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Fighting the Real Competition

Making New Technology Markets

Colorado Office
1600 Stout Street
Suite 1510
Denver, CO 80202
303.446.0001

Oklahoma Office
1307 South Boulder Avenue
Suite 120
Tulsa, OK 74119
918.382.0007

Texas Office
2605 Sagebrush Drive
Suite 220
Flower Mound, TX 75028
972.899.0086

www.telechoice.com

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Competitive Confusion

Competing in a new market space today is often compared to engaging in a dogfight. Books with titles like *The Art of War & The Art of Sales*, *The Ruthless Leader*, and *World War 3.0: Microsoft and Its Enemies* fill the shelves of the business section at your local bookstore and remain on the bestseller list for months. Television delivers 24-hour coverage of every business decision, maneuver, and failure. Boardrooms are now command centers, the business landscape is littered with injured companies, and websites track companies as they spiral out of control and into bankruptcy.

The business world has even adopted much of the same fighting terminology to describe the marketplace. New CEOs declare, "The fight is on," and they speak of "rallying the employees" when problems occur. Market share is defended, intelligence is gathered, and new adversaries enter the marketplace every day. This mentality is especially strong in the telecommunications industry, where the process of launching innovations into new and existing markets has become the key battlefield of the marketplace. The fight is over who can grab the ultimate prize—defining a previously undefined category or space within a given sector. Financial and industry analysts, consultants, publications, and gurus all clamor to declare something new and earthshaking in order to take the lead position over the sector.

However, strategies like these don't come without costs, and if not executed correctly, they can doom a company to failure. Indeed, your own actions are as likely to bring you to catastrophe as those of your adversary. You may even discover at the end of a long fight that it matters little who won, because the new market that was the objective is no longer worthwhile. Perhaps the greatest irony is that many markets perish at the hands of those who should be working together rather than against each other. Attacks against unrecognized allies end more new markets, services, and startups than the real adversary ever does. Time and again, we've seen companies zero in on the wrong competition, at the wrong time, in the wrong place.

Companies in the telecommunications industry also ignore lessons from the industry's own history. They turn a blind eye to previous marketplace mistakes and rarely take the time to understand what went wrong. Instead of concentrating on fighting the real competition, they move on to the next new marketplace and start attacking each other all over again. Meanwhile the real competition sits back, dabbles a little in the new market, and then emerges undamaged to capture the spoils of the new market with little effort and minimal costs.

To win the fight to grow innovations into new markets in the telecommunications industry, companies must learn to avoid these mistakes. This whitepaper provides a starting point in meeting one of the biggest challenges in developing new telecommunications markets—recognizing the real competition—and it offers new market rules for avoiding this competitive confusion.

Recognizing the Competition

Combatants in every fight have their allies and their adversaries, and the differences between them are usually clear to both sides. In business, however, and especially within the telecommunications marketplace, the distinction between ally and adversary can become blurred. To better understand your particular new market environment, take five minutes and list those companies you consider allies and adversaries in your newest market segment.

Most companies list current partners as their allies and those in the visible field of competition as their adversaries. Sometimes the same name appears on both lists. But generating a good ally list may be tough, because the best allies are not necessarily the first companies that come to mind.

Your best allies are those companies with a vested interest in seeing the status quo changed.

Who's Your Real Competition?

List below those companies you consider your allies:

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List below those companies you consider your adversaries:

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Do the companies you've named fit the definitions included here?

This merits repeating: Your best comrades in business are those who also want to see things change; that is, they also want a redistribution of the assets. Allies are companies with one or more of the following traits:

- Their likelihood of success depends on changing the traditional thinking and habits of your chosen target customer
- They stand to benefit if the new market you've identified is successful
- They have the same adversaries as you

So if these traits characterize your allies, what describes your adversaries, or your real competition?

In a new market, the real competition is any company representing the status quo.

Think of the real competition as the traditional answer for target customers searching to fill a need or solve a problem. Your adversaries also have some very recognizable characteristics, including the potential of losing existing customers, revenue, and market share if the new market is successful. If a company does not have a discernable market share, a base of customers, or large revenue stream from the target customer base, it is not the real competition. Success in developing a new market requires staying focused on the real competition. Accepting these new definitions of ally and adversary will alter your perception of the existing market environment and lead to changes in your overall marketing, sales, and business strategy.

Learning from History

Success in transforming an innovation into a new market sector is the result of convincing customers to make different decisions than they have in the past. Your innovation will require customers to think, act, build, and work in a new way. Even when change makes perfect sense to you, for customers change is scary, risky, and very uncomfortable, while the status quo is safe, familiar, and suits their needs just fine. To build a new market successfully, the first and biggest hurdle to overcome is the perceived risk that potential customers associate with change. You must understand what makes these customers afraid. Or, more to the point, what makes potential customers comfortable? What lowers their perceived risk and makes the decision feel like a safer one?

"Safety" is a relative term, but in daily life or in the business world most people find safety in convention, tradition, repetition, and habit. A feeling of safety comes from seeing others make the same decision without painful repercussions. We've all heard some form of the phrase, "No one ever got fired for choosing IBM," or AT&T, or some other traditional market leader.

Customers also feel safe when they hear messages—repeatedly and from a variety of sources—that describe an innovation as low-risk. Building new markets means making the innovation seem as safe as possible as quickly as possible. As strange as it may seem, this usually means doing nothing—no negative marketing messages, no negative sales pitches, and no attacks on new allies. Conventional sales and marketing efforts such as negative messages really only heighten customers' perception of the risk associated with the new market, driving them further into the refuge of the status quo.

Perhaps the best recent example of how not to create a sense of safety comes from the data services marketplace, specifically the DSL (Digital Subscriber Line) space. The entire DSL industry was founded upon a standards debate that until recently pit all the players against each other instead of against the real competition—the existing dial-up Internet industry and the emerging Internet over cable service providers. When the DSL standards were originally developed, the primary killer application was video on demand, where the movie size was large, but the actual request for a movie download was small. The resulting technological solution was ADSL (Asymmetrical Digital Subscriber Line), which had a large downstream bandwidth and a small upstream bandwidth.

Then the Internet took off, and business-driven requirements made the DSL definitions look more symmetrical. Service providers began to offer various flavors of SDSL (Symmetrical DSL) based on older HDSL (High-speed DSL) and new variants of DSL. Intense competition for contracts for products to meet market requirements yielded even more variants of DSL: BDSL, CDSL, CiDSL, EDSL, Full-rate ADSL, HDSL, HDSL2, IDSL, MDSL, MVL, RaDSL, UDSL, VDSL, WDSL, xDSL, and so on. At last count, 23 of the 26 letters of the alphabet had been used at some time in combination with DSL, causing journalists to joke about the DSL "alphabet soup."

The industry was in chaos. The attempts of DSL equipment vendors and service providers to gain an advantage on competitors had created such total confusion in the marketplace that potential buyers had to analyze the entire DSL space before they could even consider what to purchase. It took a massive order by four RBOCs to make a market statement for a single ADSL technology and the deployment of SDSL by the three major data LECs (Covad, NorthPoint, and Rhythms) to focus attention on just two of the technologies.

The DSL space infighting, caused by startups attacking one another while the telcos and large companies stood by and slowly marshaled their forces, cost the industry most of its innovation and growth. Now, in the second half of 2001, the DSL industry is struggling to recover. No sizable DSL-focused startup seems destined to survive. The incumbent telcos and major vendors like Alcatel, with its 55-plus percent share of the DSL market, have emerged as the apparent winners. However, as demand for broadband wanes, even the “winners” seem to be losing ground. Many consumers are sticking with dial-up access that performs fairly well at up to 56Kbps. Broadband deployments are slowing, and cross cable/telco groups are starting to look at new standards for set top boxes, next-generation applications, and software to support the argument that broadband access is really necessary.

In sharp contrast to DSL stands the cable industry. Its monopolistic local licenses have enabled cable providers to work in harmony toward revamping their video-only networks to be data- and voice-friendly. Key specifications by their standards body, CableLabs, have resulted in consistent and timely deployment of new specifications. Cable providers have found allies in the software and hardware markets. And what is the status quo they are seeking to change? The dominance of the telcos in the voice and data space.

The DSL space is not the only example of innovators fighting each other while the real competition silently gains strength. This same type of competitor confusion almost destroyed the frame relay service marketplace during its early history. Innovative service providers such as Sprint and WilTel spent a majority of their time and effort attacking each other’s new frame relay services, when in fact the real competition was private line services from status quo providers like AT&T. Through the efforts of the Frame Relay Forum, these challengers were brought together publicly in an effort to build credibility for emerging frame relay services, and this public display of unity helped make frame relay services an acceptable replacement for private line networks. When that market entered the next stage of its lifecycle, customers were no longer debating the merits of private line versus frame relay; they were ready to choose between frame relay providers.

To build a new market you must develop confidence in that market. Anyone who will benefit from seeing the new market built quickly and successfully should participate. Allies must convince customers that the innovation makes more sense than the status quo. Even when the first customers choose other allies, it’s still a win. After a while, everyone will join in, and the allies can grow and thrive. The guardians of the status quo will need to work harder to lure people back or convince them to stay.

Exploring New Strategies

The marketing strategy you build for the future should reflect this new understanding of who your allies and adversaries really are. When the status quo is well entrenched and well funded, you'll find strength in numbers, and your first objective is to improve the position of the allies as a whole. Therefore, when you crystallize a marketing strategy for a new market, follow these two rules:

1. Concentrate energy on building market confidence

2. Direct skepticism and concern toward the real adversary—the status quo

If the allies in this fight fail to recognize each other and ignore these rules, their new marketplace will collapse, and the status quo will persist, unchanged. The real competition will absorb the remains of its bankrupt challengers and thereby grow stronger.

Building Marketplace Confidence

The first months of a new market campaign should focus on building confidence in the innovation within the marketplace, which can be accomplished in a number of ways:

- Demonstrating the past success of the company, its people, and other innovations

- Creating familiarity through demonstrations, real-world testing, and reference customers

- Educating the marketplace through trade magazine articles, whitepapers, customer case studies, seminars, and ROI tools

The goal of the campaign is to ensure that the target customer's exposure to the benefits of the innovation is constant and consistent. Repetition can be a strong weapon in the fight for customer confidence as it increases the perception of safety. If your target customers see the benefits, read them, and hear about them again and again, they are more likely to accept the benefits as real. Customers also believe strongly in safety in numbers. If only one company offers an innovation, and only one company uses that innovation, the risk appears to be high. But if many companies offer a similar innovation, and many companies use that innovation, the risk appears low, and customer confidence rises.

It can be as simple as that.

As for the second rule of making new markets, focus the concern and skepticism on the real competition—those who have something to lose, whether it's revenue, customers, or a status quo solution. Marketing and sales strategies should be built around asking and answering questions that create doubt and fear about the status quo. Make potential customers feel an urgent need to change from the status quo. Convince them that the status quo is yesterday's solution and has no future. Highlight the benefits of changing and make sure the benefits are significant enough to justify any perceived risk. Show why there is high confidence in the innovation and why the risk of changing from the status quo is low. Point out why sticking with the status quo is more risky than changing.

Taking the High Ground

Building a new market requires the discipline to stand firm and set priorities during each phase in the fight for success. The real work of growing the new market can commence only when the status quo begins to lose value in the mind of the customer. As the proverb says, "A weaker adversary helps all friends." Innovators should look for ways to join together to establish and expand the base of confidence in the new market. How these allies band together depends largely on the magnitude of change brought on by the innovation and the number of companies coming together.

> **Bring in the Believers**
>
> *Believers are those companies outside the current new market who have a strong interest in seeing the new market succeed. These believers may even be willing to assist in efforts to establish marketplace credibility. Believers can include highly visible and respected individuals who can influence the market's opinion and bring credibility and visibility to the new market. Believers may be financial and industry analysts, reporters, consultants, standards bodies, and key industry members and leaders. Believers should be enlisted to help build confidence in the new market.*

An association or forum is the most visible and also the most difficult tactic for achieving strength in numbers. A successful forum assists buyers and sellers alike by overcoming barriers to building a new market. Does the current innovation warrant a full forum? If not, is there a less formal but still highly visible way to create unity through numbers, drive interoperability, build confidence, and overcome other impediments to early market development?

Any activity that builds confidence in the new market and further weakens the foundation of trust in the status quo will advance the cause. If each ally works to publicize the benefits of the new market over the status quo, all the allies profit. The marketing and sales materials of each player can provide such publicity, as can whitepapers, single- or multi-sponsor seminars, co-authored articles, joint case studies, and any other efforts that bring attention to the cause and lower the perceived risk.

Good News for All

It's hard to see a customer's decision to purchase service from an ally as a win and not a loss, but knowing who the real competition is can change your view of those terms. Every loss for the status quo ultimately helps your efforts. Any change from the status quo can be used as a reference point to build overall confidence in the new market. The dynamics of the new market evolve with every win by a supporter of the new solution and every loss by the status quo. The public's opinion of the innovation becomes favorable when its benefits are accepted and acknowledged as fact, not debatable theory. The new market moves from emerging to established when customers no longer question whether to adopt the innovation instead of the status quo but rather find themselves concerned primarily with deciding between the innovation players.

A new market is made when it becomes the status quo, and the fight is for market growth and market share.

Innovators need to plan for a two-year window for a successful transition from an emerging to an established market. During that time any win against the status quo is a win for the allies and all the players in the new market. New market allies must stay together and stay focused on defeating the status quo and not on defeating each other.

Winning from the High Ground

Obviously the ultimate goal of being in the service provider business is for your company to capture market share. In the early years, that market share will be taken from the incumbent, from the status quo. As a new entrant in the market, you will need to focus your development on particular product attributes at which you can be the best in the world, and because of your unique strengths, you will be able to defend that best-in-the-world position through the market lifecycle. Your market messaging then takes on two elements:

1. Customers need to change from the status quo solution to the new solution space

2. If customers place high value on the particular differentiators at which you are the best in the world, then yours is the best specific solution for them

There will be customers who will abandon the status quo but who value differentiators best provided by your allies. As hard as it is, keep in mind that this is still a victory for the cause. If you have a solid solution, you will take your share of the spoils.

Standing Out from the Crowd

When a new market opens, you want to be acknowledged as different from other entrants into that market. If you've gone through the differentiation process, then one or two of your primary differentiators will be well known and accepted within the marketplace. Doing this process correctly will create defensible differentiation that will set your company apart from other allies. It will not necessarily make you a better solution—"better" exists in the perception of the customer.

Focus on being different, not better, and use that as the high ground in the emerging marketplace.

Avoid creating fear, uncertainty, and doubt about the technology offered by your allies, even if they have chosen a different point of optimization, a different approach to solving the same problem, or a different place to create defensible differentiation. Let customers choose the non-status quo solution that best meets the needs they have today and expect to have tomorrow. Even if you fear losing a sale, don't attack your allies. You could damage the entire market and your own company along with it. The real competition is not the company that has chosen to implement the innovation differently from you, but those that support, rely on, and ultimately win if the status quo remains the status quo.

Takeaway Points

In closing, remember these critical points when making new technology markets:

- **Your best allies are those companies with a vested interest in seeing the status quo changed**
- **In a new market, the real competition is any company representing the status quo**
- **A new market is made when it becomes the status quo, and the fight is for market growth and market share**
- **Focus on being different, not better, and use that as the high ground in the emerging marketplace**

If you follow these guidelines, then the market that you create will be healthy and vibrant. If you fail to follow these guidelines, it's possible that you may dominate the market, but the market will be financially unhealthy and stagnant. So, focus on the right battles, with the right foes, and join together with the right allies to win the cause and create value for all.