

Crossing the Chasm: 2.0

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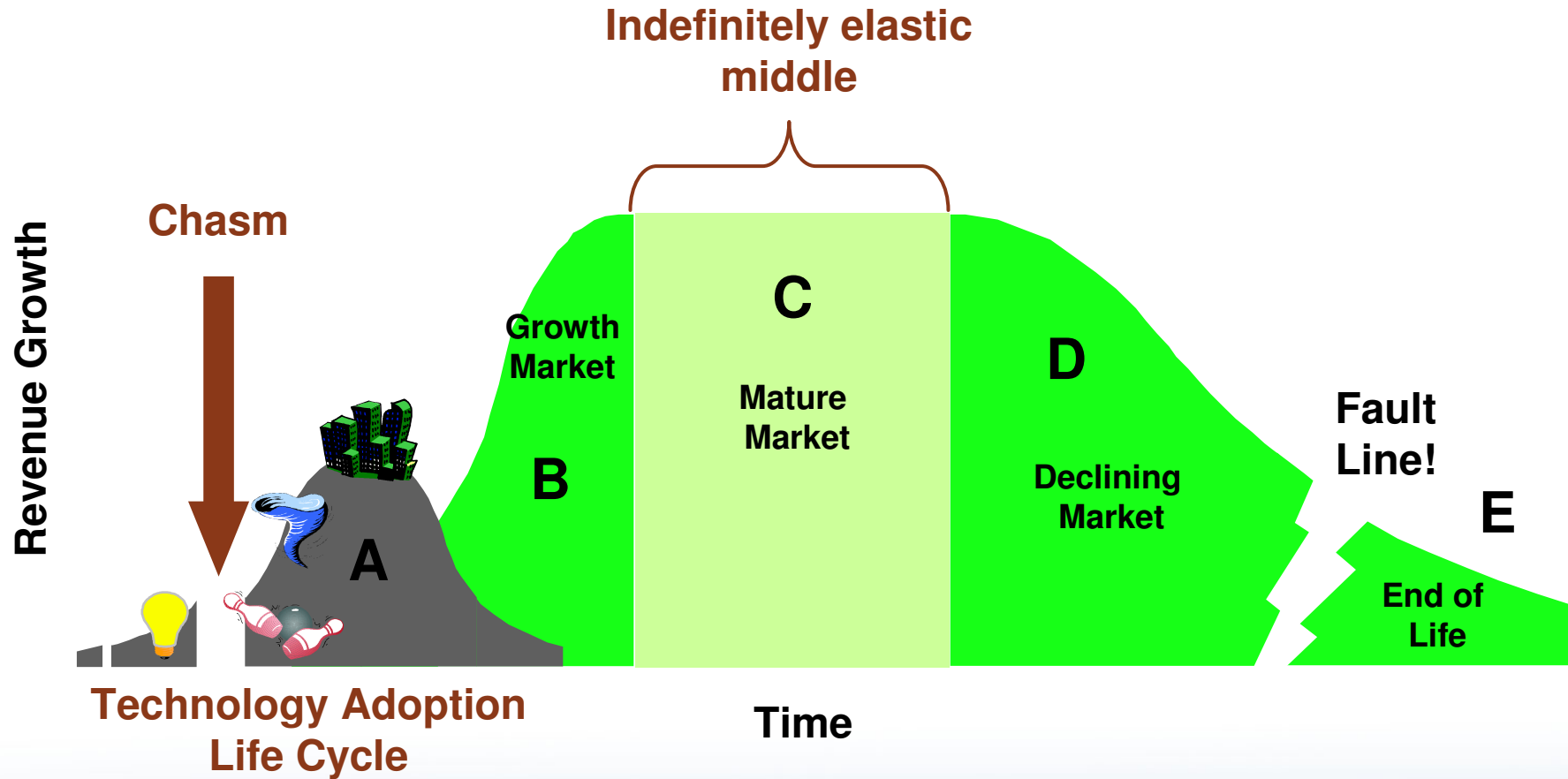
Crossing the Chasm 2.0

Crossing the Chasm 1.0



Crossing the Chasm "1.5"

MDV Areas of Investment



- **Chasm between early adopters & mainstream market**
- **B-2-B Approach: Complex systems model**
- **Focus market development on a beachhead segment**
- **Use vertical marketing with a whole product focus**
- **Scale linearly: 5 to 8 of the top 30 accounts in 18 to 24 mos**

**This model still applies to
disruptive technologies in IT sectors**

- **Regulated: Public policy blurs market effects**
- **Commodity: Cannot value-price the end product**
- **Concentrated: Incumbents have blocking power**
- **Capital intensive to scale: Accelerates need to exit**
- **Implications**
 - Crossing the chasm follows the 1.0 model but is *expensive*
 - Tornado market dynamics are impeded by industry structure
 - Likely result: First a bubble, then a long slow wave
 - Promising areas: solar energy and bio-fuels

- **Regulated:** Strictly controlled, highly politicized
- **Conflicted:** Stakeholders are not aligned
- **Disrupted:** Pharma blockbuster model is broken
- **Economics creating a crisis:** Great time for entrepreneurs
- **Implications**
 - **Crossing the chasm is *way too hard!***
 - **No “bowling pin” effects: each new segment is a “do-over”**
 - **Must target major market inefficiencies—no multi-market growth**
 - **Skirt regulatory: Focus on making existing therapies work better**
 - **Promising areas: diagnostics, monitoring, consumer sites**

1.0

- **Disruptive Technologies**
- **Adoption chasm**
- **B-2-B focus**
- **Complex Systems model**
- **Vertical marketing**
- **Scale linearly**

2.0

- **Disruptive Business Models**
- **Monetization chasm**
- **B-2-C focus**
- **Volume Operations model**
- **Viral marketing**
- **Scale exponentially**

Disruptive Business Models

- **2.0 businesses extend 1.0 technology adoption**
 - The Internet is ubiquitous, low-cost, and consumer-friendly
 - Particularly with the young, **there is no technology chasm to cross**
- **2.0 businesses disrupt legacy business models**
 - Service subscription displaces product license
 - Advertising displaces subscription
 - Self-service displaces intermediaries
 - **There is an ecosystem-creation chasm to cross**
- **Market development strategy**
 - Give away for free something that legacy models sell
 - Acquire massive installed base
 - Monetize installed base through a novel mechanism

Challenge: How do you value a pre-monetized model?

■ 1.0: The Adoption Chasm

- Beachhead strategy targets “pragmatists in pain”
- Challenge is to orchestrate the marketplace to focus on the problem
- Risk of failure creates an adoption chasm
- If successful, value created is great, there is no monetization chasm

■ 2.0: The Monetization Chasm

- Adoption has passed through the tornado phase—no-risk adoption
- Herd is on the other side of the chasm, grazing in free pastures
- Vendor must introduce monetization gently without spooking the herd
- Chasm problem is to gain sufficient scale to be financially material

Challenge: When do you introduce monetization?

■ 1.0: B-2-B - The Complex Systems Model

- Enterprise customer focus
- Direct sales force
- Professionals services consulting
- Product integrates into a larger system
- Legacy systems must be accommodated

■ 2.0: B-2-C - The Volume Operations Model

- End user, consumer, or transaction focus
- No sales force—advertising and promotion followed by transaction
- No consulting—complexity is designed out of the offer
- No integration—offer is designed to fulfill by itself
- No legacy—offer is consumed

Challenge: VCs have deep B-2-B roots

■ Vertical Marketing

- Domain expertise
- Complex systems scripted dialogs with Line-of-Business executives

■ Viral Marketing

- Expertise in “cool”
- Volume operations contagious evangelism through consumers

■ Key challenges

- Getting cool
- Staying cool
- Keeping cool

Challenge: VCs are not cool

■ Where Linear Scaling Succeeds

- Problem is painful and complex, solutions are expensive and valuable
- Customer is willing to pay the premium to solve the problem
- Focus is on a few high-value enterprise customers
- Complex systems business model dominates
- **1000 customers spending \$1M per year = \$1B business**

■ When Exponential Scaling is Required

- Usage is at the discretion of the end user, and barriers to exit are low
- Popularity establishes the premium, not direct value conveyed
- Focus is on an exponential number of consumers or transactions
- Volume Operations business model dominates
- **10 million consumers spending \$8 per month = \$1B business**

Challenge: A whole new set of questions to answer

5 “2.0” Questions to Answer

1. What elements of the investment under consideration require exponential scaling?
2. What exponent of 10 equates to “critical mass”?
3. What exponent of 10 equates to “game over”?
4. At what exponent of 10 should the vendor introduce monetization?
5. Will monetization scale linearly or exponentially?

Questions or Comments

Thank You

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