

Combating Slow Market Adoption – getting customers to buy disruptive technology



This is the fourth article in a series addressing how local start-ups can overcome the hurdles to building a successful, globally-competitive technology company from the Ottawa/Canada base. The first article outlined five systemic issues: the Canadian discount, perpetual fundraising, slow market adoption, poor sales momentum, and thin ecosystem.

Despite great interest, customers often take an inordinate and unpredictable amount of time to fully appreciate, internally promote and buy new technology. This increases the sales cycle for innovative technology, yielding slow adoption ramps. What a conundrum! A less innovative product won't stand out in the crowd, while the "Canadian discount," makes it difficult to raise the money required to stay the course as customers take their time to get on board.

Let's examine the issues that lead to slow adoption and ways that successful local companies have broken through the barrier to early sales. I will limit the discussion to companies selling to big business/government (loosely covering the sectors

that represent most Ottawa tech companies such as IT and Communications). Selling direct to consumers is a much larger topic, deserving a separate article.

I have grouped what I believe to be the major issues into five broad categories.

Discontinuity:

Young venture-backed companies need to create innovative solutions designed to deliver value that cannot be ignored. This "value proposition" often causes some form of discontinuity in the way customers use technology. This is the basis of "disruptive" innovations and is one of the few ways small companies can win against much larger competitors. However, this very innovation also causes customers to be wary. Does it really deliver the promised value? Will my current supplier shortly offer the same thing? Will this small company be around to support the product and evolutions? Will we get locked in to something that is not standard?

Companies have overcome this issue by various means. I have seen the following steps work well in a number of different situations:

1. Develop a small set of target customers that have significant drivers promoting a need and a desire to change. Look for situations where current suppliers are ignoring the issues or are not motivated

to sell a better solution. For example, VMware (a relatively small company that recently completed a \$20B IPO!) sells "virtual machine" software that Dell, HP and Sun could have sold (and IBM had in labs for years). VMware makes servers more efficient and would have cut hardware sales by factors of two or more, hence the incumbents were not motivated to deliver it.

2. Develop very close collaboration with this set of "lead customers", including a trusted relationship with a "champion" inside the customer organization. Supply the champion with everything they require to position your product as the solution to their needs.

3. Work every angle to overcome objections: provide third-party benchmarks and free trials for the value proposition, partner with a larger firm for stability and longevity, get on standards bodies to promote your approach as a potential new standard, get recognized industry heavyweights on your board to build relationships, show how larger companies may not be motivated to ever provide your type of solution.

Technological complexity:

Innovative solutions are rarely a drop-in replacement for an existing way of doing things. This creates extra work and

Continued over page

complexity for customers (at least at the beginning), such as changing architecture of data centres, business processes, support and maintenance. I have found that customers in general don't plan adequately for this. Companies can help customers succeed by setting aside the resources to fully service the customers' needs in training and implementation. Simple things like poorly-documented command line interfaces or obscure installation instructions can trip customers up.

Integration:

A product is rarely stand-alone and usually requires both upstream and downstream integration into existing networks of other products and processes. This is often over-looked – don't just consider your product, but everyone else's as well! It's critical that all "interfaces", whether physical or procedural, are taken into account and tested thoroughly; simple to say, but very hard to do in practice without actually getting into a deployment.

Market dynamics:

Timing the introduction of a disruptive product is a big issue. Standards may need to be at least preliminary for some technologies before customers buy. Big players may freeze the market by

declaring a capability (which they usually don't have!) and thereby creating FUD (fear uncertainty and doubt). Competing startups may be making promises they can't keep. Market presence (web, articles, announcements, conferences), standards participation and customer intimacy are all required to combat these market dynamics in your industry segment.

People:

In the end, getting a customer to buy is getting a person or group of people to buy, a distinctly human process driven by perception and psychology. This is where relationships with key individuals are critical. The person responsible for creating a solution to the issues faced by the customer is the ideal interface to your company (use this person to achieve broad and deep contact in case personnel changes). You're looking for someone with whom you can build a deep trusted relationship, someone who can claim to have "discovered" your product, someone who can navigate the internal processes, social structure and politics of the customer organization. In short: your champion.

As the saying goes, no one gets fired for buying X (insert: Microsoft, Cisco, Intel...).

Companies do not stray from trusted suppliers unless there is a pressing need to do so along with a highly-motivated internal group driven by a "point person" to do it. Successful companies identify the champions, work the relationship and make sure champions have everything they need to help them sell the solution internally.

Wrapping up:

Slow adoption of new technology is potentially very damaging to young companies. Despite excellent execution on other fronts, lack of early sales can put huge pressure on financing. The runway is usually not adequate to handle the sales lull after all the development effort, and the burn rate is at a high point.

Management teams and boards need to anticipate and proactively plan to survive this period. At this point there is no substitute for an astute, storied management team and board that have navigated these waters before. Considering all the factors at play and taking the right short-term actions without damaging the long term business prospects are what separate the successful entrepreneurial companies from the pack.

Next article: Sales but not momentum.

Pat DiPietro is a Managing General Partner with VenGrowth Private Equity Partners. Previously in senior management roles with Nortel Networks, Pat has more than 28 years of experience in high technology and is on the board of several Ottawa tech companies.

Reprinted with permission from Ottawa Business Journal.