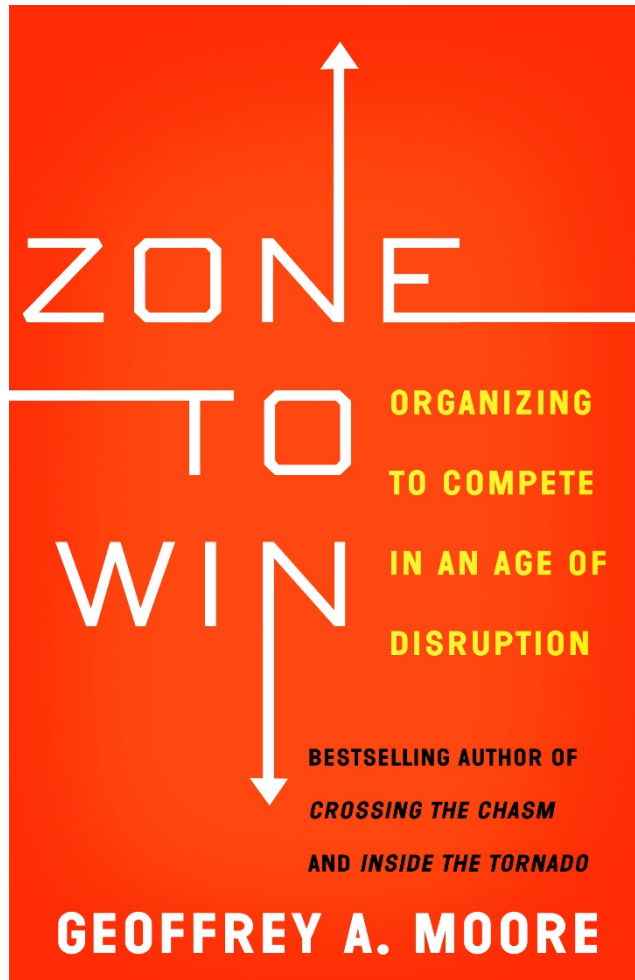


Agenda



- **The Challenge**
 - Catching the Next Wave
- **Zone Management**
 - The Four Zones
 - Organizing to Engage
- **Zone to Win**
 - Attacking, Defending, and Maintaining

The Impact of Disruptive Innovation

Scarce & Expensive Becomes Ubiquitous & Cheap



Internet of Things

Optimizing any physical system



Data Science

Optimizing any digital system



Social Networks

Collaborating at any scale



Smart Phones

Communicating with anyone anywhere



Cloud Computing

Automating any service

This is Digital. It changes everything.

Tech Leaders Who Missed Their Next Wave

Burroughs – Sperry Univac – Honeywell – Control Data

MSA – McCormick & Dodge – Cullinet – ADR

DEC – Data General – Wang – Tandem

Daisy – Calma – Valid – Apollo – Graphics – Sun

Atari – Osborne – Commodore – Casio – Palm – Sega

WordPerfect – Inton Tate – Borland

Informix – Ingres – BEA – Siebel – PeopleSoft

Northern – 3Com – Banyan – Novell

America West – Nynex – Bell South

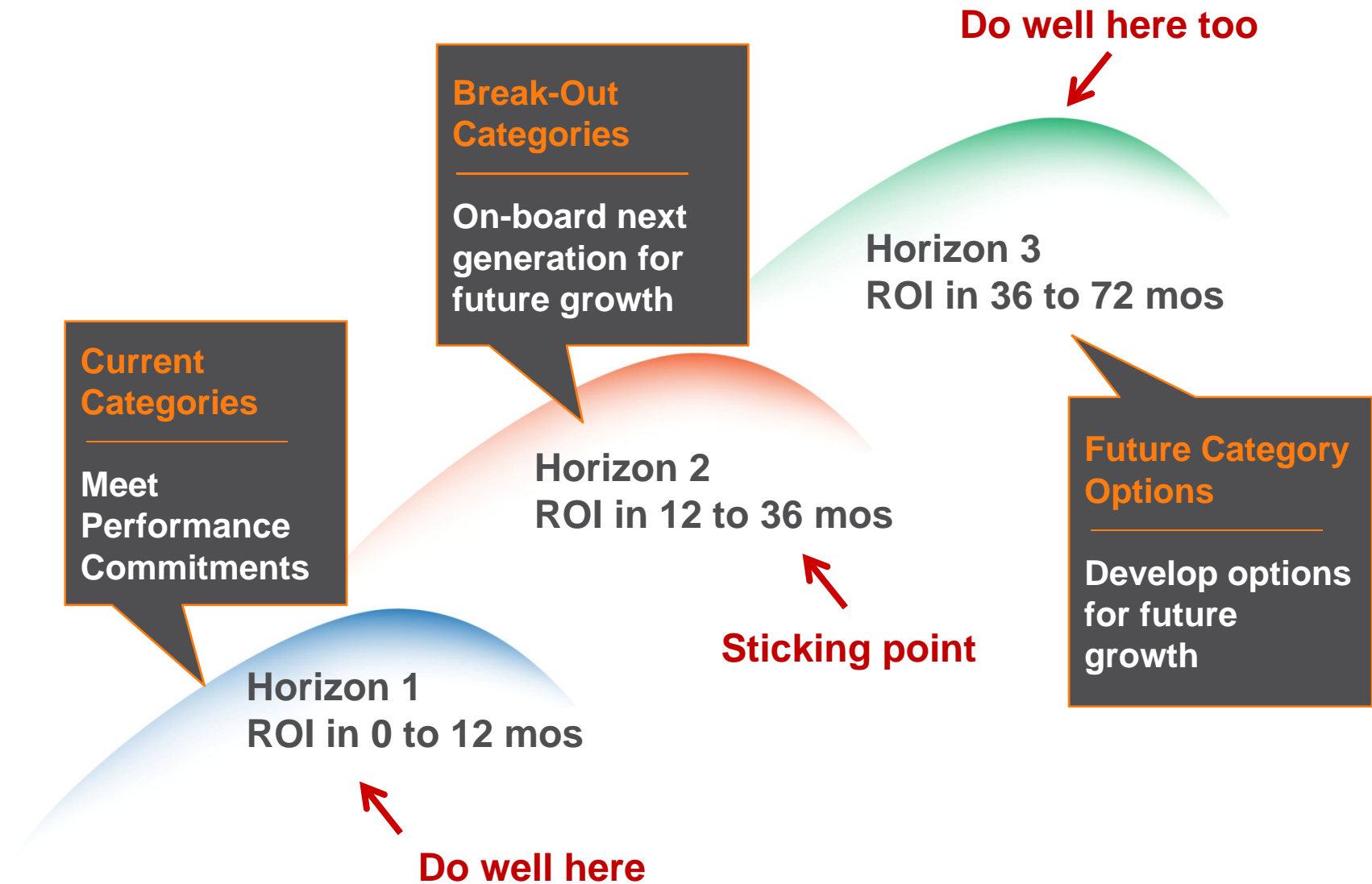
Netscape – MySpace – Inktomi – Ask Jeeves – Yahoo!

Blackberry – Motorola – Nokia – Sony



Three Investment Horizons

Where Disruptive Innovations Get Derailed



The Horizon 2 Challenge

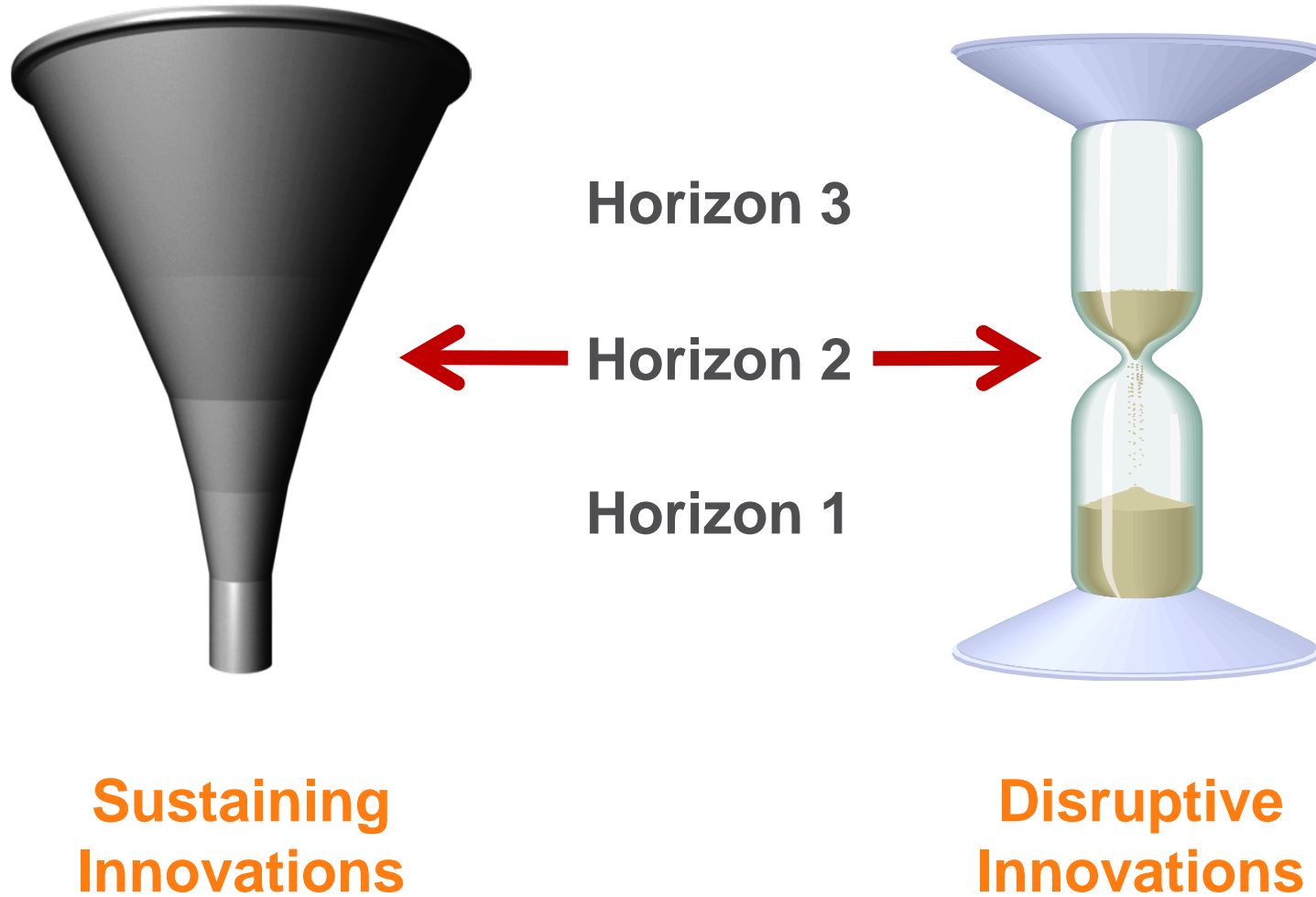
Why Disruptive Innovations are Not Welcome

- **J-curves undermine current fiscal year's performance**
 - Long sales cycles, overlay sales forces and inefficient supply chain economics
 - Produce little revenue, typically with very negative cash flow
 - *Investors withdraw their support!*
- **Selling motion is much less productive**
 - Must open new relationships, even in established accounts
 - Must create budget before one can compete to consume it
 - *Salespeople who want to make Club withdraw their support!*
- **Taps same scarce resources required for Horizon 1**
 - "A" players in Sales, Marketing, and Professional Services
 - Need these people to focus on making this year's plan
 - *Sales management withdraws its support!*

**This is not an R&D innovation challenge
This is a Go-to-Market challenge**

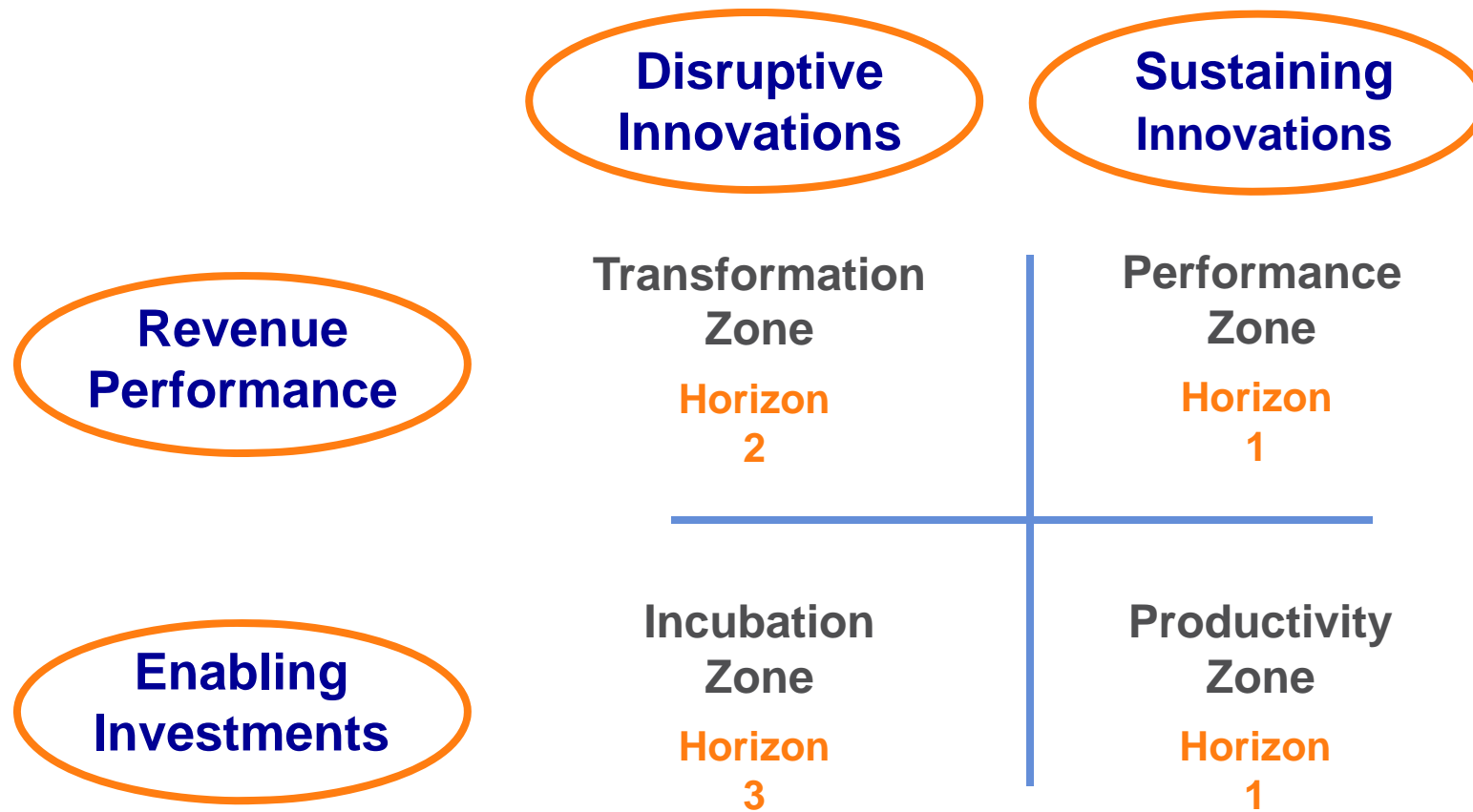
Disruptive Innovation Model

It's Not a Funnel. It's an Hourglass!



The Four Zones

Managing in an Age of Disruption



Each zone has its own mission and playbook
The Transformation Zone is the one we get wrong

Transformation Playbook

Not Business as Usual

- **Transformation trumps all other commitments**
 - Must scale to 10% of revenue
 - Failure is not an option—everyone's badge is on the table
 - Making the H1 number is still important—but not the top priority
- **Total alignment is required**
 - CEO leads: secures immediate access to all needed resources
 - Board of directors in full support
 - Executive compensation universally tied to this one outcome
- **Key milestones**
 - Begins as an IOU under an entrepreneurial GM
 - Grow an order of magnitude in three years
 - Ends as a row in the Performance Matrix under an LOB exec
 - Likely involves significant M&A

Warning!

Sacrifices are Mandatory

- **Performance Zone**
 - Must “donate” ten percent of its resources to the transformation
 - Must “make the number” with the other 90 percent
- **Productivity Zone**
 - Must develop programs to backfill the donated 10 percent
 - Must improve systems to free up scarce resources
- **Incubation Zone**
 - Must redirect its other mature opportunities to an alternative exit
 - Must slow roll earlier stage efforts to align with next window

**Massively disruptive across the board
CEO must lead—cannot delegate
Never undertake two at the same time!**

Transformation Playbook

How Well is Your Enterprise Doing?

Common Mistakes

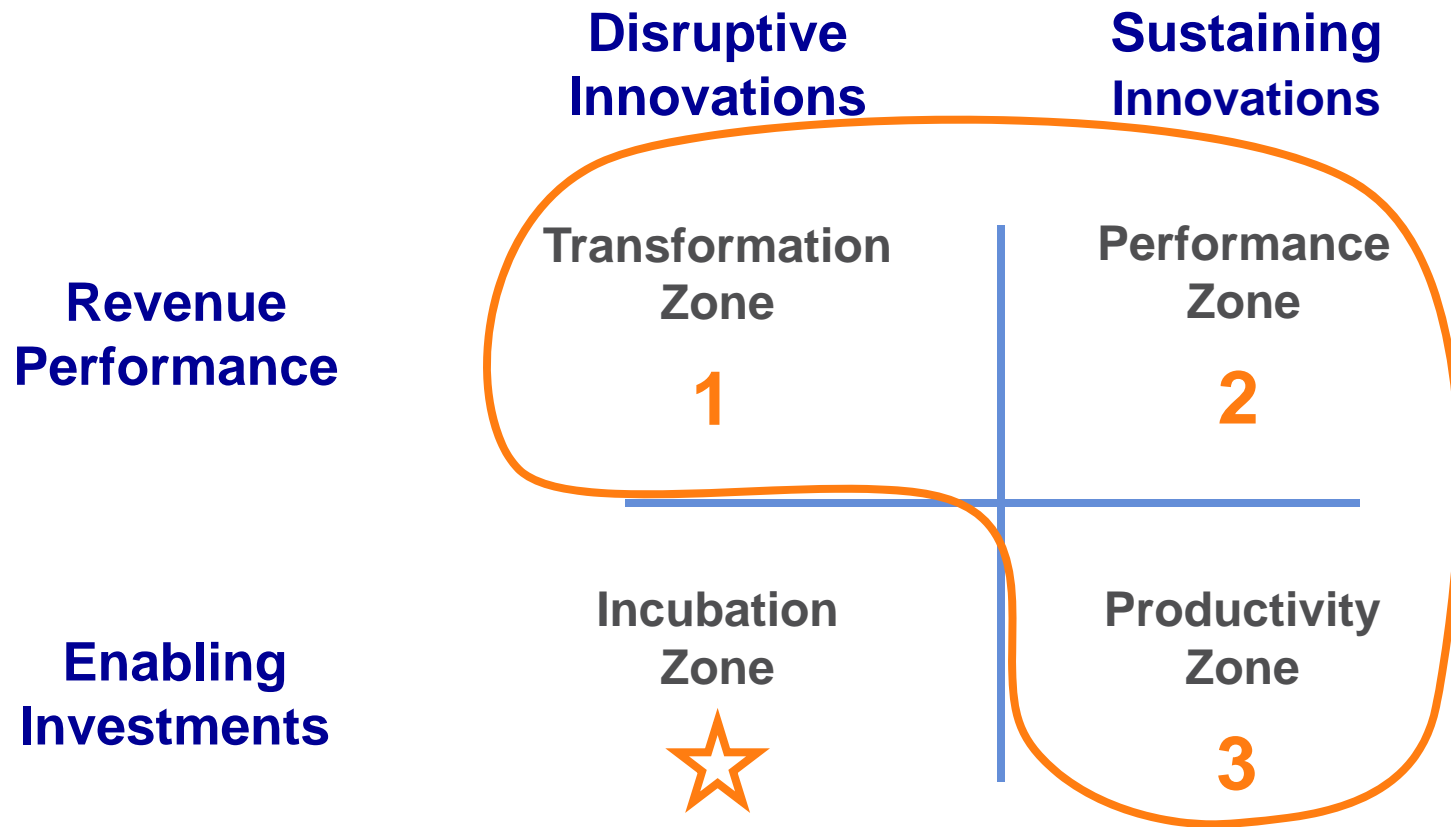
1. *Trying to do more than one transformation at the same time*
2. *Withdrawing support before the tipping point has been reached*
3. *Letting anyone “opt out” of taking accountability for the transformation’s success*

Signs of Success

1. *New high-growth business added to the portfolio*
2. *Renewed growth and interest in established businesses*
3. *Dramatic increase market capitalization*

Zone Offense

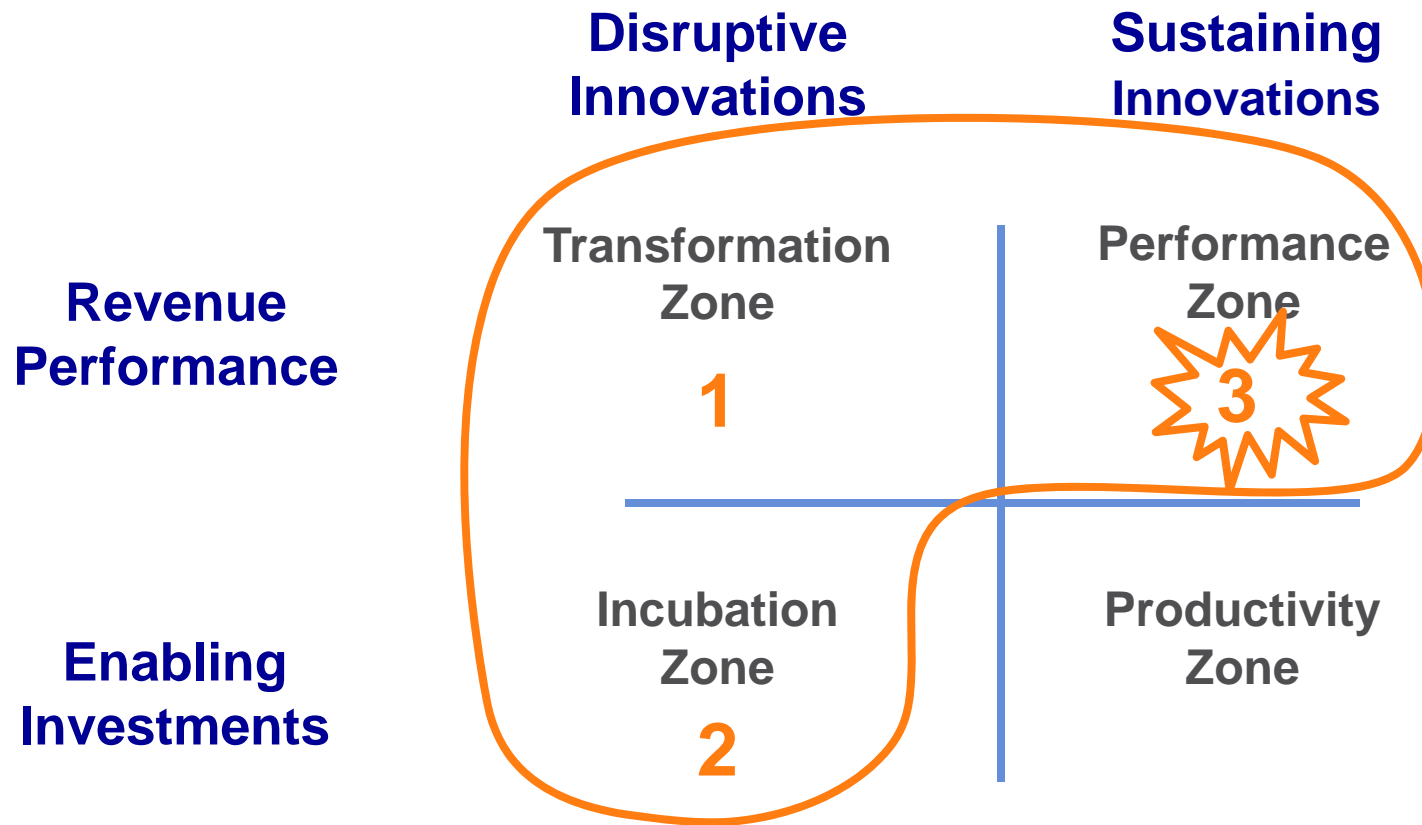
Catching the Next Wave



Enlist *everyone* in scaling the new business

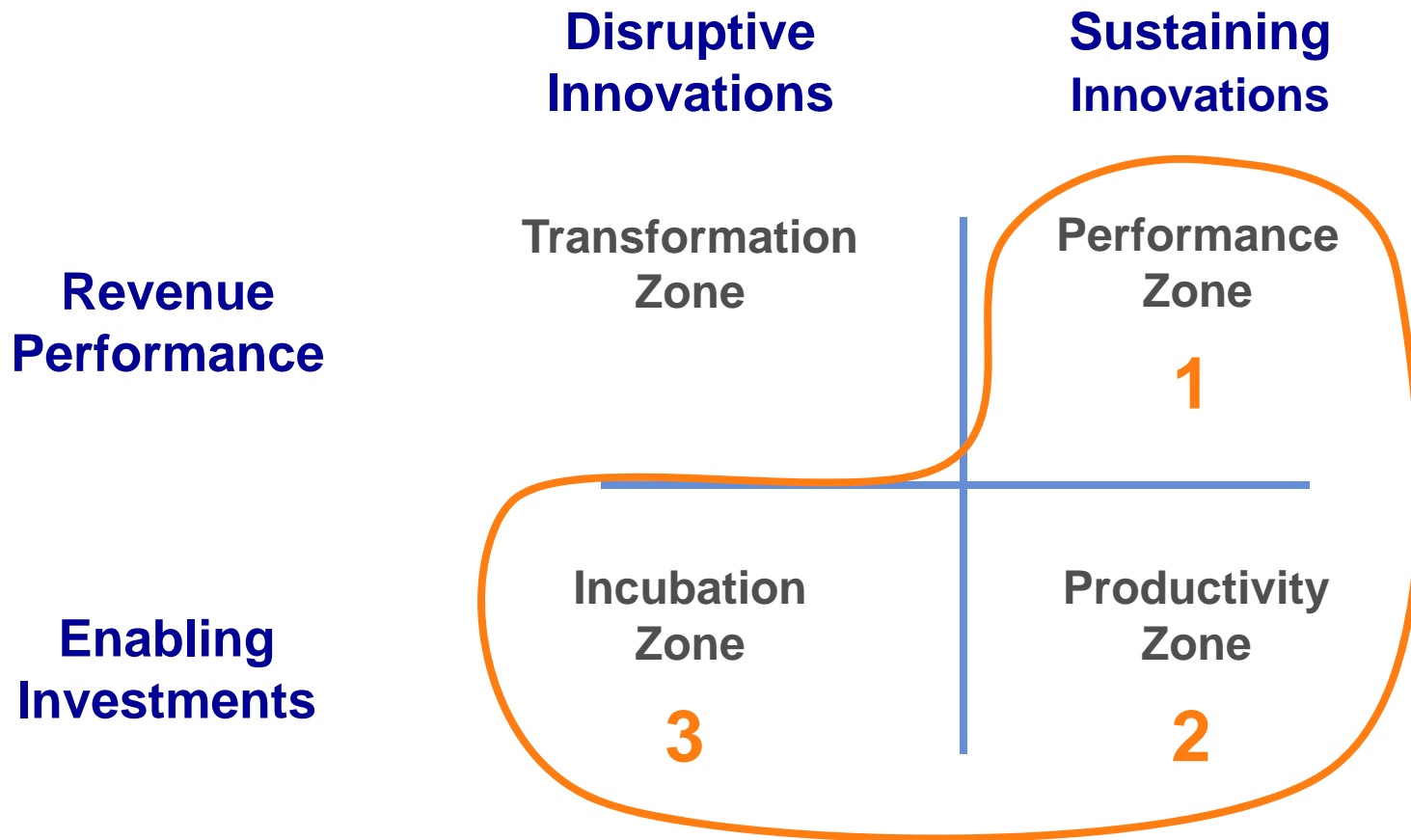
Zone Defense

When the Next Wave Catches You



Enlist everyone in stabilizing the current business

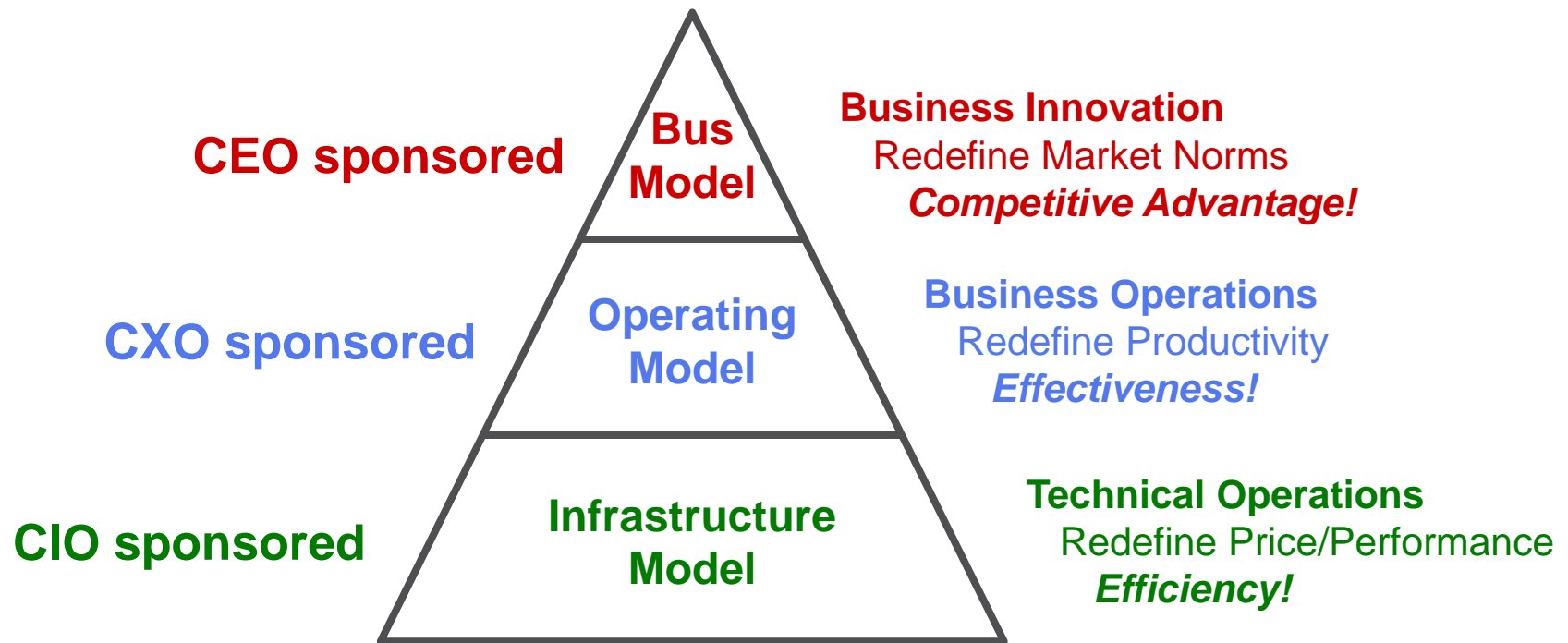
“Half Time” Managing Between Waves



Harvest your rewards, build up your reserves

Engaging with Disruptive Innovations

Three Different Games to Play—Choose One!

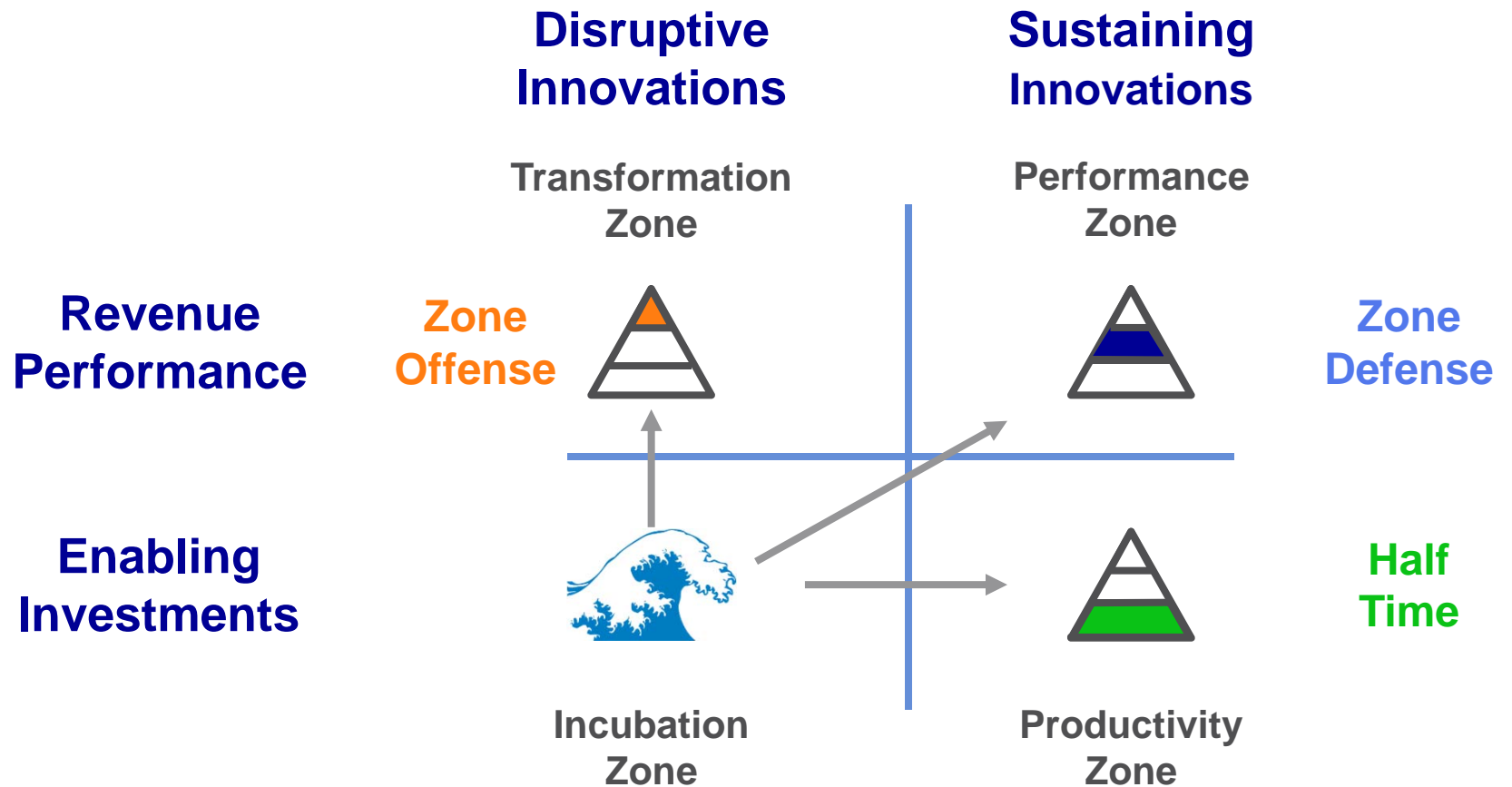


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The higher up in the model,
the greater the risks and rewards,
the more complex the decision process

Return on Disruptive Innovations

Three Routes to Capitalizing on “Marginally Free”



Thank You

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