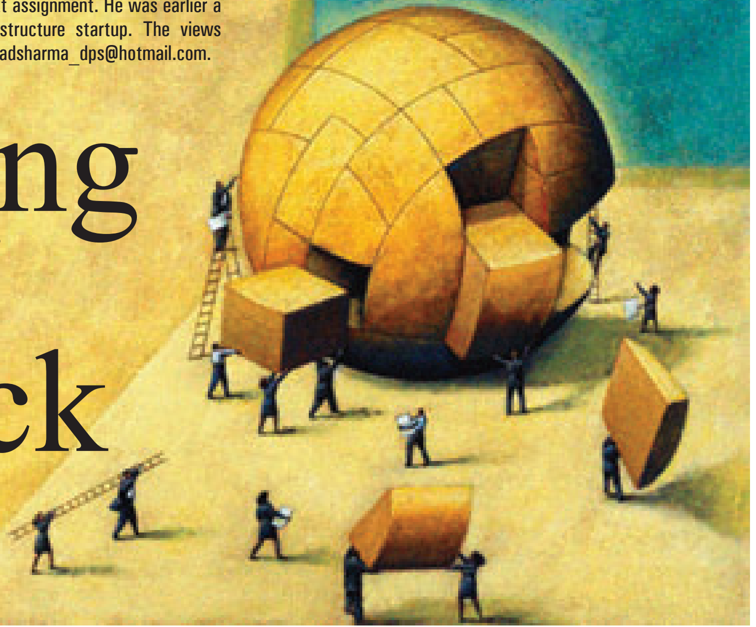
Career by Sharad Sharma

Sharad has left Symantec recently where he was the India GM and VP – Product Operations. He is taking a planned break before his next assignment. He was earlier a co-founder and CEO of a successful wireless infrastructure startup. The views expressed here are his own. He can be reached at sharadsharma_dps@hotmail.com.

Breaking Out of the Pack



Go back to 1993. This was the year when the Mosaic browser was launched. It was also a time when the data traffic was growing rapidly. Serving this nascent data communications market was a clutch of companies like 3Com, Cabletron, Newbridge, Ascend, Synoptics, Wellfleet and Cisco. Cisco wasn't the largest at that time. But that was when it started its famous spate of acquisitions. By 1997 it had spent $5 billion in acquisitions and had emerged as the leader of the pack.

There is a similar story about Oracle and how it broke out of the pack in mid-90s and pulled ahead of Sybase, Informix and others to become the undisputed market leader. In fact you can go back to almost any category leader today and see that it had a "break-out of the pack" moment in its history.

Getting that break-out moment has become more pressing now. It's largely because the IT industry is in a new difficult phase of its existence. It's reaching maturity and the industry growth is slowing down. It's only in single digits and is likely to stay that way. Moreover, consolidation is evident everywhere, particularly, in the profit pool. Take enterprise software as an example. While 85 percent of the revenue comes from the top 15 companies, almost 80 percent of profit comes from just three companies (Microsoft, Oracle and SAP). This means that the remaining 5000 or so companies, some public but mostly private, have only a small profit pool to play in. This makes the pressure to break-out of the pack enormously intense. However breaking out has become harder than before. The industry structure has changed, the customer drivers are different and the IPO market has dried up for smaller companies. The old prescriptions don't apply anymore.

While the formula has changed one thing remains the same. Break-outs are still about business transformation. In the past these transformations were about moving quickly to capture a larger share of market's growth. Today they are more about creating customer intimacy and operational excellence.

So if you are a small public product with a desire to become a category leader, put India at the center of your break-out strategy.

Break-outs in the enterprise software market happen when companies reach a critical mass. Usually this is around $50-150 million of annual revenue. This is when they start looking for a break-out strategy. While the specifics will vary by company, in today's time, all of them have to incorporate four key and inter-related, transformation elements.

The first transformation element is about **adopting industry verticalization**. The premium on providing a "whole product" to the customer is growing. No longer are customers willing to spend a lot of extra money to bridge the gap between the

business problems that they want addressed and the software they buy. So companies have to bring-in industry expertise inside and apply it to creating the right solution sets.

The second element calls for **embracing the on-demand model**. This is needed to lower total-cost-of-ownership and make a try-and-buy selling experience possible. This transformation is broad in scope and impacts licensing on one side and product development on the other.

The third element is the **aggressive retooling of the sales force**. Of course, the retooling is needed to deal with industry verticalization and licensing changes but there is more to it than that. It is also needed to improve sales efficiency. This has become a critical issue in the last few years. Today if you look at the smaller public companies (like Vignette and Hyperion), their ratio of sales overhead (Sales & Marketing plus General & Administrative) to software license revenue has grown to be almost twice that of big players (like Oracle and SAP). So companies that fix this problem will have a higher chance of breaking-out. Unfortunately, the fix is not easy. It requires a structural change. One needs to *centralize* the pool of system engineers and inside sales reps and have them still support the account managers but do so remotely. This structural change is not as radical as it sounds. It's merely going back to 12-15 years when companies like Cabletron and others followed a similar model. In fact this model has become easier to implement today due to better collaboration and technology infrastructure.

The fourth element of the transformation is about going out and quickly **building the Asia-Pacific Japan market**. The reason for doing this is pretty obvious given that the region is growing several times faster than North America and Western Europe. Establishing a clear beachhead in these markets will separate the leaders from the also-rans in the next 3-4 years timeframe. The problem here is not with the motivation but with the execution. Given that a pan-Asian play is not yet possible (like it's in Western Europe); it is easy to get bogged down. Avoiding that fate requires preparation, particularly, by having undertaken the other three transformations described earlier.

In the past these transformations were about moving quickly to capture a larger share of market's growth.

This four-part transformation recipe needs a secret ingredient to succeed. That secret ingredient is India. When you throw India into the mix, by moving a significant part of development and a meaningful part of sales support to India, there are two things that happen.

The more obvious one is that there is a positive operating margin impact. This is usually to the tune of 10-20 percent of revenues based on India-shoring of development and sales support. This margin improvement funds industry verticalization and market development in APJ. Without this margin boost, companies have to fall back into a piecemeal approach and the transformation drags out too long. Without momentum it's not easy to break-out of the pack.

The second impact of India is much more subtle. It is to do with reducing the turnaround risk. The way this happens is based on the principle that reinvention is easier when paired with relocation. In mid-90s George Smith showed this principle at work when he created the first SEI CMM Level 5 development center within Motorola at a greenfield site at Bangalore. A more recent illustration of this principle at work is visible in the decision of Nissan to move its sales headquarters from Los Angeles to Nashville Tennessee. Carlos Ghosn, CEO of Nissan and Renault, is a turnaround artist. He explained that that his decision to move HQs was not just to save money but to "also reduce resistance to the introduction of the new sales model." Arguably, Novell's recent stumble (resulting in the departure of its CEO) can be attributed to its failure to use this principle. BusinessWeek mentioned recently that Novell was "too slow to retool its North American sales force to sell open-source software."

Your India-shoring of product development will make migration from the packaged software world of annual releases to an on-demand world of bi-monthly releases easier. Your India-shoring of the centralized pool of system engineers and inside sales reps will make the structural migration to industry vertical solutions faster. Both will throw up significant margin improvements that can be re-invested in growing market share or market penetration. Use this magic formula before everybody gets on the bandwagon.