Capitalizing on Market Opportunities in the Energy Industry

Mike Sanislo, P.E.
President
High Energy Consulting, Inc.
Agenda

- What is Your Compelling Value Proposition?
- Evidence of Customer Demand
  How do you know someone will buy your product?
- The Market Context
  - Regulatory
  - Changing customer preferences
  - Access to capital
  - New Technologies
- Disruptive Technology Value Proposition Example
Strategic Focus – Creating a Value Proposition

Value Proposition: A simple, clear statement of who the target customers are and precisely what key benefits and price to deliver them profitably

Market Focused: Making a disciplined choice of which customers to target and which specific combination of benefits and price to deliver to them (and which to deny them)

# Value Proposition Worksheet

<table>
<thead>
<tr>
<th>Product/Service</th>
<th>Target Market</th>
<th>Valuable Benefits (Primary and Secondary)</th>
<th>Benefits Denied</th>
<th>Price</th>
<th>Profit Opportunity And source Of Unique Value Created</th>
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Checklist for Value Proposition

1. Target customer clearly identified?
2. End-result, customer benefits explicit, specific, measurable and a real choice?
3. Price explicitly stated?
4. Would the value proposition clearly be superior for target customer (better benefit, lower price or both?)
5. Can we build the skills to deliver it?
6. Can we deliver it at a cost allowing adequate profit?
7. Viable sustainability in light of competitors and their capabilities?
8. The best of several value propositions we’ve considered?
9. Any looming discontinuities (technology, customer habits, regulation, market growth, etc.) that could change the game?
10. Clear and simple?

Michael J. Lanning and Lynn W. Phillips, “Building Market Focused Organizations”
## Assembling Evidence of Customer Demand

<table>
<thead>
<tr>
<th>Method</th>
<th>$0 - $5000</th>
<th>$1000 - $10,000</th>
<th>$10,000 - $100,000</th>
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<tbody>
<tr>
<td>Direct Customer Selling Experience</td>
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<td>Lead User Interviews</td>
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<td>Secondary Qualitative Research</td>
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Energy Alley's Third Annual Marketplace Conference
August 14, 2002
Lead User Process – What is it?

- Systematic generation of breakthrough strategies, products and services
- Based on two key findings by innovation researchers:

1. Many important products are conceived of and even prototyped by users rather than manufacturers
2. Such products tend to be developed by lead users – companies, organizations and individuals that are:
   - Well ahead of market trends, and,
   - Have needs that go far beyond the average user

Lead Users and the Adoption Curve

Adopters Rate by Users When Commercial Solutions Become Available

Lead Users  Early Adopters  Early Majority  Late Majority

Source:
Eric von Hippel, professor, Massachusetts Institute of Technology,
Sloan School of Management, Cambridge, MA.
Steps in a Lead User Study

1. Specify lead user characteristics
   - Identify trend(s) on which they lead the market
   - Collect evidence of high benefit expectations from obtaining a solution to the trend-related needs

2. Identify a sample of lead users who meet both of the criteria from step 1

3. Group problem solving with lead users, marketing, engineering personnel

4. Test concepts with a broader sample of the target market
Market Context – Access to Capital

Private Equity Energy Investments
Total Energy Investment: $692.5 million

- Oil & Gas: 61%
- Other: 25%
- Energy Information and Services: 9%
- Solar: 3%
- Wind: 2%

Source:
Thomson Financial/Venture Economics
Includes Data for 2001 and 1Q2002
Investment mix for one Venture Capital Firm

Nth Power Investment Profile

- Distributed Generation: 30%
- Communication, Control & IT: 30%
- Outsourcing: 13%
- "Smart" Efficiency: 18%
- Power Quality: 6%
- T&D Automation: 3%

Market Context - Technology Trends

- Sustaining Technologies
- Disruptive Technologies
- Emerging Technologies
Emerging Technology Example - Distributed Generation

Distributed Generation Experience Curves

Sources:
1976-1992 PV Data, Energy Technology Systems Analysis Programme
1993-2000 PV Data, Paul Maycock, Worldwatch Institute
2000 Wind Data, BTE Consult
2000 Microturbine Data, Primen
2000 Phosphoric Acid Fuel Cell Data, International Fuel Cell
Disruptive Technologies

“Disruptive technologies bring to a market a very different value proposition than had been available previously. Generally, disruptive technologies under-perform established products in mainstream markets. But they have other features that a few fringe (and generally new) customers value. "Products based on disruptive technologies are typically cheaper, simpler, smaller, and, frequently, more convenient to use."


What are the disruptive technologies for the energy industry?
COMVERGE AND XANBOO FORM AN ALLIANCE EMPOWERING NORTH AMERICAN UTILITIES WITH ADVANCED ENERGY INTELLIGENCE SOLUTIONS
FLORHAM PARK, NJ-July 30, 2002

Comverge Technologies, Inc., a subsidiary of Data Systems & Software Inc. (NASDAQ: DSSI), announced today that it has formed an exclusive alliance with Xanboo Incorporated, a technology innovator and creator of the premier smart home management system. Xanboo’s investors include Motorola, Inc. (NYSE: MOT), Globespan Virata, Inc. (NASDAQ: GSPN) and Lantronix, Inc. (NASDAQ: LTRX). The Comverge/Xanboo alliance was created to offer the first end-to-end solution for advanced load curtailment, automated meter reading (AMR), local and remote video monitoring, and appliance/device control and diagnostics, to North America’s electric, gas, and water utilities and their ultimate customers.
Xanboo - Adapting the disruptive technology for the energy opportunity

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<tr>
<th>Event</th>
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<td>Launched $179.95 Internet-accessible Home Management System</td>
<td>Jan 2001</td>
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<td>Distribution agreements with CompUSA, TigerDirect, OfficeMax</td>
<td>Jan 2001</td>
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<td>First retail sales of remote thermostat control</td>
<td>Sept 2001</td>
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<td>$20 million raised from Motorola Ventures, Lantronix and Virata</td>
<td>Feb 2002</td>
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<td>Alliance with Comverge, adding AMR and Load Management to offering</td>
<td>July 2002</td>
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