Under the Buzz

"B2B x2" – *Back to Basics* in e-Business Markets

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In this month's issue:

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1. TIBCO Software: One B2B Model for Successful Enterprise Sales

Earlier this month I met with Frank Bergandi, worldwide head of sales and field operations for TIBCO Software, of Palo Alto. My reasons for arranging this meeting were twofold: (a) in past editions of *Under the Buzz*, I have commented extensively on the general need for B2B companies to adopt a more effective enterprise sales approach, (b) as e-markets morph themselves into software companies, joining the existing participants, there's nothing more beneficial than to witness one company's success, providing a benchmark for others to emulate - or improve on.

Although Bergandi and I started with differing perceptions of the market's current adoption behavior vis-à-vis B2B application integration infrastructure products – he believes adoption is already becoming mainstream, while my perception is that the chasm is just now being crossed - TIBCO's customer engagement approach to date appears sound and well executed. In case you have not noticed, despite being somewhat of a stealth marketer, TIBCO has become a serious player in e-business application integration (reaching sales of over $250m in FY2000).

As you read through the reasons cited by Bergandi for the company's recent and growing success, you may get the impression that he knows what he is talking about. In fact, Bergandi's sales management philosophies and practices were honed during highly successful stints with Cullinet and Informix, two former leading players in mainframe and client/server data base software – categories which he has always identified "infrastructure" businesses.

Highlights of the interview

Product category: What category – or categories - does TIBCO play in? Bergandi's reply: "Infrastructure resource management for B2B, or 'B-to-whatever-you-want-it-to-B' infrastructure". These days, it is most commonly referred to as 'B2Bi', or 'EAI for B2B apps.'

Placement in the adoption life cycle: Based on our short discussion of this point, my sense is that B2Bi seems to be entering the bowling alley stage of adoption among large enterprise customers. The main vendors, including BEA, Vitria, webMethods, and SeeBeyond, are clearly focused on staking out their positions in key markets, in a race to become gorilla candidates for the eventual mass market hyper-growth phase that may come when larger numbers of customer enterprises embark on mission-critical application integration, and e-business moves mainstream.

Target markets: What markets has TIBCO targeted to gain significant traction in? Bergandi states that TIBCO has established a strong presence within financial services (Goldman, Sachs, Fidelity, and others), semiconductors and high-tech manufacturing (Cisco, Gateway, Motorola, Hitachi), energy (Enron, Dynegy, Shell Services, Reliant), telco (AT&T, MCI, Concert, Qwest, Sprint, Deutsche Telekom), and emerging verticals such as transportation, logistics and retail. My comment is that the next step for leading companies is to establish dominant share in one or more target sub-segments. While TIBCO has garnered an impressive list of customers in the markets mentioned above, other B2Bi vendors might claim a similar list of scalps. No single player, however, has yet become the de facto number one gorilla candidate. And, although the largest current vendor, BEA, appears to have its own claims, TIBCO would tell you that they rarely see BEA in competitive deals. To me, this indicates that no B2Bi vendor is yet able to address the entire market via product offerings or sales coverage.

Sales strategy to penetrate target market organizations: How has TIBCO managed to close significant deals with large enterprises? Bergandi states that early on, TIBCO focused on selling to the CxO level, tapping in to their customer's vision for what they were trying to accomplish with their e-business projects, and focusing on providing the requisite level of assurance in facilitating integration between ERP/CRM systems the new internet-based applications. He cited cases such as Goldman Sachs and Enron to illustrate this point.

Sales organization: In early 1998, when TIBCO started to build its sales organization beyond its base and two other offices in New York and London, the key issue Bergandi faced was where to put the next sales offices. Almost three years later, TIBCO is opening its forty-sixth office. From four sales reps, the organization has grown to 130, and the main sales locations – having started in most cases with just one sales rep – now have anywhere from 15-25 people.

Hiring and organizational ramp-up: Instead of hiring top-down, Bergandi decided to give experienced sales reps the opportunity to build their business, then get promoted to regional VP, thus making his key sales players responsible for building out their own teams. In the early days, he focused on building geographical coverage in regions where TIBCO had prospective customers. Then he hired heavy-hitters from Oracle, Sybase, Informix, SAP, and similar companies, taking advantage of his past experience and contacts. Once successful at TIBCO, they may get an opportunity to build their teams "in their own image". Bergandi compares this approach to the one he has seen many competitors adopt – in which they start by hiring RVP's, then ask *them* to bring in teams of district managers and sales reps.

Leadership style for enterprise sales challenges: The risk he sees with this model is that companies risk not hiring the right people for the selling task when their business needs to change in response to market requirements. Worse still, from my own experience with client and other organizations, is the tendency for the VP of sales to focus on their "executive management" responsibilities, and forget to "lead from the front" (ie, be active in bringing along sales deals). Instead, Bergandi saw his role from the start as branch manager, needing to stay close to the field, and either active or accessible in all key sales situations.

Enterprise sales cycle: Bergandi described his view of how different today's enterprise sales cycle looks, as compared with the data base market of five years ago. There is a very clear tendency for large companies to do deals that incorporate the phase one pilot implementation, followed by the corporate-wide rollout. One big change is that, whereas in the "old" days a six-month sales cycle was heavily weighted toward the qualification to selection phases, with relatively rapid negotiation phases to close out the process, today the trend appears to favor *much shorter* qualification to vendor selection and *much longer* negotiation. Many more sign-offs are required to approve corporate rollouts, and customer executives have become proficient at applying commercial and other pressures to competing vendors prior to signing any contract.

Pricing and revenue generation model: In general, TIBCO has stuck with a basic license model, accompanied by implementation service fees. Customers, it seems, are not as excited about subscription or transaction pricing models as was once anticipated. In fact, Bergandi believes that this strategy has provided TIBCO with a competitive edge when faced by competitors whose elaborate pricing models have tended to complicate customer decisions and make revenue recognition very tricky.

Meeting organizational growth challenges: Bergandi commented that today's fast-moving marketplace demands that TIBCO be able to assimilate people rapidly, and this aspect also factors into his ongoing hiring strategy for the field organization. One implication is that he continues to hire people who can deal with the ambiguity and change inherent in TIBCO's ongoing growth.

Advice: Bergandi had just two points to emphasize, by way of advice to others: (i) *really* understand your value proposition, or find partners to help you build a complete solution*, and (ii) partner early on with key systems integration firms, who see internet application integration as a huge opportunity for their services.

* Though not specifically discussed here, TIBCO has had considerable success in embedding its products inside the solutions of companies such as Cisco, Yahoo, and Ariba.

2. Back to Basics: Surviving the Ten Traps of Early Market Selling (Part II)

In February's edition I described the first five of the ten mistakes that companies most often make in engaging with customers during the Early Market stage. In this issue, I shall round out this list, with the second group of five most frequent missteps. In particular, these words are directed to players in new-ish categories such as e-finance services; supply chain visibility, execution, and analytics; collaborative commerce and collaborative direct procurement; asset management and enterprise performance optimization (EPO). As we have said before, categories like these that may soon be moving to the next stage of adoption still need to tackle the "big, hairy audacious projects" of their visionary customers more effectively, while preparing their chasm-crossing strategies.

As a reminder, below is the complete list of ten traps, the first five of which we addressed in last month's edition. The last five traps (in **bold**) are addressed in detail in this issue. Whereas the first five points dealt 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 companies fail to successfully engage with bona-fide visionaries, and experience difficulties in determining why and when to move to the next stage in the adoption life cycle. Should you notice any repeated statements in relation to last issue's first five traps, please treat this as reinforcement.

First Five Early Market Traps (addressed in last edition)

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

Last Five Early Market Traps

6. **Failing to align with the visionary's goals and requirements:** From the time you first hit it off with a true visionary buyer, you must do everything possible to fit in with their vision – because they always have a project in mind before you came along - whether it be a plan to change the ground-rules in their industry, gain a defensible leap in market share, or revolutionize some business process. Strangely enough, the worst possible mistake is to act like a typical product vendor, because the one thing that will scare them off is a vendor eager to do a deal at all costs. For example, agreeing to do complex custom product enhancements at the drop of a hat smack of desperation, and tends to make them feel that you may not be able to deliver what they need in the timeframe they need it. Remember, far from being price-sensitive, visionaries are extremely *results*-sensitive. This is because, if you think about it, their willingness to go where no man hath gone before makes them vulnerable if it should fail. Thus, visionaries need their chosen technology provider to do whatever it takes to make them successful. In light of this, you can and should count on them to be a true partner in the "whole project", along with the senior service partner who may already be a valued counselor to them.

7. **Mistaking pragmatists "in drag" for visionaries:** Pragmatists - just like conservatives, and even skeptics - read the same books on core competencies and competitive advantage as do visionaries, and they can be equally proficient in the lingo of strategy. Apart from any other consideration, talking big sounds much better than to admit right off the bat that the real reason they came to your seminar is, well, fear that they may be missing out on something important. Not - as Seinfeld might say - that there's anything wrong with being a pragmatist. It's just that, if we don't listen carefully, we can waste fatal amounts of time and money courting them, only to have a big deal forecast to close within three months turn into a small pilot that doesn't close for a year (or ever), with very little resource commitment by the customer. So, how can you tell immediately that you are dealing with a pragmatist rather than a visionary? Well, there are two guaranteed signs to probe for: (i) the visionary always has a project in mind that they are dying to tell you about, whereas the pragmatist or conservative is only there to keep tabs on the new stuff

and make sure they don't need to do anything about it for the time being; (ii) when your prospective customer asks "so, who else is doing this?" if they are a visionary, their expression is one of anticipation that they might be the first in their industry to invest in this new stuff, whereas pragmatists will *always* betray their true colors by the concerned look on their faces at this point. Having spotted a pragmatist, the best way to deal with them is to let them know that you understand their lack of readiness to buy at this time, and will keep them informed about your progress. This "reverse psychology" provides them with valuable assurance, and may even intrigue them enough to result in a pilot purchase- that you will not treat as a big deal warranting "whatever it takes" support.

8. **Not charging for custom R&D or implementation services**: Due to the plain anxiety to gain acceptance for the new innovation, companies have a strong tendency to want to give everything away in order to please their customer and thus get the contract signed quickly. Since we have said that visionary buyers are results-sensitive rather than price-sensitive, this approach can only delay the deal – and, worse still, actually *diminish* the size of the initial commitment. In fact, the one thing that worries them about a vendor's eager-to-please approach in an early-market project negotiation is when we agree to do everything for free – and by next week, into the bargain. Why would this worry them, if they stand to receive extra value for free? Well, put yourself in their place – if you have just knowingly asked your chosen vendor to develop one or two additional features in an still untested technology, wouldn't you worry just a little whether or not they can deliver something working in such a short time? In pure financial terms, this foolhardy attitude reduces – dramatically – the revenue received from the hard work of providing the requisite technology and services (usually at the cost of other key commitments).

9. **Structuring each deal as a product sales rather than a "whole project"**: Most software companies are designed from the start to be product businesses, even if they know they will have to provide for plenty of customization to their products by engineering and/or professional services. Furthermore, the business model is set as a license-fee business, with service fees tacked on as a secondary, tactical sideline. This generally makes it difficult to identify and close true early-market opportunities effectively and profitably. The reason is that this model causes the vendor to focus on selling a product license, which flies directly in the face of the customer's goals. The clearest sign that vendors are approaching the early market sales opportunities incorrectly is that the product becomes their key point of reference; for every question asked by the customer, they point to benefits the product provides, to show how the product can solve the customer's problem – whatever it may be. Unfortunately for product vendors, visionary customers see new technologies as concepts in search of proof, rather than as finished products. Furthermore, they recognize that they are the only customers willing to commit time, resources, and money to incorporating the new technology into their project - assuming it is a key catalyst to make the project viable. However, the more the vendor sets out to prove that the product does everything the customer needs, the more they get into hot water, via repeated demos; the customer sends different teams to see the latest custom demo that doesn't quite do everything the customer dreams of, the company then has to do unnatural acts by the following week in order to recover the lost ground with a demo that actually works, by which time the customer has become concerned that the vendor is not really listening to their requests, but just trying to sell them something.

   The only solution to this problem during this stage is for the vendor to think like a service company, evaluating every valid opportunity as a *project*, rather than a product sale. Engineering and implementation resources should be allocated *a priori* to these projects, the best and most senior talent needs to be allocated to co-managing the project and ensuring follow-through, contracts should be structured on a risk-reward basis, and every piece of value-adding work should be charged for (large companies understand that you are not a registered charity). By and large, deal structure should emulate the structure of large technology integration projects: the customer should commit to (a) a significant cash payment up-front to fund start-up resources, then (b) milestone payments for each key project phase, and (c) a final payment for project completion and full rollout. Customers need to know that the vendor is committed to their success, so pricing and fees must reflect this emphasis. Remember, they are results-sensitive, so that whenever they are not charged for work that they consider critical, they will become concerned about on-time delivery of a working solution. There is only one exception to this pricing guideline: work performed to make good on basic, existing functionality should be funded by technology vendor, as a basic part of their contractual obligation.

10. **Failing to see know when/how to move to the next stage**: Unfortunately, a year or two into the Early Market stage, there is no Gartner Group or Forrester report to let you know for sure that it's time to change strategies and negotiate the delicate but vital leap across the Chasm. In fact, the only reliable indications that you have reached the end of this big-project stage are two-fold: (i) no new visionaries - all of the visionaries that could have been attracted to your technology have already made their commitments (and these customers are now anxiously waiting to for their project to be completed), and (ii) pragmatists are still wary of making any more than a token toe-in-the-water commitment to a pilot project. Now, if you've been reasonably successful during this stage, you probably have between three and seven live projects at various stages of completion, and a number of pilots in place with the pragmatists you managed to eke out a deal with. But, still, it's not easy to know that it's time to cross the chasm. What's left to do is review each significant project in detail, to see what competitive advantage benefits your visionary customers have realized. Selling to pragmatist department managers in the bowling alley requires that you translate this discourse about "pursuing competitive advantage" to "eliminating severe competitive disadvantage". No matter how clearly your first pragmatist customers intellectualize the positive benefits of the technology, remember that they are not sufficiently motivated to emotionally to take the plunge, unless they truly believe that they are suffering a "severed jugular" type of emergency. This allows you to start plotting a target beachhead strategy. If herd behavior starts to occur in the same market segment, this is an indication that it is safe to proceed.

Deciding when enough is enough in the Early Market is about determining when you have too many one-off projects to deal with, and don't see new visionaries calling to discuss new ones. This is the most reliable way of knowing that it is time to start the delicate transition toward the Bowling Alley – without, hopefully, crashing down into the Chasm. In a forthcoming issue, we shall discuss the "how" of this challenge – how to negotiate the delicate and crucial task of crossing the awesome and dangerous chasm.

3. The Valuation Dance – 2001 Version

"Large up-front spending that fails to achieve steep sales ramp destroys value."

- Tony Grover, vice president - White Pines Ventures

As VC firms proceed to comb through their portfolios for those companies that they intend to continue financing - while pruning the ones that have no chance of surviving - one of the more exhaustive activities that has begun to occupy center stage is the 2001 version of the jousting that takes place around valuations, as investors resuscitate the art of due diligence, with a vengeance.

Always a contentious issue, valuations today are a particularly vexing topic for B2B companies and investors. On one hand are the VC's who just a year ago were urging their portfolio companies to ramp toward growth on "internet time" in the absence of any firm indication of customers actually buying something – if you have any doubt that this was a business fad of criminal proportions, just look at the hordes of exchanges, ASPs and others, funded without a moment's due diligence. On the other hand, entrepreneurs and executives who are still fighting the notion of a down-round might be advised not to stick too stubbornly to claims of "value" they have created if that value is not clearly "monetizable", to use the jargon of the times.

Let's face it, if private-company valuations had any relation to public-company valuations in early 2000, why should they not have a similar correlation today, just one year later? By this argument, if some public B2B valuations are down by 80%-90% versus a year ago, why should private-company valuations not suffer an equivalent devaluation? Pursuing this line of thinking, companies that were valued at $100m.+ in their C Round a year ago may only be worth $10m.-$20m. in today's market. Scary thought! So whatever happened to the value that was being created at that time? I believe there are five reasons that specific companies may not yet have created value of the right kind for today's marketplace:

1. Wrong vision and business model - ie, B2B exchange for a non-commodity business
2. Wrong market strategy – ie, no intimacy with target customers, or no differentiation
3. Wrong organizational model – ie, ramp up for the tornado while still in the early market
4. Meltdown of B2B category – ie, the exchange model is no longer valued
5. The general "bad mood" in today's market – evidenced by continuing erosion of Nasdaq

Now that B2B markets are seen to require a complex build-out and a market/sales strategy that attracts enterprise customers, it's time to pause for a rethink. In the past twelve months, don't forget that the Dow to Nasdaq ratio has gone from 2:1 (10,000:5,000 points) to 5:1 (10,000-2,000), thus somewhat tarnishing the premature sheen on the "new economy" pretenders.

4. WorldRes: Creative Solution to Managing a RIF Plan

Following my article in our last edition on RIF (Reduction in Force) plans adopted by B2B companies, I heard the other day of a novel and laudable approach employed by travel reservations marketplace WorldRes in administering the recent RIF undertaken as a pre-condition for closing a new round of funding.

Greg Jones, WorldRes' CEO, recounted the strategy adopted by his executive team: firstly, they let every employee know that a reduction was required in order to assure the company of viability in the present business environment. They gave everyone a week to consider this situation and let the company know whether they (a) wanted to be considered as an ongoing member of the team, or (b) preferred to take the opportunity to leave the company at this point.

Jones went on to say that this proved to be an effective way of maintaining morale at a high level during such a difficult period, simply because everyone felt at least partially empowered by being advised of the company's predicament. Interestingly, when people provided their response to the company, even those who said they wanted to stay and were later let go did not resent the fact, because they had been informed realistically about the problem, and felt sufficiently "consulted" in advance of the final decision.

There is one "catch", however: In Greg Jones's own words: "the success of this approach is predicated on having an environment where employees and management trust each other. Without that, every employee would say they're still committed and float their résumé's while still employed after the RIF". So, it's no use just producing this tactic out of the hat, so to speak, if normal management behavior is characterized by more closed style of decision-making.

There is one key additional lesson from this experience: people need to be *engaged* in hard times, even more than in the good times. It just so happens that, in good times, executives find it much easier to communicate the good news, but when times are tough, the conditioned – though incorrect – reaction is to withdraw. Nothing characterizes this phenomenon more clearly than the open-door management style that suddenly closes the doors when there are restructuring strategies to work out. Can you be surprised that employees become cynical about management's motives in situations like these?

In upcoming issues:

- Back to Basics: Negotiating the Painful Leap Across the Chasm
- Back to Basics: Where is Your Category in the Adoption Life Cycle?
- Revisiting the Five B2C "Poster Children": Amazon, AOL, eBay, Priceline and Yahoo
- 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.