Loss Review: Warehouse Management System

Conducted by: SalesScope, Inc.

Hugh Macdonald
(770) 643-0068

Table of Contents

I. Review Process

On September 22, 2001 [My Customer] engaged SalesScope, Inc. to complete a loss review of the Warehouse Management System initiative at [The Client].

Between September 28th and October 7th a series of phone and in person interviews were conducted with the key individuals from [My Customer] and [The Client] who were involved in the selling and buying process at the respective firms. The intent of this review is to understand the perspectives of both companies as to how and why the decision not to select [My Customer] was made. Conclusions and recommendations are provided from that information that may be useful to [My Customer] going forward. The people listed below were interviewed.

Internal [My Customer] Interviews

President
VP of Product Consulting
SVP of Development, CTO
Regional Sales Manager
Logistics consultant

[The Client] Interviews

VP of Operations
CIO
Dir. of IT
Project Manager

Microsoft Interview

Partnership Manager

This reviewer is available to [My Customer] to conduct a conference call to discuss this material, the recommendations, the client visits and to address any questions in order to insure the [My Customer] organization gains maximum benefit from this effort. Please feel free to contact me to schedule a call at your convenience.

I. Background of the Warehouse Management System Project

[The Client], is a leading retailer of [consumer products]. The company is facing a hyper growth scenario due to the model it has created for e-commerce that contains a compelling value proposition for the consumer. With revenues in 2000 of less than $200M, it expects that figure to grow substantially over the next five years.

This significant growth expectation will have important implications on its distribution and logistics strategy. The implementation of a flexible Warehouse Management System (WMS) to help meet these growth targets is a key part of its strategy.

An RFP to satisfy the WMS requirements at [The Client] was published in May for responses due on June 11th. That date was extended to June 18th. Seven companies were asked to respond, with [The Client] seeing the four major competitors as [My Customer], ABC Company, MNO Company, and XYZ Company. Five companies responded to the RFP. Three were disqualified after a review of the responses due to their inability to provide an MS SQL based solution.

[My Customer] and ABC Company were the finalists. They were asked to provide a presentation to the [The Client] selection team during the week of July 5th. Site visits and corporate visits for technical reviews to both companies' headquarters were conducted following the presentations.

A final decision was made to select ABC Company and announced during the second week of September.

I. Executive Summary

[My Customer] and ABC Company were in a virtual tie to win this business after [The Client] completed its quantitative evaluation of these two finalists. ABC Company was selected for the Warehouse Management System because it was able to establish for [The Client] a clear differentiation between itself and [My Customer] after the quantitative phase of the evaluation was completed.

[The Client]'s objective was a reliable, high performance system implemented on the Windows XXX platform. Both companies showed viable plans to accomplish this. However, ABC Company had an eighteen month formal partner relationship with Microsoft. [My Customer] did not. Once ABC Company knew who its competitor was, it quickly used this difference between the two companies to establish a positive differentiation for its solution. The differentiation made by ABC Company, and accepted by [The Client], was that the established and close working relationship between ABC Company and Microsoft would provide [The Client] higher confidence in selecting an ABC Company solution over a [My Customer] solution. They successfully enlisted the help and support of Microsoft to assist them in communicating this message.

The above shows how ABC Company more quickly reacted, once the competitors were announced, to use that information to establish an advantage over the [My Customer] solution. The [My Customer] team was put on the defensive and never recovered.

[My Customer] has very real, very important, and very "provable" advantages of over ABC Company. The [My Customer] people this reviewer talked to named such areas as its demonstrated ability to deliver solutions based on a component architecture, its track record of success, its company strength (especially compared to ABC Company who just went through a 200 person RIF), etc. [My Customer] team never was able to (1) proactively maximize the use of its strengths to differentiate itself versus its competition, and (2) was never able to aggressively minimize the importance of any perceived strengths of ABC Company (i.e. its Microsoft relationship). The following sections will discuss this in more detail. The analysis will also suggest that finding out who the real competition actually was early in the evaluation process could very well have been accomplished. Had this been done, the probability of success could have been higher for a [My Customer] win.

II. Detailed Findings, Conclusions, Recommendations

1. [The Client] said that they choose ABC Company over [My Customer] because (1) ABC Company's established partner relationship with Microsoft gave them more confidence that ABC Company could deliver the required solution and (2) because ABC Company had a development team that was located in Philadelphia, which was more accessible to the [The Client] technical team.

"70% of the evaluation was based on objective criteria like feature and function, and alignment with what we needed against what we saw in the site visits. 30% was subjective…like what we were seeing and hearing from others in the industry." ([The Client] CIO)

As will be discussed later, the quantitative evaluation was very close. Both vendors were seen as being able to deliver a successful solution. As a result, [The Client] relied on subjective and qualitative information to differentiate between the two vendors to identify the one that they felt gave them the highest confidence of success on a Microsoft platform.

Both companies were viewed as being able to deliver the feature and function requirements. That turned the emphasis to technology. Microsoft was the embraced technology of [The Client]. Microsoft had had a longstanding and close relationship with [The Client]. They had invested several million dollars in resources and technical support with [The Client] and were in co-development efforts with them. ABC Company also had a formal partner relationship with Microsoft. They utilized Microsoft technology within their product and, among other efforts, participated in the Microsoft Windows XXX certification program.

As part of the evaluation process, [The Client] sent a team to [My Customer] headquarters to evaluate its product and technology. Both [My Customer] and [The Client] said the visit was very successful. The component architecture of the [My Customer] product was attractive. [My Customer] was also able to successfully discuss its ability to deliver their product on the Microsoft platform. ABC Company had a track record of implementing systems on Microsoft, but a less attractive architecture. In the end, the track record of working successfully with Microsoft to this point in time carried more weight than the architecture advantages enjoyed by [My Customer].

"In the end, we bet on the fact that ABC Company had the Microsoft technology and will build the component architecture, instead of betting on [My Customer], which had exactly the opposite." ([The Client] CIO)

As will be discussed in the next section, this reviewer believes that the proximity of the ABC Company development team in Philadelphia was a real positive for ABC Company, but not a deal breaker for [My Customer]. The Microsoft issue was the key to the decision.

<u>Conclusion:</u> It is this reviewer's understanding that [My Customer] is now proactively engaging with Microsoft to establish a formal partner relationship. According to Microsoft, they identified three companies in [My Customer]'s space 18 months ago to explore partner opportunities. ABC Company and MMM Company both pursued partnerships but [My Client] did not. A company does not need a formal partner relationship to "technically" certify its products against the Microsoft product set. A case can be made that it is less expensive to go this route. But, Microsoft takes a hard line as to officially certifying a vendor's products unless that vendor is a formal partner. The impact of this Microsoft endorsement then becomes a marketing issue, not a technical issue. As can be seen from this business opportunity, the dollars saved on the expense side can be far outweighed by the dollars lost on the income side by taking the non-partner route.

Recommendation: Evaluate partner opportunities from a total business ROI perspective, not from an expense point of view. Enlist these potential partners to identify all the sources of return the partnership will generate.

2. The Microsoft relationship and Philadelphia office issues were differentiators for ABC Company. They exist and can not be disputed. But they did not cause the evaluation to overwhelmingly favor ABC Company. They did not remove the viability of a [My Customer] solution.

"It finally came down to two very qualified firms. Ultimately, it was a gut feel of who was a better fit." ([The Client] Proposal Manager)

"We told the COO and the IT Director that we can support their decision, no matter which vendor they decided upon." (Microsoft Partner Manager)

Taken out of context, the second quote would seem to say that Microsoft was ambivalent in the opinions they shared with [The Client]. That is not the case. They would win no matter which vendor was selected and, candidly, felt that they could work with both vendors to deliver a successful solution to [The Client]. However, they made it clear to [The Client] that they knew more about ABC Company and that ABC Company had embraced Microsoft more than [My Customer] did. Their failure to outwardly endorse [My Customer] gave more confidence to [The Client] that ABC Company and Microsoft's existing working relationship would translate to benefits to [The Client] should ABC Company be the selected vendor. However, and very importantly, [The Client] still felt that either vendor would deliver a successful solution. Microsoft's neutral stance on [My Customer] did not communicate that the [My Customer] solution was unsatisfactory. But it did communicate more confidence in ABC Company.

How much more confidence? The CIO was asked that question. His answer again reflects that the Microsoft issue became a tiebreaker, not a showstopper for [My Customer]. We discussed this using the following scenario. For the quantitative phase of the evaluation, assuming a scale of 1 to 100, we'll give [My Customer] and ABC Company each a score of 50, indicating they were relatively equal at that point. A "51" would have meant ABC Company was slightly ahead. A "49" would have meant the opposite.

"Using this scenario and scale, when [The Client] completed the subjective evaluation, how many points did ABC Company's relationship with Microsoft give them above that 50?" (SalesScope)

"It added about 5 to 10 points for ABC Company" ([The Client] CIO)

He was then asked about the importance of the ABC Company Philadelphia office to the decision.

"That was worth no more than 1 or 2 points" ([The Client] CIO)

Conclusion: If the CIO had said that the Microsoft situation had raised ABC Company to a score of 75 or 80 or more, it would have to be said that this issue was a showstopper for [My Customer]. But he didn't. The Philadelphia issue was definitely not a showstopper; it came across as an attractive feature, not anywhere near a mandatory. This then says that [My Customer] could have won the opportunity. It also says that the [My Customer] team did an admirable and professional job. No one likes to come in "second". But second out of seven, and being this close in the client's eyes, indicates a lot of very good work was done by a lot of very good people.

The next sections will explore actions [My Customer] could have done differently to minimize the perceived ABC Company advantage and give them an increased opportunity for a win.

3. Approximately three to four weeks before the final decision was announced, [The Client] made known who the two final competitors were. ABC Company used this information proactively, implementing a "change-the-rules" strategy, to differentiate itself against [My Customer]. [My Customer] was put on the defensive.

There are two possible sales strategies when one is competing for a know opportunity.

Direct: this is a direct approach based on a buyer's perception of your overwhelming superiority in your overall ability in the area of solution, speed, price, or team.

Change-the-rules: A change-the-rules strategy shifts the focus of the buyer's buying criteria to new or different issues that favor your abilities.

ABC Company saw an opportunity to shift the focus of [The Client] to establish buying criteria where they had a clear advantage and where, in a short period of time, [My Customer] would find difficult to minimize. They were able to do this once they understood who the competition was. Their quickness to implement a change-the-rules strategy to accomplish this put [My Customer] on the defensive.

"ABC Company came to us and said that they were having a tough time understanding where they were in the deal. [The Client] was keeping it close to the vest. They asked if we would be willing to step up to the plate and reinforce the strength of our relationship." (Microsoft Partner Manager)

This took place some time in the first two weeks of August. It is known that both of the two key executives from [The Client] visited Microsoft during the period of Aug 3-10, and that phone conversations with the Microsoft Partner Manager took place during this general time period. It is know that in the phone calls, the ABC Company/Microsoft relationship was discussed. It is not known if that also happened on the trip to Microsoft.

The points that were made during these discussions gave [The Client] the additional confidence in an ABC Company solution that we have discussed earlier. While the Microsoft Partner Manager didn't outright state that the following points were discussed, he did list them as advantages for ABC Company. One can assume they were discussed.

- 18 month formal partner relationship between the two firms
- participation in Windows XXX certification program at Microsoft
- 200 installations worldwide on Microsoft platform
- availability of benchmark information

The issue came up that the ABC Company product was not "pure" Microsoft. ABC Company countered with, as a co-development partner with [The Client], they would "rip out" that code that was an issue. According to the Microsoft manager, this was made part of the negotiation and put in the final contract.

As [My Customer] knows, Microsoft would not endorse its solution. It was not a negative assessment but a non-endorsement. Microsoft made it clear they didn't pick sides, but they made it also clear that they wouldn't "screw a partner" [reviewer's note: "their words, not mine".] It's clear that they were willing to share the details of how they had worked with ABC Company, and the investment that ABC Company had made with them.

"[The Client] asked us what we could tell them about [My Customer]. We said 'Nothing; we had been trying to work with them for a year and a half, but know really nothing about how the product works or how it performs. We have no strong objection to [My Customer], and will support either decision. But

[My Customer] has made no substantive effort to share how they are using Microsoft, its release schedules, or how they are making sure it is as good as it can be.'"

Conclusion: By the time [My Customer] contacted Microsoft in late August/early September, Microsoft had already made an impression on [The Client] about the strength of the relationship with ABC Company. It would have been difficult, if not impossible, for them to change their position.

4. The [My Customer] team did implement a well-coordinated plan to align resources with the key evaluation team members to respond thoroughly to the evaluation process requirements. However, this reviewer did not see this plan including a strategy to differentiate [My Customer] in the eyes of [The Client].

The [My Customer] sales team leader developed a sales plan after the July 7th presentation to [The Client]. He aligned key [My Customer] executives with the three key players involved with the evaluation. The CTO and his team were responsible for addressing the technical issues being evaluated by the IT director. The president of [My Customer] was aligned with the CIO to address his contract issues. And the sales team leader worked with the COO and the Proposal Manager to coordinate resources to address feature/function and contract negotiation issues. Obviously, other players became involved, but this was the primary alignment.

The team did a good job in what they were tasked to do as evidenced by the closeness of the competition. They repeatedly received good feedback and were told that the selection team issues were being addressed. There are two points, however, to be made:

(1) This plan was effective in addressing stated requirements, but it did not take the initiative. It did not define and implement a proactive strategy focused on specific objectives that, when met, would create a win. The following are paraphrased quotes from [My Customer] people that reflect what took place.

"We would respond, respond, and respond."
"It was a fast moving sales cycle. We focused on their schedule, on what they wanted to do and what they wanted to see."
"We kept answering requests for technical review, pricing, agreements, implementation plans…"

(2) To create a proactive strategy, one needs to know the competition and the buying criteria of the key decision-maker. The plan did not effectively include getting to the CIO to understand his buying criteria or a way to determine early enough in the process the real competition. Had this been done, a strategy should have and could have been defined and implemented to raise the probability of a win for [My Customer].

The above DOES NOT say [My Customer] would have won had this been done. It does say that fundamental to a win is a strategy to win. It also says the probability of a win grows by understanding the competition and knowing you can best meet the key decision maker's buying criteria, or by changing the criteria to those that you can win. This will dictate the strategy selected.

As seen in the comments of the ABC Company team earlier, [The Client] was playing its cards very close to its vest. The evaluation team would not share who the real competition was. [The Client] felt the competition would be fairer by doing this. Also, access to the CIO was very limited. Repeated attempts to contact him through the proposal manager were rebuffed "because he was too busy on other issues".

This reviewer feels that the team could have been more proactive in two areas. The first is by better negotiating for access to power. The [My Customer] team was very responsive. Tying responsiveness to a request that needed to be fulfilled by [The Client] (e.g. access to the CIO, or sharing whom the competitor was) is a valid sales tactic to gather information. This reviewer did not see this tactic used. The second area is taking more advantage of the top executives within [My Customer] to find out who the competition was and to get to the CIO.

During the interview with the CIO at [The Client], this reviewer asked him to comment on these two issues. Again, he stated that they purposely decided not to share who the competitors were, and, he said that his time truly was consumed on very pressing issues. He felt comfortable with his selection team and relied on them to communicate with the vendors. He was not readily accessible. He was asked if a top executive at [My Customer] had attempted to contact him with the expressed purpose to state a case why it would be in the CIO's best interests to share who the competitor was, would he have agreed to meet? He said "yes". Would he have shared who the competition was? "If the case was made effectively." He also said that, had a similar case been made that it was important for him to share his views on "his specific buying criteria", he would have again made himself available.

Associated with this, the CIO said that the Microsoft relationship only came up late in the selection process. He said his initial buying criteria were 70% objective and 30% subjective. He said the feature function reviews and site visits would address the objective criteria. Hearing from consultants, industry contacts, etc, as [The Client] conducted its due diligence would result in the subjective assessment they needed to make. He said it was in this due diligence process, after the proposal/presentation/site visit phase, where the Microsoft relationship issue came up. Again, this substantiates that the evaluation was close, up until early August when the competitors became known.

Conclusion: This reviewer believes that, to raise the probability of a win in this opportunity, a number of actions would have had to take place:

(1) Part of the sales team plan had to include proactive activities to understand the missing information in this sale. This was the identification of the major competitor and understanding the CIO's buying criteria. Some suggestions on how to do this were included above.

(2) Had this been done, let's say soon after the July 7th presentation, ABC Company would have been identified. However, [The Client] at that point would not have understood the Microsoft relationship disparity between the two companies. They were just beginning their subjective due diligence process.

(3) Knowing the competition was ABC Company, it would have been incumbent on [My Customer] at that point to (a) recognize that this relationship issue would be the key to ABC Company's change-the-rules strategy, and (b) create a [My Customer] change-the-rules strategy of its own. That strategy would focus on minimizing the importance of the formal partner relationship with Microsoft. It would also create its own differentiation, based on leveraging a [My Customer] strength, and finding a way to communicate it to the CIO to expand his decision criteria. Track record of implementation success using the "growing" [My Customer] Professional Services organization (versus a company that just laid off 200 people) could have been the differentiation [My Customer] stressed.

(4) As for minimizing the Microsoft relationship that ABC Company enjoyed, nothing could be done to say that it did not exist. However, the above would have provided the opportunity to get to Microsoft earlier to attempt to gain at least a neutral endorsement. Whether [My Customer] got that neutral endorsement or not, it would have allowed time to address the issue head on with [The Client], perhaps stressing the importance of what they will get in the future with [My Customer], rather that what has taken place in the past with ABC Company

Conclusion: The issue of the Philadelphia ABC Company office may have still come up. If the above scenario had played out, it would have been something that had to be addressed, but again, not a showstopper. The CIO was also asked for his comments on a satisfactory way for [My Customer] to have addressed this. He said: “Minimize the remoteness of the teams in some way. Put some people at our site, implement video conferencing…whatever. Ways could have been worked out.”

5. Additional Lessons Learned

The [The Client] Proposal Manager offered two observations that are worth knowing about by the [My Customer] team. Both have to do with improving the value for the client.

(1) [The Client] felt that both [My Customer] and ABC Company failed to listen to [The Client] as to what they wanted to hear during the oral presentations. [The Client] wanted no more than five minutes on who the vendor was, how big it was, its reputation etc. They wanted the focus to be on the solution and how it fit [The Client]’s needs. In both cases, his recollection was that they still received over 30 minutes of “let me tell you who we are” before they got to the areas they were interested in. He noted that they had already learned about the companies and their backgrounds through the RFP responses.

Recommendation: Insure you cover with the prospect your detailed agenda, explaining the amount of time you plan on spending in each area. Do this before you arrive, get their input, and stick to what you agree on.

(2) [The Client] felt the site visits were only adequate. Again, this was for both vendors. He felt that there was an opportunity to get a significant amount more value from the site visits than they did. He felt that they were not well orchestrated. He suggested that the vendors become more proactive, and almost “script” the event, to insure that the prospect receives maximum benefit.

He used two examples to make his point. In one visit, the first thing the client did was lift up an eight-inch book and said, “Here are all the modifications [My Customer] did for us”. He understood the intent was to acknowledge how responsive [My Customer] had been, but it could have been interpreted as how much effort [My Customer] had to do to their software to get it to work.

The second example was related to how the site visit demo went. He said that in a number of the visits, the client said, “well, what do you want to see?”. And when they were led into the warehouse to actually see the system, the user would inadequately explain what he or she was doing, and what the system was doing in the background to insure everything that needed to get done, did. In many cases, it was difficult to follow. Much, much more excitement for the vendor’s product could have been generated. He felt that the vendor needs to drive the visit agenda and be involved in the hands-on demo. The vendor needs to walk the prospects through what they will see, why, and what it means, explaining all along what is taking place. Be the tour guide, using the customer's site as the means to demonstrate the message that you are delivering.

Recommendation: Here is area to drive differentiation. [My Customer] should take a hard look at how site visits are being used in the sales process. It should assess if all the potential value of these events is being realized. Understand and implement what needs to be done to accomplish that.