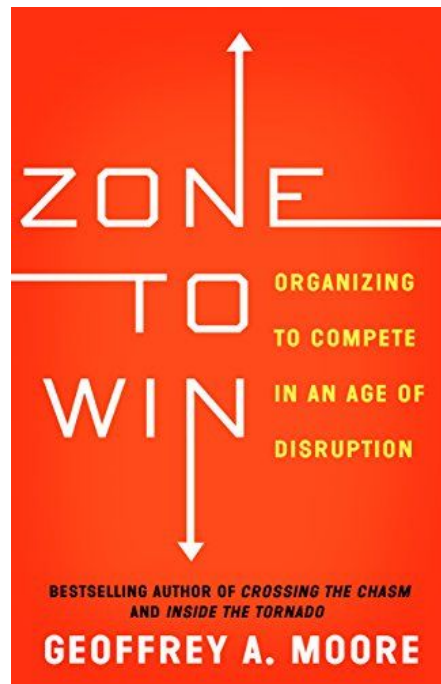**Favorite Quote:**

"Change is not necessary because survival is not mandatory." —W. Edwards Deming

Summary: the whole goal of this is to survive—and capitalize on—disruption while liberating your company from the pull of the past. It offers a new organization framework and playbook under the basic premise that: "Disruptive innovation—incubating or scaling new products or business opportunities—must be segregated from sustaining innovation—making improvements to existing entities. And, revenue performance—financial commitments from the more established parts of the business—must be separated from enabling investments—funding and resourcing new product and business opportunities."

Table of Contents

Author's Bio: Geoff is the bestselling author of *Crossing the Chasm, Escape Velocity* and *Inside the Tornado.* Moore received a bachelor's degree in American literature from Stanford University (1967) and a doctorate in English literature from the University of Washington (1974). Moore began his professional life as an English professor at Olivet College in Michigan, before moving his family to California where he took a job as a corporate trainer and executive assistant at a technology company. Prior to working with the McKenna Group, Moore was a sales and marketing executive at Rand Information Systems, Enhansys, and Mitem. He heads his own consulting firm, Geoffrey Moore Consulting, and is a Venture Partner with Mohr Davidow Ventures and Wildcat Venture Partners as well as director at Geoffrey Moore Consulting.

Chapter One—A Crisis of Prioritization

Overview: the author describes the difference between *secular* growth—emerging technology becoming mainstream with growth rates of 20%+ for typically 5-7 years—and *cyclical* growth—expansion tracking primarily to overall growth in GDP modulated by expansion into new products and markets and, eventually, category consolidation within a few market leaders (yielding Fortune 500 franchises).

Quotes
- "Marketing, selling, servicing, and partnering in any emerging category are radically inefficient processes" due to 1) lack of budget from prospective buyers, 2) different buyers, and 3) unfamiliar sales motion.
- "It is absolute lunacy to think [a company] can do two or more [new business lines] at the same time."
- "We have one team working on one thing." —Steve Jobs, on priorities
- "All that stuff about how you have to learn to disrupt yourself—it's baloney."

Notes
- Stock market valuations within secular and cyclical growth phases:
  - Secular: 10x projected revenue
  - Cyclical: 1-2x current revenue

Companies that missed the next wave:

SONY	Honeywell	Data General	SiliconGraphics Computer Systems
ATARI	CASIO	palm	SEGA®
WordPerfect®	SYBASE®	NOKIA	NORTEL
Lucent Technologies Bell Labs Innovations	3Com®	Qwest®	PACIFIC BELL.
Ask Jeeves®	myspace.	BlackBerry	MOTOROLA

- These weren't "bad" companies—in fact, many were market leaders. So what happened? A crisis of prioritization. Adding a new business line is hard, particularly due to corporate inertia and entrenched interested that demand and <u>reward</u> short-term returns.
- Committing to a new business line is also hard because in the short term it can mean:
  - Reduced profit margins
  - Resulting deflated stock price
  - Restlessness in partner ecosystem
  - Anxiety and frustration from established business lines
- Types of disruption is ascending severity:
  - **Infrastructure model:** requires some infrastructure changes; example of smartphones' impact on real estate professionals
  - **Operating model:** requires major process changes; example of smartphones' impact on airline business especially business travelers
  - **Business model:** requires existential change to business model; example of algorithmic, online advertising's impact on traditional media advertising
- The incumbent advantages far outweigh the disadvantages:
  - Global distribution, worldwide support systems, brand recognition, extensive ecosystems, strong balance sheets, predictable cash flows.
- Introduction to the four zones: 1) Performance, 2) Productivity, 3) Incubation, 4) Transformation.

The Four Zones
Each Zone Has a Unique Funding Charter

- **Performance Zone**
  - Deliver material bookings, revenues, and contribution margins in Horizon 1

- **Productivity Zone**
  - Deliver programs and systems for compliance, efficiency, and effectiveness in Horizon 1

- **Incubation Zone**
  - Deliver viable business options to catch new technology waves in Horizon 3

- **Transformation Zone**
  - Scale a disruptive option to material revenue (greater than 10% of total enterprise revenue) in Horizon 2

- What is radical about Geoff Moore's *zone management?* 1) leadership must explicitly distribute operations across the four zones and seek different outcomes within each one, 2) operational leaders must play within their assigned zones and respect divergent playbooks/incentives.

Chapter Two—The Four Zones

Overview: Geoff hones in on the whole point of this book: adding a net new line of business to your overall portfolio sooner, one that has revenues greater than 10% of total enterprise revenues and is growing at a faster rate. This is the "ultimate finish line we are aiming for."

Quotes
- "Hastily assembled [new] products and teams are rarely a match for the battle-hardened entrepreneurs and their venture-backed startups with whom the company now competes, and the enterprise team gets little help from its sales force that is still being compensated to sell the legacy offer set."
- "Startups routinely outperform incumbents in disrupted markets. How come? *Because they are not conflicted.* All their enemies are outside them."
- "Change is not necessary because survival is not mandatory." —W. Edwards Deming

Notes
- Geoff introduces three investment horizons to frame the conversation around timing and return realization:
  - *Horizon 1:* coming fiscal year (accretive to operating plan)
  - *Horizon 2:* two to three years out (dilutive to operating plan)
  - *Horizon 3:* three to five years out (R&D; not dilutive to operating plan)
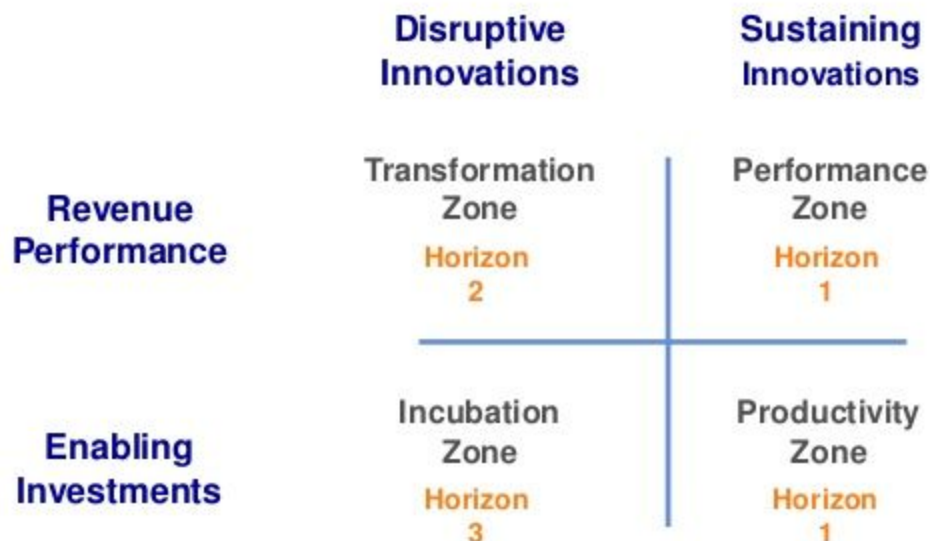
- If each zone had a tagline:
  - Zone 1: Performance — "Revenue; make the top line"

    ○   Zone 2: Productivity — "Earnings; make the bottom line"
    ○   Zone 3: Incubation — "New products; create options to catch the next secular wave"
    ○   Zone 4: Transformation — "Change; launch and scale a new, disrupted business model"

Chapter Three—The Performance Zone

Overview: the key takeaway from this chapter is to create a performance matrix of business line + channel owners who mutually commit to a growth number. From there, it is about execution and organizational discipline which is reviewed based on the weekly/monthly/quarterly operating cadence.

Quotes
- "The first principle of zone defense is that you must never attempt to disrupt yourself. Successful disruptors disrupt other companies' businesses, not their own."
- "Even if you are not under a current threat of disruption, you need to assume you will be soon and use the intervening period to get yourself into fighting shape."

Notes

Performance Zone: Horizon 1
Getting the Performance Matrix Right

Every row and column has a unique owner

No row or column subtotal can be less than 10% of total

Rows & Columns interlock at the cell level for joint accountability

Operating cadence:
- Weekly commits (milestones)
- Monthly status reports
- Quarterly business reviews

Key Metrics: Revenue, contribution margin, churn/renewals, growth rate

- Geoff defines an "at scale" business line as > 10% of total enterprise revenue.
- He introduces the **horse, rider, trail** mnemonic as a metaphor for what to do when a part of the performance matrix is behind plan:
  - Horse = change the product/service
  - Rider = change the manager
  - Trail = change the market segment

- Playing **zone offense** is about adding a new new row to the performance matrix by activating the transformation zone. The new offering must be prioritized above existing [hard part].

Prioritizing the Four Zones
Zone Offense

	Disruptive Innovations	Sustaining Innovations
Revenue Performance	Transformation Zone **1**	Performance Zone **2**
Enabling Investments	Incubation Zone **4**	Productivity Zone **3**
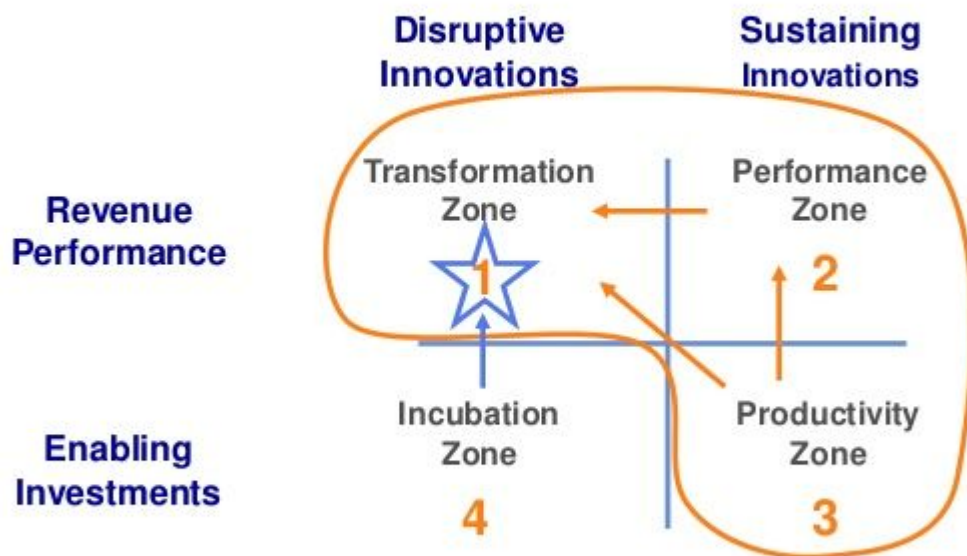
Enlist *everyone* in scaling the new business
Subordinate incubation to transformation

- Playing **zone defense** is about neutralization, not differentiation, e.g. Adobe launches visual editor to compete with Optimizely. It is about taking an incubation asset and immediately integrating it into a mature offering, e.g. Microsoft bundling IE into Windows to stave off Netscape.

Chapter Four—The Productivity Zone

Overview: this zone is about enabling the Performance Zone to operate productively via 1) regulatory compliance, 2) improved efficiency ("doing things right"), and 3) increased effectiveness ("doing the right things"). The Productivity Zone distinguishes between programs and systems to accomplish these goals which is arguably the most valuable takeaway from this chapter (most companies mix the two).

Quotes
- "You need to get to good enough, fast enough." —on playing defense in the productivity zone
- "You may end up saving a bucket full of money, but that only postpones the reckoning. You need to free up talent—that's the only deliverable that really matters."
- "Reengineering is an unpopular act that does not lend itself to democratic decision making."

Notes

Productivity Zone: Horizon 1
The Architecture of Programs & Systems
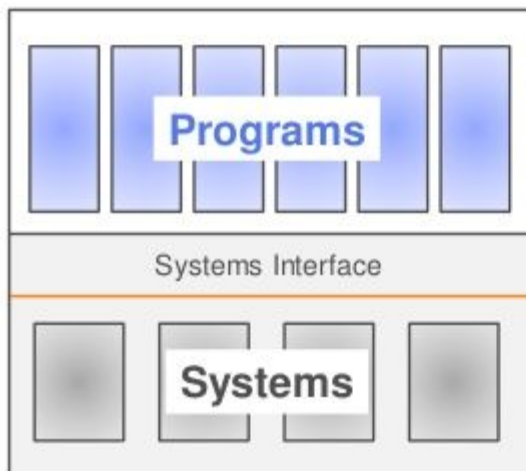
- **Programs**
  - Customized services
  - User funded
  - Optimized for effectiveness
  - Programs adapt to users' needs

- **Systems**
  - Standard infrastructure
  - Centrally funded
  - Optimized for efficiency
  - Users adapt to system's rules

Systems and programs are mutually incompatible
Manage them separately—do not blend

- Geoff advocates for creating an **End of Life** program in the Productivity Zone which basically consolidates ownership in a single manager who's held accountable to sunset products effectively and on time. The goal is to free your company from the pull of the past.
- The author reveals a clear bias that he doesn't view customer-facing functions as growth engines, but rather cost centers. This is old thinking on his part.
- We are introduced to *The Six Levers* for process improvement: 1) Centralize, 2) Standardize, 3) Modularize, 4) Optimize, 5) Instrument, and 6) Oursource.
- On resolving friction between program managers and business line managers: first, they must agree on the *what* of the program. If not, they should turn down the assignment. If they do agree on the *what,* the program manager has the right to specify the *how.*
- Where are the biggest sources of trapped resources needed for transformation? ==Legacy processes in engineering and sales.==

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Chapter Five—The Incubation Zone

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Overview: this is where new business lines come from; essentially its in in-house seed fund with higher expectations and a milestone-based budget separate from the other zones that is outside of annual planning and managed by a venture board including the CEO, head of incubation zone, head of product, head of engineering, and 2-3 other executives with aptitudes for strategy and innovation management.
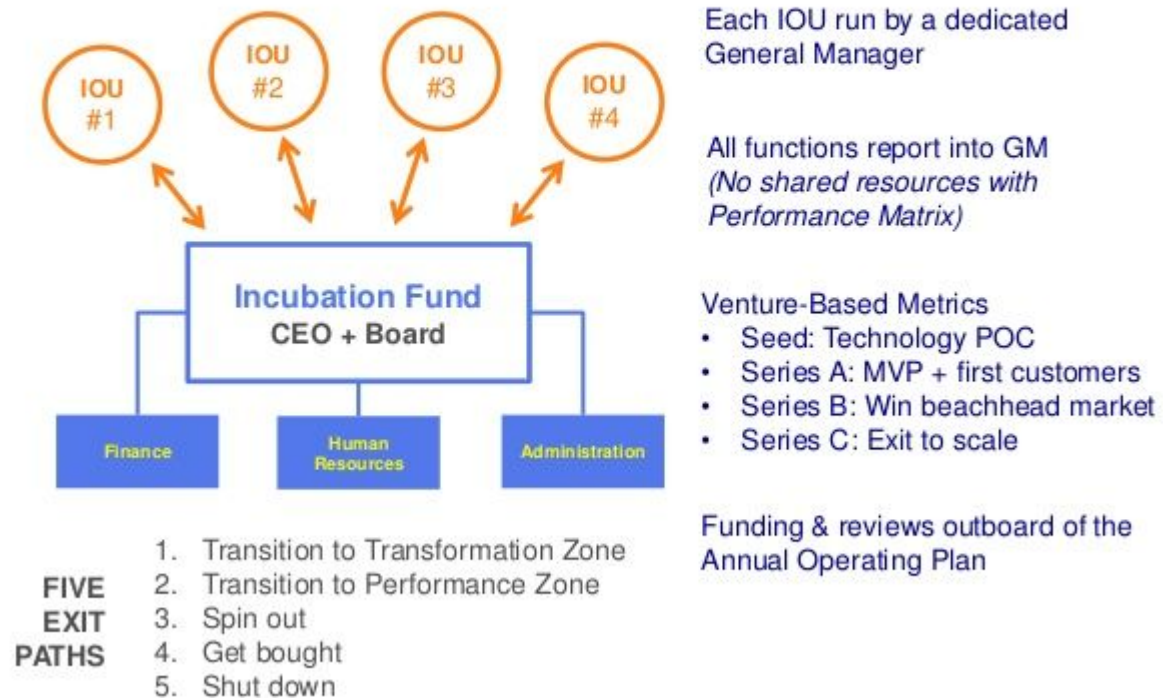
Quotes
- "Too many underperforming ventures get to coast for too many quarters if you only review funding decisions once year."

Notes
- Maximum time a business can spend in the incubation zone? Five years; rule of thumb.

Incubation Zone: Horizon 3
Venture-Style Independent Operating Units

Each IOU run by a dedicated General Manager

All functions report into GM (No shared resources with Performance Matrix)

Venture-Based Metrics
- Seed: Technology POC
- Series A: MVP + first customers
- Series B: Win beachhead market
- Series C: Exit to scale

Funding & reviews outboard of the Annual Operating Plan

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

Incubation Fund
CEO + Board

Finance | Human Resources | Administration

FIVE EXIT PATHS
1. Transition to Transformation Zone
2. Transition to Performance Zone
3. Spin out
4. Get bought
5. Shut down

Chapter Six—The Transformation Zone

Overview: the transformation zone is the mechanism by which an enterprise can free its future from the pull of the past which constitutes the point of this book. It's time for the CEO to step up big time and calls for extraordinary leadership. The goal is to launch and grow a single subscale new business line on the performance matrix. The author seems to muddle an M&A strategy with an in-house transformation.

Quotes
- "The overall message here is that during a period of disruption, the numbers are not your friends, and you must not allow your corporate narrative to be dominated by operating ratios of any kind. [The story] must be framed by narratives of secular growth, a road map to a brighter future. Spreadsheets make lousy maps."
- "Time is always the scarcest resource, followed by talent and management attention."

Notes
- The key requirements to successfully bring this subscale business line to the matrix are: 1) promote the GM as a owner of a new row, 2) task each sales/channel owner with hitting quota on the new product, 3) charge the professional services org to prioritize the new business line above all others, 4) corp dev needs to find 1-2 acquisitions (???)

- The author advocates revamping the executive compensation plan to reward success in the transformational initiative (and painful if it fails), e.g. ==make it 50% of everyone's annual bonus for the next 2-3 years==.
- A successful business transformation involves getting everyone to understand:

"It is more important to complete the transformation than to make the number."

Chapter Seven—Installing Zone Management

Overview: this intentionally overly prescriptive chapter focuses on the HOW of zone management and bringing it into an organization for the first time realizing that the transformation zone may only be "active" 1-2 times in a decade.

Quotes
- "Every organization and initiative needs to be funded out of one—and only one—zone."
- "All cost centers must continually fight the battle of the bulge, and the annual planning process is the place to start."
- "When you simply declare a uniform percentage cust across all budgets regardless, you have abdicated your leadership role altogether."

Notes
- There are four high-level steps: 1) Zone your orgs, 2) Lock in the performance matrix, 3) Activate the productivity zone, 4) Fence off the incubation zone, 5) Determine the status of the transformation zone and proceed accordingly, i.e. inactive, proactive, reactive
- In this framework the Head of Sales owns the columns total and the Head of Product owns the rows total.

Chapter Eight—Zoning to Win at Salesforce and Microsoft

Overview: two case studies of zone offense (Salesforce) and zone defense (Microsoft).

Quotes
- "I cannot decide anything—I am more of a sales manager than a GM." —Salesforce GM
- "Everywhere there was a need for systems, systems, systems, which was being met (with only marginal success) by programs, programs, programs." —observation about Salesforce
- "M&A can scale organic incubation, but it cannot substitute for it."
- "Whenever frameworks engage with real-world challenges, they come away modified in some way and very much the better for it."

Notes

- **Salesforce:** Geoff interviewed 38 people including 3 board members, McKinsey/Accenture advisors, employees and executives including Marc Benioff. The goal is zone offense in bringing Salesforce1 and Marketing Cloud to scale.
  - At Salesforce, the Transformation Zone was working best and Marc at the time was championing Salesforce1, the replatforming of the core applications around social and mobile capabilities.
  - Keith Block (former Oracle) and Alex Dayon (former SAP) led the installation of the performance matrix
  - The rows owners are GMs of: Sales Cloud, Service Cloud, Marketing Cloud, and Platform
  - The columns owners are global theatre leads across: Commercial and Enterprise.
  - Also hired Lynn Vojvodich (Marketing), Randy Kerns (data centers), Mark Hawkins & Burke Norton (General & Administrative)
  - Examples of Benioff embracing "scale or integrate":
    - Data.com and Pardot became connected with Sales Cloud
      - Pardot via the ExactTarget acquisition
      - Aligned with Service Cloud at the low end of market
    - BuddyMedia and Radian6 were connected into ExactTarget to form the Social Studio in the Marketing Cloud
    - In the Communities & Analytics space, Salesforce acquired RelateIQ
  - Credit to Salesforce co-founder Parker Harris for helping Marc institute V2MOM and a culture of collaboration + competition
  - Geoff credits Salesforce's culture—which marries collaboration to competitiveness—as an ingredient to success

- **Microsoft:** Geoff met Microsoft via Qi Lu (now at Baidu) in 2012 who was head of Online Services Division which had responsibility for MSN and Bing, and Satya Nadella, president of Server and Tools Division (at the time). Basically in this case study Microsoft is trying to recover from missing the shift to 1) mobile, 2) collaborative computing, 3) cloud.
  - One of Microsoft's goals was to "revitalize its developer ecosystem" which might explain the 38x revenue multiple paid for Github.
  - Satya takes the helm. They release Office for iOS and Android from Apple and Google app stores free of charge. ASG's #1 priority: migrating everyone to Office 365 which is their cloud-based version of Office suite
  - Cultural headwind: fierce competition for resources (hurts during transformation)

- **Calls to action from the author:** if the book was inspiring to you, the author encourages the following as a next step:

  1) Engage your management team with this vocabulary
  2) Commit to applying these frameworks to creating your next annual plan

ZONE TO WIN