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Bolotin Points

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Providing Actionable Ideas to Increase Your Profit

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Windows of Opportunity— Alluring, But Dangerous

So there you are, minding your own business, when, suddenly, there's a significant change, and what appears to be a window of opportunity materializes. There it is. You can't deny it; it's right in front of you! What do you do?

Let's consider our options. First off, the window looks pretty alluring. After all, your greatest opportunity to make a lot of money quickly will happen when you recognize a true window of opportunity and act decisively before everyone else does.

But wait; this window could also be dangerous. Why? Because your greatest opportunity to lose a lot of money quickly will happen when you mistake a false window of opportunity for a true window of opportunity. Too bad you can't take a peak around the window to see what's on the other side.

In this newsletter, I'll give you a construct to help you to figure out what's on the other side of that window and to know whether your jump through it will result in your deliverance to the Promised Land, or a 12 story drop to an otherwise foreseeable "splat".

Leaving out the possibility of political changes, the sudden change in the status quo that results in a window of opportunity can be technological or cultural.

definition

true window of opportunity *n.* The period of time in which one has to act very fast and generally spend a lot of money to gain a critical mass of customers. This critical mass becomes the primary barrier to entry against competitors, and helps the company that attains the critical mass to enjoy quasi-monopoly status in an extremely profitable market.

A further characteristic of the true window of opportunity is that, if one fails to act, the opportunity being considered will cease to exist in any meaningful way, as some other company achieves the required critical mass and uses it as their barrier to entry against others.

When the Internet gained widespread use, the status quo was upset and provided a window of opportunity for many business models, including publishing, retailing, and many, many others.

As we described earlier, just because you've identified what you believe to be a widow of opportunity, doesn't mean that it's a true window of opportunity. In fact, what most people believe to be a true window of opportunity is not.

OK, then, how do we distinguish between a true window of opportunity and a false window of opportunity? In order to help us to decide, let's examine the phenomenon a bit more closely and look at its working parts.

Examples of false windows of opportunities include Webvan ($375 million IPO, followed by bankruptcy), Pets.com ($87.5 million IPO, collapse 9 months after), and eToys (in 16 months, the stock went from $84 / share to 9 cents / share.) Examples of true windows of opportunities include eBay, Microsoft throughout the 80s and 90s, and most likely (although it is yet to be fully proven), Facebook.

A window of opportunity occurs directly after a relatively sudden change, in between two relatively static periods. Here are the relevant three stages, in order:

Stage 1

Late Static

Characteristics: No significant change in market share or other market attributes for a relatively long period of time. This stage continues until such time as the status quo is upset.

Example of Late Static Stage: IBM selling typewriters in the 1960s and 1970s. IBM had about a 90% market share and customers had to wait six months for delivery. During this time, IBM enjoyed near monopoly profits.

Stage 2

Window of Opportunity

Characteristics: There is a dramatic change, the status quo is upset, and the Window of Opportunity Stage begins. Generally, first there is technological change, then a period of slow adoption, followed by a period of rapid acceleration of adoption. Companies (many of which are newcomers) compete for critical mass market share, but the smart ones do not compete for profits.

critical mass market share *n.* The point at which a company has obtained sufficient market share to make it prohibitively expensive for competitors to be able to convince customers to switch products.

Why don't smart companies in the Window of Opportunity Stage compete for profits? Because, if they did so, another company that was more focused on gaining customers than in making a profit at this stage would gain critical mass first, and gaining critical mass is almost always a "winner take all" game; once someone has it, the game is pretty much over. Overall, if there is a true window of opportunity, having to operate profitably during the Window of Opportunity Stage is a losing strategy.

www.OnTargetConsultants.com Chuck.Bolotin@OnTargetConsultants.com (520) 498-0427
Concept and Design by Yvonne Ignacio, YvonneIgnacio@Yahoo.com

Stage 3

Early Static or Back to Late Static

Characteristics: If it was a false window of opportunity, the companies that mistakenly thought that it was a true window of opportunity jump through and fall those 12 stories, and the industry reverts back to some version of the Late Static Stage 1.

If it was a true window of opportunity, everyone moves from the Window of Opportunity Stage to the Early Static Phase, where the window is in the process of closing. The winners generate quasi-monopoly or actual monopoly profits, either by charging for the first time, or charging more, and the cycle proceeds eventually to begin again at Stage 1.

example Examples of true windows of opportunity companies in the Late Static phase: Apple charging content providers more, Facebook charging more for advertising.

Now that we've discussed the three stages relative to the window of opportunity, here's five rules for deciding if the window of opportunity is true or false, and what to do:

Rule #1 Consider what would happen if you're wrong. All other things being equal, the negative consequences of making a mistake increase with the amount of money it takes to gain the critical mass called for in the Window of Opportunity Stage. Therefore, the more money it takes to execute in the Window of Opportunity Stage, the higher the bar to decide to do so.

Rule #2 Is what is understood as critical mass really that critical? In other words, will competitors really be crowded out if one company achieves critical mass market share?

If critical mass is indeed critical, you may have a true window of opportunity. If critical mass is not that critical, you may be looking at a good business, but you're probably not looking at a true window of opportunity, and therefore, you should execute as you would for a more conventional opportunity.

example Examples of when critical mass was really critical and competitors were crowded out: eBay, Microsoft Windows in the relevant time period, and, to a large extent, Craig's List.

example Examples of when there was no critical mass and competitors were not crowded out: websites that display stock prices or the weather, and potentially Groupon.

Rule #3 Is there a real network effect?

To the extent that there is a real network effect, you could have a true window of opportunity.

If there is not a network effect, reconsider if what you're looking at it's a true window of opportunity.

definition **network effect** *n.* when the value of the network grows exponentially (not arithmetically) with the addition of each new user.

example Examples of network effect: telephones, fax machines, e-mail, eBay, Craig's List, Facebook.

www.OnTargetConsultants.com Chuck.Bolotin@OnTargetConsultants.com (520) 498-0427

Rule # 4

How "sticky" is your product?

> **sticky** *adj.* the extent to which customers don't switch to competing products. Generally, for "sticky" products, to the customer, the perceived cost of switching is greater than the perceived benefits of switching.

Historically, certain application software can be sticky. For example, if you use a spreadsheet program that is not compatible with Excel and you want to share your work with your friends who do use Excel, you're either going to have to convince all of your friends to buy what you're using (not likely), or you're going to have to buy Excel. Excel, therefore, in this context, is sticky. Once enough of your friends and other people use it so that it attains critical mass market share, it is very unlikely that they'll change to something else.

In contrast, switching companies such as Webvan that deliver your commodity, undifferentiated groceries (even if you were interested in such a thing) is fairly easy, so Webvan does not have a sticky application. All other things being equal, sticky = true window of opportunity while not sticky = false window of opportunity.

Rule # 5

Although it sounds counter-intuitive, the thing(s) that changed to cause the window of opportunity should have already happened. You don't want to be too early and you don't want to do a lot of predicting. Don't be the business definition of a "pioneer."

> The joke asks "How can you tell who is the pioneer? Answer: The one with the arrows in his or her back. The inference is that you are much more likely to be successful if someone else is the first person to try something and you learn the lessons from the mistakes of that person without having to pay for those lessons and mistakes yourself.

Cultural and critical mass acceptance of technological change can take a while. How long was it between the technological feasibility of fax machines and anyone making any significant money from them? How about the Internet? E-mail? Social networking software? All took quite some time before any of these were generally accepted and profitable (i.e., before the network effect was determinative), and many of the early pioneers who went through the window too early fell many stories.

So don't be too early. If you're predicting a change that isn't yet readily apparent to careful observers, there's probably a good chance that you are too early. The question is not "Has there been or will there soon be a significant technical change?" but rather "Will there will be critical mass adoption of this technology in the near future, and if so, what is the best timing to address this opportunity?" There's a huge difference between these two questions.

However, you also can't be too late. When companies start to monetize successfully, you're moving to the Late Static stage, the window of opportunity is effectively closed, and jumping into it will only get glass all over you. (As examples, think of competing against Apple and Facebook now.) As you can see, timing is critical.

An extremely small percentage of companies are the window of opportunity winners in huge, fundamental spaces. The ones that are become household names, such as Microsoft, Google and eBay. This being the case, is there a less risky and more likely way to take advantage of a window of opportunity?

I believe there is. Here's one proposed strategy, in two steps:

Freeload off your portion of the critical mass market share as it is being created by the huge, fundamental winner when the winner is in the Window of Opportunity Stage (and creating this critical mass at a loss to itself).

Be positioned to live independently from the winner (i.e., not have to freeload) in the Early Static Stage. Reason: with critical mass market share already attained earlier in the Window of Opportunity Stage, the winner will start to extract profits (maybe all of yours) in the Early Static Stage.

Zynga is a company that has executed Step 1 very well. (Zynga created a game called FarmVille that Facebook users play and for which Zynga can charge users for certain aspects of the game). As Facebook very successfully executed its window of opportunity strategy, Zynga benefited as a freeloader (although Facebook did benefit somewhat as well) by executing Step 1. Every time Facebook got a new user, it was a potential new user for Zynga. In trying to execute Step 2, Zynga is now doing its best to create other games and on platforms other than Facebook. It remains to be seen how successful Zynga will be in doing this. The negotiations between Zynga and Facebook regarding revenue sharing of Farmville will be "interesting" to say that least.

As other examples, consider iPhone apps. In the early stages, as Apple successfully executed its window of opportunity strategy, many companies with iPhone apps benefited from Apple adding new users who were, at the same time, potential customers for these the apps. Why didn't Apple charge app publishers all they could in the early stages? Because the app publishers were helping add value to Apple's platform, at no charge to Apple. Now that the network is more mature, however (in Apple's view, close to or at critical mass), according to Apple, the negotiating dynamic has changed, and Apple can charge publishers more, ironically, in part, as a result of the critical mass the app publishers helped Apple to create, but that Apple owns. The result? Apple is negotiating to take more of the profits of each app publisher. The outcome of these negotiations will hinge partially on how well each publisher executed Step 2, including publishing on competing phones.

Now that we've examined the dynamics of windows of opportunity, when you see the next one, you'll be in a better position to analyze it and decide what to do. Jump, wait, or walk away. If you make the right call, you could be very successful.

About Chuck Bolotin

Chuck founded, funded, operated and sold two companies. The On Target Consultants Process™ he developed, and the success he has achieved applying it has made him an expert in bringing products to market in virtually any vertical market, many times when the target market is not known in advance.

Chuck is available for talks to your organization as well as personalized consulting assignments.

www.OnTargetConsultants.com Chuck.Bolotin@OnTargetConsultants.com (520) 498-0427

Concept and Design by Yvonne Ignacio, YvonneIgnacio@Yahoo.com