

Lecture Text

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Managing Markets, Segments, and Customers

(edited for clarity)

Introduction

Good afternoon. The name is Das. The title of the talk said "Managing Customers for Profits." This is a definite bait-and-switch. I'm actually going to talk a little bit more about market segments and customers, a framework that I have been using in the course that I've taught at the school, which is Business Marketing. So let me get into it.

The way I was framing the course was by saying that marketing is the management of three entities: you manage markets, you manage segments, and you manage customers. And today I'd like to focus quite a bit on the second part, which is managing segments, and show how customer issues feed into the segment-level management issues, and what one needs to do at that level before one gets to managing customers.

So when you think about the structure, the idea is that you vision, or you place the big bet, when you're focusing on the first level, which is managing markets. This is where, very early in the game, you make the major investments. You more or less set yourself in a certain path. So that is a big decision. That's also where marketing strategy meets business strategy or business-level strategy. So that's the first part.

Having visioned what you want to do, or where you want to be, or how you want to conduct yourself, then you formulate a strategy. And that's at the managing segments level. So when you look at managing segments, it's all about formulating the marketing strategy. And having formulated marketing strategy, then you get down to managing customers, which is where you implement strategy.

So the course that I taught was in three parts: you vision, you formulate, you implement. And this evolved over time. So I'll briefly touch upon what the visioning thing is—what we did in the course—and spend most of the time on the formulation and some time on the implementation today.

Managing Markets: Visioning

So, what do we do when managing markets? This, as I said, is about visioning where you want to be. And one way to understand that is to look at these two bars. This is the sum total of what you can do. This is the value that the firm can provide or the competence that the firm has. And this is the value or the benefit stack that the end consumer or the end user in the whole demand chain requires. And the decision that the firm has to make is how much of this total stack that the end customer wants should be satisfied by the firm? So in a way, do we just do what we can, and leave it to others to figure out how to set this up? Or do we go all the way to the right, and try to be the one-stop-all solution to our customers?

An example, to clarify what this is, is if you are Intel, you could say, "I am in the business of silicon manufacture, where I focus on making chips, and having made the chips, then leave it to someone else to figure out how to populate the motherboards, put them in boxes, brand the boxes, and sell a PC, which is personal productivity system, to the end consumer." Or you can actually say, "Not only will I make the chips, not only will I make the

microprocessors. I'll make the other chips. I'll populate them on the motherboard. I'll put them in boxes, and then I'll sell them to companies like Dell that will private-label them and sell them as PCs.

That decision you make is a fundamental decision of the business, and it affects the skills you have. It affects what you make. It affects who you're going to partner with or collaborate with. It also affects who you're going to compete with. This is how we started Business Marketing, looking at these issues.

Market selection: fits

And the question beyond this was actually trying to understand fits, because market selection is not a trivial exercise. It's not just that once you do the previous analysis, you know where to go. There are other factors that might actually force you to take what might appear to be suboptimal choices. For example, you might know where you want to go, but many a time there are some investments here, in the firm, and in the product form that sometimes can influence the decision.

Take the case of a company called Color Kinetics. This is a case we teach in the early part of the course. Now, Color Kinetics makes intelligent digital lighting systems. So it takes LEDs and puts them into arrays that can be controlled through microprocessors to create a palette of sixteen million colors. Now, literally that company can say, "We're in the business of paint," because what they can do with the technology they have now is put color washes on walls, where a white wall can be a different color depending on what light gets reflected off the system that they have.

So in fact, they can put a controlled system that has its connections to some infrared lights that measure the temperature of the person walking in. And depending on the temperature of the person, which is related to their mood—if you're not feeling good, the whole room can go blue to reflect your feelings at that point. That's the only feeling I have most of the time, so I don't know how it feels in other states. But you can change and do many things. The advantage of LEDs is, it's cold lights. It's not warm. It can be used to light things that are very flammable, or very, very fragile. It's also low consumption in electricity. It also has a long life, so 100,000 hours of mean time between failure, which means eleven and a half years of continuous operations. And the company has to decide what to do with it.

Now, when you analyze it from that end, it becomes pretty clear as to what the firm should do. But then you go and look at the firm. It's on Milk Street, Boston. Seventy-odd engineers, all of whom have one common root, which is MIT. And then you realize that there is something more about what this company can do and what it cannot do. These self-professed nerds define, therefore, what the company will be. So sometimes it's not just where you want to be, but it's also asking the question, who I am. Because very often this might be a variable that is not easily changed, but is a critical resource. And you might actually have to go to a market where that resource can be most optimally utilized.

So rather than trying to solve the world's problems, what this company literally does is let its engineers do interesting things, things that interest them, not the market. And they've been pretty good at it. They have product lines now to light up pools and spas, so if you have a swimming pool, you can have lights changing that all the time. And it's very fancy. And so they do those kinds of things. They want to light up the Loews sign in Times Square. They love to do that. They love to kind of do the Bellagio, the white light that lights up the

fountains in Bellagio, and so on. So they're doing things that excite them, and that's really what's driving that company's decision of which markets it wants to select and serve.

So sometimes what solution you have or what product form you have, the investments you make, can in fact affect the market that you want to serve. So visioning where you want to be is a critical decision, and many a time not a very obvious one. That's something that we focus on in the course, in the beginning.

Managing Segments

Having done that, then you get to managing segments. As I mentioned earlier, this is where you formulate your strategy. And in all my experience in consulting, my work with firms, and my own personal experience, which was long back and not very successful, I've found that we tend to confuse the formulation of strategies with the implementation. People tend to do those things together, and that's not necessarily the way to get—and you want to iterate between the two, but you want to understand formulation as being a distinct activity, as compared to implementation. So that's what you talk about with managing segments.

And here, you are doing the classic Marketing 101—that's STP, which is segmentation, targeting, and positioning. So I'll talk a little bit about how we think about that in a business marketing context. Having done the STP, then you implement. And one part of formulation is not just knowing what you want to do, but also what you are not going to do. If there's one thing that I find incomplete in most business plans that I have been asked to review, read, or comment on, or advise upon, it is not the—I do not focus as much on what the company is planning to do as much as I am asking the question, does this company have a clue of what it's not going to do? Because we all are always flooded with opportunities beyond our capabilities, and we need to have the discipline of not doing something. So as much as you decide at segment level to serve some segments you want, you also have to make the decision of which ones you do not want to serve. So those decisions get made at this level.

Frameworks for success

Let's talk about some frameworks that will walk us through this thing. At segment level, when you think about success, you have three factors that define success: where and how you create the customer value, or where the value is generated; where and how it is different, in that the uniqueness gets created; and finally, it's no point if you create and differentiate if you do not know how to extract, and so the third part is your ability to extract value. To do that, you need to understand three things: your customer, your competition, and your economics. So when you're planning segment-level strategies, these three elements need to come in, in some form or the other, because that's really going to define your total strategy, how it gets formulated. Let's spend some time talking through each one of these.

Formulating marketing strategies

As you can see the theme pretty clearly, to me, life is about three fits in every stage. When there are fewer or more than three fits, I just walk away from the situation. Too few and I usually realize that the other side has power. Too many and I realize I'm going to create too much confusion. So, three benefits. By the way, when you look around, especially at my orientation, which is industrial and business markets, and ask companies how strategies are formulated, how marketing strategy is formulated, which is the most common starting point that you think I run into with firms? Simple question. I'm asking you to read my mind.

Invariably, it's the budget. People start strategy with the budget they get. Because what happens is, marketing tends to be blocked under a bunch of other things. And at the end of the day, people say, "Hey, listen, we have spent a lot of money designing the product. We spent a lot of money setting up our organization. We have a little bit left. Let's now figure out what we can do with this money that we have on our marketing." That's a very reactive and upside-down approach.

As you can see here, the strategy formulation I am suggesting doesn't begin with the budget, but begins with an analysis of the customer, the competition, and the firm. So it's taking an exactly opposite view of the world. And what I'm saying here is that there are three parts to the whole process, again, which need to be managed iteratively.

The first one is understanding the customer benefits. These are not features that you have in your product or service, but benefits that your solution provides to your customers. And the critical point here is that it is not required that you have to convince the customer of all the benefits that you can provide them. You can actually make a conscious decision to say, "I can do lots of things. I might in fact be delivering a lot of things. But in this situation, I am not going to tell the customer about everything," not because you don't want to, but because it might be uneconomical for you to try and convince the customer on things at an early stage in the adoption cycle.

So, when we talk of customer benefits, let's get the laundry list of benefits that we provide and ask the question, which one of these things, do I need to think about because it's going to have an impact on downstream activities of setting up the sales and marketing strategy.

That has to be managed in parallel with the pricing and positioning decisions, because based on what benefits you plan to highlight, that affects how you're going to position the product relative to your own product line, what you have right now, and your competition. It's also going to affect the profit objectives of the firm. So the firm, the competition, and the firm's product line come into play. That affects how you position and how you set price.

Those two are not independent from the analysis of the customer. Because at the end of the day, in most industrial business markets, you're selling—in fact, in all markets, I would argue—you're selling not to simple purchasing entities, but rather to complex purchasing entities. And you need to figure out: all those benefits that I have, all the positioning ideas that I have, the pricing strategy that I have, how does that link up with my ability to execute with the decision-making unit, the DMU? Because if I am not able to do this right, at the end of the day the customer isn't going to buy. So formulating the strategy involves managing all three components.

Let's walk through each one of them. I'll start with the customer benefits first. I'll talk a little bit about the DMU analysis, and finally finish up with the price/performance framework.

Customer benefits

Here is how I think about benefits. When you're trying to understand what benefits you provide—and by the way, we live in a world where ROI is the dominant theme. Every company of any repute, or no repute at all, has an ROI model. Everybody is able to nowadays come up with a pitch. My classic example—this was brilliant; I think I learned a lot in this single interaction—this was on my first trip to Istanbul, and I'd just arrived in the city, and they'd taken me down to see the Blue Mosque, which is an absolutely fabulous

piece of architecture. How many of you have seen the Blue Mosque there? Isn't it a fabulous thing? It's absolutely great. Do it when you have had a good night's rest. Don't do it on the first day just when you land in Istanbul. You lose a lot.

But anyway, I'm going there. I'm driven to this place in a taxi, and I get out. And within two minutes, no, within twenty seconds of getting out of my car, I am approached by an eight-year-old who is trying to sell me a Turkish flute. And before I can say anything, he has already begun to talk about the benefits that it has to offer. He first talks about features. He says that this is a flute unlike all others that you have seen. The Turkish flute is kind of blocked at one end. Therefore you blow into it in a different way, and all that. And very soon he has moved from features to saying, "If you bought this and you played it, you could sound like a world-class musician, and a flautist of extreme repute." So he had already appealed to my ego.

And I haven't even moved. It's fifteen seconds and the sales pitch is finished. Features, analysis. It's come to benefits. He's convinced me that somehow he knows that I am listening. He sets price, and he says, "Okay, it's ten bucks." I haven't even asked him for a price. I haven't even shown an inclination to buy. And he says, "It's ten dollars." And he is very smart, because if he had put it in Turkish lira, it was about two and a half million Turkish lira. And you know it doesn't matter what the currency is, but two and a half million sounds like a lot of money. Ten bucks doesn't. So he kind of frames pricing and positioning. Everything is going on.

And my first reaction to that was, ten bucks? I mean, I was going to say that. Before my reaction, he has already dropped it down to five. He is doing a binary search now. He says, "Five bucks." Before I can react, he's down to \$2.50, \$1.25, kind of begins to get a little cloudy on the math, so he drops it to fifty cents, and then comes down to twenty-five cents, and we strike a deal at twenty-five cents. Now, think about this. I mean, how many times have you been able to set a price that is twenty times higher than the final price that you're going to sell at, do it credibly so that the other party in fact gets engaged—"How the hell can you charge such a high price?"—and stay on the table and still negotiate with you?

So I finally buy it. And I say, "You know what?" I tell him, "Look, I'll give you the twenty-five cents. I'll buy the flute. But I also want to give you ten bucks if you can tell me this whole formulating your strategy. How did you do that? Explain to me how you do your benefit analysis. Explain to me how you chose which benefits to focus on, which not to focus on. Tell me how you positioned against the world of flutes that I have seen before." And so he says, "Sure." But what he does is first grabs the ten-dollar bill and puts it in his pocket, because I think he was worried about this "no-refund policy" kind of a thing, and he didn't want me to say, "Hey, it's not really worth the ten bucks. Give it back to me." And then he says, "Oh, it's all simple. It's experience." I have still not figured out what it meant, but it sounded very good to me that day, and I think it's fine. But if you can figure this out, tell me what he really meant by that phrase, "Experience."

Anyway, when you think of benefits, there are two dimensions on which you need to understand the benefits that you provide to your customers. On the vertical axis, on the Y-axis here, I have two classes, economic and noneconomic. Now, one could argue and say that every benefit can be monetized, and that's absolutely true. But the degree of difficulty of monetizing differences between economic and noneconomic benefits. I used to call them tangible/intangible, but I'm walking away from that bifurcation now. I prefer to call them economic and noneconomic. This suggests a benefit that's easy to quantify, where I can

show—and I can at least put a dollar metric on that benefit. And then there are some benefits where it's very difficult to establish the dollar metric.

Having done that, that's only one part of the equation. Just quantifying the benefits is just one part of the equation, because having quantified, you then need to have an understanding of your ability—you as the vendor, you as the firm—to be able to communicate that to your customers. We tend to ignore that part of it. When we create ROI models today, at least the way I've seen firms do it, they focus on their own ability to quantify, very rarely asking the question, "Do I have the ability to communicate credibly what the benefit is?"

If you do that, there are four kinds of benefits. If I gave you a choice, and I asked you, "You have the world in front of you. You can pick any product or service you want to market or sell." And there's product *One*, *Two*, *Three*, or *Four*. Product *One* has all the benefits it can offer, which are in quadrant one. Which quadrant, which of the four products would you pick? So, there is a product which has all its benefits only in one of those four quadrants—a product or a service, anything that you can think of. *One*, right? Why *One*? *One*: it's great because it's easy to quantify. It's easy to communicate. It's the easiest set. But what's the one problem, when you have products with all the benefits sitting in there? It's that, very often it might be the case that competition can do it equally well. So you want to be in *One* if you have some protection. The farm industry runs after that business. I mean, that's what it does. So you can patent it. You can protect it. Hey, that's a wonderful world to be in. If you can't—and in most markets, it isn't—if you can do it, there's a great chance, a strong likelihood that someone else is doing it. So then you're beginning to fight on price pretty quickly, because everybody can offer the same thing. You know, you can go through all those things one at a time. Let's do that, actually. Rather than go down that path, let's look at the real world, which has products that have benefits in all four cases. How should you think about these benefits? Rather than trying to treat them all the same way, understand that each of those boxes, or each of the quadrants, the benefits need to be thought of in a very, very different way.

As we just discussed, if you're in that quadrant *One*, the top left-hand, this is where it's easy to quantify, easy to communicate. The approach in this situation, where you're trying to focus on those benefits, is clearly price-to-performance. In which industry do you see this kind of price-to-performance communications and strategies all the time? Open *PC*, open *PC Shopper*. What does Dell do? Dell lists out those fifteen characteristics that describe a PC. They lay out what they offer, they lay out what Compaq offers, or what Gateway offers, and they put a price at the bottom. What analysis are they asking the customers to do? They are asking us to all calculate the price-to-performance ratios and reach the right conclusions. So when you have economic benefits that are easy to communicate, the best way to approach the whole strategy is to think of comparisons and focus on those benefits you have where you have a superior price-to-performance.

Unlike that quadrant, if you move up here, where it is easy in your mind to quantify, but it is difficult to communicate—and this could be because the customer has to experience the benefit before they can validate the savings. We tell the customer, "You use our product, your people are going to be happy. And if they're happy, they'll work harder. If they work harder, some study has shown you'll do a 20 percent improvement in productivity." And then you run all the analysis based on the 20 percent improvement in productivity. What's the problem? The customer doesn't necessarily buy into the 20 percent thing. Most of the firms, when they think they have actually very strong ROI models, actually have benefits

sitting in this quadrant. And trying to tell the customer, "You judge up front and decide which one you want to buy" doesn't work.

So how do you manage that? Rather than just running simple price/performance comparisons, you get into benchmark studies. What's the idea of doing a benchmark study? "Hey, listen. Don't listen to me. A third party like Factory Mutual or Underwriters Lab or Gartner or Forrester has done the study. They say that this works in a variety of places, and therefore there is more credibility for the whole thing, for you to buy." Or you do pilot tests. Rather than doing a benchmark, you say, "Give it a chance." Especially for those of you who are in high-tech markets, the pilot is a very important one. Companies either swear by it, or swear at it. But pilots can be very, very useful. What do you do in a pilot? You choose the right site. You get in there. You validate the benefits. The customer sees the benefits. Once they buy in, then you roll out to the rest of the organization.

Or the third thing, which is becoming very common today, is the guarantee against failure, or pay-for-performance, where companies are moving away from selling products to saying, actually, "I've got skin in the game, too, where if I am telling you my product is better and can give you a competitive advantage, I'm willing to take a shot at it, and I will share with you any benefits you get."

One of the clients that I had in the tire industry has actually moved away from selling tires to airlines, to now selling successful landings and takeoffs, where the customer said, "If you really are in that business, and if you think your product is superior, you've got to give me a savings." And I am cost crunched. We all know how the airlines are today. So what did the company do? Rather than sell tires, they said, "OK, we'll take part of your operating cost savings. We'll promise you so much savings if you deliver that money." Some problems there. You've got to be careful when you get into such arguments or such discussions or such agreements in that you have to decide who's going to monitor performance. If you just leave it to them, you know what happens. If they just leave it to you, they know what happens. So you have to figure out a joint approach of measuring and managing.

What I'm laying out here is that when you begin to understand the benefits you offer and you begin to understand the ability to quantify and the ability to communicate you in fact are beginning to lay out what your marketing and sales strategy is going to be. So those are the two on top. This is bigger in consumer markets. I thought it was not a very big issue in industrial markets, but over time I have begun to respect that there is more inertia in industrial markets than in consumer markets, and that quadrant plays a much bigger role. So thinking about market reputation and establishing it is very useful because this in fact might be a huge hurdle for competition to overcome if you can establish it in the customer's mind. And then the last quadrant, quadrant *Four*, which are things like trust and commitment, are things that really don't apply in acquiring customers. But those benefits can be enormously useful, in fact become the glue that holds relationships together. So the three quadrants I've discussed are more useful when you think of acquiring markets, acquiring customers. The fourth quadrant is the one you can use in fact to retain customers.

Linking benefits to decision-making unit

OK, so once you quantify the benefits—this is an area that I have begun to explore in detail very recently. There's this whole issue of how do you link those benefits to the customer or the decision-making unit. People have different metaphors, people have different thinking. I focus on what I call the benefit stack. And it's evolved over a long period of time. Think about it. You might know all the benefits you offer. You might also have a good analysis of

who the customer's buying unit is. But if you do not understand the linkages, you are back to square one in that you're not going to have an idea how to position the product. So one step, which is better than that, which is the most common approach that firms have, is being able to understand what are those fears and what are the needs of each one of the members of the decision-making unit and aligning the different benefits that they can offer with each one of those decision-making unit members.

But what I would suggest, or what I think is superior to that, is in addition to aligning the benefits that each of the members has—CEO, CFO, Purchasing Manager—and the benefits that they're interested in—ROI, security, purchase price, technology and something else—what if companies began to not just focus on establishing the linkage between the direct benefits that people are invested in, but also getting everybody to understand the big picture? Rarely is this done, but this is where you avoid the problem of sleepers. Sleepers in the decision-making process will suddenly crop up and derail your whole process. It's not because they don't understand what you do for them. You've covered that. But the problem sometimes is that they do not necessarily understand what the other benefits are. And because they never see that, might sometimes just see part of the picture and therefore have their own fears.

So what I'm suggesting here is that building up a stack, where the value stack is something that every decision-making unit members sees, but sees it because of a conscious effort by the vendor to not only explain to them what is directly relevant, but also they can go to the CEO at some point and say there is a good ROI, security is taken care of, and by the way, your technical people love it because it fits in with their long-term technical strategy. That's something the CEO doesn't care about. That's something the CEO might not be interested in. If you went to them on day one and tried to sell them a product based on that, it wouldn't work. But at some point in time for them to understand that this is useful, because the taller the stack, the more the benefits that they have understood, the greater the value you have created, which in turn means the higher the price you can set, because the bigger is the offer that is set.

So once you think through all the benefits, ask yourself, how am I going to align this with the customer. And if I have a complex decision-making unit, how do I maximize the height of the stack across everybody in the customer site? Once you do that, then you can set—the higher the stack, the higher the opportunity to set the price.

OK, what do you do next, after this? So you have understood your customer, you've understood the benefits, you've understood the decision-making unit complexity. Let's get to the last part, which is the pricing and positioning.

Pricing and positioning

One easy way to understand this is this price/performance curve. I've been playing around with this concept. I haven't really written the article yet. I'm testing it out one more time before I do that. So if you look at any industry, the premise here is that every industry has a certain basis of performance that defines the industry. What would you say is the basis of performance in PCs? Speed, microprocessor speed. One would argue today that actually it's a combination of microprocessor speed, and memory size, and all that. But there are a certain set of attributes, a combination of which typically defines performance in any industry.

Industry after industry I've found that it is not very difficult. Typically three to four attributes are the dominant ones that define most industries. Just getting to understand those things again gets down to the whole issue of which benefits to focus on and which not. If you do that and you were to plot the comparative space, you won't get a line like this, but you would get a band, with most of the competitive offerings pretty much within that band. Most of the competitors tend to be placed in and around the band. People on the higher end of the band are the ones that have brand equity. They are able to leverage that third quarter. People below the band are kind of price takers. What do you expect to see when you have smart companies that ask if things could go beyond this? So, three things that come up. First, companies that are smart or companies that try to buck the trend will ask should we conform or not. Second, they'll ask the question, should we in fact be the ones that change the basis of performance in the industry. And the third that typically they'll ask, is can I actually keep moving this line to the right. What's the movement to the right of the line? It is offering new versions, new technologies, new capabilities at the same price, so you're bringing in more value into the system.

Let's take each one of these questions.

To conform or not: What I have found is that many times companies have decided not to conform. For example, at the high end, very often you will find, in industries where there's a smart player at the high end, there is one company or one division of a large company that is able to extract a price premium for its high-end product. Why would one expect that? What kinds of customers exist out there? They are usually cutting-edge customers demanding the latest in technology, which typically makes them price-insensitive, and therefore they are willing to pay the higher price. Now, does that high price mean superpremium profits for the firm? The answer is no, because that high-end customer demands high levels of service. They need a full-service channel, possibly. They need support of a level that is much greater than the rest of the marketplace.

So what you will find is that high price, or the premium price that is set there, is not something that's unusual. In fact, it might be a must, because if you want to make more money at the high end, you do need to do it. The volumes are low. The customers are price insensitive. You need to put in high service. Charging a premium at the high end also makes sense.

What you find also is that the company that sets the price here actually establishes discipline across the industry. Because if you think of this as a chain link, what happens when you hold that price high in that chain? What happens to the rest of the chain? Stays high. If you drop the price at the high end, what happens to the rest of the price line? It begins to collapse. So companies that operate at the high end always tend to provide an umbrella, and a discipline, and a vision for the firm.

As against that, companies at the low end do exactly the opposite. Rather than trying to look for conformance there, they will try to arbitrage a factor of production or a design feature in their system, not the product that allows them to reduce price significantly as compared to competition. Anybody who has competition from Asia today faces this issue. Outsourcing that we are discussing in a big way in this country is an example of this issue. Dell going after Compaq in '92 is an example of this point, where some smart player dominates the low end by dropping price for the same level of performance to a point where the others can't match because of restrictions they have in their own skills, their

capabilities, and their investments, which allows this firm to walk away with volumes, and then it becomes a virtual cycle, where they literally beat the competition.

So those are the two pure plays at the two ends. You have the value game at the high end. You have the volume game at the low end. The question that comes up that is interesting to ask is, what then should a full-line supplier do? Typically the full-line supplier's problem, or the market share leader's problem, is that they have to play the entire span. And when they play the entire span, what is found is that very often either the brand, in the case of Toyota and Lexus; or the organization—Merrill Lynch from online to full line, full service—or the channels, will prevent the firm from using the same structure to serve the entire spectrum. So the full-line suppliers and market share leaders are beginning to realize that you need pretty much different organizations to manage the different ends.

In the last two days, actually, this issue has shown up in the *Wall Street Journal*. One was about Nokia and the problems that it has run into. What did Nokia do? Nokia basically was the market share leader, but they decided to put money into which part? The top end. Why did they do that? Because they expected the market to move pretty rapidly to that high end, and what was supposedly high end three years back would become mainstream market today. That didn't happen. What happened was, in their case, this midmarket, which is—this is the cell phone that I have. It has six buttons, because you don't need to call all the numbers. So it has only the numbers that you need, on an as-needed basis. Here's where you have picture-ready, or whatever those phones are. I believe they work. And then you have those smart PDAs. Nokia got in here. Might be it was a good strategy for Europe, but in the United States, this is the market where it's been growing, and a host of other factors that feature in. But they missed the boat here.

Yesterday's *Journal* had an interesting article on the Mondavi brand in the United States. And Mondavi had a problem where they thought this was the entire span of the business. And what happened was they got hit by low-cost producers, overseas producers that redefined this space. And they also got hit by those niche boutique vineyards and wineries that defined the new space. So sometimes the world can expand the horizons at both ends and take away your opportunities or take away your strategy.

Firms that are big in the industry have major issues. This was exactly what happened to Compaq. Because when Compaq was doing well, Compaq had done to IBM what Dell did to Compaq. Compaq had set up the low end, which is to serve it through wires. What did Dell do? Rather than conform to what Compaq was doing, Dell said, "Hey, listen, actually, you know what? The price can be much lower because I'm going to leverage the direct channel to serve the customers." So when you are a large player, when you are serving the entire market, you have to ask the question, who can attack me, when, how, and why?

There are different ways to rule the world. A simple product, definitely technologically advanced, a set of benefits, doesn't mean therefore a simple answer. Depending on which benefits you want to highlight, depending on which customer you want to sell to, depending on what pricing and positioning you set, the strategies required are different. The approaches are very, very different.

Product Evolution and Bundling

The whole point that I was making here was that we live in worlds where, if you look at products, or you look at services, or you look at lines, what you find is a product line. And the product line can always be drawn as on a price-to-performance curve. So, product line

management is where I spend a lot of time thinking about things. But what I've found is that there are some places or some situations where it's not product line that is important, but two other things, product evolution and product bundling. Here, the assumption, or the given, is that different products exist at different levels of performance and different prices, and they exist at the same time.

But there are industries that I'm running into now, as I expand my scope of inquiry, where these things don't simultaneously exist. What happens is that you see a product at a certain level of performance and price on one day. You revisit the industry five years from now or three years from now. The old product has gone. It doesn't exist anymore. There's a new product that has a super set of features, and a higher price. So that I'm calling as evolution, where literally the first *X* is not visible when you go down the road. So the product just moves. There's only one product, and it moves across the spectrum of performance over time.

And then you have a third variety, where . . . These are the performance changes here. You have a third variety where you have this sort of a situation, where you have a core set of capabilities that continues to be available in a certain product, around which there are augmented features which you get in the next version. And then you have the third one. This is quite different from this product here. All three levels have all the features but different levels altogether. Here you have different products that exist at different times, and here you have products that have some capabilities, while others have other capabilities. So it's very, very different.

The reason why I'm bringing this up—and I might not be very clear here myself—is that the way you organize yourself, the way you organize marketing and sales, is very different when you have to concurrently sell different performance levels at different prices; to selling an evolution where you might be selling a productivity system for an individual today, while you're selling an enterprise system tomorrow; to the third, where you are selling all three products at the same time, but the functionality and the feature set are very, very different, where the bigger product is a superset of the smaller product. How companies organize themselves, both on the marketing side and on the sales side, my hypothesis is that it's very, very different.

Thank you very much. Well, it's wonderful to have you folks come back. You know, it's not done.