

DEALING WITH DARWIN
***HOW GREAT COMPANIES INNOVATE
AT EVERY STAGE OF THEIR EVOLUTION***

GEOFFREY MOORE

Business Books that Matter...Discussion Points
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ONE: THE PROBLEM WITH INNOVATION

- **INNOVATE OR DIE**
 - CORE ALWAYS BECOMES CONTEXT WITH TIME
 - MARKET MATURITY SETS THE TIMING OF CHANGE
 - DIFFERENTIATION...KEEP IT OR CHANGE IT?
 - PAST SUCCESSES DO SMOOTH INNOVATION TRANSITION...

- **INERTIA...RISK...AND CIRCULATION OF RESOURCES**
 - IS RISK ADVERSION BAD?
 - CONTEXT FILTERS BAD CORE
 - SETS THE RESOURCE BASE...WHAT IS REALISTIC
 - YING AND YANG...."IN THE BOX" CONTROLS "OUT OF THE BOX"
 - CONTEXT IS A NECESSARY EVIL...
 - ALLOWS REVENUE CONTINUITY
 - INFRASTRUCTURE PROMOTES CUSTOMER INTIMACY
 - "MASS" AND "FOOTPRINT" CAVEAT FOR SUSTAINABILITY....

- **DO PROFITS AND REVENUES KILL COMPANIES?**
 - YEP...WALL STREET DOESN'T REWARD INNOVATION INVESTMENT
 - EXECUTIVE INCENTIVES ARE SHORT-TERM
 - BALANCING ACT OF THE OLD AND THE NEW...
 - NECESSITY IS THE MOTHER OF INVENTION...IE. DECLINING MARKETS!!

- **ITS NOT THE BRILLIANT IDEA....OR IS IT?!**
 - TOTAL COMMITMENT REQUIRES TRUE BELIEVERS
 - THE PROCESS APPROACH KILLS THE TRUE INNOVATOR..
 - OR....SIMPLY DIRECTING INNOVATION AT THE FRONT END?
 - MAYBE TRUE OUT-OF-BOX INNOVATION MUST BE ACQUIRED....OR YOU HIRE STEVE JOBS...

- **TOP DOWN OR BOTTOMS UP?**
 - TOP SETS THE INNOVATION TYPE...BOTTOM PLAYS WITHIN THAT FRAMEWORK
 - WHATS MISSING IS WHERE THE BRILLANCE COMES FROM WITHIN THE INNOVATION CATEGORY
 - BLUE OCEAN ANSWERS THIS...CONVERT NON-CUSTOMERS AND REPURPOSE AND COMBINE EXISTING PRODUCT OFFERINGS....

TWO: INNOVATION INSIGHTS...

- **YOU MUST DIFFERENTIATE**
 - MODEL DISTINCTION IS JUST AS GOOD AS PRODUCT DISTINCTION
 - HOW DO YOU KNOW WHAT WILL DO THIS?
 - FRONT END TO INNOVATION...MARKET TESTING?
 - DISRUPTIVE FRONT-END = HIGH RISK...LOWEST RISK HIGHEST RETURN IS PRODUCT/APPLICATION INNOVATION IN MATURE MARKETS? WHY DO ANYTHING ELSE?
- **YOU MUST GO ALL THE WAY**
 - KEY IS TO ISOLATE RISK AND NOT BET THE COMPANY
 - INTERNAL SKUNK WORKS...WILL THAT WORK?
 - REALLY MEANS “TOTAL EXECUTION”...BUT YOU MUST ASSURE THE MARKET IS THERE FIRST!
- **YOU MUST STICK WITH THE STRATEGY**
 - IS THIS A QUESTION OF HISTORICAL COMPETENCE...OR PICKING THE TARGET MARKET AND THEN THE APPROPRIATE INNOVATION TYPE?
 - IF STRATEGY CHANGES WITH MARKET MATURITY...THEN WHY COME BACK TO THE SAME ENTERPRISE STRATEGY
 - CISCO WITH INTEGRATION AND PRODUCT INNOVATION FOCUS....WHY STICK WITH THIS?
 - CHAMBERS RISK ADVERSION?
 - ENTERPRISE MODEL?
 - BALANCE OF BEST RISK/RETURN?
 - DON'T NEED TO BET THE COMPANY?
- **YOU MUST RECIRCULATE RESOURCES**
 - PROBABLY NEED A CULTURE OF “REGENERATION...”
 - IF HARD...TRY OUTSOURCING IN ALL 4 QUADRANTS?!
(THE CORE/CONTEXT-MISSION CRITICAL BOX)

- ASSUMES LARGER ORGANIZATIONS...FOR SMALLER COMPANIES – TRY RESTRICTING BUSINESS DEFINITION TO ONE OF THE 4 QUADRANTS?...SO THIS IS CORE...
 - INNOVATION (SIMPLE R&D HOUSE?)
 - EXECUTION (OFF-SHORE ASSEMBLY, BPM)
 - HARVESTING (BUY-OUT FUNDS...)
- MOORES GOT IT WRONG!!...DON'T REPURPOSE...USE PEOPLE AND RESOURCES FOR WHAT THEY ARE GOOD AT!
- **YOU DON'T JUMP OFF A CLIFF UNLESS YOU HAVE TO**
 - BUT...DISRUPTIVE OFFERINGS HAVE MOST LONGEVITY
 - PUT THE CLIFF IN ANOTHER COMPANY?
 - CULTURAL THING...ONLY THE PARANOID SURVIVE?
 - WHAT IS INTEL DOING?
 - SEEM TO BE LEADING INNOVATORS ON INVESTMENT/ACQUISITION PATH...
 - “HP-INVENT”...BUT WHAT DO THEY DO WELL? WHAT IS THEIR CORE?

THREE: CORE AND CONTEXT

- DIFFERENTIATION...THAT'S GREAT BUT IS THERE A MARKET?
- COMMODITIZATION...MODEL INNOVATION MIGHT WORK HERE
- SHOULD YOU REDEFINE THE CORE (WHAT WE DO) OR STAY WITH THE CORE AND ADAPT (IE. CONSTANT POSITIONING...DON'T CHANGE THE BRAND)
- NEED BOTH CORE AND CONTEXT...BUT WHERE SHOULD MORE RESOURCES BE?
- WHEN YOU GO PUBLIC WITH CORE AND COMMIT TO IT...DOESN'T THAT STOP REVENUES WITH CONTEXT?...HOW DO YOU NURTURE BOTH?...SEPARATE THEM?
- SEEMS YOU DON'T REALLY KNOW WHAT CORE IS UNTIL YOU HAVE SEPARATION AND DISTINCTION...IN A SENSE, YOU ARE FLYING BLIND!
- CISCO...BUSINESS COUNCILS WORK AROUND CONTEXT TO ENABLE THE NEXT CORE...BUT AREN'T COUNCILS CONTEXT?
- CORE IS DRIVEN BY THE CUSTOMERS? BUT...THEY ALWAYS WANT MORE OF THE SAME
 - BLUE MARKET...DON'T ASK CUSTOMERS...THEY DON'T KNOW ANY BETTER!

FOUR: MARKET MATURITY

- CONCEPT OF MATCHING INNOVATION TYPE TO MARKET MATURITY...
 - WHICH COMES FIRST? CAN YOU CHOOSE INNOVATION AND SLOT INTO THE RIGHT MARKET? (PARTICULARLY WHEN INNOVATION IS NOT PLANNED....BUT JUST “HAPPENS”!
- “MARKET MATURITY” DEPENDS ON RATE OF CUSTOMER ADOPTION AND ENTRANCE OF NEW COMPETITORS (BUT THAT FOLLOWS ADOPTION...)
 - LESS DISRUPTIVE WITH MATURITY...MORE INCREMENTAL
 - QUESTION...SHOULD YOU FOLLOW THE MARKET THROUGH ENTIRE CYCLE? MAYBE BEST TO DEFINE YOUR BUSINESS...WHAT YOU ARE GOOD AT....AND RESTRICT ACTIVITY TO THOSE STAGES WHERE YOU CAN INNOVATE AND COMPETE....
 - SHOULD THE MARKET DRIVE YOU...OR SHOULD YOU DRIVE THE MARKET?!

FIVE: COMPLEX AND VOLUME BUSINESSES

- SOLUTIONS EVOLVE FROM COMPLEX TO SIMPLE....BUT BUSINESSES SHOULD NOT...MUST STICK WITH ONE MODEL
- DO YOU CHOOSE THE MODEL...OR DOES THE MARKET REQUIRE ONE OF THE TWO BUSINESS TYPES?
- MAYBE MORE A MATTER OF RECOGNIZING WHERE YOU ARE...AND ADOPTING INNOVATION FOR THAT
- IS THERE A “MOORE’S LAW” FOR ALL/MOST COMPLEX BUSINESSES? ALWAYS A DEEPER LEVEL OF COMPLEXITY...
 - THE PROBLEM MUST LEAD THE MARKET...BUT THE MARKET IS ONLY A FEW PEOPLE ANYWAY!
- DIFFERENT PROBLEM...IN COMPLEX MARKETS...HOW TO KNOW WHEN TO GO TO THE NEXT ABSTRACTION...AND NOT FOLLOW THE LARGER MARKET TO ADOPTION...
- QUESTION...HOW CAN A COMPLEX BUSINESS MILK THE SOLUTION IT HAS PIONEERED AS THAT SOLUTION SEES GENERAL ADOPTION IN A MORE VOLUME BASED MARKET?

- THE ROLE OF SERVICES...
 - SHOULD FOCUS ON ADOPTION OF NEXT GENERATION OF INNOVATION....SACRIFICES CURRENT REVENUE
 - SERVICES CAN BE A SOURCE OF INNOVATION...IE. 30 MINUTES PIZZA DELIVERY
 - CUSTOMER INTIMACY OR BIZ MODEL INNOVATION
- CISCO – COMPLEX W/LINKSYS AS VOLUME BASED. CAN'T FIT TOGETHER, BUT
 - COMPLEX DEVELOPS NEXT GEN INNOVATION FOR VOLUME, OR...VOLUME PRDTS INSERTED AS MODULES IN COMPLEX PLATFORMS
 - WORKS WITH INTEGRATION STRATEGY?!
 - JUST DIVERSIFICATION IN FUTURE MARKET...NEITHER MOVES UPSTREAM OR DOWNSTREAM

SIX: INNOVATION IN GROWTH MARKETS

- **DISRUPTIVE INNOVATION**
 - COMPLEX = SCIENCE PROJECT...VOLUME = MARKETING
 - HIGH RISK...BET THE COMPANY...
 - JUST LIKE RENEWAL INNOVATION IN DECLINING MARKETS...BUT HERE DON'T NEED TO TAKE RISK..
 - HOW TO ISOLATE RISK?
- **APPLICATION INNOVATION**
 - NICHE MARKET FOCUS...LESS RISKY...YET EXPANDS AN ATTRACTIVE GROWTH MARKET
 - SINGLE OR DOUBLE...NOT HOME RUN...SHOULD BE THE FOCUS OF VENTURE CAPITAL...BUT ITS NOT!!
 - PROCESS ORIENTED...START WITH TARGET CUSTOMER AND WORK BACKWARDS
 - BUT CAN STUMBLE INTO IT...VIAGRA...POST-IT NOTES
- **PRODUCT INNOVATION...GOOGLE, NIKE, GATORADE**
 - THE KILLER APP...BETTER MOUSETRAP
 - DON'T START WITH THE CUSTOMER...JUST BETTER PRODUCT OR BETTER EXECUTION!
 - HUGH EXISTING MARKETS...REALLY IS EXECUTION RISK MORE THAN INNOVATION
- **PLATFORM INNOVATION...ORACLE, MICROSOFT, INTEL**
 - EITHER "OPEN"...AND OWN THE TOP LAYER FOR PLUG-INS
 - OR "PROPRIETARY"...BUT NEED HUGH MKT PRESENCE
 - SMALLER PLAYERS...RELIE ON "PATENT POSITION"

- BIG PLAY...CREATING A “STANDARD”...REALISTIC?
- OR MAYBE INTEGRATION CREATES THE PLATFORM...THE UNIQUE COMBINATION OF MODULES...A “GLUE” STRATEGY

SEVEN: INNOVATION IN MATURE MARKETS

- IN FRAGMENTED DEVELOPED MAREKTS FOCUS ON LINE EXTENSION AND COST REDUCTION
 - DO BOTH...NOT MUTUALLY EXCLUSIVE
 - LOOK AT THE CUSTOMER, THE PRODUCT AND PRODUCTION
- ISN'T THIS ALSO THE CHANCE TO INTEGRATE AND ROLL-UP?
 - BUILD “MINI-PLATFORMS”
- SEEMS MORE INCREMENTAL CHANGE IS NEEDED HERE TO PROTECT EXISTING FRANCHISE
 - YET...IN MARKETING MUST GO “ALL THE WAY”...
- VALUE MIGRATION IS UNIQUE...LOOKS AT WHOLE MARKET DEVELOPMENT...FOLLOWS CUSTOMER PERCEPTION OF VALUE
- LEGACY SYSTEMS AND NEW DEVELOPMENT = KEY PROBLEM
 - DON'T SCRAP AND REBUILD...LOSE CUSTOMER BASE!
 - MODULARIZE AND RECONFIGURE...ALLOWS SYSTEM BUILDING FOR OLD AND NEW CUSTOMERS
 - OR...WHY NOT MILK THE BUSINESS FROM CUSTOMERS THAT ARE LOCK IN...AND LOOK AT NEW MARKETS?

SIX: INNOVATION IN DECLING MARKETS

- YOU CAN EXIT OR RENEW THE ENTERPRISE
- RENEW BY ORGANIC CHANGE OR BY ACQUISITION
 - DEPENDS ON AVAILABLE TIME...ORGANIC TAKES A WHILE
 - ACQUISITION...BOTH BUY AND SELL....
 - IN M&A...THE MERGER OF “UNEQUALS”....NOT POLICTIALLY CORRECT, BUT IT IS GOOD BUSINESS
- HERE YOU MUST “BET THE COMPANY”...
 - NEED A VISION...WHERE IS THE OPPORTUNITY
 - FLYING BLIND...NO TIME FOR MARKET RESEARCH

SEVEN: RE-CIRCULATION OF RESOURCES

- **REFOCUS ON “CORE” AND “CONTEXT”...**
 - MUST DEFINE VALUE AND WHAT THE BUSINESS IS...OR WHAT IT “SHOULD BE”

- **CORE/CONTEXT....CRITICAL MASS TOOL...**
 - CIRCULATION OF RESOURCES MUST BE INCREMENTAL TO PRESERVE CURRENT REVENUES?!
 - REALLY,,,MUST MOON-LIGHT AND RUN BOTH THE LEGACY AND NEW BUSINESS SIMULTANEOUSLY!

- **FOR RESOURCE MIGRATION...YOU MUST “OUTSOURCE” CONTEXT**
 - MUST INCREASE PRODUCTIVITY TO FREE UP RESOURCES
 - PUT RESOURCES ON NEXT GENERATION BUSINESS

- **REPURPOSING PEOPLE....THE BIG ISSUE**
 - MUST BE INCREMENTAL ... MOVE PEOPLE WITHIN THEIR COMFORT ZONE
 - MUST RETRAIN....CHEAPEST ALTERNATIVE
 - EXTREME COST/RESOURCE PRESSURE ON CONTEXT...MOVEMENT TO CORE ALLOWS HIGHER MARGINS AND LESS PEOPLE PRESSURE.