

# Under the Buzz

## Insights into B2B Net Markets

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*Under the Buzz* is an electronic “viewletter” authored by Philip Lay, managing director at the Chasm Group, a Silicon Valley strategy consulting firm. It is published each month, and delivered free to subscribers via e-mail. It is also posted on the Chasm Group website at: <http://www.chasmgroup.com>. Back issues can be downloaded from the site at: [http://www.chasmgroup.com/underthebuzz\\_archives.htm](http://www.chasmgroup.com/underthebuzz_archives.htm).

In this month’s issue:

- 1. Value Creation in Supply Chain Logistics: GZ4 Panel, Dec. 6**
- 2. Crucial Mis-steps in B2B Sales Strategies**
- 3. LifeCycle-based Enterprise Sales: The Key to Crossing the Chasm**

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*Preface:* A number of readers have requested that I expand on the theme of enterprise sales and relationship management that I referred to briefly in the November edition of *Under the Buzz*, so I have allocated some of this edition to this critical revenue-generating activity.

### **1. Value Creation in Supply Chain Logistics: GZ4 Panel, Dec. 6**

Those of you who have read through the advance agenda for Net Market Makers’ Ground Zero 4 Conference due to be held in Los Angeles this week (December 4-7) may notice that there is a panel session on supply chain logistics and transportation, to be moderated by yours truly. Senior executives representing a healthy mix of different B2B-focused companies will be participating, including two independent infrastructure providers (Logistics.com and RightFreight), one independent market maker (GoCargo.com), one major carrier/logistics management provider (Schneider), and one third-party transportation marketplace (Transplace, a merger of six of the largest publicly held truckload carriers – Covenant Transport, J.B. Hunt, M.S. Carriers, Swift Transportation, U.S. Xpress, and Werner Enterprises).

The main theme to be debated will be “which organizations are adopting web-enabled supply chain logistics solutions, to solve what type of critical problems; and, what are we learning about what it will take for market makers and infrastructure providers to become successful?”

Naturally, we shall be interested to find out how these different types of companies are handling the opportunities before them, how they are collaborating with each other (or not), and what solid trends their experience indicates for the overall market. Since transportation and logistics are key components in e-fulfillment – e-finance being another important area – it will be very instructive to gauge just exactly how much business is being transacted by companies like those represented on this panel.

**Key questions to ask the panel**

Basically, I intend to ask the panelists to address a few key questions, such as the following:

1. What kinds of critical problems have you been helping your major customers to solve? Please cite one or two examples of a significant project or investment by customers?
2. What lessons have you learned regarding the value – both expected and unexpected - that your organization needs to bring to the table in order to build a sustainable business?
3. How has your business model evolved during the past several months, since April's stock market correction, as manifested in deals you've closed with end-customers, and in your *actual* revenue mix?

### **High-level Metrics for Gauging Value Creation for Corporate Customers**

As a general rule, market makers need to think of themselves as value chain integrators capable of changing the rules in the marketplace they address in one or more of these four dimensions:

- “De-commoditize” products: Do they provide new opportunities for members of their marketplace to achieve profits by removing inefficiencies in the value chain that cause products to be treated as mere commodities? Example: emerge Interactive, the beef industry integrator, de-commoditizes beef products by tracking steer quality from birth to packer, enabling beef to be differentiated based on certified quality, feed/vaccine regimen, and other factors (for more details, see Under the Buzz #6, October 2000).
- Facilitate business process scalability: Do they automate business processes that have become costly and dysfunctional for companies, thus effectively differentiating their services from competing providers? Example: e-finance companies that automate credit approval processes that currently require excessive human intervention and hand-offs.
- Provide *intense* transaction satisfaction: Do they provide such a satisfying experience for buyers or sellers to execute purchases or sales online, that customers become reluctant to revert to offline transactions? Successful transaction management will tend to stimulate customers on the site to shift from straight spot transactions through increasing repeat transactions and referrals, towards systematic program buying and selling.
- Create original and compelling communities: Are they building a unique community of sellers, buyers, and partners that could not derive the same value in a traditional offline medium – or in any competing online community? In particular, do they provide members with critical information that they could not easily find elsewhere? An example might be real-time price changes on an industry-wide and/or global basis.

In conclusion, I would argue that the market maker that delivers on all four parts of this complex value proposition will rapidly assume the leadership role in its chosen market. Any company delivering on three parts might qualify to become a leading player. And, any company providing two of the above components can thrive as a niche player in their market. One or less deliverable may not assure the company of survival, unless it delivers on the first item. This is the one dimension that on its own can hugely differentiate a company against other pretenders.

Marketplace enablers must think carefully about the services and capabilities that their target customers – net market makers, industry consortia, or other hybrids – need to implement in order to survive and prosper. One way or another, both market makers and enablers need to adopt an effective enterprise sales approach, which is the next topic in this edition. Because of the similarity between their business and that of earlier enterprise software vendors, a number of

enabling-technology vendors have implemented enterprise sales forces with some success. Ariba and Tibco are among the leaders in this area. Despite the volatility of internet stocks in general, their valuations have remained robust, largely due to their ability to drive direct-sales revenues.

## **2. Crucial Missteps in B2B Sales Strategies**

“We haven’t yet managed to build a strong sales pipeline.”

“We’re not selling at the right level.”

“We’re beginning to feel that our value proposition is not as crisp as it needs to be.”

“It’s not clear to our prospective customers that our solution is a pain killer rather than a vitamin.”

Such laments are voiced with increasing frequency by B2B company executives. In particular, they give the impression that (a) these companies are probably still in their “build it and they will come” phase of development, so they haven’t yet worked out how their products and services will eventually benefit their target customers, and (b) these executives, and their sales people, need to get out into the marketplace and start asking the right questions of their target customers and, more pertinently, listening to the answers they hear. Though this may sound obvious, it is brought home to me on a daily basis how far divorced from market reality many B2B businesses really are. For this sin, the power brokers in the investment community – among others – are not blameless.

### **Impact of investment community on B2B market development strategy**

Until just a few months ago, while venture funding was being thrown at every half-baked B2B start-up, it is easy to see why entrepreneurs were promising overnight mass-market success to their backers. The problem was that angels, VCs, investment bankers, and research analysts all took leave of their senses together, deciding that business-to-business e-commerce would defy existing natural forces, and achieve overnight acceptance. However, it is important to note that “tornado” growth only happens to a few fortunate categories that become mass-market killer apps, and that the tornado is stage III in the technology adoption life cycle. Unfortunately, what experiences such as the Netscape and B2C phenomena did was to make many people believe that stage III could be reached in a trice.

During the just-ended fanatical phase, clients and others often inquired whether the technology adoption life cycle was still a valid concept for the internet era - as if the natural dynamics of buyer-adoption behaviors would simply be suspended because of the internet’s apparent power to “change everything”. Clearly, the authors of “The Internet Bubble”, published in mid-1999, were right on the money – we *were* in the midst of a new Tulip craze. And, as William Gurley observed in a recent issue of his “Above the Crowd” column in Fortune magazine:

*“The race just ended was, in the end, unsustainable. Most investors that had seen a few cycles before likely knew this in the back of their minds, but had no incentive to mention anything. The conservative ones that cried wolf in 1994 and 1995 were run over and left behind. Conservative thoughts were abandoned as well, and “growth at all costs” was embraced as standard operating procedure. .... None are innocent in this game - not the entrepreneurs, nor the VC’s, nor the public market investors, nor the press. Everyone was part of the game. .... It seems that bubbles don’t burst until we all believe in the “new” rules.”*

### **Reality check**

Thus we see now how acts committed in the name of “internet time”, “first-mover advantage”, and associated fallacies, led directly to an eventual harsh reckoning for everyone involved in the B2B e-business marketplace. To summarize the main developments of the last two years or so:

- (a) The investment world became convinced that B2B innovation would occur as a mirror-image of B2C innovation, and would duplicate the advertising-heavy free-for-all in which the B2C world was still indulging itself;
- (b) By mid-1999, a new and uncontrollable excitement had taken hold around B2B net markets, egged on by B2B entrepreneurs, VC firms, and investment banks, all promising instant scale and market domination;
- (c) For the first time ever in computer-related high-tech, with precocious B2B IPOs following hard on the heels of the explosion of B2C IPOs, the public markets in effect became heavily involved in funding raw and unproven early-market businesses;
- (d) Meanwhile, no one seemed to notice that market development in B2B commerce required dramatically different strategies than the development of web-enabled storefronts for commodity consumer products;
- (e) Large corporations, the key constituency for validating disruptive innovations, having recovered from the distraction of avoiding a Y2K crisis, were becoming disturbed that e-business dotcoms were garnering spectacular valuations out of nothing, as it seemed;
- (f) So, within just a few months brick & mortar coalitions launched their PR counter-offensive and gate-crashed the dot-com phenomenon, thus successfully blocking the “new-economy” takeover;
- (g) In a matter of weeks (mid-February to mid-April) this caused the pendulum in the public markets to swing from an extreme insensitivity to the business risks around B2B exchanges and similar models, to a hyper-sensitivity toward the same risks;
- (h) Worse still, every B2B company, no matter what specific product or service it was in, became guilty by association, now perceived as an upstart new-economy business that had failed to prove its value proposition;
- (i) Consequently, online exchanges took shelter by morphing themselves into infrastructure providers (a less bombarded category), and “.com” went from being a badge of privilege to one of shame;
- (j) Due to the extent of the emotional reaction of the markets, the entire general category of pure-play internet B2B companies was thrust unceremoniously into the dubious and painful state of being known as the Chasm.

Now, in literal terms, some B2B infrastructure categories - including commerce and exchange platforms, business process integration, catalog management, among others - might feel as if they are in the tornado, but most are experiencing flurries of early market growth. Let’s face it, all B2B marketplaces are at a very early stage in their development as an opportunity for mainstream customers – you only have to analyze the profile of business and revenues generated by the leaders to see this. As a result, infrastructure providers need to be extremely careful about whom they sell their services to.

Because of this paradox between early market development versus being thrust into the chasm, where pragmatist customers and investors are withdrawing their support pending proof of business viability, I would argue that B2B companies need to finesse their way out of the current predicament by (i) marketing their rawest, most exciting technologies to early market visionaries, while (ii) plotting to cross the chasm as soon as possible into a target beachhead populated by enterprise customers, on the back of their most tangible and deliverable “whole product” offer.

Overall, angels and VC's (and all other investors) need to change their attitude and - to paraphrase an off-color remark made by Jack Nicholson's character in the 1998 movie "As Good As It Gets" - "think real and get serious" about how markets develop in business-to-business markets.

### **3. LifeCycle-based Enterprise Sales: The Key to Crossing the Chasm**

Which brings us to the main topic of this section: how best to sell to early market customers, versus how to sell to bowling alley customers. For the purposes of this issue, I shall concentrate more on the latter though, heaven knows, most B2B companies have an awful lot to learn about selling effectively (and profitably) to visionary customers.

An important caveat for this exercise is that you, the reader, should adapt the profiles described below to the requirements of your specific market and business. Nonetheless, certain aspects of this outline indicate clearly that sales teams must be enabled to assess customers' business needs, propose how value will be created, facilitate target customer buy-in, and provide the follow-through that will ensure that the implementation produces a positive reference story.

#### ***Early Market Adoption Dynamics and Enterprise Sales Strategies***

Essentially, the early market is stage I of market development, and the game is about aligning with the relatively few luminaries (enthusiasts combined with visionaries) that are willing to make big bets on unproven technologies in order to steal a march on their competitors. It should not be surprising that visionaries suffer the same problems as everyone else. The difference is in the timing of their response to danger. Whereas visionaries act to change the rules when they spot danger on the horizon, pragmatists wait until the pirates are starting to board the ship, and conservatives wait until the pirates are already over-running the vessel.

Thus the key objective is to identify senior executives in large (or fast-growing), technology-friendly companies who are suffering severe competitive pressures, and need to do something on a grand scale in order to change the competitive landscape around them. Michael Dell is an admirable example of just such an executive, and Dell's feats in inventory management and in e-commerce pioneering are well documented – as the exploits of visionaries generally are.

For online marketplaces or enabling platforms and technologies, it is critical that the executive team gets actively engaged in finding and closing large deals with senior executives in visible companies. There are the company-defining projects that will establish the new company, so they are core for the company. If the CEO is still spending their time courting investors, they should immediately delegate this responsibility to the CFO, leaving them free to interact with customers.

A common mistake for many B2B companies has been to ramp up way too early for the expected high volume in sales. As a result, the big projects tend not to happen quickly enough. It's much better that the executive team acts in support of a few "evangelist" sales reps who understand the dynamics of selling to driven visionaries in order to complete this phase successfully. After closing three to five "hairy" projects, the company begins to develop an idea of (a) what target market it makes sense to pursue as a beachhead in the bowling alley, at which time (b) the executive team has a clearer idea of the sales and field support resources are required to be successful in the next phase.

In essence, the enterprise sales approach that works best in the Early Market requires that the company deliberately avoids adopting a "technology vendor" approach, and instead focuses on

aligning with the few visionary customers that you need in order to succeed. Each deal must be structured differently, around a risk-reward project framework, and the sales team is essentially a high-level project team. In the best projects there are three types of key partner: the customer themselves, who will invest financial, human and other resources as their part of the deal, the technology partner, who provides the technology that acts as the main catalyst for the project, and the service partner, usually a “senior” service organization familiar with working with corporate executives on multi-million dollar projects.

### ***Bowling Alley Adoption Dynamics and Enterprise Sales Strategies***

Below is a general outline of the recommended model for aligning sales and field support resources with the needs of pragmatist buyers, as your company attempts to convince them to come forward and be the first of the “herd” to adopt your relatively new technology.

**Segmentation strategy and problem-solving approach:** Segment for departmental managers in self-referencing groups such as micro-niches of vertical markets (see section on “Market Segmentation for e-Business in *Under the Buzz* #5 - 09/00). Focus on solving a single chronic problem (or broken business process) that affects all of them with a complete solution – remember that pragmatists are extremely risk-averse regarding adopting new-ish technologies, and are therefore very creative about finding workarounds to their problems, in order to avoid having to buy part-solutions.

*Caveat:* What a vendor might regard as an 80% solution is as unsatisfactory to a pragmatist customer as no solution at all. In a legitimate bowling alley target market, if you have done your homework, you should find that your biggest competition comes from status-quo solutions, workarounds, and, to a lesser degree, competing point products.

**Enterprise sales approach:** Focus on the departmental manager as your primary target customer, make sure to marshal the entire whole product solution (including all necessary complementary products and services), price the product based on the amount of pain you are helping to relieve, and make sure you build alignment with these potential customers through your consultative sales approach.

**Sales team model:** The basic model for the core sales team is a triangle of “crusaders”, composed of (a) the sales rep, (b) the business analyst/consultant (= domain expert), and (c) the sales engineer. This triad, proven during the past twenty-five years or so as the most effective model for selling high-tech products and services to enterprise customers, is still the basic vehicle for achieving rapid bowling alley customer engagement, to produce rapid dominance in target market segments.

Below, in more detail, is a description of the desired profiles for each of these roles. Remember to tailor these outlines for your specific requirements:

- (a) Sales rep/relationship manager: This individual focuses totally on building and managing relationships with managers and executives in target organizations. They are a student of the customer’s key business problems, and more attuned to asking the right questions, then going deeper into the conversation, and listening to the subtext of the answers, than presenting the product up-front. Think how you would react if your physician greeted you in his office with “Great to see you! Boy, have I got a great new drug for you! Oh, and by the way, how are you?” The crusader sales rep keeps the product behind their back, figuratively speaking, until they know for sure whether or not

there is a fit. They deliver presentations on the business problem and proposed solutions, and orchestrate high-level custom demo sessions. It may sound like an old hoar, but crusaders are motivated more by a desire to accumulate positive customer references and achieve lasting market dominance, than simply to close deals and earn their commissions. As a wacky kind of role model, think Colombo (the TV private eye) who, despite appearances, is engaging, hyper-prepared, and always asks questions to which he already knows the answers. Furthermore, the Colombo sales rep recognizes that, in order to be successful, he must stay focused on inducing the other party to admit the truth.

- (b) **Business analyst/consultant:** This individual is expert in the problems that afflict the target customer's organization, and they may even be recruited from within this target marketplace (or from a business consulting firm where they gained familiarity with this market). They should be comfortable asking penetrating questions, debating alternative solutions to the problem (IT and non-IT based) on an equal footing with customer executives and users, and delivering in-depth custom demos. Also, they perform site audits and project outlines aimed at sizing the problem and providing corroborative arguments and data for the proposed IT investment. They can also work with marketing colleagues to develop customer demos, write white papers and sales support pieces.
- (c) **Sales engineer:** The role of this professional is to provide technical product support in both a pre-sales and post-sales (i.e., implementation) mode. Therefore, they have deep knowledge of the core product and they should also be able to describe the functionality of the *whole* product, especially with respect to how the various product and service components fit together, and how the whole offer maps to the customer's key problem.

*Field engagement caveat:* If you have already ramped up your sales force in expectation of rapid growth to volume sales, you should not expect to have a surfeit of crusaders in your organization. After all, most sales and field support people are trained to sell broad offers opportunistically into horizontal markets. Furthermore, they are accustomed to selling their product first, and listening to customers for signs of a fit second. It is unwise, therefore, to get religion overnight about bowling alley sales strategies and demand that your entire sales force gets on board with a segment approach all at once. The most effective approach is to create a small SWAT team tasked with leading the charge. Once they have managed to close a few deals with the first few target customers, you can then expect your remaining direct-sales reps to join in. At this point, you will also be in a better position to know how the sales cycle looks, in terms of key events and average time required to close each deal. This in turn provides management with indications of how to set quotas and structure base compensation and incentive plans.

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In upcoming issues:

- More Net Market Maker Case Studies Demonstrating Sustainable Liquidity, Leading to Scale
- Key Fulfillment Areas for B2B Commerce: Finance, Supply Chain/Logistics, CRM
- International Operations for Fast-Growing Startups: When and How to Expand Overseas

*Under the Buzz* offers a monthly commentary on the business-to-business e-commerce sector. The goal is to provide provocative and accurate insights into the latest events and thinking shaping the rapidly evolving business-to-business marketplace. *Under the Buzz* will focus on developments and competition in digital markets and e-infrastructure.