

Under the Buzz

Commentary on Business Strategy for Tech Company Executives

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Under the Buzz is an email "newsletter" published by Philip Lay, managing director at TCG Advisors, a Silicon Valley-based firm that helps executive teams in tech companies to deal with complex strategic, organizational, and operational challenges. Now in its eleventh year, this journal is published periodically and delivered free to subscribers via email on an 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.

How to Live Life

"Be true to yourself. Make each day a masterpiece. Help others. Drink deeply from good books. Make friendship a fine art. Build a shelter against a rainy day."

- Message from John Wooden's father; the former UCLA basketball coach carried everywhere with him (Wooden died on June 4, 2010 at the age of 99)

Blind Spots: Why Tech Companies Can't Commit to Solutions

Best Practices for Marketing and Implementing Solutions to Customers' Business Problems

The Problem and the Case for Action

Five decades into the IT industry, tech companies still find it extraordinarily difficult to design, market, or deliver actual *solutions* to their customers' business problems. The worst offenders tend to be the medium to large companies that have developed powerful franchises in one or more product categories. Even years after their offerings have reached maturity and growth has slowed, they persist in selling point products thinly disguised under a veneer of "solutions" verbiage.

Still less do those companies that have products in more than one category learn to exploit the power of their portfolios in an integrated manner. In fact, the transition from thinking and operating like a product(s) company to acting like a *portfolio* business remains one of the most problematic challenges for management teams because they tend to remain ensconced in their respective comfort zone(s). At best they do a series of head-fakes to cover up a stubborn *product* focus, including the favorite tactic of setting up BU's that are thinly disguised product-centric units tasked with selling more volume of a given product line.

This doesn't occur for lack of sincerity of purpose at a certain level. Most tech executives talk internally and try to sound as if they really do want to solve customer problems. They just come at it from the

wrong angle - i.e., a technology-centric mindset. Often, accountability for producing the "solution" remains fragmented inside each organization. Thus, while each function might do their damndest to fulfill their part of the bargain, if no single function is sufficiently empowered or motivated to bring a complete solution to a well-defined set of target customers, marketing and sales will fall short of expectations. The only exception to this rule is when a product category is experiencing tornado growth, when herd instinct has kicked in and customers are stampeding to buy and deploy it.

Consequently, vendors continue to fund a highly inefficient set of marketing, sales, professional services, and support activities that sub-optimize their growth and profitability, while customers continue to feel more than a little cheated out of the expected return on their investment. At best the offering made by many product-minded companies ends up being little more than a "bundle" - nothing more than a combination of products and services, often priced at a discount, that doesn't solve any single business problem.

Two companies that have organized quite well *in parts* for this purpose at different times are IBM, and Sybase (just recently acquired by SAP). The closest to a best-practices example among major tech companies that I know about remains IBM. IBM has always had a strong "industry marketing" function, usually targeting the half dozen key super-verticals that it regards as the source of the lion's share of its revenues and profits - such as financial services (split between banking and insurance), manufacturing, retail, telco, federal government, and a couple of others - with considerable resources invested in the form of sales teams, industry domain experts, SEs, and professional services teams. In the late eighties and early nineties Sybase teamed with Sun to take financial trading stations by storm with a combined offering that helped to spur the growth of electronic trading in financial services, and more recently Sybase has renewed its success in financial trading with a new enterprise-wide risk management solution.

The Middle Child Among the Five Marketing Activities

Among the *five marketing activities* that we track and advise on - field marketing, product marketing, industry or vertical solutions, corporate marketing, or strategic marketing - it is industry/vertical marketing that remains the middle child; although gaining power in vertical/industry markets has direct beneficial impacts on the company's market cap and therefore warrants a seat at the senior management table, it usually doesn't get one. More often it reports one level down, for example, to the CMO - a role that is usually limited to managing corporate marketing services including advertising, promotion, trade shows, etc. This is a mistake. When industry marketing/solutions doesn't formally exist as an organization, its contribution most often gets improvised by field marketing (due to direct pressure from customers) or sometimes by product marketing. This, virtually by definition, leads to sub-optimal results.

Industry Solutions - Best Practices

It should not be - and isn't - this difficult to market effective solutions. Below is a list of nine best practices for organizing around industry solutions that can free companies up from their product-centered "presentation" mindset and substitute it with a more customer-focused approach. Many of these best practices are then illustrated in practice at Symbol Technologies, the rugged mobile computing, wireless, and RFID company that was acquired by Motorola in 2006 :

1. Redefine the company's driving purpose or "cause" in terms of the types of customer problems that it helps to solve rather than in terms of the products or services it develops. There is a hugely significant distinction between these two touchstones, and companies that do the former have a better chance of succeeding than companies that retain a product mindset.
2. Understand the five marketing activities alluded to above, identify which ones are effectively in place in the company, and which ones either don't currently exist or are being improvised by one of the other functions;
3. Form an industry marketing/solutions function reporting to a senior executive called the head of industry marketing/solutions. There are strong disadvantages to having this role report into "marketing" or "sales", or even "field ops" (though the latter might be the least of these three evils);
4. Target the 4-6 super-verticals that the company considers its critical markets from the perspective of existing penetration *and* potential growth. Examples might include Financial Services (preferably split into two separate groups consisting of banking and insurance), CPG/Retail, Utilities (or Energy), Telco, Healthcare, Media, and Federal Government (the latter can also be split into more than 2-3 "sub-verticals");
5. Target major global accounts and strategic prospects in these verticals, and proceed to focus on the second tier when feasible;
6. Champion and drive specific target segment initiatives consisting of whole product offers that they are responsible for coalescing, with greater accountability than any other functional group. However, these initiatives need to be executed as cross-functional collaborations, which can either be done from within an industry-focused business unit or through ad-hoc cross-functional teams;
7. Ensure that the role of the Industry Solutions Group transcends marketing per se to include integration labs (generally in engineering) -- this provides the "teeth" for this organization to test the solutions as customers would. Making these labs visible to end-customers is also a strong way to show that the commitment to industry solutions goes deeper than PowerPoint. The collaboration between SAP and HP in the late 80s and early 90s around making ERP work on the relatively unproven client/server platform was an object lesson in how to pull this off, with history-making growth bestowed on both companies as a result;
8. As for accountability, just as products groups should carry product P&Ls and MBOs, industry solutions groups should carry industry/segment focused P&Ls and MBOs;
9. Have industry marketing be a C level role reporting to the CEO rather than into one of the traditional functions. This sends an important signal to the organization and to customers about the seriousness with which the company intends to approach solutions delivery.

What Success Looks Like - Experience at Symbol Technologies

Among the cases where an industry solutions focus has been used to generate successful results is one cited below by Todd Hewlin, formerly the SVP for Products at Symbol before rejoining TCG Advisors in early 2007.

"There was a lot we did not get right at Symbol but this is one area that made us successful (at least to \$2bn. in revenue at 50% gross margins). We followed the above set of best practices pretty closely. Perhaps the most important thing we did to kick off our recovery from a pretty drastic situation in 2003 was to re-imagine the purpose of the company as a business in the following terms: "Capture, move, and manage information at the point of business activity". We lived this out by focusing on such fundamental problems as the business/societal impact of nurses not having the right information at the patient's bedside, transportation companies not knowing where their customers products were, and sales people walking in blind to customer meetings, and began to design complete solutions to these problems. We also targeted six verticals, of which two were the main existing ones and four were newly targeted.

"One thing I would add to your list is that the Industry Solutions GM (our title for them) was in essence the Whole Product Manager for their vertical. We even built an SRD - Solutions Requirement Document - into our PLM management system to supplement the MRD that the Product Manager owned as input to the PRD that Engineering actually built to. Embedding this as part of our management system forced us to ship "whole products" not "point products" on a consistent and repeatable basis. In addition, we had a quarterly "come to Jesus" meeting between the product GMs/their teams and the Industry GMs/their teams to make the macro trade-offs between product roadmaps and the industry-specific roadmaps.

"In terms of reporting, you are exactly right that the CMO is the wrong place to have the industry-focused GMs report to. For my first 18 months, the "Industry Solution Group" reported to the Todd Abbott, head of sales. For my second 18 months, it moved under me and reported as a peer with the Product Division GMs and was renamed the Symbol Solutions Division to reflect that status as the "Sixth BU".

"The other key insight I had was the power of the numbers in running such a management system. As part of our market intelligence and discovery process which front-ended our annual plan, we cut the addressable market size three ways (with substantial manual work): by geo for sales coverage, by product category for product BUs, and by vertical market for industry solutions. Each was built off of the same core data set so the numbers all cross-foot. We then implemented Salesforce.com to code each deal with the three markers so that we could get market share three ways. This was obviously critical, as what gets reported on gets managed, and we wanted each of these folks thinking like business people managing their business."

As Hewlin makes clear, even a middle-of-the-road company can be considerably successful by adopting a genuine solutions approach. Symbol was sold to Motorola for several times its market capitalization before embarking on the targeted industry strategy.

So, Can Companies Learn to Deliver Real Solutions?

No matter what the rewards are for a genuine solutions focus, management teams find it difficult to wean themselves from a "horizontal" market focus and commit to vertical-specific marketing. Sooner or later they experience a form of market myopia whereby they can't see how to go deep into verticals profitably. Although they may understand that the value is there to release, the investment to release it is not

something they are set up to make efficiently or effectively. And the larger - and more powerful - they are, the more myopic their strategy tends to be.

Interestingly, Tier 2 application or even infrastructure companies focused on one or more verticals have a permanent reason for being because they can release this value efficiently and effectively, provided they confine themselves to just one or two verticals. Some of them have been able to create strong single-industry franchises, such as Documentum in pharmaceutical compliance, Cerner in healthcare, Lawson Software also in healthcare, Retek in CPG/retail, Safeguard in brokerage, SAS in financial services, and Sybase in financial trading.

My colleague Geoffrey Moore reports a clarifying comment he heard from analyst Andrew Bartels at Forrester Research. Bartels says that business processes *per se* are remarkably similar across diverse industries (think purchasing, engineering, manufacturing, marketing, sales, etc. along with accounting, HR, IT, etc.) but that *balance sheet issues* are not. Effective solution-focused marketing and selling is all about highlighting the balance sheet issue that will drive new investment. This is a focus that Tier 1 industry solutions players can play if they take the time to do so.

What are the balance sheet issues that impact each of their top 4-6 target industries, how do they warp what otherwise would be naturally standard business processes, and how can the vendor invest locally to solve those industry-specific issues without losing the productivity advantage of globally similar processes and go-to-market pathways? With today's increased focus on customer success - still more of a New Year's resolution than a strategy in most tech companies - and the success of SaaS-delivered "solutions" by younger players such as Salesforce.com, there may grounds for believing that the leading tech companies of the future will invest more substantially in delivering actual solutions to customer problems.

This article was authored by Philip Lay, managing director at TCG Advisors, with contributions from three colleagues at TCG Advisors - Todd Hewlin, Geoffrey Moore, and Lo-Ping Yeh. Before rejoining TCG Advisors in early 2007, Hewlin was SVP Products at Symbol Technologies until it was acquired by Motorola in 2006.
