companies to employ customer centric metrics, such as customer satisfaction, customer retention and customer lifetime value (Galbraith, 2002; Shah et al, 2006). According to Shah et al (2006), customer centricity requires viewing customer knowledge as valuable data and not just a control mechanism; this can be facilitated by using a central database containing important information about the customer, information that is shared throughout the company and its units.

Kinnunen and Turunen (2012) present a model for categorizing companies based on their organizational culture and configuration; the model aims to facilitate identification of the companies' capabilities of adding services to their offerings and thus becoming more like solution providers. This model has been adapted by the authors of this thesis and can be seen in figure 1. In the upper right corner are companies with high customer centricity and high service orientation, attributes that according to most theory makes them the companies with best conditions for providing solutions. Companies in the left part of the matrix are possibly missing out on the extra revenues that could be gained from adding services, as a result of their product orientation. In the lower part of the matrix, the focus is more on internal operations and manufacturing, and the customer's needs and wishes might not always be attended to. Because of this, the optimal organizational setting for providing solutions would be in the upper right corner; thus, the closer to this that companies get, the closer they get to the best setting for becoming well-functioning solution providers. This model is used in the initial analysis for categorizing the interviewed companies, trying to distinguish differences between the segments and their attitudes towards solutions.

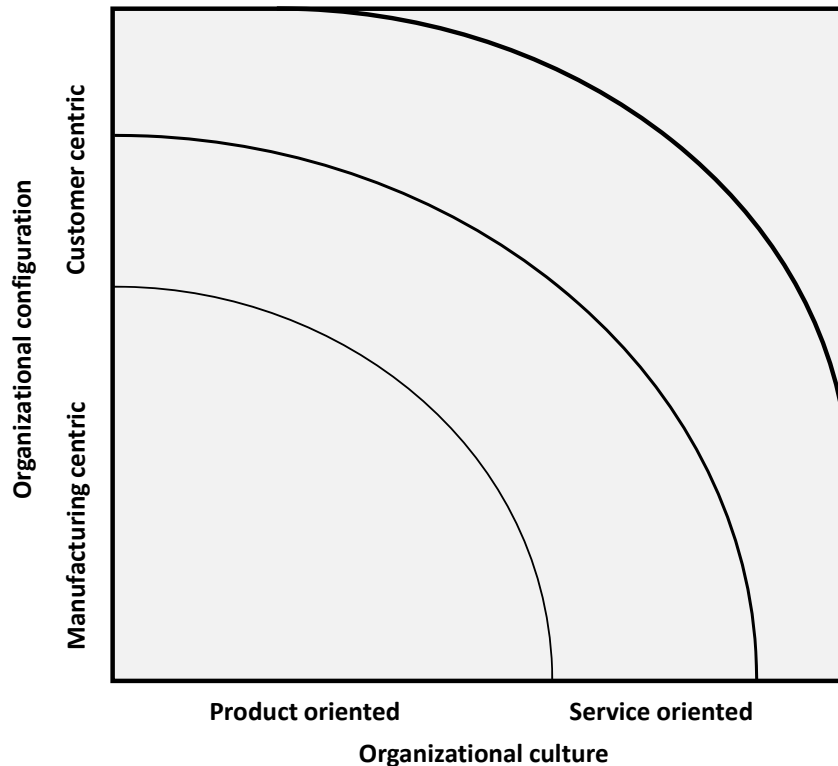


Figure 1: Organizational culture and configuration. Inspired by Kinnunen and Turunen (2012).

A solution is defined by Eades (2004, p. 4) as a *mutually agreed-upon solved answer to a recognized problem*. In this thesis, the view of a provider of solutions is a company that *integrates products, services and knowledge to customer-specific combinations, which enhance value creation by solving problems and proactively identifying business opportunities together with the customer*.

1.1.2 Example of a solution provider

Ideal solution providers are hard to find in practice, but to provide the reader with an exemplified and reality-based case, one example of a company working in this manner is presented below.

Rolls-Royce was one of the first actors in the aerospace industry that more than 20 years ago understood that the value of the company's success is directly linked to the success of its customers. Rolls-Royce realized that the customer cares less about the underlying technology enabling the plane to fly and more about the fact that it actually does fly. This realization transformed parts in the Rolls-Royce business model; the company no longer sells an engine, but instead the ability to fly. By doing this, the company had to ensure that their services and maintenance functions were constantly ready, as every minute of downtime would result in less money for Rolls-Royce. Thus, the value proposition changed as the customers now only have to pay for their engines when they are functioning, thus seemingly decreasing the risks of their purchases and their business; they now get an accurate cost projection and avoid costs incurred by unexpected maintenance. To demonstrate the value creation for its customers, Rolls-Royce's compensation is now directly tied to the value-in-use generated for the customer, with a pricing

named *Power by the hour, PBH*. The pricing strategy per se was not unique since pricing schemes similar to PBH nowadays is used by many large actors within the aerospace industry such as General Electric and Pratt & Whitney. (Knowledge@Wharton, 2007)

The fact that most of the industry has moved to selling solutions and pricing value-based indicates that the sustainability of differentiation by solutions can be questioned; Rolls-Royce gained a competitive advantage when they initiated their solution offerings, but after some time the competitors realized that they had to adapt to this and start providing solutions themselves. This shows that solely offering solutions might be attractive in the short run but that for a sustainable competitive advantage, companies must find other differentiating factors that set their offering apart.

Classifying Rolls-Royce in relation to a solution provider in the model mentioned above, shows that the company has relatively high both service orientation and customer centricity. Rolls-Royce could be argued to be service oriented since they provide a wide range of tailor-made-services in a repeatable, assured manner which is dependent on close customer relationships. This connected to their PBH pricing strategy requires the company to provide services and knowledge as their main source for competitive advantage. The company is also to some extent customer centric; they are striving to extend their knowledge about their customers business and markets, which can be shown on their website where they provide market forecasts and insights (<http://www.rolls-royce.com>).

1.1.3 Reasons for providing solution offerings

Providing solutions have shown tremendous opportunities for both the vendor and its customer (Krishnamurthy, Johansson & Schliissberg, 2003). One example is a manufacturer of industrial equipment that instead of selling their stone crushing machines get paid based on the weight of the stone crushed by the customer. This was appreciated by the customers mainly since it enabled dividing the payment for the product and since the maintenance and knowledge-based services represented a significant share of the customers' financial and time efforts, which now could be minimized.

This example shows that purchasing solutions also has advantages for the customer; it is convenient and cost efficient to get access to a complete package instead of buying the components separately. In the example this resulted in that the customer only had to care about how much stone to crush, in exchange for a monthly fee paid to the vendor. It can be seen as a form of outsourcing, enabling the customer to focus on its core business issues and proving flexibility for dynamic changes (Galbraith, 2002). Furthermore, purchasing a solution may enable reduced transportation-, transaction-, and administrative costs and less thereby less tied up capital (Krishnamurthy, Johansson & Schliissberg, 2003). Working closer with vendors also expands the access to knowledge and increases innovation, making it possible for the customers to solve problems more quickly (Kinnunen & Turunen, 2012).

Providing a broader offering is beneficial for the vendor since services often have higher margins than physical products, and due to their inelastic demand curve services are less cyclic and less

affected by the economic situation (Kinnunen & Turunen, 2012; Kowalkowski & Kindström, 2012). According to a study by Accenture, in the car industry, after-sales services and parts contribute to 40-50 percent of the profits even though they only create 25 percent of the revenues (Knowledge@Wharton, 2007).

By providing services in their solution vendors are able to obtain a larger share of the customer's total deal size, the opportunity to sell more in every sale and increase customer retention. The synergies and combined offering provides increases the opportunity of higher price and margins since it provides a higher value proposition (Kinnunen & Turunen, 2012). Additional advantages with providing solutions include reaching new markets and segments by providing an expanded offering (Kinnunen & Turunen, 2012). One possible reason for the success of the stone crushing example is that the value created for the customer is easily understood and measured; it is simply a matter of weighing the stones. This innovative pricing model and unique offering is based on what the customer actually gains by using the solution, making it an interesting example.

Providing a high level of complexity by adding knowledge into offerings solution results in larger protection against competitors copying the offering, making it a favorable alternative to only selling and purchasing products (Kinnunen & Turunen, 2012; Kowalkowski & Kindström, 2012). The vendor in this example was able to communicate and demonstrate their attributes' uniqueness during a significant time span in their offering by providing solutions, making the solutions deemed to be successful. Still the time aspect is central before the uniqueness start diminish.

Some challenges are also present that the vendor and customer may have to face while selling or using solutions, which are investigated to a deeper extent in this study. First, sales and marketing costs tend to be high for companies selling solutions, due to longer sales cycles and increase of close interaction with customer to understand their needs and problems. Furthermore, transformation to solution selling usually demands organizational changes, thus incurring transitioning costs. There are some risks involved for the customer as well: the longer cycles of solution sales incur longer commitments and might therefore lower the customer's bargaining power as the switching costs are high (Krishnamurthy, Johansson & Schliissberg, 2003).

The two examples of providing solutions it can be noticed that providing solutions affects many parts in the vendor's business model, which will be considered throughout this study. In conclusion, the reasons for performing this study is a belief that, due to the reasoning in this section, providing solutions instead of just a product creates surplus for both the vendor and customer, but that companies have difficulties to substantially differentiate and capture these possible value creations and capitalizing on it.

Initiator of the thesis

This thesis and its scope were initiated by Triathlon Consulting Group (hereafter referred to as Triathlon). Triathlon was founded in 1994 and is a management consultancy firm, with clients mainly consisting of medium to large industrial firms based in the Nordic region, with international operations. Triathlon believes that knowledge is an essential source of lasting competitive advantage and considers working with master's thesis students as one way to acquire

new valuable knowledge. This extension of knowledge will also be valuable for Triathlon clients since the thesis builds upon empirical evidence and therefore might be of relevance to industrial companies. Triathlon has expressed a particular interest in sales strategies, which in discussion with the writers has led to the thesis subject of solution selling.

Purpose

The purpose of this thesis is to identify and prioritize the most critical aspects industrial B2B companies must consider to provide differentiable solutions. Success is in this context defined as reaching the objectives for providing solutions; often related to increased margins and profit. The thesis aims to support sales managers within industrial companies, the initiator Triathlon, and the university by identifying the key factors for success and enlightening them regarding the challenges present when providing solutions.

Research questions

As discussed earlier, selling solutions has potential to provide companies with higher margins and sustainable competitive advantage. Despite this, many companies appear to have difficulties when trying to provide profitable and valuable solutions. To fulfill the purpose the research question of this thesis is stated below, with supporting sub-questions:

How can industrial B2B companies provide differentiable solutions?

- What are the key factors associated with providing solutions?
- Which key factors are perceived as the most critical to be successful?
- How should the key factors be accomplished?
- What are the major challenges related to selling solutions?

Delimitations

This thesis will focus on companies of potential interest to Triathlon's business, and therefore mainly consist of industrial companies serving business customers. For visiting possibility reasons, the companies will primarily be based in the western part of Sweden, but with international operations. The companies will be of medium to large size, with 100 employees or above.

The thesis will primarily investigate how to best operate when selling solutions and not on how companies must handle the transformation process into becoming a solution provider. As this thesis is focusing mainly on the efforts of the sales force, it will not consider the delivery and implementation phase.

This research will investigate what experts and managers in different industries believe to be the key factors in relation to the research topic; therefore, the companies' current profitability will not be investigated.

Methodology

This chapter describes the procedure of this thesis work, in order for the reader to be able to perform the study again with similar results. The process consisted of four high-level phases: Initial phase & literature study, Data collection, Analysis & results, and Delivery. The chapter is concluded with a discussion of the quality of the results of the thesis, including an evaluation of the validity and reliability.

1.1 Master's thesis process

The research process consisted of four high-level phases, each including a pre-specified purpose, activity and output, see figure 2. The research approach was deductive and iterative, with a starting point in theory which was later tested with empirical findings, enabling to reach conclusions supporting the purpose (Bryman & Bell, 2007). The initial hypothesis was based on theory and redefined several times during the process. The empirical data was collected and audited closely. To keep focus on the intended purpose of this research, regular meetings were held throughout the thesis process, both between the authors and the supervisor at Chalmers University of Technology as well as between the authors and supervisors from the initiator Triathlon.

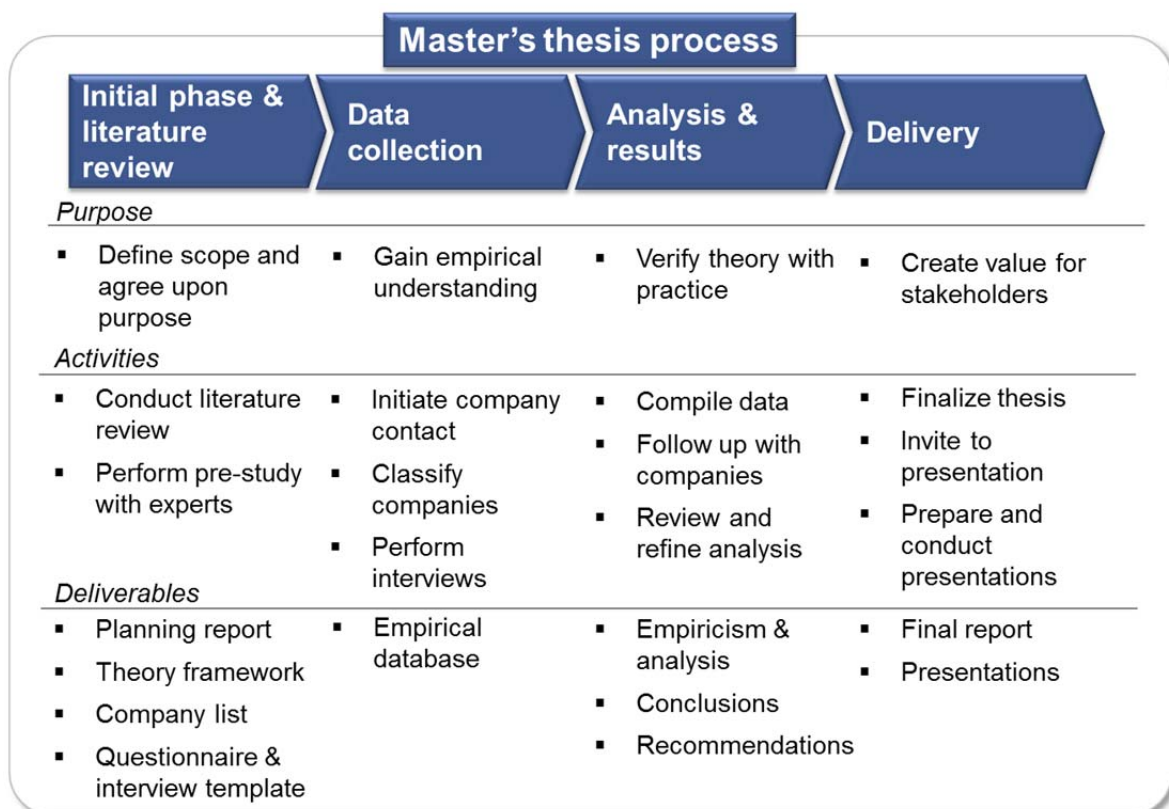


Figure 2: Master's thesis process

1.1.1 Initial phase & literature review

The initial phase aimed at narrowing down and defining the scope of the thesis; creating a purpose with related research questions and performing a pre-study and literature review. This phase resulted in a documented planning report, a theoretical framework, an initial hypothesis and an interview template for the data collection phase.

1.1.1.1 Literature review

The literature review aimed at interpreting what had been written about the area of interest and identifying relevant concepts and theories (Bryman & Bell, 2007). The literature review was conducted continuously throughout the whole research, but most of it was done during the initial phase. It was used to refine the research questions and build theoretical hypotheses (Bryman & Bell, 2007). The literature, focusing on the subjects of *solutions selling* and *servitization*, was collected through recommendations from the supervisor at Chalmers and independent library and database searches. In order to extend this theoretical foundation, the references stated in the collected literature were further examined, making use of the so-called snowball effect. The literature review resulted in both the background (hence laying the foundation for the initial hypothesis) and the theoretical framework which supported the pre-determined hypothesis in the qualitative empirical pre-study.

1.1.1.2 Pre-study with experts

For the authors to gain a deeper and more reality based understanding about the subject of interest, a qualitative empirical pre-study was executed. The study comprised several qualitative workshops, which allowed individuals within the field of interest to provide their interpretations of their social reality (Bryman & Bell, 2007). Two management consultants from Triathlon, two associate professors from Linköping University, one expert from ISEA¹ and one manager from SKF participated in the study, where one to four employees within the sales department jointly shared their expertise during workshops. The workshops each lasted from one to three hours. During the workshops, the authors asked questions regarding the relevance and quality of the literature findings to support or reject the pre-determined hypotheses. The study was semi-structured with one of the authors bringing the discussions forward with pre-determined questions and the other recording and taking notes of the answers and discussions. The same questions and content were used for each workshop, but the ability for follow-up questions enabled flexibility. The outcome of the pre-study was used partly in redefining the initial hypothesis and partly to aid in the analysis in the latter stages. The pre-study also supported when building an interview template to be used in the company interviews in the next phase, since it helped the authors to narrow down the factors from 20 to eight key factors.

1.1.2 Data collection

Upon finalization of the initial phase the data collection commenced, with the purpose of gaining empirical understanding. This phase aimed to provide the authors with an empirical database to be

¹ Industry Senior Advisors, an organization representing a number of senior executives with a confirmed record of international industrial accomplishments.

further analyzed, as well as revised hypotheses given the discoveries. The data was collected through interviews and a shorter questionnaire sent to the interviewees in advance.

1.1.2.1 Selection of companies

The companies approached for the research were chosen to have the following characteristics; performing business to business activities, industrial and medium to large sized, location in western Sweden but possibly with international reach. The companies without any already established relations to the authors' networks were approached at CHARM², LARM³, or by telephone.

1.1.2.2 Classification of the companies

Due to the variety of the companies selected and their view of what a solution provider is in relation to the theory, a questionnaire was sent out before the interview. The intention of this questionnaire was to classify the companies in the matrix described in figure 1 and section 1.1.1, which concerns the characteristics of a solution provider. By answering the questionnaire the authors could understand to what level the interviewees were customer centric and service oriented, which could impact their answers in the interview. The data from the questionnaire was used to segment the interviewees before analyzing the data collected from the interviews, in order to put the different interviewees in their different setting in relation to the theory about providing solutions.

1.1.2.3 Company interviews

Given the list of companies and the interview template created in the pre-study data collection, initial contacts were made in order to make appointments for the interviews. The goal was to hold all interviews in person, but for accessibility reasons some were conducted by telephone. The group of interviewees mainly consisted of sales managers or persons holding a managing position within sales, to ensure relevant knowledge.

To keep focus on the research question and its sub questions, the data collection was performed using the workflow shown in figure 3. The goal was to discuss every identified key factor, questioning if it really was a key factor and why it is critical for success. After that the interviewee was asked how his or her company works with the key factor and what the related challenges are. Finally, conclusions regarding the stated hypothesis were drawn and the interviewees were asked to prioritize and rank both the hypothesis against other hypotheses, as well as the supporting arguments against one another.

² Chalmers University career fair, held on 2013-02-05 and 2013-02-06.

³ Linköping University, Institute of Technology career fair, held on 2013-02-12.

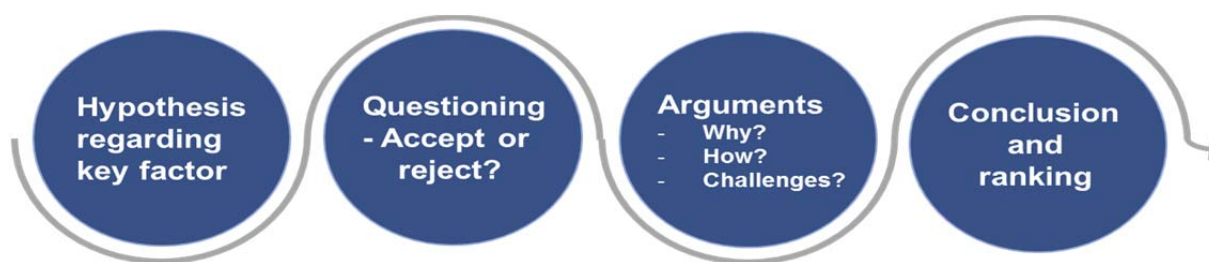


Figure 3: Interview process

The interview template was to some extent quantitative, including standardized questions with a number of alternative answers to choose from. This method was chosen to enable a high number of respondents and to be able to express and analyze the data in numerical forms (Bryman & Bell, 2007). The interviews were performed in a relatively structured manner to ensure that the answers could be aggregated, while also giving the authors and interviewees possibilities for asking clarifying questions. To ensure flexibility and to mitigate the risk of missing essential aspects, there was always a clear possibility for the interviewee to add own examples or information. For each interview a time slot of one hour was dedicated, however the actual interview length varied, depending on the interviewee's knowledge and experience within the subject of the thesis.

1.1.3 Analysis & results

In this phase, the theoretical findings were verified with practice, in order to build the result and conclusions. This was done by identifying and prioritizing the factors related to successfully providing solutions, analyzing how they had been ranked and by whom, and which possible reasons there were for this. In the case of unclearness, follow-up questions were asked to the interviewees. The output consisted of a compilation and analysis of the empirical findings, alongside conclusions and recommendations.

1.1.3.1 Data compilation

The data collected during the interviews was compiled in Excel spreadsheets with standardized templates for the interviewer to fill in. The primary compilation resulted in a prioritization of which factors were the most essential ones.

1.1.3.2 Follow-up interviews

The individuals and companies involved in this thesis work, mostly the interviewed in the data collection, were followed up with by phone or email if clarification or additional information was needed.

1.1.3.3 Review and refine analysis

Three companies, participating in the original interviews, were selected to be further investigated in order to expand the empirical understanding of the most important key factors. During these additional interviews, the interviewees were asked to elaborate on the discussions regarding their specific challenges and opportunities related to each of the critical key factors. These discussions helped strengthening the analysis, giving valuable input for recommendations and conclusions.

After interviewing these three companies, one was selected for a case study. This was the company that had made the most progress in the solution business of the three selected companies; their offering incorporates both knowledge and services, and aims at improving significant areas of the customers' business. This study was performed via interviews with different members of the case company, each lasting for two to three hours and focusing on the empirical findings and conclusions in relation to the company's experience.

1.1.4 Delivery

In the last phase the real value was created for the thesis' stakeholders, by presenting to the involved parties the conclusions and recommendations from the report. This phase consisted of finalizing the report, feedback sessions, and presentations with workshops.

1.1.4.1 Presentations

Two presentations were held, one at the university and one at Triathlon. The presentation at the university lasted for 30 minutes and was followed by opposition and questions. To follow up and actually deliver value to the initiator and sales managers, the interviewees were invited to a presentation where the authors presented their findings and moderated a further discussion regarding the presented factors.

Quality evaluation

For quality assurance reasons the validity and reliability of the study are examined in this section. Note that the discussion regards the whole research process, with an emphasis on the company interviews during the data collection phase. Two major aspects may have affected both the validity and the reliability. First, the companies and individuals chosen for the interviews may have had quite varying experiences of working with solutions, as this was only investigated to a limited extent; this could have affected the answers since it depended on the attitudes of the interviewees. Second, when asking the interviewees to rank the suggested key factors' relative importance, the aspect of absolute importance and impact on successful solution selling was not investigated. It should however be stated that since the interviews were grounded in a thorough literature review, it is reasonable to assume that all factors are important. Furthermore, the discussions did indicate a consensus regarding the absolute importance of the factors, even though this was not quantified; most interviewees agreed that the suggested key factors were in fact important for successfully selling solutions.

1.1.5 Validity

Validity refers to the research method's ability to measure what is intended to be measured (Lekvall & Wahlbin, 2001). Validity can be divided into several different types, out of which the three types considered most relevant for this research, which are discussed below (Bryman & Bell, 2007; Lekvall & Wahlbin, 2001). These three types are face-, construct-, and external validity.

If people with experience in the field consider the suggested interview questions to be sensible and relevant given the research subject and purpose, the *face validity* can be considered high (Bryman & Bell, 2007; Lekvall & Wahlbin, 2001). In order to increase the face validity the

interview template was thoroughly discussed with experts, resulting in several revisions to assess a valid test.

The *construct validity* is regarded to be high if the achieved result from the study is consistent with the underlying theories and stated hypotheses (Lekvall & Wahlbin, 2001). To achieve a better construct validity, the authors have held interviews with several different companies and experts while also conducting a literature review. The work has been continuously supervised and reviewed by senior advisors from ISEA and Triathlon and the supervisor from Chalmers University of Technology. This approach is supported to Yin (2003), who recommends using multiple sources of evidence and having key informants reviewing the report. To further strengthen the construct validity, it is desirable to interview more than one person from each company but given time limitations this has not been possible for company interviews, except in the pre-study.

The *external validity* is high if it is possible to generalize the results of a study beyond the specific research context. In this context it means that it is crucial to carefully select the participants and interviewees so it may be possible to generate similar outcome if this study is performed again in another field (Bryman & Bell, 2007). The companies was carefully selected in order to provide a external validity so that similar international industrial companies within different industries shall be able to be influenced and adopt some of the conclusions of this thesis in their sales strategy and operations.

Internal validity relates to the issue of causality and concerns the validity of conclusions drawn regarding causal relationships; if the cause-and-effect-relations described in the study are genuine, the internal validity is considered high (Bryman & Bell, 2007). To facilitate a high internal validity, the analysis was conducted in close contact with supervisors and experts, making sure that the causalities suggested were reasonable.

1.1.6 Reliability

Reliability is defined as a method's ability to withstand the impact of coincidences during an interview. A study with high reliability will give the same results if repeated, all other things equal. The level of reliability is affected by the interviewer's behavior, the interviewee's motivation or fatigue, or ambiguity or variations in the questions posed. (Lekvall & Wahlbin, 2001)

To increase the level of reliability, the authors provided the interviewees with the interview template with standardized questions before the interview so that they could be well prepared, thinking the questions through beforehand. The length of the interviews was set to one hour to reduce the possibility of the interviewees losing interest, but still enough time to be able to extend the knowledge about the field of interest. The length of each individual interview did however vary, depending on the interviewee's insight and curiosity and was thus allowed to be longer then pre-determined time if the interviewee wished.

The interview template was tested in the pre-study ensuring the quality and objectivity of the questions and how they were presented to the interviewees. During every interview the authors

orally asked by phone or in person the same standardized questions in the same way striving to let the interviewee understand each question correctly and created similar interview situations each time.

The authors are highly satisfied with the participants' enthusiasm, knowledge and interest in the research field, and have felt very inspired throughout the process as a result of this.

Theoretical framework

In this chapter the theory used in the thesis is presented, in order to provide the reader with a deeper understanding of the subject and to be used as a base for the analysis. Providing solutions may, as described in the background, be a way for companies to meet the changing demands and to ensure an improved competitive position. The pre-study described in section 2.1.1.2 led to eight factors that appear to be important when providing solutions. For each of these factors were also identified different methods to achieve them, as well as related challenges to overcome. These will now be examined.

Introduction to providing solutions

As mentioned in the background authors have tried to characterize a provider of solutions. The theoretical findings shows that there is no common definition of what a solution provider is but theory defines some common characteristics to be summarized from the background. The provider shall not only solve a certain problem for its customer, it may also identify new opportunities for its customer to be successful. A solution provider shall expand their approach to be not only manufacturing oriented but also customer centric meaning that it is important to understand that the value for the customer is created when the solution is used by the customer, not when it is manufactured or developed. A solution provider shall expand their approach to be not only be product oriented, but also service oriented meaning that in order to be successful solution provider the provider shall offer services and package their knowledge and that this parts of their offerings shall be seen as the core value of their solutions since products tends to be commoditized easier than service and knowledge. With a high level of service orientation the provider has been able to include in their solution offerings parts that are valuable for the customer that is intangible, inseparability and perishability (Vargo & Lusch, 2004). In this context services and packaged knowledge are not only repairation and support; its essence is based on the organizations knowledge, which could be packaged as consulting services or value added engineering.

Key factor 1 – Discover new opportunities for customers to earn or save more money

The sales process for solutions does not begin with a formal customer specification, but rather it requires the sales force to identify a customer problem and then configuring the resources available to address said problems (Bonney & Williams, 2009). When including services in their offerings, companies must have a better understanding of their customers' processes and operations than they would if solely selling products (Kindström, 2010). It is argued by Adamson, Dixon and Toman (2012) that a good sales representative should try to turn a customer with defined requirements into one with emerging needs; the way to a sale might not be to try and meet the customer's existing needs but rather to redefine them, revealing to the customer needs that they didn't know they had. This view is supported by Storbacka (2011), who states that customer insight should be combined with the vendor's resources and capabilities in order to create valuable solutions, and that focus should lie on the customer's processes and financial drivers.

1.1.7 How to accomplish

To be able to discover new opportunities for its customer, the vendor needs to be more proactive, engaging the customer well before it submits a request for proposal (Adamson, Dixon & Toman, 2012). One way to do this is by having continuous customer contact, analyzing their markets and understanding their business (Tuli, Kohli & Bharadwaj, 2007). According to Bonney and Williams (2009), solution providers should be aware of the customer's market positioning, as well as making accurate projections about the future of both the customer and its market.

It is suggested by Adamson, Dixon and Toman (2012) that vendors dare to be provocative, pushing the customers out of their comfort zone, realizing that the expressed needs are not always those that should be pursued. The sales force needs to use customer insights to provoke the customers in order to increase the possibility of achieving sales, even in times of tight budgets (Lay, Hewlin & Moore, 2009).

Furthermore, vendors should document findings from different customer segments in order to create a database of customer insight, which can be used for solution development (Storbacka, 2011). The information collected helps the vendor to understand the customers better, and after it has been recorded in a database it can be used as an input for strategic planning (Storbacka, Polsa & Sääksjärvi, 2011).

1.1.8 Related challenges

Customers often do not understand nor acknowledge their fundamental problems, sometimes making it difficult for vendors to offer their insight and point of view (Bonney & Williams, 2009). Tuli, Kohli and Bharadwaj (2007) therefore emphasize the importance of vendors asking the right questions, probing multiple stakeholders in the customer firm.

According to Lindberg and Nordin (2008), there is skepticism among some customers regarding building close relationships and providing the information needed for the vendors. Cost consciousness may cause a willingness to keep the vendors at an arm's length, since there is a fear of being stuck with unprofitable relationships (Agndal et al, 2007). Kowalkowski and Kinström (2012) argue that there are cases when both customer and vendor would benefit from an increased interdependence, but that the customer is unwilling to adapt and integrate because of a fear of becoming too dependent on a single vendor.

The process of discovering customers' problems and understanding their business is time-consuming and possibly costly for the vendors (Bonney & Williams, 2009). Except for time spent at the customers, the vendors also need to develop relationship building competences in all parts of the organization in order to facilitate the information gathering (Kindström, 2010).

Key factor 2 – Select customers with the highest potential to create value by using the solution

Since not all customers fit well with buying solutions, solution providers have to define which markets, segments and customers to focus on, and define strategies for each (Storbacka, 2011). As solutions and offerings including services are relationship intensive, it is difficult and costly for a

vendor to achieve and sustain good relationships with all customers, making it important for vendors to decide which customers to approach with solutions (Kindström, 2010). Storbacka, Polsa and Sääksjärvi (2011) emphasize the need for vendors to assess possible solution customers with regards to strategic fit, future potential, business, and operational risk.

1.1.9 How to accomplish

The selection of which companies to target can be based on both analysis of past performance (e.g. profitability and growth) and future potential (Storbacka, Polsa & Sääksjärvi, 2011). To perform the analysis, companies can capture and integrate information and customer insight into a database available to those responsible for customer relationship management (Shah et al, 2006).

It is argued by Tuli, Kholi and Bharadwaj (2007) that solution sales should target customers that are willing to adapt to the solution, changing the way they do business and accommodating the vendor's proposals. This view is echoed by Adamson, Dixon and Toman (2012), who claim that good sales organizations place more emphasis on a customer's potential to change than on its potential to buy.

According to Galbraith (2002), customer profitability is a usual base for prioritizing which opportunities to pursue and which to abandon. Since acquiring new customers is especially costly in a solution context, the chosen customers must have a certain future potential to generate income for the vendor (Storbacka, Polsa & Sääksjärvi, 2011).

1.1.10 Related challenges

In some cases, it might be in the best interest of the vendor to terminate or at least not develop a certain relationship further, due to it being excessively demanding with costs exceeding rewards (Kindström, 2010; Kowalkowski & Kindström, 2012). Albeit necessary, a termination decision might be difficult and stressful for the vendor if the interpersonal bonds and relations are strong.

There is also skepticism among potential buyers towards buying solutions, a skepticism that is grounded in the perception of solution buying as too costly and risky (Agndal et al, 2007). Lindberg and Nordin (2008) claim that some buyers prefer buying stand-alone products and services because they believe buying solutions forces them to ally with vendors, resulting in a decreased independency.

Key factor 3 – Identify and create synergies between products, services and knowledge

According to Kowalkowski and Kindström (2012), simply bundling products and services together is not enough to create a solution; technical integration should enable synergies which could not be achieved from purchasing the components separately. Providers of integrated solutions should develop new ways for components to work together as an integrated whole, increasing the overall customer value and creating unique customer benefits (Brady, Davies & Gann, 2005). Davies, Brady and Hobday (2007) suggest that customers are demanding more complex integrated solutions, forcing vendors to adapt and redesign in order to achieve the integration that is demanded. The solutions should create more value to the customers than would have been created

had they bought all the components separately (Galbraith, 2002). When creating and identifying synergies the provider may have to expand its view to not only see services as a part of the after sales activities; instead the knowledge and intangibles in the company should be incorporated into the offering, for instance in the shape of advisory services or a pre-study (Vargo & Lusch, 2004).

1.1.11 How to accomplish

Bonnemeier, Burianek and Reichwald (2010) argue that due to the complexity involved when selling solutions, vendors should employ interdisciplinary solution sales teams consisting of members from accounting, production, pricing and sales. This is in line with Brady, Davies and Gann (2005), who emphasize the need for the team producing the solution proposal to be multi-skilled and cross-functional with both commercial and technical capabilities, and Krishnamurthy, Johansson and Schlisberg (2003), who argue that the sales force needs to have credibility with both technical and business-unit decision makers. To achieve the level of competence required, vendors may hire people from their customers' organizations to be part of the sales teams (Galbraith, 2002).

It is argued by Brady, Davies and Gann (2005) that success in selling solutions is affected by the ability to be entrepreneurial and open-minded. This idea resonates with Bonney and Williams (2009), who observe many similarities between solution sales representatives and entrepreneurs in particular, and between entrepreneurship and solutions selling in general. Like successful entrepreneurs, successful solutions salespeople must allocate the resources available in such a manner that economic value is created and the customer's problem solved (Bonney and Williams, 2009).

1.1.12 Related challenges

Bonney and Williams (2009) suggest that there are great complexities present when integrating and customizing customer offerings, making it difficult to perform the solution sales in a cost efficient manner. Tuli, Kohli and Bharadwaj (2007) second this view, arguing that the high level of cross-functional coordination required may lead to high costs, which may be underestimated by solution providers.

Lack of functional structures with not divided responsibilities and low collaboration within different units in the organization may hinder the vendor to be able to identify synergies (Storbacka, Polsa & Säaksjärvi, 2011).

Key factor 4 - Link pricing to what the customer will earn by using the solution

When selling solutions, the price should be set based on the benefits it provides the customer when using it, with attention to the total life cycle cost of the solution (Storbacka, 2011). The service dominant logic of providing solutions representing the actual value realized for the customer causes changes to companies pricing strategies (Vargo & Lusch, 2004). Pricing in this context cannot only consist of optimizing transaction prices nor be based on competitive-product-comparison; it must reflect the duration and intensity of the relationship between the actors (Bonnemeier, Burianek & Reichwald, 2010). These pricing strategies are more difficult to create

than pricing tangible products but Bonnemeier, Burianek and Reichwald (2010) argue that without effective pricing strategies and processes companies may be unable to capture a reasonable amount of the value co-created in providing and using the solution. Furthermore, both Hinterhuber (2008) and Krishnamurthy, Johansson and Schlissberg (2003) argue that the foundation for an actor to sustain profitable is pricing strategies related to the value created for the customer.

1.1.13 How to accomplish

Kindström (2010) suggests that the parameters are agreed upon and decided together with the customer. Pricing approaches focusing on the output created are value-based pricing, where value might include optimization or productivity in the customer processes, and usage-based pricing, where the value typically represents functionality or performance, i.e. the direct benefits produced when the customer utilize the solution (Storbacka, 2011).

In usage-based pricing models the customer pays a pre-negotiated performance or functionality based fixed fee at a regular basis as long as the solution is utilized, whereas a value-based price could be based on the customer cost saving the solution can achieve. To accomplish a price connected to the value creation provided by the solution, the vendor has to innovatively assess and specify what the customer perceives as the value created by the solution, using this information when negotiating the price of the solution. (Bonnemeier, Burianek & Reichwald, 2012)

Kindström (2010) suggests that the pricing parameters are determined by the customer's perceived value creation and discussed and agreed upon together with the customer. Storbacka (2011) further suggests a performance-based pricing related to the intensity of use. It is argued by Hinterhuber (2008) that this kind of pricing strategy should be implemented with consistency in order to prosper fruitfully. To be able to quantify the potential value creation the relationship between the vendor and customer must be based on co-operation and trust; first then an optimal solution with a shared understanding realized value can be created (Brady, Davies & Gann, 2005). This view is supported by Hinterhuber (2008) who emphasizes the importance of communication of customer value.

1.1.14 Related challenges

Storbacka (2011) emphasizes that value-based pricing increases risk for the vendor, when promising a certain level of functionality and performance. This increased responsibility and risk must be incorporated in the price, something that is possibly difficult (Bonnemeier, Burianek & Reichwald, 2012).

Since solutions and services tend to be complex, they are often difficult to put a price on (Storbacka, 2011). Solutions often include non-monetary figures and values, making them difficult to quantify (Bonnemeier, Burianek & Reichwald, 2012). Hinterhuber (2008) argue that even if the vendor get access to the data needed, the data could be lacking or hard to interpret.

Key factor 5 – Demonstrate the solution’s potential to create value for the customer

According to Normann and Ramirez (1993), value creation means changing the environment for the customers, enabling them to create value with the support of the vendor. Vargo and Lusch (2004) argue that since value always is determined by the customer when using the offering, vendors can only offer value propositions; the customer must understand how the vendor’s resources and capabilities can be used to translate potential value into realized value through coproduction (Storbacka, 2011). If the customer does not perceive the relationship with the solution provider as value creating, long-term value capture is not possible (Storbacka, 2011). Kowalkowski and Kindström (2012) further argue that should the vendor not be able to communicate the value of the offering, the customer’s satisfaction and hence its willingness to pay might decrease. Because of this, vendors must be able to clearly visualize and communicate the value that the delivered solution will create for the customer (Kindström, 2010). Vendors must bear in mind that solutions value propositions must be based not on how they themselves measure performance, but rather on how the customers measure success (Krishnamurthy, Johansson and Schlissberg, 2003).

1.1.15 How to accomplish

Bonnemeier, Burianek and Reichwald (2010) suggest that naming reference customers might be helpful in convincing customers about the value creation of the solution. By doing so, the prospective new customers can be presented with stories showing the actual cost savings or added value that reference customers have experienced from using the vendor’s offering (Anderson, Narus & van Rossum, 2006).

Storbacka, Polsa and Säaksjärvi (2011) further emphasize the role of financial data to support solution sales; vendors must be able use this data to quantify the value realized by the customers. Anderson, Narus and van Rossum (2006) express a similar view by stating that vendors must be able to demonstrate and document the value propositions in order to make them persuasive; the customers need to clearly see the monetary impacts to be expected from using the solution. Kowalkowski and Kindström (2009) present several possible strategies for visualization of value, including using facts and statistics linked to the service delivery system, and presenting the customer with reference cases and cost calculations. This is in line with the reasoning of Storbacka (2011), who argues that solution provider regularly perform business case analyses, that identify the value created for the customer by using the solution.

Kowalkowski and Kindström (2009) also consider the strategy *association*, which means linking an object, place or person to the offering. To do this, and in order to achieve the reliability needed to convince the customers about the value potential, the vendor might emphasize its experience and brand as part of the visualization process.

1.1.16 Related challenges

It is crucial for the vendor to ensure that the customer is fully aware of what has been purchased and which obligations for both vendor and customer are implied in the offering; an agreement

must be reached regarding measures that decide the success of an offering (Kowalkowski & Kindström, 2009). Since perceived value is subjective, a challenge for the vendor is to ensure that all involved parties agree on the potential value (Kowalkowski & Kindström, 2012).

Due to the intangibility and interactivity of services, it is often more complex to visualize the potential value of a solution than a product; it may become difficult both to determine which value to communicate and how that value should be demonstrated and monetized (Kowalkowski & Kindström, 2009). According to Storbacka (2011), many companies admit to having capability gaps within the area of quantifying the value of a proposed solution, both internally and to the customer.

Key factor 6 – Ability to integrate the solution with other actors’ products

Brady, Davies and Gann (2005) argue that a truly customer-centric company accepts that the best solution for the customer may require integration of another actor’s product. Customers increasingly require more complex solutions, often requiring providers to incorporate technologies, products and services from several different actors (Davies, Brady & Hobday, 2007).

1.1.17 How to accomplish

In order to be able integrate other actors’ products into their own offerings, vendors need to expand their knowledge towards an open business model including more actors in the value-based network, reconfiguring roles and relationships. The vendor needs to put itself in a position where it is more than just a link in the value chain but instead is the center for providing solutions. This could be obtained by connecting knowledge and relationships. (Normann & Ramirez, 1993)

1.1.18 Related challenges

A challenge for open integration is accepting that the firm may not have the best products for the customer, but still have the best knowledge to deliver a solution (Brady, Davies & Gann, 2005). Normann and Ramirez (1993) further argue that suspicion and resistance might arise among vendors when having to adapt this customer-centric approach.

Key factor 7 – Measure and evaluate the value created for customer and vendor

Besides visualizing and quantifying value, it is important that solution providers take action to verify and report that the planned value has been created and delivered (Storbacka, 2011). Bonnemeier, Burianek and Reichwald (2010) argue that an analysis regarding the value added to the customer serves as important input for future projects as well as for the pricing of solutions. According to Kowalkowski and Kindström (2009), it is important for vendors to follow up what has been delivered in order to make sure that the customer feels it has made the right decision, hence building trust.

1.1.19 How to accomplish

Anderson, Narus and van Rossum (2006) propose that vendors measure and document the cost savings or incremental profits experienced by the customer from purchasing the vendor’s offering;

this follow-up of what the customer has earned can later be used for both praise and recognition internally as well as an increased credibility externally.

According to Storbacka (2011), the value verification is to be performed regularly and in collaboration with the customers. The vendors can evaluate customer satisfaction and encourage continuous interaction in order to maintain and enhance the relationships as well as to capture valuable customer input (Kindström, 2010).

Besides documenting customer-oriented metrics, it is also important for the vendor to measure profit and margins for each offering and customer. This documentation of true customer profitability can be used in planning and control, and together with segmentation it enables monitoring of performance both of individual customer relationships and of segments (Storbacka, 2011).

1.1.20 Related challenges

The main challenge related to this factor may be that many companies do not seem to measure and visualize the value created (Kowalkowski & Kindström, 2009). Reasons for this may be lack of measurement systems or that the value creation is too complex to measure to be deemed valid (Sommer, 2012).

Key factor 8 – Create customer centric incentives for the sales force

Since what is measured is what gets done, it is important to adapt a more customer centric approach also for metrics and the incentive system of the sales force (Shah et al, 2006). Clear rules of engagement and incentives are beneficial for a solution provider (Krishnamurthy, Johansson & Schliissberg, 2003). Changes towards becoming a solution provider often requires essential investments where incentives and measurements financial impact needs to be traced (Shah et al, 2006). Traditionally the sales personnel have been rewarded on sales volume and margins but a value-based approach demands that the incentive structure builds upon profitability (Hinterhuber, 2008). The performance measurement shall be able to tracking business value created as well as profitability and traditional contributions (Krishnamurthy, Johansson & Schliissberg, 2003). Examples of firms adopting a customer centric incentive structure are Nokia, IBM and Sun (Galbraith, 2002).

1.1.21 How to accomplish

Galbraith (2002) claims that incentives based on customer share, retention and satisfaction motivate the sales force to increase customers' profitability. To satisfy key customers incentives should attend to eliminating failures caused by the solution (Galbraith, 2002). When selling solutions and engaging in close relationships, the incentives must encourage the sales force to work through longer sales cycles in order to reach larger deals (Krishnamurthy, Johansson & Schliissberg, 2003).

Storbacka (2011) suggests that incentives should be based on metrics such as the number of long term contracts, sales funnel size and sales work-in-progress. To minimize the complexity regarding who contributes to what, the bonus systems should be team based where the sales team

is supported to involve in sales case development and solution development (Storbacka, Polsa & Sääksjärvi, 2011).

1.1.22 Related challenges

Creating a new reward system is a potentially difficult process for any company (Kindström, 2010). Shah et Al (2006) argue that the challenges lies in that these intangible customer centric metrcis are difficult to measure since value is hard to quantify; it might be difficult to directly linked efforts to impact. Customer value-based incentives may be in conflict with the traditional metrics employed, at least in the short run (Tuli, Kohli & Bharadwaj, 2007).

A business model perspective

According to Osterwalder (2012), a business model describes the logic for how an actor creates, delivers and captures value; it aims to clearly set and define a strategy through the organization's structures, processes and systems. Thus, for a vendor to transform from a traditional provider of industrial products to a provider of differentiable solutions, the business model may have to be transformed.

1.1.23 The building blocks of a business model

There are nine blocks in Osterwalder's business model: key partners, key activities, value proposition, relationships, customers, key resources, channels, cost centers, and revenue streams. Below follows descriptions of these; the block *channels* will not be investigated further here, as distribution is not emphasized by theory as a critical aspect for successfully providing solutions.

Key partners aims to identifying which external actors that may allow or will contribute to that the business model, and thereby the organization, operates and performs as planned. *Key activities* represent the crucial operations needed for the vendor to provide its customer with the value proposition. The *value proposition* consists of the attributes in the offering that creates value for a specific customer segment by meeting customers' needs. If the value proposition satisfies a new need, a whole new market can be created; otherwise, it may improve an already identified need, or applied to an already solved problem. *Relationships* consist of the level of customer contact and integration, which affect the customers' experience. The degree of customer contact may be executed in person or by indirectly via phone or email, but it is crucial that the vendors understand what their target segments expect, which customer contacts to use, and which costs that may arise from chosen level of customer contact. *Customers* are the heart of the business model, and should be segmented after their specific needs and behavior. The segments have to be prioritized by the vendor, knowing which clients to focus on and which to exclude to be able to build a unique business model. *Key resources* are the mandatory assets, both tangible and intangible, needed by the organization for creating the value proposition. *Cost centers* are the significant costs this business model sustains. *Revenue streams* arise from performing the different blocks in the business model and providing the selected customers with the value required. (Osterwalder, 2010)

1.1.24 Relationship between the business model and the key factors

The key factors for selling solutions, which are described earlier in this chapter, all relate to the different parts of the business model. These relationships are illustrated in figure 4, from which it can be seen that all parts of the business model would be affected by the aspects needed to consider when providing solutions. This indicates that a company striving to become a solution provider should review all parts of the business model, trying to discover what needs to be transformed.

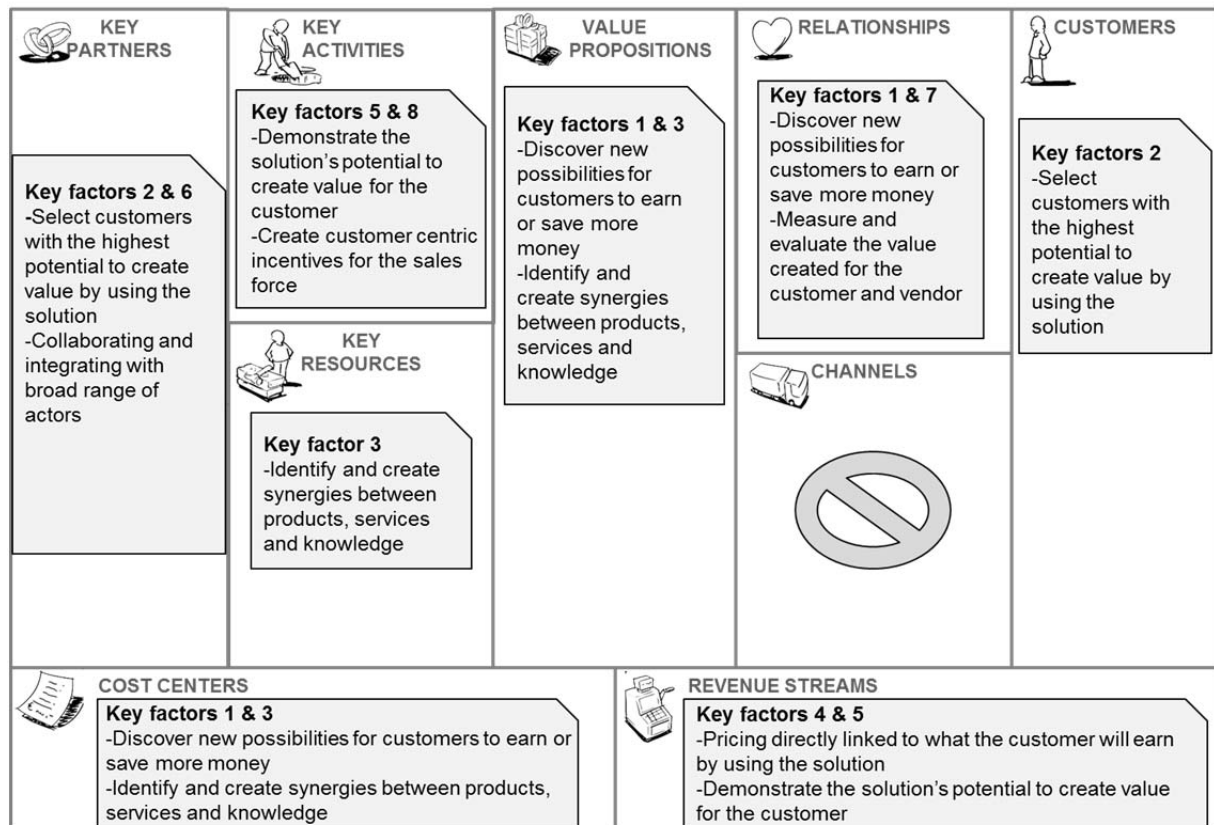


Figure 4: Relationship between the business model and the key factors. Adapted from Osterwalder (2010).

1.1.25 Changes needed in the business model when providing solutions

For highlighting the differences in the business model between a solution provider and a traditional product provider, it is interesting to relate it to the framework adapted from Kinnunen and Turunen (2012), which is presented in figure 1 and concerns the organizational culture and configuration. To facilitate this comparison, table 1 depicts differences between generic business models for what theory describes as a traditional product provider (with low customer centricity and service orientation) and a solution provider (with high customer centricity and service orientation). One main reason for the differences between these two business models is that the traditional product provider is more focused on technique driven development and internal processes such as increased efficiency in their manufacturing, thus having a less external, and narrower, focus than the solution provider.

Table 1: Comparison of business models

Business model block	Traditional product provider	Solutions provider
Key partners	Partnership with customers	Partnership with other external actors
Key activities	Product leadership	Customer insight
Key resources	R&D and manufacturing	Competences and knowledge
Customers	Everyone	Selected and prioritized
Value propositions	Production and technical products	Usability
Relationships	Reactive	Proactive
Cost center	Manufacturing and standardization	Sales and customization
Revenue streams	Transactional; products main revenue stream	Relational; services and knowledge main revenue stream

In figure 5, the business model framework is connected to the adaptation of Kinnunen and Turunen's (2012) framework. For a company that wants to move from being a traditional product provider towards becoming a solution provider, the incentive system (key factor eight) can be seen as a powerful transformation enabler. Thus, the arrow represents the change of incentive system and other organizational changes that may drive the transformation.

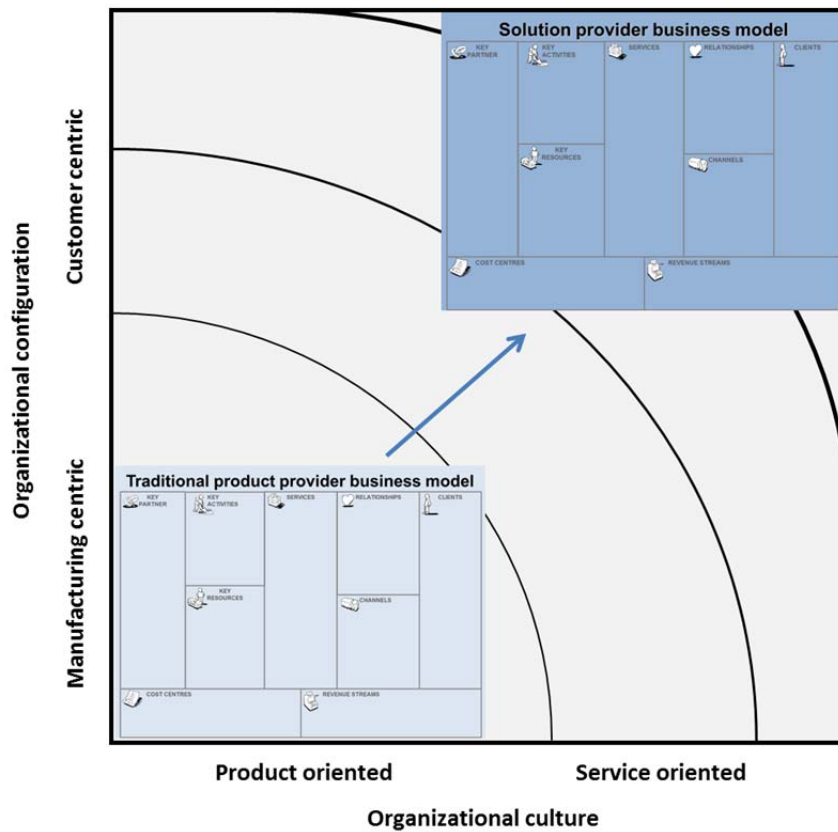


Figure 5: Business models in relation to organizational culture and configuration

In conclusion, in order for a company to become more customer centric and service oriented, thus giving itself a better chance of succeeding with providing solutions, it must consider transformation of all parts of the business model. This transformation may be facilitated by a change in the incentive system, as well as a strong managerial support and effort.

Empirical study and analysis

In this chapter the outcome of the data collection is presented, in order to provide the reader with what experienced managers believe to be key methods and challenges connected to selling solutions. The chapter contains a compilation of the interviewees' reasoning and discussions regarding the eight key factors found in theory and pre-study. The chapter begins with an overview of the interviewees' perceptions of solutions and the different key factors, before presenting each key factor separately. During the interviews, approaches on how to achieve each factor and related challenges was discussed, and the interviewees also had the opportunity to add additional suggestions. In the chapter these discussions are presented, alongside analytical discussions. The chapter is concluded with additional outcomes from the case study.

Introduction to providing solutions from a sales perspective

In the introduction and theory chapters, discussions can be found regarding the characteristics of solution providers. The empirical study has showed that the word *solution* is defined in several different ways by the interviewees; however most agree that a solution is an offering that solves a problem for the customer. Many also see a solution provider as a company that is able to provide a wide range of offerings, including not only products but also incorporating services and knowledge. Some of the interviewees said that the solution sales process should be business case-driven, with each solution being customized to fit the customer's individual needs. An important aspect of solutions mentioned both in theory and by most of the interviewees, was the need for creating solutions that are possible to standardize to some extent, thereby creating economies of scale in the solution business.

Although these views are in line with what theory suggests, most of the interviewees do not see all the aspects of providing solutions; some focus more on packaging products and services, whereas others work hard to identify customer problems. As a result, the companies could risk missing opportunities to leverage sales, as they might not provide the most optimal solution offering. For instance, some companies see solutions as high-tech product offerings attending to specific customers' needs, hence not pursuing the opportunity of incorporating services or other intangibles into the solution. The empirical study indicates that there are large opportunities for companies to improve their solutions offerings and thereby leverage sales, by expanding their focus from the traditional products business.

Most of the interviewees did however agree on the importance of providing solutions; many experience rapid commoditization of their products, making it very difficult to maintain good profit margins. Because of this, providing more solutions is seen as way to survive, as it enables higher prices and differentiation towards competitors. Despite this, several interviewees appeared uncertain as to how they should use solutions to differentiate themselves; this is problematic since in order to become successful in their solution business, the points of difference should be clear to the providers. Other interviewees were aware of how their solution offerings were differentiated, but admitted that this differentiation was not sustainable in the long run. This indicates that the challenge of creating solutions that differentiate the providers for a long period of time is something that many struggle with.

During the empirical study the interviewees were asked to answer a questionnaire in order to be classified based on their customer centricity and service orientation (figure 1). The classification resulted in three main segments, the largest one consisting of companies with a high customer centricity and a medium service orientation (see appendix 1 for more details regarding the classification). No clear distinctions could be found when comparing the classification with industry affiliation, indicating that the organizational configuration and culture vary from company to company, irrespective of industry.

Ranking of the key factors

The interviewees were asked to rank the eight key factors, in order of relative importance and impact on successful selling of solutions, see figure 6. The factors perceived to be the most important were number one, three, and five. Please note that as the interviewees were asked to rank the factors in relation to each other, the aspect of absolute importance has not been taken into account. However, as described in chapter 3 all factors are considered important in relevant literature, implying their importance in practice as well, even though the interviewees largely agree on which factors are the most important in relation to the others. One possible reason for the consensus regarding the factors with the lowest rating might be that interviewees find these difficult or even unrealistic to achieve, and therefore choose to prioritize other factors. This possible negligence of factors might cause suboptimal performance; if attention was paid differently to the low ranked aspects perhaps the result from the interviewees providing solutions efforts would have been different.

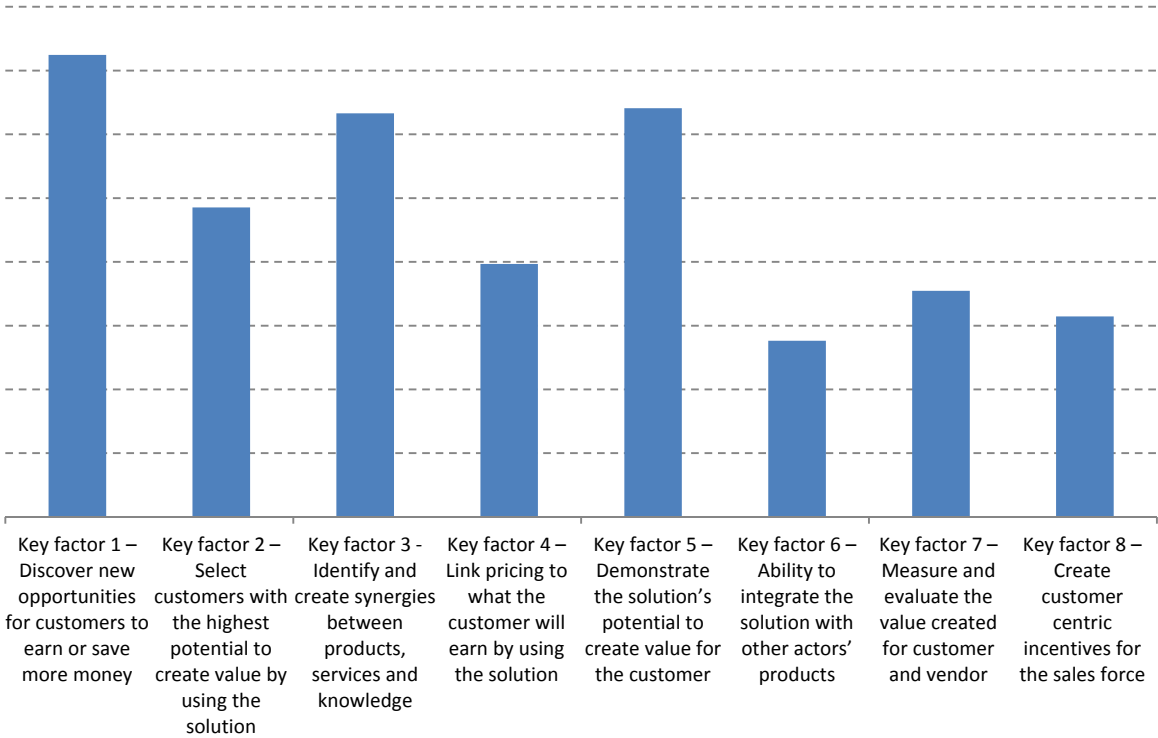


Figure 6: Ranking of the key factors

The top three was quite clearly distinguished; they obtained significantly higher ranking than the rest of the factors, and were also chosen among the top three from a lion's share of the interviewees. Industry affiliation does not appear to have an impact on the ranking of factors – the top three and the bottom two are the same regardless of looking at *commercial vehicles & transportation* or *machinery* (appendix 1).

As for the classification segments were some slight variations, although they all placed the same three factors within the top three. However, for some segments the top three were not quite as clearly distinguished as they were in total, indicating more dispersed views in these segments. Because of the relatively similar opinions from the different classification segments, these will not be investigated further; the classification outcomes can be found in appendix 1.

Key factor 1 – Discover new opportunities for customers to earn or save more money

This is the factor that was ranked the highest, with 73 percent of the interviewees placing it within the top three, and 31 percent ranking it the highest. This opinion was shared amongst all segments except one, which ranked it as the second most important. The perception of discovering new opportunities and understanding the customer's business as critical to selling solutions is emphasized by the fact that only one interviewee ranked it within the bottom three. Notably, this factor had the third lowest standard deviation of the factors, indicating a consensus regarding its importance. As this factor is seen as highly important both in theory and practice, it appears to be one of the keys for success when selling solutions. Several interviewees saw possibilities of using what has been learned from this factor in future projects; it was suggested the vendors should use a pilot projects, from which business cases with unique value propositions were created. These can then be used as a basis for creating proposals for future customers, thus giving the vendors economies of scale as they would not have to start from scratch with each new project.

1.1.26 How to accomplish

In order to discover new opportunities for the customer to earn or save more money, the most important steps to take according to the interviewees were understanding the customers' businesses and markets by meeting them regularly, and challenging the customers' outspoken needs. The use of internal documentation systems was considered relatively less important. These approaches are discussed below, together with additional alternatives which were discovered during the study.

To be able to gather customer insight by meeting the customers on a regular basis, close customer relationships are important. This might be facilitated by the use of key account managers, who visit key customers at least a couple of times each month and perform surveys and customer needs analyses. It is also imperative that the sales force widen their scope and focus on understanding the customers' business and market environment. The vendor has to understand where in the buying process the customer is and what needs are considered urgent. In order to understand trends in the customer markets, some interviewees pointed out that their sales team consists of people with relevant industry experience; one company has employed health economists

responsible for analyzing public health trends, as these are believed to drive the end market and the behavior of the customer's customers. Furthermore, having focus group sessions for both customers and customers' customers is another way for vendors to understand the needs and learning about the market. The fact that this was highly emphasized by almost all interviewees as well as highlighted in theory confirms it to be one of the keys for finding new customer opportunities. However, even though many companies see the need for this proactive approach, many admit to still be working reactive. Thus, the opportunity generation and hence selling of solutions could possibly be boosted by an increased focus on proactivity and continuous customer contact.

In many cases the customer tells the vendor its demand on a functional level, but in order to find new opportunities for the customer to save or earn more the vendor has to dig below the surface to be able to understand what the customer really needs. One example stated was that the customer does not need electricity consumptions in kWh; the actual need is a facility with an even, pre-determined temperature and humidity. Some of the interviewees even indicated that in order to encourage their sales teams to question the expressed customer needs, their mindset should not be the typical "the customer is always right", but rather the quite extreme "the customer is always wrong". Theory also emphasizes the need for the vendor to be daring and provocative, but according to the interviewees, provoking is not the way to go; all statements must be based on facts, and delivered to the customer in a humble manner. There is a possibility that this cautiousness is obstructing vendors and that if they dare to be a bit more challenging in customer contacts, they might be able to sell more to each customer.

Documentation and storage systems may be used to share and gather important customer insight regarding buying behavior, size, decision makers and processes. Some interviewees argue that however important, this may not be the sales force's task, whereas others indicated that they either do not have, or do not use, structured customer relationship management systems. Possible reasons for this are that the systems often are difficult to keep up to date or considered complex and time-consuming. This indicates that documentation of customer data and using that data in strategic planning is not perceived to be as important as in theory. Many interviewees seem to be aware of a documentation system in place, but the use appears to be limited. By having a structured process for documentation of the customer insight that many members of the sales force possess, the vendors could make use of this insight more effectively.

Another suggestion mentioned by the interviewees was employing a more consultative approach where the sales team advises the customer, suggesting technical solutions that save time and money for the customer. Since providing solutions demands more time and effort spent on the sales process, educating the sales force in a consultative role may be suitable as it can increase the revenues and give a return on the work that has been done.

There were also suggestions to work with identifying the customers' most important key performance indicators or upcoming regulations, with the aim of gaining a deeper understanding of the customer's issues and hence being able to better match the vendor's resources and

capabilities with those of the customer. This could be identified by a deep customer need analysis or by using customer focus groups.

1.1.27 Related challenges

The challenge faced by most of the interviewees was lack of time and resources, caused by the fact that selling solutions put more effort on the sales force compared to the traditional selling of products. One interviewee, representing a company with thousands of customers and only a dozen salespeople, argued that it is not possible for them to gain the customer insight needed to accomplish this factor. In contrast, others claim that this should not be an issue since it should be the main task for the sales team. Some argued that a perceived lack of time and resources might actually rather be lack of understanding or competence; spending a substantial amount of time with the customer in the initial phase will likely pay off in the long run. This indicates that some vendors and sales team are not willing to spend this extra time and money, which shows that they are not yet fully ready for or do not want to provide solutions since it appears easier to sell from a product catalogue at a market price. Hence, it is important for vendors to ensure that enough time and resources are allocated for these new activities when focusing on solutions. This may also be a cause of flawed incentives; if they are primarily focusing on volume and margins they may harm the sales team's willingness to spend the time needed in the solution sales process, as quick deals are rewarded. Many interviewees said that the sales team's attitude towards selling solutions is essential in order to transform towards becoming a solutions provider.

Another challenge is that the customers can, or at least believe that they can, identify and solve their problems internally. According to some interviewees, the key for the sales team is to convince the customer of the opposite, which even if true might be difficult. The sales team has to demonstrate that the vendor has the expertise and understanding required to enable successful business for the customer. The interviewees seem to agree that in many cases the difficulty is not that the customers are able to solve their own problems and that the vendors therefore are redundant, but rather that they have a firm belief in their own capabilities and are unwilling at first to be aided by the solution vendors. Because of this, it is important for the vendors to build trust, but also to approach the customers in such a way that they feel included and important.

Possible unwillingness from the customer regarding opening up and letting the vendor in is another potential challenge, however most interviewees argued that this is not common, at least not when providing a holistic solution or if the brand is acknowledged. Others claimed this to be true when looking at the procurer's perspective; in some cases, the vendor was not allowed to contact the customer's engineers or other anyone else that could influence the procurement decision without participation of the procurer. Overall, this challenge appears to be a larger threat in theory than in practice, and it is not seen as particularly difficult by the interviewees. It should however be pointed out that it is a possible challenge when approaching new potential customers, with whom the vendor has no previous relationships. For these customers, the difficulty might be getting to know the customers by learning about their processes; something can be very difficult without some access into their operations.

An additional challenge is that the fast-moving business environment might shorten the timespan available to the sales team for discovering new opportunities. This requires clear guidelines and efficient processes for opportunity generation, provided by the management. This shows the importance of the solutions provider's ability to prioritize and carefully select on what to focus on.

It was also stated that when a customer expresses a need, it has already performed costly investigations, which may minimize the vendor's ability to verify the need or to find more opportunities. It is not easy to change an organizational structure to buy solutions instead of only products, and so the customer may be used to buy what it always have bought. Statements like this indicate that a large challenge may be the internal organizational change needed to transform to truly being a solution provider.

1.1.28 Key findings

For discovering new opportunities for its customers, the vendor should strive towards building a trusting customer relationship, gaining customer insight and creating a strong sales team. In order to achieve this, the vendor is suggested to have a regular customer interaction and performing stakeholder and need analyses, as well as using customer focus groups where different customers are invited to discuss their experiences and needs. Another interesting suggestion was employing a consultative approach, which besides offering a service could help both in relationship building and in gaining customer insight. The sales team can be strengthened by employing cross-functionally, providing education and support, and by encouraging knowledge sharing, all of which can be facilitated by the use of an appropriate incentive system.

Theory suggests that one challenge might be a lack of readiness or willingness of the customers to buy solutions, but the empirical study indicates that in many cases the vendors themselves are not ready. Most of the interviewees did not perceive customer unwillingness as a major challenge; instead, a lack of time and resources devoted to finding customer opportunities was seen as the largest obstacle. In many cases there is a gap between the management and the sales force and a lack of common understanding of the reasons for providing solutions. There might be a need for more support of the sales force in order for the organization to be able to find customer opportunities and thereby improving the solution business.

Key factor 2 – Select customers with the highest potential to create value by using the solution

This factor was ranked as number four by a fair margin, and with both median and mode of four it appears to be quite highly valued; it was even picked as the most important by 15 percent of the interviewees. It is worth noting that even though this factor was quite far off the top three it was never chosen as the least important; the interviewees agree that selection of customers is something that affects the outcome and efficiency of selling solutions, however this area remains uninvestigated by some interviewees.

1.1.29 How to accomplish

The different possible ways of accomplishing this factor were ranked as rather equally important, indicating that a lack of consensus as to which are the most important. This may show that there is

no clear definition to what the right customer segments may be in order to provide solutions, nor a common understanding of how the companies should target different customer segments.

Evaluating previous experiences from projects with already established customers is seen as important since the insight gained can support customer segmentation, which can be used for future assessment of potential partnerships or references. Although some interviewees saw this as a useful way of selecting customers, few had a clear thought on which parameters should be evaluated, and even fewer mentioned having a system in place for this kind of evaluation and segmentation. Often, it is up to each salesperson or sales manager to decide how customer evaluation and selection is performed. Furthermore, few appear to have embraced the idea that solutions are not appropriate for all potential or established customers. A few interviewees were however able to present standardized tools and methods, including stakeholder analysis and customer need analysis, which were seen as very useful for prioritizing which customers to target and put extra effort on.

Identifying customers with a high willingness to change might be useful for finding market leaders, companies willing to gain first mover advantages and becoming trendsetters. These companies are perceived as innovators and early adopters, and thus essential to target in order of crossing the chasm and being able to sell to the majority. In theory this is seen as central in selecting which customers to approach with solution offerings, and while many interviewees agreed on its importance, few were able to describe the process on how to reach these customers. Some said that to be able to sell to market leaders, the vendor also has to be a market leader in its own industry.

Many interviewees emphasized that the prospective customers do not need to have high profits today to be attractive, however it is appreciated if they have a potential for future profitability. A possible difficulty with targeting already very profitable companies is high competition; many want to collaborate with these companies, giving them a strong bargaining position, possibly resulting in lower prices. Since selling solutions is such a resource intensive and relational activity it is important that the customer is profitable for the vendor. Especially since the purpose may be to build a long-lasting relationship which is beneficial for both parties, profitability could be seen as an important indicator of future prosperity and should not be overlooked.

Additional views shared by the interviewees were that attractive customers for buying solutions are those willing to build a long-lasting, trustworthy relationship; they should also have stable cash flows and decent liquidity. Almost all of the interviewees highlighted that relationships and partnerships are critical for providing solutions, while a few also pointed out that providing solutions in itself might be a way of building and strengthening relationships.

A careful customer selection is important not only for each particular relationship; it also facilitates the possibility of applying what has been learned on other future customers with similar issues. Some interviewees use prioritization tools, with customer specific parameters filled in by each salesperson, as a way of deciding which customers to proceed with. These tools work as guidelines for the sales team, providing them with a clear view of many important aspects to

consider for solution sales, including risk of losing the deal, the customer's eagerness to work with the vendor, potential growth et cetera. When creating this customer evaluation model, it is important to thoroughly investigate which parameters are the most relevant and how they should be weighted in order to create an accurate estimation.

1.1.30 Related challenges

The main challenge related to targeting the right customer is the difficulty of convincing customers about the additional value a solution could bring, compared to only buying products. Some industries are slow and it is often the vendor that pushes solutions, making the decision of whom to push the solutions toward very important. This highlights the need of a careful customer selection, and indicates that one possible reason for unsuccessful solution selling is a lack of maturity from the customers; if the market is not ready, solutions might not be the best alternative at that stage in time. For this reason, it is essential that vendors thoroughly analyze which customers to target with solution offerings. In some cases, it appears that the vendors perceive their customers not to be ready for buying solutions, even though the problem may lie within their own organizations.

The second most important challenge is the effort of ending established relationships due to lack of profitability; this might be difficult to do because of close relationships, however some respondents argued that simply raising price would solve this problem. This indicates that no matter how strong the relationship is, ultimately price and monetary factors are the most important to both vendor and customer.

Some interviewees expressed that choosing clients was a luxury they could not afford, but rather they would serve whoever wanted to do business with them. This might make sense in the short term, but since providing solutions requires a time and resource demanding sales process it is not cost efficient to target everyone. For this reason, if a vendor wants to sell to every potential customer, it should carefully decide which to offer solutions, and which to offer traditional product offerings.

1.1.31 Key findings

To facilitate the selection of customers, the vendor should work with creating a segmentation and prioritization, as well as using reference customers, which can later be used for building relationships and demonstrating value. In order to achieve this, vendors should perform a thorough analysis of the customers' needs and main stakeholders for each solution, as well as having a regular customer interaction. Not only does this facilitate the customer evaluation and segmentation, it also helps building relations and partnerships.

There is no common definition of what characterizes an ideal solution customer; however the interviewees want the customers to be trustworthy, have stable finances and possibly being trendsetters or market leaders, with a chance of influencing its peers and thus increasing the demand for solutions in the market.

The main challenge for the sales teams appears to be convincing the customers to buy solutions instead of just products. Furthermore, many interviewees struggle with the fact that for most of the customers the price is still the far most important aspect to consider for procurers.

Key factor 3 – Identify and create synergies between products, services and knowledge

This factor was ranked as the third most important, just behind factor five. With 73 percent of the interviewees placing it within the top three, and 15 percent as number one, its importance is clear; the creation of synergies is perceived to highly affect the selling of solutions, and vendors must address this in order for their solution business to be profitable. Many actors agreed to this being a fundamental factor in order to increase customer value, customer loyalty and hence the opportunities for profitability; thus, identifying and creating these synergies may boost the transformation towards selling solutions.

1.1.32 How to accomplish

Combining the right competences and experiences by forming sales teams with both technical and business skills was suggested by almost all of the interviewees as being an important step towards creating synergies. Focusing on competences rather than resources, and encouraging entrepreneurial skills were considered relatively less important, but may however still be useful in creating a strong sales team that can discover and realize synergies.

Creating sales teams with both technical and business skills was seen as the best way to achieve synergies in the solutions. Some interviewees suggested creating innovation forums where salespeople interact with other members of the organization, such as people within R&D. It was argued that to be able to create synergies, the company has to invest in innovation and development as these activities may aid the sales force in its work. Many interviewees also pointed out the need for the salespeople to be customer oriented and sincerely interested in the customer's business. This was best exemplified by one company serving mainly hospitals, who has employed nurses in order to gain a deeper understanding of their customers' activities and workflow. The need for cross-functional competence was highly emphasized in both theory and practice, which indicates that this truly is something that must be attended to and that placing an effort when forming the sales teams might pay off in the future. Some companies employ global ambassador teams that are responsible for educating and inspiring sales teams; these best practice teams should lead by example and thus consist of people with a proven track record of selling solutions.

Most interviewees also agreed on the importance of focusing on competences rather than resources, and encouraging an entrepreneurial spirit and creativity in the sales force. It was mentioned that for product oriented companies, this shift of mindset from resources towards competences is an ongoing transformation that may take time. Both creativity and entrepreneurial skills appear to be desired in order to be able to find synergies, but these should be supported with structure and standardized models. The desire for hiring salespeople with an entrepreneurial talent resonates with the discussions concerning factor one, as this ability and mindset facilitates finding new opportunities for the customers. Finding or developing this entrepreneurial drive and

creativity might be difficult if the sales force is used to selling products from a catalogue, as that approach requires a different set of skills.

Knowledge sharing through lessons learned-sessions or mentorship programs, and creating an open atmosphere where questions are welcome were also suggested by several interviewees. The knowledge has to be captured and realized in such a way that it can be packaged into the solution offerings, thus providing the vendor with a differentiating factor. Since knowledge is more difficult to copy than products it does not commoditize as easily, making it very valuable for solution providers. It could be argued that in order to create the best solutions and realizing synergies the vendors should focus more on their intangible assets, as these contribute to a large part of the company's value and possible competitive advantage.

Another suggestion on how to realize synergies is creating sales units with a holistic perspective, responsible for the whole solution process, from beginning to end, for each customer. In order to do this, responsibility areas need to be clearly communicated to decrease the risk of internal conflicts regarding failures or rewards. Besides having a holistic perspective, it might facilitate synergy creation if the vendors are open to multi-vendor integration, which is discussed in more detail in section 4.8.

1.1.33 Related challenges

One challenge connected to this factor that almost all of the interviewees agreed to be difficult was the complexity of creating solutions, and the difficulty of ensuring cost efficiency. This stems from the risk that the scope of the solution and thus the project may change along the whole process, even during implementation. The cost estimations are sometimes subjective and difficult to specify. Another potential reason for the complexity is that solutions are often sold globally in high technology driven industries, but at the same time needs to be adapted locally. Some argued that this is not a challenge if the company manages to standardize components within the solution. This highlights the paradox between customizing the offers according to each customer's requirements, and standardizing them in order to gain economies of scale. Vendors must be aware of this trade-off and carefully decide how customization and standardization should be balanced for each solution sold.

Some interviewees admitted that their organization is not ready to deliver good solutions, making it difficult for the salespeople to believe in selling them. This confirms that there may be several internal challenges that management must attend to, possibly outside the responsibilities of the sales managers; management needs to provide their sales teams with education, tools and support systems facilitating their transition from selling products to solutions.

Allocation of resources and competences is another challenge that the interviewees pointed out; experts may be needed in several projects and therefore not being able to follow through and participate in all projects until completion. As the need for time and effort spent appears to be higher for selling solutions than products, this supports the discussions concerning factor two; a careful selection of solution customers appears to be very important. It should however also be noted that if a vendor decides to become a solution provider, it might need to streamline its

operations so that every hour spent by the sales force is used more efficiently. By doing this, vendors will decrease the risk of losing customers as a result of them feeling unattended to.

1.1.34 Key findings

The competence and composition of the sales teams is the main way to facilitate the identification and realization of synergies. The sales teams should be cross-functional, having both technical and business skills as well as a holistic perspective and responsibility for the entire solution process. The competence level needed can be achieved by recruiting from customers, using lessons learned-sessions and mentorship programs for knowledge sharing, and creating internal innovation forums where different departments can share their experiences. The design of an appropriate incentive system also highly affects the actions of the sales team, and can thus be seen as an important activity.

The main challenge related to this factor appears to be the gap between the sales force and the rest of the organization. This gap stems from the complexity of working with solutions, and the need for organizational change that is often needed when transitioning towards solutions. The management needs to educate and support the sales force and the rest of the organization, so that synergies can be realized.

Key factor 4 – Link pricing to what the customer will earn by using the solution

Although this factor was only ranked as the fifth most important, almost a third of the interviewees placed it within the top three. This is the factor with the highest standard deviation, indicating that the interviewees have quite varying attitudes towards it. Some see this as key, arguing that value-based pricing, however difficult, is essential when selling solutions; in order to become solution providers, companies need to be innovative also in their revenue models, making this type of pricing interesting to adapt. Some argue that value-based pricing is the only alternative if a vendor wants to deliver premium solutions, while others believe that due to its difficulty it is not applicable in their situation and business context; for instance, companies with customers within the public sector do not see this as possible within the immediate future.

1.1.35 How to accomplish

In order to achieve a pricing linked to customer value, most of the interviewees suggested basing the prices on an agreed upon performance or output. Many interviewees said that they sometimes have pricing connected to performance, often due to customer demand. By doing this, for instance through promising 97 percent availability, the vendor can include services in the solution as well as having customer contact on a regular basis via maintenance activities during a longer time period. This is positive as services have higher margins than products, which usually face tough competition. Some interviewees said that if they perform better than promised then they get bonuses and if they do not achieve the promised performance, they face monetary penalties such as reduced payments. Furthermore, some interviewees mentioned that in order to guarantee the performance rate, they have employees stationed at key customers; not only does this build closer relationships and deeper insight into the customer's daily activities, it may also create new sales

opportunities and improve customer insight. It was also mentioned that customers are becoming increasingly interested in adding a guaranteed start-up time in case of failure; for critical technology every minute of downtime can be extremely costly and because of this customers are willing to pay a premium to minimize this time. It can be devastating for many customers if their networks or processes break down; this forces vendors to deliver solutions of high quality but also creates opportunities for charging higher prices.

Besides agreeing on performance or availability, some interviewees exemplified situations where a price based on the customer's realized output could be useful; for instance, one company selling forklifts and transport solutions includes both vehicle optimization and driver training, resulting in fuel reductions which is both instant and easy for the customer to measure. In order to do this, vendors might need to show quantitative measures of the value or output to be expected by the customer; this may be facilitated by focusing on the overall life cycle cost of the solution rather than just the transaction cost. As pricing linked to customer value is dependent on the customers' perceptions, using easily understood, concrete measures might prove to be very helpful.

Clear contracts where risks, guarantees and requirements are unambiguously communicated were also seen as critical since they may facilitate communication, ensuring that vendor and customer are in agreement as to what is promised and expected by both parties. As selling solutions is more relational than simple product transactions, contracts are critical. The vendor is dependent of the actions of the customer throughout the whole contract time; if the customer after some time decides to renegotiate the deal, the vendor may risk either losing the customer entirely or possibly losing a portion of the estimated future revenues. Hence, value- or performance-based pricing may infer higher risks to the vendor than would traditional cost- or competitive-based pricing. Some interviewees argued that due to the risks involved, the vendors might want to minimize the contract, promising as little as possible. This may indicate a lack of internal trust, with the sales force not experiencing full management support.

Another way of pricing value-based is sharing the earnings created for the customer by using the solution; some claim that this is ideal and can be seen as a "win-win situation", but very few have experienced this in practice. It is argued that this pricing policy only is possible to accomplish when there is a strong relationship and established trust between vendor and customer. Some interviewees believe in earnings sharing but highlight that their markets have a long way to go before this can be realized, whereas other argue that this type of agreement may only be possible for certain after sales offerings. The fact that theory suggests this policy to be very attractive, while in reality most companies find it infeasible indicates potential opportunities for increasing revenues from selling solutions, should vendors find a way to implement this pricing policy.

1.1.36 Related challenges

Measuring and quantifying the potential value to the customer seems to be the challenge faced by most of the interviewees. The vendor must understand all aspects affecting the potential value, stating these in a value proposition. Doing this sometimes requires involvement from the customer, possibly even with the inclusion of looking at its financials. After receiving the initial

value proposition, the customer might add more requests, which the vendor needs to quickly assess both technically and financially. Many interviewees argued that even though quantifying the value potential is an important task for the sales force it is difficult in practice, perhaps due to a lack of appropriate estimation tools and support systems. As the sales force has a critical role when it comes to price negotiations, vendors must assure that the salespeople receive sufficient support and advice, either through education or through the composition of sales teams with experience and competence tailored to each customer's requirements, as discussed earlier.

Some interviewees said it might be difficult for the vendor to even estimate what the customer will gain from the solution in the future, as their technologies and requirements change. It is argued however that this should not be a problem if the vendor is able to, possibly through a standardized process, understand the customer's workflows and processes. Once again, the connection between understanding the customer, communicating value and pricing is apparent, indicating the importance of these areas for a well-performing solution business.

Another possible challenge is identifying and dividing risks and responsibilities between the parties involved; this should be included in the price and thus might cause discussions and disagreements. In order to mitigate this and to achieve a strong bargaining position, the vendor must convince the customer that they are the best at what they do and that the risks are low.

Several interviewees also highlighted the customers' readiness, or rather lack thereof, towards accepting a value-based pricing. Many procurers prefer cost-based pricing as this is what they are used to, and hence many negotiations result in either cost- or competitive-based pricing. In order to overcome this, vendors could focus their efforts on stakeholders on a different level within the customer organization than the procurers. In addition to the un-readiness or unwillingness of the customers, a shift in the mindset of the sales force might also be needed, as selling cost-based is perceived to be much easier than selling value- or performance-based. This shows that many markets are rigid in their willingness to buy solutions but it may also indicate that the sales force in some cases is unwilling to sell solutions rather than just products, since it is perceived as more difficult. For the sales team to be comfortable with other pricing strategies than just competitive- and cost-based pricing, it must experience sufficient education and management support.

1.1.37 Key findings

Rather than a main key factor for solution selling, this can be seen as an outcome of good value demonstration (factor five); if the vendor is able to properly demonstrate what the solution will create for the customer, it will be easier to agree on what to measure and hence what to base the pricing on, increasing the opportunities for working value-based. Because of this, most activities contributing to demonstrating value will also be beneficial for value-based pricing.

Many interviewees saw more difficulties than ways of accomplishing a value-based pricing; for instance, there was a lack of trust towards the organization's ability to deliver what is promised and thus not having to pay fines or risk damaging the customer relationships. Pricing competitive- or cost-based is seen by many as safer and easier, even though it might generate lower profits than

value-based pricing. Doubts were also raised relating to the risk management capabilities that might not be adapted to this more risky pricing approach.

Key factor 5 – Demonstrate the solution’s potential to create value for the customer

This factor was ranked as the second most important by all the interviewees, as well as within most industry and classification segments. It is also worth noting that 73 percent ranked this within the top three, which was the same percentage as for key factor one. Interestingly, this factor was considered the most important by one classification segment, namely the one consisting of interviewees with high customer centricity and high service orientation. Within that segment, everyone ranked it within the top three; an indication that the interviewees with the most solution-appropriate mindset all highly value the importance of demonstrating value. It appears that this factor is crucial for selling solutions, as it is the final decider of whether or not a deal will go through.

1.1.38 How to accomplish

According to the interviewees, demonstration of the solution’s value potential can be achieved primarily by showing the potential monetary outcomes for customers in a business case, and by using reference cases.

As mentioned above, the quantification of value was ranked as an important aspect of demonstrating the value potential for the customer when using the solution. It was suggested that the vendor tries making these, often complex, calculations simple to use for the sales team, by using standardized calculation sheets or other similar tools. When quantifying the value potential, vendors must focus on the entire life cycle of the solution, demonstrating how increased costs for the customer initially may result in significant savings in the future. The calculation sheets should form a business case, showing to the customers which savings or gains could be realized by using the solution. Besides simplifying the sales team’s job, the calculation outcomes must be easily grasped by the customers, and possibly modified in order to highlight the aspects most highly valued by each customer. So while a standardized model is good as it may create economies of scale, the vendor must be ready to adapt that model or tool to fit with each individual customer, as the ultimate aim of this model is communicating value. Some of the interviewees argued that the value parameters included in the quantification model should be provable and measurable, so that it is possible to unambiguously determine the monetary outcomes. Furthermore the parameters should be of a significant impact on the customer and perceived to be important; because of this, customizability is also desirable.

Many interviewees said that using reference cases is an easy way of communicating the value potential and that a reference works as promotion for the vendor’s achievements in similar situations. It was also emphasized that as you never are better than your last project, the reference cases need to be up to date and relevant. Using reference cases may be particularly useful when vendors are trying to grow in new areas and therefore need to prove their strengths. There were no deeper discussions regarding how to select which customers to use as references, which may

indicate that using references is a reactive process where the vendor asks certain customer if they may be used as reference cases only after solution deployment. If the vendor does not know who to target in an immature market then it may be difficult to sell to a larger segment of customers. To build a useful and qualitative reference case library, thorough analyses ought to be performed primarily by following up during and after the implementation of the gains for the customer. Thus key factor seven, measuring and evaluating, is an important contributor to creating reference cases.

Using the company's experience and brand image in order to demonstrate trustworthiness and knowledge was perceived by the interviewees to be somewhat less important than to reference cases and value quantification. Some claimed that vendors first must earn trust by providing solutions, and that the brand and reputation is secondary. From the procurers' point of view, brand and experience might not be on top of their shortlist, although in the end it could prove to be decisive should two competing offers be very similar. A strong brand might also enable expansion into certain areas or markets that would be otherwise very difficult to gain entry to. That being said, brand awareness is not perceived to be more useful when selling solutions than it is when selling products.

An additional factor emphasized by several interviewees was educating customers about the offerings and their applicability for the customers' businesses; if they are more aware of what the solution and a potential collaboration might result in, they might be more eager to accept the proposed value and more willing to establish a relationship. Besides building relationships, education of customers is useful both for demonstrating interest and commitment, as well as for further building an understanding of the characteristics and needs of each customer. One possible design of the education is using an online tool where different courses are offered, depending on the role and interest of the participant. With an online tool, it is easy for vendors to see which areas the different customers appear to be more interested in and where they might be struggling. It is particularly useful for vendors with many small customers, since it enables interaction and relationship building without the need to travel. Furthermore, smaller customers might be more inclined to partake in this education, especially if the vendor can communicate the benefits created for them.

1.1.39 Related challenges

Many of the interviewees saw reliable quantification of value as the most difficult challenge related to demonstrating customer value. It requires an effort from both customer and vendor, and there is a substantial amount of complexity involved as many parameters may vary in the future, depending on the actions of the customer. Thus, creating a standardized estimation or calculation sheet might prove to be not particularly useful; however, many interviewees still see a need for this as they believe it would support their sales team greatly. Some of the interviewees did however argue that this is not a problem if the vendor has a close communication with the customers, developing the models together with them.

The challenge ranked as the second most important was the risk of gaps between the customer's and the vendor's respective perceptions of created value. This may be the result of a lack of

discussion or communication in the initial solution project phases, causing misunderstanding between vendor and customer. One interviewee stated that even though many customers understand *what* the vendor does, few understand *how* they do it and even fewer *why*. The customers would possibly be more inclined to understand and accept the proposed value should they better understand the vendor's *how* and *why*. One way of decreasing this risk of miscommunication is using a clear and thoroughly worked through business case, another is having a close customer contact or educating the customers, as discussed earlier.

The possible difficulties of identifying and allocating risks and opportunities affecting the value were not perceived to be as important as the challenges stated above; this is something most interviewees have experience of.

Another challenge mentioned was that using up to date reference cases might be difficult and time consuming, as some customers do not want to be used for references, especially if the solutions delivered to them are innovative and unique. Furthermore, the building of a reference library might be hindered as there is some information connected to the value creation that the customers are unwilling to share. Several interviewees argue that they are unsure of who is responsible for working with references, or that there is not enough time allotted for doing this properly. Since the use of reference cases appears to be important for selling solutions, vendors should devote time and allocate responsibilities in order to create a reference library. It possibly does not have to be the task of the salespeople, however it is crucial that they are involved as they possess the deepest customer insight and work close to the customers.

1.1.40 Key findings

Demonstrating the potential value is one of the most important factors identified in this study, and can be achieved by using reference cases and presenting each customer with a strong business case. In order to build a reference library, evaluation of previous projects is crucial, as well as sharing customer insight in order to decide which customers are best suited. To create a strong business case, performing a thorough customer need analysis, advising and challenging the customer, and quantifying the value created for the customer by the solution are the most critical activities. Besides this, post-deployment evaluation, risk assessment and internal knowledge sharing also contribute when creating business cases. Business case driven sales is seen as a very effective way of demonstrating value potential, as it facilitates communication, evaluation and future implementation.

The main challenges related to demonstrating the value appears to be quantifying and communicating what value the solution will create for the customer. To face this, vendors must focus both on strengthening their sales teams and on performing thorough customer analysis in order to facilitate the construction of a relevant business case.

Key factor 6 – Ability to integrate the solution with other actors' products

This is the factor that was ranked the lowest by far, with half of the interviewees placing it last; the second lowest standard deviation implies that most interviewees agreed on its relative unimportance. However, two of the interviewees placed this within the top three, arguing that

this is a distinguished strategy and possibly a necessity for them. It is worth noting that both these interviewees represented companies working largely with software and telecommunications, indicating that for this factor industry affiliation does appear to have an impact; today, especially software-intensive industries almost require an open and integrative mindset. Furthermore, some interviewees pointed out that in certain cases the customer demands that the vendor collaborates with other actors, as a prerequisite for signing the deal. If the vendor is not able to meet these demands there is a risk of permanently losing that customer, being outcompeted by integration-friendly competitors. It was also mentioned that while focusing on what is best for the customer might not include recommending competitors' products, it can sometimes include either recommending products that are not the most profitable for the vendor, or suggesting substitutes for some parts of the solution. One interviewee resembled the integration process to a smorgasbord, stating that as long as they were allowed to deliver the major part of the smorgasbord, they would welcome integration of the meatballs, as long as the meatball provider was not also a provider of entire smorgasbords.

Overall, the interviewees' attitudes toward this factor were quite opposing; some considered it as a strategic advantage, whereas most of the interviewees regarded it as completely implausible and that it would directly harm their businesses. This possibly stems from differences between industries and their maturity or development towards a more open and including approach towards other actors.

During a lecture by Marshall Phelps, with professional experience from working with similar questions at both Microsoft and IBM, concerns were raised towards the empirical findings that only eight percent of the interviewees had a strategy to include rather than exclude other actors. Phelps experienced a similar rigidity in the IT industry, but by implementing cross-licensing agreements and a more open view he created substantial revenue increases. Just as in the IT industry, Phelps believes that there is great potential for large traditional industrial B2B companies creating new revenue streams by including rather than excluding; it is only a matter of time.

Furthermore, openness towards multi-vendor integration in order for the solution provider to provide the best suited solution for the customer is a clear indicator of customer centricity, which in theory is seen as somewhat of a prerequisite for becoming a solution provider. However, a very high customer centricity by no means guarantee success in providing solutions; just having satisfied customers is not sufficient, the vendors must somehow translate that satisfaction into profit.

1.1.41 How to accomplish

Most interviewees agreed that if integration with other actors' products is desirable, including technical expertise during the sales process is of utmost importance. If this is not the case there is a risk of obtaining unnecessary costs or providing solutions lacking quality. Inclusion of technical experts minimizes this risk, as they are able to decide whether the integration is possible, thus ensuring that the vendor is not promising more than can be delivered. Thus, forming cross-functional sales teams will facilitate the possibilities for multi-vendor integration.

Possessing knowledge about competing products and offerings was seen as less important than inclusion of technical experts, although it was argued that it is not possible to become leading in your market without knowing how other competing actors operate, and what they provide. It might not be as extensive as a database with competitor insight, but most interviewees said that the technical staff would know most that was needed to know regarding the competing offerings.

As for working with open standards, two opposing views were presented by the interviewees. Many argued that this was not possible in their industry as it would result in copycats; a strategy of exclusion rather than inclusion was preferred by these companies. Others however believed in open standards as a way of developing their industry, moving its business forward; an open approach for industry-wide collaboration is seen as something positive.

It was also mentioned that in the cases where the customer demands multiple vendor-integration, vendors prefer that customers manage the procurements separately before leaving the integration to the selected main vendor. This will minimize contact points between the vendors, something that is desirable for both customer and main vendor as the customer has a better bargaining position than the main vendor, increasing the possibility of a better deal.

1.1.42 Related challenges

Since many interviewees argued that technical expertise is important, not surprisingly did the main challenge involve the demands on the sales force's competence and expertise. Some argued that it might not be necessary for the actual sales force to possess this knowledge; instead, vendors could address this by creating customer focused teams, consisting of key account managers, engineers and project leaders. The suggestion of forming cross-functional teams resonates with the discussions concerning factors one and three; if performed correctly, this can facilitate both finding customer opportunities and creating synergies, and shaping the best customer solutions by integrating different products and services. Because of this, the composition of sales teams can be considered very important and it appears to be useful for several reasons, hence having a large impact on a vendor's solution success.

The risk of lacking quality in competitors' and subcontractors' products was not perceived to be as big of a challenge; some even saw this as gainful, as superior quality is of course positive. It was however mentioned that if products of low quality are integrated into your offering, both your reputation and relationships are at risk of being seriously harmed. While this is an understandable concern, it should not pose a problem if the aim always is to find the best solution for the customer. There are always risks involved but a thorough pre-deployment investigation, combined with ensuring that the customer is fully aware about what is being offered, should minimize the risks of harming the relationship between customer and solution provider.

While a few of the interviewees admitted that there might be some reluctance within the sales force to "help" other actors by suggesting their products, most agreed that this was neither common nor desirable; to build trusting relationships with your customers you should see what is best for them, and this may sometime include integrating external products into your offering. Furthermore, companies that are competitors during one tender may be forced to collaborate

during the next, making grudges highly undesirable and impractical. Even though the reluctance towards integrating external products appears to be more present on a higher organizational level than the sales force, a reasonable assumption is that the sales force's capabilities must be changed should the vendor decide to pursue multi-vendor integration. As discussed earlier, selling solutions is different than selling products and a shift of mindset in the sales force might be required for a smooth expansion into the solution business. Just as with the composition of the sales force, the education and attitude of the sales force is another aspect that affects several key factors for solution selling. Because of this, education and recruitment are activities that should be considered for aspiring solution providers.

Other challenges related to integration of and attention to other actors' products included cost and responsibility allocation; who is responsible in a multi-vendor collaboration if something goes wrong? This highlights the need for clear contracts and agreements. Furthermore, it was mentioned that a too narrow external focus might cause the vendor to miss out on innovations or disruptive ideas, causing them to fall behind their competition; for this reason, several interviewees agree that some open-mindedness towards possible integration might be useful.

1.1.43 Key findings

Based on the interviews, multi-vendor integration does not appear to be a key factor; however theory suggests it to be crucial in order to create the best solution for each customer, indicating that it could possibly create a competitive advantage as customers become more accustomed to buying solutions. Rather than being a key factor, it can be seen as something that facilitates identifying and creating synergies for customers, and thus contributing to factor three. From a sales perspective, enabling multi-vendor integration is facilitated by employing cross-functional teams and encouraging knowledge sharing, especially knowledge concerning competing offerings.

Key factor 7 – Measure and evaluate the value created for customer and vendor

This factor was ranked as number six, both in total and by most of the different segments. It was also the factor with the lowest standard deviation; despite its relatively low ranking, it was never ranked as the most important and only once ranked as the least important, indicating that most interviewees consider evaluation and follow-up necessary and useful, albeit not the most critical activity. Notably, many interviewees expressed connections between this factor and other; post-project evaluation can be very useful both in building reference cases, establishing value-based pricing and building trustworthy relationships. The fact that no one ranked it as most important might be because the interviewees do not see this as the task of the sales force. The information needed could possibly be gathered by the sales force, but perhaps the responsibility of compiling and sharing the data should lie elsewhere.

1.1.44 How to accomplish

The interviewees agreed that recurring customer visits where customer satisfaction is evaluated as the most important way of following up. This is by many interviewees seen as the easiest way to find out if the delivery has been successful and if the aim of the customer to earn or save money

has been achieved. One interviewee argued that if the customers are satisfied, they probably have earned something by using the solution. Some interviewees mentioned that an additional way of following up customer satisfaction is inviting user groups to seminars where they can discuss their experiences, expectations, and outcomes in order to really understand what the solutions contributed to. Follow-up of customer satisfaction seems to be highly respected by the interviewees, however only investigating customer satisfaction may be too weak for using establishing a deep relationship, or obtain a value-based pricing since the data collected here may be too subjective since it is not based on numbers. Even if this deeper investigation is not performed, the customer satisfaction evaluation can serve as input when building reference cases, which is seen as important for accomplishing factor five.

It was however emphasized by almost all interviewees that simply evaluating the customers' satisfaction is not enough; the vendor should also measure internal profits, volumes and margins achieved in the projects, as these more quantitative metrics can provide a clearer image of which customers or types of projects are the most profitable and thereby the most interesting to focus on in the future. Measuring margins and volume might also be beneficial in sales force recognition and evaluation, as these metrics are rather distinctive and easily understood. Even though internal measures are important, when selling solutions it is important that vendors do not lose focus on what the solutions create for the customers.

Several interviewees stated that it is essential to also follow up what the customer has gained from the solution, besides just measuring satisfaction. However, this was ranked lower than evaluating satisfaction and internal earnings and many interviewees questioned the feasibility of measuring customer gains. Some perceived it to be difficult and many interviewees do not know how to do it, although a few successful examples could be found, where the solutions incorporated measurements systems, giving both vendor and customer real time feedback. It was stated that vendors should work closely together with the customers, deciding which key performance indicators or metrics are expected to be affected by the solution and to what extent. If this is done in the initial stages of the sales process, there is a higher possibility of an unambiguous and constructive evaluation, hence a system that will facilitate and support a value-based pricing strategy based on performance or results, something many vendors strive for but find challenging. The fact that following up customer value was prioritized lower than evaluating internal profits and revenues indicates that many interviewees still have an internal focus, rather than a being customer oriented. This shows a gap between what is considered important in theory and in practice, and hence indicates it as a possible area of improvement for many of the interviewees' companies, in order to increase the chances of solution success.

1.1.45 Related challenges

One challenge mentioned by several interviewees was that in many cases the sales force does not have enough time to follow up with the customer upon completion of a project; even though this might be a part of their responsibilities, they sometimes move on to the next project as many said that the sales force where are often evaluated on sales volume. This may indicate a lacking incentive structure and a gap between what is intended and what actually gets done, and hence it

appears to be affected by factor eight. It also shows possible flaws in management support of evaluation processes, as well as responsibility allocation. When deciding on how to evaluate projects it is thus important that vendors clearly devise different areas of responsibility with enough time allotted to each.

In some cases there are difficulties involved in accessing the data necessary for evaluation of what the customers have earned by using the solution; this might be due to that the customers either do not measure this, or that they are unwilling to share this information with the vendor. Another potential issue is that the measured results might be unreliable or difficult to quantify. These problems do however appear to become less noticeable as new technology enables automatic follow-up of many solution-related parameters. For instance, trucks today have sophisticated software incorporated, providing the vendor with data that can be very useful, both internally for follow-up and externally as it might be possible to include this in the offering to the customer.

1.1.46 Key findings

This factor was ranked relatively low and thus might not in itself be a key factor, however most interviewees still consider it an important supporting activity. A thorough evaluation of solution outcomes, considering both internal and external measures, contributes in strengthening customer relationships, as well as supporting the creation of reference cases and business cases.

The fact that many interviewees indicate that they mostly measure internal profits, neglecting customer-related metrics, may be hindering the transition towards becoming customer centric and thus strengthening the solution business. If the value created for customers is not evaluated both before and after solution deployment, there is a risk of not being able to clearly demonstrate value to the customers and thereby charging higher prices. Thus, changing the way evaluation is performed can be seen as an important step towards providing valuable solutions, that many companies still have in front of them.

Key factor 8 – Create customer centric incentives for the sales force

This factor was ranked as the second least important, with 27 percent of the interviewees placing it at the bottom. Interestingly, the only interviewees placing it within the top three ranked it as number one, indicating that the behavior of the sales force is the most important factor for providing solution. The fact that most of the interviewees put less emphasis on this factor might come down to their role, as their influence over remuneration and incentives might be limited, perhaps making them personally less aware of its importance. Many interviewees said that their incentive systems are not, and will not be in the near future, customer oriented; neither are there different metrics for solution sales and product sales. This may indicate that many interviewees underestimate incentives' effect on sales; in theory it is clearly stated that selling solutions requires a different incentive strategy than selling products and failing to acknowledge this might obstruct a transition towards becoming a solution provider. The unwillingness of changing incentive system could stem from the risks involved; the incentive system could steer people in the wrong direction, if designed carelessly. Changing the incentive systems and thus the behavior of the sales

force might also require an organizational change, explaining the reluctance expressed by some interviewees.

1.1.47 How to accomplish

Most interviewees argue that *if* the incentives are to become customer centric, they should focus more on the performance of each sales team or person than on the actual price or volume achieved. It was also argued that it might be more appropriate to base incentives on the performance of entire sales teams, rather than just individual salespeople, since it may not be possible for one person to have all expertise required to obtain a solution sale. This can be achieved by employing such metrics as number of customer visits or hit rate, as well as by having lessons learned-sessions with other employees. These suggestions show that visiting the customer in person is considered valuable, further indicating that the interviewees understand the importance of factor one, and that understanding the customer is essential for selling solutions.

According to several interviewees, solely measuring the performance and behavior of salespeople is not good enough. These qualitative and often subjective metrics should be complemented by more traditional metrics related to internal income, volume and margins. Several respondents argued that, while positive, customer satisfaction is not very valuable unless the deal has been profitable for the vendor as well. Many interviewees still see traditional metrics as the most important, indicating a lack of customer centricity which, according to theory, is a prerequisite for selling solutions.

Connecting sales incentives to the customer's value was ranked relatively low by the interviewees, mainly because of the complexity and variability of perceived customer value. Some interviewees did however suggest that one way to address this is to connect incentives to the customer's key performance indicators, or other metrics for value creation that is quantifiable, as these indicate what the solution has done for the customer. The difficulty of employing customer value-related metrics confirms the discussions for factor five, regarding the difficulty of demonstrating the value. However, vendors must address these issues; what gets measured gets done, and having incentives connected to the customer value generated by the solution is an important step on the path towards selling more solutions.

Some interviewees highlighted that to be able to provide solutions the sales force has to understand that the best solution for the customer might not be to buy as many products as possible. Rather the sales force should focus on services and knowledge based services; one interviewee even stated that a major focus is to change the mindset of the sales force so that they actually sell *fewer* products and instead increase the number of service contracts sold. It was also suggested that the sales force should not be controlled with solely monetary rewards; in some cases, prestige or individual feedback is just as motivating.

1.1.48 Related challenges

The main difficulties related to constructing customer centric incentive systems were that customer value is perceived as difficult to grasp and hence build incentives upon, and the fear of choosing incentives leading to unintended results. The perception of customer value as vague and

therefore not appropriate for basing incentives on is something that could be changed, should the vendors improve their quantification and demonstration of value. Thus, working with value quantification, as discussed in factor five, might facilitate the change in incentive system that theory suggests.

Doubts were also raised regarding the appropriateness of using behavioral metrics, as they may be considered too weak or too subjective to build incentives upon; for instance, simply measuring the number of customer visits does not consider the quality or relevance of each visit. Other challenges emphasized by the interviewees included the risk of evaluating people on what they can not affect; it needs to be clearly determined to what extent the sales force can be held accountable for the success of the solution and the value created for the customer.

Furthermore, several interviewees pointed out that the same salespeople often are responsible for selling both off-the-shelf products and entire solutions but only have incentives for volume based on products sold. This might be inappropriate as the salespeople then have to adjust their mindset between different sales occasions, possibly making them less effective both when selling products and when selling solutions. The fact that not many seem to have different sales teams or incentive systems for products and solutions, indicates that they still have work to do for achieving solution success.

1.1.49 Key findings

Even though most interviewees agree that there are significant differences between selling products and selling solutions, very few appear to incorporate this view when designing their incentive systems. In order to become customer centric and more successful in selling solutions, the design of the incentive system is very important; however, just as with factor seven, it might not be a key factor but rather a very important supporting activity that has a potentially large impact on the behavior and performance of the salespeople. Thus, the design of a more customer centric incentive system is an activity that directly affects the sales force and thereby also has an impact on many aspects of selling solutions.

The main challenge with designing a more customer centric incentive system appears to be a reluctance of adapting customer related metrics, as these are perceived as difficult to quantify and measure, and in some cases also ambiguous and subjective. This further strengthens the view of creating business cases and demonstrating value as a key factor, since the work done there possibly may facilitate the design of a more solution-appropriate incentive system, leading to a solution sale.

Case study

A case study was performed as part of reviewing and refining the analysis and empirical findings. The case study strengthen and confirmed the written empirical and analysis results presented above in this chapter and it further investigated the conclusions validity, which is presented in the next chapter. The aim of the case study was to see past the challenges stated by the interviewees, trying to find underlying reasons. Some interesting additional take-outs are presented below.

Many interviewees claimed that their customers are not willing to buy solutions, but the in-depth study showed that in many cases the lack of readiness may lie within the vendor's own organization. For instance, a perceived lack of managerial trust or support may be very hindering, making it difficult for the sales team to sell solutions. Selling solutions often requires an organizational change, and the case company appeared to have coherence with all parts of the organization aligned for working with solutions.

The case company has several standardized processes and support tools for the solution sales team; while many areas are optimized for selling solutions, other may be improved. For instance, while the company does provide a consulting service, the trustworthiness of this service may be low as this service primarily focuses on promoting the vendor's own solutions.

While the case company has a standardized model for segmentation and prioritization of customers, one interviewee mentioned that a major challenge is using this segmentation and creating unique targeted customer offerings. A possible reason for this might be a lack of supporting tools or managerial directives regarding targeting and customer offerings. Proactivity could be crucial for this; for instance, knowledge of which customers have to perform reparations in the near future can be used when creating new customized offerings.

Conclusions

This chapter aims to outline the conclusions from the study and answer the main research question, which is how industrial B2B companies may provide differentiable solutions. To answer this question, four sub-questions were stated which findings is presented in this chapter. In this chapter, each of these questions is discussed, leading to the conclusions of the thesis. The chapter ends with suggestions for further research.

The key factors associated with providing solutions

Eight factors were in this study verified by both theoretical and empirical findings to be closely associated for industrial B2B companies' success when providing solutions. The factors' relative importance was ranked by the interviewees and is presented in table 2. These key factors may be seen as the main objectives for a vendor striving to become a solution provider, since achieving them will lead to sustainable competitive advantages by differentiation and are deemed to create value for both the customers and the vendor, which increases the vendors' chance to increase margins and create more sales opportunities.

Table 2: Ranking and relation to business model

Ranking	Key factor	Business model blocks
1	Discover new opportunities for customers to earn or save more money	Cost centers, Relationships, Value propositions
4	Select customers with the highest potential to create value by using the solution	Customers, Key partners
3	Identify and create synergies between products, services and knowledge	Cost centers, Key activities, Value propositions
5	Link pricing to what the customer will earn by using the solution	Revenue streams
2	Demonstrate the solution's potential to create value for the customer	Key activities, Revenue streams
8	Ability to integrate the solution with other actors' products	Key partners
6	Measure and evaluate the value created for the customer and vendor	Relationships
7	Create customer centric incentives for the sales force	Key activities

As discussed in section 3.10, all of the key factors relate to the business model, something that is also presented in table 2 above. Because of this, transformation of the business model can be considered crucial for companies that want to change from providing products to providing solutions. In figure 7 below, the relationships between the key factors and the business model are once again depicted, this time combined with the activities that can be connected to each factor and its related block in the business model. These different activities are further discussed in the next sections.

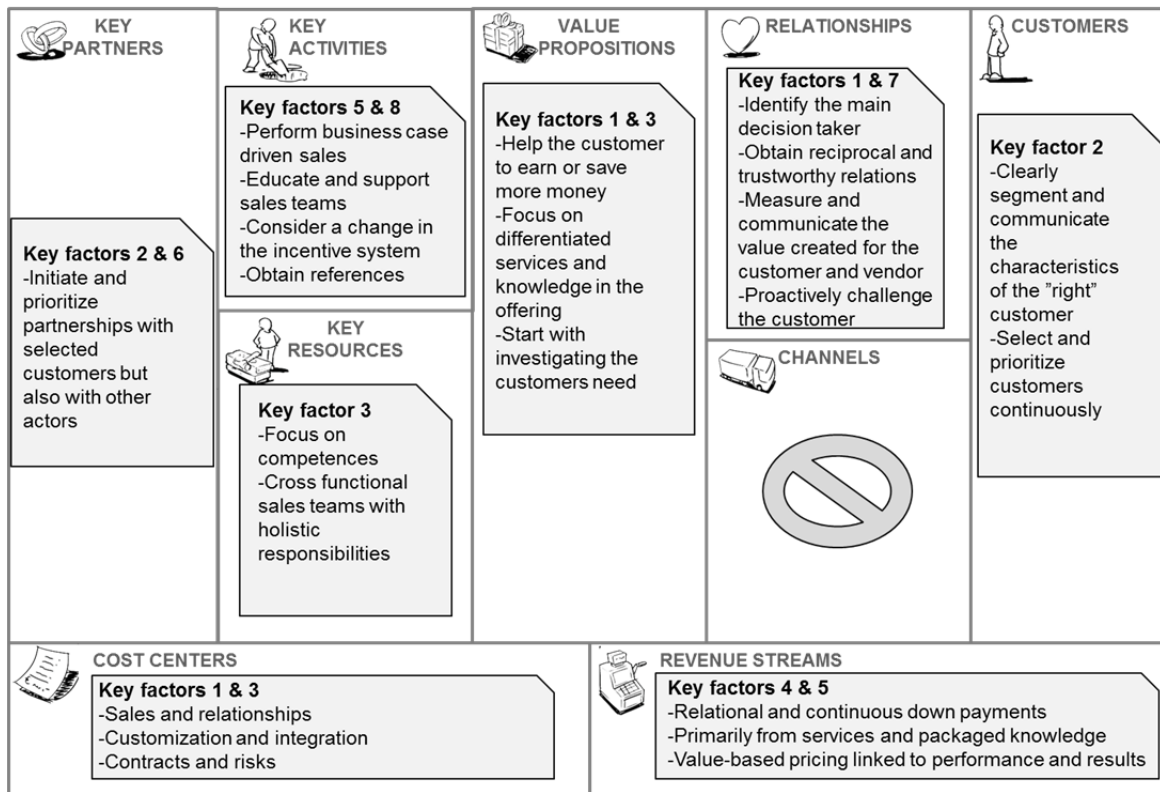


Figure 7: Relationship between the business model and the key factors. Adapted from Osterwalder (2010).

The most critical key factors for providing solutions

The analysis shows that the most critical key factors are selecting customers with high potential to create value by using the solution, discovering new opportunities for customers, creating synergies by combining products, services and knowledge, and demonstrating the solution's value potential (table 2). Both the literature study and the empirical study have established four of the factors as the most critical, which are described in detail below. The factors are presented in a suggested chronological order, starting with the selection of customers.

1.1.50 Select customers with the highest potential to create value by using the solution

Carefully selecting the right customers to target with solutions is very important to be able to obtain an efficient sales process. One reason for this is that not all customers are ready for buying solutions, neither are all types of solutions significant to all customers, thus possibly making the solution business costly and inefficient for the vendor.

Because of this, working actively with customer segmentation and prioritization of potential customers, as well as having a clear strategy for which customers to use as references, is very useful for deciding which customers to place more effort on and possibly establishing partnerships with. The use of reference customers is needed to gain scalability, making it possible to apply the solutions in the future on different markets or customers; even if every customer has unique needs, there are potentially many parts of the solutions that can be standardized, thus making the vendor more cost efficient in the solution business.

1.1.51 Discover new opportunities for customers to earn or save more money

When the customers have been selected, discovering new opportunities for them is deemed crucial for solution vendors to become successful and to gain a competitive advantage. By accomplishing this critical key factor the vendor is able to address unique customer issues, thus enabling a differentiation of each offering and its value proposition.

To facilitate this, the vendor must build trusting relationships with their customers, achieve a deep customer insight and have a strong sales team with holistic responsibilities both internally and towards the customers. If the vendor is also able to utilize the sales team's competence by employing a consultative role towards the customer, it will be able to more easily discover opportunities for its customers to earn or save more money.

1.1.52 Identify and create synergies between products, services and knowledge

When creating the solution offerings, identifying and creating synergies is another critical key factor. This will contribute to the differentiation and uniqueness of the offering and its value proposition, thus strengthening the competitive advantage desired by the vendor when offering solutions.

To accomplish this, the sales team is very important; it should have a holistic responsibility with cross-functional experience and competence. Besides this, the creation of synergies is facilitated by allowing for multi-vendor integration, as this increases the possibility of finding the best solution and products for each customer. Many vendors are afraid of opening up as this may lead to competitor copies; however, openness towards multi-vendor integration can be useful if the vendor manages package its unique knowledge, thus keeping the competitive advantage while benefitting from the advantages of competing products.

1.1.53 Demonstrate the solution's potential to create value for the customer

When the customers have been selected and solution offerings tailored to fit their needs, the final step and critical key factor is demonstrating the solution's value potential to the customer. By doing this, the vendor increases the chances of charging higher prices and increasing revenues by applying a more value-based pricing approach. Today, competitive- or cost-based pricing schemes are very common, possibly resulting in lower margins for vendors than would be the case if pricing value-based.

Demonstrating value can be done by using customer-specific business cases, based on fact and showing the solution's potential of creating savings or increasing revenues for the customers. The use of up to date references may also facilitate the value demonstration. Since the task of communicating this is performed by the sales team, it is of course very important and should have excellent communication skills as well as technical knowledge and the ability to reply to any questions that may arise.

Ways of accomplishing the most critical key factors

The most critical key factors and deliverables have been deconstructed into actual activities needed for vendors to be successful when providing solutions. In figure 8 below, the most critical key factors and their deliverables are presented.

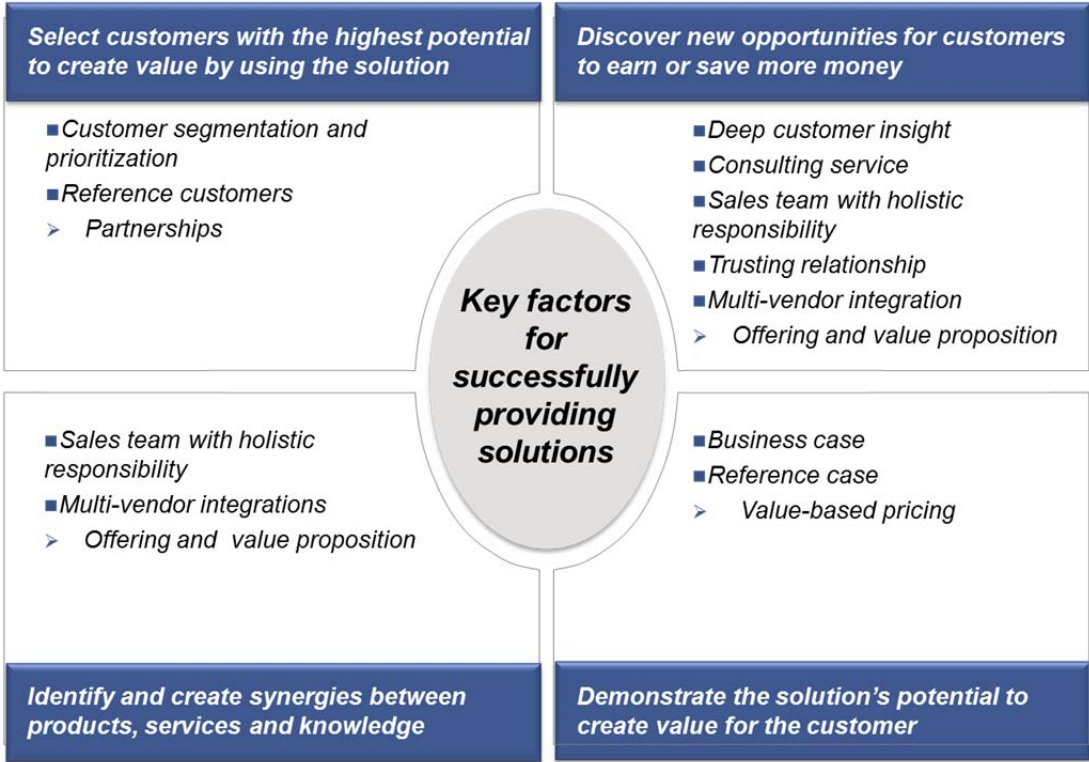


Figure 8: The most critical key factors and their deliverables

1.1.54 Select customers with the highest potential to create value by using the solution

Aspects to consider when selecting customer providing solutions to are shown in figure 9. The solution sales process is rather resource demanding and not all customers suitable for buying solutions, careful segmentation and prioritization are important parts of customer selection. This facilitates the vendor’s decisions regarding how the different customers should be approached and who to give more or less attention. The segmentation and prioritization should be performed in such a manner that it is easy for the sales force to understand and communicate the outcomes. It should also be updated continuously, making it easy for management and sales team to see which customers to pursue and which deals to consider leaving. Furthermore, it is important for the vendors to decide which customers to use as reference customers, and which solutions to use in a larger scale with other customers. A well-considered customer selection together with regular customer interaction may help the vendor forming partnerships with selected customers, possibly facilitating the selling of solutions to these customers.

In order to gain the insight needed for an accurate segmentation and prioritization, the vendor should perform stakeholder and customer need analyses. The stakeholder analysis aims to identify the key stakeholders involved in the purchase of the solution, how much decision power they have, how they will be affected by the solution, and how they should be approached. The

customer need analysis will investigate the customer’s processes and activities, trying to understand the underlying reasons for performing these activities. Based on this, the vendor should try to understand what the customer’s actual needs are and how the available offerings can attend to these needs and solve customer problems. Performing a customer need analysis requires some effort, but when it has been done the sales team should have gained very useful information which can be used when segmenting and selecting customers.

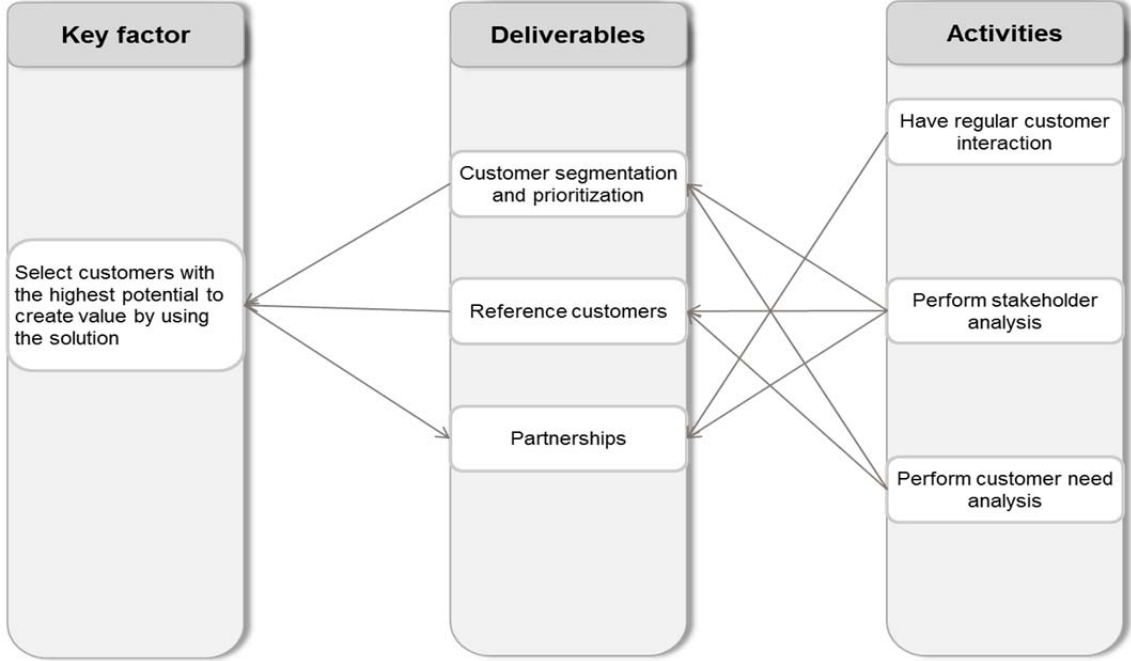


Figure 9: Aspects to consider for performing customer selection

1.1.55 Discover new opportunities for customers to earn or save more money

Aspects to consider when discovering new opportunities for customers to earn or save more money are shown in figure 10. To be able to discover new opportunities for customers, vendors should form trusting relationships, gain deep customer insight, employ a consultative approach, and create a strong sales team with holistic responsibilities and competences. When the vendor can discover new opportunities for customers, it can incorporate these discoveries into its offering, thus creating a stronger and more tailored value proposition.

Building trusting relationships requires the vendor to have a regular customer interaction, following up with each customer upon completion of a project, and possibly also working with customer focus groups. When following up, the vendor must measure and evaluate the customer’s satisfaction and the value creation, in order to build trust but also to learn and improve. To establish and deepen the customer’s trust, it is also important that the vendor acts confidently should any problems arise during the solution process.

As knowledge of the customer’s business, markets and operations may prove to be very useful for the discovery of new opportunities, having a deep customer insight can be seen as critical. Gaining this insight can be done by performing stakeholder and customer need analyses, as well as by inviting customers to user or focus groups, where experiences, challenges and expectations are

discussed. The stakeholder and customer need analyses are described in more detail in section 5.3.1; however it should be noted that they probably need to be more extensive in this stage, as the customer insight needed here might be more detailed than the data used for customer segmentation and prioritization. Besides that, these activities should only be performed with customers that the vendor has decided to focus on, and thus the sales team should have enough time allotted for performing a more thorough analysis than they had initially.

One way to not only aid in the opportunity discovery but also to expand the vendor's value proposition is to offer consulting services. Being a solution provider usually involves advising the customers, suggesting which solutions or products would be best suited for each customer. If these consulting skills already are present, it could be of interest for the vendor to offer solely a consulting service initially, thus receiving a greater reward for the work that is done in the initial phase. If the salespeople know that they are getting paid also for this work, there is a possibility of them increasing their effort and thus contributing to the discovery of new opportunities for the customers.

Besides relationships, insight and consulting, having a strong sales team is very important when discovering new opportunities for customers. The role of the sales team is quite different when selling solutions compared to products, and because of this, the incentive system may have to change for vendors attempting to sell solutions. How the incentive system should best be designed to aid solution sales is yet to be investigated; the main focus should be to try and change the mindset of the salespeople, making them focus more on the customers' businesses and work flows whilst keeping in mind the internal financial targets. Changing the incentive system may put a lot of stress on the organization, but it could prove to be crucial for strengthening the sales team and thus creating new sales opportunities. Furthermore, the sales team's work can be aided by employing cross-functionally or otherwise ensuring both technical and business expertise. It would be desirable for each sales person to have all required competence as well as a creative mindset, but as this might be difficult, forming cross-functional teams may be one way of ensuring the competence needed.

Even though the discovery of new opportunities may be the responsibility of the sales team, close connection to and strong support by management is highly desirable. Aiming to obtain an efficient and successful sales force, management should provide the salespeople with education and coaching as well as any other tools that may facilitate the selling of solutions. It is also important that management and sales have the same view of what solution selling is, and how to achieve it. In order to strengthen the sales team even further, vendors should encourage and facilitate sharing and utilizing all relevant knowledge within the organization. This can be done by having internal mentorship programs in which an experienced salesperson (or other member of the organization) shares their experiences with a more junior member of the team. Other knowledge sharing activities include having lessons learned-sessions, global key account manager networks, innovation forums or other firm-wide initiatives aimed at sharing knowledge and building expertise.

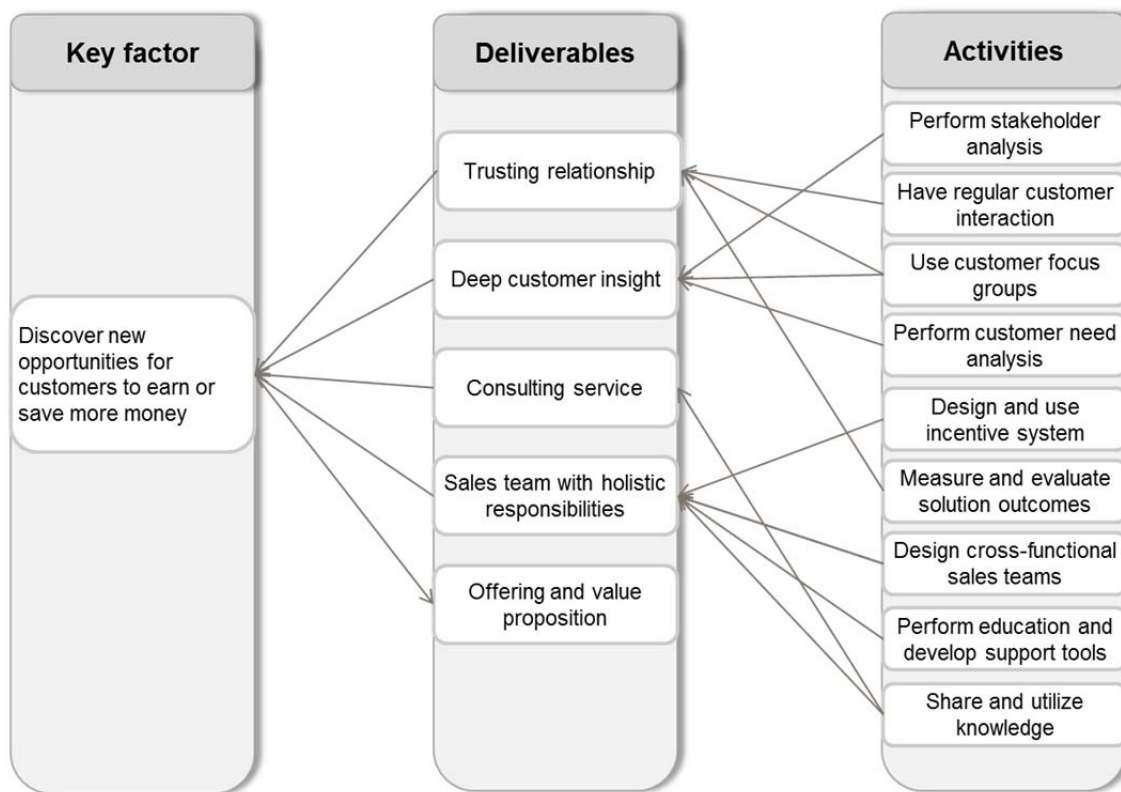


Figure 10: Aspects to consider for discovering customer opportunities

1.1.56 Identify and create synergies between products, services and knowledge

Aspects to consider when identifying and creating synergies are shown in figure 11. Providing valuable solutions may require the vendor to be able to deliver a wider range of products, services or knowledge, but most important is the capability of creating synergies between these. Just as with discovering new opportunities the sales team is vital, but for creating synergies the possibility of multi-vendor integration may also be of importance. The synergies are useful for the vendor as they may create a differentiation factor, thus strengthening the solution provider's offering and value proposition.

Besides the design, education, incentives and support of the sales team, ensuring a holistic responsibility is important. A unit should be assigned for each customer, with responsibility of the entire relational solution process. To make things easier for the customer, the vendor could employ one or two key account managers responsible for all contacts and activities related to a certain customer. Furthermore, a strong sales team can be obtained by recruiting from customers, thus expanding the customer insight and thereby facilitating the identification of synergies.

In addition to having a strong sales team, openness towards multi-vendor integration might further help the creation of synergies. Even though the ability to integrate the solutions with other actors' products was ranked as relatively unimportant in this study, it could be argued to be critical in delivering what is actually best for the customer and possibly also a facilitator of creating beneficial synergies.

If a vendor wants to become more open towards integrating external products, it is important that it has good knowledge of competing offerings, something that may be achieved to some extent by sharing knowledge internally. Furthermore, a shift in the mindset of the sales team could be required if it is used to a traditional, non-including, strategy; companies that have previously been seen as competitors could suddenly be potential cooperators, something that might be difficult for the sales team to grasp at first.

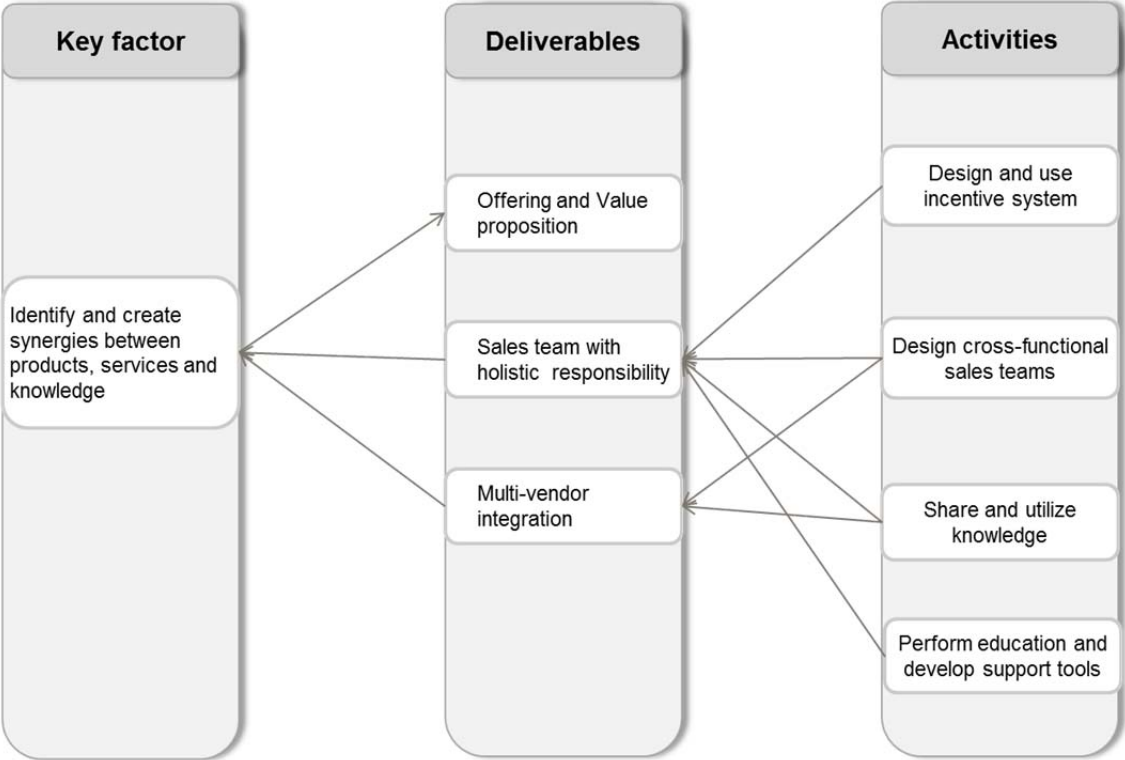


Figure 11: Aspects to consider for identifying and creating synergies

1.1.57 Demonstrate the solution’s potential to create value for the customer

Aspects to consider when demonstrating the value are shown in figure 12. Demonstrating and communicating the solution’s potential to create value for the customer may increase the possibilities of charging higher prices, and possibly pricing value-based. It should however be noted that value-based pricing, rather than an outcome, also can be seen as something that contributes to demonstrating the value to customers, as it requires a clear communication of the value creation. Either way, two main methods have distinguished as vital for demonstrating value, namely employing a business case-driven sales approach, and by the use of reference cases. Both business cases and reference cases are powerful communication tools and particularly business cases should therefore be paid much attention to; it is critical that management has devised enough time for addressing these properly. It is suggested that the vendor presents several different solutions and therefore business cases, which the customer may then discuss together with the vendor, together deciding which option to pursue.

Evaluation and follow-up of previous solution outcomes is necessary as a basis for forming the business cases. The information gained from this should be combined with findings from a

customer need analysis, giving the vendor information about which parameters are the most important to the customer and therefore should be emphasized and calculated in the business case. The value parameters, for instance return on investment or cost savings, should be quantifiable and possible to monitor and unambiguously measure. It is desirable that the value parameters used for creating business cases are somewhat standardized, but it should also be possible to tailor each business case to make it the most appealing for each specific customer.

Even with quantification and measurement tools in place, in order to create a good business case the sales team needs to work proactively with challenging and advising customers to gain further insight. When doing this, the salespeople should begin every interaction unconditionally, with no preconceptions, asking open questions.

Identifying the risks involved for each solution project, and deciding on how these risks should be shared and allocated, are other activities contributing to building a good business case. The vendor must be able to communicate what the risks are, what potential costs may arise, and who is responsible for mitigating these risks. This is particularly important when setting an output- or performance-based price.

With reference cases just as with business cases, the vendor should adapt what is presented based on the customer’s needs and characteristics, making the communication tailored to each customer. When creating reference cases, vendors should make use of what has been learned in previous projects, sharing knowledge and insights.

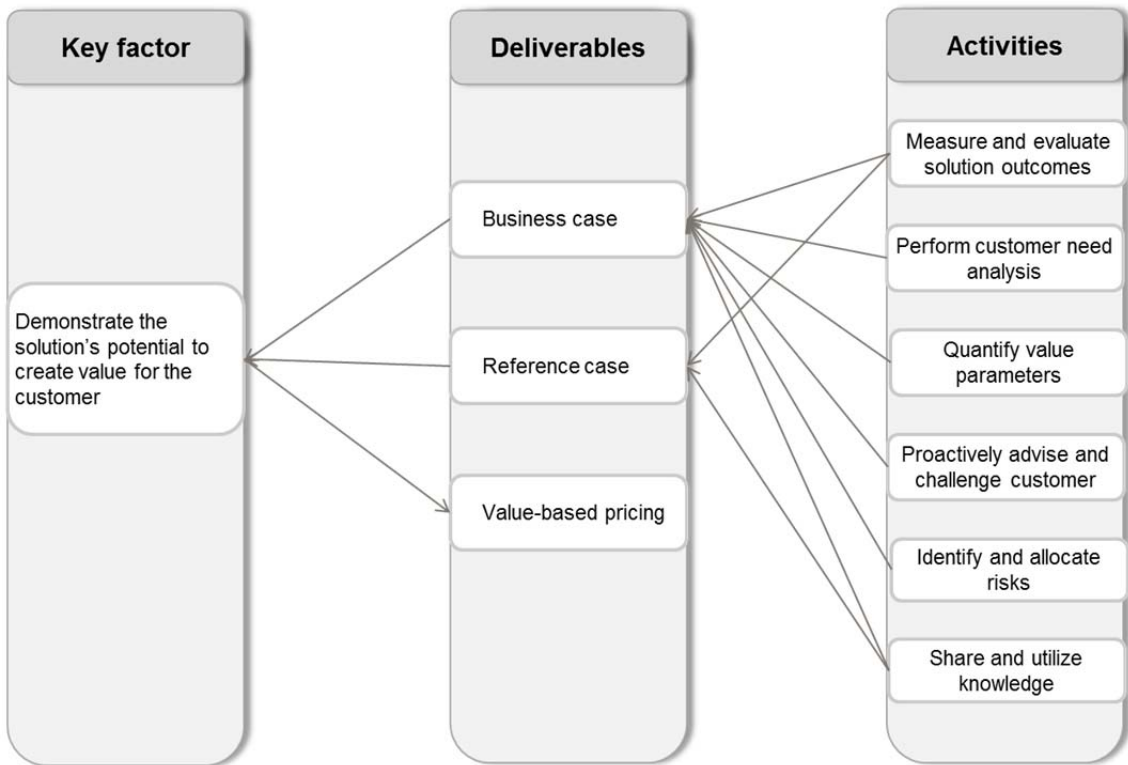


Figure 12: Aspects to consider for demonstrating value

Major challenges related to providing solutions

A challenge that has been identified in this study is that some parts of the organization might not be ready for working with solutions, even though the sales team is. This is problematic since the whole organization is affected by, and thus must accept and understand, a shift towards selling solutions. One possible reason for this lack of readiness is that the vision or goal of providing solutions is not clearly communicated and motivated throughout the organization; another is a lack of management support.

Due to the complexity of providing solutions, management needs to provide especially the sales team with support processes and tools, something that appears to be rather difficult. This possibly stems from different opinions between management and salespeople regarding what a valuable solution is. This perceived lack of managerial support may hinder the use of value-based pricing, if the sales team does not feel trust towards the vendor's ability to deliver what is promised. Working with business case-driven sales for demonstrating value might also be challenging if there is a lack of supporting standardized tools.

Another challenge that may decrease the possibility of pricing value-based is that the value creation is not thoroughly measured or evaluated during and after the deployment of the solution, thus hindering the vendor's ability of demonstrating the value and building a trusting relationship built on facts.

Furthermore, selling solutions might require a change in the incentive system; not all companies see the importance of this, thus possibly hindering the success of the solution business. Another challenge faced by many sales teams is a lack of time and resources. There might not be enough time devoted for certain solution-critical activities such as spending time with customers or following up completed projects.

Suggestions for further research

There are many important areas which could be investigated further; for instance it would be interesting to test the critical key factors by quantitatively assessing their impact in practice.

One interesting study would be to investigate just one or a few selected case companies thoroughly, analyzing them in relation to the main areas investigated in this study. For instance, many companies find transitioning towards providing solutions challenging as it requires an organizational change with new support, education and incentives; investigating a case where this change has been performed could be very useful.

It could also be interesting to analyze selected companies based on their organizational culture and configuration, as presented in figure 1. Even though this study did not find many differences in the attitudes towards solutions from the different classification segments, there is a possibility that differences can be found when analyzing methods and outcomes of the solution business for the investigated companies.

This study has identified that a new incentive structure may be needed as selling solutions differ from selling products and a shift of mindset from the sales team may be needed. No clear suggestions on how these incentives should be selected were however presented, making that a very interesting area to investigate further. A study comparing different incentive systems could be one way of analyzing how incentives should be designed in a solution context.

Another interesting finding from this study is the unwillingness to incorporate other actors' products into the solution offerings; there is a common perception that this will only lead to competitors copying and gaining advantages. Since most theory suggests that allowing multi-vendor integration is a necessity for providing the best solution for the customer, this area could be very interesting to investigate. One way of doing this could be by a comparative study between a company with a stated open innovation policy and one that is more excluding.

Even though providing solutions in itself may not be an objective for companies, the outcome such as increased differentiation probably is. Therefore, one suggestion for further research is to study the customers of solution providers; identifying what the differentiating factors are and what makes the customer choose one vendor over another. Overall, investigating the customer side of solutions would be very interesting.

If performing a case study based on this study, there are several interesting aspects to investigate. This study states the usefulness of performing a thorough customer need analysis and segmentation but does not discuss the exact design of such an analysis, making that a possible research area. It could also be of interest to analyze a solution provider's differentiators; what sets it apart from its competitors, and how does it work to ensure a sustainable competitive advantage in its solution business? For this research, the aspect of creating business cases and demonstrating value could be particularly interesting.

Recommendations

There appears to be a certain ambiguity regarding how a solution is defined; because of this, aspiring solution providers should start by clearly communicating within their organization how they see a solution. This study has shown that many companies have a potential of increasing the revenues from their solution business simply by expanding their offering by increasing the focus on services and knowledge. This is beneficial not only as it creates new sales opportunities, but also because these intangible aspects are more difficult to copy than products and thus providing a more sustainable competitive advantage.

This study was built upon what different experts and authors believed to be key factors for becoming solutions providers. Therefore, a starting point for large B2B companies and their managers would be to investigate which of the most critical key factors and challenges their company is currently facing, and which will have most impact on the company's future business. The main key factors to investigate in a current situation analysis are:

- Select customers with the highest potential to create value by using the solution;
- Discover new opportunities for customers to earn or save more money;
- Identify and create synergies between products, services and knowledge;
- Demonstrate the solution's potential to create value for the customer.

The primary elements to consider when transforming towards becoming a provider of differentiated solutions can be looked at from a business model perspective (see figure 7). It is worth noticing that business case driven sales, educating and supporting cross functional sales teams and changing the incentive structure are the key elements for obtaining a differentiated value proposition, hence creating opportunities for take a value based price.

The main challenges identified in the research were creating an efficient sales force and quantifying the value potential. Should companies struggle with this, the main recommendations are as follows:

- Perform educations and create mentorship and coaching opportunities for the sales force, to increase their chance of providing solutions.
- Design and verify business cases templates and other tools aiming to support the sales force in demonstrating and quantifying the value and prioritizing which customers to focus on.
- Create a special sales team which will serve as ambassadors for solution sales, inspiring local sales forces.
- Divide responsibilities of who controls and is responsible for which solution and customer, ensuring holistic responsibility and possibility of subdividing responsibilities.

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Appendix

Appendix 1 – Classification of the interviewees' attitude in relation to how theory characterizes solution providers

In this section the interviewees' attitude reflecting the company's in relation to how theory characterizes solution providers is presented. This classification is based on the questionnaire that where send out to the interviewees, and answered upon, before the actual interview. Interestingly only 6 of 25 interviewees have attitudes indicating them as an optimal solution provider. 8 out of 25 had high customer centricity but only medium service oriented culture, showing that there might be opportunities for these firms to increase their organizational culture towards knowledge based services focus. Only two of the interviewees had high service orientation and medium customer centricity, showing that organizational configurations might need to be changed in order to reflect the attitude of a solution provider. Six respondents had both medium centricity and culture, possibly indicating a diverse focus. Remarkably three respondents were product oriented in their attitude but with a variety in the organizational structure. Please notice that no investigations have been done regarding the companies' profitability in their solution selling.

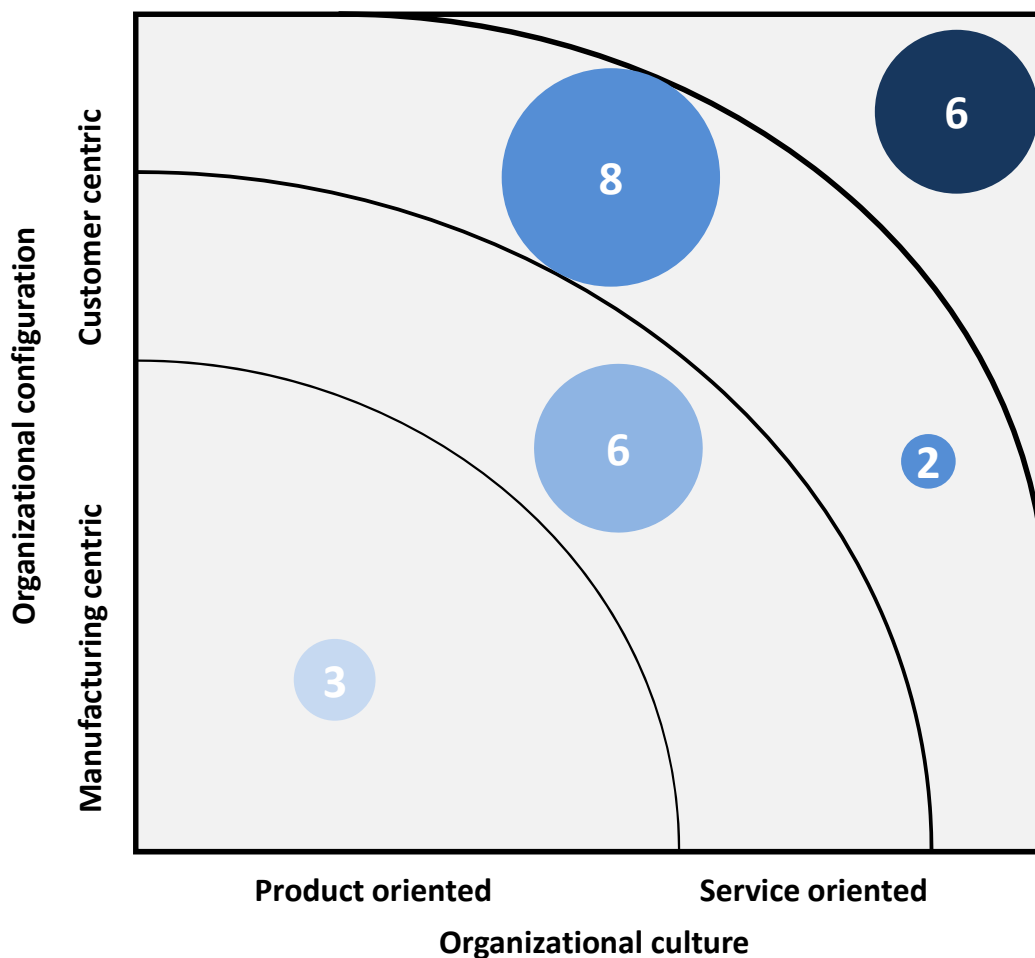


Figure 13: Classification of interviewees

Segmenting the classification of attitudes by industry shows that the organizational culture and configuration of companies seems to be independent of industry. The chart below shows the industries of the participating companies in the interview.

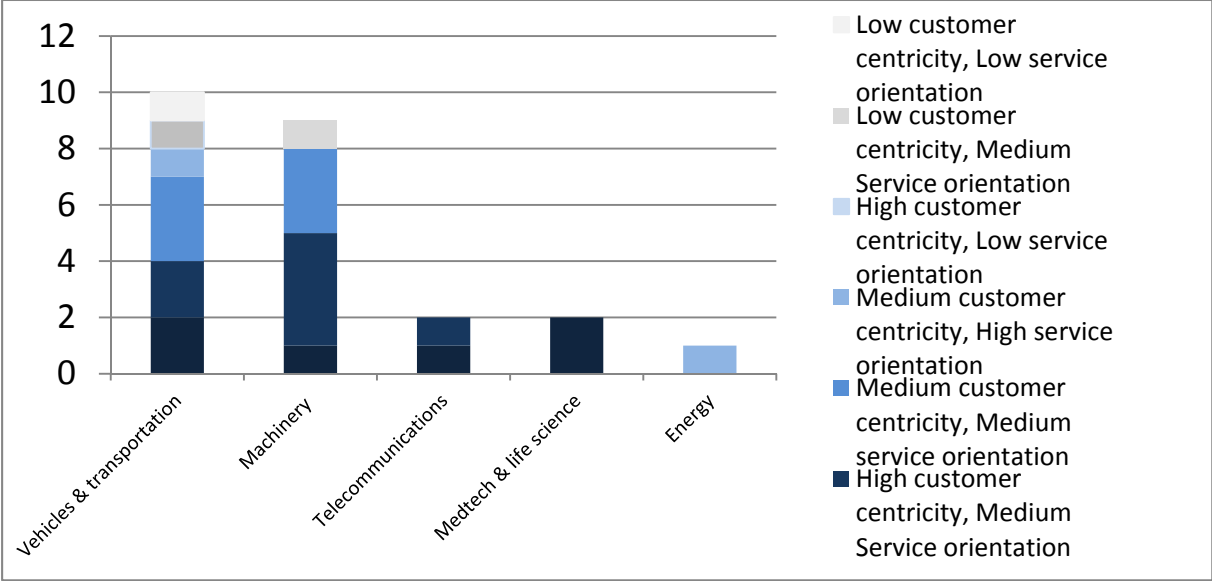


Figure 14: Industry affiliation in relation to classification