

# 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 "viewsletter" 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. Recent Buzz ...

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### 1. Recent Buzz ...

#### **New developments in the Oracle vs. PeopleSoft dispute:**

The recent judgment in favor of Oracle's claims regarding the competitive landscape for business applications, followed by what seemed coincidentally (or not) to be a unique played-out-in-court pre-negotiation by each side during testimony from both sides at Oracle's lawsuit against PeopleSoft, make it seem as if we may all need to apologize to Larry Ellison for underestimating his ability to launch a successful hostile offer to PeopleSoft in mid-2003; though the battle is not yet over, there are definite signs that the PeopleSoft Board want to entertain a serious offer ... One thing that was not too surprising was Ellison's gambit in his Delaware court testimony, stating that Oracle might have to reduce the price-per-share due to PeopleSoft's 'eroding' valuation ... Though he is often seen as a rogue adventurer, Ellison has periodically shaken up the industry, often to the benefit of consumers and enterprise customers – as, for example, when he launched the network computer in the mid-nineties; while that innovation failed miserably as a business proposition, it was undoubtedly the single biggest cause of PC prices tumbling from the \$1,500+ price point to under \$1,000 in little over a year ... For two years or so now, Ellison has been militantly arguing that the industry is in for a serious consolidation, and with the PeopleSoft move he is demonstrating the courage of his convictions ... Furthermore, despite what seemed to many – including this author – to be a calamitous miscalculation, his hostile approach to the bid in mid-2003 seems not to have had the expected effect of nullifying Oracle's chances of finalizing the deal ... In contrast, Craig Conway, whose initial resistance to Ellison's harsh overtures was supported by many industry observers – not to mention PeopleSoft customers and employees – evidently overplayed his hand, while Ellison got into hyper-competitive top gear in order to show the younger whippersnapper who is really the boss ...

#### **Thoughts on 'Gorillas' and 'Chimps' from a recent industry conference:**

Three weeks ago at the Vortex conference in Santa Barbara, prominent executives from six 'gorilla' companies in the enterprise computing stack (IBM, SAP, Oracle, Cisco, EMC, and Microsoft), together with executives from two significant 'chimp' systems companies (HP and Sun), were interviewed about their strategies for solidifying and/or expanding their positions in the stack ... Among the interviewed executives, Chuck – now apparently Charles! – Phillips was perhaps the major surprise, coming across authoritatively in his new senior operational role ... Among the other interviewees, Jonathan Schwartz was a refreshing new face, offering in a clear

and un-pompous manner his view of Sun's opportunity to return to days of glory ... However, in a panel discussion during the event, industry analysts voted EMC and Sun off the island as future industry shapers, while Cisco was seen as vulnerable to increasing commoditization and competition from China, Oracle was assessed by one as being a one trick pony, and HP was identified as having a possible future as the Avis to IBM's Hertz, if only it has the will and savvy to fulfill the role ...

One conference attendee who provided the most detailed and authoritative summary and critique of the event was Gary A. Bolles, editorial director and co-founder of Conferenza Premium Reports, a leading source of reports on major technology conferences. Bolles was seen tapping away on his laptop throughout the main sessions. The resulting report can be received by emailing CPR editor-in-chief Shel Israel at [shel@conferenza.com](mailto:shel@conferenza.com).

### **What do people mean when they say SMB?**

Hearing once again how executives in large vendor organizations such as Oracle and IBM refer to the SMB market, I reflected that, despite significant efforts being invested in attracting customers in this major 'segment,' very few executives seem able or willing to define exactly what they mean when they throw this term around. For a number of reasons, it is dangerous to default to a term such as SMB when addressing the myriad types of organization that are most often grouped under this catchall header. For one thing, it almost always comes across to customers in this huge 'segment' of the market as a put-down by vendors who would prefer to be dealing with major enterprise organizations, but who, due to perceived saturation in their preferred hunting-ground, now have to consider selling smaller deals to a much larger (though poorly understood) universe of organizations. Another factor is the total inaccuracy of such a catchall classification, because it accommodates some quite diverse entities, such as:

- **Midsized businesses:** These can often be quite large companies (say, up to \$2B in revenues), depending on how vendors divide the universe of potential customers. As such, they are in reality quite large, and often extremely diversified. Depending who you talk to, this broad grouping can range widely from, say, \$200M to \$2B (revenue) companies, in addition to being part of so-called 'fragmented' industries – such as forestry products, healthcare, and so on – that have tended to invest less in IT than more consolidated industries – such as financial services, telecommunications, pharmaceuticals, equipment manufacturing, and CPG;
- **Small businesses:** What does 'small' mean in this context? Are we talking about SOHO or mom-and-pop businesses, or firms with 300 or so employees? Either way, their business problems and IT requirements tend to vary dramatically;
- **Other important segments or groupings:** Candidates for consideration include such unlikely bedfellows as: (a) Departments in large corporations; (b) Operating divisions of large conglomerates; (c) Technology-centric newer industry segments such as wireless-telco service organizations; (d) Fast-growing companies in emerging industry sectors such as biotech; (e) Fast-growing companies in established sectors, such as the next Starbucks, and so on. In all these cases, business problems and consequent IT requirements vary enormously.

Perhaps a more important obstacle to adoption is the relatively undeveloped IT culture in small and midsized organizations. Whereas major enterprise and governmental organizations share the characteristic of having both large-scale problems *and* significant internal resources to deal with them, midsized and smaller organizations – as well as large organizations in fragmented industries – often lack one or the other of these hallmarks. It's worth bearing in mind that there are reasons why they are midsized or smaller; often, the reason they got to be smaller than their larger competitors is because they lacked the vision, ambition and/or competitive thrust to scale

their businesses further than they have managed to do. Thus, with smaller and less sophisticated in-house resources invested in IT, they are unable to implement the costly and complex technologies that have been available to date.

This is why the promise of services-oriented architectures (SOA), enabling as they do the increasing availability of reliable and easy-to-use 'enterprise-class' applications on cheaper, hosted platforms, holds promise for these hitherto neglected industry players. When more than a few vendors come to understand how to build a sustainable growth business by serving these SMB customers, they will begin to hold more sway than they have until now. Major systems vendors such as IBM, HP, SAP, Oracle, and others seem to still have much to learn about how to approach the SMB marketplace, whereas companies such as Intuit, Symantec, Salesforce.com, and Microsoft – in addition to ERP vendors such as Infor Global Solutions (formerly Agilisys), SSA Global, and Best Software, provided they can develop SOA-based offerings – may well be the first to lead the growth spurt in this area.

## 2. Strategy!

### Why 'Strategy' and 'Execution' Seem So Incompatible\*

*"We announced our new product strategy a year ago, and we still seem to be struggling to execute on it. We announced it at our last user conference, we trained the sales force at our last kickoff, and we've launched a bunch of cool marketing programs in the past several months. Still, our people don't seem to know how to convey the value proposition effectively to our customers, because very few of them have confirmed purchase decisions to date. I give up – what can it be that they don't get?"*

- Paraphrased from conversations with many tech company CEOs and executives

If I had a dollar for every CEO or other executive who wonders why their employees don't seem to know how 'execute' on their major new 'strategy' – whether it's about launching a new product category or pursuing other initiatives to drive growth – I'd be a very rich and contented soul. In fact, the bigger the company, the worse the problem seems to be. This may be due to the fact that in larger organizations, executives tend to be further removed from the realities of their customers (and therefore of their field sales and support teams) than they like to admit.

All of this, evidenced by my work with various executive teams, leads me to want to clarify one or two definitions that seem to have become muddled over time. Invariably, the first question I ask when I hear this is: "Are you sure that what you communicated was a strategy or, was it really no more than a declaration of your strategic *intent*?" Often, the initial response to this question is a blank, troubled stare. Then it begins to dawn on them that there may indeed be a flaw in their thinking about whether or not what they really set in motion was a strategy at all.

Over time what I have learned is that the term 'strategy' as used by most senior executives tends to be more about defining *what they want to accomplish* (an aspirational goal), versus being about how they actually intend to *get it done* (a strategy for accomplishing the goal or intent). In more traditionally-minded parts of the world than the U.S. – where, let's admit it, patience and care with language are still considered virtues – managers tend to think in terms of a trio of components such as '*strategy, tactics, and implementation.*' According to this ancient school of thought, strategy is about declaring the 'what' and top line 'how' of what you want to accomplish, while you leave tactics to address the detailed 'how' and 'by whom' parts (the game plan), and implementation is where you execute the plan.

Unfortunately, in a business culture which is less willing to accommodate nuance and more anxious to 'cut to the chase' and 'focus on the bottom line,' as is characteristic of today's tech industry, the habit of compressing these three separate components into just two – 'strategy' and 'execution' – can cause serious damage to an organization's chances of executing a successful strategic initiative. Add to this the anxiety that often afflicts executives who want to make their

company number one, and you have a recipe for failure. In other words, poor thinking begets poor action.

### The 'Fire Drill' Culture

When this predictable chain of failure becomes an institutionalized habit in any single company, what you have instead of well-considered, viable initiatives is a constant series of fire drills. In my experience, this problem is usually exacerbated in larger, more 'mature' companies that have tasted past success. The principal reason for this seems to be that the executives in such organizations stick stubbornly to a belief that their company has the power to push its way to success independently of the quality of their strategic thinking. It's easy to spot these companies: they are the ones in which everyone, from executives to line employees, are working all hours, but don't seem to be making much headway toward their most important objectives. In these organizations, prioritization is usually a major casualty: managers seem to lose their bearings with respect to working toward the company objective (which may not be very clear), and consequently the urgent takes precedence over the important.

Thus, if executives in our industry insist on employing the vocabulary of 'strategy' and 'execution' in their formulation of important business decisions, I suggest that the word 'strategy' needs to be parsed and converted into two separate terms. In the definition below, I want you to imagine, for example, how a new market development initiative should be considered using this framework:

1. **Strategic Intent** – What we want to accomplish, and how we intend to accomplish it, in broad outline. An example of strategic intent might look something like this: "Regain leadership in our space by launching a new suite of offerings under the new moniker 'word-one\_word-two\_management,' that will address critical problems that our customers have yet to solve through the use of IT systems."
2. **[Market Development] Strategy** – How we intend to accomplish it, in conceptual detail. An example of an actionable strategy would include what market segment you intend to attack first, what strong motivation these customers would have to buy, what complete solution we intend to deliver, and so on.
3. **[Go-to-Market] Programs** – How we intend to accomplish our intent, in a concrete, actionable plan framing the programs and activities, who is going to execute them in what time frame. An example of programs would what go-to-market activities we need to perform in the areas of validation of our hypothesis, development of the eventual complete solution, the marcom and sales support deliverables required, the field/other sales team model that needs to be in place, and the new or additional resources required to staff and support the initiative successfully.

The second word in the first bullet above – 'intent' – is absolutely critical to the distinction I want to establish in this article. It is vitally important that companies have a clear intention of what they mean to accomplish, but it is even more important that they don't confuse intentions with actual executable game plans. For my money, what makes an initiative *actionable* is a combination of items 2 and 3 above, i.e., strategy *and* programs. Even the detailed strategic game plan doesn't guarantee actionability until the relevant programs are attached to it, and resources – especially people – are assigned with appropriate levels of accountability for executing the preparatory tasks that precede the hand off to the field or other sales teams responsible for driving the initiative to success with their target customers. In short, people can be accountable when they are (a) capable of doing the job, (b) able to allocate their attention to it, i.e., they can move other stuff off their plate to accommodate the new assignment, and (c) authorized to perform the tasks in (d) a defined time frame.

### Intent versus Strategy versus Programs: Questions to Ask and Answer

In order to further clarify the differences between the above three classifications, let's define the questions that need to be answered in each of the three phases. This should help make the boundaries between each as crisp as possible:

1. **Strategic Intent:** What can we best in the world at? What Big Hairy Audacious Goal are we trying to accomplish? What are the sources of our differentiation against our closest competitors? Does our business model enable or disable this intent? Which product or services offer do we want to use as our vehicle for accomplishing our goal (intent)?
2. **Strategy:** What adoption barriers face us, for the product or service offer(s) in question? What target market segment and customer job title, with what compelling reason to buy, are we going to focus on initially? What solution (not just product) are we going to propose to solve the problem? What alliances do we need to form in order to deliver the solution, and what is the appropriate sales approach? What is our proposed pricing model, what competitive alternatives does our customer have at their disposal? How do we summarize this in a positioning statement, to enable customers to understand our proposition? And, where do we go next, once we have succeeded in this initial target market? And so on.
3. **Programs:** What specific go-to-market programs must we put in place, i.e., validation of the strategy with outside constituencies, whole product partner/alliance development, marcom plan and sales support deliverables, field engagement plan, and resource alignment plan? How must we organize this effort, i.e., a cross-functional team, and by when must they produce their plan, ready for hand off to (field) sales teams for execution?

### Summary: Some Practical Starting Points on Strategy

As a working definition that my partners and I use in our practice, *Strategy* is the systematic allocation of resources to maximize competitive advantage relative to a particular goal or intention.

Furthermore, it is important to note that strategy stands in stark contrast to execution. Firstly, strategy *determines* competitive advantage, whereas execution *utilizes* competitive advantage.

Next, strategy as a process is built around two mental acts: *descriptive* and *prescriptive*:

- *Descriptions* model the universe of forces that will effect the desired outcome
- *Prescriptions* develop and position forces you can control within that universe

Finally, to return to the first assertion I made, it is critical to bear in mind that *strategy* is always created relative to *intent*. Intent helps descriptions isolate the forces that matter from the circumstances that won't make a difference to our success. Secondly, intent ensures that prescriptions address the end-objectives that matter most for our success.

\* For those who have not heard the term "Strategery" before, it is a 'Bushism' thought up by satirists on the TV show Saturday Night Live.

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*Under the Buzz* offers 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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