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Managing a Successful Business Transformation

PART 1: Making the Decision To Transform Your Business

Is now the right time to make a significant, structural change to your business model and position your business to thrive in the next phase of the IT and Telecommunications market opportunity? And if so, how will you manage the change process?

Adding a new product line or profit center. Shifting customer target segments and decision maker contacts. Changing the structure and cost of service engagements. None of these changes is easy, but they are becoming more common as solution providers' traditional business models struggle to perform in changing market conditions.

CompTIA research has identified business transformation as a primary trend in the IT and Telecom partner channels, and one of the main drivers of executive concern among its members. In response, CompTIA's Technology Convergence Community and Morris Management Partners have engaged with members from across the channel community to determine just how widespread the business change management issue has become, understand the elements of business change that are most difficult, and define a simple, effective method for managing the business transformation process.

The findings and recommendations of this process are presented in this 3-part whitepaper series, ***Managing A Successful Business Transformation***. The papers are designed to address the issue from a general channel point of view and provide specific step-by-step processes for evaluating the need for change and the best practices for implementing change effectively.

- **PART 1: Making The Decision To Transform Your Business** – Describing the factors that would lead a solution provider to make a significant, structural change to their business model, the conditions that would justify such a change, and identifying the options & obstacles for a successful transformation.

- **PART 2: Planning For Business Change & Achieving Your Intended Outcomes** – Identifying the functional systems of a solution provider business and the essential capabilities for a stable business operation, mapping the interdependent relationships that will be affected during a change process, and evaluating a business' readiness to undertake significant change.

- **PART 3: Calculating The Opportunity, Cost & Value Of Business Transformation** – Defining the underlying financial model of a new business operation, identifying the investment requirements for adding or changing resources, and calculating a realistic timeframe for generating sustainable financial results.

TRANSFORMATION BEST PRACTICES

Nearly 2 out of 3 IT channel companies report they plan to make a significant structural change to their business model in the next 18 months. Wanting to make a change is one thing; knowing how is another.

It Was Good While It Lasted

Despite all the popular momentum around the concept of "business transformation" in the IT channel, the vast majority of channel businesses never manage to make a single, successful, significant change to their original business model or go-to-market strategy. Why?

One factor is the perception that things are fine as they are; that any changes in business performance are the result of external factors moving in a natural cycle. In other words: if we just stick to our business and work hard, things will eventually get better. Another factor is the perception of difficulty or complexity in the change process; that making a change in your business will be very hard or expensive. In other words: it was good while it lasted, and we can't make a change, so we just need to survive as long as we can. But the evidence suggests both underlying obstacles to change are inaccurate. On one hand, there is ample proof that current IT channel business models are encountering more than cyclical performance ebbs and flows – and if significant structural changes aren't made the survival of the business is at risk. And on the other hand, enough IT channel companies have made successful changes that a pattern of best practices can be identified – a significant change isn't easy, but it's also not rocket science.

This guide is designed to provide the information and evaluation resources an IT channel business needs to answer some critically important questions:

- Does my business need to change ... and are we able to survive the change process?
- If so, what specific changes need to be made, when, and how?
- If the change is successful, how much opportunity is available and what is the reward?

Why Would You Change Your Business?

Reason dictates that making a significant change to the structure or strategy of your business requires a good justification. Big changes are risky, and they could be expensive. Without a very good motivation, a reasonable business leader will focus on what he already knows how to do with an emphasis on getting better at it.

Beyond boredom or the pull of group psychology – everyone is doing it! – there are a number of legitimate reasons to move away from familiar products or customer segments or business models. Or to add a new profit center while maintaining existing operations. In either case, the amount of effort is justified when one or more of the following conditions is present:

- **Market Changes** – External changes in the conditions that cause customers to pay for what you sell. The economy may go down, or up. Trends could change. Or customer needs could be addressed in a completely different way. In truth, all of these changes are happening continually and justify constant monitoring. Major changes (i.e. the recession in 2009) could justify an immediate change, but more commonly this factor is gradual and can be seen with enough advance notice to make a careful plan for change.
- **Product / Service Commoditization** – New products or services in a similar category with structurally different capabilities have rendered existing offerings unsellable or require significant price

IMPORTANT NOTE:

Many people associate the need for making a significant change to a current business as a sign of failure or of being out of step. The association is almost universally negative – but this is a completely inaccurate conclusion.

The truth is that eventually all businesses must evolve, or they will become irrelevant. Markets progress and change. The conditions that gave rise to a business opportunity will eventually be satisfied. Customers will address their needs and seek new solutions to new problems.

No business owner should feel shame because their business has arrived at a point where change is needed. And yet the negative connotation persists. Rather than thinking of your business change as the end to a previous success story, see it as the beginning of a new chapter and a new opportunity to thrive.

reductions, and new versions cannot overcome the pressure. In most cases commoditization affects an entire category at the same time and sellers need to learn new skills and sell new products. Solution providers who began their businesses selling computers have evolved with the category, leaving behind commoditized products and services, and adding new offerings that still win sustainable margins. The march of commoditization is continuous, and eventually the incremental changes can justify a wholesale change in the structure of the business, or adding new lines of business to supplement profits.

- **Insurmountable Competition** – Competition is always present and sellers always need to demonstrate a relative advantage. But new competitors may present such a significant challenge that a company simply can't win. The changes may appear in terms of quantity or size or skill and will show up in either a gradual or sudden decline in a seller's win rate.

- **New Technology / Tools** – New ways of delivering a product or service can present a more significant threat to an existing company than a new product to sell. New offerings come out on a regular schedule, but structural changes in the way a company does what it does are more rare and also more permanent. Think of the difference between a new server product vs. a shift to managed services or the emergence of the cloud delivery platform.

- **Loss of a Key Resource** – People are vital resources, but some are more difficult to replace than others. A business facility is just a building, unless it's eliminated in a way that can't be replaced (i.e. flood, fire, etc.). As with other types of changes, a business will experience this kind of change many times over the years and most times it will not require a significant change to the business. Sometimes, however, a single change can have a more dramatic impact. When a small business has a narrow focus and limited diversity of revenue streams, this type of change becomes a bigger risk.

- **Regulatory Changes** – Most new government regulations increase the complexity of current business operations, but some changes are so significant they can eliminate current business models or – in a positive sense – invent an entirely new opportunity. Some regulatory changes affect a solution provider business directly, while others affect customers in certain vertical industry segments. Government regulations are not new, but the impacts are becoming more immediate as regulator leverage technology for real-time oversight and enforcement.

- **Permanent Margin Decline** – Each of the listed transformation motivators could be enough to justify a significant change effort; this factor is a trailing indicator that a previous signal has been missed and change is now required. Managers who keep track of external factors and internal risks may get advance notice of an upcoming change. But those who only track their margin numbers won't see the need to change soon enough and will be left scrambling after existing offerings and business models are outdated and unsustainable. Of course it is necessary and valuable to track financial performance to

IMPORTANT NOTE:

Many factors affect your business performance – both internal and external. It's up to each individual business to evaluate how much (or how little) these drivers are affecting your results … and how soon to make a change.

ensure your business is meeting your goals and fulfilling its potential – and some cyclical ups and downs are to be expected. Just don't wait for your numbers to slide so much that your business no longer has the resources to invest in a significant transformation.

As a rule, if one of these factors is true about your business, it's time to consider a transformation. If more than one is true, the clock is ticking and your need for action is more urgent.

Why Would You Not Change Your Business?

Ironically, the main reason businesses miss the opportunity to transform before it's too late isn't because they're unaware of the need to change. Nor is it because they are bad at business. In fact, the main reason is that they are focused so intently on being the very best at what they're already doing that any effort to transform appears to be a distraction from their expertise.

The sage advice to "stick to your knitting" or to avoid the "jack of all trades, master of none" distraction provides plenty of logical and emotional protection for those who choose not to transform.

After all, if your goal is to master your current business model and maximize your profit performance, then any new effort that's based in a different business model and requires unfamiliar skills will – by definition – produce lower results than your core activities. You're an expert in your core, and you know how to turn every dial and twist every detail to optimize your performance. But in the new venture? You're a novice … the customers don't know you … the skills are a mystery … and you have no testimonials from satisfied customers. How could you launch any new effort and maintain your sterling expert-level results?

The obvious aswer is: you can't. So while measuring your performance and focusing on continuous improvement in your core business is certainly wise, you can't adhere to that strategy at the expense of staying relevant and continuing to move with your market. Yes, you should track your margins and always strive for higher numbers. But you should also seek out exciting new opportunities that could prove to be more relevant and lucrative in the future, and get started doing them poorly as soon as you can … so you can become an expert that much sooner.

Why Is Business Transformation Hard?

As a rule, people believe change is hard. Whether individual or group, personal or professional, making significant changes to habits or processes or skills often takes much longer than it should – and has much less positive impact than it could – simply because people assume it will be hard and either delay getting started or fail to invest their best efforts.

Truth be told, many attempts at making significant changes to a current business operation do, in fact, fail. In fact, according to research on change management, more than 70 percent of all business transformation initiatives fail to achieve their intended objectives. Not to mention all the change efforts that are invested in "unplanned" programs that don't begin with a detailed definition of what needs to be changed and how the business will make those changes happen. But not only can change be made successfully, it's also much more predictable

IMPORTANT NOTE:

Changing a business is never easy … but it's easier to do when your current model is still performing well and producing profits. Waiting until your model is obsolete diminishes your odds of making a successful change.

and effective if business leaders understand the obstacles they may encounter and plan ahead to avoid or overcome those challenges. According to a number of studies in the area of change management, the most common reasons why leaders report difficulty in making the changes they want to make include:

- **Lack of a Clear Case for Why** – If you (or your employees) aren't convinced the effort to change your current business is needed, the effort will be lacking and results will fizzle. Can you make a compelling case about why your business needs to change, and the consequences of not making the change?
- **Lack of a Specific Definition of Success** – As the saying goes, if we don't know exactly where we're going, how will we know when we get there? A loose description of a different future won't engage your people or lead to change. Can you say, precisely, what the outcome of your change management process will be?
- **Fear** – Human nature prefers familiar situations, even when those conditions are deteriorating. Psychologists have invested volumes of research to find the reason why people fear the unknown, but your job is simply to identify whether it exists, and describe a positive version of future events. Can you describe the benefits of change in a way that gets your people – and yourself – to begin a change?
- **Habit** – Even when people agree that change is necessary and agree to set aside their fears, often the biggest enemy of change is simply doing what has always been done. Experts suggest the only way to overcome entrenched habits is to measure specific behaviors. Can you define new ways of doing things in your business that can be measured?
- **Multitasking** – Contrary to popular opinion, doing more than one thing at a time reduces the quality of work in each thing you're doing. While some people can appear to be efficient at more than one familiar task, doing something new (i.e. change) requires focus. Can you set aside specific time and effort to address your change management process?
- **Lack of Resources** – Building your business the first time required all of your effort and energy. Making a significant transformation to your operations is essentially the same kind of startup effort … added to the energy required to keep your existing operations going. Can you afford to invest enough people and time and other resources into your new business development effort?
- **Lack of Skills** – Even the most committed people will find changing a business overwhelming if they don't possess the skills to run the new business. While you can never have all the skills you need before you get into the business, it's vital to identify the critical skills and invest in training, or in new people who possess those skills. Can you do what needs to be done to be successful in your new business?

Can A Small Channel Business Actually Transform?

Despite the obvious difficulties and the daunting statistics, there is also ample evidence that a small business can indeed transform successfully. Your process begins with believing you need to make a change, then identifying a viable new platform, and defining a specific step-by-

IMPORTANT NOTE:

To make the previous Business Transformation Assessment example even more accurate and meaningful, you can adapt the simple evaluation process described here with one or more of the following enhancements:

- **Put a Number On It:** Instead of simply indicating whether a change will be required to a particular business system, assess the level of effort you anticipate on a scale of 1 (very low effort) to 10 (maximum effort) and then tally the "total effort" required.
- **Gather Multiple Inputs:** Instead of just completing the assessment from a management point of view, ask your team members to complete the same assessment and submit their point of view on the amount of effort required. Don't limit the input to the specific area or function of each person; rather, ask for each person's input on all the business systems … the lessons can provide valuable perspective on underlying issues.
- **Get Outside Help:** Seek input from peers or professionals in your industry to gain an un-biased perspective on your current capabilities and how they compare to others' conditions. What you think is a great strength may actually be fairly common; what you think is a great weakness could actually be more positive than you believe.

step approach to learning and doing new things. Perhaps the most encouraging sign that you can be successful is the inherent volatility of the technology industry, and your previous demonstrated ability to ride the waves of change. After all, as an IT company you're keeping up with new products, features, and even entirely new technologies every day.

The key is to recognize the difference between a technology change and a business change. The products you sell and the technical knowledge associated with them are dimensions of your business that describe what you do. But how you do it – and how you get paid for your work – is a separate factor that requires a different type of planning and management. On one side, you're dealing with products and services related to specific technologies. On the other side, you're dealing with revenue models, resources, and the cost of doing business. In short: technology versus the business of technology.

How Will You Adapt Your Business?

Make no mistake: all business change plans are not the same. Know what type of change you want to make, and your odds of doing it well are dramatically improved.

Will you:

- **Improve Operational Efficiency?** Find new ways to do things you already do, faster, for less money. Incremental changes can be easier than an overhaul, but sometimes the factors that justify change require a bigger, faster approach. Managers must be careful to determine if getting incrementally better at the current business model is sufficient to address market changes and threats / opportunities.
- **Invest For Growth?** Determine what you do well and what customers are willing to pay for … and then do more of it. Hire new staff, run more marketing campaigns, buy new tools and equipment. All of these changes can transform your results, as long as you're already in the right business, and that business is healthy. Investing for growth can produce valuable returns, but only if the investments are made after necessary changes are made to optimize the business model. Growth does not fix underlying profitability challenges and can be dangerous if pursued before the business is stable.
- **Expand Your Solutions Portfolio?** Deliver more complete solutions to address the needs of your current customers or attract new customers. As long as the new products / services can be delivered by the same people, in the same revenue model, to the same customers, this can be a faster, lower risk way to change. But when new solutions require new skills for deliver or a new sales process, or come with a different revenue model, what appears to be a simple expansion can present significant difficulty and distraction. Managers must evaluate the simplicity of adding adjacent or significantly different product offerings and balance the cost of change with the new opportunities it presents.
- **Add A New Profit Center?** Do something new, for a new set of customers, with a different revenue model than you currently operate. Even if the skills are somewhat familiar, the underlying changes to the business aspects can make this approach more difficult. But diversifying your business model can also be the best way to adapt

Once you decide a change is in order, you have many options for how to change your business. Overhaul your operations; expand resources and invest for growth; expand your portfolio of offerings; add a new profit center. Each option has a unique set of requirements and best practices.

your business while minimizing your risks to current operations. Managers need to recognize when a new offering requires a separate operational or accounting approach and determine whether existing resources can support the new practice in addition to current operations.

- **Drop Your Current Business** ... And Start A New One? While this option is always on the table, it's rarely the safest solution. When managers miss the warning signs of market change or identify a new opportunity that presents such significant rewards, a wholesale "relaunch" may be the only option. But if managers start early enough they can use profits from current operations to fund a new venture. Impacts to cash flow, working capital and fixed costs of operations will obviously need to be evaluated, along with the less obvious impacts to customer, employee and business partner confidence.

Not Too Small ... Not Too Big ... Just The Right Amount Of Transformation: Understanding Why Solution Providers Add New Profit Centers

More and more, IT channel companies are using a transformation strategy of Adding New Profit Centers to respond to internal or external threats. Beyond just signing up for a new vendor program or getting trained on a new product, this strategy entails building a new "business unit" to focus specifically on a relevant opportunity in the market.

Naturally this option is easier to execute for larger businesses that have enough people and resources to devote to a new venture. But even small businesses can succeed with new Profit Centers if they approach the process deliberately and for the right reasons. Adding a New Profit Center is not easy, but it is the right approach when it allows you to:

- Capture more business from current customers
- Align with major trends in the market
- Improve financial performance
- Improve your positioning vs. competitors

How can you tell if adding a New Profit Center is the right strategy for your business? Regardless of what the new profit center is or how popular it may seem, not every business should try to add every new profit center. To evaluate your readiness for any new offering, answer these questions:

- Are your current customers asking for the solution, and are they planning to buy it from someone?
- Will your sales people be able to learn the solution and sell it effectively?
- Will your technical people be able to support the new solution?
- Does the new solution match your financial model, or can you afford the new cash flow model?
- Do you want to be in the new business?

If the answer to all five questions is not YES (or you cannot see a reasonable way to make each answer turn out that way), be very

No significant business transformation will be accomplished overnight. Take your time; plan your tactics; focus on incremental progress and short-term wins that will lead you progressively closer to your goals.

reluctant to add a new profit center. These questions are deliberately situational and depend less on whether a new business is out there, and more on whether you should pursue it.

Remember: your business can't sell every product or support every customer. Each new profit center you add could enhance your bottom line ... or it could distract you from your existing responsibilities and cause more harm than good. Only choose to transform your business when the justification is highly compelling, and your specific context makes it highly likely that you can succeed.

To further explore questions about managing an IT business in a rapidly changing environment, consider participation in CompTIA's Executive Certificate in Business Agility. Network with your peers, access a suite of assessments and calculators, and gain valuable experience with planning a structural change to your business. To learn more visit **www.comptia.org/channeltraining.**

Business Transformation Roadmap

In the first paper of the 3-part series on ***Managing A Successful Business Transformation***, we have examined the factors that may justify making a significant, structural change to your existing business model and provided you with a set of strategic questions that will help to determine when such a change can be good for your business. This is the first essential step in making a successful business transformation: a realistic assessment of the market you operate in, the business you operate, and your ability to undertake a successful change process.

If your analysis presents a strong justification for making a change to your business model, the next step is to define the scope and pace of your change ... and to determine the real work that needs to be done. In the second paper in this series, ***Planning For Business Change & Achieving Your Intended Outcomes***, CompTIA's Technology Convergence Community and Morris Management Partners present information to help channel companies identify the functional systems of a solution provider business, map the interdependent relationships that will be affected during a change process, and evaluate a business' readiness to undertake significant change.

About CompTIA

CompTIA is the voice of the world's information technology industry. Its members are the companies at the forefront of innovation; and the professionals responsible for maximizing the benefits organizations receive from their investments in technology. CompTIA is dedicated to advancing industry growth through its educational programs, market research, networking events, professional certifications, and public policy advocacy. Visit www.comptia.org.

About Morris Management Partners

Morris Management Partners (MMP) is a consulting and research firm that specializes in identifying and implementing best practices for go-to-market strategies in the IT industry. Our specific focus is on identifying – and overcoming -- the obstacles experienced by vendors, distributors, and solution providers in indirect routes to market.

MMP provides a portfolio of research and consulting services, as well as training and public speaking at industry events and in custom engagements. With more than 20 years experience in the IT industry, MMP provides a unique perspective on established best practices as well as unique new approaches to solving marketing and sales challenges for technology companies.

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Managing a Successful Business Transformation

PART 2: Planning For Business Change & Achieving Your Intended Outcomes

When you undertake a significant change to an existing business model, what systems and resources will actually be affected? How will the changes to one system affect other systems? And are your resources ready to make a significant change without affecting existing operations?

Adding a new product line or profit center. Shifting customer target segments and decision maker contacts. Changing the structure and cost of service engagements. None of these changes is easy, but they are becoming more common as solution providers' traditional business models struggle to perform in changing market conditions.

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TRANSFORMATION BEST PRACTICES

Only 52 percent of IT solution providers report having a formal business plan for their existing operations. But less than 1 in 5 have a strategic plan for identifying and executing a business transformation.

- **PART 3: Calculating The Opportunity, Cost & Value Of Business Transformation** – Defining the underlying financial model of a new business operation, identifying the investment requirements for adding or changing resources, and calculating a realistic timeframe for generating sustainable financial results.

Planning For Business Change & Managing The Ripple Effect Of Unintended Consequences

Often the biggest obstacle to making a successful transformation is a failure to recognize the potential for unintended consequences. In other words, when you make one change to your business, how will it affect other aspects of the operation? Especially in a small business, no change happens in isolation. Each new thing you begin will distract from an existing thing you're already doing.

Your key to success is to anticipate the ripple effect changes will have on your business and implement controls that minimize negative impacts. For example, if adding a new profit center requires your sales team to call on new customers, will they spend less time focusing on current customers? And could that reduction in focus lead to a decrease in revenue or retention? If so, how will you divide your sales team's efforts to put enough focus on the new activity to generate results without putting too much risk on current results?

Rather than guessing at changes or hoping things will be fine, think of your business as a machine with specific systems and moving parts. Each element of your business is interdependent on the other elements, and making a change to one will affect others. Much like a car is built of many distinct parts – an engine, a transmission, brakes, tires, bucket seats, etc. – all of the parts are necessary to make the machine function properly, and changing any one of them will require adapting other parts to remain compatible.

When You Change Your Business, What Actually Changes?

Every business, large or small, no matter what industry it's in, is built of six specific, interdependent systems. Before you can successfully change your current operations or add a new profit center, you need to define your unique scope and process in each system area ... and then determine which systems need to change, and how each change may affect other systems.

- **Market Alignment** – Who do you sell to, and what specific issues are they paying you to address?
- **Opportunity Generation & Engagement** – How do you find new customers and convince them to pay you?
- **Development, Delivery & Support** – What work do you do that customers pay for, and how exactly do you do it?
- **Operations & Organizational Support** – What resources do you need to run your business, and how do you obtain them?
- **Finance & Accounting** – How much do customers pay you, and how do you ensure it happens on time?
- **Business Strategy & Management** – Who is in charge of decisions, and what outcome are you trying to accomplish?

Every business is an integrated system of multiple processes, functions, and job roles. Each time you make a change to one system, others are also affected. Think ahead and prepare for the ripple effect.

Business Transformation Stage 1: Business Systems Inventory

Your first step in a business transformation is to describe – in precise detail – your current scope in each business system, and assess that system's status.

- Do you target customers in a large and lucrative market? Are they paying for the kinds of work you can do?
- Do you have a strong sales and marketing resource? Can you accurately measure the productivity of your sales and marketing investments?
- Do you have high quality delivery resources, and enough capacity to meet your production goals?
- Do you have the tools and skills to deliver your work? Do you control your facilities, human resources, and basic operating environment?
- Do you make a sustainable margin for the products and services you sell? Can you rely on your customers to pay on time?

For example, assume that your current business operations match the following description:

BUSINESS SYSTEMS INVENTORY

BUSINESS SYSTEM	YOUR CURRENT DESCRIPTION	STATUS ASSESSMENT
Market Alignment	SMB customers; Data center infrastructure (servers, storage, networking); Sell a combination of products and services in a mixed project / transaction model plus a managed services / recurring model	Lucrative market, lots of competition; Strong new product offerings; Margins declining; Revenue predictability improving with MSP contracts
Opportunity Generation	Combination of field sales reps + inside sales support; Part time marketing resource	Limited demand generation; Declining win rate; Limited capacity to engage / manage new clients
Development & Delivery	Team of project delivery techs + help desk / support	High level of technical skills focused on current offerings; Limited bandwidth for current customers or capacity for growth
Operational Support	Office manager responsible for purchasing / supplies; Facilities are cramped and outdated	Sufficient resource for basic operations; No capacity to support HR functions; No direction to improve facilities
Finance & Accounting	Office manager responsible for invoicing projects and receivables; also manages accounting firm & banking relationship	Projects invoiced monthly; Products invoiced immediately upon delivery; Contracts invoiced monthly on Day 1; Receivables = 45 days sales out; Available cash very limited
Management & Strategy	One owner focused on staff management, recruiting & hiring, financial decisions, etc.; Primary Objective: Improve profit margins	Resource divided between management and service delivery; Manage the sales team & tech team; Limited capacity to focus on HR or Finance

IMPORTANT NOTE:

To make the Business Systems Inventory process more accurate and valuable, you can adapt the assessment process to include a description and evaluation of multiple dimensions included within each system:

People: Who is responsible for doing the work in each specific business system? What skills are needed to do the job well, and what is the status of each skill? What is the amount of effort needed to complete the work for each business system?

Process: How, exactly, is the work in each business system to be done? Is the process defined so that it can be repeated by multiple people with common outcomes? How do you teach your people to implement each process, and how do you measure how effective the process is?

Tools / Technology: What tools are needed to complete the work in each business system? To what degree are the tools unique to your business or common in your industry? How important is each tool in the successful execution of each business system?

It's important to note that business systems are not static. Changes in external conditions, internal capabilities, competitive threats, or customer expectations are nearly always happening. For best results, re-consider your systems descriptions and status assessments at least twice per year (ideally more often). The more current and realistic your understanding of your business systems, the better your chances of managing a successful transformation process whenever it needs to begin.

As you can see, even a small business with a limited number of people and a narrow scope of business operations can present many layers of detail that need to be managed in the current operation, as well as considered in terms of the ripple effect when changes are made. This level of complexity requires a certain amount of documentation and careful planning – and failing to invest the effort in accurately assessing business systems and the impact of change is a primary reason why business transformation does not succeed.

Business Transformation Stage 2: Transformation Options Assessment

The second step in a business transformation is to identify which elements of your operation will be affected by adding a new profit center. As a rule, when a new profit center requires significant changes to more than one business system, the effort and risk involved will increase. This is always a relative assessment based on your current conditions and the type of transformation you intend to make.

For example, back to the previous sample business situation, most managers would agree the business could use a change. But which changes are most realistic and most likely to succeed? Let's assume you are considering three different options for adding a new profit center to this business:

- Adding a New Business Location in a nearby region
- Adding a Unified Communications solution offering
- Targeting a New Customer Segment of Mid-Size Enterprises

In theory, any one of the three changes could add value and improve the performance of the business. But one is more likely to succeed. Based on the sample Business Systems Inventory, you can do a side-by-side evaluation of the relative effort / risk involved with each change.

At the most basic level, if a new profit center has attributes that match the current operations, the effort required will be lower. If a new profit center has attributes that are different from the current operations, you will need to adapt the corresponding business system. Your likelihood of a successful transformation can be predicted by comparing the current status of each system with the amount of effort required to adapt it, and then compiling a "**total transformation effort**" calculation.

Business transformation is a strategy for correcting problems, pursuing opportunities, or engaging with new kinds of customers and solutions. But even if each kind of change sounds good in isolation, it may not be appropriate for every business based on current conditions and resources.

BUSINESS TRANSFORMATION ASSESSMENT				
BUSINESS SYSTEM	**YOUR CURRENT DESCRIPTION**	**OPEN NEW OFFICE**	**ADD UC SOLUTION**	**MID-SIZE SEGMENT**
Market Alignment	SMB customers; Data center infrastructure (servers, storage, networking); Sell a combination of products and services in a mixed project / transaction model plus a managed services / recurring model	CHANGE: No standing with new customers	NO CHANGE: Common set of customers	CHANGE: No standing with new customers
Opportunity Generation	Combination of field sales reps + inside sales support; Part time marketing resource	CHANGE: New sales reps to cover new territory	CHANGE: New product / service offerings	CHANGE: New sales resources & skills
Development & Delivery	Team of project delivery techs + help desk / support	CHANGE: New tech resources to support new office	CHANGE: New product / service offerings	CHANGE: New delivery & support expectations
Operational Support	Office manager responsible for purchasing / supplies; Facilities are cramped and outdated	CHANGE: New facility required	NO CHANGE: Current facilities and resources	NO CHANGE: Current facilities & resources
Finance & Accounting	Office manager responsible for invoicing projects and receivables; also manages accounting firm & banking relationship	CHANGE: Requires investment of up-front costs	NO CHANGE: Common finance model & margins	CHANGE: New T&C conditions & margin levels
Management & Strategy	One owner focused on staff management, recruiting & hiring, financial decisions, etc.; Primary Objective: Improve profit margins	CHANGE: More management bandwidth	CHANGE: Oversee new practice area	CHANGE: Oversee new customer management

All business transformations require work, but some are more realistic than others. But remember: all changes are unique to your specific business CONTEXT based on three factors:

- How is your business currently configured? In other words: Your Starting Point
- What is the status of your current business systems? In other words: Your Business Status
- What is the business change you plan to make? In other words: Your Ending Point

The example provided here is simplified for the purpose of illustration. But several important learning points can still be taken from the details:

- The healthier your current business is, the better your chances of succeeding in any given transformation. For example, if the example

IMPORTANT NOTE:

To make the previous Business Transformation Assessment example even more accurate and meaningful, you can adapt the simple evaluation process described here with one or more of the following enhancements:

Put a Number On It: Instead of simply indicating whether a change will be required to a particular business system, assess the level of effort you anticipate on a scale of 1 (very low effort) to 10 (maximum effort) and then tally the "total effort" required.

Gather Multiple Inputs: Instead of just completing the assessment from a management point of view, ask your team members to complete the same assessment and submit their point of view on the amount of effort required. Don't limit the input to the specific area or function of each person; rather, ask for each person's input on all the business systems ... the lessons can provide valuable perspective on underlying issues.

Get Outside Help: Seek input from peers or professionals in your industry to gain an un-biased perspective on your current capabilities and how they compare to others' conditions. What you think is a great strength may actually be fairly common; what you think is a great weakness could actually be more positive than you believe.

business had higher margins, hiring new sales reps or expanding tech resources wouldn't be such an expensive change factor.

- Making more than one significant business transformation at a time is incredibly difficult and not likely to succeed. In other words, adding a new solution offering and targeting new customers are both good ideas and potentially very lucrative. But doing both at the same time will overwhelm their resources.
- The "right" choice is different for each business, based on its current conditions and business systems focus. For example, adding a new Unified Communications practice would be relative easy for this sample company because they already have a recurring revenue model for MSP customers. If they did not already have that model in place, adding UC would be harder.
- Business transformation will ALWAYS require the involvement of management resources. If you are presently overwhelmed running your current business, any new change will likely be too much. A prerequisite for successful transformation is to find "sufficient" management time / availability via delegation of some current responsibilities.
- Business transformation will ALWAYS involve changes for your staff. Either current staff will need to learn new skills / do new work; or new staff will need to be added for the new responsibilities. No matter how lucrative the new opportunity may be, if your people don't buy in to the change, you simply can't succeed.

Business Transformation Stage 3: Transformation Plan & Metrics

Once you determine a change is needed in your business, and you make a careful assessment of which change is most likely to deliver your intended objectives, you need to create a working document that defines what will change, how the change will be made, and how you will know when the change has been accomplished.

This process does not require specialized software or massive amounts of detail. A common mistake in the transformation planning process is to overload the plan with so many details that the bigger picture gets buried in minutia. Likewise, it's impossible to anticipate every step in a long-term transformation process or predict the ebb and flow of every internal and external condition that may affect your plan.

Rather than spending too much time in the planning process, it's important to define the high-level structure of your strategy as a multi-phased project, with more precise details for short-term objectives and less detail for future phases. While a good plan is essential for your success, avoid "paralysis by analysis" at all steps by setting realistic goals and insisting on immediate action.

For best results, focus on three specific time horizons to organize the changes that will be made – and the actions required to make those changes – for each business system that will be affected by your business transformation:

Business change always affects the people in your business – plan ahead to address questions, concerns, and opinions. No matter how solid your strategy, if your people don't buy in your changes will never take hold.

- **Immediate Changes** ... what will happen within the next 30 days?
- **Short-term Changes** ... what will happen within the next 90 days?
- **Mid-term Changes** ... what will happen within the next 6 months?

Most business transformation efforts will require much longer than 6 months, and you should define your 1-year, 2-year, and 3-year objectives. But a lack of urgency and meaningful progress within the first 6-month window is the most common cause of failure for business transformation efforts. So set your goals at appropriate milestones in the future ... but admit that if you don't hit your first milestone, all subsequent milestones are merely interesting fiction.

Defining Your Plan Of Action

Within the context of a single, specific business transformation, answer the following 7 questions for each business system that will be affected:

- **Action Question 1:** What Will Change?
- **Action Question 2:** Who Will Be Affected? Who Is Accountable For The Change Work?
- **Action Question 3:** What Is The Defined Outcome / Objective?
- **Action Question 4:** What Resources Are Available / Required?
- **Action Question 5:** What Is The Financial Justification For This Change?
- **Action Question 6:** What Are The Specific Assignments / Milestones?
- **Action Question 7:** What Are The Metrics / Accountability Process?

Again, the level of detail in the planning process may seem to be overwhelming and the initial gathering effort can be daunting ... but failing to take an accurate inventory of the changes that will happen and the systems that will be affected would significantly decrease your chances for a successful transformation.

An effective transformation plan will address each of the 7 Action Questions for each affected business system. Even a small business making a single transformation will need to gather a substantial amount of inventory / assessment / action data ... and then assign the work to specific people with accurate immediate / short-term / mid-term milestones.

Business Transformation Roadmap

In the second paper of the 3-part series on ***Managing A Successful Business Transformation***, we have examined the functional business systems that make a solution provider business operate and how they are affected by change, as well as the dimensions of people, process, and technology involved in each system. This rigorous approach to evaluation and planning is the foundation for successful business transformation: what is working in your business, what needs to change, and what kind of business transformation can you realistically achieve.

If your plan is well built, you'll be able to anticipate and address the primary and secondary effects of change, and measure your results. The

Without metrics and deadlines, no plan for change can succeed. But most important is the ownership and accountability of the overall project as well as specific tasks contained in the plan.

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next step in your transformation process is to calculate the financial factors of your transformation. In the third paper in this series, ***Calculating The Opportunity, Cost & Value Of Business Transformation***, CompTIA's Technology Convergence Community and Morris Management Partners present information to help channel companies define a revenue model, calculate the costs of making changes or acquiring new resources, and determining when – and how much – profit can be made through transformation.

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Managing a Successful Business Transformation

PART 3: Calculating the Opportunity, Cost & Value of Business Transformation

How much revenue can you realistically generate from a new business profit center, and when will the revenue start to accrue? How much will it cost to adapt or add resources, and when will those costs occur?

Adding a new product line or profit center. Shifting customer target segments and decision maker contacts. Changing the structure and cost of service engagements. None of these changes is easy, but they are becoming more common as solution providers' traditional business models struggle to perform in changing market conditions.

CompTIA research has identified business transformation as a primary trend in the IT and Telecom partner channels, and one of the main drivers of executive concern among its members. In response, CompTIA's Technology Convergence Community and Morris Management Partners have engaged with members from across the channel community to determine just how widespread the business change management issue has become, understand the elements of business change that are most difficult, and define a simple, effective method for managing the business transformation process.

The findings and recommendations of this process are presented in this 3-part whitepaper series, Managing A Successful Business Transformation. The papers are designed to address the issue from a general channel point of view and provide specific step-by-step processes for evaluating the need for change and the best practices for implementing change effectively.

- **PART 1: Making The Decision To Transform Your Business –** Describing the factors that would lead a solution provider to make a significant, structural change to their business model, the conditions that would justify such a change, and identifying the options & obstacles for a successful transformation.
- **PART 2: Planning For Business Change & Achieving Your Intended Outcomes** – Identifying the functional systems of a solution provider business and the essential capabilities for a stable business operation, mapping the interdependent relationships that will be affected during a change process, and evaluating a business' readiness to undertake significant change.

TRANSFORMATION BEST PRACTICES

Business transformation requires effort and other investments to be successful. Will the change you're planning produce enough revenue or profit improvement to pay back the investments you make? Remember: change isn't free ... and not all changes make sense for all companies.

- **PART 3: Calculating The Opportunity, Cost & Value Of Business Transformation** – Defining the underlying financial model of a new business operation, identifying the investment requirements for adding or changing resources, and calculating a realistic timeframe for generating sustainable financial results.

Dollars + Change – Calculating Your Business Opportunity and Results

Business transformation, like performance in sports, can be measured. Beyond the dimensions of "trying harder" and "hoping things get better," you can establish a detailed set of objectives, outcomes, and metrics to evaluate your progress toward your transformation goals. It's not enough to change … you need to achieve better business results in the form of revenue growth, margin improvement, sustainability, and competitive opportunity.

As outlined in this whitepaper series, a business transformation should be evaluated on a number of levels:

- First, is there sufficient justification to change the business … or would you get a better return by focusing on improving your productivity in current operations?
- Second, what specific transformation is most likely to succeed in your unique business context … based on your beginning point, your current status, and your intended end point?
- Third, how much effort will be required to make the business transformation occur … in terms of each business system that will be affected and the impact on the people / process / tools involved?
- Fourth, what work needs to be done, by whom … and what results can be accomplished in the next 30 days, 90 days and 6 months?
- Fifth, what is the available reward if the transformation is successful … in terms of countable, incremental profit the business will generate from the new activities?

Without getting tied up in knots over a detailed pro-forma financial projection that predicts specific elements several years into the future, it is indispensable to calculate the potential size of your reward in return for the amount of effort required. If a certain transformation returns a low level of reward, but it can happen quickly and with a minimum amount of effort, the change could be justified. If a different transformation requires a substantial amount of effort, the level of return must be higher to justify the investment and the associated risks.

Calculating Your Business Opportunity

Three dimensions of business opportunity need to be factored into your calculation: revenue, cost, and profit. Your goal is to do simple math based on realistic figures – not to use complex formulas and wildly optimistic projections to justify a questionable new venture. Remember: transformation is not the same as a new business startup. In addition to launching the new effort, you need to maintain your current operations. Thus, the need for clear justification and reliable projections is more important.

To evaluate any new opportunity and determine if the effort required is justified by the potential rewards, answer the following questions:

IMPORTANT NOTE:

To make the Business Opportunity Calculation more accurate and meaningful, you can enhance the evaluation process by adding specific numbers to your calculations.

A combination of structural data (i.e. the size of a typical deal or the cost of a new resource) plus operational data (i.e. the frequency of deals per quarter or the margin retained per year) can provide a valuable measuring stick for prioritizing potential transformation opportunities – as well as evaluating the progress or success of an actual transformation program.

Consult with peers or professionals in your industry segment (plus the specific segment related to your intended end point) to capture realistic data points for the opportunity you're considering. Conservative estimates are always preferred because your initial level of results may be less than average when you're first getting started.

- How much revenue can you generate ... and how soon will it begin to accrue?
  - Is the revenue opportunity significant to your model?
  - Will the revenue cycle fit your business timeline?
  - Does it match your cash flow model?
  - Can your sales team manage the sales cycle?
- How much – and when – will you need to invest to build the new capabilities?
  - Is the investment in people / skills realistic?
  - Can you afford the management time / resources?
  - Will you be able to afford any necessary tools / equipment?
  - Do you have the cash / credit resources to fund the operation?
- How much profit will you produce?
  - Is the profit margin worthwhile for your efforts?
  - Is the profit sustainable for a reasonable time?
  - Will you be able to pay back your investment fast enough?
  - Will the risk be appropriate for your business?

Any single question that cannot be answered YES is enough reason to reevaluate the opportunity and question the wisdom of that particular transformation.

Important data points you'll need to capture included in this table:

BUSINESS MODEL CALCULATION			
REVENUE MODEL	**YEAR 1**	**YEAR 2**	**YEAR 3**
Average Deal Size			
Deal Timing & Frequency			
No. of Deals per Rep			
No. of Sales Reps			
Total Revenue Performance			
COST MODEL	**YEAR 1**	**YEAR 2**	**YEAR 3**
Training / Development Costs			
Sales Rep Salaries / Expenses			
Technical Support Salaries / Expenses			
Tools / Resources Costs			
Total Cost & Expenses			
MARGIN MODEL	**YEAR 1**	**YEAR 2**	**YEAR 3**
Average Deal Margin			
Profit Per Quarter			
Time To Investment Payback			
Business Growth Model			
Total Profit Potential			

The first level of measurement to justify the value of a change to your business isn't about numbers, but a series of "YES / NO" questions to validate the significance and your readiness. In this model, all answers must be "YES" to justify moving ahead.

Calculation #1 = Revenue is good, costs are inevitable, and expenses must be factored in. Can you produce a positive return on your investment this year? Next year? And further into the future?

Profit Center Opportunity Assessment

General data points are interesting, but your specific business context matters more. Once you've gathered the data you need, answer the following questions:

- What business performance metrics are realistic for your business?
- What risks could prevent you from obtaining your projected results?
- What steps could you take to improve the results you're projecting from the opportunity?
- Do your realistic expectations for this opportunity justify your decision to pursue it?
- Can you implement the plan to pursue this opportunity without undue risk to current operations?

Profit Center Launch Model

In addition to calculating the overall model for revenue, cost, and profit, it's vital that you anticipate the timing of each variable in the calculation. Will you need to incur expense for people or training or other resources on the first day of your new profit center launch? Can expenses be staged over time to minimize the requirements for working capital? How soon will you be able to generate your first revenue from the new profit center? And do you know how to get paid for the new products / services / solutions you'll be selling?

For each factor in your business model calculation, you need to determine the minimum viable requirements to get started and scale your expectations for profits based on your access to working capital. What can you do to minimize investment requirements without squelching capacity? How can you accelerate the path to revenue? Where will you get the money to pay for your new activities?

Use the following table to understand your startup costs, path to revenue, and need for working capital:

Calculation #2: Some investments must be made before revenue can be produced. When will you incur costs? How quickly will you begin to collect revenue? Can you afford to get started well and sustain your efforts?

STARTUP FINANCIAL MODEL							
EXPENSE FACTORS	**MONTH 1**	**MONTH 2**	**MONTH 3**	**MONTH 4**	**MONTH 5**	**MONTH 6**	**STARTUP TOTAL**
People Expenses							
(Salaries, Recruiting, etc.)							
Resource Expenses							
(Training, Tools, Facilities, etc.)							
Sales & Marketing Expenses							
(Advertising, Demos, Promotions, etc.)							
Total Expenses							
REVENUE FACTORS	**MONTH 1**	**MONTH 2**	**MONTH 3**	**MONTH 4**	**MONTH 5**	**MONTH 6**	**STARTUP TOTAL**
1-Time Product Revenue							
(Hardware, Software, etc.)							
1-Time Service Revenue							
(Installation, Config, Consulting, etc.)							
Recurring Service Revenue							
(Maintenance, Support, Cloud, etc.)							
Total Revenue							
WORKING CAPITAL NEEDS							

Business Transformation Roadmap

In the third paper of the 3-part series on ***Managing A Successful Business Transformation***, we have examined the financial elements of a business transformation, when they will occur, and strategies to improve the short-term and long-term results. These calculations are a reality check to verify the size and value of the opportunity, as well as a model for timing investments to match with cash flows.

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If your transformation plan is sound, and the financial model is accurately calculated, you can make the responsible decisions that will help move your business forward without overspending or underplanning. The next step in your transformation process is to get busy getting started. Because no matter how logical your plan or how lucrative your model, real change only happens when people starting doing the right things.

CompTIA's Technology Convergence Community and Research Department, along with Morris Management Partners, encourage you to take the next step in determining what needs to be done, and how to do it, by referring to some important related resources available for you. Please see ***Managing A Successful Business Transformation – Related Resources*** for more critical business management insight.

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