

December 7, 1989

To: Warren Shirtzinger  
cc: Shivonne Byrne


From: Bert Desmond

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Warren:

Shivonne asked me to summarize what we have done with NeuroCom that may be useful in the PhysioControl presentation. Call me if you have any questions. (Attached is a letter to NeuroCom's VP of marketing that may be useful, if you can suffer through a 10 page letter).

Based on 15 years of research, they developed a unique method to determine how people maintain (or lose balance) with \$100K, non evasive measurement system. Diagnosing dizziness is a black art among physicians, approximately 40% of the dizzy patients are not diagnosed and are shuffled from doctor to doctor or just give up and suffer in silence.

 We started working with NeuroCom in April. We conducted an external assesement among current users in May and found out NeuroCom has strong product positioning but was incomplete in company and 'market' positioning.

We have made a number of recommendations for them to increase their marketing effectiveness but implementation has been slowed as they brought on a new VP of Marketing and downsized the company to lower their breakeven point.

We recently conducted an assesement of their prospective and lost customers to better understand the reasons for a fall off in sales. This audit reinforced our hypothesis that NeuroCom is falling into the "marketing chasm" between innovators and the early majority. Our recommendations are to focus on infrastructure education and as a result, testimonials to provide 'independent and objective' confirmation of NeuroCom's capabilities to influence the early majority.

What I have learned from this client is the RMI methodolgy is applicable to the companies outside our traditional customer base.

August 22, 1989

Mr. Richard Hollis  
Vice President Marketing  
NeuroCom International, Inc.  
9570 S.E. Lawnfield Road, Bldg. A  
Clackamas, OR 97015

Richard,

Following up our discussion at the NeuroCom Users Conference, I want to give you my impressions of NeuroCom -- the current situation, the exciting potential we see and suggest ways Regis McKenna Inc. may be of assistance.

I thoroughly enjoyed the Users Conference -- the enthusiasm and energy of NeuroCom customers was clear and contagious. I noticed this particularly during the breaks. The users were "leveraging" each others enthusiasm about NeuroCom in their conversations. There is a strong and deep loyalty among the users and the conference nurtures this further.

There was a strong level of caring and concern by the NeuroCom employees attending the conference -- this increases the strength of the relationship with customers. It was particularly encouraging to see NeuroCom representatives from manufacturing and engineering meeting with end users. This is the best source of improved products and services.

On the other hand, there was an, "aw shucks, we're from Oregon", bit of an attitude that made NeuroCom look less professional than it deserves to be. For example, many of the slides in Lew Nashner's presentation were difficult to read (a problem that can easily be corrected). The problem with the remote control on the 35 mm projector added to the impression.

Overall, the impression was positive and I heard favorable comments from the attendees.

### A Perspective on Industry Leadership:

Before moving to the specific details on NeuroCom, the following framework on leadership characteristics and processes provides a backdrop.

Attaining and retaining leadership position in high technology markets is a process -- one that leaders understand and practice but one that "also-rans" ignore. Leaders are conscious of the process, continually understand their current position and are aware of their short and long-term goals.

As shown in figure one, long term leadership is the combination of a firm's position in categories of technology, product, market, and corporate. There are significantly different audiences and messages in each of these categories.

### Four Elements Determine Leadership Position

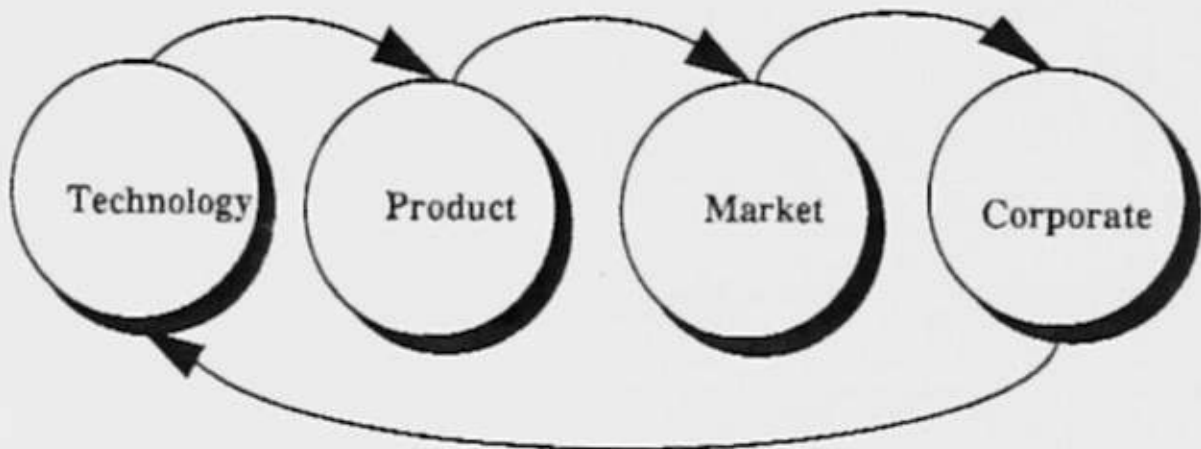


Figure 1

By viewing the audiences according to two dimensions -- supportiveness / skeptic and generalist / specialists, a useful model for defining message content is developed (Figure two).

## Audience vs Message Analysis

A model for sorting out audiences  
and the messages they care about

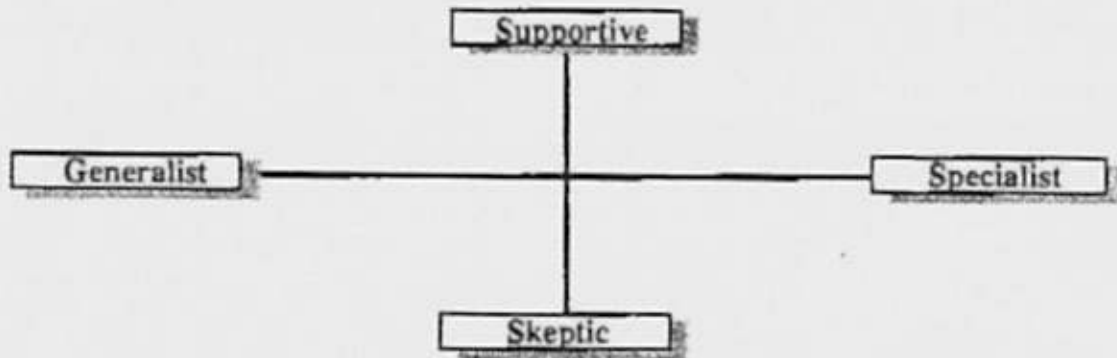


Figure 2

Figure three shows the positioning message of primary interest to the four categories:

## Audience vs Message Analysis

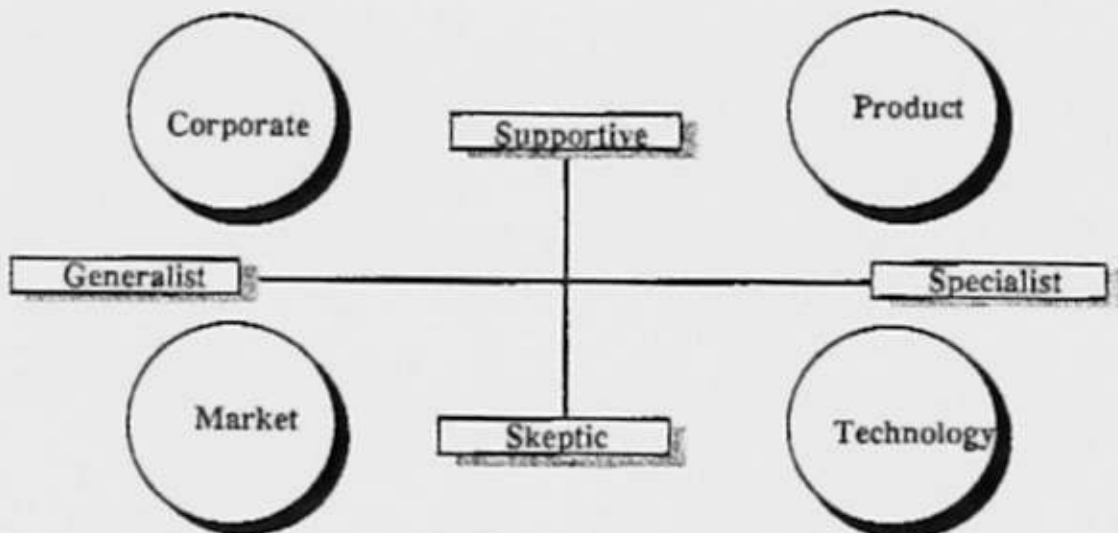


Figure 3

Lead with product positioning for the supportive, specialist audience.  
Lead with corporate messages with supportive, generalist audiences.  
Describe the market messages for the skeptical, generalist.  
Communicate technology for the skeptical, specialist audience.

The last perspective to be reviewed is the technology adoption profile or the size and timing of adoption of a new technology by the market.

## Technology Adoption Profile

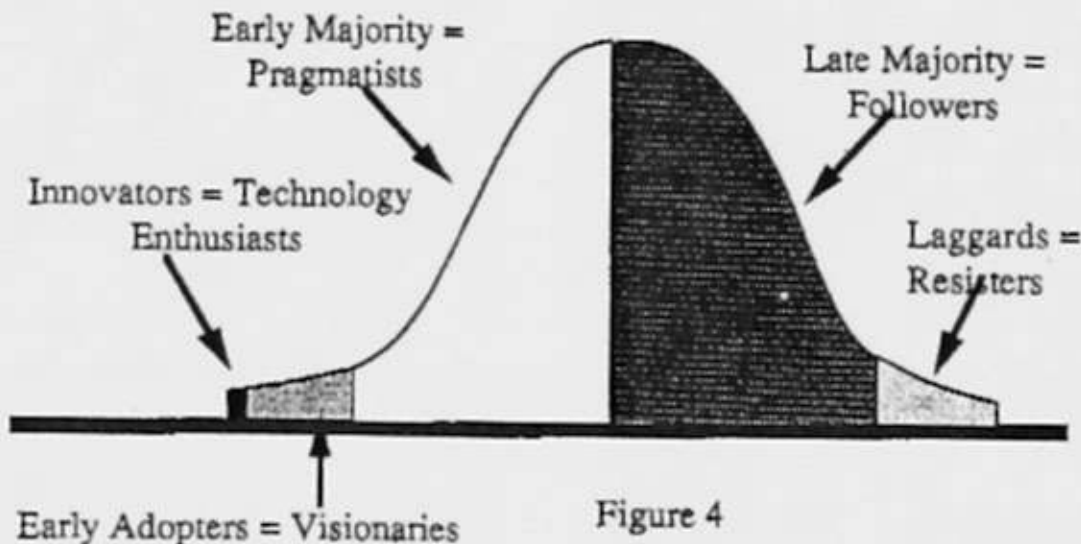


Figure four shows the conventional view of the technology adoption process. First, there is a small group of initial customers -- innovators excited by the new technology of the solution. They are followed by a larger group of visionaries called early adopters who "see" how they can apply the new technology to improve their business.

The next group is the much larger "early majority" characterized as conservative but not stubborn users who will convert after they have seen demonstrated success by the early adopters.

These are followed by the late majority (followers) and lastly, the laggards or resisters.

While this model is useful there is a serious shortcoming, especially as it relates to high-technology products -- it assumes the adoption process is a continuum and does not reflect the enormous discontinuity between the first two stages and the early majority.

Figure five shows this as the "Marketing Chasm". It is a real chasm that many companies, after they have early success with innovators and early adopters, fail to leap. Frequently, they wind up destroying themselves and disappearing into this chasm. In their enthusiasm with early success in developing innovators and early adopters, they take on the challenge of winning the early majority by heavily investing in the same marketing programs. They do not recognize that different marketing strategies and programs are needed to span the chasm. The key to successfully leaping the chasm is shifting the marketing strategy, for example, from direct, product / company selling to utilizing third party and customer references in positioning the technology and the market.

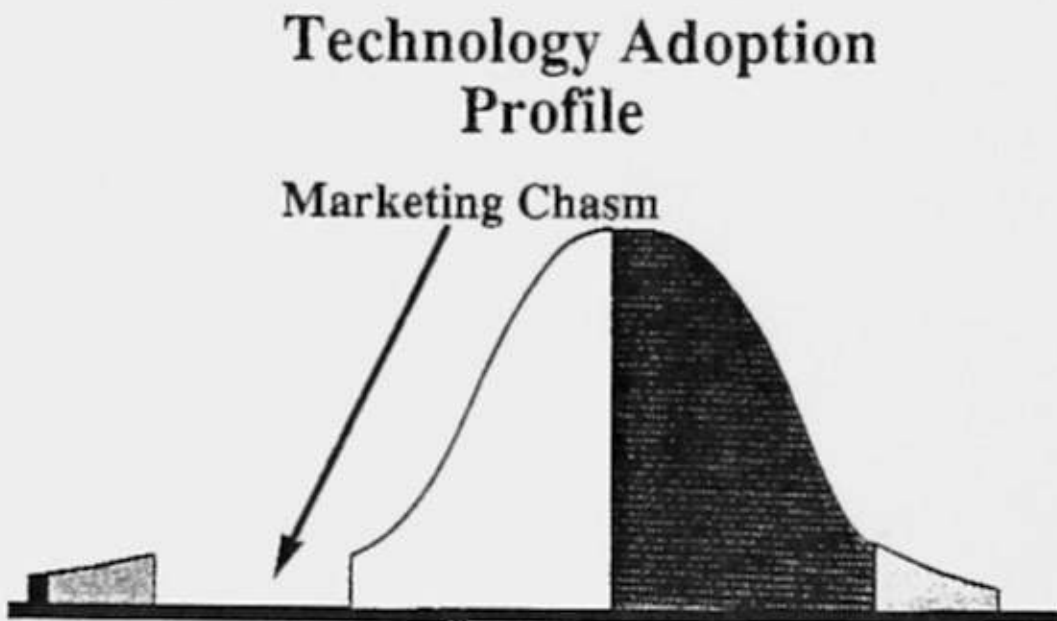


Figure 5

### Current Situation

Based on our external assessment and dealings with NeuroCom for the past four months, we see NeuroCom as having many strengths and, at the same time, being extremely vulnerable to any new competition with a broader marketing approach.

Figure 6 shows the grades NeuroCom would have earned if it were a college student.

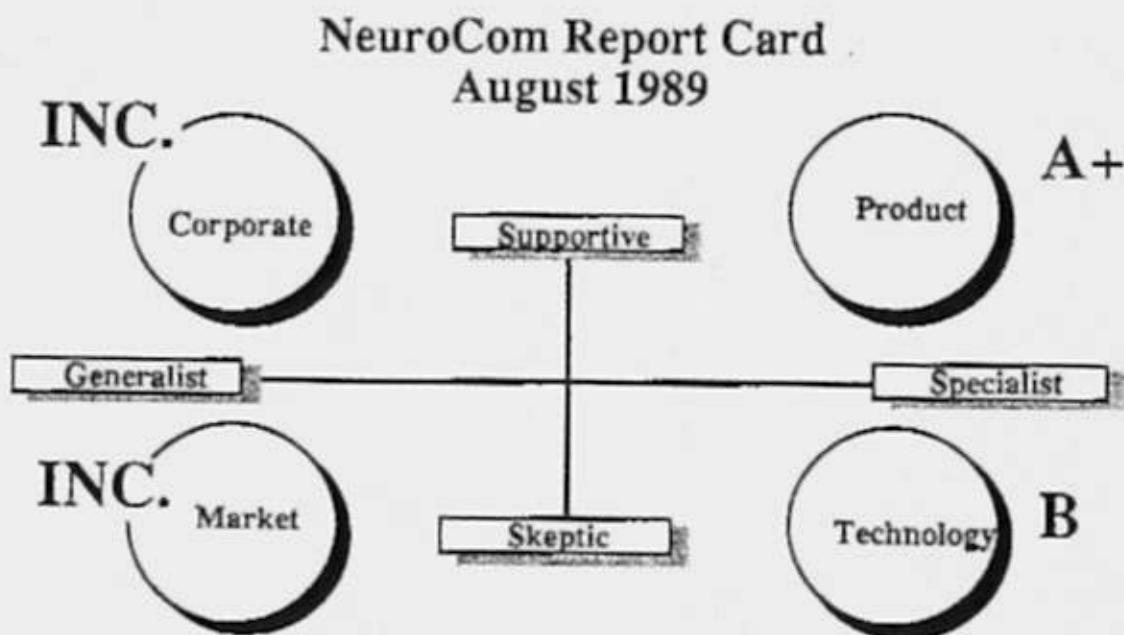


Figure 6

NeuroCom has earned a solid A+ in product and a strong B in technology, with "incompletes" in the corporate and market areas. To leap the chasm between the early adopters and the early majority, NeuroCom must invest resources to create and communicate a defensible corporate and market position.

NeuroCom has exploited 15 years of research Lew Nashner invested to develop a new product, EquiTest, and establish a strong beach-head within the innovators and early adopters in the ENT/Neuro community.

NeuroCom's strengths include:

- Excellent product -- reliable, sturdy, well supported.

- Excellent support -- installation, initial training, on-going support.
- Continual improvement -- best represented by Lew Nashner's commitment to improving the technology and product.
- Strong customer acceptance -- nearly all NeuroCom customers are extremely satisfied with the product and especially, NeuroCom's support and they are willing to provide strong endorsements.

### NeuroCom's Potential

NeuroCom has begun to establish a position of technology and product leadership. However, this initial position is invariably going to draw competitors, and to date, we do not see much attention paid to the development of effective, long-term barriers to competitive approaches. A competitor could overcome NeuroCom by attaining parity in the product area and establishing leadership in the market and corporate areas by developing an effective story and establish relationships with key influencers in these areas.

NeuroCom appears to be in a strong position to seize leadership. Lew Nashner can be an effective spokesperson for the "vision" of the market and technology. His years of experience and reputation make him uniquely credible. I recall one of the presenters at the conference calling Lew the "father of dynamic posturography". What are needed are position development, followed by effective presentation tools, rehearsal, initial tours with key editors and analysts which lead to a relationship that is nurtured with continuous on-going communications.

An example of a possible market message could be "NeuroCom provides a breakthrough approach to diagnosing balance disorders." The early majority demands independent validation of claims which NeuroCom can provide with user testimonials.

Concerning corporate positioning, our customer assessment research indicates, and comments from the user conference confirms, that most companies like NeuroCom are categorized as small, struggling and likely to go out of business at any time. People are surprised when they learn how long NeuroCom has been in business, how many systems have been



installed and the number of user conferences you have held. NeuroCom may have the opportunity to separate itself from the conventional perception, especially if your financial performance has been solid.

Necessary to do this are a corporate position, presentation tools, followed with the tours as above. The relationship should be maintained with continuous updates on company sales performance, new products, etc.

Our experience is that focusing on the corporate and market areas listed above provides substantial returns to on-going sales efforts. In a number of circumstances, we've seen returns exceed 200% when measured over, say, a two or three year life of the investment.

If NeuroCom were to allocate resources to meet these needs, we suspect the requirements would be relatively small--probably in the area of requiring the sale of five to ten additional EquiTest's in order to cover the marginal costs (assuming an approximate \$40,000 contribution margin per system).

In effect what this means is that investments in specific areas of "demand pull" or demand creation--particularly those relating to building an understanding of NeuroCom's market and corporate strengths--may well bring higher returns than investments in additional salespeople, in additional bricks and mortar, or than investments in short-term research and development.

#### How RMI May be of Assistance

We are excited about NeuroCom's potential and would be delighted to be your business partner in making NeuroCom a recognized leader in diagnosis and treatment of balance disorders. Here is are thinking.

RMI has extensive experience in helping high-technology clients successfully leap the chasm between early adopters and the early majority. We would like to help you do this and get started right away.

We suggest the following activities as highest priority.

#### Setting the Stage:

- Develop market and corporate positions and test them with target audience.

- Identify infrastructure -- key influencers -- editors, analysts, others in industry.
- Develop presentation material -- backgrounders, slide presentation, fact sheets, etc.

This could be accomplished in September, if we get started immediately.

#### Introducing NeuroCom

- Arrange tour for one-on-one meetings with key influencers.
- Finalize presentation material.
- Rehearse
- Commence tour in October.

Additional activities will develop as we progress down this path.

Costs and schedule for this will vary depending on number of revisions (this can be a killer), availability of executive time and decisiveness. There is a tendency when a company is doing this for the first time to over-invest in trying to be "perfect" in the message development and, as a result, increase cost and lose valuable time in establishing relationships with the infrastructure.

A rough budget looks like this:

Development and testing of market and corporate positions -- \$4,000 to \$8,000

Infrastructure identification -- \$2,000 to \$4,000

Develop presentation materials -- \$10,000 to \$18,000

Tour preparation -- \$4,000 to \$8,000

Finalize presentation material -- \$2,000 to \$5,000

Rehearsal -- dry runs and tour -- \$10,000 to \$20,000

Richard, these are "ball park" estimates that will be refined if we proceed.

Please give me a call if you have any questions. We are excited about the opportunity to work with you to become recognized leaders.

Sincerely,

Bert Desmond  
Principal

cc: Lee James