

# **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](http://www.chasmgroup.com/underthebuzz_archives.htm).

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### **Lest We Forget How Difficult it is to Execute Successfully These Days ...**

The following quote is from a recent book on the leadership lessons to be learned from Theodore Roosevelt, the youngest President in U.S. history:

*"It is not the critic who counts; not the man who points out how the strong man stumbles, or where the doer of deeds could have done better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood; ... who at the best knows in the end the triumph of high achievement, and who at the worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who know neither victory nor defeat."*

- Theodore Roosevelt, quoted in "Theodore Roosevelt on Leadership" (2001), by James M. Strock

### **Publications Just Out ...**

Readers may be interested to learn that two new books by partners in our firm have just been published by Harper Business and are available in bookstores ... *"The Chasm Companion – A Fieldbook to Crossing the Chasm and Inside the Tornado"* was authored by Paul Wiefels. In it, Wiefels presents readers with a new analysis of the ideas introduced in Geoffrey Moore's two earlier bestselling books "Crossing the Chasm" (1992, revised in 1999), and "Inside the Tornado" (1995). "Companion" focuses on how to translate these ideas into actionable strategy and implementation programs (for more information, see [www.chasmcompanion.com](http://www.chasmcompanion.com)) ... Speaking of Geoffrey Moore, he is responsible for the second book, *"Living on the Fault Line – Revised Edition"*. The original version, published in June 2000, became a Wall Street Journal, BusinessWeek, and New York Times bestseller. The new edition has been significantly updated to reflect the shift from the dotcom-based investment mania of the late nineties to a more chastened business climate, in which managers everywhere are challenged to think in new ways about

how to build sustainable value by allocating resources in ways that minimize organizational bulk and sloth, and optimize for speed and agility.

### **Upcoming event ...**

On October 15, I shall have the honor of addressing an audience of software and tech company VPs of Marketing and Sales at the SMART Enterprise Conference, an invitation-only event to be held at the Ritz-Carlton Hotel in Half Moon Bay. My talk will focus on one of the major preoccupations of tech companies these days, i.e., “Making enterprise deals happen in today’s downturn.” Readers may recall that I wrote in some detail on this topic in the July issue ([http://www.chasmgroup.com/underthebuzz/ub\\_vol3\\_no7.pdf](http://www.chasmgroup.com/underthebuzz/ub_vol3_no7.pdf)). The conference will contain a number of sessions on related themes, such as “Distribution and Channel Strategies”, “How to Grow in a Downturn”, and “Benchmark Sales and Marketing”.

### **1. Top Ten Irrefutable Signs that the Apocalypse Was Upon Us in Late 1999-Early 2000**

*[Note: Readers are invited to send in their favorite examples!]*

With the help of readers, I would like to compile the all-time “Top Ten Irrefutable Signs ...” list and publish it by the time of the next issue of this journal, in mid-November. So, sharpen your pencils (or hit your keyboards) and let me know your personal favorite(s) among the nominations below, as well as making your own suggestions **by September 30th**.

So, to get you thinking, here are my current favorite remembrances and images, based on the wild stuff I saw happening around Silicon Valley – arguably, the region that swallowed more kool-aid than anywhere else:

1. “So, when do you think the Nasdaq will cross the Dow: late 2000, in 2002, or in 2003?” - text of an email message sent in early 2000 by my colleague Geoffrey Moore to a circle of associates and clients at the height of the ‘new economy’ fervor, when the Nasdaq was close to its peak at around 5,000 and the Dow was stable at around 10,000.
2. “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.
3. 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.
4. 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.
5. Company names like “ferretsoft.com” became the norm at VC financing conferences such as Enterprise Outlook in Burlingame, or the Robertson Stephens Conference in San Francisco.
6. Office landlords in Silicon Valley demanded stock options in lieu of cash from internet technology companies to cover the astronomical rental rates at the time.
7. Investor relations reported into marketing, business development was ‘king’, and (direct) sales was deemed a luxury.
8. Others?

Don’t forget to send in your votes and suggestions by replying to this email.

## **2. Six Key Lessons for Dealing with the Downturn - from Tech Company CEOs**

I am indebted to the input of a few technology company CEOs, who in separate one-on-one conversations described these six lessons on how to play good defense in the current tech depression, in order to live long enough to play offense as things turn around. You may notice that most of the topics outlined below are related to organizational angst, rather than externally focused market development:

1. *“Go with your gut on key calls – don’t let problems fester.”*
2. *“Cut deeper and earlier. Don’t allow yourself to fall in the trap of holding onto a structure you can’t afford, then having to suffer death from a thousand cuts.”*
3. *“Get rid of people who cannot or will not get aligned - no matter how talented or experienced they are.”*
4. *“Make sure you have the right people in critical positions, especially product management and solutions marketing.”*
5. *“Make it easy for customers to use your products; adopt a targeted market strategy early on, so that you can be sure of building at least one complete solution.”*
6. *“Understand the mindset of your investors and board dynamics and manage them proactively. Too many private companies, especially, have had their capitalization and shareholding structure messed up by successive down rounds, and it can become a torture to have to manage the resulting dysfunctional behavior.”*

While it may be too late for people to learn and apply these lessons in their organizations, now that a lot of the damage has been done, it may provide some measure of comfort to see what other executives have been struggling with as they sought to reconfigure their companies for the tough times that companies continue to endure.

## **3. A Powerful Idea to Align the Goals of Marketing and Sales in Enterprise Software Companies**

One of the hallmarks of the technology business, especially in enterprise software and systems companies, is the frequently chronic lack of alignment between the marketing and sales departments regarding what counts as effective objectives to pursue, and thus tactics to use, in engaging with target customer organizations. Without going into this fascinating topic in depth here, I want to bring to your attention an intriguing idea expounded by Bill Fried, founder of an enterprise software sales consultancy called Precision Selling.

Among the many excellent points Fried makes is this: as we all know, marketing sees ‘lead generation’ as one of its paramount responsibilities to the field, yet salespeople usually don’t attribute much value to the ‘leads’ they end up receiving. There are many possible reasons for this – including the ‘quality’ of the so-called leads, the amount of detail, and so on – but in today’s heartless marketplace, there is another, very compelling reason. It is this: as many of us recognize, what sales most needs these days is executive-level appointments in target organizations. Therefore, he reasons, *marketing should redefine its purpose in terms related to “executive-level appointment-generation”, and virtually all marketing programs and activities should be geared towards this objective.* Readers of this journal may recall that this proposition coincides with the ideas related to adopting a more focused approach to gaining access to target customers that I have expounded in recent issues of this journal (*Under the Buzz*, July 2002: *“Is There Any Way of Closing Deals in Today’s Corporate Marketplace?”*, and August 2002: *“Marketing Programs for Times Like These”*), regarding the type of enterprise-software or systems marketing program that tends to be most effective these days. Nonetheless, I find Bill

Fried's 'provocation' that marketing should actually revise its view of its core purpose and value to be a highly stimulating and relevant one. Therefore, I look forward to hearing that marketing executives and departments everywhere have taken note and are reconceiving their role in this light!

#### **4. What's the Best Way of Making Partnering Work in High-Tech?** *[Strategies for Go-to-Market Partnering Programs and Initiatives]*

*"If you don't know where you're going, how will you know when you get there?"*

- Comment attributed to Casey Stengel, Hall of Fame baseball player and manager

After witnessing, and, in past years actually being a party to, poor partnering practices by technology companies, I have developed a mental picture of the approach I would like to hear more often expressed by CEOs or bizdev executives:

*"As a promising player in our area of enterprise software, we have long harbored a desire to become the leader in our product category, but we have been hampered by a number of factors, including an unclear market strategy, and a consequent inability to execute any plan effectively.*

*"Based on recent feedback from other players in the market, including potential business partners, it seems that a critical problem we face is the strong perception that we are not easy to do business with, and not able to follow through on our commitments to partners. In a market dependent on technological 'openness', the willingness to collaborate formally with other technology-focused companies is undoubtedly a key component in every company's success, from the Microsofts and IBMs to the smallest start-up. In our case, we have clearly failed to build any kind of value chain around our key products, and consequently customers have been hesitant to buy from us, preferring to wait and see which of the potential winners can actually put a complete solution together in convincing fashion.*

*"Therefore, in order to accelerate the achievement of our corporate agenda, we have worked to define a new partnering approach that distinguishes between different types of partnership arrangements, and is aimed at enabling us to rapidly extend our reach and market penetration through an 'ecosystem' approach, rather than a verticalized, go-it-alone approach that confuses other companies and forces them to either be neutral or even hostile to us in critical marketing and sales situations.*

*"From now on, with respect to go-to-market partnering initiatives and programs in particular, we are adopting an approach aimed at driving (a) a single strategic market dominance initiative requiring intimate partnership arrangements with one or two management consultants, integrators and/or ISVs; (b) as many as three to five tactical initiatives/programs involving three-ten product or service partners in total; and (c) any number of more casual relationships with third parties on an opportunity-by-opportunity basis, to be handled more often than not by our field organization.*

*"In order to execute effectively on this plan, we have defined a set of templates designed to help us manage our portfolio of partnering relationships, in addition to suitable rules of engagement for each type of partner, and a suggested process for managing and legislating each relationship. Finally, we are presenting a picture of how the organization should in our view look to reflect the commitments we shall be making to partners, and the skillsets and headcount/other resources we shall need to reallocate in order to manage the new strategy."*

The reason I know that the above speech is still a dream, as far as most tech companies are concerned, is that, unfortunately, what we most often see in our industry is a style of 'partnering' that (a) fails to discriminate between different arrangements with third parties, (b) relies

excessively on declarations of good intentions, and (c) therefore is 'set up' for one outcome – failure or, in the odd case, moderate success. It is no use just being optimistic in partnering activities, nor is it enough to publish a press release to announce that the alliance is going to dominate the world and solve world famine. In fact, this creates more harm than good, because each failed partnering experience poisons the well for all future such initiatives.

In this article, I shall describe some of the peccadilloes committed by many companies in today's marketplace (despite the avowed recognition that no one can make it on their own), then suggest where partnering fits, the kind of objectives it should serve, followed by examples of relationship types, the order of priority in which specific joint activities should occur and, finally, a short taxonomy of different partnering roles. Just to be clear about which forms of partnering I am addressing and which ones I am not considering in this article, let me remind readers that I am focusing my comments on just one of many types of alliance: *go-to-market partnering*, in other words, the joint marketing and selling efforts aimed squarely at achieving sales and conquering markets.

In contrast with other collaborative efforts as (formal or informal) knowledge-sharing agreements, technical alliances, or even mergers and acquisitions, this form of market-focused collaboration is undoubtedly a critical tool for increasing revenues and maximizing market power in today's high-tech marketplace. Equally undeniably, it almost always fails to deliver the expected results, disappoints stances a disappointing initiative, most often resulting in recrimination between erstwhile allies regarding stated (or unstated) expectations of joint success have been completely or largely missed. Without going into exhaustive detail on the problems that this causes – I have previously compiled a longer list which I called "The Seven Deadly Sins of Partnering" - I have compiled below four examples of common mistakes that either result from, or directly cause, a lack of clarity, and thus usually missed expectations, in either the strategy or the implementation of partnering initiatives.

- 1) Executives get together and 'do' lunch: This is usually where the trouble starts. In a typical scene, a key executive from company A meets with their opposite number from target partner X, and the two quickly agree to an ambitious joint revenue objective, as in this sample dialogue: *"There's no reason why our two companies cannot do a couple of (hundred) million in business jointly, so why don't I get my people to talk to your people and we'll get something going."* As soon as each executive returns to their respective office, they get their bizdev or field alliance people scurrying to set up a joint program, which usually requires the use of time and resources to put a campaign in place, and before you know it, a lot of resource has been initially spent on positioning, messaging, issuing press releases, and even drawing up legal agreements;
- 2) 'Press-release' partnering: Speaking about press releases, this is the strategy in which all efforts are focused on producing a joint release quoting executives from both companies saying that, in light of the enormous synergy between their respective offerings and markets, they have agreed to a 'strategic alliance'. This tactic, once so prevalent during the bubble, is in most cases a criminal waste of energy and a sure way to make partnering fail – because it is almost never accompanied by a clear statement of which specific target market the alliance is going to address together, and why on earth anyone should take the resulting marketing campaign seriously;
- 3) Companies are not honest about their own agendas: More often than not, organizations make vague statements of intent, and end up making difficult-to-fulfill resource commitments to each other. If, instead of basing everything on general aspirations such as 'better serving the market', they stated clearly what specific market needs their partnering initiative would be serving, and if they each set out to understand the other's agenda, the track record of company-to-company collaboration in the high-tech industry would be quite different;

- 4) Everyone's a 'partner' and everyone's 'strategic': What's in a name (or term)? Well, in partnering, I would argue that everything depends on each side being clear with the other(s) about how important the relationship is, because all relationships are most certainly not created equal. In other words, it is vital that when companies come together to help each other achieve greater success in the market, they should be crystal clear about what kind of collaboration they are prepared and able to deliver, and what kind they expect. While many business development encourage an ambiguous situation in which virtually every partner is considered to be 'strategic' (whatever that means!), the near certainty is that very few of the partners will receive or contribute the attention or resources that such designations confer on the relationship.

### **Where Partnering Fits in Companies' Business Priorities**

So, as a matter of perspective, where does partnering fit in any technology company's order of priorities? Well, in first place, there is the company's own goals and agenda, i.e. to maximize its power (as measured by market capitalization, revenue growth, and/or profitability) by winning dominant share in specific target markets as well as more moderate share in many markets; next comes the specific market penetration or dominance strategy; as a part of which, partnering can be a critical vehicle to accomplish the objective, possibly alongside M&A, outsourcing, sub-contracting and straightforward purchase of products or services, all of which are means of 'acquiring' the necessary resources to make something good happen.

Thus, in contrast with all the hyperbole that companies indulge in about the need to partner to serve others, *go-to-market partnering occurs in order to serve key objectives in each company's own corporate agenda* – in fact, it is critical not to lose sight of this guiding principle, because it is what provides the required measure of 'enlightened self-interest' to motivate partners to follow through on the commitments they make to each other. Below are some specific motivations that belong on the list of key reasons for go-to-market partnering initiatives and programs of all types:

- Increase share and even gain dominance in specified target markets;
- Gain access to markets and customers we could not do without a partner;
- Accelerate or shorten sales cycles;
- Build power in your value chain or ecosystem.

Therefore, if given go-to-market partnering initiative or program does not significantly enhance your chances of achieving one of these objectives, then I suggest that both sides should ask the question "why bother to invest in it?"

### **Contrasting Types of Partnering Relationship to Serve Corporate Strategies**

Taking a lead from how human relationships take shape in differing circumstances and for contrasting reasons, you can define four main types of worthwhile company-to-company collaboration. I would argue that any alliance that does not fit these criteria is unlikely to succeed over the short or long haul. Here is the list of possible combinations:

0. *Casual* relationships focused on sharing information or collaborating in sporadic marketing activities;
1. *Opportunistic* relationships focused on winning business on a deal-by-deal basis;
2. *Committed* relationships focused on achieving market share in diverse target markets;
3. *Intimate* relationships focused on achieving dominance in specific target markets.

In this hierarchy, the first basic option (number 0) may have no more 'accountability' than the periodic exchange of information and ideas, possibly (but not necessarily) leading to a 'more advanced' relationship, as indicated by 1, 2, and 3. I see no reason why companies cannot develop a simple and clear protocol of activities for each of these relationship 'modes', which explains the three variations outlined in the imagined speech at the beginning of this article.

In fact, when determining the need for a partner to help accelerate market adoption and/or delivery of solutions, it is important to distinguish clearly between partner-level contributions and the simpler value-add of a 'component supplier', (i.e, the supplier of a commodity product or service that can be acquired simply by making a purchase order, rather than expecting any special contribution such as joint-selling, customization, or consulting). The checklist below lays out the kind of potential contribution expected of a *bona-fide* partner (it is not necessary to qualify on all points, as long as each partner brings at least one critical contribution to the table):

- (a) Thought leadership to identify the target market opportunity and design the solution;
- (b) Action leadership to (co-)manage the coalition and (co-)drive the initiative;
- (c) Access to target customers, such as executives or managers in the target market;
- (d) Multiple contributions of products/services to the overall solution;
- (e) Funding or resources for solution development, marketing, sales and/or implementation.

With specific respect to go-to-market strategy, if one assumes that most enterprise software companies' main product categories today are somewhere close to, or actually in, the 'chasm' between early market and mainstream market penetration, then partnering strategy should prioritize third parties that can aid rapid market *penetration* into target market segments (rather than *coverage* across geographies, for example). During this stage, each partner should somehow add value in a consultative way - i.e., their value-add should always include a focus on providing effective solutions to critical problems. This is in contrast to collaborating to produce standard product/service 'solutions' or bundles for many different markets, a potentially viable strategy in tornado (rapid adoption) and main street (slowing adoption) but not in the bowling alley. If companies ignore these dynamics, they are almost certain to experience disappointment in the results of their partnering and channel efforts, because each side will be working toward different goals and metrics, with differing expectations.

### **Order of Priority of Key Engagement Activities with Each Partner**

One of the common features of partnering today, and one of the main inhibitors to success, is the order in which certain activities take center stage, and the omission of others that should be considered critical to the success of any joint go-to-market efforts. To clarify what I mean, below is a list of what *not* to do, followed by a list of what to do, in order to give each alliance a chance to succeed (for both groups, let's assume that both sides have reached the point that they want to partner, and are attempting to do what's necessary to get the show on the road):

#### *How to Screw Up a Promising Partnering Relationship:*

- Treat the new relationship as a 'strategic alliance' right out of the gate;
- Negotiate a detailed contract;
- Produce a jubilant press release about the compelling synergy between the two-three partners;
- Agree on the product/service bundle that is going to be marketed;
- Make general commitments about resources that will be committed;
- Enlist the sales force in each company to start selling the new bundle;
- Get disappointed when not much happens as a result of so much noise;

- Complain to the partner about their lack of commitment (or slink into the shadows because you haven't followed through with your own promises);
- Etc.

*How to Give the New Relationship a Chance to Succeed:*

- Treat the new relationship as a 'serious experiment' limited to a few people on each side;
- Agree on one target customer deal to close jointly;
- Assess the results of the 'alpha' deal as it closes and gets implemented;
- Agree to partner more programmatically, and develop a joint marketing program or target market initiative (depending just how promising the collaboration has shown itself in the first deal);
- Establish a brief one-page letter of understanding (accompanied by respective NDAs, of course);
- Develop an action plan or, better, a target market strategy;
- Define specific action items, resource commitments, and target milestones;
- Announce the formalization of the program or initiative in a press release for limited circulation;
- Select a few people on each side to work together on the early activities and deals;
- Allow a field of attraction to develop, whereby more field sales/support teams join in as the program proves its success;
- Review progress as you go, and make course-corrections regarding the joint strategy, as well as milestones and resources;
- Etc.

As you can see from the number of action items in the second group, productive partnering is harder work than 'press-release partnering'; but it also saves a tremendous amount of wasted resource (which few companies can afford these days), and it preserves the power and potential value of partnering successfully.

**Brief Taxonomy of Potential Go-to-Market Partners**

In order to have a decent chance of executing well on resource allocation to partners and also avoiding significant waste of resources and energy on frustrated partnerships, it is vital to establish clear distinctions and rules of engagement for different 'partners' such as these:

- Opportunistic collaborations aimed at winning specific deals, usually operated at regional level, or in the field, without any need to be blessed at corporate level.
- Tactical go-to-market programs aimed at increasing revenues or market share (these are relatively arms-length relationships with potentially more than one of the same type of partner for each program):
  - Product partners (ISVs, systems vendors): Provide complementary products to complete a solution or bundle;
  - Service partners (SIs, VARs): Provide complementary services to complete a solution or bundle;
  - Co-selling partners (any of the above): Augment field sales teams, helping the lead partner to close deals;
  - Channel partners (any of the above): Sell solutions to customer sets that the lead partner does not or cannot focus on (SME vs. Global 2000, different geographies, etc.);
  - OEM partners (any of the above): Integrate products/services as a component in solutions or bundles that they take to market.

- Strategic target market initiative(s) aimed at achieving market dominance (these require intimate relationships with few selected partners, only one of each type per initiative/target market):
  - Product partners (ISVs, systems vendors): Provide complementary products to complete a very specific Whole Product solution;
  - Service partners (SIs, VARs): Provide complementary services to complete a very specific Whole Product solution;
  - Co-selling partners (any of the above): Provide critical domain or technical expertise, or access to target market, to complete the field sales team and thus help the initiative-driving company to close deals;
  - Channel partners (any of the above): Sell solutions to customer sets that the lead product partner does not or cannot focus on (SME vs. Global 2000, different geographies, etc.);
  - OEM partners (any of the above): Integrate products/services as a component in strategic initiatives that they drive into specific target markets.

Each of these go-to-market modes and partner types naturally implies different rules of engagement, which we should discuss at the earliest opportunity as a means of establishing feasible guidelines for resource allocation. In turn, the great reward for thinking this through will be that disappointments will be minimal, while successes are maximized.

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*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.

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