
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)

Michael J. Lanning and Lynn W. Phillips, "Strategy Shifts up a Gear,"
Marketing, October, 1991, pp. 9-14"

Value Proposition Worksheet

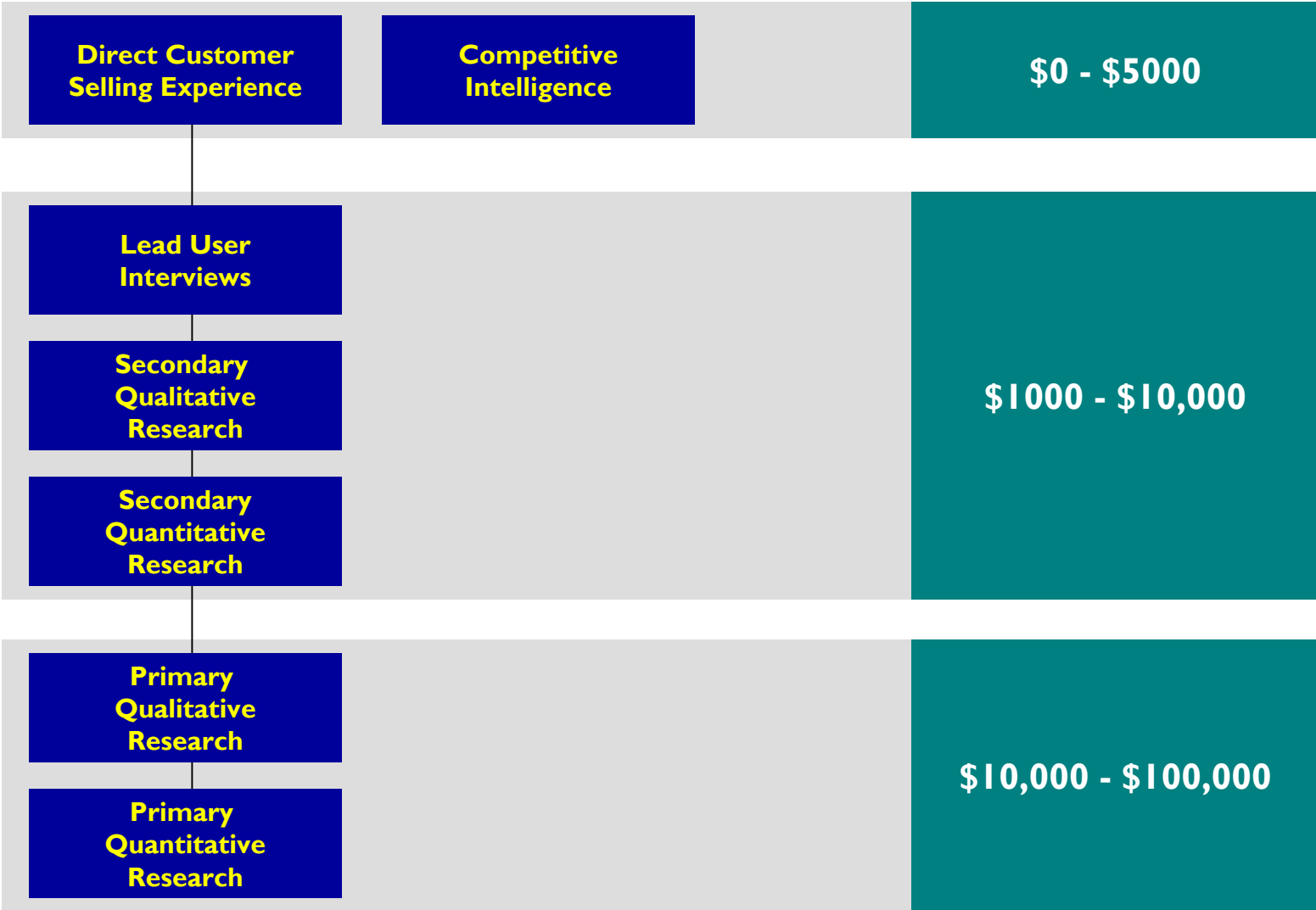
| Product/Service | Target Market | Valuable Benefits (Primary and Secondary) | Benefits Denied | Price | Profit Opportunity And source Of Unique Value Created |
|-----------------|---------------|---|-----------------|-------|---|
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Checklist for Value 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

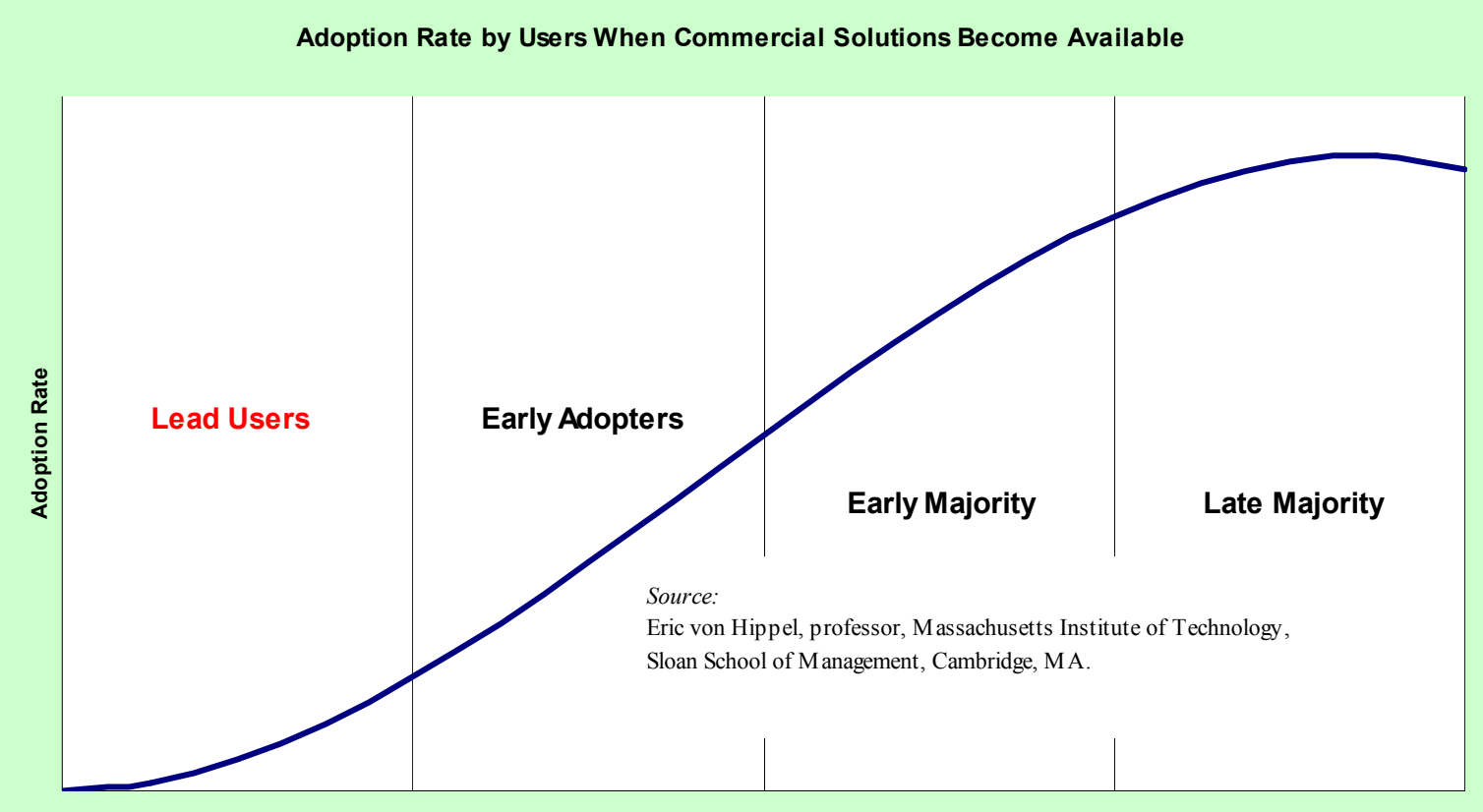


Lead User Process – What is it?

- **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 user¹

¹ Von Hippel, Eric, Thomke, Stefan, and Sonnack, Mary, *Creating Breakthroughs at 3M*, Harvard Business Review September-October 1999

Lead Users and the Adoption Curve

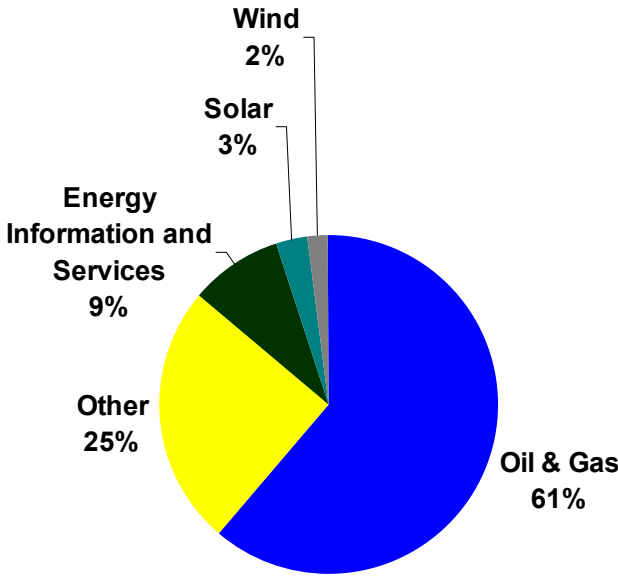


Steps in a Lead User Study

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

Private Equity Energy Investments

Total Energy Investment: \$692.5 million

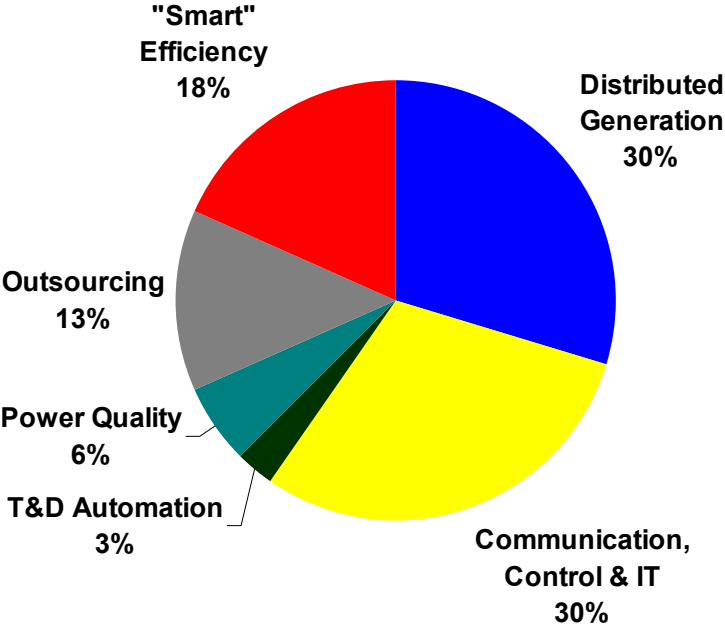


Source:
Thomson Financial/Venture Economics
Includes Data for 2001 and 1Q2002



Investment mix for one Venture Capital Firm

Nth Power Investment Profile



Source:
Gunderson, Maurice, *Drivers of Energy Venture Capital*, Capitech Forum 2001

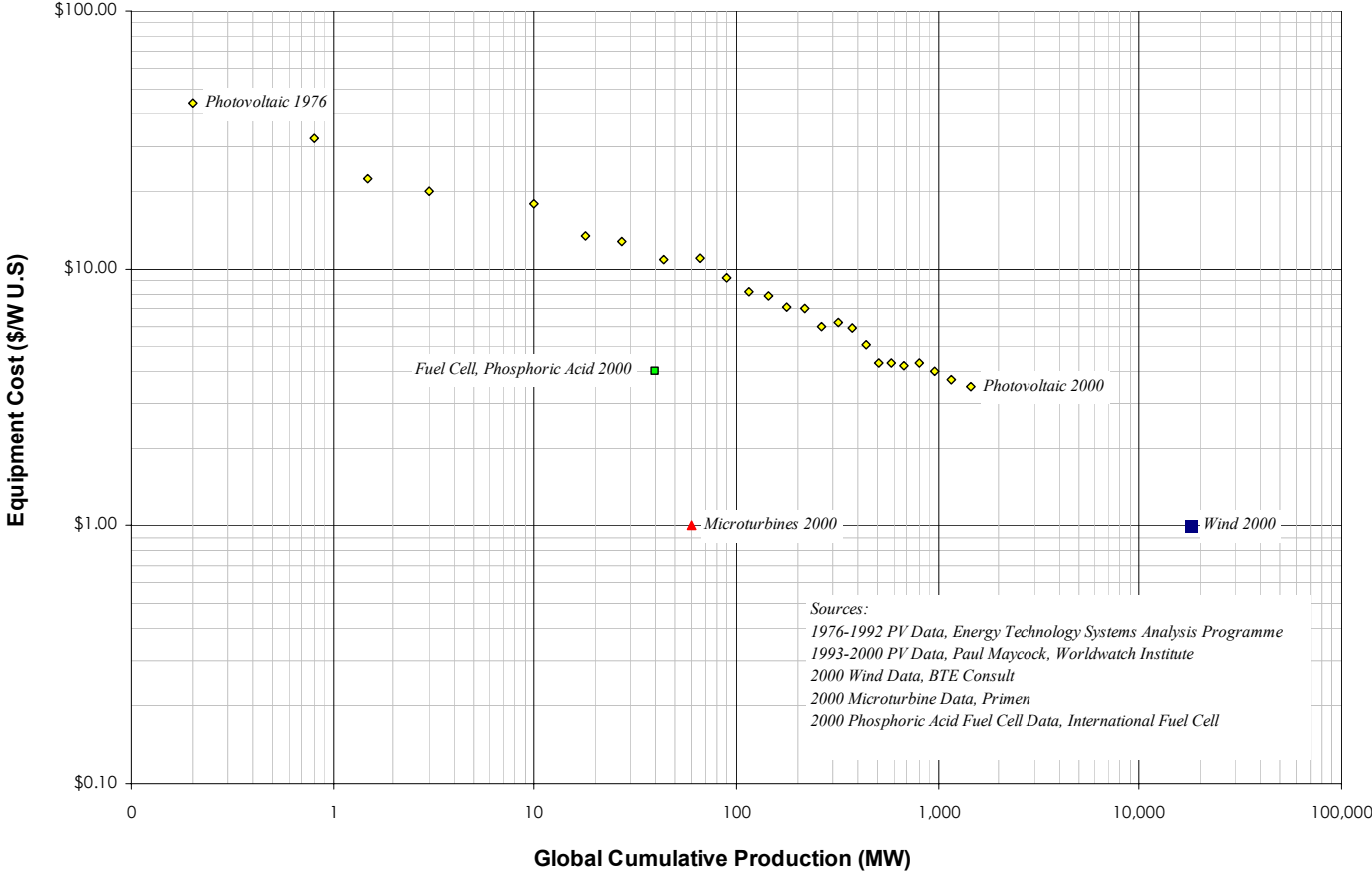


Market Context - Technology Trends

- Sustaining Technologies
- Disruptive Technologies
- Emerging Technologies

Emerging Technology Example - Distributed Generation

Distributed Generation Experience Curves



“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.”

-Clayton Christensen, The Innovator's Dilemma – When new technologies cause great firms to fail, Harvard Business School Press, 1997

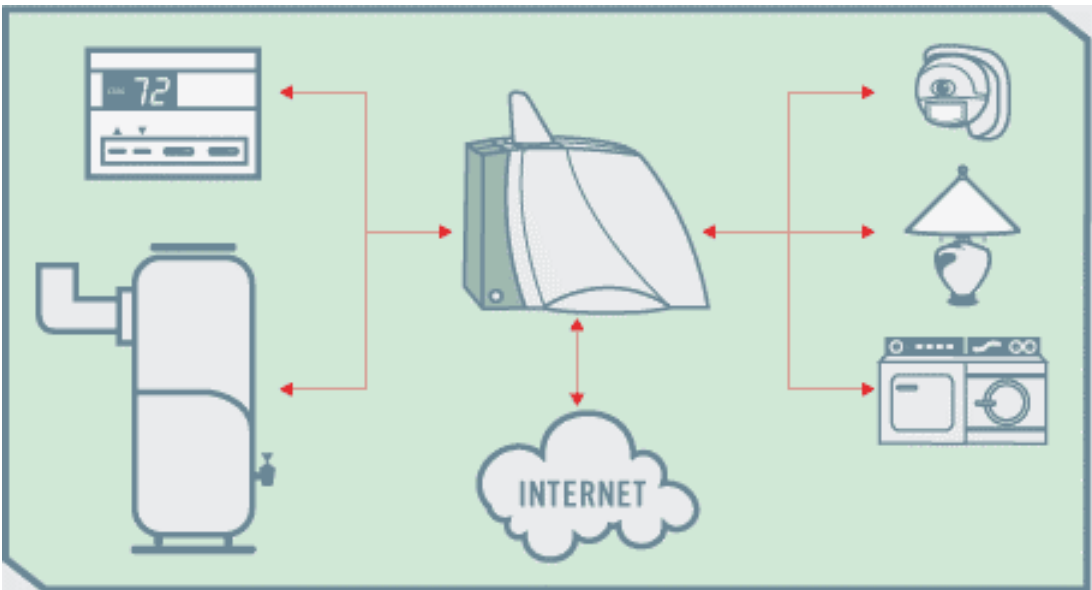
What are the disruptive technologies for the energy industry?

Disruptive Technology Value Proposition Example - Xanboo

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