

Under the Buzz

Commentary on Business Strategy for Executives in 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 executive teams in systems and software companies to deal with difficult strategic and operational challenges. This journal, now in its ninth year, is published periodically and delivered free to subscribers via email on opt-in basis. It is also posted on TCG Advisors' website, <http://www.tcg-advisors.com/Library/utb/utb.htm>, where back issues are also available.

What Part of the Word "RECESSION" Don't We Understand?

Why the 2008 Slowdown Provides a Great Opportunity for Tech Companies

"Economy is Worsening But at Slower Rate

The good news: the economy's deterioration has slowed. The bad news: it is still deteriorating. That leaves the U.S. perilously close to recession and the much-awaited second-half recovery still in doubt."

Greg Ip, Wall Street Journal

Sound like a fairly typical piece in today's press? Well, the above headline and sub-header is actually from an August 2001 edition of the Journal, and it was among the thousands of "are we? / aren't we?" denials that delayed the acknowledgment of the tech/telco downturn at the turn of the century. It also provoked me to write an article titled "Dammit, we are in a recession!" in that same month (see *Under the Buzz*, Vol. 2, Nbr. 8, August ..., 2001 – www.tcg-advisors.com/Library/utb/ub_vol2_no8.pdf).

Because of that article's renewed relevance in the midst of today's Hamletian hesitancy to accept reality, I thought of republishing the exact same piece in this issue of the Buzz. In the end, that seemed like a cop-out, so I'm writing a new call to action to tech companies to get with the program, climb onto the train that's leaving the station, or whatever change management bromide you prefer to use.

True, since it's the consumer who has caught the cold this time around, the meltdown we've seen so far can be described as a "B-to-C" phenomenon as opposed to the B-to-B disaster of seven to eight years ago. But in an economy where consumer spending accounts for 70% of the movement of money it's only a matter of time until the B-to-B world catches the flu. Last time around the two major customer constituencies that started it all were (a) telco (a traditional "usual suspect" among major IT-adopting markets) and (b) high-tech (at the time, a relative newbie in terms of being recognized as one of the top 6-7 vertical markets for IT products and services). This time around it's been homebuilding first (but who cares about them, they're not part of the ruling classes among industries, are they?) followed closely by ... no lesser market than the entire financial system, also the tech industry's number 1 target market.

Since we are now being re-educated in recessionary macro-economics and industry performance metrics, one datum that has drawn my attention among the zillions out there is that the U.S. financial services industry was until recently responsible for the astounding total of 40%+ of all U.S. corporate profits!! The one bright spot that I have kept in mind must really sound like a boon to everyone in tech who markets products or services to enterprise and SMB customers: apparently U.S. corporations have stashed away higher reserves of cash than ever before,

particularly as a result of continuing exchange gains from their international business and the plunging dollar.

Anyway, whether or not the econo-sayers are right in claiming that we are now at the end of a 25-year cycle of growth in consumer purchasing, it's probably safe to assume that we are not only in a downturn but likely to stay in one for a while. If by chance, the ginormous U.S. economy finds a way to shrug off the weight of Iraq, \$100 oil, the devalued dollar, the thunderstruck financial industry, and whatever other natural and un-natural disasters it has wrought on itself, and manages to avoid the big "R" – or the even worse "D" (for Depression) – then I would argue that it's a good time for tech companies to re-order their market strategies and sales approaches, as well as to clean house of their broken (or creaking) processes in product development, marketing, account management, and customer support.

Lesson #1: Downturns Generally Provide Great Opportunities for the IT Industry

The important thing for tech companies to learn this time around is that they need to go beyond the travel freezes and budget cuts, and the often unconvincing attempts to make their marketing programs and sales approach more "customer-focused". In fact, there is no better opportunity than a downturn for CEOs and executives, marketing and sales staffs, to conduct an extensive refresh regarding their understanding of what's really going on in their customers' businesses and organizations, and - more importantly - their approach to helping customers to solve their most daunting problems.

Most of my operating career before I became an advisor was spent in recessionary environments – during the 70s in the UK, followed by the 80s in Brazil, then the late 80s and early 90s in the U.S. In every case, these were wonderful times to be in the tech business for one simple reason: When enterprise and mid-market customers need to focus on external effectiveness and internal efficiency, work processes and IT systems are the first and second places to look at. True, their initial reaction may look like paralysis, as they trim budgets and generally freeze new investments. But those relatively few vendors that really act as if the customer's business problems are the center of their world are the first to benefit when customers begin to come out of their fox-holes and start reworking their processes and systems.

When the cold winds first hit them, customer organizations tend to over-react by freezing operating expenses across the board, with special focus on easy targets such as "discretionary" outlays on events, travel and entertainment, in addition to hiring and other new expenditures. Furthermore, there is no doubt that the financial services sector – in particular the retail, wholesale, and investment banking parts of it – has hit a massive iceberg.

Nonetheless, if information-centric businesses like banks are to survive and thrive into the future, where else are they going to look but to more far-reaching uses of information technology? Activities such as credit and risk management, asset management, branch office operations, customer experience management (the main investment being bringing together all the disparate communication channels with account, mortgage and insurance policy holders), regulatory compliance, and many others, all need to be either overhauled or just more effectively managed. Once the business processes have been reviewed, it will be time to invest big-time in IT. Until then, every party involved has an opportunity to work together to perform basic hygiene.

Thus, if your company considers the banking industry to be one of your main markets, you would be well advised to get closer to the real process management problems that banks need to address in order to get out of the hole that many of them are in. You can do this directly through your field organization or via relationships with consulting firms large and small that have specialized banking practices. To my mind, this makes much more sense than shying away from them as if they've caught measles. Another opportunity within financial services is to focus on

other sub-segments such as insurance and re-insurance companies and brokers, stock and commodity trading, etc.

Outside of financial services, other sectors such as oil and gas, utilities, consumer packaged goods, pharmaceuticals, automotive, and retail, all require continuing investment in IT in order to operate cost-effectively against leaner and hungrier players from Eastern Europe as well as the Asian juggernauts and Southeast Asian economies. In any recession, companies look especially hard at their internal efficiency. One of the main barriers to efficiency in today's globally connected economy is visibility into the supply chain or the demand chain; for example, companies need to know earlier if they will be able to meet delivery schedules on time or not whether they are still in production or in transit, and they need to know quickly whether fashion-dependent or perishable products are selling or not, and if not, why consumers are choosing other products or staying out of the stores altogether.

This implies greater investments in connecting their systems to those of their trading partners (i.e., going beyond exchanging orders and shipping notices electronically), and increased investments in "transient" data, which is data arises as events are occurring rather than after the fact. To meet these challenges, companies in many industries do not have time to lose: they must invest in coordinated ERP systems, deeper system-to-system collaboration with partners, more relevant use of real-time analytics, and more extensive collaboration and communication systems.

Lesson #2: What to Do When IT Investment Budgets Disappear

The second lesson about downturns that I want to draw out here is that tech companies need to significantly adjust the way they approach prospects and customers for new business. Despite my argument about the fertile opportunities for IT and communications products and services in economic recessions, one important item virtually vanishes at the beginning of any downturn – and that is, the IT investment budget.

If the only "budget" left is for current IT operations and systems, what can vendors do? Well, the more intrepid amongst us would argue that there is no alternative other than to *create* a budget to fund new investments in IT products and services. How tech companies go about *creating a budget in a downturn* is the object of much of the work that my firm is focusing on this year with our clients, just as we did in the early 2000s when corporate customers of all sizes were seriously questioning their investments in enterprise software, communications, and other internet-oriented offerings.

To begin with, it's important to remember that budgets are nothing more than allocations of funds to departments or divisions for known or anticipated purchases, without the actual funds being moved into the account of the "beneficiary" in either case. It's no secret to any corporate manager or executive that one of the most controversial portions of the annual business planning cycle is the budgeting process. Although much management attention is expended on headcount, IT is often high on the list of targets for reduced investments. So when approved budgets get cut, in theory all previously approved funding dries up.

In this situation, there is no alternative but to create funding by going to the best possible source – typically, a broken process (or sub-process), preferably one that is hemorrhaging money and threatening the company's bottom line. Even large, sophisticated companies can be somewhat cavalier about many of their broken processes, to the extent that they don't really know how much the failure is costing them in terms of direct costs or benefits as well as indirect costs and risks. This is the time when tech companies have an opportunity to shine, firstly by showing a genuine interest in the problem, then by bringing resources to bear to help the prospect or customer to take a serious look at its implications and consequences to the business.

On this basis, sales teams can build a business case for their products or services, and marketing teams can support them with the appropriate materials including war stories (eventually success stories), white papers focused on the problem and how it gets solved, diagnostic studies (usually developed in collaboration with an internal or external consulting organization), customer testimonials, and other selling aids. Following a thought process like this, the most proactive tech companies implement a cohesive “customer engagement” strategy that looks very different from the conventional marketing programs and sales tactics employed by most vendors. In today’s marketplace, I am hopeful that the younger players such as the SaaS and IT hosting companies will adjust to the new conditions; unfortunately, I am less hopeful that the more established vendors and channel partner organizations will make the appropriate adjustments to how their marketing departments and field sales forces think and operate quickly enough – though I would love nothing more than to be proved wrong!

Conclusion: Less is More

During a downturn, tech companies themselves must inevitably take a close look at their expenditures and investments. The good news is that, if they take the right measures, they can actually achieve more with less as compared with their opex/capex profile during boom times. This means (much) less resource spent on market research for “positioning” and “branding” and more (without breaching the new budget) on customer-focused field research, less outlay on broad sales coverage but more time spent by executives and others to support their selling and servicing efforts with key customers and prospects. And the customer advisory boards that many tech companies have in place should be spared the presentation-centric annual “summit” to focus on helping the vendor understand the priorities it needs to focus on during the downturn. In short, managers and professionals need to spend less time in internally-focused conference calls and meetings and more on externally-focused activities of all kinds.

For boards and executive teams, the beginning of the downturn is the best time to let your investors know that your earnings results in one or two quarters may experience a dip as you apply the new adjustments, but that you are doing this for the mid-term and that they should expect an uptick in results going forward. I know this advice sounds like heresy, but virtually every company these days is dealing with either share-flippers (as opposed to the *shareholders* of the past) or fidgety “value” investors or VCs. In general it’s best to let them know the bad news early so that you avoid a bigger penalty when you surprise them with disappointing earnings later on. At least some investors applaud when companies let them know in advance that they are taking measures to adjust to new circumstances.

To summarize, here is my list of *What’s Out* and *What’s In* with respect to appropriate marketing approaches for management teams to adopt:

OUT:

- Broad penetration into enterprise and “SMB” markets
- Prospects get more executive attention and company resources than customers
- Focus on general “pain points” and solution bundles (oxymoron)
- Transactions matter most
- Positioning about “us”
- Broadcast messaging and events

IN:

- Deep penetration into selected sub-segments of large, medium, and/or small enterprises
- Customers get more executive attention and company resources than prospects
- Focus on specific broken processes and actual solutions to them
- Relationships matter most
- Positioning about (how we help) “you”
- Narrowcast messaging and events

Under the Buzz offers commentary on business and management issues facing technology companies. The goal is to provide provocative insights into the latest events and thinking shaping this continually evolving sector. *Under the Buzz* also provides commentary on strategies for building sustainable competitive differentiation and maximizing market valuation.

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