How Technology and Big Data Are Reinventing the Customer-Supplier Relationship

B4B

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Introduction

Industry after industry is becoming technology driven as software rapidly eats the world. As it spreads, so do complexity and opportunity. There are clear signs that the traditional B2B business model designed 125 years ago as a simple make, sell, ship approach for early manufacturing companies is no longer capable of delivering the full potential of high-tech and near-tech solutions.

B4B seeks to frame what is possible in an age where suppliers are connected to their customers in real time. The traditional world of B2B was designed to sell things to customers, whereas the new B4B model will be about delivering outcomes for customers. It’s a whole new ballgame. Using powerful models and specific examples, B4B envisions a next-generation tech industry where suppliers play an active, ongoing role in helping business customers achieve unparalleled value from their technology investments.

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Even in the next generation of B2B there will still be a divide to bridge between the daily self-interest of a supplier and that of its business customers. What we would like to propose is a more modern way to think about how that bridge should be constructed.

In our framework, which we call “B4B” to contrast it with Patterson’s original B2B, it does not matter what the product is or what it does. It could be simple or complex, cheap or expensive, hardware or software, this industry or that . . . it doesn’t matter. Similarly, our model is indifferent to the outcome the customer wishes to achieve. Once again, it is whatever it is. That means you can choose pretty much any example you want. If you are a supplier, you can use your own products and target any market. If you are a business customer, you can choose any current outcome you are trying to achieve and consider any supplier’s product that might help you get there.

B4B is based on the idea that a supplier’s operating model will soon play a far greater role in bridging the chasm between the product’s capabilities and the customer’s desired outcome. There is great, unleashed power trapped within most suppliers. Until recently, it really wasn’t feasible to bring that power to market at scale, nor was it in demand. But a great product combined with
a powerful supplier operating model is going to trump a great product alone every time. In the old world, suppliers sold things to customers—that’s what the 2 in B2B stands for. In the new world, suppliers are also going to start doing things for customers—that’s what the 4 in B4B stands for. Customers are going to demand more involvement from their suppliers to ensure that the value they were promised is fully delivered.

**FIGURE 4.1 Basic B4B Construct**

As shown in Figure 4.1, the supplier’s operating model will either add value or not add value to what the product could achieve on its own. In theory, a business customer could find a product lying in the street with the manufacturer’s name scratched out and probably still get some value out of it. But customers don’t usually operate that way. They don’t usually buy technology at auctions or from newspaper ads. They buy technology from suppliers whom they expect to play some kind of role in the outcome that product delivers. It is this role that we’re talking about. Is it a little or a lot? Is it useful or not? Although that may sound simplistic to you, we believe it
is anything but. We think billions will be spent on suppliers trying to differentiate on this point. We also argue that it is where some of the most profound innovations of the cloud will occur. As we have highlighted, there are many interesting, potentially disruptive, models floating around in the B2C world—and on the edges of the B2B world. Taken as a group, they represent pioneering efforts to transform the old model. But importantly, what we see at TSIA when we look across all of these efforts is a series of patterns.

**Power Lines**

We think that the future operating model that bridges business customers to their suppliers will be characterized by two simple elements that we call Power Lines (see Figure 4.2).

![The Two Power Lines of B4B](image)

**FIGURE 4.2** The Two Power Lines of B4B

Power Lines don’t refer just to the inherent potential of the product itself, but also to the combined power of the product plus the operating model between the supplier and the customer. The two Power Lines of B4B each take a different perspective.
The first one focuses on how much opportunity exists to add to the product’s value:

• **Customer Value Power:** Customers articulate business value in many ways, but at the end of the day, every description resolves down to just three dimensions: increasing my revenues, lowering my costs, and reducing my risk. Some successful solutions have an impact on all three, some on just two, and a few have an impact on only one of these dimensions of business value. The key question considered by Customer Value Power: *Is there an opportunity for the supplier's operating model to have a positive impact on the three dimensions of customer value?*

The second Power Line focuses on whether a supplier can credibly provide the right kind of help:

• **Supplier Offer Power:** Just because there is the opportunity for the supplier to help the customer improve these significant outcomes does not mean the supplier has an offer aimed at doing it. The key question considered by Supplier Offer Power: *How much outcome power has this supplier added to their standard product via complementary offers—what you might call “value amplification”?*

We think these two simple Power Lines can be used to structure a meaningful conversation not only about how suppliers and customers partner today, but also about how they will partner in the future. To accomplish this, we also need to frame in a finite number of points on each Power Line.

**Supplier Levels**

The B4B construct calls out four levels of suppliers, as shown in Figure 4.3. At each level, we seek to find the proper balance between the opportunities to assist customers on the top Power Line with the available offers of suppliers on the bottom one.
We will explain the four supplier levels as we go, so without further ado, let’s get to work using the model. We start our discussion at Level 1 because that is where the traditional B2B model can be found.

**The Level 1 Supplier**

B2B suppliers historically wanted to stay close to their products. We think Level 1 was what Patterson envisioned. His standard-setting operating model for NCR was really not based on adding much value beyond the product’s capabilities (see Figure 4.4). It was designed to get the maximum number of products into the market and then, based on their inherent feature set, let those products do their job. This is still the approach that many B2B suppliers employ. It features highly scalable, low-friction attributes. Just make, sell, and ship. Many suppliers like the thought that if you control your sales force and your manufacturing quality, you can roll from deal to deal without being bogged down in the specific needs or demands of individual customers.
Importantly, Level 1 is \textit{exactly} the right supplier level for many kinds of B2B purchases. Business customers procure products and services every day that are either very simple to own and operate or are very well understood by their internal staff. In these cases, customers do not really require much support from the operating model of the supplier, and they certainly wouldn’t want to pay extra for it. It might be because there is not much variability risk in the outcome, or because the outcome itself is not that critical.

Think of Level 1 as being appropriate for basic offers. There are many examples that should come to mind when you think about Level 1 offers. They include all the simple products a business needs: office supplies, furniture, and delivery trucks. They might also include products whose operation is very simple, regardless of price, and products that, once turned on, just run and run with little or no intervention. Think about mechanical things such as valves or tools, even some basic electronics such as two-way radios. You could even include slightly more advanced products—ones that a business customer uses regularly.
and employees can easily operate—maybe a forklift or an X-ray machine.

In these cases, the need for supplier involvement via its operating model is very small—maybe even nonexistent. The customer only asks that:

- the product works well.
- the purchase price is a fair one.
- the product continues to be widely available as a standard offer.
- the supplier has a reputation for making reliable products.

These are the classic demands of customers on basic offers. However, these are also offers that can rapidly commoditize. The unit gross margins can become quite low. Suppliers may only survive and prosper at Level 1 if they have an operating model that is frictionless and scalable. They need to sell high volumes of standardized products and be confident that they will operate satisfactorily with minimal involvement after the sale. It is a manufacturer’s view of how B2B should work. They want the customer’s focus on the product, not on the services or the company.

Right here—right at this point—is when trouble can and has begun. You see, the definition of which products are truly well suited to this “frictionless” supplier level is being stretched. It is suppliers who are doing that stretching. Level 1 works when the products are simple for the customer to master and when the outcome is almost a sure thing. But as software eats the world, fewer and fewer products are that simple. Complexity and the consumption gap have blossomed in the world of B2B. They are not the friends of a frictionless, scalable operating model for suppliers. Yet most product companies yearn for that model. It is here, at the intersection of growing technical complexity and a legacy desire for suppliers to remain frictionless, that the old B2B model perishes. It is not what Patterson built it for. For many product
categories, Level 1 is simply running out of gas. But more on this subject in a minute.

The Level 2 Supplier
We don’t think Level 2 was designed by anyone. It just grew.

We just reviewed the fundamental premises of Level 1. We believe that Level 2 grew out of Level 1—one painful lesson at a time (see Figure 4.5). At some point in the life of suppliers, they have a problem with a big customer. Maybe the product they purchased was too hard to set up, or it didn’t work right, or it was failing too often. So the customer goes back to the supplier and says, “Hey! This isn’t OK. Fix it,” and the supplier does. If it only happens once in a great while, the supplier fixes it as an exception. If it happens a lot, the supplier gets into the service business.

A Level 2 supplier is a company—a software provider, a manufacturer, or a reseller—that knows there will always be a
huge gap between shipping a product to a customer and having that customer successfully operate that product. There is a gap of time, a gap of resources, and a gap of expertise. At this point, complexity introduces new value elements into the traditional B2B equation. It is no longer just a basic offer. The product’s inherent value still exists, and ultimately the customer could get to benefit from that value. It still needs to be reliable, fairly priced, and so on—all the attributes of Level 1. That is what the + sign in the model indicates. But now the proliferation of features, capabilities, and complexity means that the customer needs a lot of help to get to that value and stay there. Each day that they can’t and don’t is value lost. Thus, the Customer Value Power Line is extended for Level 2 suppliers. It is not just about the product anymore; it is about how fast and how efficiently the customer can realize value by getting—and keeping—the product available and operational.

In addition to having unique expertise to accomplish these objectives, Level 2 suppliers also offer customers an attractive labor-sourcing model. Theoretically, the customer could go out and hire an army of experts on that product to get it into production. But it would be very expensive and inefficient. They don’t want a permanent labor base with those skills; just a temporary one. A Level 2 supplier acts as just such a source.

So at Level 2, suppliers add to their operating model. Either directly or through their channel partners, Level 2 suppliers offer professional services, education services, and support services. They may also offer services to tailor the product to the customer’s needs. In short, they must now evidence that they have added service credibility to their brand.

Taken together, the customer-supplier operating model at Level 2 looks far different from that at Level 1. Customers have new things to consider, suppliers have new capabilities in which they must invest. Almost every traditional enterprise software company uses a Level 2 supplier model.
Trouble in Paradise

As we just mentioned, companies on both sides of the great divide run into trouble if a supplier brings a complex offer (Level 2) to the market but tries to stick to a basic supplier (Level 1) operating model.

You have experienced this multiple times in your personal life. You buy a wireless printer for your home and then spend all weekend trying to get the darned thing to work. That's because the printer's manufacturer is operating at very low prices and margins. It is clinging to the frictionless, scalable Level 1 model. But the fact is that the product is not that easy to master. It is not basic. It is complex. You find yourself alone, frustrated, and ready to take it back. The manufacturer refused to accept that if it wanted to play in the complex offer category, it needed to move to a Level 2 operating model. Someone should have been there to help you. Someone should have filled the time and expertise gaps around the product. But no one did. Or maybe the Level 1 supplier was so addicted to the frictionless model that its management buried its head in the sand and just prayed its reseller channel would provide the Level 2 services around the product. In doing so, it lost control of service quality.

That exact same thing happens when software eats the world of a near-tech industry. Products that used to be installed using a wrench are now configured with software. Forklifts driven by people are being replaced with robots that must be “taught” the warehouse floor plan and traffic patterns. Valves that shut down water pipes must now be connected to the Internet. Delivery trucks are repaired with laptops. These are but a few examples of Level 1 suppliers that are being dragged, often kicking and screaming, into Level 2. Many resist. They like being frictionless. They want to remain manufacturers, not become service providers. They don’t want to replace the instruction manual with a temperamental field software engineer. But they must move to Level 2; otherwise, their customers will fail.
As we said, the root problem was that the “supply push” operating model of early Level 1 manufacturers was not sufficiently updated for life at Level 2. These were companies that correctly believed that features sold products. The sales and R&D heads atop their B2B totem poles dominated their strategy brain. They prioritized features over serviceability. That worked fine for simpler, more mechanical, more self-contained products. But that is not what Level 2 suppliers are making today. Yet at many of these companies, that mentality still prevails. It is ironic that one key part of the world that software has not done a great job of eating so far is around automating the configuration, deployment, and maintenance of complex technology. It might not be much of a stretch to say that suppliers spend $10 engineering new features into today’s complex offers for every $1 they spend engineering out the huge service requirements that accompany them.

The result has been a rapid increase in customer spending on complexity services. As we said before, we don’t think anyone actually designed the Level 2 supplier operating model—it just grew. The problem is that it never stopped. We have already pointed out the huge amount of spending, particularly in high-tech, on product-attached services. Hundreds of billions of dollars are being spent by business customers to get complex offers operational and to keep them that way. We are hearing about software deployments in which customers are spending 5 to 10 times as much on deployment services as they did for the software itself. As more and more near-tech industries become software driven, their customers can expect the same thing. You see, so far, service spending has chased complexity. And complexity knows no boundaries.

In Chapter 1, we noted that many business customers have willingly accepted this somewhat unusual partnership arrangement. It seems strange that suppliers can hand off incredibly complex offers to customers and then charge them vast amounts of money to deal with it. No one did it intentionally. Like proverbial frogs that start in a pot full of cold water and slowly have the heat
turned up on them, both sides were victims of the complexity arms race. There was definitely value in these services; it has just gotten out of control. Services are a great way to spend money and they are going to be a central figure in Levels 3 and 4. However, we think they will be different kinds of services. Apple acts as a phenomenal example of a supplier that has engineered out many sources of product complexity, thus reducing the need for lots of traditional tech support. Instead, it offers new kinds of services that really increase the value of its products to customers.

In summary, Level 2 has Level 1 as its mother and complexity as its father. Together they parented the supplier operating model adopted by tens of thousands of high-tech and near-tech product providers today. Like all children, it has its strengths and its weaknesses. More thought probably could and should have gone into it early on, especially as it chased complexity to the stars. Now, we are about to cross over into the next era. There is still complexity living at this new level, so we think it’s a transformation whose design calls for active participation—“imagineering,” as Walt Disney would have called it—from both sides of the great divide.

**The Level 3 Supplier**

If you look carefully at Figure 4.6, you will see a very hard line in B4B between Levels 2 and 3. That’s because it represents a real breakthrough in the evolution of B2B. We think it is the new model that many supplier CEOs seek but sometimes struggle to articulate simply.

You might even say that the separation between Levels 2 and 3 is not made up of one hard line but two. The first is that being a Level 3 supplier means that you are willing not only to retain all the same focus on your product that you would at Level 1 or Level 2, but that you are also willing to cross over the dangerous line into playing an active role in optimizing the customer’s actual outcome. Believe us, this is a decision that makes many suppliers gulp hard. Historically, suppliers could largely control the cost of
their products and the services surrounding them. Crossing that line into involvement with the customer outcome meant you had to dive deep into each customer’s unique situation. In short, the supplier had to absorb some of the customer’s complexity. Crossing that line also meant deploying people, usually expensive ones, to optimize the outcome in question. A double gulp, if you will. These types of customer-supplier arrangements just weren’t scalable; they were full of friction and labor.

But today we are sitting on the brink of the new era of B4B—an era that will be defined by suppliers who knowingly and enthusiastically jump in side by side with customers in order to optimize the outcomes they can achieve with the supplier’s product. The technology, the world’s digital wiring, and the data and analytics—they are all there now. For the first time, all the ingredients are on the table to make something remarkable happen.

How will it be different? Let’s use the Power Lines to frame it.
At Level 3, the Customer Value Power Line is extended again. At this level, the supplier’s operating model begins to pursue a new objective: helping customers extract the maximum ROI from the product. As we know, there are many dimensions to the pursuit of this worthy goal. Customer outcomes can be influenced, positively or negatively, by everything from system performance optimization to usage levels to data quality. Imagine a supplier that starts not only monitoring the performance of its own products, but also the key performance indicators (KPIs) of the customer teams with which it works. Or maybe the supplier starts monitoring the customer’s surrounding quality, efficiency, or customer satisfaction KPIs and has the tools and charter to improve them. The opportunity to optimize the customer’s outcome in these ways is enormous. With a little help from their suppliers, customers may be able to increase the total ROI from a technology investment by 20% or 50% or more!

The supplier’s operating model can also extend into the customer’s total cost of ownership. As everyone knows, the amount a business customer pays for a product and its maintenance fees is only part of its total cost of ownership (TCO). In high-tech companies, there are armies of IT specialists needed to keep internal systems operating at peak productivity. In near-tech companies, there are similar job roles for systems engineers or operators who are specially trained to keep manufacturing lines running or medical equipment safe and productive. There may also be efficiency or quality experts employed by the customer who are tasked with extracting just a little more value out of the asset or the system of which it is a component. These TCOs easily run into the millions or tens of millions of dollars for even mid-sized business customers. The ability of suppliers to take on an active, daily role in reducing these costs is a unique and powerful opportunity to contribute to the customer’s overall outcome.

However, like the move to Level 2, Level 3 suppliers must now evidence new capabilities. Their Supplier Offer Power must
clearly indicate their enthusiasm and readiness to play new roles in the partnership. As we’ll discuss at length in the next chapter, suppliers must have a strategy for connecting to their technology product. On top of this connection, they can build new service offers such as remote operate or managed services that help optimize the customer’s technical operation of the product. They might soon include new adoption services to plan, monitor, and optimize the end business users’ adoption of its key features. In the past, such tasks would only have been achieved by the customers themselves or by having some of the supplier’s employees on the customer’s site, as they did in the world of outsourcing or in early versions of managed services. But today those things are possible using data and analytics, sensors, and cloud-based intervention techniques. It is a big change, but it is happening in more instances by more suppliers in more industries every day. It takes time to build the capabilities and to perfect their delivery. If they are the OEM, suppliers must also work out what roles their channel partners will play and what they will do directly. But if business customers don’t see those offers somewhere in the supplier’s ecosystem, they should question the promises made by its salespeople. Although Level 3 suppliers are not in a position to guarantee the outcome, they are certainly going to deliver far better results to customers than what they could achieve on their own. There are great examples of Level 3 offers out there today such as GE Healthcare’s Hospital Operations Management System and Avaya’s Unified Communications Managed Services.

These new roles can feel a bit unnatural, even for SaaS and other XaaS providers. Maybe that uneasiness is because they are a XaaS start-up led by executives who come from Level 2 backgrounds and who were conditioned to avoid these services due to their friction and labor costs. Or maybe they are a traditional, on-prem Level 2 supplier building out their first XaaS offers. In either case, it may be tempting for them to believe that their twin, end-goal innovations are cloud hosting their “multi-tenant” product
and then offering it with subscription pricing. We don’t think so. As we mentioned, those are critical aspects of Level 3—important but insufficient. Wrap an XaaS product in the traditional services of a Level 2 supplier, and all you have done is change who hosts it. Take a Level 2 product and wrap it in a subscription pricing model, and your deep-pocketed competitors can copy it in a month. Make the full move to being a Level 3 supplier, and you may double or triple the Customer Value Power of your offer.

But Level 3 is not without its controversies. We submit that to be an effective Level 3 supplier, one that can truly operate in this model, you need to be able to evidence the capability to secure the customer access you are asking for. As we just pointed out, in order to help optimize customers’ ROI or reduce their TCO, you will need to be connected: connected to devices, connected to data, and connected to employees. That’s a big request of business customers—one that can rightly make them very nervous. They may fear leaks of proprietary information or whether sharing such data complies with legal requirements. But here is the bottom line: If business customers and their suppliers cannot work this out, then the tremendous benefits available to both parties by operating at Level 3 will be out of reach. They will simply be impractical to achieve, at least not at any scale. If business customers won’t allow this model into their facilities, they are destined to go it alone. It is a trade-off, a hard one. Although both sides must attack the problem by working together, the onus is on suppliers to take the lead. How can they protect the customers’ information better than customers can themselves? What rules can they offer up for engaging directly with end users? What limits and notifications can they offer for the direct operation or optimization of equipment? What walls will be built so that customers’ own data are not “used against them” in the pricing of the next deal? These are the tough questions that suppliers must answer. They are the new additions to a Level 3 supplier’s brand criteria.
Level 3 will draw on breakthroughs from across the worlds of B2B and B2C. It is in its infancy today. However, you can expect a rapid pace of evolution. Now is the time for us to have the debate. Now is the time for suppliers and customers to work out exactly how their Level 3 relationship is going to work. As we have said, complexity still lives at Level 3, so don’t just let it grow. Envision it, plan it, and work it. For the first time, both parties can stand side by side on a daily basis to optimize the business results from a technology investment. It is immensely powerful.

**The Level 4 Supplier**

Level 4 represents the theoretical end game for suppliers. They now offer a true, no-risk/no-use/no-pay offer. It’s a glamorous option for customers: They don’t buy assets or manage complexity. At Level 4, they are purely buying an outcome. For suppliers, it can be either financially glamorous or too dangerous to handle. If the supplier has truly automated a domain—the B2B equivalent of a B2C experience—it can be great. But if it is just a gutsy willingness to absorb Level 2 complexity and risk as a pricing maneuver, it can be very tricky.

To succeed profitably, Level 4 suppliers must request that the customer does things their way—even if that means changing the way that customer operated in the past. In return, the supplier promises to ease and de-risk the domain, charging only for consumption or even the sharing of gains, not demanding huge up-front commitments. They seem to be saying, “Don’t think about things in the old way, think about them in a new way. If you will let us, we can change the game for you financially or competitively.” But a Level 4 supplier must be totally confident they have truly mastered their domain and its complexity.

Historically, the players who may come to mind as typically making “outcome offers” might be the outsourcing companies. You might even broaden the list to include system integrators or even a few consulting firms. These “pure service” companies
featured a team of smart people who could take over a process, add some labor and technology, and then operate it for the customer. Or maybe they would build it, operate it, and then transfer it back to the customer once it was fully optimized and the outcome was assured. In that respect, they serve as easy-to-understand symbols of the kinds of opportunities and capabilities that exist at this level. However, at least in their traditional “custom project” forms, they are not what we mean by Level 4 suppliers. Now don’t get us wrong, many of these pure service firms are indeed headed this way by investing in all the empowering capabilities we are about to discuss. But what might surprise them when they arrive at what we classify as Level 4 is that there are tons of new players in the “outcome” market. Many of these newcomers may not have believed just a few years before that they wanted to play at this level. They could not imagine a model with more friction, higher labor costs, and less scalability. These reluctant new entrants are product companies. Let us tell you a short story that explains why the market may soon encourage them to re-think that position.

A few years ago, one of the authors gave a presentation to the senior executives at a $9 billion tech company. Just before he stood up, the head of R&D had been proudly talking about the nearly 600 new features in the latest release of a key software application. While both were standing, the author provoked a discussion about why 600 new features were needed. Well, it turns out that most of them had been added in order to win specific deals. It seems that this new customer wanted these eight things added, and that this new customer wanted these 16 things changed, and so forth. Add all of those customization requests together, and you could account for the vast majority of the 600. At that point, the author pushed a bit further. “How many customers around the world use your systems today to perform its particular business function?” he asked. The answer was in the thousands. “How many years have you been in this business?” he asked next. It was dozens. “How many world-class experts in your particular
solution area do you employ?” he continued. It was hundreds. Finally he asked, “Who knows more about how to optimize a business customer’s outcomes in your particular domain area, you or one of those customers who was demanding lots of customization?” There were heads shaking around the table.

The answer was clearly that the supplier knew more about the particular business domain that is the subject of their products and services. Yet on a deal-by-deal basis, their salespeople were often succumbing to the way the potential customer did business in the past. They often failed to win the customer over to the idea that they could actually coach their business processes, even their business model, to a new level of performance. We didn’t know what to call it then, but now we would say that they had many of the basic ingredients to act as a Level 4 supplier.

Simply put, a Level 4 supplier is one that is confident they can deliver a specific outcome for a business customer “as a service” (see Figure 4.7). As we said, it is another brave move for product suppliers—especially since they may take deals where pricing is tied directly to the outcome. It is also a brave move for the customers who put their trust in them. But when a supplier can truly do that, their Power Lines extend. The Customer Value outcomes become easier for the customer to attain. Level 4 offers may be game-changing, bringing important new capabilities, eliminating wide bands of fixed cost, or changing the way the customer operates to ensure better results in a specific area.

Product companies, if they can truly leverage their concentrated domain focus, may have a competitive advantage over pure service companies at Level 4. They have a head start brought about by their very broad base of very focused experiences. Product suppliers can draw from an “n of many” rather than an “n of few.” In a traditional consulting or outsourcing engagement, customers usually benefit from one or two senior partners and/or executives who have done similar engagements before and use that experience to guide the teams doing the actual work on the
project. But when product companies truly harness the power of their domain expertise, they can bring a far broader base of best practice experience, such as facts about what really works and what really doesn’t.

Second, they orient toward technology and products, not toward labor. Game-changing results are hard to separate from game-changing technology these days. One of the things that can distinguish a true Level 4 supplier from a traditional pure service company is that they are not trying to spin up a mile of custom code or put as many bodies on the customer’s site as possible. A profitable Level 4 supplier evidences their Supplier Offer Power primarily through a standard technology platform, not labor.

Although Level 4 is the newest and most fluid of all supplier levels, we think customers can expect to see two main variations of offers. One is the most glamorous of supplier strategies, the other the most dangerous. They both represent a claim by a supplier that they can master their domain. The most glamorous Level 4 claim
being made in B2B high-tech today is full automation. Rackspace and AWS are popular brands seeking to be the new face of fully automated Level 4 offers. It is also where many new SaaS entrants are aiming—though they are not there yet.

The second and most dangerous Level 4 offer is the “all-in bundle.” This promises the same value proposition of “outcome as a service,” but it is far from fully automated. Instead it is a bundle of traditional Level 2 or Level 3 product and service components offered as a single package with pricing tied to consumption or outcomes. Despite still being complex, the Level 4 supplier is willing to assume that complexity and take almost all of the risk. We will cover Level 4 platform offers in a bit more detail in the next chapter.

So we believe that you will, at least you should, see more and more suppliers starting to play at Level 4. Level 4 is not about custom projects. It is about reusable outcome platforms in targeted domains. Here, product companies have an advantage.

A couple notes of caution based on the lessons of the past may be in order. The first caution is for customers. Just like the problems caused by Level 1 suppliers that offered a product that required Level 2 services but weren’t willing to fund them, you must carefully evaluate your Level 4 supplier candidates. Offering outcome-as-a-service reliably, profitably, and at scale requires suppliers to truly commit. They must have the processes, agreements, people, data, analytics, tools, and software to transform the vast experience of customers, partners, and employees into a tight body of knowledge or a platform of technology—some form of codified domain expertise. It’s one thing to have a few great individual service people who can get good customer outcomes, but it’s another to have “industrialized” it. When any supplier, whether offering a product or a pure service, says it plays at this level, customers should be able to feel that industrialization. If not, customers should be prepared to get out their wallet and their patience. Checking the supplier’s customer references is critical.
There is risk to both sides when a supplier says it plays at Level 4 when it really doesn’t. A true Level 4 supplier has mastered its domain and it has mastered its complexity. Short of that, Level 4 is not the right place to play.

Supplier caution is also called for. You must carefully evaluate the risks at this level. First, if customers do not achieve their outcome and the deal pricing is based solely on consumption or gain sharing, the supplier has all the risk. The only way to avoid a loss in that case is if the platform has almost no incremental cost to serve that customer. That is why full automation offers can be far more aggressive in taking on new customers in this model compared to all-in bundles. Second, as the lesson of office product companies taught us in Chapter 3, simple per-unit pricing can commoditize rapidly. If the Level 4 supplier goes for true “as-a-service pricing,” meaning that it no longer charges separately for customer support, managed services, or other component offers, it runs the risk of the service becoming unprofitable as price wars drive down unit prices. If that happens, the supplier has no other revenue streams to fall back on.

And, Not Or

So these are the four supplier levels of B4B. Put simply, we are on the brink of a new generation of technology-fueled, data-driven operating models that have the potential to radically improve the returns that business customers receive from their technology investments. Taken together, we think the B4B framework is a simple, useful way to structure the transformation conversations that need to take place inside suppliers and with their customers.

While they may not have used our B4B terminology until now, many B2B product suppliers today may be finding their collective strategy brain tied up in knots trying to figure out at which supplier level they need to play. Should a high-tech supplier that is profitable but growing slowly stay at Level 2 or move
to Level 3? If a near-tech company starts to add more software to its product, should it jump seriously into Level 2, or can it cling a bit longer to Level 1? Is a Level 3 company ready to make the brave move to Level 4’s all-in, no-risk-to-the-customer pricing models?

To those suppliers we say one important thing: This is not a matter of one level or another. This is a matter of one level and another. There will be certain products in certain customer markets for which being a Level 1 supplier is perfect because the customer can take the product and run with it. But for a growing number of suppliers, there are going to be other products or other customer markets for which Level 3 is the big opportunity. There will even be cases in which the exact same product enters different markets and uses different operating models to meet the needs of those specific types of customers, offering them a stairway to value. What is critical is that suppliers recognize when they need to master multiple supplier levels, and then be able to smartly assign the right one to each product market opportunity. We think it will be very rare for a company to play at a single supplier level. It is not this one or that one for most suppliers. It is this one and that one.

Successful B4B suppliers will have mastered the Goldilocks problem. They will be able to crisply identify the required operating model for each market. They won’t sloppily back their way into one supplier level from the previous one; they will run forward with great excitement and confidence because they understand their role, their offer, and how it adds value. In short, they will do each one “just right.”

**The Great Migrations**

But even though we just made the point that many suppliers will need to play at multiple levels simultaneously, we have to admit that we don’t think all four levels will enjoy equal levels of prosperity in the future. As we’ll explain in Chapter 10, we would assert
that the tea leaves are becoming easier to read. There are going to be some major migrations affecting huge herds of suppliers as they follow the changing rivers of customer money.

**Migration Paths in B4B**

<table>
<thead>
<tr>
<th>Supplier Operating Models</th>
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<tr>
<td>Basic Offer: Level 1 Supplier</td>
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<td>Complex Offer: Level 2 Supplier</td>
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<td>Optimize Offer: Level 3 Supplier</td>
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<td>Outcome Offer: Level 4 Supplier</td>
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**FIGURE 4.8 Migration Paths in the B4B Construct**

Based on our engagement with the current operating models at so many companies, we think the next few years will demand a shift to the right for almost every high-tech and near-tech supplier. As shown in Figure 4.8, we believe that many traditional product manufacturers will be dragged from Level 1 to Level 2 as their products increase in both capability and complexity, becoming near-tech suppliers. They will need to create new and substantive service offers as a result. Their revenue mix will shift as these new services grow faster than the products do. At the same time, Level 2 suppliers, particularly high-tech ones, are already starting to be measured differently by some customers who are challenging them to reduce the complexity that has grown out of proportion to business results. Level 2 suppliers will be increasingly held accountable for optimizing outcomes, not just supplying
technology. The really smart ones will see the enormous potential to differentiate around that demand. They will find new services that take commoditizing technologies and de-commoditize them. They will flock to the new categories of customer spend in areas such as managed services. In short, they will run to Level 3, not be forced into it. As Level 3 becomes the preferred partnership model for many customers, consulting and outsourcing companies will also want a piece of the pie. They may also partner with OEMs or build their own technology platforms at Level 4. Either way, they will want to be in the game.

We think that one of the most profound impacts of software and the cloud on B2B will be to make Levels 1 and 2 largely transitory states for many suppliers. Level 3 is where the next big action will be, where the rivers of customer money will flow. It just makes too much sense not to. Suppliers know far too much about their domain to sit idly on the sidelines while their customers use trial and error to find their way to success. Suppliers have the ability to efficiently operate technology using one-to-many economies of scale that most individual customers simply cannot achieve. As suppliers expand their base of knowledge by actively engaging in the operations of their customers, they will be in unparalleled positions to create highly valuable Level 4 platforms, but that will take many years in some domains. Level 3 is going to be the big thing for the next several years. It is the threshold level, the beginning of outcome-driven operating models for suppliers—ones that both sides of the great divide can rally around. It is a simple idea that could radically alter the landscape of suppliers and the profitability of their business customers. But although the idea is simple, its execution won’t be. We think there are so many opportunities to innovate at this level that both suppliers and customers should redeploy their best and brightest minds to its development.