Under the Buzz

Back to Basics in e-Business

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1. The "You Thought You Had Problems?" Quote of the Month …

Esoteric research studies were once the exclusive province of well-endowed U.S. educational and governmental institutions, or so I thought. But here's something produced by my alma mater in the U.K.:

"David Warburton, a professor of psychology at the University of Reading, has conducted research into the behavior of people giving dinner parties in Britain, and has concluded that some people suffer from a new disorder similar to the recognized conditions of social phobia and social anxiety…Seven out of ten people said that the current increased pressure to cook well meant that they gave fewer dinner parties than before. 'Extreme KPA (Kitchen Performance Anxiety) is rare', he told the Times newspaper, but 'millions more are mildly affected by the rising incidence of the disorder, making previously pleasant dinner parties an ordeal of self-loathing and failure."

- Paul Levy, Wall Street Journal, London Bureau, 01.30.02

As if the famously apologetic Brits have any difficulty experiencing feelings of inadequacy!

2. After Enron, Arthur Andersen, CSFB et al - Will Investors Keep Faith in the Stock Market?

This month's 'soapbox' topic relates to economic booms and how loathsome the adverse effects can be in their aftermath. On this occasion, my main concern is for the looming crisis of confidence in the public capital markets, resulting from the abuses of the decade-long economic boom ended in early 2001. Consider just two of the recent flood of press articles and editorials covering the new plague of accounting scandals *a la* Enron/Arthur Andersen, and you will see cause for serious concern regarding what it might take to restore investor confidence. As reported in the Wall Street Journal on Wednesday, January 29, shares on the Dow and Nasdaq tumbled to their lowest levels in nearly three months, despite broadly upbeat economic news and earnings announcements. As the Journal reports, 'across the landscape' there were five simultaneous non-Enron disclosures that drove stocks downwards:

- **Anardarko Petroleum** took a $1.08 billion write-down because of an accounting 'error';
- Regulators took issue with **PNC**'s accounting, driving bank stocks down;

- **Williams Cos**. delayed its earnings announcement to review a unit's obligations;
- **Global Crossing**'s accounting methods were being called 'aggressive' (and a day later the company entered bankruptcy);
- Skeptical investors, doubting **Tyco**'s well-publicized breakup plan, sent its shares down 20%.

What is really going on here? Is it just the press making hay as a result of the Enron/Andersen problem? Or is this a sign of worse to come – ultimately, who knows, an actual market crash? Well, I am not enough of an expert to know for sure, but it doesn't smell good. Certainly, I see no likelihood of a real, lasting recovery for at least another 3-4 quarters – in fact, it's hard to see how most investors will feel confidence in placing their 401(k) funds in the stock market. Before you judge my words, read what E.S. Browning and Jonathan Weil said in their Journal article:

"Behind the frantic trading is a watershed development in American business: The fundamentals of the accounting profession have been called into question. Where two decades ago, accountants were still held in high esteem, now they rank in public-opinion polls below politicians and even journalists. An opinion letter from a Big Five accounting firm, once viewed as a trusted seal of approval, now may not carry the imprimatur of authority."

Alarmism this could be, but I don't think so. For every mistake there is a price to pay, and nowhere more so than when trust is forfeited. Boom times like the decade just past seem to numb most of us to the risks of 'cutting corners'; such as during the early nineties when accounting firms, envious of the growth potential in enterprise application projects, decided that the 'impartiality' they used to claim had become an expendable luxury in the face of the temptation to get a piece of the software implementation action. So they set up fast-growing practices dedicated to specific ERP, then CRM, products, such SAP, PeopleSoft, and Siebel. The same was true for financial consulting projects, such as Arthur Andersen providing advice to Enron in setting up its exotic schemes to unload debt from its balance sheet. Now that such conflict of interest has evidently got out of control, the issue is now white-hot. So hot in fact that, as told in a New York Times article by Jonathan Glater (02.01.02), the Big Five firms who have yet to split their audit and consulting operations are rushing to do as a means of deterring a deluge of regulation (just two years after proposed legislation was rejected following intense lobbying in Congress). The same phenomenon has also hit the major investment banks - as we now know, securities analysts became direct holders of the very stocks they were recommending to investors. The resulting scandal led to CSFB settling an SEC lawsuit in late January for $100m.

In a second timely article titled *"Enron, End of an Era"* and published on 01.27.02, Arthur Levitt Jr., former chairman of the Securities and Exchange Commission from 1993-2001, described his serious concerns that lowered standards have deeply affected the ability of investors to feel trust in the integrity of capital markets and public companies. Seeing beyond the single case of Enron to a larger systemic cause, Levitt sends out a strong alert to every investor and executive:

"The fall of Enron is actually the story of the bull market of the 1990s – and how the markets' failure to keep up with a time of unrivaled prosperity and technological advances allowed competitive juices to bubble over into hype, greed and immorality. The scandal marks the end of an era; the irrational exuberance of the past decade has finally collided with the brick wall of rationality. … The system could not keep pace with the bubble of hype and hope. A culture of gamesmanship took hold in which it was acceptable for corporations to bend the rules, tweak the numbers and let obvious problems slide in order to meet Wall Street's desires and expectations. Boosting share price and beating expectations took precedence over creating real value and real numbers."

"The crisis of faith didn't start with Enron. Over the past six years, investors have lost close to $200 billion in earnings restatements and falling stock prices after audit failures. That – along with other cases of high-profile accounting irregularities (such as Waste Management and MicroStrategy), the implosion of high-flier tech stocks and the Enron scandal – has combined to call into question the strength and fundamentals of our markets and market economy: transparency, accountability and trust."

With the Enron/Andersen fiasco in mind, Levitt points out several key areas for immediate improvement:

1. Wall Street Analysts' conflicts of interest must be exposed and eliminated wherever possible.
2. Boards of directors need to be strictly independent so that they are able to ask management tough questions.
3. Auditors must once again be independent – this includes independence from the interests of consulting businesses under the same roof.

In case we harbor any further illusions about the Enron/Andersen scandal being a one-off, another respected figure, this time the economist and New York Times columnist Paul Krugman, warns us to "Get Ready for More Enrons", suggesting in his 02.04.02 article that, "not only have other companies engaged in 'aggressive accounting', the art form formerly known as fraud", but that we can expect many examples of other companies "behind their imposing facades, (turning out to be) little more than pyramid schemes". He goes on: "like any crime, a pyramid scheme requires means, motive and opportunity", and describes three 'strands of opportunity'—the rise of the 'new economy', the stock market bubble, and the permissive legal environment resulting from the 1995 Private Securities Litigation Reform Act, which insulated accounting firms, investment banks, and companies guilty of sharp accounting practices from lawsuits.

My guess is that this crisis of confidence will get worse before it gets better, as other shoes drop in coming weeks and months. It seems that the longer an economic boom goes on, the worse the abuses get, in a more or less direct relationship. This is why I often curse the by-products of the 90s boom – it made individuals and organizations self-indulgent, sloppy, and - worst of all - willing to forgo their integrity.

3. SeeCommerce and Qarbon: Accelerating Sales in a Tough Environment

Following my short item in November's edition, in which I asked for companies to contact me with details of their success in accelerating closure of important deals during the current downturn, I am happy to report on two contrasting cases of fast-growing private software companies that are producing impressive results despite the admitted obstacles everyone is facing to close business these days. In coming editions, I shall cover other similar examples.

Case #1: SeeCommerce (Supply Chain Performance Management) at Sears

Spectacular ROI (5-10x in <12 months) by solving mission-critical problems using a consultative approach

SeeCommerce, headquartered in Palo Alto, is a software and services company focused on providing corporate customers with dramatically enhanced visibility into potential choke points in their supply chains in order to take appropriate preventative action. SeeCommerce's applications focus on monitoring and measuring supplier performance, accuracy of forecasted demand, raw materials availability, production performance versus plan, available finished goods, financial performance of the supply chain, and other related applications. Founded in 1996, the Company has raised a total of $66.4 million in outside funding, led by VC firms such as Amerindo Financial, Integral Capital Partners, Sierra Ventures, and Voyager Capital. Customers include DaimlerChrysler, Flextronics, Pfizer, Fiat, Philips, Polaroid, Nestle Germany, and recently, Sears. Typically, SeeCommerce's customers are Global 2000 companies leveraging the Internet to enhance supply chain performance on top of their existing ERP and other operational systems.

According to Paul Albright, SeeCommerce's CEO, "Our in partnering with our customers has proven invaluable. IT departments are flooded with tools and managers are starving for business applications that help them to immediately solve complex problems. Our solution is to deploy packaged applications that IT can easily manage, and that quickly deliver new insights to business managers so they improve their supply chains every day. The supply chain is simply too complex to be addressed by forecasting technologies alone."

In analyzing the perspective of one such enterprise customer, Sears - a Fortune 500 company accustomed to managing such large-scale operational problems - I spent 30 minutes on the phone with Steve Poplawski, vice president of Merchandise Planning and Placement for the Hard Lines division. Sears is implementing a SeeCommerce solution aimed at shortening its inventory cycle while actually enhancing the level of customer service, initially in its large home appliances business. This is evidently an ambitious but potentially highly rewarding project, so I asked Poplawski about the current IT investment environment inside a large corporation like Sears:

Question: "*Taking into account the strategic importance of the project, at a time of general economic downturn and "malaise" following the September 11 attacks, was it any more difficult (or easy) for you to get an investment like this approved by the company?"*

Poplawski's reply: "*Current economic pressures have forced many to retrench in a number of expense categories, including IT and Consulting. That being said, most would agree that this environment limits top line (revenue) and margin growth, whereas areas like the supply chain remain key levers in improving the bottom line. So, although … initiatives are more carefully scrutinized, high value / quick pay-back initiatives probably have an equal, if not better, chance of gaining approval. For any company that views their supply chain as a strategic impetus for profitable growth and performance improvement, I would say funding will always be available."*

Regarding his rationale for vendor selection, Poplawski told me: "SeeCommerce understood that the ROI story had to be convincing, because Sears has a rigorous ROI approach regarding upfront costs and ongoing development and operating costs of IT solutions. Our strategy was to sell the ROI internally on the whole supply chain management *process*, not just the system features. In Sears, ROI is 'the price of admission to get anything funded', and SeeCommerce stepped up to the plate and provided an attractive *speed to solution.* This was unique at the time, because no one else was willing to step up to the same commitments." Doesn't *every* enterprise software vendor these days set expectations according to reasonable ROI parameters before expecting large enterprises to make a buying decision?, I asked. Poplawski's reply: "Most of my contacts have been with systems integrators, who are very adept at ROI analysis. But it was unusual to see a software vendor take the initiative with the site audit."

How did Sears approach the question of identifying a clear return on investment – were your criteria mainly financial, based on cost savings? "We approached our study differently, attacking the dimension of time, i.e., how to take inventory out of the supply chain while improving service to our customers, and we focused on making this tangible. We have critical relationships with 17-18 strategic vendors that impact 50% of Sears' volume – so we started with the biggest suppliers and built joint supply chains." Why did you choose to target Hard Lines first? "We chose home appliances, where we believed we could take out two full days of cycle time, equating to tens of millions of dollars in inventory savings." You mentioned earlier that SeeCommerce stepped up to the plate on the issue of *speed* - how did they make this tangible and also, how did they overcome your natural skepticism? "SeeCommerce did a lot of upfront analysis, and 'sold' lots of Sears people ahead of time, to accelerate progress towards closing the contract. In three weeks, they came up with a working prototype with Sears data in it, and in six weeks they produced a prototype containing 2-3 lines of Sears' business."

What about SeeCommerce being one more Internet startup in a tough economy: how did Sears come to prefer them to other more established competitors such as Oracle, SAP, i2 and Manugistics - all of whom claimed to have a solution for Sears' inventory management problem? "SeeCommerce was a small, unknown vendor to us, with no retail customers, but they showed that they wanted to be a partner with me. When challenged to deliver a solution within six weeks, they demonstrated that they could do so. I was impressed by the quality of executive that we had access to, the level of conversation was 'what is the problem that Sears is trying to solve', and SeeCommerce consistently described things from a solution perspective. The speed to solution was very important, they had to integrate with as many as four to six legacy systems, and we had an IT/business solution team with whom they built a lasting relationship."

In a sophisticated company Like Sears, weren't you already able to manage cost out of your supply chain to a significant degree before SeeCommerce came along? "We view the supply chain as a very strategic piece of the business, and there is high value in optimizing it. The supply chain in general is still a relatively untapped resource, and tools like those of SeeCommerce are real enablers – they let you operate within a holistic supply chain, and measure the performance of the whole thing. And, the Internet gives you the ability to sign up new suppliers by just giving them the URL and letting them get going."

Key Ingredients to Accelerate Successful Sales

Poplawski's comments reflect a number of important ingredients for accelerating customers' IT investment decisions in today's cautious business environment that enterprise software must attempt to surface during the sales cycle, including these:

1) Clearly defined target customer in a large enterprise, with a clear vision of what they are aiming to accomplish, sufficiently motivated and authorized to act;
2) A mission-critical problem – in this case, inventory inefficiency and resulting customer service problems - that is broken enough and sizable enough to warrant the customer adopting a new type of solution in order to get ahead of its closest competitors in a profit-squeezed market and environment;
3) An innovative solution based on a leading-edge supply chain performance management platform containing supplier, inventory and logistics applications, supported by pre-sales business case study (SVA), plus relevant professional services to assure a speedy implementation – in essence, enabling a company the size of Sears to use automated performance management as the 'air-traffic controller' for its entire supply chain;
4) A highly consultative sales approach that starts with the question 'what is Sears trying to accomplish with its supply chain?', rather than leading with a smooth product sales pitch.

As quoted in a November 27 article published in Line56 Magazine online, Mike Mansbach, SeeCommerce's vice president of marketing & business development, points out that the project to streamline Sears' inventory management boils down to, "Is my supplier delivering what they promised to deliver me, regarding quality, timeliness, and quantity? Not meeting these factors has an impact on Sears' ability to deliver products to its retailers. They're sourcing massive amounts of inventory, without the ability to manage the performance of those suppliers."

Mansbach further explained to me that SeeCommerce has developed its products based on a strategic 'eight-element" approach to supply chain performance management – 'STEP' (Supply Chain Technology to Evolve Performance). STEP incorporates specific templates containing business rules of different industry verticals, mapped to the requirements of each company's customers and suppliers, and providing for automated collaboration and conflict resolution, performance analysis, business process refinement, and closed-loop management of actions resulting from modifications applied to supply chain performance. Regarding the response of the market to SeeCommerce's "solution-focused" approach, Mansbach points out three key aspects of today's IT investment climate inside large enterprises:

1. For SeeCommerce's products, there are still visionary customers who "set the tone" for aggressive projects such as Sears' own initiative, but budgetary controls have now shifted to the functional manager who can prove their ability to generate a return;
2. If the vendor cannot identify an internal champion to advocate the feasibility of a convincing ROI (i.e., 5-10x in 12 months or less), the sales cycle is definitely at risk;

3. An ROI calculator has become a pervasive tool among large customers, though there is a "high level of organizational skepticism regarding superficial ROIs" that don't portray a complete picture of the long-term value to be realized by the customer.

SeeCommerce has developed a three-part ROI measurement process for helping potential customers to accurately estimate the returns they can achieve from use of the company's performance management solutions. Step One in their Solution Value Assessment ('SVA') process, called the Value Calculator, is essentially a discussion stimulator. Using publicly available industry norms on supply chain performance, it provides in spreadsheet form an idea of the potential value that a customer could realize from using performance management tools. Step Two is a two-day quick 'n' dirty audit called, appropriately, the Value Snapshot. Step Three is the full five-day consulting audit, called the Solution Value Assessment. Mansbach explains that this process, implemented in one form or another, is critical to determining whether or not a customer is 'ready' to go to the next stage of implementation, or not.

In fact, SeeCommerce charges every qualified prospective customer $25,000 for the opportunity for both sides to get a real sense of the holistic picture of the supply chain, and what they are aiming to accomplish by improving its effectiveness. As a precursor to applying the SVA audit, Tapas Majumdar, senior director of Professional Services, describes how SeeCommerce arranges an initial meeting to gauge the customer's requirements, followed by a second meeting to replay what they have heard and present a brief, conceptual outline of the solution, at which point they are ready to go to the next step of implementing one or more of the three steps described above. When I commented on i2's renowned "SOA" (Sales Opportunity Analysis) process used to justify significant investments in SCM projects by many companies who are among SeeCommerce's target customers today, Mansbach replied combatively: "Any initial ROI that forecasts payback two to three years out is facing a struggle to be approved in today's environment!"

I asked about the importance of SeeCommerce applying the SVA process to every customer situation. Mansbach's response: "Among other advantages, it helps to determine the seriousness of the customer about improving their supply chain performance. While it is not a profit-earner for SeeCommerce, it defrays some of the company's pre-sales costs. For would-be customers, it stands on its own merits, even of they should decide not to invest in SeeCommerce's solution." In reply to a final question about the value to SeeCommerce when prospective customers agree to the SVA exercise, Mansbach agreed that it is an early (though conditional) 'buying signal', because few if any large enterprises will go to the trouble of commissioning more than one vendor to conduct such an intimate study, and in fact they will usually only do so once they feel a degree of confidence in the vendor's ability to solve their problem.

As I argued in this journal several issues ago ("Using Site Audits to Accelerate Enterprise Purchasing Decisions", *Under the Buzz* vol.2, nbr.8, August 2001), site audits – or SVAs, or whatever you decide to call them – can have hugely significant implications for vendors and their customers, when executed as part of a strategic, conceptual sales process because:

(a) They differentiate a truly consultative vendor from its main competitors,

(b) They accelerate the customer's decision process, which is generally a good thing for *both* sides,

(c) They should lead to big-ticket deals and healthy margins, because pricing of the contract can then be based directly on the value of fixing the customer's 'broken' business process.

As a variation on this idea, Steve Clarence, VP of sales for Qiva, a supply chain execution software company, told me how the company is managing to accelerate the decision process of their most serious prospective customers by organizing a workshop to discuss how the

customer's problem will be addressed by Qiva's proposed solution, what is involved in the implementation phase and in ongoing support, and how quickly payback can be expected.

Case #2: Qarbon – Animated Training/Support Software

Spectacular payback (one week!) by solving mission-supporting problems using a less consultative approach

Another, more unassuming, example of a company successfully ramping up revenues is Qarbon, a twelve-employee company based in San Jose that is making rapid progress toward sustained profitability. Qarbon makes software to enable companies to train employees inexpensively via animated web-based demos, and has garnered a number of passionate customer advocates, including Home Depot, Oracle, Zurich Insurance, Procter & Gamble, and Compaq.

Marty Smith, Home Depot's director of information systems (enterprise architecture), related to me how the Company has implemented Qarbon's Viewlets to achieve two objectives: (a) a significant tangible payback of *one week* related to reducing training and documentation costs for new hires and other employees in the company's 1300 stores and other locations, and (b) significant beneficial impact on the strategic corporate goal of increasing customer service quality, because employees are more quickly able to provide information on new products to store customers. Smith also commented on his success in resolving the classic resistance he faced when trying to demonstrate to clerks in the training and support departments that the new technology would enhance the value of their work, rather than obsolete their jobs.

At Oracle, Erik Bower, director of CRM eMarketing Product Management, tells how Qarbon's Viewlets have helped the company to both reduce the cost and labor intensity of building demos for Oracle's E-Business Suite, as well as win recognition in a number of surveys for the quality of its Guided Selling product demos, and general online training and education. Zurich Insurance was a third Qarbon customer to report the importance of Qarbon's ViewletBuilder in creating training presentations that resulted in reduction of heavy travel and training costs incurred in over 40 countries where Zurich operates, as described by Training Manager Carole Batterman-West. Finally, Cheryl Puterbaugh, Manager of IT Learning at Procter & Gamble, endorses Viewets as "an opportunity to spend a little to save a lot, and provide training developers with a better tool".

Apart from taking full advantage of the ability to offer payback in 'no-brainer' time (one or two weeks is typical), Qarbon monitors downloads of the freeware version of Viewlets that prospective customers can download from the website, and when it spots significant traffic, the sales force contacts the customer to see if they are interested in turning their isolated end-user downloads into a site license or other corporate-level commitment. Amazingly, Qarbon does this with just a dozen employees and an inside-sales force.

Strategic and Tactical Implications for e-Business Software Vendors

In conclusion, I have a few suggestions for software companies whose products are at similar stages of adoption to those of SeeCommerce and Qarbon (in broad terms, probably somewhere between the early market and the bowling alley), and require a proactive, somewhat consultative approach in order to result in optimal market penetration. These are some things to focus on:

- Determine as soon as feasible a two-way strategy with separate rules of engagement: firstly, choose a target market segment to win dominant share in (no less) and, secondly, select other markets to compete in for a 'fair' share of the business; make sure to drive the former strategy while participating in partner-led coalitions for the latter, in order to accelerate overall market penetration.
- All things being equal with the go-to-market strategy, pricing is perhaps the most awkward factor to get right. By determining their pricing according to prevailing internet-era concepts – such as Netscape's trade-mark "ubiquity first, revenues later" model, or the classic model based on reference prices for 'comparable' products - companies share

too much of the value with their customers. Strange as it may seem, low prices will tend to actually *slow* the adoption of their offerings, because customers are more results-sensitive than price-sensitive in early stages of adoption. Thus, during the 'early market' to 'bowling alley' stages, pricing should be 'value'-based – in other words, based on tying the value of the *whole solution* directly to the solution of the customer's business problem as part of a joint consultative dialogue. This is the approach that accelerates adoption – i.e., (a) it brings out the real ROI, and (b) it provides some assurance that anticipated results will actually be achieved. And the kicker: it produces healthy margins for vendors.

- Adopt an aggressive and imaginative partnering approach toward other software vendors in contiguous categories (for example, SeeCommerce in performance management, combining with Agile Software in product collaboration, to address the requirements of high-tech contract manufacturing companies), in order to beef up the solution offered and accelerate sales and implementations with key large enterprise customers.
- Large systems integrators such as IBM, Accenture, PWC, Deloitte Consulting, or Ernst & Young are important, though often difficult to recruit, mainly because (a) they may not perceive the opportunity as being sufficiently attractive to build a practice around, and (b) they are not usually proficient at business development. Therefore, ISVs should design SIs into their 'whole product' offer, specifically to provide up-front consulting services related such as the site audit (or 'SVA'), as well as project planning and implementation. They will know how to perform and charge for these services at a high level, which will accelerate their investment in building a practice around your software – thus accelerating adoption of your products versus those of your competitors. Since these firms on occasion may want to assume control of the customer relationship as well as (if you are not careful) the customer's budget, you need to be careful to manage this partnering process. Nonetheless, provided it is firmly managed, this approach can enable a company to partner closely with more than one SI in order to achieve meaningful penetration in several target markets at once, and thus win the race to become the de facto market leader in its category.

On ROI, one message is clear and unambiguous: corporations today are pressured enough by the tight economy and spoiled enough by their first internet-software experiences to expect lightning-fast payback from their internet IT investments in weeks or a few months – "less than two quarters" is a frequent quote - or else vendors and service providers can 'fuggedaboudit'.

Under the Buzz offers a monthly commentary on the business-to-business e-commerce sector. The goal is to provide provocative and accurate insights into the latest events and thinking shaping the rapidly evolving business-to-business marketplace. *Under the Buzz* also focuses on strategies for building sustainable competitive differentiation and maximizing market valuations. **© 2002, Philip Lay**

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