

Under the Buzz
Back to Basics in e-Business

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Quote on Tech CEOs and the "No Visibility" Problem ...

... From the October 8 edition of *BusinessWeek* magazine, here's an interesting quote:

"Two assumptions turned out to be erroneous ... The high-tech revolution did not eliminate business-cycle risk, as many had believed ... technology made the cycle more volatile, not less. Over-investment in telecom and other industries led to a sudden and severe collapse in profits. ... Tech CEOs, who believed in their own control over the business cycle, went into shock. CEOs who prided themselves on being able to see far into the future were forced to concede that they had "no visibility" for the quarter ahead." - Bruce Nussbaum, "A Shock to the Equity Culture"

1. Call for Real-Life Cases: Deal "Accelerators" in Today's Marketplace

In the [October issue of *Under the Buzz*](#) I was able to cite the case of a software start-up (Bang Networks) closing an important customer contract as a direct result of the 9.11 emergency. Going forward in this publication, I would like to report on a monthly basis any important deals with enterprise or government customers signed as a direct or indirect result of the re-ordering of enterprise IT investment priorities since September 11, particularly those which employ market development programs or sales tactics that readers have found especially effective in the present economic environment.

Lest any reader worry about their hard-earned "competitive advantage" being eroded by virtue of having it cited in this journal, I suggest that any tactic worth its salt is more complex to execute well than it might appear. Thus, it is unlikely that any one will be giving away their secret selling sauce.

Many enterprise software companies with products in emerging web-based categories – such as inter-enterprise collaborative commerce, supply chain event management, ERP or CRM analytics, content management, real-time application integration, secure workgroup collaboration, and web services – are actively pursuing “chasm-crossing” market development strategies to secure their first target market beachhead.

I would like to hear about any significant, value-delivering sales “enablers” or “accelerators” employed during the build-up to the sale, whether they be events (such as workshops or seminars), white papers, site audits (or ROI-focused studies), custom demos, site references, pricing, packaging, or other tactics. If you have any such cases to share with fellow readers in brief outline, please contact me by email at philiplay@chasmgroup.com

2. Crisis: A Natural State of Being for High-Tech Companies

We’ve all heard about the three biggest “lies” in high-tech: (1) “We have a product”, (2) “We have a strategy”, and, (3) “We are aligned”. In fact, there is probably no single high-tech organization anywhere that can claim to have all three items in positive balance at any one time. Considering that there are so many smart, determined individuals working in technology companies, why should this be the case? I believe the answer starts with the essential proposition of high-tech enterprise, which in general is to “change the world” in some way, by introducing potentially disruptive innovations to businesses, government agencies, non-profits, consumers, or other customers. In short, my thesis is that high-tech innovation, in the guise of a business, is *necessarily a crisis-oriented undertaking*

While this may not be the case in an R&D lab or university environment, where real-world financial pressures may appear relatively distant, an atmosphere of tense expectation is virtually assured whenever high-tech innovation is conducted with growth, profits, and shareholder value in mind. After all, business is where the rubber meets the road in terms of the need to determine what kind of product to build before the competition discovers it, the need to find ongoing funding, manage the scarcity of resources, compete to clarify hard-to-understand value propositions, overcome impossible time-to-market challenges, and to attract true early-adopting customers. None of these things happen quickly or easily, or even in a predictable sequence, which causes an increasing fear that the organization might not be able to pull the show together on the night. So it should not be a surprise to anyone that (1) the product is never quite ready, (2) the strategy is never quite the same as it was last week, and (3) the team falls quickly out of alignment – not necessarily losing basic trust and respect for each other, but getting out of sync in terms of each person’s opinion of what needs to be done next.

The Absence of Sufficient Hard Data to Orient Strategic Decision-Making

One particularly troubling factor is the lack of reliable data on which to base key strategic decisions such as what product functionality to build for what group of customers, how many customers are likely to buy and at what speed, and what specific problems are they trying to solve. The data that is normally trotted out on a company’s PowerPoint slides comes from market research reports that present, at best, fanciful estimates of future “total available markets” and which may have little to do with the chances the company has to succeed in those markets with its new innovation. Hard as it may be, I often have to remind clients that early-developing markets actually yield little or no detailed, statistical data samples on which to base decisions.

The best one can hope for during early stages is for “rich anecdotes.” These are detailed, often subjective, stories about what motivated one or two visionary buyers to invest in the new technology, what the visionaries are/were trying to accomplish, what has changed in their project’s scope during implementation, and what surprises the new technology is delivering in terms of (a) worse-than-promised results, (b) better-than-anticipated results, and -- my favorite category -- (c) unintended benefits. Whether or not these anecdotes point to any reliable markets forming around the technology in question can be anybody’s guess, but it is usually the best information one has to go on. Understandably, the engineers, marketers, and financial types among us, who are analytical in nature, find it hard to cope mentally or emotionally with some of the resulting ambiguities. But cope they must, because decisions have to be taken. The unfortunate truth is that hard market-demand data, as such, does not surface until most of the truly innovative action has happened. And, even then, the data can be pretty slim. For example, even in the twenty-year-old PC packaged software business, it is all but impossible to obtain detailed, meaningful market research data on Microsoft Word – how it is adopted, what functionality is used by whom, how much benefit is derived from the advanced vs. basic editing features, the real reasons why people are motivated to upgrade from one version to the next, and so on. This is true despite the attempts of Microsoft and its partners to derive solid information from focus groups and other practical sources, making it difficult to determine the right ongoing development priorities.

Crisis: 50% Danger and 50% Opportunity

All of which reminds me of the famous Chinese soothsaying to the effect that “*Crisis is 50% Danger and 50% Opportunity*”. Among other high-energy technology-centric businesses, enterprise software companies inhabit such a world – a world where customers can never quite keep up with the “changing” value propositions provided by vendors, where the product is never *quite* ready, where the promise always exceeds the deliverables, where implementation always takes longer than planned, where customer support and maintenance are generally neglected, and where maturing products are hastily abandoned in favor of The Next Great Thing. In essence, those who sign up to work in this business need to treat every day as a crisis composed equally of opportunities and dangers that might somehow be turned into opportunities. The optimistic, “glass half full” kinds of people love this kind of existence, whereas the more anxious, “glass half empty” types can often spend too much time agonizing over the risks of building an entire product, or implementing a market penetration strategy with insufficient hard data, to confirm that they have made the right choice. In this environment, when results come slower than expected, one’s natural recourse can be to second-guess what the executive team or other decision-makers have determined are the appropriate moves to make, thus stimulating negative speculation.

The Right Mentality for Working in “Crisis Mode”

As one who has attempted to leave high-tech for different pastures on three different occasions, and has concluded that high-tech is indeed the right business for my personality, I have thought frequently about the various characteristics required for people to thrive in this frequently bizarre business. Among the possible attributes, here are my four preferred ones:

1. *Smarts*. These don’t have to be just book smarts. In fact, it’s usually a good idea to throw together people who are characterized by their strong book smarts (not necessarily technical smarts, either), with people whose street smarts exceed their schooled know-how. The

resulting combination of book and street smarts can be deadly – in your favor. Another advantage is that it can help to prevent software companies from behaving like techno-weenies.

2. *Unreasonable passion about high-tech's potential to change the world* -- extending where appropriate to a moderate form of messianic fervor. This attribute enables people to dream great ideas, go up against obstacles that make reasonable people back off, and find creative ways to overcome them. In this regard, I am reminded of George Bernard Shaw's saying: "*The reasonable man adapts himself to the world: the unreasonable one persists in trying to adapt the world to himself. Therefore all progress depends on the unreasonable man.*" It's important to have a healthy percentage of "unreasonable" people in every company, because they tend to challenge inherited wisdoms about what is or isn't possible, a useful attribute amidst the seriousness and rigor of high-tech business.
3. *High-energy attitude to solving problems and making things happen.* Apart from helping to safeguard one's energy and optimism during those times when the obstacles seem insurmountable, this characteristic enables people to practice a bias toward action, rather than the paralysis by analysis that can occur in the absence of hard data to guide activities.
4. *High tolerance for ambiguity, and considerable empathy for customers.* This attribute allows for patience in working through data-poor quandaries and still reaching resolution, shrugging off hesitancy, and focusing on what it takes to ask customers the right questions, listen properly to their answers, and search for suitable solutions to the complicated human work processes.

Managing in the Fast-Moving Environment of High-Tech: Emphasize *Direction*, Not Supervision

In contrast with many "industrial-age" organizations, people in tech companies do not generally require much, or any, supervision *per se*. Since they are usually on the ball, enthusiastic and idealistic about their work, they do not generally need to be micro-managed. But one thing they do look for is enough *direction* to let them know that what they are doing will help the organization win in the marketplace. Thus, between manager and direct report, *what* to do is more important than *how* to do it, the mission is more focusing than the task, and clear concepts are worth more than detailed instructions. Although the "supervision" part of this message is reasonably well understood in many software companies, I have been shocked by the naivety of executive teams who consistently underestimate the importance – and true nature – of *direction*: what it means, what it looks like, and how to reinforce it when necessary.

For me, direction means having an agreed target at which the organization will aim, expressed regularly in forms that are translatable by smart individuals into milestones that relate directly to their work responsibilities and tasks. If it is not translatable in this way, as is the case when only a few managers are in the know about the goals and plan, people complain about the lack of direction or strategy, and slowly lose first their idealism, then their energy. Many executive teams mistake an aggressive "inside-out" statement of intended market-conquest or revenue-growth objectives for direction. If the employees do not believe in it, or cannot see it becoming activated, they are unable to support it with their own actions. Here I am reminded of an apt expression attributed to Steve Case, founder and chairman of AOL Time Warner: "*A vision without a plan is a hallucination.*"

Too often the executive team returns from its most recent offsite planning session fired up with a new “vision,” i.e., dream, of what the company can aspire to in the next three years. However, without a clear statement of how that vision is going to be accomplished (that is, with what array of products or services, in what target markets, solving what customer problems, against what competition, deploying what resources, using what metrics to gauge success in what timeframes), the organization is left without any basis to believe in – or, worse still, act on – the overall objective.

Turning Danger to Your Advantage – The Importance of Strategic Alignment

Of the three main dangers confronting high-tech companies – lack of a differentiated, deliverable product; absence of an effective strategy; and insufficient alignment among its key people – the most disabling to a young, unproven company is undoubtedly the last one. My argument is this: if an organization is not aligned around the corporate goal, purpose, values, strategy and immediate objectives, sooner or later its executives, as well as employees, will default to political behavior. This is a damaging enough curse for any company, though commonplace in most organization. However, it can be a pathological syndrome for startups, 80% of which fail in their first few years, many from the results of misaligned expectations. If you think about it, all energy spent on internal politics is energy not spent on serving customers, and the problem with politics is that it tends to spiral out of control very quickly. The impact of negative political energy is less fatal in larger, more mature companies, provided that they still have a thriving business. But because high-tech businesses operate in such a volatile mode, things can take a turn for the worse quite suddenly.

Thus, with alignment, people will (continue to) do “unreasonable” things to help the company succeed; without it, they start pulling in different directions. Alignment also encourages coordinated action, which often will trump superior thinking whenever the latter is not translated into cohesive activity. That is why you will often hear high-tech executives enunciating the mantra: “All we have to do now is execute,” which seems so often a forlorn hope. Executing actions effectively – certainly one of the items in which tech companies frequently fall down – is only part of the challenge. What they are really saying is, “All we have to do now is get on the same page, so we agree on what action to take next.”

In reality, my experience of the enterprise software business during recent years is that misalignment has become a chronic disease, resulting from a dereliction of managerial duty by today’s CEOs and executive teams. Perhaps a softer way of putting it is that the distractions of the 1996-2000 gold-rush made some executives think that simple practices such as regular management team meetings were a luxury in times of precocious IPOs and rocketing valuations.

Optimizing Opportunities

“Opportunity rich, resource poor” is a reality in most high-tech ventures. On one hand, there is always a feeling that opportunity is abundant – otherwise how could high-tech companies get away with so much abuse of their customers, and still live to fight another day? On the other hand, precious resources – such as time, funding, and talented people – always seem to be relatively scarce, even in “resource-rich” organizations like Microsoft, Oracle, Cisco, and IBM. Even when people or funding are not the issue, time is, since time is probably the scarcest resource of all. This results in a constant feeling of crisis. How can we get the product to market in time if the R&D group is unable

to release the product for beta testing, or for packaging? And, even when we manage to launch the product, the first customers want to submit requests for at least five new or modified features.

Optimizing opportunity in the software business means determining which group of customers is ready to buy a product today, then designing the right offer for them. It also means recognizing customers who will not buy today, and taking their interest with a pinch of salt until such a time as you can see their behavior changing. Optimizing opportunity also means making the necessary choices about where to put your scarce resources today, without worrying about the markets you have no chance of conquering yet. In fact, insistence on paying equal attention to the latter can cause immense waste of resource investment.

3. Crossing the Chasm: Nailing the Second Bowling Pin Can be Harder Than the First!

When needing to “cross the chasm” from the early market to mainstream markets, most companies sooner or later recognize the need to focus on a target beachhead – though, as with personal diets, many don’t apply sufficient discipline to the task. Twelve or more months later, they may have managed to be among the small minority of companies who execute their strategy well enough to win a powerful position in the target segment, having scared off their main competitors. Companies like Documentum, Lawson Software, i2, and many others, have achieved this distinction in their primary categories when crossing the chasm.

Then comes the fatal mistake. After having exercised considerable self-discipline to prioritize their market strategy around where they knew they could play to win, then managing to execute it successfully and win dominant share – which we define as 40% or so of the target market – they declare victory in the Bowling Alley, figuring that they now have permission to go after several other desirable target markets simultaneously. In all probability they have signed deals with customers from some of these new market segments, and even more customers are asking them to bid for their business, because of the virtuous cycle of references favoring them in the marketplace. At this point, it feels like it’s time to loosen the straitjacket and broaden their focus; many of their sales people have been itching to compete more aggressively in the new markets, and they don’t see why they should continue to “lose” opportunities to their closest product competitors. Furthermore, Wall Street analysts and the VC investors on the Board are impatient to click into tornado mode using a mass-market approach and to stop “messing around” in niche markets.

During this heady phase, the company starts to discount the threat from its competitors and take its eye off the ball, in terms of market and customer focus. It isn’t long before competitors recover from the shock of having to concede the first market to the company, at which point they resort to keeping them hemmed in their niche. This is what happened in one or two famous cases, for example when, in response to SGI success in Hollywood post-production studios, HP and Sun managed to label SGI as a Hollywood lightweight, thus severely limiting SGI’s success with corporate America; earlier, in the 1980s, IBM and Microsoft had kept Apple hemmed in to its education and desktop graphics niche markets.

Looking at cases like these – and they are plentiful! – my observation is that the euphoria that affects a company’s mindset when it has tasted success in a targeted niche market looks a bit like the effect of heady success in tornado markets. Companies tend to forget “what brung ‘em here”, and decide to attack several ill-defined new market segments simultaneously. Unfortunately, in the bowling

alley this loss of focus can be disastrous. Slowly they begin to experience a lower success rate of sales in the new markets, and consequently sales revenues can quickly lose their predictability, eventually resulting in one or more disappointing quarters, followed in turn by a volatile stock price.

Becoming a Real Player – Stick to Your Bowling!

In these situations, strange as it may seem, the most effective strategy for leveraging the success gained from winning the head bowling pin involves making a similar, no less careful choice regarding the next market development move: in order to maximize the chances of success and minimize the risks described above, the main alternatives are either (a) to take a new “app” to the original target market, or (b) to market the same app to a new target segment. At all costs, at this stage companies should avoid tempting fate by, for example, marketing a *new* whole product to a completely *new* target segment.

Therefore, in order to consolidate Bowling Alley power, it is paramount to avoid adopting a “horizontal” approach. This is why I recommend a careful implementation of (a) and/or (b) above: in other words, set out to nail the second pin with equal or even greater discipline and focus than the first time around. By successfully marketing a second (then third) application, companies can expand their product “footprint” by linking sub-categories together under one umbrella theme, which in the future might become a super-category. Of course, if there are clear and present signs that a tornado wind is blowing (i.e., the category has become “investable” across many markets, there is at least one leading leader in the category, the category is on everyone’s lips, and so on), then companies are better advised to adopt a “horizontal” strategy in order to compete in as many geographies as possible and, to quote Al Davis, “Just ship, baby!”

Consolidate Your Bowling Alley Success to Become a Leading Candidate in the Tornado

By now, I hope it is clear that there are dangerous traps along the way between the head bowling pin and the “Eldorado” of the tornado. Among the counter-intuitive approaches executives need to bear in mind are these key items:

1. *Own up to the tangible application that made you successful in your beachhead*, even if it feels more tactical than strategic. This is probably one of several whole solutions that your original product could originate. For example, if you are Agile Software (subject of an article in [Under the Buzz, September 2001](#)), it is key to *own up* to the fact that the product you carefully positioned in the product collaboration category was in fact acquired by many enterprise customers to address a specific (though critical) broken process, in this case engineering change order management. Far from finding this to be insufficient testimony to the value of their product, Agile can leverage this success to the fullest extent, using it as a powerful indicator of the mission-critical results that their product functionality and services can produce for enterprise customers in other target markets.
2. *Start evangelizing your new super-category as a new strategic theme, but resist the temptation to think that the market will accept it as an “investable” category just yet*. Over time, as you establish your leadership in different target market initiatives, the market will respond to your claim to become a new “super-category” leader for the entire marketplace, provided that there are no direct rivals executing an identical strategy as effectively as your company. Categories that

- have attained the status of “super-categories” tend to incorporate many sub-categories, and include ERP, CRM, collaborative commerce, B2Bi, and so on.
3. *Take a second application to market, starting with your original target segment for application #1*, in order to demonstrate your ability to solve more than one critical business problem and be more than a one-product company. As soon as feasible, companies should parallel this move by targeting a new vertical market sub-segment, focusing on signing up with a different service partner that is intimate with both the new niche and customers’ compelling reason to buy. Succeeding with these two market penetration strategies will help to legitimize the new super-category as an “investable” category, and the company as a candidate to be leader of the new category.
 4. *Prepare to acquire or develop applications “#3 ... n”* to take to market successfully in order to strengthen your candidacy as leader of a mega-category you are espousing. For example, in the growing mega-category called CRM during 1999-2001, Siebel Systems became the leading vendor by acquiring its way to application number two – Scopus (customer care) – as well as number three - OnLink (sell-side e-commerce), and during a similar period, BEA extended its reach into the larger category of B2Bi by acquiring webLogic. Other companies, such as Oracle, prefer to develop new applications rather than acquire them, in order to extend their footprint. Sooner or later the market gets it, and acknowledges a given company’s right to be regarded one of the leaders, or even the gorilla in the category.

The main lesson of this article is that, if executive teams can remain focused on the Bowling Alley approach until they have conquered at least a second and third target segment with two or more different applications following this blueprint, they have a much greater chance to establish a position as one of the leaders in their chosen (mega-)category.

Under the Buzz offers a monthly commentary on developments in enterprise software and e-business. The goal is to provide provocative and accurate insights into the latest events and thinking shaping the rapidly evolving business-to-business marketplace. *Under the Buzz* also focuses on strategies for building sustainable competitive differentiation and maximizing market valuations.

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