

## The IoT Opportunity: Is Your Go-to-Market Strategy as Smart as Your Product?

**The Internet of Things (IoT) has spawned myriad opportunities for companies seeking to capitalize on this exciting trend. In the next installment of a multipart series on this topic, L.E.K. Consulting examines effective approaches to developing a commercially successful go-to-market strategy.**

The Internet of Things (IoT). It's a phrase that paints a picture of our future world — one in which physical objects are both connected to the Internet and able to communicate with other devices. There are approximately 5 billion connected “things” in existence today (not including computers, phones and tablets), and this number is projected to explode to an astonishing 20 to 25 billion by 2019, fueled by the dropping price of sensors, connectivity, and data storage and processing.<sup>1</sup>

Whether the growth of IoT truly proves to be exponential, however, will depend to some extent on how successfully creators of these smart devices can commercialize them. Certainly businesses are scrambling to cash in on this tidal wave of change. Already, IoT revenue from hardware, software and services is estimated at about \$200 billion, and it is projected to triple to around \$600 billion by 2019.<sup>2</sup> But in their eagerness to capitalize on this trend, many companies have done little more than put a chip into their devices, label them “smart” and price them at a premium. Others enthusiastically pack their connected devices with a dizzying array of features but make no changes to their sales and marketing.

Neither approach is likely to deliver the desired results. To be successful, IoT manufacturers must convince customers that their products offer a level of value that justifies either premium pricing or any learning curve they might encounter in mastering their use (or both). This will call for a different go-to-market strategy — one that focuses on benefits rather than features, encompasses both educating buyers and advising channel partners, and involves a greater diversity of stakeholders and sales channels than in the past.

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### Commercial Challenge No. 1: Finding a Receptive Audience

Consider the following scenario: A manufacturer of critical manufacturing machinery embeds sensors that monitor the equipment's mechanical health and then transmit data to a network or cloud. This data can be used to predict when components are likely to fail, allowing plant managers to optimize the maintenance schedule and avoid costly downtime

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due to unwarranted maintenance activity or unanticipated breakdowns. The embedded sensors provide other valuable data as well, yielding some benefits that may not be initially obvious. For example, they can detect when the equipment is being used improperly and potentially endangering the safety of operators. This information can in turn be used to improve operator training, lower accident rates, create a safer environment for workers, and ultimately improve employee satisfaction and retention.

In short, the IoT-enabled smart equipment offers a host of benefits that go far beyond those of its unconnected predecessor. But this also presents the manufacturer with a dilemma: How can it convince its traditional buyers, typically in the factory purchasing or engineering departments, that these are benefits worth paying for? The person in this role may be solely focused on price and a narrow range of technical specifications and therefore may not be in a position to evaluate the more extensive benefits the product has to offer. There are, however, other stakeholders in the customer organization that may be very interested in these benefits — those in human resources, environmental health and safety, training, operations, finance, and even the C-suite, to name just a few.

Furthermore, for the connected product to be fully functional, it needs to interface with the customer's existing information technology (IT) system, making it imperative that someone in the IT department vet the product prior to purchase. In other words, closing on the sale of this smart equipment is going to call for a cross-functional approach that touches not only the actual buyer, but the full range of stakeholders who can either benefit from or influence the purchase decision.

The situation on the consumer side is similar. Connected consumer devices, such as smart home products, have the potential to bring a range of benefits beyond those of the traditional devices they replace, whether that is lower energy bills, increased safety, convenience or just peace of mind — all of which have broad appeal. However, repurposing the traditional go-to-market playbook is shortsighted because it inherently limits the addressable audience. By merely describing

product benefits on a box or in the feature list of an ecommerce site, companies will mainly reach early adopter technophiles or “have it all” affluent buyers. By continuing to sell through their traditional channel partners, they are unlikely to fully penetrate the audience that derives significant value from their products.

## Commercial Challenge No. 2: Articulating the Value

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Connected devices enable a much wider range of potential benefits (both monetary and nonmonetary) than stand-alone “boxes,” resulting in a richer, more expansive value proposition. Yet many potential buyers remain unconvinced. On the business side, a recent survey of technology executives in a wide range of industries found that more than a quarter (27%) believe questionable ROI is one of the biggest barriers to investing in IoT products, second only to concerns about privacy and security (39%).<sup>3</sup> Another survey confirms reticence among consumers: 41% of respondents said they felt strongly that the smart products they had seen or heard about were simply gimmicky, and that companies would have to work harder to make these products relevant to their lives.<sup>4</sup>

Capitalizing on IoT demands an approach that differs from what companies have used to market their unconnected boxes.

## Commercial Challenge No. 3: Getting the Buyer Up to Speed

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Using IoT products is not necessarily intuitive. In the factory machinery example, the traditional operator may require special training to fully exploit the additional functionality offered by the connected equipment — training that can only be delivered by the manufacturer, distributor, installer or others in the IoT value chain. The operator will also need to be educated on how to gather, view, analyze and interpret the data that the device collects. In most cases, the customer may not have the sophistication to take on this role, which presents a potential opportunity for the product manufacturer or its strategic

**Figure 1**  
Marketing Traditional Products vs. Marketing IoT Devices

	Stand-alone box	Connected device
<b>Target profile</b>	Open to purchase	Open to change
<b>Sales touchpoints</b>	B2C: Established channels	B2C: Established and new channels
	B2B: Limited touchpoints, typically technical/functional experts	B2B: Multiple touchpoints; cross-functional and C-suite stakeholders
<b>Sales approach</b>	Identifying and meeting existing needs	Sharing insights and bringing awareness of new needs
	Product expertise	Customer expertise
	Price vs. quality trade-off	Transformation
	Focus on meeting specs and known needs	"Nonobvious" benefits; focus on value (monetary and nonmonetary) of benefits

Source: L.E.K. Consulting

partners to provide data management and analysis services and package them as part of the solution. These are all considerations that need to inform the IoT marketing approach.

On the consumer side, IoT products often require more setup time and certainly more IT knowledge than their dumb cousins. This can be a serious barrier to adoption. If the product is not intuitive, consumers may shy away from it despite the benefits. In fact, even the perception that using a connected product may require technical knowledge might be enough to scare away buyers. IoT product manufacturers need to find ways to ease any "technophobia" that stands in the way of the purchase decision, whether through direct engagement with the customer or through strategies that support its channel partners.

## Revamping the Go-to-Market Approach

To overcome these challenges, companies will have to implement smart go-to-market strategies that focus on customer needs, diversify sales channels and re-envision the sales process itself.

**Know the customer.** Successful IoT commercialization is rooted in a deep understanding of customers, from their existing needs to those they may not even know they have. The process begins with customer segmentation and getting to the heart of which customers are most likely to benefit from connectivity. These target customers can be prioritized based on which have the clearest and highest-value need, and then further prioritized based on those that are most open to changing how they operate or behave. Rather than trying to be all things to all people, focus on buyers for whom the product's benefits solve the biggest problem.

**Sell the benefits.** Supporting benefits with use cases and hard data is an integral part of telling the product story. In B2B situations, one way to underscore a benefit such as reduced costs or operational efficiencies is to change the pricing model by tying it to customer savings. For example, General Electric uses a risk/gain-sharing model to price its IoT offerings such as jet engines and wind turbines. Nest, which manufactures the smart thermostat of the same name, partners with state utilities to offer rebates that underscore promised energy savings.

It is important for IoT manufacturers to articulate not only the obvious benefits, but also those the customer may not have considered. For example, smart products have the potential to collect reams of data while performing their core function. Companies are starting to envision how they might leverage that data in surprising ways, whether it is using traffic data gathered by connected lighting to improve store layouts, or using smart home data as input for home designs that better fit the lifestyles of today's homeowners.

**Expand sales touchpoints.** For IoT products, it is important to cast a wider net when thinking about who within the customer enterprise will benefit the most from the connected device. In B2B situations, product beneficiaries are not necessarily the buyers themselves. But since they can influence the purchase decision, buyers can be critical sales touchpoints.

In the B2C space, expanding touchpoints may mean moving into distribution channels other than those that the company has traditionally used. Returning to the Nest example, the company began by selling directly to technophiles via its website but quickly moved into complementary channels in the technology and home improvement sectors, through deals with Lowe's and Best Buy, positioning it at the intersection of consumer electronics and traditional thermostats.

**Adopt a consultative approach.** Successfully selling IoT products calls for an approach that emphasizes education and consultative selling. This may mean hiring sales professionals with different skill sets, who can analyze and value product benefits and then craft a compelling value proposition that conveys those benefits. B2B sales professionals must take the time to communicate effectively with an entire ecosystem of stakeholders and pull in experts from their own organization when needed. This can substantially lengthen the sales cycle, with implications for sales management processes and incentive structures.

General Electric has embraced a consultative approach for its IoT products by bringing in "solutions architects" to work closely with a customer pre-sale. The solutions architect gains an intimate understanding of customer economics in order to

determine the appropriate GE solution (equipment, software and services). GE has changed its hiring process for sales professionals to focus on individuals with the ability to quantify value creation potential.

For B2C products, IoT companies can work with channel partners to develop an integrated in-store and digital strategy that allows consumers to envision product benefits and how the product would fit into their lives. This is likely to be driven by a combination of sales associate training, interactive displays and opportunities to use the product on a trial basis. In some cases, manufacturers might even consider nontraditional channels such as mall kiosks or infomercials that explain the product story.

## Conclusion

The commercialization of IoT products, whether for businesses or consumers, demands an approach that differs from what companies have used to market their unconnected boxes (see Figure 1). Rather than selling a cluster of features, manufacturers of these products are essentially selling an upside — a set of benefits that meet the needs of various stakeholders, sometimes in nonobvious ways. To make this transition, companies must be able to quantify and clearly articulate product benefits and communicate them compellingly to decision-makers or channel partners who may lie outside the traditional sales touchpoints.

Smart, connected devices will undoubtedly come to dominate our homes, offices, factories and cities. Those companies that choose a smart and thoughtful approach to bringing their devices to market will have the best shot at thriving in the world of IoT.

<sup>1</sup> "The Internet of Everything: 2015," April 8, 2015, *Business Insider Intelligence*, <http://www.businessinsider.com/internet-of-everything-2015-bi-2014-12>.

<sup>2</sup> *Ibid.*

<sup>3</sup> *Business Insider Intelligence* survey, <http://www.businessinsider.com/internet-of-things-survey-and-statistics-2015-1>.

<sup>4</sup> "The Internet of Things: Can It Find a Foothold with Mainstream Audiences Today?" Affinova.

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