

## Launching Products and Services on Mars, Venus *and* Here on Earth



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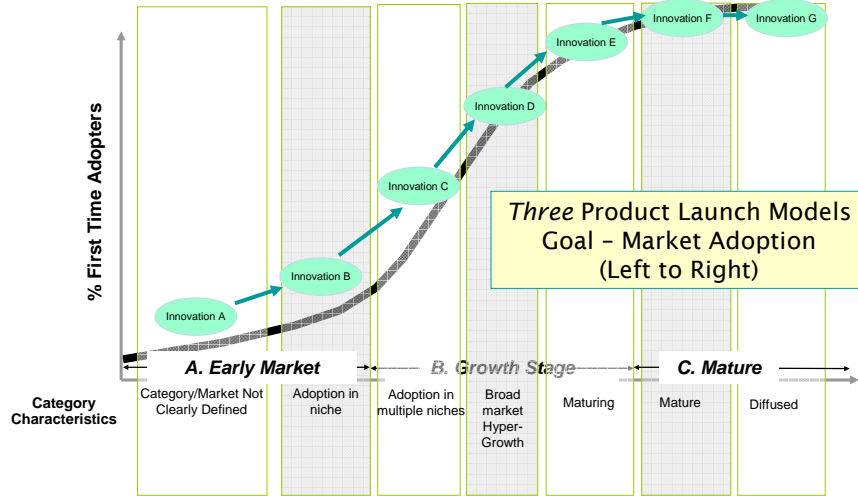
## Agenda



- Product Adoption and Strategy
- The Merging of Products and Services
- Life Cycle Business Models
- What to do?

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## Technology Adoption Life Cycle for *Products*



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## Market Development Strategy



### Early Market (first mover)

- Define the category
- Educate the market - sell *broadly*
- Create light-house account wins

### Growth Stage (first prover)

- Define "whole product" solutions
- Penetrate the market - focus *deeply*
- Create repeatable, forecast able business

### Maturity

- Extend deeper into the base
- Expand the brand - *incremental* markets
- Renew into growth stage via extensions, acquisitions, competition

Compelling  
Reasons to Buy



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## Strategy Framework: Early Market Products



<b>Target Customer</b>	Visionary LOB or functional executive
<b>Compelling Reason to Buy</b>	Dramatic competitive advantage
<b>Whole Product</b>	Application focus, differentiated
<b>Partners and Allies</b>	BPR and SI service providers
<b>Distribution</b>	Direct sales
<b>Pricing</b>	Value-based, gain motivated
<b>Competition</b>	Category vs. category
<b>Positioning</b>	Technology-based leadership
<b>Next Target Customer</b>	Another visionary in a different industry

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## Strategy Framework: Early Growth Products



<b>Target Customer</b>	Pragmatist departmental manager
<b>Compelling Reason to Buy</b>	Fix a problem business process
<b>Whole Product</b>	Application focus, standardized
<b>Partners and Allies</b>	Recruited for specific whole product
<b>Distribution</b>	Direct sales transitioning to Indirect
<b>Pricing</b>	Value-based, pain motivated
<b>Competition</b>	Market vs. market
<b>Positioning</b>	Niche market leadership
<b>Next Target Customer</b>	Adjacent niche market

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## Strategy Framework: Hyper Growth Products



<b>Target Customer</b>	Pragmatist technical buyer
<b>Compelling Reason to Buy</b>	Adopt new infrastructure
<b>Whole Product</b>	Product focus, standardized
<b>Partners and Allies</b>	Rationalize to reduce friction
<b>Distribution</b>	Drive to higher-volume, lower-touch
<b>Pricing</b>	Competition-based, pain motivated
<b>Competition</b>	Company vs. company
<b>Positioning</b>	Market-share-based leadership
<b>Next Target Customer</b>	New platforms, channels, geographies

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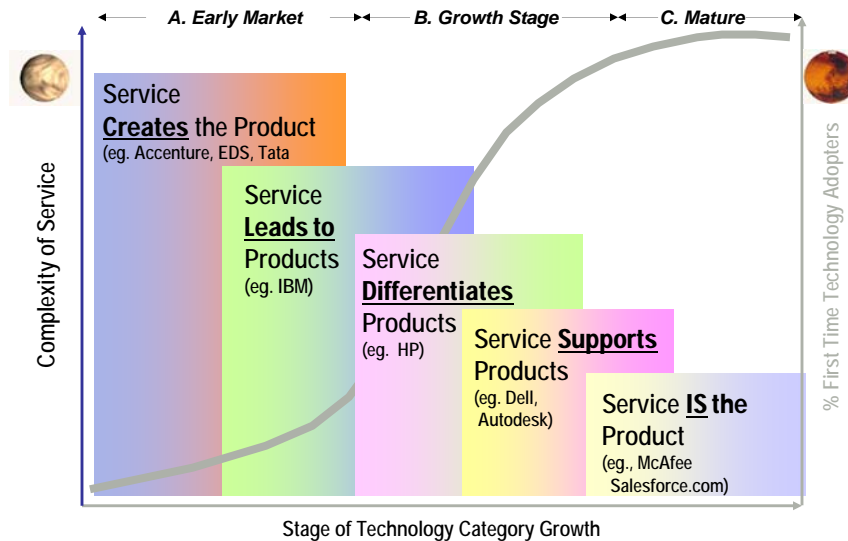
## Strategy Framework: Mature Products



<b>Target Customer</b>	End-users
<b>Compelling Reason to Buy</b>	Better values with no risk
<b>Whole Product</b>	Product focus, differentiated
<b>Partners and Allies</b>	Minimum required, ideally none
<b>Distribution</b>	Low-cost, high-touch
<b>Pricing</b>	Competition-based, gain motivated
<b>Competition</b>	Product vs. product
<b>Positioning</b>	Better experience for end users
<b>Next Target Customer</b>	Next micro-niche

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Products are from Mars.  
Services are from Venus



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## Early Market Mistakes



- **Product organizations sell product-led offers.**
  - Early-market customers want projects, not products
  - “But we don’t want to compete with our service partners.”
  - Give expensive service away to get product customers
  - Sell services-led offers instead.
- **Professional services organizations decide to get into the packaged applications business.**
  - Huge disconnect with culture and Implementation.
  - “But there’s nothing out there like this!”
  - Consider Licensing it or spinning it out instead.  
Cultural challenges abound

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## Growth Stage Mistakes



- **Product organizations retain services business**
  - Fail to design out complexity—keeps product from entering tornado
  - “But we don’t want to lose the good service margins.”
  - Work rigorously to streamline your offers instead.
- **Service organizations fixate on the product.**
  - Life-cycle maturation commoditizes service added value.
  - “But everyone says this is our core competence.”
  - Migrate service focus to newer technologies instead.

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## Hyper-Growth Stage Mistakes



- **Product organizations neglect services systems.**
  - Quality-of-service problems impact new customer acquisition.
  - “But we have to put all our energy into more product features!”
  - Invest in productizing service offerings instead.
- **Transaction services organizations make offers based on immature infrastructure.**
  - Invest in infrastructure if you’re serious
  - Understand service margins will take a hit
  - Commoditized transaction pricing can cannibalize custom solutions but client must understand they give up flexibility
  - Must have tons of transaction revenue to pay back the build-out.
  - “But this market is red hot—we must get into it now!”
  - Enter market through project or implementation services instead.

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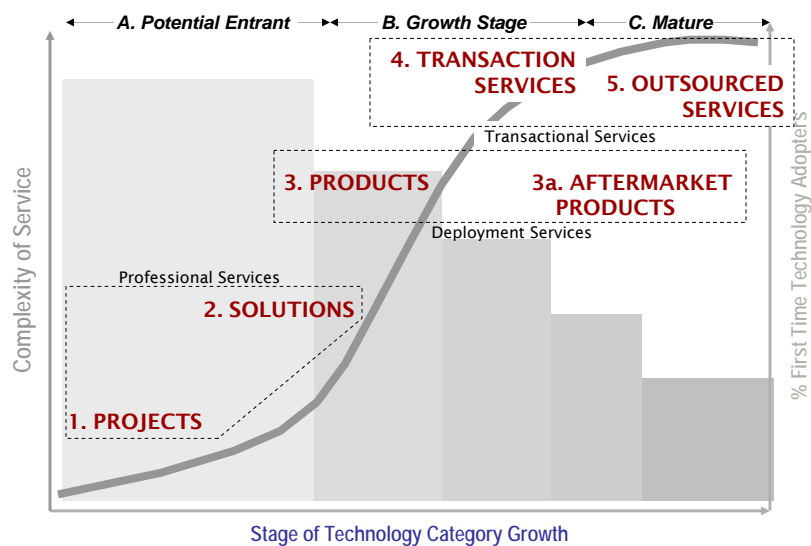
## Mature Market Mistakes



- **Product organizations do not make the transition to aftermarket orientation.**
  - Keep pushing price/performance and *features—miss out on delighters.*
  - “But we’re engineers!”
  - Transition to marketing-led organization instead.
- **Transaction services organizations fail to exploit mass customization opportunities.**
  - Keep pushing cost reduction, missing out on service delighters.
  - “But it’s just a commodity!”
  - Transition to marketing-led organization instead.

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## Final Challenge: Five Unique Business Models



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**Missed Transitions  
Enterprise Software 00 - 03**



	Ideal 2000 Model	Actual 2003 Model	
License revenues	60 - 65%	35%	Major business model shift
Service revenues	35 - 40	65%	
Total revenues	100	100	
Cost of licenses	4 - 5	2 - 3	Service Margins Increase
Cost of services	60 - 65	35 - 55	
Total cost of revenues	25 - 27	23 - 38	
Gross margin	73 - 75	62 - 78	
Sales & marketing	36 - 40	20 - 40	"Status Quo" Operating Expenses
Research & development	12 - 13	14 - 25	
General & administrative	6 - 7	5 - 9	
Total operating expense	54 - 60	40 - 60	
Operating income	17 - 20%	-10 - 20%	RESULT

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**Situation Summary - High Technology Industries**



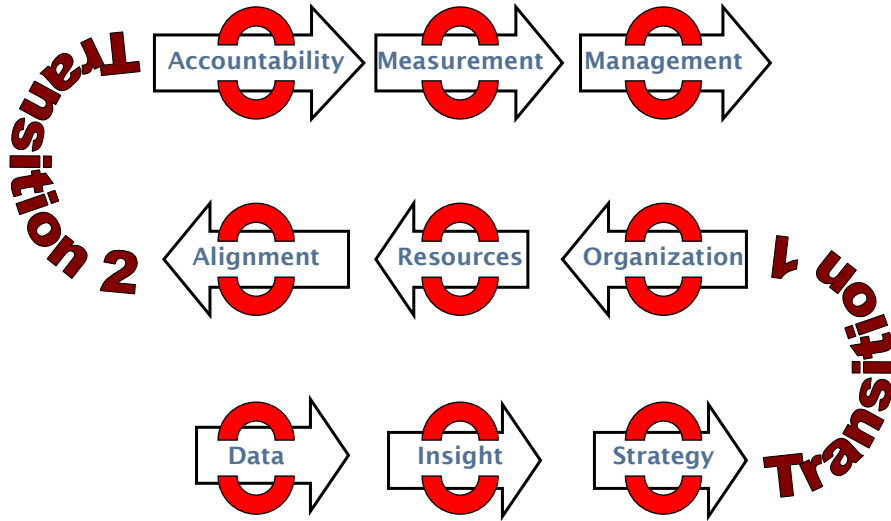
**Situation**

- Five different market development strategies
- Five different competitive environments
- Five different business models

"Who's Job is it to Manage This?"

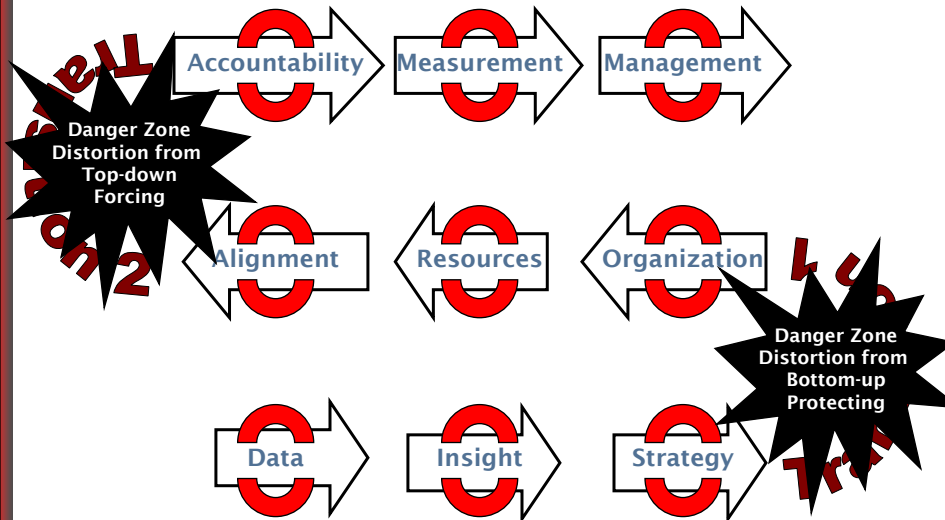
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# The Chain of Strategic Management



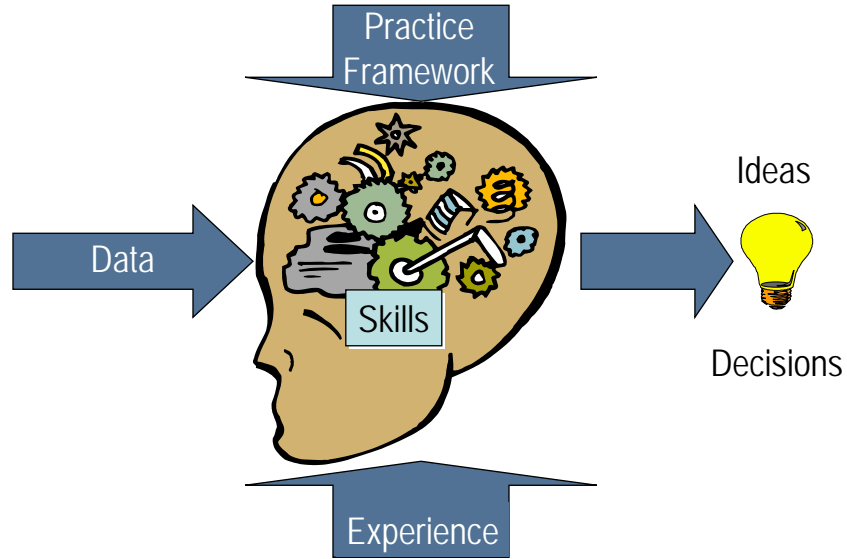
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# Danger Everywhere— Especially at the Transitions



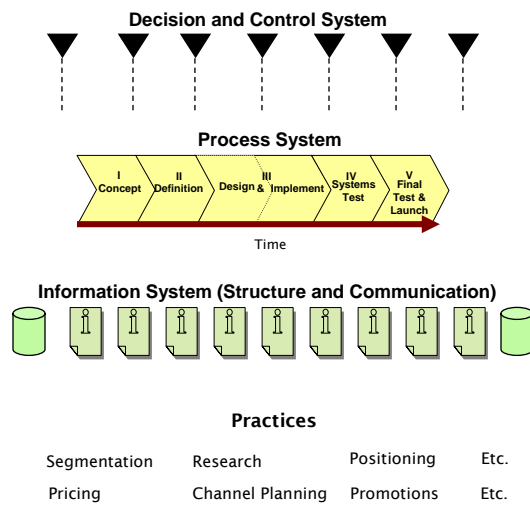
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**What to Do?  
Practices vs. Processes**



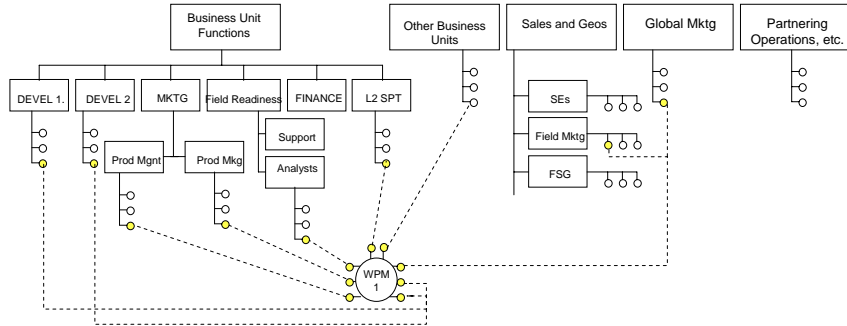
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**Integrate Practices and Processes**



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## What to Do: Virtual Business Teams



- *Whole Product Manager*
- NOT a product manager - a value chain manager.
- Other team members remain “virtual”
- Requires shared executive MBOs

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## What to Do Executive Sponsorship



- VPs become “VCs”
- Engineering / Marketing are the entrepreneurs
- *ONE* whole product manager
- Only strong executive sponsorship can break deadlocks:
  - Different structure
  - Behaviors in conflict with line organizations
  - Resource management

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## Thank You!

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