GEOFFREY A. MOORE

Author of *Inside the Tornado* and *The Gorilla Game*

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REVISED EDITION

CROSSING THE CHASM

MARKETING AND SELLING HIGH-TECH PRODUCTS TO MAINSTREAM CUSTOMERS

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Marketing and Selling High-Tech Products to Mainstream Customers

With a foreword by
Regis McKenna

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To
Marie

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Foreword

Within an ever-changing society, marketing represents the ongoing effort to keep the means of production—our products and services—in touch with evolving social and personal conditions. That "keeping in touch" has become our greatest challenge.

In an era when the pace of change was slower, the variety of products and services fewer, the channels of communication and distribution less pervasive, and the consumer less sophisticated, marketing could enjoy prolonged periods of relative stability, reaping profits from "holding the customer constant" and optimizing the other variables. That is no longer the case.

We live in an age of choice. We are continually bombarded with purchasing alternatives in every aspect of our lives. This in turn has led us to develop an increasingly sophisticated set of defenses, so that any company seeking to establish a "brand loyalty" in us is going to be hard-pressed to succeed. We demand more and more from our purchases and our suppliers, leading to increasingly fragmented markets served by products that can be customized by design, programmability, service, or variety.

There is a wonderful analogy to all this in the world of high technology. Behind the astounding proliferation of electronic systems, infiltrating our entertainment centers, our phones, our cars, and our kitchens, lies a technology called *application-specific integrated circuits,* or ASICs. These are tiny microprocessors that are producible in high volume up to the last layer, which is then designed *by the customers* to add the final veneer of personality needed for their specific product. ASICs embody many of the fundamental elements of modern marketing—radical customizability overlaid onto a constant and reliable foundation, dramatically shortened times to market, relatively small production runs, and an intense focus on customer service. They exemplify the remaking of our means of production to accommodate our changing social and personal needs.

As uplifting as all of this sounds in theory, in practice it represents a great challenge not only to our economic institutions but to the human spirit itself. We may celebrate change and growth, but that does not make either one the less demanding or painful. Our emerging and evolving markets are demanding continual adaptation and renewal, not only in times of difficulty but on the heels of our greatest successes as well. Which of us would not prefer a little more time to savor that success, to reap a little longer what we cannot help but feel are our just rewards? It is only natural to cling to the past when the past represents so much of what we have strived to achieve.

This is key to *Crossing the Chasm.* The chasm represents the gulf between two distinct marketplaces for technology products—the first, an early market dominated by early adopters and insiders who are quick to appreciate the nature and benefits of the new development, and the second a mainstream market representing "the rest of us," people who want the benefits of new technology but who do not want to "experience" it in all its gory details. The transition between these two markets is anything but smooth.

Indeed, what Geoff Moore has brought into focus is that, at the time when one has just achieved great initial success in launching a new technology product, creating what he calls early market wins, one must undertake an immense effort and radical transformation to make the transition into serving the mainstream market. This transition involves sloughing off familiar entrepreneurial marketing habits and taking up new ones that at first feel strangely counterintuitive. It is a demanding time at best, and I will leave the diagnosis of its ailments and the prescription of its remedies to the insightful chapters that follow.

If we step back from this chasm problem, we can see it as an instance of the larger problem of how the marketplace can cope with change in general. For both the customer and the vendor, continually changing products and services challenge their institution's ability to absorb and make use of the new elements. What can marketing do to buffer these shocks?

Fundamentally, marketing must refocus away from *selling product* and toward *creating relationship*. Relationship buffers the shock of change. To be sure, the specific product or service provided remains the fundamental basis for economic exchange, but it must not be treated as the main event. There is simply too much change in this domain for anyone to tolerate over the long haul. Instead, we must direct our attention toward creating and maintaining an ongoing customer relationship, so that as things change and stir in our immediate field of activity, we can look up over the smoke and dust and see an abiding partner, willing to cooperate and adjust with us as we take on our day-to-day challenges. Marketing's first deliverable is that partnership.

This is what we mean when we talk about "owning a market." Customers do not like to be "owned," if that implies lack of choice or freedom. The open systems movement in high tech is a clear example of that. But they do like to be "owned" if what that means is a vendor taking ongoing responsibility for the success of their joint ventures. Ownership in this sense means abiding commitment and a strong sense of mutuality in the development of the marketplace. When customers encounter this kind of ownership, they tend to become fanatically loyal to their supplier, which in turn builds a stable economic base for profitability and growth.

How can marketing foster such relationships? That question has driven the development of Regis McKenna Inc. since its inception. We began in the 1970s in our work with Intel and Apple where we tried to set a new tone around the adoption of technology products, to capture the imagination of a marketplace whose attentions were directed elsewhere. Working with Intel, Apple, Genentech and many other new technology companies, it became clear that traditional marketing approaches would not work. Business schools in America were educating their students to the ways of consumer marketing, and these graduates assumed that marketing was generic. Advertising and brand awareness became synonymous with marketing.

In the 1980s intense competition, even within small niches, created a new environment. With everyone competing for the customer's attention, the customer became king and demanded more substance than image. Advertising, as a medium of communication, could not sustain the kind of relationship that was needed for ongoing success. Two reasons in particular stood out. First, as Vance Packard, in *The Hidden Persuaders,* and others educated the American populace to the manipulativeness of advertising, its credibility as a means of communication deteriorated. This was an extremely serious loss when it came to high-tech purchase decisions, because of what IBM used to call the "FUD factor"—the fear, uncertainty, and doubt that can plague decision makers when confronted with such an unfamiliar set of products and services. Just when they most want to trust in the communication process, they are confronted with an ad that they believe may be leading them astray.

The second problem with advertising is that it is a one-way mechanism of communication. As the emphasis shifts more and more from selling product to creating relationship, the demand for a two-way means of communication increases. Companies do not get it right the first time. To pick two current market-leading examples, the first Macintosh and the first release of Windows simply were not right—both needed major overhauls before they could become the runaway successes they represent today. This was only possible by Apple and Microsoft keeping in close touch with their customers and the other participants that make up the PC marketplace.

The standard we tried to set at RMI was one of education not promotion, the goal being to communicate rather than to manipulate, the mechanism being dialogue, not monologue. The fundamental requirement for the ongoing, interoperability needed to sustain high tech is accurate and honest exchange of information. Your partners need it, your distribution channel needs it and must support it, and your customers demand it. People in the 1990s simply will not put up with noncredible channels of communication. They will take their business elsewhere.

At RMI we call the building of market relationships *market relations.* The fundamental basis of market relations is to build and manage relationships with all the members that make up a high-tech marketplace, not just the most visible ones. In particular, it means setting up formal and informal communications not only with customers, press, and analysts but also with hardware and software partners, distributors, dealers, VARs, systems integrators, user groups, vertically oriented industry organizations, universities, standards bodies, and international partners. It means improving not only your external communications but also your internal exchange of information among the sales force, the product managers, strategic planners, customer service and support, engineering, manufacturing, and finance.

To facilitate such relationships implies a whole new kind of expertise from a consulting organization. In addition to maintaining its communications disciplines, it must also provide experienced counsel and leadership in making fundamental marketing decisions. Market entry, market segmentation, competitive analysis, positioning, distribution, pricing—all these are issues with which a successful marketing effort must come to grips. And so we again remade ourselves, adding to market relations a second practice—high-tech marketing consulting.

Today, our practices of marketing consulting and market relations together are tackling the fundamental challenge of the 1990s—helping multiple players in the marketplace build what we call "whole product" solutions to market needs. Whole products represent completely configured solutions. Today, unlike the early 1980s, no single vendor, not even an IBM, can unilaterally provide the whole products needed. A new level of cooperation and communication must be defined and implemented so that companies—not just products—can "interoperate" to create these solutions.

Crossing the Chasm reflects much of this emphasis. Moore is a senior member of the RMI staff and has become an integral contributor to the development of our practice. An ex-professor and teacher by trade, he does not shrink from taking the stage to evangelize a new agenda. Part of that agenda is to make original contributions to the marketing discipline, and as you will see in the coming chapters, Geoff has done just that. At the same time, as he himself is quick to acknowledge, his colleagues and his clients have made immense contributions as well, and he is to be commended for his efforts in integrating these components into this work.

Finally, I would just like to say that this work is going to make you think. And the best way to prepare yourself for the fast-paced, ever-changing competitive world of marketing is to prepare yourself to think. This book adds the dimension of creative thinking as a prelude to action. It will change the way you think about marketing. It will change the way you think about market relationships.

Regis McKenna

Acknowledgments

The book that follows represents two years of writing. It also represents my last 13 years of employment in one or another segment of high-tech sales and marketing. And most importantly, it reflects the last four years I have spent as a consultant at Regis McKenna Inc. During this period I have worked with scores of colleagues, sat in on innumerable client meetings, and dealt with myriad marketing problems. These are the "stuff" out of which this book has come.

Prior to entering the world of high tech, I was an English professor. One of the things I learned during this more scholarly period in my life was the importance of evidence and the necessity to document its sources. It chagrins me to have to say, therefore, that there are no documented sources of evidence anywhere in the book that follows. Although I routinely cite numerous examples, I have no studies to back them up, no corroborating witnesses, nothing.

I mention this because I believe it is fundamental to the way in which lessons are transmitted in universities and the way they are transmitted in the workplace. All of the information I use in day-to-day consulting comes to me by way of word of mouth. The fundamental research process for any given subject is to "ask around." There are rarely any real facts to deal with—not regarding the really important issues, anyway. Some of the information may come from reading, but since the sources quoted in the articles are the same as those one talks to, there is no reason to believe that the printed word has any more credibility than the spoken one. There is, in other words, no hope of a definitive answer. One is committed instead to an ongoing pro-

cess of update and revision, always in search of the explanation that gives the best fit.

Given that kind of world, the single most important variable becomes who you talk with. The greatest pleasure of my past four years at RMI has been the quality of people I have encountered as my colleagues and my clients. In the next few paragraphs I want to acknowledge some of them specifically by name, but I know that by so doing I am bound to commit more than one sin of omission. From those who are not mentioned but who should have been, I ask forgiveness in advance.

Several of my current colleagues have offered ongoing input and criticism of this effort in its various conversational and manuscript forms. These include Paul Hodges, Randy Nickel, Elizabeth Chaney, Ellen Hipschman, Rosemary Remacle, Page Alloo, Karen Kang, Karen Lippe, Greg Ruff, Chris Halliwell, Patty Burke, Joan Naidish, Sharon Colby, and Patrick Corman.

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Beyond that, there are three more people without whom this book would not be possible. The first of these is Regis McKenna, my boss, founder of my company and funder of my livelihood, and in many senses the inventor of the high-tech marketing practice I am now trying to extend. The second is Jim Levine, my literary agent, the man who took a look at 200-odd pages of manuscript a year or so ago and allowed as how, although it wasn't a book, it might have possibilities. And the third is Virginia Smith, my editor, who has been guiding me this past year through the bizarre intricacies of the book publishing business.

There remains one last group of people to name, those who have been at the center of almost anything I have ever undertaken: my parents, George and Patty; my brother, Peter; my children, Margaret, Michael, and Anna; and my wife, Marie. I am particularly indebted to Marie, for many reasons that go well beyond this book, but specifically in this instance for making the countless sacrifices and giving the kind of emotional and practical day-to-day support that make writing a book possible, and for being the kind of person that inspires me to undertake such challenges.

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PART I

DISCOVERING THE CHASM

Introduction

If Bill Gates Can Be a Billionaire

There is a line from a song in the musical *A Chorus Line*: "If Troy Donahue can be a movie star, then I can be a movie star." Every year one imagines hearing a version of this line reprised in high-tech start-ups across the country: "If Bill Gates can be a billionaire . . ." For indeed, the great thing about high tech is that, despite numerous disappointments, it still holds out the siren's lure of a legitimate get-rich-quick opportunity.

But let us set our sights a little more modestly. Let us say, "If two guys, each named Mike Brown (one from Portland, Oregon, and the other from Lenexa, Kansas), can in 10 years found two companies no one has ever heard of (Central Point Software and Innovative Software), and bring to market two software products that have hardly become household names (PC Tools Deluxe and Smartware) and still be able to cash out in seven figures, then, by God, we should be able to too."

This is the great lure. And yet, as even the Bible has warned us, while many are called, few are chosen. Every year millions of dollars—not to mention countless work hours of our nation's best technical talent—are lost in failed attempts to join this kingdom of the elect. And oh what wailing then, what gnashing of teeth!

"Why me?" cries out the unsuccessful entrepreneur. Or rather, "Why not me?" "Why not us?" chorus his equally unsuccessful investors. "Look at our product. Is it not as good—nay, better—than the product that beat us out? How can you say that Oracle is better than Ingres, Lotus 1-2-3 is better than SuperCalc Five, Macintosh is better than Amiga, or the Intel 80386 is better than the National 32032?" How, indeed? For in fact, feature for feature, the less successful product is often arguably superior.

Not content to slink off the stage without some revenge, this sullen and resentful crew casts about among themselves to find a scapegoat, and whom do they light upon? With unfailing consistency and unerring accuracy, all fingers point to—*the vice-president of marketing*. It is marketing's fault! Oracle outmarketed Ingres, Lotus outmarketed Computer Associates, Apple outmarketed Commodore, Intel outmarketed National. Now we too have been outmarketed. Firing is too good for this monster. Hang him!

While this sort of thing takes its toll on the marketing profession, there is more at stake in these failures than a bumpy executive career path. When a high-tech venture fails, everyone goes down with the ship—not only the investors but also the engineers, the manufacturers, the president, and the receptionist. All those extra hours worked in hopes of cashing in on an equity option—all gone.

Worse still, because there is no clear reason why one venture succeeds and the next one fails, the sources of capital to fund new products and companies become increasingly wary of investing. Interest rates go up, and the willingness to entertain venture risks goes down. Wall Street has long been at wit's end when it comes to high-tech stocks. Despite the efforts of some of its best analysts, these stocks are traditionally undervalued, and exceedingly volatile. It is not uncommon for a high-tech company to announce even a modest shortfall in its quarterly projections and incur a 20 to 30 percent devaluation in stock price on the following day of trading.

There is an even more serious ramification. High-tech inventiveness and marketing expertise are two cornerstones of the