

Under the Buzz

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

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Under the Buzz is an email "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 executive teams in enterprise systems and software companies. 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.

Main topics in this issue:

1. **Innovation Strategies: The Power of the *Deliberate* Innovator**
2. **Clear as Mud - In the Land of Gobbledygook (Understanding Tech Jargon Today)**

But first a tribute to the great management thinker, Peter F. Drucker (1909-2005):

Nine Major Prophecies

Peter Drucker, the most influential thinker on the practice of organizational management, had many admirable qualities that kept his mind young and active right up until the day he died in early November at the ripe old age of 95. One of them was his uncanny ability to interpret trends and foresee critical socioeconomic changes.

Examples cited in a recent Wall Street Journal article by magazine publisher Steve Forbes include the following nine amazing insights:

In the fifties and sixties:

1. The rise of knowledge workers, resulting from the bulge in education that occurred as a direct effect of the post-war GI Bill;
2. The breakdown of the traditional, integrated, hierarchical industrial corporation;
3. The rise of Japan as a major economy, when many experts thought that it would remain a nation of small farmers and cheap and shoddy goods;

In the eighties and nineties:

4. The decline of the Japanese economy as a result of an aging population and a lack of vigorous entrepreneurship and worker flexibility;
5. The adverse impact on corporate governance of the rise of corporate and government pension funds;
6. The backlash against the rise of CEO pay that eventually occurred after the bursting of the late nineties bubble;

More recent predictions:

7. The threat to conventional higher education institutions to come from the rise of satellites and the internet;
8. The positive effects of outsourcing on the U.S. economy, resulting from the fact that "we import two to three times as many jobs as we export";
9. The huge and enduring advantage that the U.S. has over Europe and Japan due to American workers' flexibility, not only for changing jobs but for physically moving from one geographic area to another in order to pursue a new opportunity.

1. Innovation Strategies: The Power of the *Deliberate* Innovator

We've all heard about innovators – or inventors – and fast followers. The former are those who create something from scratch, the latter are those who watch them for a couple of years, then jump on the opportunity once it has started to get adopted. Often, to the chagrin of the creative types, fast followers come along in the first few years to co-opt the new thing and make all the money. For example, as everyone knows, Visicalc's co-creators, Dan Bricklin and Bob Frankston, saw their revolutionary electronic spreadsheet co-opted by fast-follower Lotus, and their product Lotus 1-2-3 went on to become the principal catalyst for the rapid adoption of the IBM PC, experiencing tornado growth and becoming a household name in the process. And in the latter example, it was IBM – acting out of its usual conservative character for once – that was the fast follower that kidnapped the PC from the creative but naive founders of Apple, Steve Jobs and Steve Wozniak.

Well, after watching hundreds of innovation cycles play out over the past couple of decades, I have concluded that there is often a third key player in many categories that follows hard on the heels of the fast follower and plays a significant role in expanding the market. This is the *deliberate* innovator, who often stands to capitalize on the original inventor's initiative to an even greater degree than the fast follower is able to. Whereas the fast follower tends to make their play when the emerging product category is ripe for the first stage of scaling into new markets, the deliberate innovator generally introduces a new dimension of innovation on top of the initial offering that enables the product to reach even further into new market spaces.

Take, for example, the earlier example of the electronic spreadsheet. We've already recognized that the original inventor was Visicalc and the fast follower was Lotus. But which company came along later and cleaned Lotus' clock? Microsoft, of course - first with Excel, and then with its actual innovation, MS-Office the integrated productivity suite! Earlier on, Microsoft had been a fast follower when it swiped the PC operating systems contract from under Gary Kildall's nose. Well, yes, but I would argue that, combined with their fast-follower move to co-opt Apple's user interface and produce the Windows wrapper around DOS, this was the one case in Microsoft's history to date when Bill Gates & company acted as true fast followers rather than deliberate innovators. And it was the foundation of their operating systems monopoly.

Ever since, with the component parts that eventually became MS-Office, as well as with the Xbox, business applications, and so on, Microsoft has solidified its mindset as a deliberate innovator, or follower. Just to be clear, a deliberate innovator is a company that watches patiently as a new product category develops over not one or two years, but as many as seven or more years. They may not always think precisely in these terms, but they are happy to watch as, first the original inventor, then a few years later the fast follower(s), invest in the new product. Only after it has gained adoption among more than 50% of the possible universe of customers, when many of these are already making their second or third purchase, are they ready to jump in and get wet.

In Microsoft's case, their investment in Office occurred five or more years after Visicalc first garnered attention, and two years or more after Lotus had entered its tornado in the early eighties. Similarly, Dell entered the PC market after it had been in the tornado for a year, and much later, invested in servers when they were an established category, then in printers when they were positively mature. Another company that was once a fast follower, Autodesk, has also settled into the personality of a deliberate follower. Where as a start-up it established itself by bringing 2D CAD design software to desktop computers, it only entered the 3D CAD market seven or eight years after companies such as Dassault and Catia first pioneered it by marketing a complex, consulting-intensive, early technology to large aerospace companies, defense contractors, and automobile manufacturer.

Here are a few lessons I want to draw attention to with respect to this unheralded role:

- Not every company is cut out to be an inventor, or original innovator.
- Not only does the market need fast followers – who still have to take some risks with adoption by conservative customers – but it needs the more deliberate followers and innovators too.
- It's not only okay to be a deliberate innovator but it is one of the three main roles that contribute to formation and sustenance of a solid market for given products or services.
- The main distinction between a deliberate innovator and a deliberate follower is the degree to which a company is able to introduce a new dimension (see paragraph below).
- Whereas deliberate innovators change the game, deliberate followers normally limit themselves to introducing a cheaper, better, and/or faster alternative to the prior products in the category.
- However, if your company does pursue a deliberate follower strategy, you must be prepared to operate effectively as a volume operations organization, because that's what the market usually needs at this stage.

Furthermore, I would argue that both Salesforce.com and Google – two current successes that are the source of uncontrolled envy among other tech companies – are in essence deliberate innovators with respect to the technologies on which they based their market development strategy. That said, they have both managed to do what all deliberate innovators must do if they want to make the hoped-for significant impact on the market, which is *innovate in at least one different and significant dimension*.

Here are some examples of “new dimensions” implemented by deliberate innovators on the way to making a big and in some cases revolutionary impact on the relatively established product categories that they chose to enter:

| Product Category | Inventor | Fast Follower | Deliberate Innovator | New Dimension |
|----------------------|-------------------|--------------------|----------------------|--|
| Unix server | AT&T Labs | HP | IBM | Integration services |
| Elect. spreadsheet | Visicalc | Lotus | Microsoft | Integrated suite |
| PCs / servers / ptrs | Apple / AT&T / HP | IBM / HP / Lexmark | Dell | Build-to-order process |
| 3D CAD software | Dassault | PTC | Autodesk | 2D CAD installed base |
| Portable DBMS | Cincom | Software AG | Oracle | First onto client/server |
| MRP & Financials | MSA & M&D | IBM, Cincom | SAP | Integrated ERP suite |
| SFA & CRM | Many startups | Siebel | Salesforce.com | On-demand platform |
| Search engine | Inktomi, Yahoo | Microsoft | Google | Unique algorithm + advertising biz model |

My colleague Geoffrey Moore has authored a new book, *Dealing with Darwin*, that deals with the critical need for companies to innovate at all stages of the technology adoption and category maturity life cycles. My description here of a third critical role in product innovation and adoption, that of the all-important deliberate innovator, complements many of the ideas discussed in the new book and is a fair reflection of current thrusts in our consulting work with tech clients.

Apt Quote on Innovation in the 2000s

Quote from Erik Keller, principal of consulting firm Wapiti LLC, on the importance of technology-centered innovation in the next decade:

“We have hit the part of the technology inflection curve that Carlota Perez in her book, “Technological Revolutions and Financial Capital,” calls the third phase where technology is best used ... This phase will come not from unbridled end-user spending growth but from a balance of cost-cutting and revenue-generating products that facilitate better operational margins for buyers.

To do both will require innovation from the technology community in two forms: product and business model.”

[Article published by SandHill.com online magazine, 10.31.05.]

2. Clear as Mud - In the Land of Gobbledygook The Skeptic's Guide to Understanding Tech Jargon Today

In my temporary self-appointed role as language ombudsman for customers and others in the face of extreme liberties taken by tech company executives and professionals with what Brits like me refer to as “the Queen’s English,” I am dedicating this article to a lighthearted critique of the generalized misuse of important words and phrases. Admittedly I have allowed this treatise to get a bit whimsical in places, but that’s how you get after suffering platitudes, bromides, banalities, clichés, and plain old hyperbole in silence for so many years. I suppose every industry has the same tendency for sameness in reducing language to jargon, but I have to say that tech people take the cake for linguistic mimicry.

The most egregious examples – and often the most irritating ones – tend to arise in public forums such as industry conferences, where tech company executives are known at times to comport themselves like minor celebrities. Whether on panels (for which they are generally required to do zero preparation) or in interviews (when they are often feted with softball questions), many of them seem primed to limit themselves to issuing bland pronouncements on their company’s ‘competitive advantage’ or ‘secret sauce.’

Alongside some of the examples below is my attempt at a clarifying comment or definition. These are examples of some of the most frequently heard phrases that on occasion have been known to cause listeners to break into a cold sweat or sob hysterically.

Frequently Overused Phrases & Generalities

- *“We’re all smart people in this room”.* Actual meaning: “I don’t know what to do with the bunch of mediocrities that I have to deal with!”
- *“That’s a great question”* – Actual meaning: “Why the hell did you have to ask me that, are you trying to get me to actually say something important?”
- *“We’re completely focused on execution”* – First cousin to the tech industry’s favorite New Year’s Resolution: “All we have to do now is execute.” Usually indicates the opposite.
- *“Drive complexity out of the business.”* Actual meaning: “Ignore customer requirements.”
- *“We eat our own dog food”* – “... because the dogs won’t touch it.” (Note: No one ever has a clue what this expression is supposed to mean.)
- *“We believe in delivering value to our customers”* – This statement is usually declaimed with the assertive air of one who feels that, by simply stating this bromide, they have established a clear distinction between themselves and their closest competitors. Listeners remain bewildered.
- *“We create stuff, we sell stuff, and we service stuff”* – Latest attempt by HP executives to use plain language in explaining what they do and why the world needs them to do it. Normally uttered in the tone of one who is laying claim to a unique competitive advantage. The only problem is that listeners are left none the wiser about how this actually differentiates HP from any other common or garden vendor.
- Other overused and often meaningless bromides: *“You’ve got to pick the low-hanging fruit”, “You do the math”,* and so on.

Definitions: Technology and Products

- “*Convergence*” = Combining two or more technologies – for example, cell phones and computers – and in the process eliminating as many of their respective advantages as possible.
- “*Proprietary systems*” = Older systems sold by one’s competitors, and that only work on their systems.
- “*Open systems*” = Newer systems to which a company makes proprietary modifications.
- “*Open-source systems*” = Technologies that anyone can update, and that Company X is actively making proprietary additions to in order to make them proprietary too.
- “*Mainframe*” = Proprietary (i.e., older) operating system for large, powerful computers.
- “*Windows*” = Proprietary (i.e., newer, but just as kludgy) operating system for PC users to suffer with.
- “*Unix*” = Less proprietary, mainly for techies, and hopelessly inefficient.
- “*Linux*” = Even less proprietary, invented by a Scandinavian techie, and possibly more inefficient than even Unix - though no one is quite sure yet.
- “*Product strategy*” = Declaration of intent to develop a product some time in the future.
- “*Architecture*” = Chicken scratchings on whiteboard resulting from tortuous brainstorm session, aimed at describing Company X’s unique approach to building the product.
- “*Product roadmap*” = Diagram or flowchart describing the timeframe for product development and launches – often painfully futuristic.
- “*Product*” = PowerPoint slide representing a software program that hasn’t been written yet, or a system that hasn’t been built yet.
- “*Service*” = A custom version of something that probably could be packaged into a product at some point in the future.
- “*Custom*” = As in “we’ve never done anything like it before, and haven’t the slightest idea where to start.”
- “*Productized*” = Custom solution represented on a PowerPoint slide.
- “*Alpha*” = Still not developed.
- “*Beta*” = Alpha, only for licensed techies to work on.
- “*GA*” = Causes General Angst among customers and users.
- “*Bundle*” = Collection of difficult-to-sell products and services tied together in one package, and sold at a huge discount.
- “*Solution*” = Bundle in fancier packaging.
- “*Stack*” = Bundle of complicated products in a vertical pile, impossible to implement.

- “*Integrated solution*” = Bundle containing a bunch of disconnected system components, none of which work together.
- “*API*” = Anticipated Product Interface.
- “*Legacy system*” = Product recently launched and no longer conceptually interesting.
- “*Runtime version*” = Version to run away from.

- “*Transparent*” = Opaque, obscure, impossible to understand.
- “*Secure*” = Impossible to get to, or vulnerable to the slightest virus, full of holes.
- “*Pervasive*” = Being hyped everywhere.

Business Euphemisms and Clichés

- “*Partner*” = Someone who sells something for us so we don’t have to do that dirty work.
- “*Exploiting the synergy*” = Getting someone else to sell something for you (see “Partner”).
- “*1+1 = 3*” = Example of pitiful math.

- “*Exit strategy*” = How can I get out of this goddamned business as fast as possible?
- “*M&A*” = Mergers and Aggravations.
- “*Merger of equals*” = Who’s kidding who!

- “*Cashflow positive*” = Unprofitable.
- “*EBITDA*” = Highly unprofitable.

And that’s all, folks! If you wish to add to the list or debate any of them, feel free to reply to the email message that brought this issue of *Under the Buzz* to you, and I shall be happy to respond if and as appropriate.

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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