

290T: The Business of Software

Homework 2 – Documentum Case

1. What did Documentum learn from its experience with the first two customers?

Lauren Wilkinson

Documentum learned several important lessons from their first two customers, Boeing and Syntex.

--Lessons learned from Boeing:

- (a) Marketing technique. Documentum's initial market pitch was unsuccessful until it was tailored to meet the individualized needs and problems of the Boeing situation.
- (b) Development is expensive. Documentum lost profit, but gained the valuable experience of creating an initial workable solution.

--Lessons learned from Syntex:

- (a) Document management is complex and challenging. Core functionalities had to be extended to meet Syntex needs. This development was very time-intensive.
- (b) Document management has sizable potential for financial success. The Documentum solution saved millions of dollars for Syntex.

Christian Adler

- that it should be possible to develop one document management software that fulfills specific needs of multiple industries with some adaptations to the system.
- that they need technology partners like Xerox and system integrators like CSC.
- that they should carefully choose the first industry to target because it is not sure that you get more customers from the same segment as easy as it was with the first one (like with Boeing).

Leo De Luna

1) A full custom project demands significant resources and time commitment which might not result in a profitable outcome. Documentum also learned how to sell its services and get established customers to trust a start-up company with mission-critical projects. The upside of a satisfied customer is a reference account that leads to future business.

Egan Lau

They validated the technology and market opportunities. They realized the importance of partnership with Frame Technologies and CSC respectively. They realized the technology needed so much customization that it led to the interests in the vertical strategy later.

2. Should Documentum accept the Marsh & McLennan deal? Why or why not?

Why:

Ravi Shanmugam

2. I would recommend that Documentum accept the Marsh & McLennan deal, assuming it chooses to go with a vertical strategy (which I believe it should). This is because I have insurance ranked as 2nd best of the 5 segments identified by the team, because
 - it's one of only two markets that are gateways to other, larger markets (a key requirement for a good 1st vertical market)
 - the industry, relative to others, is open to spending money on IT solutions for automation
 - it's an industry located in many cities, which alleviates the concerns of Documentum's sales force

Thus, the deal allows Documentum to take a large step towards meeting its initial FY goals (which would be important to secure more funding) without having to settle in return for a poor choice of initial target market.

Myra Liu

- + Insurance industry is a gateway to large financial services industry
- + Documentum's technology is a reasonable fit even though they may have to partner with other imaging technology to provide full-service
- + If they choose to go with "horizontal" strategy they will benefit from a success story in Insurance industry (currently lacking)
- + If they choose to go with "vertical" strategy, this project will help finance some early development into working solutions.
- + Marketing can take advantage of a more focused market and use Marsh & McLennan's prestige to generate buzz
- + R&D can focus on supporting a more specific application.
- + Can Documentum really afford to turn down a potentially large deal?

Tom Chang

Documentum should accept the Marsh and McLennan deal ...

The one concern I'd have is the level of customization required by M&M. Documentum should leverage its lessons from Syntex and ensure that clear project timelines, milestones, and contingencies are put in place and that CSC or an equivalent systems integrator is available to assist.

Why not:

Will Plishker

- a. Insurance was the lowest of the top 5 sector scorers
- b. Initial client does not help the low "Fit with company positioning" score
- c. **Pharmaceuticals** seems much more appealing
 - i. Scored the highest
 - ii. Already have a solution with one player (Syntex) (credibility + feasibility)
 - iii. "six months to assemble" + "cut... submission time in half" + "\$1 million per day"
 - iv. Vertical focus allows necessary third party publishing software to be done in-house

Florian Fuchs

Q2: Documentum should not accept the Marsh&McLennan deal:

- exactly understanding customer needs had been the key to success before, but Documentum did not know anything about the insurance industry nor had partners that did

- accepting the deal would require a long learning curve and a lot of additional development, which Documentum could not afford anymore
- in addition, the requirement to select insurance as Documentum's first target application would refocus the current product instead of leveraging on the experience gained so far

In order to make sustainable profits soon, I would target **Pharmaceutical NDA and Aircraft Maintenance**

Ram R

*Major hurdle for growth: trust gap. Deal can build up trust to win new clients.

*Two problems: about the worst in required Partners and Allies, and also facing entrenched competition.

*Among 5 target areas, worst pricing per unit sold. Lower bowling pin potential.

*Insurance: low margins, highest percentage of IS workers in house (8.6%) and IS investment is mid range.

*Might kill other opportunities. Start is US\$300,000 and could grow to a US\$1,000,000 deal.

*Insurance opens doors to financial markets.

*Many companies in the playing field (25), with per company investment 180 MM.

*In 1993, out of the total invested amount in IT in industry (pg. 26 of case), around 2% could be in document management (pg. 5, total market 93). Market serviceable by Documentum is around 23% of total market. Expected market shares are shown in pg. 5.

*Using the numbers: initial insurance market serviceable by Documentum is \$23MM (on the lower side from desired).

*High percentage of in-house IS means more specialists to give a helping hand, but also less willing to buy a complete end-to-end solution (as vertical strategy proposes).

DECISION: the numbers show that the insurance market is not very attractive if exclusivity (first market condition) is a must. Take time to investigate other deals. Initial investment required for penetrating the insurance market might offset even the initial US\$ 1,000,000 possible bid. I would tag this as a non-priority deal (or deal contingent upon other things).

One advantage of insurance is that it opens other doors in Financial markets (added revenues) and also starts a chain of references, but it is also risky due to lack of experience. Another advantage is that financial advantages of Documentum software become self-evident (quantifiable). Insurance might be a good second market.

3. What would a "horizontal" strategy for Documentum look like?

Myra Liu

- + Target companies who want to print with high speed Xerox printers
- + Partner with Xerox sales reps to generate leads
- + Research larger competitors' products and work on improving own product
- + Continue with projects like Boeing and Syntex to gain credibility
- + Secure more venture funding if necessary. VCs already advocating horizontal strategy

Florian Fuchs

Q3: horizontal strategy:

- selling Documentum's DMS as a _tool_ which can be used by multiple departments for multiple functional processes, just like Oracle sells databases: Documentum as DMS for Marketing, Documentum as DMS for Sales etc
- selling DMS as a toolkit to IT professionals at a company for developing internal solutions

Brian Park

3. A horizontal strategy would include building a flexible application that could serve many needs, having a flexible marketing plan that targeted many industries (e.g., broad based imaging and document management trade shows), and having a broad based sales force which would go after many different industries. In this case, Documentum would need to have an open architecture which would allow systems integrators to customize their product and they would be more willing to take any deal that comes in (e.g., the Marsh & McLennan deal).

4. What would a "vertical" strategy for Documentum look like?

Ravi Shanmugam

A "vertical" strategy would involve concentrating on depth rather than breadth, attempting to customize a solution for a particular target market and expand to other markets from there.

The steps include:

- Select the ideal target market (ideally one that can be used as a "launching point" to related markets)
- Develop a complete solution for that market using your core product and partner-developed add-ons as needed
- Aggressively commit sales and marketing resources to this market
- Once you've landed sales victories in this space, use these customers as references in your attempts to capture another market

Jimmy Zhigang Su

A vertical strategy would have Documentum to pick a specific application in one industry, and build a complete solution for it. Using help from technology partners, system integrators, and internally, Documentum needs to build a software product that becomes the one stop product for its customers. The targeted customer base becomes the end user that would use this product on a day-to-day basis. Documentum would need to offer tutorials to get the end users started, and offer maintenance afterwards.

5. Which (horizontal/vertical) strategy would you recommend for Documentum - and why?

Horizontal:

David Gelbart

Horizontal. If they put a large share of engineering resources into customization, while their competitors are building better and better general purpose solutions, they could find themselves outmatched technologically down the road. Plus the investors are for horizontal, and it would be dangerous if investors lost confidence.

Shane Ahern

- I would recommend the horizontal strategy because they will be able to address a much larger market and payoff will be much greater.

- The horizontal strategy will be much more risky, but Documentum appears to have the team, the product, and the track record of success in multiple vertical industries that give them the edge they will need to attack the market across industries.

Vertical:

Ashley Tan

- a. Document management software was a paradigm-busting product. No one had a line item in their IT budget for such software.
- b. No one knew all the things it could do, and no one knew exactly what the optimal product should look like. Unlike Oracle's database software product, which the IT managers had already been using for years and had understanding on what the technology could do.
- c. All the competitors had chosen the Oracle horizontal strategy. Documentum needs to differentiate themselves from its competitors.
- d. Evangelizing a product across a large horizontal market is labor consuming and expensive. Almost all its competitors had bigger engineering team and more money.
- e. It costs more to market to a horizontal market than a vertical one. Small company like Documentum at that time, did not have a big marketing budget.

Brian Park

5. Had the insurance deal not fallen into Documentum's lap, I would have chosen the telecom sector. Telecom companies have higher margins, are more willing to take on innovative IT projects, have similar core business processes, are a good fit with the current product, have high employees, high IS staff, and high IS budgets relative to revenue. Given the insurance deal, Telecom could be the second market Documentum tries to win.

Laheem Lamar Jordan

Documentum should stick with a vertical strategy, because that is where their experience lies, and once they have more clients under their belts in this market, they are poised better to expand to a horizontal market if they wish. Any company that attempts to show that their software can fix so many problems at once is in jeopardy, because it does not sound realistic, especially if the technology is new and highly conceptual. If

Documentum keeps following a course that it has already made strong headway in, that is much better than changing direction and essentially starting again.

6. Select a strategy (horizontal, vertical, other) for Documentum to pursue and describe what it takes to implement it within Documentum.

Vertical

Lauren Wilkinson

To pursue the vertical strategy, Documentum must:

- (a) **Choose the vertical market. This is probably the hardest part.** The market must be small enough to immediately develop a reputation, but large enough to attract customers and future opportunities. For Documentum, telecom manufacturing seems like the best market to target. This recommendation is based on the best product fit with company expertise.
- (b) Develop a highly-tailored, optimized product that fills a void in the market.

Kevin Clugage

Strategy: Vertical, Insurance Policy Documentation

*Sales, marketing, and engineering teams should all undergo rapid customer orientation for Insurance documentation.

* Engineering should divide into two teams, one focused on the technology platform, the other on an Insurance specific application built on top of that technology platform.

* Sales should pursue two-three beta customers that can work with Documentum to design and test the application.

* Marketing should design a marketing plan built around communicating insurance specific messages, and getting that message to all insurance companies.

Rachel Rubin

Documentum would need to be set up into vertical groups, each of which would target a compelling industry. As many of these as possible should be set up without spreading themselves too thin. Then, they should aggressively market in the vertical pins and expand as they are able to.

Satrajit Chatterjee

Documentum should pursue the vertical strategy beginning with the Insurance segment

Actions needed within:

1. Sales: Re-orient Sales, likely grow it by hiring more people
2. Marketing: Focus on marketing to the chosen segment, and figure out domain specific customizations to the technology
3. Engineering: Implement those customizations
4. Upper Management:
 1. Convince upper management that this is the best thing to do; get unanimous support, or atleast appearance of it for the rest of the company.
 2. Look around for Integration partners and see what sort of deals can be made ahead of time. Partner with Xerox, to provide a complete solution

Egan Lau

After communicating the above strategy mix to all employees, Documentum should execute with the following organization adjustments:

Marketing-They need to maintain the brand as a general document management company at all time. They could hopefully attend both horizontal and vertical trade shows.

Sales-Dividing the sales force by geography could be maintained, but the territories could be altered to divide the markets among those 5 verticals more evenly.

R&D-Many vertical features would have to be delivered, but the fundamental software architecture should be kept non-industry specific.

Partners-both technology and SI partners would still be helpful. They should know our strategy (vertical focus now to lead to the horizontal strategy later).

Horizontal

David Gelbart

Engineering: Attention paid to basic technology. Document management is new and so differentiation from competitors through innovative, quality technology is likely possible.

Marketing and Sales: Major attention to appropriate partnerships with integrators, especially integrators like CSC who understand target industries.

Shane Ahern

- Reorient product design to a modular, component-based design that allows rapid customization and extension to add new functionality required by each vertical.

- Form alliances with system integrator to provide industry-specific sales support and implementation. Focus Documentum sales force on selling the toolkit.

Other:

Christian Adler

- **vertical strategy in the beginning, horizontal strategy later:**
- use aerospace/automotive or pharmaceutical industry as first target because Documentum has there already reference customers (Boeing and Syntex) that they need to convince pragmatic customers and to finally cross the chasm.
- aerospace/automotive industry is most interesting as first target because the number of companies and the average number of IS-employees and IS-budget is relatively high.
- try to become market leader in this segment as fast as possible.
- keep Xerox as technology partner for hardware.
- try to develop the software as a horizontal platform that is later capable to address the entire document management market.
- build up a net of system integrators that adapt the software for the specific customers in vertical segments.
- marketing should not try to get every customer for every price: customers have to fit and deal must be profitable.

- when market leadership in aerospace/automotive segment is achieved ("big fish in small pond") try to gain reference customers in pharmaceutical and other segments and to dominate the entire market.

KK:

Horizontal strategies work best can work when:

- a) (Ideal) An unknown customer can pick up your software and make it work on their own.
- b) (OK) You can send an application engineer on a customer site for 1 day to 2 weeks and make the customer successful
- c) (Barely) You can send an application engineer on a customer site, for \$\$, and make them successful.

If you have to bring the customer problem back to the factory (your corporation) to have it solved, or have application engineering resources on-site for extended periods, then your product is not amenable to a horizontal strategy.

Just to muse about for class discussion:

A. What do you think about the timing of the founding and funding of Documentum?

KK: Seems like Documentum got started a bit early. See point on Xerox, below.

With respect to the financial markets?

KK: Relatively tough era for funding.

With respect to the maturity of the ideas of the founders?

KK: Founders had a good idea but a little more marketing leg work would have gotten a clearer market focus.

B. What about Documentum's relationship with Xerox?

KK: 80% of a company is a high price to pay just to get started. Xerox wasn't standing behind the deal so the name didn't net them more than a 5% investment would have. Hard to calculate the value of the Xerox technology at this point. What is the valuation of the company in the Xerox deal? What would it have been if Jeffrey Miller was on board from the beginning?

C. Would you consider Documentum a successful software business?

KK: However things got started, hats off to Howard Shao and John Newton for their success. IPO 6 years after founding, 3 years after VC funding!

D. How is Documentum doing now?

KK: Judge for yourself:

<http://finance.yahoo.com/q?s=dctm&d=v1>

Other Gratuitous Advice from Kurt:

Reference customers, early adopters, bowling pins:

1a) Identifying reference customers:

Choose a company C with maximal corporate image constrained by the fact that C is relying on the success of your software. Many young companies choose to work with a company with the biggest corporate image that they can find. Large companies can afford to throw \$\$ and resources at a solution only to toss it out if it doesn't seem to be shaping up. Make sure your reference customer is relying on a successful deployment of your software – then they're in with both feet working for your success.

1b) Don't confuse reference customers with "learning engagements". It may make sense to work with a demanding customer even if likelihood of their adoption is small – but don't count on this as a reference customer. Synopsys worked with Intel early on but didn't win the account for another decade! Aart says it was a key experience.

1c) Don't forget the human perspective – companies don't adopt technology, people within companies adopt technology. Understand who your real champions are within a customer. Who's going to get a promotion if your software works? That's your best friend.

Sales force:

"Enterprise solutions typically relied on direct sales channels because experienced sales reps were well suited to navigate the complex organizations, identify key decision makers and their needs, motivations, and relative power, and then use that information to close deals."

Never underestimate the value of an experienced sales person or sales force. These salespeople have a huge investment in their personal contacts and their reputation. An experienced salesperson can open doors for you that no amount of hyping of technology can.