Selling Technology To Retailers
Common Pitfalls and How To Avoid Them

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About the Authors – Martec International

We help retailers, consumer goods manufacturers and their technology, logistics and other suppliers to grow their sales, market share and profitability, through a combination of our unique, industry specific training products, and performance support services.

We serve clients in nearly 60 countries.

1. Introduction

More and more technology vendors are adopting a solution selling approach as opposed to a product selling approach.

There are several reasons for this:

- One is to avoid selling every deal on price and being treated as a commodity vendor, subject to commodity pricing.
- Another is to build deeper relationships in the account and become a more strategic partner. An important component of this is to build relationships with the line of business functions, not just IT. This improves longevity in the account and helps to identify opportunities to create demand where none apparently existed.
- It allows you to differentiate on the value added services you can bring to a deal, which have much greater attraction in a solution selling approach.

This paper is primarily for vendors that are relatively new to solution selling in retail or contemplating it. That said, even long established "solution sellers" will get value from it.

The main part of the paper discusses a number of common errors and erroneous assumptions that vendors make when selling to retailers. Then it includes some tips on how to build relationships with line of business executives.

Mistake Number 1 – Retailers Are Cheap

There is a great myth among vendors that retailers are cheap. Retailers are not cheap, but they do want value for money.

Wal-Mart has one of the largest commercial data warehouse systems in the world. The value of their installation, based on what they paid for it, is many hundreds of millions of dollars. Wal-Mart did not spend this money because they are cheap.

The average large format UK supermarket costs about £25m to build to today's standard. Retailers do not spend this much money on a store because they are cheap.

Retailers understand value like no-one else and they insist on value when they buy, not cheapness. The reason that vendors believe they are cheap is partly because the vendors can't explain the real value of their solutions and partly because retailers are excellent negotiators. Retailers buy for a living. Mostly they buy the merchandise they sell to their customers. Negotiating is a core competence for these retailers and the way they ensure that they make acceptable margins. Why should they buy technology any differently?

A major challenge for vendors is that they mostly don't know how to present the value of what they sell in ways that mean something to the retailers. Once they can overcome this barrier, retailers will still negotiate, but the vendor will be able to defend their price more effectively.

Mistake Number 2 – Change The Account Manager Frequently

Most retailers genuinely want to work productively with their vendors. They want their vendors to bring them ideas, insights and innovations, not just to provide answers and quotations when requested.

The industry generally believes that it takes about a year for a new account manager to become valuable to them. It is at least 6 months before they get through the learning curve and understand the basics of the retailer's business.

Many vendors, especially those new to a retail vertical, change their account managers every year or two, which is far too often. These companies rarely become strategic partners.

If you are investing in a retail vertical, resolve to keep your account manager base relatively stable. You can't avoid promoting good people and you can't stop people resigning. You can set sensible targets for each account and avoid shuffling people around unnecessarily.

Mistake Number 3 – Not Understanding Their Business

Retailers are often dismayed by how little the technology vendors know about their business. Often, they don't even know the vocabulary and the basic metrics retailers measure themselves by. And, as we noted before, they can't articulate the value of their solutions in terms retailers care about (like gross margin percent, stock or inventory turn and return on capital employed).

These days industry education is available from a host of sources including universities, conferences, trade publications and Martec. There is no excuse for account managers and pre-sales support people not knowing their basics.

The Martec Retail WIKI and Employee Performance Support System (EPSS)will help account managers by providing key knowledge and insights in the office or on the move

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Mistake Number 4 – Staying In The IT Comfort Zone

Vendors that practiced product selling in the past (every technology vendor at some point), always sold to the IT Department and it became their comfort zone. As they progressed into solution selling, many struggled then and still do now with selling effectively to the line of business executives.

One of the sad facts about the retail industry is that the executives who run the key functional areas, like the buying office, often have a very poor view of their IT colleagues. Hence, when a vendor has a strong relationship with IT, building a relationship with line of business executives can be especially tough. In a few cases, such as Marketing and Human Resources, the management sometimes pro-actively looks for vendors with no connection with IT, seeing it as a vendor strength.

In recent years there has been an explosion in line of business executives buying IT solutions without involving or deliberately bypassing the IT Department. This is most noticeable in areas like E-Commerce, Human Resources, Training, Freight Management, online order shipping and the like. The now widespread availability of cloud services has made this much easier to do.

An ideal scenario is to be an account manager with a new name account where there is no existing relationship. You can start selling in the functional departments and get them to introduce you to IT when the time is right. If you have an existing IT relationship, there are several techniques you can use to approach the line of business without causing big upsets in your IT relationships. You can learn more about these in our WIKI/EPSS.

Mistake Number 5 – Assuming The Customer Can Calculate The ROI

Retailers sometimes keep their cards close to their chests when discussing the benefits of a particular solution they are evaluating. Sometimes this is a negotiating tactic. If the vendor doesn't understand the real return on investment (ROI), he or she can't defend their price and sell their value effectively.

Often, the retailer doesn't know how to do the ROI calculation. This isn't because they don't understand the concept, it's because they have never done a project like this before and have no idea of the assumptions to put into the ROI calculation. For example, how many retailer executives have ever implemented RFID, Digital Media in store, Electronic Shelf Labels, cloud solutions and the like? How do they measure the benefits?

The vendor needs to assume the responsibility for building the ROI model and estimating the benefits. Typically, the benefits analysis needs to show the impact of the vendor's solution on metrics such as inventory turn, gross margin percent, etc. It then needs to show how changes in these metrics impact the profit and loss account, balance sheet and cash flow statement. The vendor's industry marketing team is responsible for making the appropriate information and tools available.

Martec assists a lot of vendor marketing departments to achieve this.

Mistake Number 6 – Knowledge Of How The CAPEX Committee Works

Ask any vendor's sales team for a show of hands if they ever lost a deal but they didn't lose it to a competitor. Normally, a significant number of hands will be raised. Most of these people did lose to a competitor; it just wasn't one they recognized. In most technology sales, the decision maker is usually the Capex committee, not the primary person the account manager was selling to. This latter person is really the sponsor. Most vendors do not understand how the Capex process works in large companies, so they sell to the sponsor, get his or her seal of approval and then stop selling. They rely on their sponsor to sell their deal to Capex. How many CIOs do you know that received any sales training to help them do this?

No company has all the money it needs to fund every project that requires capital. Hence it is always rationed. With two notable exceptions (legal requirements and health and safety requirements), all capital requests are analyzed by the Capex Committee to determine which ones give the best return for the money available. Those making the best business case get the funds, assuming that they achieve some minimum rate of return known as the hurdle. The hurdle varies from company to company.

Capex is something all vendors need to learn how to manage. The composition of the Capex Committee is not normally regarded as a company secret; hence you can find out who is on it. The Chairman will always be the CEO or CFO. There is always a secretary whose role is to ensure the smooth running of the committee. The other members are executives that have a functional responsibility in the business.

When conducting a sales campaign it is crucial to consider how the members of the Capex Committee can be favorably influenced during the sales cycle, so that they vote for your project when it goes to the committee.

This means identifying the committee members, figuring out where they benefit from your solution and making sure you educate them accordingly. In some cases, this requires a series of meetings, but in other cases a few minutes by the coffee machine will accomplish all you need. Find out who else influences the members of Capex (such as key consulting partners) and find out what would persuade them to exercise their influence in your direction.

Cloud solutions may not have to go to Capex, especially if there is no fixed term commitment. However, they do have to be included in budget cycles and approvals may be needed that way.

Mistake Number 7 – Not Working The Organization

As stated before, most technology vendors sell to IT and hope IT will sell the users for them. This is a very bad assumption to make. It is important to identify all stakeholders in the company who can benefit from or might otherwise object to your solution and make sure that you address them all. Sometimes, line of business executives cannot push a sale through that is outside their immediate area of responsibility, but they can often kill it dead. For example, if the Store Operations Executive looks at a Point of Sale solution and says it is too complicated for his store people to operate, it's probably dead at that point. It is also important to realize how line of business budgets compare with the IT budget. The Marketing Department, for example, typically spends 3% to 6% of sales on marketing, while IT spends 0.5%-1.8%. Hence Marketing has more budget scope to fund projects. There are certain types of technology that they may fund or create the business case for funding, when IT budgets won't stretch far enough. E-Commerce is another good example. There are tools available like Martec's Retail WIKI which allow you to identify potential organization structures, key executive roles and pain points, the metrics they get measured on and their bonus structures.

Mistake Number 8 – Not Recognizing Architectural and Business Constraints

Projects in a retail business can be classified as strategic, key operational, maintenance or high potential. Strategic applications are those that are important to the execution of the company's business plan and are sponsored by the Board of Directors or Executive Committee. In 50% or more of these cases, the CIO will not be on the Board or the Executive Committee. The Board does not care about technical issues. They want their business need met. If it uses a different hardware regime, a different database or a different operating system, they don't care. They just want it done and they will override objections from IT.

Key operational applications are things like merchandise planning, replenishment and open-to-buy (OTB) management. These decisions are often constrained by the current technical architecture. For example, if the main merchandise management system runs on IBM servers, the chances are that it will be almost impossible to sell an OTB solution that doesn't run on an equivalent IBM server. However, some technical challenges can be overcome by providing a cloud based solution. Increasingly, applications like merchandise and assortment planning are available on the cloud, allowing you to bypass technical constraints.

Maintenance applications almost never get touched unless, for example, the government changes the tax law and the payroll program has to be updated.

Applications such as RFID could be classified as high potential. They may become strategic or they may fade away. Companies often have small budgets for experimental projects to evaluate new technology and this may be a way to break into some accounts.

Generally speaking, key operational, maintenance and high potential projects are funded out of the IT budget and this limits what can be sold to the retailer, subject to the caveat about cloud solutions.

Sometimes this applies to strategic projects but often, the company will find money that is not budgeted to fund key initiatives that need to happen. This may be by re-allocating funds from other areas, such as a store upgrade or the advertising budget. Selling the strategic applications removes some of the budget constraints that you may otherwise have to deal with.

Mistake Number 9 – Getting Access To Key Decision Makers

For a technology vendor, getting access to key decision makers in the line of business can be very tough. Nothing is guaranteed to work, but there are techniques that improve the likelihood of getting access. The first element is to be thorough in the research you conduct before you attempt to get a meeting. A detailed store walk through, when you know what signs to pick up, will tell you a lot about their issues. Comparison with competitors' stores can be very revealing. Desk research will often tell you a great deal. Most retail executives share common business pains with their competitors. Identifying possible pains from desk research and industry knowledge is important. Martec provides an Excel based Store Visit Analyzer tool which helps identify suspect opportunities resulting from a store visit. It's free in our WIKI/EPSS.

Once you have done your homework, you should know who you need to approach. Then you will need to actually get those meetings. A good format is write or call someone in authority with a message that goes something like this…..

We've been researching your company and we noticed that (some problem exists). We have some solutions that may be able to help and we have solved problems like this very successfully for companies like ABC and XYZ (who are companies like them). We only need 40 minutes of your time to help you determine whether your people should invest further time in evaluating our solution properly.

For example, a manufacturer of fault tolerant computers who partnered with a supplier of credit authorization software once wrote to a well known department store as follows:

We were analyzing your company and we noticed that the bad debt on your own brand credit card was significantly higher than the industry average (three times in fact). We have some solutions that help you manage this problem and they have been implemented successfully at (several well known retailers and banks).

The senior finance executive called the account manager the next day and asked for a meeting!

Once you get the meeting, you have to be ready for it. Meeting with senior executives is like a sudden death play off in football. If the meeting does not hit the spot, there will not be a second one! Use your desk research to ask sharp and pertinent questions.

Retailers will acknowledge that they discount everything a vendor says by a large percentage because they know he or she is trying to sell something, which they may not want. They judge the contribution an account manager makes to them by the questions they ask, rather than the statements they make. Asking the right questions demonstrates that you understand their business and you have done your research. Also, it encourages the retailer to believe that when he gives you the answers, you or your colleagues will do more research and come back with some very specific answers rather than generalities. There is a huge premium on asking searching, thought provoking questions.

A Few Tips

So far, we have addressed a number of mistakes that vendors make when selling to retailers. In this section, we make a few suggestions on positive things to do.

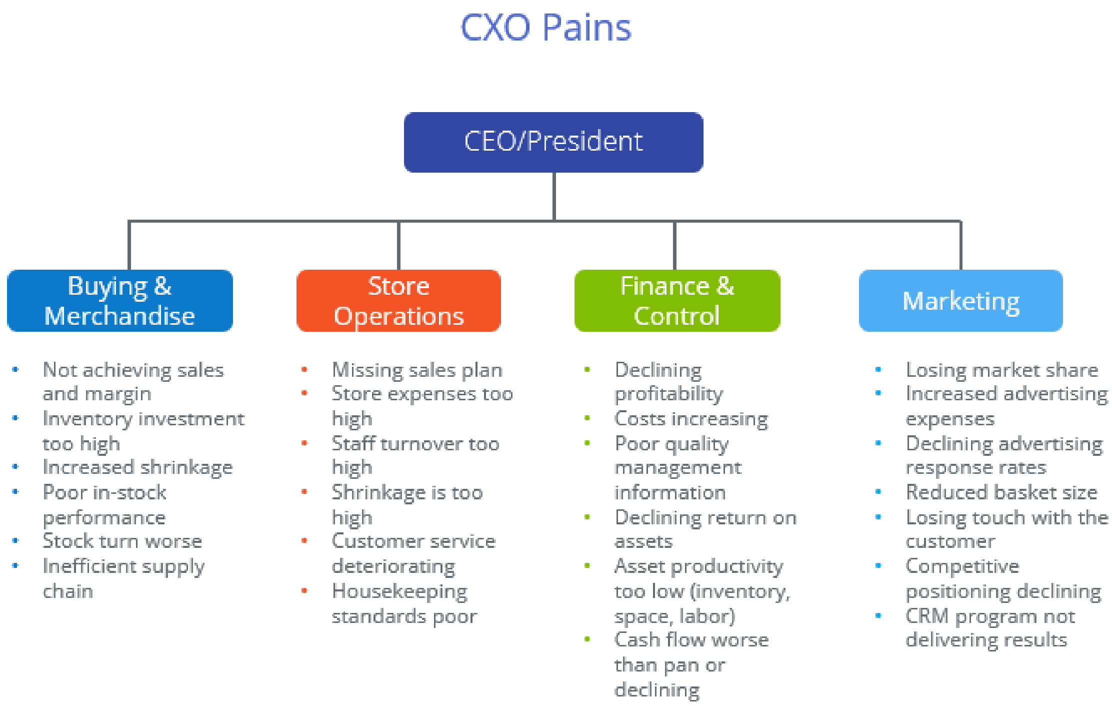
Tip 1 – Identify Their Pains

We said earlier that you should identify the retailer's potential pains from the desk research. Obviously, you then need to validate those in meetings and pick up any omissions. An example of typical retailer pains is given below.

Other factors need to be considered when planning a desired turn level. Average turns vary by retail sector and should be used as a barometer when plans are made. It is possible to turn too fast. Excessive turn can result in lower customer service levels due to higher out of stocks for the consumer. Studies have shown that consumers confronted with continuous out of stocks will soon shop elsewhere.

Turning too slow can also damage a retailer by requiring extensive amounts of capital to finance bloated inventories. Slower turning products frequently require markdown funds to clear older, unwanted inventory. Excessive inventory investment has contributed to many retailers' demise. Too slow a turn also means that the store may not look fresh to the consumer, causing them to come back less often.

The following table based on a review of leading US retailers, shows the average turns by retail segment. Turns in the UK generally tend to be higher, partly because of geography and partly because UK retailers edit assortments or ranges more aggressively.



Tip 2 – Find Out What Their Bonuses Get Paid On

Another tip is to find out the bonus structures for the people that your solution will impact. For example, if their shrink result is a significant part of their bonus this year, you can infer that last year's shrink result was bad and they are focused on improving it. Whatever the company says about its strategic goals, what they pay bonuses on is what's really important. Also, people do what they get paid to do, whether the company meant it that way or not. Once you understand people's bonus structures, you know what they will focus their energies on accomplishing. When you plan and execute your sales campaign, make sure you show how it will help them achieve their bonus objectives, but try to be a little subtle about it.

Of course, you can't just go to your first meeting with a senior executive and ask him what his bonus plan is in that meeting. However, there are ways of discovering the information that will not give offence.

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Tip 3 – MIO Department and Store Operations Projects

Unlike many sales training classes where they teach you to start at the top and work down when you need to, we find it much better to start in the middle, gain one or two coaches in the organization and get them to introduce you to the top people, when you are sufficiently prepped that your otherwise sudden death meeting is likely to be successful. Where do you find these people? In the Buying Office and in Store Operations. There are particular roles in each department, where you are likely to have the most success getting started and developing these people into key executive sponsors. In the Buying Office look for the Merchandise Information Officer (MIO) or Merchandise Planning Manager. In Store Operations, look for the group that manages store related projects. Working these relationships can get you to the top line of business people. The top people can take you to IT and it then makes it very tough for the IT people to blow you out because you don't support their favorite architecture or because it's not one of their departmental priorities.

These days it is also important to work through the E-Commerce and Marketing Departments as well. In these cases you mostly have to start at the top.

Tip 4 – Ask Questions

Retailers judge the contribution you make by the range and depth of your questions, rather than by the statements you make. Do your research and ask good, searching questions that make them think. Visit their stores and identify potential opportunities by observing the strengths and weaknesses in their store operations. Use a tool such as the Martec Store Visit Analyzer to help you formulate the right questions. You can also use the discovery job aids in our WIKI/EPSS.

Tip 5 – Know Their Industry

There are a range of education opportunities available from companies like Martec. Use our e-learning to build basic knowledge or gather just in time knowledge. Use our instructor led classes to build your skill at applying retail knowledge to sell more successfully. Use our Retail WIKI for ad hoc questions or snippets of knowledge.

Conclusion

Solution selling has many advantages over product selling. Some of the big ones are:

- The account manager can create demand in ways not possible with traditional selling.
- Selling the value of the solution allows you to attain higher margins.
- Solution selling also helps you develop deeper, longer lasting relationships in the account, reducing your dependence on key people leaving (their organization or yours).
- It is easier to identify and plan your sell on potential.

However, solution selling also has some consequences. One is that the sales cycle takes longer. Companies driven by quarterly or six monthly results will have difficulty adopting a solution selling methodology.

Hiring may be more challenging as the pool of people with retail selling experience is smaller than the pool of people with general technology selling experience.

The training required to move your people to where you need them to be in terms of industry knowledge and solution selling your products or services is significant and will be measured over several years, not months. There will also be a requirement to develop industry specific messaging, appropriate sales tools, ROI models and the like. All of this will take time.

The good news is that there are companies out there like Martec to help you address these challenges.

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You can learn more about Martec's complete product range and customer service package at www.martec-international.com.