



The Secrets of Market- Driven Leaders:

How technology
company CEOs create
success (but why
most fail) By Craig
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*“Our first product was a winner...but the rest stunk.
What happened? Did our market dry up or did we just get stupid?”*

An unnamed and currently out-of-work CEO

In 1993, Apple Computer (now Apple, Inc.) released the Apple Newton to great fanfare. The Newton was a product that many people within the company thought would reinvent personal computing. On the heels of two huge successes (the Apple II and the Macintosh), the mission seemed plausible. With the hype and buzz that has become a hallmark of an Apple product launch, early Newton advertising proclaimed: “The astonishing new invention that has room for your whole world but fits in your pocket. It manages your days, your names, and your numbers. It sends faxes and replaces your pager. It makes writing readable. It can draw even if you can’t. It talks to computers and printers. And what you don’t know, there’s a good chance it does.”

Wow. The Newton claimed to do virtually everything, including things you don’t even know! The driving force behind the Newton? Then Apple CEO, John Sculley.

Of course, we now know that the Newton was a dismal failure. In April 2007, *Computerworld* declared the Apple Newton one of the 21 biggest technology flops of all time. The Newton missed, by far, its original goals to reinvent personal computing and it never met Apple’s expectations. Critics and Apple insiders alike were quick to point to specific reasons for failure. Pundits said it was too expensive and that the graffiti-style writing system was too difficult to use. The unit was too big to comfortably fit into people’s pockets (too bad the urban huge pocket craze hadn’t yet started).

Contrast the launch of the Apple Newton with the Apple iPod introduction. Launched in 2001, iPod advertising was exceedingly simple: “1,000 songs in your pocket.” Apple CEO Steve Jobs, now back at the helm of the company he co-founded, led a development effort focused on solving a problem in

the marketplace—creating an elegant and simple portable digital music player that anyone could use. Prior to the iPod, MP3 players were crammed with features and functions and buttons and sported software that was difficult to master. Now, just six short years after the iPod introduction and with over 60% market share, the iPod is one of the world's most popular consumer brands. Apple's market share is 72% and sales are 100 million units as of the end of March 2007.

What's going on here? The same company creates two major product introductions—one a spectacular success and the other a dismal flop.

The Difference is Outside

Why do some products fail while others succeed? That question keeps many CEOs, venture capitalists, employees, and shareholders up at night. Customers want to know too, because after all, they are spending their money on products.

At Pragmatic Marketing, our business is to study technology-company leadership and marketing. We look at how companies create products, analyze the patterns, and develop best practice methodologies for creating products people want to buy. We've studied the introduction of thousands of products across the technology industry, including those from big, well-known companies like Intuit, SAP, Microsoft, EMC, CA, Iron Mountain and SAS, as well as breakout products from Blackberry, Salesforce.com and Google, and offerings from startup or niche players you may have never heard of like WebSense, Macrovision, FeedBurner, Act!, and AccuMap. Recently, our focus has been studying the DNA of market leaders. We've surveyed our 40,000 alumni at 3,000+ customers and compiled data for the past five years. And, in early 2007, we sat down for one-on-one discussions with 30 CEOs to dig deeper into what they think it takes to be successful. Drawing from our research and these discussions with CEOs, we looked at culture, organization, and process for building products; strategies for optimizing go-to-market plans and measurement of best practices.

Our research validated anecdotal information that market-driven companies are 31% more profitable¹, twice as fast to bring products to market, twice as likely to lead, and enjoy 20% higher customer satisfaction rates. We also found that there is a much more fundamental reason for product failure than features and price. By pulling this information together, we've learned how to dramatically increase the likelihood of success. And while it is possible to be successful following a path different than what we outline here, the risk factors of going down an alternative path are much greater.

In the predictable evolution of a technology company, the second and third products developed... almost always fail. Why?

In fact, our research has helped us uncover some startling observations about Apple that all technology company CEOs can learn from. Based on the evidence collected, we feel that the utterly different leadership styles (particularly the market-driven leadership habits) at Apple under John Sculley and Steve Jobs is the difference between failure and success. We've been convinced that typical technology company culture leads to the kind of inside-out thinking that creates products like the Newton. The development process becomes bloated with stuff that company insiders thought was cool, but that people weren't prepared to plunk down money to buy. Once a company's leadership focuses outside-in, however, and begins paying attention to the needs of the marketplace, it results in the development of breakthrough products like the iPod (a product that addressed an unmet market, an easy to use MP3 player, and one that people were happy to spend money on).

¹ Derived from George S. Day and Prakash Nedungadi, "Managerial Representations of Competitive Advantage," *Journal of Marketing* 58 (April 1994).

We heard a lot about the paradox of growth. We also heard that all CEOs want to be market-driven, even though so few actually are. This led us to ask why it seems to be so challenging to become market-driven?

There is absolutely no doubt that the evolution of technology companies follows a predictable pattern. The success of the initial product is a rush, intoxicating for everyone involved in the company. Too often, however, it is short-lived. In the predictable evolution of a technology company, the second and third products developed (like the Apple Newton) almost always fail. Why? Evidence shows it is because the entrepreneurs who started the company and who understood buyer problems soon become occupied with the details of running their organization. They no longer focus on buyer problems and building products the market wants to buy, and instead become obsessed with the details of managing an ongoing business like hiring and firing, finance, office space, investors, and the like. Outside pressure forces the company to become the opposite of a market-driven company. Becoming:

- **COMPETITOR-DRIVEN**
(creating copycat products and services and entering the same vertical markets as competitors)
- **CUSTOMER-DRIVEN**
(letting existing customers define extensions to their products, sometimes creating a market of one).
- **SALES-DRIVEN**
(adding channel capacity to drive volume for existing opportunities and defining direction by the current needs of prospects).

So, how do you keep the right DNA in place as you grow? We found convergence around a set of 7 success factors—we call them secrets. These factors formed the difference between the success of market-driven leaders and the rest of the pack.

The 7 Secrets of Market-Driven Leaders

SECRET #1: WORK AS A TRUSTED ADVISOR

“The last time I checked, there were no buyers at our corporate offices... so maybe we should figure out how to spend more time in the field with them learning about what they need than we do here with us guessing!”

Pat Sullivan, Creator of ACT! and SalesLogix

The way today’s leaders create a sustainable, growing, and successful company is to instill a company culture of working as trusted advisors to prospects and customers alike. Leading companies understand market problems and buyer behaviors before building products. These companies appreciate learning from their existing customers, but it doesn’t stop there. They also recognize that current customers are not their only target market and thus study market problems of non-customers as well. They interact with the market, not only to ask questions, but to participate. So valued is their knowledge base, these leaders are viewed as market experts in their vertical market and industry, and often participating in their customer’s strategic forums.

People in market-driven companies largely ignore the competition. And they most definitely do not care about technology for technology’s sake. Instead they focus a majority of their energies on the problems that buyers are willing to spend money to solve. By first understanding market problems, and then building the products people want to buy (communicating to buyers an understanding of their problems) everything else falls into place.

After Innovation, What Next?

As early-stage technology companies like FeedBurner begin to scale, there is the very real challenge of keeping the trusted advisor culture intact. While in startup mode, the culture forces outside-in thinking. But as companies mature, people tend to look inward for answers, which almost always leads to struggles and can often mean failure. This is where market-driven leadership plays a critical role. Leaders at successful companies keep pointing people outward.

SECRET #2: BUILD FROM THE OUTSIDE-IN

“Customers don’t care about products or the companies delivering them in the long run. They care about alignment to their own problems and visions. It is key to make sure technology companies understand it is not all about the product. Too many companies miss that.”

Fred Amoroso, President and Chief Executive Officer, Macrovision

Market-driven leaders understand the complete picture of market problems before building products. They develop solutions in the context of the total customer experience. Product managers, executives, and marketers in technology companies regularly meet with people in the marketplace and observe how they do business in order to understand the full scope of their usage requirements and their most significant obstacles to adoption.

The most important thing they do is to live in the prospect’s world and look at all the touch points that matter. Leading companies interview potential customers and study what they do. When Scott Cook first built Quicken, he actually went into homes and studied the process of how families paid bills and managed their finances. He didn’t rely on intuition, or competitive intelligence, or the advice of smart friends. Instead, Cook directly observed the problems his potential customers had in his chosen marketplace.

In-depth interviewing (like Scott Cook did with families) is by far the most effective way to learn about market problems, and meeting with people on their own turf (for example, in their workplace) is always best. But there are other ways, including joining industry associations, and attending conferences your buyers attend to understand the issues. Read the same blogs and trade publications that your buyers read. This knowledge is the starting point to knowing what products to build.

The finishing touches come from putting the right bridges in place to ensure that the total customer experience is complete. How successful would the iPod have been if it ignored access to music (through relationships with industry to distribute) and the medium for simple download (iTunes)?

Creating a company culture that develops products that people know they need and want to buy because the picture is complete (like the iPod) is the ultimate sustainable advantage.

SECRET #3: SIMPLE IS SMART

“Whatever happened to ‘first mover advantage’ from having a ‘disruptive innovation’? My portfolio is getting killed by copycat products from companies that execute better.”

Venture capitalist still recovering from the .com hangover

Whenever market-driven leaders create products or solutions—for potential new customers, existing customers, or even new markets—it is always in the context of creating a simple solution to the problems people have. Contrast this with the development and marketing programs of the typical technology company. Most companies deliver solutions and messages from their own narrow, insular, and egotistical perspective. They talk about the new super widget. They announce a new feature. They obsess about the latest revision (version 2.309b). They insist on comparing their widget against the competition by using superlatives and jargon. What these poorly executed programs don’t do is speak directly to the market problems that people have, and in simple terms, describe how tech-

nology can solve those problems. Most products and communications are hard to understand, hard to use, and worst of all, completely out of context in the total customer experience.

The best companies create solutions that are narrow and deep. They organize around a single market problem and solve it completely with a solution that to the buyer seems simple, obvious and most importantly handles all the related tasks in one easy step. Often, this means specializing in a single vertical market or industry. Customer communications programs are not one size fits all either. Instead, tailor to the context of each market or industry you serve.

SECRET #4: LEADERSHIP IS DISTRIBUTED

“66% of technology companies view the role of product management as strategic and 52% have either product managers or business unit managers reporting directly to the CEO... those that did were twice as likely to be leaders.”

Pragmatic Marketing & SoftwareMinds surveys (2003-2006)

At industry-leading organizations focused on a market-driven approach, company operations are driven from the business unit or product management level. Leadership is distributed. Why? Because the business unit leaders and the product managers who work there are the people who are closest to the marketplace and best understand the problems buyers face. Product managers and business unit leaders are the people charged with developing the products people want to buy. Winning companies recognize it is better to distribute leadership and to employ a bottom-up strategic planning process that drives the business forward than it is for functional senior managers to collaborate on decision making and push new strategies, processes, and plans out to the organization.

A top-down approach is much less likely to succeed. At many of the struggling companies that we've worked with, strategies for the business have been developed outside of an understanding of market problems. At these less successful companies, strategy is typically developed by committees chock full of company insiders without input from the marketplace. At some of these industry laggards, a finance-driven approach is used where a slew of MBA-types crunch numbers all day and dictate what happens at the strategic level of the business. At other organizations, strategy is dreamed up in the vacuum of a conference room by well meaning C-level executives who base decisions on instinct, prejudice, and stuff that has worked well in the past. If the C-suite is not taking proper input from the business unit level product managers, however, then their efforts to steer the ship often end up hitting icebergs. For example, how many mergers help to solve market problems?

SECRET #5: STOP BEING A VENDOR

In *Getting it Done*, Roger Fisher relates a story about a railroad expert being summoned because a brand new diesel locomotive would not start, no matter what the engineer did. After a short time of studying, the expert gave the locomotive a tap with a hammer and it started right up. Although very appreciative, railroad executives were somewhat surprised to get a bill for \$1,000 and asked the expert to itemize it. The reply came back in two lines:

HITTING THE LOCOMOTIVE WITH A HAMMER (\$10)
KNOWING WHERE TO HIT IT (\$990)

In our experience working with thousands of technology companies, we've watched a sequential decline each year in the level of "trust" between vendors and customers. We've learned that the most successful organizations are ones their customers view as trusted advisors. Importantly, the way they get there is to ensure all of their customer-facing functions embrace the discipline of being a problem-solver and solution-seller instead of a vendor. Industry leaders don't push

solutions at their customers and walk away. Instead, they develop programs to partner with their customers in the process of continuous problem solving.

“As a result, market-driven leaders today garner customer satisfaction rates, renewal rates, and NetPromoter Scores² that are 20 percent higher than industry averages.” How do they do this? A formal customer relations program is the first step. The best programs include both electronic and personal contact management, early access to products, “loyalty” programs such as preferred licensing terms, “named” support staff, escalation paths for resolving conflicts, and customer advisory councils and conferences. The second step is to develop a professional and responsive sales organization (or channel partners) that provide added value in the sales and service processes. Importantly, industry leaders employ a sales organization that is compensated both to sell to and retain current customers.

SECRET #6: MARKETING WITH A BIG “M”

“Marketing is too important to be left to the marketing people.”

Jack Welch, former CEO of GE

Industry leaders understand that marketing is more than just “marcom” (marketing communications) and that the role of marketing involves much more than just creating a message and delivering that message with the tools of advertising and public relations.

Unfortunately, in many less successful organizations, the promotional aspects of marketing are all that really occurs. Companies are more likely to fail when they get busy doing what they think is “marketing” without first going out into the market to understand what products people want to buy. Companies get into trouble when they throw bucketfuls of money at the promotional aspects of marketing such as advertising, tradeshow, PR, media relations, analyst relations, and the like

² <http://www.netpromoter.com/calculate/nps.php>

without paying due attention to the problem identification, market definition, and product management aspects of marketing.

Successful companies understand that marketing is not just promotion and advertising. Industry leaders focus first on the marketplace and identifying market problems that exist that can be solved with technology. These industry leaders organize around both inbound marketing (understanding market problems and buyers) as well as what is more traditionally defined as marketing, the outbound components including the creation of a go-to-market strategy.

We've dubbed this success factor of industry leaders "Marketing with a Big M." The difference between just marketing and Marketing is a focus on Marketing as the fundamental driver of a business.

SECRET #7: MEASURE ONLY WHAT MATTERS

"At the end of the day, customer satisfaction, unit sales growth and profitability are the only metrics that matter."

Paraphrased from every successful CEO we interviewed.

Measurement is a tricky thing for most companies, but not market-driven leaders. Successful companies don't fall prey to the typical requirements of the C-suite, investors, boards, industry analysts, and Wall Street for managing the minutia and death by metrics. Of course, nobody would argue that data and metrics don't have value, particularly when the numbers provide visibility and transparency into company performance. The problem with measuring marketing activities is that too many companies have trained their employees to measure the wrong things. At the typical technology company, functional line managers deliver detailed metrics on such things as the number of sales leads, the number of "PR hits" (magazine and newspaper articles that mention the company), engineering productivity rates and waterfall charts, regional sales performance and more. Well, guess

what? Those things don't matter and only serve to create a management environment that works hard but not smart!

Market-driven leaders measure only what matters. Their C-suite needs are dominated by demands for real measurements that help them run the business. When done right, the measurement will not just be a way to dole out MBO bonuses, but will serve as the dashboard for how the company is run. Metrics will help answer questions such as: Should you increase spending to build new and innovative products? Should you expand your marketing programs? Develop new channels? Increase or decrease your marketing staff?

The Power of Pragmatic Marketing

How do you know where you fit?

Executives and staff at many companies already think they are market-driven. Hey, the mission statement even says so! Yet, when we go into these organizations and actually measure the things that people do all day, we inevitably hear about problems and opportunities that originate from inside-out thinking (Apple Newton) instead of outside-in (the buyers' perspective which leads to breakthrough products like the iPod). In other words, technology companies are increasingly ineffective because their field and customer facing organizations spend more time postulating and pontificating around scenarios that support their offerings than listening and learning about problems their customers actually have (and are willing to spend money to solve).

Your opinion, although interesting, is irrelevant!

When was the last time you bought your company's product?

What really matters is the buyers' opinion. Of course, each company will have different measurements that matter and varied things of importance to manage the business. But there are some real measurements that may be used to assess how market-driven your organization is right now. We challenge you to objectively answer the following questions. If you answer “yes” to all of them, congratulations because you’re market-driven!

- Do you meet your product delivery schedules?
- Are your product requirements defined by needs of the market?
- Is the focus of your research and innovation on addressing an understood and well-defined market need?
- Do you first look outside for new technologies before building them yourself?
- Are product positioning and messages based on the specific quantified problems of a well-defined market and buyer?
- Is the positioning statement done before development begins?
- Can a customer or prospect understand the “value to them” of a product or feature by reading the first few lines of any of your marketing deliverables (data sheets, brochures, fact sheets, etc.)?
- Does your web site focus more on market problems, market segments, buyer personas, and solutions than on your products, technology, and company?
- Do you have a marketing programs strategy?
- When you have a meeting with a customer, do you spend the largest percentage of the time listening versus talking?

- Does someone other than sales routinely visit non-customers?
- Do you have someone who is your chief prospect advocate?
- Can an average salesperson quickly locate the right tools to present your product strategy or to close a deal?
- Are your channels selling all of your products?
- Is part of your marketing programs budget and sales goals allocated to customer satisfaction and customer retention?
- Do you measure product profitability including estimating fixed costs on a pro-rated basis?
- Do you retire non-performing products?

Market-driven companies can answer and quantify these questions. They work better, achieve results faster and have happier customers that return their calls when someone wants to ask them what problem they can help them with next.

The ultimate measurement is product profitability. If you find an urgent problem, solve it in an innovative way and clearly communicate to your buyers that you solved the problem. You eliminate the cost of educating the market or creating the need. These costs are often the difference between being profitable or not. 📌

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CRAIG W. STULL is CEO of [Pragmatic Marketing, Inc.](#), an INC 500 company which he founded in 1993 to provide product marketing training and consulting to firms by focusing on strategic, market-driven techniques. PHIL MYERS, President of Pragmatic Marketing, Inc., has been a CEO or senior management leader at three start-ups that went public; launched seven products to market that became category leaders; and served as a line of business leader for two of the world's top 10 technology companies. DAVID MEERMAN SCOTT is the author of [The New Rules of Marketing & PR](#). He has presented at hundreds of industry conferences and events in over twenty countries on four continents.

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