

Crossing the Chasm

Technology companies epitomize and reflect the problems and challenges of almost all companies embarking on a path of significant growth from a successful start-up/scale up phase. The analogies are compelling.

THE ADOPTION CYCLE

As we all know, innovations are absorbed in stages by different customer groups, but to progress through this adoption cycle has enormous implications on companies.

- The first to adopt something relevant are the *enthusiasts*, for whom the product promise is a central interest. They simply want the hottest new product or new technology before everyone else, even though it is still incomplete and faulty in places. One part of their motivation, particularly in the B2B space, is to further contribute to the later developments to the product or service, based on their experiences or simply to be an early adopter to earn respect of friends.
- Next come the *visionaries*. Rather than the new product or service itself, they are interested in the strategic competitive advantage it could provide. They seek breakthroughs, not minor improvements to the status quo. They accept a few final adjustments in the product they buy into but are much less tolerant to fragility in incompleteness.
- These two groups constitute the relatively small early market cohort acceptance of a product or service. The adoption of the product or service from these groups are critical before it can propagate into the vital and far larger mainstream market of *pragmatists* and even *conservatives*.
- Once a product or service has proven itself and a clear market leader has emerged, the *pragmatists*, constituting roughly one third of the entire market, feel safe enough to jump on board. Unlike the visionaries, they are not looking for big changes, but rather incremental benefits gained from standardized, well-supported products. In the gap represented between the *visionaries* and *pragmatists* lies a chasm **where products languish, and companies die.**
- As the product or service moves through the Adoption Life Cycle, each group of customers will provide references selling to the next, more sceptical group of adopters. Thus, like Tarzan swinging from vine to vine, the new product or service sustains momentum. This process does not unfold smoothly, especially for **discontinuous or disruptive**

innovations, as this requires substantial behavioural changes from their customers. Such products or services face a wide and unforgiving chasm that divides the early and mainstream markets, i.e. the *visionaries* and the *pragmatists*.

- On the start-up/scale up side of the chasm, success is centred on developing the product or service to these early customers. On the other side of the chasm, it is a satisfied customer that leads to ongoing success.
- Looking at this another way, customer references from the *visionaries* will not impress the *pragmatists*. This poses a dilemma, since the *pragmatists* demand existing references and a comprehensive support infrastructure. They will only buy from established vendors, but without them a company cannot become an established vendor.
- While companies can still sell to their existing early-market customers, these sales demand a lot of effort in individualisation of the product or service and are hence low-volume. The high-volume mainstream markets remain just out of reach. Revenues come to a standstill. The company's value is diluted, and the original management team may even be ousted by investors. **To avoid this fate, every company launching an innovative product or service must have a plan for successfully crossing the chasm.**

THE PRODUCT OR SERVICE

To achieve mainstream market success, across on the "other side", the focus must move to the customers' needs fully with a whole product.

- As, unlike early-market customers, mainstream customers abhor products that require them to hunt for additional products and services. Companies must now value quality of delivery, not the functionality itself.
- *Pragmatists* only want what are known as whole products, meaning products that completely satisfy their buying objectives on the other end of the chasm. So, the new company has to meet new departments of customers as it grows as do the needs for HR Financial reporting and reaching prolonged growth targets.
- In addition to the product that is shipped in a box (the generic product) they also demand things like installation, support and any additional soft or hardware needed to fully meet their expectations.
- In the whole, products are the arena where the battle for mainstream markets is won or lost but building a company to deliver this is not scaleup, it is growup. The company is no longer a solo venture. It fits a customer's total emotional need.

CROSSING THE CHASM

Whilst Crossing the chasm, there is a continuous challenge to reflect the changing needs of customers, as a priority over further service or product development.

- Entering the mainstream market is an act of aggression: invading the existing supplier's territory.
- Usually, this means targeting a specific market niche within the *pragmatist* group and becoming its undisputed market leader. From this base the company can then expand to other segments until eventually dominating the company market.
- But pursuing a niche requires focus: the company must have the discipline to not sell outside the niche. Many companies in the chasm simply cannot resist additional revenue opportunities elsewhere. A practice that successfully got them to this point. They wind up selling all over the market without establishing a credible position anywhere and exhaust their resources on endless customizations to suit each market sub-segment and thus not having the broader company resources needed to fulfil the broader market needs.
- Before launching your invasion on the target niche, you must choose the **disruption** channels you will invade through and the **pricing strategy** you will attack with. *Pragmatists* are very picky about which companies they buy from. Hence, when crossing the chasm, the number one priority is to secure a distribution channel that *pragmatist* customers are already comfortable with.

B2B or B2C?

- Most successful chasm crossings happen in business markets because it is extremely difficult to do so with a consumer product.
- Businesses usually have the economic and technical resources to adopt even immature products, whereas consumers do not. Though enthusiasts exist in consumer markets, too, they tend to rapidly move on to "the next cool thing".
- Also, unlike businesses, consumers usually lack a truly compelling reason to buy the service or product; they don't have critical processes uniquely requiring fixing and so it is much harder to recognise the depth and nature of the broader customer demands now placed to the company to be successful.

THE ORGANISATIONAL CHANGE

- To successfully manage these organisational challenges and leave the Chasm behind, difficult and profound organisational and financial choices must be made.
- First and foremost, profitability post chasm, must become the focus of the post-chasm organization. In general, the sooner this happens, the better. Instilling a discipline of profitability early on helps companies avoid a “**welfare mentality**” and teaches them to be careful about which customers and projects they pursue.
- A post-chasm company also goes through profound organisational changes. The few powerful pioneers who fuelled early growth in the markets can become liabilities, as they tend to have little interest in administration and “*business as usual.*” Entrenched or inexperienced leaders do not usually see this occurring and consequences can be fatal.
- **The Peter Principle** therefore continues to take effect but is more profound in nature. Post chasm, a company really needs “*settlers*”, people who diffuse authority and build standardized, well-documented procedures. The *pioneers* find this dull and alienating and are often unable to operate successfully in this new environment. New company management must therefore be found.

KEY MESSAGE

To achieve mainstream market success, products and services must cross the chasm between early and mainstream markets. They must focus on finding a single target niche where they can fully address customer’s needs and become the market leader.