Under the Buzz

Back to Basics in e-Business

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Tribute to a Beatle

As cited in the press in recent days, here are some of the lyrics from "Taxman", written for the Beatles in 1966 by George Harrison, who died on November 29. At the time Harrison wrote this song, the maximum income tax bracket in the "soak-the-rich" environment of socialist Britain was a staggering, brain drain-inducing 98%:

"Let me tell you how it will be
There's one for you, nineteen for me
'Cause I'm the taxman
Yeah, I'm the taxman

Should five percent appear too small
Be thankful I don't take it all …

(If you drive a car) I'll tax the street
(If you try to sit) I'll tax your seat
(If you get too cold) I'll tax the heat
(If you take a walk) I'll tax your feet …"

As familiar as this type of non-romance song lyric might seem today, thirty-five years ago it was still a relatively new phenomenon for popular singers to write irreverent, politicized commentary such as that in "Taxman". Among the prominent leaders of this sixties trend were Bob Dylan and the Beatles.

1. The Views of Warren Buffett on Investment vs. Speculation

I have yet to quote in this publication the thoughts of Warren Buffett, the highly respected investor and chairman of the Berkshire Hathaway investment firm. More than at any other time, in today's confusing investing environment, his strategies and knowledge have rapidly regained their earlier prominence following the recent internet/telecom-induced stock market meltdown. Buffett has a down-to-earth, contrarian style of thinking and speaking his mind that reduces complex topics to taut, precise truths, summarized in statements that really make anyone review their approach to investing. Two of his pronouncements during 2001 produced more of his trademarked notable thoughts, a few of which are reproduced below.

From Buffett's 2000 Annual Report to shareholders of Berkshire Hathaway, his investment company:-

On the distinction between investment and speculation:
"The line separating investment and speculation, which is never bright and clear, becomes blurred still further when most market participants have recently enjoyed triumphs. Nothing sedates rationality like large doses of effortless money. … normally sensible people drift into behavior akin to that of Cinderella at the ball … they hate to miss a single minute of what is a helluva party. There's a problem, though. They are dancing in a room in which the clocks have no hands."

On the internet bubble and investment bankers:
"The fact is that a bubble market has allowed the creation of bubble companies, entities designed more with an eye to making money off investors rather than for them. Too often, an IPO, not profits, was the primary goal of a company's promoters. At bottom, the "business model" for these companies has been the old fashioned chain letter, for which many fee-hungry investment bankers acted as eager postmen.
But a pin lies in wait for every bubble. And when the two eventually meet, a new wave of investors learns some very old lessons: First, many in Wall Street – a community in which quality control is not prized – will sell investors anything they will buy. Second, speculation is most dangerous when it looks easiest."

From an essay published in Fortune magazine on December 10, based on a July 2001 speech by Buffett to an audience of corporate executives at Allen & Co.'s annual Sun Valley Retreat:

On the tendency of investors to assess stock investments by "looking in the rear-view mirror":
"This is the one thing I can never understand. To refer to a personal taste of mine, I'm going to buy hamburgers the rest of my life. When hamburgers go down in price, we sing the "Hallelujah Chorus" in the Buffett household. When hamburgers go up, we weep. For most people, it's the same way with everything in life they will be buying – except stocks. When stocks go down and you can get more for your money, people don't like them any more. … That sort of behavior is especially puzzling when engaged in by pension fund managers, who by all rights should have the longest time horizons of any investors. Today stock market "hamburgers", so to speak, are cheaper. The country's economy has grown and stocks are lower, which means that investors are getting more for their money."

One of the best aspects of today's return to more sober times in stock market investing is that we all have a chance to reset the bar around the right basics for judging which companies to invest in. And, perhaps more than any other "expert", Warren Buffett provides a skeptical, but positive way of thinking one's way through the maze. This is especially valuable now, following a period in which various members of the capital-market establishment, in particular securities analysts and their employers, got very carried away (to say the least) with their stock recommendations.

2. Who is Your Competition?

Here is a short dissertation on a topic that certainly deserves its own chapter, or more. A recent note in a December 7 AMR Alert titled "Who is Your Competition?" and authored by John Bermudez, analyst at the research firm, made me think of aspects that technology vendors might consider in order to address this question in a realistic, well thought-out manner. This could be equally applied to their sales interactions with prospects and customers, as well as to presentations to analysts, journalists and other third parties. In his short article, Bermudez pokes fun at CEOs of software startups and other smaller vendors for two of their typical responses. First, when asked about their direct product competitors, they tend to say "but we never see them in deals"; Bermudez' comment to this is: "since both of them are so small, it's like two needles in a haystack finding each other". Secondly, when asked about competition from larger software vendors, such as SAP, Oracle, and Siebel, these CEOs will almost always dismiss larger vendors by saying a variation of "No, they can't do what we do"; Bermudez' comment to this, paraphrased by me, is "by not taking on the big vendors directly, small vendors forget the mindshare that big vendors have with the same prospects" (and thus fail to recognize the real threat they pose, as well as the positive aspects for the smaller company of being associated with a more prominent category). My intention in this section is just to touch on a few key aspects of competitive positioning, and register warnings about the dangers of not handling competitive threats effectively.

Despite a natural desire on the part of all companies for competition to somehow not exist, it is of course an essential ingredient in the development of any healthy, vibrant market. In first place, the existence of several competing players helps to validate the demand for goods and services among a group of customers; second, it provides a bar for companies to perform to; and, third, it serves to keep every player in the category honest by establishing performance and functionality standards, which stimulates the virtuous cycle of increasing demand – because it is a critical component of satisfactory customer-to-vendor relationships.

I have itemized below six types of competitive threat faced by software and systems vendors when attempting to do business with enterprise customers. The first five on the list are competitive threats about which companies should obtain maximum intelligence as they get to know the prospective customer. These threats should definitely be respected, though not feared by those who are in a position to offer competitor number six, the whole product. And, the only situation in which a whole product provider should consider backing out from a market is if they discover a competing vendor who is already entrenched in the target segment, obtaining a lion's share of the business. If, on the other hand, you are one of the majority of vendors not able to provide a complete solution (consisting of core product, complementary products, and complementary services) to the customer's business problem, you should expect to find yourself engaging in hand-to-hand combat with vendors from your category as well as neighboring categories - and may the best man/woman win! Here is my list of competitive threats:

- *Workarounds and status quo solutions*: In many cases, the principal competition you will face comes from the willingness of pragmatic or conservative customers to continue improvising their way to solving everyday business problems, using a mix of existing manual methods and automated systems, and thus delay or even avoid altogether buying your new technology. And, although customers are usually not shy about describing how they cope with their existing systems, many vendors are so focused on selling their technology that they don't ask the questions, or listen to the answers. Warning: ignore these obstacles at your peril; just because it makes rational sense to you, the vendor, to swap the old for your bright new bells and whistles, don't assume that your prospect feels the same.

- *Existing "legacy" systems*: In today's world these are typically desktop, client/server, or even mainframe-based systems still in place, which the customer may well have gotten used to, despite their possible inefficiencies. A key deterrent to change may be the various costs of switching to any new system, including training and support. Just because you are selling a jazzy new internet system that can out-perform the incumbent system on functionality, ease of use, and speed of implementation, does not mean the customer will feel sufficiently motivated to buy your (type of) product. Warning: Most customers still need a convincing argument to "fix it", even if you seek to convince them that their existing system is broken!

- *Point product competition*: This is usually the default option that product vendors focus on, especially if they are technology-focused. Among other factors, vendors tend to be on the lookout for this "enemy" from the outset, and have their sales reps trained to wage an effective feature/function war. Prospects tend to bait vendors with questions such as "So, what are the main differences between your product and the other twenty point products we are looking at – which, by the way, are all claiming to do the same things?" Warning: Focus on this obstacle too much, and you could be failing to spot the real opposition.

- *Competition from a neighboring category*: Another frequent threat is the product that might *sound* to the prospect as if it performs the same essential functions as yours, though you know that its functionality or platform-dependency is quite different – so, of course, you tell the prospect this. Often, customers will still take their calls and keep evaluating their proposition, which can be infuriating to those vendors who are focused on the rational merits of their feature set or platform against competing categories. Not surprisingly, competing vendors want to stay in the running and will therefore claim to have similar or "equivalent" functionality. Sometimes this claim is valid, other times it is preposterous. But it is still a real threat in many situations, often because most customers, not being at all interested in technical features, get so confused by the claims of similar-looking products, that they give up trying to assess relative merits on a feature-for-feature basis. Examples abound in today's market: direct-materials procurement vs. indirect-materials procurement (MRO, etc.); helpdesk vs. call center software; internet-based vs. client/server internet-enabled products; or, 2D CAD vs. 3D solid modeling software. The fact is that competition from neighboring categories can muddy the water or, worse, result in lost deals (either lost to a vendor from the competing category, or deferred indefinitely by a frustrated customer). Warning: Avoid harping on this competitor's lack of *identical* functionality or platform. They could still take the business away from you, perhaps by emphasizing other aspects such as price (the most common tactic), service commitments, sales expertise, or familiarity with the customer.

- *Competition from a larger category*: This is where, for example, an ERP vendor will compete in a deal against a vendor of collaborative sourcing software vendors, claiming that the sourcing application is (or will soon be) a feature or module in their suite. They will also make the well-worn "one-stop shopping"" argument in order to end-run the point solution vendor.

As implied by John Bermudez in the AMR Alert article, if you are the point solution vendor in this equation, your tendency in the face of this opposition is to expend great energy claiming that the ERP “invader” doesn’t offer the specific functionality that they do (possibly true, but very likely missing the point). Warning: Don’t under-estimate the other factors that make this player a threat, such as incumbency in the account, presence in the market, or even financial success and size.

- *Whole product solution competition*: If you have a bona-fide whole product solution to the customer’s compelling problem, this is probably the only competitor you need to fear. The others can all be vanquished at some point in the sales cycle. Having said that, it is not common to find another technology vendor that has already (a) focused on the same target customer as you, (b), in particular, accurately identified a compelling reason to buy and, (c) taken the trouble to design and put together the complete set of products and services required to solve the problem. If, however, you discover that the opposite is true, you have one choice – stay and compete (if they are not yet a dominant player), or get the hell out of this market and go find another likely target where there is no such opposition. Warning: This is the one opponent to take very seriously, especially if they have already obtained leading or dominant share in your target market segment.

Having said all this, most enterprise software vendors operate in less-than saturated markets where, strange as it may seem, the competition to be most feared is often themselves - in particular, their inability or unwillingness to spend the time necessary to identify a compelling reason why any customer should choose (a) their type of product, and (b) their specific offer.

4. More on the Future of High-Tech in the Post-9.11 World

Below is an interesting and well thought-out letter from a reader, Thomas McLaughlin, referencing my article in October’s issue of this publication titled “The Events that Changed the World – and the Future of High-Tech”. My impression is that Mr. McLaughlin has very succinctly summarized some key changes that we can expect during coming weeks and months, providing exciting opportunities for technology companies:

> “Mr. Lay,
>
> I read with interest your October "Under the Buzz" thoughts regarding the consequences of September 11 for US policy and government, international banking, and technology companies. I believe that these consequences, though not yet obvious, will be massive and will directly affect your clients.
>
> This is because the 9/11 attack upon both the US military command center and the world's financial center irrevocably changed the west's views on the relative importance of order and freedom. To the extent that globalization enables terrorism and furthers interstate anarchy, we will see a rapid deceleration of the last decade's trends toward greater openness in trade and information flows.
>
> I believe that we will see security and order become defining concerns in most areas of political, economic and social life. I would trace this impact by moving from the international to the private, domestic realm, as follows:

* International relations will be construed as a conflict between orderly nations--those where government maintains order, governs effectively, and generally maintains peaceful relations with neighboring states--and anarchic nations in which the state fails to achieve one or more of the above. Order, rather than democracy or human rights, will become the guiding principle of US policy and policy for other states as well.

* Nations will increasingly tend to align themselves with the forces of order and stability or else find their influence rapidly diminished. For example, Putin has acted swiftly and skillfully to move into the Orderly camp and will reap substantial benefits; China and Saudi Arabia have hestitated to embrace the emerging orderly group and will lose greatly. Trade with "orderly" nations will increase; trade with "less-orderly" nations will decrease or increase at rates slower than trade with orderly nations.

* Domestically, security will trump other ideological policy concerns--note the Bush administration's quick turnabout from its original opposition to a federal role in airline security. The Bush Administration will likely continue to expand the government's role in any area of economic life that touches upon security—i.e., most areas. Government will become one of, if not the, key driver in information technology priorities and purchasing.

* Related to the above, current and future US governments will accept major compromises in areas such as monopoly enforcement (cf the Microsoft case developments) and civil liberties.

* Firewalls, data security and storage will become predominant concerns for corporate IT departments. Videoconferencing will grow rapidly and achieve broad acceptance among corporate consumers.

* Consumers will become more reluctant to release account and other personal information over the web. Governments will impose further obstacles to access and use of such information by banks and e-commerce companies."

Under the Buzz offers a monthly commentary on the business-to-business e-commerce sector. 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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