

CONTROL-F1 STRATEGY RECOMMENDATION PRIOR TO ACQUISITION BY BY COMPUTER ASSOCIATES (CA) IN 2006. THE COMPANY WAS FOUNDED BY BROTHERS VEER AND VINAY GIDWANEY AND WAS A PREMIER SUPPORT AUTOMATION SOFTWARE PROVIDER WITH MARQUEE CUSTOMERS LIKE GATEWAY COMPUTERS, CHOICE HOTELS, IBM, THE GOVERNMENT OF ALBERTA AND THE DEPARTMENT OF HEALTH AND HUMAN SERVICES OF SOUTH CAROLINA. CONTROL-F1 WAS ABSORBED INTO CA'S BUSINESS SERVICE OPTIMIZATION UNIT TO GIVE THEM A COMPETITIVE EDGE OVER VENDORS LIKE HP AND BMC AS PART OF THEIR SERVICE MANAGEMENT STRATEGY.

Introduction

Veer was kind enough to lend me “Inside the Tornado”, Geoffrey Moore’s follow-up to the phenomenally successful “Crossing the Chasm” and I would like to summarize a few of the key IT marketing concepts in this book as they relate to Control-F1. A striking number of the descriptions and analogies in the book mirror the path that we ourselves have chartered as a company since our inception and it seems prudent, therefore, to bring these to light and make a note of future benchmarks that we are also likely to face. The meat and bones of the discussion revolves around changes in the product, customer and market landscape from the early market adoption of our technology to the presumed eventual mainstream adoption of support automation solutions.

Beyond the Chasm

“Inside the Tornado” picks up after the chasm, that gaping hole in the product adoption lifecycle where most new technologies are lost forever. Companies fielding innovative products are often buoyed by early success with technology enthusiasts and visionaries but lack the strategy necessary to cross the chasm into a new world of buyers who are far more pragmatic, cautious and results oriented. Does anyone remember pen-based computing? This was a much-touted be-all-end-all breakthrough that was going to revolutionize the way we did business, at one point in time. Now, after millions of dollars worth of failed mainstream adoption attempts by the huge technology companies of the day, the concept has been all but forgotten. The way to achieve a foothold in the mainstream market is through a targeted approach of demonstrated success within a specific vertical or a segment of the market that is particularly conducive to your new offering and to focus everything on satisfying these customers. This is exactly how Control-F1 crossed the chasm, by finding life and purpose within the technology sector through the sponsorship of companies like Novell, IBM and Gateway Computers. Telling features of these relationships were the fact that these companies championed our efforts in the unwieldy formative period of our product development in return for our working closely with them to customize a solution to answer to their specific needs and concerns. These companies formed the “beachhead” of our landing into the real market that Moore describes to a “t” in his book; they stuck with us when things weren’t all that great and in fact

integrated our solutions into their processes to the extent that they developed a vested interest in keeping us in business. It is through these relationships and other marquee customers that we will have the credibility to make headway in the pragmatist mainstream market ahead of us.

“Bowling Alley” Strategy

Some of the elements of chasm-crossing strategy remain important in the next stage of the market, the “bowling alley”, and this where we currently reside as a company within the adoption lifecycle of support automation. Bowling alley strategy is marked by an excellence in serving specific market niches very well, in our case technology companies, outsourcers and finance companies more than government and educational institutions. We provide a service-heavy offering that requires continued product excellence, customer intimacy and ongoing technological partnerships to provide a whole “product” to our customers. The product in this case is defined as the complete set of products, add-ons and services that satisfies the customer’s entire spectrum of buying needs. As a result of the work we put in, we can charge a commensurate amount of money for our solutions, and these high-margins are supported by this early market. The goal in the bowling alley is to maximize on these niches by transitioning to newer applications/ uses within specific segments as well as newer market segments with the same application. In our case, examples of new applications might be targeting non-desktop support such as servers, point-of-sale and order-entry systems; evolving to support new operating systems such as UNIX and Mac and supporting foreign languages. A new use might be focusing on our solutions as a sales tool to generate profit in support centers through focusing on “up-selling” features and a more sales-centric CRM integration. Newer market segments would include, of course, educational and government institutions as well as other market opportunities, like small businesses, that have not so far been accorded proportionate attention. By leveraging successes into new applications and market segments, the post-chasm company creates market share and stability through a falling-bowling-pins effect that also readies the organization for the oncoming tornado of mainstream market adoption.

Inside the Tornado

The tornado in IT markets is where the proverbial chips hit the fan, where fortunes are made and lost overnight, where companies come out of nowhere to achieve market dominance and others lose out forever. The speed of IT market change is fueled by the ongoing microchip revolution which continues to increase processing power by an order of magnitude every couple of years or so. This change correspondingly affects every other technology that is computer-based and now feeds off of newer hardware and software breakthroughs as a result of this enhanced power. IT tornados are the result of new paradigms based on technological innovations that displace the older ways and cause a total-market shift in how people do things. Despite the market’s initial resistance to this kind of frenetic change, the scale at which competitive and other advantages related to

the new technology accrue makes it impossible for companies to hold out against them for too long. At a given point the market finally decides that the new technology is up-to-par and does deliver the promised benefits and that the time has come for everyone to buy in. The new wave of technology is spearheaded by established vendors who have standardized the guiding infrastructure and institutionalized a complete product offering that is reliable and duplicable. At this point, everyone and their mom jumps into the fray and revenues skyrocket, competition becomes cut-throat and market segments and customers are gained or lost for life (or at least for the ten-year or so duration of the new paradigm).

Winner Takes All

Tornados are what brought companies like Cisco Systems, PeopleSoft, Oracle and Intel into prominence while dismissing countless other companies and technologies into nameless oblivion. Classic examples of this are where a better technology was beat out by a better strategy; betamax is an example of the former and Windows, some say, an example of the latter. Tornado results are largely irrespective of size; a smaller company can and often does appear out of nowhere to oust the market leader on their own turf. Examples of this are PeopleSoft's dominance in their client-server application niche in the face of giants like SAP and Oracle and HP's control of the PC printing business, which they winched away from Japanese giant Canon. In the first case, PeopleSoft was a \$100M company that has succeeded against behemoths with billions of dollars in revenue (albeit both tornado winners in their own right) and in the latter example, HP successfully routed Canon in the traditional Japanese mainstay of manufacturing and in a situation where Canon owned or shared the rights to all the core technologies. I am taking pains to describe the massive forces at work in the tornado and illustrate the phenomenal success that is achievable in this realm because we are both poised on the brink of a tornado ourselves and are at the same time in a position to make off with a lion's share of the rewards.

Tornado Strategy

In tornado markets, strategic focus must shift away from customer intimacy and focus on operational excellence, and this is the main area Control-F1 would need to change in this scenario going forward. A tornado market is just looking to buy and the goal of the vendor should just be to ship as much and as quickly as possible to fill the insatiable demand, without getting caught up with any one customer. At this point in the lifecycle, the product will have been commoditized to appeal to mainstream market buyers who demand the fruits of competitive labor in the form of lower prices and several alternatives from which to choose. Partnerships and services will have been developed out of the product where possible so that a standard out-of-the-box offering can be made available to the masses at large.

In earlier stages of market development, the selling effort is focused on the "economic buyer", that is the manager who will see the immediate ROI of the new

technology. This is the case with where we are as company today; initial traction is generated at the hands-on manager's level. In the tornado, however, it is the "infrastructure buyer" who wins the day and champions the sale. This is the IT executive mandated with keeping things running as smoothly and as efficiently as possible. The first mandate makes him loathe in introducing anything into his already fragile IT infrastructure that is not absolutely essential, whereas the second imperative means that when a new technology is ripe and does represent substantial business value, then it must be adopted as quickly as possible.

Thus a herd of new business stampedes towards the market maker and market leaders in an effort to satiate their thirst for the established benefits of this new technology, without which they cannot survive and thrive. The market demands that the new stripped-down product is priced accordingly lower, but the lower margins are compensated by exponential revenue increases as all doors are flung open wide to deliver as many units to the hungry market as possible. Product leadership is still a key factor at this point as the solution continues to evolve into a commodity and new price/ performance breakthroughs fuel ever-newer spates of buying. On the other hand, paying attention to any one customer for too long is a losing strategy because the focus must be on serving as many as possible as quickly as possible. As such, more emphasis is placed on tactics such as engaging new distribution channels and honing R&D efforts towards ease-of-deployment, standardization and the creation of a complete-unto-itself whole product.

Going Forward

A couple of points about our go-forward strategy as we consolidate our bowling alley successes in preparation for a coming tornado: firstly, our product leadership bodes very well as we approach mainstream market adoption. We have successfully been able to differentiate ourselves from basic remote support tools and have also built our solution from the ground up to integrate with related existing technologies on established industry standards. The former will give us the advantage over companies like WebEx whereas the latter technological advantages position us well with respect to companies like SupportSoft and Motive. I believe that our organizational focus on support automation coupled with the technological superiority we have over our larger competitors in the support automation arena can give us sway when the full force of the tornado hits, as long as we adopt sound tornado principles to complement our strengths. For example, a SupportSoft deployment demands that existing infrastructure be replaced and this is something that larger companies can contend with but the mainstream market simply cannot tolerate. The whole point of common standards and technological integration is so that companies are saved the pain and expense of conflicting components and huge infrastructure changes in their IT infrastructures as they deploy new technology, and this one point may be the Achilles' heel that removes SupportSoft from market dominance in the mainstream support automation market. Motive, on the other hand, suffers with respect to their technology itself, which is illustrated by cases where customers have signed up for hundreds of thousands of dollars worth of software only to

throw it out after a year or two. Our success in winning accounts head-to-head with each of these companies, in any case, showcases the technological advantages we provide and the trust our customers place in us. Our position is strong enough to leverage this out to tornado dominance by sticking to fundamental tornado strategies as they apply, which brings us back to the other key tornado strategy, that of operational excellence versus customer intimacy.

Reasons For Failure

One of the reasons companies fail at different stages throughout the technology adoption lifecycle, according to Moore, is the fact that strategies in each of the phases are not only different from previous stages but often diametrically opposed to the strategies that had hitherto led to success. For example, this is the case with tornado strategy in conjunction with bowling alley success. In the case of the bowling alley - where the support automation market currently resides, once again - the order of the day is to work as closely with customers to deliver the highest value product in conjunction with the optimum amount of additional services and partnerships to provide a complete solutions that provides everything a customer needs. Our objective right now is to continue nurturing relationships with customers in specific market segments that we have identified or have achieved early success in and to grow these successes in scope and size. As we approach the mainstream market, however, emphasis should shift away from customer relationships to the extent that Moore states that one of the fundamental strategies of the tornado is to “ignore the customer”! This seems like the worst possible thing to say to a business person and certainly flies in the face of our current organizational values (that are correct and have been fundamental to our prosperity thus far, I might add) – after all, where would any company be without their customers? Nevertheless, in order to excel in the tornado, the imperative should be on shipping as much of your sleek, commoditized product as humanly possible with little regard for anything other than making sure the sale get done, the product is delivered and there are no hold-ups anywhere in the process, from customers to within the company itself. The most crucial element of success in a tornado market is making yourself available to as many new customers as possible – witness the meteoric rise of Vancouver based Crystal Decisions from a startup to a \$200M company in just over a decade before their acquisition by Business Objects in 2003. Crystal Reports, the company’s flagship product, met tornado demand head-on on the back of an OEM contract with Microsoft that saw their product being shipped with MS Office to millions of customers with every Microsoft sale. Is this the kind of success that Control-F1 can duplicate? In theory, we are well positioned to do just that and should at least be able to achieve a torrent of solid growth in the coming years.

Commoditization is Key

In closing, a quick recap of our success factors to date and thoughts going forward. Control-F1 is an industry leader in the support automation industry because we have a technologically advanced solution that we have been able to

innovate over time to satisfy our customers' needs. Our goal as a company has been to create value for our customers and partners and we have worked closely with both to do just that. Our biggest successes have come from within the technology sector and we are well positioned for the coming mainstream marketplace by virtue of the fact that we possess several key organizational and technological advantages over our competition. **In order to effectively confront a technical support automation tornado in coming years, we will have to adapt to market forces that will demand far higher volumes of a more commoditized product that costs less.** Companies purchasing support automation tools for the first time will refuse to pay the high margins of the elite market we serve today when there will be comparable clone products available at a much lower cost. Creating additional value in coming markets will come from what Moore calls "+1" marketing that incrementally adds layers of value onto the commoditized product, usually by catering to the needs of end-users (as opposed to the "economic" or "infrastructure" buyer). The company may also have to broaden its scope in order to accommodate smaller deals in the mass appeal market and focus on volume as opposed to margins for creating revenue. Resources will be directed to operational mandates as opposed to nurturing intimate customer and partner relationships, and extraneous components of the product, in terms of services and add-ons, will be streamlined and minimized as and when appropriate. All a tornado market is concerned about is that the product does what it is meant to as efficiently as possible.

Summary

It is comforting is that we have no doubt succeeded this far because of deliberate strategy as opposed to mere accident and so I am confident that we will continue making the right decisions as we grow and adapt to changing market conditions. We have, in the past, adapted many of the strategies that Moore has described as being essential to the success of IT companies and this is complemented by the ongoing initiatives of Control-F1 management, such as recent product management work that repackage our professional services offerings in a more commoditized fashion, the hiring of new staff in anticipation of our continued growth and steps to foster communication throughout the organization and make sure we are all on the same page with regards to where we are and where we are going each step of the way. Let's hope we can keep making the right moves and take Control-F1 to the next level and way beyond.