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The LISA "Taking Software to the World" report uncovers important issues in localization practices
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Detecting Business Disaster's Early Warning Signs

Disasters, strategic mistakes, and company stupidity are topics near and dear to my heart; you don't write a book called "In Search of Stupidity: Over 20 Years of High-Tech Marketing Disasters" if it's not. However, one of the things that haunted me as I wrote the book was the realization that many of the problems I'd written about should not have taken so many people by surprise. For instance, those of us in the trenches for MicroPro during the disastrous introduction of WordStar 2000 in 1984, a product launch that led to the destruction of what was then the largest desktop software company in the world, knew a few weeks after the software was released that MicroPro had completely miscalculated the positioning dilemma it now faced. The complaints coming in from the MicroPro salesforce and the distribution channel that it was impossible to separate 2000 from the best selling and still widely available WordStar 3.3 should have warned upper management to change course; if it had, MicroPro might have survived. (And many of these doubts were expressed before the product was formally released.) But it would take almost two years for the company's upper management to understand what was happening and by then it was too late.

Shortly after ISOS was released I began to speculate about the possibility of building a software system that would somehow provide a high-tech company with an internal early warning system that alerted them to oncoming trouble or missed opportunities (informally, I thought of the category as "idiocyware"). The product would have to be able to tap into a firm's internal knowledgebase and zeitgeist and somehow categorize that information, provide context, and push it through a company's nerve system. I was therefore very intrigued when I was contacted by Coemergence, a company that claims to have developed a software system, ACIS, that does just that. I spent some time with Michael Chender, CEO of Coemergence, discussing disaster and how to avoid it.

Michael, what is your definition of a disaster or a serious strategic mistake?

Something that seriously weakens or destroys the foundation of an enterprise. I need to make it clear that our system doesn't deal with natural disasters, things like car crashes, unexpected deaths, acts of God, as it were. However, most serious mistakes are surprisingly predictable; there's an ongoing "logic" to surprise.

What do you

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mean by that?

In most cases, when something is going wrong or you're missing an important opportunity, there are plenty of early warnings. But much of this information comes from what we call unstructured sources. You've got rumors, water cooler conversations, gossip, conversations with business or distribution partners, nuggets of information picked up at tradeshows, etc. There are a tremendous amount of clues to problems or opportunities being captured from these sources but without context or organization.

We contrast this with the highly structured information found in databases, spreadsheets, etc. There's also text-based information such as documents, forums, E-mails, analysts reports, etc. But the problem with this data is that it tells you the mine shaft has already collapsed, as it were. By the time events allow you to create reports that inform you that sales are collapsing or that you've missed moving into an emerging market segment, it's too late. Structured information is not good at playing the role of "canary in the coal mine."

Unstructured information, on the other hand, is where true early warning indicators can be found. Often it's people in the lower ranks, product managers, administrators, people answering the phones, etc., who know you're facing problems before the executive suite has a clue. As you've pointed out, MicroPro's salespeople and distributors knew early on there was a problem; upper management didn't.

Enron is a more recent good example of what I'm talking about. In hindsight, there were signals all over the place about what was happening at the company. Mergers being dropped suddenly. High personnel churn. *Fortune* published an article a year before the collapse about the company's blackhole accounting practices. So, why did the demise come as a surprise? Because the hype surrounding the company was so strong and the negative information coming out lacked context. One bit of information over here, an unfavorable article over there, was not enough to overcome the high S/N ratio coming out from the company. As a result, very few paid attention.

What are the most important warning signs of disaster?

It depends on the particular circumstance. In my experience, if top management finds itself defending its course of action more and more shrilly, that's a good sign—to themselves and others. When you begin to find yourself working too hard to convince others you're right, you've often got a problem.

There are other warning signs. Abnormally high turnover, especially among middle management and your sales people. SEs also make excellent coal mine canaries. Remember, the rank and file usually knows before the executive suite when things are going sour. Unexpected loss of accounts. Communications

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“Companies that are closed, self-referential, secretive, not receptive to questioning are most prone to make serious strategic mistakes.”

—Michael Chender
ACIS

breakdowns. Individually, each of these warnings can be explained away. But examined in context and collectively, disturbing patterns will often appear. When they do, you're looking at a true early warning.

Let's step outside high tech for a moment and take a look at biotech to gain some additional perspective. In this world, the smaller companies have to move fast looking for new drugs and molecules they can turn into potential blockbusters. The pharmaceutical world used to be very open and much of the information on this research was usually available from textual resources—papers, research, reports, etc. But these days competitive pressures to develop the next Prozac or Nexium forces companies to play things much closer to the chest. So if a company representative went to a conference and discovered a potential competitor had finished animal trials for a new drug and was now going into clinical testing that's potentially very valuable information. That means this drug has true potential; if it's a product that competes with your lines, you need to think about whether you want to buy, partner, or perhaps speed up your development of a competing product. But normally, companies can't track this information and don't provide incentives to do so and share what's being learned.

How do you structure this information so that it's useful and provides context for what you're learning?

We do it via what is basically a two-step process. The first step consists of creating what I think of as "taxonomies"; this consists of deciding who and what you're going to track. The list can include (but is not limited to) companies, competitors, distribution channels, OEM suppliers, products, types of technology, areas of new development, people, beta releases, etc. The next step is to identify the early warning signs appropriate to a market or industry. This could include poor feedback from customers, bad reviews, an increase in the number of resumes flowing through HR, etc.

When done, you've created an outline that allows you to put this unstructured information into context and examine all this information coming from the field, internally, from third parties, from the press, etc. and analyze it, looking for early warning signs.

Does your system capture best practices?

Can you explain what you mean?

Look at the recent Siebel PR debacle, where a small research firm, Nucleus, interviewed a group of accounts Siebel posted up on their websites as examples of happy customers. But when Nucleus surveyed these customers, about half stated they were unhappy with various aspects of Siebel's products and services. It was a major PR embarrassment for the company. Siebel's initial reaction to the problem was to attack Nucleus and the report instead of acknowledging the problem and announcing a program to deal with their customers' issues.

A best practice could be incorporated as an early warning sign in the system. But let's step back a moment. I'm willing to bet that people within Siebel knew that they had unhappy customers; certainly the salesforce knew. I'm also willing to bet that Siebel had no way of correlating or aggregating how many unhappy customers it had or a means to cross reference unhappy customers with its reference accounts. If they had, the entire mess might not have occurred in the first place.

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