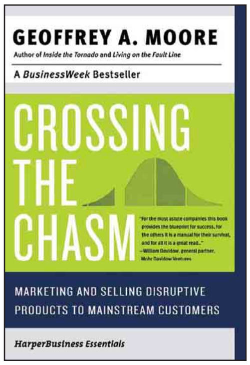
Crossing the Chasm

Marketing and Selling Disruptive Products to Mainstream Customers



by Geoffrey A. Moore
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256 pages

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Take-Aways

- Most technology products fail to cross the "chasm" – to move from early adopters to a mass audience.
- Five markets buy high-tech goods: "innovators, early adopters, early majority, late majority and laggards"; each market is very different.
- New high-technology products require customers to change their behavior.
- To launch a new high-tech product, establish a beachhead with one market segment; then build up to include other markets.
- Software companies and platform companies cross the chasm differently.
- In some new product launches, marketers must replace data-based analysis with "informed intuition," the use of data fragments to create visual archetypes.
- Theodore Levitt's "whole product concept" is designed to fulfill a customer's rising expectations about the product, now and in the future.
- In moving across the chasm, marketing should draw mainstream pragmatic buyers.
- Conservative buyers will pay up to 30% more for a product from a market leader.
- The practical majority market responds best to strong word-of-mouth.

Rating (10 is best)

Overall	Applicability	Innovation	Style
8	**8**	**8**	**7**

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compressed knowledge

Relevance

What You Will Learn

In this Abstract, you will learn: 1) How marketing high-technology products differs from other types of marketing; and 2) How high-tech firms can cross the "chasm" from insider, early adopters to a mass market.

Recommendation

This serious, detailed book offers a nonconventional marketing approach for high-tech promoters and investors. Consultant Geoffrey Moore has thought long and hard about how to market new technology, so the book sometimes reads like an intriguing personal essay. He makes an elaborate case about different technology users, citing product examples to explain why each consumer matters at certain stages in product marketing. At times, his presentation get a little strained, such as when he tries to describe how consumer groups "reference" each other or how marketers must engage in "informed intuition." Moore devised his own explanations for the successes and failures of different high-tech marketing tactics, so your level of agreement depends on how much of his detailed theory fits your marketing concerns. *getAbstract* finds substantial interest and value in this exploration of high-tech marketing.

Abstract

Building Bridges

Technology buttresses America's global competitiveness. But to remain competitive, companies must market new technology properly to key audiences. So much rides on this factor that entire companies have failed after a few quarters of declining sales triggered negative signals to equity analysts, thus shortening the careers of many high-tech marketing professionals. While nontech U.S. companies often market their products successfully, why have so many high-tech products disappeared – presumably as a result of marketing failures?

"The chasm model represents a pattern in market development… based on the tendency of pragmatic people to adopt new technology when they see other people like them doing the same."

The answer partially lies in finding the right market. Many technology products fail to make the transition from a few early adopters to a larger audience that has very different concerns. Marketers may assume this transition will be seamless, but it is a huge "chasm" and crossing it is so dangerous that it is the main reason tech companies falter. To survive this transition from serving a fad to feeding a trend, high-tech marketing's challenge is to manage the fad successfully and then turn it into a trend. This is how many successful high-tech products have been launched. Without the acceptance of a wide market beyond early adopters, the product will fail, so this transition from the esoteric to the mainstream is critical.

"Within an ever-changing society, marketing represents the ongoing effort to keep the means of production – our products and services – in touch with evolving social and personal conditions."

To reap the benefits of navigating this bridge successfully, a company must make dramatic changes across many departments, not just sales and marketing. The company must involve all its internal units, and carefully follow a plan that heeds the distinctions among early and late adopters. This requires methodical preparation, not a brilliant marketing blitz.

Early and late adopters are very different. Most people are late adopters, because using a new technology is disruptive and requires consumers to change their behavior.

"Technology enthusiasts are the gatekeepers for any new technology."

Color TV required viewers to buy new sets, but hooking up VCRs demanded more of a behavior change. High-definition television forces viewers to find programs in that format. New computer operating systems are often disruptive because they do not work with older computers. Microwaves altered the way people prepared frozen dinners. In contrast, upgraded (as opposed to reinvented) products do not require changed behavior. A toothpaste that promises whiter teeth is still used the same old way.

The consumer's natural inclination is to avoid discontinuity, but high-tech industry is based on introducing new products that make customers behave differently. This "technology adoption life cycle" is the basic marketing idea that drives Silicon Valley product introductions. Audiences that buy high-tech gear fall into these groups:

"Every truly innovative high-tech product starts out as a fad – something with no known market value or purpose but with great properties that generates a lot of enthusiasm with the in crowd."

- "Innovators" are the smallest segment, but their opinions encourage others to investigate the product. These "techies" are often very familiar with new technology.
- "Early adopters" play a similar role, but they are not very familiar with technology. These "visionaries" are attracted by the benefits offered by technology.
- "Early-majority" consumers do not want to be taken in by fads, so they are content to wait. But, if a product is practical, it can gain a foothold with them.
- "Late-majority" buyers want to see that the technology is accepted and all the bugs have been corrected. They also want to be able to call for help when it is needed. This group comprises about 33% of the market, and represents large profit potential.
- "Laggards" are the last audience. They do not consider technology worth addressing.

A graph of these markets would look like a bell curve, with the early and late majorities making up most of the main curve. Each group differs in number of buyers and in their profiles, including psychology and demographics. High-tech marketers must recognize each group and work methodically through each one to reach the next, and eventually the entire audience. A product's success with one group creates messages and endorsements that can help bridge the gap to the next group and generate marketing momentum.

"When customers encounter this kind of ownership, they…become fanatically loyal to their supplier, which in turn builds a stable economic base for profitability and growth."

Lotus 1-2-3 was one of the first products to use this marketing model successfully. Lotus was based on VisiCalc, which ran on the Apple II, but Lotus also worked well on IBM PCs and allowed consumers to create popular "what-if" scenarios. By the late 1980s, more than half of IBM PCs came with Lotus, despite its many rivals. Other companies that successfully began with specific niche markets and then conquered the mass market include Oracle (relational databases), HP (printers) and IBM (mainframes). Each company captured more than half its market and did well with the early majority.

This is a useful way to view segmentation, but it is not continuous or smooth. Marketers who want to grow, hold or defend markets must watch for gaps within the model, including times when a market may disappear. A market segment is made up of current or future customers with common product needs. They should be able to refer to each other, so they develop an identity as they buy and discuss the product. In time, they will share ideas and reinforcement. Achieving this dialogue in each market segment creates a satisfied customer base.

"Ownership in this sense means abiding commitment and a strong sense of mutuality in the developed marketplace."

Beware the Chasm

Your company can fall into the chasm between customer groups when these links do not occur, when it lacks enough cash to compete or when it pursues too new a market. In a venture capital situation, some lenders will try to take advantage of this down period to devalue the company and buy it back cheaply in the next round of financing. Their goal is to gain control of the company by blaming its marketing failure on poor management.

To avoid this, aggressively court mainstream users to wrest control of your target audience from its current suppliers. Then mount a focused effort to maintain or accelerate your rate of penetration, and exploit your initial niche position. When you are poised between market segments, focus on marketing strategy, not just sales. At this stage, you need very satisfied customers who can "reference" one another and get the most from your high-tech product. When customers share their mutual positive experiences, the enthusiastic word-of-mouth about your product provides the credibility you need to cross the chasm. This sets the stage for category leadership, the platform for preselling to mass consumers who value products that are tested, practical and proven.

"The fundamental basis of market relations is to build and manage relationships with all the members [of] a high-tech marketplace, not just the most visible ones."

Microsoft is the exception to this market segmentation approach. It has avoided any attempts to bridge gaps between customer segments, perhaps due to its unusual history. Microsoft emerged as the industry standard by customizing IBM's operating system. It could modify existing technologies, such as Windows and Internet Explorer, so it did not have to do the trailblazing on new product introductions. Microsoft forged its own product development approach, and became the *de facto* gatekeeper who could screen competitors.

"Numerous studies have shown that in the high-tech buying process, word-of-mouth is the number one source of information buyers reference."

But other companies do not enjoy this luxury. They must be cunning to break into the wide market beyond their segments. Apple's Macintosh computer broke out from a niche market to wider acceptance when it became the standard gear for corporate art departments. Platform companies, such as Apple, and application companies face different challenges when crossing the chasm. Applications appeal to specific markets, which can be organized by profession, industry or location, and marketed to distinct audience segments. In contrast, platforms reach across different programs and machines, and change little from user to user.

However, because of the way people approach new technology, to expand a platform's penetration, marketers must still position it as a new product and establish a position with a niche audience. PalmPilot did this by gaining a following among high-tech management teams with long commutes. Early Palm users moved away from other products in search of the functional features Palm offered, such as an easy application interface, pocket size and a docking station. Alternatives, such as small computers, were overdesigned, with too many features. Instead of reaching a wider audience, they alienated buyers who needed specific functions. By adding features, they increased their failure risk.

"This lack of word-of-mouth, in turn, makes selling the product that much harder, thereby adding to the cost and the unpredictability of sales."

Tough Decisions

The best way to launch a new high-tech product is to establish a beachhead in one market segment and build from there. This has risks because reliable data is rare. Marketers must replace their usual data-based analyses with "informed intuition." Using the best, most memorable fragments of data available, marketers must create visual archetypes and market profiles of each customer segment. With this information, marketers can create attack plans. When it is time to implement, act quickly. If you wait for more research, the existing vendors will win. Prognostication and delay are the enemies. Execute your plan forcefully.

"People...simply will not put up with noncredible channels of communication. They will take their business elsewhere."

To meet customer expectations about product performance, marketers should adopt Theodore Levitt's "whole product concept," which calls for fully informing consumers about your product's current and future benefits and growth. You want to generate positive word-of-mouth among target audiences, thus creating a "tight circle" that competitors cannot disrupt.

Since the business press has credibility with the appropriate audience for many innovative products, use it to convey your story. Include input from product developers, industry analysts, satisfied customers and distribution partners. Do not focus solely on the product or the new technology, but on how the industry will change as a result of this innovation. Court the trade magazines that cover your industry, but be aware that they may prioritize insider stories on new products. Your marketing priority is to present your product from the customer's perspective. You want the mainstream audience.

"The chasm represents the gulf between two distinct marketplaces for technology products – the first [is] an early market dominated by early adopters and insiders who are quick to appreciate the nature and benefits of the new development…"

Selling to the Mainsteam

High-tech product distribution, the key to serving a general audience, traditionally has relied heavily on direct sales through retail outlets, which are still the best distribution channels for creating demand. Other channels, such as value-added resellers (VARs), original equipment manufacturers and systems integrators, have varying strengths. VARs usually sell technical solutions to specific industries and may not be best for selling to the general public. Create product awareness and then expand demand by adding additional distribution channels.

The other key variable is price, which changes based on each customer segment. For instance, visionaries are often not sensitive to price; they will pay for the features they need or enjoy. Conservatives and mass-market consumers, who buy later in the product cycle, still want to pay as little as possible. However, conservatives will pay up to 30% more for a product from a market leader because they want to gain a competitive advantage while keeping their systems operating. Conversely, if you are not a market leader, compete on price by selling your goods at about 30% below prevailing prices. Don't worry too much about pricing your product for other vendors. This can be a distraction. Focus on mainstream customers.

Once the chasm has been crossed, your company must deliver on its promises to buyers. Many companies get overextended before crossing the chasm and suffer afterward because they can't deliver. To avoid this, never make promises to customers that you cannot keep. This transition strains many companies, because now corporate leadership must re-examine everything, from personnel to R&D practices. Once your company crosses the chasm, it must transform its culture from one that praises individuals to one that values teamwork. That is the only way to deliver quality consistently on a large scale. Revenues in this early stage do not equal profits; those come later as the product gains a wide marketplace foothold.

"…and the second is a mainstream market representing 'the rest of us,' people who want the benefits of new technology, but who do not want to 'experience' it in all its gory details."

Do not make entrepreneurial financial projections based on sustaining early, rapid revenue growth. Recognize the development cost curve and the venture capitalist's expectations of growing returns on investment. Don't base the future on the so-called "hockey stick" profit pattern of growth followed by flat periods. Over time, the growth curve will smooth out. Founders often succumb to making their financial projections based on fast uninterrupted revenue growth. When that fails to occur, owners can loose their ownership stakes to vulture capitalists who scoop up their companies for a fraction of their value.

About The Author

Geoffrey Moore is a managing partner at a consulting firm in San Mateo, California, and a partner in a venture capital firm in Menlo Park, California. He is the author of *Inside the Tornado, The Gorilla Game* and *Living on the Fault Line.*