

The Revolution Eats its Children – or not!

“The D-AVR market has exploded and has moved from a local to a global mass market almost instantly. New suppliers are emerging rapidly leveraging their strategies off your offering and seeking to work-around your patents. Current competition is technology driven: ‘better’ software, sexier headset and box designs. Worst, Pear has expressed interest in the sector: It is feared they could repeat their previous disruption. You face the ‘first mover’ trap! You have done all the missionary work and others will reap the rewards. Everything – literally everything – depends on dominating the market NOW!

The organization is traumatized by the downsizing. Your management team is stretched thin. It is time to draw people together, strengthen the management system, and build new commitment. You need to move at hyper-speed but bureaucratization looms if old LegacyCo habits seep into management....”

Attached is a selection of notes and memoranda that will help you formulate decisions

AGENDA
EXECUTIVE COMMITTEE MEETING
PERIOD 6

Below are the subjects for discussion and decision at the upcoming Executive Committee Meeting.

1. Product strategy: – Do we need a 2nd Generation D-AVR offering?
2. Social media vs. Marketing? – Social media strategy and marketing expenditure
3. Possible corporate acquisitions for market share
4. The ‘Digital Hive’
5. Potential functional and leadership initiatives
6. Budgeting: decisions will be needed on projected revenue, Marketing and Sales expenditure, and headcount. This is for both legacy if still supporting and D-AR if driving that

Copies of all relevant memos etc. are attached.

McKinty Management Consultants and Market Forecasters

Domestic Augmented Virtual Reality Market Evolution Scenario II

Project Mandate

We were asked to develop a Scenario to illustrate how a new Domestic Augmented Reality Market may play out over the next stage of the Secular Growth Curve.

Background

LegacyCo has entered the nearly vertical stage of the growth curve. Traditionally, and certainly in B2B, this part of the curve would consist of three customer slices: early mass, late mass/conservatives and laggards. Each group would need to integrate the offering into their systems to a different degree and would have different needs. Each group would feed off the experiences of the prior group passing legitimacy up the buying chain. When the market is nearly vertical and the offering is already packaged and requires no real integration into domestic system, the differences between the market participants are almost erased. What you are attempting to do is capture the market and retain it as fast as possible – effectively making your offering the ‘standard’ – and blocking any competitors. This does not mean that there are no differences between groups, merely that the differences timings of adoption are personal, social, and to do with diffusion of the idea through the mass population rather than operational. Thus in our last note we talked about early adopters, who are typically opinion leaders or fashionistas. The mass follows at their own personal pace from those who want to be ‘in’ and want to make this part of their personal lifestyle, to those who will wait for the ‘nth’ version to be sure the ‘bugs’ have been worked out and for whom buying may be an obligation.

Competition

We know that others are in the market and that an aftermarket is rapidly evolving. We attempted to pull many of these technology-rooted players into our orbit last period. The result is that most of the current technology issues have been addressed. The software is now in Version 2.6 and the headsets have been revised twice.

In this period, our role is to capture as many customers as possible as fast as possible for the software and that we find ways of locking the offering into people’s lifestyles. Our current

channels are online through various third-party platforms and the headset provider has started developing traditional retail relationships on the back of their other business.

Thoughts on the Mass Market

This group will attribute some legitimacy to your offering from the publicized experiences of the early adopter groups but they will be most interested in how AVR fits into their lives, the equipment into their homes, and whether it is just another tech toy; a fad that will pass.. They expect the offering to work and have lots of experience of previous tech-toys. The product focus will be on ease of installation and set-up, intuitive ease-of-use. This group is more interested in command over content than technology.

As D-AVR is becoming more accepted we anticipate seeing the emergence of the “amateur enthusiast’ for AVR content. This group will create semi-professional quality output can also be formed into a loose knit community and will show the mass buyers what can be done with the equipment. They would also be hugely important in ease-of-use development. Pair with the use of celebrities in AR films this group could be influential long after they have bought their equipment.

In addition to any community you manage to create it or that spontaneously emerges it may be possible to get to the mass market buyer both through mass advertising and through social media approaches like YouTube. You and your competitors have been successful in missionary selling the idea of Domestic AVR now there are literally millions of younger and tech-savvy grandparents who are looking for presents or who may be interested in creating and sharing their creations. Currently AVR cannot be run across YouTube for lack of a reasonable receiver. But, developing an AVR channel with or without YouTube as the supplier should be possible.

It is this market that is likely to demand tools for improving their AVR creations. This could come as a traditional software tool or as a ‘software service’ across the net.

As the market moves into mass market mode, we can expect a counter development: the emergence of small but highly profitable segments that focus on narrow but specialist demands. Examples of specialist variants that are already emerging are:

- A children’s version: simple big button style and fun use to both see and some level of AR creation. Probably sold through toy stores
- An amateur enthusiast version close to professional
- A ‘professional’ version for the ‘high street’ photography crowd
- A school project market able to create sophisticated output for a wide range of age groups
- A ‘rugged’ mobile version for outdoor enthusiasts and able to survive hostile environments.

Others are already developing these markets. The risk to you is that they could fragment demand. The solution may be to acquire them and pull them under your brand umbrella.

Content

From a consumer viewpoint your equipment is simply the means to an end: the creation of content. If content is disappointing the adoption curve will be very short as word gets round that AVR is not 'fun', too difficult, or simply something 'cute' of no lasting value.

Content will almost certainly be the determining factor of long term success.

Regards

MEMORANDUM

From: Jack Horner VP Product development

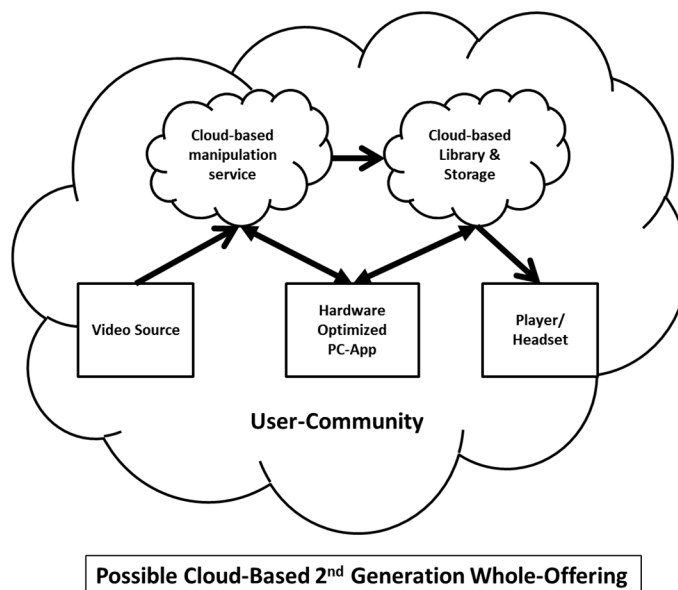
To: LegacyCo Excom

Subject: Second Generation D-AVReality

This note is in response to a request to predict an offering strategy that Pear (or other supplier) could follow to destroy our current market position.

As you know our current offering consists of third-party video feeds that can be blended, supplemented and manipulated using our proprietary AVR software loaded on a desktop box or PC and played through either a headset or less effectively a smart phone or TV. Our income is rooted in the software and a share of the profits of the headsets plus a royalty on the specialist boxes. Additionally, we went forward with the open-source approach to supplement our software development and I admit to being startled by the quality, speed, and discipline of the volunteer developers for an extremely modest outlay. We currently have the best (I believe) software functionality on the market. That said, functionality is easy to reverse engineer and replicate.

From Pear's perspective they already have a toehold in the video feed through the camera on their smart device. They could attack our software by creating a 'software as a service' (SaaS) business in their own cloud operation. They have a platform to replace the 'box' in their current desktops etc. such that parts of software performance could be easily hardwired into the video chips for relatively small effort by their chip makers. Additionally, they have a strong body of creative users. Headset design to develop something smaller, less obtrusive, more elegant would be in their expertise. Pear also has established experience managing user communities. The diagram sets out a potential route for Pear.



Pear is clearly a threat, if the rumours are true that they have expressed interest. However, after our last experience I suggest we treat the rumours as true even if they aren't!

I see the following options:

- In all cases, if we are to be a player at all we simply must dominate the current market and cut off any incentive for a Pear-type player to attack us. Curiously it is to our advantage for the market not to get too big and attract attention from Pear; unless that is the entry cost is so low for Pear that they can pick us off at minimal effort.
- Video sourcing is outside our interest. We just need to meet data transfer standards for cameras etc. in our interfaces
- The real risk lies in our software. Our functionality is fine but our delivery mechanism (CDs and downloads) is focused on the early user market. Supplementing our current approach with a SaaS (software as a service) operation held on the Amazon cloud would be easy – technically. The problem is that SaaS operations are slow to develop so we would need other incentives to persuade people to take a membership. My thought is that we think in content terms. AVR ‘clips’ that can be moulded into customer productions can be created – this is akin to the Wix.com provision of stock photos.¹
- I suggest we immediately create a community of professional and gifted amateur users of our current software. We know who most of them are and use them to create the first of several content and tools sub-segments for AVR development. These would map to the emerging segments that McKinty identified:
 - A children’s content developer
 - An amateur enthusiast tool with functionality close to professional
 - A full ‘professional’ version for the ‘high street’ photography crowd
 - A school project market able to create sophisticated output for a wide range of age groups with an associated library of symbols and teachers’ tools
- We are already funded to develop generation one, which we thought would last longer. Now we know the market better I anticipate that we could divert the funding and working with a few partners achieve all the above for the current money.
- An option is to accelerate content acceptance by buying up one of the specialist suppliers and using their branding as marketing entry points.
- Finally, we have been working diligently with the Design Team to create a sleeker but functional headset. Frankly, Pear is built on a design culture. If they decide to go forward they can build on their rabid user base. We will work with our partner to improve the design but if Pear dives in we have a problem. That is why I believe we need to drive ahead and lower the opportunity for Pear by driving the second generation headset built to Pear design standards now!

¹ Wix.com is an interesting case. There is a real opportunity for someone in linking AVR to website creation. This may be a possible partnership say with Wix.com.

My thought is that if we move quickly we can make the sector not worth entering for Pear. But we would have to be quick.

Jack

MEMORANDUM

From: John Rouse VP HR

To: Sarah Hughes

Subject: Creating a “Digital Hive” and involving the workforce

Digital Hive is a McKinsey term that talks to the use of social media to tap into ideas and opinions in the organization and involve the people in the strategy formation process of the business. To date we have used largely traditional top-down strategy formulation and then rolled it out. Using social media and opening our leadership to a broader range of involvement would potentially lower the current stress levels in the organization and counter any tendency to bureaucratization. I recommend that you read the attached pdf.

Looking forward, I am concerned that we will slip back into our old ways. After the initial LegacyCo offering was created we most definitely did become ‘fat and happy’. We turned inward became tech-happy, and were punished for it when Pear stole our market. The recent downsizings have removed a lot of that culture and the current dramatic growth focus has lowered or eliminated any residual complacency. That said, what happens if we are successful and the technology slows down? The traditional response is to focus on product optimization and squeezing profits out through efficiency. The risk is obvious, particularly if, as has been mooted, we reabsorb NewCo and settle down as a mirror image of the old legacy company.

Actions to be placed in the Leadership function

~~Markets today are too volatile. We need to become what is called the ‘ambidextrous organization’, where we simultaneously exploit established offerings with incremental improvements and explore new ones. The idea of the Ambidextrous Organization was mooted in the 1990s but is based on insights from the 1970s. It could be argued that that is what we tried to do over the last 7 periods, but that Pear forced us to off course. Regardless we have 7 periods of experience and I suggest we think through how to build creative flexibility into the fabric of the organization without losing out on the profitable exploitation of our mature offerings.~~

Regards

John