

Crossing the Chasm - 30 years Later

WITH GEOFFREY MOORE

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Aznaur Midov (AM): Geoffrey, thank you very much for being on the podcast.

Geoffrey Moore (GM): Well, Aznaur, it's a pleasure to be here.

AM: Typically, I ask my guests to introduce themselves, but I don't you need introduction –people in the tech world know you very well for your books. Maybe you can say a few things about your latest book, the Zone to Win?

GM: Sure. And yeah, most people know me for Crossing the Chasm. I've been advising in the tech sector now for 30 years or so. All my books have been about the technology adoption lifecycle, how it shapes markets, and how you have to adopt your strategy as you go through the cycle.

The latest book, Zone to Win, is about how do you do that when you are a public company with a core business? And so, it wants investment, and you have customers that want you to sort of stay the course with the existing paradigm. But at the same time you see this next generation wave coming, and you know you got to get on that wave. But there is not enough money to go around and it creates a lot of tension inside the company.

So, Zone to Win, the subtitle was Organizing to Compete in an Age of Disruption, is about how do you organize so that you can address both of these things independently, because they tend to conflict with each other and so you want to make sure you handle them in their own and give each one its own space as it works. And a lot of companies right now are using that book as a playbook.

AM: Most of our listeners are in somewhat smaller startup-ish world. So we're going to be focusing on Crossing the Chasm.

GM: That would be a lot of fun.

AM: Crossing the Chasm was written more than 30 years ago and it's still applicable.

GM: Yeah. It first came out in 1990. It was right at the beginning of the client server just hitting the market. So that's how far back in time that was. A lot of people were on DOS, and Windows was still a little bit like, "Whoa!" So it was way back in time. It was updated in 1999 with new examples, and again in 2014 with more SaaS-oriented examples.

AM: I don't think you can actually summarize in a few words, but let's try and we'll go from there.

GM: The whole point of that book, and really all the books is when you introduce a disruptive innovation into any community, it self-segregates into these different adoption personas. The first two personas were the Technology Enthusiast and the Visionary. These are the people who believe what you believe – they buy in early, and they give you a lot of great signals and wonderful feedback. The Visionary will occasionally sign some very big deals. And so you get this real excitement and enthusiasm of "Wow! This is the next big thing."

But most of the mainstream market is not that way. Most of the mainstream market says, "I will do this when I see other people doing it, but not before." That creates kind of a hesitation in market development. We call it the Chasm. And the idea of Crossing the Chasm was how do you get more hesitant prospect base, to buy in into a new innovation. The key idea was, these people are very pragmatic, so basically, if they don't have to, they're not going to. But there is always a group of people who have to because they've got a use case they can't solve with their existing solutions, and they are under increasing pressure to solve the use case.

So the idea in Crossing the Chasm was simply to say to focus on a single segment with a very urgent use case that they can't solve today, and then commit your company using your technology to address that use case. It wins you a market segment on the other side of the chasm, and that's kind of like a beachhead. It's like a place to start in the mainstream market. And then

the rest of the idea was, once you win that first segment – and by the way, what happens is, if you can actually solve the problem, they all tell their friends immediately, "Hey, there's a vaccine, you should get the it." So they tell their friends, and so that you win that first segment and then you could go into adjacent segments, or maybe take that segment into new use cases. We call that the "bowling pin model," where you would go from segment to segment.

If you have enough of those, the market goes, "Wait a minute, this isn't for this use case. This is infrastructure. This is for every use case." And that created the opposite of the tech chasm, which is when everybody rushes into the market. We call it "tornado". And there was a book called Inside the Tornado, which is how you take advantage of that situation. This is sort of the rhythm of the two books.

AM: You mentioned that a company has to focus on a segment. How big should the segment be? The first thing people might think it's maybe thousands of companies you need to focus on.

GM: No, and this is very important. We have a very clear rule about picking the beachhead segment. It has to do with the fact that you need to dominate it, which means you really would like to get 50%, 60% or even 80% of that use case in that segment. The segment is based on your size. Let's suppose you have \$5 million in ARR. You want to get to like \$20 million. You say, " If I'm going to dominate the segment, maybe I'm not going to get all my sales from there. But

let's suppose I can get more than half. That means I want to get \$10 million sales with the segment the next two years. So how big can the segment be if I dominate it?" Maybe only \$20 or \$30 million.

The idea is, it's got to be big enough to matter to me, but small enough that I can lead it. And then it's got to be a good fit with my crown jewels. So those are the three things – if you are a SaaS leader, and you had to memorize anything from Crossing the Chasm, the segment, big enough to matter, small enough to lead, good fit with our crown jewels.

AM: Does chasm exist only for companies that create completely new category of software or product, or even the competitive spaces also experiences it?

GM: If there is enough competition in the category, then the categories are on the other side of the chasm, and you may be late to the category. But you are not crossing the chasm now, you are just competing on the other side of the chasm. For example, Microsoft never crossed the chasm itself. It always waited until the other product got across the chasm. It was really good at winning in the tornado. But it would be a fast follower, and it would catch up amazingly fast. That's what always surprised everybody – they did it over and over again.

AM: In Crossing the Chasm, you discuss technology adoption lifecycle. How has this lifecycle changed over the past 30 years?

GM: Well, it's interesting. The lifecycle idea is that pragmatists

will wait, and it is an eternal idea. That will happen – it happens in tech, but it happens with a disruption of any kind. So what's new, I think, are some of the technology landscape has changed. What you are always looking for is buyers who have anxiety about a buying risk, and they are afraid to buy because they are not sure it's OK. In any market at any time, there is always that frontier. If you go beyond the frontier, you are like, "Well, I don't know yet." If you stay inside the frontier, there are already people that are comfortable buying. And so, the chasm always appears at the frontier of technology change.

AM: You've been observing what was happening over the past two years with COVID. Even companies that were very resistant to technology were forced to adopt it. What was COVID's effect on chasm?

GM: It's a terrific question. Basically, it forced a whole bunch of people right up to the edge of the chasm, because they had to go digital or die. Remember, the idea behind Crossing the Chasm is the pragmatists will adopt a new technology if they have to or if they are under pressure. And of course, COVID created this enormous pressure for us to go all digital. It was a huge chasm crossing accelerator.

AM: What do you make of the recent drop of public SaaS companies whose valuation is returning to pre-COVID level. Does it mean that suddenly, people are giving up on this technology or there is a different explanation?

GM: I think there are two things going on. You have to really make a distinction between B2B and B2C SaaS companies. I think the B2B SaaS companies have lost value much the way every other stock in the market. In other words, I think people still believe those companies deliver value, but they just feel the whole market was wildly overvalued. There was no risk priced into the market for a long, long time. So it's quite a bubbly and frothy market.

Then the supply chain, the inflation, the war in Ukraine, and the fear and then the shutdown of Shanghai have created huge issues. All of a sudden the market has gone from, "Nothing can go wrong" to "Nothing can go right". And it basically has been cut in half. I mean, fundamentally. And that'll come back. That was B2B.

B2C is a different problem. So, B2C is not as much of a must-have as it is a nice-to-have or should-have or fun-to-have or whatever. And B2C depends on discretionary income. In the inflationary economy, discretionary incomes could get pinched. I think B2C got pretty wildly overvalued anyway. Then you have things like Bitcoin, which was kind of an investment play, it wasn't clear what Bitcoins were going to be used for, except to maybe as a hedge against inflation. But it didn't work.

I think there's a bunch of reality checking happened. It happened in 2008. It happened in 2001. It happened in 1992. This is my fourth time at this movie, by the way, the other three, we came back from and I expect we'll come back from this one. But it's no fun

if you're right in the middle of it right now.

AM: Yeah, I'm looking forward to that. So let's talk about the blueprint of Crossing the Chasm. What's hard and what's, let's say easier in that blueprint to apply to SaaS companies?

GM: I think the hard thing is having the conviction to focus on a single segment, and then to get your company aligned to stay focused on that segment. And to realize that if you can dominate that segment, you will change the whole markets relationship to your company in a very positive way. Because when you are looking for extra money, you are thinking, "Well, any sales is going to help somehow, so I can't focus on just one segment." And the answer is actually you can and if you do, you'll become a lot more powerful. So that's the hard thing.

The easy thing in Crossing the Chasm is, once you pick a segment and a use case, by just staying focused on that use case, your chances of dominating that market are actually very high. That's assuming you've got some technology that really is special. I mean, you have to have a technology special that makes you really good at that use case where other people aren't. But when you focus to that tightly, what happens is your competitors go, "Well, it's only a \$40 million market, there's lots of other customers. Well, I don't want to fight this little company who's obviously very tenacious, I'll go someplace else." The competitors actually retreat from the market you are in, and then they just try to keep you in that segment.

"Oh, yeah, they're very good. But they're only good in health care for that one application. For anything else you should buy us."

But what that does is that teaches the market, that you are the leader in that one area. And when you are the leader, then an ecosystem starts to form around your company, because the ecosystem realizes for this market segment and this use case, these people are the kingmakers; these are the people that are helping the customers figure out their partners, so we want to partner with them. And when you start to have an ecosystem, that's when you become a going concern. That's when the world has a stake in your future existence. Whereas before, they weren't trying to kill you, but they weren't trying to keep you alive either. Now you've got a bunch of people on your side. It's a very different game from then on.

AM: And how does the company realize that they are already at the point where they should start diversifying from that one segment?

GM: I think as soon as you realize that the segment has kind of anointed you as the leader, you want to immediately start thinking about your adjacent bowling pins. Initially, you don't want to go too far away from that first segment because you are not that big and strong. But you are now looking for your second use case with the current customers or your second segment with the same use case, because you want your ecosystem to come with you. Because a company's power is really the power of its ecosystem. It's at the center of the ecosystem,

but it's the ecosystem that gives it all the power. It's very important that you keep that ecosystem intact, which means you got to continue to remain the leader in that market.

AM: Is there a difference in toolkit that you use when you work with SaaS companies that are focused on SMB versus Enterprise?

GM: Yes, I think the more you get to see the S end of SMB, the more you are in a transactional, almost a B2C sales motion, although it's kind of a land and expand or viral movement. Think about the way the Enterprise communication thing like Yammer, Slack, Atlassian or any of those got started. They started by essentially being freemium and being available, and bubbled up from the bottom. And it really is a very consumer style viral play.

If you are doing the enterprise, it's a completely different play. At the enterprise, you start from the top down. And the idea is, "where is the trapped value in their business processes that I can unleash?" And you go to the person who owns the business process, who is way above the people that are going to use your software and you say, "Look, you got this problem and we could take this problem off your plate. You are either going to save a ton of money or to make a ton of money, or you're going to have a whole new set of possibilities because of this." You should see sponsors coming down. So it's much more of a relationship marketing, thought leadership, and resetting the agenda kind of thing. It's much more sophisticated thing. So Product-

Led Growth is a bottom up-idea; a Problem-Led Growth is a top-down idea.

AM: You a partner of Wildcat Ventures, could you please provide an example a your portfolio company successfully implemented blueprint of Crossing the Chasm?

GM: Yeah, we're right in the middle of one, and it's fun. I'm on the board of this New-York-based company called WorkFusion. There has been a real interest in robotic process automation over the last five years, because now we can start using machine learning and AI to do tasks that historically people had to do. And the first wave of success, I would say, was a more of a bottom-up viral approach. We were just talking to folks that you would allow departments to take their repetitive workflows off the table and make their people more productive.

WorkFusion has a higher level idea, which was, "We want to take really gnarly, complicated processes, and see how much as a human we can take out of that piece." And so they done- they've been in existence for a while, and had some very exciting projects. And they'd done some very amazing things. But it was hard to understand what they were doing. It was all early market, it was people who believed in using AI and machine learning to attack really tough problems. But each sale was kind of a unique event, it was a little bit of a one-off thing, and very project-oriented.

It has changed last year. First of all, they picked a segment - banking. And then they picked

the regulatory compliance problems in banking, like Know Your Customer, Anti-Money Laundering, anti-fraud, etc. They said, "Look, you're always going to have a certain amount of human judgment in this, but we think we can attack the problem a lot with machine learning." And so they created this concept called Digital Workers.

Basically, a digital worker is a prepackaged robotic process automation unit that essentially applies for the job. I mean literally, you can look at the job postings at the company and say, "If you are hiring people, I want my digital worker apply for that job." It's very easy. All of a sudden, it was a use case that was compelling. Because if you are in banking, you got to do this stuff. But there's a huge backlog and a risk of building up more and more.

And so, they've got seven digital workers right now. They started with two that were really key at the beginning, and they're getting an enormous amount of traction, because people are going, "Wow, you really do get it. This really is you." So, I don't think we can declare victory quite yet, but I'm really optimistic about the way they're executing.

AM: What are you looking for in terms of when do you think it's going to be victorious?

GM: What we normally say is if you list the top 10 accounts in your target market segment (it's always a vertical market) and when you can get five before your closest competitors gotten two – that's kind of like a pretty. And if you can get eight before they've got more than two, then it's like

the market goes, "Well, wait a minute, there's a new sheriff in town." And that's the way it work.

AM: Have you seen any companies that you thought were successfully implementing this blueprint but somehow it flopped?

GM: Yeah, it's so interesting. So when can it flop? One thing that can flop is you actually crossed the chasm, and you win your first segment but there aren't any bowling pins. It was so specialized that you couldn't leverage it going forward. And so like that, way back in time, there was Tandem Computers company – it provided a nonstop computer at a time when computers stopped more than you want them to.

They went into ATM machines and banking, and they got a ton of ATM machines. And then there was a second use case in Telcos but they couldn't ever get beyond those two use cases. It just didn't generalize. Eventually, they got bought by Hewlett-Packard, and they became a kind of a product line in the HP portfolio. So it didn't fail.

The other way failing while crossing the chasm is picking a use case and find out that a competitor does it better than you do. In which case that's really bad because now you've committed your company and you're not going to be the leader because they're going to be the leader. The very first startup I was in, it goes back in time before probably you were born, but it was a semiconductor software company for process analytics. And we thought we were the bee's knees. And it turned out that there's a product called RS1 from

BB&N that was hands down better than our product. And we just got trounced.

AM: Geoffrey, you wrote several books and they clearly are connected, right? In what order you think people should read them?

GM: I really think it's the first and the last are the ones that matter the most. So Crossing the Chasm kind of teed up, "OK, what's going on here?" That I think was seminal. Inside the Tornado was saying, "OK, well, once you cross the chasm, you have this other thing, the tornado." And if you're in that kind of market, that's actually the more important book of the two, but Crossing the Chasm is the most famous of the two.

The next four books: Gorilla Game, is about investing in high tech. Living on the Fault Line is about dealing with a collapse in the market. Dealing with Darwin is about how to start to innovating as a bigger company. Escape Velocity, how do you as a big company catch the next wave? All those were strategy ideas, and I think there are good models in all of them. But Zone to Win, which is the last one, is a playbook very similar to Crossing the Chasm – what the heck do you do to actually prosecute this second wave idea, what kind of problems you're going to run into and how do you fix them? If I had to guess, Crossing the Chasm and Zone to Win, are the two books that might still be on people's bookshelves when I say goodbye.

AM: Geoffrey, thank you very much for being on the podcast. It was great.