

Under the Buzz

Commentary on Strategy & Management Issues for Executives & Professionals in Enterprise Systems & Software Companies

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Under the Buzz is an electronic "newsletter" authored by Philip Lay, managing director at TCG Advisors, a Silicon Valley-based firm that helps to catalyze the strategy and transformation efforts of its enterprise systems and software clients. This journal is published periodically and delivered free to subscribers via email. It is also posted on the TCG Advisors website at: <http://www.tcg-advisors.com/Library/utb/utb.htm>. Back issues are available at the same address.

1. Defining the “Compelling Reason to Buy”

Among the most poorly understood elements of a market development strategy, finding a “compelling reason to buy” that accurately reflects business problems faced by a company’s target customers is a key element in most successful strategies. This article attempts to provide a guideline to defining the motivation for a group of customers to adopt new IT solutions in order to solve business problems that have defied previous combinations of point products, manual workarounds, etc.

2. Ten Signs that Your Category and/or Company Has Crossed the Chasm

The attempt to “Cross the Chasm” and establish a beachhead is normally undertaken in an environment where market research data indicating the exact nature or size of the demand for emerging product categories is lacking. That said, the market does send out signals to indicate when companies have reached a tipping point in their expedition to conquer the first target segment. Needless to say, the absence of signals like these probably indicates that you have yet to achieve this feat!

3. Selling to a CIO – In the Words of a Corporate CIO

Among all the speculation about why busy executives will or won’t be receptive to vendors’ attempts to sell their wares, a recent interview with a corporate CIO sheds some extra light on how sales teams should act.

4. Avoiding Google-sickness or Salesforce.com-itis

While Google tells the world how different a company it is in the way it is handling its closely observed IPO, and as Salesforce.com overcomes minor stumbles on the way to its own coming-out party, many other startups and even more established companies are watching keenly to see which bits of each company’s ‘model’ they might feel compelled to mimic.

5. Reader Response to “Keep the Damned Product Behind Your Back!” Article

In response to last month’s lead article, the CEO of a tech company provides some of their own corroboration and feedback on the need for more consultative behavior by field sales teams as well as executives.

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1. Defining the “Compelling Reason to Buy”

One of the least understood items on a Nine-Point Strategy Checklist(*) that we use with clients in strategy development is item number 2 – the compelling reason to buy. This is particularly true when we are talking about crossing (or exiting) the chasm, which is far and away the most challenging stage of market adoption for most tech companies to navigate successfully.

In their haste to justify why target customers are likely to buy their products and services, tech executives often shortcut the discussion by pointing out the advantages that they believe their

product provides over directly competing offers; or, they cite the five or six 'pain points' that they believe serve as motivating factors for customers to want to invest in new technology-based 'solutions.' In most cases, these responses fail to address the key motivators that actually drive customer buying decisions during the early stages of market adoption of new or emerging technologies. Consequently, vendors experience great frustration when they see their sales cycles extended, perhaps not realizing that the delayed decisions are due as often as not to the lack of a single clear and compelling reason to invest in the proposed 'solution.'

After working with many company management teams, we have developed a simple rationale for helping clients to describe the compelling reason to buy that will motivate many customers in a given market segment to make a buying decision, with the sense of real urgency that must accompany any significant investment decision. In particular, I believe there are three essential ingredients behind a compelling reason to buy statement appropriate for the challenging chasm-crossing stage of market development that so many tech companies face:

- 1) *A clearly identified broken mission-critical business process (or subprocess):* The new-product introduction (NPI) process in competitive high-tech industry sectors such as mobile telecom equipment or computer hardware consistently fails, causing companies to miss (too many) product-launch windows.
- 2) *Expose the dire consequences to the business of this broken process:* Companies cannot afford to miss more than one out of three NPI windows; those that do so consistently tend to become unprofitable, and may go out of business or get acquired within a couple of years if they don't manage to fix the process.
- 3) *Describe why current alternatives don't solve the problem:* Existing point solutions, in-house projects, and/or workarounds for completing product design testing (or for handling engineering change orders) do not prevent companies from missing their product-launch windows, because they are subject to error and cause the need for reworking designs.

Provided that what's at stake in fixing the broken process is measured in millions of dollars, vendors know that they have an attractive and profitable opportunity, and can, for example, base the pricing of their solutions as a percentage (say, 10-25 percent) of the annual cost of the problem in each customer situation. In this way, there is no reason why companies should not expect to generate healthy margins on each deal. It is crucial, however, to bear in mind that what is implied by the term 'complete solutions' in this case is a *complete solution to the broken business process*, as opposed to what most vendors are willing to step up to, which usually amounts to just a portion of the entire set of products and services required to actually fix the business problem.

() The Nine-Point Checklist is composed of the following items: (1) target customer (segment and job title), (2) compelling reason to buy, (3) whole product, (4) partners & allies required to deliver the whole product, (5) sales or distribution approach, (6) pricing model and mechanisms, (7) competition for the customer's attention and money, (8) positioning claim, and (9) next target market.*

2. Ten Signs that Your Category and/or Company Has Crossed the Chasm

As most veterans of market development initiatives involving new technologies know only too well from the many scars they carry, such efforts usually occur in an environment devoid of sufficient or accurate market research data. Assuming for one moment that a company has fought a serious and disciplined campaign to establish a beachhead that will provide them with strong customer references and reward them with increased market 'power' going forward, how can they tell when they have passed the 'tipping point'?

In most real-life situations, it is our experience that a definite pattern of signals will tend to emerge over a period of months. While not necessarily quantifiable per se, when taken together these signals tend to provide a quite reliable guide to what's happening in the marketplace. Here are a few of the ones that successful chasm-crossers most often see occurring:

1. *Fewer customer buying decisions are indefinite or deferred, i.e., the pipeline and forecast become a more reliable indicator of actual decisions to buy;*
2. *Sales cycles get shorter, your win ratio goes up, and deal size and reach increase;*
3. *Revenue starts to grow in a predictable curve, instead of going up and down like a yo-yo;*
4. *Opportunities start coming to you as a result of customer references;*
5. *Desirable partners start gravitating to you and asking to be included in your deals;*
6. *Competitors start ceding the segment to you, focusing their energy elsewhere;*
7. *Competitors' sales reps (and others) contact you for possible job opportunities;*
8. *People no longer ask you to spell the name of your company when you mention it over the phone (this is especially for startups and other young companies);*
9. *Analysts cover your category, and start calling you for briefings;*
10. *Prospects do not want to spend a lot of time on the compelling reason to buy, but instead want to focus on whether or not you have the whole product for their problem.*

It is worth keeping in mind that most of the time these signs are easy to miss if you are not watching carefully. In other words, there is usually no major 'news announcement' at which to formally claim victory. So it is important to remain vigilant, which not surprisingly is best done by staying close to your customers and listening intently to what they say and do.

Regarding the above list, if any reader has detected other types of reliable indications of successful penetration or even dominance, please don't hesitate to let me know and so that we can announce your 'finding' in an upcoming issue.

3. How to Sell to a CIO

Eric Goldfarb is EVP & CIO at Atlanta-based PRG-Schultz International, Inc. <<http://www.prgx.com>>, the world leader in recovery auditing. PRG-Schultz is headquartered in Atlanta, Georgia (USA), employs approximately 3,500 employees, and provides services to clients in more than 40 countries. The company is publicly traded on the NASDAQ stock exchange under the symbol PRGX.

In earlier editions I have cited the opinions of CIOs and other executives regarding the stiff challenge of selling technology-based products and services in today's corporate marketplace. In this article, Eric Goldfarb, CIO of recovery auditing firm PRG-Schultz International, describes the demands that executives like himself make of technology vendors these days. As he says: "Imagine making your living selling broken things and having to routinely promise features that don't exist at a price that's set independently of the value of the product or service being rendered!" Now, he asks: "Imagine (on the other side of the table) being a CIO who is betting your company, your career and the livelihood of your staff on that product and the salesperson's promises. That's what a CIO does every day."

This testimonial, published in a recent edition of Computerworld and using Goldfarb's own words, provides some valuable corroboration for the theme of last month's lead article in this journal, "Keep the Damned Product Behind Your Back!" Goldfarb's comments reflect the perspective of a CIO who "has invested hundreds of millions of dollars in IT, and whose company's success depends on technology." In synthesized form, here are his main points. I would argue that this straightforward advice can be applied by sales teams to most if not all of their interactions with customer executives.

1. "Respect the CIO's time":

- “There are thousands of technology companies in the U.S. If 5% think they have something to sell to me, they let me know either by voice mail, phone calls or in meetings. That’s a lot of communications. To break through all that chatter, you need to tell a story that addresses my problems and intrigues me enough to schedule a 20-minute meeting with you. Tell me a story that shows how you address my problems, and intrigue me enough to get a 20-minute meeting.”
- “If you can do that, I’ll give you another 20 minutes and, maybe, a sale.”

2. “Put the right person at the table”:

- “I’m looking for people who will listen to and understand the company’s problems and the CIO’s concerns. Only then can the person come up with the right ideas and solutions.”

3. “Understand that CIOs differ from salespeople”:

- “We think we’re different to most salespeople. We’re analytical, not emotional - We want process, facts and figures.”
- “Be insatiably curious ... you should know my company’s weaknesses. Pitch your product as the best way to reduce that weakness. Your product should be a solution to existing problems. Connecting with the CIO and the company doesn’t mean you’ll close a sale right away. Follow up and reinforce your value proposition with voice mail, e-mail and in every subsequent meeting. This process mirrors how the CIO works. It matches the psychological profile.”

4. Differentiate with a service:

- “Today’s technology companies look a lot alike. They employ similar people with similar educational backgrounds; they produce similar things with similar prices and similar quality. What’s different about you and your company? These days, building the best product isn’t enough; it’s simply the price of entry.”
- “Use services to differentiate yourself from the competition. If you can sell your product along with a valuable service, you’ll increase your odds of making your product sales goals.”

5. Solve, don’t sell:

- “Every technology sale has five doors that must be opened in order to proceed: need, money, urgency, desire and trust. Once these doors are all open, then you can start being truly successful. The key to the door of success means you’re not selling a product; you’re solving a problem. Once you’ve identified the need, focus on making my organization better and my life easier.
- “I don’t expect you to know every detail in each module. Get the right resources in your own organization involved in solving my problem. The most successful salespeople can pluck the right resources out of their organization to help my company.”
- “Frankly, senior sales management usually gets in the way. You don’t need to parade your top executives for me. I’m far more interested in seeing results and understanding precisely how your company is working to make my headaches go away.”

6. Stand by your CIO:

- “Over the course of implementing products or software, something’s bound to break. The salesperson who stands by me over the years and doesn’t run away at the first sign of trouble is going to be successful. John Keegan in *The Masks of Command* (Penguin USA, 1989) said, “The first and greatest imperative of

command is to be present and in person. Those who impose risk must be seen to share it."

- "I want you to navigate your organization for me so I don't have to do it at the same time I'm trying to make your software or service work the way I expect. Keep this in mind: You're not building customer satisfaction; you're building customer success. There's a difference, and the result will make us all winners."

Adapted from an article in Computerworld - Matt Sweeney, Vice President/National Associate Publisher, at (508) 271-7100, or e-mail him at matt_sweeney@computerworld.com

4. Avoiding Google-sickness or Salesforce.com-itis

I don't know if it's just me, but something about the overheated expectations these days surrounding Google and Salesforce.com brings to my mind memories of the late nineties, when tech entrepreneurs and VCs fell in love with 'new' business models (remember the headlong rush to the 'xSP' model then, when that didn't catch fire, the sudden passion for a B2B version of eBay's successful 'marketplace' model?).

Remember also how tech companies fled en masse to the previously condemned 'enterprise software' model in 2000-2001, when the newfangled models mostly fell flat on their faces? My fear now is that, once Google and Salesforce.com complete their IPOs, the market will seesaw back toward the 'advertising' model for consumer-focused companies, or the 'ASP' model (which Salesforce.com calls 'on-demand') for companies focused on enterprise or SMB markets. Let's take a look at where Google and Salesforce.com stand, what they bring to the table in terms of discontinuous innovation, and what if any aspect of their success other companies might consider emulating.

Google

Purely based on its current revenue growth, profits, and pre-IPO valuation, Google already represents a home run of eBay-like proportions. That said, based on the published views of many industry experts, there is a real chance that it may already have topped out as a market force, unless it is able to tap new service offerings in order to renew its competitive advantage. According to a survey conducted by market research firm Vividence and published in the Wall Street Journal on May 25, the search engine technologies of Yahoo, MSN, Ask Jeeves and Lycos no longer leaves anything to be desired when compared with Google's. Thus, if you believe one school of thinking, it could be all downhill from here, as the competitive advantage of Google's page ranking algorithm has arguably been eroded already. On the other hand, Google is clearly searching for new ways to distance itself from competitors, an example of which is its recent – and controversial – launch of G-Mail, an attempt to put Yahoo-Mail and Microsoft's Hotmail on the defensive with such features as gigabytes of storage for each user inbox. Overall, Google brings to the table a number of intriguing characteristics, both positive and negative:

Google pluses: Google single-handedly revitalized the search engine category, which practically disappeared as a relevant revenue-earning product category after Yahoo established its lead against Ask Jeeves and others. Its customized page ranking and advertising-based business model, combined with its catchy concept name and contrarian culture, is all part of an innovative approach designed to build a brand to rival and even exceed those of Yahoo, eBay, and – who knows – even Microsoft.

Google minuses: As some commentators have pointed out (notably Holman Jenkins of the Wall Street Journal, in his May 5 op-ed article), the company's management of its IPO process smacks of pretentiousness and even hypocrisy, despite the 'democratic' intent of the auction method it has chosen to adopt; by establishing super-voting shares with ten times the voting weight of an ordinary share, it places insiders in an entrenched position in control of the company, which should give pause to potential investors. Google's two secretive founders may be too young to

remember the last celebrated internet startup to adopt a hostile approach to its own industry and the outside world. For those of us with defective memories, that company was Netscape: a mere three years after its landmark IPO, the company was effectively marginalized by Microsoft's entry into its category with Internet Explorer, and shortly thereafter it practically imploded, ending up today as a tiny product unit within the AOL portion of Time Warner.

Salesforce.com

In contrast with Google, Salesforce.com seems to be a player whose market power has probably still not reached its peak, in fact, the company (possibly to its relief) has been overshadowed recently by all the hype around Google. However, I believe it represents a much bigger threat to incumbent business models, in particular the classic enterprise-software model that is founded on the principle of charging customers an up-front license fee plus implementation and maintenance service fees. Salesforce.com also seems to have a number of fascinating attributes, both positive and negative:

Salesforce.com pluses: The cause that Marc Benioff, the company's founder and CEO, has espoused – “the end of the enterprise software as we know it” – has been an attention getter. In effect, Salesforce.com has taken fairly conventional SFA functionality, and delivers it on a clean and well-architected ‘on-demand’ hosted platform; up to the present, the company appears to have exerted a strong discipline vis-à-vis remaining true to its ‘Volume Operations’ design(*), and as a result is achieving success in terms of market penetration into the SMB segment as well as departments of major enterprises.

Salesforce.com minuses: The company now has a big target on its back, among the larger companies, Siebel, Oracle, Intuit, and of course Microsoft are all watching closely. The company also faces the challenge of how to respond to demand from large corporate customers for complex, large-scale CRM deployments, which could stretch the company's model and resources.

Challenge #1 - The Jim Jones Syndrome

More than any single factor, what both these young companies need to do is resist believing the hype. If they allow business-grounding logic to give way to reality distortion, they will become vulnerable to premature decline. For Google, I think this process may have already started to occur, whereas with a bit of luck and loads of philosophical fortitude, Salesforce.com might avoid the same fate.

In such an intense and still-ingenuous industry as tech, there is a very thin line between fighting for a just and exciting cause that can mobilize the entire marketplace in your favor, and transforming that cause into a cult that does nothing except set the entire industry ecosystem against the young company. Witness Netscape.

Reassess Your Company's ‘Cause’ Before Mimicking Either Google or Salesforce.com

But what should other software companies, watching the increasing success of these two innovative upstarts, do in response if they want to emulate their success? My suggestion is that every company that feels the slightest bit tempted to mimic either one should first do a thorough self-examination on this central question and its associated components: What *cause* is your company championing today, that you are asking customers to reward you for and employees to fight for? One way of addressing this issue, to cite Jim Collins' laudable ‘Hedgehog Concept’ from his bestselling “Good to Great” book, is to define in clear terms (a) what you are passionate about, (b) what can you realistically be world-class at, and (c) what is the appropriate economic engine to drive your business?

When you have answered these questions, you will have a more precise idea about what if any features of Google's or Salesforce.com's successful formulae might make sense for you to emulate, without the risk of losing your own sense of identity in the process. One real danger I see today is that companies conceived correctly as enterprise software businesses, which by their very nature are in the business of providing complex, customized solutions to help enterprise customers address tough, messy business problems, might feel compelled to imitate the approach of a Volume Operations(*) company such as Salesforce.com, without realizing what it has taken for Benioff and company to 'bottle' the complexity in their well-constructed and streamlined service delivery platform. Remember, just as with Google (founded in 1998), these things don't happen overnight – it's taken them over five years to refine their model and execution to where it is today!

() In contrast with Complex Systems companies which focus on providing solutions to help large enterprise and government customers solve complex business problems – IBM, SAP, and Siebel are excellent examples of this model – Salesforce.com is designed as a Volume Operations company that focuses on providing packaged products/services to large numbers of small-medium sized organizations (including departments in large organizations) to address end-user requirements simply and with minimal support. Other examples of successful Volume Ops companies include Dell, Microsoft, and Intuit.*

5. Reader Response to: “Keep the Damned Product Behind Your Back!” Article

The response below comes from Darren Maynard, COO of NextLinx, a software company based in Rockville, Maryland, that specializes in global trade management solutions. What attracted my attention to this letter in particular was the fact that Maynard has worked on both sides of the ball, so to speak, first as an IBM sales representative and later as CIO of LEP International, a global freight forwarder company.

Dear Philip,

Our industry has validly gained an awful reputation. The result has been a total lack of trust and confidence from the buyer, which has resulted in extended sales cycles and a significant increase in the cost of sales, which ultimately reflects itself back in the value from the product and level of investment in innovation. We have to reverse that cycle and this starts with re-educating our industry. My worry is best reflected by the Deming statement 'you can't educate the unconscious' ... I went from selling for IBM to being a CIO of a Global Corporation and was appalled at the standard of selling among 90% of the vendors that called on me - including my IBM rep. Unfortunately, without role play, you never quite know how the person operates out in the field - especially the product focus versus problem focus. ... I have also seen the feeling of a sales rep that they need to prove their breadth of skills by being able to handle most issues alone, whereas the IBM approach was always by wheeling in experts, to show the company's breadth of talent. Something I am still trying to teach. I also experienced having a VP Sales from Oracle and the concept of teaching and mentoring was non-existent - he seemed to think his job was weeding until I weeded him.

Sincerely,
Darren Maynard
Chief Operating Officer
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Under the Buzz offers a monthly commentary on enterprise software and systems business and management issues. The goal is to provide provocative and accurate insights into the latest events and thinking shaping this continually evolving technology sector. *Under the Buzz* also provides commentary on strategies for building sustainable competitive differentiation and maximizing market valuation.

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