

# **FAST TO MARKET**

**THE 7 PROVEN STRATEGIES OF SILICON VALLEY LEADERS**

**How Dot·Com B2B Businesses  
Can Price Innovation At Full Value  
By Beating competition To First Sales**

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EXECUTIVE BRIEFING

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MAXIMIZING TECHNOLOGY NPV

SELLING FRESH FISH

Every 60 seconds after a technology has been commercialized, its net present value (NPV) degenerates a little more. The value-adding basis for its margins shrinks as competitive replication threatens at any time to smooth over its initial differentiation. Technological half-life comes closer, bringing forward the inevitability of obsolescence.

Hour by hour a technology's original window of market opportunity narrows; eventually it will slam shut. If the market does not move onto something new, invention will. Without warning, an upstart technology that is either less costly or more effective can pop up and snuff out a future stream of earnings.

To be new and yet to be commoditized from the inception, to be young and yet still to be obsolescent are technology's paradoxes.

Getting a technology's NPV to market fast while, like fish, it remains fresh, is a critical success factor for business survival, let alone leadership. Its opposite, slow to market, guarantees that a business cannot overcome its leaders. Eventually it will be unable to overcome itself.

Making a technology-based business fast-to-market should be its first order of business; it should be headlined on page one of every business plan under the caption "How this business is consistently going to get to its markets fast." Otherwise when things go wrong, and they will, solutions may be looked for in the wrong places.

### **CHOOSING THE MOST LIKELY PLACE TO LOOK**

Conventional wisdom says that slow to market is typically the result of a seam somewhere in the workflows of the operating processes of a business that constricts their productivity. If not, there may be a convulsion in their cycle times that can cause them to sputter and misfire. Using the aerospace manufacturer workflows shown in Figure P-1 as an example, operating issues like these at the micro level have historically become the focus of attention:

- Are the key performance indicators of the prototype testing manager conducive to accelerate the product design cycle?
- How does the number of hours to complete each contract and pricing cycle compare with industry norms?

- What does it do to have the fastest fabrication cycle only to lose the benefits in assembly?



In many cases of slow to market, these prove to be the right questions to ask. In 1999, DaimlerChrysler was one such case. Billions of dollars of costly factory equipment breakdowns were slowing cars getting to market. Cars that made it through the assembly process were often held up at the end by quality control problems that had to be repaired to make them salable. In assessing Daimler's problems in getting to market, its version of Figure P-1 would have been the place to look.

DaimlerChrysler notwithstanding, the contribution made by manufacturing to getting to market fast has been progressively increasing. With productivity rising by about 4 percent a year from 1995 on, manufacturing is no longer the most likely place to look for problems. Manufacturing's resurgence has several reasons:

- Computer-added design and computer-run machines permit new products to be introduced faster.

- Computer networks that link customers to the plant and link machinery within the plant allow products to be built to order with few defects.
- Repetitive tasks are increasingly automated to improve productivity.
- Small-team cells make entire products so that responsibility and pride are concentrated and time-consuming paperwork, transportation and inspection are reduced. In some factories, cells have cut delivery times from four weeks to one.

As practices like these spread, and as best practices in each industry tend to be copied, manufacturing is becoming less of a bottleneck between a business and its market. Most competitors are canceling each other out. The Toyota Corolla factory in Cambridge, Ontario was getting its 2000 model-year cars to market in 17.66 hours while the Ford Taurus factory in Atlanta was right behind it at 17.72. Nissan and Honda were almost the same, nullifying any competitive advantage to their sales.

### **FAST-CYCLING CAPITAL CIRCULATION**

Paying attention to the micro level of operations can still have a payoff but not in comparison to the macro level. The key macro processes are financial, not operational. They are driven by sales and marketing, not manufacturing. Of all the cycles in a technology business – product development, model chargeover, order fulfillment – the single most important is the circulating capital cycle that turns over business funds. The faster it turns the faster that money is made. Each turn culminates when a receivable is collected because a product got to market.

Figure P-2 shows how capital circulates. At point A there is only static cash. Manufacturing circulated it into inventories at point B. If it does not, the DaimlerChrysler problem develops. When sales circulates the inventories into receivables at point C, more cash results than the cycle started out with at point A because receivables are valued at their selling price instead of inventory costs.

Point C is where money is made because it is the point where gross profits are created. Getting to market fast means getting to point C's profits fast.

The more cycles that circulating capital turns, the greater the gross profits. The faster a business gets to market the more capital cycles can take place at higher price points and the more profits can be earned.

FIGURE P-2  
CAPITAL CIRCULATION CYCLE

Up to the point where a receivable is created, there are only costs: development costs, costs of manufacturing, costs of carrying inventories, and costs of sales. What good does it do for an order fulfillment cycle to get inventories shipped the same day if a long drawn-out sales cycle delays their conversion into receivables?

Sales and marketing are the perennial weak sisters in technology-based business. To paraphrase Intel's slogan, they operate at six sigma inside but only at two sigma outside. By the mid-1990's, it was clear to Dell, for example, that e.commerce was beginning to drive the computer industry. Five years later, Dell was doing almost 50 percent of its business by selling directly to customers on the web. By contrast, market-share leader Compaq was still pushing 85 percent of its sales through dealers and would do only 25 percent of total sales directly by the year 2000. Compaq's competitive disadvantage to Dell would be enduring.

Without enhancing marketing sophistication, there is no way to get to market fast; without minimal marketing sophistication, there is no way to even know that getting fast to market is essentially a marketing issue.

### **FORCE-FITTING INDUSTRIAL MARKETING STRATEGIES**

When the technology industries began to enter the information age shortly after mid-century in the 1900's, the engineers running them reached out for a marketing model. They were shopping in the dark. As a result, they chose the way other engineers, not marketers, marketed. The legacy system of marketing they settled on came straight from the industrial age of capital-intensive manufacturing: selling feature-based benefits at performance-based prices.

Even by then, the heartland industrial model was already on borrowed time. Product performance was becoming more difficult to recover by price. Business was increasingly being bought rather than sold. The costs of sales were nullifying profits on many sales. As a result, cost control became more of a focus than revenues. Keeping operating expenses growing at a slower pace than revenues came to be embedded in corporate strategy.

Nonetheless, 3 strategies from industry were force-fitted onto technology:

- The industrial belief in razor-and-blades strategy assured technology managers that time was on the manufacturer's side. There was no need to be fast to market because the big money came from a customer's cost of ownership over a product's commercial life. Getting the repeat sales from an installed base's replenished consumables, maintenance contracts and upgrades was judged to be more lucrative than getting to market fast.
- From the industrial history of ringing doorbells and chasing smokestacks to find a market came an acceptance of a period of strategic grace to identify a technology's customers. During this time it was acceptable to feel out who a new technology's market was even though the clock was ticking on the uniqueness of its NPV. The fumbling and bumbling inevitably aroused the market fringe of early adopters who promiscuously flirt with every new invention but who never favor it with more than a one-night stand before moving on. In this respect, early adopters resemble fool's gold. Instead of progressively leading to a sustainable market of later adopters, early adopters generally lead nowhere. When they turn off, there is no one to turn to.
- The industrialists' experience gave them a basis for believing in the lifecycle curve for a business that stretched in an unbroken arc from introduction through growth to prolonged maturity. According to the curve, it was more important to stay in the market perseveringly than to get to market fast at the beginning.

In the continuously innovative technology business, the curve turned into a spike that went up fast and came down faster. As Figure P-3 shows, time has been squeezed out of a technology's life by a combination of forces: fast competitive replication, accelerated obsolescence and the relentless pressure of customers to commoditize their supply options in order to standardize their performance and their prices.

The spike has become technology's lifecycle "curve." Yet some technology managers still connect the dots they see in their minds' eyes of the old curve. They imagine that the rear end of the spike is merely the near side of a chasm from which a business that falls into it can clime out again – a resurrection by rappelling. Figure P-4 shows this illusion, mislabeling as a chasm what is really the stop sign at the end of

today's foreshortened cycle. Without being fast to market on the front end, there may be no market. The business fits between the industrial model and the emergent information age has been grotesque. It is safe to assume that industrial strategies have sacrificed 20 to 30 percent of information technology's NPV to the opportunity costs of getting to market late. At this rate, industrial strategies have been their own R&D's worst competitor. As economic cannibals, the industrial marketers have been eating their developer's lunches.

FIGURE P-3  
LIFE CYCLE SPIKE

FIGURE P-4  
THE CHASM ILLUSION

Getting a technology business to its market fast cannot be accomplished by putting lip rouge and eyeliner around its industrial marketing heritage. A new system of technology-specific strategies must be customized and based, as it should have been from the inception, on the single central truth about technology:

**The way to make money in a technology-based business is to get its technology to market while its net present value can command the highest margins; therefore, marketing strategy must maximize NPV.**

Two kinds of marketing motions can maximize net present value:

1. Everything done under the name of marketing must add maximum value to the NPV of technology.
2. Everything must minimize time, starting with the time to commercialize each innovation cycle through the time to migrate each successive sale. Any other objective mistimes marketing and counteracts sales strategy.

Fast-to-market is as much genetic to a business as it is operational and organizational. New, young businesses are more likely to have faster genes than older, more mature businesses that have become ritualized, bureaucratic, and sanctified by once-justifiable but no longer relevant acclaim. For businesses like these, genetic reengineering is as important as restructuring.