

The Deadly **Marketing Sins** of Senior Management

A thought leader interview with venture capitalist David Chen

First in a series

David Chen is a long-time observer of CEOs and their marketing effectiveness. After receiving his MBA from Northwestern University's Kellogg School of Management, he joined McKinsey & Co. as a consultant. He later assumed the chief marketing officer role with Mentor Graphics Corp. in the early 1990s. Formerly a general partner in OVP Venture Partners, he is now founder of the Equilibrium Capital Group, an investment firm focused on growth equity opportunities in the area of sustainability. Dave also co-founder of the Clean Economy Network, and founded GeoTrust, which was acquired by Verisign in 2006.



A few of Dave's many board and other appointments are:

- The Federal Reserve Bank of San Francisco's Portland Branch
- Governor-Appointed Chairman of the Oregon Innovation Council
- Advisory Board Member of the Oregon Investment Fund (OIF)
- HNC Software
- Chairman (2003-2009) of the Oregon Nanoscience and Microtechnologies Institute
- Chairman (2006) of the Oregon Entrepreneurs Forum

David was interviewed by Kevin Renner of B2B Market Strategies.

B2B: You've been a consultant, executive, and investor; what have you observed as the most significant marketing mistakes at the senior executive level?

Chen: In the business-to-business arena, one of the key mistakes is not having enough application understanding, understanding the economics of how an application works. I remember back in the first wave of mobile applications, a lot of CEOs and teams would come in and pitch the fact that carriers are being reduced to commodities, which is selling minutes. And that they need these new applications to bump up their gross margins, etc.

I don't think many of them actually understood how the carriers' economics really worked, how they made decisions, and how they made their money. They didn't have a deep sense of insertion. I think the first mistake is not to understand that. Because that has so much to do with your product, what shape the service takes, how you charge for it, how you sell and market it. I find a lot of teams don't do that.

B2B: Why do you think that's the case?

Chen: First, we all like to do stuff, right? As opposed to being a little bit more academic and studied in terms of drawing mundane things like flow charts of "If I do this, how do I get paid, how do they get paid, how do they actually insert this, how do they actually make money?" And that's a set of interviews; it's not glamorous. But I think it provides a huge number of insights.

I think in some cases you don't know how to do it, and in some cases you don't have access to the right people to actually ask those questions. Sometimes you think you already have the answer and so you're convinced about the customer's actual requirements, applications, all that stuff.

Second, and I have personally fallen into this trap as a manager, it's not being discriminating about the difference between "I want it," "I need it," and "I'll pay for it". And I think being able to discriminate through those three things is pretty important.

B2B: Is there a story you can tell about when that got you into trouble?

Chen: Yah, probably too many. One was a massive software project. One of the big issues with 8.0 at Mentor Graphics was in some ways falling into that trap. There were a lot of difficulties in that project. Some were just plain old technical difficulties. It was a tough, ambitious project. But if I stick with the marketing issues, one of the big problems with 8.0 was actually at the investment level of the project. Customers said that they wanted integrated applications, the ability to jump from one application to another with a central consoling, and they defined a fairly sophisticated form of the word "integration." This is back in the early '90s, so *integration* became a catch-all phrase for a lot of very different user benefits and attributes. The customer kept talking about integrated applications, integrated suites.

Being a responsible organization, we delivered to them an integrated suite. But as it turns out, the world of EDA is about performance. Yes, time to market is key issue.



But integration in the Apple Macintosh sense of today, being able to jump from one to the other and all this kind of thing, if you really poked at the power-user customer, they were talking about the ability to bring data sets from one application to the other. That's what they really needed.

What they *wanted* was unified GUI and look and feel and single launch point, all those kinds of things. What they *needed* was integrated data sets. All data sets were machine-generated. It's the ability to transport a data set from one application to another without horrific proprietary re-spinning of data. And what they were willing to pay for was performance.

And so if you look at our R&D budget, I would be willing to bet that we spent 30, 40 percent on the high level of integration, the cock-pitting, the look and feel. And we probably didn't spend enough, and we had technical difficulties, on the performance side. But what we didn't deliver was this rock-solid integration of data, transportability of data. That was a trap, we got caught between the whole "I want it" which at the end of day they actually wouldn't pay for.

B2B: So the example you gave about Mentor Graphics, and your own inability to make those distinctions early on, what did that end up costing the organization in terms of lost time, lost market share, lost value?

Chen: 8.0 was a complex issue, so you can't contribute any one particular thing as the key driver of degradation of value. I think I'd have to spend a lot more time thinking about that. But the truth of the matter is that when we launched parts of 8.0 into the marketplace, the things that the customer said that they wanted were the things that you demoed, but it wasn't what they ended up buying. So we ended up losing the opportunity to sell because in fact what we offered up was not what they ended up wanting to buy. You end up with this a lot of times, where you go out at a focus group and you go, "Would you guys like this?"

"Oh yeah, I'd love this. I would want that." Well, what's the economics of the benefit or the benefit map? At the end of the day, I really don't need this. And I'm not willing to pay for it. But it tested beautifully in terms of "God, I want that!"

B2B: So those are two big marketing failures: not understanding the economics of an application and not fully distinguishing between wanting, needing, and the willingness to pay. What else have you witnessed?

Chen: I think we're all surprised once we start to parse out a marketplace how small that multibillion dollar number shrinks to, when you get down to the real size of the market. That's the other thing that oftentimes surprises you, if you make it they DON'T come, and there aren't enough of them.

How many startups do you guys work with where the business plans says that, "This is a five billion dollar marketplace." And it comes from a credible source. But when you actually get down to, "How big is this market, really that you're targeting and servicing with the available technology?" sometimes you slice it too small, but sometimes the damn market ends up being incredibly small. But at the start of the game, it's billions and billions and billions.

We ran into this situation in the late 90s again with mobile applications because a lot of the mobile applications were betting on the delivery of smart phones--and lots of them. But one of the exercises I remember we did in one of our portfolio companies was we actually took the announcement dates and the ship dates of all the smart phones and laid them out over basically a two to three year calendar. And this was the vendors' announced ship dates. And these software vendors announced ship dates. And you just basically plotted them out and then you stepped back and looked at this calendar and go, "You know, given sort of reasonable expectations, there are no phones."

When you actually put the cold hard facts, and not any spin on them, just taking the announced ship dates, you realize the fallacy of the Gartner Group forecast of the five billion dollar smart phone market. If they had actually done a bottoms-up, lay the Nokia phone launch, the Palm phone launch, the everybody's phone launch on a calendar, and had any reasonable expectation of uptake, this is a really small market for the next three years. So what exactly are we gonna sell?

In high tech that happens over and over again, and this is a sin that I committed repeatedly. Markets develop a lot slower than you think. The myth of time to market, first-mover advantage, I think is pretty dramatically overblown.

B2B: So the marketing mistake or sin there is --

Chen: Launching too early. You're selling into a market that doesn't exist. You sell into markets that don't exist and frankly you just get tired before the market actually develops.

The other thing that has been a real predictor is actually Jeffrey Moore's Crossing the Chasm stuff. Crossing the Chasm had a huge number of insights in it, especially in the B-to-B area and emerging markets.

And everyone makes the mistake of reading that book and taking the Crossing the Chasm model in the wrong way. They apply the Crossing the Chasm to themselves as opposed to crossing the chasm as a market phenomenon. So they ask themselves, "Can I cross the chasm?" The implicit premise of the book is that companies choose which phase they play. And the phase that they play is not something under your control. It's more a phenomenon of the market's evolution. And there's such wisdom in that.

Key Takeaways

Intimately know the application and economics of your target customers.

Use that as the basis for how you define and deliver value, how you shape everything from your product to services to pricing.

Understand the difference between your target customers needs, preferences, and willingness to pay.

Bring a ruthless discipline to sizing your target market. Don't drink your own Kool-Aid when it comes to market sizing and timing.

Kevin Renner is founder of B2B Market Strategies. The firm's principals provide marketing consulting and executive management services to emerging companies in industries including health care, technology, life sciences, software, medical device, semiconductor equipment, and manufacturing.