

# A Consultant's View

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## Value of Standards

Back in the ancient days of early Greece, one area had very strong standards. Pottery had standardized shapes and scribes took note of much of society. The benefit was that trade flourished throughout that area. A while later, the Dorian Greeks moved in with a more individualistic approach and trade fell off to only local actions. In short, having standards over a wide area enhanced trade.

We see the same thing in both email and in business file formats. The email standard has allowed for huge increase in communications. The standardization of business file formats on those offered by Word and Excel has given us the ability to share data between corporations in an unprecedented manner.

It is a lot harder to sell when there is a lack of standards. We see that most clearly with fine art. Since everything in fine art is "one of a kind", most of the effort to produce the art and put it into the hands of a customer is marketing. Up to 75% or 80% of the effort needed is marketing effort.

In business, we have a similar situation. When we are offering a "one of a kind" product or service, most of the effort to get customers to use it is marketing. We have to "educate the market" as to why our product or service is needed.

The first company I worked for (Triad Systems) built systems for auto parts stores. They started by automating a standard system that was already

common to that market. They sold a lot of those systems. But when they tried to enter other markets that did not already have such a standard, they failed each time. They did not have enough money to push a standard onto the marketplace.

Standards are adopted by a market through several methods. One is when the first company to offer a product or service in that market is very successful. Other people will copy that first

company. Other ways are when a trade organization adopts and promotes a standard. For example, Visa and MasterCard have often pushed standards on financial transactions. A third way is when a government imposes a standard. One of the complaints in Britain against the European

Union was that the previous standards in Britain were being replaced by those dictated over in Brussels.

Recently, the EMV standard has been pushed on the US financial transaction market. Compared to earlier standards, this one has a strong definition and impressive testing requirements. Companies that are used to running fast and loose are being shocked by the effort needed to comply with the EMV standard. It is a lot harder to sell hardware in the EMV market than in the card swipe market.

Not everything is good about standards. Often standards are promoted that are not based on a real need. When OSHA was first set up, they adopted as standards any proposals that had been put forth without checking to see if those proposals made sense. It has taken a while to clear out some of the worst "standards".

## Standards Enhance Trade

What is the payout?

In any investment, it isn't just how much return that counts, it is how quickly that return happens. The shape of the return makes a big difference in how much money winds up in your pocket. Luck isn't just in how you play the game, but which games you play and when.

On any approach to Las Vegas, there are ads claiming to have the "loosest slots in Vegas". But because most people only play a short time, the amount of money you have at the end isn't because of the loose slots, but how often you win something. The frequency and amount of each win, the "shape" of winning, is what counts more than the total amount and overall probabilities.

This shape of the return is a big factor in any gambling venture. Those who have made a lot of money off of gambling use that as a big part of how to get the profit. For example, the MIT team used several people who would make a lot of small bets until the probabilities changed into their favor and then, they had someone who would come in and make the big bets. They only bet big when there was a good chance of making a profit.

Many a new venture claims that it will have a "hockey stick" return where there is little to no return for several years and then, a fast growing return.

That points to the other issue: which games to play becomes important for total return. Different games and different investments have different total returns as well as different shapes of returns. This is why venture capitalists invest in about 1% of the opportunities they see. They also want to see if their efforts can change the shape of the return. For these reasons, it is important to have a good match between the venture and the investors.

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## Risky World

GPS systems are great. But the data in them has to be updated periodically because the ground underneath us is moving. For example, Australia is moving north about 3 inches per year. The GPS coordinates for Australia have not been updated since 1994 and are now off about a yard and a half. Recent earthquakes have moved places 6 feet or more. That can mess up anything navigating by GPS.

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