

Under the Buzz

Back to Basics in e-Business

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Under the Buzz is an electronic "newsletter" 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/underthebuzz.htm>. Back issues can be downloaded from the site at: http://www.chasmgroup.com/underthebuzz_archives.htm.

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1. Dammit, We Are in a Recession - Now Let's Find a Way Out of It!

" 'Denial' ain't just the name of a river in Egypt. " - Anon

When will people learn - you can't solve a problem until you accept that you've got one! Just to warn my reader, this short article qualifies in my book as a mini-rant. My concern is with the length of time it's taken - all of 2001 so far - for executives, pundits, and press to get used to the idea that we are actually in the midst of a recession. Even now, I hear people refusing to use the "R" word. The August 6 edition of the *Wall Street Journal* is a good example. On page 2 of the main section, an article headline, followed by the first paragraph of the text, sets the tone:

"Economy is Worsening But at Slower Rate"

"The good news: the economy's deterioration has slowed. The bad news: it is still deteriorating. That leaves the U.S. perilously close to recession and the much-awaited second-half recovery still in doubt."

The author of this article, one Greg Ip, goes on to say, among other things, that "the number of non-farm jobs slipped by 42,000 during July". Does anyone have the slightest idea how, in an economy of over thirty million telecommuters and countless other early retirees from the job market, "non-farm" jobs and other traditional labor statistics can still mean anything? Later, the reporter states, "Recent data suggest the economy isn't growing measurably and may be shrinking. The National

Association of Purchasing Management said Friday its index of activity in the service sector slipped to 48.9 in July from 52.1 in June. A reading below 50 indicates a contraction in that sector." And, to pile it on, he adds the information that the NAPM index of manufacturing activity "fell to 43.6 in July from 44.7, suggesting that sector shrank for the 12th straight month and at a slightly quicker rate than in June." But we're still not in a recession, right? Who is kidding whom? **DAMMIT, WE ARE IN A RECESSION - DEAL WITH IT!!**

Forget the traditional measures used to gauge whether we are technically in a recession or not; they don't work any more, and the ones that still have some relevance to reality never work in quite the same way they worked in the immediate prior recessions, because the combination of factors that cause each downturn tend to differ radically. For example, this time around there has been no Gulf War or oil crisis. Of course, as in 1987, there has been a stock market crash, this time mainly in technology, but even the crash has occurred in a very different set of circumstances - at least, that's how it feels to me.

So what's the problem with all this debate about recession or no recession? Well, since January at least, we as an economy have wasted months second-guessing the extent of the downturn - whether it is a "V" or a "U", or even an "L" (extended downturn followed by a slow recovery) - and when the capital markets are going to bounce back to "normal" levels. To be fair, the Dow index hasn't really suffered that much; it's just paused for a year or so in its extraordinary rise from the 3,000 points of seven or eight years ago to today's 10,000-plus. In technology, what we've seen is a B2C meltdown, followed closely by a B2B decline, all eclipsed by a costly end to the hallucinogenic experience in the more risky areas of telecom-related infrastructure investment. Surprising as it may seem at this point, my sense is that the U.S. telecom market may recover fairly quickly, whereas I fear that investors and companies in Europe will take longer to get over the dent to their confidence. In that part of the world, the relative inexperience in high-risk technology investments combined with the stigma of failure is likely, in my skeptical view, to make them feel "once bitten, twice shy" about repeating the strategy next time around.

When you consider that we in the U.S. marketplace have experienced the longest boom in living memory, you have to ask if we weren't being a little disingenuous - or, perhaps, much too ingenuous - to expect it to continue forever. The worst aspect of our ongoing delay in dealing with the new macro-economic reality has in my view been that we have lost valuable time in exploring how to bounce back from it. In company with change management experts, I believe that you cannot come out of a crisis until you pass through the denial stage and accept that a crisis has indeed occurred. All the second-guessing just wastes precious time. In an earlier issue of Under the Buzz, I criticized those public-company CEOs who have continued to refuse to see any "visibility" in today's environment regarding imminent business results - despite some of them having sophisticated information technology in place to monitor sales forecasts and pipelines, as well as sufficient contact with their major customers to know full well how decision-making has been impacted by the softness in demand for their products and services. These business leaders, many of whom have reaped astonishing personal rewards during the good times, have in my view decided to indulge in a kind of conscious cognitive dissonance. Unfortunately, the press and others attribute to them such iconoclastic influence over the rest of us that this only delays things further.

In the past month or so, however, I have begun to sense a change in people's predictions regarding how much longer the downturn is likely to persist. I don't know if readers have noticed the same thing, but increasingly I hear and read comments from business people and industry experts to the effect that 2001 "is already a bust, and some people are already forecasting that 2002 won't be much better." To return to a basic assumption in change management, until you recognize that (a) there is indeed a serious problem, and (b) it is not just going to go away because we want it to, you are not able to muster the energy, guts or imagination required to get out of the mess. As the saying goes, "when the going gets tough, the tough get going". And remember the crusty old Chinese proverb: "Crisis is fifty percent danger and fifty percent opportunity". I believe that the rewards from here on will go to those individuals and companies who are willing to take calculated risks to introduce innovative products and services, attack new markets, change the competitive playing field, and so on. Beyond adopting the right approach, organizations that are governed by a culture of "aggressive realism" will win over those (in the majority, I am afraid) that are taking too long to adjust and that still think that the marketplace doesn't appreciate their value. Furthermore, rapid decision-making and agile execution counts double at times like these, while volume and scale can be real disadvantages. Finally, don't forget that transactions count for more during boom times, whereas relationships are most important during lean times.

2. Really Getting Back to Basics: Seven Key Strategic Questions

People ask me frequently how the current downturn has impacted our consulting business, and my customary answer has been: "Well, fortunately, our business for the first semester of 2001 is up on last year - though we cannot be certain if or how this might change going forward." What does definitely seem to have changed is the type of work we are asked to perform for our high-tech clients. Due to the dramatic nature of many companies' problems today (whether you are talking about public or private software companies, the vast majority shares a precipitous decline in market valuation and access to funding), strategy, our main focus, matters much more today than it seemed to matter during the halcyon days of the 1998-2000 internet bubble. The main difference we see now is in the level of urgency of many companies' predicaments, and the serious consequences of pursuing the wrong strategy.

When we decided to champion a back-to-basics theme in our general practice for 2001, what we intended to do was to help our clients focus on the basics of sound market strategy, based on understanding the buying behaviors and criteria of different sets of customers. (This is what our "Crossing the Chasm" methodology is all about.) Many organizations we worked with needed to change their business so significantly that the entire mission of the company required a rework. The most frequent examples of this were the many B2B marketplaces that decided to morph themselves into software infrastructure companies. Other organizations had previous markets that were vanishing fast, as with any technology vendor or systems integration provider that had become dependent on selling to B2B exchanges, ISPs, ASPs, or CLECs. During the course of working with such organizations, we refined a set of seven questions designed to guide our clients through a thorough review and, if necessary, overhaul of their business strategy and operations. The questions extend beyond market strategy as far as operating strategy and shareholder value, though a focus on the market is invariably our starting point.

Here are the seven key strategic questions we have been using:

1. How have you been successful to date, and what level of DISRUPTION is (a) producing a business opportunity for you and/or (b) threatening your current business?
2. What product or service CATEGORY are you in today? How "investable" is it - or can it become - over time? Are you in more than one category, and are there any new, more powerful categories that you could credibly enter? Which one is a better match for your *real* technological "crown jewels"?
3. How powerful a POSITION has your company achieved (or can it achieve) within present and future category(ies)? How can you establish a differentiated position in the most powerful category? Alternatively, should you consider participating in a different category in order to achieve more power in the market?
4. What is your current/new MARKET STRATEGY? Have you identified one or more target markets? Do you understand your target customer's compelling reason to buy, and can you deliver a complete solution to solve their problem? How dominant can you become in this target market, and how will this provide you with leverage to enter and dominate new target markets?
5. How can the company OPTIMIZE RESOURCES in order to maximize competitive advantage and, thus, shareholder value? How can you shed contextual (i.e., non-core) activities in order to focus today's precious resources (time, talent, and management attention) on core activities?
6. What RISKS do you face in pursuing your current/new strategy? In particular, do you have sufficient access to alternative sources of funding or alternative markets, in order to stay the course?
7. What is your CHANGE MANAGEMENT plan, and who is leading it? Is this individual and their team sufficiently committed and authorized to achieve their objective? Can they energize people, and mobilize the organization's resources behind this effort?

Since our firm is by design a facilitative consulting firm (i.e., we do not perform detailed research nor do we act as the experts to prescribe what our clients should do - rather, we help them to channel their knowledge and talents toward successful and accurate decisions around market development and operating effectiveness), we employ a set of vocabulary and a framework of decision models to facilitate decision-making. By probing with our clients for clear answers to these questions, we are usually able to focus on the key vulnerabilities quickly and effectively, thus enabling our clients to develop the most practical and actionable strategy.

3. Using Site Audits to Accelerate Enterprise Purchasing Decisions

As already observed everywhere in the media, today's brutal environment for prioritizing IT investments in large enterprises is causing many decision cycles to be either significantly extended, or effectively canceled. The immediate consequence for technology vendors is increased pressure on revenues and earnings, and the signs are immediately visible in lower close ratios, sales forecasts that do not pan out, and repetitive pipelines. Ironically, as reports from a number of CEOs and CFOs have implied, pipelines may even have a tendency to look fuller, though this may not actually indicate much about imminent improvements in results. The reason is related to executives' anxiety to demonstrate that, despite not meeting revenue and earnings expectations, they nonetheless have some excellent business "about to close". Unfortunately, this same anxiety can lead to the prospect's name recurring month after month in the pipeline - even if the reality inside each customer organization is that the project in question has been downgraded or even deferred.

Recognizing that "ROI" predictions have become a more tightly managed decision tool for prioritizing investments - and assuming that *Vendor A's* proposal is one of those that has passed successfully through the filtering process - *Vendor A* is usually still obliged to wait until the customer has (a) implemented the feasibility assessment (b) decided to go ahead and purchase the product or service and, worst of all in today's marketplace, (c) managed to obtain all the sign-offs. That is, unless *Vendor A* finds a way to facilitate the "right" ROI assessment and thus help to accelerate the customer's decision process. From my own direct experience and from that of some software companies, here are one or two ideas about what can really change the picture for the better. First, let's look at the challenges faced by many vendors.

It's probably a fair assumption today to state that most internet-based solutions for application infrastructure, process automation, or e-commerce are somewhere on the perilous journey between the early market stage and adoption by mainstream customers. In our firm's vocabulary, this means that most e-business products and services are in the "chasm-crossing" stage, during which vendors have to alter their approach from one of dealing with early-adopter projects, each one different from the last, to providing a complete, repeatable and scalable solution to a given set of target customers. Though this transition may sound normal and straightforward, it is perhaps the most difficult one for enterprise software and other technology vendors to execute successfully.

There are many traps. For example, how do you decide exactly what solution to build, if your early market experience has required you to serve a number of customers whose requirements are different from each other? Which target market should/can you penetrate fastest, and how can you be sure of generating the kind of references that will accelerate the market perception that you are a leader in your category? And so on. Your early market experience with, say, five to fifteen customers may well contain the seeds of your ongoing strategy, but we've already implied that during this stage it is virtually inevitable that you have been serving customers from quite different market segments, each one with distinct needs. So how can you determine which target segment provides greatest potential to your company?

When all's said and done, my recommendation to technology companies who are attempting to pull off the coup of *crossing the chasm* is to identify an addressable target market that you can gain dominant share of within twelve to eighteen months.

The key task is to prioritize your attack around a segment with a broken business process that you are uniquely capable of fixing. Around this "compelling reason to buy", there are *at least three value-building pre-sales activities* that pragmatic enterprise customers value, and that can separate your value proposition from the herd of potential point solutions that may be competing for the customer's attention:

- Write - or commission - a **white paper** that describes the broken business process you are aiming to fix, and the rationale and structure of the solution you propose.
- Identify one to three customer organizations that are willing to act as **reference sites**, and that have enough to say about the experience and benefits of using your product, to be able to convince skeptical prospective customers of your value.
- Develop a **site audit** aimed at eliciting information from prospective customers on the overall impact (or cost) of the broken process to their organization, the capabilities required to fix it, and the time it would take to achieve ROI.

In this issue, I want to focus on this last item - the site audit. Though many vendors and executives have some appreciation for the value of this tool, I find that it is often shortchanged, thus losing its value to the customer as well as the vendor, because it fails to accelerate the customer's decision cycle. So let's analyze the process from the basic rationale through to the effectiveness of the end-product.

Target Customer and Compelling Reason to Buy (Example)

Let's assume that you have identified a set of target customers belonging to an industry segment that is suffering from a "broken business process or function" - for example, high-tech companies suffering from the impact of higher-than-average customer service problems, which are jeopardizing their entire business as customers defect to competitors in increasing numbers.

Purpose and Value of Site Audits

The main aim of a classic, vendor-neutral site audit, normally performed by some type of consulting firm, is to use information provided by the client to (a) gauge the size of the problem caused by the broken process, and (b) evaluate potential solution types, as well as an array of potential solution providers. The *expanded* vendor-driven version of the site audit, on the other hand, should have the additional value of (c) producing an agreement on the time required by the vendor to solve the problem, thus enabling the customer to reap the desired benefits outlined in the audit. Of course, customers may prefer only to commission the first type of audit, out of consideration for a more "impartial" outcome. Nonetheless, in many cases, the sale of relatively new and unproven technologies is more dependent on a conceptual "sale". This should be agreed on in principle with the customer's primary sponsor (preferably the line of business manager who is suffering the pain of the broken process) prior to the proof of concept phase, of which the site audit is a key part. In fact, I strongly recommend that vendors who are engaged in the chasm-crossing stage make extensive and confident use of this tool.

Method Employed in Expanded Site Audit

Using industry information on the business problem (broken customer service processes, in this case) as base data, the vendor interviews five to ten managers and professionals in the customer's organization, in order to gauge the size of the problem in terms of current and long term impact on the customer's business, and to assess potential workflow and automation solutions. In the process, vendor's consultants work with customer to establish agreed estimates of the time and resources required to produce the results, resulting in a complete ROI. Such audits can be performed from start to finish within a short timeframe, say, from a few days to a couple of weeks at most.

Benefits of Pre-Sales Site Audit for the Prospective Customer

The main benefit of the pre-sales audit coordinated by the prospective vendor is that they get a quick sense of (1) the real costs of the problem that has been causing them increasing anxiety, (2) the business case for investing in the new IT solution, and (3) an early taste of what it feels like to work with the specific vendor in question. Since most customer organizations are nowhere near as proficient in knowing the precise "size" of the problem they are experiencing, nor do they have resources to really investigate and solve the problem on their own, they are usually grateful for this assistance, provided they believe in its integrity. Furthermore, despite the reluctance of vendors to charge for what they may (incorrectly?) consider is more in their interest than in the customer's, making this audit chargeable adds value in the customer's eyes, and provides an early evidence of the customer's willingness to "sign up" for this type of solution.

Advantages of Pre-Sales Site Audit for the Prospective Vendor

In my experience, getting the prospective customer's agreement to a site audit is a significant milestone on the way to closing the sale. After all, how likely is it that your target customer will agree to simultaneous audits by competing vendors? After all, they will need to commit valuable time on behalf of some of their executives and professionals, as well as request the cooperation of trading partners, and very few companies are going to be willing to do this twice for one investment. Therefore, once you gain their agreement to the audit, you are on the way to getting out of the "vendor" box and into the "trusted adviser" box. Another key advantage of the audit is that the business case presented is based on data provided by the customer, rather than by outside sources whose input could be questioned. In the process of exchanging this "intimate" information, both vendor and customer get an early sense of the likelihood of achieving a favorable decision, and also a clear feeling of what it is like to work together to solve a business problem. A further significance of this step is that one of the keenest criteria of enterprise customers in evaluating competing IT vendors relates to their capacity for inspiring confidence that they care about and can help solve important business problems. Furthermore, it makes it relatively easy for both sides to know when the decision will occur, provided that they have discussed the customer's overall criteria for prioritizing IT investments. To cap this list of advantages, at decision time, even if a number of competitors are still acting as if they are "in the running" for the business, it will be difficult for the customer to select an alternative vendor or to dispute the conclusions of the audit.

What Some Technology Companies Do Partly Right

Some companies almost get it right, but I find that most technology companies feel unsure about how to provide this service effectively. Some, like i2, are known for performing these audits as a regular part of their sales process, although interestingly, even i2 resisted doing it quite as well as they might have done. A few years ago, when I heard from a group at i2 that their site audit process for helping customers assess the size of their inventory management problems was called "SOA" (for "Sales Opportunity Analysis"), I immediately suggested that they make a slight adjustment to the name in order to have a chance of increasing its effectiveness. To my mind, a better name would be "SCOA" (for "Supply Chain Opportunity Analysis") in order to convey to customers that it was designed more as a real assessment of type of solution, rather than a process loaded in favor of i2. I don't believe that i2 followed my advice, but at least they were performing a competent and effective pre-sales service that clearly helped to accelerate customer decisions in many of their sales cycles, many of which resulted in impressive big-ticket purchases.

What Many Technology Companies Do Mostly Wrong

My short statement on this score is that most product companies do not perform a serious site audit. Further, they miss a golden opportunity to partner with systems integrators who could perform these audits for them. In ignoring this opportunity, they are sacrificing a golden early chance to promote the importance of the solution they intend to propose to solve their customer's pressing business problem. Thus they fall in line behind existing IT projects and competing vendors and, worse, still, they do not manage to get out of the "vendor" box. Why does this occur, if the benefits of doing site audits are so compelling? My best answer, after advising many clients in this area, is that the *anxiety to sell* their product prevents them from putting themselves in their customer's shoes and realizing how valuable this exercise can be in all the ways I have outlined above. In other words, I don't believe that most sales managers and reps really think deeply about how to really engage the minds and hearts of their enterprise customers - simple as that!

Summary: How to Accelerate Your Sales Cycle in a Downturn

In conclusion, I strongly recommend that companies institutionalize the use of the site audit, alongside solution-focused white papers and reference sites, as a way of bucking the trend and accelerating the customer's buying decision.

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* focuses on strategies for building sustainable competitive differentiation and maximizing market valuations.

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