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# Competing in Tough Times

## Innovation Strategies that are Recession-Proof



**Geoffrey Moore**  
**Managing Director**

# Prolog

- **The “R” word**
  - How likely is a recession in 2008?
  - If it comes, what’s your plan?
- **Question**
  - Why wouldn’t you do these things anyway?

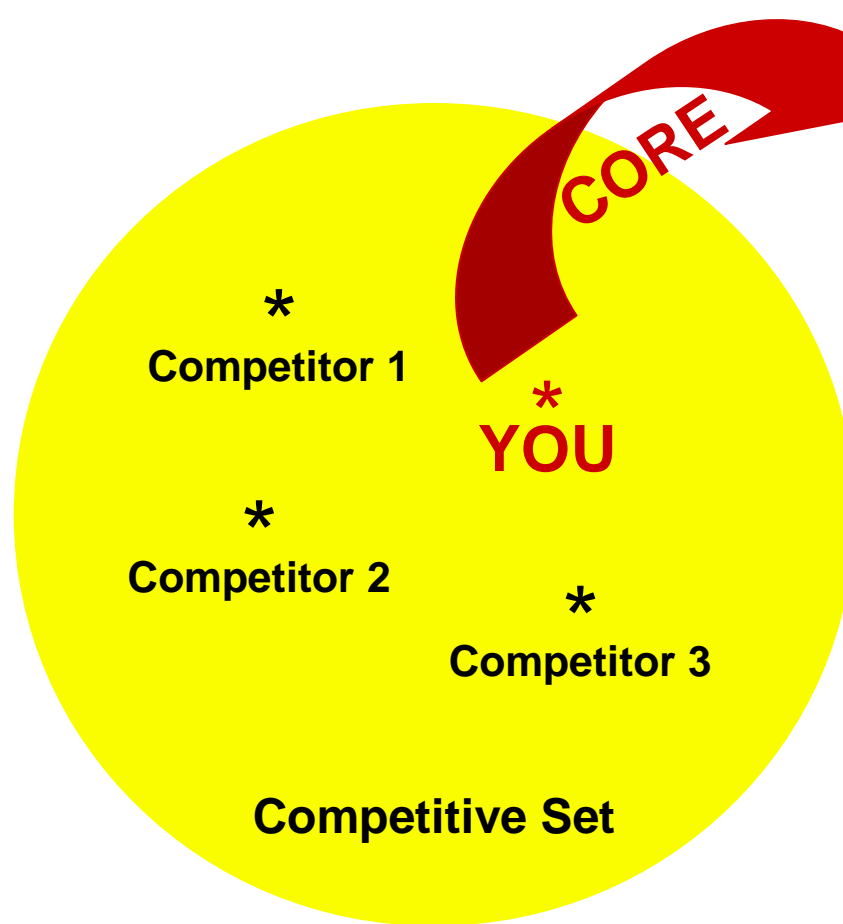
# Agenda

- **Increase Your Market Power**
  - Innovation Strategy
  - Committing to Core
- **Funding Innovation Out of Op Ex**
  - The Six Levers
  - Resource Recycling

# Increase Your Market Power

# Creating Competitive Advantage GAP

## Innovate to Achieve Competitive Separation



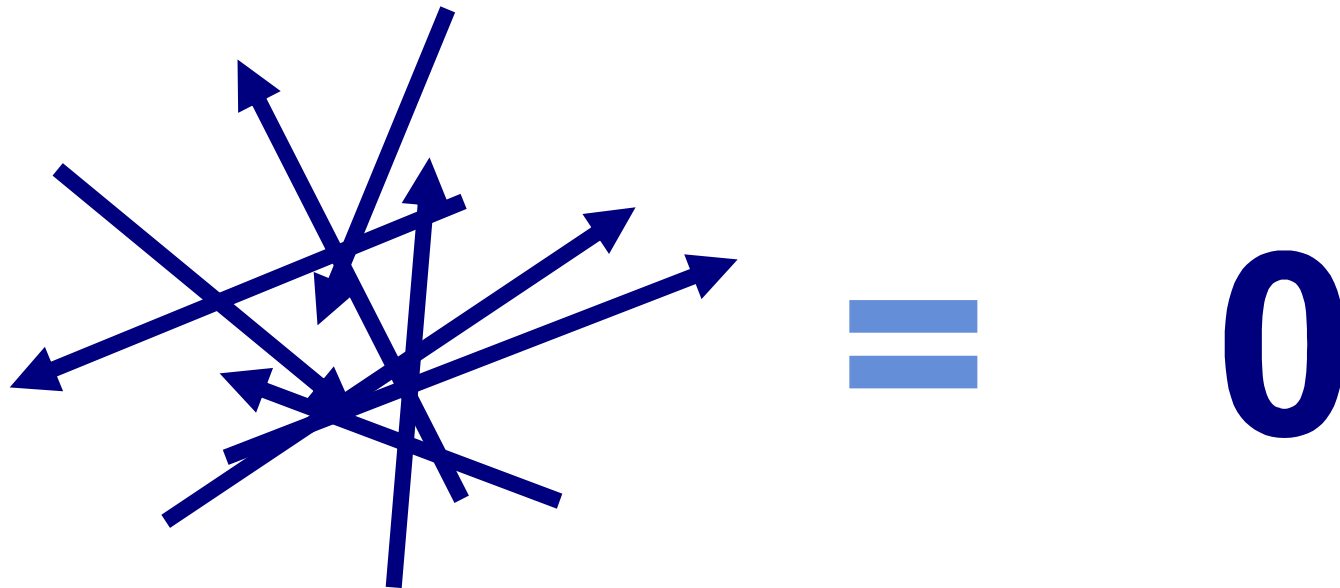
\* Amplify a specific vector of innovation

Gain bargaining power by getting separation from your competitive set

Failure to separate means low to no returns on innovation

# Manage Innovation Investments

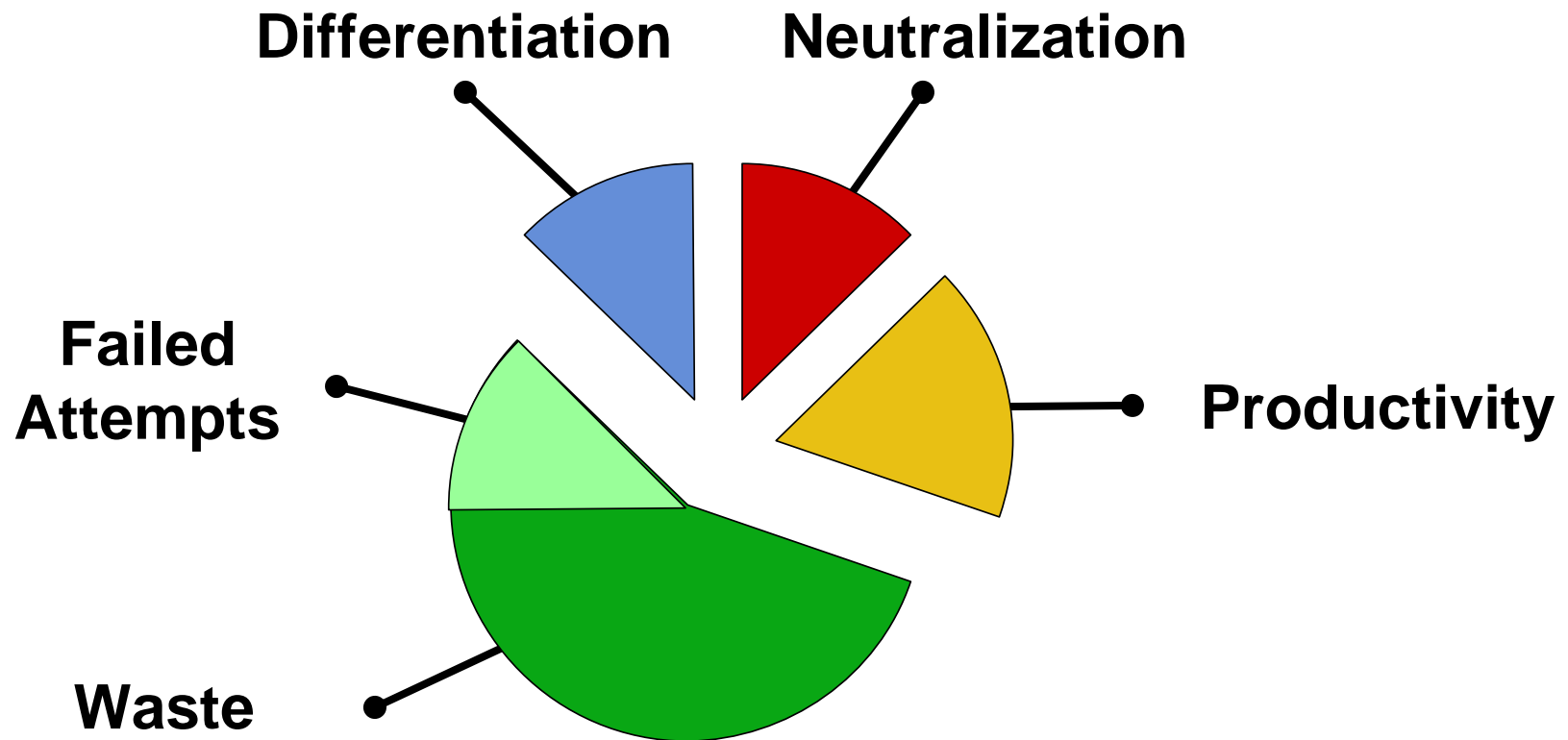
## Remember Your Vector Math Class!



Unmanaged innovation  
leads to no differentiation!

Competitors find it easy to neutralize these efforts

# 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

# Building an Innovation Strategy

## Value Disciplines as Innovation Zones

**Product  
Leadership  
Zone**

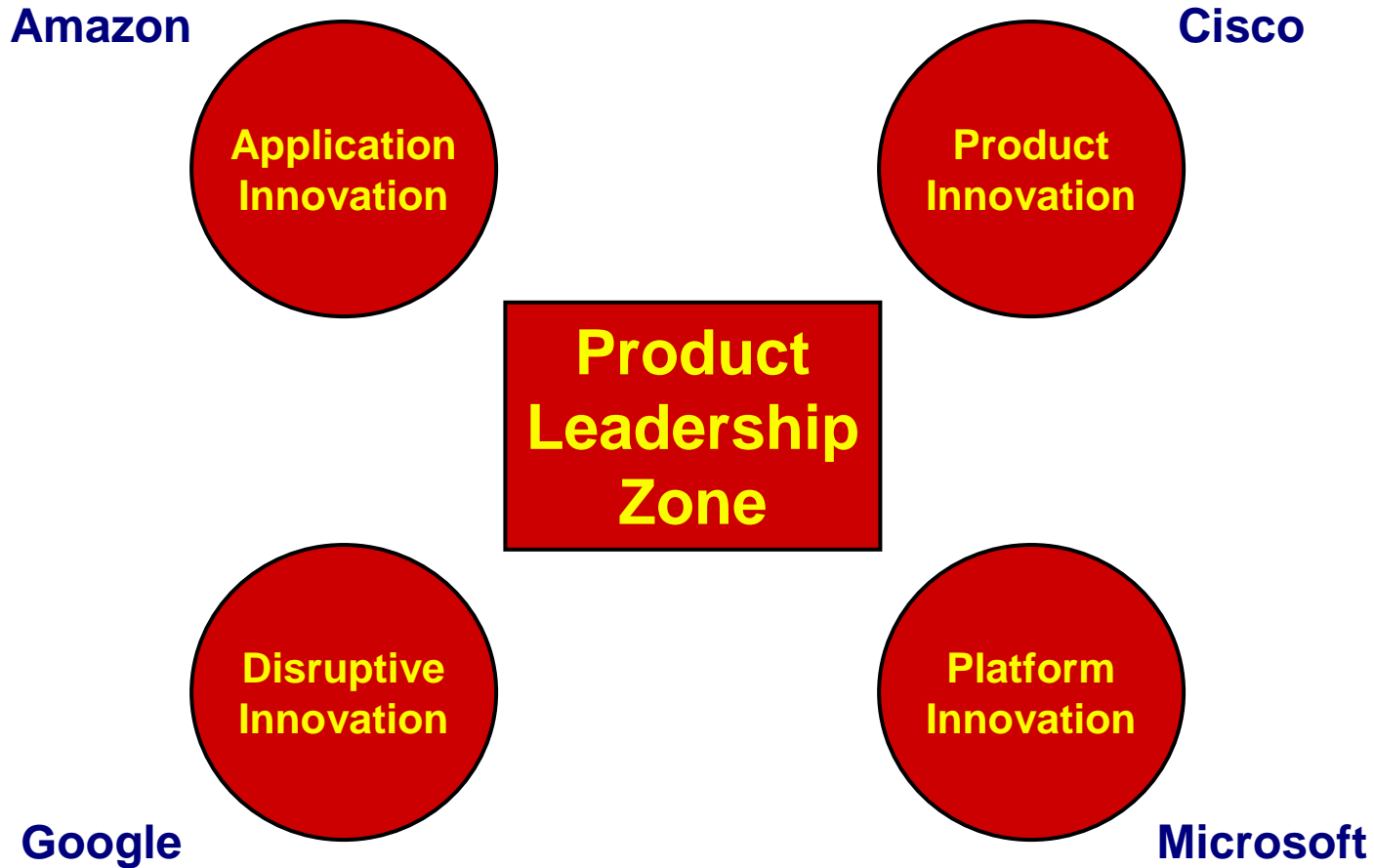
**Customer  
Intimacy  
Zone**

**Operational  
Excellence  
Zone**

**Which zone is your sweet spot?**

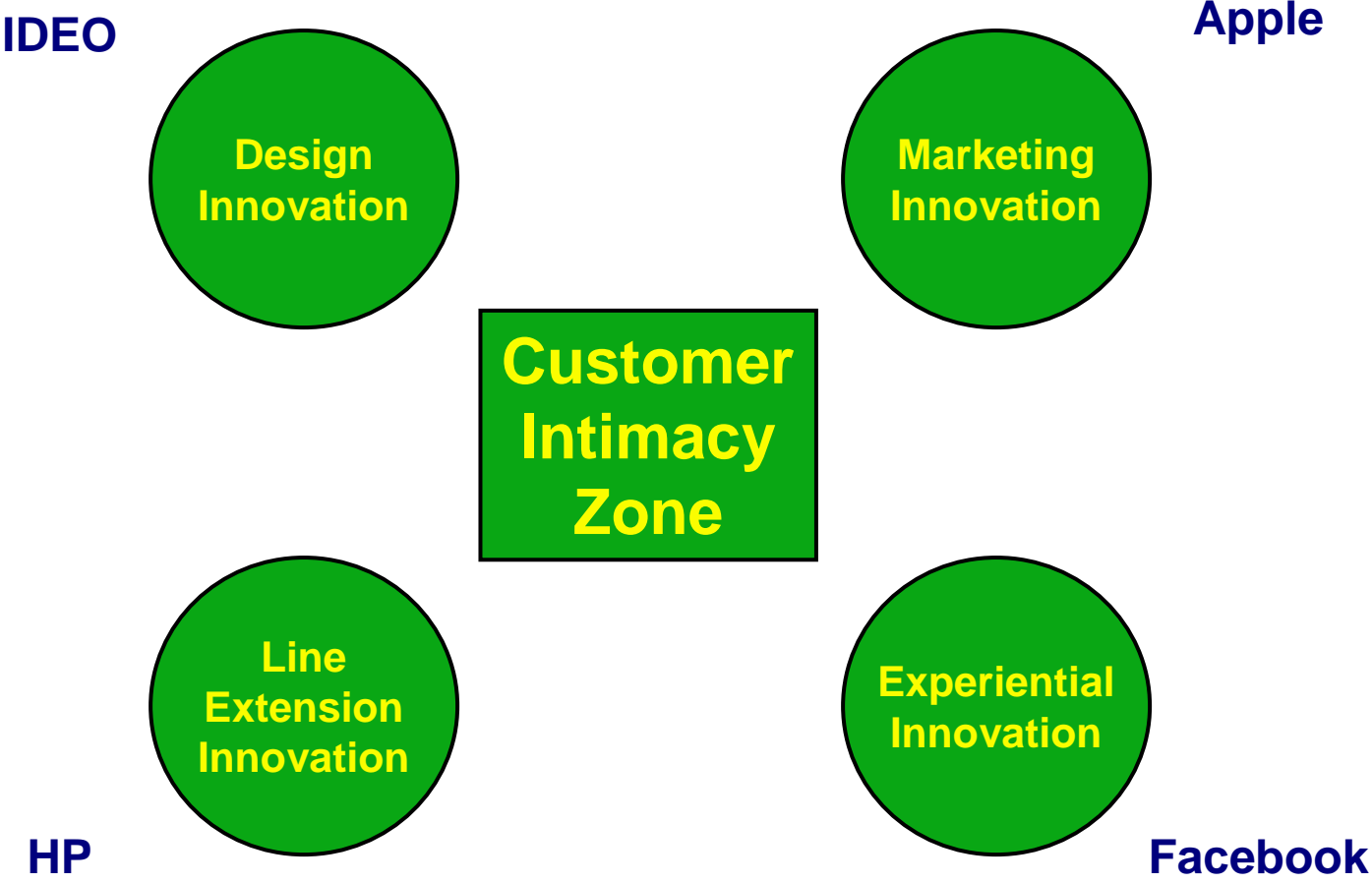
# Choosing a Vector of Innovation

## The Product Leadership Zone



# Choosing a Vector of Innovation

## The Customer Intimacy Zone

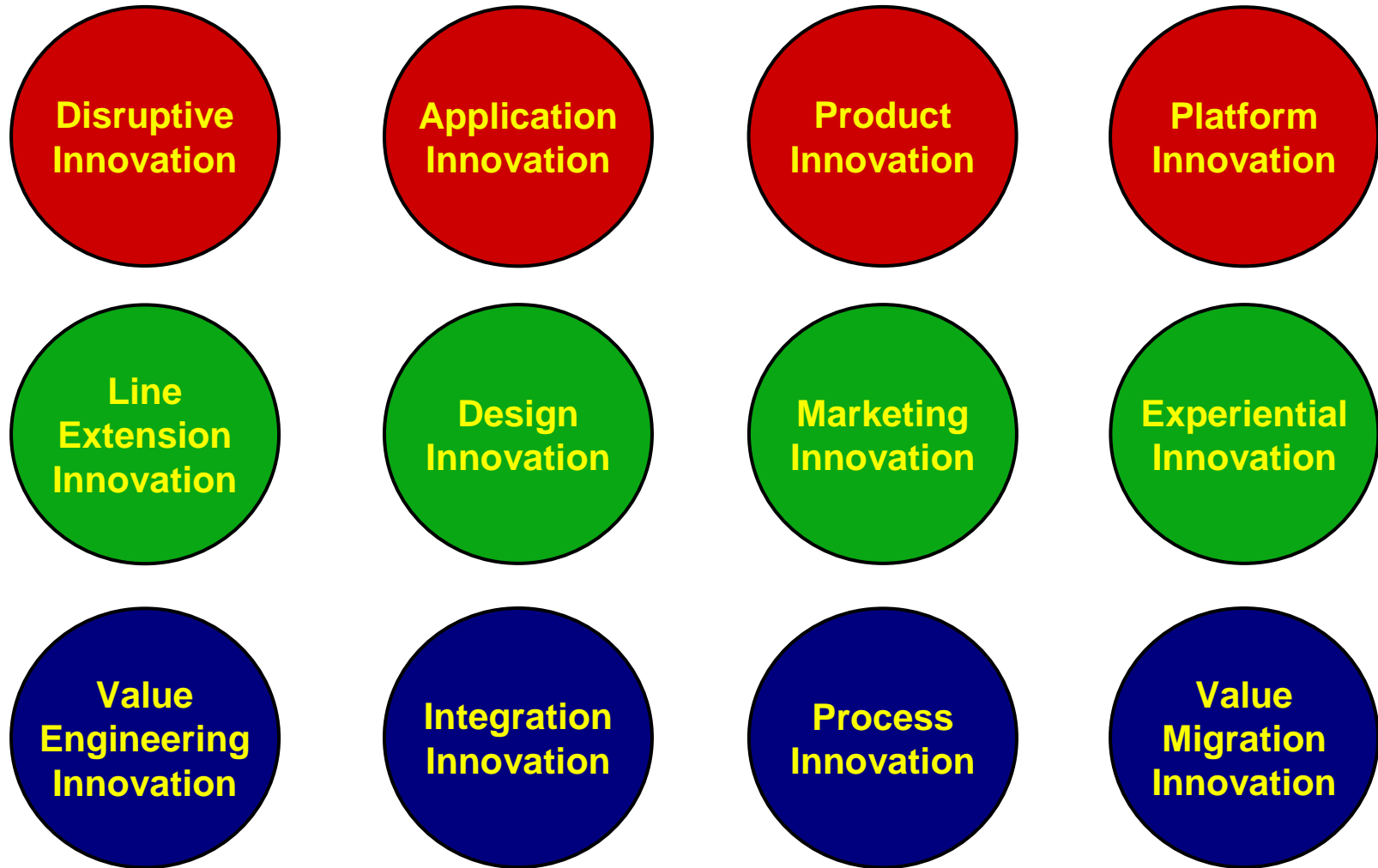


# Choosing a Vector of Innovation

## The Operational Excellence Zone



# Choose Your Vector of Innovation



# Declaring Core

- **Core:**
  - Processes that enable and amplify your chosen vector of competitive differentiation.
- **Context:**
  - All other processes.
  - Context is determined by what you choose to make core.
- **Keep in mind:**
  - Not the same thing as core competence
  - Not the same thing as core business

# Creating Definitive Separation

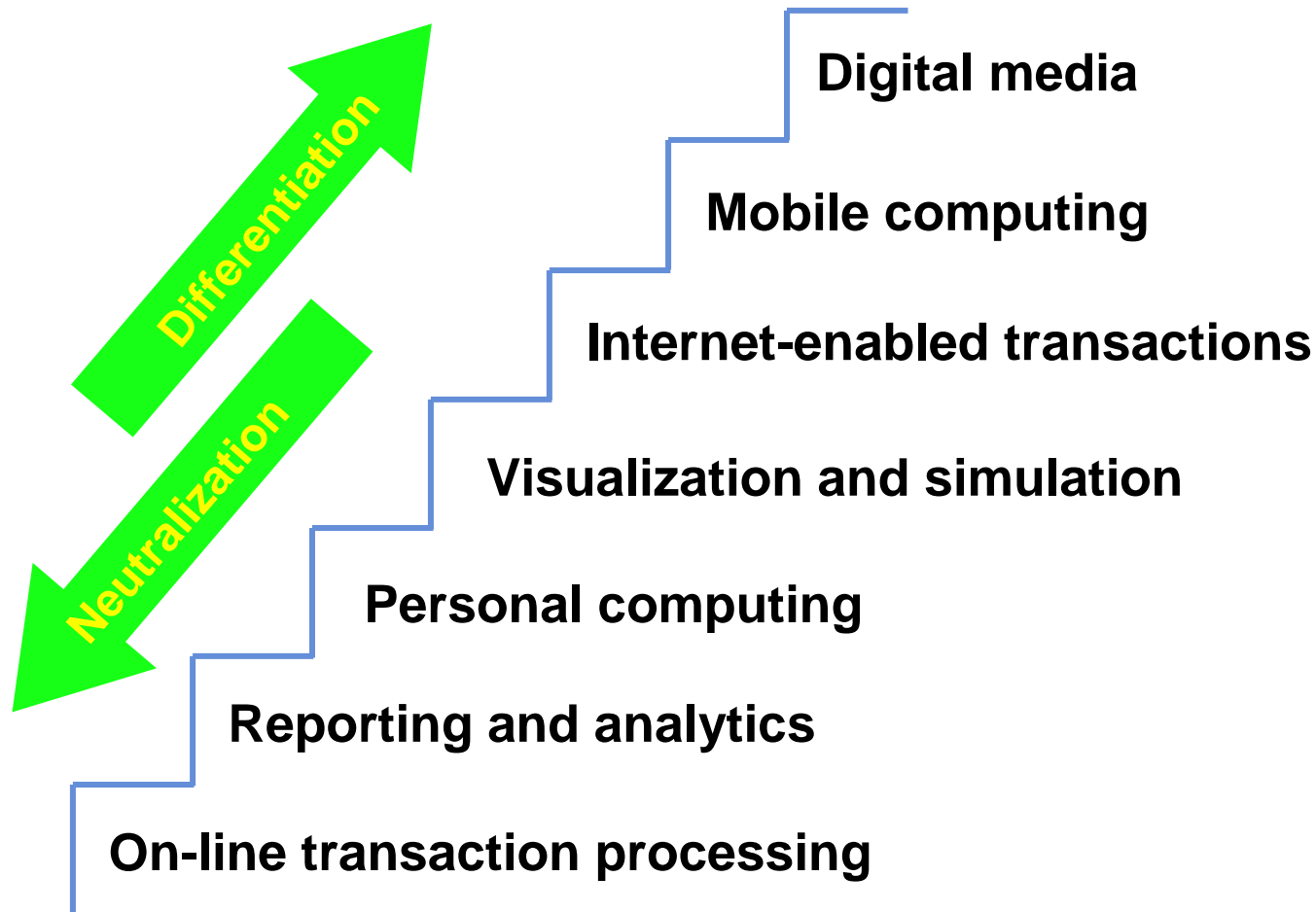
## Focus Offer & Program Innovation

- Identify a primary vector of differentiation, and declare this to be *core*. Stake out your “claim to fame.”
- Drive offer and program commitments “beyond reason” along your core vector to the point where even you are feeling uncomfortable with the level of differentiation you are creating.
- Reengineer all supporting context processes to further enhance and accentuate your core differentiation.
- Fund these extraordinary expenses by productivity initiatives focused on extracting resources from context activities.

# Fund Innovation out of Op Ex

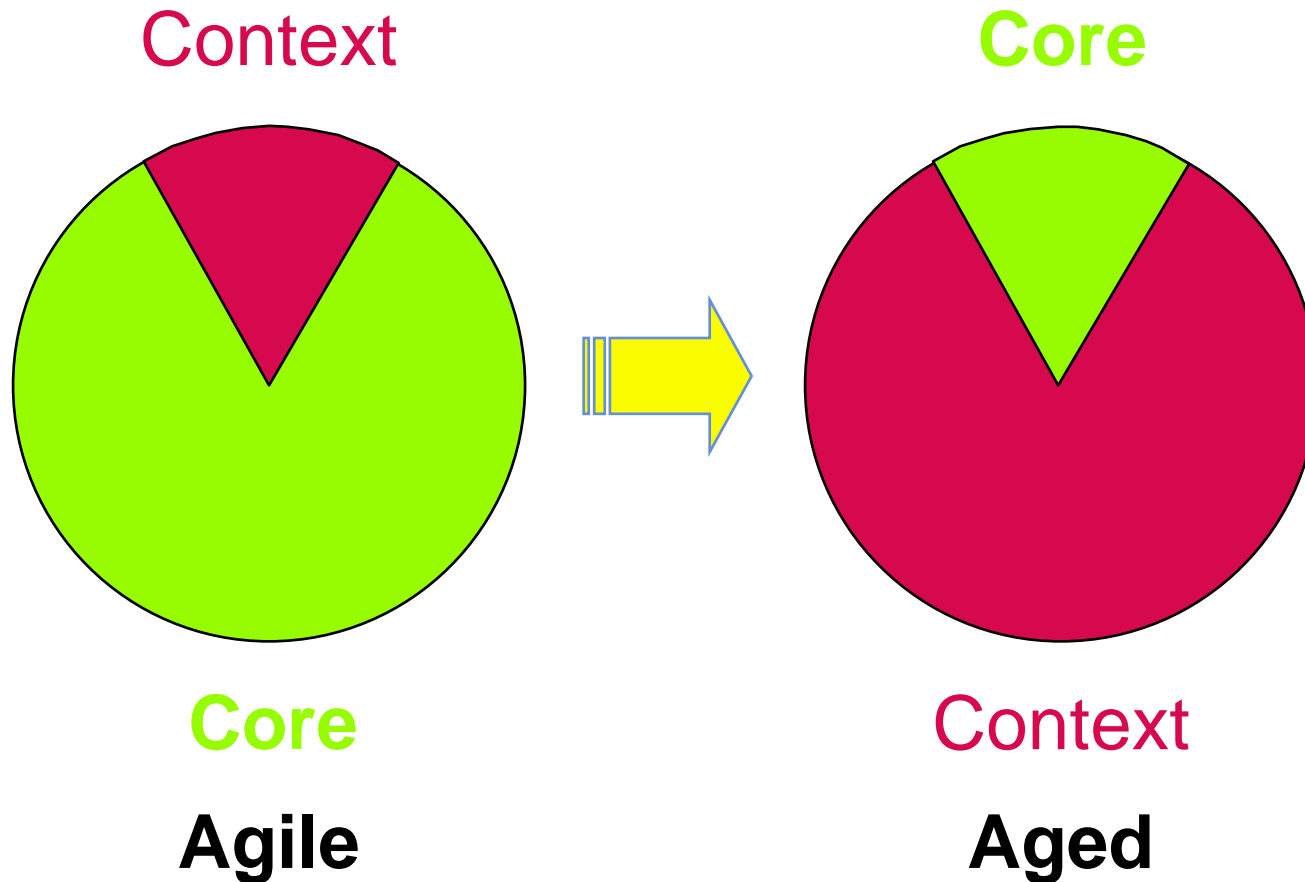
# Power Deteriorates

## Current Core Becomes Context Over Time



**Resources get stuck at the bottom of the escalator**

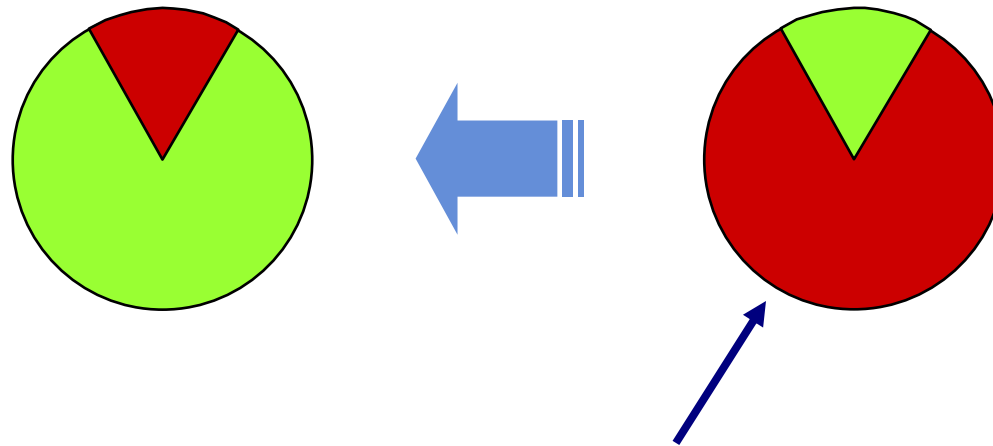
# Resources Get Trapped in Context



**Context delivers diminishing returns  
Organizations become uncompetitive**

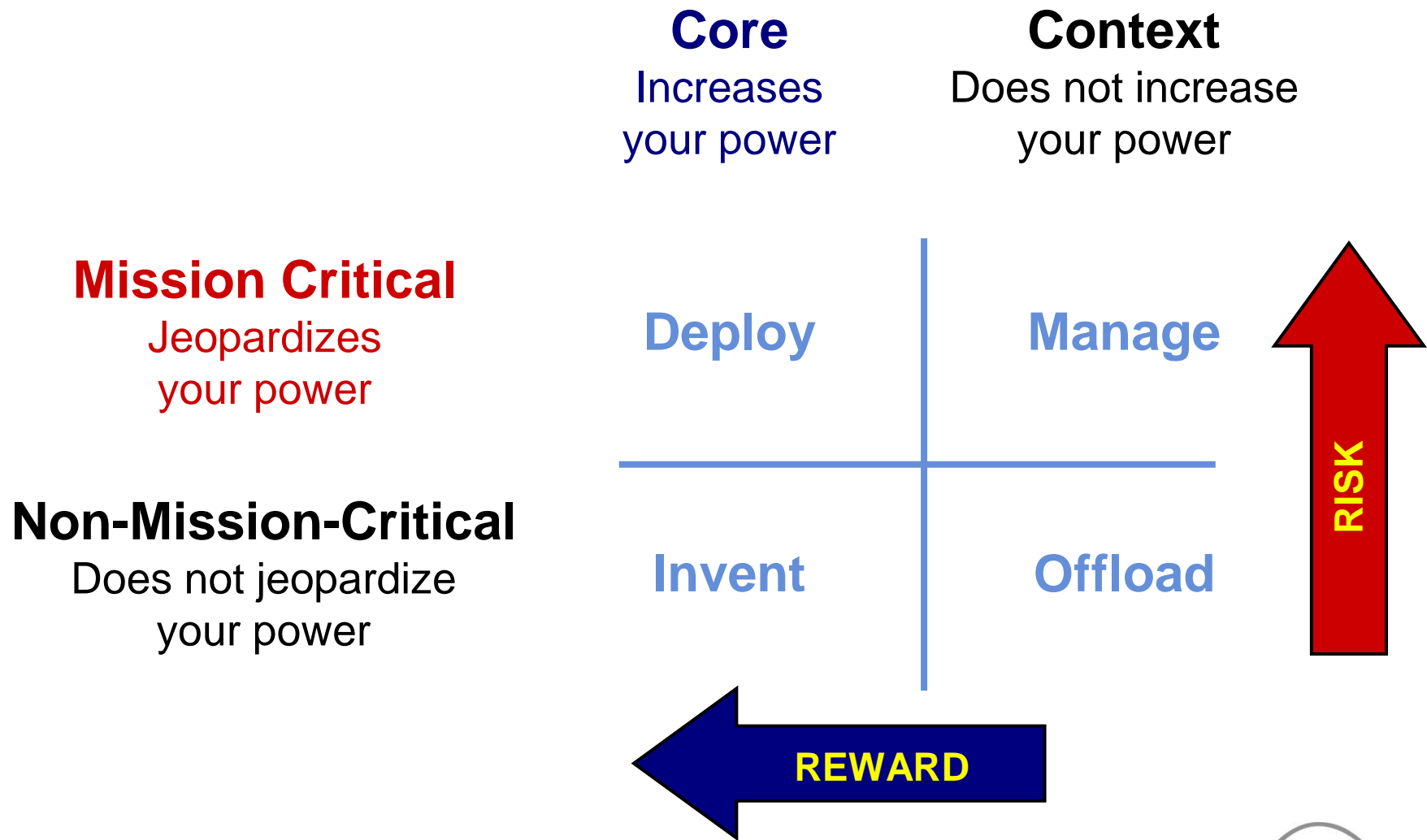
# Trapped Resources Can Fund Innovation

Extract Resources from Context  
to Repurpose for Core

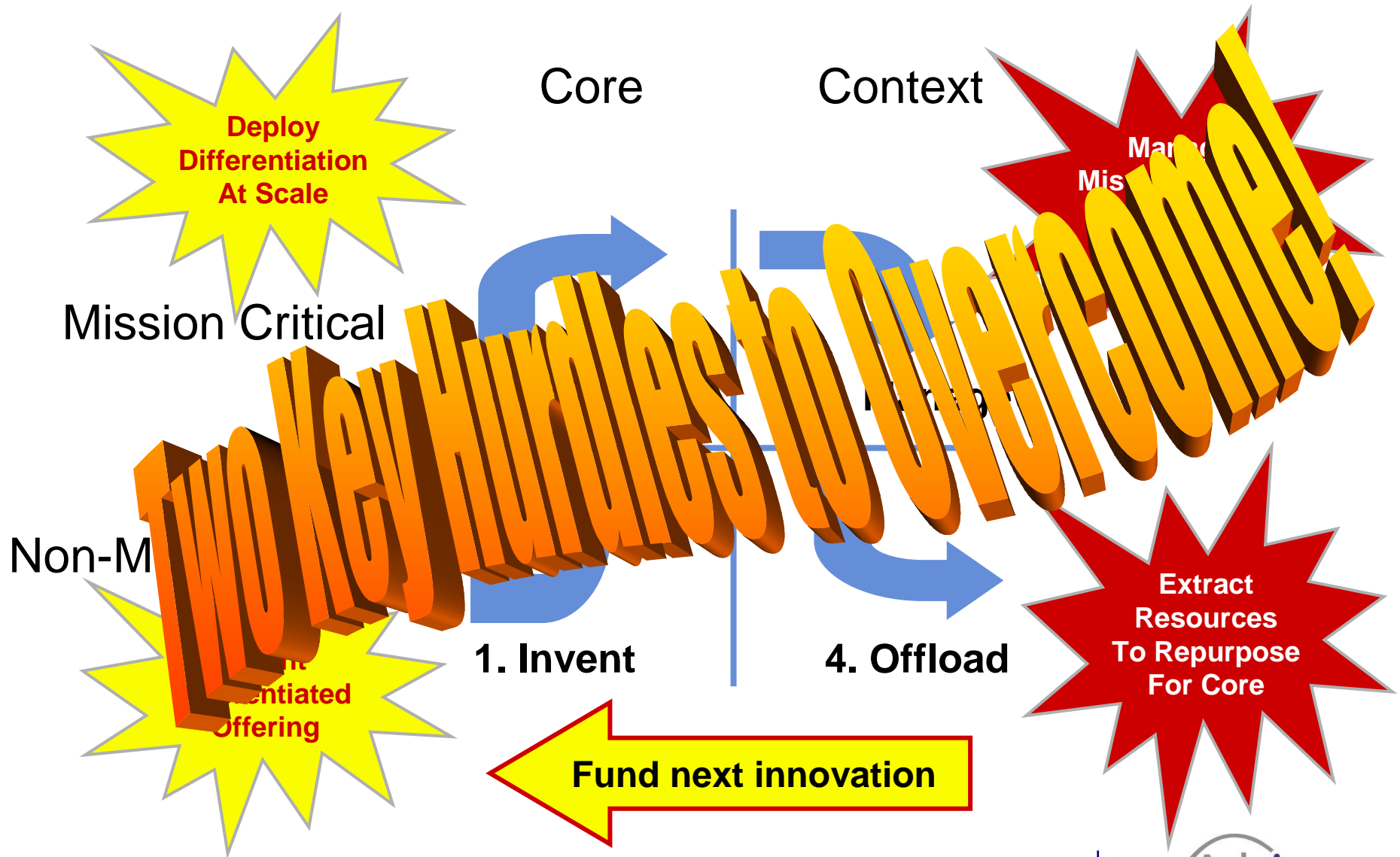


**“Coins in the Couch”**

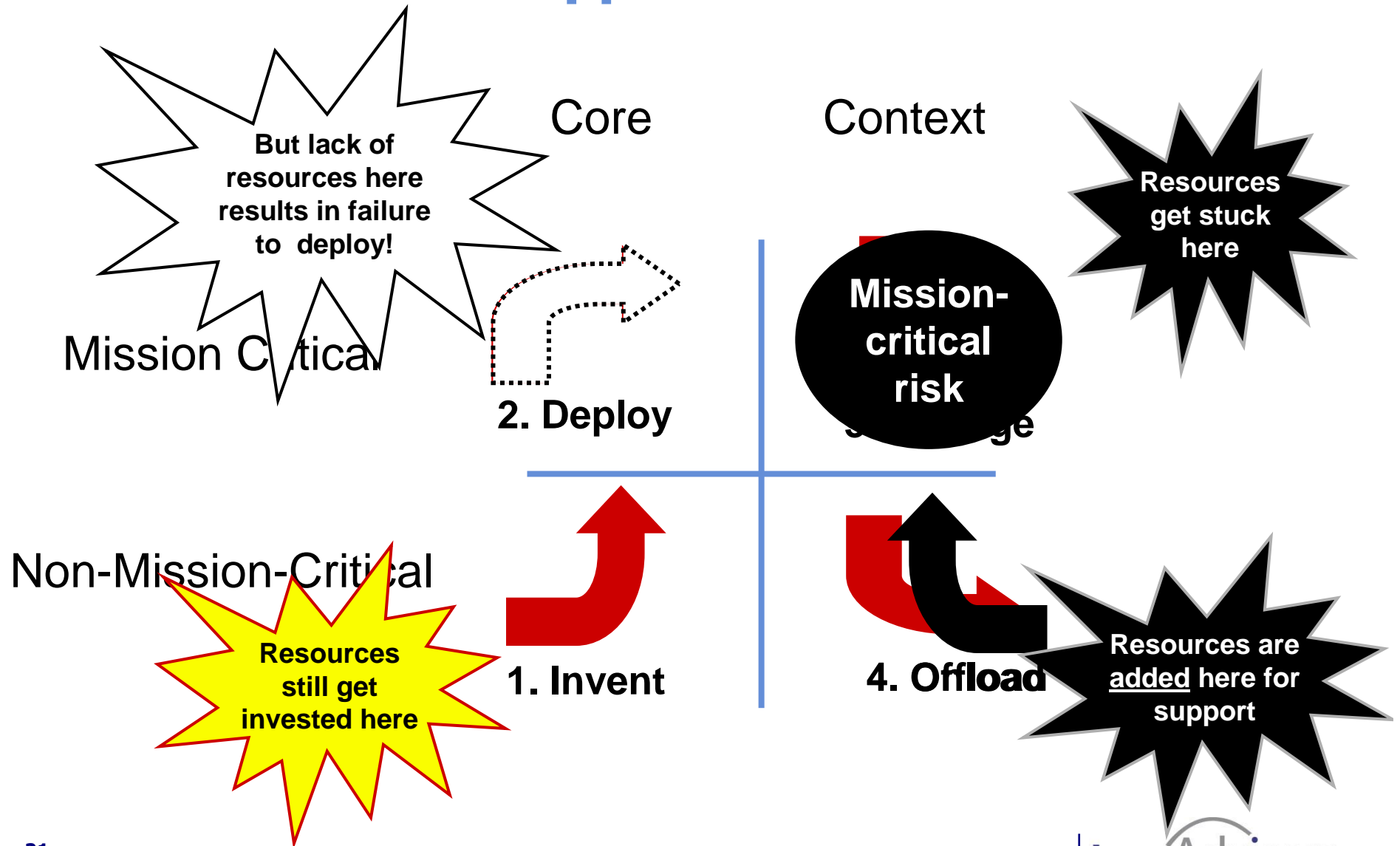
# The Dimensions of the Challenge



# The Cycle of Innovation

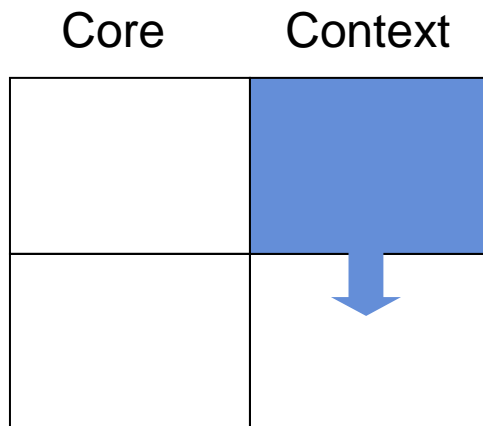


# Hurdle #1: Resources Get Trapped



# Freeing Resources Trapped in Context

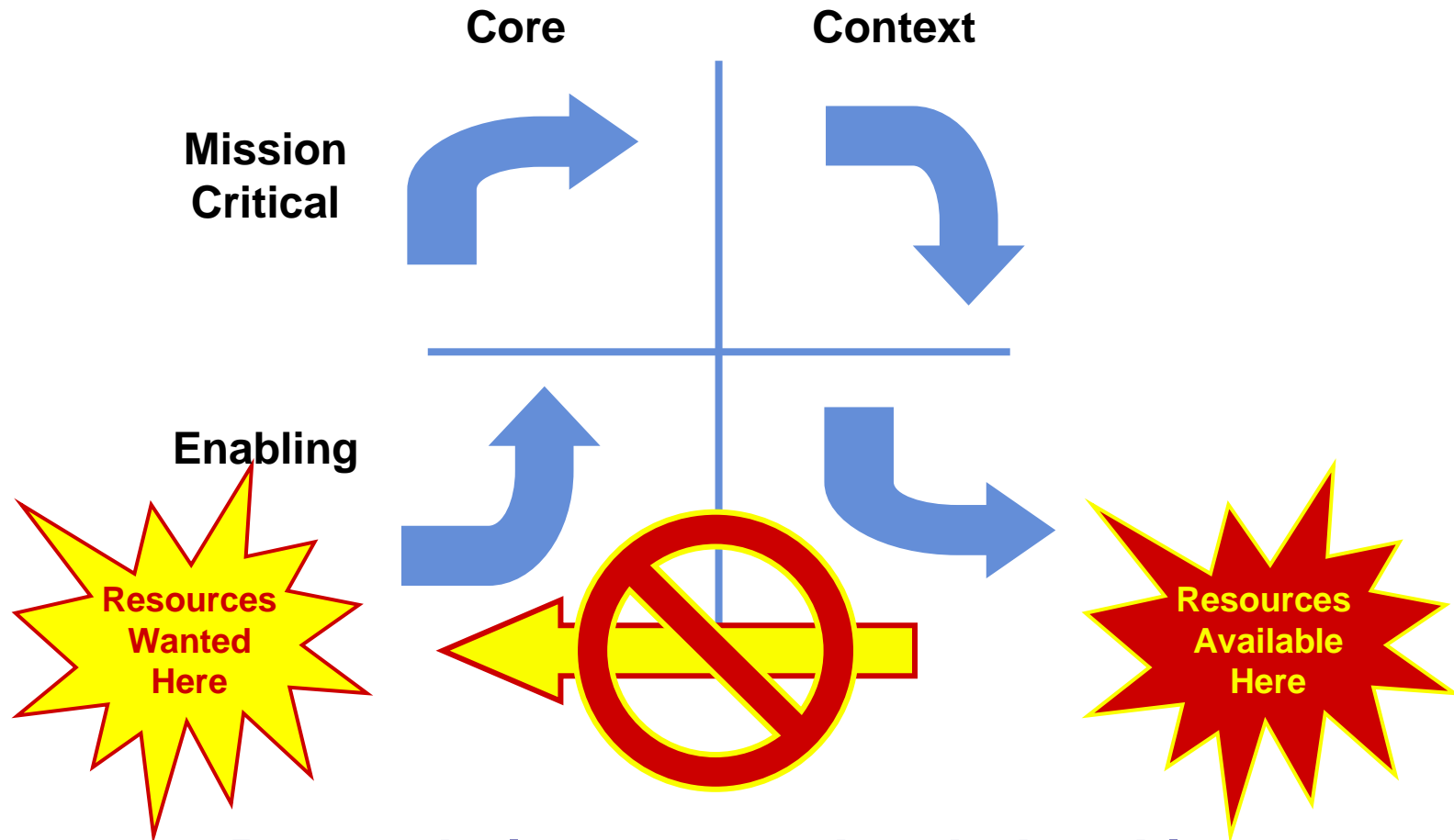
## The Six Levers Model



1. **Centralize.** Bring mission-critical context 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. Do not support user requests for variations.
3. **Modularize.** Deconstruct the overall system of work into its component subsystems and standardize interfaces between them to simplify 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.

# Hurdle #2

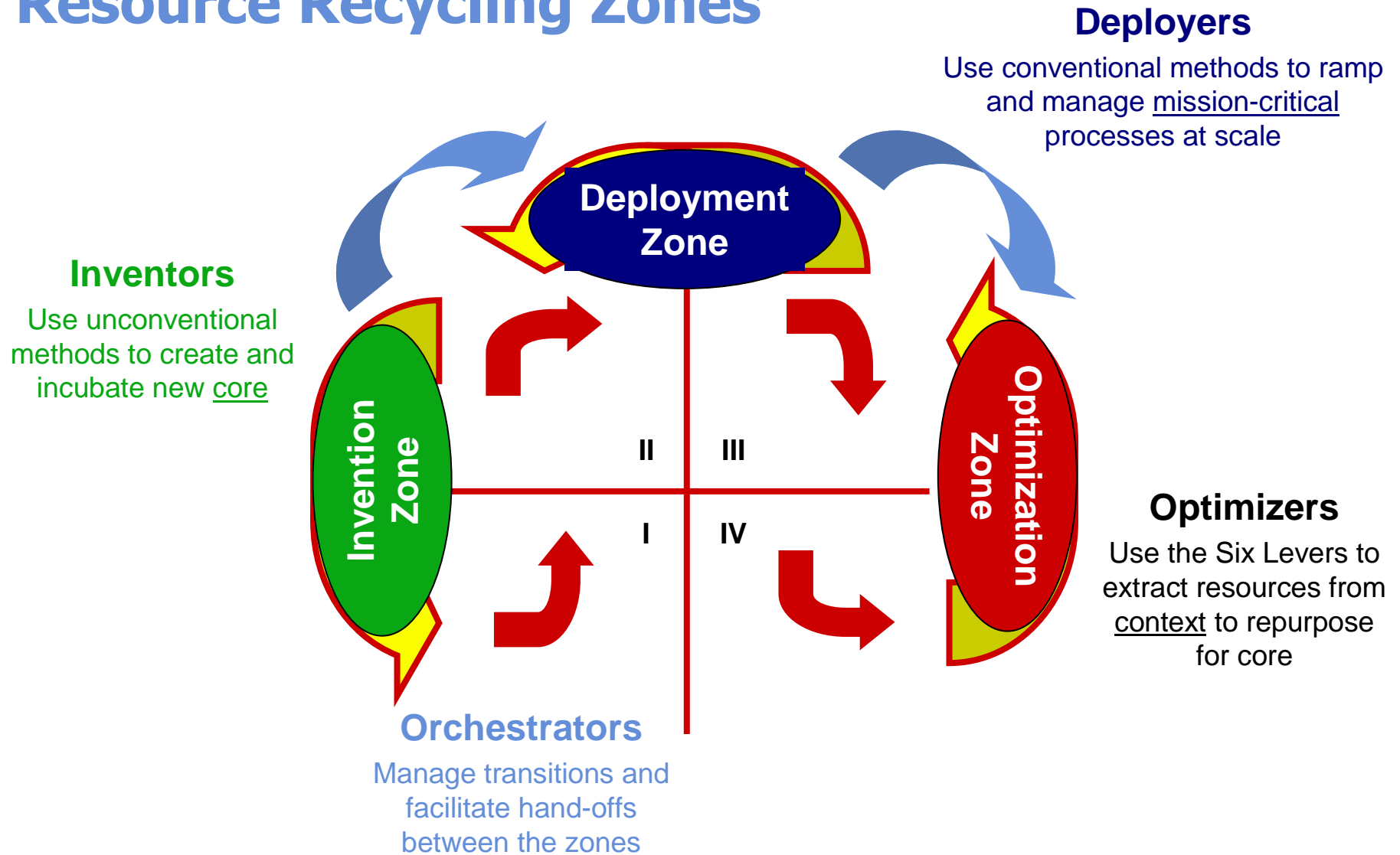
## People Get Trapped



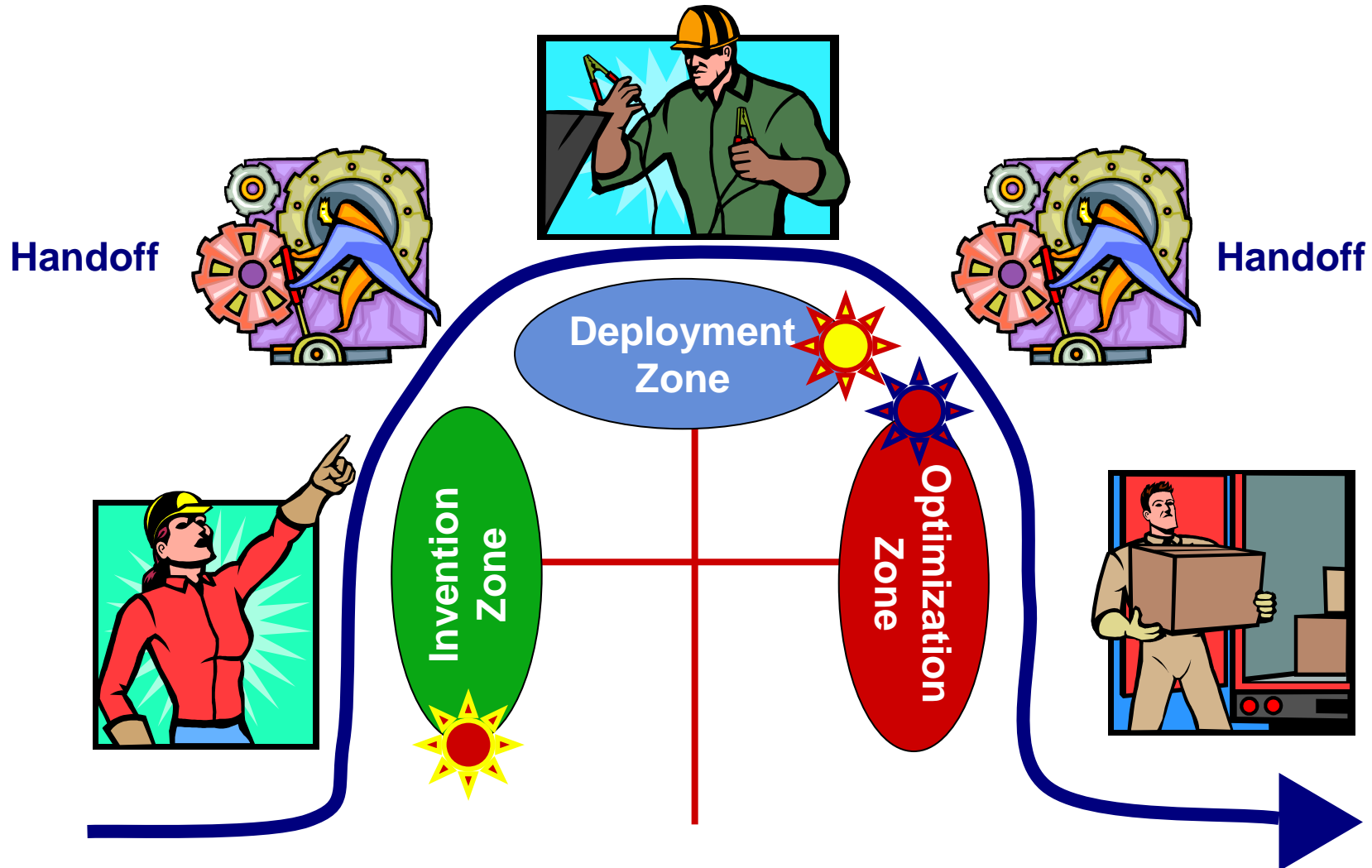
**People being released lack the skills  
to fill the positions being opened**

# Freeing Resources Trapped in Context

## Resource Recycling Zones



# Perpetuating Innovation



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

# Seven Best Practices

1. Plan to fund the invention and deployment of new core by using optimization to extract resources from current context
2. Identify and publicly commit to your new core before you set about any optimization exercises or risk losing the resources reclaimed
3. Show people a path that rewards them personally before you set about any optimization exercises or risk losing their commitment
4. Focus on mission-critical context as the richest source of resources to be freed by optimization
5. Use the Six Levers to systematically attack big extraction opportunities
6. Use Resource Recycling to repurpose both financial and human capital
7. Beware wasting time on “safe” projects in non-mission-critical context—not where the big wins are

# Recap

- **Increase Your Market Power**
  - Innovation Strategy
  - Committing to Core
- **Funding Innovation Out of Op Ex**
  - The Six Levers
  - Resource Recycling

# Thank You

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