

Volume

5

THE IN-DEPTH
BEST PRACTICES SERIES

Marketing Technology Upgrades©



IN - D E P T H
STRATEGIC MARKET RESEARCH

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Introduction

Product extensions, not new products

Starting in the late 90's, there was an unprecedented explosion of demand for new IT products. This extraordinary demand was fueled by three key factors:

1. The emergence of vast numbers of VC-funded start-ups.
2. The recognition that IT could be the source of meaningful competitive advantage.
3. The widespread adoption of a new class of powerful enterprise applications, including CRM, Business Intelligence, ERP, etc.

This sudden influx of new product revenues pushed traditional business planning and product lifecycle management strategies to the side of the road. As software, hardware, and IT services companies became accustomed to this tsunami of new product revenues, they forgot a basic business lesson.

New product revenues are a gift. But, you live or die by managing the lifecycle of your existing products.

As expected, the tide has changed. In the past few years we've seen a mounting wave of consolidations within many IT segments. In just the past 18 months, the number of major Business Intelligence providers has been cut in half. Today, revenues from new products/services are small compared to product updates, upgrades, and annual maintenance contracts. New sales are less important; managing the upgrade has become the company's strategic marketing objective.

The Three D's of Marketing

After years of dramatic growth, much of the industry has matured. And marketing in a mature segment calls for an entirely different perspective from what is needed to market in an emerging environment. There are simply fewer potential new customers. Everyone already has a BI solution, a CRM system or a corporate dashboard. So, there are only two sources of revenue:

1. Stealing customers from competitors.
2. Managing your upgrade and maintenance cycle.

Successful companies have learned to thrive by nurturing their existing products and customers. Rather than attempting to continuously re-invent themselves in search of radically new products, they strive to keep their existing products fresh through uninterrupted incremental innovations.

Our experience has shown that there are three core principles that must be taken into consideration when building a marketing plan for upgrades in a mature marketplace.

- 1. Disruption**
- 2. Differentiation**
- 3. Disposition**

Disruption

Acknowledging the Pain

Marketers naturally focus on communicating the benefits that a new product or new upgrade will provide. They point to the product's competitive advantages and focus on identifying pain points that the new technology will resolve.

In contrast, buyers are worried about ways in which the upgrade may make their lives worse. They know that even the best technology product carries with it an intrinsic level of disruption. And, when presented with the opportunity to purchase an upgrade, their first questions are not about the benefits of the product; they will ask, *How significant a disruption will this new version create?*

Technology upgrades cause disruptions in many ways, for example:

- Increased training costs
- End users may become less productive as they learn the new version
- Existing applications may to break or run more slowly
- Hidden implementation/customization costs emerge
- There is always a risk of a failed implementation

The extent of these problems is referred to as the product's ***Disruption Index***. The Disruption Index is a combination of the reality of this upgrade and the memory of upgrade experiences that occurred in the past. And buyers have VERY, VERY, VERY long memories. It can take two or three good upgrade experiences to erase one bad memory.

Underestimating the Pain

Manufacturers continually assure customers that disruptions will be relatively minor. And, the more the marketer downplays the disruption, the less credible the claim. For example, Microsoft's Business Intelligence marketing materials claim:

“Microsoft BI is built to be interoperable out of the box with
virtually any data source.”

Does anyone really believe that you can do Enterprise Level Business Data Integration “Out of the box”? And integrate with virtually ANY data source? These words are worse than empty; they undermine the manufacturer's credibility. They actually create an obstacle to sales.

In addition, marketers consider only the disruption caused by their product's upgrade. But companies are constantly implementing multiple upgrades, each with its own level of disruption. And, the larger the business or the more technology the consumer uses, the more disruptions they face. So, while the disruption caused by any single product may be small, customers see this upgrade within the context of all the technology changes they are implementing.

Adobe presents a classic example for how to successfully manage the disruption caused by multiple upgrades. Most graphic and Web designers own several Adobe products (e.g., Photoshop, Illustrator, Dreamweaver, etc.). So, while each individual product is on an 18 month – 24 month upgrade cycle, the user is typically forced to undergo a disruptive upgrade every few months. This cumulative disruption causes resentment among customers and makes them drag their feet on each upgrade (depriving Adobe of revenue). As a solution, the company banded the products together into the Creative Suite. They now upgrade the entire suite simultaneously every couple of years. A single major disruption – but much more manageable for the customer.

Disposition

Are they ready to buy?

A company or an individual's readiness to purchase is referred to as the *Disposition Index*. When to upgrade is determined more by the buyer's disposition than by the upgrade's new features.

Companies expend tremendous resources in efforts to entice customers to upgrade early. The vast majority of these dollars are spent on customers who are already going to purchase the product – just not right now. The efficient use of marketing dollars requires recognition of the buyer's disposition. Attempting to accelerate a purchase decision is almost always a money losing effort. It's true that you can convince customers to buy before they might naturally purchase – but doing so is very expensive.

I like to think of Disposition in reference to a doorway. A door can be open or closed, but you must understand the door's "disposition" to successfully pass through it.

- If I approach a closed door, assuming its open, I'm going to get a painful surprise.
- If it's open and I assume it's closed, I'm going to waste a lot of time fumbling for a doorknob while the customer is shouting "come on in!"

This argues for marketing campaigns that recognize that there are many levels of "ready to buy."

Customers with VERY HIGH Disposition Indexes

They want to buy RIGHT NOW. There is a new feature that they see as providing a significant benefit. They may not even wait for your upgrade to come to market.

They may buy from competitors rather than waiting. The message to these customers is: IT'S COMING SOON AND IT'S WORTH WAITING FOR!

Clearly, there is no need to spend money to accelerate their purchases. They're waiting to give you their money.

Customers with Moderate to High Disposition Indexes

This group forms the bulk of your customers. They fully intend to upgrade in a reasonable timeframe. Since they are clearly disposed to making the purchase, you may be able to slightly accelerate their purchases at a relatively low cost.

Customers with Low Disposition Indexes

You can't rush Low Disposition customers to buy without spending a huge amount of money. The strategy for these customers is to find low cost, low impact media vehicles that can help you to:

- Maintain contact with these customers.
- Build a solid awareness of the upgrade and its benefits.
- Make the upgrade purchase process simple to complete.

Differentiation

Different – but not too different

It is useful to imagine the target's Disposition Index and the product's Disruption Index as walls between the buyer and the seller. The manufacturer must communicate a message that is compelling enough to rise above this wall. Until you can elevate your upgrade above these barriers, buyers can't "see" you or give you any serious consideration.

It would be logical to assume that it is much easier for an upgrade to get over this barrier than for a competitive product to do so. After all, customers know your product, they are presumably happy with it, and they have experience with the upgrade process. But, in some cases, the exact opposite may be true. A product upgrade may face an even higher barrier than a new competitive product.

Until proven otherwise, targets expect upgrades to provide incremental benefits rather than significant benefits. This leads the user to think, "I'm happy with the product as it is. I'm being productive and getting the job done; I've learned all the shortcuts and tricks. Why bother upgrading?" The very nature of an incremental benefit makes it difficult for the target to accept the disruption of an upgrade.

In contrast, an entirely new product holds the promise of much greater benefits. And these "New" or "Revolutionary" benefits can help to carry the competitor's product above the Disruption and Disposition Barriers, to a point where it becomes much more visible. Current users have experience with your product; they know its strengths and weaknesses. In contrast, a new product is not bound by any such reality tethers. It's that shiny new ball that every kid loves to reach for.

Upgrade marketers must walk a very fine line in reference to differentiating each of their upgrades.

- They must emphasize the benefits of the upgrade (differentiation) in order to make it onto the buyer's radar screen and seem worth the inevitable disruption.
- At the same time, if they make the upgrade "too big," then it raises the disruption barrier so high that some buyers will simply skip it or delay as long as possible.

Cognos, a leading Business Intelligence provider, ran into this problem with its recent upgrade to Cognos 8.0. It was a significant upgrade and provided users with many important and meaningful new capabilities. However, it was also a VERY disruptive upgrade. The Disruption Index was so high, that many existing customers said, "If we're going to go through this much pain for the upgrade, we might as well take the time to look at what else is on the market." As a result, Cognos lost many existing customers, since the disruption of the upgrade was not significantly less than the disruption of purchasing an entirely new product.

Implications

Coping strategies

Acknowledge the Disruption

Until you acknowledge the disruption, the buyer can't hear your message.

I have presented hundreds of new technology product and service concepts in focus groups. The first questions are about disruption – only after these are satisfied does the conversation move to benefits.

Customers can better hear, understand, and believe a product's message when the manufacturer honestly and directly addresses disruption, rather than pretending it doesn't exist. Given the years or decades that technology buyers have had to deal with vaporware and bug-ridden products, credibility has never been more important.

Accept the customer's timing

Trying to get everyone to BUY NOW is a losing proposition and a marketing budget sink-hole. Not everyone is ready to buy today. Accept the fact that there is a natural timing in product purchases – use it to your advantage; don't fight it.

Optimize your marketing dollars by tailoring messages to customers in each stage of purchase readiness. By supporting them in their natural states of readiness you will use your dollars most efficiently and be there when they're ready to purchase. You will be in less danger of having shot your marketing dollars too early, which can leave you vulnerable to competitors who approach your customers later in the cycle.

Simplify your message

Time and again, I have seen manufacturers sabotage their communication efforts with “cover all the basis” messaging. With limited marketing budgets, “doing more with less” has become the corporate mantra. But often, this results in broad all-encompassing marketing messages with laundry baskets of features. An all inclusive marketing strategy will dilute the overall impact of the product’s message.

Remember, it can't be a floor wax AND a dessert topping.

Manufacturers become afraid to say exactly what the product does, in fear that, while it may appeal to one segment, it will alienate another. As a result, they leave it up to the target to figure out exactly who the product is for and how it’s going to improve their lives. This is never a good strategy.

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