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Once recruited by the San Francisco Giants, Jack Blaeser is CEO and President of Concord

Concord Communications Hits a Home Run

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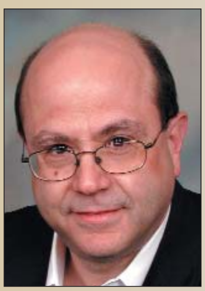
STRATEGIES

Manhattan Associates: A Skyscraper Built on Eight Strategies For Long-Term Success

Manhattan Associates, a supply chain execution software company, built a skyscraper of success. It has an amazing record of 13 straight years of growth and profitability, growing to $176 million in revenue for 2002. Along with Business Objects, Kronos, Microsoft, and SAP, it is one of only five software companies in the world that have recent records of ten or more years of continuous growth and profitability. From my interviews and research, in this, my fourth column on long-term success, I distill eight strategies that helped Manhattan Associates compile its amazing record. In preparing, I interviewed three architects of Manhattan Associate's success: Alan Dabbiere, founding CEO and Chairman of the Board, Deepak Raghavan, co-founder, past CTO and board member, and Richard Haddrill, the current CEO.



Executive Strategy

Insight From Brian Turchin

"We conserve our customer's and the company' resources with at least the same vigilance that we would use to guard own personal resources."

Laying A Foundation For Success

In 1990, five smart twenty-somethings--Alan Dabbiere, Deepak Raghavan, Deepak Rao, Suresh Prahad, and Ponnambalm Muthiah--founded Manhattan Associates. (At the time of the company's founding, it was located in Manhattan Beach, California, hence the name.) Dabbiere was coming off a three-year stint at Kurt Solomon Associates, a management consulting firm catering to the apparel industry. And the four others, all programmers, came from a Infosys, a company headquartered in India, which supplied technical talent to firms in the U. S.

What's unusual about these founders--besides their ability to work very well together as leaders for more than ten years--is that they became highly focused, deciding not only fairly early on a set of strategies that defined how they were going to run their business, but then sticking to what they decided. Larry Lipides, VP/Service Director, Supply Chain Strategies, in responding to my question about why they were successful, said simply, "They stuck to their knitting." Of course, this was more literal than is usually meant since Manhattan Associates attacked the apparel market as one of their first markets.

1. Dominate Your Market By Building For Speed

Common wisdom says to dominate a market, spend a ton of cash on marketing and sales. First, build awareness about your company and then sell like crazy. Unfortunately, this has the unpleasant side effect of making a company distinctly unprofitable for a long time. The common wisdom then says, once you do finally dominate your market, you can then focus on profitability. However, this is a strategy that has sent quite a few software firms into bankruptcy because they never recovered from their top-line sales growth and spending mentality.

Manhattan Associates took a different route. Due, in part to necessity-not having the cash-but also to a conservative management philosophy, Manhattan Associates focused first on a way to build for speed. Dabbiere's view: "Build an easy to integrate, easy to implement, and easy to use software product that costs significantly less than your competitors." By doing so, you achieve a high implementation velocity, which builds your customer base quickly. This strategy worked. As an article in VARBusiness said, "The firm's workload is prodigious; while some of its competitors complete just 10 or 12 installations a year, Manhattan Associates installed 67 systems in 1995 alone."

Nice to say you want a product that is "easy to integrate, easy to implement" etc. How do you do this?

2. Architect Your Software Product For Low-Cost Development And Implementation

In designing their software product, PkMS, Manhattan Associates made several key architectural decisions that aligned with their business strategy.

-- **"No custom code"** - This was the company's mantra. Build a software product that provided 80% of the required function out-of-the-box. The rest would be handled not by custom code but by parameter settings in tables.

-- **Make It Simple** - When providing 80% of the functionality, do it with only 20% of the complexity. Competitors built very sophisticated products with all the proverbial bells-and-whistles. The problem is that you couldn't maintain one code base. It varied by customer, making it very expensive to change. And the bells-and-whistles created additional levels of complexity making coding and testing longer and more difficult.

-- **Take Advantage Of A Customer's Existing Systems** - While other vendors were duplicating data that existed in customer's back-end systems, Manhattan Associates interfaced directly with these systems using their data. Where a competitor quite proudly promoted in an advertisement that it handled over 127 interfaces into a company's existing systems, Manhattan Associates only needed 5.

The total effect of these decisions allowed them to initially charge much less than their competitors--in fact, 1/3 to 1/10 less. Steve Banker, Service Director, Supply Chain Management, ARC Advisory Group, who has been following Manhattan Associates since 1996, said, "Competitors, who couldn't understand how Manhattan Associates could price their products and services so low, conjectured that Manhattan Associates deliberately priced below their costs to achieve a high market penetration. So when Manhattan Associates went public revealing their financials, they were very surprised to discover that Manhattan Associates indeed was profitable all these years."

3. Keep Customers For Life

While deciding on a set of market entry and R&D strategies, necessity again, led them to another set of fundamental decisions, all dealing with creating an intensely customer-focused culture. Without venture-backed funding, Manhattan Associates needed cash to keep the business going. The best way to get cash is to have satisfied customers who always stay as customers.

-- To Ensure Customer Satisfaction, Be A Solutions Company - Manhattan Associates faced a business model choice: be a product software company and let others use the software to provide customer solutions, or be a solutions company that provides the software and services to solve a business problem. Given the nature of the problem Manhattan was solving-warehousing systems and compliance with retailers' packaging requirements-Dabbiere and his partners believed that they needed a direct relationship with the customer. Therefore, they opted to be a solutions company.

-- Create "Ecstatic" Customers - Raghavan said their goal was not to create "happy" customers but to create "Ecstatic" customers. What's the point? This statement was a way of capturing how strongly the founders felt about satisfying customers.

-- Keep Them Coming Back For More - Lastly, the strategy of creating customers for life had both a carrot and a stick to it. The carrot obviously was their devotion to excellent customer implementations and to on-going customer service. But there was a stick as well. Underlying the business problem Manhattan Associates eventually solved was an ever-changing reality-retailer's changing packaging requirements-- that kept customers coming back for more. Since these requirements changed, Manhattan Associates customers always had a need for Manhattan Associates software. This is like anti-virus software where we keep paying because there are always new viruses emerging.

4. Hire Smart Committed Employees With A Strong Work-Ethic

Lastly, like Microsoft, which acted as their model, the founders took hiring very, very seriously, instituting an extensive hiring process. And this didn't change as the company grew. When Richard Haddrill, the next CEO, was interviewing for the job, he went through a set of exhaustive interviews with the board and with the executive leadership-and, surprising for someone at his level, he took an aptitude test as well as a psychological test.

In their interviews, they looked for employees who made things happen on their own. Dabbiere's had this way of describing it. There are three types of people: those who when you ask them to do something, can't; those who when you ask them to do something, can; and those you don't need to ask. He was hiring the last kind of person.

Once hired, they wanted employees to believe in the company the way they did. So from the beginning, shares were given out to all employees. This ethic played out in 1995, when they made the decision to move from Manhattan Beach, California to Atlanta, Georgia. An extraordinary 30 of the 32 employees decided to pick-up their roots and moved with the company.

5. Solve Your Customer's "Customer Problem"

One of Manhattan Associates strengths-as it is with other entrepreneurial companies-is that it saw what others saw, but thought about it differently. In the product strategy area, this created a substantial competitive advantage.

While Manhattan's Associates competitors in the Warehouse Management System focused solely on wringing cost out of warehouse operations, Manhattan Associates took a broader approach, linking a manufacturer's warehouse operation with the needs of the retailer who received the goods.

From his consulting work in the apparel industry, Dabbiere observed that large retail store chains, like Nordstroms or Wal-Mart, created an on-going set of problems to apparel manufacturers who ship directly to them. The store chains were very fussy about how manufacturers packaged the products sent to their stores. They were fussy because if the packaging was incorrect, they incurred further disruptive work, costing them time and money. The retailers were so fussy that they dunned the manufacturer's invoice from 5% to 25% when the manufacturer didn't meet the retailer's packaging specifications-a direct hit to the manufacturer's bottom line. Worse, there was a threat that if the manufacturer consistently screwed up, the retailer would drop them. Further, since apparel goods are always changing, the retail packaging requirements are always changing as well.

So apparel manufacturers had a customer service problem created by inadequate warehousing operations that could potentially cost them dearly. Recognizing this problem Dabbiere offered his customers a deal they couldn't refuse. If they used his WMS software he would guarantee that the packaging would be in compliance with the retailer's requirements. He would in effect solve his customer's customer problem.

This business idea had legs. He could apply his solution to the broader set of consumer packaged goods manufacturers as well as to other industries as well.

Crisis and Maturity

The founders built a solid foundation that allowed the company to thrive. But starting in 1998 and continuing into 1999, a swirl of hurricane forces almost toppled Manhattan Associates' skyscraper.

The first winds of trouble came as a result from its own success. From 1996 to 1998, the company grew in both revenue, from $14. 4 million to $62.1 million, a four-fold increase, and in organizational size, from 88 employees in 1996 to 517 in 1998, with 326 employees being added in 1998 alone. With this, came a series of growth issues. For example, customer satisfaction suffered, the result of too many new people with not enough domain expertise. And the sales force, again very new, started to make promises that the implementation teams couldn't keep.

A second set of stronger winds came from outside the company. In 1999, market demand dropped for Manhattan Associate's software because enterprises were spending more on the Y2K problem and on Internet applications. So Manhattan Associates' torrid pace of growth slowed from 91% in 1998 to 31% in 1999. This wouldn't matter if you were private. But Manhattan Associates went public in 1998 opening at $26 a share. And the market doesn't treat a growth slowdown kindly. Compound this with the madness on Wall Street that looked on Manhattan Associates, because it dared to make profits, as akin to a rust-belt company. Why would you invest in a company that didn't get with the "new" economy? As a result, the market pushed Manhattan Associates' share price to a historic low of $3.50.

Now add to these difficult events the destructive whirlwind created by the greed of the Internet frenzy. Employees wanted to get rich working for a company that was going to go public or whose stock was skyrocketing. They weren't going to stay with a company that had already gone public whose stock was now in the toilet.

In the midst of the hurricane, employees and the market wanted new leadership. Dabbiere, in the eye of the storm, recognized that he had to act quickly--or face a mass desertion in leadership and staff. So in 1999, Dabbiere hired Dick Haddrill as a new CEO. Haddril was an experienced successful software executive who had built larger software companies,. (In this situation, one might expect that the Board of Directors forced Dabbiere to bring in a new CEO. One slight problem. Dabbiere owned close to 50% of the outstanding shares of stock.)

To both stabilize the company and establish a new base for future expansion, Haddrill took three broad corporate actions that revamped Manhattan Associates' inner workings.

1. State Your Company Values--And Let Everybody Know About Them

Haddrill recognized that the founders had built a strong culture. But whereas the culture was successfully informally transmitted before, its current size required that it now be institutionalized. Haddrill wanted all employees to know what was expected of them. So, using a technique that worked for him in a prior company, he, with his executive team, devised a short set of simple corporate rules. He then, distributed them not only to employees but to customers as well. Haddrill wanted customers upfront to know what to expect from employees of Manhattan Associates.

I present them here because they are an excellent set of principles which, to my surprise, contain a refreshing dose of ethics, something unusual in our era of Enron-like corporate malfeasance--especially so since these were written before the corporate scandals erupted.

2. Align Your Business By Formalizing Your Strategic Planning Process

Founders often don't stress strategic planning. They instinctively know their business and have executives who have all known each other for quite a while. So their management style is more informal. But as a company grows, it becomes increasingly harder to keep it aligned, having all parts of the organization working in sync on a common set of goals.

So, Haddrill built a process that had these elements:

-- His executives created a three-year plan focused on long-term shareholder value

-- Using the strategy plan, departments now built a bottom-up one-year operational plan.

-- In the operation plan, the executive team developed 10 corporate goals. Using these goals departments developed their own set of supporting goals. And lastly, employees used the departmental goals to create their own personal set of goals

-- A formal review process, where every two weeks the executive team reviews the operational plan using a scorecard, and every quarter, the executive team goes off site to review both the strategic and operation plan.

This planning and review process provided another unifying element to running Manhattan Associates.

3. Formalize The Processes By Which You Run Your Business

In manufacturing, ISO 9000 along with strategies like Six Sigma, play an important role in a company's quality process. But very few software companies have jumped on this bandwagon. Haddrill saw an opportunity to install the discipline of ISO 9001 compliance since the company had outgrown its existing processes and needed new ones. For him, it served two purposes. First as Ed Quibell, Sr. V. P. and CFO said, "Everything is documented, and everyone knows what to do., and what's expected of them. Both you-and the customer!" And second, in Europe, an area where the company has grown, and expects to grow more, enterprises value ISO9001 compliance in a way American firms don't.

With these actions, Haddrill put in place a structure for a company that had grown too big for its own breeches. And this new structure allowed Manhattan Associates in 2000, 2001, and 2002 to continue to grow and be profitable--during one of the worst economic periods in our industry's history.

Manhattan Associates Company Principles

1. We provide value to our customers by listening carefully and providing innovative products and services delivered in an effective and efficient manner, and we receive fair consideration for that value.
2. We make commitments carefully and honor our commitments. We "do what we say will do."
3. We are clear and direct in our communication. "Bad news does not get better with age."
4. We are action-oriented
5. We provide growth opportunities for our people through open communication, challenging work, fair compensation and proper training.
6. We treat people fairly and with respect
7. We conserve our customer's and the company' resources with at least the same vigilance that we would use to guard own personal resources.
8. We strive to increase shareholder value over the long term and will not sacrifice our future for short-term gain
9. We bring honesty and integrity to everything we do
10. Work is an important part of life, and it should be fun.

Summary

What do we learn from Manhattan Associates' success?

1. Achieve market penetration and domination by building for speed.
2. Design your software product to minimize the cost of customer integration and implementation. The savings can provide more margin or permit the use of a lower price structure.
3. If you want "ecstatic" customers be certain to provide them with a whole solution to their business problem.
4. Hire the best. It is trite but still true.
5. A strategy focused on helping your customer solve his customers' problems can be a strong competitive differentiator.
6. Unify your corporate culture by writing down and distributing your company's core values.
7. Strategic planning conducted the right way will make a company more unified and efficient.
8. And lastly, use ISO 9001 compliance as a way to bring discipline to all parts of your organization, increasing efficiency and improving quality.

In the next column, I take a look at the largest private software company in the world, SAS Institute.

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