



Driving **Growth & Profitability** in the High Tech Industry



CONTENTS

Introduction	3
Major Trends in the High Tech Sector	5
Challenges and Opportunities	9
Impact on Mission-Critical Programs	11
A Holistic Revenue Management Approach	13
Conclusion	14

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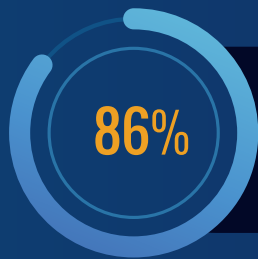
Introduction

"It is not the strongest or the most intelligent who will survive, but those who can best manage change."

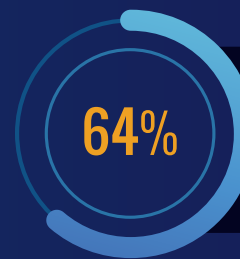
This insight is attributed to Charles Darwin, who famously codified biological change but whose observation would also seem to neatly summarize today's changing high tech sector.

Multiple industry forces have had a significant impact on manufacturers in the high tech industry for some time. Leading the charge is the major shift to cloud and subscription revenue models, in which customers subscribe to a tech vendor's hardware or software, and revenue derived from that hardware or software flows in over the length of the customers' lifecycle rather than in a single, up-front payment.

Additional key forces impacting manufacturers in the high tech sector include: the shortening technology lifecycles, increasing technology solution complexity, shifting of sales cycle control from vendors to buyers, reshaping adoption of technology and usage by younger generations and expanding uses of data (resulting in increased utilization of analytics and "big data" tools).



86% of executives feel their business process and decision making have become so complex that it has hindered their ability to grow in a digital economy



64% of business managers list simplification as a clear organizational priority to managing process complexity

Source: Harvard Business Review Analytic Services, 2015

The new environment created by these industry forces has also impacted the program landscape across a company's entire organization (including rebate, incentive, promotion, pricing and other financial programs engaged with direct and indirect channels, designed to drive revenue and growth).

This eBook examines the impact of major industry forces and trends in the high tech sector, as well as the challenges and opportunities presented by those forces. It will also consider how mission-critical programs have changed to address this new environment, and how a new and more holistic approach to channel management is needed to address new challenges and capitalize on new opportunities.



Driving Growth & Profitability in the High Tech Industry

Major Trends in the High Tech Sector

Shift to the cloud & subscription-based pricing reforms business models

Like cable TV and other media content providers, tech companies have been making the shift to cloud and subscription-based pricing models. This has had a significant impact on their balance sheets, how they sell and market, and where they focus from a customer lifecycle management perspective.



By 2020

80%

of high-tech vendors

will offer subscription-based
business models

Source: Gartner

From a financial perspective, the advantage of the subscription model is that it provides a consistent, recurring revenue stream that can ultimately provide a greater financial benefit if the customer stays. The challenge, of course, is getting customers to stay for the longer term, and managing the initially lower cash flow, when compared with sales under the traditional up-front sales model.

From a selling and marketing perspective, cloud services have shifted or expanded both to whom and what high tech companies are selling. IT department selling, application features and functions, and technical discussions are no longer the focus. Line-of-business leaders are typically now the primary decision makers, and sales conversations are much more focused on how the seller will drive business outcomes and return on investment. This explains the advent of customer success and greater investment in both customer acquisition strategies and customer retention.



Growing complexity meets shorter technology lifecycles

Moore's Law, which postulates that technological advancement increases exponentially while costs decrease in like manner, is alive and well. Complexity within business processes cripples a company's ability to innovate, especially in the high tech industry where innovation is crucial to developing new products and revenue streams. In addition to the speed of technological advancements of the solutions themselves, many software and hardware vendors also have increasing complexity around the massive system integration needs required to be part of the integrated marketplace of high tech solutions that customers demand. This, when paired with the faster pace of solutions commoditization, has put a unique set of pressures on high tech vendors.

The impact of the “i Generation” on B2B

Another major industry force is the shift in technology adoption and use among the so-called “iGens” which refers to the generation raised on iPhones, iPods and other smart devices. This shift has impacted the high tech sector in a number of important ways. Two of the ways that have been most impactful are the consumerization of B2B and the desire for an omni-channel customer experience.

Technology purchasers have come to expect their B2B purchases to offer the same user-friendly, tailored and customer-focused approach they experience in their B2C purchases. This desire for simplicity and Ease of Doing Business (EODB) has had a widespread impact on vendors, from how they design their solutions – UI, UX and mobility being more important than ever – to how they interact with their indirect channel and/or suppliers. Also, expectations around customer service and the need to be responsive, proactive and engaged with customers is having an impact on vendors.

The shift to an omni-channel experience has added complexity to the high tech company’s task of marketing solutions to B2B consumers. Customers demand the ability to shop online, over the phone, over the seller’s website or in a retail store, and also to be able to switch from one of these channels to another without the need to restart the process from the beginning. This obliges the seller to invest time and money into making sure each channel delivers a consistent message and experience. And if the true seller is an indirect channel partner, the complexity is increased even further.



Making it add up with analytics & new data tools

Another highly impactful industry force is the growth of big data and, specifically, adoption of data analysis tools and process. This trend is at the core of what is described as the “digital transformation” taking place in all industries. The combination of increased data capture (in which IoT plays a major role) and data usage is making all companies into technology companies. High tech companies also are experiencing the drive to increased “data-driven” decision making and opportunity to become more analytical in terms of how they manage their businesses.



Driving Growth & Profitability in the High Tech Industry

Challenges and Opportunities

The impact of the forces described has been both positive and negative. On the positive side, high tech companies have had new markets open to them and opportunities to innovate in ways never before imagined. This has spurred growth and the ability to truly drive business outcomes for customers. On the negative side, the cost of sale has increased, margins in general are tighter, and there is constant pressure to drive technology costs down.

Cost and profitability pressures

Most high tech vendors today face multiple cost pressures. They have a shorter timeframe in which they can demand higher prices (and greater margins) on an innovative solution due to greater competition and speed to commoditization. For manufacturers, the complexity of value change management also has increased with the proliferation of outsourcing and evolving, expanding global channels. At the same time, many organizations are experiencing greater customer acquisition costs.

A number of factors, including a narrowing of the gap between B2B and B2C selling approaches, have pushed companies to develop hyper-specialization across their marketing and sales capabilities in order to respond to customers' demand for industry and sub-industry expertise, evidence-based marketing, and a holistic, customized buying experience. This more intricate marketing and selling approach – when paired with subscription revenue models, pricing pressures, and customer retention efforts – has put significant strain on cash flow and profitability for many organizations.

Growth of the cloud, AI and IoT

The opportunities have largely been around capitalizing on the expansion of cloud solutions, and growth of Artificial Intelligence (AI), Internet of Things (IoT) and digital transformation efforts taking place in nearly every industry. New technologies around these developments have created a vast new realm of opportunities for high tech vendors and their partners. The semiconductor industry is a great example. Companies like Intel which were largely focused on selling a limited variety of products to PC manufactures are now experiencing business transformation and expansion as they innovate for the enormous opportunities and uses for their chips in IoT devices of all types.

New market expansion has also changed the role of partners, who are now rarely expected to simply sell the vendor's products but instead they're integrated into the full customer lifecycle, (implementation and integration, software development, customer support, business advisory services, new sales and retention, etc.).



Impact on Mission-Critical Programs

Given the challenges and opportunities that today's high tech companies are navigating, it's not surprising that incentives and the broader programs landscape have been impacted and are being reconfigured to handle hefty new demands. Tech companies can no longer run programs that simply focus on how they incentivize a customer to buy or a partner to sell; today's programs need to focus on the end-to-end value chain to show how it all adds up.

We've seen the need for organizations to be much more precise in how they manage upstream commodity and component pricing, and find better approaches to downstream bid or quote processes and pricing management. Effective management of these elements is more key to profitability than in the past. We have also witnessed a multiplication of rebate programs and unique contracts and agreements with the breadth of partner types and nuanced approaches to market opportunities.

The incentive type and mix has also evolved. Companies looking to influence milestones and key decision points along the full customer lifecycle which drive not just the "buying event" but help to maintain and cultivate the relationship with a customer, support the need for the customer to get maximum value from the seller's solution, and continue to renew and expand that relationship. These incentives are sometimes targeted at the customer, but more often they're aimed at driving behavior within the ecosystem of partners and alliances that surround and support the customer lifecycle.



With the complexity and quantity of programs increasing, the challenges around channel data volume and quality have intensified, and the need for effective Channel Data Management (CDM) and Master Data Management (MDM) has increased. Manufacturers also need better management of and visibility into inventory in the channel, in order to ensure that programs are being tracked and incentives calculated appropriately.

Lastly, high tech vendors have an urgent need for better upfront planning and data analysis, in order to discern in advance what types of programs will be most effective to put into place, how to execute them most effectively, and how to maximize post-program insight into what worked and what did not. This need for proactive insight is intensified in an environment where there is less room for error, and a much greater need to understand which programs are effective – as well as those that are not – and their impact on gross-to-net profitability.



Driving Growth & Profitability in the High Tech Industry

Adding It Up With a Holistic Revenue Management Approach

These trends and their impact on tech companies' mission-critical programs are part of an overall paradigm shift that is disrupting business in many industries, but particularly those in the high tech sector. Tech companies are already “digital” in nature, but the trends described in this paper require even greater digital transformation from them.

Companies are coming to realize the need for a new approach to managing not just their channel programs, but the broader program landscape. The historical – and still more common approach – from an infrastructure standpoint has been silos to manage the variety of programs and incentives types separately - Marketing Funds (Co-op & MDF) in one system, Volume & Growth Rebates in another system, Channel Data Management by a third system, Pricing Administration & Optimization in yet another system, etc. with some interfaces between them. This multi-system approach to all the elements that ultimately impact revenue and profitability has introduced its own set of challenges:



Conclusion

Leading high tech manufacturers are beginning to take a more end-to-end, high-level approach to managing not just incentive programs but all related financial elements that impact revenue. By stepping back and taking a broader, more holistic approach, organizations are gaining visibility into effectiveness, are able to better understand where business simplification can be driven, and what the combined and individual effects their programs have on driving results. Manufacturers taking this end-to-end revenue management approach are acquiring the insights necessary to best understand the effectiveness of their programs throughout the customer lifecycle and the capability to proactively optimize programs to protect and spur profitability and growth.

The Critical Role of Software

With the right software in place vendors are able to gain a more holistic view into how cost pressures and subscription based revenue models are impacting their mission-critical programs. The ideal software solution provides daily monitoring and tracking of performance against the plan, allowing users to see the numbers, see what's working, and see what to do next.



Deployment Options | Run it your way

Whether you decide to run your systems on-premise, in the cloud or in a hybrid environment, with Vistex solutions your organization is empowered with unprecedented visibility into any program and performance. Gain deeper insight and enable fact-based decisions to drive revenue, control cost, minimize leakage, and streamline processes. With a range of deployment options for all your programs, you choose the way that works best for your business needs.

Add the right option for your business



On-Premise



In Cloud



Hybrid

How Vistex Adds Value

With the rising cost of customer acquisition, the rapid pace of innovation and intense competition for market share, high tech companies must monitor program performance, drive demand and protect margins for critical revenue growth. Vistex enables high tech companies through an integrated solution that manages the full breadth of direct and indirect channel management including CDM, contracts, pricing, ship & debit, rebates, Co-op & MDF, incentives and IP royalties. High tech companies can now improve profitability through automation of complex programs, insights into program performance, incentive calculation accuracy, overpayment avoidance, increased compliance, streamlined reimbursements, and better manage the entire revenue management lifecycle.

About Vistex®

Vistex solutions help businesses take control of their mission-critical processes. With a multitude of programs covering pricing, trade, royalties and incentives, it can be complicated to see where all the money is flowing, let alone how much difference it makes to the topline and the bottomline. With Vistex, business stakeholders can see the numbers, see what really works, and see what to do next – so they can make sure every dollar spent or earned is really driving growth, and not just additional costs. The world's leading enterprises across a spectrum of industries rely on Vistex every day to propel their businesses.

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