

# Dealing with Darwin

How Great Companies Innovate at Every  
Phase of Their Evolution

[www.dealingwithdarwin.com](http://www.dealingwithdarwin.com)

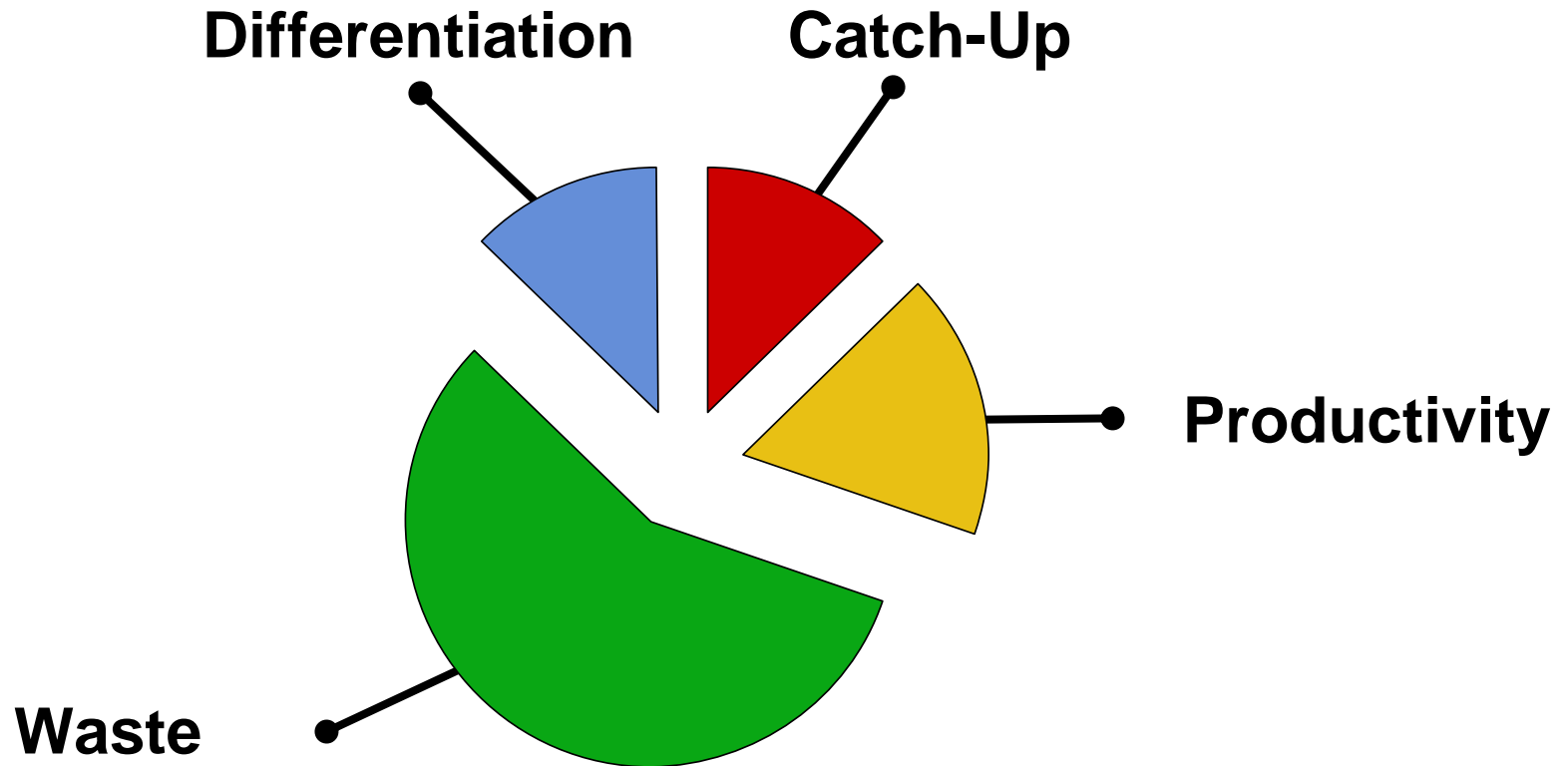


Geoffrey Moore  
Managing Partner

# The Set Up

- **Why Darwin?**
  - Influx of offshore competition and new market formation
  - Natural selection is driving to survival-of-the-fittest outcomes
  - Enterprises must differentiate to gain competitive advantage
- **The Problem**
  - Enterprises spend heavily on innovation for competitive advantage
  - Not enough to competitive advantage to show for it (commoditization)
- **High failure rates signal a need for better mental models**
  - *Crossing the Chasm, Inside the Tornado, The Gorilla Game*
- ***Dealing with Darwin***
  - Better mental models for managing *innovation* and *inertia*
  - Best practices based on new models
  - Showcase Cisco as a case study

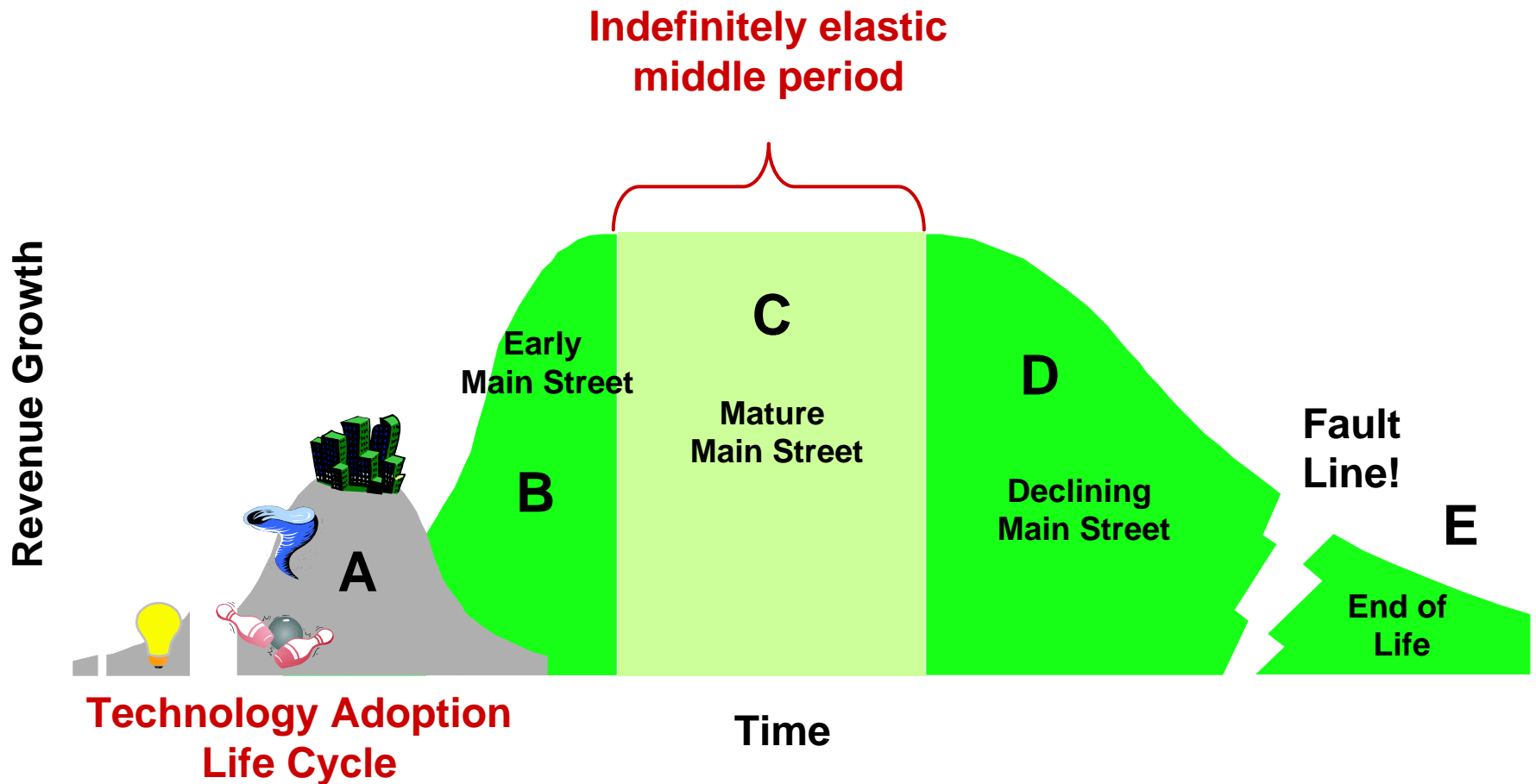
# Return on Innovation



**Waste: Innovation projects that fail to create definitive separation from competitive offerings:  
*Not going far enough in the right direction***

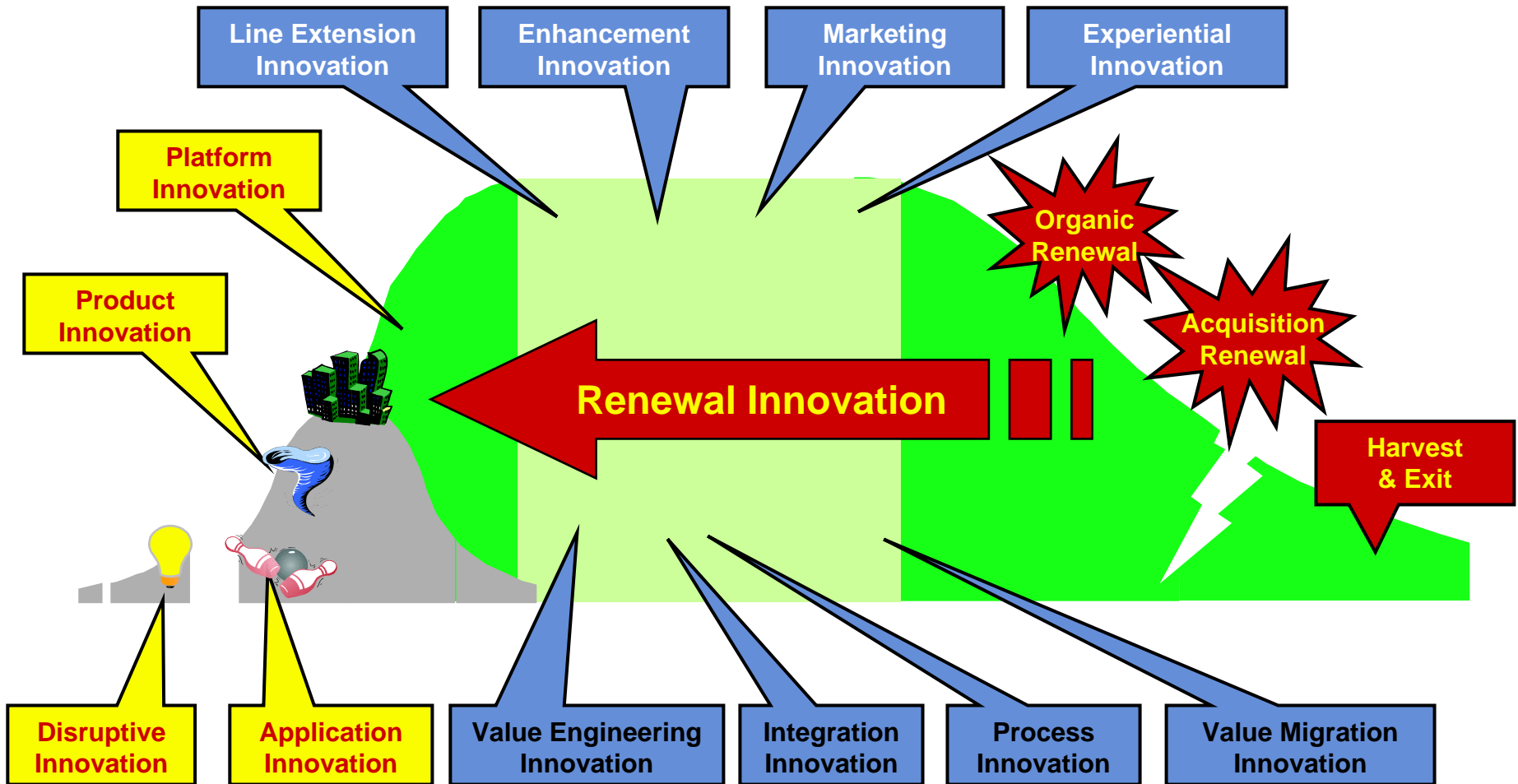
# Innovation's Landscape

## The Category Maturity Life Cycle



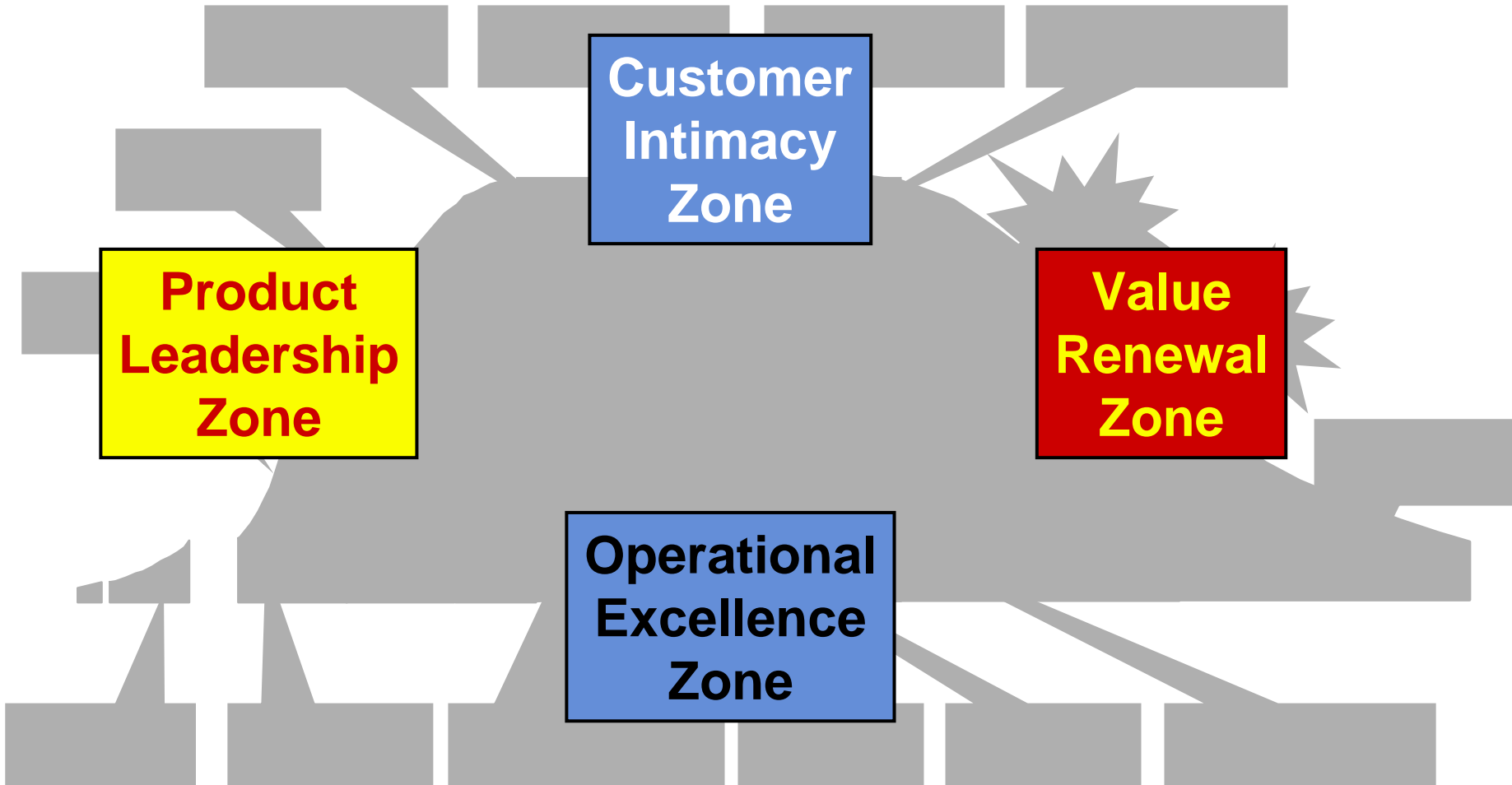
# Broad Universe of Innovation Types

## Different Types Get Traction at Different Points



# Managing Innovation

## Four Innovation Zones



# Innovating for Growth Markets

## The Product Leadership Zone

### Disruptive Innovation

- Enterprise: Genentech (recombinant DNA)
- Consumer: Skype (VOIP)

### Application Innovation

- Enterprise: Landmark (3-D seismic interpretation)
- Consumer: Amazon (Internet retailing)

### Product Innovation

- Enterprise: Cisco (Internet routers)
- Consumer: Cuisinart (food processors)

### Platform Innovation

- Enterprise: Oracle (relational databases)
- Consumer: Sony (game machines)

**Return on innovation requires differentiation**

***All these companies achieved separation from their competition***

# Innovation Types for Mature Markets

## The Customer Intimacy Zone

### Line Extension Innovation

- Enterprise: Boeing (737 line of aircraft)
- Consumer: Yahoo (internet portal services)

### Enhancement Innovation

- Enterprise: Cognos (executive dashboards)
- Consumer: Swatch (fashion watches)

### Marketing Innovation

- Enterprise: McKinsey (relationship marketing)
- Consumer: Mattel (American Girl franchise)

### Experiential Innovation

- Enterprise: World Economic Forum (Davos)
- Consumer: Disney (theme parks)

**Return on innovation requires differentiation**

***All these companies achieved separation from their competition***

# Innovation Types for Mature Markets

## The Operational Excellence Zone

### Value Engineering Innovation

- Enterprise: TSMC (silicon foundry)
- Consumer: BIC (ballpoint pens)

### Integration Innovation

- Enterprise: SAP (Enterprise Resource Planning)
- Consumer: Victorinox (Swiss army knives)

### Process Innovation

- Enterprise: Celera (shotgun genomic sequencing)
- Consumer: McDonald's (fast food)

### Value Migration Innovation

- Enterprise: IBM (hardware to software & services)
- Consumer: HP (printers to inkjet cartridges)

**Return on innovation requires differentiation**

***All these companies achieved separation from their competition***

# Innovating for Declining Markets

## The Category Renewal Zone

### Organic Renewal

- Enterprise: Alcatel (from switched voice to IP video)
- Consumer: Apple (from PCs to consumer electronics)

### Acquisition Renewal

- Enterprise: EMC (from storage hardware to software)
- Consumer: Altria (from tobacco to food & beverage)



**Return on innovation requires differentiation**

***All these companies achieved separation from competition***

***These did not***

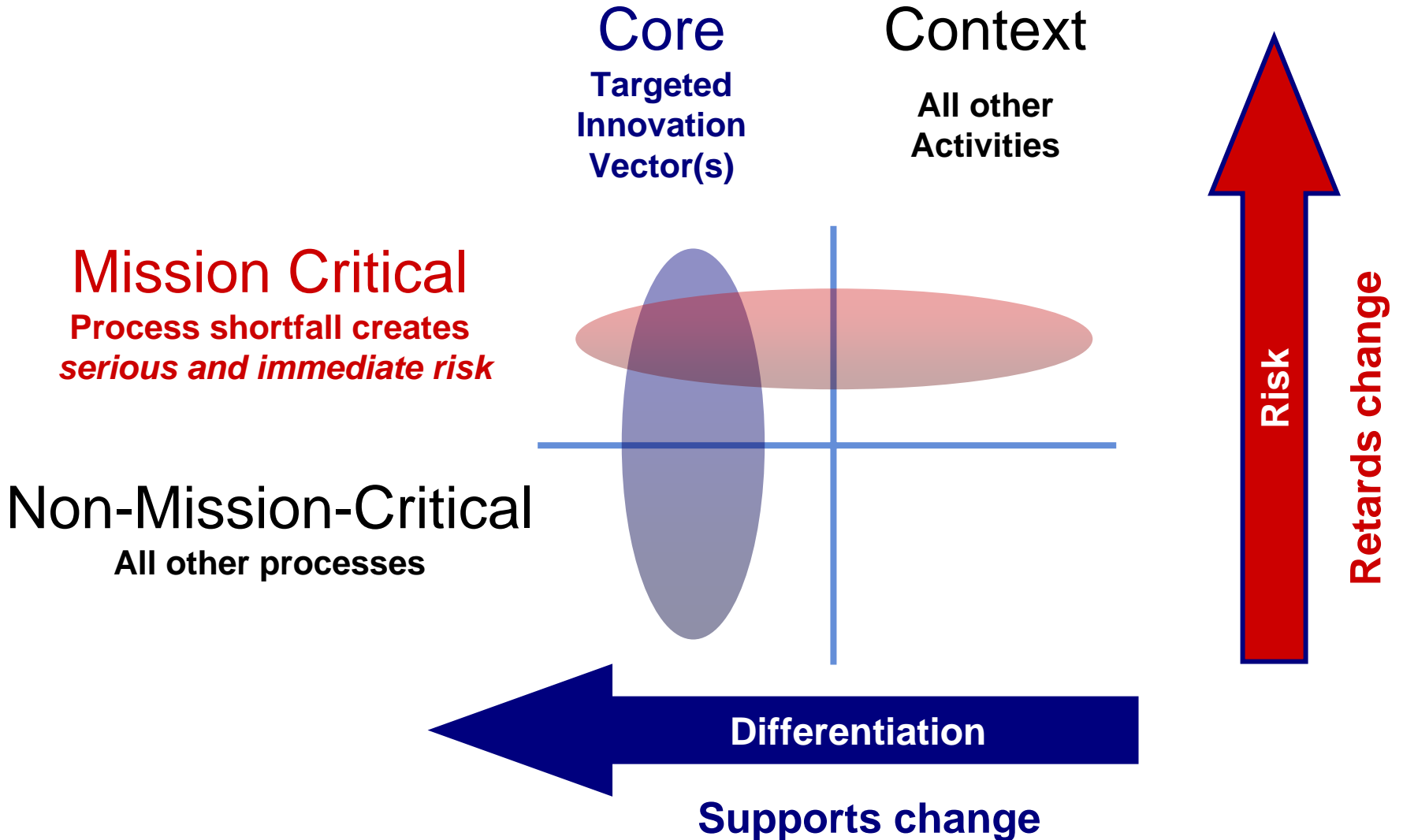


### Harvest & Exit

- Enterprise: AT&T (long distance telephony)
- Consumer: Oldsmobile (automobiles)

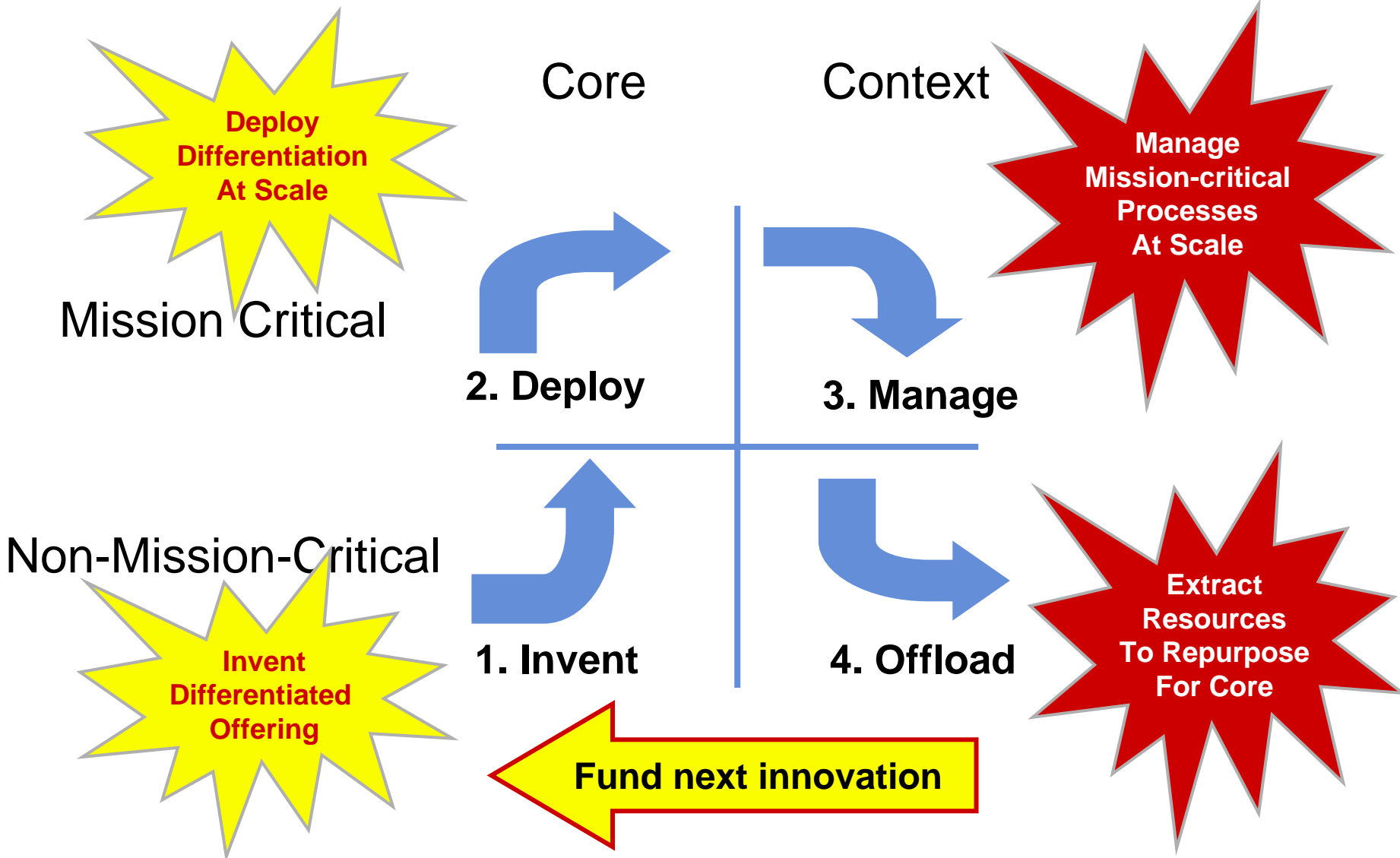
# Managing Inertia

## The Core/Context Analysis Framework



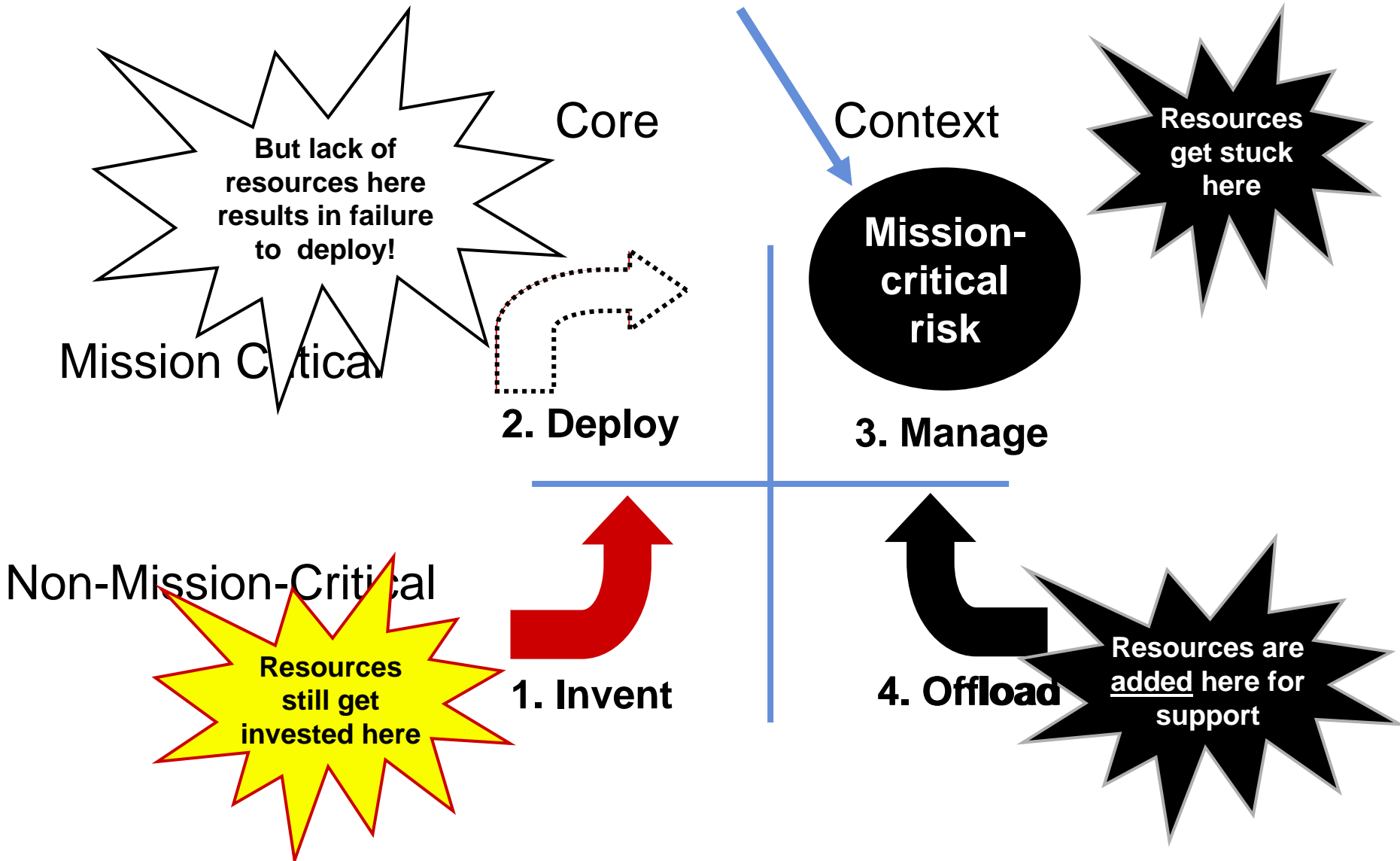
# The Natural Cycle of Innovation

## Inhale/Exhale



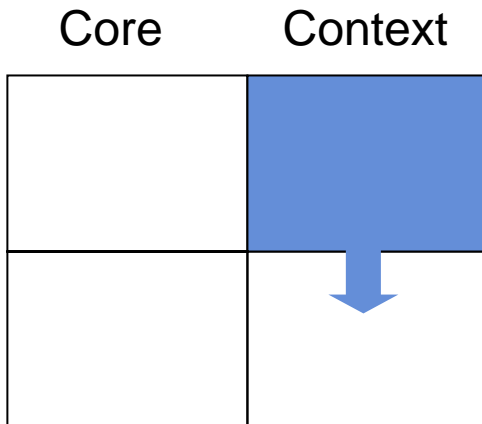
# Clinging to Context

## Where Resources Get Stuck



# The Six Levers Model

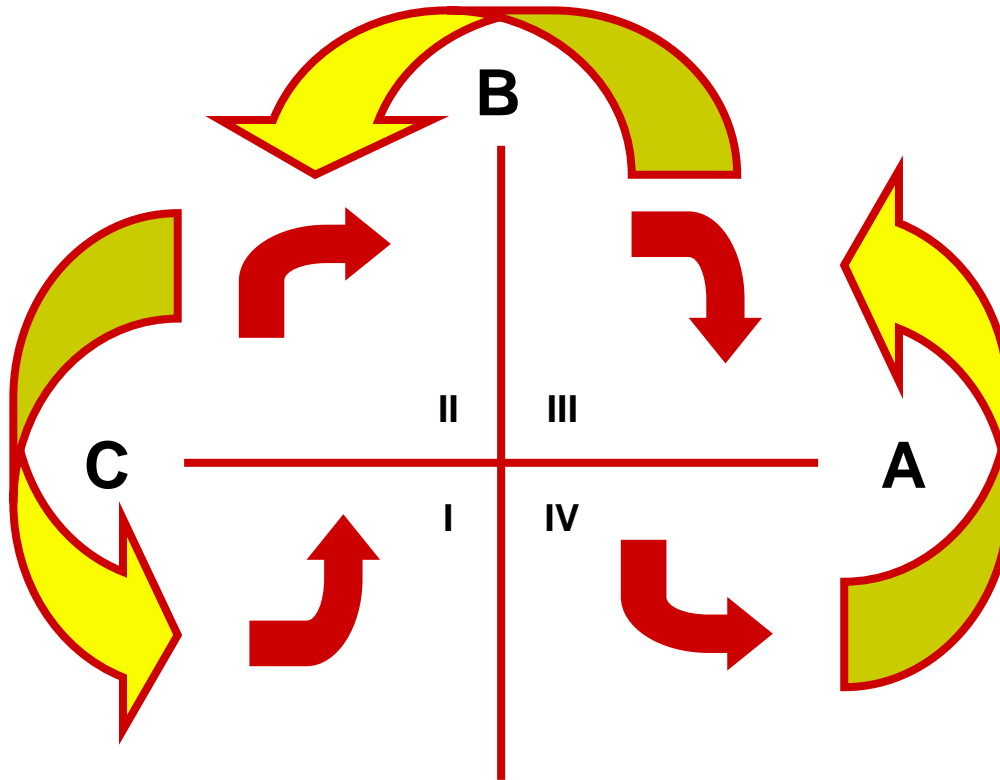
## Extracting Resources from Mission-Critical Context



1. **Centralize.** Bring operations under a single authority to reduce overhead costs and create a single decision-making authority to manage risk
2. **Standardize.** Reduce the variety and variability of processes delivering similar outputs to further reduce costs and minimize risks.
3. **Modularize.** Deconstruct the system into its component subsystems and standardize interfaces for future cost reductions.
4. **Optimize.** Eliminate redundant steps, automate standard sequences, streamline remaining operations, substitute lower-cost components, or otherwise cost- and resource-reduce.
5. **Instrument.** Characterize the remaining processes in terms of the variability of key parameters and develop monitor-and-control systems to manage their performance.
6. **Outsource.** Drive processes out of the enterprise entirely to further reduce overhead, variabilize costs, and minimize future investment. Incorporate vendor use of monitor-and-control systems into Service Level Agreement.

# Unblocking the Flow of Talent

## Resource Recycling Zones



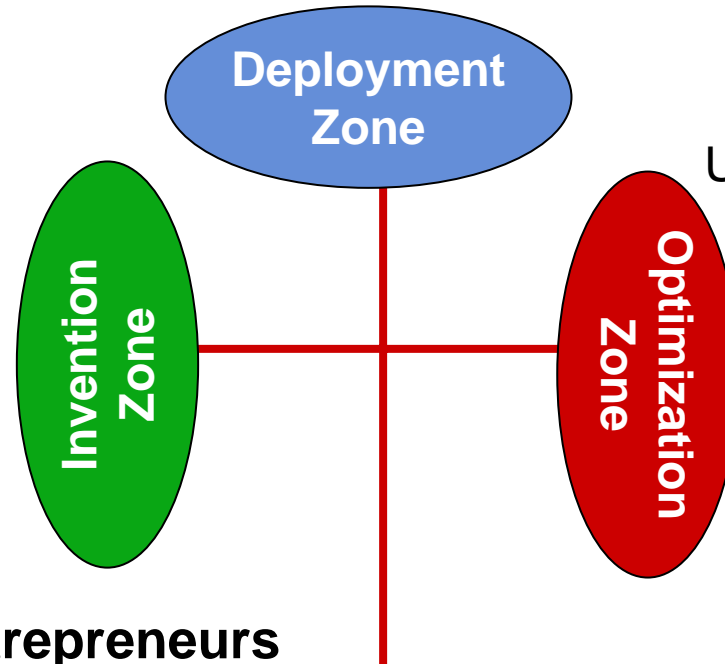
**Work circulates clockwise**

**People recycle counter-clockwise within zones**

# Three Roles for Continuous Innovation

## Program managers

Think inside the box to manage mission-critical processes at scale



## Process optimizers

Use the Six Levers to extract resources from context to repurpose for core

## Business entrepreneurs

Think outside the box to create new core