

Value Chain Definition



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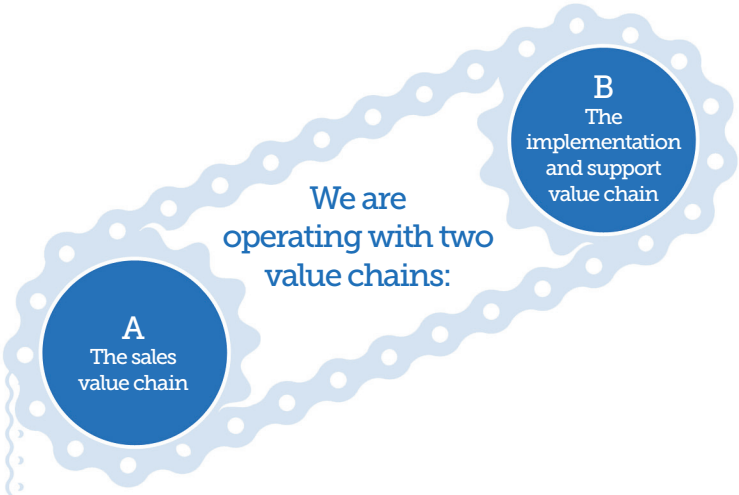
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The value chain¹ is a series of activities a product/service must pass through until it serves its final purpose of solving a customer need. In each phase of the value chain the product/service gains some value. If a phase is malfunctioning the chain will break down and the mission of generating value for the customer will not be accomplished.

¹ The Value Chain concept was introduced by Michael Porter in his 1985 best-seller, *Competitive Advantage: Creating and Sustaining Superior Performance*.

Channel business and the Value Chain

TBK Consult has adopted the concept of the Value Chain and applied it to the challenges of the software industry. The Value Chain definition is especially important when we execute some of the value generation through independent partners. Sharing a common understanding of the Value Chain elements will make the co-operation with you more transparent and productive.



The Sales Value Chain

The sale of B2B enterprise software is a lengthy, complex and expensive process with numerous steps. A sample Sales Value Chain² is illustrated below:

MARKETING MANAGEMENT

SALES MANAGEMENT

Step	Description	RESPONSIBLE
1	Customer Value Proposition Definition (TBK-PFFS-002)	
2	Sales tool development (References, testimonials, case stories, sales guides, white papers, Fact Sheets, Cheat Sheets, web site, presentations, etc.)	
3	Ideal Customer Profile definition (TBK-PFFS-003)	
4	Potential Client Long List	
5	Market Assessment	
6	Prequalification and Short List	
7	Contact and making appointments	
8	Presentation and qualification	
9	Business case development	
10	Demo/pilot/POV and risk mitigation	
11	Requirement specification/Proposal	
12	Contract negotiation	
13	Contract signing	

The definition of who is responsible for the individual step in the Sales Value Chain is crucial for maintaining smooth co-operation between the vendor and you. Certain steps will require the involvement of both vendor and yourself. In a new relationship the learning curve may require more support from the vendor and yourself initially. A shift will gradually take place as you become self-sufficient.

Project and process management must be assigned to one of the parties and collaboration platforms should be provided to co-ordinate and monitor progress. It is especially important to have a process in place where the customer requirements and expectations are aligned carefully what the vendor and you can eventually deliver within the price and timeline agreed.

The Sales Value chain definition should also include the definition of the OTV (on-target-value) and how performing your obligations in the individual step will remunerate each party.



² For a detailed description of the typical sales process please see TBK-PFFS-001

Implementation and Support Value Chain

The delivery of the solution agreed with the customer will normally require activities by all parties: customer, vendor and you. It is an accepted fact³ that the complexity of a software project increases exponentially with the number of parties involved. If the complexity of a project with two parties is $2^2 = 4$, then adding a 3rd party brings the complexity to $3^2 = 9$. As it is paramount that the client is prepared to serve as a referee, we must ensure the Implementation and Support Value Chain is well defined and the division of responsibility clearly laid out.

A sample Implementation and Support Value Chain is illustrated here.

The Implementation and Support Value Chain will vary according to the solution in question. An "out-of-the-box" standard solution with no integration to the client's other IT applications will be fairly simple, while the delivery of a bespoke or highly customised system with real-time synchronisation with other applications will be correspondingly comprehensive.



Avoiding the pitfalls



The overall objective of carefully defining the value chain for both sales and delivery is to reduce sales cost, improve the impact of the sales and marketing investment, improve customer satisfaction and turn each customer into a willing referee. It seems so obvious. Nevertheless, it is seldom done.



At TBK we are convinced that cost of NOT defining the sales and delivery value chains is extremely high. It is one of the major reasons why most partner-based go-to-market approaches malfunction and that both the vendor and partner are disappointed.



Carefully defining and documenting the sales and delivery value chain is an excellent tool for aligning the expectations between the vendor and the partner.

³ This phenomenon was first introduced by Fred Brooks in his famous book: *The Mythical Man-Month: Essays on Software Engineering*.