

Under the Buzz

Back to Basics in e-Business

October 2002 - Vol. 3, Number 10

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 email. 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.

In this month's issue:

- 1. Announcing the Winners: 'The Top 10 Irrefutable Signs that the Apocalypse Was Upon Us'**
- 2. Corporate Politicians—The New Leadership Confluence (Article by James Strock)**
- 3. Lessons on Accountability from the Football Field (Interview with Steve Young)**
- 4. Jump-starting the Process of Re-energizing Your Company**

By receiving this issue directly from Chasm Group Publications, you are already on the distribution list. To unsubscribe, send a blank email to: 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>.

Amazing Factoid: Custom Software Still Wins Out Over Packaged Applications by 10:1

"Custom developed applications account for \$152 billion (62%) of the \$244 billion spent on software in 2001, while only \$15.6 billion (6%) was spent on enterprise packaged software applications (ERP, CRM, SCM & PLM)."

- Report on Software Applications by Kash Rangan of Wachovia Securities, 10.15.02

1. The Top Ten "Irrefutable Signs that the Apocalypse Was Upon Us in Late 1999-Early 2000" *[Announcing the Winning Entries from Our Reader Poll!]*

After receiving a bunch of nominations from readers – for which we are extremely grateful - I am pleased to announce the winning entries in the contest to find the *"Top Ten Irrefutable Signs that the Apocalypse was Upon Us in late 1999 and early 2000"* (if we had only been sensitized to them at the time)! One of the criteria I have used in ranking the entries we received is the degree to which specific quotes bring out the party's distinct detachment at the time from any grounding in reality. Besides presenting the Top Ten, I am also including one or two Honorable Mentions for other entries that may not have managed to get into the Top Ten, but nonetheless deserve special mention.

The Top Ten Signs:

1. (NEW in the charts!) From reader Gina Haines: *"The market perception is, if you're not losing enough, you're not spending enough."* – quote by a senior VC partner to the management team of a portfolio dotcom company at a top tier VC firm in late 1999. Another example of this same insanity was the direct quote of another VC firm partner to a recently funded company: *"We're giving you \$20m. in this round, and we expect you to have spent it all by this time next year!"* (the names of these two firms have been withheld to avoid unnecessary embarrassment.).

2. (NEW in the charts!) *"The rules of gravity have been suspended"* – phrase used by many VCs and dotcom executives, and others, to justify the stratospheric valuations given to dotcoms during the height of "New Economy" fever.
3. (Down from number 1 in our initial shortlist) The quote from my colleague Geoffrey Moore's classic early 2000 email message, when the NASDAQ was close to its peak at around 5,000 and the Dow was stable at around 10,000: *"So, when do you think the NASDAQ will cross the Dow: late 2000, in 2001, or 2002?"*.
4. (Down from number 2 in our initial shortlist) *"We're going to use our first-mover advantage to build brand early in order to aggregate and monetize eyeballs."* – Strategy *du jour* expounded by all the smart executives and bizdev people at the weekly internet "B2C" or "B2B" conferences during the 1997-2000.
5. (NEW in the charts!) From reader Phil Haynes, advice from a VC in 2000 to a group of dotcom employees with massive stock options: *"Don't sell now, wait for four years or so, when you will really have made some money."* At the time, the company's stock was at \$165, up from \$3.50, and is now worth around 57 cents.
6. (NEW in the charts!) From Frank Tolve: *"When your contractor and his crew stop work during the day to listen to stock news, you had to know it was time to get out. This actually happened to me."*
7. (Down from number 4 last month) Internet-software companies hosting Bordeaux wine tastings (nothing younger than 1982 Cos d'Estournels and Chateau Haut-Brions!) at Chantilly II, a fine-dining restaurant in Redwood City, in Silicon Valley.
8. (NEW in the charts!) Note in Red Herring magazine in February 2000 announcing the formation of a company to *incubate* incubators – RH ran it as straight news, though it was from a spoof press release.
9. (NEWLY ENHANCED nomination!) Beefing up the list of wacky names encountered at VC financial and trade conferences – remember "ferretsoft.com" in our original list in last month's edition? - reader Tom Wahnsiedler offered up "NavellintOnline.com", and reader Chris Clark reminded us about "Flooz.com" (the monetary management company that had Whoopi Goldberg as its chief pitch-person).
10. (NEW in the charts!) When Pam Alexander appeared on the cover of Forbes magazine in 1999, signaling the ascendance of PR over conventional advertising as the primary marketing vehicle for new dotcoms relying more on buzz and hype than on substance. [Contribution from Chris Clark.]

Honorable Mentions

1. (NEWLY ENHANCED nomination!) On the theme cited in last month's issue of Silicon Valley office landlords demanding stock options in lieu of cash from internet technology companies to cover the astronomical rental rates at the time, reader Michael Rowles reminds us about attorneys from large, established law firms demanding to be paid their fees in options, and Phil Haynes recalls that the office-cleaners at the Australian dotcom he worked at were big shareholders.
2. Revenues and profits were distrusted and out of vogue for the simple reason that they provided investors with some kind of yardstick for measuring the business performance of 'new economy' companies.
3. Investor relations reported into marketing, business development was 'king', and (direct) sales was deemed a luxury.

The "I Can't Believe They Really Said That!" Special Award

Said by thirty-something VC partner: *"Wow, I haven't read a business plan in so long, but yours looks way too detailed! Just show me your pitch, let me meet the team, then we can provide some initial funds."*

Two Gems from Scott McNealy's Top Ten from a May 2000 Conference Speech:

#4: "The value of cars in the parking lot exceed the company's revenue by a factor of four."

#2: "Zero revenues but enough cash to purchase Iceland."

[Thanks to reader Abbe Patterson for this contribution.]

Finally, thanks go to all the readers who took the trouble to write in, whether or not we had space to include their nominations in the above lists.

2. Corporate Politicians—The New Leadership Confluence

[I am indebted to James Strock (JamesStrock.com), author of Theodore Roosevelt on Leadership, and Reagan on Leadership, an expert in arbitration for government agencies, and a frequent writer and speaker on leadership, for contributing this article. We met at a recent CEO conference held by Seattle-based VC firm Voyager Capital, where we each spoke on the links between leadership, strategy and execution. After hearing his views on the extremely hot topic of corporate governance and transparency, I asked him if he would be willing to contribute an article on it, and he agreed.]

For years, politicians have committed to bring business principles to government.

In a sudden turnabout, in the aftermath of the corporate scandals of the past year, corporate CEO's are having to rapidly learn some of the key skills of effective political leaders.

The extraordinary rise of mass stock ownership in the 1980's and 1990s resulted in an stunning inflow of investment into companies—via stocks, mutual funds, 401(k)s, and the like. With the momentum investing of the 1990s apparently having no losers, remarkably few strings were attached.

The debacles of Enron, World.com, Global Crossing, Tyco, and their compatriots add combustible fuel to the fires of public outrage already left smoldering by disappointing, self-indulgent leaders in political and religious institutions.

The unprecedented mass stock ownership in our society may have several somewhat contradictory consequences.

With as many as 85 million Americans owning stock—compared, for example, with fewer than ten percent of the population at the time of the 1929 crash—the reaction to the corporate abuse of the 1990s has been remarkably conservative. That is, there have not been serious calls to action to nationalize industry and other such extreme proposals that were taken seriously across the world following the abuses of the 1920s.

Instead, the focus has been on reforming corporate governance, holding corporate leaders to their own expressed values and to longtime legal requirements. Thus the Sarbanes-Oxley legislation holds chief executives accountable for financial statements, limitations are imposed to limit conflicts of interest of board members, and so on.

At a time when so many American families' well-being is tied to their stock ownership, the public increasingly recognizes that CEOs hold power comparable to if not greater than many government officials. Inevitably, issues of trust, transparency, shared values and communications will rise in importance.

The transformation of the role of the CEO is perhaps best seen in the recent missteps of GE icon Jack Welch, and Silicon Valley tycoon Tom Siebel.

Welch, of course, has been lauded as an exemplar of the new CEO that arose in the 1990s. The business press, from cable television to traditional publications, presented him as an indispensable, charismatic leader who added unprecedented value to General Electric.

Welch recently attracted attention in an entirely new way, when his estranged wife revealed, in the course of a divorce proceeding, that he had received perquisites apparently valued at millions of dollars in a previously undisclosed post-employment arrangement approved by the GE board.

The Welch arrangement is under investigation by regulatory authorities. Assuming, for the moment, that Welch and the GE board have broken no laws, there was still a massive error in judgment in their arrangement, granting the retired CEO luxury lodging, dining and entertainment. Welch's initial reaction—cursing his estranged wife's effrontery in exposing these in a lawsuit, defending his value to shareholders and the like—was disappointing and revealing. His later commitment to discontinue the arrangement was ambiguous both in scope (was it retroactive as well as prospective?) and in motivation (was it dictated by legal threats from the SEC and others, and by the intensely negative public reaction?). It did not help matters that the divorce that triggered the disclosure followed in the wake of Welch's highly-publicized sexual affair with a *Harvard Business Review* editor during the period of her publication's writing about him, resulting in her ouster for breach of journalistic ethics.

Siebel, founder, chairman and CEO of Siebel Systems, is less well known to the general public. He is, however, well-regarded in Silicon Valley. Siebel has been extolled by *Business Week* as one of the world's top 25 managers in January 2001, and CEO of the year by *Industry Week* in 2002. Following the terrorist attacks of September 11, 2001, Siebel moved rapidly to combine good business with good government, presenting state and government agencies with software applications intended to improve the nation's intelligence capabilities.

As the summer turned toward autumn, Siebel made news of another kind. He reportedly spent millions of dollars, flying cronies to an international resort, rented as a whole for the occasion of his wife's birthday. This occurred as his company was laying off more than 1000 employees.

By all accounts, Siebel broke no laws. Likely, he and Welch each feel aggrieved. It would not be surprising, if they consider their actions in terms of customary practice among their peers in the 1990s, if they indulged in a bit of self pity, seeing their private lives unjustly exposed to public view.

The Welch and Siebel cases may be harbingers of a significant change. In an era of mass stock ownership, CEOs of public companies are increasingly viewed from the prism of the mass of shareholders, or prospective shareholders. In the age of the internet and 24-7 news cycles, this sensibility is brought to bear with a laser focus.

Had Welch considered his situation from that perspective, he might have immediately—almost instinctively—apologized, acknowledged the arrangement as excessive, its genesis as indefensible, and neither representative of the values (monetary and otherwise) he seeks to advance. Had he simultaneously, unambiguously returned an amount more than sufficient to cover the retroactive and prospective costs to GE, Welch might have set himself into a leadership role in the climate, as he had in the old.

Likewise, Siebel might have had the good sense to cancel his apparently long-planned birthday extravaganza for his wife. Better yet, had he donated the money to his newly-terminated employees, he might have placed himself—and his company—in a leadership role that would be rewarded in numerous ways.

There is a new bottom line: CEOs' public accountability has dramatically increased. As with any public leader entrusted with major responsibility for the well-being of others, the lines between their "private" and "public" lives will become blurred. The 1990s may come to be viewed as an

extraordinary moment, when CEOs were granted immense power without corresponding accountability. Overnight, that has changed. CEOs whose actions do not comport with the expectations of the mass of shareholders or prospective shareholders may negatively affect shareholder value. Instantaneous communication may magnify the consequences.

These tendencies may be reinforced by the simultaneous, accelerating trend of corporations assuming previously private functions—including prisons, roads, mass communications, utilities, and so on. To the extent that private enterprises become “governments in merchants’ clothing”—Edmund Burke’s evocative description of the British East India Company two centuries ago—they will be held to ever higher standards of transparency and accountability.

In a curious quirk of fate, these trends are coming together in a new leadership confluence during the term of George W. Bush, the first MBA to serve in the presidency. As with the denouement of September 11th in foreign affairs, the ongoing changes in corporate accountability afford him a critical leadership moment as significant as it was unanticipated.

© Jamesstock.com, October 2002

Hard-Bitten Rock & Roll Philosophy from a Classic Band of the Sixties ...

*“You think we look pretty good together
You think my shoes are made of leather,
But I’m a substitute for another guy,
I look pretty tall, but my heels are high
The simple things you see are all complicated
I look pretty young but I’m just backdated, yeahhhh...”*

*Substitute your lies for facts,
I see right through your plastic mac,
I look all white but my dad was black*

*.....
Substitute me for him,
Substitute my coke for gin,
Substitute you for my Mum,
At least I’ll get my washing done...”*

- The Who, “Substitute”, written in the mid-60’s

3. Lessons on Accountability from the Football Field (From a discussion with Steve Young, former 49’ers Quarterback)

Since his retirement from the NFL in 2000, Steve Young, former Superbowl-winning quarterback for the San Francisco 49’ers, has begun to fashion what he learned in professional football about the importance of individuals taking responsibility for their actions - even to the extent of turning apparently impossible game situations around - into a highly relevant theme for businesses to learn from.

Young make a persuasive case that, besides being ‘just a game’, football is a real laboratory of human experience with particular value for leadership and teamwork in all activities of consequence, especially including business. Below are some examples of quotes from the conversation we had when Young visited our firm’s offices several weeks ago. One telling lesson for us as we listened to his analogies between the sports field and business, was that businesses would be much more successful if they *practiced* to a similar extent that professional footballers do, instead of managing by the seat of their pants (go on, admit it, this does occasionally happen in high-tech organizations!). In a parallel between sports and war, Young reminded us that although “armies practice a lot, when combat starts, all hell breaks loose”, thus inferring that

practice is especially critical if you are in a fight for survival, despite the likelihood that a certain amount of disordered conflict is likely to ensue.

Read on for more instructive parallels from Young regarding sports and 'real life':

On learning to find the 'invisible' receiver:

"People don't realize perhaps that, when you are a 6'1" quarterback, there are many times when you can't see the receivers, because of these enormous defensive backs coming at you and blocking your view. After missing a number of times in the early days and being asked why, I would say: 'I couldn't see the receiver!' The response invariably was, 'Well, you'd better find a way to see him'. After spending some time puzzling over this, I started throwing to where I hoped or expected the receiver to be. I would act on the last sighting I had, and became a player who could play blind."

On not seeing the results of a great play:

"I started it, but because of those huge human beings coming at me and occasionally sacking me, I didn't get to see the result of my throw ... but I would then find out that something great had happened. To do this, I learned to make my living as a quarterback by reading the receiver's body language. One of the reasons that (Jerry) Rice is such a great receiver is that he transmits great body language – he probably doesn't realize it, but he does. This whole thing about passing blind and reading body language taught me a lot about the importance of having faith in your team-mates."

On never being able to do enough to satisfy some people's requirements:

"Despite my attempts to explain how difficult it was to get the ball to him, Jerry Rice would curve his arms close to his body in a ball-catching pose, and say, 'That's OK, but ... (I need the ball) right here!'"

On being accountable:

"One of the critical things about being a quarterback is that you have to realize that the whole team is working to protect you and provide this cocoon around you; so you have to do just one thing – which is, do something good with the ball. But when you get intercepted (as I was 202 times in my NFL career), everyone kinda freezes and just looks at you ... If that's all that happens, everyone slumps their shoulders and goes off the field, feeling pretty deflated. What I learned from these painful occurrences is how critical it is to rally the team, and it's really quite simple to do. I would just say 'I screwed up. It won't happen again, so let's go back to the touchline, get a drink of water, come back out ready to play, and kick their asses!'"

On what happens when no one is accountable:

"In the absence of (at least) one person being accountable, you get a sudden vacuum, into which a swarm of opinions fly; soon, political camps form, team spirit and resolution dissolves, and you can quickly suffer the downward spiral toward defeat."

Toward the end of our meeting, I was reminded for no particular reason of the contrasting situation in which people fail to accept full accountability for their decisions and actions, preferring instead to blame others. This is neatly summarized in a popular saying about certain types of soccer coach in Brazil, whose attitude regarding accountability is exemplified by the 'person' they use when alluding to contrasting results obtained over time by the teams they were responsible for coaching to victory:

"I won. We tied. They lost."

The lessons brought out by Steve Young undoubtedly have value for business leaders, especially at a time when blame and accusation are flying back and forth regarding the accounting fraud, insider trades, and other excesses committed by company executives during the recent economic boom and bubble. At a time when American society has also been hit hard by the 9/11 attacks of

a year ago, people seem to have a clearer sense of what it means to be responsible for one's actions. And, for managers and executives in technology companies, where exercising accountability(*) for missed goals, targets and deadlines is often an elusive aspiration, the image of someone on the football field understanding so clearly where their responsibility begins and ends - as Young clearly did - should serve as some kind of example.

Thought for the Month

Many people agree that there are fewer and fewer 'white spaces' left in the classic enterprise software business, which has focused mainly on automating tasks since its inception in the late 1960's. So, does this mean that the bloom is off the software industry rose as a high-growth business?

Well, from now on, in common with many industry experts, I believe that the great opportunity that is now opening up is the challenge of automating large slabs of entire business processes, especially those scale processes that break frequently and cripple companies. And, the internet and web services will provide the platforms on which companies can automate these processes in a manageable and user-friendly way.

Therefore, my recommendation for every software company is to test your 'relevance quotient' by determining what significant business processes your technology can impact. And, let's remember, a business process – such as an order-to-delivery process – relates to a company responding to customer or supplier request, and thus cuts across functional tasks.

4. Jump-Starting the Process of Re-energizing Your Organization *[Realigning enterprise software companies for today's economic climate]*

Take a look at these two lists, first the one on *What's OUT* in terms of key vectors driving the goals and design of businesses throughout the naughty nineties, then the *What's IN* list, describing the key parameters in place today, at the beginning of the 'nasty naughts' (00's):

WHAT'S OUT

- **Sailing with the wind**
- **Time is the enemy**
- **First mover advantage**
- **Growth at all costs**
- **Early markets and tornadoes**
- **Catching the next wave**
- **Horizontal markets (breadth)**
- **Vendor-centric messaging**
- **Transaction-oriented selling**



WHAT'S IN

- **Sailing into the wind**
- **Waste is the enemy**
- **First *prover* advantage**
- **Cash-flow positive at all costs**
- **Bowling alleys & main street**
- **Fixing the leaky pipe**
- **Vertical markets (depth)**
- **Customer-centric messaging**
- **Consultation-based selling**

The Chasm Group, 2002

If your company, along with virtually every other funded startup and IPO graduate of the past seven years (the period I call 'A.N.', for 'After Netscape'), was designed for the conditions on the left in the table above, you will probably have drawn some conclusions by now about the reasons why your organization is struggling to adapt to the new conditions on the right.

Furthermore, since we are all now exactly two and a half years older and wiser after the April 2000 stock market bubble-burst, I think most people have finally convinced themselves that the new conditions are not about to go away, so we need to adapt our organizations to the new rules.

Well, if everyone in the software business was so convinced of this new reality, I would have expected to see more enterprise software and systems companies actually reinvent themselves, not just by surface shuffling of functions and new messaging statements, but by reexamining the most critical question of all – and one that businesses in more mature industries are accustomed to posing periodically, to keep themselves focused on the right activities and priorities – which is, “*What business are we really in?*” In the next few paragraphs, I would like to offer a simple and quick approach that any management team can use to jump-start the process of re-energizing their business. This can be especially valuable to those high-tech companies in which management and employees may have lost the sense of what noble cause they are fighting for.

A word or two to describe what we mean by “Fixing the Leaky Pipe”

OK, if we agree that *catching the next wave* and its corollary, *vendor-centric messaging*, are on the hot list of what’s *Out*, whereas *fixing the leaky pipe* and *customer-centric messaging* are on the list of What’s *In*, let me first explain what ‘leaky pipe’ we are supposed to try to fix, and what this has to do with our products and services.

This folksy term is merely a down-to-earth way of calling your customer’s attention to the holes in their operational processes that are leaking money, as – in the case of a manufacturer, for example - they move through design, manufacturing, distribution, service & warranty phases. For instance, there might be individual leaks in sub-optimal product designs, excess component inventory, scrapped work, engineering changes, order cancellations, returned products, repeat service calls, or customer attrition.

Our rationale for addressing this set of concerns is simple: whereas in an up-economy every company tends to focus more on increasing competitive advantage, market share, and revenues, thus often neglecting to see how wasteful their internal processes are; in a down-economy, companies start to look inside for ways to cut waste and thus costs, and they are less willing to invest in projects aimed at new market opportunities. Thus, our advice to virtually every tech company that is trying to establish its new business, or sustain continued growth, is to focus on finding the chronic leaks in enterprise customers’ processes that their products and services (can) help to fix.

Answering the “What Business Are We Really In?” question

Taking this further, it makes logical sense, if you want to connect with your target customers, to align the goals of your business with their biggest concerns. Thus, my simple proposition is this: *instead of continuing to describe your business in terms of the products you make or the services you deliver, you reframe it in terms of the ‘\$50m.’ business problems that your offerings help corporations to solve.*

Thus, if your business is currently defined in these terms, “*we make a,b,c software products for large enterprises in x,y,z markets*” (and statements like these generally make software companies sound completely undifferentiated), just do the following experiment: redefine your business in terms like these: “*We are in the business of solving \$50m.+ operational problems in d,e,f business processes for large enterprises in these main markets.*” Of course, you need to get specific about the actual leaks that your technology is most suited to addressing, and about which companies have benefited. If you encourage discussions throughout your organization based on a close look at your existing base of customers, in most cases you will rapidly be able to construct a sentence or two that say more about the actual value you bring to the world, than is apparent in your current, more product-centric messaging.

Besides being able to use this new view of the essential purpose of your business to reassess (a) what your category really should be called (i.e., adopting more of a *business application* name than a technology-focused name), and (b) what your best market penetration strategy should be going forward, you will start to see your existing customer base and your current pipeline in a new

light. And, for organizations that have come through three, six, or as many as ten RIFs during the past thirty months or so and may be in a somewhat dejected state, you will quickly see a positive effect, as people in every functional area, from developers to service consultants, start to feel a new energy about the company's mission.

What if you are not in a powerful position to drive this debate?

I believe that anyone in the organization can spark the necessary debate. If you are a front-line employee, just use every meeting opportunity to ask "*what \$50m.+ corporate problems do our products and services help to solve?*" If you are a middle manager, do the same. Better still, if you have frequent contact with customers and prospects, take every opportunity to ask them what major *leaky pipe* problems they are addressing, and even which of these they see your products addressing effectively. Then you can bring their testimonials into the discussion with your colleagues.

Alternatively, if you are currently between jobs and interviewing with new companies, one of the first due-diligence questions I suggest you should ask your interviewer might be "*what major leaks in customer processes does your company's technology help to solve?*" (by-the-way, depending on the answer you get, you may decide that this company is too unrealistic to know what business value it could be delivering, and thus has less chances of succeeding - or you may decide that this is an opportunity for you to show them how to look at their business in a new way).

What to do if you can't find any major leaks to fix?

Ah, then, if this is really true and you have turned up every possible rock without success, you may be forced to conclude that your business is not viable in today's unforgiving corporate climate. At least, you could console yourself that it's better to know this now than to keep on investing energy and resources in something that may only serve the purpose of being a feature in someone else's critical problem-solving offering.

Under the Buzz offers a monthly commentary on e-business. The goal is to provide provocative and accurate insights into the latest events and thinking shaping this rapidly evolving technology sector. *Under the Buzz* also provides commentary on strategies for building sustainable competitive differentiation and maximizing market valuations.

© 2002, Philip Lay

Disclosure: From time to time, the author and/or his firm may hold investments in, or provide advisory services to, one or more companies cited above.