

ITC Analysts & Analyst Relations

by

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Abstract. If you read Management or IT-Magazines, from time to time you come across analysts like Gartner, Forrester, AMR, IDC and many others. Such analysts publish comparative studies of providers (Gartner Magic Quadrant, Forester Wave, ...) or analysis of special IT or telecommunication topics on a regular basis. At least once a year analysts publish also the latest ITC (ITC = IT & Telecommunication) or business trends like the Gartner with the "Hype Cycle". Maybe not every topic will become a hype like forecasted, but analysts have a decisive influence of the press.

Analysts are seen as a neutral instance and therefore more and more enterprises which are due to make a purchasing decision for complex or business crucial TIC topic's, use analyst as a consultant to make the right decision and to minimize the risk for the organization. During such a decision making process analysts bring the buy side and the sell side together. Technology providers receive direct feedback and have the chance to improve or extends there products. The relationship to analysts can be an advantage for technology providers by receiving the direct briefings, market trends, competitive information and much more. Such information are important for the strategy process. However the technology providers need to understand that they need to invest into such relationship with analysts.

Key Words: ITC Analysts, Analyst Relations, IT, Analysts, B2B, Business-to-Business

JEL classification: M10, M15, M31

1 Introduction

When marketing products, the main influencing factors on the purchasing decision of new customers and existing customers are of essential importance. The purchasing decision is a psychological process which is influenced by a multitude of factors from the economic, political and judicial, and social environment (Kaldasch & Müller, 2004). Therefore it must be distinguished which purchasing decision is concerned and which factors it is influenced by and how strongly. In the Business-to-Customer (B2C) sector customers often get their information from neutral places such as magazines e.g. Stiftung Warentest, Ökotest or respective internet platforms. In the Business-to-Business (B2B) sector this task mostly falls to consulting companies or independent industry analysts.

Especially in the technology branch there is a continual influence on the purchasing behaviour of customers by industrial analysts, so-called influencers. A survey carried out by the Darwin Magazine showed that 55 % of all IT decision-makers consult analysts for strategic purchasing

decisions and that these therefore have an influence on the allocation of approx. 100 to 125 Billion US Dollars in Western Europe (DARA, 2008:8). In some cases analysts accompany respective projects of their customers by drawing up specific ways of looking at the problem for the customer.

IT analysts do not only advice purchasers and users of IT and Telecommunication (TC) products and services but also technology providers and therefore also influence the press decisively. This includes comparative studies of IT providers on selected topics, special press items and regular publications on IT and business trends such as „10 Strategic IT Trends for 2013“, „Gartner Hype Cycle“ and many more.

2 Material and methods

Due to the growing complexity in the IT & Telecommunication (ITC) environment, the necessity of a competent consultancy of the decision- makers is indispensable. Nowadays the success of an enterprise depends, among others, very strongly on the IT solutions

applied. A wrong decision could have far-reaching consequences for the enterprise (Leinemann & Rehm, 2008:8). In order to avoid this, industrial analysts help to make the correct decision. On grounds of their neutral status and their know-how they are regarded as being very trustworthy and receive respective consultancy contracts. Managers also rely upon analyst's ratings for their individual decisions in the name of the enterprise. In this way they back their decisions and can refer to the statements of the analysts if problems should occur.

For manufacturers the accession to analyst's ratings is often connected with high financial costs, though and is very time-consuming. For a lot of companies the costs for the consideration in analyses such as the Gartner Magic Quadrant or the Forrester Wave lie in a six-digit range per year. Large software companies such as SAP, Microsoft, IBM and others might lie far above that.

With this paper the author has the objective to introduce the topic of "ITC Analysts and Analyst Relations" to the reader. The first part of „Results and Discussions“ includes background information, the second part discusses the importance of analysts for the different groups that make use of analysts. The third part explains analyst relations, the latest market trends, how to select the right analyst and the limitations.

3 Results and discussion

3.1 Background information

Analyst Relations designates the communication and interaction between analysts, technology producers and enterprises. Today there are numerous analysts with different specialisations who also focus on different target groups. They can be separated into two main categories: industrial and financial analysts. The following paper, however, refers exclusively to industry analysts. Financial analysts, as a rule, play an essential part mainly with companies listed on the stock exchange in the framework of, Investor Relations‘.

Industrial analysts act as professional and competent consultants and market researchers. Their special strengths are their neutral status and their knowledge of the market. They shape their independent opinions on the basis of the facts they have gathered and do not allow themselves to be influenced (Leinemann, 2011:111). Analysts advise purchasers and users of IT and TC products resp. services as well as ITC providers and often decisively influence the press also (Dara, 2008:194). Analysts' opinions can have an influence on how customers, interested persons and the press perceive technology companies and their solutions and therefore influence the purchasing decision in this way (Dara, 2008:195). Figures and well-founded evaluations of the market development as well as the requirements on behalf of users are supplied to technology providers (Berlecon Research, 2011).

The origin of industrial analysts lies in the US, however they have become very successful in Europe, too and have established an independent market (Leinemann and Rehm, 2008:8). The influence of analysts on the purchasing decision in the field of IT and communication technology has proportionally increased with the steadily growing complexity of this environment in Europe (Leinemann and Rehm, 2008:21). Due to their contacts with various technology providers and their experience with users, analysts have quickly acquired a special significance (Leinemann, 2011:111). Especially in the field of ITC the occupational field of industrial analysts as consultants has evolved.

Leading analyst companies on the international market today are Gartner, Forrester, IDC, Ovum, AMR and on local markets for example in the German-speaking area there are Berlecon Research, Lünendonk, Experton Group, PAC or TechConsult.

3.2 The importance of analysts

As already mentioned, analysts are of importance for technology providers, ITC

decision-makers (customers) as well as for the press.

3.2.1 The importance of analysts for ITC decision-makers

More and more frequently companies have to make strategic decisions which influence their future decisively without having the necessary know-how for this in their houses. Particularly in the technology environment the complexity is continuously growing and making decision-taking more and more difficult. Independent consultants help to select the right technology for the respective needs (Leinemann, 2011:3). The right IT infrastructure has a great importance for the success of a company today. For example a system crash was of little relevance a few years ago but today it has serious consequences for the company. Therefore it is important to avoid a wrong decision as far as possible.

On grounds of their experience, information and market forecasts analysts can estimate how safe an investment in a technology is today. They have knowledge which reaches far beyond the technologies such as: information on strategies of the individual providers (Dara, 2008:10-11). Analysts give IT decision-makers an orientation of the market by supplying them with an overview of providers and showing them how to successfully apply new technologies in their companies (Berlecon Research, 2011).

In summary, one can say that an industrial analyst is certainly one of the best sources of information for a decision-maker if a purchasing decision has to be made. Analysts know the market for company software, they collect information and their findings flow into consultancy works for users and providers.

3.2.2 The importance of analysts for technology providers

Analysts not only advise the users of IT products resp. services but also quite often the technology companies themselves e.g. regarding the needs of their customers or the

latest trends on the market (Leinemann, 2011:4). Providers in the technology environment are strongly interested in working together with analyst companies. On the one hand analysts have an influence on the purchasing decision of potential customers. Customers look for and require neutral, transparent and founded information for their purchasing decision and rely on the recommendations of the influencers when making a purchasing decision (Leinemann, 2011:16). Industrial analysts speak with their customers exactly at that time when a purchasing decision has to be made and reach the customer in a well-targeted manner (DARA, 2008:11). On the other hand analysts determine market data which are very interesting and important for successful strategic planning (Leinemann, 2011:110).

3.2.3 The importance of analysts for the press

Analysts are main input suppliers for the media, especially for print media. They are regarded as reliable measuring devices, which can distinguish between the significant and insignificant, and they are an ideal source for an independent opinion (DARA, 2008:11). Furthermore analysts can summarize information in a general view such as a product introduction in connection with the market trends (DARA, 2008:12). Due to the tight personnel situation in many editorial offices, journalists often do not have the time for detailed investigations. Therefore they resort to the opinions of the analysts more and more often and strive for cooperation with them. Companies can increase their presence in the media by positioning their own company with analysts. The objective should therefore be to appear in the relevant analyst's publications with an objective and as positive as possible evaluation (DARA, 2008:48). In this way the visibility and image of a company can be improved.

3.3 Analyst relations

3.3.1 Analysts bring supply and demand together.

Analysts mediate between customers and producers. They advise customers on the products of technology providers on the basis of their information and pass on customer reactions and expectations to the producers. In this way the producers receive a customer feedback on their own products from the analysts and get the chance to improve these, if necessary, or to allow innovations to flow into development. Market and customer feedback can result in the essential technical developments to obtain competitive advantages and market success. Consequently analysts enable technology companies to draw up a sound planning of their business strategies as well as their IT purchasing (IDC, 2006).

Analysts forecast and analyze technological opportunities and risks relevant to the branch and evaluate the offers on the market in order to systematically achieve a greater success and visibility of the company on the market (Berlecon Research, 2011). Analysts draw up a general view of a technology market from a multitude of information (DARA, 2008:194). They receive this information for the most part directly from the providers by means of briefings, telephone calls or surveys. The analysis results are presented in concise studies, which are passed on to the (potential) customer and can be integrated in marketing and PR measures (Berlecon Research, 2011).

An important point for a successful cooperation with analysts is the communication between analyst and company. In doing this it should not be a one-sided communication but a communication in dialogue form. For that is the only way that relevant information for both sides can be elaborated and used. Analysts' quotes can be used in company publications such as press information or marketing documents for a future product introduction (DARA, 2008:12).

Analysts also continuously evaluate competitors. By means of the published

rankings of the important providers on the market it is possible to exactly observe them in their development and positioning and to compare them with the company's own positioning.

In summary the most important reasons for cooperation from the point of view of a technology provider are the following (Grimm, 2004:172):

- Investors are convinced of the company;
- Reputations are made;
- New trends are recognized;
- Essential information is acquired;
- Influence is exercised on the market with the aid of analysts.

The role of an analyst can be pictured as that of a spider in the centre of a dense web. Apart from the afore individually discussed reference groups, industrial analysts exercise influence on other groups such as dealers, potential business partners or other groups of interest in the ITC environment (DARA, 2008:12).

This leads to the conclusion that analysts are in a very influential position. Especially large companies listed on the stock exchange therefore afford an Industrial Analyst Relations Program, in the framework of which a person responsible shall ensure the cooperation with the analysts (Leinemann, 2011:4). Important tasks within the IAR Program are (DARA, 2008:195-196):

- Identification of and targeted communication with the „right“ analysts;
- Orientation of the communication with analysts to the requirements of the company;
- Planning and implementation of the IAR processes;
- Adjustment of the materials and central messages of the company to the key analysts
- Filing of successful contacts and structured data storage;
- Measurement of results of the IAR Program according to economically comprehensible criteria.

For an effective use of the limited IAR resources and a measurement of results a previous target definition is indispensable. The

contribution to the overall result of a company should always rank first e.g. the increase of the sales potential or the financial stability of a company by means of communication with analysts. Further individually determinable targets can then be derived thereof, which depend very strongly on the respective situation of the company and have to be in line with the company and marketing measures (DARA, 2008:65).

3.3.2 Use in sales and performance review

An additionally important target of IAR is the selling aid of order processing. Successful IAR work enables analysts to form a positive opinion of the supplier and to actively position the company with customers in this way and put it on short lists. As a result it can happen that currently pending customer calls for tenders, which would have otherwise remained inaccessible to sales, become known by means of IAR (DARA, 2008:11-12). Furthermore the members of the sales staff can use the analysts' evaluations in company presentations and other documents and can therefore refer to a neutral evaluation in order to remove any doubts that customers may have.

A continuous review and adjustment of the targets, methods and strategies are indispensable in the fast-moving technology branch and the analyst environment for the achievement of the targets of IAR (DARA, 2008:65). In order to be able to review the targets, these have to be previously operationalized via ratio.

3.4 How do the topics develop on the market?

The Hype Cycle (see figure 1) is a model developed by Gartner, which describes how technologies or applications develop in the course of time from the point of view of demand. The expectations related to an innovation, the degree of public attention or the interest in a technology are used as the independent variable and shown as the function of time (Schuh & Klappert, 2001:41).

The Gartner Hype Cycle is drawn up once a year and shows which technologies the analysts estimate and how: from new trends to already productively operating developments (Hülsbömer, 2010). Furthermore analysts publish additional information with growth forecasts for future developments on the market.

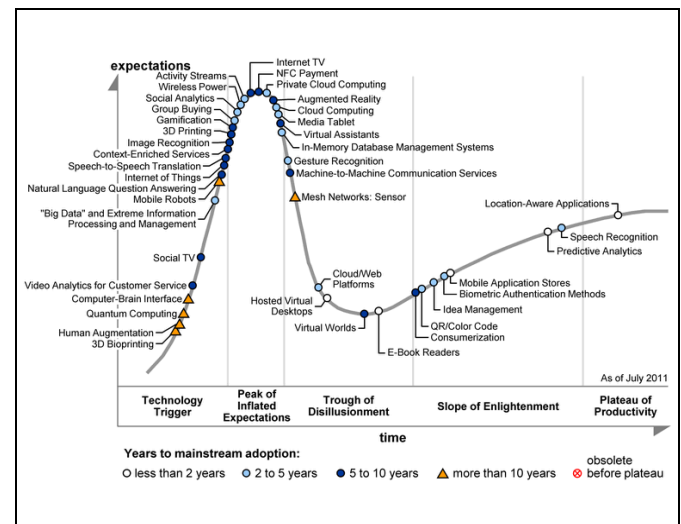


Figure 1: Hype Cycle for Emerging Technologies, 2011
Source: (Cloer, T., 2011)

3.5 How to select the right analyst

Which analyst to contact or to select depends on the business models of the different analysts. In general analysts can be split into two groups. Group one are the analysts who make most of their revenue with the Buying Side. For such analysts it is very important to be independent. Good examples for “Buy Side Analysts” are Gartner, Forester and IDC (www.bloodsugarmagic.com, 2013).

The other group of analysts is focused on consulting technology companies with the marketing, go to market strategies and sales. Most of their revenue comes from ITC providers and they are called “Sell Side Analysts”.

If you are an IT decision-maker and you decide to make use of analysts, it is essential to make sure that the topic which has to be covered is a focus topic of the analysts you contact. The analysts have several references which you can contact on the same or a similar topic.

If you are an IT provider and you decide to start with analysts relation you can first select the analysts who focus on the products or topics you address with your solutions. You then have the choice to contact the analysts directly or to make use of a consultant to establish analyst relations. Consultants like that have the advantage that they know a lot of the analysts already or have a very good network in place. In addition they help you to avoid mistakes or misunderstandings. Mistakes and misunderstandings can happen very quickly, because analysts and IT providers often have a different understanding and interpretation.



Figure 2: Business Models from Analysts
Source: www.bloodsugarmagic.com

3.6 Limitations

In Europe mostly multi-national enterprises make use of ITC analysts, because they are willing to invest time and money in the decision-making process where SME business often uses own resources or an independent consultant.

Some companies also have a so-called “One Vendor Strategy” – this is very common with SAP customers. If they have a new software project – they first check if SAP has a solution and only if they do not, they go and check the market. Leinemann (2008:26) confirms the experience of the author - 65% of companies

with SAP in use rated the relevance of analysts not very high.

4 Conclusions

However analysts are important for the ITC industry, because they bring the Buy and Sell side together and provide a lot of material for the press. With the material they provide for the press they bring up new topics like Secure and Managed File Transfer, Cloud Computing, Software-as-a-Service, Big Data and many others. The comparative studies are from time to time not free of charge if directly requested from the analyst, but ITC providers often have a version available on their web site via a download link with user registration up-front. At the same time it is important for decision-makers in companies to select and buy the right product. Today in our fast-moving world ITC products are crucial to the success of nearly every business. Wrong decisions or products which fail could easily bring a company out of business.

Technology providers also gain benefits by means of analysts getting market data. Market data can contain - revenue for a specific product or a topic, the number of companies which make use of such products or are interested, latest trends and directions and, even more important, a competitive overview (comparative studies). Such topics are important for the strategy process to survive in today's world with a highly competitive market due to globalization and fast innovation.

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Marco Pister has worked in the IT industry since 1995 and has concentrated on product development and selling software products for Business-to-Business needs. Currently he works for SEEBURGER AG a German software provider and one of the leading companies for integration technology software. He completed in 2010 a MBA with Liverpool John Moores University and started September 2011 a PhD program at the Slovak University of Agriculture in Nitra. His current research topics are strategic management for Business-to-Business companies and organizational changes for the further growth from SME businesses to multinational enterprises.