



PREMIUM PODCASTS FOR THE 21<sup>ST</sup> CENTURY

## THE ANDERSON FILES

CROSSING THE CHASM – PETER MOORE 

This is The Anderson Files on PodClips. The Anderson Files is a look at commerce, investment, economics, and retirement issues that affect each and every one of you. Your host is Mike Anderson, executive vice president and registered investment advisor of the Warner Companies, a Foundation Risk Partners Warburg Pincus company. The Warner Companies is a registered investment advisor with securities offered through M. Holding Security Incorporated, member of FINRA and SIPC.

And now your host, friend, and colleague, Mike Anderson.

I'm chatting today with Peter Moore.

Peter is a business strategist and technology advisor specializing in helping companies compete in the age of digital disruption.

Peter is an expert in working with early-stage leadership teams to put together a focused and disciplined go-to-market playbook and game plan that allows them to successfully move from the early market to the mainstream market.

We'll be discussing his nine-step "Crossing the Chasm" game plan.

Peter, welcome.

Thank you, Mike.

Nice to be with you.

Oh, great.

Yeah, thanks for being with us this morning.

To start out, what is the technology adoption cycle and why is it critical to startups who want to launch and scale new products and services into the high-tech market?

Yeah, Mike, the technology adoption life cycle is really a framework and a model that shows what happens in the market when a new disruptive technology is introduced.

And traditional thinking was that there was this sort of linear progression from the introduction to the maturity.

And in fact, that's not true.

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The technology adoption lifecycle really highlights three different target segments. The first early market, which is about 15% of the total market, early adopters and visionaries, and they will buy before the crowd. They're not worried about being, you know, waiting and seeing what's happening. 40% of the market's made up of what we call pragmatists. These are people who will buy only with the crowd of fellow pragmatists and need to see a more fully developed product or solution before they buy. And then the other 40% in the mainstream market is conservatives. They buy after the crowd when they get the best price-value relationship. And the reason it's important for the success of startups is a lot of startups, the traditional thinking was, I can take one message to the entire market. And the fact of the matter is the motivations in each case for each of those different segments is so different that one message will fail. And so part of the value that the nine-step market playbook, which we'll talk about in a few minutes is how to actually discern what part of the market you're trying to connect with and what's the proper playbook to connect with it. And Peter, why are startups so successful in using digital technology to disrupt the market dominance of well-established companies? How does that come into play? Yeah, this is it, because normally you think, hey, here's this well-established company, it's got market presence, it's got dominant market share, it's got all the resources it needs. But what it doesn't have, as you know, having worked with a number of wealth, it doesn't have a single aligned focus as to what the outcome is. So the advantage that a startup has is everybody says, look, there's one thing we want to do, we have this new product or new solution, and we have to get it to market and get it established so we can get to cash flow positive before we run out of money. The well-established company, by contrast, has

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existing businesses, and they're funding those businesses. And those businesses are producing the revenues, margins, and profits that everybody expects it to do. And so what happens is, is you get into this tug and pull in an established company, and they don't have a Darwinian focus on prioritization. And let me give you a quick example. In the 14 years that Steve Ballmer was the CEO of Microsoft, the stock never traded over \$40 a share. You say, how is that possible? You know, with all the cash flow? Well, the problem was when they did their annual planning and budgeting, they brought all the new ideas in for potential new businesses like Xbox and Cloud and et cetera. But they had the conversation concurrently with funding Windows and Office. And ultimately, 90 to 95% of the budget and resources went to Windows or Office, and therefore they never launched and scaled the material in their business. And that's a challenge that all established businesses have. You know, on that, what are the biggest hurdles startups need to overcome to successfully launch and scale their businesses? Yeah, again, for a lot of people, this is common sense, but believe me, having worked with a lot of startups, it's hard to do because we're all human. The biggest hurdle initially, Mike, is the fact that you need to stay disciplined and focused on landing a meaningful, big, important client early on, as opposed to a little one here and a little one here and a little one here, because there's not enough traction and visibility that what you're offering to the marketplace has potential for broader acceptance. And so the challenge early on is, can we find that visionary who really sees an opportunity for his or her company to benefit from adopting and deploying the new technology early, versus the pragmatist who has a very specific problem or solution that they want solve. Okay, so staying focused on now what happens is they start there, but then they get anxious because the money starts running out. And they start chasing all these different opportunities. And they dilute their resources very quickly. The other part of it is, is the

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recognition that you have to completely invert your customer engagement messaging and relationships

when you move from the early market to the mainstream market. So for example, the early adopter will work with the minimum viable product. They're very happy to do so. And they'll help

you build out and give you feedback so you can expand and enhance it. The pragmatist wants a whole product,

whole solution and only will buy when other pragmatists are buying to solve a similar problem. So you have to understand those dynamics and if you think that what's working in the early market will work with the pragmatist, it will fail every time.

And Peter, why is a focused, disciplined, and repeatable go-to-market game plan so important, right from the get-go to the success and the prosperity of a firm?

Well, let me give you some statistics.

We did some research and over the last 20, 25 years, when you look at the overall industry of technology, new products and solutions driven by technology, less than 17% of those products are successful.

And if you go into a venture capital firm, even today, you know, the original book of "Crossing the Chasm" was written in 1991. Okay, the third edition was written in 2014. So it's not like this is new news, it's been around. But when you go into a VC firm today, they will willingly admit that eight out of 10 of the companies in their portfolios aren't going to scale. And what we're really, what we've recognized is we've had over 500 use cases during this period of time. When you follow this discipline, and we'll talk specifically about it in a few minutes, you know, it enables you to make sure that you're fully aligned with what the marketplace is looking for, as opposed to just whether or not you're doing a good job of selling the features and benefits of your product. And that's the key to this whole process, because you'll, you'll

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hear things like partners and allies, and different things like that pricing sales, there's a lot of different elements in this. But when you go through that process, as I said, over the 500 use cases, the companies that have successfully adopted and utilized this process have a success rate greater than 70%. And again, I'm not saying wow, we're terrific and nobody else knows what they're doing, but I think the challenge is that there's not enough continuity to how they go to market, and so you get all kinds of sporadic results.

And, Peter, with that, to focus in now on the core elements that make up the nine steps of "Crossing the Chasm," the go-to-market game plan, what's the biggest source of failure at each step and in outlining the positive ends and steps of those nine points?

I'll quickly go through and then come back to the, you know, the first step is the target customer.

Second is the compelling reason for that customer to buy.

The third step is the whole product, which we'll talk about.

The fourth step is partners and allies.

The fifth step is sales channels.

Next step is pricing and competition, positioning, and the next target customer.

So let's go back to step one and talk about identifying the target customer.

And so here, as we said is, you know, who is the initial person or individual or a company or organization that you think is most motivated by the potential that your product or solution offers? And it could be the early adopter visionary in many cases, sometimes there's a there's a pragmatist, you can you can start with the pragmatist, just I don't want to get into that because that's the exception, not the rule. And then the biggest source of failure is once you've

established, and I've got a good use case in the end to make the point, once you've established a presence in the early market, the assumption is I can take that messaging and then go to the mainstream market and have the same response.

And that's where it fails.

So the success thing is the understanding of those differences and inverting your marketing message so that you do connect with very, very different buying motivations.

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My guest today is Peter Moore,  
and you're listening to The Anderson Files on podclips.io.  
Peter, I wanted to ask, in the context of these nine steps,  
is part of it evaluating whether there really is a business there?  
Because I've seen situations where there's an idea,  
it's either a service or a product,  
And, you know, it's something missing in the marketplace.  
It has some viability, but does it really come to the level of we can make a business  
out of it?  
You know, it's interesting.  
We can talk a little bit about AI in a minute too, but when a new technology comes in,  
everybody gets excited about the new bright, shiny object.  
And they think, wow, look at this.  
It's going to be terrific.  
And man, oh, man, you got to have it.  
everybody else. We're all doing this stuff, instead of saying,  
wait a minute, what is the issue? What is its ear point? What's  
the business case for why this thing is going to have  
sustainable value and impact in helping companies address  
specific opportunities or challenges? And they don't. And  
again, as you know, a lot of startups are started by, you  
know, engineers and people who develop these products, or  
software or hardware, whatever it is. And they're very  
focused on the product and the benefits of the product and all  
the features and everything else. Okay. And that's where that  
as opposed to saying, Okay, great. But does the market have  
a need for this particular package of benefits and  
products? Again, the discipline of this nine-step  
process is to say, when we're done, you will either  
have a business case to go forward or you won't. And  
believe me, I've gone through a lot of workshops with this  
particular process. And the answer at the end was, we're  
not ready. That's equally true. The other interesting part, Mike,

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is that established companies face the same challenge when they try to introduce something new into their organization. I worked with SAP for a while, and they had the new HANA software and they wanted to do a marketplace offer where individuals could come and kick the tires, you know, online. And they had all these ideas about what they wanted to do. And when we took them through this, they recognized they were not totally ready to be able to fulfill that offer. And they were willing to spend a lot of money in a very short period of time. And it wasn't that we didn't do it, we just didn't do it in that timing, because we hadn't made the case. And that's an important part of it. You know, which, which gets back, I think, to, you know, the second step is this compelling reason to buy. And most companies confuse that with their compelling reason to sell. And so it's that ability to understand that your sales message is not what you think the benefits are, but you convincing the customer that you can help the problem that they have. And that really inverts it. And in the case of the conservatives, all they want is price-value relationship. They want to see a lot of evidence of what you're doing works really, really well. And so that gets us kind of to the third step, which is its idea of a whole product. And what's interesting, I think there, and that's really the complete set of all the different elements, hardware, software, services, whatever it is that you need in order to solve the problem or the need that the buyer has. And what happens here is the biggest source of failure is trying to take less than a whole product and sell it to a private interest. They won't buy it. And then the fourth step is partners and allies. this is a really interesting part of it. I think this probably in many cases is more significant in the success of smaller startups because you just don't have the resources to go along in many cases, nor do you have the skills and capabilities to present a whole product. So who are the other organizations? Are they different providers of products? Are they different sales channels, partners? Are they different service providers? So you have to create this ecosystem. And in doing so, you know, you not only build out the whole product, but

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you really create a group of people who can help the customer, in this case, get the desired outcome that they're looking for. And there's two challenges. One is that some companies don't want to give up that control. And two, they have a hard time recruiting people and aligning on desired outcomes. Everybody understands it conceptually, but to be able to build and manage an ecosystem well is a challenge.

And so we spend a lot of time talking about that because the failure is that you either think you don't need it or you're not very good at doing it.

And so that's the key there.

The sales channel part of it is really one of the direct and indirect sales channels.

So you're gonna have value-added resellers, internet service providers, distributors, other third parties, so that you can broaden your reach in the marketplace and engage the target customers in different ways.

And the biggest source of failure here is to assume that the sales channels that worked in the early market will work in the mainstream market.

What we've discovered is, in fact, no, that the pragmatist uses different sales channels in many cases than the early adopter envisioned.

So again, it's that understanding that one solution, one sales channel or one sales approach solution isn't going to work.

And then the next one is pricing, and pricing, I think, is very interesting because this goes back to your question about the business case.

What's the total price the customer will pay for the whole product or solution? not your portion, but what's the whole thing?

Because maybe yours is very reasonable, but by the time you build everything out, it becomes a little bit more expensive.

And is that something that the market is willing to do?

And how soon can the customer expect to get a payback on that purchase?

So the pricing structures that we talk about is, is there an ROI win for the customer?

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Is there a financial win for your product and sales partners, sales channel partners, they have to have a piece of it. And is there a profit in it for your company? And the biggest source of failure here, Mike, is that the assumption that there's one ROI for all three. And what we've discovered is no, that's not true. The early market, the early adopter and visionary is comfortable with the 12 to 24-month ROI period. The pragmatist is more likely six to 12 months, and the conservative is three to six months. Those are generalizations, but those are sort of orders of magnitude. So if you go into a pragmatist with a two- to three-year return on a lot, they're not gonna buy. Yeah, and Peter in regards to pricing initial pricing would you say the more effective way to go is to keep the pricing as simple as possible, and then as things grow, tiering out pricing? Is that at least initially keeping it as simple and straightforward as really feasible? Absolutely, except for the only exception I make is a lot of companies say, well, we'll give it away to start. That is a mistake. If they're not willing to pay you for it, it's probably not got a lot of value to them. But you're right, Mike. A lot of people do get sort of tied up in all these different kinds of pricing, you know, models and schedules and stuff like that, the more transparent and direct you can be in simplifying it and get a trial, just get them started. Because particularly with pragmatists, and you'll see the example when we get to the use cases, once the pragmatist has success, that creates what Jeffrey refers to as a tornado, which is this huge market up because lots and lots of people say, wow, this works and it solves the problem I have. I have to have it now. So that's critical part of it. To continue on, how should competition be assessed? Yeah, the competition really is who are the direct and in some cases indirect competition. So lots of times you say, well, if I'm trying to sell a fork, I only care about people that are selling forks as opposed to people who are selling tableware. But the other thing that's interesting in the competition thing, like is that startups, particularly because they're so enthusiastic, and they think it's different, it's disruptive, they don't appreciate the power that

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established market companies have with their customers.  
There is a relationship has been established. And that relationship is not easily dislodged. So the reason that that we think it's important is, because the next step is the positioning statement. And this is where we really, we have a template that we've developed. It sort of centers around five questions.  
Who's the target customer?  
What problem are they trying to solve?  
How does your product or solution help them solve the problem?  
How is your product and solution better than existing?  
So you've got to call in that contrast in comparison to what they have now, because in many cases, you'll want them to switch.  
And what are the key points of differentiation from the other competing offers?  
That conversation winds up with a very concise, typically about 75-word positioning statement.  
And that is one of the steps that's, until you can do that, and people in the company are comfortable with it, they understand it, they can communicate it, and it's part of what they're doing,  
Then you're not ready to go to market. And so that's, that's a huge source and the failure there is thinking  
You can just go out and wing it.  
You can just say see we have all these wonderful things isn't that great?  
You should do it.  
And then the last one is just basically the next target customer and there is what you're looking for is adjacency  
Are there adjacent markets? Are there adjacent within a given vertical, different verticals or within different organizations?  
And if you want, we can use a use case to really sort of bring that to the full.  
And as far as this crossing the chasm and communicating it to businesses, entrepreneurs,

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how do you and your team do that?

Is this in book form, online?

Are you having seminars?

Do you come on-site?

How do you like to communicate the game plan?

Jeffrey, as I said, Jeffrey wrote the original book in '91, and now it's in his third edition, and there are millions of copies out there. If you go to Silicon Valley, I don't think you can bump into anybody who not only hasn't read it, but probably used it in three or four companies. We also do workshops. There's a group called the Chasm Institute who does workshops around this. I do workshops. I typically like to do it that way, because what's so really, I think, powerful about what Jeffrey in his heart of hearts is an English teacher. And so the language and the metaphors are so consumable, that I can literally go in in a day or a day and a half workshop, depending on the scope of what we want to do, I can facilitate a discussion that enables the participants to have 80 to 85% of what they need to self-enable implementation, as opposed to now you got it,

you know, we're going to spend the next six months together doing all this. No, we can do it very, very quickly.

And I think, well, let me let me use the document in this use case, because I think it's, it's so instrumental. And it also tees up a lot of the issues we're talking about. The company and this goes back to the early 90s, the company is called Documentum. And it's a document management software company. They were founded in 1990, and by 1993, they'd had \$2 million in revenue, but they couldn't get it beyond \$2 million. So when we sat down with them and started the conversation, one of the first questions we asked them was, who's your target customer? And their answer was all personnel who touch complex documents in all large enterprises. Okay, we said, really? Okay, let's, let's talk about that little bit. All right. So and again, they had a wonderful

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product. Okay. But they were what we call spraying and praying trying to figure out somebody to connect with. So we sat down and said, who really has a problem with managing efficiently complex documents? It turns out that it was the regulatory affairs department heads at the 40 pharmaceutical companies in the Fortune 500. So we took their target market from hundreds, if not thousands, down to 40. Now you have to have a leader who goes, okay, I'll play this game, because that really reduces your field, obviously. But what we recognized was that at that point in time, any pharmaceutical company that got a patent for a drug approved, they then had to go and sell to each of the 50 states. So there could be a license for sale on each of the 50 states. It took a lot of time, lot of documents, a lot of complexity. At that point in time, the average patented drug was generating \$400 million in revenue a year, which means every day they were delayed was costing them a million dollars. Okay, so we launched it there, okay, in the end of '93. By the end of '94, their revenue went to 8 million. By the end of '95, it went to 25 million. In '96, it went to 45 million and they IPO and in 1997, it went to 75 million. Now, my shorthand for that is to get big, think small, but that's back to the idea of focus and disciplines, but most importantly, to the point you made earlier Mike, they had a compelling reason for the, from a customer's point of view, to buy their solution, as opposed to here's a better way to do what you've always been doing so. And when startups go through that discipline, I'm always interested, you know, why venture firms, for example, and they have everybody has their own way of doing things, private equity firms as well, et cetera, established companies. The hard part is to get them to say, here is a very direct, straightforward, repeatable focused approach that if you go through it and you do it, you know, it really can help you get the kind of outcomes that you want. Peter, thanks so much for guesting today, and as we wrap up, what is the best way for our listeners to reach you? They can reach me in one of two ways.

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The easiest way is to just email me at pd, as in David Moore, m-o-o-r-e, at w-o-e-l-l-c.com. pdmoore@woellc.com

The other way they can go to the website and the company that I'm president of in Santa Monica is

called Wild Oak Enterprises and we have a website and that's just w-o-e-l-l-c.com so you can go there.

If you want to call me which is fine you can reach me at 970-309-3137.

And I think you know the interesting part because both you and I are in Los Angeles, You know, "Crossing the Chasm" is so well known and taught in major universities, but particularly in Silicon Valley, it isn't very well known down here.

So part of what I, you know, if there are listeners out there who are in Los Angeles, you know, Metro Market and are interested in this, I'm looking for opportunities and forums like, and I'm appreciative to be on your Anderson Files podcast, but just to introduce and socialize these frameworks and say, you know, if there's something you think can be helpful? Great. If not, no problem.

Peter, thanks so much for sharing "Crossing the Chasm." Really appreciate you coming on today and, and conveying this really valuable information for businesses for entrepreneurs. I

want to thank Mark Alyn, our producer, recording engineer, Darrell Wayne. Thanks so much. I'm Mike Anderson, and this is The Anderson Files on podclips.io. Keep calm and keep listening.

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