

Chapter 8

Connecting RTM with Corporate Strategy

Up to this point in the book, Routes-to-Market (RTM) has been presented as a methodology used by executives responsible for marketing, sales, distribution, and customer services in field organizations. This chapter shows how RTM can also be used in product management and corporate strategy at headquarters. The following case study of Adobe Systems Incorporated provides an example.

Adobe Adapts Its Go-to-Market Strategy with RTM

A key player in the desktop publishing revolution of the 1980s, Adobe became a leading provider of graphic design, publishing, and imaging software for web and print production during the 1990s. Adobe's customers were collectively called "creative professionals" because they designed or created visual content for print publications, advertising, electronic documents, and Web sites. By 1999, Adobe's software was running on 70% of the desktop computers used by creative professionals.

Milestone

In 1999, Adobe's revenue exceeded \$1 billion for the first time in the company's history, and net income (net profit) reached a record level of \$238 million. Industry analysts projected that its market segments would expand at a compound annual growth rate (CAGR) of 27% for the next several years. The company was on a roll and the future looked very bright.

But there were storm clouds on the horizon. Disruptive forces were putting pressure on the publishing workflow of Adobe's corporate accounts. The Internet had become the "information superhighway" for delivering all types of content including advertising and electronic documents, changing the way that creative professionals designed and published content. The rapid growth of smart phones and other handheld devices was starting to cause creative professionals to rethink

content design and distribution for a second time. Both forces were disrupting the way that Adobe's customers created, managed, and distributed documents and other media. Industry analysts projected that publishing executives would retool their creative and production environments to meet the growing demand for content 24/7, anytime, anywhere. Change on this scale would give competitors new opportunities to make inroads into Adobe's customer base.

Network Publishing

In 2000, Kyle Mashima, Adobe's VP of Strategic Development, summed up the projections by telling Adobe's management team and board of directors that over the next few years, change would sweep through the publishing value chain, driving Adobe's corporate customers to seek better integration across a wide range of media and consumer devices, streamlined and automated production and delivery processes, and new roles and business models. They decided to create and sell products to meet these new needs. They named the emerging Internet-centered publishing model "Network Publishing," which they described as "harnessing the power of the Internet for the creation, management, and distribution of visually compelling, interactive and personalized digital content reliably on any device."

Before Adobe publicly announced its Network Publishing strategy in November 2000, Adobe product managers and software engineers had started to develop several new products that fit the Network Publishing model. These products were intended to augment Adobe's existing product line by streamlining production workflows, facilitating collaboration, customizing content dynamically, and delivering it to multiple devices automatically. The new products were designed to run on server computers instead of running on desktop computers, as almost all of Adobe's products operated at the time. Over 90% of Adobe's 1999 revenue came from desktop software.

Adobe product and marketing managers expected that server software products would leverage sales of desktop software in some situations. They saw market opportunities with the US Internal Revenue Service, other government agencies, and large financial institutions where many more employees would need Adobe desktop software if the organization standardized on the new all-electronic workflow enabled by Adobe server software. This would actually reduce the organization's cost to serve their customers, so the result would be a "win-win" for the customer and Adobe.

Coming out with server software products would be a radical change for a desktop software company like Adobe, but the company did not yet realize the extent of the change. Almost every department in the company would be impacted, including product development (software engineering), product testing, maintenance, manufacturing (product packaging), finance, marketing, sales, distribution, and customer service.

Ready to Go to Market

Part way through the development process for the new products, preannouncement customers started to ask questions about Adobe's plans to help them integrate the new software into their environments and provide an ongoing account management relationship for their IT managers. Their questions highlighted the fact that server software is more complex to operate than desktop software. Unlike desktop software, managing an installation of server software often requires coordinating multiple vendors of hardware, software, and network products. How was Adobe planning to help customers do that?

As the customers' questions filtered up to Adobe's executives, it became clear that there was a broader problem: Adobe was not ready to market, sell, and support server software. Mashima concluded that Adobe's switch from desktop software to server software required changes in Adobe's go-to-market strategy, skill sets, and routes to market, in addition to changes in product development.

Mashima engaged Peter Raulerson, one of the authors, and his consulting firm, The PARA Marketing Group, to help Adobe figure out the gaps in its current go-to-market strategy and capabilities, how to fill them, and how to prepare products better to go to market in the future. A cross-functional Adobe task force was quickly formed for the project. The task force used the RTM methodology to evaluate the go-to-market plans for Adobe's server products to identify gaps that Adobe needed to fill. They also profiled several companies in the server software business to understand how their capabilities compared to Adobe's, and analyzed the financials of 27 leading software companies to forecast the impact on Adobe's financials for closing these gaps.

Working with the product and marketing managers for the new products, the task force segmented the markets for Adobe's server software to understand the target customers' needs beyond the product features that had already been analyzed. The task force focused on understanding the whole solution for each market segment. Introduced in Chap. 1 and discussed in detail in Chap. 4, a "whole solution" is the minimum set of products and services necessary for the target customer to completely satisfy his or her compelling reason to buy. For each server software product, the task force used RTM to design routes to the selected target market segments, and developed budgets for the marketing, sales, and customer services resources for each route.

Gap Analysis

The task force uncovered gaps in product plans, value propositions, and go-to-market strategies for the server products. One gap, previously highlighted in the questions from preannouncement customers, was that the whole solution for server software was much more complex than for desktop software, as shown in Fig. 8.1.

Whole Solution = the minimum set of products and services necessary for the target customer to completely satisfy his or her compelling reason to buy.

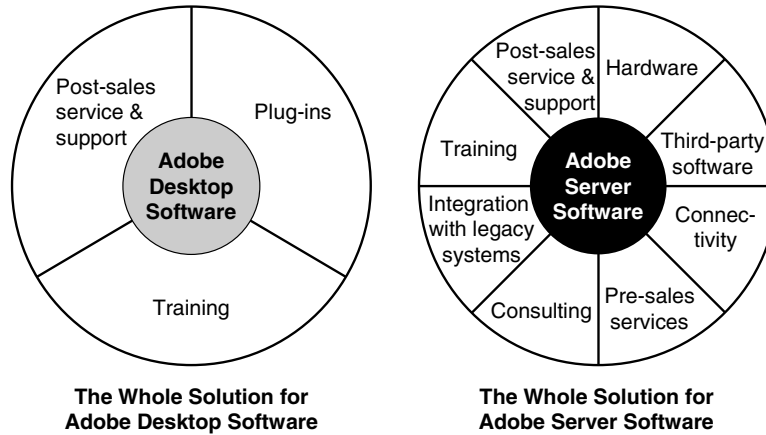


Fig. 8.1 Whole solutions for Adobe desktop and server software

To close this gap, Adobe would have to do more work to provide the products and services needed to complete the whole solution for server software.

The second gap was that different people were involved in the customers' ecosystems for server software than for desktop software. As we discussed in Chap. 4, a customer's ecosystem is the people who participate in, contribute to, and influence purchase decisions. The ecosystem gap meant that Adobe needed to communicate with different people in the market than they traditionally reached, both inside the customers' companies and in organizations that influenced the customer. (Customer ecosystems are discussed in detail in Chap. 4.)

The third gap was the most dramatic: Adobe's server software would enter the market at a much earlier phase of the RTM Life Cycle than Adobe's desktop software was currently selling, as shown in Fig. 8.2. In December 2000, Adobe's desktop products were in phase 4 of the RTM Life Cycle where the customers are primarily conservatives and skeptics. They buy mature, standardized products requiring minimal customization and cost, from mass market retailers, discount stores, catalog retailers, and other high-volume channels. (See Chap. 5 for a complete explanation of the RTM Life Cycle.)

In contrast to Adobe's desktop software products, the task force concluded that Adobe's server products would enter the market in late phase 1 or early in phase 2 of the RTM Life Cycle, where customers are primarily visionaries and pragmatists. Visionaries buy immature, innovative products directly from the manufacturer or developer, and then customize them to their specific needs. Pragmatists buy innovative products, but only after they have been packaged with other products and services as a whole solution to completely satisfy their needs. Pragmatists buy from solutions providers such as value-added resellers (VARs) and systems integrators (SIs). (Whole solutions are explained in Chap. 4.)

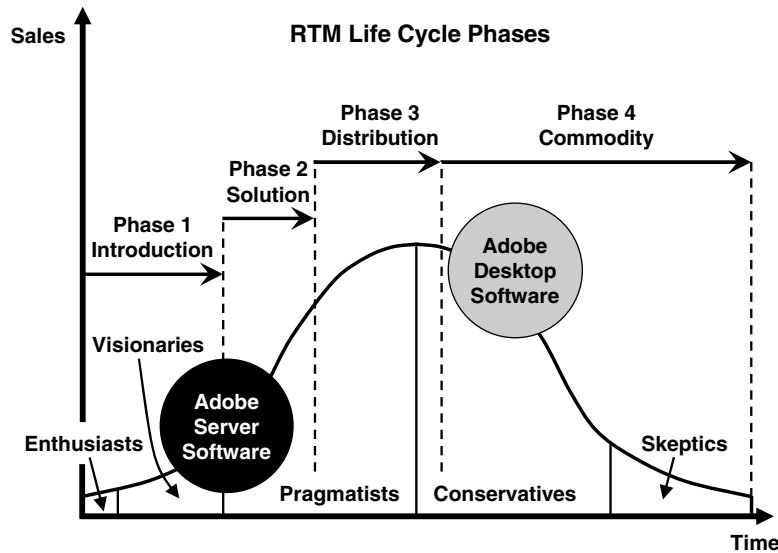


Fig. 8.2 RTM Life Cycle for Adobe’s server software and desktop software products, December 2000

The impact of the difference between the life cycle phases for Adobe’s desktop and server products was huge: Adobe’s server products would require very different routes to market than Adobe’s desktop products. Adobe’s desktop software had been in phase 4 for several years prior to December 2000. All of Adobe’s marketing communications were focused on phase 4 customers. Adobe’s primary distribution partners were high-volume distribution channels that served phase 4 customers; those channels would not have the skills or the motivation to serve phase 1 and phase 2 customers who need a lot of support. Adobe had outsourced customer service to a call center company that looked up predefined answers to customers’ questions in a database; this would not work for customers in phases 1 and 2 because predefined answers would not fit very many of their customized or packaged implementations.

Adobe had very few of the sales resources they would need for phase 1 and 2 customers, such as direct sales people, VARs, and SIs. Their marketing and customer service resources for phase 1 and 2 customers were also very limited. The task force realized that the difference between the RTM Life Cycle phases for desktop and server software was going to significantly impact Adobe’s entire go-to-market strategy and also Adobe’s marketing, sales, and customer service organizations.

New Routes to Market

Using RTM, the task force designed new routes to market for each of Adobe’s server products. This included a detailed analysis of the go-to-market activities that needed to be performed to move customers from beginning to the end of the sales

cycle. The task force focused on the gaps between the activities that Adobe was already doing to take desktop software to market, and the activities that they now realized would be needed for server software. Some of these gaps were things that Adobe needed to do differently for server products, but had already been doing for desktop products. Other gaps were things that Adobe had never done before, but which had proven to be very productive for other server software companies.

The task force also used RTM to develop itemized expense budgets for the new routes, and profit margin projections for each server product. This was the first time that Adobe executives had seen projections for go-to-market costs while a product was still in the early stages of the development process. At most companies, go-to-market costs are not estimated until development is nearly complete, when the product's launch is being planned just before public announcement. By that time, the entire development budget has been spent.

Adobe's executives realized that by using RTM, product managers could forecast go-to-market costs for new products before money is committed and spent to complete development and well before product launch. This would enable product managers, business unit general managers, and executives to make much more timely and informed decisions about Adobe's product investments.

The RTM methodology includes a spreadsheet-based Route Calculator that can be used to evaluate the performance and costs for alternative go-to-market activities for each step of the sales cycle. When a cross-functional team of marketing, sales, and customer services people use the Route Calculator, they can optimize the mix of activities to achieve their business goals, and they can optimize the budget for each activity. The Route Calculator generates profit margin estimates and useful ratios such as the Expense-to-Revenue (E/R) ratio discussed in Chaps. 6 and 7. (The Route Calculator spreadsheet can be downloaded at no charge from the book's Web site, www.RoutesToCustomers.com.)

The Route Calculator also provides detailed metrics for measuring the performance of each budgeted activity. This makes it especially valuable as a tool for improving go-to-market performance over time, as the team repeats the Route Calculator analysis quarterly or annually, comparing actual performance to prior projections and adjusting budgets accordingly.

AlterCast Route Calculations

AlterCast was the first product Adobe announced for which they used the Route Calculator to develop revenue and cost projections. Adobe CEO Bruce Chizen described AlterCast in an interview published by CNET's News.com on January 2, 2002, just before the first version of AlterCast was released to customers. He said that AlterCast "generates images or graphics dynamically. It's really taking variable data and generating the image or graphic on the fly Those organizations that do a lot of images and a lot of graphics and a lot of variation of the same image or graphic will enjoy this product ... [such as] retailers that do catalogs for electronic or paper [publication]."

Before using the Route Calculator, the AlterCast product manager and marketing manager segmented the market for AlterCast and decided to target companies with graphically dense Web sites and more than 100 employees. They thought that the decision-maker for AlterCast would be the Director of Creative Services, Web site Production Manager, or Director of Web site Development, and, in companies with a more complex workflow, the Marketing Director and/or IT Manager (CIO or CTO). They also determined that the industry verticals to target were retail, financial services, professional services, publishing, entertainment, and manufacturing.

The product manager and marketing manager set \$8.3 million for the first-year revenue goal for AlterCast based on analyzing the market opportunity and competition. Senior management approved the revenue goal.

The product manager broke down the cost of revenue (cost of goods sold) for AlterCast as follows: (1) costs for software that Adobe had licensed from other sources and embedded in AlterCast, and (2) the packaging costs for AlterCast. These two components totaled 10% of AlterCast's revenue, approximately the same as the 9% cost of revenue that Adobe averaged across all of its products from 2001 through 2007. (Note that the cost of revenue for many software companies is in the range of 8% to 15% of revenue.)

The task force identified two routes to market for AlterCast:

1. A "direct" route in which Adobe direct salespeople would perform the Close the Sale step of the sales cycle. The Delivery and Installation and Provide Support steps would be done by Adobe's service staff. These sales and service personnel would be specially trained on AlterCast. They would be dedicated to AlterCast or AlterCast would be a priority for them. The task force expected the direct route to produce 95% of Adobe's first-year revenue for AlterCast, based on the logic that new technologies are best sold by the vendor's direct salesforce in phase 1 of the RTM Life Cycle.
2. A "VAR" route in which Adobe would provide qualified leads to independent VARs and SIs who would Close the Sale. The VARs and SIs would provide front-line support to the customer in the Delivery and Installation and Provide Support steps, with backup support from Adobe. The task force expected that these VARs and SIs would already be familiar with the publishing workflows and software in use in the target market segment. They expected the VAR route to produce only 5% of AlterCast's first-year revenue, but more in subsequent years.

Using the Route Calculator, the task force determined how many qualified leads would be needed to achieve first-year revenue of \$8.3 million. This calculation divided the revenue goal of \$8.3 million by the expected average revenue per deal, which was \$10,000 for direct sales and \$5,000 for sales through VARs (after a 50% VAR discount). The result was that 874 deals had to be closed. To close 874 deals, a much larger number of qualified leads would be needed. The task force thought that a "closing rate" of 35% was appropriate, given input from preannouncement customers and Adobe's sales management. The "closing rate" is the percentage of qualified leads that actually purchase the product. Dividing the target number of

874 closed deals by the expected closing rate of 35% for AlterCast, resulted in 2,842 qualified leads that would be needed.

What would be the most productive and cost effective way to generate 2,842 qualified leads for AlterCast? The task force used the Route Calculator to evaluate alternative ways to generate qualified leads, considering all of the demand generation resources typically used for marketing server software to business customers, including advertising, public relations (PR), editorial coverage, direct marketing, outbound telemarketing, solution seminars, trade shows, trade associations, and tie-ins with other products and communication vehicles (such as educational programs).

The Route Calculator models the way that each of these resources generates qualified leads. The model takes into account the differences between these resources on key parameters such as cost per touch, audience size, response rate, and qualification rate. For every possible marketing mix, the Route Calculator shows the number of qualified leads that will be generated and the cost for each resource in the mix. The Route Calculator enabled the task force to optimize the total demand generation budget and the budget for each resource. Using the Route Calculator, the task force decided that, to generate the required number of 2,842 qualified leads, the optimal budget for the Generate Demand step of the sales cycle would be \$1,063,763. They also decided to allocate that budget 65% to direct marketing, 32% to outbound tele-sales, 2% to trade shows, and 1% to PR/editorial coverage.

Following a similar decision-making process, the task force used the Route Calculator to choose among alternative resources and activities for steps 2 through 5 of the sales cycle, and to optimize the budgets for these resources. Figure 8.3 summarizes the combined resources the task force selected for the two AlterCast routes. The resources are listed in priority order by share of that step's budget. Table 8.1 shows the breakdown of the \$3.7 million total budget they requested for the routes. Table 8.2 shows the forecast for AlterCast's first year revenue and contribution to Adobe's operating income for the two routes.

The itemized budgets developed by the task force included an incremental \$1.1 million in year 1 to close the gap between Adobe's existing resources and the resources needed to sell and support server software products. This drove up the E/R ratio for the combined AlterCast route to 45% ($=\$3.7 \text{ million}/\8.3 million), much higher than the E/R ratio of 32% that Adobe averaged for its other products.

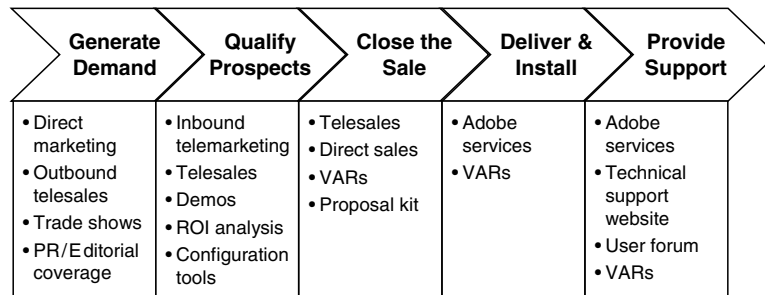


Fig. 8.3 Resources for AlterCast's two routes

Table 8.1 Budget for AlterCast's two routes

	Generate demand	Qualify prospects	Close the sale	Deliver and install	Provide support	Total budget
Program expenses	\$709,763	\$125,000	\$5,000	\$-	\$135,000	\$974,763
Head count expenses	\$354,000	\$879,527	\$719,613	\$242,100	\$564,900	\$2,760,140
Total	\$1,063,763	\$1,004,527	\$724,613	\$242,100	\$699,900	\$3,734,903
% of Total budget	28%	27%	19%	6%	19%	100%
% of Product revenue	13%	12%	9%	3%	8%	45%

Table 8.2 Forecast of AlterCast revenue and contribution to operating income

	AlterCast direct route	AlterCast VAR route	Total for both routes	% of Total revenue
Revenue	\$7,880,000	\$430,000	\$8,310,000	100%
Cost of revenue	\$788,000	\$43,000	\$831,000	10%
Gross profit	\$7,092,000	\$387,000	\$7,479,000	90%
Route expenses	\$3,153,173	\$581,729	\$3,734,903	45%
Contribution to operating income	\$3,938,827	\$(194,729)	\$3,744,098	45%

The incremental \$1.1 million would enable Adobe to build a larger installed base and to do a better job of recruiting and supporting VARs in year 1. This would boost revenue in year 2 above the previous projection, and more than cover the incremental investment in year 1. The net result would be that the E/R ratio for year 2 would be in-line with Adobe's average, and the revenue and profit for years 1 and 2 combined would be higher than previously planned, without increasing development costs or impacting time-to-market. The executives were excited about this insight and quickly approved the incremental investment.

The task force recommended that Adobe adopt the RTM methodology company-wide and integrate it with Adobe's existing Product Life Cycle (PLC) process. PLC is a standard stage-gate product management process, similar to those used in other high-tech product companies. All Adobe product managers had been using PLC to develop product plans and manage products throughout their life cycles, without being able to determine what kind of routes and go-to-market budgets would be needed to take their products to market. Integrating RTM with PLC would solve that.

Adobe's executives accepted the task force's recommendations. Adobe adopted RTM corporate-wide and integrated it with PLC in 2001. AlterCast, Adobe's first server software product, was announced in 2001 and starting shipping to customers in January 2002.

Between 2001 and 2007, Adobe brought on board executives and staff with experience in server and enterprise software. Adobe acquired software companies with server software products along with sales and support personnel with this expertise. Adobe also established significant partnering arrangements for its server software with SAP and IBM. SAP, the largest provider of business applications software, standardized on Adobe's document creation and management software for print output from its business management applications. IBM partnered with Adobe to integrate Adobe's server software with IBM's server software. The total revenue to Adobe from the SAP and IBM partnerships totaled several millions of dollars annually.

Impact on Adobe's Performance

After integrating RTM with Adobe's product life cycle management process, Adobe's management found that the cost and performance parameters for every go-to-market resource in the Route Calculator could be updated to reflect Adobe's actual cost and performance for those resources on an ongoing basis. This meant that decisions on which resources to use, and how much to spend, could be based on detailed data on how well those resources performed last week, last month, or last quarter. This kind of "feedback loop" enabled Adobe managers to make better decisions over time to optimize the performance and costs of the company's routes to market.

Adobe's annual revenue grew 17% per year from \$1.2 billion in 2001 (when Adobe adopted RTM) to \$3.2 billion in 2007. Net profit grew 23% per year, significantly faster than revenue, from \$206 million in 2001 to \$724 million in 2007.

Adobe's revenue from server software grew 65% per year to over \$200 million in 2007, and the profit from server software grew even faster. In addition, every dollar of Adobe server software sales is estimated to leverage \$3 in sales of Adobe desktop software. The net impact is that server software drove approximately 25% of Adobe's total revenue and more than 25% of profit in 2007.

From 2001 through 2007, Adobe's stock price increased 179%, more than five times the gain in the NASDAQ Composite Index and more than six times the gain in the S&P 500 Index. Adobe's total return was almost seven times the total return on Microsoft and more than two times the total return on Oracle and SAP. Microsoft is widely regarded as Adobe's primary competitor. Oracle and SAP are two of the leading vendors in the server software business. All three companies were included in the task force's financial analysis to forecast the impact on Adobe's financials for closing the gaps between Adobe's original go-to-market strategy for server software and the strategy that the task force developed with RTM.