Just for a change – contemplations on commercial models in AV

"Markets"

People exchange "stuff" they have for "stuff" others don't have, and need. This is stating the absolute obvious (apologies). Through a "token of exchange" we decouple the need to directly exchange resources. This is practical, what better than a guaranteed promissory note that means I don't have to directly have the "stuff" you want, to get the "stuff" you have that I want. By definition this is the first principle example of how things are not a zero-sum game. This means I am not "competing" with my supplier, and my supplier is not competing with me (sanity!).

Whether we like it or not, AV works on these basic principles. This is an example of a simple "real economy"market. Now, if a manufacturer wants to grow, they can go to an institution and can take a loan. If the institution has sufficient confidence in the applicant; that they will repay the loan, and that they will get more back, for taking the risk – great!

Now, what if the manufacturer has sufficient confidence that they will grow massively, and that it doesn't suit their cashflow model to borrow money under fixed terms. The institution may (and does) have its own cashflow priorities, and may see the exposure as not aligned with their risk appetite. Result, difficult to borrow money at a reasonable rate, bad for growth etc. the manufacturer may attempt an "initial public offering". This is where the manufacturer "sells" all, or a substantial part of their company to anyone who is happy with the risk! This is the motivation for the "secondary"market. At this point it gets very abstract! However the rationale is reasonable.

When the owners of a company embark on an IPO, they "sell" their private shares, or more typically exchange their "old" private shares, for "new" shares of an agreed value. This is the last step in the "primary market of the company's equity. It has been "sold" in the traditional sense – a thing desired is exchanged using a promissory note (in this case stock, rather than cash). Then Secondary market activity begins – the company has a capital injection, where people purchase and sell the "shares" to each other, if the share price goes up, the difference between buy and sell is the profit of the owner of the shares, the company doesn't get any more money from this transaction (it is also shielded against any loss!) Now, in exchange for buying equity, an equity shareholder acquires voting rights in how the company, whose stock they have invested in is run. The "side bonus" is that the share holders also can vote to take a "dividend" – ie their share of the profits, this is the benefit of ownership! This is why we see why things have happened how they have.

When I first started in AV, manufacturers gave away their "software for free". This fiction is quite ridiculous. I'm certain that in well-meaning ignorance, this may have been genuinely true (for about 5 minutes!). This is the underlying friction.

Capital market theory? you really have gone off on one!

The car crash!

When several manufacturing companies take the leap. They suddenly have – a large bag of money; extreme regulation; loss of flexibility. The abundance of capital causes a temporary competitive advantage over their private competitors! This causes a “me too” wave.

The “AV rollercoaster”

Many years ago the company I was working for described what we did as “smoke and mirrors”. Metaphorically he was right, concretely, we were the “thunder”. When someone wants to show an investor “what this stock does” they often suggest a visit to a tradeshow. Investors think they know tradeshows- their initial response is positive. Walking into ISE, IBC or Infocomm, an investor is confronted with what they perceive as a hidden goldmine. This is because, unlike any “normal” tradeshow, the booths are spectacular. AV DOES THIS, its our job! An investor sees “huge” companies- they must be huge, otherwise why do all their stands look like they cost 100x the tech giants! And oh there are some tech giants sprinkled around, ok, they look big, but not mountains on a beach, more like they see a whole mountain range. This excitement is catnip to stockbrokers! The truth, as we know – AV tradeshows cost per sq ft about 90% less than any other tech tradeshow, once production costs are accounted for. This leads to ambitious expectations from the secondary market, not a “reality check”.

Common misplaced “wisdom”

They IPO’d – everyone there got “rich”. This can happen, but its more nuanced. Long term employees often have “stock options” in the company. When the “book” is built for the IPO, an Institutional lender – aka merchant bank(s) essentially “buys” the entire company’s stock for a set price. This is based upon strict valuation rules. Obviously, the institution(s) want a return. This activity is incredibly high risk! This is why “successful floats” are still extremely stressful.

They IPO’d they must be massive!

This is a common held misperception. It has far more to do with good governance (keeping the accounts neat and tidy, and believable!) A LOT of salesmanship, and good marketing. Because the secondary market is an abstraction – marketing becomes more important!

Some of the fun, ALL of the responsibility!

When a company goes public – the shareholders get a say in its operations. After all they now own it! And because it is considered “public money” the regulation is fierce. It is not unknown in some jurisdictions for leadership to serve time in prison if it all goes wrong!

I have an NDA with them- I’ve got inside track

If you believe this, I hope for your and their sake you are WRONG. To believe this, let alone say it exposes you and them to CRIMINAL liability! The truth- it is entirely reasonable that an R&D team continue to get user feedback. Typically, their “roadmap” is publicly disclosed for the next quarter. Under NDA – it may extend to 2 quarters. This limits liability exposure, and is necessary/good.

This all sounds hideous, so how do I get a feature I need

We are now in a “market” that works at a different pace! If you need a feature fast – for example, something for a show next week. If its not on their public roadmap for the next quarter – IT WONT HAPPEN! In the old days, when we were in the private, “real” market. It could (and sometimes did) happen. All they can do is fix a faulty feature that has already been released. Even this is more complicated than it was in a private company.

This is where an IPO, which transfers to ownership, possibly has slight incompatibilities with our live show realities! The deceleration is caused by – public shareholders, who own the company, not wanting their money spent on a whim! This is (when considered) entirely reasonable. However, you have a show to do next week, and you are stuck! This may cause you to “buy elsewhere” you have a problem that needs solving. This (ironically) if too many people feel the same way in the “real” market” may cause a revenue drop. This results (5-6 months later) in angry shareholders!

It IS (theoretically) possible!

Traditionally, the stockbrokers, and their clients (the investors) read such pearls of wisdom as “moats and bridges” – terms of the great Warren Buffet of Berkshire Hathaway. This concept is wonderful. It works less well (the law of diminishing returns) in niches. The argument being that publicly traded niches of “small-cap” stocks (informally referred to by institutional investors as “small-crap”) don’t fit the Buffet model (I suspect because he isn’t going running out and buying niches).

This is why I have enthusiasm for “open source”. Not that I love writing software code (in my “cool stuff with computers” article, you may note I avoided doing that, and pointed to sources that do it, far better than I can!). It is because- if a bridge is made available, or the moat is made easier to navigate, then that “feature” becomes easier for the user to “bodge code”. The issue with this is the fear of the board of these companies of vapourising their advantage! In fact, AV is such a tiny market, that arguably it fits uncomfortably in the world of major exchanges.

The ”market, of markets, of markets!”

This is not a dyspraxic repetition. This is real! Stock markets compete to list companies contemplating an IPO. So, markets competing with markets creates another tier of absurd abstraction, for the AV users!

Obviously, the misapplication of the Buffet method, suggests that this is dangerous for customer control. In simple truth – a supplier CANNOT control a customer. It is believed that a manufacturer can “own” a customer – it’s called hiring for a reason!

If we look sensibly at this – software is the most expensive activity for a manufacturer! Its never finished! Selling at a fixed one-time price was done once, and is seen as a “differentiator” in AV still! This is simply speculatively “paying upfront. This dangerous position is compounded by the habit of AV vendors to discontinue products “with immediate effect”. In an “NIS 2 world” this is a disaster! Messaging has to be clearer that the “replacement product is identical in base function to its predecessor, and offers enhancements, rather than the old ways of – not selling well, ok, kill it!

A ”visionary” manufacturer might consider, how to expose their API to a “hobbyist” coder (the customer that really doesn’t want to write code, but must right now – in the hope that “proper” software engineers will deliver the “proper” solution one day.

In the “customer space” the overwhelming majority are privately held companies. Real economy market operators see the essential, nay existential necessity of not telling their customer “no”. Allowing a “safe space” for users to code is vital. And no, lua is not the way! This creates a strong “bridge, and re-enforces” the moat!

The counter space – a manufacturer that screams “open” more often, is doing it for these practical reasons. They want an “open road” but one where they own all the “cars”. Normally this is by making the road close to impassible by anything that is not their “open” car. Well, open cars are nice while the sun shines, I do like a roof, just in case!