It's a Legacy World

How Your Customer's Systems Got Old

and

Eight Strategies on What to Do Next

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Introduction

Legacy systems are problematic for both vendors and customers.

The audience for this paper includes OEM vendors and sales organizations that sell complex systems requiring post sales support that become outdated by rapid technological advancement. Examples include; computer servers, visualization workstations, disk systems, networking systems, telephony, measurement systems, printing, medical scanning, and security scanning. **A simple question will aid in determining if you should read this paper; would my customer profit by upgrading an old system to my newest technology?** Throughout the paper our definition of upgrading includes; one-to-one, many-to-one, and one-to-many upgrades. The specific upgrade method is based on the customer's needs and your technology.

Your current customer base represents many things to your company. It is your market footprint and the source of 90%+ of your annual revenue. Customer feedback determines your brand reputation and directly contributes to the future of your company. **We estimate a large percentage, ~50% of your customer's systems are at least 4 years old – we consider these "legacy systems".** How you manage this aspect of your installed base can directly influence revenue and market share.

Do you have metrics to monitor the aging of your installed base? Companies always pay close attention to financial, production and marketing metrics, but often fail to allocate resources for this crucial installed base segment of their business. Losing legacy upgrade business affects hardware and service revenues, but perhaps more importantly, it can result in loss of market presence and share of mind.

Your customer has a different set of problems with legacy systems. These systems don't threaten the future of their company, but they can compromise business effectiveness. Customers must always consider legacy systems' impact in any new planning effort and protect the service levels/functions sustained by these older systems. Older systems are considerably more expensive in every way when compared to the latest technology. Customers normally have an assortment of "must do" technology projects with fast approaching deadlines. As they marshal their resources for the new projects, oftentimes they leave legacy systems on life support. Allowing these systems to continue in place until the pain reaches a tipping point is an avoidable hazard. **The tipping point occurs when a large percentage of the support budget is spent on obsolete systems.** This is an avoidable hazard that can be proactively addressed with positive outcomes for both sides.

For vendors, old systems occupy the place where new systems could reside. Their very existence invites competitive attack and requires considerable account management. If a vendor is on the wrong end of a massive legacy refresh their position with a customer could be wiped out. If many customers follow suit the impact on your organization could be far reaching.

This paper addresses a variety of issues regarding legacy systems and provides ideas on new methods of adding value, increasing sales coverage and maximizing the revenue impact of successful technology refresh management.

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Strategy 1 – Understand the Legacy Problem

The technology industry has made many paradigm shifts over the past few decades. These shifts have caused an upheaval to the customer's systems architecture and their view of legacy systems. As an example: the current server and storage trend toward virtualization, hosting many virtual systems on one physical host system, can have enormous benefits for the customer and dramatically reduce the service revenue and marketing footprint for the vendor.

These shifts may not happen at a time favorable to your technology or sales coverage practice. **Each paradigm shift has created new winners and losers among the top tier vendors, as wells as substantial increases in technology spending.**

What's new now, soon is old. IT must consider legacy systems in their plan to support operations – every year. One result of the continuous reduction in cost of the hardware technology is the massive proliferation of systems across the enterprise. The concept of dedicating systems to applications has simplified deployment, improved performance tuning and debugging. This has caused an exponential growth in the number of systems in service and has caused a dramatic reduction in the duty cycle/utilization percentage. These smaller packages of systems and applications make it easier for them to stay in place longer, thus becoming legacy systems.

The future is more old systems. Every few months, the next iteration of new systems surpasses the old system's performance characteristics, environmental specifications, and expansion on the capabilities. Customers will continue to implement the newest technologies while freezing legacy systems in time, thus sustaining the application requirements and service level agreements. **Each month every system becomes a month older and even more expensive to maintain.**

The number of systems passing into the legacy status each year is considerable. All of the systems you sold three (3) years ago now are legacy systems. Managing the upgrade cycle-time of legacy systems offers a large profit improvement potential to vendors who aggressively solve this issue.

Strategy 2 – Resolve the Vendor Conundrum

Danger lurks for OEM vendors. Legacy systems are in essence your market share, the source of your break-fix service revenue, leasing revenue, and references. They directly impact your status with customers. Most OEMs **do not** proactively manage their legacy environment. To many, the legacy customer base is considered a customer service responsibility and those in outside or channel sales do not see legacy systems life-cycle management as their job.

Given the following scenario, what would you, or any salesperson, do?

Scenario 1

The salesperson has achieved 125% of quota by week 10 of the 13 week sales quarter. Which course of action will they choose?

1. Continue their winning streak momentum and sell hard for the balance of the quarter to maximize their earnings and professional status.
2. Refocus their attention to administrative tasks, CRM updates, sales plan updates, prepare unsolicited proposals, and research their customer's legacy systems inventories.

If your sales team follows #2, you have an unusual sales force.

If not your sales team, who is managing your customer's legacy systems?

Again, who is culpable for not considering such an important component of your business?

What about the field service organization? Let's explore another scenario.

Scenario 2

The field service management team is measured by customer satisfaction, revenue gains, and margin and profitability targets. The average service revenue for a five (5) year old system is three (3) times larger than a current equivalent new system. The service team sales function is focused upon service agreement renewals. Which course of action will they choose?

1. Maintain the status quo, renewing existing service agreements while attempting to upgrade service levels and sell new service products – **extend and grow revenue.**

2. Aggressively point out to the customer and primary sales team the benefits of doing a technology refresh – **slashing the service revenue stream.**

Protecting the legacy customer base "**as is**" suits the metrics of field service management. One would not expect leadership for legacy lifecycle management from this team without dramatic changes to the metrics and mission statement.

For many vendors the life-cycle management of customers is not a structured business process. It is almost organic, and interest can follow peaks and valleys based on local management's interest. Often that interest is piqued when the "Tipping Point" occurs.

What is this Tipping Point? At some point, the legacy systems are consuming too much of your customer's available financial and technology resources. As balance is lost, an initiative for a massive technology refresh is launched, initiated by the customer or competitors. What impact this has on your market share, sales revenue and service revenue is difficult to predict. Are you the new platform of choice? If so, then expect some new platform sales revenue coupled with a massive reduction in the old platform service revenue. If you are **not** the new platform of choice, then a massive loss of market share plus a massive reduction in the old platform service revenue results.

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Where is this Tipping Point and how do you measure it? The answer is not entirely straightforward. The parameters include: the number of existing systems; class of systems; age of systems; service revenue derived from the systems; the nature of the system mission; and the burning platform issues of your customer. Mix this with the sales team's local customer knowledge and now you are prepared to guess.

Analytics supply much of the required knowledge needed to make an informed guess on your customer's intentions. Not analytics for a few, but analytics for all of the account team. Sales Analytics, Inc. (SAI) believes you can identify your high risk customers before the situation becomes known to the customer and to the competition. Why use analytics and not just ask the customer? A couple of executive sales concepts come to mind here:

1. Never ask a question you don't already know the answer to.
2. You cannot get the genie of knowledge back into to the bottle.

Prematurely drawing the customer's attention to the legacy situation before you engineer a strategy and action plan can have unexpected and negative consequences. **Having the proper customer base information prepared, and presented, in an actionable method is the vital ingredient in creating strategies and tactical plans to manage the legacy customer base.**

Strategy 3 – Don't allow hunters into your "Jurassic Park"©

"Hunters versus Farmers" is the classic battle in the sales world. The hunters focus on new customers while the farmers nurture and grow the current customers. Your farmer's job is to keep the competitive hunters out of your "Jurassic Park"© legacy customer base. Winning new accounts and crushing the competition generates victory celebrations. The other side of that coin is humiliation, account reviews and possible job loss. If the farmer wins, did management expect anything less? Is retention even considered a victory?

The easiest strategy for a competitive hunter is to attack the old and weak. Comparing your competitor's latest technology to your five (5) year old systems is an obvious unfair comparison, but effective. Their initiative is enough to get them into the hunt, with the farmer having to go over to the defense. Even if you can offer the same value proposition with your latest technology, the initiative has passed to the competitor. From the customer's perspective it took the competitor's effort to get you started. This is not a very flattering position in which to be.

The advice to every hunter is to tour as many customer data centers as possible. Walk the factory floor, the labs and offices. Look for those ancient beasts sucking up service dollars, resources, power and space. Help the customer think through the dollars and resources as a percentage of their budget and technical resources. Are they near the "tipping point"? An unsolicited proposal with the right technical and financial analysis stands to bring victory to the proactive hunter.

What's a Farmer to do? One old axiom is "**The best defense is a good offense**". Waiting to be attacked is fine if no one ever attacks. No work necessary! However, waiting to be attacked before you check your defensive position can result in miserable circumstances. You must implement an active defense coupled with an offensive strategy. Yes, proactive is the right strategy. Seems obvious, but do you possess the necessary resources and tools to execute?

So many accounts, so little time! If a farmer has thirty (30) accounts, how proactive can he be? Could he afford one hour per week for each customer? How often can he be proactive? Do you want your farmers to practice triage? Should he abandon accounts if he has simultaneous attacks by competitors that overpower his resources? **I forgot "Inside Sales" is the answer! Oh yes, "Channel Sales" is the back up plan!** Do your inside sales and channel partners have more resources and fewer accounts? Will they be effective against a determined on- site hunter attack?

Sales Analytics, Inc. (SAI) believes farmers can take advantage of new automation methods to help prepare account strategies, including customer global and site tactical technology refresh plans.

You must make it practical to gain a customer's consensus of the state of the legacy systems and strategies to modernize those systems. With a proactive plan in place, life for the competitive hunter is much more difficult. Perhaps it's easier to hunt elsewhere.

Strategy 4 – Do the Sales Coverage Math

Nurturing every account, with the objective of proactively protecting and growing it, requires time. Being proactive requires comprehensive account knowledge. **The math for the farmer can be brutal.** How many accounts? How proactive to be? How much time is available?

Sales Time:

How much time your sales team invests over the customer base is a critical factor in managing your legacy environment. Do the arithmetic for the net number of selling hours per month and divide by the number of customers. For example, if we use 30 customers/sites, the result is 4.6 to 7.4 hours per month per customer. The calculation estimate is considering vacations, holidays, and 20 days annually out of the field for travel, meetings, administrative tasks, etc. Our math calculates 4.6 hours per month and assumes a 40-hour week, while the 7.4 hours is based upon a 60-hour week. The example uses 6 hours per month as an average for a 50-hour week.

How many accounts? This depends upon what kind of farmer you are. Are you a proactive, roll up your sleeves farmer or a reactive overseer "gentleman farmer"? Do the accounts assigned merit attention? Is the primary mission to maintain the status quo or to grow revenue?

In an ideal world, you have 6 hours per month, based upon a 50-hour week, to allocate to each account. **Of course linearity never works in the sales world.** A few good size deals at any four accounts can use up all of the available sales time. As your salesperson rises to the occasion and engages in the sales process defending against aggressive hunters, the other accounts may not receive proactive treatment.

If you reduce the account load per person you need more salespeople. Usually the math for the number of sales representatives available is the assigned quota divided by the average quota loading. For most vendors, the hunters have lower quotas than the farmers.

Where do you start? Are the hunter positions the spots left over after the farmers are assigned? Can a salesperson be a hunter and a farmer and excel in both capacities? Some salespeople manage this juggling act quite well. How many salespeople do you have that address both roles? Are they in the right geographic location?

Some vendors believe they can incentivize their reseller community to create and maintain this proactive relationship with the customers. Resellers are driven by visible short-term revenue potential. Resellers do not have the deep pockets and resources available to the vendors. To do an effective job at account management they need the same tools as the vendor sales team.

The goal is to find the balance between resource investment and sales return. In addition, you must ensure the customer is not lost to the competition (from lack of contact). The intent should be to work out the right balance between the hunters, farmers, inside sales, product specialist, etc. Whatever sales resources you have, your quota is going to be tough. Next year, after a price drop and goal increase, it will be much more challenging.

One point is simple: You have hard boundaries on the number of salespeople you can employ and they have boundaries on how much time they can work effectively. Your expectation on the type of proactive relationship you want to have with your legacy customers is the key variable in the math of sales coverage. You need superior ways to understand your legacy customer base and push the custom customer information "just in time" to the sales team.

An in-depth analysis of your legacy customer base can dramatically increase farmer sales performance and overall account coverage. Understanding which accounts are worthy of a proactive investment at any given time is critical to customer retention and long-term success. Creating proactive "Account Review Packages" which point the customer and the salesperson to the best technology refresh opportunities is a major sales opportunity.

Strategy 5 – Profit Makes It All Worth While

High-minded strategies have clay feet if they interfere with reaching the numbers. A favorite sales question is **"Do you want me to fill out this form, or sell something?"** For every sales productivity step you attempt, you have to deal with the logic of the question:
Does filling out the form help sell something?

Proactive proposals to upgrade legacy equipment are worthwhile because they lead to increased revenue/profitability and customer retention.

In this simple model that reflects ten years of sales, there are three scenarios where the upgrade cycle time is 60, 48 and 36 months. The exact cycle time is not as important as is the difference in months between the cycle times. Reducing the technology refresh cycle time from 60 months to 48 months pulls the sale forward by 12 months. This can be a permanent change in upgrade frequency with the right sales methods and tools. In our model the following impact was observed:

Legacy Upgrade Cycle	Ten Year % of Revenue	Sales Increase
60 Month Cycle	17%	Base
48 Month Cycle	22%	7%
36 Month Cycle	25%	11%

By using 60 months as the base legacy upgrade cycle time, then reducing the average upgrade cycle time to 48 months we effect a 7% increase in sales over a 10 year period, thus increasing the upgrade sales value from 17% to 22% of annual sales (a 30% increase). In this next example reducing the legacy upgrade cycle time to 36 months increases sales by 11% over 10 years and becomes 25% of annual sales.

But what if? What if new product sales tank? Then the upgrade sales become much more important. What if our hot products keep exploding in the market? The danger is letting legacy systems cross the tipping point resulting in a loss of revenue and market share.

Cracking the code to reduce the legacy system upgrade cycle time is extremely important and profitable. Ask your CFO. In our simple example we have not calculated the impact that the losing the refresh business has on your service revenue. Once old systems drop off expensive service agreements, the revenue is gone. Replacing the old systems with new systems not only generates margin for the new system sale, it also generates service revenue for 3 to 5 years. Even more margin is available if you use your captive leasing team.

Strategy 6 – Use Your Leasing Team

Most OEM salespeople under-utilize the power of their leasing programs.

Here's the business case for leasing:

1. A vendor lease is a flexible tool for your sales team and the customer. Your company makes the decisions about modifications, credit terms, return credits, early terminations and fair market value, just to name a few. This can support a sales program that encourages frequent upgrades.

2. A third-party lease will be inflexible. The leasing company wants the customer to keep the original equipment for the full term and if at all possible an extra six months. The profit margin on the lease is dramatically increased if the customer extends the term.

Lease Example

Your customer has leased $1 million of equipment on a 36 month lease. At month 24, the customer wants to interrupt the current lease and upgrade to your latest systems - a net sale of $500,000. And, they want to keep their payments the same. Since your company holds the lease you can forgive certain items and extend the lease term keeping the payments the same. Adding on more systems to the current lease is simple and makes selling easier.

What if they don't want your new systems but prefer a competitor's system? Most likely they will have to buy out your lease, which is expensive, or wait until your lease expires. Not to work out all of the details here, but having the customer on your lease is invaluable.

Strategy 7 – Leverage Happy Customers

Bringing your customers current with your technology is a huge win/win. You sell new equipment, the service burden is reduced, and there is no need for spare parts and training on ancient systems. What customer doesn't love being "state of the art"? Who is a better reference account? The happy customer with five year old products or the long term customer with your latest technology?

By keeping the percentage of your legacy systems to less than 30% of your total base you can survive a surprise competitive attack. If you measure your customer satisfaction, and can correlate the legacy customers, we believe you will find a direct relationship between overall customer satisfaction and a low legacy system percentage.

Strategy 8 – Stealthily "Manage Out" the Competition

What about launching the offensive and crushing the competitive farmers? This always is a favorite question and an important strategy. Frontal assaults can be costly in time and resources. It also alerts the defenders to your intent.

A stealth approach can use fewer resources and create a non-competitive sales situation. By focusing upon your own technology refresh opportunities you are not threatening the competitor and not triggering a response. After you have completed your own technology refresh you will have a dramatic increase in capability and head room on the new systems.

Next, show the customer the benefits of moving the workload running on competitive equipment on your new systems using the extra headroom. The trap now is complete. Your customers can see immediate financial benefits, cutting all expenses with the competitors systems: hardware service, software support, software licenses fees, power consumption, cooling cost, rack space and administrative support time. Your competitor's alternative is to do a technology refresh, which may reduce some cost. However, why would the customer need the over capacity?

This illustrates why it is important to take the initiative in a legacy upgrade situation. By separating the two actions, first winning your own technology refresh and then the competitive take out, you will gain an additional benefit. In the first action, you will get an order for new systems and the customer saves money. In the second action, you are not getting an order but acting as a trusted consultative partner showing the customer the opportunity for big savings with only migration expenses to consider.

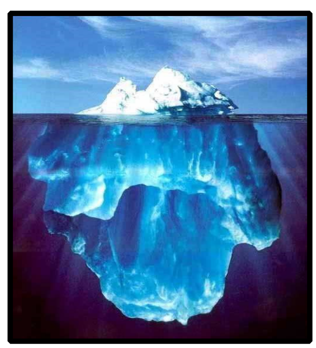
Forcing the competitor to react in a short amount of time enhances your chance of winning the deal. Initiating your attack just before the competitor's service agreement renews brings into sharp focus how much the competitors systems are going to cost to support and makes clear the potential savings.

Conclusions

The revenue potential locked up in your base of legacy systems is huge. Unless executive management sets clear objectives regarding legacy system life cycle management, the results will remain mixed. When customers become aware of the imbalance in spending on the legacy systems, change will happen quickly. Resources are too tight to allow this situation to continue. **Who in your company should bear the responsibility for lost customers?**

The field sales team is the logical choice to assume responsibility for legacy systems life cycle management provided you turn this into a revenue generator for sales. Setting structured account methods, simplifying the management task, and identifying the technology refresh sales opportunities are required to achieve revenue and retention goals. Otherwise, there simply are not enough hours in a day for a salesperson to execute a proactive sales plan for each account.

Continuous review of your customer's legacy systems, coupled with frequent technology refresh proposals, is one way of managing the legacy systems to acceptable limits in each account. Once the tipping point has occurred, and the legacy systems are eating too much of the customers' available financial and technology resources, the sales situation could become uncontrollable. Making the first move goes a long way toward controlling the sale.



Errors occur when the assigned account teams stop being proactive across their assigned accounts. The pressure to focus upon what is urgent and critical can steer the sales team's focus away from executing the account plans. The goal should be to spend 80% of sales time on executing the plans and selling. **Reducing the sales resources needed to prepare recommendations and monitor the legacy systems is a critical success factor.** Falling behind on the organized process of legacy system management is the primary reason that OEMs are caught off guard when the customers' tipping point occurs.

Legacy systems are like the iceberg that is 80% out of site and therefore out of mind. CRM tools can track interest in new products and monitor the sales call process, but specific tools are required to address the dormant legacy base segment.

Sales Analytics Approach

Sales Analytic's SAFARI (Sales Analytics For Account Revenue Improvement) provides specific solutions to manage customer legacy system life cycles.
There are three steps to our methodology:

1. Detailed analysis of an installed base
    a. Presents the broad view while including specifics down to each account site location
    b. Customer Vulnerability Analysis
    c. Dormant Account identification
    d. Tipping Point Analysis by Account
2. Identify the revenue potential of upgrading legacy systems
    a. Develop legacy upgrade recommendations specific to each customer site
    b. Prepare detailed proposals for each upgrade recommendation
3. Provide a hosted portal to access the analyses and proposals

About Sales Analytics

Established in 2002, Sales Analytics, Inc. (SAI) specializes in helping companies manage the technology-buying lifecycle of their customers in the critical areas of technology refresh and customer-information systems.

Based in Morgan Hill, California, SAI uses unprecedented computer modeling to identify actionable and immediate selling opportunities — a breakthrough in the management of a company's customer install base.

Our ground-breaking technology is coupled with our commitment to earn the trust of, and build long-term relationships with, our clients. Our high-touch customizable approach empowers organizations of all sizes the framework and knowledge to grow their sales and marketing, and maximize their customer install base revenue and satisfaction.

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