

Under the Buzz

Commentary on Business Strategy for Tech Company Executives

Vol. 10, Number 3 - August 18, 2009

Under the Buzz is an email "newsletter" published by Philip Lay, managing director at TCG Advisors, a Silicon Valley-based firm that helps executive teams in tech companies to deal with complex strategic, organizational, and operational challenges. Now in its tenth year, this journal is published periodically and delivered free to subscribers via email on an opt-in basis. It is also posted on TCG Advisors' website, <http://www.tcg-advisors.com/Library/utb/utb.htm>, where back issues are also available.

Author's Note: We received feedback from readers of our limited-circulation publication, Board Bulletin, that the article in our last issue would be relevant to our Under the Buzz readers, so we are re-publishing it below with one or two minor modifications and updates.

Managing Today's Mission-Critical Priorities Without Forfeiting the Future

It can't be easy for boards today to make sure that the CEO and their team are able to handle the critical priorities of making plan in their current "Horizon 1" business while also investing sufficiently in market strategies that only provide their main pay-off in 12-30 months (Horizon 2) and beyond (Horizon 3). After all, even in boom times tech companies have a lack-luster record for developing new businesses out of emerging/growth categories while simultaneously optimizing results in their current established business.

One of the more subtle inhibiting factors that we witness regularly in client organizations is the common belief among CEOs that their head of sales or field operations should be responsible for all of the company's revenue including successful outcomes of new or emerging market initiatives. They are aided in this belief by the conventional wisdom that just one individual should be accountable for all of a company's revenues - and, for a variety of reasons, even heads of sales hold to this belief.

In reality - and especially when faced with the kind of Horizon 1 revenue jeopardy that many companies are experiencing during the current recession - there is strong evidence to suggest that it makes much more sense to limit the head of sales' responsibility to managing the revenue plan of today's established business(es), while leaving the CEO (or COO) to sponsor and, if necessary, drive the Horizon 2 initiatives that will generate a small amount of business today but become truly material within 12-24 months, and produce measurable increases in market power and stock

price.

The main reason for throwing into question the traditional approach described above is that managing Horizon 1 (H1 for short) and Horizon 2 (H2) requires managing *bi-modally* - using two different approaches, two distinct sets of metrics, two different types of organization, and a different mix of resources. Making the numbers today is so extraordinarily demanding that it is especially crucial to separate these two responsibilities. The closest that most companies get to committing resources to Horizon 2 initiatives tends to be either via a partially "dedicated" cross-functional team (that rapidly gets disbanded when, predictably, results aren't forthcoming from the new initiative in a given timeframe) or via what they *call* a "BU" but more closely resembles a "PU" (Product Unit) that - as the name implies - is structured essentially around engineering/product management, product marketing, and sometimes limited sales and support resources.

The downside of these half-way solutions is that the team is left to beg, borrow or steal portions of the shared field/channel sales, professional services, technical support, operations, and IT resources to supplement their efforts. The reason that these compromises don't work is not a mystery: the Horizon 2 units in question just don't have sufficient resources of the type and mix that they need in order to develop real opportunities, close sales, and/or implement the promised deliverables on a repeatable basis, in order to turn an emerging opportunity into an actual business.

Perhaps surprisingly, the current way of allocating accountability for revenues is not fair on CEOs even though they are often reluctant to take on Horizon 2 leadership duties because of all their other responsibilities, not least of which are the time and energy they are forced to spend interacting with the board and even with individual board members, as well as with Wall Street analysts (in the case of public companies) and other stakeholders.

So, why is this topic relevant for directors of boards to deal with? Well, in the first place boards must start to be more considerate about how to get the answers they need from the CEO and their team without burdening them the way they tend to do today. One simple question that each board member should ask and answer each time they get antsy about a given issue is "whose problem am I solving, mine or the company's?" before dragging the CEO or their team across the coals with their brand of seagull management (mixed metaphors, I know, but I hope you get the point).

Secondly, and more prescriptively, I strongly recommend board members to counsel their CEO to take control of new Horizon 2 (H2) growth initiatives, thus freeing the head of sales to drive the Horizon 1 revenues that normally account for 90%-95% or more of the company's business. For what I'll refer to as H2 Target Market Initiatives (TMIs), the CEO and

executive team should set up a "micro-BU" structure and keep it in place for as long as it takes to be able to declare victory with the initiative - which means for as long as it takes for the initiative to either surpass an agreed tipping point in segment penetration/share or achieve an agreed run-rate in (profitable) revenue growth. Note: This unit *must not* be allowed to evolve into the type of phantom BU of the type I described above, where some of its most critical resources reside elsewhere in the organization and they are reduced to pleading for ad-hoc (and probably unfocused or unqualified) assistance when executing critical tasks. As indicated above, the TMI business unit should report to the CEO and be run by a seasoned GM-type of leader, in order to make clear across the company the critical nature of the initiative(s). Furthermore, the unit should be staffed by each function that will contribute not just to opening up opportunities and closing deals, but delivering the promised solution and supporting ongoing customer support requirements.

As the TMI team gets going, the executive sponsor must ensure that a suitable protocol is in place for the TMI team to have free access to a list of named target customers without the need to ask permission from day-to-day account managers to talk to target customers and prospects. Clearly, both sales teams must communicate back and forth in order to coordinate their respective activities and exchange information on the target customer's situation, needs and current priorities.

If, for example, the goal of the initiative is to achieve a 30% share in a specific target market segment within twelve months or so from sales launch, then as soon as the tipping point has been passed, the H2 micro-BU and its business can be absorbed into the mainstream organization - in other words, sooner or later it effectively becomes a Horizon 1 business under the responsibility of the head of sales or field ops. Furthermore, after being successful in driving growth using this micro-BU model, the CEO can gradually institutionalize the Target Market Initiative process as a critical competence that the company can use in new initiatives. Thus the engine for generating growth and new levels of market power can co-exist with the more established and well-oiled engine for managing today's maturing business for margins.

In order to achieve this significant change in MO for emerging growth-focused initiatives, it is best if one member of the board acts as strategic mentor to the CEO, and supports this type of investment at times such as today when other directors might be feeling more cautious about their growth agenda and agitating for cost reductions. This is because most CEOs need encouragement and even some guidance from the Board to implement a bi-modal business management model successfully. Without such support, they inevitably revert to the comfort zone of holding the VP Sales responsible for all revenue generation, while limiting their value contribution to that of an armchair quarterback.

Philip Lay, who authored the above article, can be contacted at philiplay@tcg-advisors.com. Lay also authored an article on a related theme in the January 2007 issue of Under the Buzz titled "Filling the Strategy Vacuum: How to Plan Effectively Across Multiple Time Horizons", and his colleague Geoffrey Moore also authored an article on a similar topic titled "To Succeed in the Long Term, Focus on the Middle Term", that appeared in the December 2007 issue of the Harvard Business Review.

Under the Buzz offers commentary on business and management issues facing technology companies. The goal is to provide provocative insights into the latest events and thinking shaping this continually evolving sector. Under the Buzz also provides commentary on strategies for building sustainable competitive differentiation and maximizing growth and market valuation. ©2009 - Philip Lay

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