

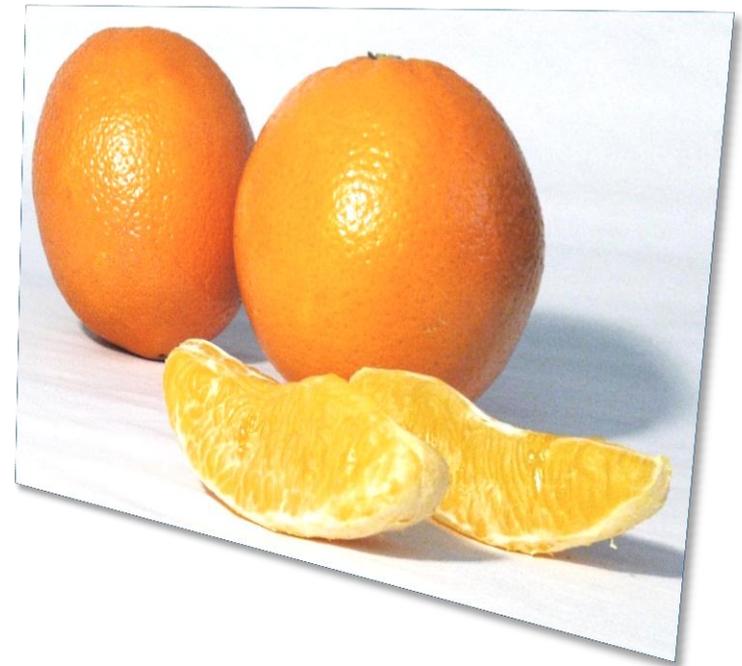


Selling ICT Products and Services to Business: Better Market Segmentation

January 2013

Sample pages
Full report is 42 slides

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Executive summary

Market segmentation and business ICT

A practical ICT maturity model

UK business ICT maturity

Adding value to ICT maturity data

Annexes

Executive summary [1]

- Companies selling ICT products and services to businesses understand that it is more effective to tailor their offers to segments of the whole market than to try and sell everything to everyone.. They often base these segments on 'firmographic' data (about customer turnover, sector and staff numbers) or limited 'transactional' data (current products and services bought, interactions with sales and service staff etc)
- Our work with ICT providers over many years has shown that companies exhibit differing levels of maturity in their approach to, and use of, ICT products and services. It is our view that an organisation's 'ICT maturity' is a **better predictor of future use of ICT** than the usual segmentation variables and is a valuable complement to them. **An understanding of ICT maturity can help the development and marketing of ICT products and services**
- A model can be built to define ICT maturity, using a number of indicators grouped into four broad domains. A reduced set of questions can be used to help **attach an ICT maturity flag to companies in a customer database**
- Our survey among UK business buyers of ICT products and services populates and proves the value of the ICT maturity model. We characterise the organisations at each level of maturity: **the most ICT-mature companies tend to be larger, have multiple sites, and spend more, but are spread across sectors, and using size alone as a basis for segmentation misses many smaller high-spending customers**
- We demonstrate the predictive power of the concept: **the most ICT-mature companies use, or plan to use new ICT products and services, more than less-mature companies** – and the distinction is clearer than using size, sector, or any other single indicator alone

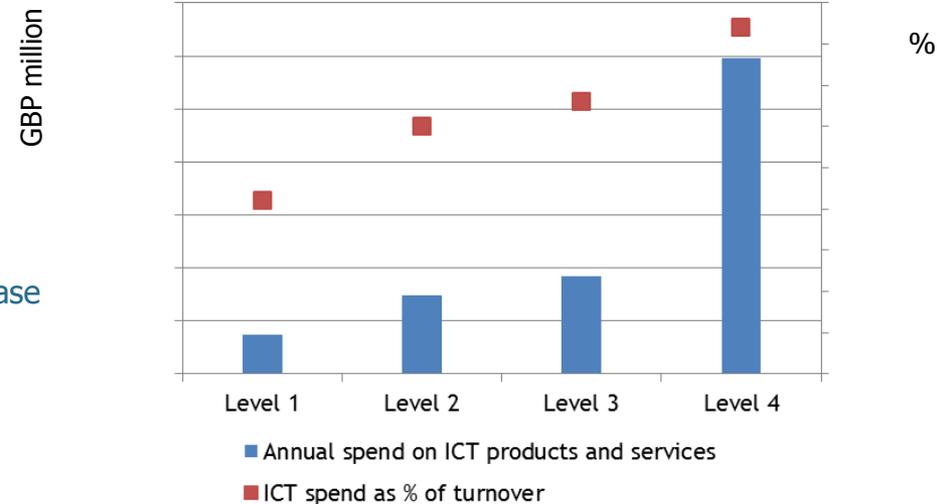


*Four domains of ICT maturity
[Source Innovation Observatory
2013]*

Executive summary [2]

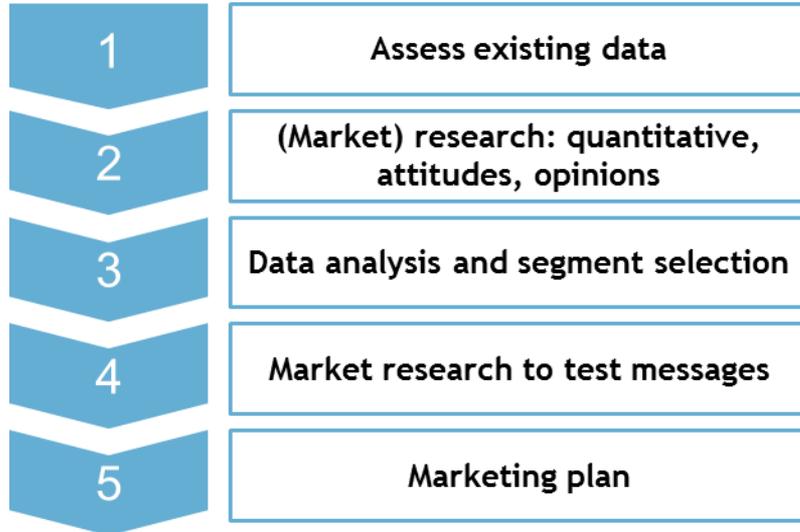
- Applying the model to the UK market overall shows that it's important to **identify the most mature companies**, because they are the biggest spenders – but understanding the needs of less-mature companies also enables products and services to be developed that are well-targeted to meet their specific needs
- Using ICT maturity level flags within a customer database can aid **design of portfolios of ICT products and services**
- Analysing the level of understanding of ICT products and services by ICT maturity level shows that the least mature organisations are likely to require greater education and support if they are to adopt a new product or service: this can be used to help **target consulting-style services**, or to cost in the extra support a service will need, and to target marketing campaigns
- The concept of ICT maturity can also be used to **improve the accuracy of market sizing and forecasting**, compared with market models built on size and sector only

Note: scale values removed in sample pages only



Estimated annual spend on ICT products and services and as a % of turnover by UK organisations, by ICT maturity level (4 = most mature) [Source: Innovation Observatory 2013]

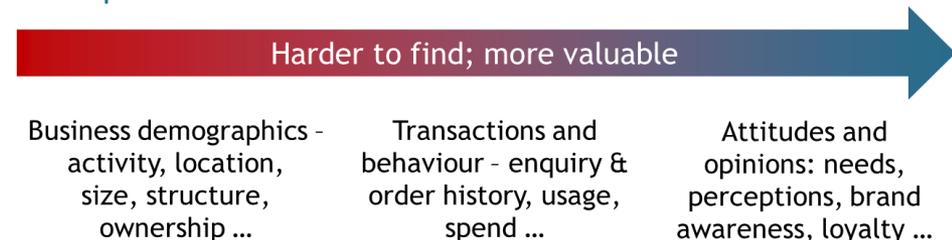
Choosing segmentation variables requires evaluation of what data is reasonably available



Stages in a segmentation project [Source Innovation Observatory 2013]

- A typical segmentation exercise will follow the steps shown above
- In step 3, internal data about customers and potential customers should be enhanced with external data on market size and value in order to assess potential sales and profitability of new products and services

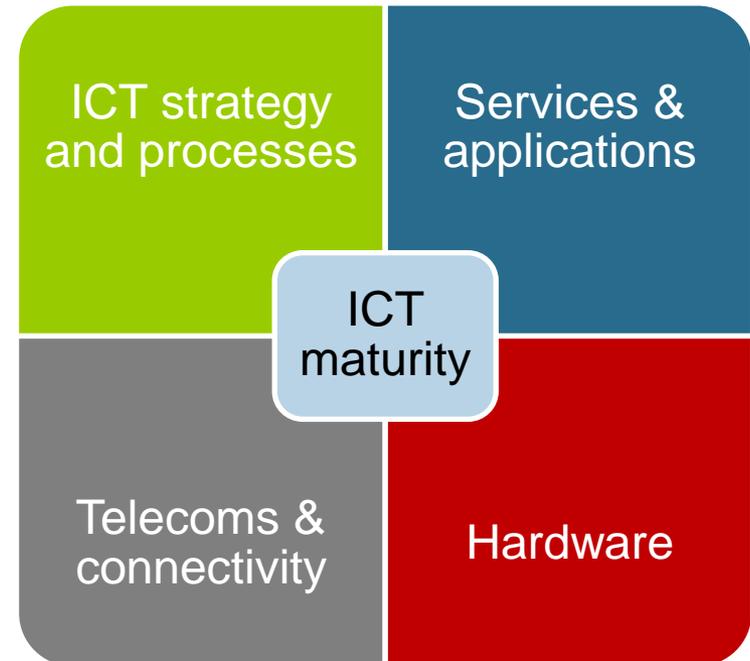
- A company may have a good deal of information about its existing customers – including transactional data showing what services are bought, how much is spent, and how each customer responded to marketing and sales contacts; however, attitude and opinion data is likely to be much more sketchy unless the company has been very good at using a CRM system
- Also, knowledge of potential customers – on an individual basis or as a group – is likely to be much more limited
- Most companies can't fill this gap with a very big, detailed, wide-ranging survey of attitudes and opinions every time they need to launch a new marketing campaign – they need to find a way to simplify the process



Types and characteristics of segmentation variables [Source Innovation Observatory 2013]

An ICT maturity model can be built from indicators in four broad domains

- Based on our experience of supporting ICT product and service providers, we have identified four broad domains where buyers' ICT maturity may be demonstrated (see graphic)
- Academic work by Quoc Trung Pham at Kyoto University in 2010¹, and work in ICT maturity in education and other public sector organisations^{2,3} confirms these are areas where organisations will exhibit differences in maturity
- The schema we have developed is not the only one that could be envisaged, but it has longevity
- Over time, the detail of the indicators in each of these four broad domains may change somewhat but the principles are valid over many years
- While some indicators are quantitative, most are more qualitative (e.g., choosing a statement to most closely match an organisation's attitude or practice, or positioning on a ladder of options)



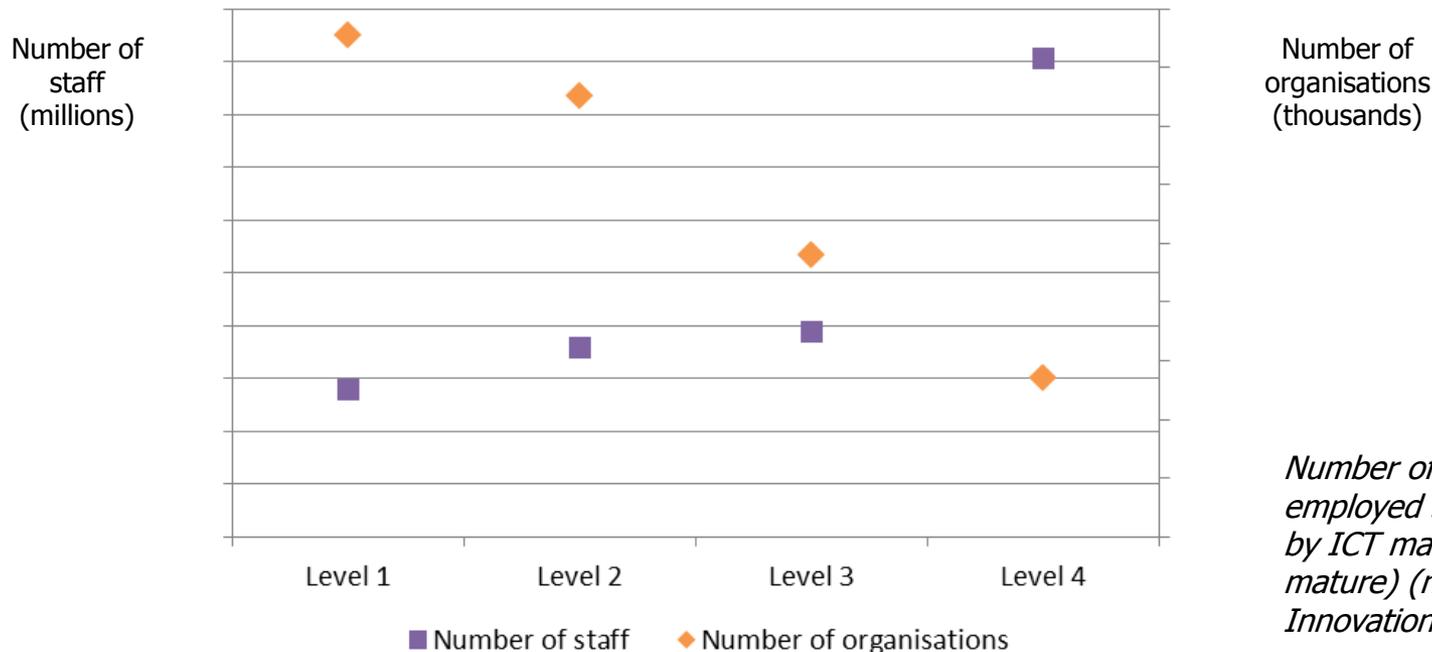
Four domains of ICT maturity [Source Innovation Observatory 2013]

- The schema is described in more detail on the next two slides

We undertook a survey to tune the model and assess the UK's ICT maturity

- Based on our work with ICT clients we know the concept of ICT maturity is useful. This report includes the results of a survey of 250 UK business interviews that we commissioned to demonstrate the usefulness of ICT maturity
- The survey was in three parts:
 - Questions to **characterise each organisation**: its size (in terms of number of staff), sector, number of sites, headquarters location, and location of ICT decision-making centre
 - Questions to **diagnose an organisation's ICT maturity level**
 - Questions about **current and future use of a range of ICT products and services**, so we could test the effectiveness of ICT maturity as a useful predictor of behaviour
- The survey sample reflected the UK economy by activity; we boosted the number of respondents in the larger organisation size band to ensure that this subsample was not too small
- **Note that all survey work and analysis excludes organisations with only one member of staff**
- Maturity analysis was carried out on unweighted data. Where UK-wide data is presented (slides 27-29), this is derived from national data sets combined with relevant subsample values for ICT maturity (weighting based on company size)
- Interviews were carried out by telephone
- Respondents were selected to have a good understanding of their organisation's ICT use and needs
- For more details see slides 37-39 in the Annex

The survey findings can be applied to characterise the national market



Note: scale values removed in sample pages only

Number of organisations, and employed staff, of UK organisations by ICT maturity level (4 = most mature) (n=250) [Source: Innovation Observatory 2013]

- Our estimates of the number of organisations and staff for the UK market are derived from a combination of UK National Statistics data on business demographics and our survey data
- Understanding these characteristics of buyers is particularly important for some types of ICT service that scale by number of staff

Data on ICT maturity can be combined with business demographic data to improve marketing

- In the UK, the Office of National Statistics and the UK Statistics Authority compile extensive business demographic (or 'firmographic') data on behalf of government (in particular the Department of Business Innovation and Skills – BIS) and for wider use⁵; other national statistics agencies do the same
- Such sources can be supplemented by data from other organisations such as the following:
 - market regulators (in the UK, Ofcom⁶ for the telecoms market)
 - industry bodies and associations, such as, in the UK Intellect⁷ (the UK technology industry trade body)
 - regional / international organisations (often providing comparative data sets), such as Eurostat⁸ (the European Union's statistics body) and ITU⁹ (an agency of the United Nations)
- Using such sources enables ICT maturity information to be enhanced, both to add richness to the understanding of ICT maturity, and to enable the concept to be used to help specific marketing and product/service development activities. We explore this in the next few slides

ICT providers can use maturity levels to help create and sell a relevant product portfolio ...

- ICT-maturity-based market segmentation can be used to help a communications service provider (CSP) understand what types of value-added service (VAS) it can offer to buyers of its Internet access service
- **Example 1:** ICT maturity is a good predictor of the likelihood of an organisation to use or consider using a new IT or communications product or service (see slides 18-22). If a CSP knows the ICT maturity level of each of its customers, it can combine this information with transactional data on companies that use specific services and target Level 4 companies that are currently not using its services with marketing and sales messages – improving the likely conversion rate
- ICT providers can create case studies, or credible, hypothetical use cases, that are relevant to companies with specific levels of ICT maturity (rather than being based on, say, the target customers' sector). By showing how a product or service is relevant to the way a buyer views the use of ICT it is likely to resonate more strongly
- Such marketing and sales information can also be 'aspirational' – encouraging companies to step up to the next level of use of ICT products and services
- A provider could choose to eliminate Level 1 companies from its marketing for most VAS: our work suggests these companies are highly unlikely to buy (see slide 31) – and sales and marketing effort may be better targeted elsewhere
- **Example 2:** A CSP can estimate the size of the potential market for specific new VAS concepts more robustly by building ICT maturity into its market model. Maturity is a more accurate predictor of ICT product and service uptake than company size or sector alone. Using our data (complemented by any additional data the company has), it can be used, in combination with an assessment of the technical complexity / sophistication of a new product or service, to help estimate the number and take-up rates of organisations at each level of ICT maturity

ICT product and service usage questions

Products and services tested

- **Videoconferencing** (many people on the call)
- **Videocalling** (one-to-one)
- Internet-based **VoIP** (eg Skype, Fring, Viber)
- **Unified communications**
- **Online office applications** (such as Microsoft Office 365 or Google Docs)
- **Online collaboration applications** (such as Microsoft Lync or SharePoint, or Cisco WebEx or Google Apps)
- **Tablet** computers
- **Customer relationship management** (CRM)
- Systematic use of **social media**
- **Managed security service** for network connections or applications
- **Hosted VoIP** service (to replace traditional fixed telephony or switchboard)

- **IP-PBX** to replace traditional fixed telephony or switchboard
- **Superfast broadband** (based on fibre, over 24Mbit/s)
- **Ethernet services** for connection of different sites or for Internet access

Options allowed

- *Use now*
- *Planning to use within six months*
- *Planning to use within twelve months*
- *May use in the future*
- *Definitely won't use*
- *Don't know*
- *Not sure what this is*

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