

Business Model Migration

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Agenda

- **Two Trends in Tech**
 - Business model proliferation
 - Market maturation
- **Implications for**
 - Execution
 - Organization
 - Strategy

Tech Sector Trend #1: *Business Model Proliferation*



A Business Model Is

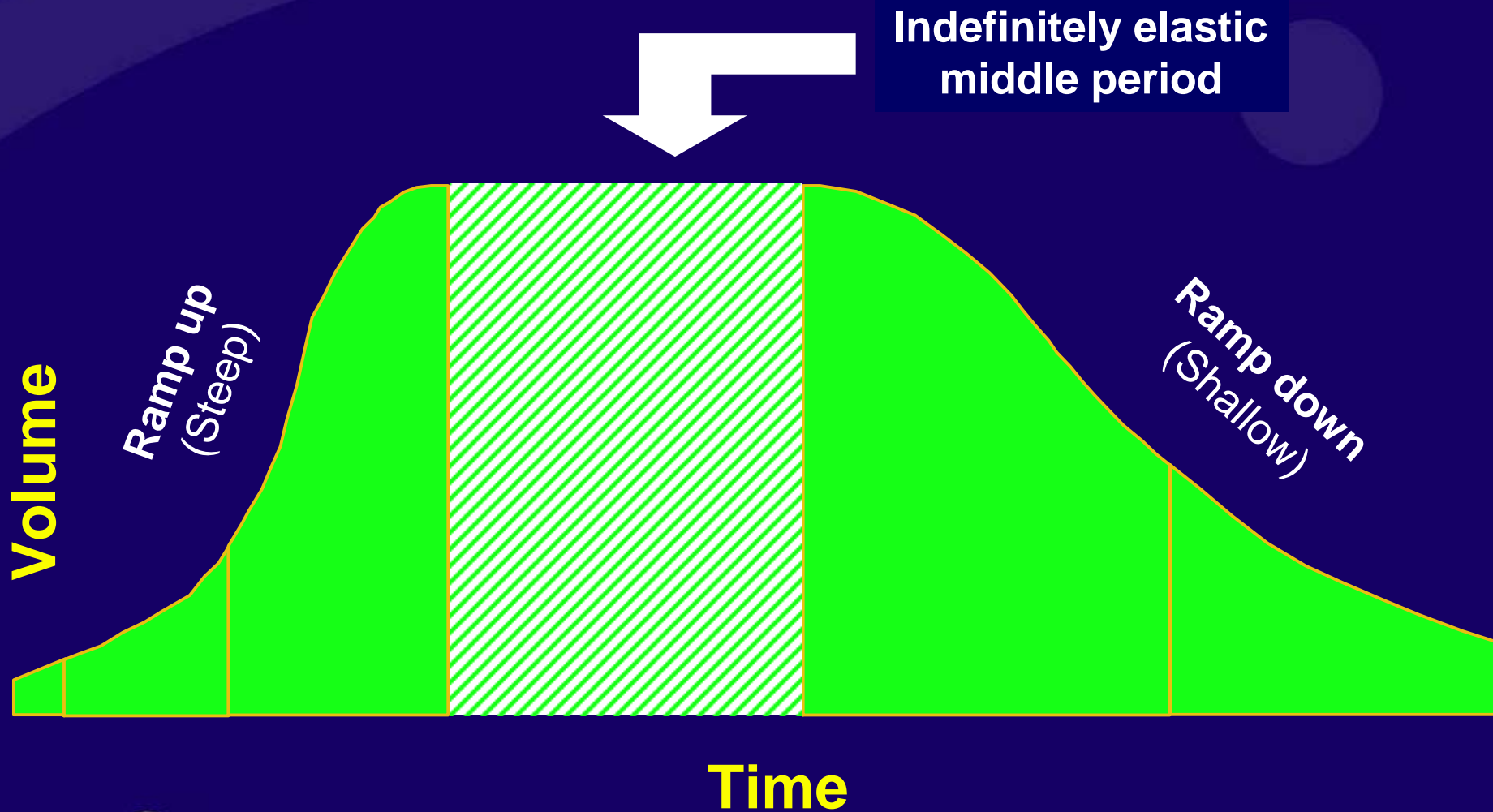
- **Categorically, a way of making money**
 - The form an offer takes
 - The manner in which it is paid for
- **Externally, an implicit contract**
 - Customer expectations
 - Vendor commitments
- **Internally, a platform for execution**
 - Basis for prioritization and trade-offs
 - Infrastructure and resource commitments

Implications for Strategy

- **Creating competitive advantage**
 - Differentiation via business models
- **Cooperating with partners**
 - Leveraging each other's models
- **Exploiting competitor weaknesses**
 - Targeting what they can't change
- **Managing execution**
 - Synergy gained or lost

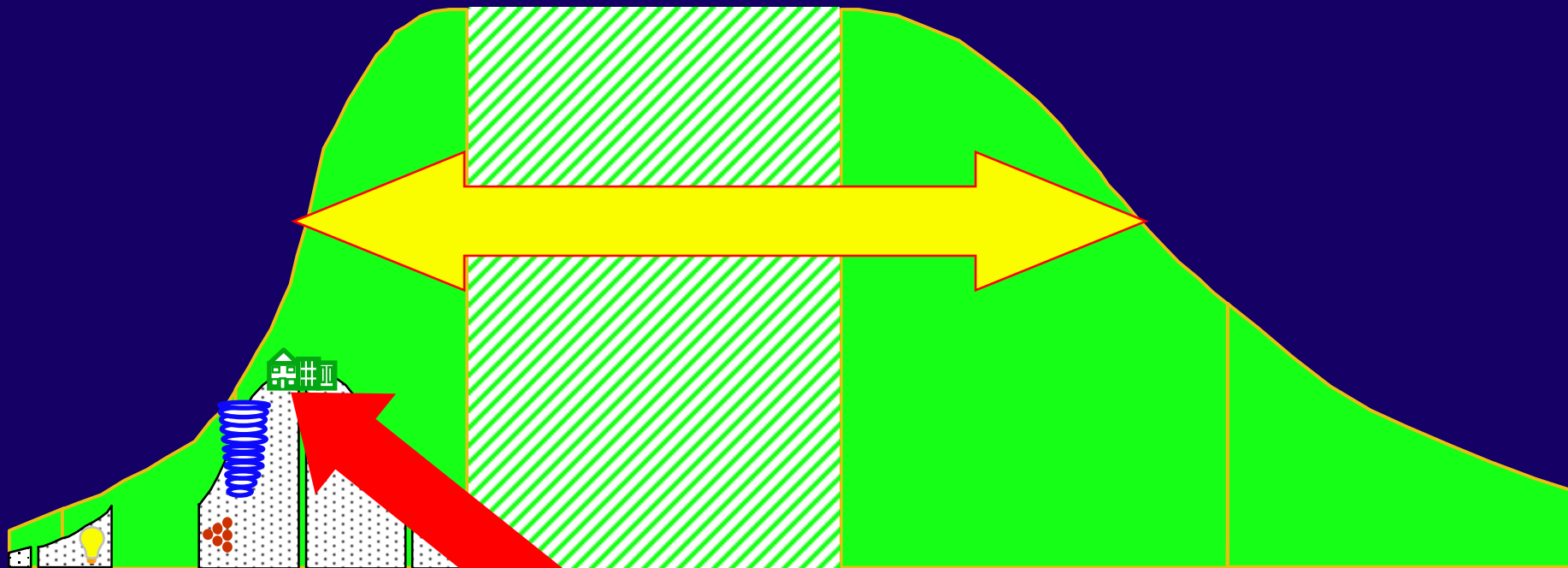
Execution is becoming an issue

Tech Sector Trend #2: Market Maturation



Technology-Based Businesses Begin to Shift Their Focus

Optimize for staying power

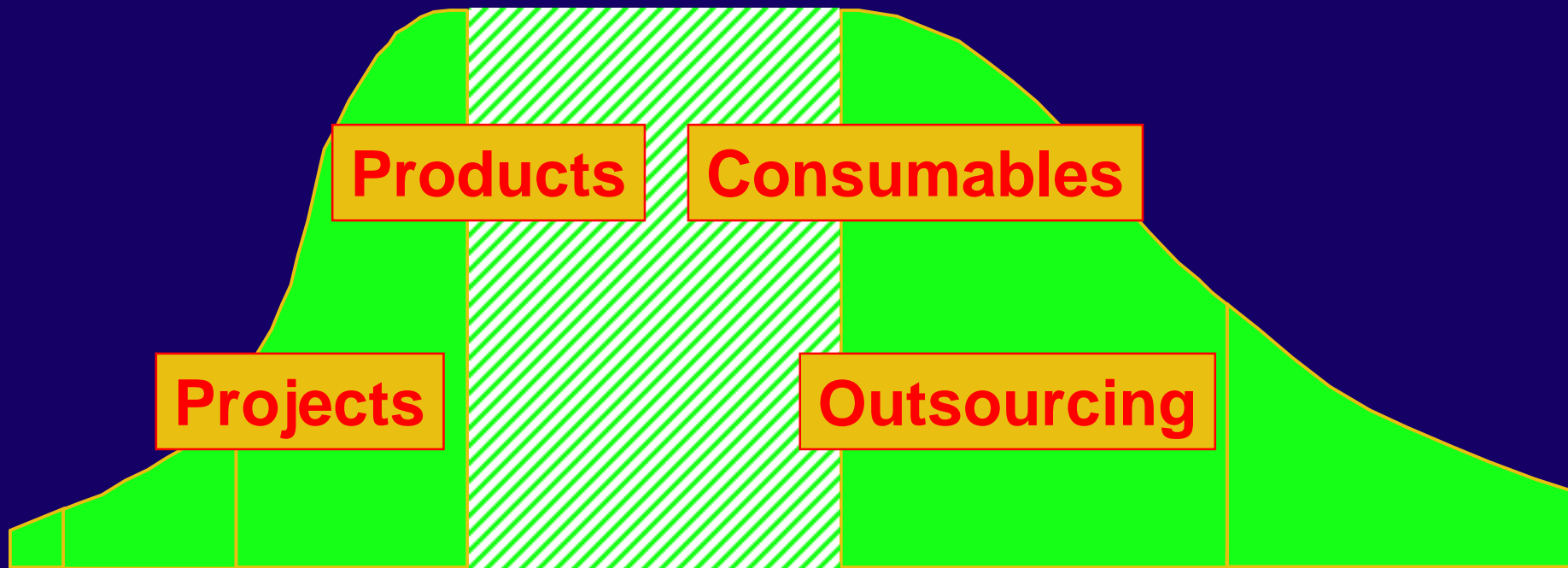


Technology Adoption
Life Cycle

tcgAdvisors

Optimize for fast ramping

New Dynamics Are Driving *Business Model Migration*



Different models are privileged at different stages

tcgAdvisors **Why corporations want to proliferate**

What Changes with Model Migration?

- Vendor commitment to customer
- Infrastructure to meet the commitment
- Gross margin to fund the infrastructure
- Operating ratios to achieve the gross margin
- Resource deployments to match operating ratios
- Management systems to govern the resources

Projects

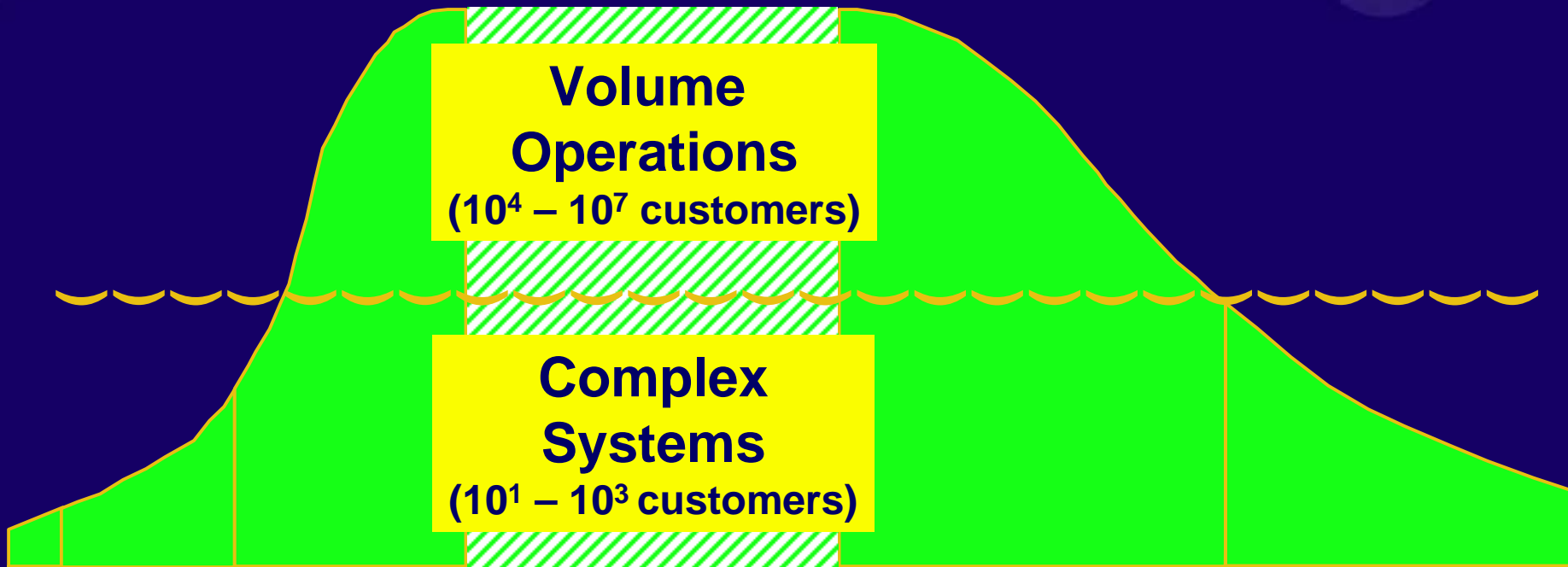
Products

Consumables

Outsourcing

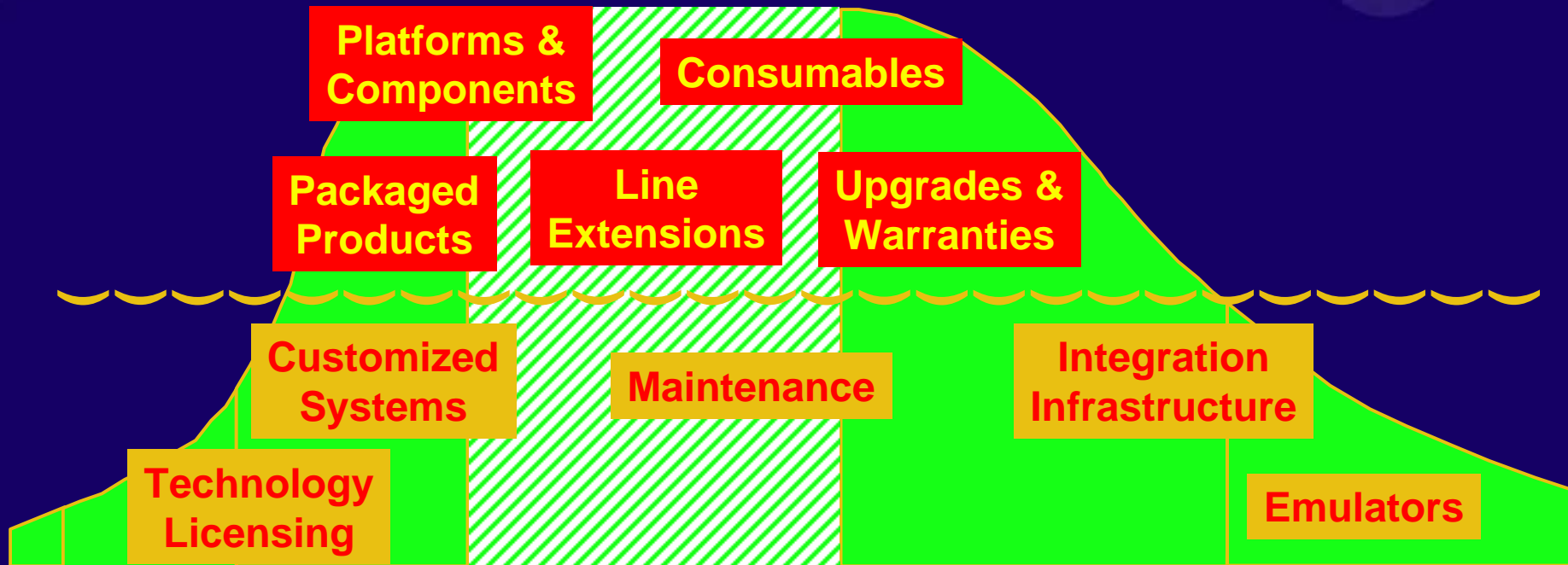
Lots!

Two Classes of Models

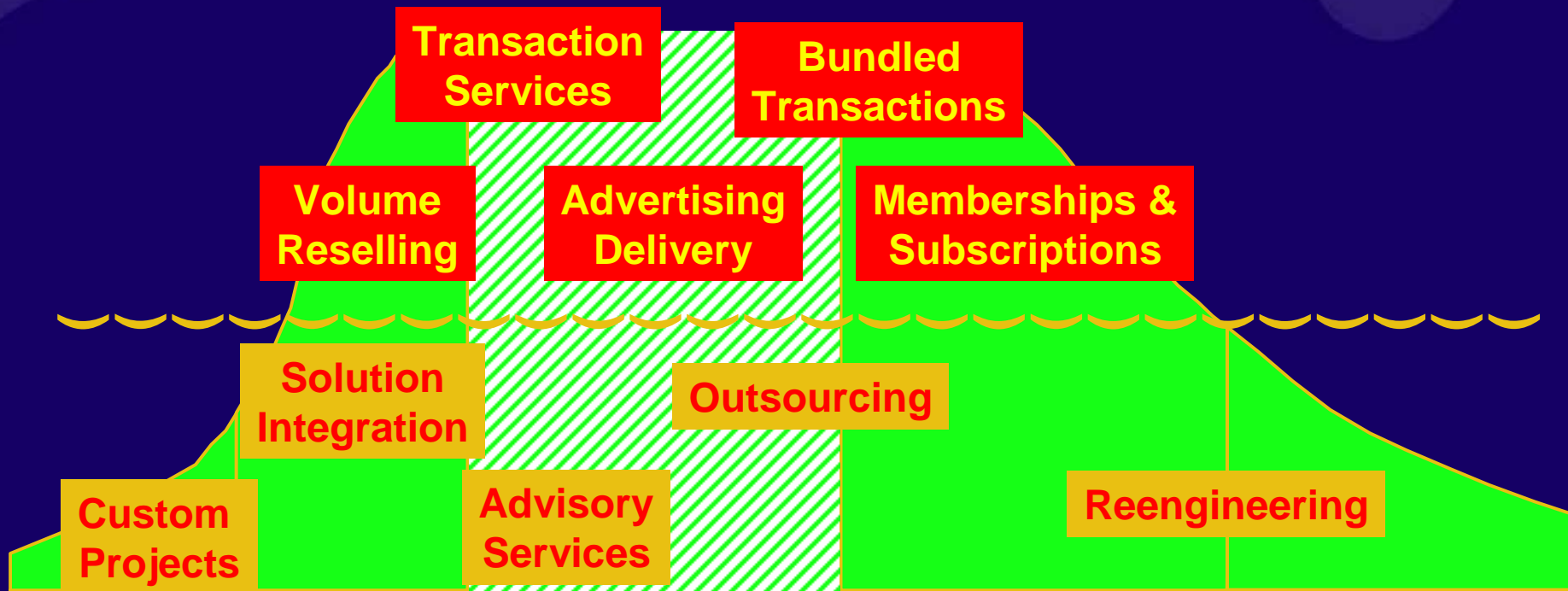


The first dimension of synergy

A Representative Sample of Product-Centric Models



A Representative Sample of Service-Centric Models



Thinking in Sets

Products

Services

**Volume
Operations**

Packaged Products
Platforms & Components
Line Extensions
Consumables
Upgrades & Warranties

Volume Reselling
Transaction Services
Advertising Delivery
Bundled Transactions
Memberships & Subscriptions

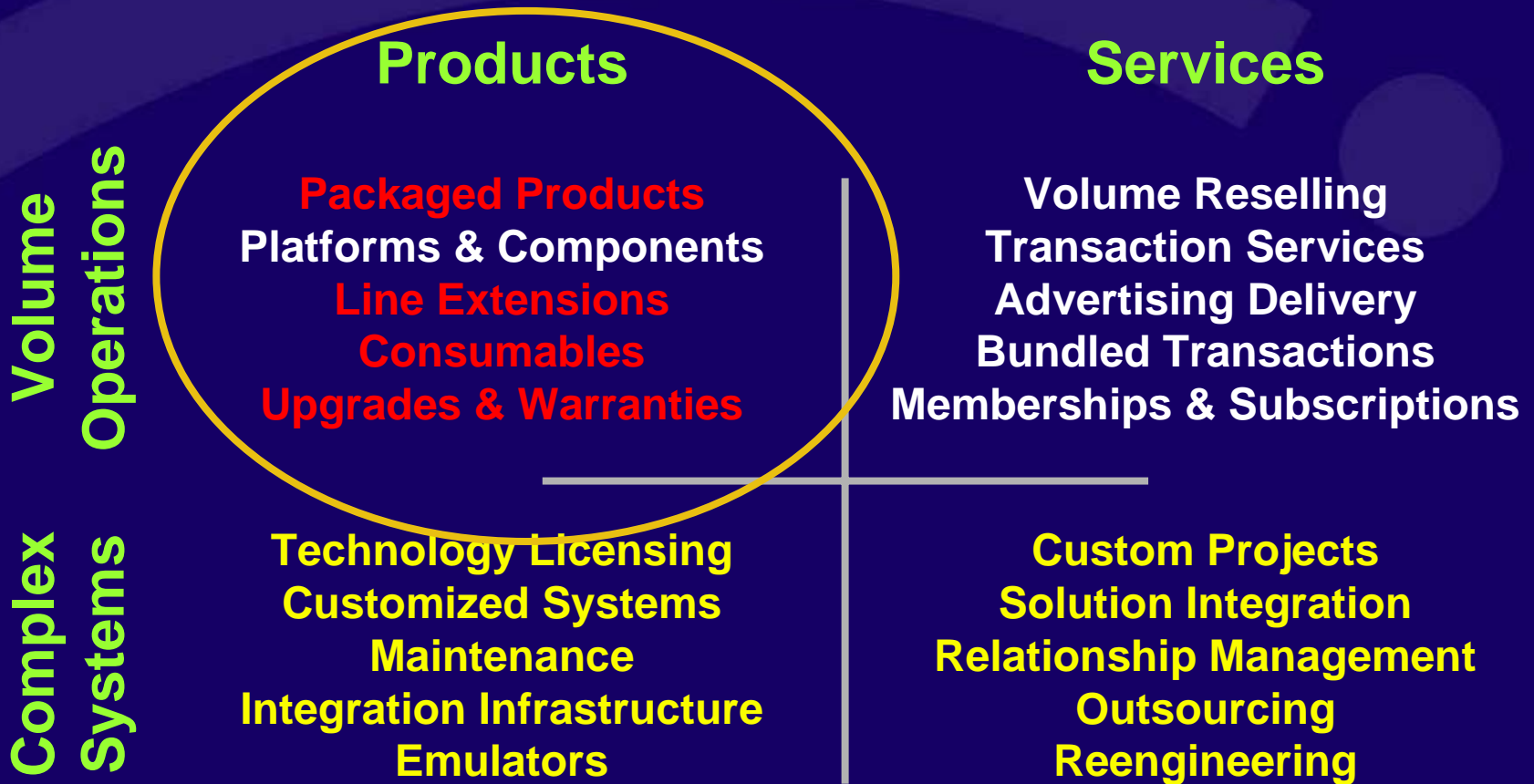
**Complex
Systems**

Technology Licensing
Customized Systems
Maintenance
Integration Infrastructure
Emulators

Custom Projects
Solution Integration
Relationship Management
Outsourcing
Reengineering

1. Where do you play?
2. Where do your partners play?
3. How do your competitors do it?

Sony



SAP

Products

Services

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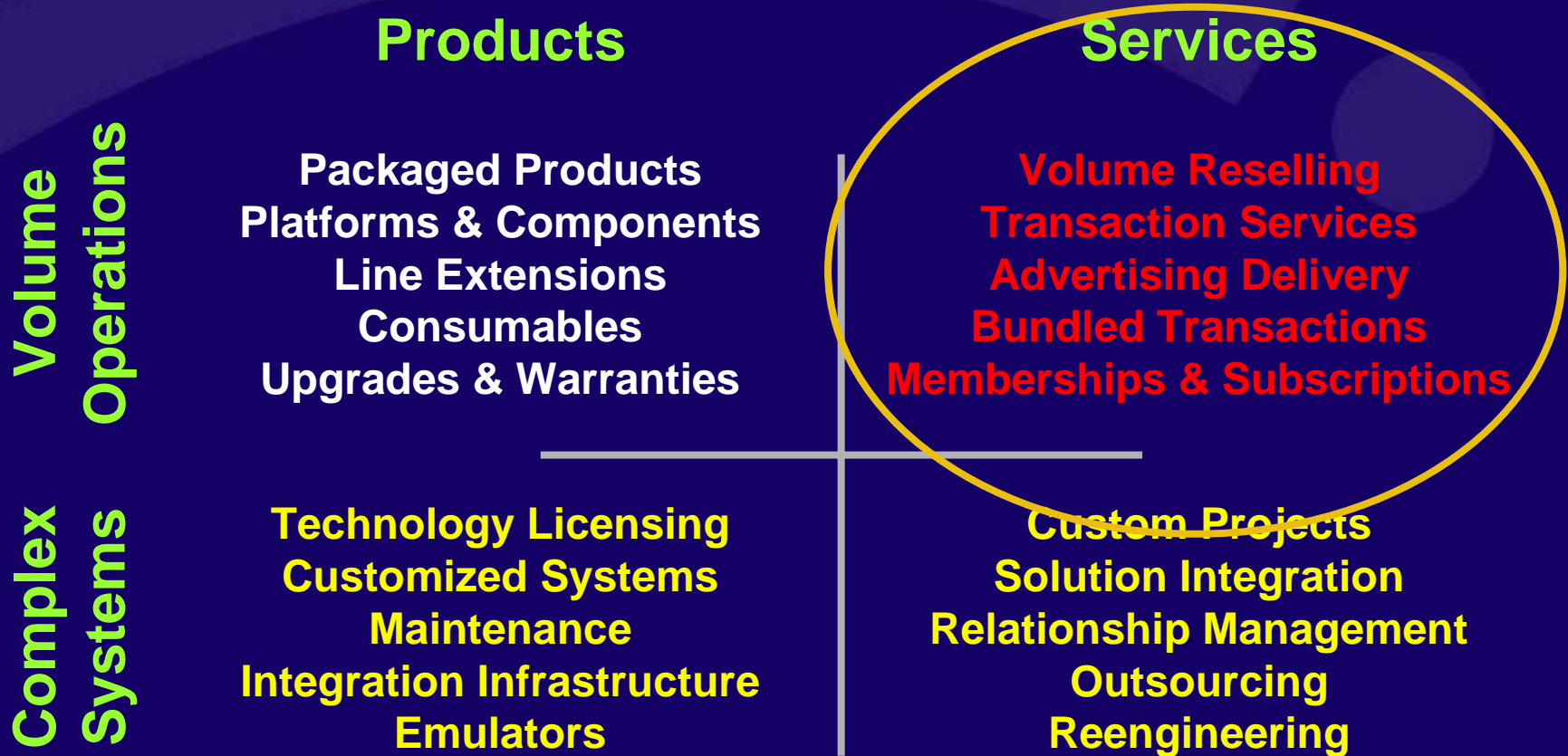
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Yahoo



Accenture

Products

Services

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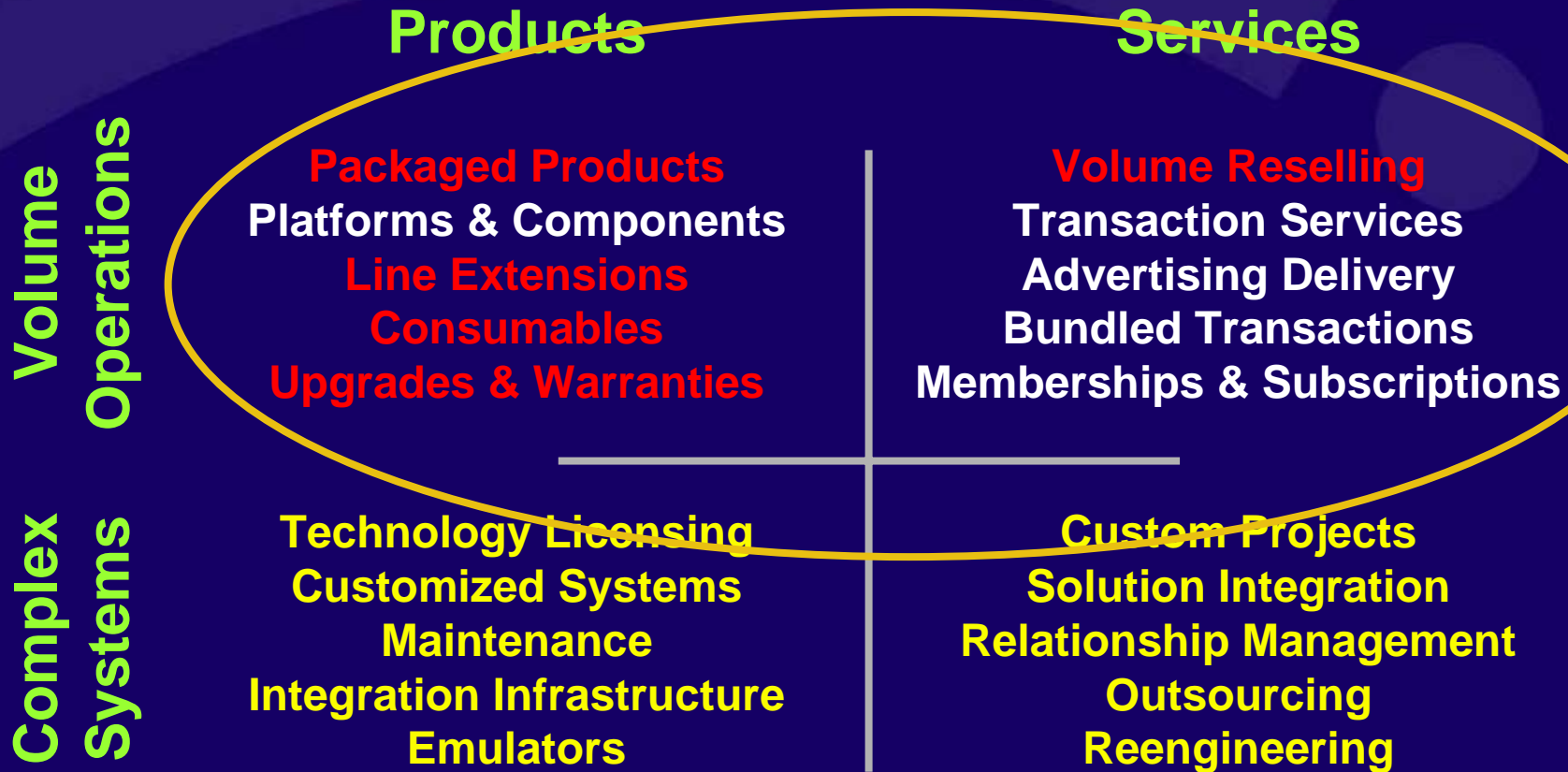
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Dell



Oracle

Products

Services

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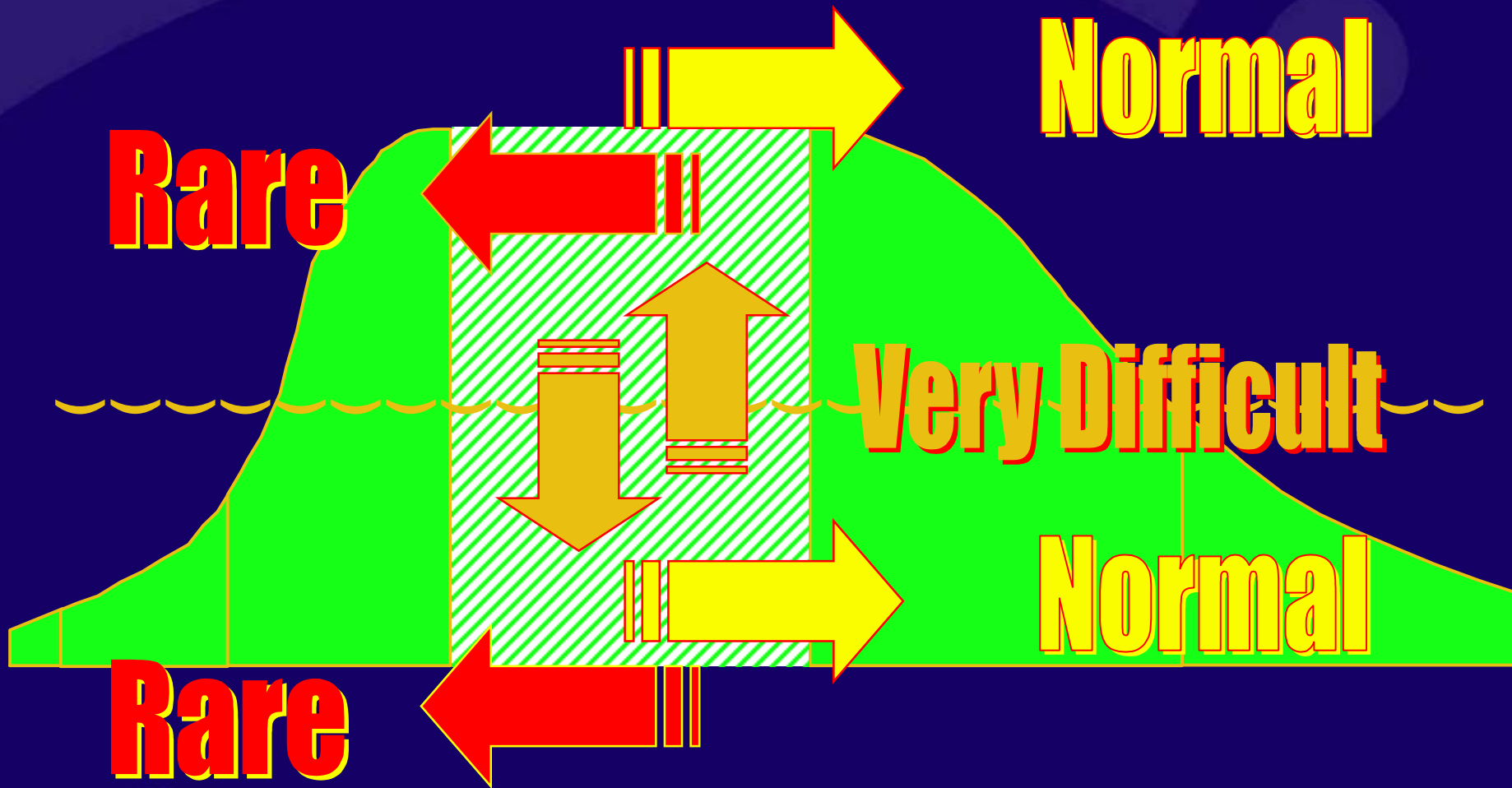
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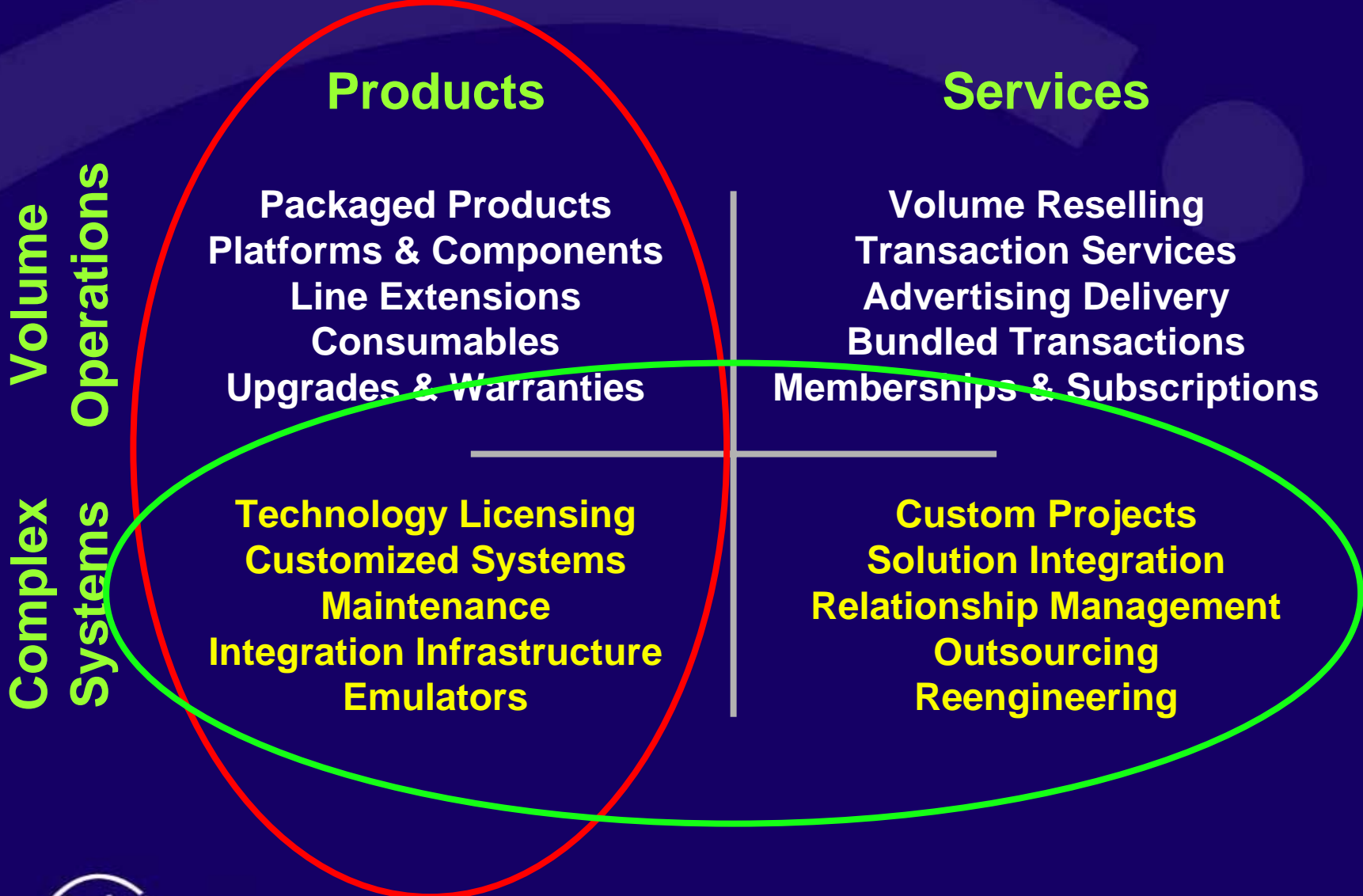
Custom Projects
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Business Model Migration

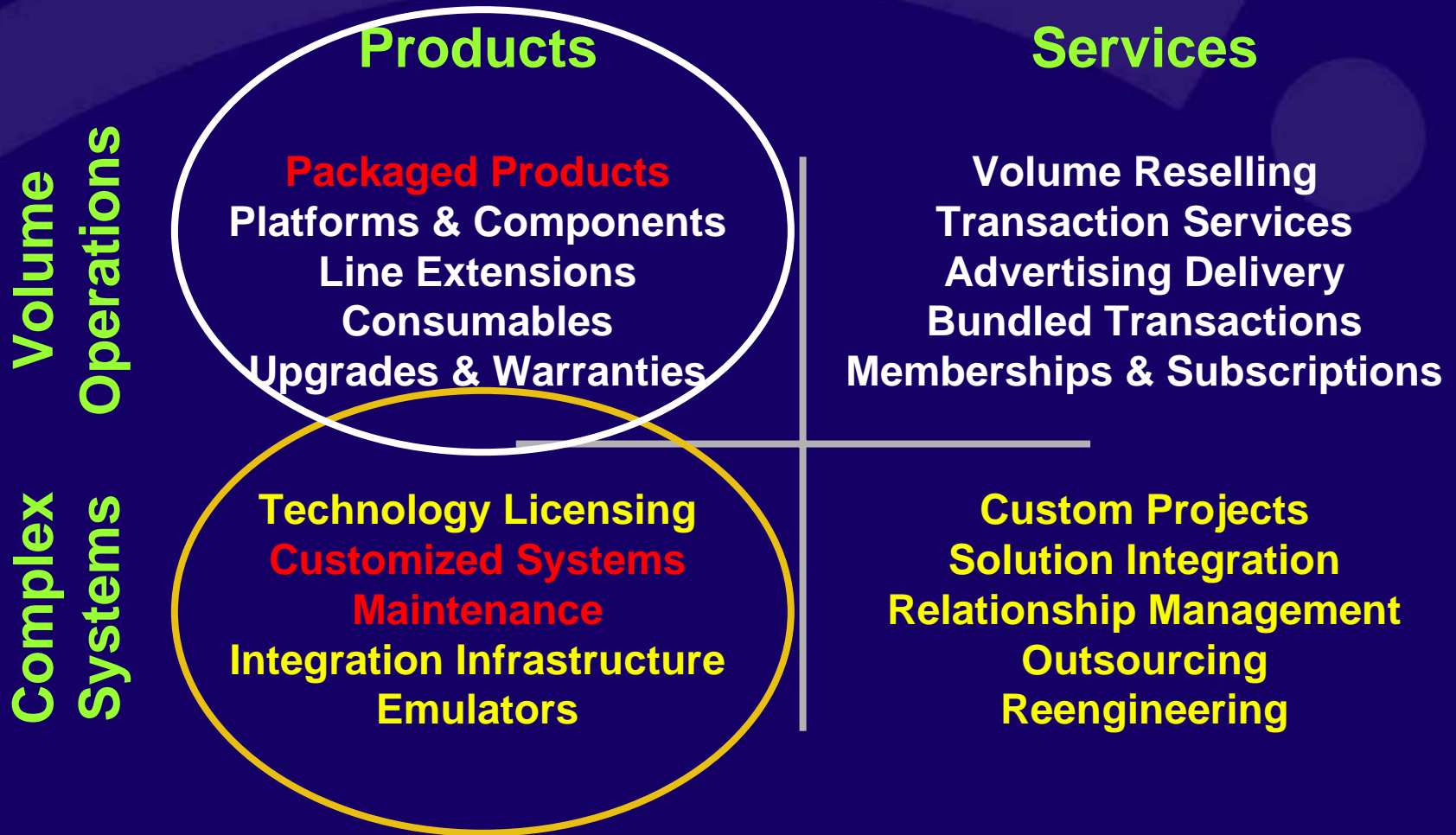
Volume Operations vs. Complex Systems



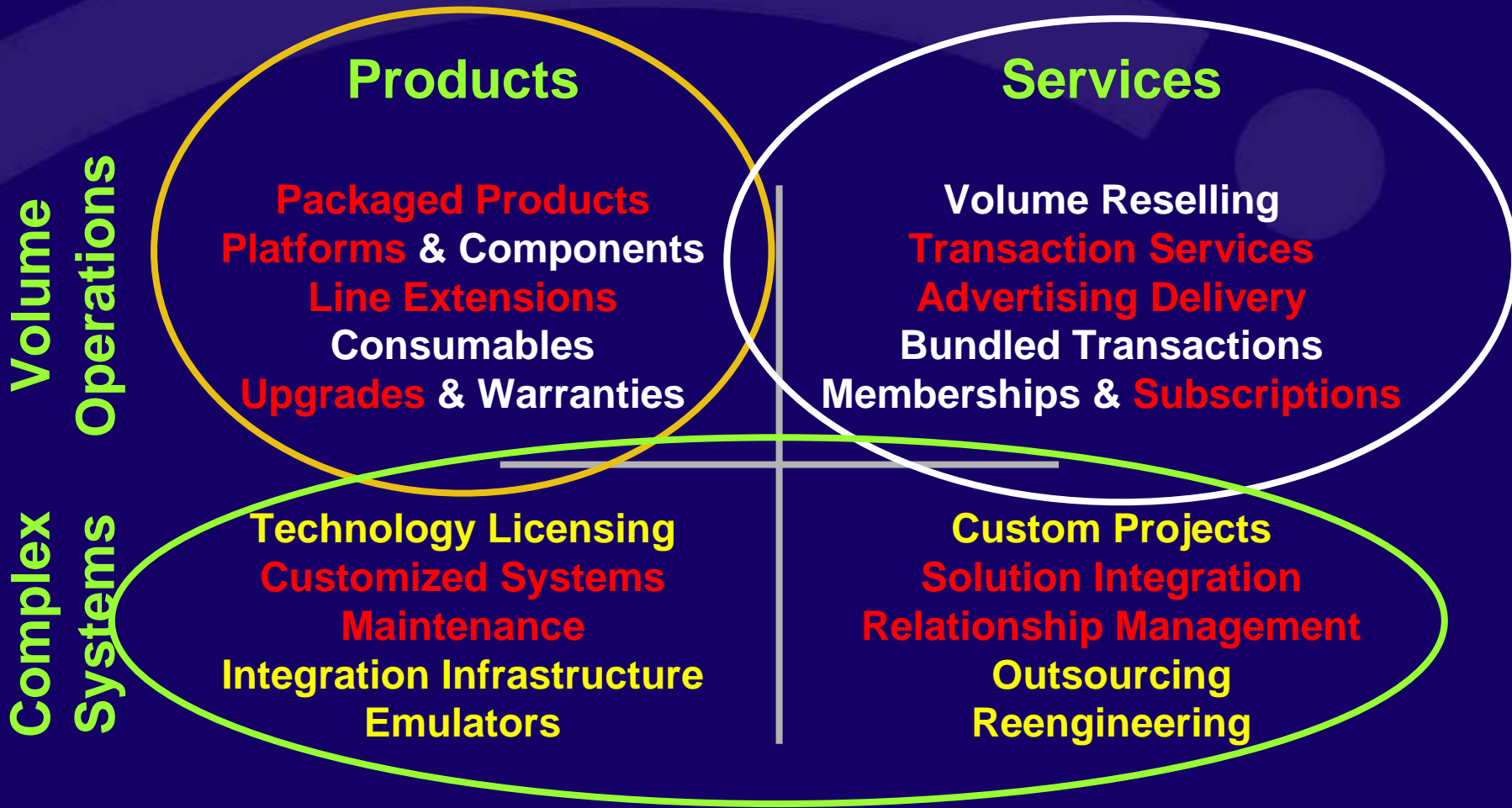
IBM-1 IBM-2



Cisco and Linksys



Microsoft



Traditional Business

Impact of Internet

Great Plains & Navision?

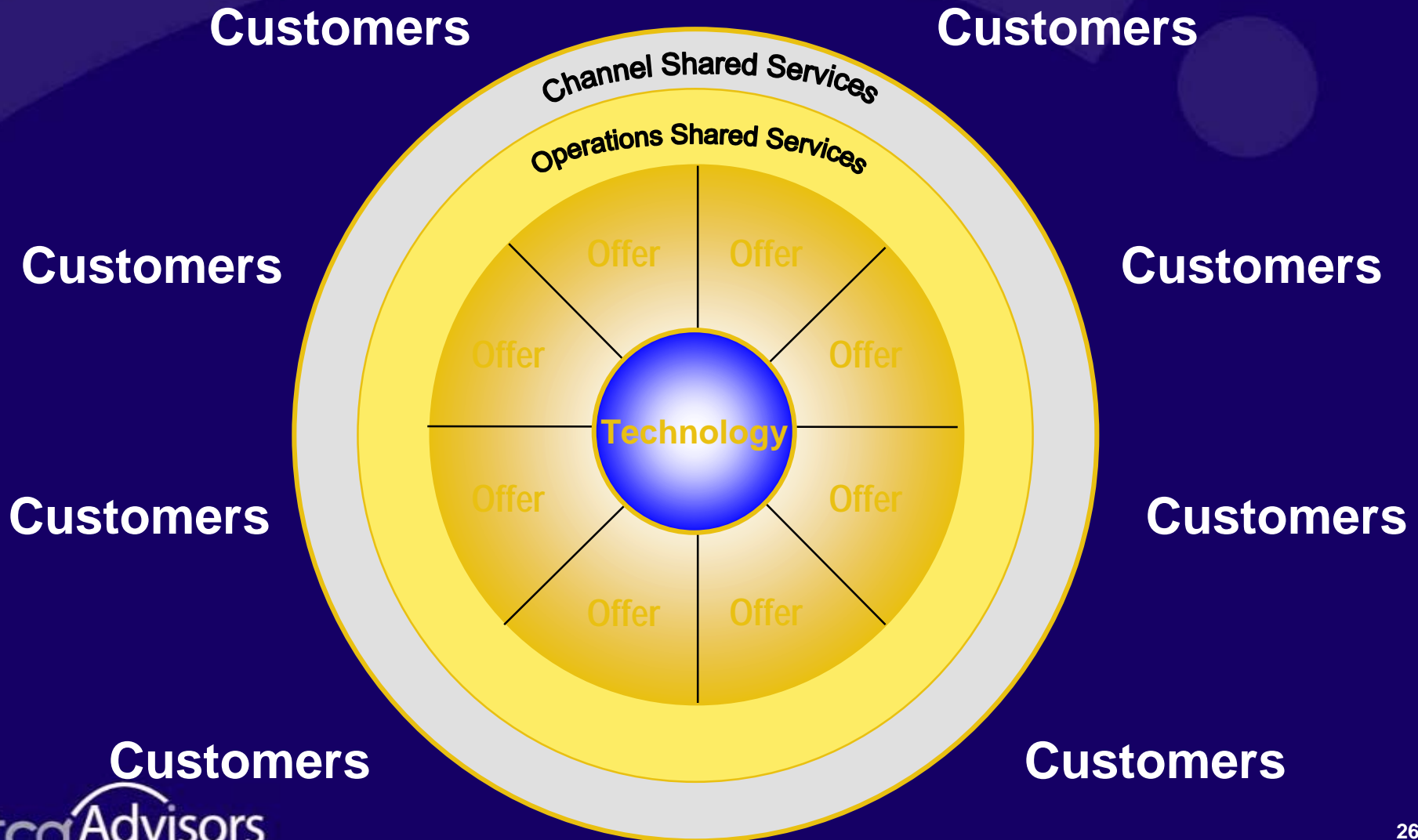
Implications

- **Incompatibility**
 - Operating ratios
 - Investment priorities
 - Brand management
- **Confusion among**
 - Employees
 - Partners
 - Customers

Why Mixing North and South is Hard

- **Volume Operations**
 - Organize around the means of production
 - Vendor power >> customer power
- **Complex Systems**
 - Organize around the customer engagement
 - Vendor power < customer power
- **Result is two different paradigms**

Volume Operations Paradigm



Complex Systems Paradigm

Target Customers

Solution Sales

Business Application & Services

Solution Architecture

3rd party product

Product #1

Product #2

Product #3

3rd party product

Platform Architecture

Integration Platform & Services

Legacy System

Legacy System

Legacy System

Legacy System

Why Morphing Between Groups is Hard

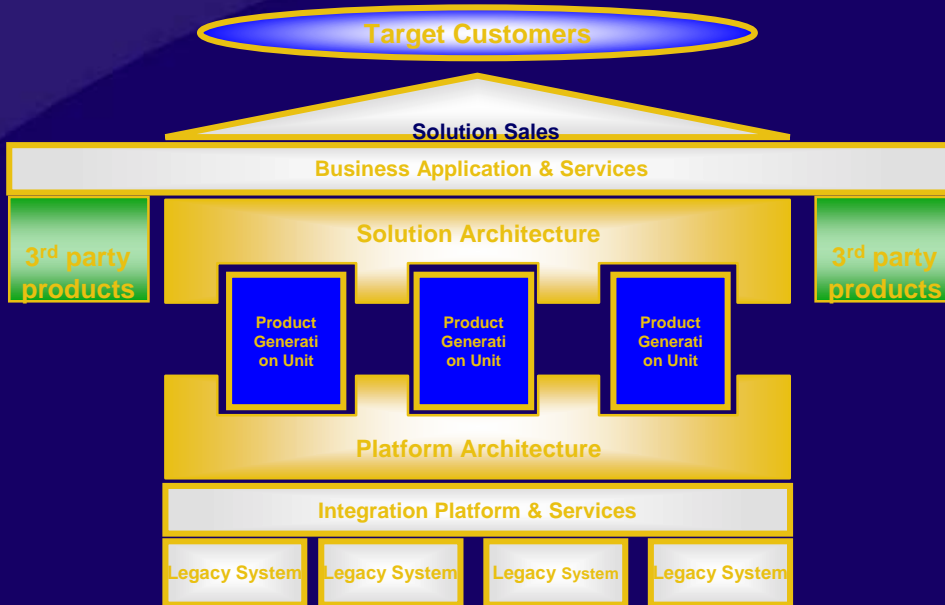
Complex Systems

- **Sales**
 - High-touch sales
 - Complex sales cycle
- **Services**
 - Consultative
 - Planned
- **Marketing**
 - Whole-product focus
 - Value-chain orientation
- **Engineering**
 - Configuration
 - Customization

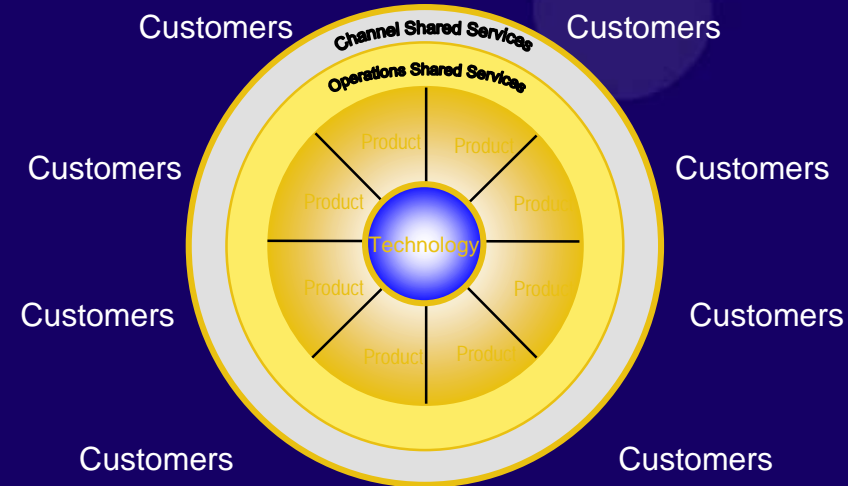
Volume Operations

- **Sales**
 - Low-touch sales
 - Single decision-maker
- **Services**
 - Transactional
 - Reactive
- **Marketing**
 - Feature-benefit focus
 - End-user orientation
- **Engineering**
 - Mass-produced
 - Mass-customized

The Challenge of “Handed”-ness



“Left-handed”



“Right-handed”

- Organizations become left- or right-handed over time
- Markets eventually privilege the other hand
- How do you become ambidextrous?

Some Rules of Thumb

- **Realize that you have a dominant hand and that is not going to change**
- **Whenever possible, partner for the opposite hand**
- **When you must be ambidextrous, manage each hand *very separately***
- **Ambidexterity is not sustainable; plan to revert to your dominant hand, or**
- **Move to a holding company structure**

Final Thoughts

Some Strategic Implications

- **Growth dynamics**
 - Pre-tornado, all markets are complex systems
 - Why volume operations struggle with chasms
- **Competitive dynamics**
 - Like-handed models compete to the death
 - Opposite-handed compete over a DMZ
- **Management dynamics**
 - Complexity or volume: pick one for your friend
 - Drive all other variables to conform