INTRODUCING SERVICES IN A PRODUCT COMPANY

7 Common Mistakes Product Companies Must Avoid

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In this Article

Executive Summary

Product companies often under-estimate the challenges of developing a Professional Services organization. The often poor end-results can resonate through the company impacting not only services revenue but also pulling on existing product revenue, diluting sales force focus and creating an identity crisis within the company.

The challenges faced by product companies journeying into the Professional Services business are very real, yet most product companies fail to realize the significance of addressing these challenges in the early stages of their strategy and planning.

Key Takeaways

1. **Know Your Mission**. Executives must be very clear on the mission of the Services organization before venturing forward.

2. **Hire The Right Skill Set**. Services (as opposed to products) are very different requiring very different skill sets.

3. **Don’t Dilute Resources**. Be careful about sharing resources (e.g. Sales, Engineers, etc). It can quickly dilute your abilities to deliver on either side (products or services).

4. **Insure A Voice At the Top**. Be sure there is Services leadership and expertise at the Executive level. Without it, product priorities will continue to dominate strategy and focus.

7 Common Mistakes

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The following identifies the 7 most common mistakes product companies make when planning and developing a Professional Services organization.

#1 – Fire, Ready, Aim

Product executives have the uncanny ability to approach Professional Services as a post-product sale activity and like so, underestimate the work involved in establishing an identity for Services as well as its fit in the overall strategy of the business. Executives routinely take a "fire, ready, aim" mentality to Services strategy. In my experience helping companies identify and develop their Services organizations, I am still amazed at how many product company executives will routinely dismiss the idea of spending any time strategizing and understanding the complexities that Professional Services will bring to a company that is product-based.

From a business point of view, services require the same strategic thinking as products. What is your target market? What's the best way to position and sell the new service to this target prospect? Will you develop a sales strategy around services to pull product, or around products to pull services? Is your services target market different than your product target? How much will you sell your service for? How will you deliver it? How much time and resources do you need to deliver consistently?

Without a clearly understood mission and strategy for Services it will be difficult to take the next steps in the build-out process. The company will not have a cohesive understanding and focus. Executives and stakeholders will have differing interpretations of priorities, expectations, and timelines. And cross-functional participation will be inconsistent and lack the necessary ownership and accountability that is needed to achieve success with Services.

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Creating a mission and strategy is not trivial. Even if the company knows that the services mission will likely change in 6 to 12 months, it is still extremely critical to insure that the work effort, investment, and mindset of all employees is on the right initiatives and goals from the get-go. Without it, the product company will likely fail to achieve the expected revenue and benefits from their new Services organization.

#2 – Business As Usual

You say "to-may-to" and I say "to-mah-to". It is not uncommon for product companies to think of services in the same way they think of products. This extends to the functional resources used to manage the service such a *product* managers, *product* marketing, *product* sales, and *product* support, and so on.

Services are different from products. Unlike products which you can see, touch and try-before-you-buy, services are intangible. You can't see them, touch them, or even "try" them until they are delivered, which is typically after the sale and purchase agreement. Services require specialized expertise just as products require specialized expertise. Making the assumption that your current product-oriented infrastructure will be leveraged to also manage services is like asking a sea captain to fly a jet. They may both be a part of your business, but they are very different things that require very different approaches to navigate and manage.

Consider how you sell and market products. Your marketing position and sales pitch are developed around solutions, features, quality, performance, reliability, or availability. Customers can touch and test the product before they buy. In short, they know what they are getting before they ever purchase the product.

Now consider how you need to sell and market services. Your marketing position and sales pitch are developed around trust, credibility, and knowledge expertise to give the customer something they need.

Customers can not touch your service; they can't try it out in their environment before they buy it from you. Instead they need to "believe" that what you say you will deliver will be delivered. Services are inherently a higher risk purchase for customers than products. It takes a different type of marketer and sales person to market and sell services successfully.

Executives can often fool themselves into believing that leveraging functional "product" expertise for services is a short term arrangement while they build out the Services organization. It has a logical sense to it; a way of managing initial investments. However, the ramifications of doing this can be extremely expensive.

For one, you're diluting your product development efforts by stretching your product resources and this can have ramifications across both your service and your product lines. Second, you risk the chance that your product and sales resources, not fully aware of service nuance, misfiring on marketing and sales activities that result in missed opportunities and poor performance. As a result companies find themselves continually reinventing or restructuring services in a costly attempt to improve poor performance or delivery without seeing the real cause of the problems.

The reality is there is no cornucopia of reward to companies simply implementing Professional Services.

#3 – Jumping Into The Deep End

Product companies generally make the decision to offer services for one of two reasons: a) they have to (the product is complex enough that certain services must be sold to implement it successfully); or b) they want new revenue channels (the product is becoming commoditized or no longer offers the same high margins due to competitive pressures).

In both cases, services has the misnomer of bringing with it revenue and profits. Be it the belief that services are easy to implement, or that services carry higher margins, or simply that services are easy money, the cost of implementing services in a product company can be quite high, even operating at a loss for a considerable time (if ever becoming profitable). There are countless books and articles on the virtues of offering services to "save" the inevitable downturn of the product lifecycle or how services will ultimately be the money maker in product companies.

The reality is there is no cornucopia of reward to companies for simply implementing Professional Services. The wrong mindset can lead to very costly results.

For example, unlike products, services (particularly non-"productized" services), are resource-intensive, require longer sales cycles, are more iterative, and require continued involvement by sales and services personnel throughout the engagement.

Additionally, delivery of services requires company resources to be engaged either remotely or at the customer's site for days, weeks, or even months. Although the margin on the particular service may be profitable, the scale in which such services can be sold and delivered can be severely limited by the number of available resources. On the surface this may seem like a "good thing" (demand higher than supply), however adding more Services resources has its own ramifications.

With products, manufacturing can adjust inventory and output based on forecasted demand. However, adjusting for service pipeline changes is not as flexible. If the company over-estimates the services pipeline then very expensive resources become idle, impacting billable utilization and reducing overall margins. If the company under-estimates the services pipeline then the company does not have the resources to deliver and hiring and training new resources takes significant time. This creates a number of negative results including lost revenue, poor performance by over-extended services resources, and potentially damaging image and brand credibility – a critical component to successfully selling services.

Product companies planning to add professional services to their portfolio must tread carefully when developing their build-out plans, investment, and sales strategy. Moving in with "eyes-wide open" is an imperative that should not be handled lightly; otherwise the ramifications may be too much to recover from.

#4 – Mismatched Skills

It is not uncommon for product companies introducing services to expect that their current infrastructure will support them (see previous). In particular, it is almost guaranteed that product companies will expect their current sales force to sell services as well. In theory, this makes logical sense. The company has invested in field sales and engineering to support the sale of its products. The sales team understands the company, its products, its target audience, and its market space. In addition, they have been organized by geography or by account to quickly leverage the opportunities that present themselves.

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The reality however, over countless case studies, surveys, and reports, is that leveraging "product"-oriented sales people to sell services is like leveraging a refrigerator salesperson to sell kitchen remodeling. Fact is, selling services is very different than selling product.

For one, products are tangible. Customers can touch a product, look at it, test it, trial it, and even return it for a new one if it breaks. Customers know exactly what they are getting before they ever buy a product. Product sales people sell quality, reliability, performance, features, or price. These are repeatable messages that product sales people have come to learn and hone their skills at selling. The sales cycle of products can vary by product, though actual “engagement time” for a sales person is relatively small, allowing them to manage several ongoing opportunities at the same time (all with relatively the same message and sales tactic).

Services, on the other hand, are intangible. Customers can't look at a service, try it out, or test it before they buy. And, if it doesn't work after it's delivered, it may not be replaceable or very expensive to replace (for both company and customer). Selling services involves selling trust, confidence, and credibility. It involves selling something that hasn't been created or delivered yet and there is very little for the sales person to offer as examples other than "trust me".

For sales people, the sales cycle for selling services is much more resource-intensive, involving statements of work, requirements capturing, even ongoing customer management once the service is underway. When confronted with the challenge of selling services, product sales people will generally opt to follow what they know best and can sell more easily (thus collect commissions). As a result, products will continue to get emphasis over services and service sales will continue to suffer despite reward initiatives and other incentives to boost services sales.

Second, services are generally broken out by "practice" such as CRM, ERP, Mobile Wireless, etc, or by "solution" area such as "productized" combinations of the product and specialized services (and even third party products and services). Attempting to leverage territorial or account aligned product sales people to also align around a service "practice" or "solution" is a recipe for failure. This misalignment can have ramifications beyond just poor services sales. For example, a product sales person aligned by accounts or territory can not become expert in a particular practice if they only sell services in their given territory, yet they will be expected to sell themselves as the expert in the specific practice in order to successfully sell the service to the customer. The time consuming effort to learn the practice or solution area and sell the intangibles of trust, confidence, and credibility, while still maintaining their other "product" opportunities, will quickly dilute the sales person's effectiveness, impacting not only the services side of the business but the product side as well.

Third, services generally involve "team" selling where sales (selling), marketing (bidding), engineering (developing, delivering) are involved with the customer through the sales cycle. This can be a very different model than product sales people who are accustom to working alone or with a single engineer. The sales person ultimately becomes the project lead and must manage the logistics of these different functions involved in the sale. This is something many sales people may not be comfortable with or prepared to manage.

Finally, it is an ongoing effort to keep sales people trained in general on the latest technologies, product features, sales tactics and strategies, etc. To add to this challenge, the ability to learn the services side of the business and how to sell risk/reward, solutions, or become expert in certain "practice" areas can be daunting for product sales people, making them less effective rather than more effective.

Product companies moving into services would be wise to heed the warnings of past mistakes by others and include new services-oriented sales people to support their existing product-oriented sales force. Otherwise the ramifications from under-performance of product sales people will take its toll on both the services business and the product business.

#5 – Rob Peter to Pay Paul

As with product sales people expected to sell services, it is not uncommon to see product companies plan on leveraging their product engineers to deliver services. This is particularly common in software companies who view the effort in software engineering of the product to be similar or the same as software engineering of the service. In reality, the difference between product engineering and service engineering can not be more different.

For one, developing and delivering solutions as a service involves a tremendous amount of customer interfacing. The skill set among service engineers and service delivery resources includes an understanding of how to address and work with customers through a long period of changes, adjustments, and issues. It can not be over-emphasized how important and necessary good customer relationship skills are for service engineers and delivery people. If the customer experience is poor, it will not matter that the engineers delivered on time and within budget, however it will matter whether you will get future business from the account or much coveted references for use in other sales opportunities.

Second, product companies many times mistakenly assume their brightest and best product engineers can initially deliver services and then, as the company grows, will add in resources with the right services and customer interfacing skills.

However, this does not generally work out as planned, as initial services engagements tend to be much longer than future ones that can be "productized" and made into repeatable processes over time. Additionally, product engineers rarely interface with customers in their product engineering capacity. To throw them into a customer-facing role can be quite draining and frustrating for them as they learn to properly deal with customer objections, issues, concerns, and questions.

Third, product companies who leverage their product engineers for services can find themselves quickly drawn into scenarios where key product engineers are working through customer issues rather than getting product-related development tasks completed. This can impact product release schedules, revenue forecasts, and so on, not to forget over-extending valuable engineering resources and creating "burn-out".

Product companies would be wise to not under-estimate the impact of pulling product engineers to perform service engineering duties, even if only planned for a short time. The two skill sets are very different and the negative results can cause a ripple effect through the company. It is imperative that properly skilled resources be put in place when building out a professional services organization, even if this means hiring additional resources. The right resources for the job will easily out-weigh negative impact of misaligning the skills of current resources.

#6 – Lack of Leadership

It is natural for product companies to have an executive staff that is proficient and experienced in developing, selling, and marketing products. After all, it is a product company.

Yet, product companies often introduce services with the intention of bolstering revenues, while failing to add any services expertise at the executive level. In some cases, a Services manager will be placed under one of these product executives, but the voice making the executive decisions is a product-minded executive. Companies may think they will provide as much emphasis on services as they do products in terms of executive attention, but these companies are only kidding themselves.

Services are often identified as the black sheep of the product family with no one seriously protecting the interests and goals of Services at the executive level of the company. As a result, Services are looked upon as an "after-thought"; something you sell after the product deal is secured. This is known as "product led, service pull" and is the typical result of a product company with no serious services experience at the top.

There are many examples of the power of "service led, product pull" where services are sold first and product is sold after. To product companies, this is very unnatural. It is very typical for product-centric companies to believe that to lead with services is to suggest they are no longer a product company selling services, but rather a services company selling some product. This misconception is what causes many product companies from ever achieving a profitable services venture. Having services experience at the executive management level insures the concept of services led, product pull is truly understood. A services voice will help mitigate the misconceptions and promote the advantages of using services to sell more product.

Finally, when product companies do not embrace services at the top, this mentality resonates throughout, despite initiatives, goals and other promotions internally around services. When push comes to shove, services will always take a back seat to product initiatives.

For the services organizations left to manage themselves with sales goals and profitability metrics hanging over their heads, it is even more challenging to execute to plan. Many times, a Services manager will be positioned as a subordinate of Sales – a common but misguided design structure due to ongoing conflicts of interest. Consider the following typical example:

A sales person, after several weeks and months has convinced the customer to purchase the product and is about to close the deal. Commission dollars are ringing in their head. The sales person, using the "product led, service pull" approach, convinces the customer to purchase services and requests the Services group to provide a firm fixed price as part of the final quote. The Services group knows that this services engagement requires significant scoping (requirements analysis, use cases, and discussions with the customer) to truly estimate the price and provide a realistic schedule. The sales person, concerned that the extra time may delay closing the deal escalates to the Sales executive to by-pass the normal process since the product deal is so good. Because there is no true voice at the executive level for services, product sales will always win out, regardless of how good or bad the services deal is.

Other issues also arise. For example, services routinely tend to get "bundled" into deals for free or highly discounted, to close the deal. Timelines to deliver are dictated by sales agreement rather than by properly scoped timelines, and sales and services are often at odds, creating unnecessary negative friction between the two groups.

Product-oriented thinking that lacks executive level expertise for Services results in Services being treated as an after-thought; a necessary evil. In either case, Services is never on the winning end of such a situation. It is important for product companies to recognize their strengths (product experience) as well as their weaknesses (services experience) and to insure that their executive team has a strong services experience and voice to bring balance and perspective to strategic decisions around products and services.

#7 – Hollow Commitment

As product companies make the move to services, it is not uncommon for them to talk heavily around their services initiative, touting the benefits and level of expertise they can bring in terms of value to a customer. All good things for a customer to perceive from a product company. However internally, services are still treated as second-party to products. Traditionally the infrastructure of a product company changes little: "product" managers manage services, "product" marketing markets services, and "product" sales sells services. Product companies do a great job of talking the talk to customers, but a very poor job at walking the walk to truly achieve success in services.

The move to services requires more than a few well-placed press releases and well-written pages on the company web site. To truly implement professional services to be profitable for a product company, significant cultural changes will need to occur; both at executive levels and at the functional levels of the company. This means changes in the way executives think and act. Changes in the way sales sells (e.g. team selling); understanding account ownership and engagement processes; as well as how success will be measured and how performance will be addressed and managed, will become significant challenges that must be seriously addressed and resolved. Changing the culture of a product-oriented company to become service-oriented and customer centric is likely one of the most difficult transformations the company will have to make.

Cultural changes begin with the CEO and managing the change process requires focused and mandated effort. Having a voice for services at the executive level to promote services and bring a different perspective to a product-minded management team is absolutely necessary.

Leading by example can resonate through a company with momentous success. Functional areas will recognize commitment (or lack thereof) by the company and will rally around what is perceived or interpreted to be the key focus areas. If services are treated as second-party to product, then functional areas will commit themselves to that model and services will never achieve its intended goals. However, if services are recognized as an equal to product, then functional areas will form around a more positive model in support of services. This cascading effect brings with it an attitude of change that is embraced rather than discarded and will have a strong and positive momentum to bring services into the company portfolio with success-minded results.

About Centricity Systems

Centricity Systems specializes in providing high-value advisory and implementation services for emerging and high growth companies in the areas most critical to driving business success:

- **Information Management**
- **Technology Consulting**
- **Business Performance**

For more than 20 years, Centricity Systems and its staff have helped companies with strategy, implementation, and management in mission-critical, high-value areas including:

- Infrastructure development and organizational build-out for Professional Services and Customer Support,
- Interim management for Professional Services and Sales Operations,
- CRM/ERP strategy, evaluation, implementation, and administration,
- Content Management strategies and implementation,
- Business Process Engineering and re-alignment,
- IT/System Consolidation and re-alignment,
- Change Management strategies and execution management,
- Customer Experience and Customer Satisfaction evaluations,
- Web/Portal/e-Commerce enablement, design, and development,
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He is considered an expert at customer information management and organizational process, and an accomplished and respected change agent. His vision and leadership have accounted for numerous innovations and improvements in start-ups and global enterprises alike, and have resulted in notable growth, profitability, and value.

Prior to founding Centricity Systems in 2002, Steve spent the last 19 years in various management roles in services, sales, and support, most recently serving as Vice President of Professional Services for TeleGea and Ensim, and as Senior Director of e-Business Commercial Operations and Customer Management at Nortel Networks. He has also held management positions at Bay Networks, Wellfleet Communications, and Wang Laboratories.

Steve is an active member of the Association for Services Management International (AFSMI), and Customer Relationship Management Association (CRMA).