DEALING WITH DARWIN

How Great Companies Innovate at Every Phase of Their Evolution

GEOFFREY MOORE

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In just the same way as a Darwinian battle for the survival of the fittest occurs in the natural world, a similar kind of phenomena often arises within the marketplace. To survive and prosper, companies need to keep innovating all the time to retain a competitive advantage. The precise nature of the types of innovations which will generate the greatest returns varies as the marketplace itself changes and evolves in this way:

- In the early stages of a new market, product leadership style innovations are highly valued.
- Once a market reaches maturity, innovations centered around operational excellence or customer intimacy take center stage.
- In a declining market, competitive advantage is achieved using category renewal innovations.

To respond to these changes, companies should be consistently doing two things:

1. Choose one specific innovation strategy and become so good at it that you create definitive separation from all your competitors over a prolonged and sustained period of time.
2. Move resources from being applied in areas that don’t create any competitive distinction to those areas where differentiation can be enhanced.

“Free-market economies operate under the same rules as organic systems in nature. The fundamental question Darwinism poses is: How can we innovate forever? That is precisely what natural selection forces us to do. Evolution requires us to continually refresh our competitive advantage, sometimes in dribs and drabs, sometimes in major cataclysms, but always with some part of our business portfolio at risk and in play. To innovate forever, in other words, is not an aspiration; it is a design specification. It is not a strategy; it is a requirement.”

-- Geoffrey Moore

The fifteen types of corporate innovation, related to the life cycle of the marketplace

1. Managing innovation in growth, mature and declining markets
2. Managing inertia within your organization so you can fully exploit your innovation strategy
Managing innovation in growth, mature and declining markets

To be innovative doesn’t always mean to come up with a new breakthrough product. In reality, there are fifteen distinct innovation strategies, each of which can be useful at different times depending on the evolution of the marketplace as a whole. No one of these strategies guarantees success but you need to be aware of the range of possibilities. Instead, success demands that your organization choose one of these strategies to excel at so you can in the process leave all the competition behind.

To decide which innovation strategy you should use to break free of the competition, there are three factors to consider:

1. **Core competencies** – the existing assets your organization already has in place to exploit.
2. **Competitive analysis** – the openings left by your competitors for someone else to focus on.
3. **Category maturity** – the stage of development the market as a whole is at. At different stages of an industry’s life cycles, different innovation strategies are most highly rewarded. This should influence your choice of strategies.

There are fifteen distinct innovation strategies to choose from, each of which comes to the fore at a different stage of industry evolution. These options are:

1. **Disruptive Innovation Strategy**
   - Zone: Product leadership, growth market
   - This is what most people think of when they visualize innovation. It means to create a new offering which is incompatible with existing products and therefore results in the creation of an entirely new and original market category. This is a high risk activity because a lot of things can go wrong. It makes sense to target disruptive innovations at very large potential markets so as to generate sufficient returns to make the risks tenable.
   - Disruptive innovations may be in the form of:
     - Better products than those offered by anyone else.
     - Superior integration between systems and services.
     - A better performing business model with big improvements.
   - Needless to say, the key to success with bringing a disruptive innovation to the marketplace is to have something which creates an order-of-magnitude improvement on the current market standard. You than have to be committed enough to seed and build the early market all on your own usually, which can be a challenging activity in and of itself.

2. **Application Innovation Strategy**
   - Zone: Product leadership, growth market
   - This type of innovation develops new markets for existing products by finding novel or previously unexploited uses for them. Examples would include using engineering workstations to run financial trader software on Wall Street, the use of fault-tolerant computers to run ATMs or even the adaptation of the Apple Macintosh to desktop publishing. Application innovation centers on introducing new standards which leverage and refocus existing value chains. Application innovation works backwards – you identify a niche market and then develop a product which will fit that need like a glove.

3. **Product Innovation Strategy**
   - Zone: Product leadership, growth market
   - Product innovation is all about building a better mousetrap. You’re trying to get to market first with an offering which packs in more features than existing products. Product innovation centers on giving the consumer more value, or in other words, more bang for their buck.
   - In practical terms, success in product innovation requires:
     - R&D that creates a genuine product breakthrough.
     - Effective marketing that can drive home that advantage.
     - Manufacturing and logistics to create enough supply.
   - Coming up with a new and improved product to address a well established market is hardly a new idea. Everyone is trying to come up with the next killer application which everyone will want. The key to succeeding in doing that is to have all three of those basic areas covered, not just one or two.

4. **Platform Innovation Strategy**
   - Zone: Product leadership, growth market
   - Platforms mask underlying complexities and create an industry standard everyone works with. Part of the activity in this area requires recruiting partners who will complete the value chain so a well structured value proposition can be offered to consumers. Platform innovation involves positioning an existing or a new product in such a way the entire industry can move forward.
   - The emergence of a new platform can rejuvenate a stagnating industry. There are really only two ways to achieve platform innovation:
     - **Ship so much free product yours becomes enshrined as the de facto industry standard** – and then you monetize your efforts at a later stage by selling add-ons and other value added services.
     - **Provide a complete proprietary solution to a pressing customer need right from the outset** – and then be prepared to defend your position despite any legal or public relations challenges you may face.

Developing a platform approach to growth is not an exact science. There are no simple rules to follow. If you have access to a market others would struggle to reach, you should be able to create and harness a worthwhile competitive advantage. Similarly, if you bring to the table a functional capability others would struggle to match, prospective partners will welcome the opportunity to work with you.

When you’re innovating in a growth market, you have to focus on just one of these four growth strategies. If you try and follow more than one of these strategies at once, things just won’t work well. Different strategies require different skills to succeed.
To summarize the respective positioning of the four growth market innovation strategies:

### Process Innovation Strategy

**Zone: Operational excellence, mature market**

Process innovation is all about improving profit margins by extracting waste from all the enabling processes which create, deliver and support a product or service. The goal here is to remove any steps which don’t add value. This means going beyond what everyone else in your industry is doing to become more efficient so you create a competitive advantage competitors are unable or unwilling to match.

The key to process innovation is to combine hands-on insights with execution discipline. In addition, you need process innovations which:

- Other companies will find difficult to match.
- You can put into practice before anyone else.
- You can execute better than all your competitors.

Worthwhile process innovations are all about creating differentiation by leveraging your assets better than the rest. It requires that you create superior customer outcomes when compared to those offered by competitors.

### Value Migration Innovation Strategy

**Zone: Operational excellence, mature market**

Over a period of time, many products become commodities. As this happens, the scarcest and most valuable element in the value chain migrates from one part of the chain to another. Typically, in the early days, systems integrators and technology providers earn the greatest rewards but as more and more intelligence becomes embedded within the products, marketing expertise and customization takes precedence. Eventually, cost-reduction enablers, service firms and outsourcers do well.

To excel at value chain migration innovation, you will need to:

- Sense the upcoming erosion of value in established roles.
- Anticipate where value is heading.
- Get there before your competition.

Many value migrations are initiated by new market entrants who are unencumbered by legacy investments. They often fly under the radar and work on value migrations quietly and unobtrusively in the background. Added value is garnered incrementally until the movement reaches a critical mass point at which it becomes unstoppable.

Value migration innovation makes good sense:

- When a large proportion of your total asset value is tied up in existing customer relationships. If this percentage is high, value migration makes good sense. Conversely, if this proportion is low, moving to a next generation technology and acquiring a new customer base will be more attractive.
- When your current installed base generates substantial annuity streams, perhaps in the form of the sale of consumables or maintenance contracts.
- When your industry value chain is stable and unlikely to be disrupted in the foreseeable future – giving you enough time to recoup large fixed-cost investments.

Note value migration innovations will mean there will be a significant reallocation of power between the various parts of your enterprise. That can create some rather intense internal resistance at times. Unless your CEO and senior management team are in agreement, pulling off a successful value migration could be difficult.

### Value Engineering Innovation Strategy

**Zone: Operational excellence, mature market**

In essence this means finding cheaper ways to build your product with the same quality and features. Typically it involves substituting expensive components with low-cost standardized items which use economies of scale to good effect.

For value engineering to occur:

- There must be some kernel where differentiation can reside.
- You have to be thorough so none else can undercut you.
- You design every process so they can scale and be optimized.

Value engineering often involves outsourcing and specialization. Different companies choose different parts of the value chain on which they will focus while leaving the rest of the value chain to other companies. In this way, you hope to ultimately become the low-cost provider for your industry – which is very often the most powerful position it’s possible to be in.

### Integration Innovation Strategy

**Zone: Operational excellence, mature market**

Pure and simple this type of innovation means to take a number of disparate or complex elements and integrate them into a single system which can be more readily managed. In practical terms, integration provides a management layer which will take care of all the details while keeping things consistent within the system as a whole.

Markets usually look to the category leader for integration innovations because of the fact they have the largest user base and typically set the de facto industry standards. Customers welcome innovations which simplify architectures or relationships and bring all the complexity under the management of someone they know and trust.

For integration innovation to succeed:

- The innovation has to shield customers from complexity.
- The innovation has to be relatively low cost.
- The innovation must generate ongoing cost savings.
- The innovation must be open and lead to future enhancements.

In mature markets, there are only two ways to grow your business. Either you make your offerings more attractive to your customers (customer intimacy) or you find ways to make your business run more efficiently (operational excellence).

The four operational excellence innovation strategies are:

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<td>New</td>
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In a mature market, you either try to make your business work more efficiently or you develop ways to get closer to your customers. The four strategies of innovation which are available in the customer intimacy realm are:

### Line Extensions Innovation Strategy
Zone: Customer intimacy, mature market

Line extensions means to make structural modifications to an established product in order to create a new and distinctive niche or subcategory product. The goal in doing this is either to reengage existing customers more compellingly or to appeal to an entirely new customer base by offering a more personalized product or service. A good line extension also makes a product seem less like a commodity in the eyes of the customer.

The goal of any line extension is to expand market share while at the same time harnessing existing manufacturing infrastructure and other fixed assets. As much of the cost of entering a new segment has already been born, a line extension can allow a company to saturate the target market before competitors can respond.

Successful line extensions generally require:
- R&D to accept they are leveraging an existing platform.
- Marketing to be tightly focused and specific.
- A sacrifice of some volume efficiencies for operations.
- Enhanced customer service provisions for niche users.
- Reformattting of the sales and distribution channel.
- A change in the company’s marketing and sales messages.

### Enhancements Innovation Strategy
Zone: Customer intimacy, mature market

Whereas line extensions were about bringing in new customers, enhancements focus on earning more from existing customers – either by increasing their loyalty or by upgrading them to premium offerings. You can differentiate yourself from your competitors by incorporating distinctive add-ons into your product or service.

Enhancements work well regardless of where you are currently positioned in the marketplace:
- If you’re the market leader, you provide your customers with a good excuse to pay a premium for the best product available. This will be a safe buy in the minds of consumers.
- If you’re a market challenger, your enhancements just may be edgy enough that the market leader will be afraid to copy what you’re doing for fear of alienating its own mainstream customers. This is an opportunity to generate a little bit of competitive distinction.
- If you’re attempting to become the low-cost challenger, just one single enhancement the other companies don’t offer can underpin your business model as well as your entire marketing campaign.

Enhancement innovations are wasted if this involves catching up with what others are already doing. You won’t get any credit for that, mainly because the market has already assigned value to the competing offer. At best, catch-ups help neutralize someone else’s competitive advantage. Genuine enhancement innovations need to make an original contribution so your firm can generate an economic gain. There are always lots of opportunities to differentiate by enhancement innovations.

### Marketing Innovation Strategy
Zone: Customer intimacy, mature market

Line extensions and enhancement innovations grow your business by modifying your offering, but sometimes it is possible to make the same offering more competitive by varying some of the elements in the marketing mix. For example, sporting goods manufacturers do this all the time when they bring out a line of products which are endorsed by a charismatic sports star.

Note that with this type of innovation, the differentiation occurs during the purchase process. The overall goal is to try and outsell competitors rather than developing products that are demonstrably better. This will only happen if the company goes far enough to become perceived as the best-in-class. A half-hearted stab at this just won’t achieve the traction required.

In general, standout and innovative marketing will incorporate:
- The validation of arms-length third parties with credibility.
- Well established relationships with industry influencers.
- More personalized, one-on-one conversations.
- The involvement of people with the right temperament.
- A commitment to relationship marketing.

### Experiential Innovation Strategy
Zone: Customer intimacy, mature market

This is the ultimate in customer intimacy. With experiential innovations, you are attempting to differentiate on the basis of the experience provided by what you offer rather than functionality alone. This requires that you focus on the time interval your customers actually spend in direct contact with you and find ways to enhance the quality of that time. Put differently, for this type of innovation, the product or service offering becomes the context and the experience of using that product or service becomes the core.

Experiential innovations work well when the buyer and the end user are the same person, as happens frequently in consumer markets but less frequently for complex systems. To come up with experiential innovations, you need to look closely at the customer experience and mount a tightly focused campaign to proactively reshape that experience.

For experiential innovations to work well:
- Your underlying product or service must have already been reduced to commodity status. Therefore, when you do something different and better, customers will reward you with their loyalty. That simply won’t happen if the customer is still preoccupied with features and functions.
- Your experience must be replicable. This is the only way the experience can become integrated as part of your brand image. If you create an extraordinary customer experience one time and a below par experience the next, not much loyalty will be generated.
- You have to provide something distinctive and worthwhile. Participants need to feel they are learning something they didn’t know before.
- There needs to be some charismatic personality who orchestrates the delivery of the entire experience and provides continuity over an extended period of time. Experiences always involve these personal connections which customers place more and more value on as confidence deepens.
Sooner or later, all markets enter into a decline. The market as a whole will still be a valuable asset worth targeting and harvesting, but you will need to keep an eye out for an effective exit strategy. You'll also need to be very judicious in the amount of resources you pour into the market because it will be clear better returns can be generated by investing in other growth markets just at the start of their trajectories.

In a declining market, there are three potential innovation strategies:

**Organic Innovation Strategy**

Organic evolution means the company uses its resources to position itself advantageously in a growth category which is just about to take off. In simple terms, this may involve reconnecting with customers, identifying new problems to solve for them, developing a innovative new product or service which will meet those needs and then realigning the enterprise behind this new offering.

Note product innovation is not the only way an organic revolution may occur. You might choose to target new customers, to develop and harness a different value chain, to develop a new sales channel, to bring in new pricing structures or even to target a completely different competitor. Typically these organic innovations are all-or-nothing – you cannot iterate your way to renewal but instead you have to get it right first time. And since the risks are high, so too must be the potential payoffs when you succeed in achieving this.

To pull off a successful organic innovation:

- Keep reminding yourself you simply must beat the clock. If you take too long at doing this, your window of opportunity will close all too soon.
- Rely more on your internal leadership and less on the entrenched industry gurus. Organic innovations always require a high degree of trust to work.
- Be prepared to take risks, to invest heavily in lines of business which look very edgy when compared to those of your mature business. Be prepared for a change in the center of gravity for your organization.

**Structural Innovation Strategy**

Sometimes a market declines faster than anticipated and before R&D can get up to speed on the needs of the next growth market to migrate to. When that happens, it makes sense to do something noteworthy from a structural point of view, either by making an acquisition to move into the new market or alternatively by allowing your firm to be acquired by someone else.

General Electric is the gold standard when it comes to structural innovations. At one time, the company achieved superior performance through a portfolio of businesses predominately weighted in heavy industrial. As the economy moved more towards the information age, GE has altered its business mix through mergers and acquisitions to be more weighted in favor of financial services and media. In this way, the company is progressively and regularly renewing itself and retaining its relevance to the marketplace as a whole.

The keys of success for structural innovations are:

- Have executive leaders who are decisive and dispassionate, who will be prepared to divest legacy businesses, set a new course and then see everything through to completion.
- Be able as an organization to integrate the companies which are merged into a single business that works well and serves customers effectively.
- Focus on the new markets the merger or acquisition will open up rather than the difficulties of integrating everything.

**Harvest-and-Exit Strategy**

No markets live forever. If it becomes clear neither organic innovations nor structural innovations are working, then it makes sense for a firm to exit the marketplace. This may be achieved in the form of a leveraged-buyout or through a number of other mechanisms.

Keep in mind this is not as gloomy a result as it appears at first glance. Your people will find new jobs in companies that are riding the wave of new growth in other markets. Your technologies will be put to use in different applications. Your customers will have already found new vendors by this time. Your shareholders will get something out of the exit transaction, as will others. You are far better off bringing your business to a tidy end rather than trying to stem the floods and pretend that nothing has changed.

"In a declining category, management must recognize that the problem is not one of company performance, although it may be exacerbated by it. This concept is often difficult to grasp for execution-oriented management teams who are used to succeeding through outperforming the opposition. Just remember, you are now in a lemmings race, and the goal is not to come in first, it is to get out of the race before you drive your company off a cliff."

– Geoffrey Moore

“The category-life-cycle model provides a framework for analyzing the market forces affecting your competitive advantage strategy. The innovation-types model allows you to target a specific vector of differentiation to gain definitive separation from your competitive set. Taken together, they lay out the landscape upon which you will define your core."

– Geoffrey Moore

“The single most important act of strategy leadership is to select the innovation vector upon which your company will develop its sustainable competitive advantage – its core. To do this properly requires a deeper understanding of the properties of each of these innovation types."

– Geoffrey Moore

“Natural selection is a game with no time-outs. It does, however, allow for unlimited substitutions. Resource recycling not only delivers efficiency; it also provides refreshment. That’s what evolution is all about, a continual rising of the bar. It’s how countries raise their standard of living. It’s why new companies get formed every year. It’s why each of us must learn new skills throughout our careers. We may get tired, but we are not likely to get bored. Mostly we just have to perform. Welcome to the race."

– Geoffrey Moore
So how, exactly, should a business enterprise manage innovation? There may be fifteen different types of innovation to choose from, but attempting to do all at one simply won’t work. Instead, a seven point plan should be followed:

1. **Get everyone in the organization involved** – by communicating the options available to your business and stimulating a healthy debate on which specific strategy to focus on. Ideally, get everyone to agree something needs to be done before you launch forth.

2. **Analyze your current portfolio from the product category life cycle perspective** – and look at all the factors involved like:
   - Where are all our product lines in their life cycles?
   - How are we performing relative to our competitors?
   - What forms of innovation are our competitors using?
   - How successful have we been at innovating to date?

As a result of this exercise, choose one or two categories to target for an innovation project.

3. **Analyze the dynamics of your chosen product category** – and look for opportunities to change the competitive landscape. Ask some detailed questions and find the answers:
   - How is this category as a whole performing?
   - Which innovation strategies are competitors harnessing?
   - How successful are they at executing those strategies?
   - What has been our innovation strategy to date?
   - How successful have we been at doing that?
   - How have our competitors responded?
   - Is it time for a change?

4. **Come up with a short list of innovation types to consider** – or in other words reduce the potential fifteen innovation strategies down to a manageable number of about three possibilities that make sense. Good candidates at this stage will have some key characteristics:
   - They will be consistent with the category life cycle.
   - They will not have been deeply exploited by someone else.
   - They will be a good fit with your core competencies.

Remember each of these innovation types are vectors your organization may head down so think things through.

5. **Develop some attractive options** – by assigning each of the options on your short list to a different executive sponsor. That executive should then form a cross-functional team who will come up tangible ideas on how the company could benefit if it pursues that specific innovation strategy. Add an outside expert to each team if possible and come up with some compellingly attractive benefits of pursuing each innovation strategy option. Generate a long list of benefits for your organization.

You then go through and rank these ideas using a five key point criteria:
   - Will this attract the type of customers we want?
   - Does this give customers a compelling reason to buy?
   - Can we execute on this, given our core competencies?
   - Will this create differentiation for us, and be hard to copy?
   - Is this consistent with our other business initiatives?

Have each team develop a list of programs which would bring these strategies to life. Synthesize these ideas into a suite of program proposals, each defined by a different outcome. You might then submit these proposals to a financial analyst who can estimate how much time, talent and working capital will be required to make each proposal a reality. You can then seek your preferred balance between risk and reward.

6. **Select your organization’s prime innovation vector** – which of the innovation strategies should become the corporate priority. Acknowledge openly once a selection is made, all other innovation options will be put on the shelf, and the entire resources and energy of the organization will be focused on making the chosen innovation vector work. Once you have made your decision, look to see how your choice can be still further enhanced.

7. **Engage the entire organization** – encourage every department to start redirecting their resources to accentuate the innovation direction you have chosen. Some functions will obviously take the lead in executing the innovation strategy but all the other functions should also be doing all they can to help.

Some key questions for each department to consider:
   - What has now become more important in our work?
   - Which activities have become less important?
   - How can we vary our day-to-day activities to reinforce this?
   - How can we free up more resources to put behind this?
   - How can we signal our differentiated approach?

It may be helpful at this stage for the marketing department to restate the brand promise in such a way it incorporates the new innovation strategy. This upgraded brand promise can then serve as a rally point for the organization. In this way, everyone can become aligned. This will create a focus which customers will feel and experience. As a result, compelling customer outcomes will be created, and the people in the organization will become energized rather than distracted.

In essence, the organization should be moving towards one key objective:

“It may seem that committing to a single vector of innovation entails great risk and requires exceptional courage. Actually, however, it is the lowest-risk choice in any Darwinian competition. Consider the alternatives: You could delay or abstain, but that will leave you increasingly exposed to more competitive offers with no defense. You could bet the field of innovation types, but that will ensure that you get no separation on any vector and again leave you exposed. You are much better off making the following wager instead: Focusing on our chosen innovation type for this particular market category within this defined scope of time, we will so outperform our competitors that prospective customers and partners will cease to entertain them as legitimate alternatives.”

– Geoffrey Moore

“Making such a bet is, of course, a fateful decision, and as such, it needs to be managed. Managing innovation requires executives to foster a bottoms-up stream of innovation opportunities, thereby keeping their portfolio of options open, but at the same time to commit top down to a single innovation vector along which separation will be gained. Once that commitment is made, other forms of innovation are expected to align with or subordinate themselves to the chosen vector.”

– Geoffrey Moore
The way to avoid this problem is for the organization as a whole to become radically more productive. There are five ways to do that:

1. **Centralize** – As soon as a process has moved from core to context, the focus moves from differentiation to productivity. This should be an opportunity to extract resources by centralizing everything. This loosens the feeling of entitlement which will grip many managers. Bring the operations under a single authority to reduce overheads and create a single decision-making authority so as to reduce risks.

2. **Standardize** – Reduce any variability by moving from multiple instances of the process to one single instance. Start extracting resources and lowering risks by avoiding unnecessary duplications.

3. **Modularize** – Deconstruct the process into its component elements. Invariably, this will require the input of specialists who can come up with the simplest way to carry out this process while meeting all the required input and output criteria.

4. **Optimize** – Look for practical ways and means to increase the efficiency of each step, automate some functions, streamline others and cut out any redundant tasks. In total, you’re attempting to find ways to enhance the overall productivity by making very certain each of the constituent steps are completed as efficiently as possible.

5. **Outsource** – Move the responsibility and risks involved in specific process parts to a third-party provider. Ideally, you want to be able to outsource all context business activities because outsourcing:
   - Reduces the labor cost of your finished goods.
   - Improves your own return on invested capital.
   - Minimizes your fixed costs.
   - Transfers risks to the outsourcer.
   - Allows your management to focus on core processes.

By differentiating between core and context and by employing the five steps listed above, you can start moving resources from where they are currently concentrated to where they will do more good. That’s a good start, but anything which involves outsourcing will be a political hot potato for your organization. To actually implement this approach to greater productivity, you’ve got to get your entire workforce to help.

“In the move toward a global economy, workforces in all the developed economies have been profoundly threatened by offshore outsource leveraging low-cost labor. This trend shows no sign of subsiding, and companies which do not avail themselves of this opportunity are severely challenged to price their goods and services competitively. In our view, this problem must be solved by the corporations themselves – management and labor collaborating with each other to the collective good of customers, employees, and investors. Together, they must build a solution that actively embraces both outsourcing and offshoring while at the same time building a stronger in-house domestic workforce compensated commensurately with its local standard of living. We grant this is a tall order, but we think it not only can but must be filled. Dealing with Darwin requires patience and empathy, but it must also maintain an unsentimental realism. There is the opportunity to create vital and vibrant organizations that thrive in competitive markets and raise the bar for all of us. That is what we must all work to grasp.”

– Geoffrey Moore
The problem at the heart of the people challenge is the fact even though resources can flow from the lower-right quadrant to the lower-left quadrant without any problems, by and large the people who work in the lower-right quadrant activities are totally ill equipped to participate in the R&D activities which occur in the lower-left quadrant.

To address this, it is suggested people should rotate in the opposite direction:

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   Core          Context
     Mission       Critical
     Specialists   Managers
     Non-mission   Critical
     Creatives     Optimizers
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In other words:

- The people who are freed up when lower-right quadrant activities are outsourced should be moved into upper-right quadrant activities. This will work because these people are process optimizers. They will bring to the activities of the new quadrant experience and expertise in managing context. They will be good at thinking inside and outside the box to extract resources.

- The people who previously worked in the upper-right quadrant should be redeployed in the upper-left quadrant. These are the program managers who will be good at thinking inside the box to deploy processes at scale. These people will be good at getting things done on time, on spec and on budget, all of which will be valuable skills in their new assignments.

- The people who previously worked in the upper-left quadrant are specialists at mission-critical core tasks. By involving them in the creative activities of the lower-left quadrant, you can take advantage of their know-how and expertise. They will make a worthwhile contribution even to outside the box thinking because of the fact they already have the right aptitude and orientation. They will also relish the opportunity to participate in developing the next generation of products.

By matching the clockwise rotation to free up resources with the counter-clockwise rotation of the people management, an organization can manage inertia while at the same time enhancing its ability to innovate. Even better, this ties in effectively with the growth of outsourcing. The companies that follow this approach will welcome rather than fear outsourcing because of the fact the workforce will retain secure employment opportunities.

With the two cycle approached detailed here, outsourcing effectively becomes the organization’s exhaust vent for work which no longer warrants the organization’s attention. Since everyone knows they will still be employed commercializing the next generation of products, there will be an internal enthusiasm to optimize the current generation of products and then move on to the next where value can still be added. Companies that do that again and again will also be sidestepping the learning curve and getting up to speed much faster than previously.

The seven essential steps in managing inertia effectively are:

1. **Conduct a core/context analysis of your current business model** – designate everything you do as being either a core or a context business activity. Develop your matrix, discuss it as an organization and form a consensus on where things currently stand.

2. **Next develop your own organizational resource-allocation analysis** – which basically means you identify where all your top performers are currently deployed around the matrix. You might also note where the majority of your financial resources are committed at the present time.

3. **Set a more ambitious agenda** – or in other words map out in which direction you’d like things to move in the future. Essentially, this will include:
   - Identifying the core opportunities you want to target.
   - Determining which top performers can drive them.
   - Targeting which context activities should lose resources.

Remember, the key here is to step outside your comfort zone. If your new ideas don’t make your managers uncomfortable, you aren’t being aggressive enough.

4. **Plan out your future moves as a team** – because moving organizational resources from one part of the business to another will always be a collaborative effort. If one part of the organization attempts to withhold a key resource, there can be some big flow-on problems. It’s also important to get the timing right so resources freed up in one area can be immediately applied elsewhere to better effect. Sorting out all of these issues requires discussion and cooperation across a wide variety of functions.

5. **Focus on your time to market projections** – and see how you can be more aggressive. Your current scheduling was probably made with a different mix of investment allocations between core and context activities. Once you’ve decided how to vary these resources constraints, see if that doesn’t shorten the time required to get to market.

6. **Get things started on a good note** – by moving some top performers into their new assignments in a highly visible way. Set a date on which the change will take place and do all you can to make a noteworthy launch. Develop some momentum on the back of early victories. Pay particular attention to inventory levels so additional hand-offs can be made.

7. **Keep the change program moving forward** – by continuing with the resource recycling program you’ve started. Keep in mind each new learning curve is effectively being paid for by the margins created by an earlier curve, and is therefore expected to generate progressively higher returns. If any program stalls, that will have flow-on effects elsewhere, so keep the entire replenishment operation moving onwards and upwards.

In this way, the organization will be moving towards the second key objective:

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Move resources from being applied in areas that don’t create any competitive
distinction to those areas where differentiation can be enhanced.
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