

# Dealing with Darwin

Innovating to Survive & Thrive



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# Agenda

- **Focusing Innovation**
- **Funding Innovation**

# Focusing Innovation

# Three Returns on Innovation

- **Differentiation**

- Your offers are distinctly preferable to the competition, and customers seek them out and pay a premium for them

- **Neutralization**

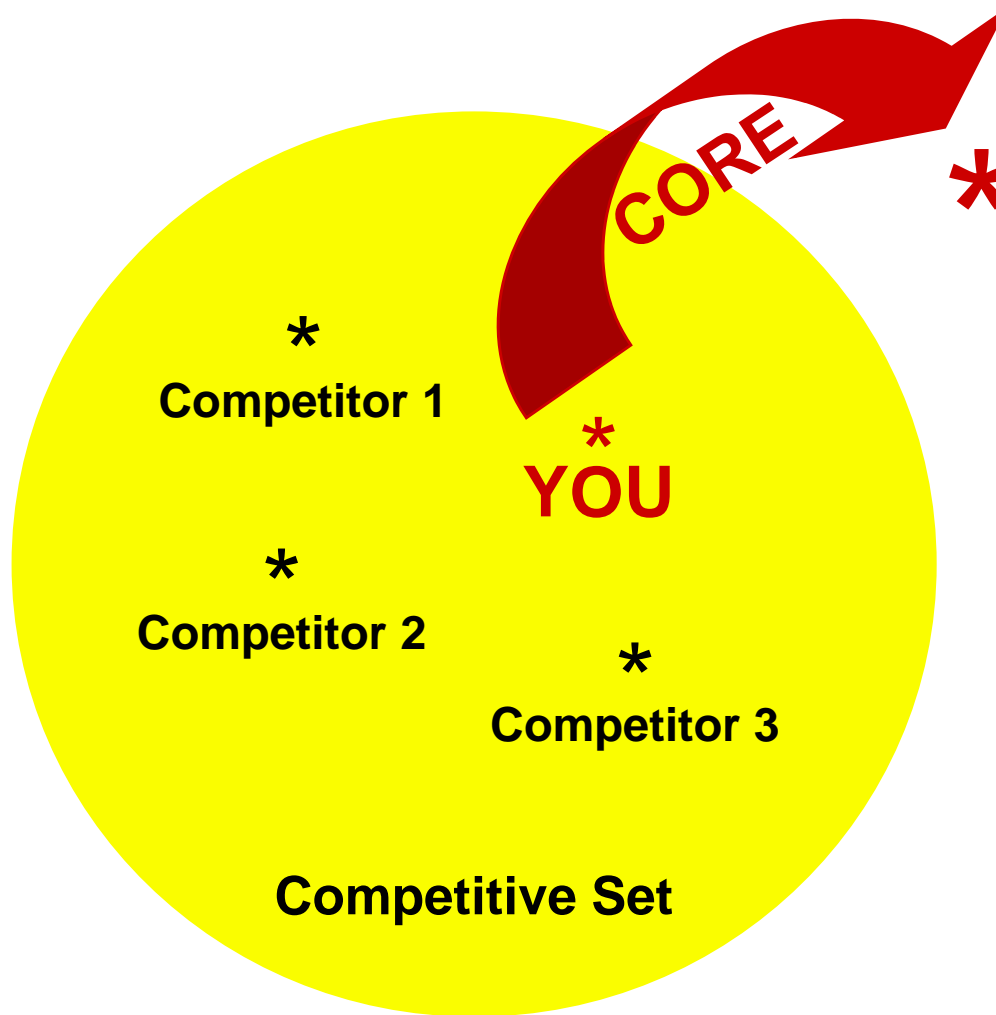
- Your offers are competitive with others in your category, and you win sales based on execution and price

- **Optimization**

- Your offers cost less to produce than they used to, giving you the option of lowering price or increasing margins

# Innovating for Differentiation

## Focus on Competitive Separation



\* Amplify a specific vector of innovation

Gain bargaining power by getting separation from your competitive set

Failure to separate means low to no relief on profit margins

# Core vs. Context

- **Core:**
  - Processes that enable and amplify your chosen vector of competitive separation.
- **Context:**
  - All other processes.
  - Context is determined by what you choose to make core.
- **Differentiation**
  - It is not sufficient just to be different—everyone is
  - Your differentiation has to be “unmatchable”
  - And the customer has to really want it

# Declaring Your Core

## Where Can You Be “Unmatchable”?

**Product Leadership Zone**

**Disruptive Technology**

**Genentech**

**Solution Specialization**

**Accenture**

**Product Engineering**

**BMW**

**Platform Ecosystem**

**Google**

**Customer Intimacy Zone**

**Power Brand Line Extension**

**Mattel**

**Product Design**

**Apple**

**Marketing Programs**

**Amazon**

**Quality of Experience**

**Cirque du Soleil**

**Operational Excellence Zone**

**Value Engineering**

**WalMart**

**System Integration**

**SAP**

**Process Optimization**

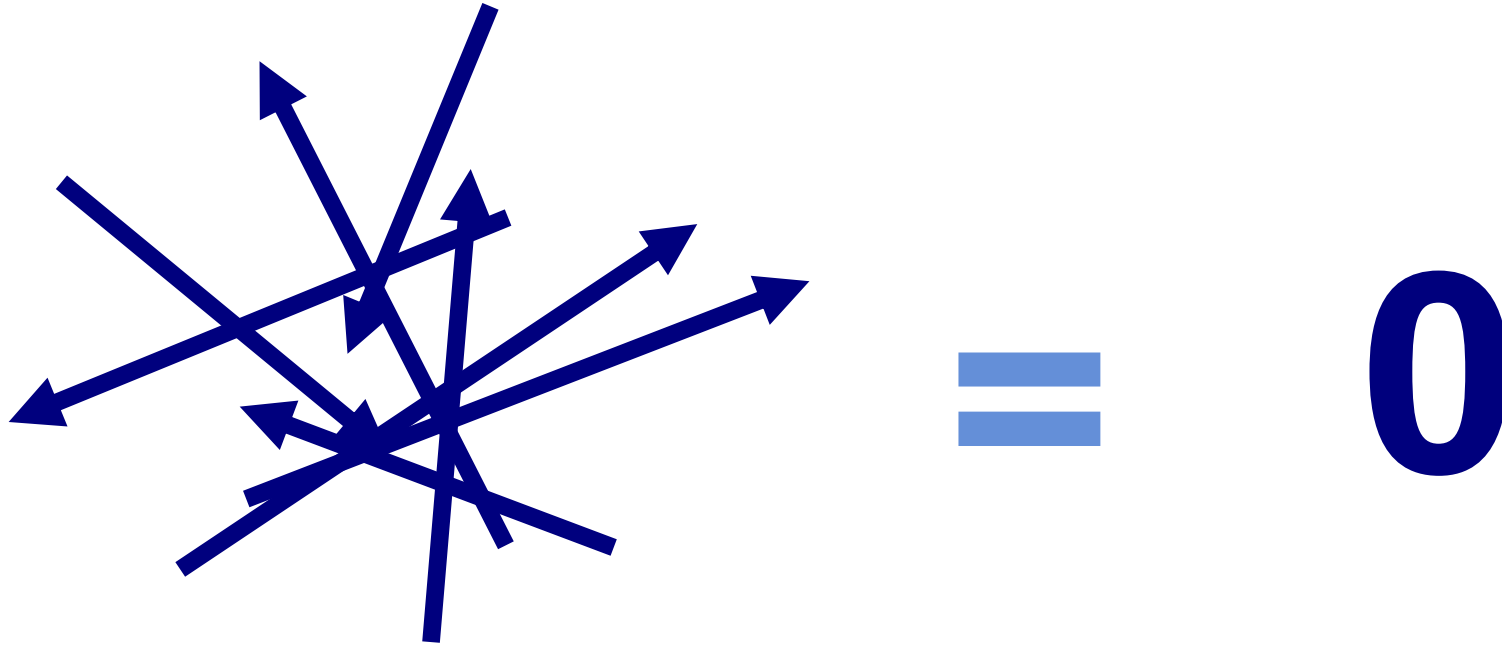
**Toyota**

**Business Model Innovation**

**Salesforce.com**

# How *NOT* to Manage Innovation

## Remember Your Vector Math Class!



### **Bubble-up Innovation**

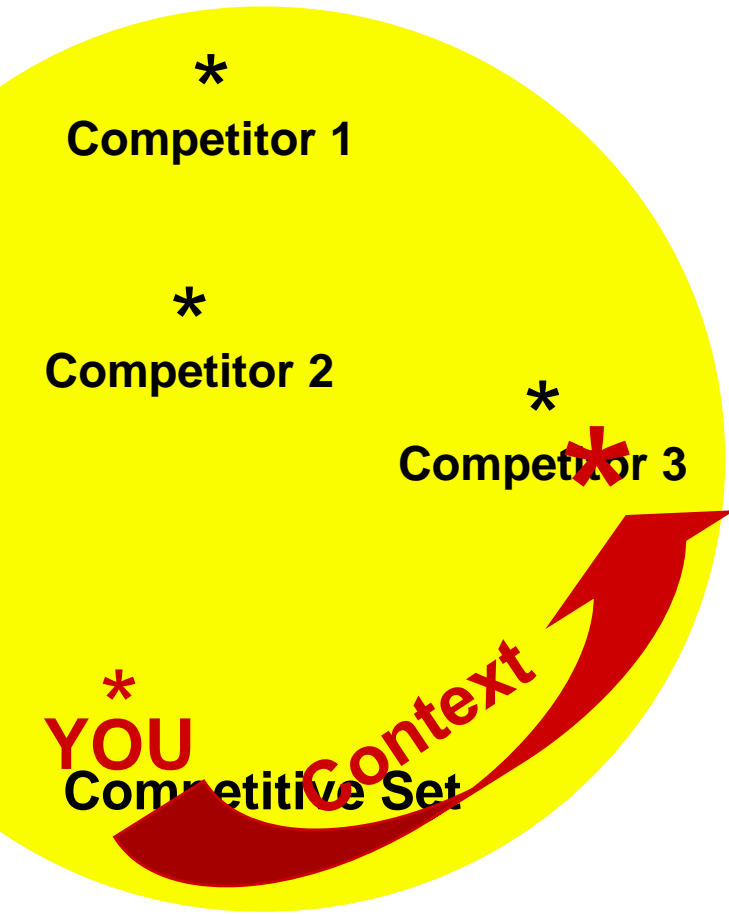
When organizations innovate “bottoms up,”  
competitive separation is small,  
and differentiation is easily matched:  
***Lots of activity, not much to show for it.***

# Focusing Innovation for Separation

- **You *will* innovate in many different areas**
  - This is necessary to keep up with market evolution
  - It is not about differentiation
- **You *will not* achieve competitive separation in many areas**
  - You must focus intensely to achieve “unmatchability”
  - Even then there is no guarantee
- **You *must* be highly directive in declaring your core**
  - Investment must be *very* asymmetrical
  - Giving everyone their fair share is a losing strategy

# Innovating for Neutralization

## Focus on Meeting the Market's New Norm



Regain market viability by getting back into the competitive set

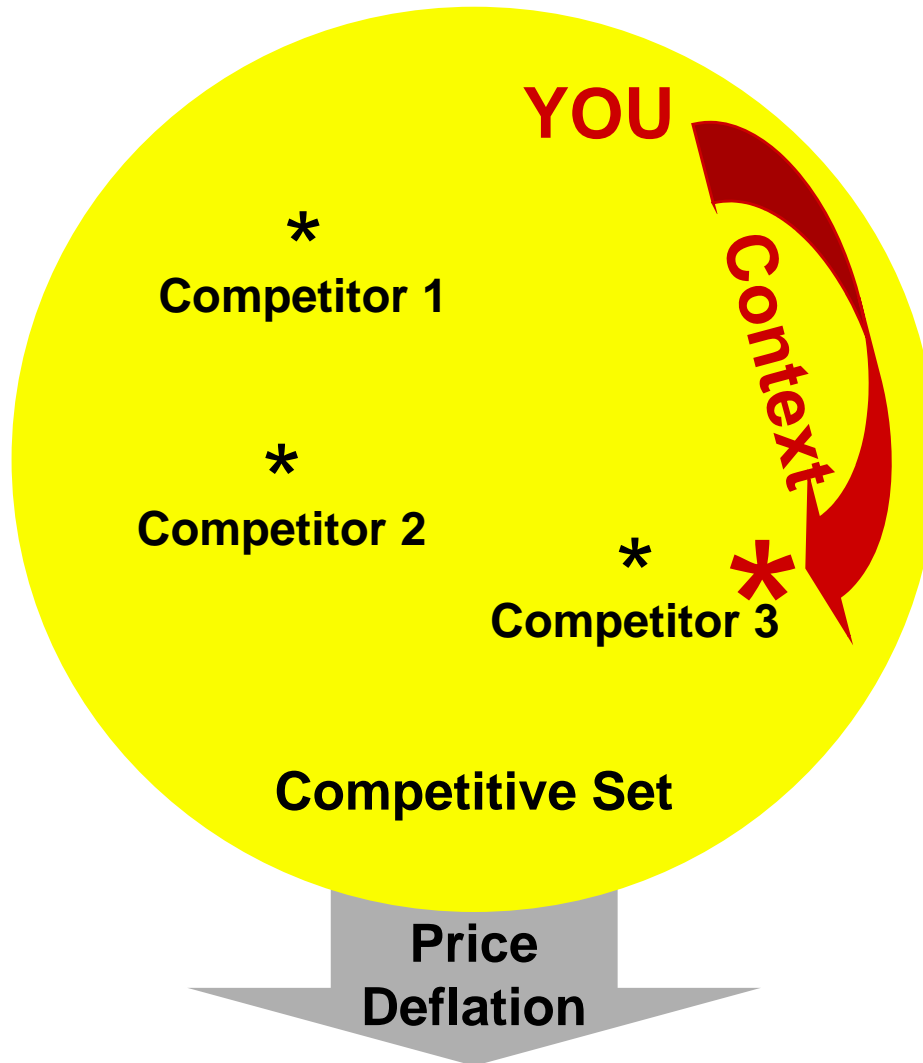
Rejoining is mission-critical as failure to do so means exclusion from future purchase decisions

# Differentiation vs. Neutralization

- **Differentiation creates competitive separation**
  - This is how you create superior profit margins
  - It requires major investments to be “unmatchable”
- **Neutralization overcomes competitive disadvantage**
  - This is how you stay in the game
  - It requires modest investments to be “good enough”
- **Anything spent in between is *waste!***
  - Customers appreciate the extras but will not pay you for them
  - Being *best in class* is a sucker’s bet

# Innovating for Optimization

## Focus on Productivity



Competition drives  
commoditization

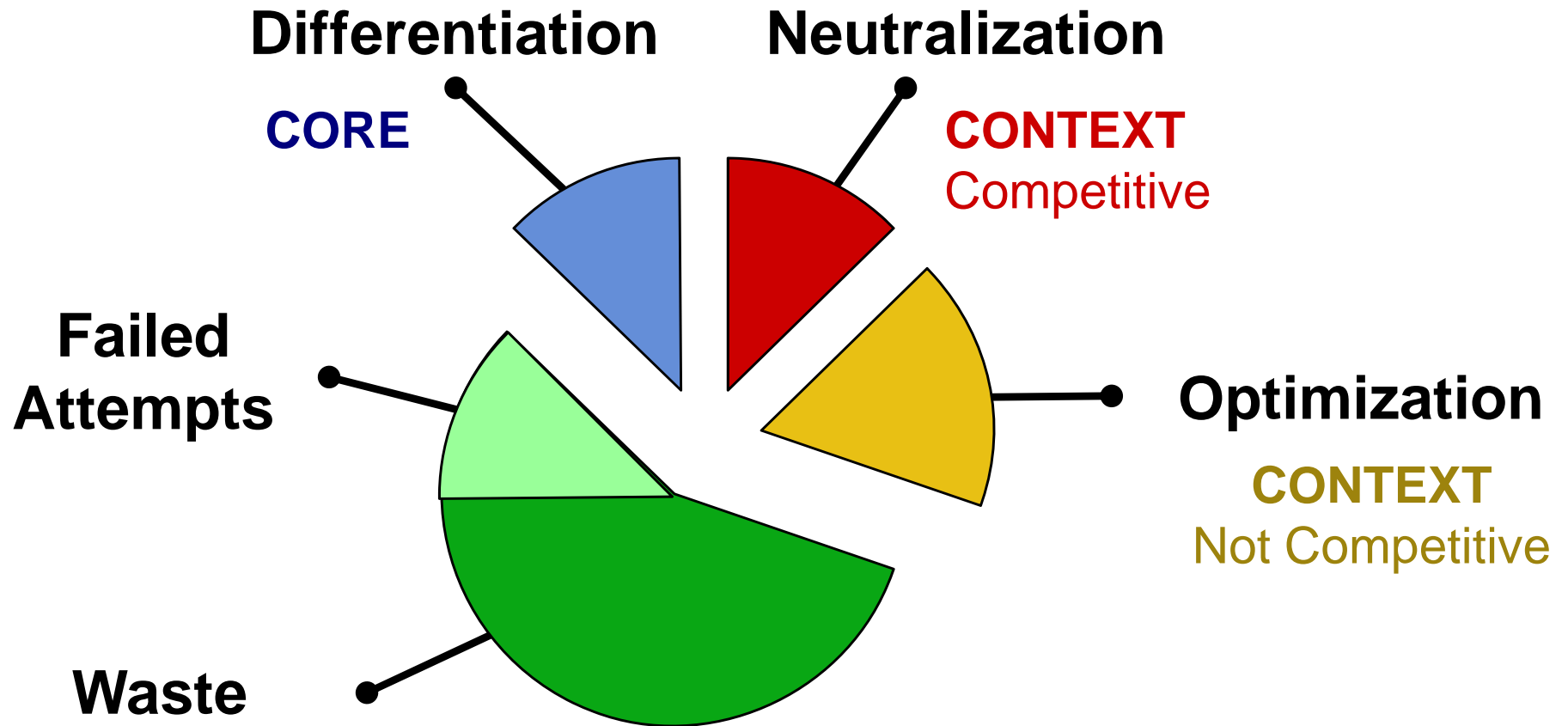
Productivity gains are  
critical to keep pace

Optimizing is mission-critical because failure  
means no profits to  
reinvest

# Where to Optimize

- **Do not optimize when you are trying to be unmatchedable**
  - This is your core
  - You save elsewhere in order to overspend here
- **Do optimize when you are neutralizing—but carefully**
  - You must achieve “good enough” status
  - You do not need to do more than that
- **Optimize intensely everywhere else**
  - Context work which does not affect competitive outcomes
  - This is where you can “save to invest”

# Return on Innovation



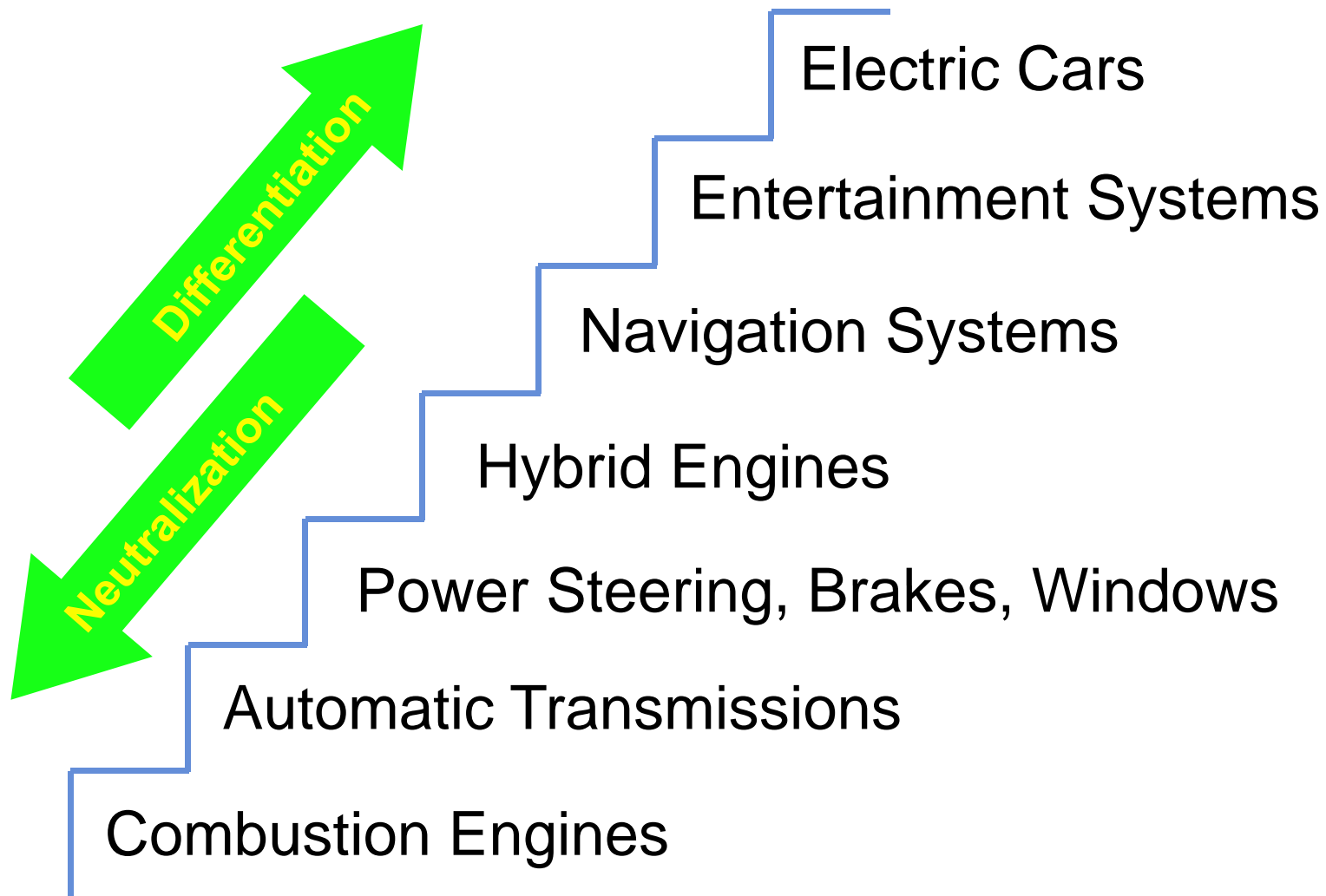
## Sources of Waste:

- Differentiation projects that don't go far enough
- Neutralization projects that go beyond good enough
- Unaligned innovation efforts that cancel each other out

# Funding Innovation

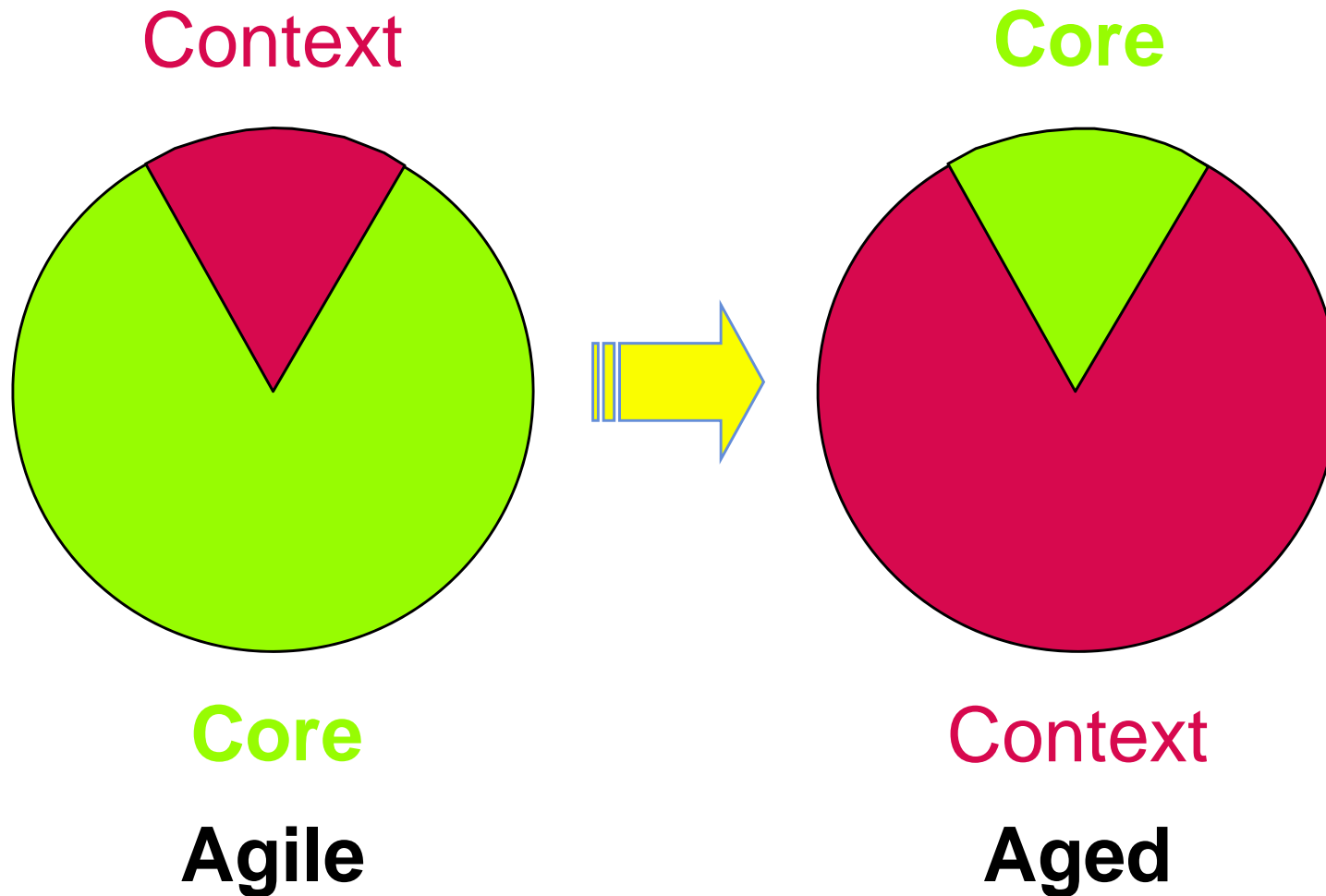
# Where Are Your Resources Invested?

## Current Core Becomes Context Over Time



**Resources get trapped at the bottom**

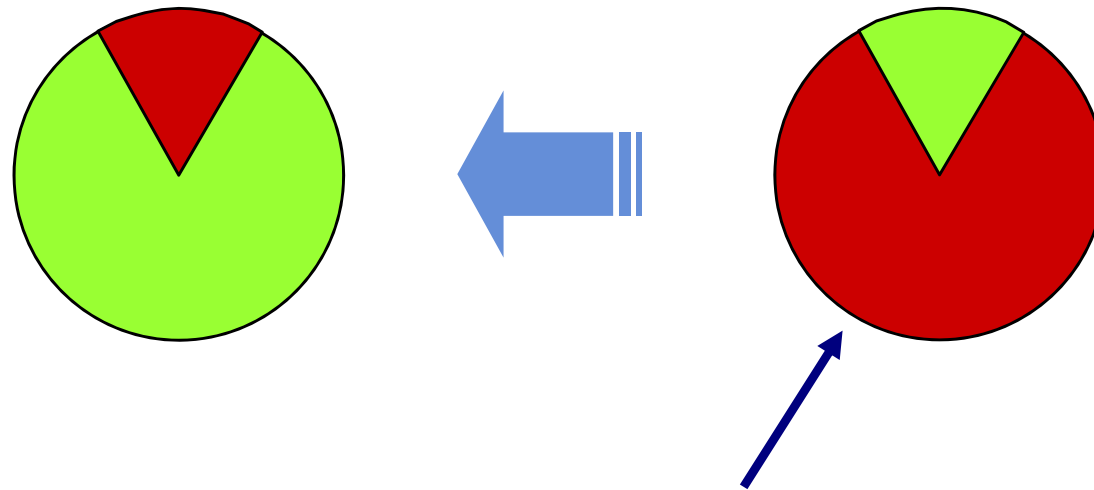
# Resources Get Trapped in Context



**Context delivers diminishing returns  
Organizations become uncompetitive**

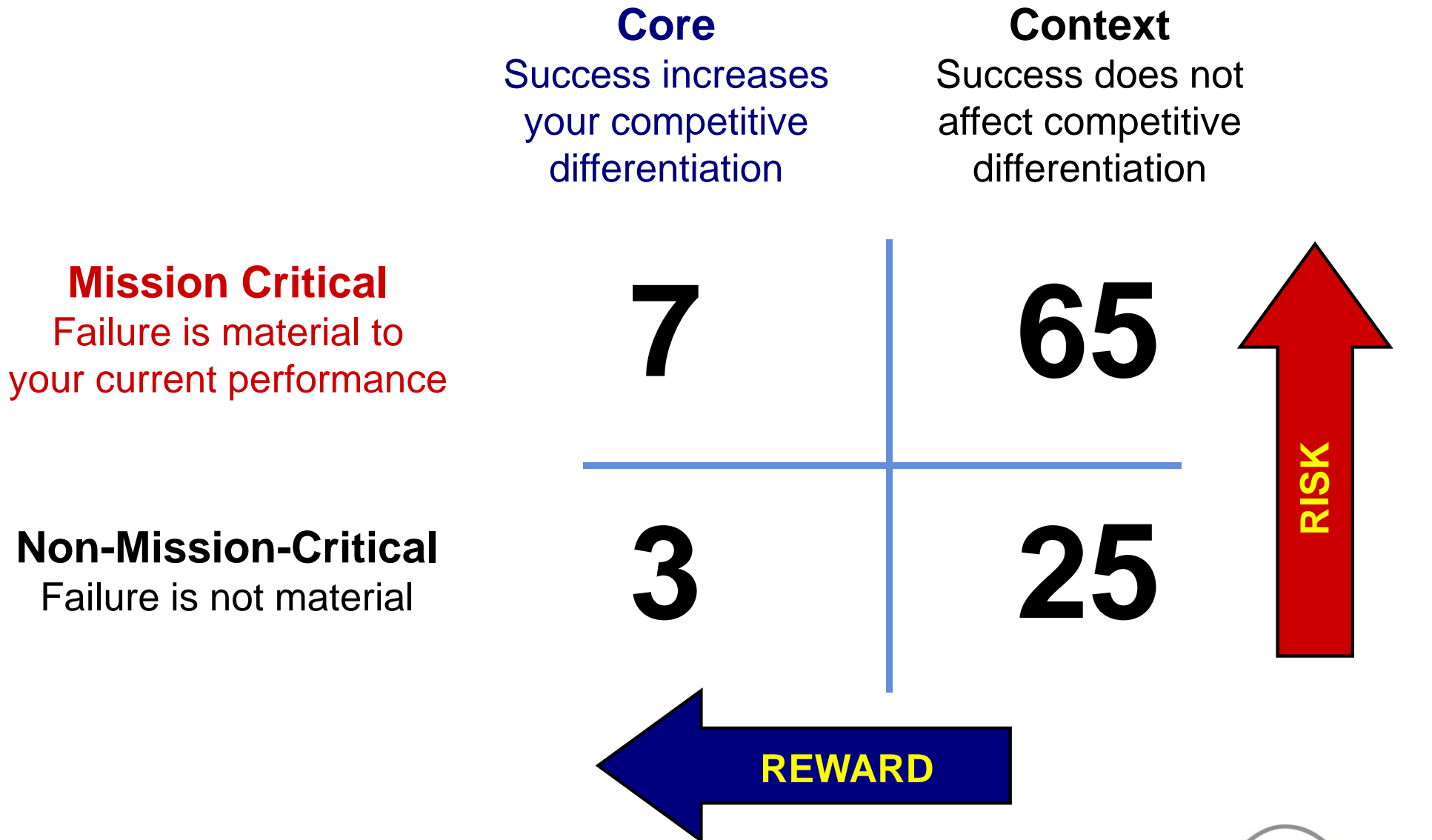
# Fund Innovation by Freeing Trapped Resources

**Extract Resources from Context  
to Repurpose for Core**

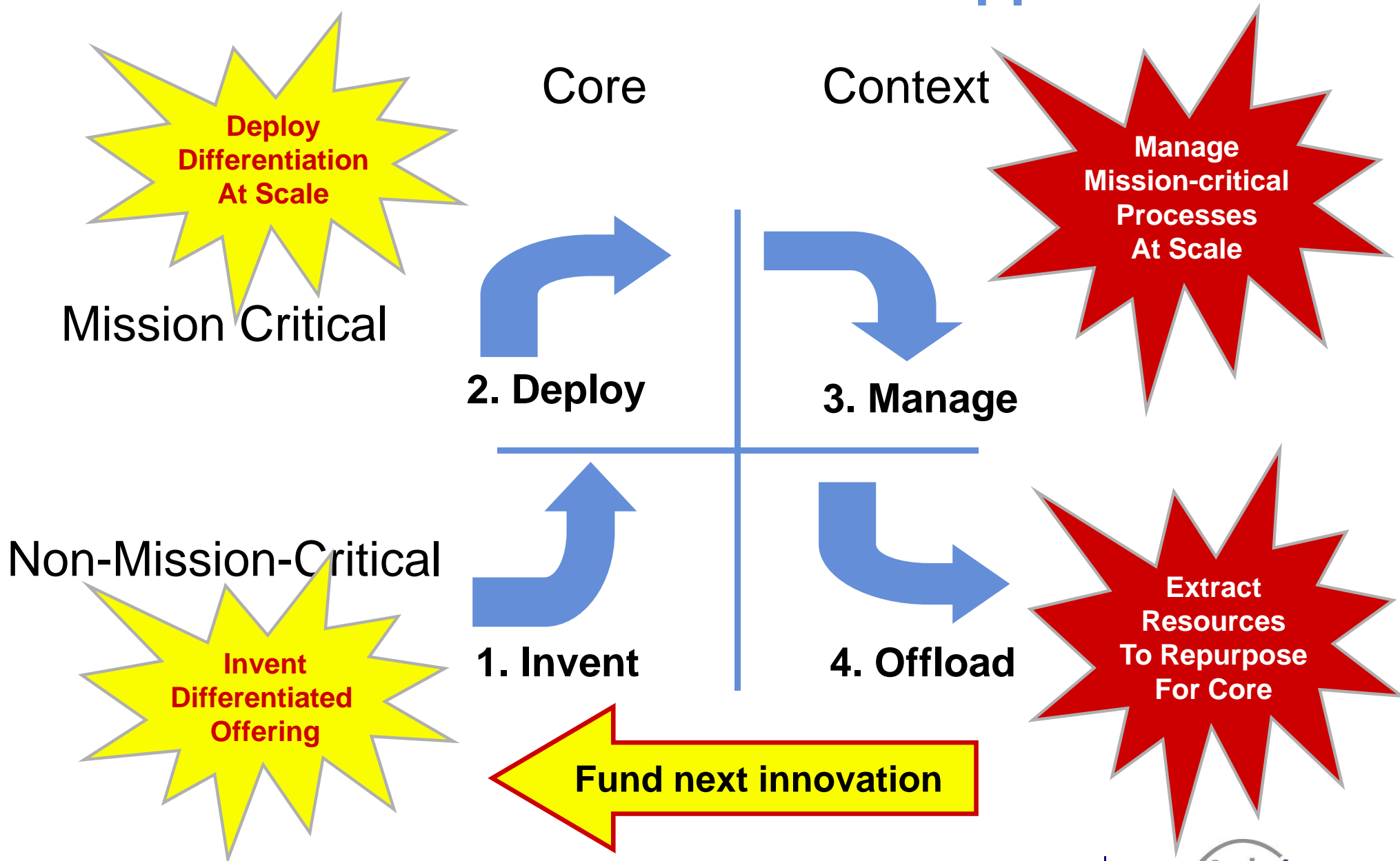


**“Coins in the Couch”**

# Where Are Your Resources Deployed?

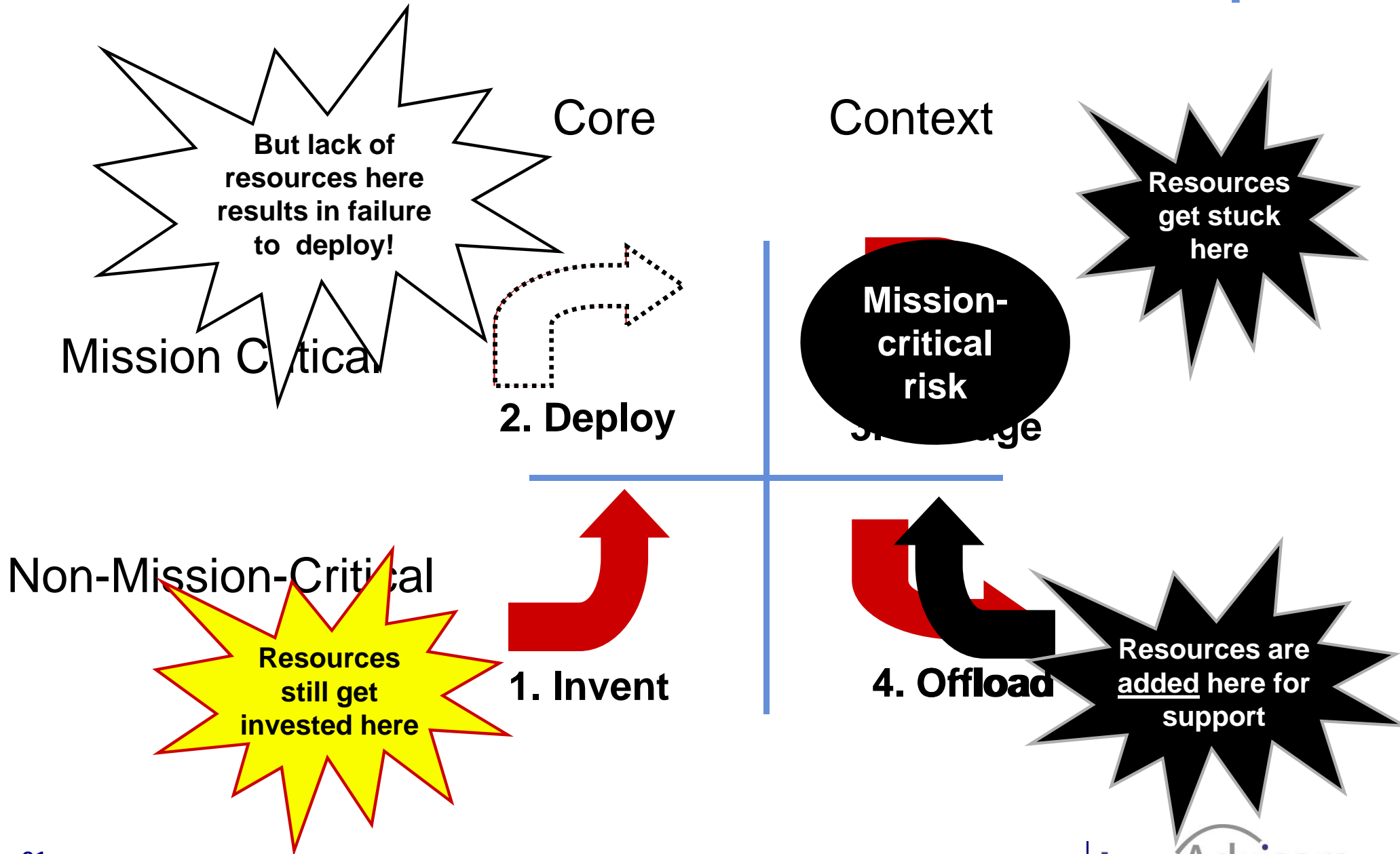


# The Cycle of Innovation: What You Would Like to Have Happen



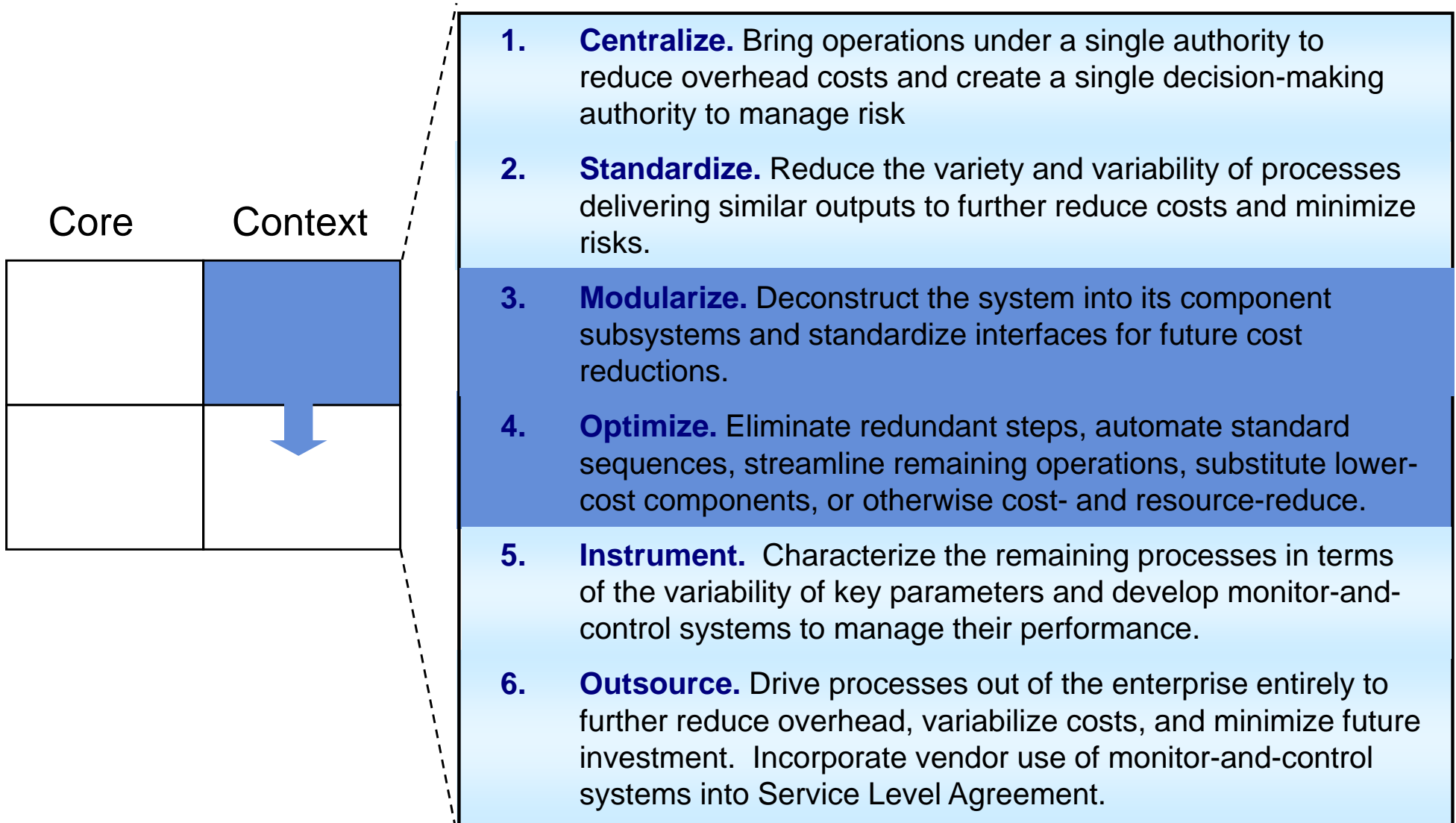
# What Actually Happens: Challenge #1

## The Mission-Critical Context Resource Trap



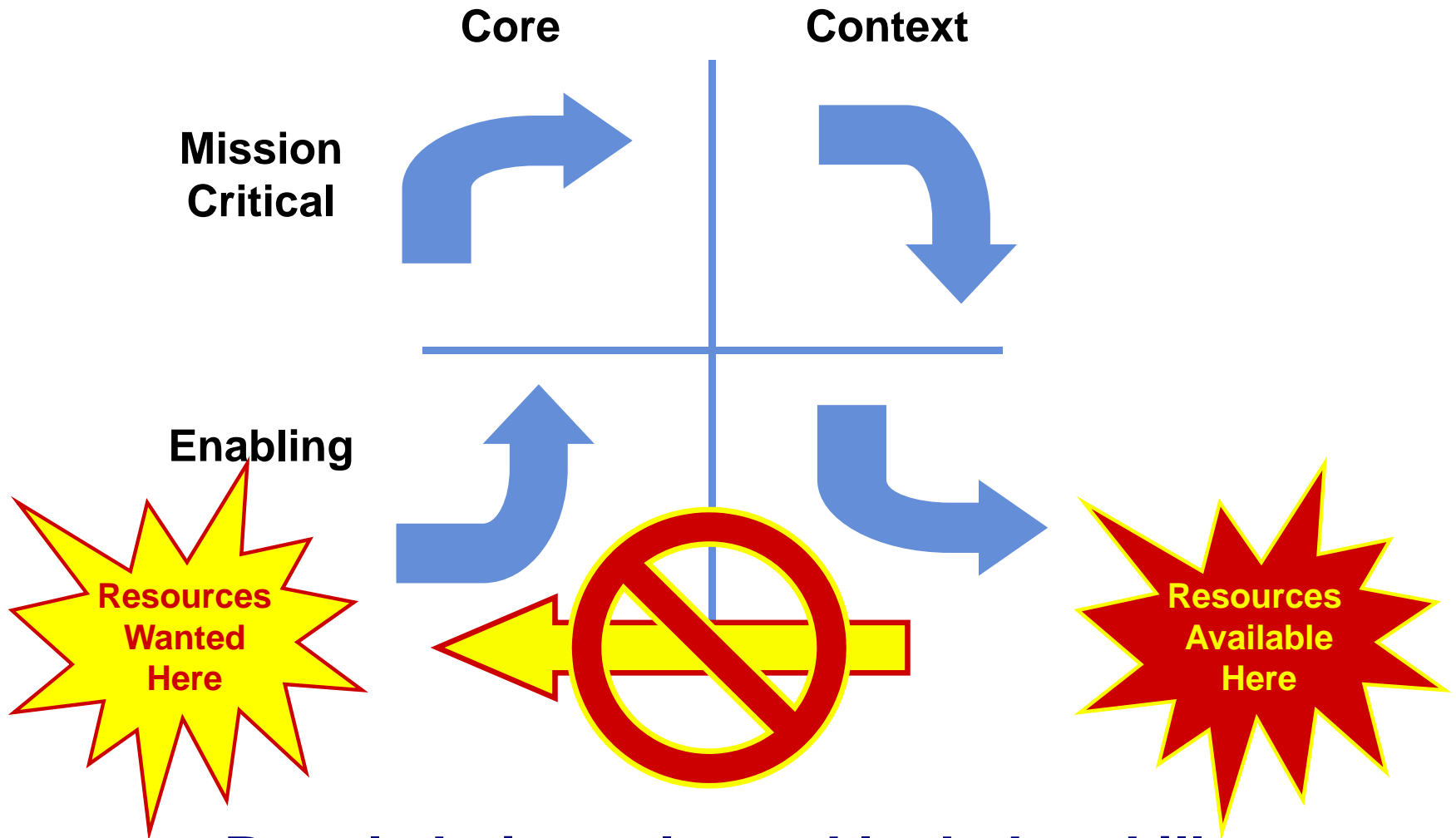
# Freeing Resources Trapped in Context

## The Six Levers Model



# What Actually Happens: Challenge #2

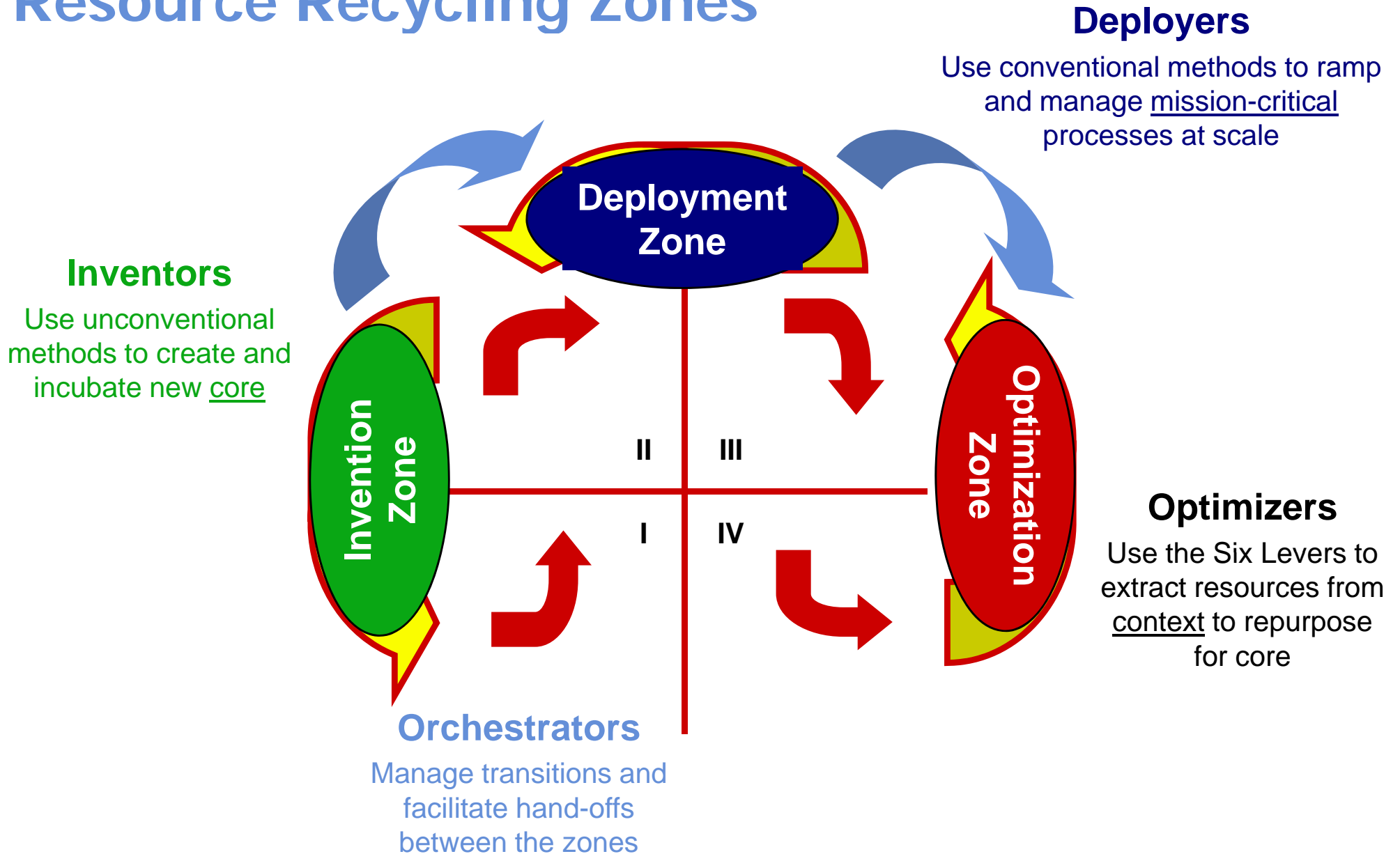
## The Human Resources Recycling Trap



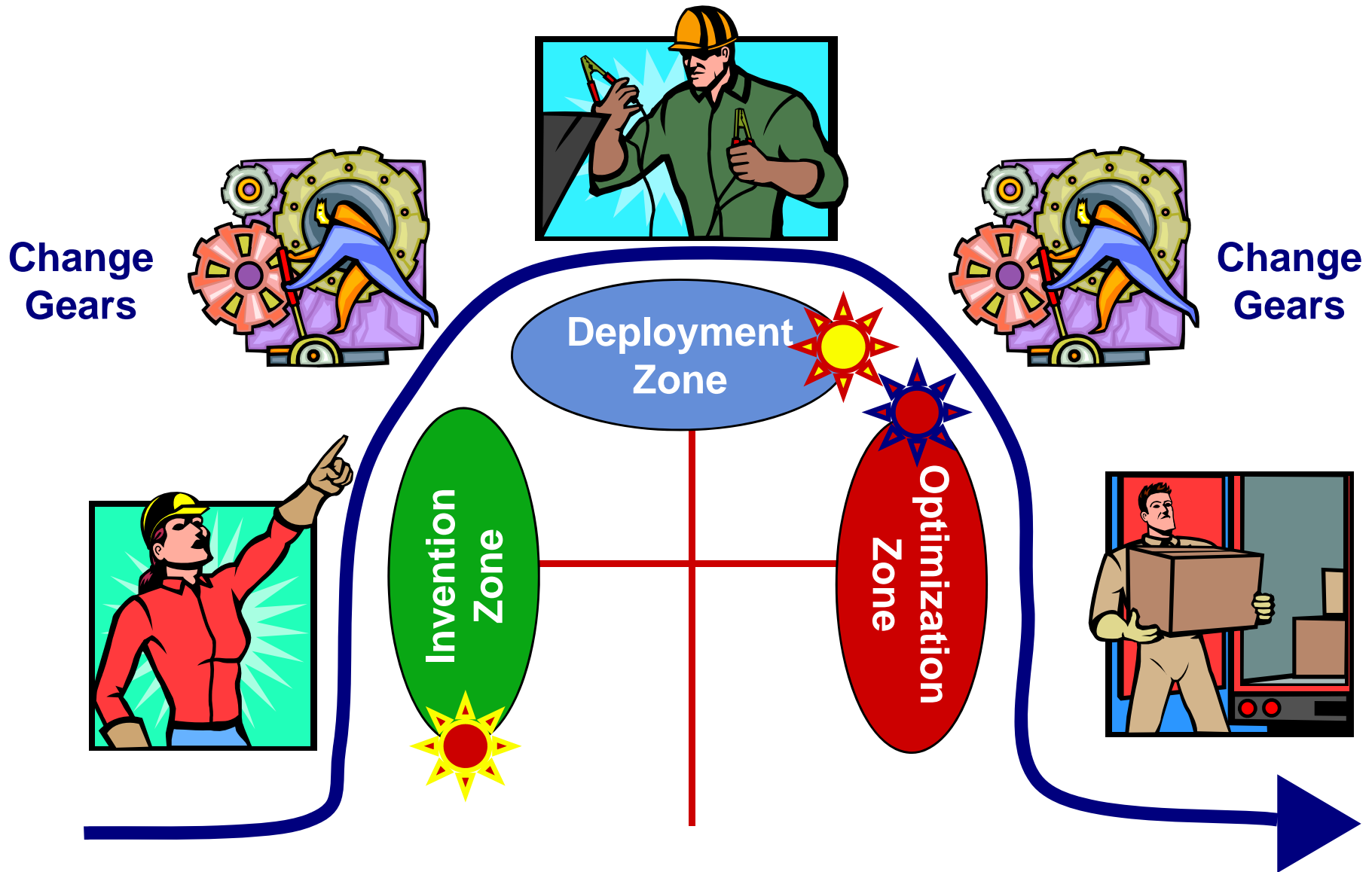
**People being released lack the skills  
to fill the positions being opened**

# Freeing Resources Trapped in Context

## Resource Recycling Zones



# Perpetuating Innovation



**Innovation flows as fast as your slowest gear**

# Recap

- **Focusing Innovation**

- “Unmatchable” differentiation
- “Good enough” neutralization
- “Save to invest” optimization

- **Funding Innovation**

- Extract resources from context to invest in core
- Use the Six Levers—in sequence
- Recycle resources—let people use their strengths

