

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 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. Salem Witch Trials Redux: The Backlash Against Corporate Malfeasance**
- 2. What *Getting Real* in Today's Environment Really Means**
- 3. Marketing Programs for Times Like These**

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Omission from Main Article in July Edition:

Just after the July issue came out, I noticed that an attribution to my colleague Geoffrey Moore for ideas that he contributed on the topic of Provocation-based Selling in the main article titled "Is There Any Way of Closing Deals in Today's Corporate Marketplace?" had been accidentally omitted from the final edition.

Sign of the Times:

New post-Enron/Global Crossing/Arthur Andersen/Qwest/WorldCom definitions:

*"EBITDA: earnings before I tricked damn auditor.
EBIT: earnings before irregularities and tampering.
NAV: normal Anderson valuation.
CFO: Chief Fraud Officer."*

- From an email doing the rounds

1. Salem Witch Trials Redux: The Backlash Against Corporate Malfeasance

As businesses, Congress and government agencies start taking measures to correct the excesses of the recent nineties boom 'n' bubble, it is easy for people here as well as in other countries to gloat over the dramatic turnabout from the times of multi-million dollar stock option gains by tech company executives, to the sudden meltdown of hundreds of once-glamorous companies including dotcoms and telecom companies, as well as notorious law-breakers like Enron, Global Crossing, Worldcom, and others. Not to forget the middlemen who committed conflict-of-interest sins, among them CSFB, Merrill Lynch, Morgan Stanley, and other Wall St. and boutique investment banking firms; nor the ill-fated Arthur Andersen audit and consulting firm, that was the object of the latest government witch-hunt.

In contrast to other countries, most of which either choose not to punish white-collar criminals, or have no legal mechanisms in place to do so (which amounts to the same thing), the U.S. already has fairly stiff legal measures to employ against them. The danger now is that an unholy, opportunistic alliance of

politicians from both U.S. parties, and disappointed investors acting out their collective bad mood about the 'fortunes' lost in the stock market casino, will combine to enact legislation that goes way over the top. Regarding the first group, the Republicans have plenty of motive to find scapegoats that might extricate them from voter wrath at the scale and length of the current economic downturn, whereas the Democrats, as usual, are always anxious to bash those whom they perceive to be business sinners. If we're not careful, the present circus could soon resemble the spectacle of puritanical fury unleashed on the Salem witches a couple of centuries ago. An example of this phenomenon is the recent populist decision by the Bush administration to coerce public-company CEOs to publicly to sign off on the integrity of their financial reports. Though laudable in theory, this type of exaggerated reaction may well drive precious talent away from corporate leadership - much like what happened in national and local politics a generation or so ago, when serious people began to recoil at the high penalty of running for public office. Specifically, public-company management could turn into a legal-liability nightmare for executives, each of whom will run the risk of going to jail at the first signs of an accounting slip. Isn't this taking things a bit far, especially when you consider how complex corporate accounting practices are becoming, in order to serve the reporting requirements of government and others?

Moreover, I would argue that U.S. society, already suffering from an excessive dosage of political correctness in many spheres, can ill afford to become more hypocritical than it already is. For example, the religious conservatives (= puritans) that appear to be driving much of the Bush administration's ill-chosen invective at various times since September 11 only serve to inflame the hatred of other radicals around the world, especially fundamentalist (= puritanical) Muslims. The term "pc" has another, equally pernicious, downside apart from being irresponsibly inflammatory: it just conceals the truth in fancy language. In this way, religious or racial intolerance don't get resolved, they just go underground, as people pretend to be enlightened. For example, conducting 'random' security checks at airports on business people and senior citizens alike – essentially, individuals who could not be further from being terrorists - while taking pains to avoid checking people with the exact profile of terrorists for fear of appearing to indulge in 'racial' profiling, serve to emphasize the lack of perspective in civic and political leadership that sometimes afflicts this country. Far from emphasizing the civilized nature of public life and government in the U.S. – something the Bush administration has worked hard to lecture the world on in recent months – these misguided gestures just serve to reduce the respect that people in other countries have for the U.S., besides exacerbating anti-American feelings.

Finally, back to the topic of business crime. While countries around the world puzzle over the recent company scandals in the U.S., what can on occasion be forgotten is that at least the Americans have strict laws in place, and at least they occasionally get upset enough to use them, especially against flagrant law-breakers. Most other 'developed' countries, including Japan, France, and Germany, are much more lenient in implementing legal remedies against miscreants. And, lest we forget in the glare of today's intense media scrutiny, apart from the apparent upsurge in corporate crime during the excesses of the bubble, it is still only a tiny minority of U.S. corporate executives who commit really heinous crimes.

2. What Getting Real in Today's Environment Really Means

Today most people recognize that the tech industry is experiencing the toughest times in more than a generation, with little signs thus far of when things will lighten up. By now, after more than *two years* (yes, it's been that long!) since the internet bubble was first punctured in April of 2000, I would have expected most company CEOs and management teams to have got real about the predicament they were in. Unfortunately, in my daily contacts with executive teams and Boards of software companies, I still see that *hope-based* (or their sibling *despair-based*) management attitudes still predominate over a more grounded mindset that I will refer to as *reality-based management*. From where I stand, the lack of a realistic approach, more than any other single 'internal' factor, is serving to delay a return to more viable or even prosperous times for the market as a whole. Even worse, I would argue that adopting a variation on the *hunker-down-and-hope* approach – as many companies seem to be doing - is likely to lead to failure of the business. To use psychologists' jargon, if untreated, the refusal to face squarely up to the need

for tough, perhaps, radical decisions, is almost certain to be *pathological* – i.e., it will cause the organism's demise.

In previous articles I have referred to the importance of contrarian thinking, a quality that is especially vital when times are bad and all about you are losing their heads. What I mean by this is that it is during tough times that companies can separate themselves from the herd by having the courage to row upstream against the prevailing currents of defensive management and conventional thinking. Thus, instead of hiding in a bunker to weather the storm, it is critical that management teams drum up the energy and initiative to address the tough decisions that will give their companies a fair chance to survive the current storm to fight new battles [OK, that's enough with the mixed metaphors!].

Here is my challenge to all those management teams who are reminded on a daily basis of the deflating fact that the companies they have spent five years or so building have an enterprise value equivalent to zero or less. Before I continue, allow me clarify what I believe is meant by 'enterprise value', a metric introduced by securities analysts to compare the real market value of tech companies. As we all know, many such businesses continue to be unprofitable well after their IPOs, despite having cash in the bank from such liquidity events as secondary offerings (the private-company equivalent being those companies flush with cash from recent D, E or F rounds, and still operating unprofitably). 'Enterprise value' is a measure that, among other things, subtracts a company's cash resources from its market cap (or market valuation, for private companies); today, despite having cash in the bank, many notable public software companies have a close-to-zero or negative enterprise value as a result of this calculation. You can debate whether or not cash should be part of the enterprise valuation, but Wall Street prefers to count this conservatively, especially in companies with money-losing operations, on the skeptical basis that if the company is still losing money after all this time, what's to say that the cash won't be frittered away before investors can get their hands on it?

Thus, taking into account the various indicators that the market is using to send companies a message (such as, if in the currently depressed stock market your company is being attributed a zero or so enterprise value; or if your product category today does not look so 'investable' or promising as it once did; or even, assuming there is no assured upturn on the horizon for software companies as a class), it is reasonable to ask what company management teams are doing to give their companies a chance to avoid the failure syndrome that is consuming many of their fellows? Unfortunately, my perception is that most teams are still operating out of an excessively tactical frame mindset, thus effectively not giving themselves a real chance to survive today's *perfect storm*. So, what are the key signs that hope-based attitudes are continuing to predominate over reality-based approaches? Below I have listed five factors, with a specific emphasis on sales-related inhibitors, and have compared approaches that are likely to result in a downward spiral (the first set), versus those in which management is taking the right kind of action to maintain or restore vitality in the business (the second set):

Five signs that the Board and e-team may be presiding over a pathological spiral:

1. Business model: Companies conceived and launched on one fundamental business model during the boom (e.g., software licensing, custom-project services, transaction services, or subscription services) that opt to make only gradual adaptations to the existing organization instead of actually *redesigning* their structure and processes in order to operate the new model effectively (*);
2. Sales pipelines in which a majority of the significant deals forecast not only do not close in a given quarter, but show no forward progress from month to month (in many cases, companies do not distinguish effectively between pipeline, forecast and committed items; the blurring of these classifications can lead directly to last-minute disappointments in quarterly sales and earnings results below the already-lowered guidance and consensus estimates that are typical in today's market);

3. Field sales forces populated - and managed - predominantly by 'hunters' brought up in the boom of the naughty nineties to expect to be handed hot leads and close them in short sell cycles, and who cannot adapt to the challenge in today's market of creating demand using more consultative selling skills;
4. Organizations in which 'sales' is treated as a functional activity, rather than a company-wide activity. These are the same organizations in which executives and directors spend less than 20% of their time in 'proactive' customer contacts (i.e, excluding 'damage control' or 'deal-closing' activities). When sales don't materialize, the finger-pointing starts, but no one is authorized or informed enough to understand or address the cause of the lost sale;
5. Human resource management: Companies that continue to execute successive RIFs, each one being touted as the last, without any significant alteration to company strategy or business design. Morale is gradually eroded, as employees, management and board members lose sight of the cause that originally attracted them to the company, and the best people leave (or go on indefinite sabbaticals).

(*) As an example of the gravity of this problem, since the 1996-1999 period - when widespread experimentation into new tech business models was funded by VCs and others in the wake of the Netscape phenomenon - the software-licensing model has re-exerted itself, especially in the enterprise-focused software world. Thus, many former ASPs, B2B exchanges, B2C software companies, and even some professional services companies, have redefined themselves as software companies. Unfortunately, in many cases, certain critical functional disciplines for enterprise software companies of product management, solutions marketing (via industry and/or field marketing groups), consultative selling, post-sales field support, and account management – often neglected during the boom – have still not been either suitably *designed* into, nor installed in, the reworked organizations. Such gaps are proving themselves in some situations to be life-threatening, as enterprise customers turn away from young companies that do not learn quickly enough how to deal with their stringent requirements in these areas.

Five signs that the Board and e-team are giving their companies a chance to survive:

1. Business model: When, for example, reverting from a transaction services model (e.g., an ASP) to a licensing model (e.g., a classic enterprise software model), the executive team performs a complete overhaul of its vision, market strategy, sales process, operational resources, and organizational structure. This implies having the guts to re-allocate people, release others, and hire, outsource or partner for new skills and resources, as necessary – especially at the top.
2. Sales pipeline: All deals that have not made progress in the selling process from one quarter to the next are eliminated from the sales pipeline and forecast, and potential deals are only (re)admitted when closure is actually forecastable within the current quarter, based on clear steps in a documented sales process;
3. Field sales force: Salespeople and managers are required to develop/manage their business using consultative selling and relationship management techniques, as required by enterprise customers;
4. Organization structure: Sales is organized and authorized to manage the selling process on behalf of the company, but they are required to engage the entire organization in the process. When sales don't materialize as forecast, the organization has sufficient information to identify the cause of the problem and take corrective action for the next deal;
5. Human resource management: The company reviews and, if necessary, redesigns its business model and organization, including a plan to install new functional disciplines and eliminate others, as needed. Adopting a bootstrap or customer-funded approach

(in light of today's acute scarcity of cash), if the resource review indicates that a RIF is needed, it is implemented in line with the most conservative sales forecast designed to produce an operating breakeven or better. New resources are only brought on board when there is solid business to back it up.

Clearly, management cannot be held responsible for the external market factors that are making it so difficult for tech companies to successfully manage their growth and profitability in the current environment; nonetheless, everyone with a measure of common sense recognizes that management must take full advantage of slower-moving markets to reorganize for better times.

Perspective on Man's Mortality:

“one two three four
the memories of a man in his old age
are the deeds of a man in his prime
you shuffle in the gloom of a sick room
and talk to yourself as you die

life is a short warm moment
and death is a long cold rest
you get your chance to try
in the twinkling of an eye
eighty years with luck or even less”

- “free four”, by Roger Waters, on Pink Floyd's 'Obscured by Clouds' album

3. Marketing Programs in Times Like These

Here is a short item on a topic dear to every tech company: marketing programs aimed at generating sales leads. No matter how lean a company's sales pipeline is today, some of the marketing programs that have traditionally been deployed to generate sales leads are now proving themselves to be virtually a total waste of time and resources. In particular, I am referring to most mass-marketing programs, or in other words all those product marketing efforts designed to reach many prospective or actual customers with the purpose of inviting them to attend events, or to consider buying a company's products. For all those marketing, sales and executive types brought up in more forgiving times on regular doses of direct-mail campaigns, trade shows, and ten-city seminar programs, here is a message: save your powder for more sensible and productive uses! Even for those companies that have cash from recent financing to last another several months, or those public companies that have money in the bank from past secondary offerings, or even from their own profitable operations, cash is turning out to be the scarcest of resources, and is likely to become even scarcer before times get better.

Of course, it's not just a question of the resources within a company's grasp. Perhaps most importantly, for a number of reasons customers are not in a mood to respond to mass-marketing programs. Unfortunately, once anxiety caused by a lean sales pipeline takes hold of an executive team, they often react by resolving to pedal faster on the marketing bike, which is exactly the impulse they should most resist. Instead, it is vital to stop all poorly-producing marketing programs, conserve resources, and *start thinking creatively about programs that permit a one-on-one level of intimacy rather than a one-to-many form of reach.*

When most managers in corporate organizations and government agencies are in a *bad mood* about their tight IT budgets, dwindling resources for late critical projects, and extra-long workdays

to cover for laid-off colleagues, and when they are also being made to feel hesitant about traveling to far-off places for trade shows and conferences, and when they are feeling unsure about the value of acquiring one more software package or system upgrade, there is one type of marketing program that vendors should minimize at all costs: the one that makes them feel bombarded and treated like cattle, and that doesn't give them an opportunity to be heard. Thus direct mail campaigns that were once considered successes if they generated a 2-3% response, are now even more suspect than they used to be. Except for mature consumer products and services, what kind of a sales lead can an enterprise-software company reasonably expect to get out of something so superficial during tough times?

One of the more popular marketing programs in use today is the webinar – i.e., interactive web-based presentations with Q&A sessions. Interestingly, most companies still use the conventional direct-mail blitz approach to filling the seats, and once they have secured a few hundred confirmations from several thousand mail-out invitations, they feel good if as many as half of the confirmed attendees actually participate on the day. Unfortunately, because of the deluge of webinars and the relative dearth of prospects disposed to participate in them, I would argue that most webinars are destined for mediocrity or worse as lead generators. Unless a company is able to make their event uniquely compelling, either by addressing a critical business issue common to the participating audience, and/or by introducing a guest panel or speaker of considerable stature. But if the event is merely positioned as a product-sales effort, it is likely to meet with mediocre results, except for those few companies that are fortunate enough to have a hot-selling item on their hands.

So, how should companies direct their marketing program dollars and effort? Well, besides the fundamental corporate discipline of product marketing, the main purpose of industry and field marketing groups today is more than ever to operate in a *sales support* role; to achieve this, they should invest in *one-on-one* programs that allow you to deal either present to one potential customer, or if not to follow up with each event participant. In last month's main *Under the Buzz* article titled "Is there *any* way of closing deals in today's corporate marketplace?", I described a list of just *four* priority marketing support programs for enterprise systems and software companies to deploy: 1) introductions to line-of-business executives, 2) development and delivery of effective provocations, 3) collection and documentation of war stories, and 4) diagnostic studies (which may contain ROI calculators, but are much more than that). Below, I describe the main types of program that are 'hot', juxtaposed with those that are infra-dig in today's world:

Marketing Programs - What's Hot?

Emphasize programs that involve:

- Targeting a few (i.e., 5-10) prospective customers in a given self-referencing industry or segment for provocation-focused marketing approaches, to ensure that sales teams can follow up with each one individually and in-person;
- Authoring (or commissioning) problem/solution-focused white papers, with contributions from customers or expert third parties, for publication in tightly focused journals and for use in sales campaigns with specific target customers;
- Hosting small, intimate gatherings (breakfasts or dinners) to allow 5-10 target customers to debate key business issues dear to their heart, possibly with one of them as presenters;
- Partnering intimately with one or two complementary companies for a few targeted market development initiatives.

Marketing Programs - What's Not (Hot)?

Avoid programs that involve:

- Targeting large numbers of prospective customers across vertical markets for product-focused marketing approaches, not providing any viable means for sales teams to follow up one by one;

- Commissioning product-focused white papers, with contributions from product, service, or channel 'partners', for publication in IT trade journals or large vertical-market pubs;
- Sponsoring – or exhibiting at - large trade shows or conferences to present products and/or general 'solutions' that are designed to create a herd-buying atmosphere;
- Sending out direct mailings to hundreds or thousands of companies and/or individuals;
- Advertising in trade or general press;
- Signing up as many product, service and channel 'partners' as possible and committing to a large number of joint programs in the hope of one or two being successful.

I believe that, besides the drastic reduction in wasted expenditure and effort on irrelevant programs promised by the approach recommended here, there are two immediate advantages to be gained from opting for the first approach cited above: (a) companies' overall marketing budgets need not be lavish, in fact they should be weighted towards less expensive (or wasteful) sales support activities like those shown above, and (b) the recommended set of programs is actually feasible, even with depleted numbers of marketing professionals in the organization.

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

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