

# Under the Buzz

## “B2B x2” – *Back to Basics* in B2B Markets

February 2001 - Vol. 2, Number 2

*Under the Buzz* is an electronic “viewletter” authored by Philip Lay, managing director at the Chasm Group, a Silicon Valley strategy consulting firm. It is published each month, and delivered free to subscribers via e-mail. It is also posted on the Chasm Group website at: <http://www.chasmgroup.com>. Back issues can be downloaded from the site at: [http://www.chasmgroup.com/underthebuzz\\_archives.htm](http://www.chasmgroup.com/underthebuzz_archives.htm).

In this month’s issue:

1. **Back to Basics: Surviving the Ten Traps of Early Market Selling (Part I)**
2. **Key Fallacies about the SME Marketplace**
3. **Of RIF Plans and Re-Invention: B2B Companies Under Pressure**
4. **Finally, Collaboration Gets Hot!**

By receiving this issue directly from me, you are already on the distribution list. To unsubscribe, send a blank e-mail to: [unsubscribebuzz@chasmgroup.com](mailto:unsubscribebuzz@chasmgroup.com)

Please feel free to send this to your colleagues and associates. They can get on the distribution list by entering their email address at <http://www.chasmgroup.com/subscribe.htm>

### **1. Back to Basics: Surviving the Ten Traps of Early Market Selling (Part I)**

In December’s edition of *Under the Buzz* (vol.1, no.8: “LifeCycle-based Enterprise Sales: The Key to Crossing the Chasm”), I made brief references to sales strategies for the Early Market, while focusing attention on strategies for crossing the Chasm. Executives and VCs among our readers responded that the topic of enterprise sales was indeed timely, and many welcomed the guidance offered. In parallel, at the Net Market Makers Ground Zero 4 conference panel I hosted in early December, enterprise sales was a key concern on the minds of panelists and audience members alike. Even though some product categories appear to have passed beyond the stage of gestation that the early market represents, many categories appear still to be experiencing early adoption: in fact, while many B2B companies – especially erstwhile net marketplaces - re-purpose their businesses (see section 3 of this edition), new categories of offerings continue to emerge, including e-finance services, supply chain visibility/execution, and collaborative commerce solutions (section 4 of this issue). And, even companies in categories that may be starting to move across the chasm still need to tackle the “big, hairy audacious projects” of their visionary customers more effectively.

#### **Early Market Adoption Dynamics and Ten Key Traps to Avoid**

It is frequently stated that, in order to establish the value proposition of a new technology, the early market phase requires a simple strategy: “just go get a customer”. Reinforcing this approach, our firm emphasizes that the core market development strategy at this point is indeed “deal-driven”. So, what’s the problem? If you have a sufficiently attractive – and discontinuous – innovation to bring to the table, surely it is indeed a question of “just” going out and closing a deal with a willing customer. Well, not so fast. In my own personal experience running software companies, I experienced significant difficulties to make this strategy work, and in my consulting practice I see companies flounder every day in early market customer engagement. Hence,

success in the Early Market is far from being a trivial feat. Therefore, I want to examine in some detail the principal traps and how companies can avoid them. At least ten potentially critical dangers lie in wait for unsuspecting companies, the first five of which I shall address here:

- 1. Ignoring the key goals of Early Market sales:** Companies tend to act as if this is a time to sell to as many customers as possible, in order to build a reference list that will impress later adopters. Unfortunately, by treating all comers as “early adopters”, they often end up with the worst possible compromise: they get involved in extended sales cycles with mainly hesitant customers who end up requesting custom enhancements in return for small “pilot” contracts that take ages to close. In those cases where companies do attract a bona-fide visionary customer, they are often unsure how to manage the opportunity. Thus, they jump through technical hoops to satisfy the customer’s aggressive requirements, but fail to get compensated for the value they deliver. Assuming for a moment that your company does have a valid Early Market proposition – ie, a discontinuous innovation that promises to enable business in a significantly new way – then the main objectives are to prove (a) that the new category is indeed a hot one, and (b) that you are a player with leadership potential. The best way of achieving these goals is to find a few big company-making deals with visible customers who are willing to take a risk on your technology because they believe it can garner for them a real and dramatic competitive advantage. CommerceOne’s deal with General Motors in late 1999 to build an online e-procurement marketplace was a good example of how to do this. On the day the deal was announced, the company’s stock price registered a significant uptick and it emerged as a leading players in e-procurement alongside Ariba.
- 2. Not understanding the psychographics you are dealing with:** The early market has two distinct constituencies, each of which is quite different in turn from the other three (pragmatists, conservatives, and skeptics). While technology enthusiasts are technology-focused, visionaries are business-focused. More important, they are critical partners in the early market “buyer alliance” required to make anything of significance happen: techies need the funding provided by empowered visionaries to implement the new technologies in a true, industry-shaping project, while visionaries rely on techies to tell them whether or not the new technology has a chance of actually working in a live setting. Thus, while visionaries may not actually care two hoots about technology per se, or they may not really understand its intrinsic characteristics, they do have a keen awareness of its relevance to their business objectives. Unfortunately, in their anxiety to find acceptance for their “new new thing”, companies confuse pragmatists with these two groups, resulting in missed opportunities – perhaps the worst of which is the sin of giving too much away for free, because visionaries are results-sensitive, but *not* price-sensitive.
- 3. Employing ineffective qualification (i.e., segmentation) criteria:** Many companies fail to recognize that Early Market selling, in common with later stages in the Life Cycle, does require a segmentation strategy – though quite a counter-intuitive one. As a result, they spend precious energy selling to the wrong target customers. For example, in the Bowling Alley you segment for pragmatist managers in self-referencing groups (such as micro-niches of vertical markets), whereas in the tornado you segment for anyone ready to make a quick purchase decision for maximum volume, and on Main Street you segment for end users in selected niche markets whose needs and preferences you can serve effectively. In contrast, during the Early Market stage, when all constituencies except for the small number of techies and visionary executives automatically disqualify themselves from buying the new new thing, vendors must segment *ruthlessly* for visionary executives in visible organizations.

4. **Asking the wrong people in your organization to find and close the first few deals:** In most cases, assigning your entire sales force, large or small, to the task of finding and closing big deals with visionaries is asking for trouble. In order to engage with executives in such organizations, your best resources must be actively engaged. After all, these are the defining projects that will establish your company in the new category, so they are core for the company. The basic model for this in a young B2B company is an evangelistic “sales team” led by the CEO and CTO, supported wherever possible by a cadre of evangelist sales, technology and domain professionals. Though not entirely unlike the SWAT group which is appropriate for the Bowling Alley, this teaming model tends to be more of a virtual team, consisting of the key partners in the project: (i) the visionary customer, (ii) the technology company, and (iii) the senior service firm.
  
5. **Not knowing where to find likely visionary buyers:** One of the main problems associated with selling to techies and visionaries is that there’s no way of telling from their business card or job title what their IT adoption behavior is. Worse still they tend not to congregate in herds, so it’s difficult to find groups of them. Fortunately, however, visionaries tend to leave a trail – there aren’t many of them and they usually have a track record (of sorts). While visionary individuals quickly make a name for themselves and (unlike company owners such as Michael Dell) often move from one company to another, companies stay in one place and, in general, they fall into one of two categories: large Global 2000 organizations, or fast-growing companies, often in new-ish industries (e.g., wireless telecommunications). One of the best ways of identifying them is the combined personal networks of any management team, as well as in publications that detail their successful and unsuccessful projects. After a short brainstorm session, you can usually draw up a list of twenty or more “suspects”, and this is as good a place as any to start.

The five points above deal mainly with understanding what the early market stage is really about, and how to identify and connect with visionary buyers. The last five dangers relate to how to successfully engage with bona-fide visionaries, and determine when to move to the next stage in the Life Cycle. Here is the complete list of ten traps, the last five (in bold) to be addressed later:

### **The Ten Dangers of Early Market Selling**

1. Ignoring the key goals of Early Market sales
2. Not understanding the psychographics you are dealing with
3. Employing ineffective qualification (ie, segmentation) criteria
4. Asking the wrong people in your organization to find and close the first few deals
5. Not knowing where to find likely visionary buyers
6. **Failing to align with the visionary’s goals and requirements**
7. **Mistaking “pragmatists in drag” for visionaries**
8. **Not charging for custom R&D and/or implementation services**
9. **Structuring each deal as a product sale rather than a “whole project”**
10. **Failing to see when/how to cross the chasm (and avoid the plunge!)**

For readers whose business is currently in the early market stage, I encourage you to measure your progress in avoiding the traps we have described here, by analyzing each significant sale closed to date, as well as those currently in the pipeline. If you have fallen into one of these traps, I strongly recommend that you debate this issue with your colleagues, because every mistake made here can cost you dearly. For readers whose business is not currently in this adoption stage, consider the contrast between the dynamics of the early market and the stage you believe your business is in. This will help you to distinguish between the appropriate strategies for each stage.

## 2. Key Fallacies about the SME Marketplace

Remember when the client/server ERP tornado among Global 2000 enterprise customers had abated, and the main application vendors all talked of leading the charge to the “mid-size market”? That was way back in 1996-97, when SAP, then Oracle, then Peoplesoft, then Baan, then everyone else, all hyped their plans to conquer this elusive market and thus sustain their 40%+ annual sales growth. Shortly thereafter, the market caps of all these companies hit turbulence of a different nature, most spectacularly those of Peoplesoft and Baan, which had started out as naturals for mid-sized organizations, then had managed to gain a reasonable share of business among larger organizations.

Well, that promised new tornado never fulfilled itself. As an ERP sales driver, the Y2K problem, much against expectations, petered out early, severely penalizing the market caps of every player in the category. Perhaps not so clearly signposted was the failure of client/server ERP solutions to really take hold among mid-sized corporations – many of which had already invested in earlier mini-computer versions of MRPII software marketed by DEC, HP, and others. Later, as excitement began to increase around the web-based technologies – aimed first at B2C, then at B2B – ERP application companies spent time reworking their offers for the net, and readjusting their organizations for the new economy. Oracle was a single exception to the rule, managing to become an early player in the first major B2B application, e-procurement.

Unfortunately, however, the Netscape model for “extreme” marketing became rapidly institutionalized, aided by the consumer marketing, branding and advertising types who flocked to the new paradigm. As we now know, with few exceptions B2C failed to attract consumers to do anything commercially meaningful on the web. Subsequently, many B2B marketers decided that the established approach of “ubiquity first, revenues second” should be targeted at the SME (Small & Medium Enterprise) marketplace. Many vendors saw that smaller companies had not widely adopted client-server applications, and decided that now was the time that they would. Their conviction was perhaps buttressed by the assumption that the new ASP model, which didn’t require companies to make lengthy up-front investments in back-office applications, would make it easy to reap the benefit without suffering the costs.

My concern with this approach was this: as a general rule, neither consumers nor small & medium enterprises initiate or fund real innovation. Despite the apparent ease of adopting a web-based ASP proposition, asking people to change the platform on which they operate is far more disruptive than technology companies like to think it is. This is why, among the many segmentation criteria that can be useful, I favor these four criteria for early-market segmentation, in the search for customers who are prepared to be the first “serious” adopters of a new paradigm:

- Adoption style: Visionaries, supported by technology enthusiasts.
- Organization size: Large organizations – the Global 2000 are generally a good place to start, but selected federal and state government agencies may also fit this category.
- Business growth rate: Companies in fast-growing industries, or individual companies in mature industries who routinely manage to grow faster than their closest competitors (Charles Schwab, GE, Fedex, Dell Computer, etc.).
- IT-centricity: Companies whose business *depends* on effective use of information technology should also be hot suspects to adopt compelling early-market offers.

Aside from the dimension of size and the dynamics of rapid growth, mid-sized and smaller companies often lack “big enough” problems (ie, problems that can only be solved by IT automation). Furthermore, if you think about it, there may be a reason that they are members of the “SME” gang and not the Global 2000 gang: i.e., they don’t think big in ways that lead to big-time IT adoption. Thus it may not be too far-fetched to suggest that small and medium-sized organizations, in general, are not among the first to adopt brand-new technologies: rather, they wait to see what larger, more visible companies do, then take their time to follow suit. In other words, purely terms of size - factoring out individual adoption styles, company growth dynamics, and IT-centricity - the likely adoption behavior of organizations tends to follow this sequence: startup companies introduce innovative technologies, visionary Global 2000 corporations (and selected government organizations) fund them via adoption for their competitive advantage, then pragmatists in the same organizations jump on the bandwagon; finally, mid-sized companies join in, possibly followed by smaller companies.

### **3. Of RIF Plans and Re-Invention: B2B Companies Under Pressure**

What a difference a year makes! Remember the *irrational exuberance* of last spring that so concerned Alan Greenspan, president of the economy? Well, now investors and VCs are indulging in a new extreme behavior: *unreasonable despair*. Perhaps symptomatic of the malaise currently afflicting California in its new status as beneficiary of third world aid (thanks to Mexico, the state may avoid the worst of the power crisis), many B2B company board meetings now focus on measures aimed at cutting these young organizations down to a smaller size, while simultaneously seeking to re-model the business. Historians point to this particular feast-or-famine mindset as a leftover from the Gold Rush of 150 years ago. How can things have swung so far to the other extreme? To be sure, far too many lousy business models and marketing plans got funded during the past two-three years, so something had to give. But what about the companies that have begun to build some value, and hope to succeed one day?

Understandably, many VC board members are concerned about their B2B portfolios. One of the questions in their minds is: “Now that I have seen many (if not most) of my internet investments blow up, which one(s) will be the one-in-ten left standing and able to produce the spectacular returns I promised my investors?” The picture has changed so rapidly that, from being the kings of the world of a year ago, many VCs are now in extreme damage-control mode. Not surprisingly, they need to share the stress they are feeling with the executives and employees in their portfolio companies, in an attempt to fix the problem.

Thus, the first question on the agenda at board meetings today is frequently “Well, what’s the RIF plan?” In other words, “What plan do you have to reduce your burn rate and especially, how much of your payroll are you going to cut?” This is the aspect I want to talk about, because among the many moves in this direction, there are bound to be casualties. In particular, as a member of this high-tech community, I am concerned that a too-hasty reaction can be costly for the future development of these businesses. Secondly, as an investor in a number of B2B companies, I fear an irreparable loss of shareholder value. So, I want to take a look at the reasons for the trimming, and then point out how we can avoid killing the patient with too much medicine. Let’s start by agreeing that there are at least four sound reasons for B2B company boards and management teams to trim their workforces – remembering that never before have so many startups come into being in such a frenzy of inorganic growth:

1. **Wrong fit:** This criterion suggests that over time one or more of the people hired earlier in the company's formation haven't found a productive role in the organization. They may be out of tune with what the company needs, or lack the appropriate attitude, talent, or level of effort.

2. **Changing strategy:** This refers to significant changes in the company's business purpose or organizational structure, resulting in different skillsets being required in the executive ranks, or in functional areas such as sales, marketing, development, consulting, or support.

3. **Healthy diet:** This criterion refers to the need for the company to decelerate its growth and burn rate, either because of a cool-down in the economical outlook, or because some fat has naturally been accumulated, resulting in investments and expenses that can't be justified.

4. **Serious trouble:** This problem occurs when the board and executive team recognize finally that the business is in serious trouble, the expected next round of funding (whether private, or via IPO or secondary offering) is not forthcoming, cash is running out, and sales will not take off sufficiently to pay operating expenses and investments within the required timeframe.

Heated emotions notwithstanding, no one can argue for too long against reason. Thus, where cuts are warranted for one or more of these motives, they can be administered with relative ease. However, one of the most frequent problems is when the reasons are somehow "fudged" or otherwise mis-communicated. This generally occurs when the company is in a state of advanced confusion (common in these cases), where management lacks courage to face the facts early or lacks the skill and thoughtfulness to communicate them clearly. Thus, a perfectly competent professional or manager can harbor longstanding resentment over thinking they were let go for "incompetence", when in reality the cut occurred for strictly "dietary" or strategic reasons. At the end of the day, the biggest and most frequent cost is to all-around morale, which rapidly produces a political atmosphere in the organization. This in turn results in lost productivity. If there is one thing a young company can do without, it is politics, because every moment spent fighting for political survival is time lost pursuing the company's basic mission: to find and serve customers.

This is where I think high-tech boards are extremely lacking: the haste and carelessness with which these important and responsible decisions are made and administered is, frankly, shocking. At these times, CEOs and their teams come under almost intolerable pressure. On one hand, are the VCs on the board, among whom (if the CEO is fortunate) will be the experienced head from one firm who has seen it all before, in addition to the thirty-five year old who has never seen a downturn and thought that venture funding was a one-way fun ride. This second one is the danger. If they are more vocal than the older colleague, woe betide the management team! For example, the CEO of a growing, viable marketplace company I know is regularly asked by the Board to demonstrate how the company is building tangible value in several directions at once: gaining industry/customer acceptance, establishing operating leverage on the P&L statement, identifying new business opportunities, and conserving cash to extend until the (distant) next round of funding. To protect companies against the worst excesses of those investors whose motivation was strictly financial gain as fast as possible, if you have truly strategic investors on your board, I urge you to make sure they speak up. Otherwise, cuts can be too hasty, and can even set the company back hazardously.

On the other hand, in today's more hesitant investment climate, it is valid to question the "value created" by many B2B companies. In fact, they need to understand that investors will disregard doubtful-sounding claims of value created, just because a certain amount of money has been sunk into the company.

#### **4. Finally, Collaboration Gets Hot!**

As described in the January 26 edition of U.S. Bancorp Piper Jaffray's weekly email newsletter, "B2B Analyst", collaboration products and services seem at last to be receiving their due attention in the marketplace. In section III, "Returning to Its Roots: The Collaborative Internet", authors Jon Ekoniak and Tim Klein discuss the origins of the internet as a collaborative tool for academics to share ideas and projects, followed by the first days of excitement around helping customers to build "better web sites and engines to facilitate online transactions with the goal of driving revenue". They go on to observe:

*"Pure collaboration for the sake of finding a better way to do things was left behind the glittering lights of new ways to sell pet supplies and distribute free information. Infrastructure software sales for these initiatives came easy, and no one wanted to be left behind. .... We believe that this landscape has changes and a crisp, clear value proposition is now required to win allocations in IT budgets. ... The recent re-emergence of collaboration across the value chain has taken the spotlight as demand is rising for solutions geared to drive expansive cost savings through process improvement and streamlined operations."*

Ekoniak and Klein then quote as early evidence of this trend the recent strong sales growth of three companies that offer collaborative solutions: MatrixOne (design collaboration), Clear Commerce (channel management and collaboration) and i2 (supply chain collaboration). Although it is my belief that more complete evidence is required before this new trend can be confirmed, Ariba's acquisition of Agile Software (collaborative manufacturing) goes some way to further validate this trend. Also, the experience of some other companies illustrates a similar trend: Exterprise (collaborative commerce platform)\*, BlackHog (collaborative direct procurement), and others, are all experiencing early success with customers who are at last making significant investments in collaborative solutions. True, the first major B2B application that attracted serious investments from Global 2000 and mid-sized companies has been e-procurement, which started with MRO-type projects. Ariba, CommerceOne, Oracle and PurchasePro have all done quite well in marketing this application. But it is now refreshing to see investments moving toward a more ambitious and mission-critical focus. We shall continue to track and report on this growing trend.

*\* Clarification: The author currently provides strategic advice to this company, a current client of The Chasm Group.*

---

#### ***In upcoming issues:***

- Back to Basics: Surviving the Ten Dangers of Early Market Selling: Part II
- Successful Enterprise Sales in a B2B Infrastructure Business (Case Study)
- Revisiting the Five B2C "Poster Children": Amazon, AOL, eBay, Priceline and Yahoo
- Back to Basics: Where is Your Category in the Adoption Life Cycle?
- What ASPs Really Are: The Category Starts Clarifying Itself
- International Operations for Fast-Growing Startups: When and How to Expand Overseas

*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* will focus on strategies for building sustainable competitive differentiation.

