

Tip Toeing to Barcelona

April 13, 2005

It seems like all the interesting news breaks when I am out of the country. I was in Paris, attending a venture capital conference for emerging IT companies when I got the news that Siebel Systems had missed its revised revenue forecast and sacked its CEO. The trip had been planned around my attendance at Siebel's User Week conference to be held in Barcelona beginning on April 18th. Talk about timing!

Missing your numbers is never a good career move and it might seem like the board acted precipitously but in this case I think it was the right call, much like a decision to take Pedro Martinez out of a game after he's thrown 100 pitches. I like baseball but I am glad I am not a manager in the same way that I am glad I am not a financial analyst. I am much more interested in the long run than in the quarter by quarter forced march.

So now the torch has been passed but I worry that some have already said the new guy is going to shine up the apple for sale and I think that would be the wrong move. Siebel currently has a market cap of about \$4.62 billion but that reflects the fact that the company is sitting on \$2 billion in cash. Siebel's biggest problem is not its technology it is the company's business model. They are stuck in a model that requires big deals and big margins and those are not the deals that are out there in sufficient quantity any more. The company is between an on demand model which is its future and a traditional licensed model which is its past and unfortunately its investors live in the past.

Generally investors today understand the on demand model and are OK with it. They understand the traditional model too. What they have trouble with is transitions and that is exactly what Siebel is in the middle of, a transition. Clay Christensen wrote the book

on the subject (The Innovator's Dilemma); about how companies — especially technology companies — stay too long with one approach or product line and fail to transition. The leaders in mainframe computing failed to become the leaders in mini-computers and the mini-computer makers completely missed the boat on the PC. Will the same hold true for software companies in our age? Will it be true that the companies that led the enterprise software revolution cannot transition — or cannot transition quickly enough — to the on demand model?

For Siebel, the issue is not about technology, the company has plenty of that and truth be told a pretty aggressive approach to delivering it in the on demand model. Just looking at their time line of delivery for major versions over the last 18 months proves the point. It's their business model that needs upgrade. If this was a tennis match we would find Siebel in that no-man's land between the baseline and the box where balls bounce in ways you can't hit.

At this point Siebel needs to change its business model and it needs to do so quickly without a lot of worry about offending the entrenched interests that only look out a quarter at a time. If they don't, the company's finances will decline, in Hemingway's phrase, "Gradually, then all at once." Siebel's situation is not unlike the proverbial frog in a pot on the stove.

What's their next move? I would seriously consider a management buyout. Take the company private, do the necessary things to change the business model re-set expectations about what reasonable revenue targets are — specifically the difference between large license fees and smaller but more predictable monthly and quarterly revenue. Then the company can re-emerge as a serious and public competitor in the on demand

space. With an aggressive model and revised expectations Siebel could again be a growth stock.

Some would argue, hypothetically, that it's too soon to take this measure — after all, reorganization is what bankruptcy is for. But why wait until your options dwindle? Unfortunately, too often by the time you get to bankruptcy it's too late — by then finance guys are running the company and the emphasis is on making the outfit financially viable which is often not the same as making the whole enterprise viable in the market. Then there's also the stigma of bankruptcy to contend with. Better to steer the ship while you have the most control of your destiny.

If I was running Siebel (and I am not, thank goodness) I would give serious consideration to taking the company private.



About the Author



Denis Pombriant

Denis Pombriant is a well known thought leader in CRM and he is the founder and managing principal of the Beagle Research Group, a CRM market research firm and consultancy. In 2003, CRM Magazine named Pombriant one of the most influential executives in the CRM industry. Pombriant's latest white paper, "The New Garage" discusses the emerging new enterprise software industry business model.

E-mail: denis.pombriant@beagleresearch.com

About Beagle Research Group

Beagle Research Group is a consulting and market research organization focused on emerging companies and technologies that will have an important impact on the way business is conducted in the years ahead. Our work is based on professional standards of quantitative and qualitative research which informs all of our publications.

This document was researched and written by Beagle Research Group.

Contact Us

Beagle Research Group
264 Greenbrook Drive
Stoughton, MA 02072
781-297-0066
information@beagleresearch.com