

High Impact Projects

A Newsletter About Solutions and Creating Exceptional Value

Software Company Narrows Focus from 1 Million Prospects to 40 – Closes 30 Sales in First Year!

After 3 Years of Revenues Less than \$2 Million, Sales Soar to \$75 Million in 4 Years!

***Systems Produce Paybacks for Clients of more than 10-to-1
Stopped Trying to Sell to Information Technology Department – Found
Line Executives With An Urgent Need to Buy***

CEO Found a Way to Reduce Risk and Capture Financial Upside

A Repeatable Pattern Emerges

Compiled by Tom Ingram, PMPⁱ

Before Jeff Miller took over as CEO, Documentum had suffered three years of flat revenues, never exceeding \$2 million per year. After Miller took over, the next year's sales increased to \$8 million, followed by \$25 million, \$45 million, \$75 million and an IPO in subsequent years.

Granted, these were the boom years – but this success story carries some essential lessons which I have seen work in several other settings over the years. Below is a summary of these key lessons from several sources, including a Harvard Business School case study.

None of this is easy. Documentum went through a period when it was burning \$1 million per quarter, with only \$4 million in cash reserve, and only two new customers. Success in the intangible, “black magic” world of software is difficult, and my hope is that you can take some useful lessons away from this

summary. Following are some of the things that worked for them.

Narrowed Their Focus from “everyone in the world that touches complex documents” to a “rifle shot.” Documentum chose to focus initially on the regulatory affairs departments of Fortune 500 pharmaceutical companies. This narrowed their universe of prospects from some 500,000 to only 40 companies worldwide.

Urgent Need to Buy: Documentum was able to identify buyers in extreme pain due to the regulatory paperwork requirements for submitting new drugs for approval. They focused on finding prospects that were in a situation where (1) regulatory requirements created much pain, (2) prospects demanded a solution and (3) the solution could represent a significant competitive advantage. Documentum closed 30 out of 40 initial target prospects in the first year!

Huge Payback for Customer

Every day that was saved in drug approval application time resulted in a \$1 million incremental profit for Documentum's clients. The system reduced drug approval application time from 1 year to approximately six months.

Average profit per day of \$1 million times 128 days saved = \$128 million in incremental profits per drug application. A typical system might cost \$4 Million – **Resulting in a 32-fold Payback!**

Target Buyer: Documentum discovered that their target buyer was not the Information Technology (IT) department! IT departments are often happy with the status quo – while line executives are not. They also discovered that executives and department managers were really the ones that drove the priorities for IT. Documentum stopped trying to sell to IT department buyers and focused on line executives with a problem and a budget. I will add that I have seen this to be true in dozens, if not hundreds, of instances in my 24 years in the technology and software business.

The boom times of the '90s were a slight exception to this rule. The IT department was buying a great deal, and companies got used to selling to the IT department. When reality came crashing down upon us, and the tech-bubble burst in the early 2000's, this aberration disappeared. I will note that this is an extremely difficult shift for companies to make because their sales force, including sales executives, and even the CEO, often have experience only selling to the IT department – they have no skills, credibility or capacity to sell to line executives.

Picking the Initial Target Niche: One of the key issues in picking the initial target niche is the size of payback to the customer. By focusing on the area which your customer has

the greatest payback, they have the most to gain economically from purchasing from you quickly. Assuming you can consistently deliver this payback, it is much easier to get Niche 2, Niche 3 and Niche 4 going after you have a strong set of happy customers behind you.

Subsequent Niches:

After Documentum's initial success in the regulatory affairs department, they spread to other niches in every department within pharmaceutical companies. Then they spread to other businesses with similar regulatory problems (regulated chemicals, oil refineries, etc.) This included a big win in the document management area for oil and gas exploration and production companies, where Documentum helped them manage the property/lease/royalty paperwork. This approach is often called the bowling pin model, because you set up the initial niche as a "headpin", knock it down and that makes it substantially easier to "knock down the following pins". This approach also helps you keep a controlled risk (or cash burn rate) by requiring the software company to demonstrate that it can find and close customers with an urgent need to buy, one niche at a time.

Changes to Software Product Offered:

Note that Documentum had the discipline to stay focused on the needs of very tightly defined sets of customers. They started in the regulatory affairs departments of pharmaceutical companies, and slowly spread, niche-by-niche (bowling pin-by-bowling pin) to other departments and other industries. It is critical to recognize that Documentum invested its precious cash in software product enhancements only for these customers. The Harvard Business Review Case highlights a particular situation where Documentum declined a \$2 million order because it would have required them to make

substantial changes to their product for a customer outside of their targeted niches.

Whole Product Offering to Customer's Urgent Need to Buy: Documentum added a significant services component to its product offering. Rather than attempt to remain as just a "shrink-wrapped" software product company, where they sold only the software and let the customer worry about implementation, Documentum chose to add a whole series of services, including reengineering services, to help their customers rapidly solve the entire problem. This is an important concept. By partnering with other firms that could provide part of the whole product solution, when a Documentum salesperson called on an executive buyer, he or she was able to present to the buyer an entire solution to their urgent problem, which could be implemented rapidly, with minimal work and decision making on the part of the customer. **This reduces sales cycles dramatically!**

Found Out What Customer Needed Before Developing Product: Note that Documentum spent 6 months studying customer needs and markets before they hired the first engineer or wrote the first line of software. **How many times have you seen a software firm with this type of discipline?**

Listening: Documentum discovered the power of allowing the customer to describe their problem in their words. They rapidly developed a culture of not "pitching their product" (as most software company salespeople do.)

Understood Customer's Business So Well, they were able to help customers overcome internal resistance to change. This capability only comes through a tight focus on specific industry niches. When trying to sell too many things to too many different people, an organization never develops sufficient expertise in one or two areas.

Focused on Industry Niches, Calling on Line Executives: Industry-focused niche sales strategy usually involve calling on line-of-business executive buyers. Because the software company is "rifle-shot" focused on an important problem, and offers very high value by solving that problem, the software company's sales force is sufficiently credible to get access to senior executives.

The traditional strategy pursued by software and technology companies is called a "horizontal sales strategy". This is where sales people call on the staff departments, such as the IT department, and usually work at much lower levels in the organization than the industry focused niche strategy. Note that horizontal strategies usually sell products as a toolkit to enable the staff department (particularly IT) to help many departments in the organization. As you are no doubt aware, this horizontal strategy never worked particularly well, even during the boom years. It is not working at all in the current post-bubble technology economy.

Competitors Trying To Sell To Anyone With a Dollar: Documentum's competitors were larger, better funded, somewhat established and had existing sales forces. Documentum chose not to compete head-to-head with these stronger and more established competitors. Generally, Documentum's competitors have struggled to make their businesses profitable. This is due, in large measure, to the horizontal approach pursued by most software companies. The horizontal approach (selling to anyone in a company with the money to buy your product) dilutes your resources, message and focus without allowing you to establish a critical mass of expertise in any single important area. Also, the "evangelism" approach to selling to a large audience is both labor consuming and expensive.

Keys to a Narrow, Focused Approach:

- Pick a critical application for your customer and rally the troops behind it
- Must have buy-in from whole company
- Fastest way to build traction: Pick a target where your value is strongest and you can dominate it
- Construct a whole product solution with your partner network
- Focus on winning every deal for that solution to the exclusion of all other priorities
- It is OK to take orders outside your niche if they come to you – but spend no proactive effort on them. Make no changes to product for non-niche orders
- Pick first niche so that second and third are referenceable from initial success

Shifted from an engineering / product focus to a customer / market focus. As mentioned above, Documentum studied their customers for months before writing any software. They narrowed down their focus to a very few critical problems for a very limited number of customers. This created a culture of focusing on the customer and the customer's needs, rather than focusing on developing a great product. This is, perhaps, one of the most important cultural shifts demonstrated by successful software companies. We all know of hundreds, if not thousands, of technology companies with great products that fail to achieve adequate sales. I suggest that you begin taking note of the software companies that you encounter that start with the questions, "What does my customer need? What does my customer value? What are my customer's constraints and realities?" (These questions are courtesy of Peter Drucker.)

Misconception: "Niche focus lowers risk but also lowers upside potential." I have often encountered this fallacy in working with venture capitalists and other investors that are trying to invest in companies that can hit a "home run". Tom Ingram and Associates has recently completed a preliminary study of every public software company in the United States between \$1 million and \$10 million in annual sales. There are about 200 companies in this sample set and, as of this writing, only six were profitable last year – a mere 3%. Granted, this is a tough time for software and technology companies, but the reality that only 3% of these companies are profitable is far worse than the expectations of most investors.

The bottom line is that the risk of failure is exceedingly high. Many venture capitalists insist on software company strategies that can produce a 1000-to-1 return in order to off-set their extensive losses in other investments. Documentum proved that there is another

viable approach. They executed a strategy that

both lowered risk and captured the big win.

Key Quotes from CEO Jeff Miller

- “We may not be perfect, but at least we are not confused.” [We have a clear direction.]
- “You don’t have to pick the best application; just one that is good enough.”
- “Most of the benefit comes from deploying your resources against a single market opportunity and dominating it.”
- “A powerful chain of references, higher average sales price, lower cost of sales, enable you to win a larger share of deals and invest more in developing the product than competition can.”
- “Customer is paying you to do the best kind of field research.”
- “You avoid missionary selling by incubating the market with targeted marketing messages backed by a whole product solution that addresses their key business pain point.”
- “Get organized around customers / industry solutions.”
- “Focus on clarity of offering.”

(Paraphrased from Harvard case study, page 9, Information week, 1/27/97, page 12, Communications Week, 11/6/95, page 2)

Key Initial Activities:

- Have entire organization assist in picking the top three niches.
- Select the most compelling problem / solution niche
- Communicate the focus to the company
- Make organizational adjustments and execute

Summary:

This case deserves special attention because it was executed proactively, based on the theory developed by Geoffrey Moore and published in the landmark book, *Crossing the Chasm*. Moore described a repeatable process and Jeff Miller of Documentum, with Moore's assistance, was able to execute this strategy, based on the

fundamentals described above, with spectacular results.

Documentum has subsequently been sold, with, presumably, a significant cash out for the major investors. Its success since the IPO has not been nearly as strong, and Jeffrey Miller has gone on to do venture capital work. **It's important to notice that under Miller's leadership, Documentum was able to execute**

this strategy, but it apparently degenerated after Miller's hand left the tiller. Tom Ingram and Associates has identified, and participated in, numerous other success stories that validate the above concepts. Hopefully, the above is useful for you in understanding how you might improve the performance of your software company. If you would like to see additional success stories, email me at the address below.

Need further information?

Call us if you have questions or would like more information. This case is written as a teaching tool and is not intended to fully describe exact details or dialog.

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ⁱ Compiled from Crossing the Chasm, pg 77-90, Harvard Business Review Case Study #9-502-026 and Tom Ingram and Associates Research