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.

Articles in this issue:

Upcoming Event – 'Software 2005'

I shall be giving a presentation at Software 2005, the expanding forum for software industry executives (April 26-27 at the Santa Clara Convention Center, Santa Clara, CA). Software 2005's aim is to provide best practices guidance for the entire life cycle of a software company. There are sessions on funding, development, launch, scaling, liquidity, and managing in mature markets. The conference, probably the preeminent forum of its type today, features an impressive lineup of speakers, breakout groups, and networking opportunities – all designed to provide insight into the most important challenges facing software executives today. If you are interested in attending but have not yet registered, you can do so at www.software2005.com. For those readers who are interested, my session on *"Dealing with Darwin – Twelve Types of Innovation for Today's Competitive Environment"* is at 10:45am on Wednesday, April 27.

Calling All Baby Boomers: Haunting Song Lyrics from Forty Years Ago (pt. I) …

"…Tolling for the deaf an' blind, tolling for the mute
Tolling for the mistreated, mateless mother, the mistitled prostitute
For the misdemeanor outlaw, chased an' cheated by pursuit
An' we gazed upon the chimes of freedom flashing …"

- "Chimes of Freedom", Bob Dylan - *Another Side of Bob Dylan*, ©1964

1. Building a Coherent Business Case to Sell Your 'Solution'

Virtually without exception, every enterprise systems or software vendor today is in the grip of a painful transition from a fundamentally product-centric approach to a more 'solution'-focused one. For those many hundreds of companies today that are run by executives whose mental models about how to 'close' enterprise-level sales took shape during the 'open-systems' era (i.e., starting with client server, then initial internet eras), this shift requires more of a transformative change. In short, it implies much more than a simple modification in 'messaging.' Just saying the magic word 'solution' – then bundling up some products and services into a new package does not make it so.

Perhaps the biggest test of companies' new solution focus occurs at the moment when a sales team initiates the 'needs analysis' phase of a dialogue with a new or existing customer. Let's assume that the team hits pay dirt: the prospective buyer agrees that there is a problem, and that in principle the approach the vendor is describing makes sense as a potential solution to all or part of the problem. This is when the time is approaching to start building a real business case to justify the customer's investment.

Unfortunately, this is also where sales teams come up short. By going along with the customer's description of the anticipated benefits that they are comfortable with, sales teams often find their case limited to easy-to-pin-down 'tangible and direct' benefits, such as direct savings in personnel and other operating expenses directly associated with the business problem as it occurs today.

The lack of clarity about which potential benefits customers are willing to consider as 'tangible' or 'direct' or which 'intangible' or 'indirect' benefits they are willing to include in their assessment, often results in a less-than-compelling business case. This in turn reduces the perceived value of the proposed solution, and also weakens the customer's sense of urgency to adopt it. Overall, it will tend to produce one or more of the following outcomes, none of which is positive for either side:

- The price the customer is willing to pay will be (much) lower than it could/should be;
- The time required to close the deal is lengthened, sometimes dramatically, for lack of a 'compelling' case;
- The chances of closing the deal at all are reduced, or even eliminated.

The truth is that, left to their own devices, the majority of customers will adopt a pragmatic or, more likely, conservative view of the likely benefits to be achieved by implementing a new IT system to replace an existing defective mix of manual and automated procedures. This is especially true of middle managers, because they usually do not see themselves as 'authorized' to take into account positive impacts outside their direct purview. Furthermore, benefits to other operations inside the customer's organization may be dismissed as 'indirect.' Thus, particularly with respect to measurements in financial terms, they will tend to default to a relatively safe prediction focused on 'tangible and direct' benefits – the most conventional being current, identifiable operating expenses that will be 'saved' once the new system is implemented. Typically, any talk by the vendor's sales team or management about such benefits as 'improved customer loyalty' will be dismissed as nice-but-intangible by a skeptical customer, unless a clear logical connection can be made to the new solution.

Fig. 1: Fixing Broken Processes: Building a Business Case

	"Direct" Benefits	"Indirect" Benefits
"Intangible" outcomes	*Example*: **3** Improved customer satisfaction and even loyalty: **i.e., Increased service contract renewals**	*Example*: **4** Gains in market share through improved company image: **i.e., New business won due to positive customer references**
"Tangible" outcomes	*Example*: **1** Cost and expense savings in the specific functional area: **i.e., Customer support calls – one-time online resolution**	*Example*: **2** Related improvements in other functions/operations – **i.e., Savings in field support resources, management time**
	Result of fixing the specific broken process	*Positive impact on other functions or operations*

One simple device that I have used to help clarify the dialogue with customers – in particular, to draw attention to what should be considered 'tangible' as opposed to 'intangible' benefits, as well as 'direct' vs. 'indirect' ones – is the 2 x 2 matrix in Figure 1 above, which for illustration purposes cites the example of a 'broken' customer support process.

While quadrant 1 alludes to the most obvious 'savings' that customers may readily accept to be the basis of their justification, quadrants 2 (tangible but indirect), 3 (direct but intangible), and 4 (intangible and indirect) relate to the areas of much larger benefit that are usually excluded from a business case that the vendor is aware of during the sales cycle. In other words, the customer may or may not be using these criteria to gauge the attractiveness and urgency of the investment, but the vendor will almost certainly remain ignorant of them unless they actively use this line of 'investigation.' For a number of reasons – ranging from lack of trust about how the information might be used against them to lack of confidence in being able to actually realize the benefits – even those customers who are well aware of one or more of these potential benefits will be reluctant to bring them to the vendor's notice without the information being 'teased' out of them. To achieve this, it is not necessary for the vendor team to be devious or manipulative, but to refuse to accept just the tangible/direct benefits as the only important ones.

In the example above, it is not vital that the sales team be experts in the customer's specific situation. However, at the very least, they should be expert enough to know the benefits for each quadrant that are generally achievable by companies in the specific industry segment. Thus, in this case, the team should be armed with industry figures relating support call resolution to increased maintenance renewals. They should also have sufficient process-awareness to know how to connect onetime support call resolution to other parts of the customer relationship management process, including details about how much other functions as well as management will benefit. Finally, they should be able to use this matrix to ask probing questions about the connection between the importance of faster call resolution in driving customer references leading to increased sales from existing and new customers. While it is not usually feasible to put precise numbers on any of these other three classifications of benefit, customers will usually be willing to attribute financially related values to them if the sales team probes with sufficient diligence and patience.

In the end, a business case is not to my mind the same thing as a financial case; the former provides evidence of how the proposed system will materially improve the customer's business, generally in more than one dimension; the latter is a component of the business case that provides corroborative evidence of what this looks like in financial terms. Thus, for example, the effects of improved customer loyalty may be felt in an 'intangible' way, such as by allowing the company to achieve a level of excellence and well-being with its customers so that much less executive time needs to be spent doing damage control with unhappy customers. If sales teams – supported patiently by sales managers and executives – are willing to conduct a dialogue using this type of approach, there is no doubt that they can achieve dramatically improved results.

Recent Quotes on CEOs and Corporate Governance - #1

"I believe Sarbanes-Oxley will have a very negative effect of having boards over-rotate toward governance and not toward stewardship. … Stewardship is all about what is the strategy and how is it going to help a CEO succeed. Governance is all about how are we going to make sure we hammer this person if they don't meet their numbers. I think there needs to be a balance."

- Scott McNealy, CEO of Sun Microsystems, quoted in the SF Chronicle 02.18.05

"While the particulars of each of the recent CEO departures (Carly Fiorina at HP, Michael Eisner at Disney, Hank Greenberg at AIG, Franklin Raines at Fannie Mae, following the earlier and now indicted figures of Ebbers, Lay, Skilling, Scrushy and Kozlowski) are unique, just about all post-Enron CEO firings involve talented, powerful individuals who conflated their positions with their personalities. Like modern-day sun kings, they thought the company was them; there was no distinction between the company and the CEO."

- Arthur Levitt Jr., former chairman of the SEC, "The Imperial CEO is No More", in the WS Journal 03.17.05

2. Tale of the Tape: Email's Vicious Sting

"Email is one of the great management tools of recent decades, making it easier for top executives to manage a far-flung workforce, communicate with multiple stakeholders and even correspond, on occasion, with journalists. Unfortunately, the Stonecipher case is one more prod for executives to follow the example of a former CEO who never wrote email: Worldcom's Bernie Ebbers."

- Alan Murray, writing in the Wall Street Journal 03.09.05

The latest well-publicized episode in which Harry Stonecipher, a seasoned and (apparently) well-respected top executive, was outed by his own email and fired from his job as CEO and self-styled head of ethics at Boeing, provides a stinging reminder of the power of email as a tool with which people can condemn themselves, in their own messages. In many ways, email today resembles the audiotape recording of the past in its ability to turn round and sting its own users, except that only the more paranoid, including politicians like Richard Nixon, resorted to recording their own crimes, whereas email has become a truly pervasive communication tool.

In the article Murray jokes about the poor judgment used by Stonecipher in using his company email address to send explicit emails to his mistress by paraphrasing the lyrics of a country music song: "We know what you were feeling, Harry, but what were you thinking?" He then goes on to remind readers of the many recent cases in which the email trail that people seem to think doesn't exist has upped and stung them in the backside, mainly at the hands of the 'untouchable' New York witch hunter-general, Eliot Spitzer:

1. Henry Blodget of Merrill Lynch, who derided Amazon.com's market valuation in 'private' while continuing to recommend the stock to the firm's clients;
2. Jack Grubman of Solomon Smith Barney, who boasted about Citigroup CEO Sandy Weill wielding his influence to help Grubman's children get accepted by a swank Manhattan school after the analyst boosted AT&T's stock to please Weill;

3. Frank Quattrone of Credit Suisse First Boston, who advised his staff to clean up their files of potentially embarrassing information;
4. Bill Gates of Microsoft, whose series of emails discussing tactics on undercutting competitors became part of the late-90s antitrust lawsuit against Microsoft;
5. Last but definitely not least, Michael Sears, the CFO of Boeing (nonetheless) who offered a job to a high-ranking US Air Force purchasing manager in exchange for favorable consideration on a major contract.

It was depressing to note that one of the reasons that Bernie Ebbers was thought to stand a chance of being exonerated of the charges against him was that he refused to use email at all, and therefore was not caught 'on tape' saying anything incriminating. Unfortunately, many CEOs and other executives today feel inhibited about using email for anything other than pre-vetted formal messages, such as company-wide announcements and short monosyllabic responses to incoming messages. Who can blame them? In light of the positive properties of email as a highly productive and versatile communication tool, this is indeed a shame.

So what are executives to do, in light of the risks they face in being outed for any off-the-cuff comments? Well, after all these celebrated cases, it is more than clear now that (a) all email messages must be assumed to be 'on the record' (i.e., the act of deleting messages from your desktop system does not in effect destroy the existence of the message, since it always remains stored on a server somewhere); (b) while email is a wonderful medium for basic 'messaging,' it is not at all suitable for conveying irony or humor in one's tone, much less emotional and passionate messages to one's mistress, and (c) any derogatory or negative comment can come back to haunt you, even if it doesn't lose you your job or put you in jail.

Haunting Song Lyrics from Forty Years Ago (part II) …

"…Tolling for the aching ones whose wounds cannot be nursed
For the countless confused, accused, misused, strung-out ones an' worse
An' for every hung-up person in the whole wide universe
An' we gazed upon the chimes of freedom flashing."

- "Chimes of Freedom", Bob Dylan - *Another Side of Bob Dylan*, ©1964

3. Market Strategy: Twelve Common Misconceptions that Can Sink Your Company

Below are twelve common misconceptions that, from my observations, management teams make about how to develop markets and implement an effective go-to-market initiative. Any two or three of these faulty assumptions can cost a company dearly in terms of delayed – or indefinitely deferred – adoption of their product or service offerings. In practical terms, sales cycles can be excruciatingly long (or even infinite) as a result. Sooner or later all manner of bad outcomes can occur, including ultimate failure of the business. Here is the complete list, accompanied by brief comments on the right approach to adopt in each case:

1. <u>They define the business they are in by the products they make</u>; thus, their offering becomes the focal point of their value proposition to the world, and they are always having to jump through hoops with customers to prove that the product does everything customers might want it to do. *How they should think*: The product a company makes is an expression of the *means* by which they choose to serve customers; it is not in itself the end. The end, or purpose, a technology company serves is to help customers – be they major enterprises, public sector organizations, or small businesses and consumers – to solve problems in a productive and cost-effective manner. In most cases, the overall *consequence* they aim at is making profitable revenues, so that they can fund their continued growth.

2. <u>They regard strategic *intent* as an actual strategy</u>, and consequently are surprised to see their employees struggle to implement the new 'strategy,' (i.e., goal) successfully. *How they should think*: Recognize that hard on the heels of a declaration of intentions ("we intend to become the leader in a new category called '*something something management*'") comes a clear and detailed plan about *how* to validate this intent by successfully addressing the pressing needs of one or more sets of target customers.

3. <u>They treat *their* product as synonymous with the category</u>. *How they should think*: No single company's offer can be more powerful than the overall category. It is imperative to make the best possible guess about where the category is in terms its adoption stage; if, for example, the current adoption of your product lags the general adoption of other products in the same category, you need to catch up quickly, otherwise you may be stuck trying to sell to a few visionary customers when all your in-category competitors are selling to large numbers of pragmatist customers.

4. <u>They fail to understand what their 'crown jewels' really are, in terms of technology or other precious know-how</u>. *How they should think*: Although many companies harbor illusions that they have 'untold riches' in their core products, no single vendor's product ever has more than a two or three defensible 'uniques.' It is critical to identify what you have that is really unique and bring out its value in the solutions you build.

5. <u>They assume that 'pragmatist' customers will follow suit once they have heard about visionary customers having bought</u>. *How they should think*: Don't waste energy trying to convince pragmatist prospects to follow what their favorite visionary customer has done, because they don't see visionaries as their peers and they don't trust them. Instead, focus on translating the results the visionaries achieved into the reality of the pragmatic customer.

6. <u>They mistake the 'Chasm' as a hall of shame, rather than an almost inevitable stage to navigate between early market and mainstream adoption</u>. *How they should think*: Get over it! Since the objective is to move to the right along the technology adoption life cycle, it is critical to recognize when the early market 'buzz' is over, the chasm beckons, and it is time to adopt a quite different strategy based usually on a target niche market inside a specific vertical.

7. <u>They are more driven by their compelling reason to sell than the customer's compelling reason to buy</u>. *How they should think*: This sin is a direct consequence of misconception #1 above. It is crucial to remind everyone that customers don't buy in order to please vendors and their insufferable self-absorption.

8. <u>They equate 'pain points' with a compelling reason for target customers to acquire their product or service</u>. *How they should think:* It is well known that customers – even large corporate organizations – don't make decisions for five reasons at a time; there is always one key driving reason that pushes them over the edge, after which they (quite rightly) rationalize the decision by aggregating all the pros against the cons.

9. <u>They consider the 'bundle' or 'suite' they are offering to be a 'whole product'</u>. *How they should think*: This problem is a direct cousin to misconception #7 above. Managers must remind themselves that the whole product is by definition seen from the customer's viewpoint, i.e., what does it take to solve the compelling reason to buy?

10. <u>They differentiate their offerings versus competing *vendors* rather than competing *choices*</u>*?* *How they should think:* Most of the time, especially for emerging product categories, the most significant competition is the option to do nothing, in other words maintain the status quo. Also, in-house development and professional services firms tend to more of a threat, so market development energy should aim to make the (whole) product offer be more attractive than these alternatives.

11. <u>They use positioning statements in an 'egocentric' way, to describe their aspirations about how they want to be perceived</u>. *How they should think*: Positioning is about

customers, not vendors or their products; customers 'position' a tech company in relative terms of importance and value in their minds based on what the company does, not what it says. Therefore, positioning statements must reflect what a company aims to do *to benefit customers* in a unique and differentiated way.

12. They tout being 'sales-driven' as an attribute that customers and others should value. *How they should think*: Being 'sales-driven' delivers no benefit to customers, because it generally means 'chasing revenues' which may benefit the company but is more often than not detrimental to customers. Instead, companies should aim to be market-oriented or customer-oriented, provided that they use this to mean oriented to understanding and responding appropriately to markets and customers.

In order to help you determine if your organization should consider some kind of therapy to cure itself of one or other of these dangerous misconceptions, here is a scoring system accompanied by appropriate prognoses:

If you scored…	*Your company is…*
• Three or less	… Pretty good, actually!
• Four to six	… Not too bad, but should consider therapy
• Seven to nine	… Starting to need urgent treatment
• Nine to eleven	… On the road to rack and ruin
• All twelve	… Beyond redemption

Not all the sins described above are equal, so any scoring method could be misleading. That said, this exercise is just a bit of fun, though with a serious edge to it. Most of the misconceptions are not themselves fatal, provided that companies (a) become suitably self-aware about each shortcoming and (b) especially, if they set out to do something to adjust their thinking accordingly.

Recent Quotes on CEOs and Corporate Governance - #2

"The new CEO will have to interact with their board in fresh and creative ways. That means not only working together on corporate strategy, but accepting new levels of oversight. Top managers must expect and be comfortable with disagreement and pushback. As we all know now, too many executives have taken advantage of compliant directors, only to plunge their corporations and themselves into headline-generating trouble. … [There is also] the need to strictly align salaries, stock options and other perks with performance. We've all seen many cases of corporate leaders who finished last but are treated as if they finished first. This must end."

- Robert J. Dilenschneider, "When CEOs Roamed the Earth", Wall St. Journal 03.15.05

"There seems to be a sea change going on here – a kind of maturation of American corporate governance. The king now has a parliament, which in turn answers to powerful constituents. … Americans still want their CEOs to don wings and fly. But someone needs to make sure they don't get too close to the sun."

- Alan Murray, "Emboldened Boards Tackle Imperial CEOs, Wall St. Journal 03.16.05

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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