

C H A P T E R I

Why Momentum?

IN 1996, ORACLE collaborated with Sun, IBM, and Netscape on a technical specification for a new kind of computer, the network computer, or NC. Oracle's founder and CEO, Larry Ellison, offered a vision of computing as a utility—not unlike electricity—that could be easily accessed via the inexpensive, appliance-like NC. In Oracle's 1997 annual report, Ellison wrote:

It's impossible for me to write a letter or make a speech without mentioning the Network Computer or NC. The NC idea is simple and the need is clear: there will be no information age until computers are as easy to use as telephones, and as inexpensive as televisions.¹

At the core of the NC's positioning, as Ellison pointed out in the many speeches he would give to

evangelize the NC, was a direct challenge to Microsoft's domination of the software industry at a time when Netscape and the Internet were planting seeds that Microsoft was vulnerable. Ellison had very practical reasons to suggest that Microsoft had a soft underbelly: Microsoft threatened Oracle's strategic position in databases, the product category underlying Oracle's relationship with customers and the source of the company's market value with Wall Street.

The NC wasn't the first time Ellison created news and piqued customer interest by providing a compelling context for, and putting a human face on, a confluence of market forces. In 1994, Oracle hosted a press conference at CBS Studios in Los Angeles. Ellison was making news again, this time with the venerable Walter Cronkite at his side. In a cavernous television studio, surrounded by a complete mock-living room set, Ellison touted what he called a "media server," which would make interactive television possible, delivering movies on demand to subscribers—not just the handful of movies available on a cable system's pay-per-view channels, but any movie people wanted to see, any time they wanted to see it. In Ellison's vision, movies-on-demand was the ultimate application of client-server computing—the very same approach to computing that was emerging as the suc-

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cessor to IBM mainframes in the data centers of the largest companies around the world. For a few months, the media server and the NC each spawned press frenzies, as Oracle organized campaigns to influence market gurus and opinion leaders—the people we on the inside of the technology industry refer to as the “influencers of the influencers.” This attention was followed by timely investments in the concepts, especially the NC, from venture and equity markets and by a string of deals between the biggest names in consumer electronics and information technology.

The personal passion, market insight, and hyperbole of Ellison’s view of the opportunities created by the media server and the NC gave them a “bet-the-company” feel. It wasn’t Oracle’s New Coke—when Coca-Cola risked the Coke brand franchise with a new, sweeter formula—but any significant reward always comes with the risk of failure and the consequences of failure for a company’s strategic position with customers. In Oracle’s case, the exact opposite happened. In almost the same time it took for the media server and NC to look like promising product and market opportunities, Oracle’s core customers rejected the concepts, and the viability of the media server and the NC collapsed. Yet Oracle’s market share with customers went *up* for five consecutive years after

the launch of the NC, and Oracle ultimately captured two-thirds of the market for database products based on UNIX, the preferred operating system for client-server applications and, later, for many Internet-based applications.

In some important way, the media server and the NC succeeded in building customers' belief that Oracle was the right choice for them, even as their strategic technology choices were still evolving in the post-IBM computing world. Ironically, the demise of the media server and the NC validated Oracle's position in customers' minds as the company with the product strategy most likely to overcome whatever future challenges might be required of database technology—the exact predicament these same customers hoped to *avoid* by choosing Oracle. During this time, Microsoft also contributed to Oracle's success, as our research would later identify. Microsoft's handling of the U.S. Department of Justice's antitrust investigation of its business practices and a number of other high-profile industry issues established Microsoft's own corporate integrity as a greater threat to its market position with customers than competitive offerings. We will discuss this research and its implications for Microsoft in chapter 5.

Clearly Ellison understood how to draw attention to himself and his company by moving beyond simple

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product announcements. Ellison did two things particularly well in his role as industry visionary. First, he aligned the underlying technology trends of the information technology industry and positioned them as powerful market forces made up of products and companies with a common enemy: Microsoft. Second, he personalized the concepts in ways virtually anyone could understand. In this way, he intuitively grasped, before many of his contemporaries did, that customers would ultimately reward him for taking risks—even when his big ideas failed. In looking back on our experiences with EMC, Intel, Sun, and Microsoft, we found that similar issues existed for each company; each featured a CEO with a visionary agenda whose public persona was larger than life, especially when compared to our clients who were losing market share—IBM’s John Akers, Motorola’s Gary Tooker, Hewlett-Packard’s Lew Platt, and Kodak’s Kay Whitmore.

As we began the discovery phase of our research, in which we hoped to establish the conceptual framework for our planned quantitative research, we wanted to better understand how Ellison’s future view of the media server and the NC contributed to the company’s aura of differentiation, and how they reflected on Oracle’s core products. We had witnessed similar combinations of factors at work with EMC’s Michael

Ruettgers, Intel's Andy Grove, Sun's Scott McNealy, and Microsoft's Bill Gates, and we wondered, Is a compelling market vision linked to a product strategy and a charismatic personality enough to create genuine differentiation with customers? We used this question to start our inquiry into how customers—people—perceive differentiation in the context of digital technologies and what consequence these perceptions have on loyalty over the course of a customer relationship.

DIFFERENTIATION—FROM THE
DIGITAL PERSPECTIVE

We began by auditing consulting assignments we had done with Fortune 500 companies, hot start-ups, and typical Silicon Valley market challengers. One of these assignments involved pages and pages of transcribed qualitative interviews with CIOs and other top technology decision makers from businesses in the process of making large, million-dollar database purchases. The interviews had been conducted by an advertising agency on behalf of a high-flying database company that we'd been hired to position in its ongoing market struggle with Oracle. As we pored over these transcripts at the ad agency's Palo Alto offices, we came across a line that would resonate for us throughout the

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transcript review. “Well,” one customer said, “Oracle just seems . . . *inevitable*.”

It turned out that in many of the interviews, respondents referred, either directly or indirectly, to their belief in the *inevitability* of Oracle’s success in the database market as a key factor in their decision making. Incredibly, this belief existed despite customers’ own acknowledged views of Oracle as having a poor customer-satisfaction track record and a generally acknowledged follower position in technology. Yet Oracle seemed unstoppable in customers’ minds. As evidence of Oracle’s “inevitability,” customers noted Ellison’s appearances in the media, with partners, at industry conferences, and on Wall Street, in which he talked about his vision for the media server and the NC. Larry Ellison, the person, was clearly embedded in the Oracle brand as a core element of the company’s differentiation.

From our point of view, we were observing what brand gurus such as David Aaker, David Ogilvy, and Trout and Ries predicted for decades: Purchase and loyalty are empirically linked to how people *perceive* differentiation. But differentiation, whether real or fabricated, exists only in the context of a person’s expectations for a product or service. We were certain that two decades of using PCs, software, servers, cell

phones, pagers, video games, personal digital assistants (PDAs), and, of course, the Internet—among the panoply of digital products and services pervading our lives today—had influenced people’s expectations for products. The sense of inevitability described by Oracle’s customers appealed to us because it suggested a state of mind for the digital customer, rather than an attribute such as customer service. We decided at this point to attempt to model the purchase considerations that created this state of mind, as well as how those considerations influenced the sources of differentiation valued most by people when purchasing a digital product or service.

What’s on People’s Minds?

As the process for understanding these purchase considerations, we examined the general market experiences of leaders inside and outside technology markets, including companies such as GE, Cisco, Gillette, Merck, Charles Schwab, and Lexus. We also tried to understand the failure to hold market share leadership by looking at Apple (circa 1996), Cadillac, Memorex, Atari, and other companies that had fallen from grace or hadn’t achieved much to begin with. Often we compared companies from completely different indus-

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tries to see if the comparisons provided insights into the mind-set of the digital customer. In this process, two contrasting case studies stood out from the others in helping us to understand the purchase decision-making process every digital customer goes through, and the reason people's expectations for differentiation had fundamentally evolved, or were in the process of doing so.

1. *Digital products are never finished.* Consider the difference between buying a car, say, an Acura, and a PDA like the PalmPilot. The Acura follows a traditional consumption pattern. It is purchased or leased, driven for a number of years, serviced or repaired as necessary, and then replaced. The essential elements of the car—the engine and the chassis—remain with the vehicle after the owner sells it. Memories, as well as nonessential items like add-on cup holders or music CDs, are the only aspects of the car that a person carries forward from one vehicle to another. In contrast, anyone buying a Palm sees today's unit as merely a temporary home for its most essential application—the ability to manage dates and addresses. The buyer knows the basic functionality of the product category is changing

quickly; tomorrow's products will be better in some way than today's. The consumption pattern is the exact opposite of the Acura. Rather than memories or impressions, people carry forward the most important aspect of what they are actually doing from one product to another—in the case of the Palm, the address and calendar information. Memories of using the old device matter only if the experience of using the latest device fails to live up to the previous Palm. The fundamental difference can best be described as the distinction between marketing the past and marketing the future. (However, more than a dozen major car brands now offer General Motors's OnStar services for select cars, potentially elevating the role of digital technologies in the purchase consideration of an automobile. With two million subscribers and a history of ten million individual customer experiences with its services, OnStar is introducing Palm-like considerations into the car buying experience. The plethora of OnStar's value-add driving services, from safety and security information to online diagnostics, is introducing personalized information that people may expect to carry

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forward with them when they upgrade their car, just like they do with a Palm. While OnStar is not the primary purchase consideration for a car—yet—its subscriber base increased by 250 percent in 2001, and it will be interesting to see how subscribers react the next time they purchase a car if the service *isn't* available. In other mass markets, companies like Sears, Panasonic, General Electric, and Sony are exploring digital services comparable to OnStar for entertainment products and household goods such as refrigerators and microwave ovens. As these services mature, we expect that the momentum strategies we discuss in the following chapters will apply to these markets even when the product's primary function is analog-powered, but the customer relationship is digital-centric. Over the horizon, GM is experimenting with a concept car called AUTOmy, which envisions a Dell-like approach to building cars based on a common, scalable technology platform. It is not quite a Windows-based PC, but AUTOmy and the many other “white-board” concepts in corporate research labs around the world are fundamentally enabled by digital technologies and

will certainly introduce considerations particular to those technologies at some point in the future.)

2. *Digital products never stand alone.* When we compared Sun's Java software technology to Gillette's Mach3 razor, it became clear that our model also had to accommodate a second peculiarity specific to the digital product model. Consider the difference between these two technology and market share leaders. Gillette has maintained a 60 percent to 70 percent share of the razor market since the 1960s by introducing a new blade design every decade or so. The Mach3 razor continued this tradition with a new and innovative blade configuration. A conventional, stand-alone product, the Mach3 works on virtually any beard and with every kind of shaving cream. It is in Gillette's best interest, then, to keep the Mach3 technology proprietary and to build a distinct brand position for this razor that retains as much of its value proposition for Gillette, and Gillette alone, as possible. In contrast, Java technology established Sun as a software leader on a scale that for several years threatened Microsoft. But before the company

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could leverage Java as a differentiator, Sun had to give Java away for virtually nothing to its fiercest competitors, some of whom were many times Sun's size with far greater customer clout. In Sun's market—and in virtually every digital product category—products never stand alone. Every customer application of the digital technology is actually a collection of interdependent products working together to function and add value in some particular way. Java only had value as a differentiator for Sun if it became a marketplace opportunity for hundreds, if not thousands, of other companies selling something based on Java, not just an opportunity exclusive to Sun. Thus, it was in Sun's best interest to diffuse the promise of Java to as many companies as possible.

Back to the Future

After reviewing these case studies and others, we decided to more precisely understand how these two peculiar considerations of digital technologies influenced the way people form opinions when purchasing digital products and services. We looked back in time to better

understand the differences between buying an “analog” product like shaving cream or a car and a digital product like the Palm or Java. We started with the early Apple computers in the late 1970s, the precursors to many of today’s mass-market digital products, and we quickly realized that it was too simplistic to think of products as simply “digital,” as too much had changed so quickly since 24 kilobytes of computer memory was considered a lot. Over the past twenty-five years, the unique purchase considerations intrinsic to all digital products have not changed, in our observation; if anything, the underlying pace of these factors has increased. The sophistication of the people buying the products, on the other hand, has changed dramatically with the increasingly deeper penetration of digital products and services inside corporations and into our lifestyles. We think that during this time the digital mind-set evolved in three stages. Each of the three stages covered over the next few pages helped us to better understand how purchase consideration, expectations, and differentiation evolved as people’s experiences with digital products evolved.

- *Stage I, the Marketplace of Image*, was born out of the modern marketing revolution of the 1960s. At the time of the introduction of the Apple I and Apple II, the dominant approach to creating

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and managing differentiation for business and consumer audiences was based on brand image and brand equity. The Marketplace of Image focused on creating differentiation by marketing the *past* to customers. Successful brands emphasized customers' existing positive associations with a product as a reason to buy more. "People don't buy products, they buy brands" was a key axiom. We'll point out shortly why image is not exactly everything when it comes to digital products and services. However, the role of image as a symbol of trust and integrity remains vital to any consistently successful product or service—digital or otherwise.

- *Stage II, the Marketplace of Products*, emerged in the 1980s and early 1990s as a phenomenon driven by the mass-market potential of digital products and services. The Marketplace of Products focused on marketing the *present* to customers. Companies used product features to gain and regain customer loyalty.
- *Stage III, the Marketplace of Ideas*, evolved in the late 1990s and at the turn of the century out of the unique purchase considerations of digital technologies and the emergence of digital products as business, cultural, and lifestyle forces. This stage casts an expansive look into the *future*.

THE MARKETPLACE OF IMAGE

The fundamental principles of differentiation in the Marketplace of Image were constructed for products that were slow to evolve, relatively low-tech, and more alike than unlike. Marketers aspiring to build a differentiated position with customers faced the challenge of creating differentiation where little existed.

As a result, branding emerged as a form of strategic positioning. Brands started as an amalgam of symbols and impressions—many having little if anything to do with the products themselves—conveyed to customers. Branding focused instead on tapping into images and emotions, especially focusing on customers' early experiences with the brand. Instead of simply buying products, consumers bought into the *image* that marketers were able to create around those products. Rather than buy a cola drink, for example, customers were urged to seek admission to the ever-youthful “Pepsi Generation”; rather than buy a pack of cigarettes, customers purchased a ticket (one-way, for many) to “Marlboro Country.”

The most valuable and durable brands, such as Kodak, Coca-Cola, Sony, and many others, have translated what consumers *believe* about their brands into a sustainable image for decades. The strength of these

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associations allowed Kodak, Coca-Cola, and Sony to maintain their existing customer bases while also attracting new customers and consistently building equity, or value, in the brand image.

The brand equity model, developed in the 1970s and 1980s, established a way to qualify and quantify the value of a person's past experiences with a brand. Brand scholar David Aaker suggests these past experiences could be measured in four ways: through brand awareness, brand associations, brand loyalty, and perceived quality.

Brand equity is credited with placing a dollar value on the conceptual relationship between brands and customers. In studies by Interbrand, a leading global brand consultancy, the brand equity of global powerhouse brands like Coca-Cola and Disney constitutes upwards of 60 percent of the market capitalization placed on their parent companies by investors. For Coca-Cola and Disney, in particular, the value of the brand image alone is in the tens of billions of dollars.

As a result, Kodak's yellow box, McDonald's golden arches, and Cadillac's distinctive shield became billion-dollar symbols that people could trust to be a promise of a consistent experience: *If you liked me last time, I can guarantee you'll like me this time, too.* The great irony of these symbols is that, in and of themselves, they have

little or nothing to do with the products or services they promote; they are simply images. That association would change in the next stage of the digital customers' evolution, the Marketplace of Products, when differentiation became inextricably linked to the essential functions of the products the brand symbols represented. Image wasn't dead; its role simply progressed to support what mattered most in customers' minds: product features.

THE MARKETPLACE OF PRODUCTS

If the marketing battle cry of the Marketplace of Image was "Advertise more!" the marketing mantra of the Marketplace of Products was "Give them more!" The nature of digital technology created purchase considerations that guided people to focus on the products themselves—what they were and the functions they could perform and what other companies supported the functions. In the process, sources of differentiation evolved dramatically, from manipulating and building upon images of a brand's *past* to focusing on what these new products could do in the *present*.

As customer expectations for digital products and services evolved in this next stage, during the 1980s it wasn't unusual to see Bill Gates, Steve Jobs, Craig

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McCaw, Michael Dell, Borland's Philippe Kahn, Electronic Arts's Trip Hawkins, Andy Grove, or Lotus's Mitch Kapor engage in product shoot-outs with their competitors at industry conferences and trade shows. Looking back, it's almost comical to remember how audiences gawked over word processing features and vendor shoot-outs at trade shows like Comdex or at technology guru Esther Dyson's PC Forum conferences. So involved were top executives in some of these "feature wars"—as pundits referred to this high-tech battlefield—that Larry Ellison personally wrote the advertising copy that outlined, feature by feature, why his company's database was more effective than that of its nearest rivals.

An entirely new vocabulary was invented, or imposed (depending on your point of view) by the proliferation of digital features. As a tactic to differentiate features, companies tried to translate their technologies and products into things people could grasp and understand, sometimes succeeding, most times failing. Megahertz, graphical user interface, cells, pages per second, dots per inch, transactions per second, RISC, kilobits per second, protocols, 32-bit, 64-bit, roaming, file format, C++, objects, and countless other terms are now part of the everyday conversations associated with purchasing digital products and services.

We conducted research on behalf of Dell in the late 1980s that identified product reviews in magazines as the most important influence on people looking for information related to their product purchases. Because the complexity and the associated arcane vocabulary of digital technologies were hardly intuitive, businesses and consumers alike needed experts to explain all of these digital terms and concepts. An entire publishing industry was created to cater to the increasing numbers of buyers of digital products and services. Publications for consumers and business and technical buyers arrived, including *InfoWorld*, *PC Week*, *PC World*, *PC Magazine*, *Byte*, *Datamation*, *Computer Systems News*, *Computer World*, *MIS Week*, and hundreds of other magazines and newsletters. Most were packed with product reviews, including feature charts and grading systems. In turn, these same charts would make their way into the omnipresent ads that filled the magazines and the “spec sheets” available on the shelves next to the computers and peripherals at the local Businessland or hobby house Fry’s Electronics.

Marketing the Present

All of this focus on product features existed because of a fateful set of business strategy decisions by IBM in

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the early 1980s. When IBM introduced the IBM PC in 1981, Apple Computer, the established brand of choice in the fledgling market for personal computers, sponsored ads welcoming Big Blue to the market. However, within two years, IBM would wrestle market share leadership from Apple. And while IBM executed some pretty creative ads for an old-line corporate giant, such as the early Charlie Chaplin ads, which glorified and demystified the personal computer at the same time, nothing had more impact on Apple's market share than IBM's choice to build the PC with help from Microsoft and Intel.

In its decision to use standard components from other companies, IBM created the market conditions for an open product model, which at its core separates everything digital from almost all the products built and marketed for the Marketplace of Image. This open product model is the essential reason behind the two unique purchase considerations of digital products and technologies, as we mentioned earlier: digital products are never finished and never stand alone.

DIGITAL PRODUCTS ARE NEVER FINISHED. In the Marketplace of Image, brands were built on reinforcing a consistent, subjective point of differentiation over periods of time, with brand messages enduring,

sometimes for decades. Tinkering with the message was possible, but it often brought unpleasant results. When Campbell's Soup said "Mmm, Mmm . . . Good" was now "Mmm, Mmm . . . Better," sales fell. The New Coke experience, of course, has become an infamous example of branding that veered from the tenets of differentiation established in the Marketplace of Image. Campbell's and Coke alienated customers by tampering with the only thing that truly differentiated them from their competitors—the static, never-changing emotional currency of their brands.

On the other hand, in the twenty years since Microsoft and Intel formed the core of the PC, each has introduced dozens, if not hundreds, of versions of the PC's operating system and microprocessor, respectively. Microsoft has changed the PC's operating system at the architecture level about every five years, and with it, the name, value proposition, and distribution strategy of the product.

As a result, instead of wondering, "Will this product satisfy the expectations I have from the last time I bought it?"—which typified the marketing challenge from the Marketplace of Image—buyers of PCs started asking new questions, based on their new expectations: "Will this product keep up? When is the next upgrade? How can I trust that the upgrade is worth buying?"

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In the late 1980s, companies viewed “upgrading”—that is, stimulating sales through the introduction of incremental improvements to an existing product—as a revenue and market share strategy, and Wall Street popularized the idea in earnings analyses. Borland targeted Lotus, WordPerfect, and Microsoft with competitive upgrade promotions; even stodgy HP offered trade-ins on upgrades to Sun servers and IBM mainframes. Nintendo and Sega traded places every year or two by introducing one-upped versions of their respective gaming platforms. Motorola made the latest phone a necessity with the cool-looking analog Micro-Tac and then the even cooler looking, but digital, Star-Tac.

By the end of the 1980s and the early 1990s, upgrading became a defining purchase consideration of the digital product model. It served to cement in people’s minds the idea that digital products are perpetually unfinished and always subject to interoperability considerations. The process of upgrading a software application or a new PC was never an isolated event confined to just a Borland database or the next version of Windows’s precursor, DOS. Everything—the chip in the PC, the existing files and other applications, the amount of memory available, the size of the hard disk, the software for the printer, the network card or connection to the local area network—was

affected by any important upgrade to the computer itself or the software that ran on it.

DIGITAL PRODUCTS NEVER STAND ALONE. In the Marketplace of Image, products naturally worked well together. Cars ran on gas from any gas station. Different brands of film fit in cameras without any hassle. Any detergent worked in any washing machine. Any kind of paper worked with Xerox machines. Every match could light a cigarette. Plug any phone jack into the wall and there was an instant dial tone. Shaving cream worked with any razor.

But digital products don't work easily together—despite the logical, on-off nature of digital technologies and the role of open standards. The complexity of digital technologies and, increasingly, the competitive politics of the companies that supply them have heightened the difficulties of making products work together. In addition, almost all digital-based applications are an amalgam of components and products from different companies working together to make up the application. The PC provided people with a straightforward mechanism for judging differentiation in the multicompany, interdependent digital product model and established the market conditions for ecosystems as a source of differentiation in our momentum model.

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As the 1980s came to a close, the notion of an IBM-compatible PC morphed into the Wintel-compatible PC—the result of a thriving third-party hardware and software industry created to support the DOS/Windows operating system and the Intel 286, 386, and 486 microprocessors. Third-party support established in people’s minds a tangible source of differentiation for a particular class of products; Microsoft and Intel built their strategic market positions on this support. The other big market share and investment winners in the Marketplace of Products—such as HP, Oracle, Adobe, Novell, Sega, Compaq, Nintendo, Nokia, EMC, Sun, and others—leveraged these third parties as brand extensions in support of a differentiated position with customers. In the end, the best and most important features of a product were defined not on a pure point capability, but on *total* capability. The likelihood of switching from an existing product category leader to a challenger was most often determined by how valuable the third-party support was to customers, and whether it was too expensive or too much of a hassle to give it up or modify it.

We knew from market history that in the Marketplace of Image the best products rarely owned the most market share—the best *brands* did. The best products didn’t win in the Marketplace of Products, either—just for different reasons. As much as Microsoft,

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for example, tried to convince users that its software features were as easy to use and intuitive as the Macintosh's, third-party support did more to buttress and grow Microsoft's market share versus Apple than anything Microsoft did technically. It was no coincidence that when Microsoft or EMC or Nintendo introduced a new product, a raft of third-party supporters populated the entire purchase process—at the launch, in the store, in ads, and during financial briefings. Digital customers had begun to recognize this kind of support as a source of differentiation in the context of a particular product category. Even in 2002, after *Time* magazine featured a Macintosh computer on its cover, a reader's letter to the editor on the article echoed two decades of Microsoft's advantage over Apple: "The iMac is cute, but after cute, then what? At my local computer store, Mac-compatible software titles are vastly outnumbered by those for the PC."²

T H E M A R K E T P L A C E O F I D E A S

The proliferation of communications and networking products and services in the second half of the 1990s catalyzed the transition from the Marketplace of Products to the Marketplace of Ideas. E-mail and cell phones tapped into the basic human need to commu-

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nicate and integrated digital technologies into our daily lives. For the first time, people who weren't trained professional technologists could imagine the possibilities of digital products and services to transform everyday business processes and functions as well as consumer lifestyles.

The spread of the Internet to all walks of life is well documented and we won't repeat it here, but fundamentally the Internet shifted the focus of huge numbers of people beyond incremental features to the possibilities of products. Web surfing, cell phones, and instant messaging in consumers' lives, as well as e-commerce and B2B applications in businesses, became *essential* to people. As a result, everyday people became technology decision makers. In business, for example, information technology spending as a percentage of capital spending among U.S. businesses reached 40 percent by the end of the 1990s. "Once that happened," says Cisco CEO John Chambers, "information technology was no longer an expense item. Instead it became a tool for profits, cash flow, and productivity for every functional area of any business."³ In turn, business professionals and functional leaders became technology decision makers, willingly and unwillingly, as their budgets contributed to the investment increase. Though the capital-spending boom of

the late 1990s has receded significantly, information technology spending is unlikely to exclude business professionals and functional leaders any time soon.

In the home and life, digital products and services have turned consumers into technology decision makers, too. At an industry conference hosted by pundit Stewart Alsop in 1999, research was presented that showed the most important reason parents bought personal computers was to get their children on the Internet, because their “future depended on it.”⁴ In Thailand on Valentine’s Day in 2000, teenagers overwhelmed Bangkok’s wireless network with instant messages to loved ones. In Tokyo, instant messaging was also challenging long-held cultural norms of social interaction. As these few examples—along with many others from academia and the popular press over the past five years—illustrate, digital products and services are both ubiquitous and deeply involved in solving problems in business and in people’s lives.

As these experiences multiplied, the digital mindset matured to a new threshold: Differentiation evolved from what *products* do—features and functions—to what *people* can do with them to solve business or lifestyle problems.

It was on this point that we decided to synthesize what we what we had learned about the digital mind-

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set and our effort to understand inevitability as it exists in people's minds. We summarized our findings this way: First, digital products have two intrinsic qualities that separate them from all the analog stuff—they are never finished and they never stand alone. Next, as people's experiences with digital products evolved, these intrinsic qualities became the essential purchase considerations for just about anything digital. As a result, people developed expectations peculiar to those products. The list of these expectations wasn't particularly long: From what we observed in our case studies, four consistently appeared to define the key factors to differentiation in people's minds when surveying the digital choices before them during the purchase process.

1. *Value proposition.* The relevance of any digital product's value proposition to customers evolved from what *products* do to what *people* can do with them to solve business or lifestyle problems. Thus, people judge the superiority of a digital product or service in the context of accomplishing some task or goal of personal or business importance, and they assign technical superiority to the product or service that they perceive to best solve their problem: *My*

definition of what's best is what helps me the most, not what always works best.

2. *Third-party support.* The complexity of the interrelationships among open standards, products, technologies, and companies hastened significantly since the IBM PC. The amalgamation of companies required to create a customer application or service, like e-commerce or instant messaging, resembles alphabet soup. People look at the array of digital products and intuitively recognize that third-party activities validate the value of a particular product category versus other categories in the soup and distinguish the category leader as key beneficiary of the third-party support: *I trust my biggest headache to the most likely solution, and I believe the most likely solution has to take advantage of the best overall capabilities out there for my problem or it wouldn't be the most likely solution.*
3. *The future.* Next year, next month, maybe next week, the offering will change, gain on, or fall behind the technology curve. The customers know it, and so does everyone else. Consequently, when people consider choices, the sustainability of a product's differentiation on a forward-looking basis is as fundamental

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an emotional conviction in people's minds as memories were in the Marketplace of Image. Inside people's heads, it's as if every purchase order and receipt subliminally asks: *I know I'm buying an implicit futures contract with this brand. Is there any reason to doubt how long I can count on this company and its products to solve my most important problems?*

4. *Trust.* Trust can no longer be symbolized by a static image; a paper guarantee just isn't enough anymore. The price of a big idea is that it comes with a higher burden of proof before trust can be earned: *"Don't just tell me how much I can trust you to solve my most important problems. Show me some tangible signs that your way is the right way."*

We closed the discovery phase of our research process on these points. We were confident that these expectations captured the digital mind-set. The next step was to design our research model to quantify our hypothesis around the mind-set of inevitability. It was time to get on with the job of building a marketing model to help companies harness the market forces unique to digital products to build and sustain a differentiated position with customers.

