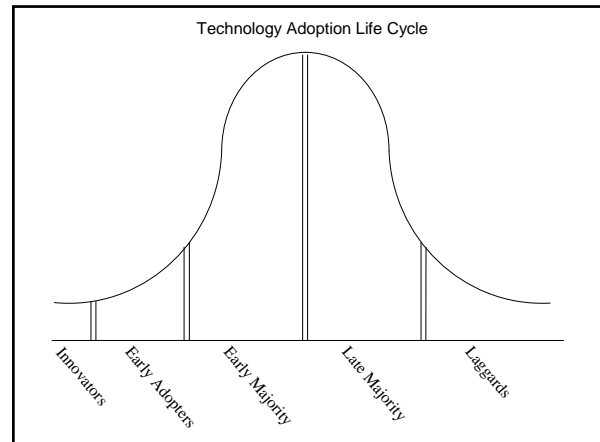


Strategies for High-Tech Markets

Based on Inside the Tornado
(by Geoffrey A. Moore)



Technology Adoption Life Cycle - Discontinuous Innovations

- **Innovators = *Technology enthusiasts***
 - Technology eventually helps improve lives; No money; Have influence; Gatekeepers to the life cycle; If they hate it implies trouble
- **Early adopters = *Visionaries***
 - Believe in competitive advantage via discontinuous innovation; Bring \$\$ to table & demand modifications; Techies explore-visionaries exploit
- **Early majority = *Pragmatists***
 - Do not love technology for its own sake; Believe in evolution not revolution; Want to improve organizational effectiveness; Difficult to convince them to shift paradigms; Prefer to buy from market leaders
- **Late majority = *Conservatives***
 - Technology skeptics; Price sensitive; Demanding consumers; Largely untapped opportunity for high tech
- **Laggards = *Skeptics***
 - Gadflies of high tech; Challenge the hype; Need to sell around them

Techies

- Are inventors
 - “Doc Brown” in *Back to the Future*
- Spend hours making the product work
- Forgive bugs, glitches, poor documentation
- Make great critics - they care
- Write software, share them and discuss on bulletin boards
- Want truth, no sales pitch.
- Need access to most tech person in the company
- Want to get products first and cheaper
- Use them to kindle the fire

Visionaries

- Have a knack for matching technology to strategic opportunities
 - Steve Jobs, Max Hopper (AA + Sabre)
- Seek major breakthroughs, develop a highly visibility, high risk project plan
- Have charisma to get organization to buy-in
- Highly motivated, driven by a dream
- Not price sensitive, will provide visibility to small company's technology
- Start with a small project, closely monitor, are in a hurry, and are never satisfied.
- Keep in touch with techies looking for opportunities

Pragmatists

- Represent the bulk market, play safe, do not want to be pioneers, never volunteer to be an early test site
- Rely on the advice of close set of advisors and within their own industry
- Seek incremental, steady, & measurable progress – no disruption
- Will take risks when required and after due diligence
- Will prefer established products, or those that they believe will be the standard – seek developers of related products
- Once satisfied, they are loyal
- Like to see competition – reduces their risk
- Seek best deals at high quality levels

To sell to pragmatists...

- Make systems compatible: Oracle ported SQL to every hardware – which IBM was not willing to do.
- Show that you are matching competitors advances
 - SQL*Star and SQL*net in response to Ingres/Star and Ingress/Net
 - Client server architecture in response to Sybase
- Do not stop investing in market
- Do not shoot yourself in the flagship – Ashton-Tate DBASE IV failed

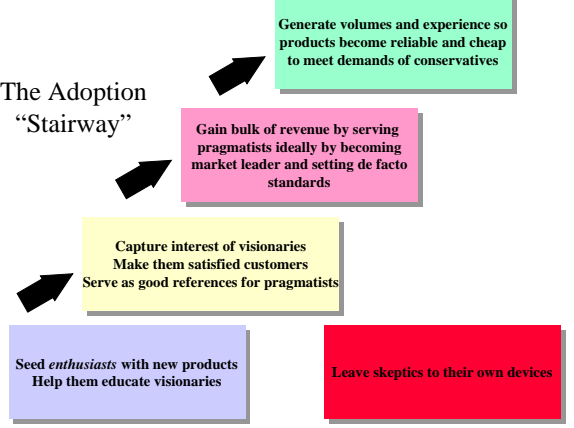
Conservatives

- Look to pragmatists as leaders
- Buy technology just to stay on par with competition
- Invest in mature, products that are like commodities – will not support high margins
- Want pre-assembled packages at discounted prices. Like single function gadgets
- Far east has taken over these markets due to lower costs
- Zilog still makes 4-bit, 8-bit microprocessors that are used in auto seat belts.

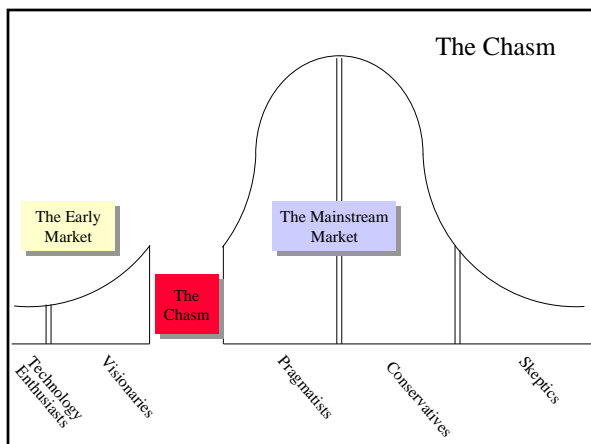
Skeptics

- Do not participate in high tech
- Block purchases
 - Eg. Believe that all this office automation has not improved office productivity
 - Scanner data and productivity

The Adoption “Stairway”

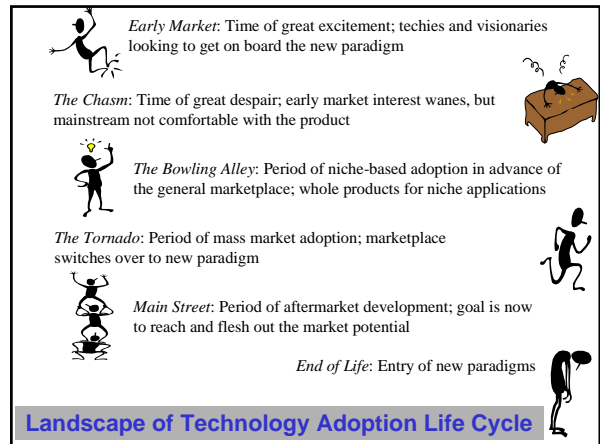
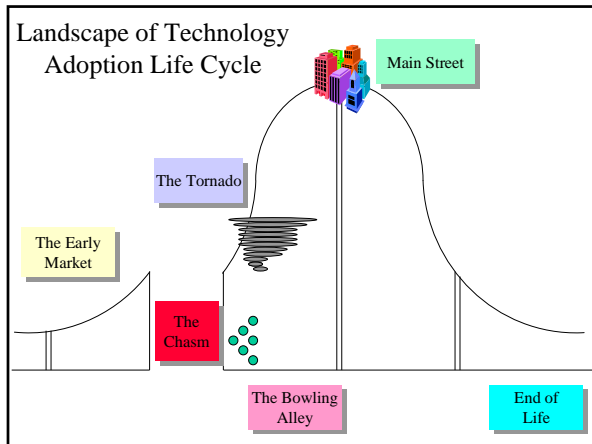


The Chasm



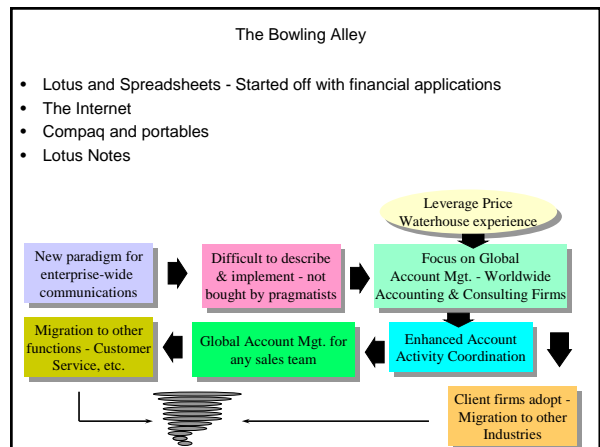
Why the Chasm

- Visionary: Sees that new product has an 80% solution to the problem and says: “Great, lets build the other 20% together.”
- Pragmatist: “I’ll buy this thing when its done, but not before.” Wants the whole product or the 100% solution to the problem
- To satisfy the pragmatist, the new product firm needs to devote energies to focus on a particular application’s pragmatists so as to come up with a whole product for that group
- Unfortunately, firm does not want to place all eggs in one basket and devotes energies to several different applications at the same time. This is also encouraged by venture capitalists
- So firm comes up with a 90% solution to various applications, and in the process does not satisfy any group of pragmatists.
- Hence, the chasm.
- The only safe way to cross the chasm is by putting all eggs into one basket.



Strategy Implications of TALC

- Bowling alley argues for customer-centric niche strategies
- Tornado forces push in opposite direction towards mass market
- Main street forces push back towards customer-centric focus
- Given the dramatic reversals in strategy, firm should be acutely aware of its life cycle stage
- Moving fluidly from strategy to strategy is the ultimate challenge to organization; Demands extremely flexible responses from management team



The Bowling Alley: Why Strategy is Rejected

- People are typically in too much of a hurry to execute the strategy properly. Hence, it develops a reputation for not working
- Companies fall in love with their niches and settle down with them for life
- Companies get trapped by the lure of recurrent service revenues and never design a pared down product that can break free from the need for value-added service support
- Structure of consumer markets does not support bowling alley strategy - Cross the chasm in the business marketplace and then go consumer.
 - Eg., Inkjet printers that started their lives as cheaper alternatives to laserjets for small offices. Once prices came down, consumer market ignited

What causes the tornado?

Pragmatists' Principles

- When it is time to move, let us all move together
- When we pick the vendor to lead us to the new paradigm, let us all pick the same one
- Once the move starts, the sooner we get it over with, the better

Post-Tornado Market Shares

- The Gorilla
- Chimp #1
- Chimp #2
- Monkeys

The Gorilla

- Technology is about standards. To succeed with consumers, one firm's gadget often has to *work with other gadgets from other firms*. Technology moves so quickly that standards set by committees usually come too late. Instead, the industry organises itself around de facto standards championed by single firms with the clout to make them stick--as, for instance, Intel has done with microprocessors.
- By bringing order to an otherwise chaotic marketplace, the standard can serve as a foundation from which many firms can sell compatible products, strengthening the industry as a whole.

The Gorilla

- The technology industry's propensity to coalesce around one winner has left both firms with enormous market shares.
 - However, their products are accepted as "standards" only in that most people who use Internet routers or financial software would rather stick with what they know than change to something else.
- Their position depends on their ability to out-innovate their peers

Tornadoes

HP

- Just ship
- Extend distribution channels
- Drive to the next lower price point

Intel & Microsoft

- Recruit partners to create powerful "whole Product"
- Institutionalize whole product as market leader
- Commoditize product by designing out partners

Bowling Alley vs. Tornado

- | | |
|--|--|
| <ul style="list-style-type: none"> • Focus on economic buyer and end-user • Emphasize ROI as the compelling reason to buy • Differentiate "whole product" for a single application • Partner with value-added distribution channel to ensure customized solution delivery • Use value-based pricing to maximize profit margins • Avoid competition to gain niche market share • Position products within vertical market segments | <ul style="list-style-type: none"> • Focus on infrastructure buyer; ignore economic buyer • Ignore ROI; focus on timely infrastructure deployment • Commoditize product for general purpose use • Distribute via low cost, high volume channels to ensure maximum market exposure • Use competition based pricing to maximize market share • Attack competition to gain mass market share • Position products horizontally as global infrastructure |
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Tornado vs. Main Street

- | | |
|--|--|
| <ul style="list-style-type: none"> • Sell to infrastructure buyer • Focus on timely & reliable infrastructure deployment • Commoditize product for universal deployment (<i>open systems</i> & need for <i>strategic partnerships</i>) • Distribute via low cost, high volume channels & advertise heavily to ensure maximum market exposure • Drive price points even lower to maximize market share • Attack other competitors to gain market share • Position products horizontally as global infrastructure | <ul style="list-style-type: none"> • Sell to end-user • Focus on end-user's product experience; seek to gratify individual needs • Differentiate commoditized products via +1 campaigns directed at specific niches • Continue same channels, but focus on merchandising that communicates +1 messages • Gain margins above low cost clone with +1 benefits • Compete against own low-cost offering to boost margin share • Position in niche markets based on end user preferences |
|--|--|

Implications for Segmentation

- In the early market, do not segment - go where visionaries lead you
- To cross the chasm and negotiate the bowling alley, need to segment
- Once inside the tornado, must not segment
- On mains street, must segment - basis of +1 strategy

Complications

- Firms carry different products; each could be at a different TALC stage (1-2-3, ccMail, Notes)
- Different segments in the same market can be at different stages (Internet is on main street for Unix technical community, in the tornado for college students, in bowling alley for marketing researchers, early market for commercial transactions...)
- Mini-tornadoes (segment-specific) can occur in the bowling alley
- Markets at different life cycle stages interact with one another (main street financial applications being ported to tornado client-server platforms using bowling alley development tools!)

