The Secular Growth Curve

"The race is on. The invention phase is over, now NewCo must take its offering to market. The Visionary Partner provides some initial legitimacy but breaking through with the Early Pragmatist buyers is the key. They provide the leverage to drive up the growth curve with success building on success. Or vice-versa!

The race up the curve brooks no slowing down. Once started you must keep moving. As you move from Period to Period new opportunities emerge to drive market effectiveness and legitimacy. The challenge is to pick the right initiatives at the right period, and spend the right amounts of money at the right moments on the right drivers…"

AGENDA

From: Henry Morgan

To: NewCo Excom

Subject: Period Decisions

UPDATE

As you may have heard, there has been a traumatic event in the LegacyCo. Pear Inc. has entered the market with a new and, it appears, devastatingly neat offering. LegacyCo is in considerable turmoil. If the rumors are true there has been a bloodbath in the top ranks. We cannot assume any help from them as they try to sort themselves out. That said events of this magnitude typically lead to dramatic downsizing, which always sends tremors through the organization and the local community. As at this moment, we can assure our people that we will be growing and their jobs are safe.

From our selfish perspective, we have been assured by the XYZ CEO that our funding has been transferred and that she will not approve any restrictions on it. That said we will inevitably be bringing some displaced people in from LegacyCo who may be in a state of shock. John Rouse (VP HR XYZ) assures me that the transfers will be smooth, but that we may find significant cultural problems around integrating the new/old people. We have been a small and close-kit team for three periods, suddenly brining in a large number of folks may be traumatic and lead to conflict and resentment.

Just so you know, I have agreed to return three of our top salespeople. They have made a terrific contribution, but their decision to return gives us an opportunity to reframe the salesforce.

AGENDA

The next Excom will take place on Thursday. I would like you to reserve the whole day as I want to think through the next three periods, specifically what we will do when. Once we start up the curve there will not be much time to breathe. Thinking it all through in advance would be a huge advantage.

The following general strategic factors need to be thought through:

1. **Workforce**: As we enter the growth curve it is time to start hiring. We will require a significant staff inflow with associated onboarding and socializing issues. Assuming success we will need to keep expanding.
2. **Confirmation of entry strategy**: the choice between "Charge in" or "Bowling Ball" is a decision. Each of our niches has a very different procurement process. We need to aim at dominating any niche we enter.
3. **Selection of Actions** to take in the market and when to take them. George Pickett (VP Strategy) has provided a helpful memo on the kinds of actions that are likely to support our campaign. The list of Actions (as far as I can determine) is comprehensive. However, the challenge is in the timing of the actions. This is in our hands and is literally everything.
4. **Discretionary Expenditure**: Determination of the initial expenditure on marketing, social media etc. particularly, in this period.
5. **Confirmation of the projects** suggested in the product development strategy
6. **Hiring:** Discussion of replacements for the salespeople who have elected to return to LegacyCo:
7. **Selection of preferred Development Partners**. Creating a pool of developers committed to our technology is important for creating what is called a 'whole offering'. We will have to compete for these relationships
8. **Distribution Partners:** Soon, if we are initially successful, we will have to seek out Distribution Partners with the expertise in different niches. I have commissioned work in this area that will appear in next period.

See you Thursday

Henry

From: George Pickett, VP Strategy

To: Henry Morgan CEO NewCo

Subject: B2B VR Market

As you requested, I had a team research the likely structure of the B2B VR market and develop an assessment of the possible market size. I would caution you that the market size number is heavily based on guesswork at this point. Clearly, our estimates will firm-up as we get more experience of the market.

MARKET STRUCTURE

- The market is divided into three niches: Education, Government and Entertainment
- The estimated final total number of customers in each niche by the time it is mature is
  - TO BE TUNED:
  - TO BE TUNED:
  - TO BE TUNED: percent of total can be calculated

CUSTOMERS

- The customers fall into four categories with different characteristics:
  - **Early Pragmatists** (15% of market): first adopters of technology in the secular growth phase they seek to adapt technology to their specific needs. They are influenced by the reputation of the co-developer visionary, but want the offering adapted to their very specific needs
  - **Late Pragmatists** (35% of market): interested in what the technology can do but more interested in the business returns. These customers want the offering delivered as a package that requires minimal adaptation to their needs
  - **Conservatives** (35% of market): show little interest in the technology and seek an offering that has been productized such that it is extremely easy to install. After the technology excitement of the prior two groups it is easy to ignore this group by they are a significant slice of the market. They can be highly profitable
  - **Laggards** (15% of market): the final group that has no tech interest and just wants the issue to go away and to cost little or nothing in dollars and time. As most tech costs are amortized at this point this group can be highly profitable. Laggards assume that if others have bought something it is ok to buy. There is no need to focus on Laggards they will buy if they think you are dominant.

REVENUE BY NICHE

  - The estimated revenue per newly won customer per niche per period is:

- Education: $187,500
- Government: $250,000
- Entertainment: $275,000
  - The estimated revenue per existing customer per niche per period is:
    - Education: $xxx
    - Government: $xxx
    - Entertainment: $xxx

MARKET LEGITIMACY

Legitimacy is the term used to describe how the market sees you as a serious player. Your level of perceived legitimacy strengthens your market position in the battle for share. We have developed a scale for planning purposes that provides a way of quantifying legitimacy and its changes as we go through the curve.

- In the early rounds your legitimacy was tied to the reputation of the visionaries you worked with. . In case you did not note them at the time they are:

VISIONARY	Entry Legit in period 4 or 5 POINTS
VRKidEd	100
AdEdVR	75
GovVR	100
MilitaryVR	75
VRGames	100
VRCinema	75

- That legitimacy carries over into sales to the Early Pragmatists. But not all of it will carry over. Early pragmatists are very concerned with their own business and tend to partly discount the visionaries. They will not believe that any visionary is just like them. That said, without the co-developers we would not be seen as serious at all!
- In the rest of the curve, base legitimacy is tied to market success; the more customers we land and retain the higher our legitimacy.
- This customer rooted legitimacy can be modified for better or worse by the partnerships we form and the outside resources we work with. These bodies bring their own legitimacy, which amplifies ours.
- Finally, we can increase our legitimacy by taking strategic initiatives.

THE BATTLE FOR SHARE

In addition to legitimacy, our relative strength versus competitors in any one niche depends on:

- Applying the right level of resources: such as people, advertising and social media dollars.
- Maximizing our functional competence to get the highest return from our people
- The degree to which we focus our efforts. The more niches we focus on the more spread out are our resources lowering the chances of winning share in any particular niche
- The choices made by your competitors.

HALO EFFECT

A halo effect occurs when a customer believes that if you are successful in one niche you may be a legitimate supplier in their niche. Research indicates that:

- Success in selling into the education market influences buyers in the government niche
- Success in selling to government influences buyers in the entertainment business
- Success in selling into the entertainment niche will influence buyers in the education market

ENTRY STRATEGY

There are at least two approaches to market entry in a new market

- **Charge in and try to serve all niches at once.** This assumes that we have enough resources to enter all three niches with their different offering needs and buyer behaviour at the same time. The argument assumes there is sufficient overlap in the niches that sheer weight of effort will give us share in each niche. The risk is that we diffuse our efforts and lose focus so that we fail to get dominance anywhere.
- **The 'bowling ball' approach.** This approach proposes that we enter one niche first and concentrate our resources on maximizing our market share in that niche. We would then carry that share with us into a related (halo) niche that accepts our customers as evidence of product suitability. The image is knocking over a head pin then using that to knock over the others.

Both approaches can work. But a lot depends on what your competitors do!

Regards

MEMORANDUM

From: George Pickett, VP Strategy

To: Henry Morgan CEO NewCo

Subject: Initiatives to Drive up the Secular Growth Curve

My research indicates that there are four types of initiatives your team can undertake that will support your race up the secular curve: acquire outside resources, apply internal actions, improve the offering, and spend on advertising and sales.

RESOURCE ACQUISITIONS

There are four types of external resources we can acquire:

- Form relationships with a developer community that will add functionality and bring technical legitimacy
- Buy in technology as a corporate acquisition. LegacyCo may be willing to support such acquisitions for cash or shares using the consolidated share price
- Form relationships with distribution partners that will bring their own market legitimacy to amplify ours
- Buy in management and professional skills by hiring top people and forming contractual relationships with suppliers.

INTERNAL ACTIONS

Attached to this memo is a list of possible actions by function. These actions are known to bring improvements in competence and legitimacy so increasing the chances of gaining market share. The list has been culled from the literature and is comprehensive as to the journey through the growth curve. What is also known is that initiatives have different effects in different parts of the curve. Just because an action was useful in approaching Early Pragmatists does not mean it will have any utility in approaching Conservatives. The challenge as I understand it is to apply the right initiatives with the right customer slice. As each initiative takes effort to undertake the number you can apply is restricted

HEADCOUNT & DISCRETIONARY EXPENDITURE

The workforce will need to be built almost from scratch. HR will provide a recommendation on numbers based on your forecast level of customer acquisition and revenue. The recommendation is rooted in research and bought experience. Departing too high or too low from the recommended number will waste funds (if too high) or give you insufficient competence.

Advertising and sales promotion and social media dollars were included in your growth funds requests. Each will have a different impact on different customer classes. I would like to indicate

the level of expenditure you should be undertaking in each case, but frankly it depends on the level of effort your competitors apply. That said, advertising, sales promotions, and investments in building social media followers are only a part of the mix that influences the customer buying decision. People and their competence, the offering, prior success, actions taken etc. are all important. Getting the right balance is a real problem. Additionally, as said earlier, different bits of the mix are important to different classes of customer so a solution with one group will not necessarily be useful with a different class.

Good luck!!

SUGGESTED STRATEGIC ACTIONS BY FUNCTION

DO I NEED MASS ONBOARDING AND CULTURAL ASSIMILATION IN THE PROCESS