

# **MANAGING** *Speed*

**The greenstream•com Guide  
To Go-To-Market Strategy  
At Internet Speed**

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“It’s all about Time.  
Time, time, time.”

David Lord\*  
CEO Toysmart.com

- When he closed the business in May 2000 and laid off its 170 employees.

## The greenstream.com Principals

The three greenstream.com Principals bring to each early - stage dot.com business they work with a concentrated background of expertise in getting information technology businesses fast to market. They also bring a diverse background of experience with the application, integration and valuation of technology - based information services that are sold into hyper growth markets.

Mack Hanan, John Carroll and Len Strickler operate as an integrated system. They are committed to the same fast – growth portfolio of strategies. They have mastered the skills of implementing them, both in e-businesses and traditional businesses like IBM, Digital Equipment Corporation, Sun Microsystems, Cisco Systems, EDS and Microsoft, as well as their distributors and value – added channel partners.

With traditional businesses, the **greenstream . com** principals take them into e – businesses. Conversely, they take e – businesses into preferred supplier and strategic ally relationships with traditional businesses.

John Carroll and Len Strickler have been vice presidents, general territory managers and United States and global sales managers for worldwide technology systems suppliers. Mack Hanan has consulted with them. All three Principals have entrepreneurial start – up experience managing their own businesses and with venture – funded B2b businesses where they have vetted their proprietary F2M (Fast To Market) Process.

The mission of the **greenstream . com** Principals is to take early – stage dot – com businesses fast to their markets at the highest possible point on their industry value chains and maximize their net present value by partnering them fast with end – user customers to accelerate their first sales.

Impatient, obsessed with getting to market fast, the **greenstream . com** Principals are accelerators of time. Simultaneously, they accelerate delivery of the latent value that has been engineered into a technology to make it fully realizable in margin.

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## THE PRINCIPALS' REVELATION

**When** is the most important word in dot – com business : **when** will a technology be commercialized, **when** will a market be entered, **when** will an installed base of customers reach critical mass – and **when** will cash flow turn positive so that profits can begin to stream?

The **When's** never end. As soon as one cycle of **when's** is completed, the next one starts with **when** will the second derivative of a product of process be ready to go the market?

To be when – conscious means being prepared to run before you learn to walk. Walking will not teach you how to run. Before you can pick up the pace, the race is over.

It means thinking of a market as time when a need and a benefit come together instead of a place. It means committing to continuous innovation instead of model years. It means providing customers with anytime access so that you can turn your receivables ceaselessly. It means anticipating instead of reacting.

It means making customers more advantaged faster.

In the new economy, all businesses move at internet speed. Invention cycles are compressed and continuous. Commercial life cycles are foreshortened, contorted from their once – rounded curves into sudden spikes that are shoved rudely to the left. Features, functions' and benefits are replicated overnight, leveling differentiations and commoditizing their value. Obsolescence follows closely after introduction, resulting in ever – shorter half lives for products and services that may never be able to repay their development costs.

The need to be just-in-time drives all decision making. As markets move restlessly and relentlessly from flirtation with one benefit to another, opportunity windows open and close. To strike too soon may still miss the blow. But to be late is swiftly fatal.

Time, and the money value that time represents, has become worth more than the dollar value of money. Money that is lost or misspent can often be made up. Once lost, time is gone forever. In dot – com business, there are few second comings.

Being a fast market mover counts. Being the first mover into a market can be worth a thousand price points.

Managing speed has risen to be a dot – com manager's number one skill. The ability to act fast is more important than the ability to deliberate will. To react, no matter how will, is to be too late.

The three **greenstream . com** Principals are apostles of fast growth. They argue that there is no option: early – stage business growth must be fast or there can be no other kind.

Slow growth, or slowness, is not an option. Products and services obsolesce at warp speed. Innovation is quickly replicated. Market needs move so dynamically that today's preferred benefit can become tomorrow's drag on profits. Barriers to market entry no longer exist in an age when information is globally dispersed, investment capital is affordably available and technology that is "not invented here" can be easily accessed by joint ventures, strategic partnerships or licensing.

Through virtual organization schemes, any business can buy in any other business without buying or owning a single asset.

To try to grow slowly is to risk being cut off at the pass by having a market pre-empted by a faster-moving competitor or having a potential brand commoditized before it can pay back its investment. Whereas a number two or three supplier could formerly be viable as a industry safety valve or as a price warden to keep the market leader in line, today's customers neither want nor need several alternate vendors. All the costs and all the efficiencies favor the single source. In such a one-to-one relationship, customer power acts as its own price warden.

It is easier for a customer to create a new primary supplier than for a supplier to create a new key customer. As customers and suppliers consolidate, this becomes even truer.

Being first to market helps to establish a primary supplier position. Customer expectations can be set and standardized. A fast-mover's norms can become standards of competitive performance. Being the first to market does not automatically ensure a sustainable leadership role. But being slow to market almost always ensures being ruled out as the number one competitor.

Not only has speed to market changed. The concept of the market has also changed from being a physical marketplace that is referred to as a space to a metaphysical **marketime**: the short period when a market and a need come together that can be benefited by a high net present value solution. Soon – all too soon and getting ever – sooner – alternative solutions come along to compete for the market's need. In the midst of replication, commoditization and imminent obsolescence, the market will be moving on to a new and improved solution that offers a more timely value.

Marketime is today's real time. It turns legacy assets into liabilities, institutional memory into a hurdle against decisiveness, corporate culture into a viscous medium that impedes speed, and workflows together with their cycle times into perpetual candidates for time sizing.

As the **greenstream . com** Principals have observed the outcomes from being first to market, fast to market and slow to market, it has become apparent that the most predictable competitive advantage goes to the fast-to-marketers, the most predictable competitive

disadvantage goes to the slow –to-marketers, and that the outcomes from being first to market remain unpredictable. Primacy by itself is no guarantee of survivability.

Because the Principals acts as stewards of their clients' wealth, their bias must always be on the side of the most predictable positive results. Once they identified the repeated correlation between fast-to-market and a supplier's ability to realize the fullest return of the net present value of his technology, they set about to create the most cost-effective method to guarantee fastness. This has become their F2M process that is spelled out in Mack Hanan's book "Fast To Market."

Rationalizing and smoothing workflows, while simultaneously reducing their cycle times, are the keys to managing speed.

No plan, process or procedure can escape cyclical scrutiny for time sizing. Data accessing and distribution must be fast. Negotiating decisions must be fast. Implementation must be fast. A dot-com manager must always be ready to aim and fire. Better yet, by acquiring most-likely upcoming problems and opportunities on their rise, the manager can be pre-aimed and ready to fire at them at will.

On Internet time, businesses gestate quickly, just as quickly die and , in between, must contemplate their mortality on a daily basis. No business is any longer forever. Dot-com businesses exist in time, not place; time marches on.

To a time-obsessed manager, fixed assets can be an albatross. Permanent employees can be a contradiction in terms. Legacy products and services can be unmarketable at profit-making margins. Products and services have a high wear-out rate. So do business models. So do managers.

Time pressure is the constant context for dot-com management. Compared to the odd economy where there was often "the luxury of time," the clock regularly runs out on business plans. Deadlines come sooner. Drop-dead dates cannot be pushed back. Mistakes of commission cannot be made up. Anything omitted may not be retrievable. A manager's most frequent wish is to have a day back.

To be able to manage speed in the critical few processes that predict dot-com success means to outsource or joint venture in all others. Business partners must be chosen for their ability to manage speed as a core capability in their own operations. In this way, the pace of the parts can be uniformly rapid and no one lags. Alliances must be geared to proceed at the speed of the fastest partner, not the slowest. As with all aspects of superior management, best practices in managing speed should be freely shared.

It is only recently that managing speed has been elevated to a best practice. In the old economy, management was defined as getting things done through others. Delegation, not speed,

was the critical factor. Then it became important that the others were productive; next that they were satisfied with the quality of their work life. Now it is urgent that they get results fast. The mix of oversight and autonomy that can realize this objective most cost-effectively is every manager's personal art form.

One element of an optimal mix is universal: the skill of creating compelling incentive so that speed is not an option. Recognition is one component of incentive. Reward, both personal and professional, is the other. For dot-com businesses on Internet time, the ultimate incentive may be survival.

The **greenstream . com** Principals have discovered 5 factors – the FazGro Factors – that can speed dot-com growth. They are the gears that an early-stage business must go through as fast as possible to break out of the pack and get to market fast:

1. The **Market Factor** that targets the core constituency to be advantaged.
2. The **Margin Factor** that ensures profitability in the exchange of value for price.
3. The **Brand Factor** that permits margin-assuring differentiation.
4. The **Systems Factor** that enables comprehensive solutions to be sold at the highest point on a value chain.

These five FazGro Factors compose the master guidance that the **greenstream . com** Principals live by. They apply them to each of the dot-com businesses they select to grow. In their Fast To Market “Perk-Up Seminars,” they challenge dot-com CEOs to compare their go-to-market strategy with the **greenstream . com** F2M Process. In their follow-on “Work-Up Seminars,” they mentor individual dot-com management teams on how to institutionalize the F2M Process.

In everything they do, the **greenstream . com** Principals drive themselves and their clients with what they have come to respect as the two prime motivators of early-stage business management:

- The value added by each quarter of being faster to market.
- The opportunity cost of missing each quarter.

The added value of the first motivator is a composite of all the incremental revenues gained and all the incremental costs avoided every 90 days. The opportunity cost of the second motivator represents more than an incremental loss; it may cost the total net cost the total net present value of a technology.

## PREFACE

### FAST FORWARDING BY PLANNING BACKWARDS

A dot-com that is founded on the transaction capabilities of Internet technology is preparing to be a number two in its industry. A B2B that conceives its market to be all other businesses can leave almost as much money on the table as it earns. A B2B dot-com that sets its mission to be better than the competition has been commoditized before it can be launched.

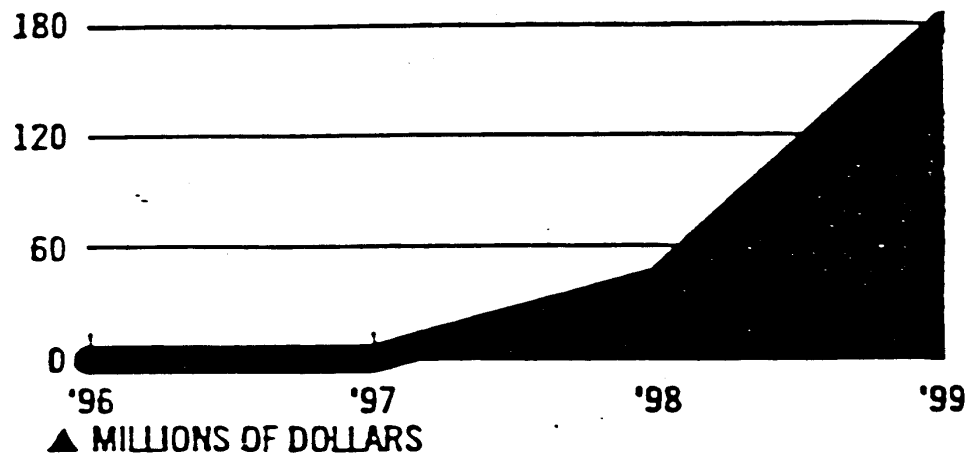
Every nascent B2B dot-com that wants to get off the ground in a hurry must follow the rules of flight: take off fast: climb high. These irrefutable guidelines are the basis of the Five FazGro Factors that form the gospel of the **greenstream . com** Principals. In order to ensure certainty as well as speed in getting B2B dot-coms fast to market, the **greenstream . com** Principals have added a third rule of flight: plan each flight backwards before takeoff. Only by knowing where you want to end up can you know how you can best get there.

The **greenstream . com** guidelines are proven accelerators of dot-com growth. On the upside, they underwrite the opportunity for a business to become number one. By avoiding predictable black holes, they also protect against the downside. For example, many dot-coms are able to make sales but they earn no or low profits. Figure P-1 shows the disconnect between profits and sales that can happen when a business is driven by its technology instead of by its customers or clients. Businesses like this base their prices on cost or competition instead of value and so they can only brand their names instead of their contributions. They position themselves at the low end of their customers' value chains instead of at the high end space where the most money can be made. They are content to satisfy customers instead of compel them to do business by making it unaffordable not to.

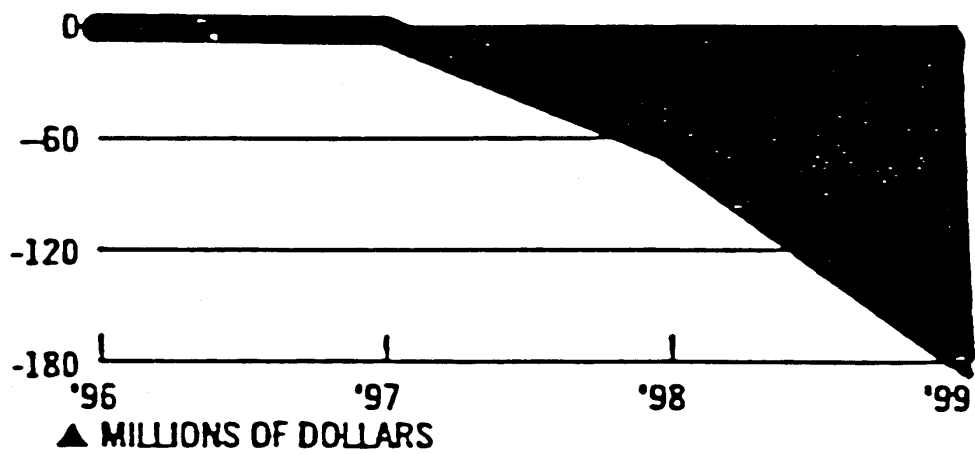
Each of these calamities can be a pit. It is not a chasm that can be crossed because there is no other side. It represents the dead end of a dot-com's life cycle, brought to a foreshortened conclusion by irremediable errors. The failings turn out to be too great. The time to make corrections is too short. The funds still available are too low.

FIGURE P-1  
PROFITS-SALES DISCONNECT

### VALUE AMERICA'S SALES SOARED



### AS LOSSES MOUNTED.



A business that allows itself to begin selling at no or low margins cannot count on being able to raise them later. Nor, as Figure P-1 confirms, can it hope to “make it up on volume. “Volume is a cost. As volume increases so does its cost. Low-margin sales multiplied by volume Mean more low earnings. It is earnings, not volume, that are taken to the bank.

If a business goes to market already commoditized because it has modeled itself on the best practices of its competitors, it may be stuck there. It cannot transform itself into a brand by an ex post facto profession of unique value. Latent virtues that are alleged in an “Oh, by the way” manner after market entry are rarely able to sufficiently distinguish a product or service to confer on customers a compulsion, or even a preference, to acquire it above all others.

Dot-coms that fail to ensure differentiation by incorporating The Five FazGro Factors into their genetic code from the inception become candidates for acquisition by dot-coms that do.

Most of the damage from being commoditized – as well as most of the benefit from being branded – starts on Day One when a dot-com’s managers write the first words of their business plan. If the words have to do with taking a Web-based technology to market, it may already be too late. The “how” of transacting, of accessing and cross-referencing, of order entry and same-day shipping, of just-in-time inventory, and of billing and collecting, are all secondary. What comes first must be the “who” – who the customer is going to be.

For a business-to-business dot-com, the customer or client is not a business in spite of what B2B signifies. Businesses are not end-users; their managers are. Who, a dot-com’s managers must ask at once, are the customer managers we must partner with – the managers whose competitiveness we must advantage by the value we propose to add to their operations? In this way, a B2B becomes what it must be in order to be number one: an M2M, a manager-to-manager business.

Before a dot-com’s managers commercialize their vision, they must be able to envision the prototypical customer manager who will be their beneficiary. They must be able to see him or her benefiting from the value they are adding. Are they enabling the customer manager to be a lower-cost supplier? Are they enabling him to be a higher-market shareholder? A higher-margin marketer? What is the value-add that enables these advantages? How much does it add up to; how soon does it begin to flow and for how long does it continue? What does it return on its investment?

After these questions are answered, the dot-com’s managers’ response to one more issue will constructively begin their commercialization: **What must we have had to have done in order to have made our first high-margin sale to this customer manager?**

Your business plan must be the answer.

# PART I

## BUILDING YOUR BUSINESS AROUND IT'S SOURCE OF FUNDS

## CHAPTER ONE

# THE MARKET FACTOR

*“what is the position title of the customer manager who is going to be advantaged by our technology whose costs will be reduced or whose revenues will be increased enough to pay us a high margin?”*

Building a dot-com business must begin with its end-user customer. This is the only way to make sure that selling its products will end up there.

The customer you choose predicts the type of dot-com business you build. If you select a cost center manager who runs a customer business function, you will build a cost-reducing business.

If you select a profit-center manager who runs a customer line of business, you will build a revenue-increasing business.

The minds of these managers form the “space” that your business occupies.

In both cases, the product or service you sell may be the same. Your choice of customer will determine how the product or service must be applied to meet customer objectives; in turn, this will determine the benefit you must offer and the market position of your business.

Getting the customer right is the single best guarantee of getting the business right. The customer’s needs for a competitive advantage must dictate the dot-com mission so that it is a commitment to make the customer the best instead of a pallid platitude to be “the best.” The best what? If you are not going to be the best provider of customer advantage by being the best adder to customer value, why would a customer have any need to do business with you?

No matter how a dot-com business is funded, customers are its sole sustaining source. They are its long-term bankers. Long before its risk capital runs out, dot-com managers should be sure that its customers can be its continuing capitalists. The only way to be sure is to collude with them up front.

### **ENVISIONING THE CONTINUING SOURCE OF FUNDS**

Visualizing the customer managers who will pay a high value-based margin – managers for whom acquiring the value added by the dot-com business is imperative – is the true vision of a business.

It follows that the customer manager must be the star of the dot-com business vision statement. The vision must enable the business to see the manager as if he or she is already enhanced by the benefits that the business can confer. If the manager runs a cost center that supplies, supports or serves a profit-centered line of business, the vision must see him being a lower-cost supplier. If the manager runs a profit center, the vision must see him being a higher market-shareholder.

Envisioning the manager-to-be-advantaged is the single most crucial insight in building a dot-com business. It is not only for him or her that the business must be built; it is for this manager's benefit that it must also be organized and operated.

If your business name were to have an accurate subtitle, it would contain the customer manager's title followed by the word "surrogate." For his part, his business card should read "Ex Officio Chairman Of The Board" of your business.

The first page of every dot-com business case ought to be a motion picture storyboard of the customer benefiting from your added value:

- Here is the customer manager seen as he realizes our added value. How much value is he realizing? How soon after investing with us to receive it?
- What is the rate of return on his investment? What portion of the investment represents our margin?
- How long did he have to wait for the payback of his investment?
- Here is the customer manager seen as he migrates a portion of his return into the next investment with us to realize more of the value we can add.
- Here is the customer manager seen as he becomes his industry's lowest-cost supplier or highest market-shareholder as a result of our contributions of value. Here are his key performance indicators that we have helped him enhance.

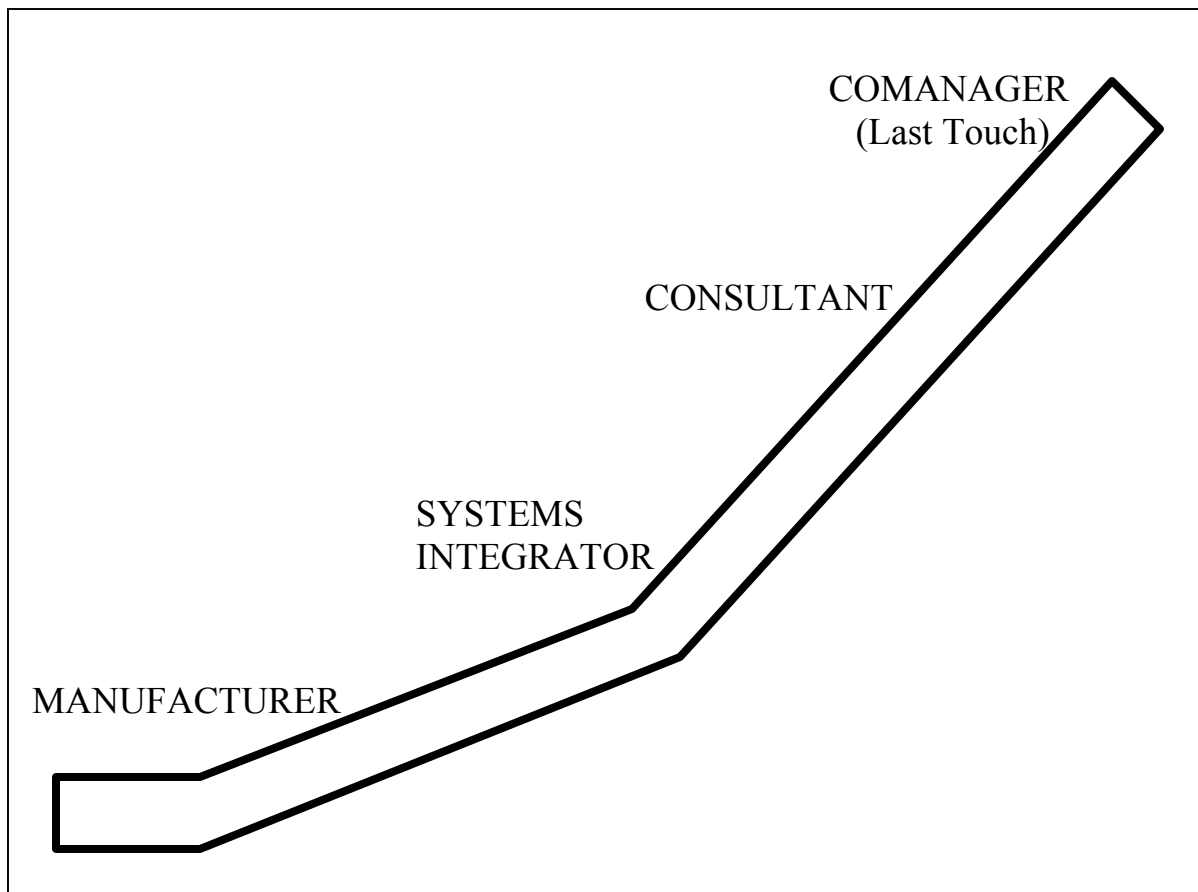
### **MOVING UP TO END-USER FUNDERS**

All customer managers are not created equal. Customers at the low end or in the midrange of a market's value chain are much less equal to the customers managers of a value chain's end users when it comes to the value you can add to them. As original equipment manufacturers (OEMs) or assemblers, they are responsible for "the whole product" they make

and sell. They have more needs. They need more benefits. They have more money to pay for them.

A market's value chain is a step diagram of increasing values that can be added by suppliers to their customers on the chain. Figure 1-1 shows a typical value chain. The higher you can position your dot-com business on it the more value you can add and the more value you can receive in return. In order to maximize your value, you should build a business of integrated systems rather than a hodgepodge of unrelated products and services.

FIGURE 1-1  
TYPICAL VALUE CHAIN



End-user customer managers are only secondarily concerned if they are concerned at all – with their suppliers' products, services or systems. Their primary concern is with the financial contributions of a supplier's solutions to their operating problems and market opportunities.

Their attitude to a proposed operating solution is “So what?” The “what” is how much incremental savings or revenue will it yield? How soon will the yield be realized? With that degree of risk?

These questions reveal the three values you must be able to add to your customers end-user managers:

1. Significantly improved profits that represent a positive return on investment.
2. Fast realization.
3. Predictably low risk.

Your ability to add these three values prejudices your ability to move up to end-user sales. Without them, your dot-com business will miss its main chance to be a big winner. Your customers will be mid-chain sub assemblers and sub integrators who will subsume your products into their own until one of them can sell the whole product at the top of the value chain.

Like them, you will be a commodity supplier. End-user customers will never know the specific value you contribute. It will be anonymously embedded in the total value. Your low-end and midlevel customers may know your value but they will never pay you for it. Only the end-user customer will pay for value. But he will pay you only if he is your customer.

Dot-com businesses that are built for end-user customer managers have an unbeatable competitive advantage of their own. From their inception they think about offering the most comprehensive solution to deliver the maximum value where it has the best chance of earning the maximum reward.

### **SELECTING YOUR NATURAL PARTNERS**

Customer managers must be compelled to partner with you. Nothing compels them more than the sustainable improvement of their profits at high rates of return on their investments combined with controllable risk. They know that solutions composed of commodity products and services are universally available. Solutions as such do not compel their interest or their willingness to pay a margin to obtain them. Their interest is in a solution's financial results. Dollarized results – colloquially called “the nums” – are the basis for every customer manager's evaluation, compensation and promotion.

The managers to whose operations you can consistently deliver the best nums are your natural partners. They tend to be clustered in a small number of specific 3 or 4 digit SIC (Standard Industrial Classification) industries, in a small number of specific operations within each industry and possessing a small number of key performance indicators that you can enhance.

Your natural partners are your core market. They are never “all managers.” Nor are they all managers of a specific operation in the same industry. Nor are they even all managers of the

same or similar operations in the same customer company. Your partners are managers whom you can advantage best and who want to be advantaged by you.

You are only one-half of every prospective partnership. You can propose your half but the customer manager retains the right to dispose of his half. He must find your proposed profit contributions significant and credible. He must be comfortable with your positioning on a business-to-business level with him and not on a technical-to-business basis or that of seller-buyer. He has his self-interest in mind when he commits to you. It is equally important that you have his self-interest in mind when you propose his commitment.

The 80-20 rule, known as The Pareto Principle, is inexorable. No matter whether you build your business around 80-20ing your market, 80 percent or more of your profitable sales volume will always end up coming from 20 percent or less of all the customer cost-center or profit-center managers in the market. You can give your dot-com business a head start if you know who will compose the 20 percent – the managers you can benefit best – before you penetrate their market.

If you could be in business long enough, you could probably find most of them and most of the rest could probably find you. But the net present value of your technology would long before have become commoditized, eroding your margin opportunity. Even in the absence of early obsolescence, competitive replication would eat away at your profits just as severely.

Before you ever set foot in your market, you must know the correct answer to the question, What kind of business are you in? the answer must be “The Kind of business that best advantages customer cost-user businesses in this industry.”

## PART II

# COMMERCIALIZING YOUR TECHNOLOGY BY DOLLARIZING ITS APPLIED VALUE & EXCHANGING VALUE FOR MARGIN

## CHAPTER TWO

## THE VALUE FACTOR

*“How many incremental dollars will the application of our technology add to the customer manager’s profit contribution? How soon will it add them?”*

If you try to sell your technology, you will find that it is going to be priced according to its performance. Unless its performance is unique and unless all of its performance is immediately usable and beneficial to your customers, it will be priced competitively: its reference point will be competitive prices. In order to make a market against an established installed-base competitor, you may have to buy your way in by giving away some or much of the net present value (NPV) of your technology.

This means that you may never get back out the cost you have put into it.

Even if you have no direct competition, you will be asked to discount any price you put forward. Every customer purchasing manager’s reflexive response to a price is to say that it is “too mush.” As soon as a competitor enters the market – or even before actual entry, simply on the fear, uncertainty and doubt (FUD) of a competitive threat – the replication of your technology’s performance will instantly commoditize it. Your margins will be squeezed while your cost of sales goes up as your sales cycle time is extended by price negotiation.

If no competitor arises spontaneously, your customers may incant other suppliers to become alternate sources at lower prices. Until that happens, customers at the IT level may tell you that your technology has “excess performance” that is unusable and therefore unaffordable. They will pay you only for the performance they say they can use. On top of that, you will be asked to provide free services that will further deplete your margins and raise your costs.

Selling technology on the basis of price-for-performance is a low margin, high cost business. As the life cycle of each generation of technology becomes progressively shorter, less time is available to pay back your investment and earn the funds you need to seed successive rounds of innovation. Not only is the price for technology becoming increasingly independent of its value. Its price is independent of your ability to control it.

A customer who controls your price controls your business. Only by selling the applied value of your technology instead of the technology itself can you reconnect what your technology is worth to what you customers will pay you for it.

**SELLING WHERE VALUE IS THE BASIS FOR PRICE**

Since technology is a low-margin sale, you must not sell it. Since customer purchasing managers at the IT level will pay only the lowest price for the highest performance, you must not sell to them. The only way to make margin on technology is to sell its applied value at a customer's management levels where value can be the basis for price. Every customer has two such levels: operating managers who run cost-centered business functions and their correlate operating managers who run profit-centered line of business.

This is why you must found your business on the sources of your funds: the customer managers whose costs you are going to reduce or whose revenues will be increased enough by the application of your technology to enable them to pay you a high margin.

Customer operating managers are value-sensitive because everything they do is measured by the value it adds to their businesses. When they take on their positions, the current costs and revenues that their operations are contributing become their baselines. Their job is to improve on them. They are evaluated by the amount of improvement they are able to manage and how fast they are able to manage it. When it comes time for their top managers to allocate funds, the midlevel managers who get to the firms in line are the best contributors of incremental profits on the funds they received the previous time.

In order for you to be paid on value the same way as customer operating managers, you must sell to them the same way they sell to their own sources of funds, saying things like these:

- “Here are your current costs. For each \$1 that you invest with us, you will get back a net return of \$1.25. Positive cash will start to flow by 90 days and will continue forever.”
- “Here are your current revenues. For each \$1 that you invest with us, you will get back a net return of \$1.75. Positive cash will start to flow within 30 days and is expected to continue for 36 months.”

The increment between the sum total of all the dollars the customer manager invests with you and the sum total of the dollars you return is your contribution of added value to the customer manager's operation. It is how your partner ability will be evaluated. It is what your own return – your price – will be based on.

Like the customer managers you partner with, your pay will be for performance: your performance is an improver of each customer manager's performance. No manager will be buying your technology; he will be investing in its applied value. Nor will a manager compare your technology against competitive suppliers; he will compare your value against competitive allocations of his funds to see where he can obtain the optimal mix of reward and risk.

### **PROPOSING VALUE IN THE LANGUAGE OF BUSINESS**

All value is proposed in dollars. It is quantified in two terms: money and time; how much money and how soon it will flow. Value propositions are presented in dollars, which is the language of business. Value does not exist in words, only numbers. Value that cannot be quantified does not exist. There is no such thing as “a lot” of value.

Net present value is the accepted way to quantify the profits you propose to improve for customer manager by applying your technology to his operation. This is the value of all future funds that are proposed to flow to the customer manager beyond year one after they have been discounted back to year one’s present value. By accounting for the depreciation of the value of tomorrow’s dollars compared to the same dollars received today, NPV provides the customer with a way to relate the investment you ask him to make in the present with the return on investment that you propose he will receive at some time in the future.

In addition to net present value, customer managers will want you to quantify the added value you propose in three complementary way:

1. **Cash flow**, which quantifies how much of a customer’s reduced costs or increased revenues will flow into his business every quarter or every year.
2. **Payback**, which quantifies the moment in time when the cash flow equals the customer’s investment and pays it back. From this point on, profits can begin to accrue as cash flow becomes positive.
3. **Rate of return on investment**, which quantifies the value added to each dollar of invested funds.

If there were such a thing as an ideal investment, it would have a high net present value, early positive cash flow to provide quick payback and therefore low risk, and a high rate of return. Most value propositions offer trade-offs among these criteria. The most acceptable trade-off is typically the highest possible NPV that is commensurate with the lowest investment and the earliest payback.

A the heart of every value proposition is its analysis of how the investment creates the return. An investment-return analysis – known as a cost-benefit analysis where the investment is the cost of realizing the return’s benefits – is shown I Figure 2-1. It is taken from Mack Hanan’s PIPWARE value proposition software program. It reveals how a customer’s money appreciates over time as the supplier’s technology is applied to his operation, thereby improving the value of the customer’s assets by enabling them to perform more beneficially.

## *Cost Benefit Analysis*

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Total Expenses (Net Cash Out)	\$ (6)	\$ (296)	\$ (473)	\$ (364)	\$ (299)	\$ (299)	\$ (1,737)
Total Benefits (Net Cash In)		\$ 2,131	\$ 2,131	\$ 2,131	\$ 2,131	\$ 2,131	\$ 10,655
Gross Profit Improvement	\$ (6)	\$ 1,835	\$ 1,658	\$ 1,767	\$ 1,832	\$ 1,832	\$ 8,918
Less Taxes	\$ 2	\$ (642)	\$ (580)	\$ (618)	\$ (641)	\$ (641)	\$ (3,120)
Net Profit Improvement	\$ (4)	\$ 1,193	\$ 1,078	\$ 1,148	\$ 1,191	\$ 1,191	\$ 5,797
Cash Flow	\$ (1,354)	\$ 1,463	\$ 1,450	\$ 1,412	\$ 1,389	\$ 1,389	\$ 5,749
Cumulative Cash Flow	\$ (1,354)	\$ 109	\$ 1,559	\$ 2,070	\$ 4,359	\$ 5,748	\$ 12,491
Net Present Value	\$ (1,354)	\$ 1,330	\$ 1,198	\$ 1,061	\$ 949	\$ 862	\$ 4,046
Internal Rate of Return	103.8%						
Payback (Months)	12						
Tax Rate	35%						
Hurdle	10%						
Depreciation Method	MACRS						
Amortization Method	Straight Line						

Customer managers are comfortable making investments to improve their asset bases. They know that there are only two strategies for stepping up their performance: manager the performance of their current assets better or manager better performing assets. By proposing to add the applied value of your technology, you can help them to execute both strategies.

### **TEST-STANDING YOUR VALUE-ADD**

Whether you are seeking first round or second round funds from venture capital sources or operating funds in the form of sales from customers, the same rule applies: **money flows to money.**

- The more value you can prove, the more money you can predictably offer for each dollar of funds you ask for.
- The more money you can offer, the more money you can get.

Putting value on the table attract more value. It provides proof of the commercialization of your technology – in other words, that there is a business inherent in the technology that can help other businesses to accelerate their growth. If you do not know your value you cannot price it; if you cannot price it you cannot sell it, either to the capital market or the customer market. The only thing that you will be able to put on the table will be your technology. Proof of concept will never buy you anywhere near the value from proof of commercialization.

As soon as alpha testing proves that a technology works operationally, it should immediately be beta tested to prove that it can work financially to improve customer profits. The commercial proof of technology is in its contribution to customer profits.

The operations of representative customer managers are your test stands for beta testing. Every day you delay in getting beta tests up and running is an opportunity cost. Time is always of the essence. Obsolescence begins from the moment of invention. You must assume that competitive replication is imminent. Until you know your beta values, you are helpless in the face of creeping obsolescence and imminent replication. All you can do is offer your technology at whatever price your sources of funds will bear.

Beta tests should be given away, not sold. There is no time to sell them. Since the only thing you have to sell is technology, price is meaningless. The only purpose it serves is to create debate, which is both a cost of sale and a cost of opportunity. Coming away as quickly as possible with marketable value is far more important than coming away slowly with discounted dollars. Today's knowledge of value grows tomorrow's dollars. By contrast, today's price can destroy tomorrow's value because customers never forget a bargain.

Getting your first betas fast, without pricing them, should be considered as a cost of sales. In return for the cost, you will never again have to give away the net present value of your technology because you will never again be ignorant of it. Think of it as buying NPV insurance. Take out your insurance with a leadership customer whose reputation will certify your value and, through his testimonial in your behalf, can act as your insurance provider.

If you have a market that is dominated by a single undisputed leader, he is the one for beta testing. As the industry leader, he may already be performing at the level of best practices. If you can increment best practices you can crown your value with a "killer app": an application that kills a customer problem of unnecessary cost or unrealized revenue and kills off competitive applications at the same time.

If your market has no standout leader, your best beta strategy is to test simultaneously with three major customers and average the results in terms of costs reduced or revenues gained.

Either way, releasing the value from a technology is a far more momentous event than releasing technology to manufacturing. When manufacturing wrings out an invention from R&D, it gives you permission to acquire a stream of costs. When you wring the value of technology, you have permission to acquire a stream of earnings that can pay for your costs and give you a profit.

## CHAPTER THREE

# THE MARGIN FACTOR

*“Based on our technology’s applied value, how much incremental margin will the customer manager be compelled to pay in order to realize the improved profit contribution?”*

Margin is the measure of every business manager. Meriting margin is the number one job of R&D; making margin is the number one job of business management.

A margin is the reward for value. It represents value returned by a customer for value delivered by a supplier. Margin and value are correlates of each other. Without value, there can be no hope for margin. Without margin, there is no chance to quickly recover – or perhaps to recover at all – the net present value of a technology. Anyone who appropriates the title of manager must be able to realize a margin that is commensurate with his or her technology’s NPV. Margin is the key to profits. It is also the symbol of a business that is branded. To develop a business without the assurance of margin is to labor mightily and bring forth a commodity that is preordained to sell on price, to market for volume and to endure the resulting high cost of unit sales.

Margin is the acid test of a business plan. A plan that is built around margin predicts that customers can be sold in a cost-effective manner. Otherwise, customers will have to be bought with either discounts or free services, or both. Since a bought customer is never sold, no sustainable market can ever be counted on.

### **SOURCING MARGIN FROM APPLIED VALUE**

Because value does not reside in a technology, neither does margin. Both are the results of applying a technology to a customer operation so that it can make an improved contribution to profits. The improved profits, not the technology, are the source of margin.

Improved profits are the increment between a customer operation’s current contribution to profits and its future contribution from the application of a supplier’s value proposition. Similarly, margin is the increment between the price that can be commanded by a technology’s performance and a price based on the value added by its application. In this sense, margin is your share of the gain that you contribute to the customer.

In order for a customer to share his gain with you, the customer must have an incentive. The incentive is the gain that is promised by the supplier's propositions. The supplier requires his own incentive to contribute the gain. The incentive for him is margin, which acts like an investment to produce returns that are calculated as net profit improvements.

Only operating managers can engage you in transacting value-based investments. They are the constituents for applied value. IT purchasing managers have no concern for value added by application. They focus on value added by discounted price. Nor do they make investments. Instead, they incur costs. By buying low, they control cost. A supplier's margin represents an added cost. It is a disincentive to do business.

If you sell to IT, two results will surely follow:

- Your value will be irrelevant. It will be disconnected from your price, leaving it to be based on your cost and on competitive prices.
- Your margin will be discounted.

IT buys standardized products. Its managers impose open standards on competitive suppliers so that products equal to the same specifications can be equaled to each other. This leaves price as the only variable, and therefore the sole negotiable.

Open standards foster the commoditization of technology. So does rapid competitive replication. No matter how unique your technology may be, or how differentiated it is from current competition, you should plan on it becoming standardized and replicated. This will deter you from trying to sell it on its features and benefits, which will only lead to its purchase at a low-margin price. From the outset, you should sell the dollar values that result from its application to customer operation.

In this way, you can plan margin as the return you earn on the investment you make to add customer value: in other words, on the value added by application. This will be the only strategy that can ensure profits when the answer to "What is so different about your technology or how it works?" inevitably becomes "nothing."

### **FORECASTING MARGIN BEFORE GOING AHEAD**

Margin is more predictive of business success than market share. Figure 3-1 shows the mix of supplier application and customer operation that predicts contribution. In turn, contribution predicts margin since margin is contribution's reward.

FIGURE 3-1  
APPLICATION-OPERATION MATRIX

	Operation X	Operation Y	Operation Z
Application A			
Application B			
Application C			

Your margin forecast will be the shaper of the organization and operation of your business model. Will it be a low price-high volume operation? Or will it focus its human and scientific resources on owning the contribution to a smaller number of crucial market segments and allocate more of its financial resources to innovation in proportion to sales?

A low-margin forecast is a flashing red light. It signals coming to a full stop before proceeding to build a business. Do you want to become an alternate commodity supplier? Does the market need more sameness? Can a different application of the same technology turn out to be a higher-margin killer app? Can the market be segmented differently? Do you need a strategic ally to supplement or complement your application's contribution with added value on which a higher margin can be based?

A low-margin business is not necessarily a no-go. But it is a heads-up as to how you must prepare to run it: with exceedingly high productivity per dollar of cost, stringent cost controls and short-cycled incremental innovation to provide at least equal competitiveness with competition. The trick is in balancing these three variables so that the costs of ensuring productivity and innovation do not overwhelm you controls and that innovation does not counteract productivity by interrupting its flow.

Margin can only be forecast by basing it on value. Beta testing for financial performance, not just operating performance, is essential. Proof of technology concept is one thing; proof of value concept, and therefore proof of margin capability, is another. The two concepts do not necessarily pair off one for one. If you ask what an IT purchasing manager will pay for an operating performance improvement and what a midlevel customer business manager or his CFO will pay for an improved contribution to profits, you get two different answers. Assuming the profit improvement is significant, the first answer will be lower than the second. Yet the technology can be exactly the same.

The most powerful combination is a predictable high margin compounded by high volume. In order to ensure volume at margin, you will need customer retention based on repeat purchase. Successive evolutions of your technology may be able to compel customers to upgrade in short cycles. But there is no way you can rely on your R&D to be incrementally innovative on demand. Nor can you depend on customers to trade up automatically with each new release.

If you lease instead of sell, you may make it easier to move customers up your technology curve as long as their profits are being coincidentally improved. Even easier is to provide systems of professional services to act as the consumable blades that enhance the contributions of your technological razors.

### **DATABASING THE ORIGIN OF MARGINS**

Whatever the basis for your technology may be, you will require a second and parallel technology of maintaining the metrics of margin capability. Since margins originate in value, you must set up three data warehouses to accommodate your value-adding opportunities, your value-adding solutions and your value-adding rewards:

1. A **value-adding opportunity warehouse** of current customer costs and revenues to be improved, based on the results of your beta tests and entry sales. These reducible

costs and expandable revenues compose your opportunities to add value. In a constructive sense, they are your market for high-margin sales.

2. A **value-adding solutions warehouse** of killer apps that have proven themselves to be cost-effective cost-reducers or revenue-expanders in the customer operations that you want to own. These are your enablers of high-margin sales.

3. A **value-adding rewards warehouse** of the average incremental reductions in cost or expansions of revenues that have been proven by each solution when it is applied to each customer operation. These incremental values are the basis for your margins. This data warehouse is their home. Its values are your products; they are your offerings. Its margins are your compensation; they are your pay for performance.

Each set of these three data warehouses must be market-specific. All their data must be organized per solution per operation for each market. A market must conform to the finite focus of microsegmentation. Nothing less than a 3-digit SIC (Standard Industrial Classification) Code should be used to define a market so that it can be treated as the individual universe of opportunities that its customers perceive it to be. Customers in every market will tell you the same thing: “our business is different.”

A technology founded on a science that does not have linkage with a correlate technology founded on the opportunity to make money with its application is clueless about its value. It goes naked into its markets, unable to protect or preserve its net present value. It will be unlikely to make margin because it has not been made for margin from its inception.

Of all the challenges that can be put to a nascent technology, no one is more critical to success than the margin test: can it make margin? This cannot be answered without knowing if it can add value. In turn, this must be answered by asking “Value to whom?” What manager of what operation in what industry? This is the genesis of margin.

## PART III

# DIFFERENTIATING YOUR BUSINESS BY CONTRIBUTION TO CUSTOMER PROFITS

## CHAPTER FOUR

## THE BRAND FACTOR

*“When our technology’s applied value is averaged over repeated applications, what is the normal contribution to the customer manager’s profits that can be branded as its differentiator?”*

The difference between a commodity business and a brand is the difference between a low margin or no margin business and margin capability.

Branded businesses are built by forethought. Conversely, commodity businesses occur by default. They are conceived as suppliers whereas branding requires that a business be founded as an applier. Only by means of application can customer operations have their contributions to profits – the basis for branding – improved.

Brands are differentiated contributions. They are composed of dollar values and time values. They exist in numbers, not in “brand names” or catchwords, themes or promises. In time, brand names may come to stand for their numbers. But it is the numbers that stand for the brand because nothing but the dollar values that are contributed to customer profit improvement can any longer be differentiated. Nor can anything else command a margin.

Brand equity, which is itself a dollarized concept, is the result of improved customer equity. The income that a supplier receives from being branded is directly proportional to the contribution he is able to make to his customers’ outcomes. Financial contribution, not product construction or service composition, becomes the basis for a brand. As a result, best application practices become more important than best manufacturing practices since it is only application that can maximize value.

Every application makes a contribution to a brand. This is branding’s dynamic. It is always transient and therefore perpetually up for grabs. Today’s brand can all too easily become tomorrow’s commodity not because its technology has been superseded but because it has surrendered best application practices. If the contest to maximize customer contributions is lost, it may be impossible to regain.

### **TOUCHING CUSTOMERS LAST**

If your concept of branding is based on differentiating your products or services, your business will be positioned at a low point on your industry value chain. If you define your business mission as making yourself the leading competitor in your product or service category, you may never be able to touch an end-user customer. All your sales will be through intermediaries. All your margins will be shared by them.

Branders control the last touch of an end-user customer. They occupy the primary interface where the golden hand-off takes place between the brander's contribution of his application's total value and the customer's reward of margin.

The primary interface is the point at the top of a value chain where the brander's "total value under management" is added to a customer operation. This is the value that differentiates the customer and can give him competitive leadership. It is also the branding iron that differentiates the brander.

The brander's contribution to customer competitiveness is measurable as the net of the present value that is delivered at the primary interface. There are three ways that you can move up to the top of a customer's value chain where you can maximize the net present value that you contribute:

1. You can contribute more improved profits than any other supplier who competes for the customer's business.
2. You can contribute profits faster.
3. You can contribute profits at lower cost.

Moving up to earn last touch is one thing. Holding on to it is another. The only way to hold on is for the customer to never let you go. This means that you must be a continuous improver of his profits, not a flash in the pan. Reliability must be your middle name.

If you miss out on being able to brand your contribution to customer profits, you will be relegated to serving as a subsupplier to the brander. He, not an end-user, will become your customer. He will set your terms and conditions; he will discount your margins. He will be your customer's gatekeeper, integrating your products and services with those of other subsuppliers and his own and delivering their total value from application.

If you want to replace him, merely being a better contributor may not be enough. You will have to be significantly better and you will have to be significantly better on a consistent basis. If you cannot prove this compellingly enough for the customer to give you a try, he will never release his handshake with the current brander.

You will be whistling in the dark if all you can come up with is to say, for example, that your business is branded as the lowest-cost provider of compliance with pollution control legislation. How much more savings can you contribute from recycling consumable materials? How much revenue currently threatened by noncompliance can you safeguard? How much cash flow can you help generate by sales of the customer's pollution control expertise?

### **MAKING BRANDS CUSTOMER-SPECIFIC**

Contributions that can be generalized belong to commodities. By contrast, brands are specific in four ways, as The Brand Wedge in Figure 4-1 shows:

1. Industry-specific to each customer's industry.
2. Operation-specific within each industry.
3. Application-specific for each operation.
4. Specific to the performance of the customer manager who owns the operation.

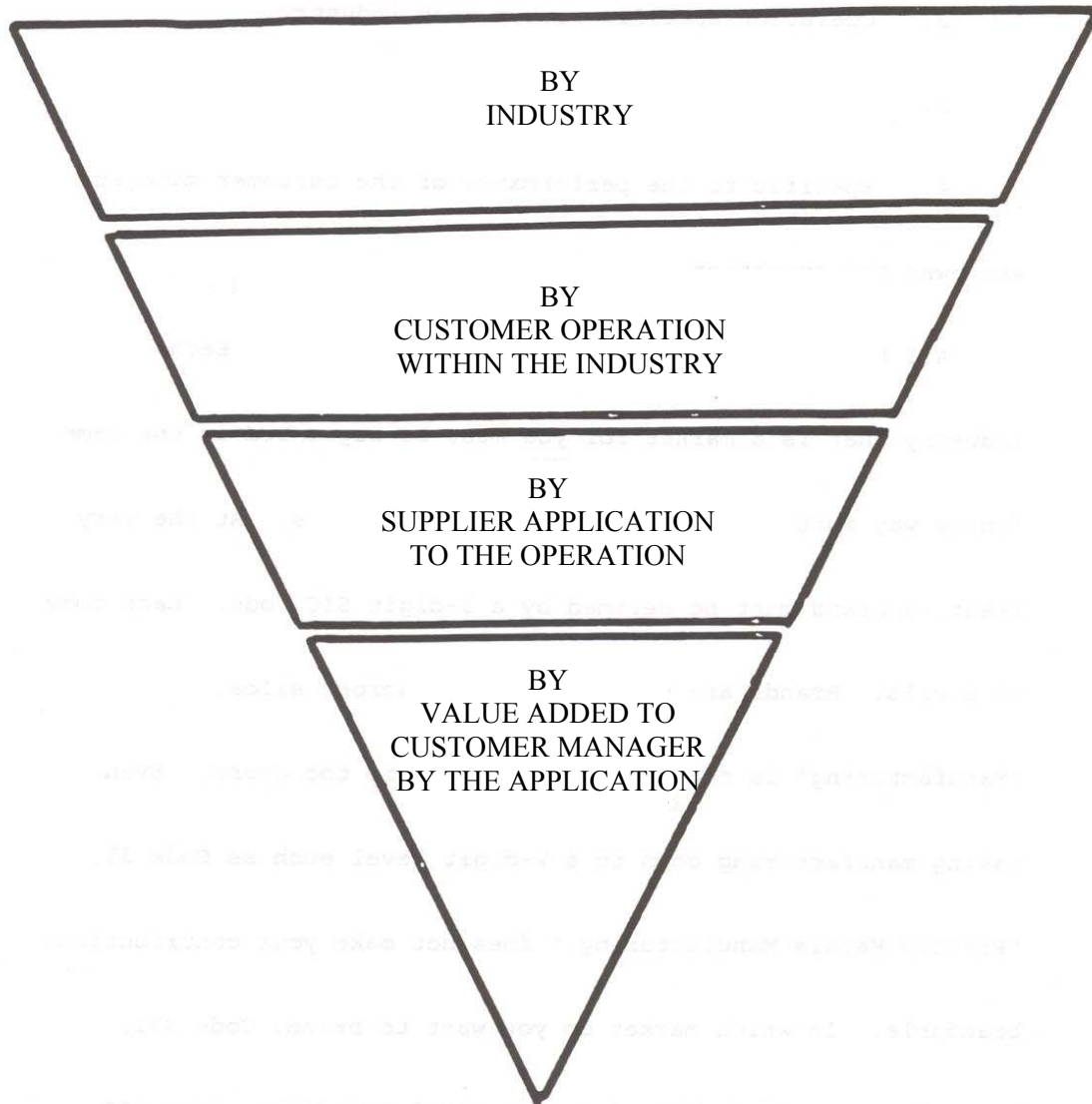
All branding flows from industry specificity. Each industry that is a market for you must be segmented in the same finite way that its customers segment themselves. At the very least, a brand must be defined by a 3-digit SIC Code. Each code is a silo.

Brands are not transferable across silos. "Manufacturing" is not a silo because it is too gross. Even taking manufacturing down to a 2-digit level such as Code 33, "Primary Metals Manufacturing," does not make your contributions brandable. In which market do you want to brand: Code 331, blast furnaces; Code 332, iron and steel foundries; Code 333, primary nonferrous metals; or Code 334, secondary nonferrous metals?

You cannot brand them all with the same contribution. You will be able to brand none of them unless your contribution is specific to it.

A customer who makes thousands of parts or hundreds of products has something in common with every other multiproduct manufacturer. But you cannot walk into a customer who makes watches and say that you can contribute \$15 million in new sales through improved forecasting just because you were able to do it for a customer who makes handheld power tools.

As soon as you leave the power tools silo and enter the watchmaker's silo, your ability to improve power-tools' revenues from and improved availability of merchandise and, as a result, also reduce inventory costs, becomes irrelevant. There is no such silo as "multiproduct manufacturers."



A dollar invested with you by a customer in one SIC silo creates a return that has no relation to the return from the same dollar invested by a customer in another silo. The operation will be difficult. Your application will be different. The customer manager's key performance indicators will be different too.

Because branding is so customer-specific, your ability to brand dictates your fast-growth markets. Where you cannot brand you cannot command margin, which means that you must compete as a commodity and take the margin you get without cognizance of the value you give.

### **CONTRIBUTING TO KEY PERFORMANCE INDICATORS**

Every time you improve a customer operation's contribution, in the final analysis it is really one or more of its manager's key performance indicators that you are enhancing. This makes branding essentially a one-on-one transaction, manager to manager.

When you reduce an operation's scrap rate, you help its manager improve his contribution to cost. You do the same when you help him cut back on repairs under warranty by improving his quality control. On the other hand, you help a manager improve his contribution to revenues by increasing his same-day shipments or tightening up his innovation cycle to get more new products out the door faster.

Key performance indicators (KPIs) are a customer manager's measurement of proficiency in the critical success factors for his position. There are 3 major types of indicators of a manager's performance where a supplier's contribution to their outcomes can be branded:

1. Financial performance indicators.
2. Operating performance indicators.
3. Working capital performance indicators.

#### **1. Branding KPIs for Financial Performance**

1.1 **Total Revenues**, which are the sum of all receipts from sales. A supplier can improve its contribution to profits by speeding up time to market, increasing the turnover rate of the product development cycle, improving forecasting or reducing inventory of slow-moving items while reducing stockouts of high-demand items, improving or enlarging distribution, or accelerating billings and collections.

1.2 **Total Operating Income**, which is pretax net revenues, the result of subtracting total operating from gross profits (gross margin). A supplier can improve its contribution to profits by increasing sales or decreasing operating expenses.

1.3 **Total Operating Expenses**, which are the sum of cost of sales plus general and administrative expenses (G&A) and research and development (R&D). A supplier can improve its contribution to profits by improving sales from productivity, reducing the sales cycle, improving or increasing distribution, opening up new markets or reengineering sales strategy.

## 2. Brandable KPIs for Operating Performance

2.1 **Gross Profits**, which is the ratio of total revenues to the cost of goods sold. A supplier can improve its contribution to net profits by increasing sales volume and expanding share of market, speeding up the sales cycle, improving or increasing distribution, increasing the turnover rate of the product development cycle or reducing manufacturing costs.

2.2 **Net Profits**, which is total net earnings, the ratio of aftertax net income to net sales that shows the percent of each sales dollar that is retained after taxes. A supplier can improve net profits by increasing margins, reducing cost of sales or reallocating the sales mix to favor more high-margin products or services.

2.3 **Productivity**, which is the ratio of sales revenues to the number of employees required to generate them. A supplier can improve its contribution to profits by reducing labor content, increasing automation, improving workforce training and introducing pay-for-performance compensation schedules.

2.4 **Selling Efficiency**, which is composed of 5 ratios that compare sales revenues to:

- Cost of sales
- Finished goods inventory
- Order backlog
- Same-day order fulfillment
- Accounts receivable

## 3. Brandable KPIs for Working Capital Performance

3.1 **Inventory Turnover**, which is the ratio of annual net sales to end-of-year inventory of finished goods. A supplier can improve its contribution to profits by selling and shipping inventory faster in order to increase cash flow.

3.2 **Accounts Receivable Turnover**, which is the ratio of net sales revenues to the average dollar value of receivables outstanding. A supplier can improve its contribution to profits by collecting receivables faster in order to increase cash flow.

Your ability to help a customer manager make a continuously enhanced contribution from one or more of his KPIs is the ultimate basis for your branding. It is made easier by the fact that financial performance indicators are the same across all industries. Operating performance indicators, however, are industry-specific. For an oil refiner and a brewery manager, operating KPIs are focused on barrels per day. For a steelmaker, the key operating outcome is yield expressed as melted tons of throughput. For an airline manager, it is seat-miles flown.

In proposing partnership to a customer manager, your offer to add value would go like this: “You own responsibility for this operation’s contribution. I own the standard of value that

can be added to this operation. One of the key indicators by which your performance is measured is the annual percentage rate of growth for the business. Managers of similar businesses with whom we partner normally average an annual gain of 5 to 7 percent. How do you compare?”

“Trial-to-purchase ratio is another one of your KPIs. Our branded contribution is a 25 to 35 percent conversion rate of first-time tryers. The normal percent of orders filled the same day they are received by managers we partner with is 98 percent. They normally collect their receivables within 22 to 26 days. Their inventory normally turns 6 to 8 times a year. In which of these indicators do you need to be more competitively advantaged by partnering with us?”

For a cost-centered business function manager whose KPIs vary with his operations, you can propose to enhance such critical success factors as labor intensity, downtime cycle length and frequency and average meantime between downtimes, scrap rate and percent rework required under warranty.

In order to brand the contribution to a manager’s KPIs for inventory management, you must be able to help save costs for storage and materials handling, insurance, security and warehousing, along with saving the opportunity costs from cash tied up in inventory and the costs of borrowing to make up for the tied-up funds. In addition, you must also be able to help the manager improve the matchup between his inventory mixes and market demand. Or you must enable him to move more products faster out of inventory into distribution so that revenue flow can be speeded up and out-of-stock losses can be avoided at retail points of sale.

In order to brand the contribution to a manager’s KPI for product development, you must be able to help him to gain margin advantage, build market share by being first to market, and save development costs by releasing key developers sooner from each project so they can be recycled to successor projects. In addition, you must be able to help the manager maintain earnings flow by ensuring a filled pipeline of high-margin new products to flow from “the freezer” into “the oven” onto the table.

Many KPIs are related to cycle times, such as the completion time of a customer process. Another is first-pass yield, the percent of total output that a customer correctly completes on the first try. It is based on output that requires no rework, on-line repairs or restarts. First-pass yield has a correlate KPI in same-day order shipments, which is a key performance indicator for condensing the billing and collection cycle. Other correlate KPIs that are open to branding are the make-to-market cycle that determines the customers who can fill their distribution pipelines first and the design-to-development cycle that determines continuity for the new product streams that fill them.

## PART IV

### **MAXIMIZING VALUE BY CREATING THE MOST COMPREHENSIVE SOLUTION**

## CHAPTER FIVE

## THE SYSTEMS FACTOR

*“What allied products and services are necessary or desirable in order for us to create the most optimal value in a single solution for the customer manager?”*

At the top of their value chains, end-user customers want a single, seamless solution to each problem or opportunity. They prefer to partner with a single source of supply who can provide multivendor, multiproduct systems for whose contribution they are singularly responsible. This economizes end-user manager resources of time and money. It also helps to ensure that an end-user can benefit from the greatest added value at the lowest cost.

Single-source suppliers require only a single contact point. They send one bill and they are paid with one check. If things go wrong, a customer manager knows whom to blame. When go according to plan, he knows whom to reward because he knows who has manages the contribution.

A supplier who wants to be partnerable at the top of the value chain must present himself as “the man who has everything.” He must have a total system; more accurately, the total application that is required to maximize the muchness or soonness and sureness of a profit contribution.

The component parts of his systems are not a customer’s concern. Nor are their brand names, their prices or performance. The supplier’s sole issue is to be sure that each piece part makes the most cost-effective contribution to the system’s composite ability to contribute maximum value.

The customer’s sole concern is with the supplier’s contribution. The supplier’s concern must be the same.

If you commercialize your technology in the form of a stand-alone product or service, you risk being systemized by an integrator who is positioned above you on the value chain or would like to be. If you become a systemizer yourself, you may be able to put him at risk. One way or the other, you must either systemize or you will be systemized into someone else’s solution.

Not only does systemization meet a customer’s demand. It also helps ensure that his supplier can maximize his margin. Since margin is based on value, and since a system can

deliver more total value than a stand-alone product, systems are margin maximizers. As such, they are requisite for your growth.

### **PLAYING “GOES WITH” GAMES**

However much value your product or service can contribute, its contribution may be multiplied by a system in which it is embedded. But all systems are not equal multipliers. You will need to play “goes-with” games in order to construct the single best systems for the contribution of value that you want to propose.

Two questions will help you play the game:

1. What products and services go with our product or service that can enhance its value the most if they are allied into a system? In other words, what is most incrementally valuable to us and to what are we most incrementally valuable.

2. What is the minimal number of products and services that are necessary to maximize a system’s value? In other words, how can we realize maximum value at maximum cost-effectiveness?

3. The fact that you can construct a system without taking on the costs of developing, manufacturing or marketing the products you ally together with your own product or service must not let you forget an essential truth: each component adds to the cost of a customer’s investment. A higher cost investment in a value proposition may discourage or delay its acceptance. Even after acceptance, it may diminish customer satisfaction by reduction an investment’s return and postponing its payback.

When you play “goes with,” you are seeking the smallest number of the most potent amplifiers of your value. If your value is to contribute savings to a customer operation, you will be seeking the fewest amplifiers of the savings that you contribute.

If your value is to contribute revenues, you will be seeking added revenue amplifiers in the smallest number that can maximize the total contribution.

Open standards afford you a multitude of options that can go with your product or service in terms of making a cost-effective operating fit. Fitting the need for financial amplification may not be as easy. You should expect to be challenged to trade off between muchness and soonness of value realization. No single product is likely to make a perfect contribution in all respects and, because you are not its manufacturer, you will be unable to alter it. Services, by contrast, can be more flexible. Inflexible specifications can be a downside to make-or-ally but minimizing it is a test of your creativity as an integrator.

Whatever you are willing to trade off between the muchness and soonness of an allied product's contribution, you must never sacrifice sureness.

If you cannot be sure of an allied product's contribution but you decide to integrate it anyway, you may want to supplement or complement its contribution with a redundant choice as back-up. This will add to a system's cost but help to ensure its effectiveness. The added cost can be charged against brand insurance.

With repetition, you will establish a learning curve of what goes with what. This will allow you to standardize some or most of your systems so that minimal customization will be required for each customer. This will help you to lower your cost of sales while continuing to maximize margin from maximizing customer value.

### **CONVERTING CUSTOMERS INTO SUPPLY PARTNERS**

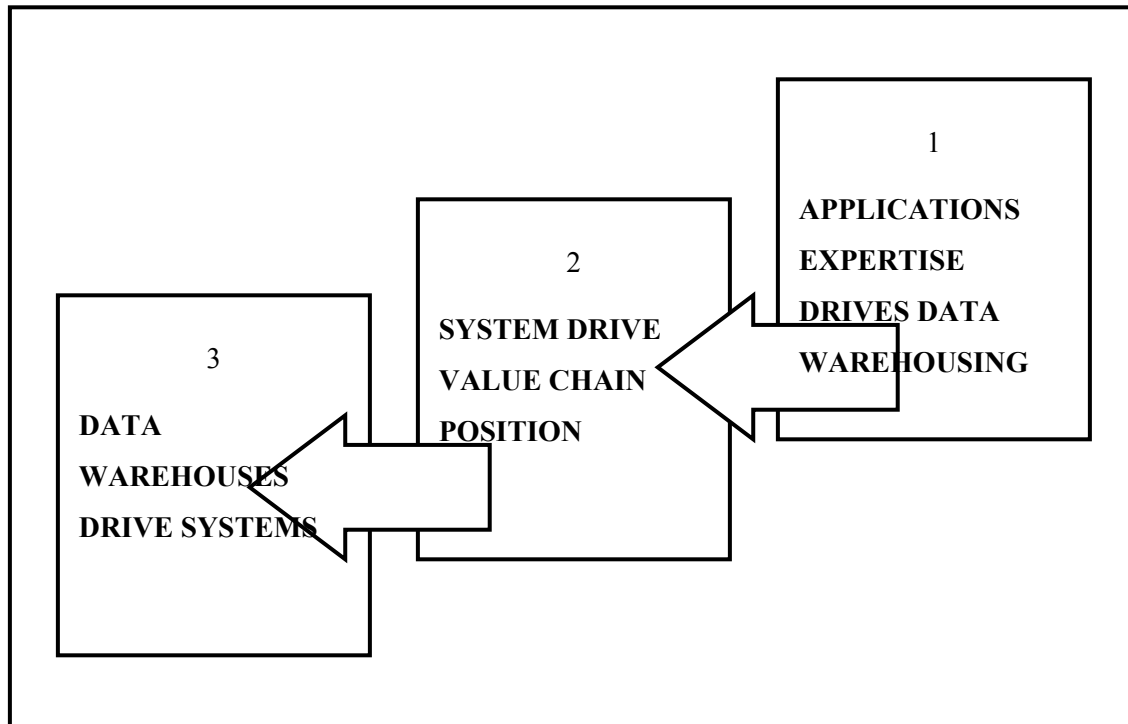
Companies such as original equipment manufacturers and independent software vendors who are positioned above you on the value chain are always on the lookout for stand-alone products. They seek to integrate them into their systems by becoming customers for them. If you are a stand-alone producer, they will want to buy from you on price for performance. You can become a commodity supplier this way even before you can come to own a share of market.

If you want to be a systemizer, you must turn the tables on them and convert them from potential customers into actual suppliers. If what they supply goes with your product, you can become their systemizer who embeds them into your system for application to an end-user operation.

When you ask yourself how you can achieve such a role reversal – where you, as a lower-ranked value added can act as the systemizer of higher-ranked value adders – you will realize that the key component of every system is intellectual capital, not hardware or software.

A systemizer's intellectual capital has two sources of its wealth. One is the systemizer's applications expertise. This is his system's drive engine. The other is the systemizer's data warehouse on customer operating costs that are reducible by his applications and by how much and how soon; and on customer operating revenues that can be increased by other applications. These are his systems' databases. The interrelationships between a system's drive forces is shown in Figure 5-1

FIGURE 5-1  
SYSTEMS DRIVE FORCES



Whoever owns the best track record of improved customer contributions from putting his drive engine to work in his databases owns the right to be the preferred systemizer. It makes no difference whether your own product or assembly of allied products is the lowest or highest adder of value to the system because the end-user customer is not buying products. He is investing with the supplier who can manage his funds to yield the maximum rate of return.

In order to convert a would-be customer into a supply partner requires that you be the best funds manager of the assets that an end-user customer allocates to improve his competitiveness. The skill to invest customer funds for their maximum return is independent of whether you are a single-product or multiproduct maker or, indeed, whether you manufacture any products at all. It depends entirely on superior application expertise and customer data.

These two critical systems factors are hardly ever planned at the inception of most technology-based businesses. For systems business, they are crucial for margins. Yet when technology businesses are formed, engineers predominate, accountants may be subordinate and a business development manager may triangulate. But no one represents the end-user customer with an application skillset and an operations database, both of which are customer-derived. The

business developer who might be the logical choice to represent customer operating management is often himself or herself either an engineer or a sales manager with no customer background.

Value chains are not climbed by bundled technologies. End-user customer investments in improved competitiveness are not compelled by technology systems that are sold as the sum of their parts. Systems cannot be sold for margin because of their technology. But technology, even on the leading edge, is all it takes to be a commodity.

### **PIVOTING INTO A SERVICE MODEL**

The application of a system for a customer's economic gain is a financial service. It makes no difference that products are involved as enablers. A customer's funds are invested for gain – not for products – applied to improving the contribution form one of his operation, and the original funds are returned at a profit. This tells you what a customer's operations are all about: making money. It tells you that systems are all about the same thing.

Systems that are sold on the basis of the costs of the time and material that go into them are a primitive form of barter. Value may be transferred but it is neither measured nor compensated. Costs should remain a supplier's business. Customers should never know or have to know them. Making them the basis of price rewards the supplier's inefficiencies, not the cost-effectiveness with which he can improve customer profits.

Customers should know only a supplier's value. They will pay more for value than to acquire a supplier's costs which they have no desire to add to their own. Reducing their costs provides service to them. So does increasing their revenues.

A system's financial contribution should be taken advantage of to pivot a product business into a service that positions technology the way it is used by an investment broker: as a means of adding value to every dollar that is invested, adding it as fast as possible and adding it at a controlled risk.

When a technology business uses its science to enrich its customers' wealth, it rules out debate on the state of the art of its technology. Instead, it focuses customer decision making on money coming in form added value in place of money going out for products and services.

The ability of technical systems to multiply the value of customer funds invested in them can make them good buys for the money when it is the money and not the technology that is being bought. To think of each system not as a mixed bag of products and services but as a satchel of money is to focus on its financial service implications. A system can bundle more money than any of its individual components. It can multiply customer funds to a larger degree and frequently faster. Because of its financial value, it is worthwhile for both a customer and a

supplier to allocate their best managers to its application. This, all by itself, can help to assure its return.

If you still have doubts about positioning your business as a financial service, ask any end-user customer this question: When our truck rolls up to your door, would you prefer to see a moving van with a hardware and software system ready to roll out or would you prefer to see an armored car?