



SALES + MARKETING

High-Tech's Missed Opportunity: Tapping Into the 'Big Middle'

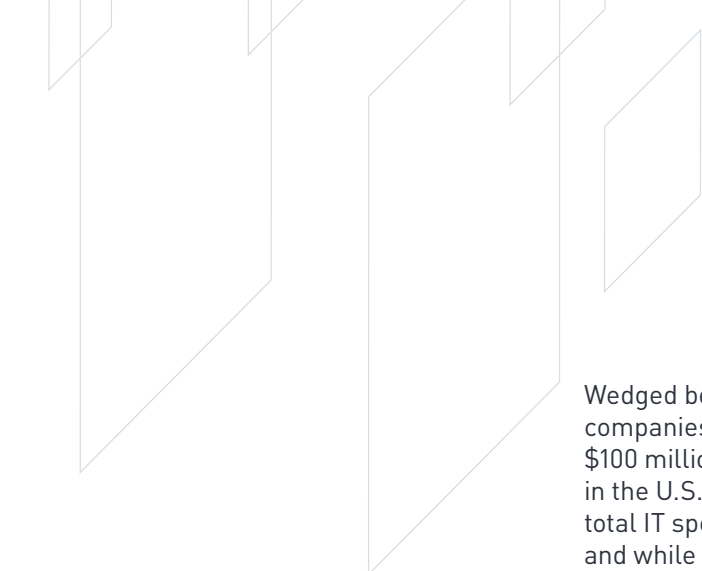
By John DeSarbo and Brandon Mills

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High-Tech's Missed Opportunity: Tapping Into the 'Big Middle'

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Wedged between large enterprise customers and small- and medium-sized companies is a tough-to-cover segment of the high-tech market: companies with \$100 million to \$1 billion in annual sales.¹ There are about 30,000 such companies in the U.S., spending more than \$150 billion each year on technology—about 21% of total IT spending, according to ZS analysis.² We call this segment the “big middle,” and while it’s an attractive target, high-tech companies often struggle to capitalize on its potential, largely because many lack a viable go-to-market strategy that’s cost-effective, scalable and aligned to customer preferences.

ZS recently surveyed 86 sales and marketing executives at U.S.-based high-tech companies to understand how they tailor their go-to-market strategy for the big middle, and where there are challenges with their overall approach to the big middle and their ability to segment it even further. The results show that there’s a lot of room for improvement. Among the companies we surveyed, we only identified 28% as “leaders” with very high proficiency in go-to-market planning for the big middle segment. We classified 35% of companies as “laggards” that have significant go-to-market planning challenges in this market segment.

Based on conversations that we’ve had with clients, they see the big middle as a critical growth opportunity, yet high-tech companies are struggling to capitalize on it. The unfortunate result is subpar sales productivity, missed growth objectives and poor customer experiences.

Divide and Conquer

A key finding from our research is that IT spending among big middle companies isn’t as disparate as many technology leaders think. Instead, it’s highly concentrated in a handful of industries and geographies (see figure 1). Of the total IT spending in the U.S., 72% comes from just five industries. In addition, more than half of technology spending among the big middle comes from just three industries: finance and insurance, healthcare and social assistance, and manufacturing.

The market is nearly as concentrated in terms of geography: 50% of IT spending in the big middle comes from companies based in just eight states. This shows that you don’t have to conquer the universe to succeed in the big middle—you need to segment the big middle, itself, to better allocate sales and marketing resources. By segmenting across industry and geography—critical to a company’s overall approach—high-tech companies can be far more targeted in how they align their sales resources around the customer opportunity. This approach is similar to how high-tech companies sell to large enterprise customers, in which they focus resources on a specific geography since that’s where the opportunity is concentrated.

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¹We’re using a standard definition of the big middle as it relates to revenue, not number of employees. Sources of data include the Dun & Bradstreet and American Express Middle Market Power Index and the National Center for the Middle Market 2Q 2016 Middle Market Indicator.

²Data collected from Gartner Forecast Overview: Small-and-Midsize-Business IT Spending, Worldwide 2016; 2012 U.S. Census data; and Gartner IT Key Metrics Data: 2013 Enterprise Summary Report.

THE BIG MIDDLE MARKET AT A GLANCE

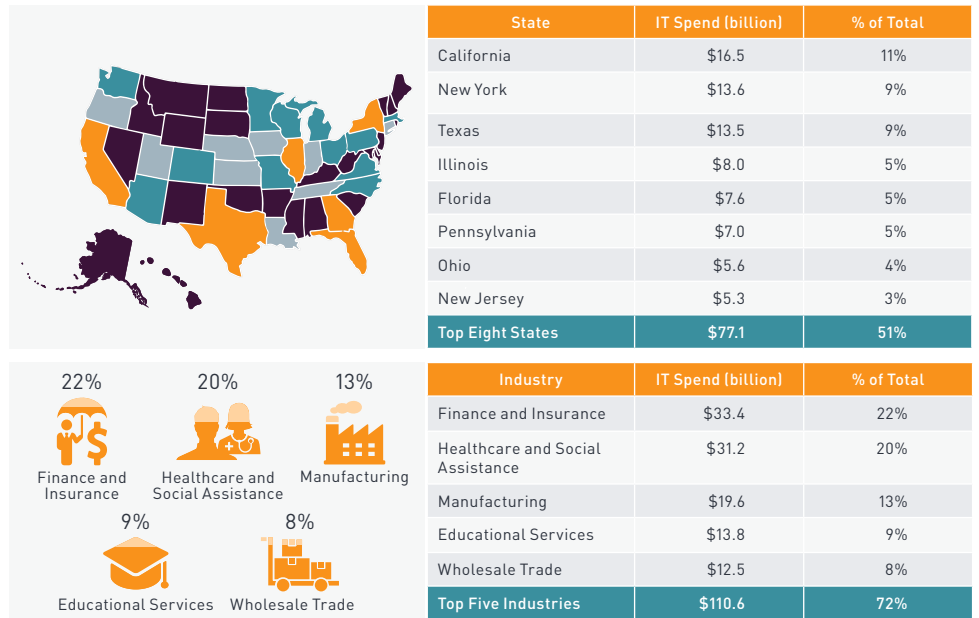


Figure 1: ZS research demonstrates that high-tech's "big middle" market is primarily concentrated in eight states and five industries.

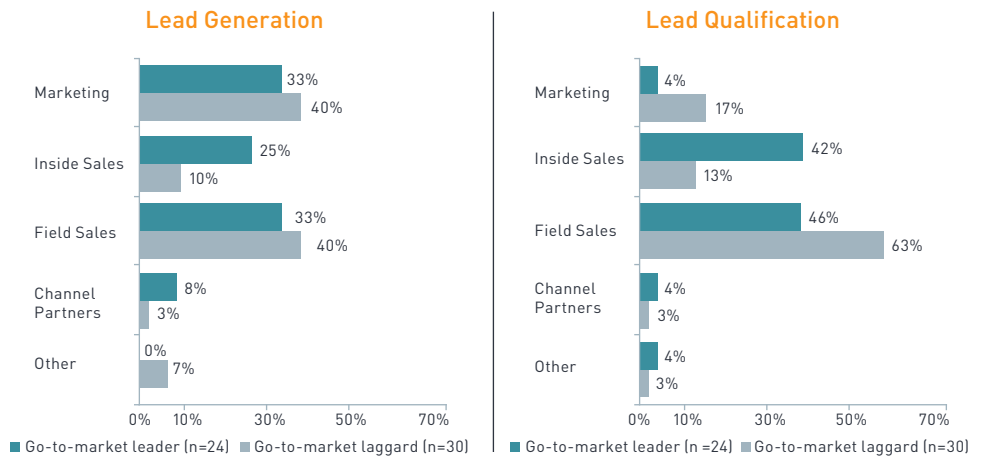
Most high-tech companies—more than 75%, according to our survey—use a hybrid sales strategy that utilizes a mix of direct and indirect sales channels to cover the big middle. However, when we separate respondents into leaders and laggards by their self-reported proficiency with go-to-market planning and management, the picture changes dramatically. Leaders are 40% more likely to be using a hybrid sales strategy. However, even companies that have adopted sophisticated hybrid sales strategies often haven't clearly defined vendor and partner roles in the sales process or the rules of engagement that guide collaboration between vendor and partner sales teams. As a result, they rely too heavily on costly direct channels, often a field-based direct sales force.

Compared to leaders, laggards are twice as likely to use a direct-only model when selling to the big middle. Thirty-three percent of laggards indicated that they only use direct field sales, inside sales or direct e-commerce to cover the big middle. Having a direct-only sales model tends to increase the costs to sell to and serve this segment while simultaneously limiting the ability to scale efficiently.

Leaders also are more likely to use inside sales reps, distributors and reseller partners (see figure 2). These are often lower-cost channels that can play an important role in customer engagement. The trick is understanding how and where to deploy channel resources effectively in order to take some of the load off of the direct field sales force.

Not only are companies defaulting too readily to the direct field sales force in their channel strategy for the big middle, but also they're asking the sales team to take on too many non-selling activities. Field reps are asked to handle activities such as lead generation, lead qualification, delivery and deployment, and customer service and support. These functions are better managed by marketing or others, but our survey shows that only 36% of respondents leverage marketing for qualification, and only 10% for lead generation. Even more striking, 33% of survey respondents indicated that their sales team has the primary responsibility for market and customer research, and 42% reported that sales oversees customer analytics and insights (see figure 3). This obviously isn't the best use of sales team capacity. With so many big middle accounts to cover, sales reps need to be focused on business development activities that drive value for the organization and help them to succeed in their roles.

WHO GENERATES AND QUALIFIES LEADS?



Go-to-market leader: Very high proficiency in big middle go-to-market planning and channel management
 Go-to-market laggard: Low-to-medium proficiency in big middle go-to-market planning and channel management

Figure 2: More than one-third of respondents reported that their field sales forces are spending time on responsibilities that often are better left to marketing and other functions, including lead generation and qualification.

Another key observation is the overall reliance on the sales force to deliver data and analytics capabilities. Companies that excel in targeting the big middle leverage analytics and insights to be more effective in how they go to market. However, too many companies turn to sales to provide these capabilities. Thirty-three percent of the companies surveyed leverage their sales organization for market and customer research, and 42% for customer analytics and insights. As we looked at the differences between the leaders and laggards, leaders tend to move their research, insights and analytics functions away from sales and into marketing or another function. Just looking at market and customer research, only 25% of leaders leverage their salespeople compared to 40% for laggards. Similarly, if we look at customer analytics and insights, only 33% of the leaders leverage their sales force compared to 47% for laggards.

BRINGING THE POWER OF ANALYTICS AND INSIGHTS TO THE BIG MIDDLE

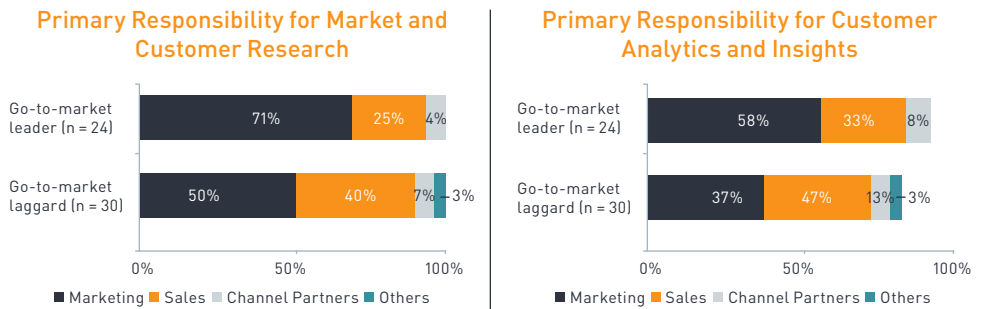


Figure 3: Forty percent of laggards rely on the sales team to deliver market and customer research capabilities, but companies that excel in targeting the big middle leverage marketing or other teams instead of burdening the sales force.

Separating leaders from laggards, the best performers rely far less on the sales organization for these functions. Instead, leaders leverage marketing for sales enablement processes, lead generation and qualification, and data and analytics capabilities, which frees up sales reps to focus on the work that they're good at: acquiring and managing customers, and closing sales.

Defaulting to the Familiar

Another part of the problem when it comes to developing a big middle channel strategy is that high-tech companies aren't tailoring their efforts to meet the unique challenges of the big middle segment. Instead, they revert to the channels that they know best. High-tech firms that target large, enterprise customers (with more than \$1 billion in sales) tend to use a dedicated field force. For the big middle, however, that approach is often too costly and not scalable. At the same time, high-tech firms that primarily focus on small- and medium-sized businesses tend to use lower-cost channels, such as inside sales or volume-focused channel partners.

With big middle customers, there's no "one size fits all" approach as buying preferences will often vary based on the customer's level of IT expertise and capabilities, and the complexity of the transaction. More complex purchases often require a greater level of demonstrated expertise and on-site presence, which are better served by field sales reps or value-add partners. On the other hand, low-complexity purchases can be more easily handled by volume-resell partners or through e-commerce.

When we segment the survey respondents based on the complexity of their sales transactions, companies with low-complexity sales transactions (sales cycles of less than six months) appear to have a real opportunity to improve efficiency and expand coverage by using scalable, lower-cost channels. Technology companies need to understand which types of direct and indirect channels work best for different types of big middle customers, and for which situations, and then allocate their resources accordingly.

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SALES CHANNELS USED TO COVER THE BIG MIDDLE

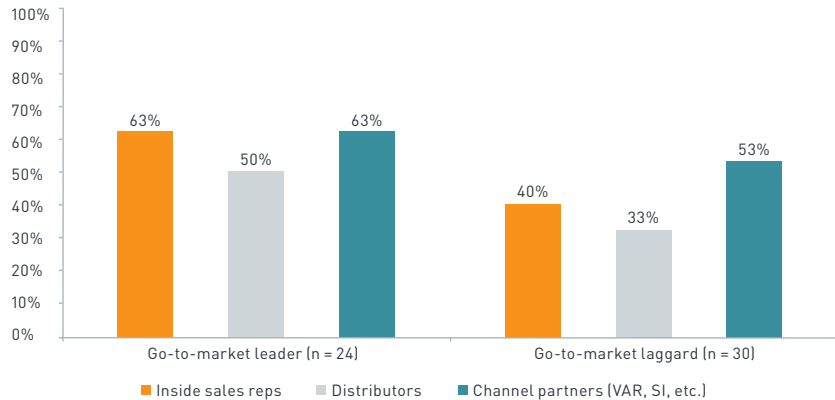


Figure 4: If survey respondents are analyzed based on their self-reported proficiency with go-to-market planning and management, the mix of preferred sales channels between leaders and laggards indicates a potential route to success.

Optimizing How You Sell to the Big Middle

Today, few companies are getting it right with the big middle segment. Too often, they try to force-fit go-to-market strategies more appropriate for the enterprise or SMB segments in an attempt to expand share in the upper-mid-market. To improve sales and marketing performance in the big middle, high-tech companies should adopt three best practices:

- 1. Depollute field sales roles.** One of the most surprising findings from our survey is the extent to which field sales resources focused on the big middle are spending time and energy on “non-sales” activities. In a segment where field sales reps are often challenged to manage dozens of customer relationships, expecting sales to have the primary responsibility for gathering customer and market research and lead generation and qualification is a recipe for disaster. High-tech providers should clearly define the role of big middle sales resources and leverage marketing to a much greater extent than our survey findings indicate.

Most high-tech leaders have found that multiple field sales roles are required to be successful selling in the big middle. As companies expand their portfolio of products and services, it's often difficult, if not impossible, for the typical field sales rep to develop a deep enough understanding of each offering to manage the sales process end to end. They typically need to draw upon product and services specialists at key points to address the needs of increasingly knowledgeable customers. Similarly, many high-tech companies have found that they need to invest in industry specialists to support field-based account managers in discussions when industry expertise and solution selling capabilities are necessary to win the deal.

After clearly defining field sales roles, sales leaders should develop competency models that define the skills and expertise that reps need in order to be effective selling in the big middle. Unfortunately, many companies have repurposed competency models and talent management processes in place to support the enterprise and SMB selling organizations, and they don't recognize the unique requirements of the big middle.

- 2. Increase utilization of inside sales resources.** It's clear based on our survey findings that many high-tech companies can be doing much more with inside, desk-based resources in the big middle. Overreliance of the traditional enterprise sales model in the big middle has led to underinvestment and underutilization of many inside sales teams. As some companies struggle to effectively cover the breadth of the big middle accounts, they shift investment from inside sales to field sales. While this strategy may be appropriate given target account growth potential and customer preferences, in other cases the shift only further exacerbates the coverage gaps that inhibit productivity. Unfortunately, sales leaders respond to the challenge by shifting administrative tasks from the field to inside sales teams. The result is increased sales costs and further declines in productivity as inside sales resources become highly paid sales "assistants" focused on internal tasks such as developing price quotes and tracking down order status instead of calling on customers and prospects.

In most high-tech sectors, inside sales resources can be utilized to both support field sales and partners and provide a standalone sales channel. An effective inside sales team can hunt, farm and close sales in the big middle. They can typically play a large role in simple transactions, such as off-the-shelf purchases and re-purchases. And even in more complex transactions, inside sales can play a key role at different points in the sales process, like lead generation and qualification.

The challenge is that not all inside sales organizations are alike. High-tech providers need to develop a comprehensive inside sales strategy that defines distinct inside sales roles and details how these roles interact with field sales, partners and customers for different types of transactions.



- 3. Implement a true multichannel sales strategy.** While growth opportunities in the big middle are relatively concentrated in a handful of geographies and industries, there are simply too many customers to cover effectively with a field sales force. Attempts to cover this unique segment with a traditional enterprise direct sales force will only lead to coverage gaps. High-tech providers should develop an ecosystem of channel partners with industry-specific expertise, solutions and relationships that can meet the demands of big middle customers. Moreover, utilizing channel partners only for order fulfillment in a “sell with” model likely won’t provide the scale necessary to effectively cover the big middle because it still requires a direct field force to do most of the heavy lifting during the sales process. High-tech providers should recruit partners who have invested in the marketing and sales capabilities that they’ll need to expand their customer relationships in this fast-changing segment. Partner programs should be structured to encourage and reward partner-led demand creation.

Optimizing the mix of direct and indirect sales for the big middle requires a deep understanding of customer needs and buying behavior, and the ability to estimate account potential. Unfortunately, only 21% of high-tech companies we surveyed feel that they have sufficient insights into big middle customers’ needs and preferences. Some big middle accounts will undoubtedly provide greater growth opportunities than others. An improved ability to segment the approximately 30,000 big middle accounts in the U.S. and identify the highest potential customers and prospects will enable sales leaders to deploy field sales resources where they can be most productive. However, simply understanding which customers are most likely to buy isn’t enough. Companies should be conducting research to understand how customers prefer to buy their products and services. Some high-potential big middle accounts may prefer to purchase through an indirect sales channel given the strength of their relationships with channel partners, desire for unbiased advice in the buying process, need to integrate products and services from multiple vendors, etc.

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The big middle represents a largely untapped growth opportunity for high-tech companies, but only if they’re willing to step back and rethink how they approach the segment. It’s never easy to go back to the drawing board, but for those companies that are willing to put in the time and due diligence to truly understand the big middle customer segment, there’s a big opportunity to win in a market that is traditionally poorly covered.

About the Authors



John DeSarbo is a principal in ZS's San Francisco, office and leads ZS's high-tech and sales channel strategy and management practices. He has more than two decades of consulting and industry experience focused on sales and marketing strategy and operations. His areas of expertise include multichannel go-to-market strategy, channel analytics, alliance and partner programs, and sales force design. John works with clients across a variety of B-to-B industry sectors with a particular focus on the technology industry.



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About ZS

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11-17