

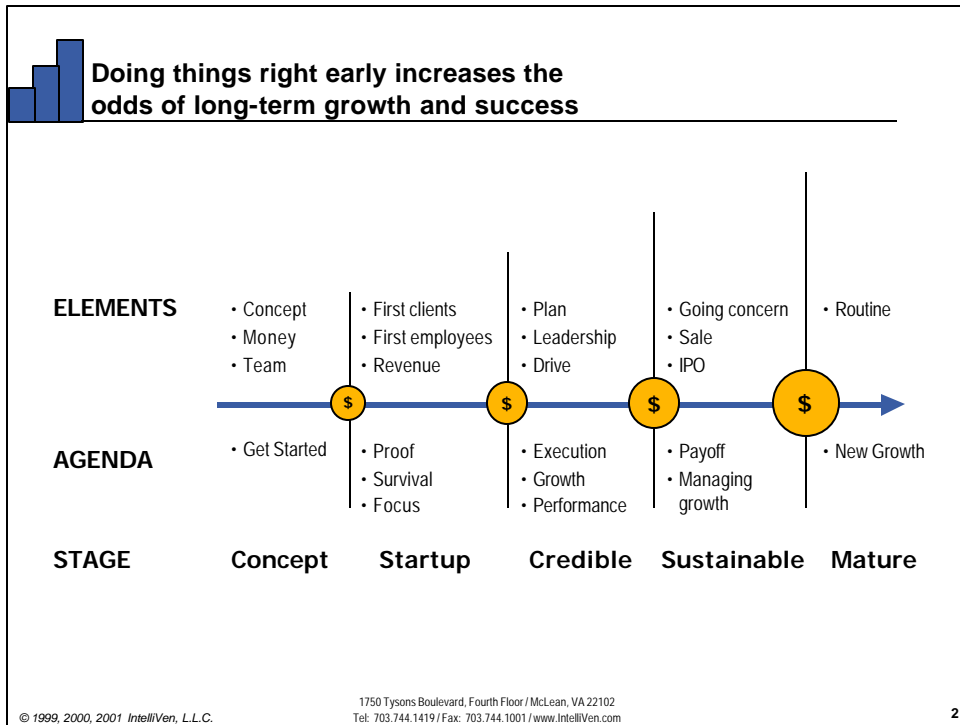
*Driving Profitable Growth In Your High-Tech Business*

**IntelliVen Framework for  
Turning Strategy into Business**

**September 20, 2001**

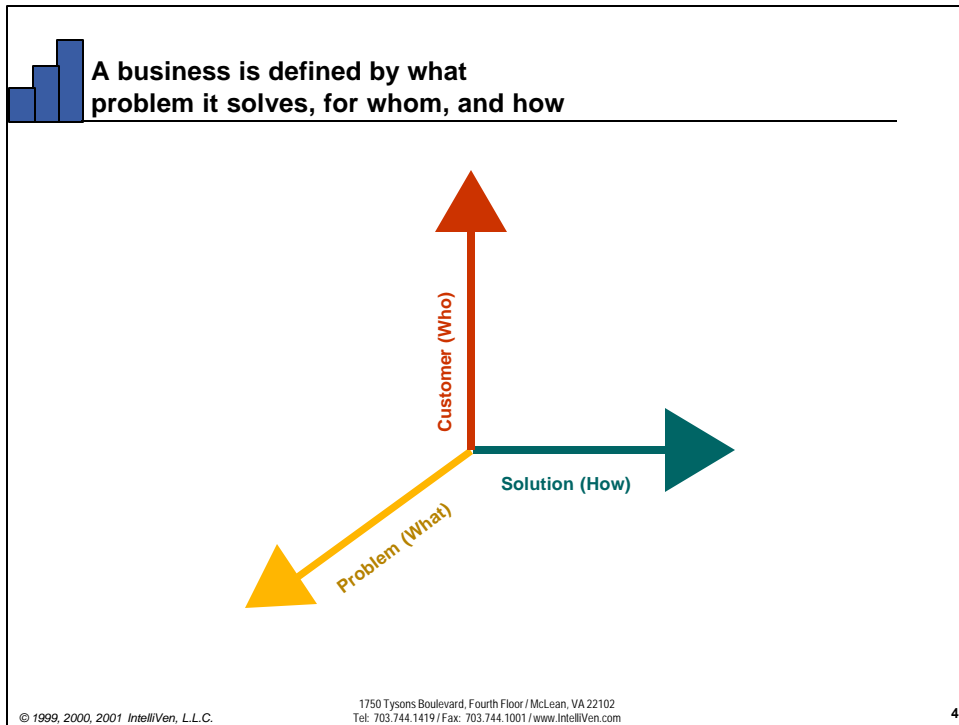
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


- Startup business ventures progress through five principal growth phases: concept, start up, credible, sustainable, and mature. Each stage is defined in terms of its descriptive elements, business agenda, economics, and key concerns. These points frame a convenient way to think about each of these phases.
- Start with a good business concept, some seed money and a team to get things going.
- Of these, the most plentiful are ideas.
- Money at this stage is most likely provided by the one with the idea and, as they say, associated “family, friends and fools”.
- The idea is to get everything done that can be done with little or no money.
- People qualified and interested in leading the launch are scarce. That is why it is common to form an advisory board and to have more board members than people working in the company.
- The objective at this stage is to prove that the business concept is viable as a business and to form a leadership team of two to seven individuals with relevant and complementary strengths and who get along well with each other. While no one ever is able to go it alone, it is mandatory that it be clear who among the top team fills the role of leader.

- The leader and his or her team need to have the energy and drive to take action and make things happen. The team is more important than their offering because, after the first round has played out, the team that learns from experience to get it right next time is the one that wins.
- The start up stage is characterized by a few clients and a few dozen employees who are focused on generating revenue with a proven business concept that addresses a real need in a market where no other player currently dominates. Survival is far from guaranteed.
- A few angel investors have kicked in probably less than a million dollars to fuel the company as it develops its product, service methodology and operations.
- The initial management team is in place and key issues tend to revolve around managing scarce resources to complete development, find the next client, and to scare up the resources needed to deliver on commitments.
- Too few top people end up spread precariously thin.
- How the business evolves to systematically solve key challenges will determine its attractiveness to banks, investors, the market, and future suitors.
- It is important to prepare a business plan, establish success criteria (e.g., number of clients within a year, revenue run-rate) and to make a pattern out of accomplishing stated objectives in order to secure financing.
- A funded venture typically has one serious institutional investors at \$1-2M (and several more waiting in the wings) who has been awarded about 40% of the equity.
- With institutional funding and a board of directors in place, it is time for management to execute against the plan for growth and performance and to achieve scale operations.
- Ways of working take shape and harden.
- Investors are anxious to achieve results that put them on track to generous returns.
- The investors want control in order to guide and drive the CEO to perform and to be able to replace the CEO if needed.
- A high-tech firm's long-term growth and profitability is primarily determined by how closely it holds to one of five high-tech business models (services, product, operations, reselling, and exchange) and how well it executes its primary delivery functions, sells its offerings, and develops capacity.
- If a business does a few things right in its early stages of development, it can markedly improve the odds of sustaining accelerated growth and outstanding performance.
- Conversely, it is very difficult for a firm to make critical adjustments to its operating characteristics once it has achieved a certain level of scale and maturity.
- Most of today's moderately successful high-tech companies suffer from this deficiency, but a handful of front-runners continue to demonstrate that it is not inevitable
- Architecting the business well in the start up stage improves attractiveness to banks, investors, the market, and possible suitors



- A business is defined by what problem it solves, for whom, and how. Both Derek Abell, in Defining the Business, Prentice Hall, 1980 and John Pendray, in Strategic Development for High-tech Businesses, Value Publishing, 1987 use a three dimensional framework similar to the one shown here in order to discuss strategies for developing businesses. Pendray specifically uses the framework to present an orderly approach to developing business strategy to serve high-tech markets. Neither, however, addresses what it takes to turn strategy into an operating business.
- Most business leaders are quite clear about one or two of the three dimensions to their business but few realize in the early going that it is critical to be clear about all three.
- For example, consider a business that helps bank credit card companies (customer) efficiently collect on delinquent and overlimit credit accounts (problem) by using an intranet-based automated collection system and a proprietary service method (solution). Using the same solution as a foundation for solving a similar problem for a different customer set (say tax collections for state departments of revenue or bill collections for telephone companies) defines a new business, because the customers are so different from banks. Another business might use a different technology or approach to solve the collections problem for banks.
- Varying any one of the three dimensions presents the opportunity to create a new business. While one can emerge from the other, failure to manage the evolution as a new and different business usually means the combined business will severely under-perform relative to its potential.



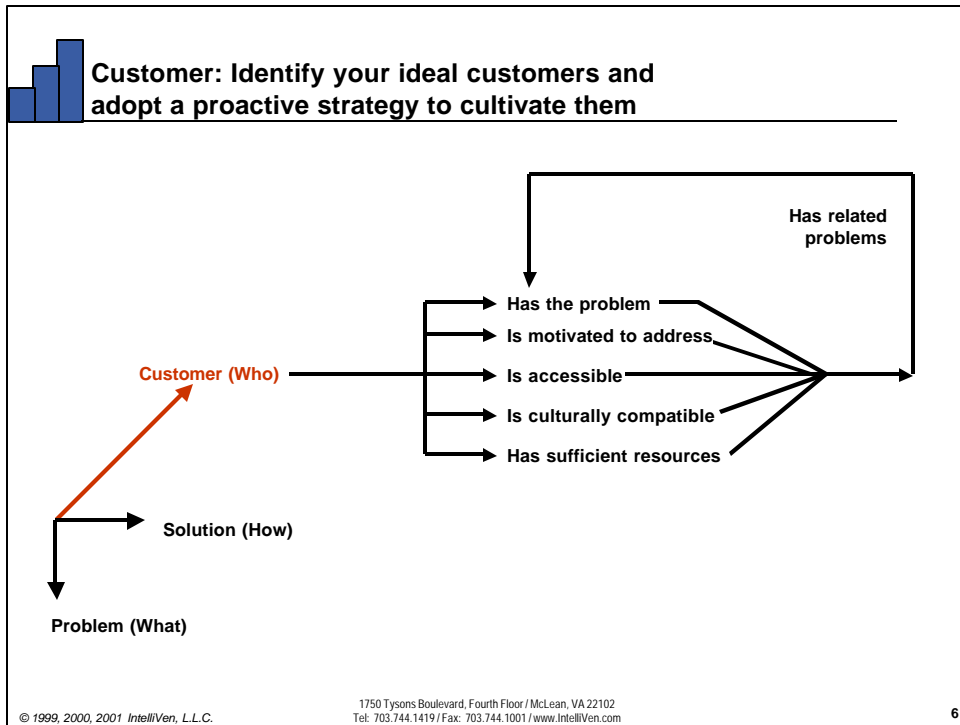
**The IntelliVen Framework is a systematic approach to managing the strategic and operational issues faced by high-tech businesses**

- A diagnostic instrument to assess the extent to which a given business is on track to success
- A teaching and training tool to help business leaders get on track to success

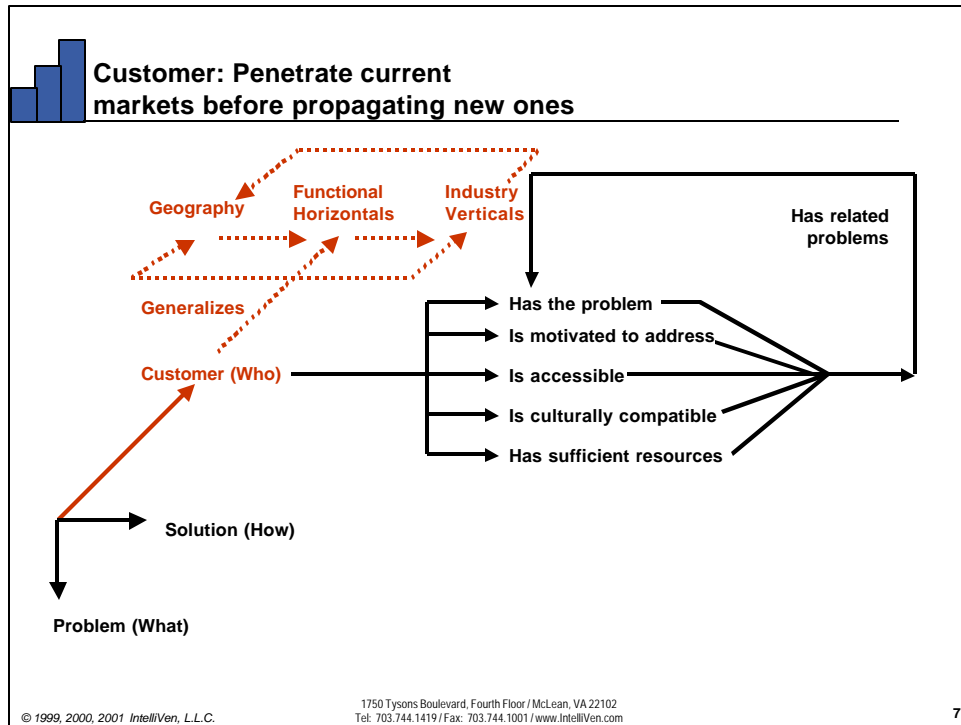
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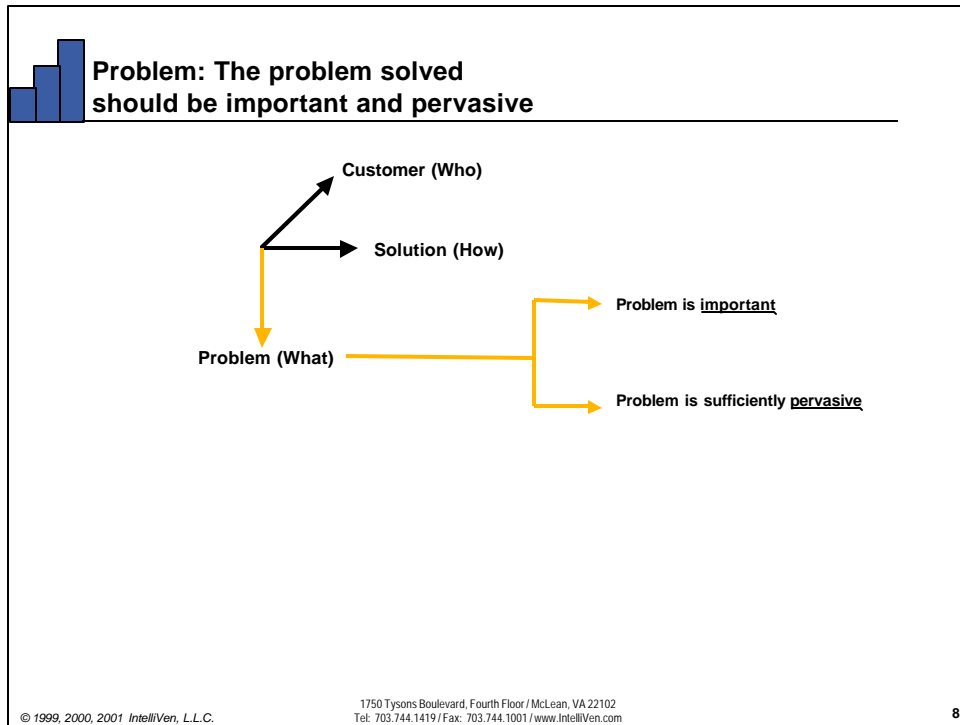
- Hundreds of thousands of new firms sprout up across the US each year (IRS). Further, mature companies start up at least as many new operating units in support of major initiatives. While the launch rate continues to increase, there is no corresponding increase in their success rate. Most will, at best, dramatically under-achieve their potential.
- The IntelliVen Framework can help diagnose and it can be used to help develop businesses. Specifically, it helps determine the operational issues that require attention.
- Popular business texts provide important insights into forming sensible strategies and cultures but none provides any appreciable degree of assistance in turning strategy into business operations.
- The IntelliVen framework represents a distillation of more than 20 years of experience, running over a dozen extremely successful high-tech businesses, ranging in size from startup to nearly \$1B, and representing all five common high-tech business models.
- Early-stage startup leaders are wise to study the framework and internalize its lessons and insights before they pave the path for their business.
- Investors, bankers, lawyers, and search firms are wise to assess prospective recipients of their financing in terms of the IntelliVen framework. They can discover where the fledgling business is likely to run into trouble and so provide guidance that will lead to a business better prepared for the rigors of funded operations.
- Internal initiative leaders will find that running their business is little different from running an outside company except that it is better funded, less accountable, and more cut off from the information and guidance that would lead them to stellar performance.



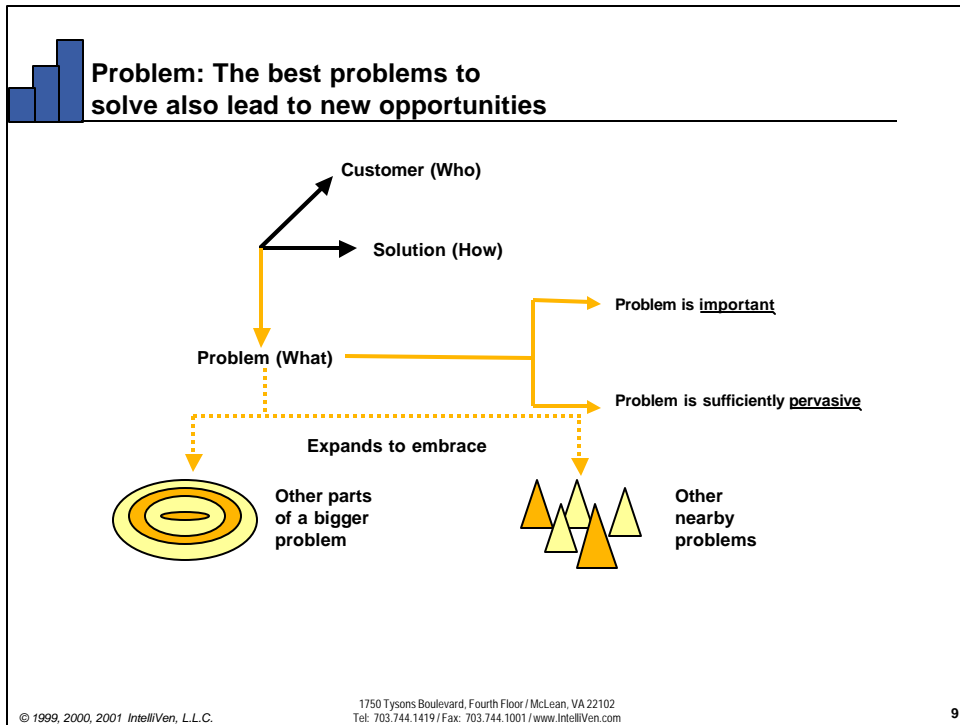
- The ideal customer has the problem addressed by your business; finds it strategic to solve the problem; is accessible; willing to work with the business in an acceptable manner; and has the scale and resources to afford the solution.
- Use these filters to determine which customers to target.
- When assessing customers who have all these characteristics, choose the one who has many needs rather than just one.
- The easiest customer characteristics to change are accessibility and compatibility.
- Most businesses start by selling into the founders' network. When they run out of prospects, they try to make their network bigger.
- What they should do is identify who would be foolish not to use their services and who comes closest to target characteristics, then network directly to those buyers.



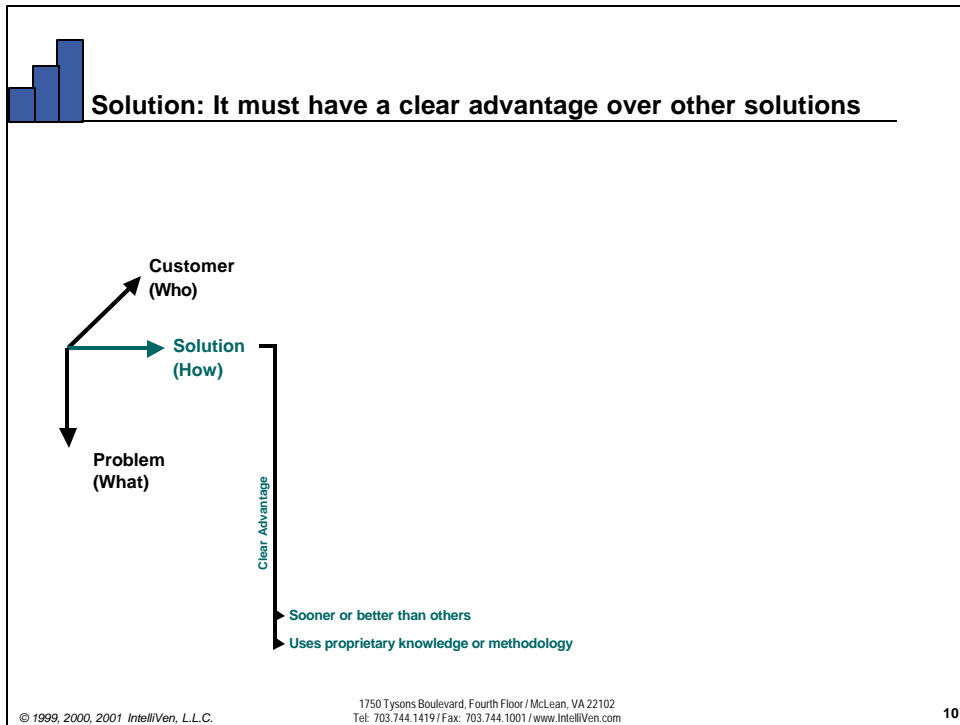
- Find all the business you can with the same client. It is more efficient to pursue and execute new work with clients who already know you and with whom you have a contract. Qualified resources must be assigned to be sure this happens.
- Next, find work with customers in the same geographic area before traveling to remote places. Costs to sell and execute out-of-town work may be prohibitive. Pursue work in other locations if that location can become a new center of operation because you have an executive who wants to work there and it offers attractive customers and a supply of employable talent,
- Once you learn the language of the client's industry, pursue business with every company in that industry with a similar problem. Industry verticals also tend to cluster geographically. For example, to dominate the finance industry, a business may want to locate in New York City, Boston, Chicago, Charlotte, Chicago, London, Tokyo and Frankfurt.



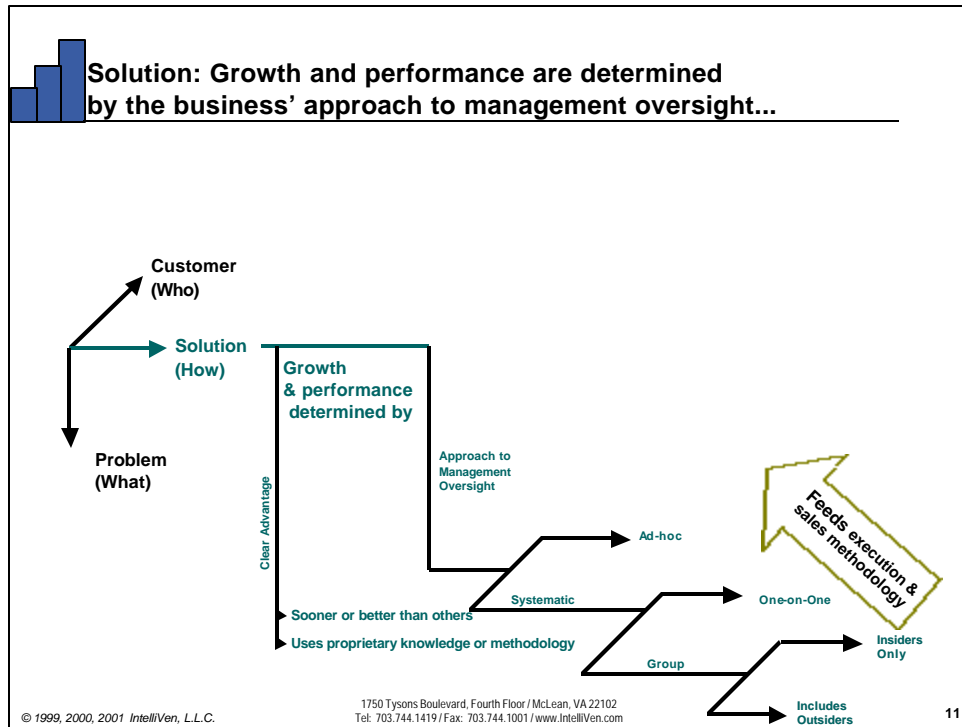
- The problem must be worth a lot of money to solve and/or the costs of not solving it must be high. It is important that this pain be expressed in monetary units that the buyer can relate to and understand. One of the difficulties in selling solutions that support business intelligence, for example, is that it is hard to put a dollar figure on the value of knowing more about your competitors.
- The problem's importance must also be high relative to all other problems and activities that attract the customer's attention and resources.
- It is best if the problem is pervasive enough to define an attractive market for the solution given the associated economics. That is, the cost of selling and delivering relative to the price charged must make sense. For example, there may be only 15 companies big enough to purchase a large-scale telecommunications billing system. This may still be an attractive market if each of the 15 can afford to spend \$50M on its billing system.




- The problem should lead to opportunities to address other nearby problems.
- For example, solving the credit collections problem for a bank may lead to opportunities to address customer service, fraud, credit origination, and even credit accounting.
- Every problem is a small part of a bigger problem. Expanding to address the larger issue usually leads to a broader space in which to operate in terms of scope, scale, and dollars.
- For example, *installing a credit collection system* for banks can expand to become *improving a collection operation*, which can expand to *managing retail credit*, which can expand to *managing risk*, which can expand to *managing customers*. With this progression, what started out as a \$300K problem escalates to a problem worth \$30M to address.
- Given a very big problem that encompasses many smaller problems, find the biggest thing people will buy from you now and start there.



- The solution must have a winning angle relative to other options available to the customers, including the option to do nothing. The solution may be the first of its kind or it may be better, less expensive, longer lasting, faster, or otherwise distinguished. The more difficult it is for others to duplicate or leapfrog, the better.



- Studies (see Capers Jones '93) show that the number one reason i well is due to lack of management attention. Important projects, sales initiatives, delivery operations, etc., go better if top management stays on top of and involved with how things are going.
- Checking in on an ad hoc basis is a good strategy, but it shouldn't be the only review forum.
- Periodic one-on-one sessions, where initiative leaders share progress and problems openly and honestly with management, are a must.
- At strategic points, a review with a broader group of executives, who have different competencies and perspectives, adds even more value.
- One of the smartest and easiest ways to add valuable insight and perspective to management reviews is to add outside executives to the review team.
- Composition of review teams should be relatively static to keep the interpersonal dynamics on an even keel and to permit the benefits of cumulative involvement to mount.

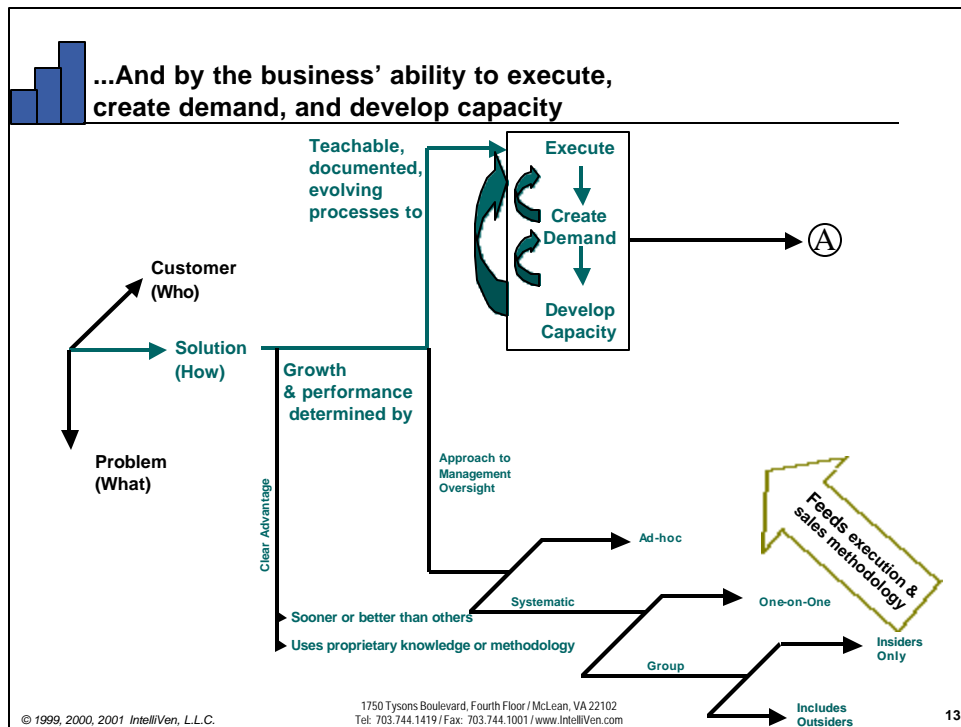


### Top 8 Reasons Review Meetings Under-perform

8. The leaders did not prepare, so the meeting becomes the preparation and the review never materializes.
7. Too much time spent on history, story telling, and showboating. It is up to the leaders to be sure that whatever is really important gets covered.
6. The leaders talk right up to the end of the meeting and never created a space for the reviewers to ask questions, clarify, challenge, and then offer their best thinking.
5. Top management fails to create a safe environment thus turning the review into a sham (a.k.a. dog-and-pony show).
4. Management fails to really pay attention to see what needs to be seen and to deal with what needs to be dealt with rather than seeing what they want or hope to see.
3. Management fails to generalize what is learned to incorporate and reuse elsewhere
2. Management discovers during the review that things are in much worse shape than expected and, without intention, makes the management team feel inept by piling on and trying to help too much in the moment.
1. The number one reason why these meetings don't go well is that the most important reviewers fail to show up due to last minute crises or they show up physically but not mentally.

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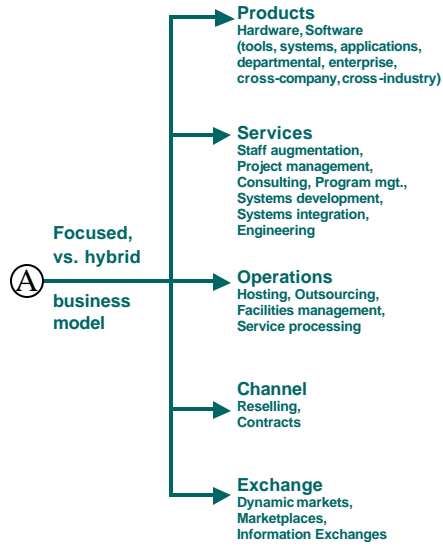
•Management review forums provide a structured way to stay in touch with what is going on with high-stakes initiatives. This includes sales efforts, projects, businesses, and any important initiative defined by its relative scale, risk, leverage in terms of intellectual property development, skill development, etc. Executive management sets the tone and ensures that reviews serve their purpose and that they are not done just for the sake of it or that they become a game. Reviewers must make it safe to be allowed to participate in their business and to keep close to what is really going on. Reviews also provide visibility for key staff, create high-stakes circumstances that push up performance, facilitate cross-fertilization both into and out from the team. Important lessons and insights can be picked up and funneled back into underlying methodologies to benefit other teams and initiatives.



- Operating units that experience sustained growth and high performance *execute, create demand, and develop capacity* in an orderly way.
- These three business functions must be repeatable, documented, and systematically taught.
- They must also be proactively enhanced in the face of new techniques, technologies, lessons, and insights.
- The need for this is obvious. It cannot be a whole new adventure every time a customer signs up. Without a methodology to record the collective knowledge, a business is more like a collection of unconnected projects. A business that does not know for sure how it will meet delivery obligations is running serious risks and will find it difficult, if not impossible, to maintain control over service quality.
- Once there is a reliable way to execute, there is confidence to generate demand. Without a way to generate demand that is repeatable, documented, teachable, and ever evolving, the business's ability to grow is constrained.
- Once demand is created, the business needs capacity to satisfy it. For example, if a software product provider generates more demand than can be handled by existing execution teams, then more production capacity is required. Once that production capacity is in gear, attention must be given to expanding sales capacity. However, a little extra sales capacity should be able to support a lot of additional production capacity.
- A growing business needs to be clear about how it will add capacity to execute and capacity to sell. In high-tech businesses, this usually means identifying and cultivating sources of people, recruiting, and professional development.



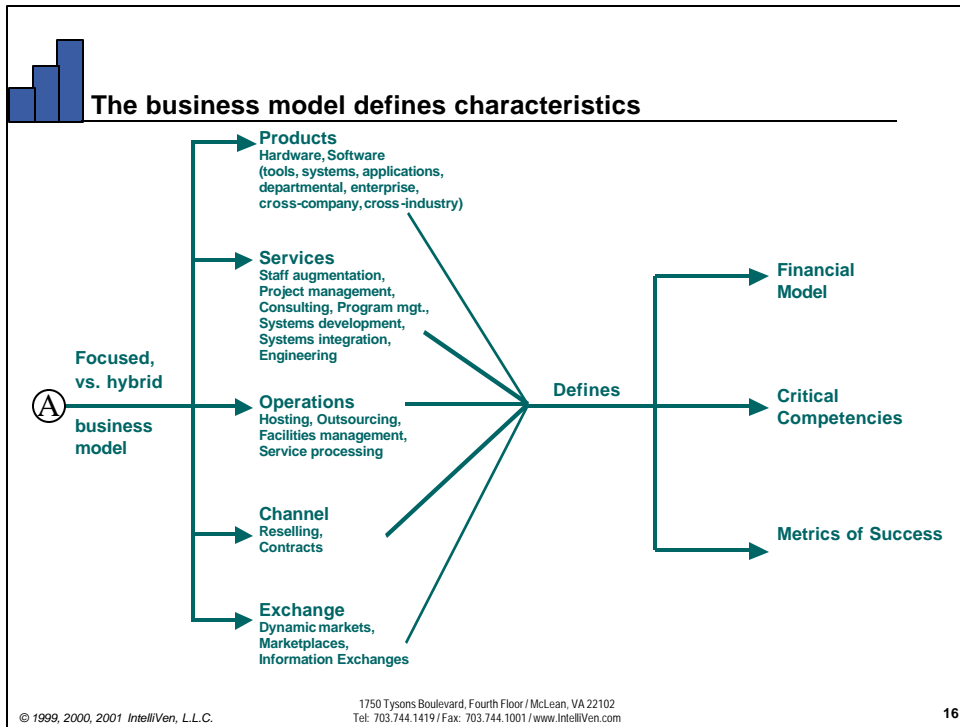
## There are five common high-tech business models





**There are five common high-tech business models (cont'd)**

<b>Business Model</b>	<b>Description</b>	<b>Payment</b>	<b>Example</b>
<b>Product</b>	Software, hardware, or information	Per copy Per unit	Hewlett Packard Microsoft
<b>Service</b>	Hourly or project consulting or service	Per hour Per deliverable	PWC Booz Allen & Hamilton
<b>Operation</b>	Outsourcing Facilities Management	Per unit of time Per unit processed	USInternetworking EDS outsourcing
<b>Channel</b>	Set up and administer connection between buyer and provider	Percentage of revenue	GTSI IDIQ contractors AOL
<b>Exchange</b>	Broker links between many buyers and many sellers	Subscription fee Transaction fee	NYSE Metals Exchange



- The underlying business model defines the financial model, critical competencies, and metrics of success. Hybrid businesses are rarely successful for long because they are too complex financially, require too many competencies, and have no identifiable metrics of success.

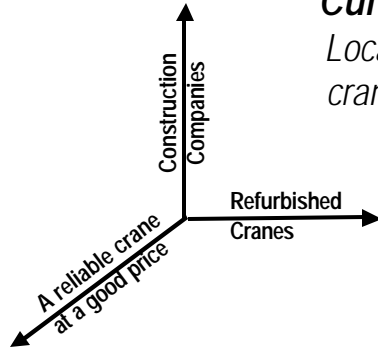


**There are inherent risks to adopting multiple or hybrid business models**

<b>Business Model</b>	<b>Financials</b>	<b>Competencies</b>	<b>Metrics</b>
<b>Product</b>	EBIT=20% P/E=100X	Sales, Call Center, Development	No. of Salesmen, salesmen tenure, \$/sale, sales/salesman
<b>Service</b>	EBIT=15% P/E=25X	Project Management Account Management	Staff utilization Average hourly rate
<b>Operation</b>	EBIT=10% P/E=10X	Efficiency of operation Driving to scale	Cost per unit Service levels
<b>Channel</b>	EBIT=3% P/E=5X	Contract management & administration Space, Inventory mgmt	Contract order backlog Commitment level
<b>Exchange</b>	EBIT<0 P/E=n.a.	Domain competence Efficiency of operation	Number subscribers Number of Transactions



**Which business model is the right one?**  
**Example: Cunningham Crane**



***Cunningham Crane:***  
*Locates, fixes, and resells secondhand cranes throughout the world*



**For any given solution, there are multiple possible businesses**

**Customer:** Construction Companies; **Problem:** Reliable Cranes;  
**Solution:** Refurbished Cranes

Product	Build, or procure and refurbish, cranes to sell
Service	Assess, recommend, and service cranes
Operation	Own, maintain, and operate cranes for rent
Channel	Connect crane buyers and sellers
Exchange	Broker link between crane seekers and crane owners who bid to sell their cranes



## Choose which business model is best for you

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### ■ Select based on:

- What you are already good at and what you like to do
- Resources available (people, money)
- Economic returns sought
- Appetite for risk



**No one option is always correct**

<b>Customer: Banks; Problem: Customer Access; Solution: Phone, Branch, Mail + Internet</b>	
Product	Sell software to enable access via Internet <b>(S1)</b>
Service	Hourly services to help banks develop own Internet front-end <b>(AMS)</b>
Operation	Operate a service by the account/month to let bank customers access via Internet <b>(ORCC)</b>
Channel	Connect banks to suppliers of Internet front-end software <b>(Andersen Consulting)</b>
Exchange	Match any of several banks with any of several front-ends based on needs, price, and availability <b>(e-Loan)</b>