XAAS FILES PODCAST, EPISODE 18

WHY DON'T WE PUT OUR LEVERS ON THE TABLE?

Introduction [00:00:00] Welcome to Accenture is X-as-a-Service files the podcast for business leaders helping their companies transform using innovative digital business models. Here, you'll learn from some of the industry's leading movers and shakers, senior executives from companies around the globe who are changing the way the world works and plays by delivering all types of compelling subscription services. Join your host Kevin Dobbs Accenture X-as-a-Service managing director who brings 20 plus years of experience as an entrepreneur, CEO and senior executive to the table. Kevin has led dozens of as a service business transformation for some of the largest technology and industrial companies globally. Now let's get to today's episode.

Kevin Dobbs [00:01:02] So welcome back to the X-as-a-Service Files podcast series. And today we're talking to Thomas Lah from TSA about their new book, 'Digital Hesitation: Why B2B Companies Aren't Reaching Their Full Digital Transformation Potential'. And so, Thomas, in this segment, I really want to kind of double click into what you talk about in the book. These growth engines, certain, you know, growth levers. And, you know, I really like that because this is very similar to kind of how we're thinking at Accenture when we're working with our clients about many of these dimensions. And I'd love to get a little bit more color. I know in the last segment we talked pretty extensively about product line growth.

Another one of them is kind of you have as channel led growth, which is kind of the importance of partners as you're building out your new digital business. Give us some color on that.

Thomas Lah [00:02:03] Yeah. Why don't we put all the levers on the table here and then we'll click into channel led growth. And by the way, this getting through the second wave of digital transformation unlocks these growth levers. And this is, you know, the really exciting thought here, right? Because, you know, you work with lots of companies and what do they need to do? Number one, they want to grow. Right? They're looking for ways to grow. But as we were talking a couple episodes ago, more than ever, more than ever, because of the price of money right now. Right? You need to be able to grow more cost effectively.

Kevin Dobbs [00:02:38] Yes.

Thomas Lah [00:01:39] And in these new growth levers, that's what it's about. It's about in driving cost effective growth. And so, what are they? We already talked about product line growth, right? The product itself is unfolding, you know, revenue opportunity. There's channel growth, which is you are building a product and a platform that partners can come and build value on top of. And I'll come back to that one will spend more time. There's experience led growth, which is between your customer success motions and your digital customer experiences, right?

You're taking friction out, creating a better experience for the customer. So that accelerates the growth with them. There is data led growth where you are using the telemetry from, you know, from your products and your platforms to then inform, hey, look, this customer is ready for the next thing, right? So, you're focusing your sales force there on the right customers at the right time. And last but not least, there's outcome led growth where you are really getting good at driving value and getting paid for that value. So, sort of value based, outcome based types of offer. So those are all levers that most tech companies today do not pull. And there are all levers that we think are going to be, you know, higher margin growth and better at scale. And if we go back to the to the channel one, and I'd love your perspective on this because of what you guys do for a living, you know, what we're telling the tech providers is we're saying, look, as you move from a transactional model to recurring, let's think about this, the transaction model while you got the customer to buy your product. And then there was this very natural role for the Accentures of the world to come in and help that customer implement and configure and get it up and going. And so everybody knew, right, how they were going to make their money and how they were going to have their value, etc. Okay. And technology provider, you're now moving to an as-a-service model where the customer is on a platform in that a lot of the implementation integration stuff just poof, it just where to go. They don't need that. It's a different world. So what's the role for your partner? Right. And a lot of times these guys are like, we don't really want to talk about that with the partner. Right. We haven't quite figured that out in our argument is, look, you want to create, but when you create that platform that as-a-service product, you should be creating telemetry and capabilities that your partners can come on top of and drive that with the customer. So, you get the expansion in the window.

And I think in your previous episodes there was a conversation about, you know, virtualization. Right. And that's the perfect example. Right. So how does how do you take a generic cloud platform and make it really meaningful for health care versus manufacturing, etc.? That is a relationship between, you know, partner and technology provider that, you know, you want to make sing. But, you know, by the way, you know, the Accentures of the world. But we tell these technology providers, we say, look, if you are just generic plumbing and you're not building hooks that really add value to the partner where they go, wow, if you do this for me, I can really you know, I can really rock this health care, you know, solution or whatever. Then you are commoditized, plumbing, you know, they don't care who they're using, you know, that they're going to build their value add solution and use whatever. You know, there's the most cost effective plumbing possible. And so, you know, they're the really should be an incentive for technology providers as they go through this to think about how they are bolting on partners in a really meaningful way.

Kevin Dobbs [00:06:12] Yeah. And the what we've found is the partners seem to go through the digital transformation, too. That's everything we just talked about. It's the, you know, using data, taking a customer centric approach and, you know, creating simplicity, you know, figuring out where they add value in the value chain. It's, you know, a lot of, you know, pick on some of the large hardware companies. I mean, they've had these channel ecosystems that have been around for 20, 30 years in some cases. And, you know, the partners made a really great living over that. You know, all of a sudden that's changed, you know. But now all of a sudden, we don't need kind of a lot of what you provide.

And so I think the verticalization is one area we always see because, you know, more and more companies are trying to create industry specific solutions that make sense, that deliver a specific kind of value. Another one is like geographic coverage, right? Can't be everywhere. So you need, you know, partners who really understand the local markets. In a lot of cases, speak the language, have relationships. Those make sense. But a lot of the, what I would consider the generic resellers, that's a hard place to be right now because it's not as valuable as it used to be.

Thomas Lah [00:07:38] Yeah, we do research in this area. We call it as-a-Service channel optimization. And it's interesting. So, let's think about stories that we've seen unfold over the past couple of years. So, first of all, you know, as again, a technology provider starts to move to an as-a-service posture, like you say, if you've got hundreds of thousands of these resellers were basically make their money installing, right, and supporting on prem. It's like again, poof, that just went away. Right. So, this is now awkward that's a problem. Now as you as you get your as a service software up and running to your point you still want to leverage a channel. You can't be everywhere. You're not going to be on every vertical industry. You're not going to be in all these geographies. And but now you need these partners to be good at renewing customers. Right, and expanding customers and driving adoption with these customers. That means they need to have customer success capabilities. Maybe they need a managed services capability, whatever. And so the technology providers like, gosh, you know, I need these partners to shift in our argument is, you know, and you need to be having a healthy adult conversations about where how are they going to make their money. You can't just say, oh, you guys should just have yes, but how are they going to monetize that?

You know, how are you going to define what the value proposition it is, right? So, you really have to collaborate with these partners to design a completely different portfolio to drive their economics or expect those partners to go away. Right. Right.

Kevin Dobbs [00:09:03] Right. Right. And it's you know, it's an evolution. It's going to happen. It's been happening over the last 5 to 10 years already. And I'm sure it'll keep going on for the next ten years. But what's been sort of an interesting kind of evolution on the XaaS (X-as-a-service) side is a lot of the large companies who were, you know, trying to get to the next level of growth are almost recreating their own channel ecosystems. But what I think's been fascinating for us has been being involved and kind of the rethinking of what a channel really is and kind of building out these programs that, you know, attract those type of partners and sort of, you know, they're kind of maybe the way to channel. Yeah.

Thomas Lah [00:09:53] Yes. I think you're spot on. And I think what's really fascinating at this particular point in time in tech, right, what we see is you have a lot of large, traditional think about a Cisco, think about a Dell, who are very channel intensive companies that are moving to as-a-service offers and saying, okay, gosh, I'm kind of in this awkward, you know, place with my what do I do with this channel, right? I want to repurpose it, but I don't know. You know, I'm not good at that yet. So, they've got a channel and they don't know what to do with it in the as-a-service world. And then you have these large now cloud companies like the Salesforce of the world, etc., who, you know, were not channel intensive, obviously, you know, but not channel intensive. But it is not their DNA now saying, you know what, I think I would like a big channel and I see benefits to that. Right.

Kevin Dobbs [00:010:46] I can't hire enough salespeople if I do it on my own.

Thomas Lah [00:10:50] So they're all going to you to said Channel 2.0. They're all going to meet somewhere in the middle. You're going to see, you know, a new type of channel relationship between, you know, large tech providers that are as-a-service but know how to have the right channel beat the system around that.

Kevin Dobbs [00:11:09] So your next lever is really around kind of experience led growth and we talked a little bit about that. I'd be interested in kind of what you what your thought at TSIA is around kind of the importance of customer success. I know that that was kind of organizational change over the last maybe ten years, but how does that play into kind of the growth engines here?

Thomas Lah [00:11:33] Yeah, and we took this head-on in the book with a chapter called customer success at scale. I'll tell you why, because I can tell you, we benchmark every year but 76% of the tech companies that we benchmark and that's old school new school that report that they have a dedicated customer success organization now in place. And seven years ago that was not true. Right. So this function has gone from being, you know, just for the SaaS companies to it's ubiquitous. Everybody has a customer success capability. Okay. That's the good news. Right. And the Charter of Customer Success Organizations is potentially three-fold, number one. First and foremost, adoption followed by, hey, you know, maybe you all the renewals and then, hey, maybe you help with expansion. And what we see is that in an Egyptian benchmark is the vast majority of customer success organizations are financial art projects, they're unprofitable and

companies are funding them by treating them as a cost of sales and marketing or cards right within sort of each of those markets. And the assertion that we make in a book is a customer success, you know, grasping about how important it's critical to the customer experience. There's no doubt about it. And what if you really want to take it to scale? There's a couple of things that you need to do. Number one, you need to monetize part of that portfolio. And there are still, you know, a lot of companies that they're like, you know, we just give it away, we just kind of throw it in, you know, when customer success people are doing things that have a lot of business with how you do your customers, that you are helping the customers you know get to value, some of that you should be monetizing. You're seeing, you know, companies like Salesforce get much more serious about that. And the second thing that you need to do is customer success needs on some of the commercials, because they're are much more cost effective channel for taking money off the table than having a salesperson come in all the time. So it's not a complex transaction. It's a simple renewal. It's a process, not an event. You absolutely should give those commercials to customer success. I can tell you definitively there's a bunch of good things that happen with your economics there. And the third thing, and this is going to be the hardest thing for some of your audience to hear is if you're going to really scale customer success, you need to get what we call the sales dividend, which means you're hiring less salespeople. And yes, you're not just throwing customer success managers and sales bodies at it, these SaaS companies that can get away with that. That's why their average cost of sales and marketing is 37% of revenue for those companies. I would say it sustainable.

Right. And now, as you were saying, in the current economic environment, suddenly, suddenly VCs are 'oh hey, wait a minute' maybe you need to be a little more profitable yet you're going have to get that sales and marketing number down. And to do that, you've got to pull these levers we were just talking about.

Kevin Dobbs [00:14:32] Well, and that leads us to the next lever, which is really data led growth and analytics. And, you know, one of the areas that we talk to clients about? I think we in our prep kind of covered this was, you know, the importance of moving from kind of a traditional sales model, you know, a V-shaped funnel to much more of what we call a T-shaped funnel, which you're using a lot more data and analytics. You're, you're trying to use kind of lookalike modeling. You're trying to hyper qualify your goals. Yeah. But you know, again, I think that this is now all of a sudden a topic most of our clients want to talk about. Because just what you were saying is the market has shifted. Everybody's thinking about, hmm, you know, I can't afford to hire more people. Maybe I have too many people at this point, you know, are there other ways that I should be using data to do things more cost effectively? How does how does that lever work in your model?

Thomas Lah [00:15:33] Yeah, in in this book, we updated our traditional layer model. We call it in the book here A player, which we put as this analytics in placement in front of the light. Right. Right. Which is what exactly what you're on in. Our assertion here is that sales needs to become a data-driven function. Period. And I don't mean 'oh yeah, we use a CRM and we put our opportunities in there.

Kevin Dobbs [00:16:01] And they don't use the CRM that much anyway.

Thomas Lah [00:15:03] Trust me, I know. Right. So we're talking about they are leveraging the signal liquidity from what? From the product, from website visits, from the MQLs, from outside sources, you know, crunch space, whatever. And you know, I submit that when a sales rep gets up in the morning, they should be looking at their dashboard, at their analytics and using that to decide how they're going to spend their day. Right. Who they call, who they email, what are their priorities? Not just, hey, I think I should be talking to customer or customer B or you know, I'm running these email cadences or whatever their typical routine is, right? They should be prioritizing based on the analytics.

Kevin Dobbs [00:16:43] Right? And you know, if these models are working correctly, it should make your life a little bit easier. So, but I think, again, it's part of the transformation. So, we're at your last lever. Talk a little bit about kind of outcome led growth.

Thomas Lah [00:17:05] Absolutely. You know, this is an interesting topic. I wrote a paper seven years ago now called Outcome Engineering; A Primer on Outcome Engineering. And I wrote that because there were several of our member companies that were that were talking about wanting to drive outcomes. A lot of tech companies were creating sort of what they call either outcome engineering or value engineering groups who go in writing, work with a customer and say, let's identify business value and then let's make sure that we unlock that business value for you. And but I have to tell you again, within in customer success it's financial art project. These motions often are also art projects, right, where they kind of go. It's a very specific to one customer. It's really a big, you know, kind of consulting motion, very labor intensive. We believe that it has to become much more engineered and that you really the discipline here is and again,

you're going to have to visualize here that you really start to understand, you know, in vertical customers and what their needs are. And you can go in with competence and say, okay, hospital, I know where I can get you more efficiency or get you savings here. I absolutely can engineer that. And it's a combination of my technology, my services, my partner service capabilities. We're going to be very prescriptive. We're not going to come in and spend much time exploring and deciding and customizing. We know how to get this to this outcome. We know how to engineer this. And so, you know, here's the cost and here's the outcome we're committing to. And, you know, in terms of pricing, that was very rare. As you know, that's very rare. And people do, you know, outcome-oriented contracts. This has to do to customers and they want to do it right. But your ability, you know, even if you're just pricing in a fixed price, whether it be your ability to go and authorities say, I'm going to get this outcome, by the way, if I don't get it, I'm going to get penalized on that. That's the end game. But you can't do that at scale unless you get through this digital transformation. You don't have the right the organizational capabilities. And by the way, one thing that concerns me is you get all the websites, everybody's from this turn around outcomes. I'm going to get you outcomes, outcome, outcomes. But the gap between what they're seeing on their website, you know, and their ability to do that right now is pretty significant for a lot of things.

Kevin Dobbs [00:19:27] Right? Right. And where we live in that world, obviously, and a lot of times, what what's really important is you've got to, you know, have the data and the benchmarks in order to do that. And I have really, I think, start thinking about your business much more like a platform business than, let's say, a bespoke, you know, everything is custom. Hard to repeat that over and over again.

So, the last kind of area I'd love to just quickly hit on is I love the growth metrics. I know my team spends a lot of time talking about customer acquisition costs and rule of 40. And, you know, we look a lot at, you know, the financial metrics, especially for publicly traded companies around growth and profit and things like that. One of the areas I loved that was in your book you talk a lot about. Not necessarily CAC because sometimes it's hard to get to CAC. But you talk about kind of rack. Tell me tell us a little what's the difference between CAC and RAC?

Thomas Lah [00:20:35] So RAC is revenue acquisition costs. And it's a very simple calculation that you can do for any public company. And basically, you look at the percentage of revenue you're spending on sales and marketing and you divide into that. What was their annual growth rate last year? So, for example, if you were spending 40% on sales and marketing, which hey, that's a lot, but you grew 40%, right? So, 40 to 40, you get to number one and you say, hey, that's that RAC, you know, is that good, bad or ugly where you can compare to other companies? There's a company spending 40% on sales and marketing, but they're only growing 20. You know, their RAC is twice as much as two. So, you want the number to be as low as possible. And when you look at the data across both traditional tech companies and born in cloud companies, there is a massive, I mean, massive variance in RAC. And so, there are companies that have RACs that are like point five and that's telling you they are incredibly efficient. What's that?

Kevin Dobbs [00:20:39] No, no, I agree. You were listing. I was looking at one of your speeches, at one of your user events where you were kind of listing the top ten. And it was amazing how efficient they were compared to a lot of other companies.

Thomas Lah [00:21:56] Yeah, the industry average when I took that snapshot is around 2.36 and there are companies that are running at like .4, .5. And by the way, there are other companies that are running at like seven and eight. Right. And so we, you know, and again, so how do I improve my RAC? It's about the levels we were just talking about. It's all it's pulling these different growth levers is not about hiring an army of salespeople and throwing them out there. You know, you know, down for dollars, you're knocking on doors. You've got to be pulling these new growth levers to get your RAC, you know, lower.

Kevin Dobbs [00:22:30] Well, Thomas, listen, this has been really informative. I hope everybody who's been listening learned a lot. I know I loved the book Digital Hesitation. If you haven't got it, appreciate it. And you know, again, I appreciated you spending some time with us. I think we all learned something and we'll look forward to seeing you down the road.

Thomas Lah [00:22:52] Great. Really enjoy it. Thanks for having me.

Closure [00:23:07] Thank you for listening to Accenture XaaS Service files. Please be sure to visit our podcast Web site at Accenture.com slash XaaS service files that's Accenture dot com slash x a a s dash f i l e s. Where you can listen to more conversations with other industry leaders about their vision and perspectives on innovative digital business models. You'll also find more great insights from these leaders on our blogs that accompany each episode. And of course, we always appreciate it when you rate and review the show. Be well and we'll catch you again on the next episode of the XaaS files where we'll learn about the next venture in the digital transformation business journey.