

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 "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 its enterprise systems and software clients. This journal is published each month 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.

Notice to readers: As a courtesy to readers of this journal, the author wishes to advise that, from the next issue onwards, *Under the Buzz* will be published on a 'regular' - as opposed to 'monthly' - basis. This modification, occasioned by the author's increased commitments to other activities, will result in anywhere from six to eight issues being published during the year, as opposed to the customary twelve. Hopefully, the reduced frequency will be compensated by the quality of topics covered and views expressed herein.

1. What 2004 Promises for High-Tech: Return to Good Times, or a Slow Recovery?

After three years of so-called nuclear winter, there is much expectation among executives about the prospects for growth in 2004. With an electoral year on one hand, and an apparent threat of increased terrorism on the other, the long-anticipated consolidation of software and systems companies still lurks. So what should executives be thinking about as they plan their strategies and plans for 2004?

2. Miscellaneous Topics

Coming event – Software 2004 Conference, March 2004 ... Link to article on "Avoiding Common Technology Board Blunders" ... Errata regarding article titled "What Makes Some Startups Succeed?"

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Quotable quote ...

Reminder about the difference between being smart and being wise:

"Smart people learn from experience; wise people learn from the experience of others."

- Dr. Ichak Adizes, author of *"Corporate Life Cycles – How Companies Grow & Die"*

1. What 2004 Promises for High-Tech: Return to Good Times, or a Slow Recovery?

As 2003 winds down and we cast our thoughts to 2004, it's worth asking what awaits the high-tech sector in the coming 12 months in terms of a possible return to broad-based growth. Before listing my predictions for the business drivers that will wield most influence on tech companies, I believe it is prudent to assess the potential impact of the macro-political scenario, which has become increasingly polarized and unstable in the past couple of years.

Far be it from the author of this business column to masquerade as a political expert. Nonetheless, as a child of the sixties – an era which included a number of momentous political, social and cultural events, including successive antiwar protests in Europe and the U.S., JFK's high-stakes gamble in the Cuban missile crisis, the assassinations of JFK, Martin Luther King Jr., and Bobby Kennedy, the disastrous plunge into the Vietnam quagmire, and the drug-influenced Woodstock and Isle of Wight Festivals, among many other landmark events – I find it difficult to ignore the feeling that we are experiencing equally momentous events in the world today, about which every politically, socially and culturally thinking person needs to be conscious in social and family life, as well as personal pursuits, and of course business and work activities.

During the current era of explosive events originating from deepening rifts between fundamentalist Islamic groups and their own governments, as well as foreign administrations (mainly in the Middle East and Asia), added to the increasing activism of fundamentalist Christian/Mormon voting blocks in influencing a hardening their government's policies (particularly in the U.S., where we have a "you're with us or you're agin' us" born-again Christian at the helm), much of the world appears threatened by religion-inspired radicalism in various directions. Whether one looks at the polarized nature of political discourse in the U.S. since 9.11, the increased friction in diplomatic relations between the Bush administration and much of the rest of the world, or between terrorist groups and Saudi Arabia, Egypt, the U.S., Israel, and several Asian countries, at the end of the day it is difficult to escape the conclusion that economic growth around the globe is going to depend to a larger degree than at any time in the past 50 years on the frequency and severity of new aggressive acts between nation-states, and/or nation-states and terrorist groups.

Against this disturbing backdrop, it might seem parochial to seem too preoccupied with the immediate interests of the high-tech industry. However, after two years or more of 'forced' fixation in the U.S. on the difficult-to-gauge threat of new terrorist acts by Islamic or other groups, most people – I imagine – must be eager to be able to refocus on more constructive and heartening concerns than having to react to vaguely-phrased scares issued by a White House that appears at times overly-preoccupied with manipulating public opinion in order to guarantee its hold on power for another four years.

One more word of qualification: I am reluctant to term my thoughts below 'predictions,' rather; I see them at best as reminders for tech-company executives to bear in mind as they focus on new growth and expansion strategies. As such they are listed in no particular order of importance:

1. Increased sensitivity and adroitness in managing international operations:
 - In light of the policy of the Bush administration's apparent willingness to revert to an "Ugly American" model of international relations – something I fear may coincide with a new era of American isolationism – tech companies with important global operations will need to act with extra sensitivity and thoughtfulness in their dealings with foreign governments, legal authorities, enterprise and government customers, business partners, distribution channels, employees, and contractors. Otherwise it will be too easy for the current animosity that is mainly limited to bad feelings for the U.S. government, to escalate into hostility against all things American, disrupting the operations and business growth of overseas subsidiaries, delaying redeployments of people and resources, interrupting royalty payments, and so on.
2. Palpable shift to effective 'value delivery' by enterprise software and systems vendors and service providers, vis-à-vis their enterprise customers:
 - Enterprise customers are now demanding that their vendors and service providers think through how to deliver actual value, and that they stick around long enough to ensure the realization of results from the investments. I don't believe that this criterion will be replaced by a return to helter-skelter buying just because the IT investment environment improves. Thus, whereas the standard practice of hit-and-run selling (including the established *modus operandi* of 'channel stuffing') was considered almost a virtue during the naughty nineties as high-tech companies became hooked on the growth hormone, such vices as separating pre-sales from post-sales activities will tend to give way to continuous relationship management and structured account (or capacity) planning.
 - Thus, all gorilla and 'would-be gorilla' companies that remain desensitized to customers' needs – and that, ironically, did not suffer too badly during the

recession due to customers' conservative buying practices – will experience serious declines, as a new group of more agile, customer-focused vendors provide effective solutions to real and intractable business problems.

3. Relative scarcity of mass-market tornadoes, to be replaced by a multitude of Main Street opportunities:
 - As a corollary to the value delivery imperative, in market development terms, tech companies are going to have to face a reality that they have always been reluctant to deal with: as tornadoes remain scarce and less explosive than they were in the eighties and nineties, companies are going to have to learn how to exploit opportunities against larger numbers of competitors in maturing markets.
 - In particular, once they have understood the concept of the virtuous profit cycle on Main Street, they will need to learn and practice the crucial difference between providing bundles and solutions. For those who might still be unsure of this difference, it may be instructive to think of the typical bundle as a grouping of difficult-to-sell products and services in one offering aimed at a target group of customers (such as users of a competitive product) without specific knowledge of their most important requirements or preferences; in dramatic contrast, whole product solutions on Main Street are typically constructed by adding just one or two "+1" features (including a new or improved service, new financing options, a promotional price for 90 days, a friendlier UI, or even a desired new function) to an existing product, as a direct response to a defined and compelling requirement that target customers in a vertical, geographical, or other niche have expressed specific need for.
4. *Gradual* loosening of IT investment purse strings, forcing new players to adopt smarter market development strategies based on significant business problems that need solving:
 - Remembering that 80%-95% of most companies' IT budget is taken up with internal IT operations, outsourcing and maintenance contracts, and investments in products acquired from incumbent vendors, there is little left over for investments in innovative products, especially those that are provided predominantly or uniquely by non-incumbent vendors. This picture is unlikely to change dramatically in the immediate future.
 - Therefore, vendors that aim to sell new types of product or service such as business process management software or collaborative commerce solutions will need to focus on currently unsolved business problems that are important enough to address that customers will be willing to allocate part of the anticipated 'savings' to pay for the new solution.
5. Accelerated disappearance of undifferentiated companies founded within the past ten years:
 - Although many of the dot-com companies that were more like school science projects have disappeared during the past three years, there are still many left to be acquired – or put out of funding and/or out of business – before we can say that there are an appropriate number of vendors in each *relevant* product category. The lesson over the next year or so will be, if companies don't provide real, sustainable differentiation in their products and – in particular – their services, or if they don't know how to manage their business effectively, it will be sayonara. Whatever upsurge there is in growth will tend to reward incumbents and insurgents who have something special to offer to enterprise and government customers.
 - Therefore, for any relative 'newcomers' – in which group I include all those vendors and providers that have not yet established growing *and* profitable business operations – in new-ish product categories, who continue to compete

for attention among enterprise customers, it is going to be critical to learn how to engage executives in the sales process. It is no use saying that, because your product is an 'infrastructure' offering, you only need to sell to IT managers. C Level executives are going to continue to oversee IT investment projects for some time to come, in order to make sure the shoddy purchasing practices of the nineties have been eradicated.

6. Faster adoption of mixed services/license/PAYG offerings:
 - Following a premature and superficial beauty contest during 1997-2000 comparing the elegance of different business models, vendors that offer a mixture of models that make sense according to the rhythm of benefits produced by their product or service, and according to the risk/reward profile they afford to customers, will be well-rewarded for being lucid enough to modify their pricing structure in sync with the business value they provide.
7. Rich, relevant internet functionality will be mere table stakes to compete for business:
 - Since there is no longer any competitive advantage in the symbolic value of being 'internet-enabled' or even 'internet-centric', vendors' offerings will need to provide an effective, value-adding experience to users of their sites; gone is any tolerance for sites in which the browsing/selecting/buying or supporting/servicing transaction is characterized by too many screens, non-confirmation of product availability, lack of timely, personalized response to inquiries, and so on. In the face of a frustrating experience, users will tend to move quickly to a different site, or revert to doing the transaction offline.
8. Increased importance of redesigning entire business processes and subprocesses, as opposed to merely automating familiar business tasks:
 - As I have written in prior issues of *Under the Buzz*, gone are the days of software companies being able to get away with just automating tasks such as materials purchasing, order entry, shipping confirmations, invoicing, and accounts payable. Combining structured with unstructured information in order to fully automate the proposal-to-order or order-to-delivery subprocess, or to allow executives to interpret customer payment history by consulting past invoice-to-payment history, for example, will become a crucial requirement for vendors of business applications to fulfill.

In summary, I would say that companies will tend to succeed not by providing the 'next great thing,' but by pursuing a common sense vision based on helping enterprise customers solve real, pressing business problems that have not hitherto been properly resolved by the deployment of information technology.

And, whereas non-established companies in new categories will have to compete for attention and new-investment funds among enterprise-customer executives, established vendors and providers will need to compete for space and share-of-budget in established markets by delivering carefully tailored offers to specific niche markets.

Miscellaneous Topics

Coming Event for Enterprise Software Company Executives...

Sand Hill Group, organizer of several leading conferences for enterprise software company executives in recent years, has announced Software 2004, "the first and only industry-wide conference – will bring the leaders of the software industry together and empower them to bring this new future to life," will be held on March 1-2 at the San Francisco Marriott.

Speakers will include Ray Lane, General Partner, Kleiner Perkins Caufield & Byers, and former President and COO of Oracle; Shai Agassi, Executive Board Member and Head of Development

for SAP AG; Sanjay Kumar, CEO of Computer Associates; my colleague Geoffrey Moore, Managing Director of TCG Advisors and author of bestsellers, such as *Crossing the Chasm* and *Inside the Tornado*; Romesh Wadhvani, founder and Managing Partner of Symphony Technology Group, former vice-chairman of i2 Technologies and founder of Aspect Technology; and Ed Zander, new chairman and CEO of Motorola and former president and COO of Sun Microsystems.

In addition, there will be a number of panels and workshops, one of which to be moderated by yours truly. Visit <http://www.software2004.com> for more information on the program and how to reserve a place.

Link to Article on “Avoiding Common Technology Board Blunders”

For those readers who might have missed my October article on “Making Board Meetings Work” (*Under the Buzz*, vol. 4 nbr. 10, October 29, 2003), Lisa Nirell, founder/president of Nirell & Associates – a San Diego-based IT services consultancy – has published a slightly modified version of the article which you can read at <http://www.nirell.com/newsletter/december03.htm>.

Errata ... “What Makes Some Startups Succeed?” (*Under the Buzz*, vol. 4 nbr. 11, Nov. 2003)

Graeme Thickins, the technology writer and analyst whom I quoted in this November article, wrote to point out two ‘typos’ that I managed to commit. First, I somehow dropped a zero off the number of startups that were studied in the venture firm’s report cited – it was 400+, not 40, which of course only goes to reinforce the conclusions of the study – and, secondly, the firm responsible for authoring the report is in fact Crescendo Ventures, not *Crescent* Ventures. My apologies to Mr. Thickins, as well as to Crescendo Ventures – while not fatal, errors are always inconvenient for those who are kind enough to lend us their know-how!

Under the Buzz offers a monthly commentary on topics of interest to enterprise systems and software executives and professionals. The goal is to provide provocative and accurate insights into the latest events and thinking shaping the technology sector. *Under the Buzz* also provides commentary on strategies for building sustainable competitive differentiation and maximizing market valuations. © 2004, Philip Lay
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