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Know the world before you 'startup'

For a moment think about your buying behavior when you have a growing budget. If you like something, you can buy it from the extra resources you will have next month or next year. Now imagine that your budget is flat; there is no growth at all. In this case, buying something first involves saving money from somewhere else. For this you have to either give up a bit of what you do or find cheaper ways to do it.

Buyers live in one of these two worlds. For instance, most of the middle-class consumers in India inhabit the growing budget world today. That's not the case in, say, the U.S.. Sometimes, even as you are watching them, buyers shift from a growing budget world to a flat budget world. Till 2002-03, European mobile operators had a growing capex budget as their subscriber growth was outpacing the falling per minute pricing. Then penetration started peaking and a phase inflection happened. Revenue stagnated and, suddenly, a flat budget reality emerged. When this happened everything changed.

Whenever you are selling something, particularly as a startup, it's important to consider whether the buyer lives in a flat budget world or in a growing budget world. In growing budget world, *comparative selling*—buy my stuff because it's better than the competition—works like a charm. Thing

are more complex in a flat budget world. Now knowing the customer pain-point isn't sufficient. You also now need to know their business well enough to point to waste and inefficiency. You need to become good at *displacement selling*. Your enemy is not a competitive product alone, it is legacy and inertia.



The irony is that disruptive technology in a flat budget world favors the incumbents rather than the startups. This is because flat budget world buyers prefer an evolutionary approach to adopting disruptive technology. Incumbents often catch-on to this bias. Look at how Avaya has successfully thwarted Cisco's VoIP epabx attack on its customer base by contrasting the latter's rip-out and re-install purchase approach with its evolutionary upgrade.

Indeed, disruptive technology

by itself isn't sufficient to build momentum among buyers in a flat budget world. One needs to solicit the help of exogenous factors. In other words, something outside the system has to help in displacing the status quo. Internet was that force for retailing. Before that merchant foundries shook up the embedded solutions market. Now data center virtualization is changing status quo for enterprise solutions.

Besides finding a favorable exogenous effect to demolish the status quo walls, a startup needs to master disintermediation, commoditization, or offshoring; not to reduce time-to-market but to help the customer do legacy stuff for less. Think about this. In a growing budget world, disintermediation, commoditization, or offshoring are put in the service of developing a time-to-market capability. And this is critical because it allows the startup to seize an early mover advantage. In a flat budget world, an early mover advantage is less important. More important is the ability to subsume the legacy stuff.

In the growing budget world, you anticipate needs, build out a differentiated product, move quickly to seize the early mover advantage and build barriers to entry against followers. This mantra doesn't work so well in a flat budget world. If you are an entrepreneur, make sure you know the world that you live in.