

# **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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### **Thoughts on Dealing with Change ...**

Despite living in increasingly change-oriented environments, most people seem to have a devil of a time adjusting to transitions in their lives, or implementing changes large and small in business organizations. So, for all those who occasionally feel alone in experiencing varying degrees of angst or frustration on this subject, here are some philosophical reflections to let us know that what we are experiencing is not unusual:

*"A permanent state of transition is man's most noble condition."*

- Juan Ramon Jimenez

*"If you want things to stay as they are, things will have to change."*

- Giuseppe di Lampedusa

*"Every new adjustment is a crisis in self-esteem."*

- Eric Hoffer

*"All changes, even the most longed for, have their melancholy, for what we leave behind us is a part of ourselves; we must die to one life before we can enter into another."*

- Anatole France

#### ***Snippet #1: Decisions Don't Wait – Andy Grove Interview***

From the January 2003 issue of the Harvard Management Update, here is a brief excerpt from an interview with Andy Grove, chairman of Intel, by Clayton Christensen, author of 'The Innovator's

Dilemma', and Walter Kiechel, editor-in-chief of HBS Publishing, on the 'Valley of Death' experience that all tech companies are experiencing in the current downturn:

Andy Grove: *"Our last-generation growth has been fueled by a fairly major structural transformation of the computing industry from centralized mainframe computing, to distributed computing and PCs. And that defined the structure for the entire industry, defined the growth opportunities, and defined the opportunities for packaged software. ... That framework is changing now. The Internet is redefining software, (and) redefining the role of computing and communication and their interaction with each other. I still don't understand the new framework. I don't think any of us really do. But some aspects of it are pretty clear. It's proven to be not computing based but communications based. In it computing is going to be subordinated to the communication task."*

### 1. In High-Tech, Companies are Ephemeral but People Tend to Stick Around

In a recent email exchange between my colleague Geoffrey Moore and the author of a new set of stories exploring the problems of tech startups, the topic of 'permanence' came up in regard to how long tech companies tend to last, and how one should look at the marketplace when searching for some kind of constancy or permanence.

A correspondent who is in the midst of authoring a number of stories on the rise and fall of several tech companies posed the following question: "There are thousands of tech companies created since 1993 who rode the Net wave and whose future is very much in doubt. What will be the fate of these companies? Here is Geoffrey's response:

*"Most of these companies will go away--the fortunate ones quickly, the unfortunate ones lingering in a twilight half-life. Shocking as this may seem to people outside tech, this is actually normal inside the IT sector. **Put another way, the company is the most ephemeral institution in the IT sector. The people are perennial, the technologies are repurposed, the products find new homes in surviving companies, the same customers keep coming back, heck even the slogans are recycled.** But of the top 25 companies in the Tech 25 years ago, I think only IBM is still around. (Casualties off the top of my head include: Burroughs, Honeywell, Control Data, Cullinet, Wang, Data General, Prime, Four-Phase, Software AG, Cincom, Ingres, Informix, McCormick & Dodge, Digital Equipment Corp. (DEC), Tandem, Ask Software, Osborne, Lotus, Ashton-Tate, Visicorp, WordPerfect)."*

This statement reminded me how distracted we tend to become by *matter*, over and above *substance*, whenever we regress into the industrial-age thinking that has formed the basis of most teaching to date. In this case I am referring to *matter* in terms of corporate entities, versus *substance* in terms of things such as people and relationships. The latter, however, is especially important in knowledge-based businesses where the assets are not 'fixed', as they are with traditional industrial organizations that are viewed in terms of the land, plant facilities, inventory, and other 'hard' assets they own and operate. This non-material kind of substance is what the venture capitalists of Silicon Valley and elsewhere have come to understand and attribute value to better than anyone. Thus, when you read about how a new technology start-up obtained third-party funding, most of the justification for the confidence of investors is based not on the direct assets owned by the new company, but on the intangible 'assets' symbolized by the past experience and accomplishments of the management team and other key employees. This is evidence of importance being attributed to the right kind of assets: the hoped-for substance for the new business – that is, proven substance in past lives assumed to be applicable to the new experiment.

If and when the new startup fails, the owners of the intangible 'experience/achievement' assets do not perish; admittedly, their reputations may (or may not) be a bit tarnished by the recent failure. In fact, they are permitted (especially under the entrepreneurial code of Silicon Valley venture capital) to move on to a new business 'experiment', onto which they can lay their

previous successful experiences and recent learning as the principal fundable assets of the new startup.

Therefore, in volatile, entrepreneurial knowledge-based businesses, I would argue that among the most valuable assets are likely to be, in descending order of importance:

- a) The new insights and ideas you can offer to the new enterprise to help create a disruptive innovation, and/or the means of developing a fast-growing market for it;
- b) The know-how you bring to the new business based on prior 'technical' knowledge, experience, and track record in relevant situations;
- c) The additional experiential learnings you have gained from your most recent successes or – especially – failures;
- d) Your network of intimate business relationships – past clients, investors, partners, employees, or associates – to be drawn on as and when needed.

### ***Snippet #2: Leadership Lessons from Colin Powell***

Sounding a bit like Jack Welch, the Bush Administration's current Secretary of State includes the following dictate as one of the eighteen lessons on leadership in a PowerPoint presentation currently doing the email rounds:

*"Part I: 'Use the formula  $P = 40$  to  $70$ , in which  $P$  stands for the probability of success and the numbers indicate the percentage of information required.'*

*Part II: 'Once the information is in the  $40$  to  $70$  range, go with your gut.'"*

## **2. What is the Right Marketing Resource Emphasis for Enterprise Software Companies?**

In response to recent correspondence from a number of readers, I want to briefly describe what I believe to be the most suitable role of marketing organizations in order to be optimally effective at different stages in the Technology Adoption Life Cycle. Just to remind readers, this life-cycle model shows an Early Market stage in which technology enthusiasts combine with visionary early adopters to form the first target market for disruptive innovations; the next stage is usually the Chasm, when vendors experience the frustration of not really having a market at all, because all other types of potential customer still see too much risk in the new innovation; third comes the Bowling Alley stage, when vendors must target niche markets in order to help the first groups of pragmatist buyers to solve acute business problems using the emerging technology; then comes the Tornado, when markets enter hyper-growth en masse as pragmatists adopt the technology in order to keep up with the herd; and, finally, Main Street, when the late majority of conservative buyers start to adopt the technology in order to solve productivity-related problems and catch up with the pragmatist early majority. For the purposes of this article, please bear in mind that my focus is on enterprise software and systems companies, not the entire spectrum of businesses by a long chalk.

To begin with, in the Early Market stage, I would suggest that among the more empowered groups are **professional services** (the high-skilled project management and custom consulting resources), **acting in concert with the company's technology (R&D and engineering) teams**, with a *secondary emphasis on core-product management*. This is because the company's main focus at this stage is on selling, building, and delivering custom projects to a few visionary customers. The less 'empowered' functions here are product marketing and, especially, marketing services: what I mean by this is that the normal tendency to indulge in 'broadcast'-focused programs must give way to 'narrowcast' marketing for the relatively small audiences of technology enthusiasts and business-focused visionaries who are assumed to be the feasible targets at this stage. You need look no further for evidence that this is indeed then natural order for the early market, than to see which people are the most stretched by customer demands.

In order to cross the Chasm into the Bowling Alley, the empowered function now needs to be **whole product marketing (or 'solutions' marketing)** - i.e., the overall marketing group focused on both core-product management and the integration of complimentary products and services through alliances, outsourcing, and channels. This resource focus, generally non-existent in tech companies, is aimed at building a complete 100% solution for a broken business process in a single specific self-referencing target market sub-segment. Thus *product management focuses on the core product, while product marketing manages a cross-functional effort aimed at ensuring the complimentary products and services*. After the head bowling pin has been successfully penetrated, new whole solutions need to be built to solve broken processes in new niche markets, employing the newly familiar whole-product marketing know-how that the company gained in marketing to the first bowling pin.

In the Tornado, **classic product marketing** in the traditional definition should become the primarily empowered function (if and when this occurs), *supported by product management aimed at standardizing the core product deliverables for different markets and customer sets*. This stage is when customers are buying in order to deploy as fast possible in order to keep up with the herd, and want a standard offering with packaged services in order to accelerate deployment. At this stage, the empowered services group is customer support; slightly in the background (or, if the company is struggling to streamline implementation, in the foreground for the wrong reasons), professional services needs to adapt its skillsets from custom and tailored services to packaged and automated services aimed at simplifying adoption and widespread deployment in each customer organization. R&D, while still active, is slightly less in evidence than engineering during this stage, because the latter group is heavily focused on the price-performance game in order to defend the company's competitive edge in the fierce battle for market share.

Finally, when the product reaches Main Street, the empowered function needs to be **broadcast-focused marketing programs**, *supported by product marketing focused on "+1" features* aimed at different niche markets (i.e., features and services that are focused on enhancing end-user experience; as a rule these are on the surface of the core product, not inside it). At this stage, R&D and engineering are in the background (quite possibly still focused intently on fixing longstanding bugs in the product, as well as developing the odd new bit of functionality, but nonetheless in the background as far as the customer is concerned). Professional services of the custom-project kind are by this time focused on the next disruptive early market innovation that the company is introducing to the market.

### ***Snippet #3: Surprising Predictions for 2003 by Morgan Stanley's Chief Strategist***

Every year Byron Wien, Morgan Stanley's respected strategist, puts on his soothsayer hat and issues his contrarian predictions about the U.S. and world economy, important political events, and business trends. According to an article by Matt Krantz in USA Today (Jan. 9, 2003), Wien was correct with seven out of his ten predictions, including a third consecutive down year for the stock market and no major terrorist attack in the U.S.

His predictions for 2003, some surprising and some less so, are as follows:

1. Stocks rally more than 25% during the first half of the year;
2. Short-term interest rates rise 1 percentage point in the second half;
3. Japan finally recovers, turning Asia into the world's no. 1 economic power;
4. The European Monetary Union teeters on the edge of collapse;
5. Tech companies pay dividends;
6. The housing bubble gets even more inflated;
7. Biotech sizzles;

8. Latin American stock markets recover, led by Brazil;
9. Hilary Clinton announces she'll run for president in 2004;
10. There's no major war in either the Middle East or Asia.

### 3. What to Do to Gain Credibility with IT Executives (Interview with Motorola's Head of IT Strategy)

At a fall 2002 conference aimed at VPs of Marketing and Sales in technology companies, I heard some outspoken, but relevant, views expressed by Toby Redshaw, head of IT strategy at a major enterprise user of IT products and services – none other than Motorola. Although most heads of marketing and sales, and most sales teams and managers in high tech companies, are already somewhat chastened by the severity of the current IT investment environment in major corporations, I would like to reproduce here a few nuggets spoken by Redshaw, whom I interviewed shortly after the October event in Half Moon Bay, in the cause of reinforcing the key messages that vendors need to take seriously in order to reverse the current trend of declining, or flat revenues.

Below, in brief, are some of Redshaw's thoughts on market development obstacles faced by software, systems, and services vendors. You may note that some of what he says coincides with some of the recommended changes in approach that I have recommended in recent issues of this journal, but I trust that readers will not hold that against me.

#### Toby Redshaw, Head of IT Strategy at Motorola on enterprise attitudes to IT investments

One of the first quotable statements out of Redshaw's mouth was the following one on competitive factors impacting the chances of software and systems vendors finding fundable projects to take advantage of: *"The main competitive factor facing vendors is non-IT Capex opportunities, not other IT projects."* As it turns out, this view supports the theory I have expounded to clients and readers for several months about the dramatic '10x' reduction in IT projects, alongside the relative preservation of non-IT projects. Redshaw then went on to offer his current *What's Out* and *What's In* lists, regarding how vendors need to conduct themselves in dealing with C level executives in large enterprises these days:

What's OUT:

- *"If you don't know how your product will fit into our architecture, don't bother to call us";*
- *"Best of breed" – we are more interested in how you fit in to our architectural landscape, even if some of your functionality is inferior to that of your direct competitors";*
- *"Feature-function comparisons" (this point bears some relation to the previous point);*
- *"Nerdy jargon: if another smart sales rep or executive comes to my office and utters the word 'orthogonal', I'll throw them out on their ear!";*
- *"The inquisition sales call: if another sales rep or executive asks me "what keeps you awake at night", I'll throw them out too. Make sure you understand something about my actual problems before you walk in the door and risk wasting my time".*

What's IN:

- *"Speak like us – concentrate on our focus points, not yours";*
- *"Make sure you are prepared to put skin in the game, otherwise there's no deal";*
- *"Be very willing to use the customer's contract template. Don't insist on using yours alone, because you almost certainly won't do business with Motorola";*

- “Be prepared to do alliance-based selling, rather than just selling me your particular product”;
- “Do pool thinking not silo thinking – make me feel that you understand our architectural requirements and are willing to fit in with them”.

The fact that several of the “What’s Out” points above are reflected in the “What’s In” bullets provides some emphasis as to the importance of not ignoring this advice. Despite the fact this is the testimony of just one individual, Redshaw’s views are so close to those of other IT executives quoted in many analyst reports over the past year or so that you may as well regard them as gospel.

Later in the interview, Redshaw described in more detail a reference he had made in his presentation to a ‘stratification’ of vendors that Motorola uses as a guideline for determining how to deal with each aspiring supplier:

- A. Partners for key standards: The top of the pyramid; there are only a few of these partners, with which Motorola is willing to establish a close, give-and-take business relationship
- B. Money vendors: The next largest group in the pyramid, who win the business based on financial considerations – especially related to investment payback criteria.
- C. Win-lose relationships: This is the largest group, which Motorola treats as ‘commodity vendors’ in a purely transactional relationship, and who can expect to be beaten down in price according to the situation.

Redshaw went on to mention a number of IT vendors who seem to ‘get it’, by which he meant, they are the ones that understand the critical architectural fit issue that Redshaw regards as one of his personal crusades on Motorola’s behalf, after many years of decentralized investment resulting in the notorious and increasingly severe problem of detached ‘islands of information’ dating from the early days of client/server computing in the nineties. Here is his list of savvy vendors:

- Microsoft: “gets web services for grown-ups”
- i2: “surprisingly, perhaps, but they get it too”
- Yantra: “They realize that they must have the right architecture”
- Plus a number of startups from the Kleiner Perkins stable, including Valdero, eLance, Asera, MetaMetrix, and Arcsight.

Overall, Redshaw - who is also responsible for e-business initiatives, all indirect spend, and overall IT strategy for the corporation - suggested that vendors must understand the ‘cadence’ required in order to do business with companies such as Motorola. What he meant by this was the preparedness to present risk-reward based business proposals, showing how the vendor will leverage the company’s existing infrastructure, while presenting a viable migration path to successful implementation of the full system.

#### ***Snippet #4: Latest Bombast on the Battle Between Licensed and ASP Software Models***

Craig Conway, CEO of Peoplesoft, and Marc Benioff, CEO of Salesforce.com, are two former Oracle sales execs who, in the Larry Ellison mold, do not appear to shirk from the limelight. Furthermore, while one of them runs an established company that sells software licenses to enterprise customers for a living, the other is espousing the newer, still unproven model of renting software to corporate and other customers via an ASP business model.

While with Salesforce.com there is none of the expensive and time-consuming installation, customization, and upgrading that is normally associated with the HR and ERP software

marketed by companies such as Peoplesoft, customers have previously been slow to jump to the rental model for any number of reasons, including pure inertia.

Here are a few of their latest statements:

Benioff: *“The End of Software’: the days of mega-sales that once fueled the growth of the \$171bn. software industry are gone. ...They (earlier software companies such as Cincom and Cullinet) were once the leaders, but Oracle displaced them. The same thing is going to happen again. It’s the beginning of a brand new technology and business world.”*

Conway: *“Many industries today are fundamentally information-processing businesses – banks, brokerage firms, insurance companies, telecommunications, etc. The core of these companies is their ability to manage data more efficiently than their competitors. They will not outsource or depend on commodity software because it is too critical to their business. ...The biggest flaw in outsourced solutions is lack of integration. Is there a major company that doesn’t want to integrate their customer-management systems with their financial systems? Or their supply-chain systems? Or their human-resource systems? Companies today want seamless, transparent real-time business processes.”*

So who’s right, in this either/or rhetoric? Well, this is actually the point. I don’t believe for a minute that it’s about an either/or scenario. Such an approach, customary in the zero sum world that occasionally seems to define Silicon Valley, just attracts media attention and distracts from the likely outcome. My sense is that, in situations where – as Conway describes it - companies see software as a critical source of competitive advantage in their business, and/or when they need to have their (enterprise-critical) systems integrated, they will tend to opt for licensing packaged software and tailoring it to their specific internal requirements. In other situations, even in large enterprises, where a departmental solution is acceptable and (for the time being) does not seem to impinge on the need for integration with other systems, the outsourced, rental model will serve the purpose perfectly well. Thus, more of a both/and for different situations ...

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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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