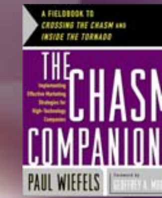
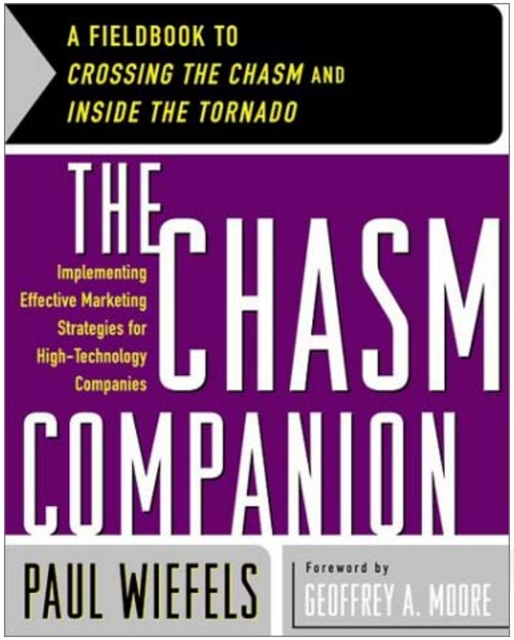
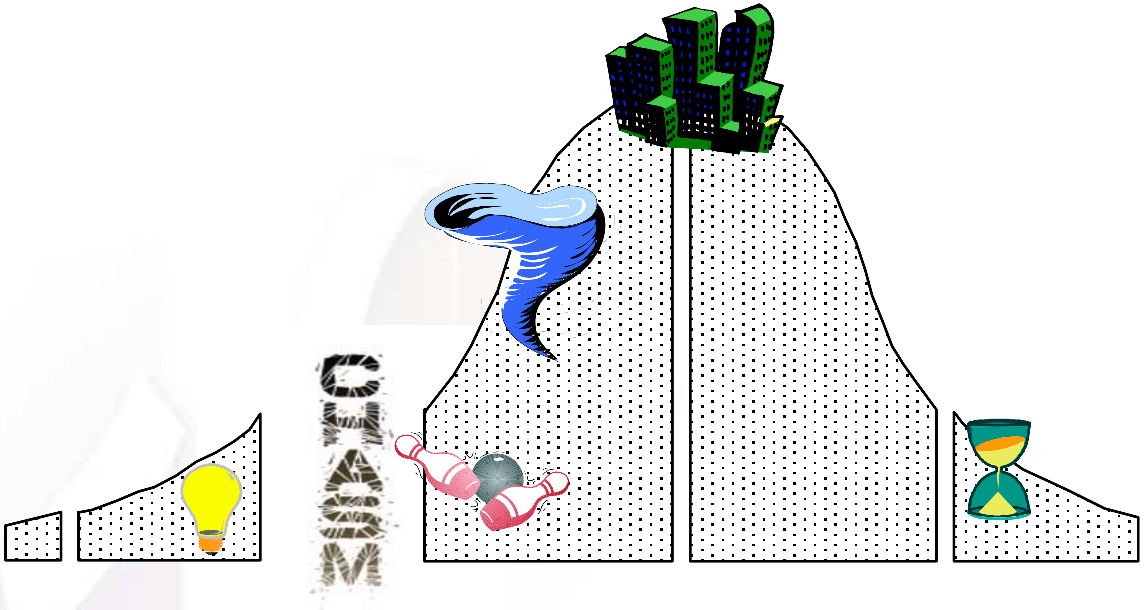
The Dynamics of Technology Market Development



Building Strategy Based on the Principles Detailed in *The Chasm Companion*

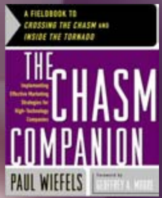




Silicon Valley Product Management Association

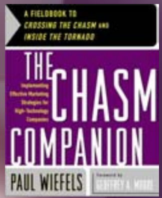
November 2002

Agenda



- It’s Rough Out There
- How High Tech Markets Develop
- Product Management and the Life Cycle
- It’s All About Execution

The Mood Of The Last Year Or So

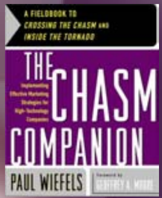


"America fell into an economic slump. The crisis capped a decade of frantic speculation in…securities…stoked by heavy borrowing. The exuberant boosterism…was suddenly and dramatically quelled."

Actually, the mood of 1857!

"America fell into an economic slump. The crisis capped a decade of frantic speculation in railroad securities and land, stoked by heavy borrowing. The exuberant boosterism *of the 1850's* was suddenly and dramatically quelled." Source: *Titan: The Life Of John D. Rockefeller, Sr.*, by Ron Chernow

New Conditions, New Course



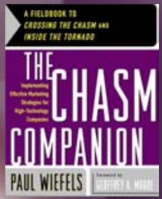
OUT

- Sailing with the wind
- Capital is easy to get
- First mover advantage
- Revenue growth at all costs
- Revolutionary offers
- Horizontal markets (breadth)
- Geographical coverage
- Transaction-oriented selling
- “Strategic” partners
- Catching the next wave
- Vendor-centric messaging
- Early markets and tornadoes

IN

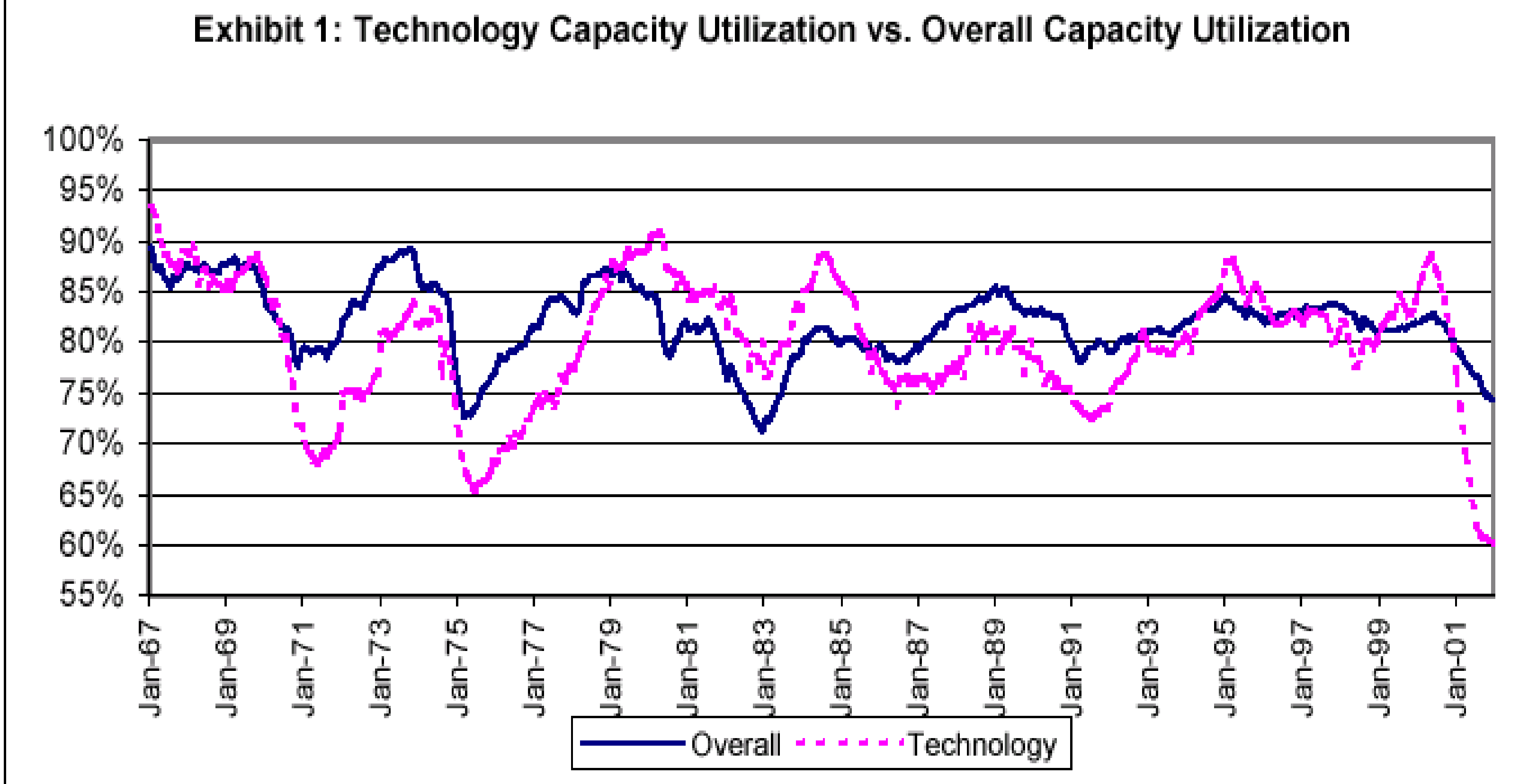
- Sailing into the wind
- Capital is hard to get
- First *prover* advantage
- Cash-flow positive at all costs
- Evolutionary offers
- Vertical markets (depth)
- Domain expertise
- Provocation-based selling
- Value-chain partners
- Fixing the leaky pipe
- Customer-centric messaging
- Bowling alleys and Main Street

Macro Issues Facing The Technology Industry



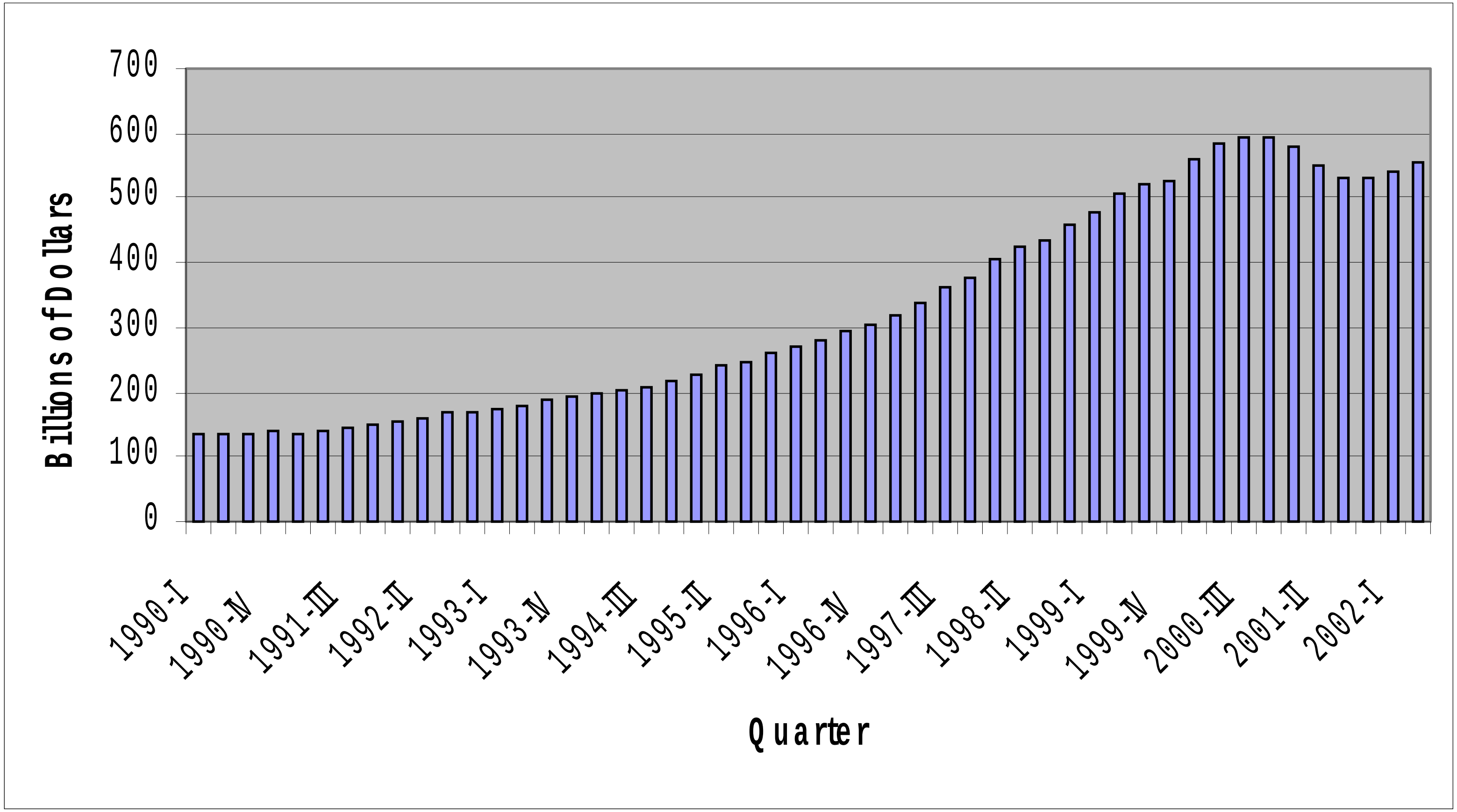
1. Technology Overhang
2. Competition for the Marginal IT Budget
3. Some Assembly Required
4. Whole Product ROI
5. Only Got Time For The Pain

Issue #1: Technology Capacity Overhang



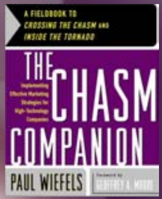
Source: Federal Reserve, Decision Economics, Inc., W.R. Hambrecht + Co.

Issue #2: Most Tech Companies Compete For The Marginal IT Budget



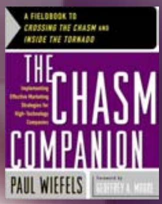
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis

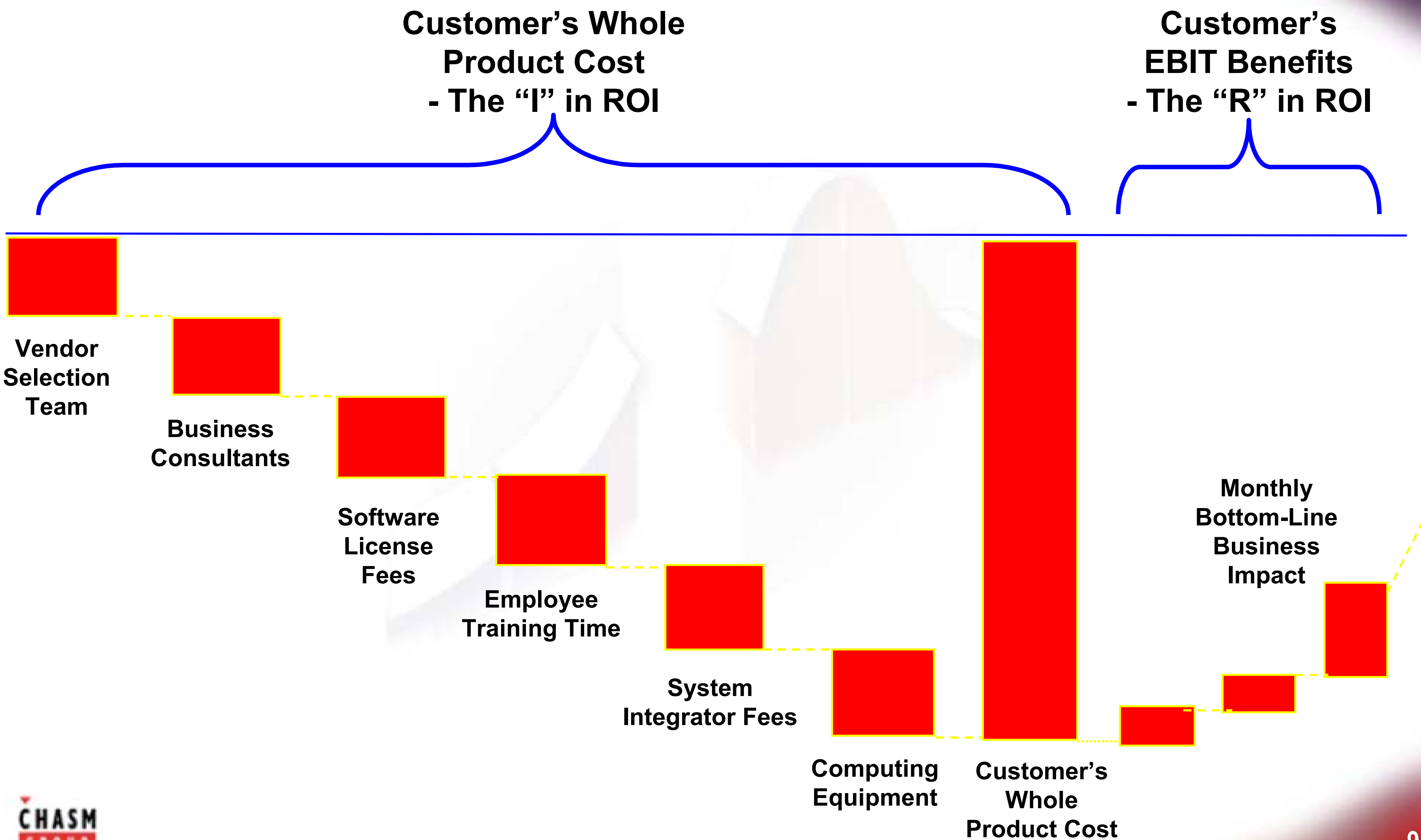
Issue #3: "Some Assembly Required" Is Driving Customer Revolt



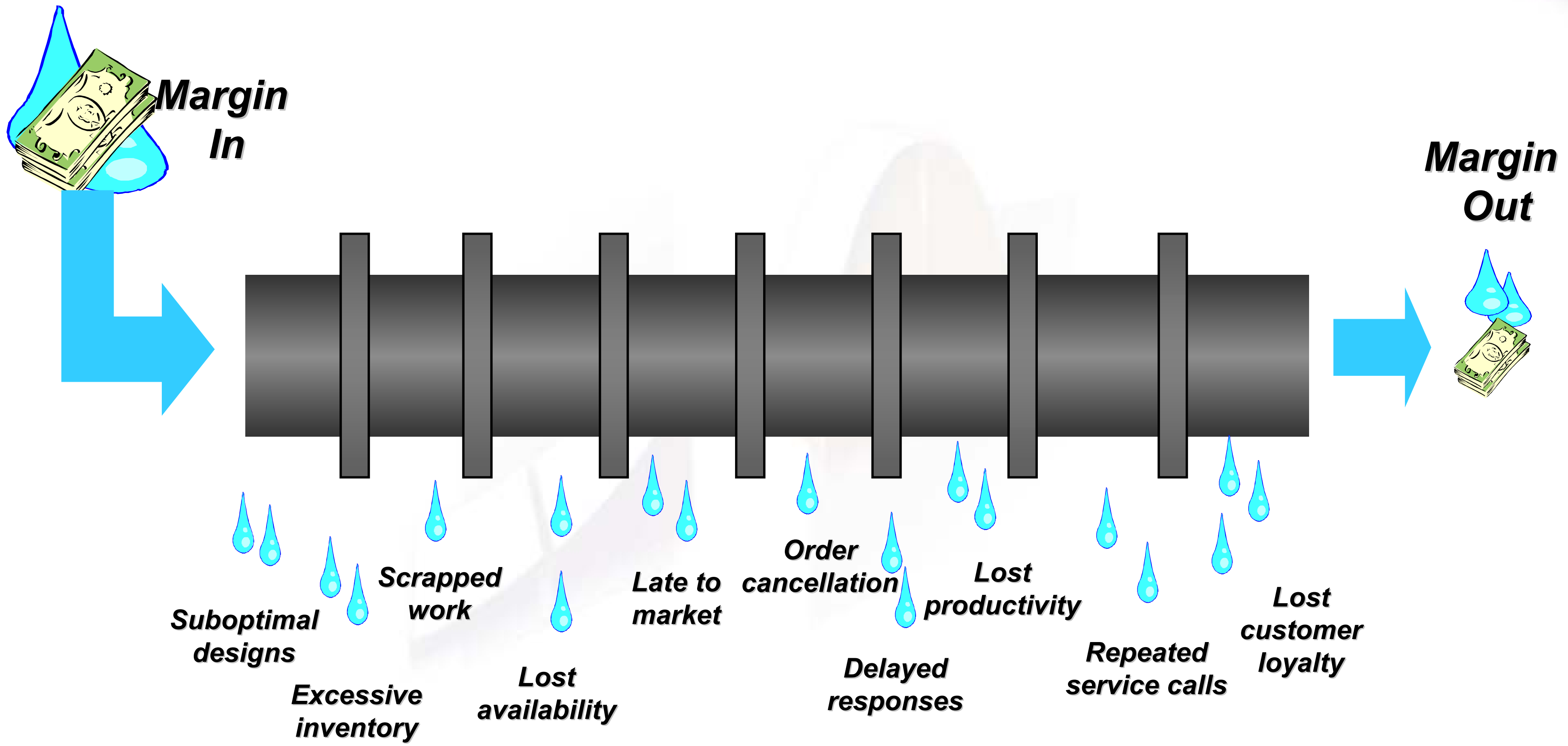
IT Developers	Departmental IT, Corporate IT, Contractors, VARs
Systems Integrators	Accenture, KPMG, IBM
Applications	Siebel, SAP, PSFT, Niche + LEGACY
Application Infrastructure	BEA, IBM, Tibco, WebMethods
Databases	Oracle, IBM, Sybase
Hardware Infrastructure	IBM, Sun, HP, EDS
Network Infrastructure	Cisco, Nortel, Lucent

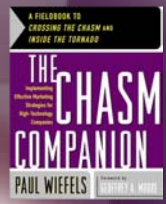
Issue #4: Customers Have Their Own View of ROI

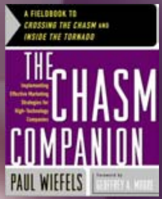




Issue #5: Pain-Based Messages Are The Only Ones That Resonate







Key Theme – Back to the Basics

- **Five questions for all companies:**

1. **How vulnerable are we to fundamental marketplace changes?**

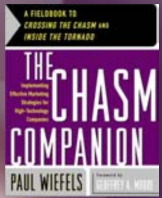
2. **How important or powerful is the category we are competing in? Is this power rising, falling or static? (You can't be more powerful than your category.)**

3. **How important/powerful are we in the category? (Market share)**

4. **Do we have the right strategy in place to advance or at least weather the current storm?**

5. **Does our organization understand what it takes to compete?** (A major problem today.) **Can we execute on the imperatives suggested by the previous questions?**

High tech Companies Specialize in Discontinuous Innovations

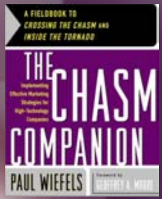


Discontinuous → Continuous

Electric car	Electric/gas hybrid	Gasoline powered car
TiVO	DVD Players	VCRs
Video Conferencing	Conference Calling	Voice Mail

Discontinuous innovations require an infrastructure to prosper and proliferate.

Discontinuity Has Significant (and sometimes Unintended) Consequences



New benefits
New infrastructure

Proven benefits
Existing infrastructure

New Power Structure

Old Power Structure

Discontinuous innovations foster new power structures . . .

if they get adopted.

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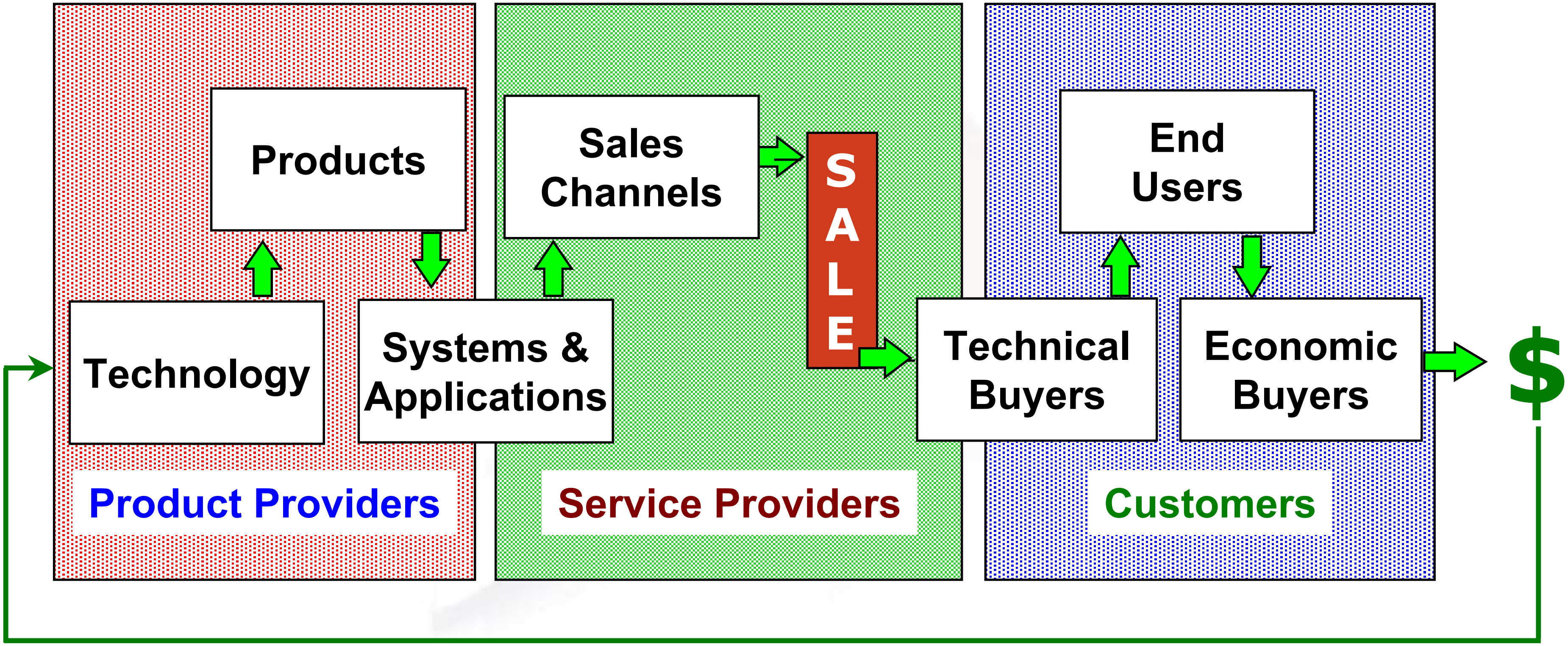
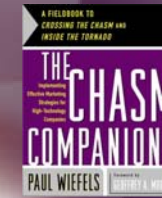
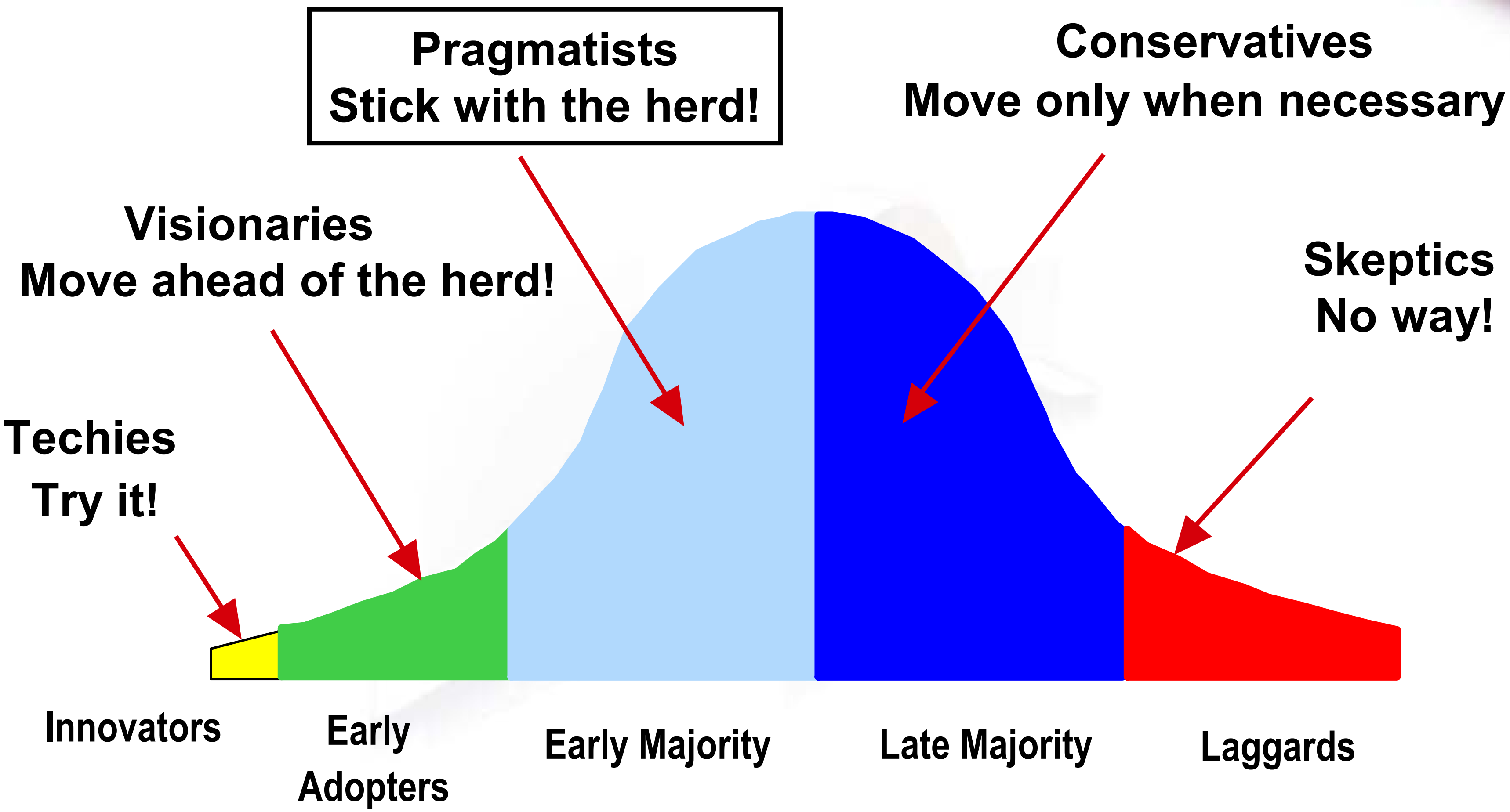
High Tech Company Mission: Creating a High-Tech Value Chain



Discontinuous innovations must create *new* value chains to survive. Continuous innovations leverage *existing* value chains.

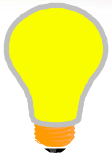
The Basis for Strategy Development: The Technology Adoption Life Cycle

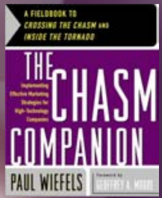




Pragmatists create the dynamics of high-tech market development.
They cast the *deciding vote!*

Early Market

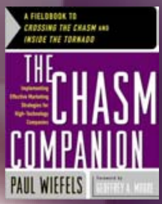




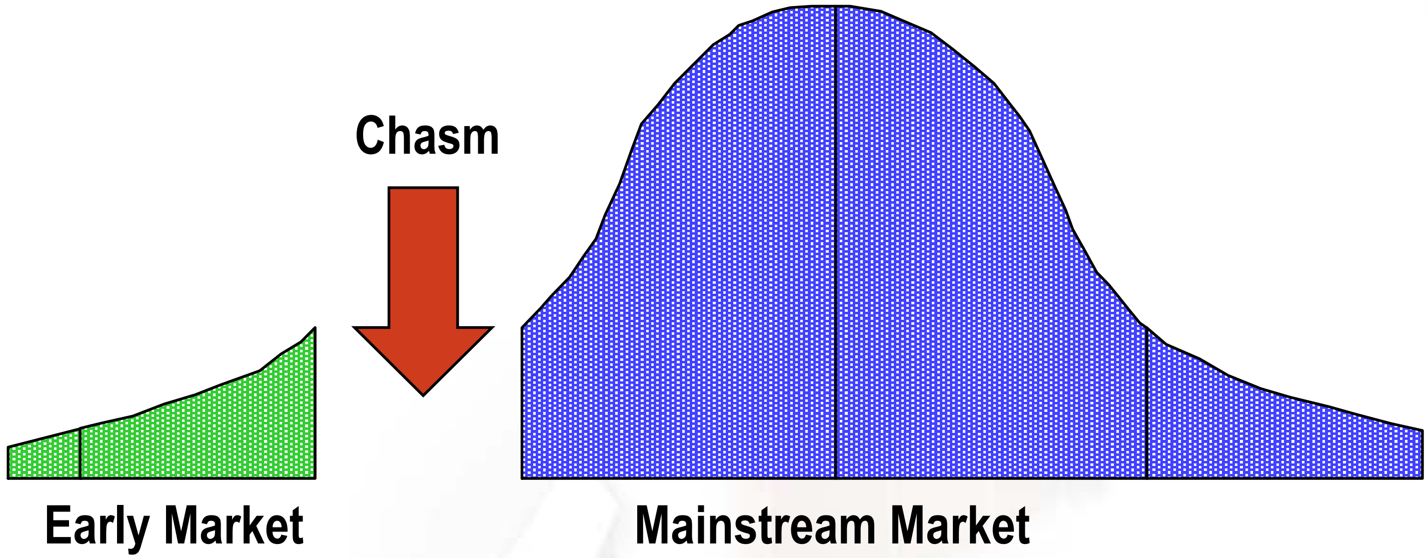
- **Visionary LOB or functional executives going ahead of the herd**
  - Driven by competitive advantage
  - Will help pay for new paradigm
  - Demand "whatever it takes" commitment
  - Rely on their own judgment

- **Deal-driven market development prevails**
  - Breakthrough technology gets center stage
  - Senior service partner leads behind the scenes
  - Think project not product

- **Examples:**
  - **WiFi applications, Web services, HDTV, 64-bit architecture**



Discovering the Chasm



- **Visionary market saturates**
  - All visionaries have bought
  - Marketing and sales programs optimized for early market
- **Pragmatists see no reason to start yet**
  - Too early for anything to be "in production"
  - No herd of references has yet formed
- **Example:** **peer-to-peer technologies, 2.5/3G (depending on geo)**

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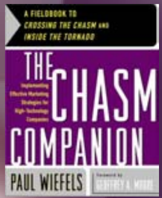
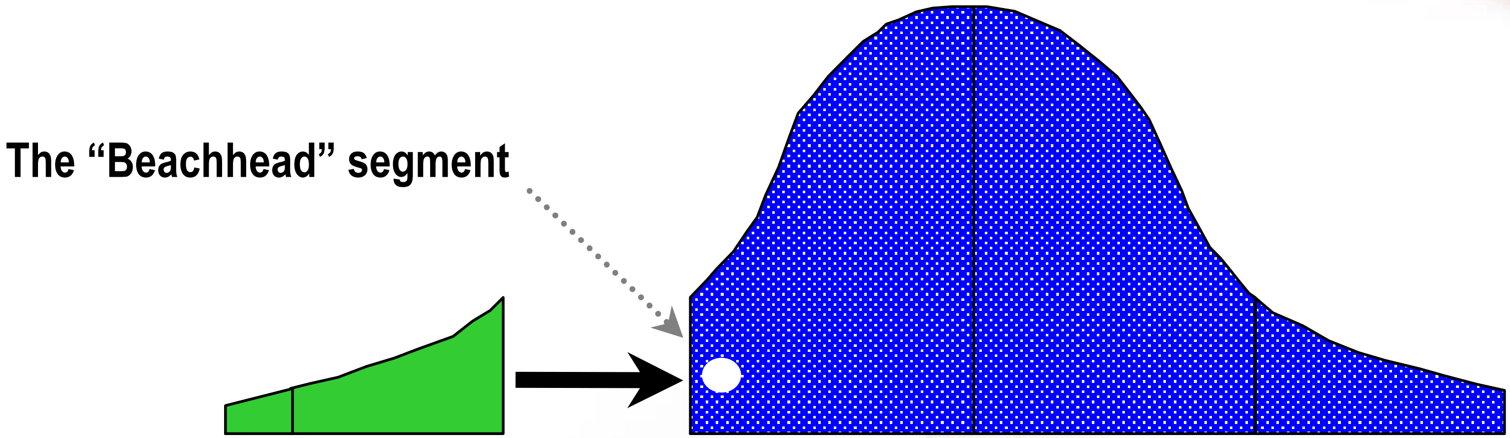
Model Breaks Down at Key Transition



Visionaries vs.	Pragmatists
• Adventurous	• Prudent
• Early buy-in attitude	• Wait-and-see
• Think “big”	• Manage expectations
• Independent of the “herd”	• Part of the “herd”
• Spend big	• Spend to budget
• First use capability	• Staying power
• Think Pragmatists are pedestrian	• Think Visionaries are dangerous

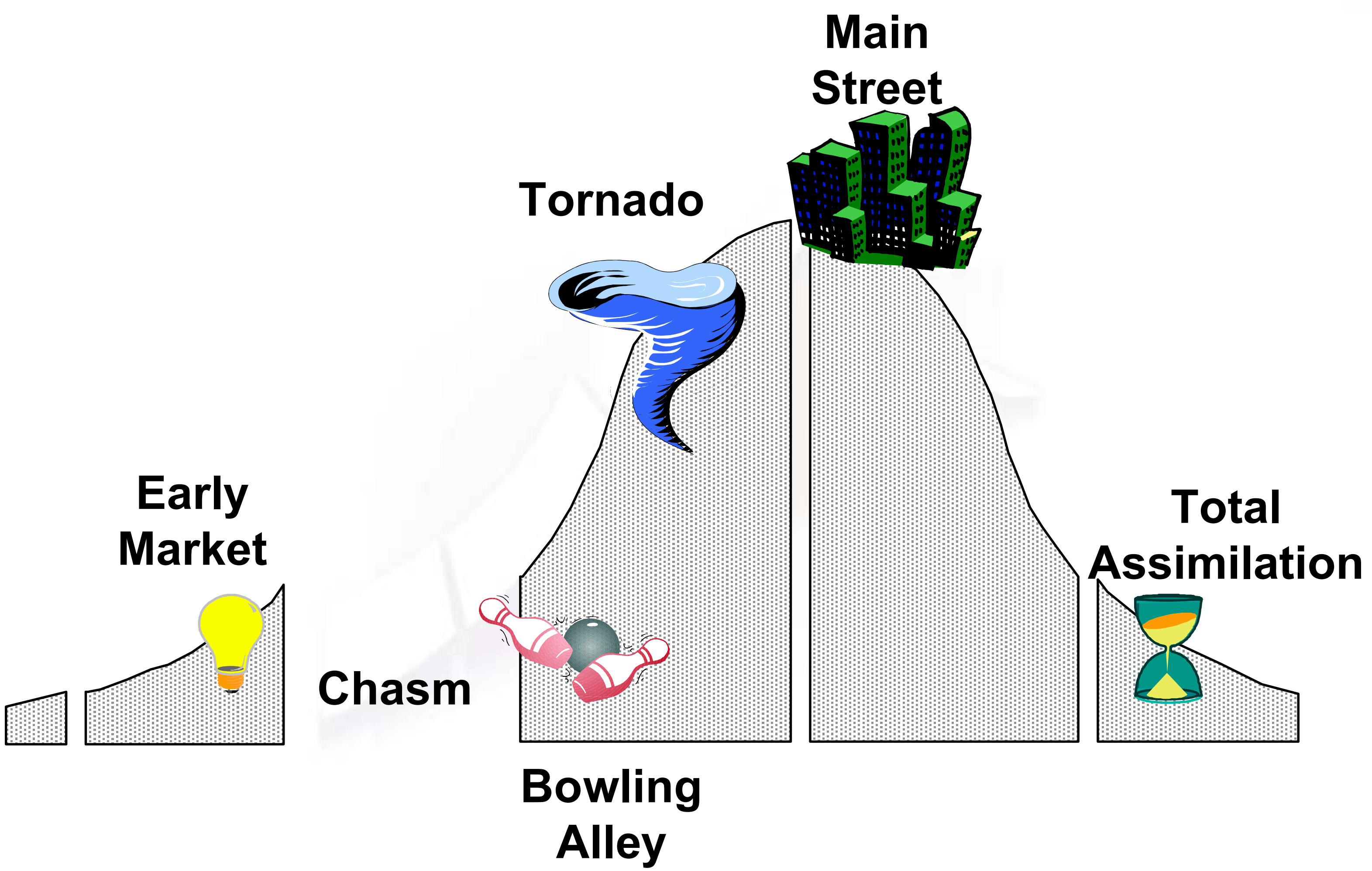
Pragmatists don't trust visionaries as references.

Crossing the Chasm

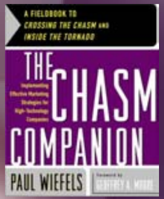


- **The Problem**
  - 80% of many solutions—100% of none
  - Pragmatists won't buy 80% solutions
- **Conventional solution (leading to failure)**
  - Committing to the most common enhancement requests
  - Never *finishing* any one customer's wish-list
- **The Correct solution (leading to success)**
  - Focus on a single customer segment and build whole product for that segment
  - Use experience and product to move to similar segments

Key Inflection Points of the Life Cycle



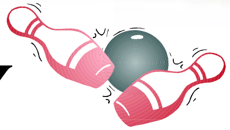
Crossing the Chasm

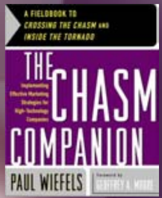


- **Pragmatist departmental managers adopting before the herd**
  - Head-pin segment adopts only if in severe pain
  - Responsible for a *broken mission-critical business process*
  - Must have complete solution to the business process problem
  - Will try anything that looks like it should work
  - Will track customer references within own niche carefully

- **Niche market development prevails**
  - Direct sales opens up the niche
  - Indirect sales takes over the niche once adoption is under way
  - Healthy price margins and restricted competition are normal
  - Think *whole product* not product

Bowling Alley





- **Other niche segment managers adopting before the herd**
  - Major productivity improvement in a unique business process
  - Must have complete whole products
  - Rely on customer references

- **Niche market development continues to prevail**
  - Leverage customer references from one segment to next
  - Leverage solution partners from one segment to the next
  - Invest in extending the ***whole product*** not the product

- **Examples:** **xxM software, digital cameras, consumer broadband, Linux, business analytic s/w, CAD tools**

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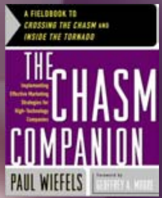
Tornado



- **Pragmatist infrastructure managers adopting with the herd**
  - Transition to the new infrastructure
  - Must have standards
  - Rely on market share
- **Mass marketing / market development prevails**
  - Streamlined one-size-fits-all whole product
  - Low-touch, high-volume distribution
  - Margin-based competitions
  - Think ***product***
- **Examples:** **eCommerce infrastructure (previously)**

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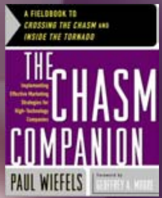
MAIN STREET

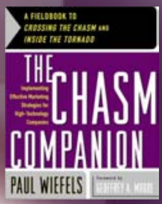


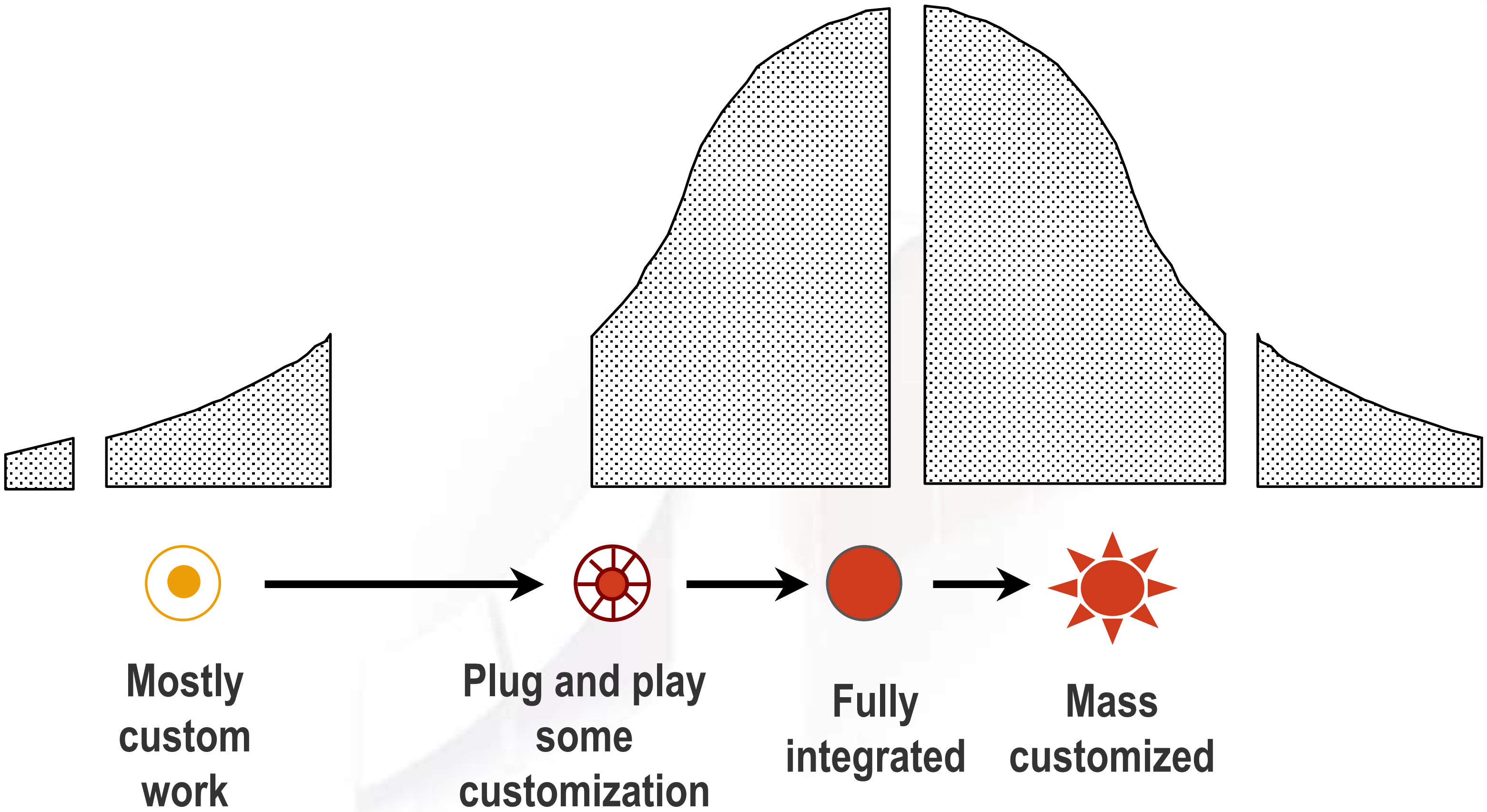
- **Installed base driving the after-market**
  - Want better values, no disruption
  - Two paths: commodity vs. differentiation
  - Installed vendor has major competitive advantage
  - Customer relies on trial, not references

- **Mass customization prevails**
  - Standard core for price-sensitive sales
  - Customizable surface for differentiated offers
  - High-touch, high-volume distribution direct to end users
  - Think end-user experience not product

- **Examples:** **Mobile phones, printers, ERP, x86 microprocessors, PC desktop applications**

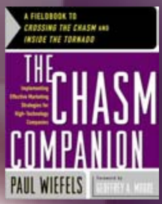
Evolution of the Whole Product

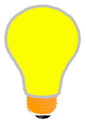
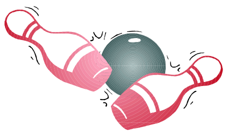




Different whole product priorities at different stages of the life cycle.

Summary: Four Strategic Options



				
Target Customer	Visionary LOB or functional executive	Pragmatist departmental manager	Pragmatist technical buyer	End-users
Compelling Reason to Buy	Dramatic competitive advantage	Fix a problem business process	Adopt new infrastructure	Better values with no risk
Whole Product	Application focus, differentiated	Application focus, standardized	Product focus, standardized	Product focus, differentiated
Partners & Allies	BPR and SI service providers	Recruited for specific whole product	Rationalize to reduce friction	Minimum required, ideally none
Distribution	Direct sales	Direct sales transitioning to VARs	Drive to higher-volume, lower-touch	Low-cost, high-touch
Pricing	Value-based, gain motivated	Value-based, pain motivated	Competition-based, pain motivated	Competition-based, gain motivated
Competition	Category vs. category	Market vs. market	Company vs. company	Product vs. product
Positioning	Technology-based leadership	Niche market leadership	Market-share-based leadership	Better experience for end users
Next Target	Another visionary in a different industry	Adjacent niche market	New platforms, channels, geographies	Next micro-niche

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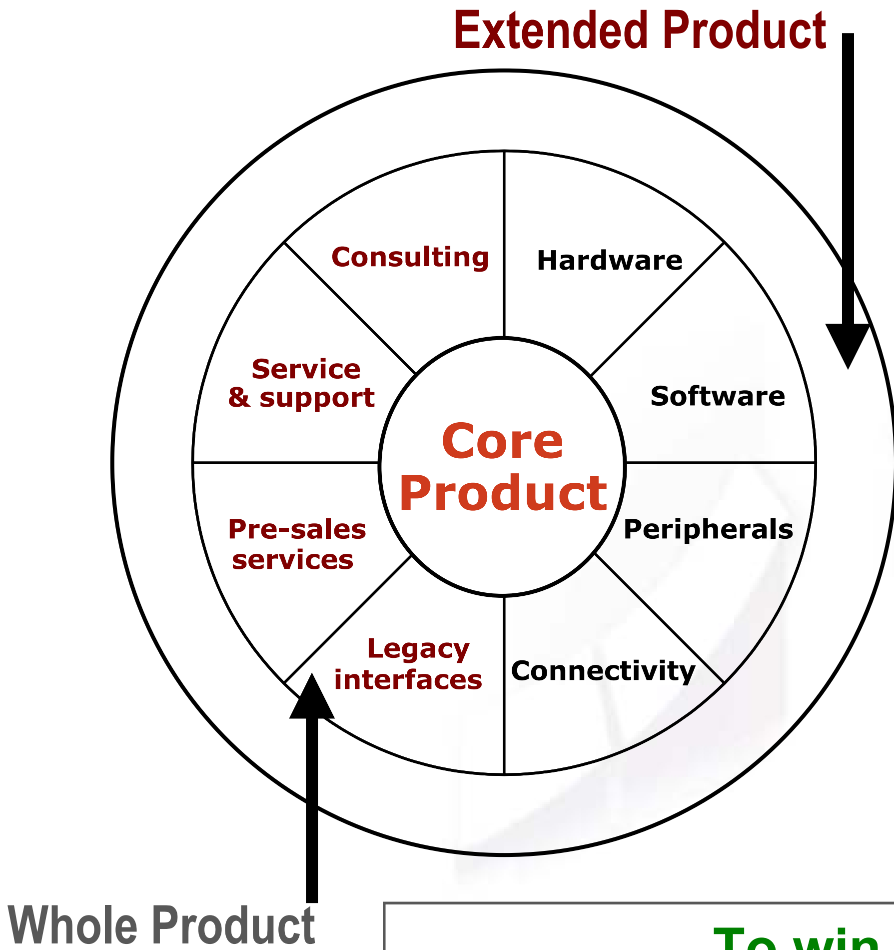
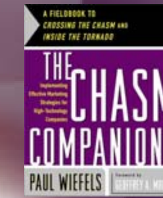
Early Market Whole Product



- Enthusiasts value the core product.
- Pragmatists value the whole product.
- Visionaries value the extended product.

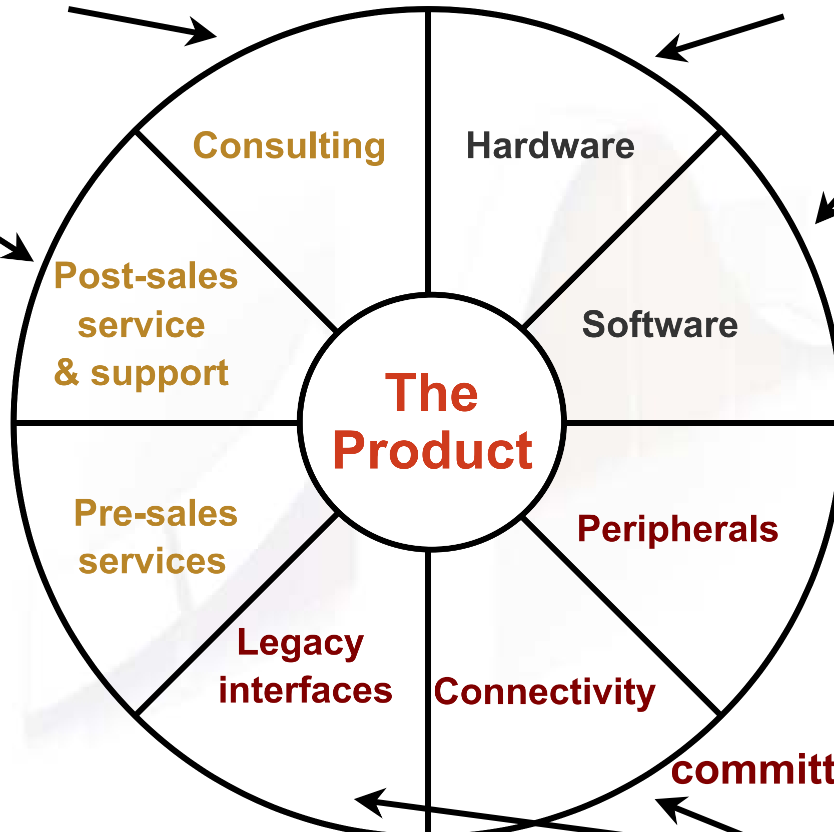
To win an early-market deal promise visionaries the extended product, even though you have not finished the core product.

Bowling Alley Whole Product



Where you can show you understand customer's business problem and its solution

What your in-category competitors have in common with you



Where you can show you have committed to solve problem and have a pre-engineered solution

You know you have a great whole product when your competitors concede you your niche.

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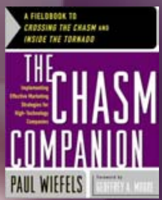
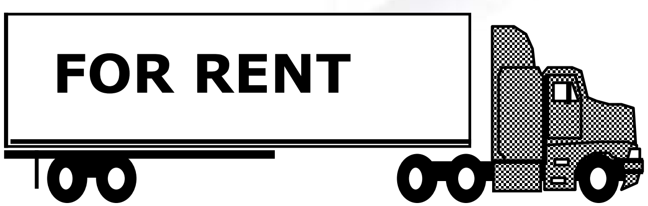


Whole Product Defined

- For a given target customer,
- With a compelling reason to buy,
- The whole product is
  the complete set of products and services needed
- To fulfill that reason to buy.

Moving

The Product Being Marketed



Other Parts of the Whole Product

Pads, mats, ropes
Furniture dolly
Boxes, tape, labels
Insurance
Helpers

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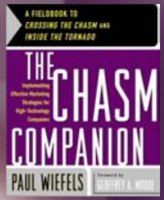
Tornado Whole Product



5 **Commoditization to drive down prices.**

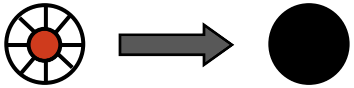
4 **Simplification to expand distribution.**

3 **Standardization to create *de jure* standards.**

2 **Institutionalization to create *de facto* standards.**

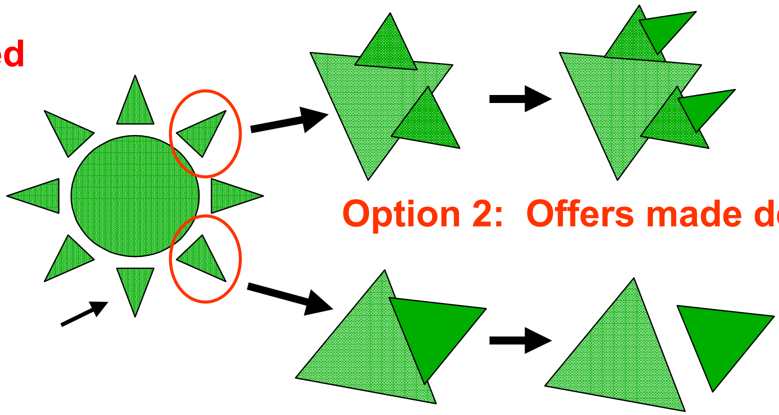
1 **Generalization to create mass market ("the killer app")**

Goal is to reduce complexity, increase proliferation.



Main Street Whole Product +1

Option 1: New Offers to Installed Base



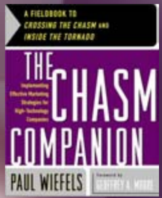
Option 2: Offers made deeper into the niche

Option 3: Offers that spawn a new market

Examples:

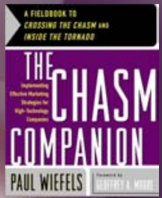
- Second paper tray for laser printers for lawyers
- Bundling an encyclopedia with a Home Office software suite
- General ledger templates for specific industries

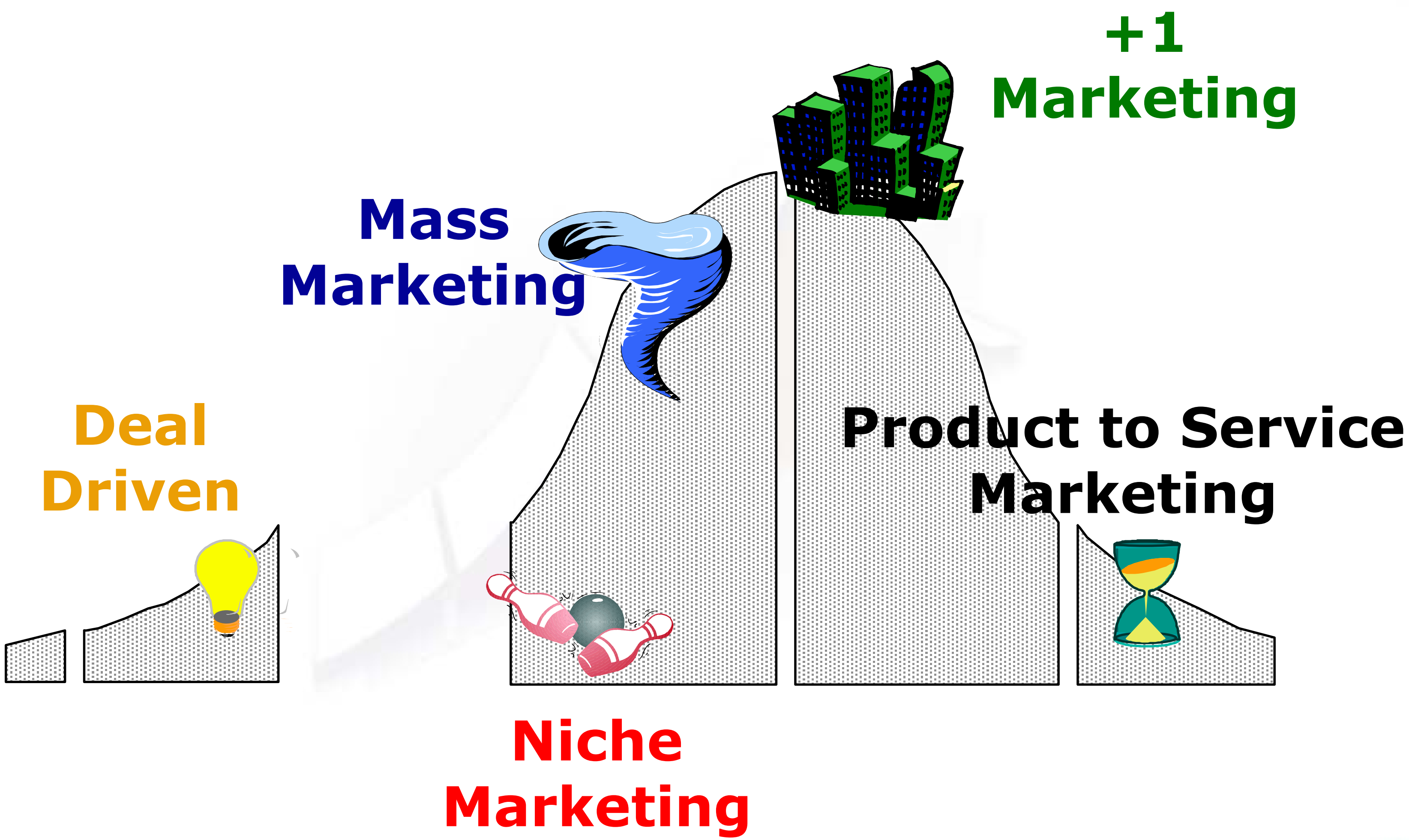
+ 1 Programs Can Vary



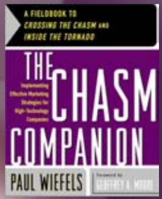
Level 1	Level 2	Level 3
Simple Promotions **Do not open the box**	**Complex Promotions** **Do not touch the product**	**Mass Customization** **Do not touch the core product**
Line Extensions **Do not touch the internal (product) architecture**	**New Platforms** **Do not touch the external (interface) architecture**	**New Technology** **No constraints: Create a new paradigm**
Level 4	*Level 5*	*Level 6*

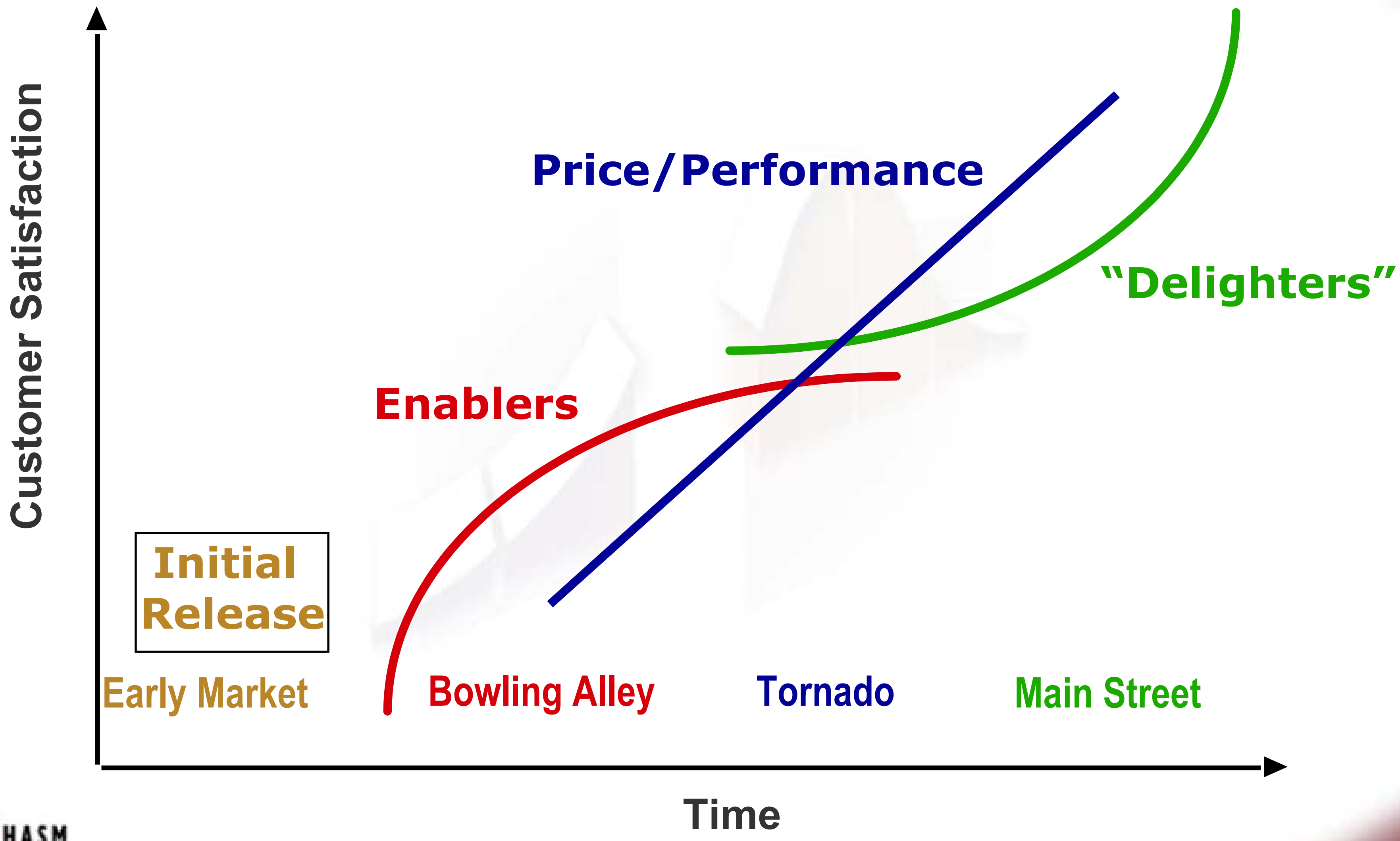
Strategy Frameworks



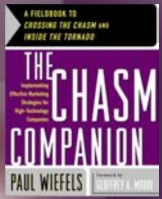


Product Management Priorities





About The Chasm Group



Competitive advantage is not built by technology. It's built by people.

The Chasm Group LLC is a consulting practice focused on helping high technology companies achieve market leadership positions for their core products and services.

Making strategy decisions in high technology markets is a high-stakes game. If strategies are to be implemented successfully, they must be understood and committed to by many different organizations. Today, the need for rapid and decisive responses to a shifting and ambiguous marketplace—and the need to gain team-wide commitment to these responses on a sustainable basis—requires new strategy creation, organizational development and change management alternatives.

The Chasm Group can help you build a complete market development strategy - from definition to execution - and all the steps in between.

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