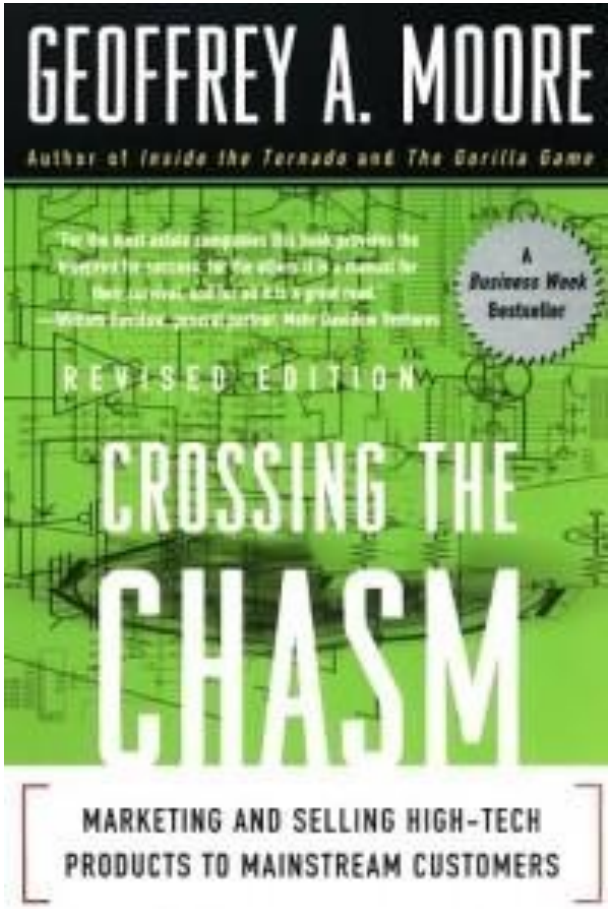
Crossing the Chasm



* Slides are adopted from Henrik Berglund , Chalmers University of Technology

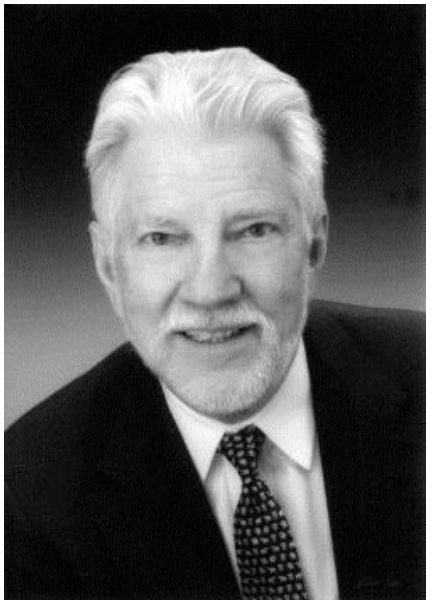
Classical Diffusion Theory

Synthesized research on adoption of innovation from several fields: Anthropology, Early sociology, Rural sociology, Education, Industrial sociology, Medical sociology.

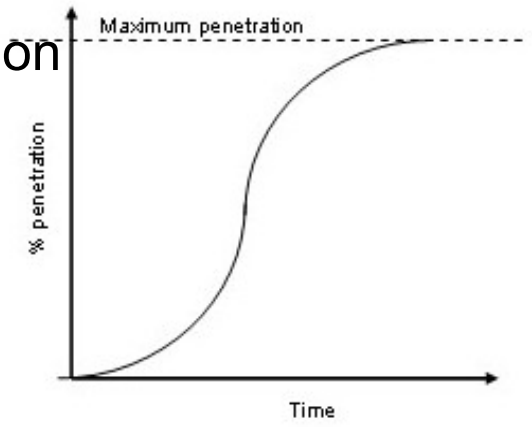
Found that for most members of a social system, the adoption-decision depends heavily on the adoption-decisions of the other members of the system.

The more people adopt an innovation, the lower the perceived risk.

The result is an S-curve shaped pattern of innovation diffusion.



Everett Rogers (1962-2004)



Example : Dynamics of Riots

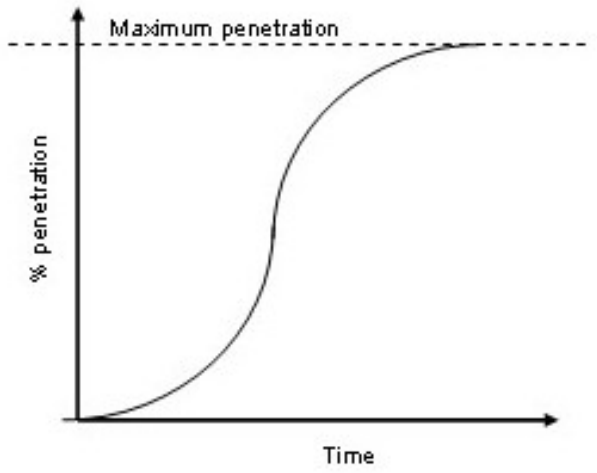
Consider a hypothetical mob.

Each person's decision to riot or not is dependent on what everyone else is doing.

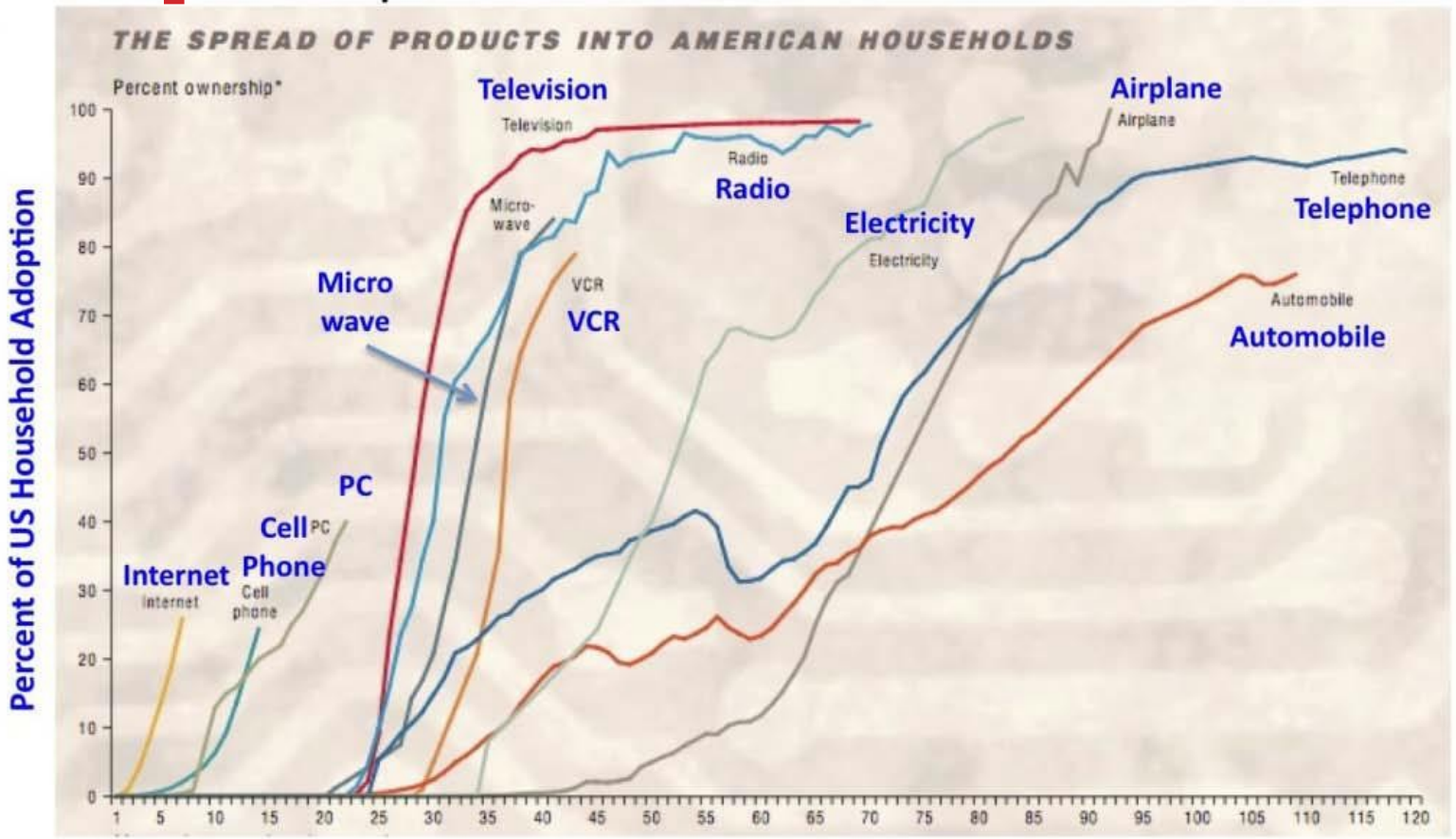
Instigators will begin rioting even if no one else is, while others need to see a critical number of trouble makers before they riot, too (reduces risk of getting caught).

This threshold for rioting is assumed to follow some (e.g. normal) distribution.

Result: S-curve.

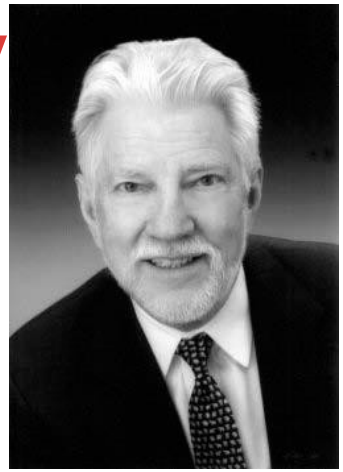


Adoption of New Products



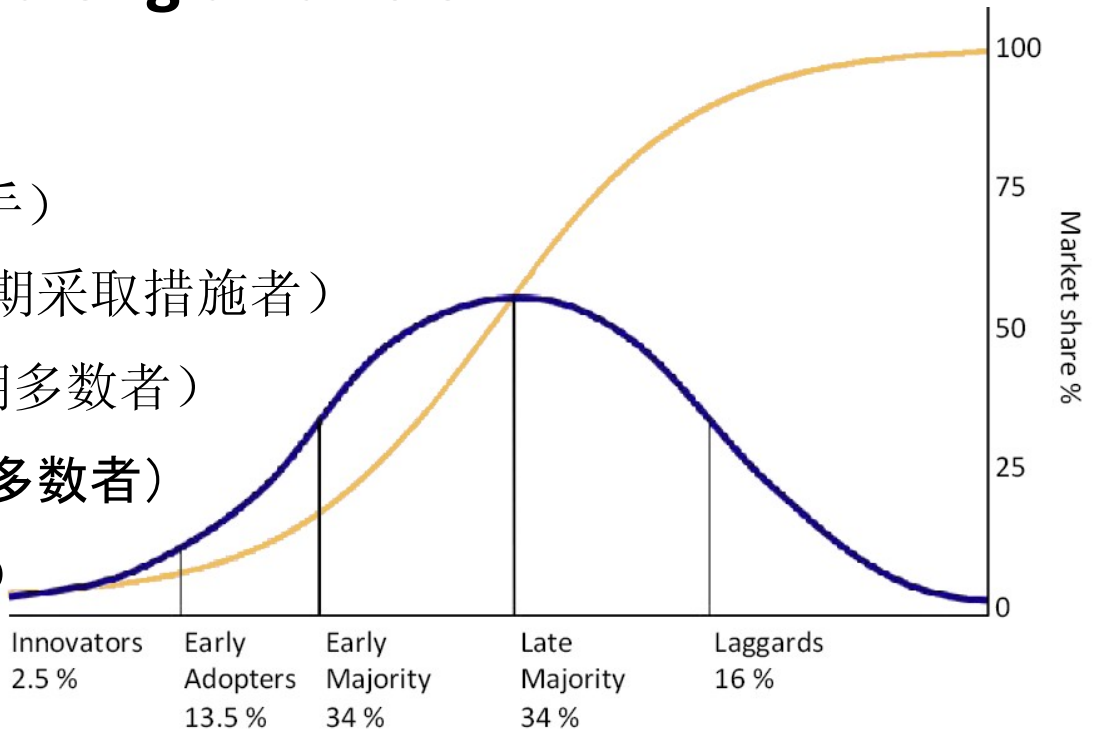
Sources: U.S. Bureau of the Census (1970 and various years);
Cellular Telecommunications Industry Association (1996);
The World Almanac and Book of Facts (1997).

Classical Diffusion Theory



When faced with discontinuous innovation, customers fall into FIVE broad categories, along an axis of risk-aversion:

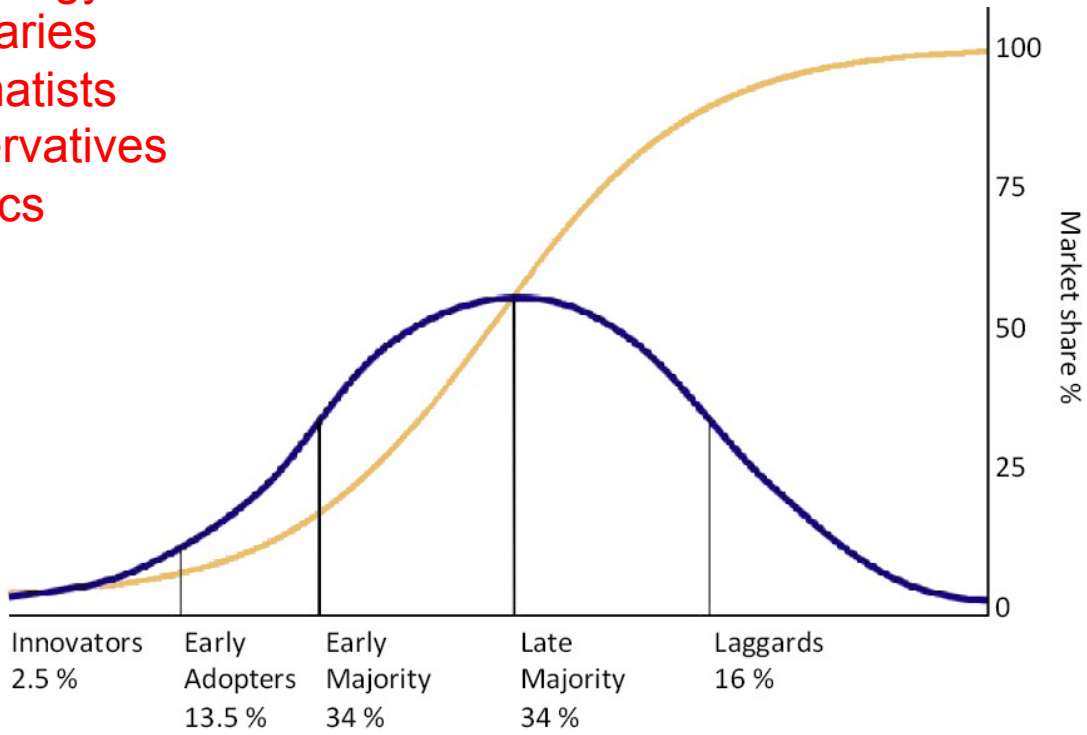
1. Innovators (革新能手）
2. Early Adopters（早期采取措施者）
3. Early Majority（早期多数者）
4. Late Majority（后期多数者）
5. Laggards （滞销者）



Technology Adoption Life Cycle

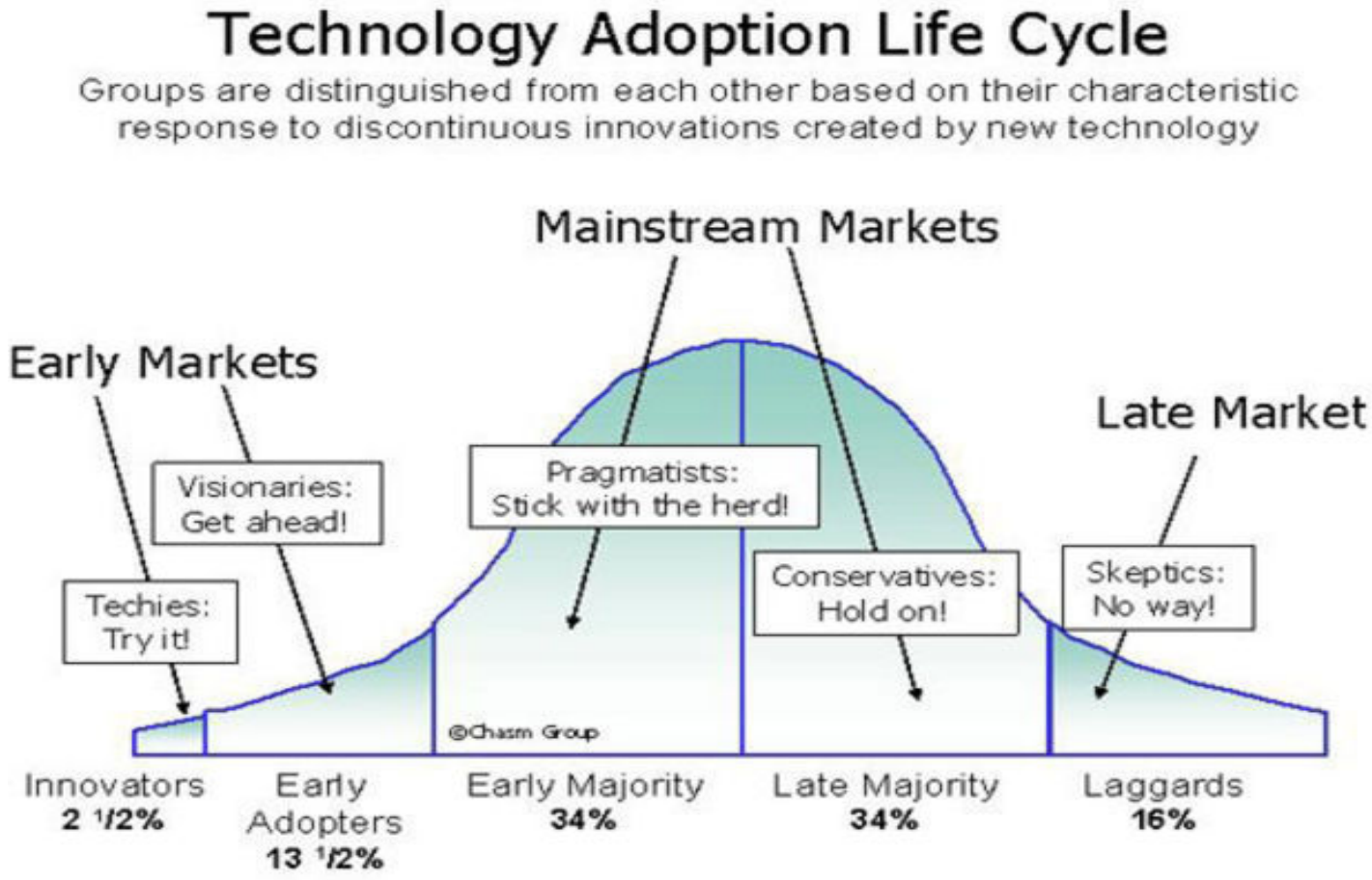
In high-tech, the categories have been given more specific names (Geoffrey Moore).

Innovators = Technology Enthusiasts
Early Adopters = Visionaries
Early Majority = Pragmatists
Late Majority = Conservatives
Laggards = Skeptics

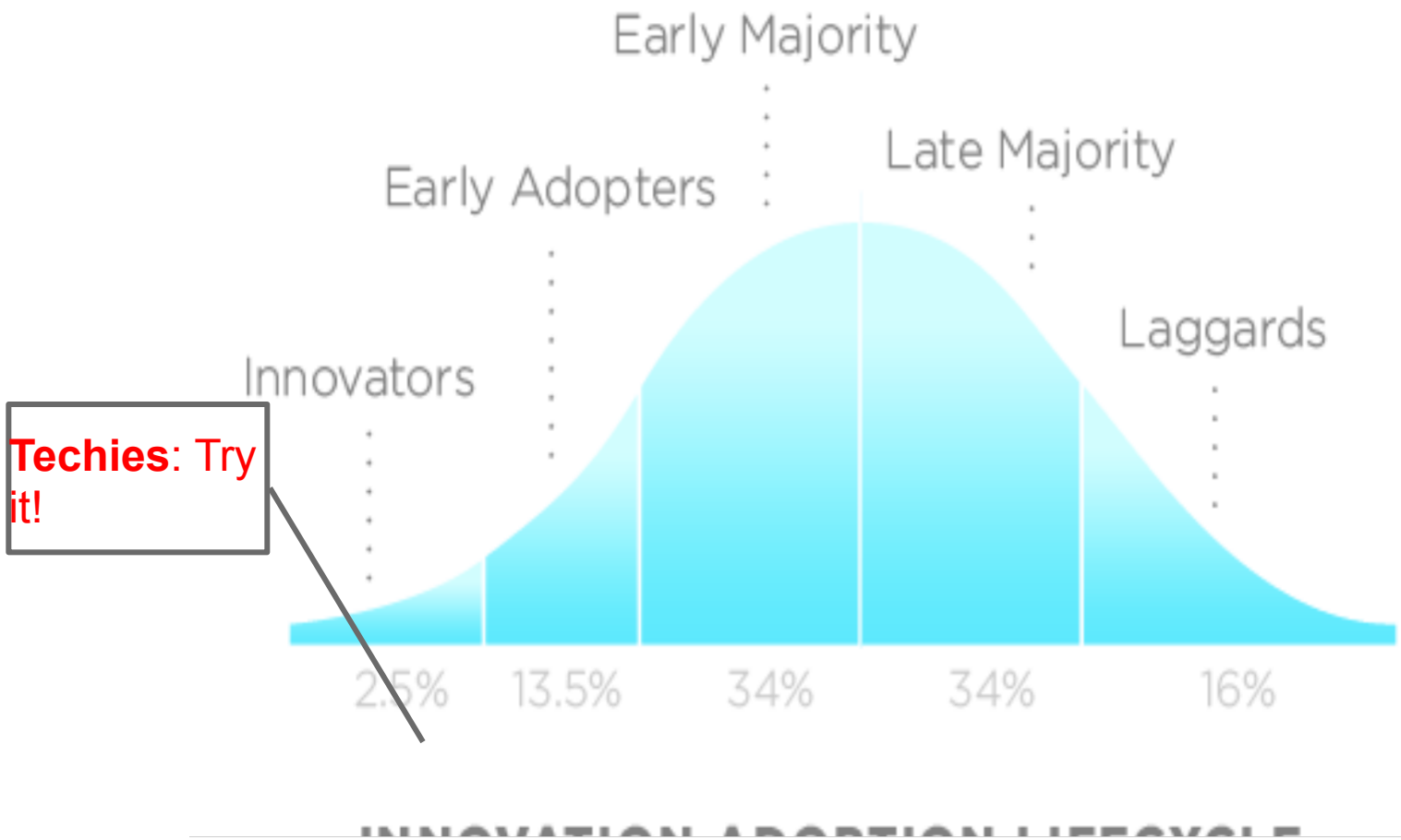


Technology Adoption Life Cycle

Critical qualitative differences, especially in product needs and buying behaviors.



Innovators – Technology Enthusiasts



Innovators – Technology Enthusiasts

Primary Motivation:

- **Learn about new technologies for their own sake**

Key Characteristics:

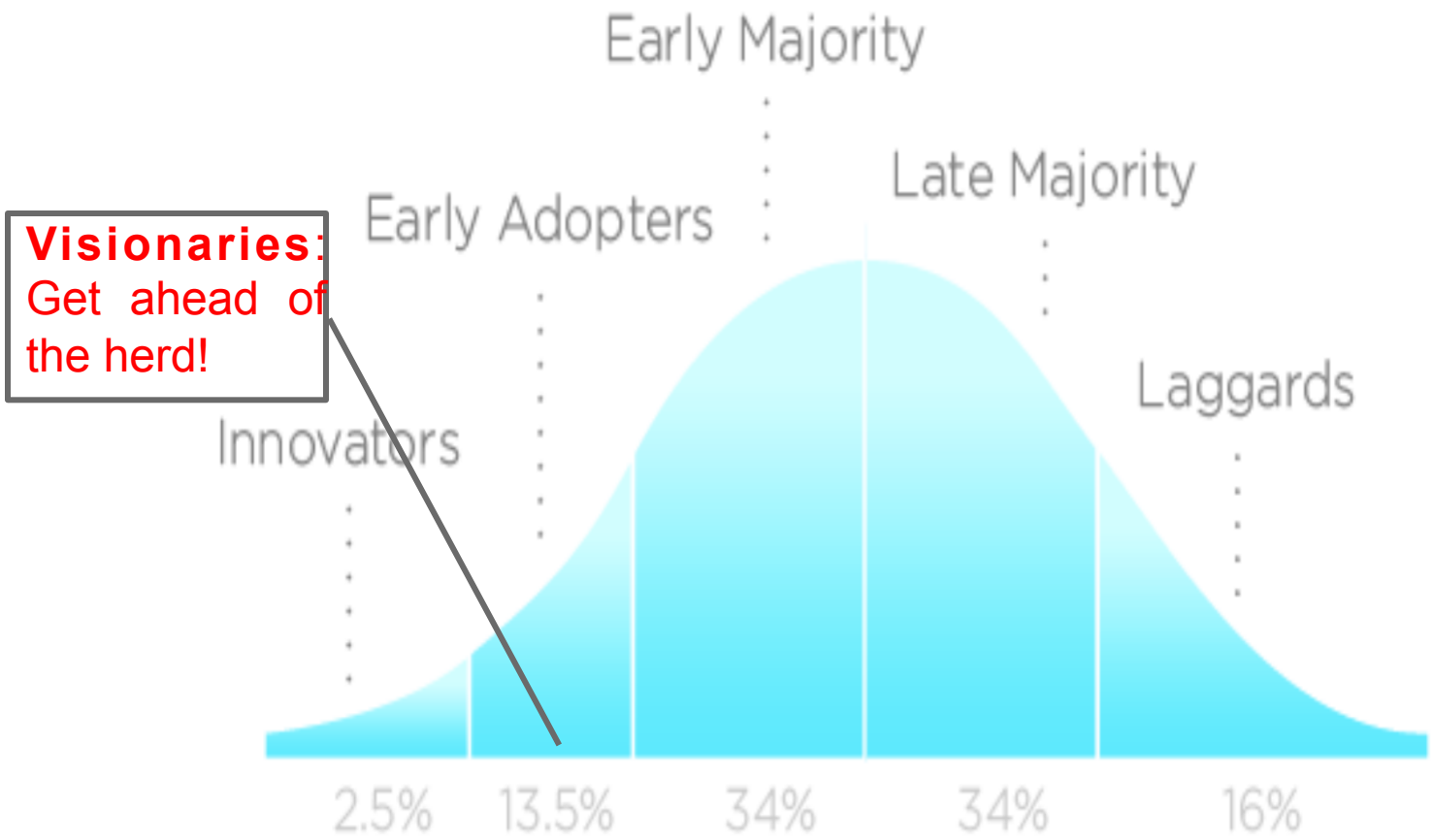
- **Strong aptitude for technical information**
- **Like to alpha test new products**
- **Can ignore any missing elements**
- **Do whatever they can to help**

Challenges:

- **Want unrestricted access to the top technical people**
- **Want no-profit pricing (preferably free)**

Key Role: Gate Keeper to the Early Adopter

Early Adopters – Visionaries



Early Adopters – Visionaries

Primary Motivation:

- **Gain dramatic competitive advantage via revolutionary breakthrough**

Key Characteristics:

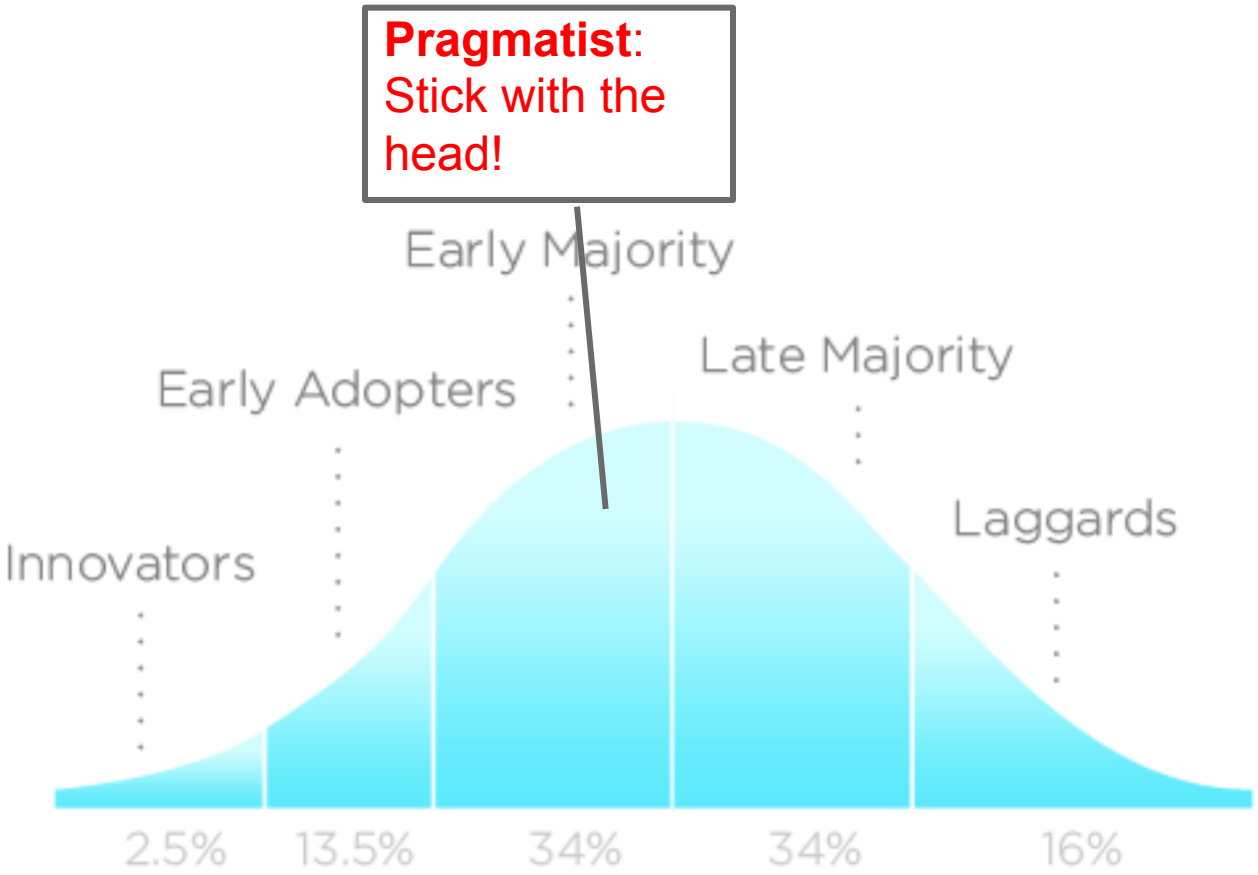
- **Great imaginations for strategic applications**
- **Attracted by high-risk, high-reward propositions**
- **Will help supply the missing elements**
- **Perceive order-of-magnitude gains - so not price sensitive**

Challenges:

- **Want rapid time-to-market**
- **Demand high degree of customization and support**

Key Role: Fund the development of the early market

Early Majority - Pragmatists



Early Majority – Pragmatists

Primary Motivation:

- **Gain sustainable productivity improvements via evolutionary change**

Key Characteristics:

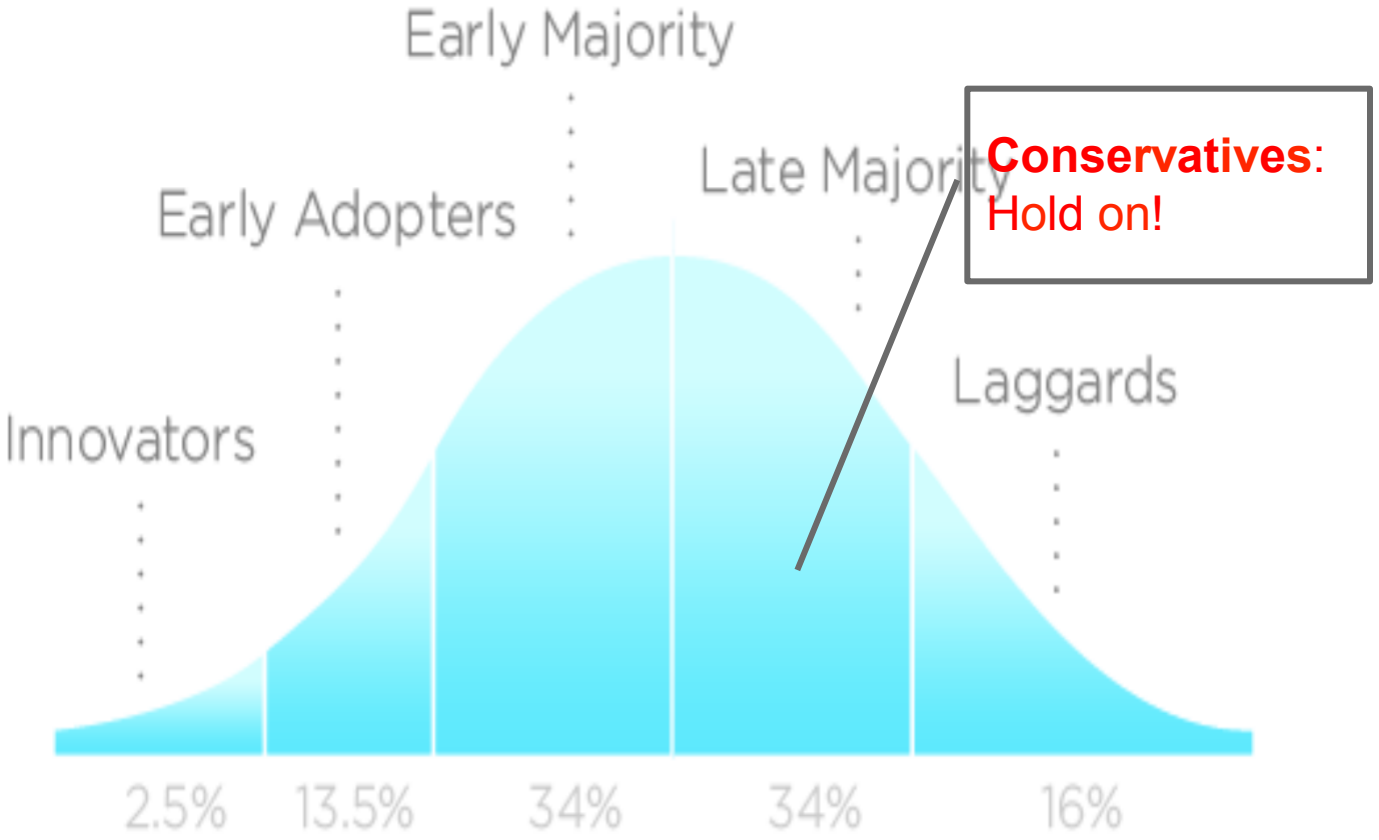
- **Astute managers of mission-critical applications**
- **Understand real-world issues and tradeoffs**
- **Focus on proven applications**
- **Like to go with the market leader**

Challenges:

- **Insist on good references from trusted colleagues**
- **Want to see the solution in production at the reference site**

Key Role: Bulwark (strong support)of the mainstream market

Late Majority - Conservatives



Late Majority – Conservatives

Primary Motivation:

- **Just stay even with the competition**
- **Avoid competitive disadvantage**

Key Characteristics:

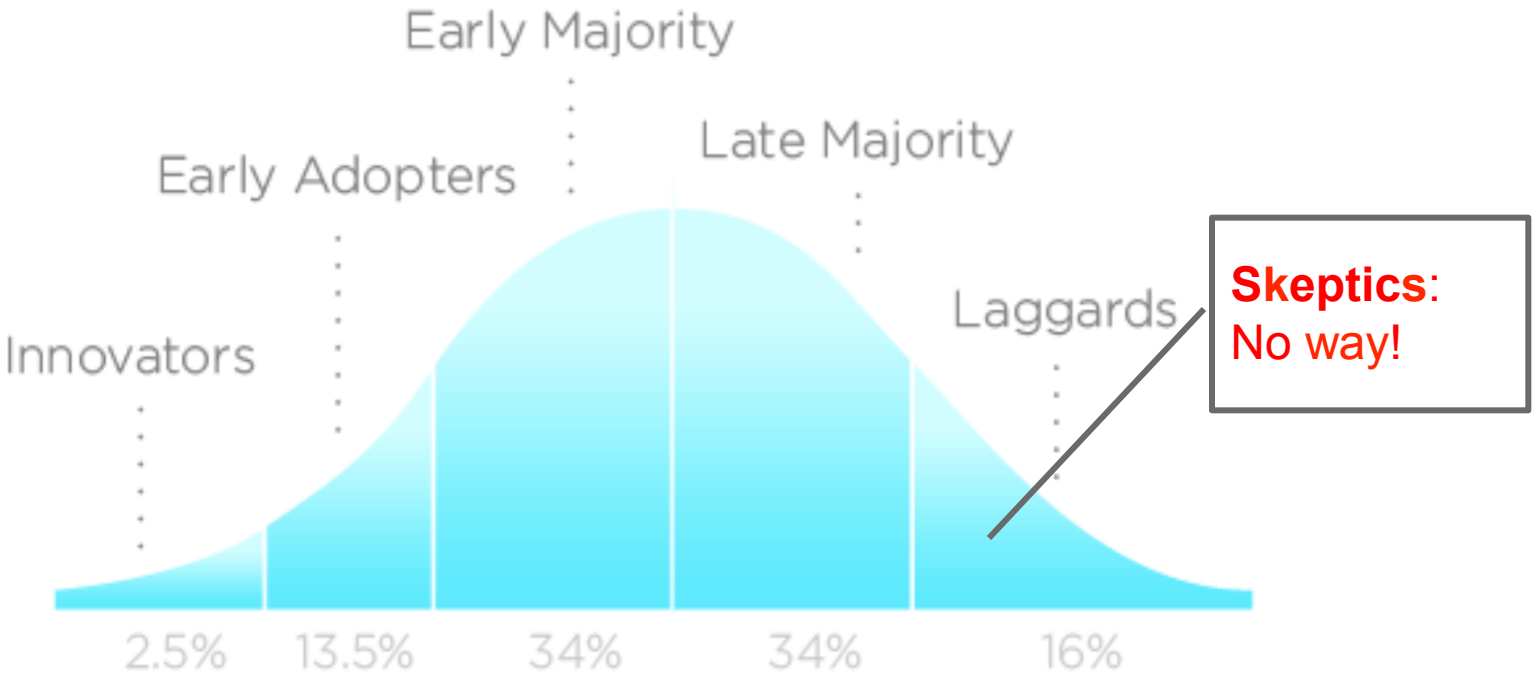
- **Better with people than technology**
- **Risk averse**
- **Price-sensitive**
- **Highly reliant on a single, trusted advisor**

Challenges:

- **Need completely pre-assembled solutions**
- **World benefit from value-added services but do not want to pay for them**

Key Role: Extend product life cycles

Laggards - Skeptics



Laggards - Skeptics

Primary Motivation:

- **Maintain status-quo**

Key Characteristics:

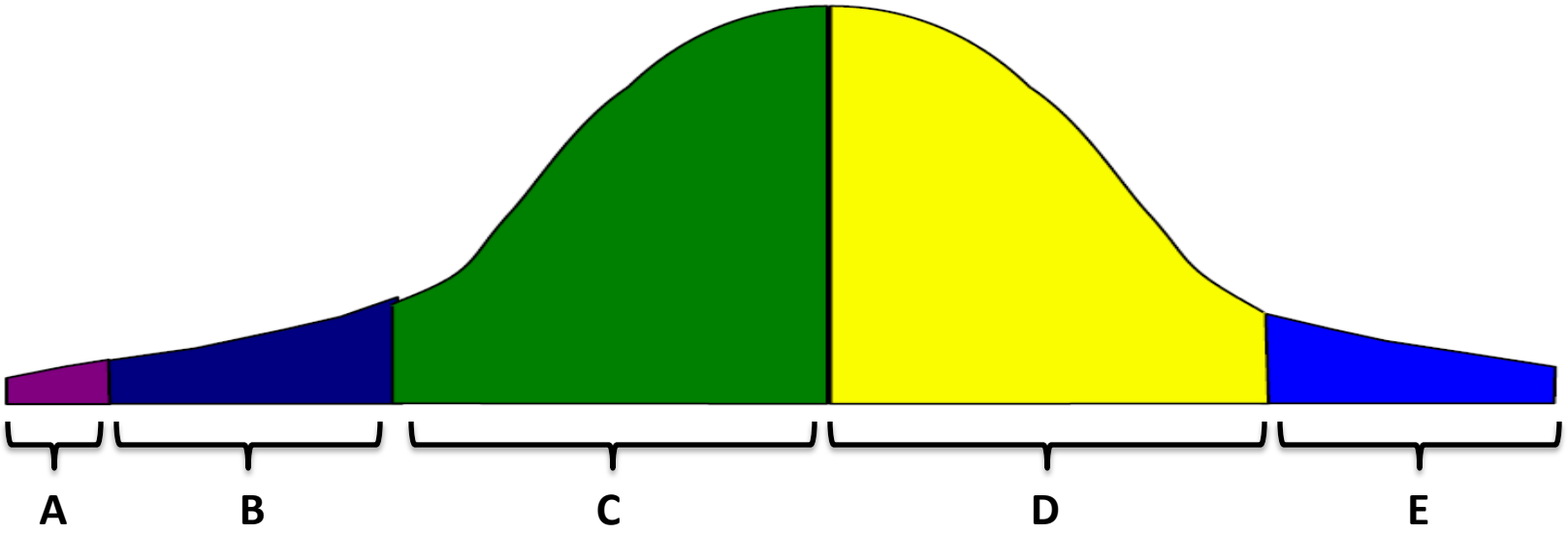
- **Good at debunking marketing hype**
- **Disbelieve productivity-improvement arguments**
- **Believe in the law of unintended consequences**
- **Like taking a contrarian position**
- **Seek to block purchases of new technology**

Challenges:

- **Not a customer**
- **Can be formidable opposition to early adoption**

Key Role: Retard the development of high-tech markets

Each group is so different…



Innovators

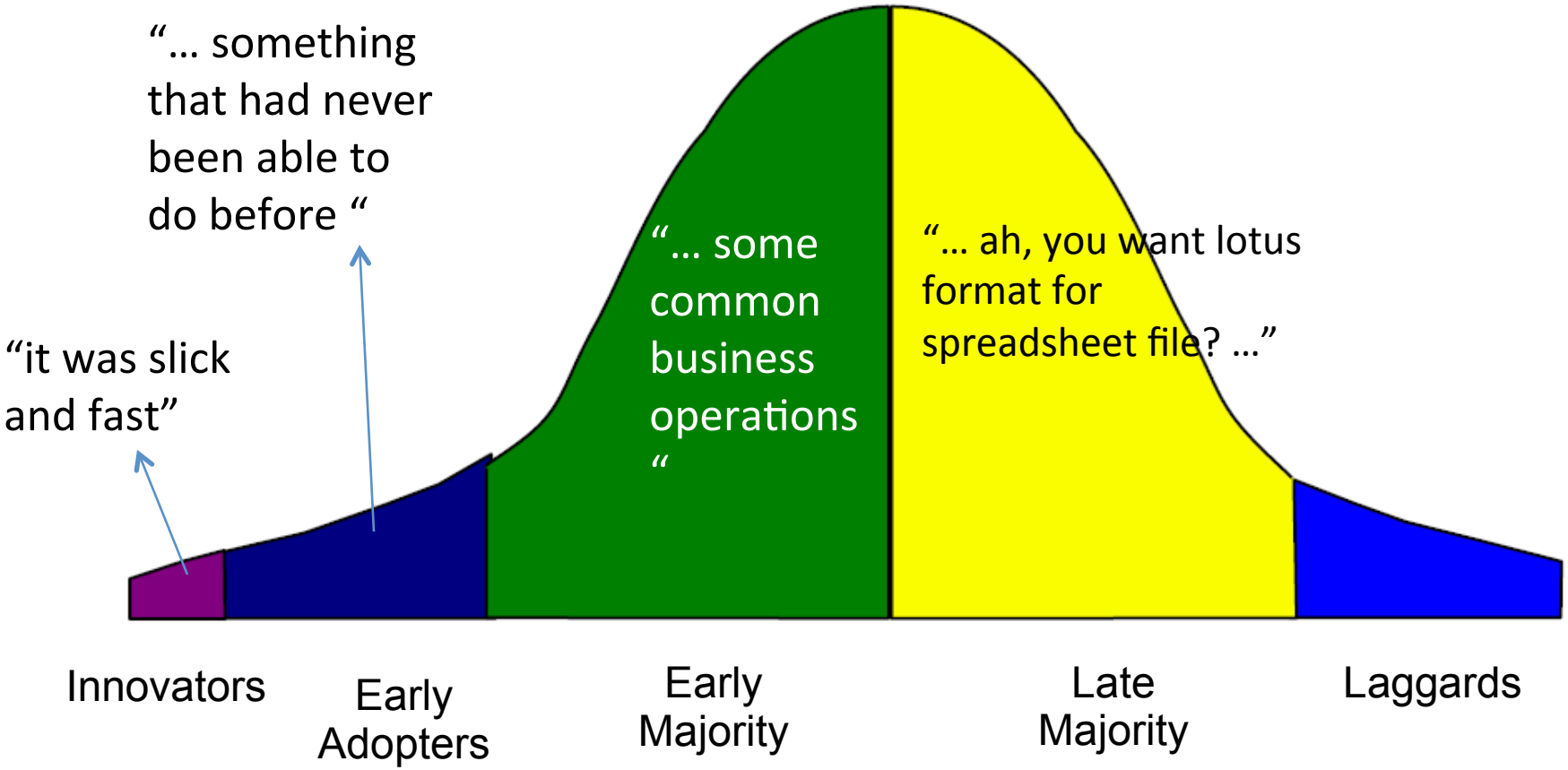
Early Adopters

Early Majority

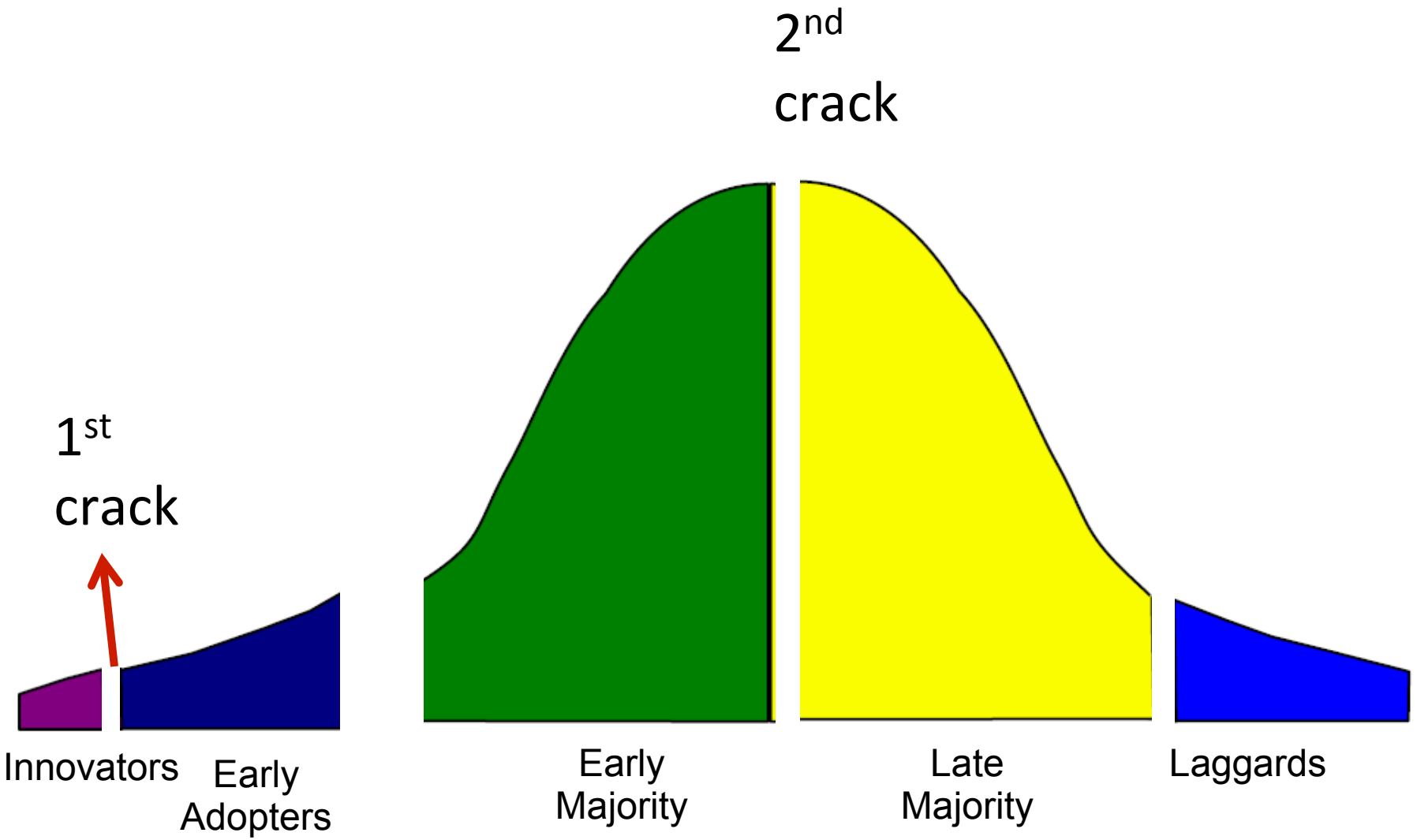
Late Majority

Laggards

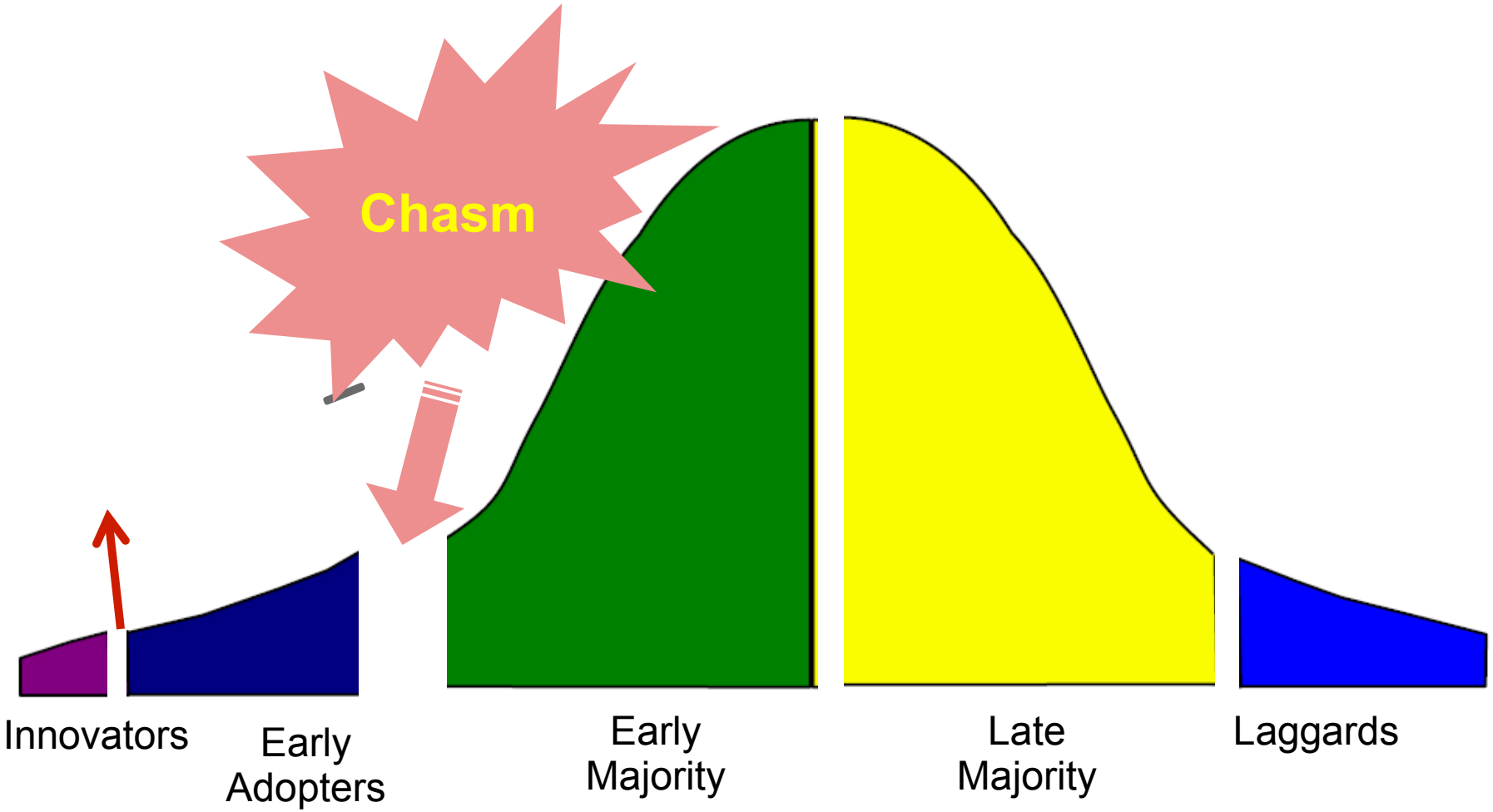
Lotus 1-2-3 (a case)



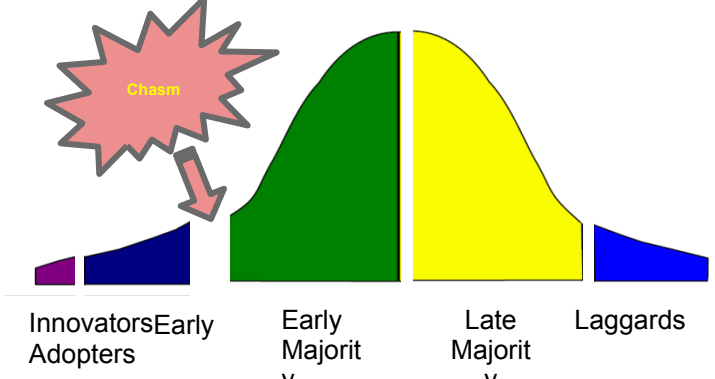
… adoption is interrupted at key transition



… adoption is interrupted at key transition



The Chasm



The Early Majority does not talk to the Early Adopters, hence a huge Chasm

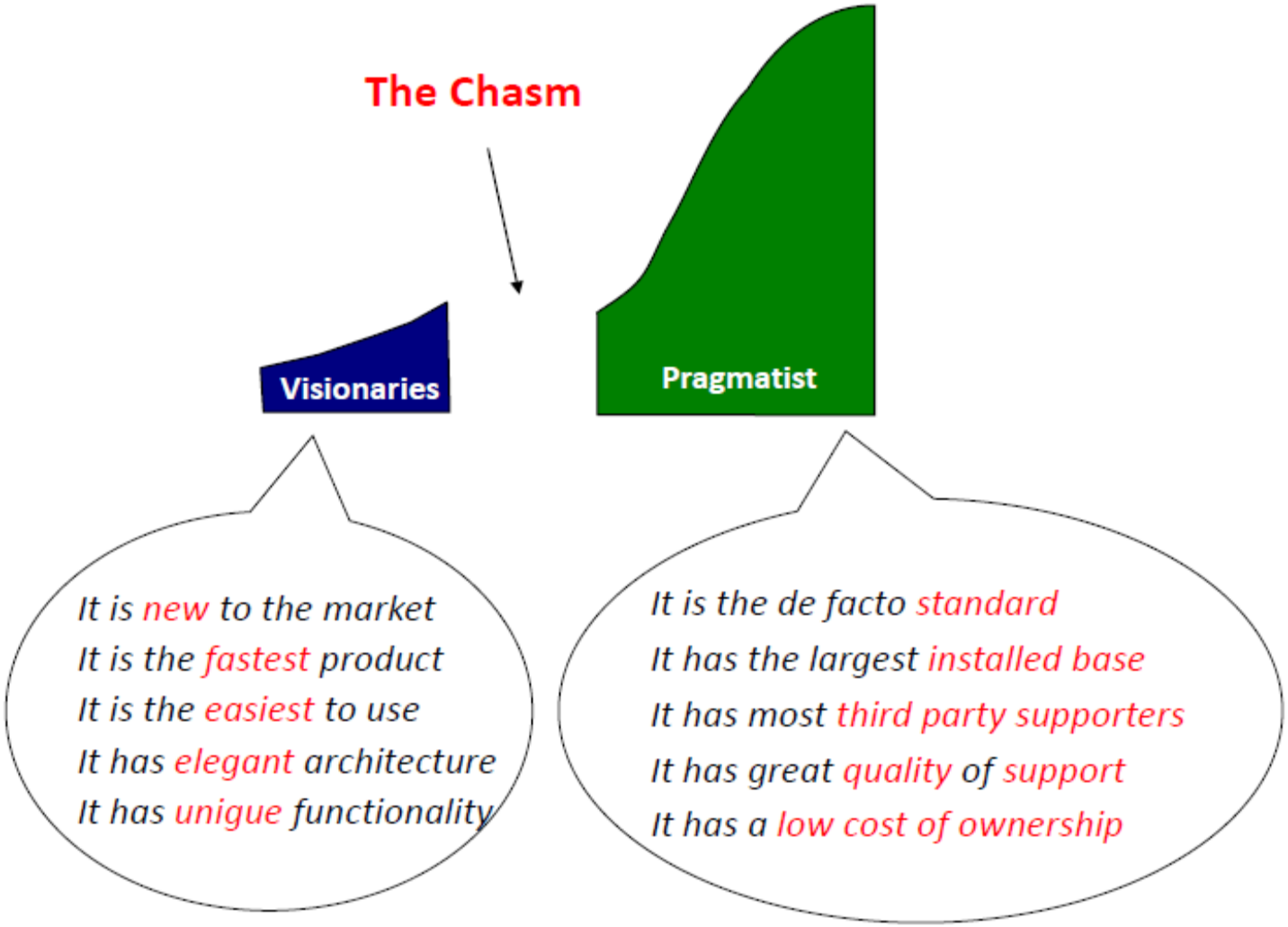
Early Adopters:

- **Buying a revolutionary change agent**
- **Expect clear discontinuity between the old and the new**
- **Expect clear strategic advantage**
- **Tolerate bugs and glitches**

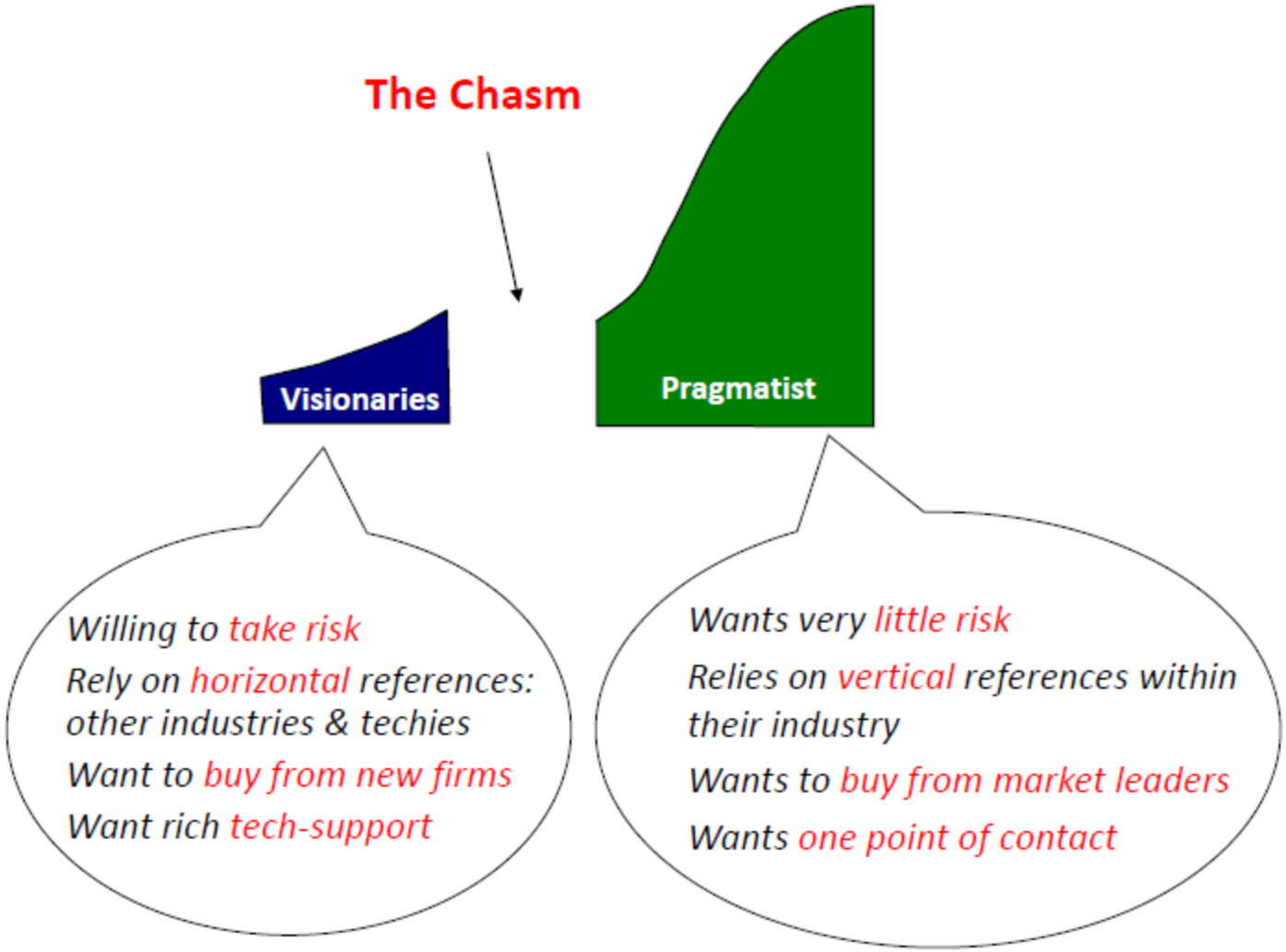
Early Majority:

- **Buying a evolutionary productivity improvement**
- **Want to minimizing the discontinuity with the old way**
- **Want innovations to enhance established business processes**
- **Expect a bug-free product**

Different Value Delivered



Different Buying Behaviors

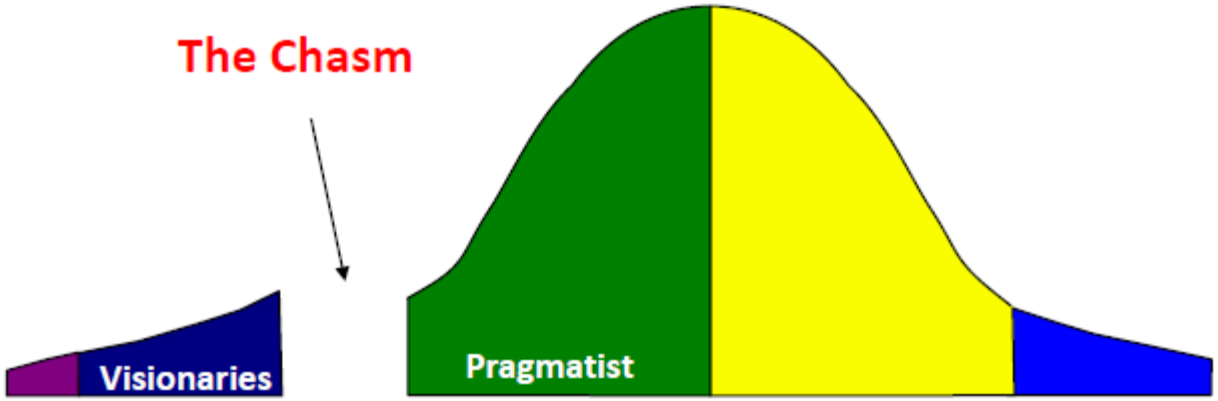


What Pragmatists thinks of Visionaries

1. The visionaries love technology but are bored with the mundane details of their own industry, which is the everyday work of us pragmatists.
2. The visionaries want to build systems from the ground up and do not appreciate the importance of networks, systems and processes already in place.
3. The visionaries seem to do all the fun things. They get all the funds and all the attention for their blue sky projects. If they fail, it is us pragmatists who have to clean up the mess. If they succeed, the disruptive change is just too much to handle.

Pragmatists don't trust visionaries as references!

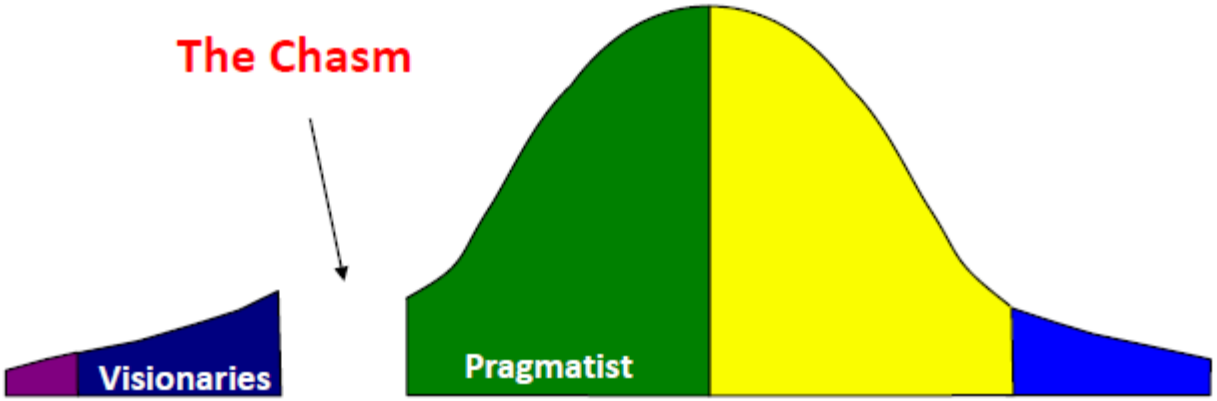
Crossing the Chasm – Catch 22



"The pragmatists will use only those products that are already used by a majority of pragmatists. And generally look to one and other as references. So, how can we get them to use a new product?"

?

Discovering that you are in the Chasm



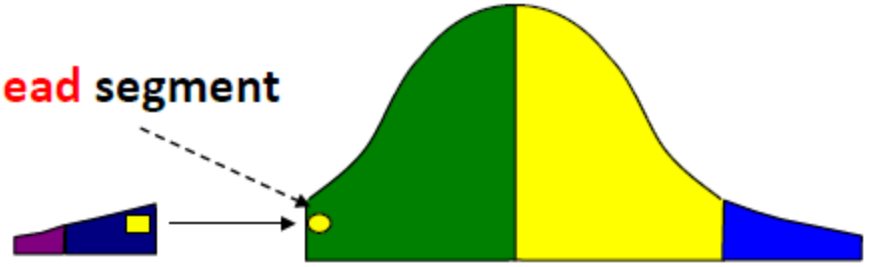
Visionary markets saturates, or visionaries abandon

- Too late for revolutionary competitive advantage
- There are other cool disruptive things out there

Pragmatists see no reason to buy yet

- Too early for anything to be ”in production”
- No herd of references has yet formed

Crossing the Chasm



The problem

- 80% of many solutions – 100% of none
- Pragmatists won't buy 80% solutions!

Conventional solution (tends to fail)

- Committing to the most common enhancement requests
- Never completely satisfying any one customer segment's needs

"D-day" solution (more likely to succeed)

- Focus all efforts on a single "beachhead" segment with a compelling reason to buy, develop a whole product, become a market leader
- Then leverage product and user references to attack other segments

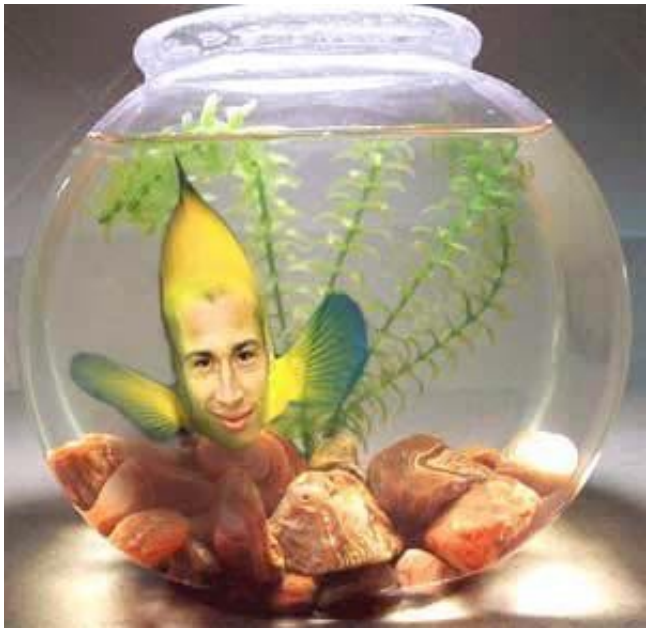
The consequence of being sales-driven instead of strategy-driven in the chasm is fatal – Focus!

‘D-day’ Invasion Strategy & Tactics

1. Target the point of attack
   Segmentation – isolate target customers and their compelling reason to buy
2. Assemble the invasion force
   Differentiation – develop the ‘whole product’ and choose allies to realize this
3. Define the battle
   Positioning – create the competition (if there is none, you still need one) and position yourself
4. Launch the invasion
   Distribution and Pricing – select your distribution channel and set your price

Target the point of attach- Segmentation

- **Target a specific market segment:**
  - Target customer (user, technology, etc)?
  - Compelling reason to buy?
  - Whole product?
  - Competition?
  - Partners
  - Distribution
  - Pricing
  - Positioning
  - Next target customer



- **Focus all resources of achieving a dominant leadership position – to become a big fish in a small pond**

Assemble the invasion Force – Differentiation

- Think through the customer's problems – and solutions – in their entirety
- Develop the 'whole product', including the generic product plus everything else you need to address your customers' compelling reason to buy

- These may be provided in-house or by using partners and alliances

Define the battle - Positioning

- **Positioning is key to make buying easy**
  - Define your category and position (market leader!)
  - Be clear about who will use it and for what?
  - Show competition and differentiation (pragmatists demand a comparative context)
  - Ensure staying power

- **Position statement**
  - For [target customer],
  - Who are dissatisfied with [the current market alternatives],
  - Our product is a [new product category]
  - That provides [key problem-solving capability],
  - **Unlike** [the product alternatives],
  - We have assembled [key whole-product features for our specific application]

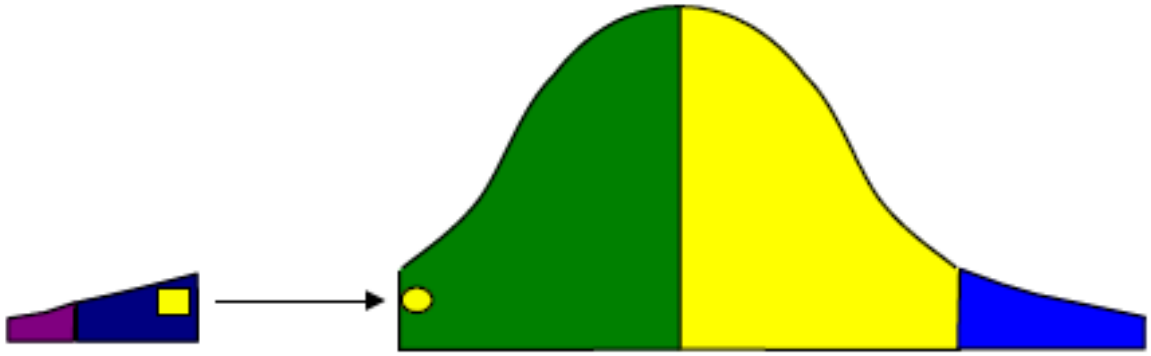
Launch the invasion – Distribution and Pricing

- Secure access to a customer-oriented distribution channel
- Direct sales is often the optimal channel for high tech, and typically the best initial channel for crossing the chasm
- Reward your channel during the chasm phase!
- Set pricing at the market leader price-point

Customers will (almost) only see channel and price!

Crossing the Chasm

1. Target the point of attack – Segmentation
2. Assemble the invasion force – Differentiation
3. Define the battle – Positioning
4. Launch the invasion – Distribution and Pricing




Rogers' bell curve
YouTube
iPod
BlackBerry
myspace.com
iPhone
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vimeo
Gmail
Exchange
POP
amazon kindle
2.5%
Innovators
Early
Adopters
13.5%
Early Majority
34%
Late Majority
34%
Laggards
16%
Profit Opportunity
Mass Market