ZONE TO WIN

ORGANIZING TO COMPETE IN AN AGE OF DISRUPTION

SAFe Summit
Washington DC, October 4, 2018
AGENDA

• The Challenge
  • Catching the Next Wave
  • A Crisis of Prioritization

• Zone Management
  • The Four Zones
  • The Incubation Zone
  • The Transformation Zone
Catching the next wave
DISRUPTIVE TECHNOLOGIES GET ADOPTED IN WAVES

1990 - 2010
Systems of Record
Client-server ERP
Focus on supply chain
Product is king

2000 - 2020
Systems of Engagement
Mobile-enabled consumer apps
Focus on user experience
Customer is king

2010 - 2030
Systems of Intelligence
Cloud-enabled predictive algorithms
Focus on AI & machine learning
Data scientist is king
WHEN IS IT TIME TO CATCH THE NEXT WAVE?
WHEN THE MARGINAL COST APPROACHES ZERO

<table>
<thead>
<tr>
<th>Technology</th>
<th>Description</th>
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<tbody>
<tr>
<td>Internet of Things</td>
<td>Optimize any physical system</td>
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<tr>
<td>Machine Learning</td>
<td>Optimize any digital system</td>
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<tr>
<td>Big Data</td>
<td>Capture, process &amp; store data at any scale</td>
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<tr>
<td>Smart Phones</td>
<td>Communicate with anyone anywhere</td>
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<tr>
<td>Cloud Computing</td>
<td>Deploy software globally for any purpose</td>
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When disruption changes the design rules, you have to catch the next wave

Systems of Intelligence

Systems of Engagement
TECH LEADERS WHO MISSED THEIR NEXT WAVE

Burroughs – Sperry Univac – Honeywell
MSA – McCormack & Dodge – Cullinet
DEC – Data General – Wang
Daisy – Calma – Valid – Apollo
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Atari – Osborne – Commodore – Casio
WordPerfect – Lotus – Ashton Tate – Borland
Informix – Ingres – Sybase – BEA – Siebel – PeopleSoft
Nortel – Lucent – 3Com – Banyan – Novell
Quest – America West – Pacific Bell – Nynex – Bell South
Netscape – MySpace – Inktomi – Ask Jeeves – Yahoo!
Kodak – Polaroid – Motorola – Blackberry – Nokia

All 56 crushed it the first time
Why was it so hard the second time?
A crisis of prioritization
THREE INVESTMENT HORIZONS

Horizon 1
ROI in 0 to 12 mos

Horizon 2
ROI in 12 to 36 mos

Horizon 3
ROI in 36 to 72 mos

Current Categories
Meet Performance Commitments

Break-Out Categories
On-board next generation for future growth

Future Category Options
Develop options for future growth

Do well here

Get stuck here!

Do well here too
WHO’S UP FOR THIS?

• Venture Capital Investors? YES
• Public Market investors? NO
• Early adopters? YES
• Pragmatists? NO
• Challengers? YES
• Incumbents? NO
• Start-up sales teams? YES
• Established sales teams? NO

This is why start-ups can outperform global enterprises
THE HORIZON 2 CHALLENGE

Note: The choke point is not R&D. It's the Go-to-Market functions that are overtaxed.

Moving resources from a profitable business to invest in an unprofitable one.

Bringing a disruptive innovation to scale is not a natural act.

Taking on a J-curve puts your entire organization in conflict with itself.
Zone Management
Disruptive Innovations

Transformation Zone
Horizon 2
Catch the next wave!
Ruthless Prioritization

Incubation Zone
Horizon 3
Position for the next wave
Creative Brilliance

Sustaining Innovations

Performance Zone
Horizon 1
Make the number!
Financial Performance

Productivity Zone
Horizon 1
Make it all work
Quality Processes

Each zone has its own mission and focus
ZONE-SPECIFIC METRICS

Transformation Zone
- Revenue hypergrowth
- Win/loss ratio
- Churn
- Customer Acquisition Cost
- Partner engagement

Performance Zone
- Bookings vs. plan
- Revenue vs. plan
- Contribution margins
- Market share
- Wallet share

Incubation Zone
- 10X performance advantage
- Product stability
- Paying customers
- User engagement
- Category positioning

Productivity Zone
- Percent yield
- Net Promoter Score
- Pipeline conversion rate
- Days Sales Outstanding
- Undesired Attrition

Key Takeaway
Don’t use the metrics of one zone to measure the performance of another zone
Applying the metrics of one zone to the performance of a different zone

Using the same management system across all four zones

Expecting a leader successful in one zone to be so in all zones

Each zone gets measured by metrics appropriate to its charter

Different zones respond to different incentives

Different zones respond to different leadership styles

Governance bodies need to be “zone conscious”
The Incubation Zone
CREATING SUCCESS IN THE INCUBATION ZONE
THE VENTURE CAPITAL OPERATING MODEL

IOU: Independent Operating Unit

Create an Incubation Zone fund & board
Fund the Zone annually
Incubate IOUs, not lab projects
Only fund IOUs that are sponsored
Fund IOUs to milestones (not annually)
Manage IOUs to venture metrics
Eliminate dependencies on other zones
Have liaisons to the Productivity Zone
Force exits (no five-year-old IOUs)

IOU #1
IOU #2
IOU #3
IOU #4

Incubation Fund
CEO + Board
Venture-style Funding

Finance
Human Resources
Administration
EXITS FROM THE INCUBATION ZONE
YOU DON’T ALWAYS HAVE TO TRANSFORM

- Transformation Zone
- Performance Zone
- Productivity Zone
- Spin Out
- Sell
- Shut Down

You do have to force exits
THE INCUBATION ZONE
WHAT COMPANIES OFTEN GET WRONG

Faults

• Funding incubation teams during the annual budgeting process
• Not holding IOUs accountable to venture milestones
• Sharing sales resources with the Performance Zone

Fixes

• Fund the Incubation Zone board and let them fund IOUs
• Fund IOUs to venture milestones and review quarterly
• Put a small sales team under the management of the IOU GM
The Transformation Zone
Target a high-performing business in the Incubation Zone

Navigate the bottleneck in the hour glass

Insert a new row into the Performance Matrix
Core line of business is under direct attack

Must reengineer at high speed

Cannot do this in the Performance Zone

Take this patient to the Transformation Zone!
CREATING SUCCESS IN THE TRANSFORMATION ZONE

• **Alignment is the key**
  Everyone in the boat, everyone rows—no opting out, no rowing in another direction
  Adjust compensation to reward everyone for a successful outcome

• **Organization is virtual and temporary**
  Headquarters is the CEO’s executive staff meeting, with T-Zone leader attending
  Goal is to get to (or back to) the Performance Zone as fast as possible

• **Focus is on speed to scale**
  What can anyone do to accelerate the transformation?
  Monthly commits, quarterly business reviews, always the first item on the agenda

• **Adjust normal metrics to cope with an abnormal situation**
  Massive stress on the other three zones, each asked to make sacrifices
  Don’t allow your traditional performance metrics to drive you off course

Massive stress on everyone in the enterprise
You can only do one at a time
**THE TRANSFORMATION ZONE**
WHAT CEO’S OFTEN GET WRONG

**Faults**

- Undertaking more than one transformation at the same time
- Delegating accountability for the transformation
- Letting anyone “opt out” of taking accountability for the transformation’s success

**Fixes**

- Never commit to two J-curves at the same time
- CEO must lead—no one else has the power to align the enterprise
- Incent everyone on the singular success of the J-curve and replace anyone who won’t align
RECAP

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  • Catching the Next Wave
  • A Crisis of Prioritization

• **Zone Management**
  • The Four Zones
  • The Incubation Zone
  • The Transformation Zone
THANK YOU

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