

Under the Buzz

Back to Basics in e-Business

May 2003 - Vol. 4, Number 5

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. A Conundrum in Many Companies: "Our Strategy's Fine, But We're Not Aligned!"

How many times have you heard a CEO, VP of Marketing or other executive express their puzzlement about why their company's market strategy is not being executed as planned? In my business life, no week goes by without an executive telling me that they have a great strategy, but somehow their organization just doesn't seem to be executing on what they agreed to in the last management team offsite. This short article lays out a few reasons why this might be occurring, and what managers can do to get out of the vicious cycle of vaguely defined strategies, faltering execution, and consequent cynicism on the part of employees and customers.

2. Who Should Be Accountable for the Sales Pipeline: The VP of Sales or CEO/COO?

Most tech companies hold the VP of sales uniquely accountable for overseeing sales revenues as well as the sales pipeline itself. But leaving this responsibility so completely in the hands of the head of sales can be, among other things, a cop-out for CEOs and COOs. For recent start-ups that have barely begun to establish a repeatable revenue stream, this omission can be virtually suicidal; for more mature companies, its implications can be drastic for their stock price (or valuation) because of the instability that weak pipelines and fluctuating close ratios tend to generate.

3. Things to Love and Things to Hate About the High-Tech Business

Having spoken to a number of people who have become disenchanted with high-tech since the bubble burst, I thought it would be fun to contrast some of the aspects of the business that we all hate with those that we love. Having myself made three unsuccessful attempts in prior times to leave tech for other businesses (banking, promoting rock concerts, and consulting to professional firms), I want to offer my thoughts to those who are fleeing, or thinking of so doing.

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More Thoughts on the Topic of Execution from a Recent Best-selling Book...

In past editions - notably the April 2002 issue, on "What Prevents Companies From Executing Their Strategies" (http://www.chasmgroup.com/underthebuzz/ub_vol3_no4.pdf) - I have attempted to help explain the main reasons why high-tech companies in particular struggle with the challenge of execution. In that article I discussed four main obstacles (dilettante management attitudes, treating execution as 'obvious' and thus not providing a 'structure' within which to execute, decision 'paralysis', and functional silos), and presented some suggestions about how to overcome them.

"*Execution: The Discipline of Getting Things Done*," the book co-authored by Larry Bossidy and Ram Charan and published in 2002, holds some additional clues on this topic, based on the well-documented experiences of GE under the leadership of Jack Welch during the past 20 years or so. As an example, here is an intriguing quote:

“In its most fundamental sense, execution is a systematic way of exposing reality and acting on it. Most companies don’t face reality very well. ... That’s the basic reason they can’t execute. ... The core of (Jack Welch’s) management legacy is that he forced realism into all of GE’s management processes, making it a model of an execution culture.”

- “Execution: The Discipline of Getting Things Done,” by Larry Bossidy & Ram Charan, © 2002

This issue of exposing reality is indeed critical to the whole business of making sure that things get done. In the tech industry, entrepreneurs and executives are so used to stoically fighting against tough odds to get their new technology successfully adopted that they easily fall into the trap of not being realistic. In fact, much of the value that outside advisers provide is based on our ability to challenge the myths that grow up quickly in every technology company. Whether it is about the advantages of their architecture or feature set against their closest competitors, or about confusing the assertions on their presentation graphics slides with actual deliverables, or explaining why they are not managing to be as successful as they expected in getting their latest product adopted, we are often obliged to put our hands up and challenge the inherited wisdoms that are often used to explain what’s happening (in a deferential tone, of course).

Overall, it has to be said that Silicon Valley executives in general are not terribly good at telling the pure, unvarnished truth. Of course, the occasional flight of fancy does no one any harm, and it may even liven things up a bit. But when fiction gets in the way of a company managing to make its numbers and keep an even keel in terms of its performance, as is still occurring in many organizations during the continuing downturn, then it’s not quite so acceptable to allow fantasy to overtake reality. That, in a nutshell, is why Bossidy’s statement about realism is so apt.

1. A Conundrum in Many Companies: “Our Strategy’s Fine, But We’re Not Aligned!”

If you feel your team basically has a good level of mutual trust and respect but, in spite of this, you are getting a strong sense that your team is not aligned, perhaps it makes sense to take a new look at your strategy: Is it really as clear, feasible, and actionable as it needs to be? If not, I suggest you address the most likely real cause, i.e., the strategy and the actions required to make it happen rather than resorting to ‘team-building,’ new rhetoric, or other tactics designed to convert the unaligned individuals.

Conversely, if you suspect that something may not be quite right with your strategy, don’t expect your team to be aligned, no matter how much time you invest in brainstorming sessions, one-on-one dialogues, group team-building activities, and other communication-based approaches.

In general, good strategy leads to good execution, and poor (or no) strategy leads to poor (or no) execution. Put differently, there is really no such thing as a good strategy that proves itself not to be actionable. Does this come across as too extreme a point of view? Well, maybe I am being a bit radical, but any strategy – which is no more or less than a detailed declaration of intent to achieve certain goals – needs to be *connected* to execution by certain components. It is these connecting components that enable the people involved in executing the strategy to take the right actions within the right timeframe. For example, assuming you have defined a go-to-market strategy aimed at achieving a given market share within a target segment within the next year, some of the ‘connectors’ might include components such as these:

- 1) Plan: A detailed, clear, and pragmatic action plan (or itinerary) for execution, detailing a number of actions, accountable individuals, and deadlines, in order to track progress against the overall strategy.
- 2) Metrics and milestones that align with what you are trying to accomplish in the plan, including positive and negative consequences that apply for success or failure.
- 3) Specific programs designed to activate and institutionalize the initiative that must be accomplished within the determined timeframes for (a) preparing the initiative for launch, and (b) supporting the sales and implementation efforts.

- 4) Change agents who are motivated, authorized, and enabled to take action. Since these people normally come from inside the organization – and the organization needs to continue supporting business-as-usual activities – they need to be liberated from some of the attributions in their current day jobs in order to be able to focus on the new initiative.

Failure to define and support any one of these connecting priorities is almost certain to hamper the new initiative, and may even place it in jeopardy. Although most of the 'recipe' above is simple, and even obvious, it is important to note that one of the steps named above occupies an unusual position in the sequence for most companies. This step is number two, Metrics and Milestones, which are most often left unstated, or stated in too brief a level of detail and too vague a description of individual accountability to influence the desired results. I would go so far as to assert that this common omission provides one key explanation why the vast majority of new go-to-market strategies fall short of their objectives.

2. Who Should Be Accountable for the Sales Pipeline – the VP of Sales or the CEO/COO?

Among the common management assumptions that puzzles me is the convention according to which VPs of sales are given virtually exclusive control of the sales pipeline. Why, if this practice is so commonplace, should one question it? Well, for me it starts with the reality that the sales pipeline is in essence the kernel of the revenue generation process, which in turn is the principal component in the 'market-to-sell' super-process that, together with four other major business processes, forms the basis of any company's business (*). And, like any business process, revenue management is essentially a cross-functional activity requiring careful coordination across functions, under the leadership of an executive who has actual authority across business functions. In most organizations there are only two possible roles that fit this description: the CEO, and – where applicable – the COO. To be fair, many tech companies have a head of field operations, with sales, services, and support reporting to them. This can in fact be a workable approach, provided that the executive in charge has the right business – as opposed to just sales – mentality. Overall, however, I would suggest that management of the critical inputs to the revenue generation process are much too important to leave exclusively to a functional executive such as the sales VP.

In order to ensure the most successful outcomes for the company, the CEO (or COO if such exists) should be an *active* partner with the VP of sales in all sales opportunities that are considered to be major account situations – the number of these, as well as the minimum value of each in terms of current potential deal value or overall lifetime relationship value, can vary according to the size of the company. What's left over, which are by definition the medium and minor deals or relationships, can indeed be managed mainly within the sales function. My reasoning here is simple. Firstly, securities and industry analysts, as well as all interested investors, want to know how the company is doing with major customer deals, and in many cases a single major deal can make the difference between the company making its numbers or falling short – enough to significantly damage the stock price or valuation markets within minutes after earnings (pre-) announcements. How the company manages major deals and relationships is indicative of its ability to deal with the most important swing factors in its business, as well as its overall relationship with its direct markets.

If, as occurs today, disappointing news regarding major deals only hits late in the quarter, the CEO, COO, and CFO are forced into damage-control mode as a reaction to the bad news. Secondly, if major customer situations are well handled, it tends to influence how all others will be managed. And, in those cases where this is not the case, the entire revenue management process should probably be handled outside the sales department, and/or the tenure of the sales VP should really come up for review. At least in these cases, the key executives are less likely to be blindsided by late-breaking bad news, so they should be able to fix the problem while still in a position to change results for the better.

Lest we confuse the revenue generation process with what many sales executives term the 'sales process,' I would argue that the latter is more appropriate to the specific subprocesses of selling, and managing the selling activity and should indeed be the 'exclusive' province of the senior sales executive. Included in this sub-process are the selling approach mandated by the company's go-to-market strategy, plus such important tasks as hiring and training of sales reps and first-line managers, identifying and qualifying key sales opportunities, managing the sales cycle in detail, account planning and review, relationship management, and resource negotiations with other functional areas in the company to support specific sales campaigns. What's left over is the authorized and proactive coordination of resources from across the company, as they are required for specific contributions to each individual sales cycle.

Let's go back to the prevailing structure in most companies and see what doesn't work. With a VP of sales in exclusive control of the sales pipeline, but not in control of all the resources required to make quota, they are often obliged to cut corners in order to obtain resources from other departments and, as a result, they resort to gaming the system. For example, what tends to happen in many companies where sales is 100% in charge of the pipeline is that resources are committed to sales situations without due consultation, SE's and/or engineers are drafted urgently to produce custom demos for key customers, proposals are sent to customers quoting service resources and fees not necessarily cleared ahead of time with professional services management. Other 'abuses' include discounts in license fees and consulting services that are offered without due cross-functional review, resulting in professional services not being able to meet their revenue or profit commitments; even maintenance contracts can be significantly affected if the discounts are by chance applied to them, resulting in unprofitable support and upgrade activities, all made in the name of helping the firm to make its all-important revenue numbers. Among the more well-managed firms this type of uncoordinated approach is less prevalent, but in my experience of the past decade with major technology companies as well as start-ups, I have seen less than 10% that manage these critical activities in a minimally acceptable manner, according to what I learned in my days at IBM.

Unfortunately, these antics often remain in place for long periods of time in a given management regime. Until, that is, something goes badly wrong with the quarterly sales numbers, when the CFO, then the CEO, and other executives step up their second-guessing and, then, intervene. At which point, any sales VP worth their salt puts two and two together and either waits to be severely censured, or takes control of their own destiny by resigning. I'm saying this despite the fact that most self-respecting sales executives expect and even demand this responsibility, possibly as an attempt to stamp their authority on the organization. In fact, I imagine that many of today's sales executives would be shocked to have to share the management of the sales pipeline. All because, I believe, the sales (or revenue) process – and the management of it – is mistakenly equated with the 'sales function' (which should indeed be the province of the VP of sales).

It can, and often does, get worse: I am convinced that this same mistaken convention gives rise to the vicious cycle in which heads of sales can never be true members of the 'inner circle' in a company, because under this system they are among the most dispensable, i.e., 'fire-able,' members of any tech-company executive team. In some case, it is clear that this convention provides a convenient scapegoat for ritual sacrifice, keeping the CEO and/or COO at one remove from a similar fate, whenever sales results are sufficiently disappointing. Thus, on average, sales VPs have a survivability of less than 18 months in the job. This vicious cycle, which I believe is one of the more unfortunate management rituals in the tech industry, represents to my mind a key execution barrier that explains why so many companies never hit their stride, or never manage to maintain any level of stability in sales performance. To my enduring astonishment, many VPs of Sales actually find this ritual to be an acceptable thing to live with in their careers, and many of them end up performing it in as many as four or five different companies in as few as 10 years or so. In fact, because some of them are renegades, they often shun job stability in favor of being able to jump to new opportunities when the winds change. Lest I unintentionally convey an unfair

impression here, let me add many of the sales executives I know in the business are high-quality managers who perform heroics on a daily basis in coordinating pieces of a cross-functional process over which by definition they have limited control or influence. Some of them seem to thrive on the resulting stress caused by this mismatch, but many suffer from it.

Back to the issue of distinguishing between managing the 'sales (or revenue generation) process' and managing the selling function. The fact is that effective management of revenue generation, like any business process, requires such painstaking cross-functional coordination that no single functional executive – as the head of sales is – can possibly be held exclusively accountable for its success or failure. And, what is the 'sales pipeline,' if not a formal report detailing the expected amounts and expected close dates of qualified sales opportunities that are at various stages in the funnel. If this isn't a precious corporate 'asset' to be tightly stewarded by the CEO or COO, with the CFO's active support, I don't know what is. This, to my mind, is the biggest reason for the repeated failure of the revenue generation process in most companies. How can this critical process possibly succeed if the VP of sales is invited to treat it as their exclusive preserve, and almost inevitably provides information mainly composed of trailing indicators, i.e., potential deals already qualified, resources already committed, proposals already sent, deals already won or lost, often without any objective postmortems, to which other executives (including the CEO, COO and CFO) can only react after the fact?

Wouldn't it be much better if the CEO (or COO, where there is one) took responsibility for managing the sales process – and its key ongoing report output, the sales pipeline – so that deals can be qualified according to corporate (as opposed to sales department) criteria, resources can be allocated to the right deals, business proposals can be vetted across all the participating functional groups (sales, consulting/implementation services, R&D/engineering, product and field/industry marketing, tech support, and finance) on a proactive basis?

Balancing the Already-Overburdened Workload of CEOs and COOs

Of course, one can easily argue that CEOs and COOs today already have way too much on their plates, in what in many cases has become a 24x7 job, without having to consider an additional, full focus responsibility such as this. But who's to say that they are spending their time on all the right priorities? For example, I would argue that much of a typical CEO's current workload can in fact be well handled by one of those smart-as-a-whippet executive assistants (usually fast-track youngsters with executive potential of their own) who can sub for them in many internal meetings and even in some customer calls. Furthermore, as soon as a CEO finds themselves overloaded even with an executive assistant, they should either hire a COO and let them manage the cross-functional aspects of sales operations (often the worldwide head of field operations fulfils this kind of role), or ask the CFO to support them in this responsibility. Perhaps spending less time reporting to board members and investors and more time in front of customers, as well as sticking very close to specific major account sales situations, can set the right tone for revenue growth, independent of the economic environment. I would go further to say that CEOs should be *especially* accountable for sales in a down market. In other words, I would assert that directly driving the revenue process is a 'core' priority for any CEO (or COO if there is one) today.

Where this Leaves the VP of Sales

What's left for VPs of sales to do? Well, directly under their span of control there is the continuous task of increasing the effectiveness of their sales people, coaching their first line managers (where applicable), recruiting new sales people, and leveraging cross-functional collaboration with the other functions in the company. In relation to external focus, VPs of sales need to spend much more time with prospects and customers as well as with their sales teams. Only, instead of being drawn into making diving catches to close deals or into doing damage control as a matter of routine, I would suggest they should be more proactive in helping their

sales reps gain access to C level executives, accompanying them on opening calls, conducting major account strategy sessions, and so on.

Therefore, the modus operandi that I recommend for companies to adopt is as follows:

- The CEO or COO drives the revenue process, in particular major new deals and major account relationships; the VP of sales drives the sales (sub) process and negotiates resources from the rest of the company based on the quality and results achieved in their major accounts pipeline over time.
- The CEO/COO and/or VP of Sales (based on agreed modus operandi) ensures that every major situation is reviewed at the key (a) qualification, (b) pre-proposal, (c) contract, (d) implementation and (e) post-implementation stages. This can be done in a combination of weekly e-staff meetings and account-specific reviews.

Above all, this simple method is likely to ensure that the executive team remains in a position to act proactively based on the leading indicators it sees regularly, as opposed to having to react ex post facto to the trailing indicators that most pipeline reports represent today.

() Based on published theories on business process management, in most orthodox 'industrial' companies the four other major business processes alongside the 'market-to-sell' process are: (i) 'idea-to-product', (ii) 'quote-to-cash', (iii) 'forecast-to-delivery', and (iv) 'issue-to-resolution', or some variation on these same themes. There are also several business-supporting processes, in financial management, people management, resource management, as well as a plethora of sub-processes for business management (strategic planning, budgeting and forecasting, and so on).*

3. Things to Love and Things to Hate About the High-Tech Business

Below I shall attempt to capture some of the universal likes and dislikes, but I shall be interested to hear from readers with your favorite pros and cons. The pluses will occasionally be intermingled with the minuses, and – who knows – you may not be able to guess which is which, depending on how distorted your senses have become after protracted exposure the mythic atmosphere of Silicon Valley, or Silicon Anywhere-else.

The most encouraging side:

The idealism of most people in the business ... the self-starting approach to getting things done ... the energy, pace of activity, and determination to succeed ... the fact that no one in tech really needs supervision, they just need basic direction and guidance, and they'll go through walls to get things done ... the ability to make decisions on a dime ... the tolerant approach to failure – even the celebration of the right kinds of failure – as proof that you have at least tried ... the forgiving nature of the marketplace provided you show you've learned your lesson and are prepared to do things differently next time around ... email and blackberrying as the communications media of choice, ensuring speed and flexibility for running one's business ... the eternal optimism of most participants, often in spite of all signs to the contrary...

The immature side:

The 'revenge of the nerds' aspect to success in places like Silicon Valley ... the obsession with instant gratification – "I want it all, and I want it now!" ... the short attention span ... the fixation with finding the new thing ... the readiness to consign a maturing product to the scrap heap before it has realized its full market or profit potential ... the suggestion that analytical smarts beats plain old common sense every time ... the boosterism and hype expressed by many executives, securities analysts, and even some VCs ... the either/or approach to decisions ... the hit-and-run approach to achieving sales ... the (erstwhile) obsession with options and vesting schedules (how nice that the crash has provided a respite from the money-and-possession chatter!) ... the vulgar approach, understandable but often quite irritating, to enjoying sudden wealth ... the childish fascination with showing off expensive toys...

The mixed bag:

The build-it-and-they-will-come mentality ... the three-word acronyms for everything ... the fact that version 1.0 isn't supposed to work, it's supposed to prove that the PowerPoint slides are still the 'production' version of record, and that sometime in the dim and distant future the product may actually perform some of the claimed functions ... the fact that you took your last start-up down in flames last week is actually a qualifier for you to be offered a new opportunity this week (in the good times, that is) ... any entrepreneur or company that demonstrates that they have eaten humble pie, and turned over a new leaf, is welcome to apply for funding ... the siloed organizations and the resulting 'us vs. them' attitudes (engineering vs. sales, sales vs. marketing, professional services vs. engineering, then finance vs. everyone) ... activity is valued above effectiveness ... paying lip service to strategy, making tactics and activity mean everything ... 'marketing' in some companies is understood to mean programs rather than strategy...

Bad habits and naughty attitudes in the industry:

Not just vaporware but 'vaporPoint' too – not even the slides deliver! ... hit-and-run selling ... partnering approaches that mean (but don't say) "I want access to your deal-flow, but I'm not sure I'm ready to do anything for you in return" ... signing up channel partners in droves without checking to see whether or not they have a bat-in-hell's chance of selling your products successfully ... mergers and acquisitions made to secure an extra year in the job for the CEO, and that have no chance of succeeding ... monopolists who talk cynically about 'serving consumers by building great software' and deliver nothing but kludge ... ERP and CRM vendors that want to co-opt every other category ... jet-set VCs who think they invented the technology business ... customer support that still keeps you hanging on the line and doesn't solve your problem ... people who were in the right place at the right time during the nineties, learned bad work habits, made some money, and talk as if they know something...

The weak side of management teams:

The lack of common sense applied to basic management obligations, like establishing a mix of formal and informal means of communicating with employees ... the excess of politics and self-interest in decision-making ... the inability to find a reasonable compromise on tough issues in order to move forward ... the difficulty in making a decision and moving to the next stage ... talking out of both sides of their mouth on commitment to a defined strategy ... always leaving (the details of) execution to someone else – then hunting for the culprits when something goes wrong with the plan ... talk of 'synergy' in situations that where anything but win/win is in sight...

The ineffectual side of boards:

Compliant boards populated by the CEO's cronies – the larger the company, the more complicit they seem to be ... the board members who think that being on a board is something to brag about – with entitlements but no responsibility to add value ... and those who 'run' as soon as the going gets tough ... the investors who think they invested in a 'tornado now', and egg on their portfolio companies to 'scale' before they've found any real customers...

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. © 2003, Philip Lay

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