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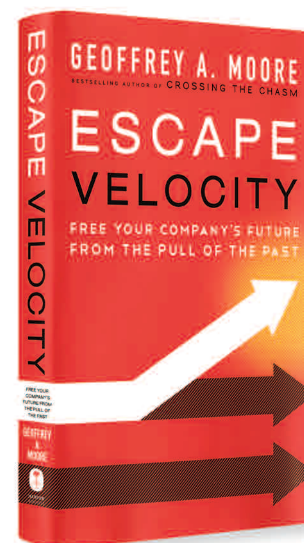
Management

Escape Velocity

Free Your Company's Future from the Pull of the Past



by Geoffrey A. Moore

THE SUMMARY IN BRIEF

From the world's leading high-tech strategist comes the definitive road map to help established companies create next-generation growth. Based on 20 years' experience advising the top leaders of many of the world's most successful enterprises, Geoffrey Moore's *Escape Velocity* offers a pragmatic plan to engage the most critical challenge that established enterprises face in the 21st-century economy: how to move beyond past success and drive next-generation growth from new lines of business.

As he worked with senior management teams, Moore repeatedly found that executives were trapped by short-term, performance-based compensation schemes. The result was critical decision-makers overweighting their legacy commitments, an embarrassingly low success rate in new-product launches and a widespread failure to sustain any kind of next-generation business at scale.

In *Escape Velocity*, Moore presents a cogent strategy for generating future growth within an established enterprise. Organized around a hierarchy of powers — category power, company power, market power, offer power and execution power — this insightful work shows how each level of power can be orchestrated to achieve overall success.

IN THIS SUMMARY, YOU WILL LEARN:

- How to use organic innovation as a complement to M&A to systematically migrate an enterprise's portfolio out of lower-growth and into higher-growth categories.
- How to leverage asymmetrical resource allocation to create a powerful and sustainable foundation for a long-term competitive advantage.
- How to leverage target-market initiatives as accelerants to growth.
- How to manage your innovation resources to create maximal returns.
- How to fundamentally change the execution cadence of an organization, creating an irreversible tipping point along the way.

CONTENTS

Escape Velocity and the Hierarchy of Powers
Page 2

Category Power: Reengineering Portfolio Management
Page 3

Company Power: Making Asymmetrical Bets
Page 4

Market Power: Capitalizing on Markets in Transition
Page 5

Offer Power: Breaking the Ties That Bind
Page 6

Execution Power: Engineering the Escape
Page 7

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THE COMPLETE SUMMARY: **ESCAPE VELOCITY**

by Geoffrey A. Moore

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Introduction

This is a book about freeing your company's future from the pull of the past, but we should ask ourselves right from the start, why should one believe it is in need of liberation? What change is so dramatic that it calls into question the working assumptions that have sustained successful business performance for the past half century? In a word: *globalization*.

One way or another, for everyone involved, globalization means a whole new ball game. And that means back to the drawing board for vision, strategy and execution. What, to begin with, do we think this new world will actually want from developed-economy companies? And what will it want from *your* company?

Which markets will create your best returns, and how will you realign your management and resources to capitalize on them? Who will design your next generation of offers and for whom will they be designed? How will your legacy business models stand up in an increasingly digitized, globalized and virtualized economy?

There is still plenty of opportunity to read and react, to listen and evolve. If you can make reasonable and steady progress toward staking out positions in next-generation markets, while at the same time leveraging your positions in current markets, you can be optimistic about your chances. Or can you?

What if there is some hidden force working against your best efforts? What if this force is operating inside your own company with the full support of your executive team, your board of directors, your investors and, indeed, yourself? What if this force is able to mysteriously redirect resource allocation so that it never quite gets deployed against the new agendas?

That force is the pull of the past, most concretely embodied in your prior year's operating plan. That plan exerts a gravitational force that pulls inexorably at any investments that seek to depart from its inertial path. The larger and more successful the enterprise, the greater the inertial mass, the harder it is to alter course and speed.

There is a path that can achieve the escape velocity required to engineer a genuine change in course. This path accommodates both the sustaining demands of cyclical market positions and the disruptive ones of new secular change. Like the one we are currently bound to, it ends with an annual operating plan and a resource negotiation that can have zero-sum or even minus-sum characteristics. But it does not start there.

Instead it begins with a highly structured set of dialogues around vision, strategy and execution that tee up future opportunities and risks in a way that allows them to compete more effectively for resources against our existing franchises.

Escape Velocity and the Hierarchy of Powers

To free your company's future from the pull of the past, to escape the gravitational field of your prior year's operating plan and to complete the round-trip by returning with next year's operating plan, you need to apply a force that is greater than the inertial momentum of current operations. No experienced executive is likely to underestimate the amount of force required. It is, as they say in Silicon Valley, ginormous.

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In his first law of motion, the one that covers inertia, Issac Newton taught us that an object at rest tends to stay at rest and an object in motion tends to continue in the direction in which it is currently moving. The same goes for resource allocation.

When organizations begin their strategic planning effort by circulating last year's operating plan, they reinforce the inertial properties of the resources as currently allocated. This is not a good outcome, but, to be frank, there is no help for it. You cannot really zero-base the budget every year, not in an enterprise of any size. So you have to assume this inertial force will be introduced into the process at some point.

What you *can* do, however, is get yourself and your colleagues out in front of it, Specifically, you can take the time to develop and bring to the table an *outside-in, market-centric perspective* that is so compelling and so well informed that it can counterbalance the inside-out company-centric orientation of last year's operating plan. And if you do this the quarter *before* you start your annual planning, you can earmark the resources and hive off the commitments to ensure they do not get lost in the subsequent shuffle.

To do so you need a framework to guide the process — or rather, as presented below, a *framework of frameworks*, because there is a lot of ground to cover.

A Framework of Frameworks

The Hierarchy of Powers is a framework of frameworks. It sizes up all economic competitions in relation to five types of economic power, each a driver of growth, organized in descending order from most general to most specific, as follows:

1. **Category power.** Category power is a function of the demand for a given class of products or services relative to all other classes. It creates the generic growth dynamics within which your company operates.
2. **Company power.** Within a given category, company power reflects the status and prospects of a specific vendor typically signaled by that company's market share. Growth here is at the expense of your competitive set.
3. **Market power.** Market power is company power within the confines of a single market segment. Market segments are sets of customers who share a common and unique set of needs and who reference each other, directly or indirectly, when making their purchase decisions. Growth here is signaled by dominant market share within segment.
4. **Offer power.** Offer power is a function of the demand for a given product or service relative to its reference competitors. Growth here is signaled by net change in revenue.
5. **Execution power.** Execution power is the ability to outperform your competitive set under conditions that favor no vendor in particular. Growth here is signaled by driving programs to tipping points, after which they become self-sustaining.

Within this framework, think of each type of power as being made up of a set of vectors, each of which can align with one another to reinforce the sum total of power or cancel each other out to reduce power to near zero. Thus you can be in a hot category and fail to execute, producing a near-zero result. Similarly, you can execute like crazy in a dying category and have an equally disappointing outcome. But when you get the powers aligned, when each is reinforcing the others, then the magic they call *synergy* appears and very good things can happen indeed. ●

Category Power: Reengineering Portfolio Management

By the fall of 2010, two iconic brands in the world of print media, *Businessweek* and *Newsweek*, had been sold at an extraordinary price — rumored to be $1 apiece! Meanwhile 3Par, a not particularly distinguished storage company, had been acquired for $2.3 billion, 10 times last year's trailing revenues.

Welcome to the world of category power. Print media are falling off the end of the category maturity life cycle, being displaced everywhere by digital media. When this happens, it doesn't matter how good your brand is — just ask Kodak what happened to its brand when film got displaced by digital photography. Meanwhile that same shift to digital media has thrust the storage category into a massive secular growth curve.

Category power is the No.1 predictor of future economic performance. So if you are going to free your future from the pull of the past, begin here. This exercise goes by the name of portfolio management and it begins with the category maturity life cycle.

The Category Maturity Life Cycle

The fundamental model for understanding the dynamics of category power is the category maturity life cycle. This model is used to focus on the *changes in state* categories pass through during their life cycle, and the implications of these state changes for the future of your fran-

chise. Category power manifests itself in five different states. The significance of these states is as follows:

A. Emerging Categories. These are the maelstroms in which new wealth-creating engines are born. For established enterprises, emerging categories are a real challenge. They entail high risks combined with highly variable rewards, demand a lot of attention from top-flight resources, but do not provide material returns in the near term. For startups, on the other hand, emerging categories are a godsend. They put the incumbents in their weakest possible position and create openings for no-name disrupters.

B. Growth Categories. These are the great wealth-creation vehicles for public enterprises. Growth is secular, often lasting the better part of a decade. In Stage B category competitions, established enterprises have powerful competitive advantages over new entrants, not the least of which are an established brand and a global go-to-market footprint. Nonetheless, if the incumbents deny the new paradigm and persist in their loyalty to the status quo, or if that new paradigm becomes global overnight (as is now possible in digital media businesses, for example), then the trumpets blow, the world order is destabilized and the walls come tumbling down.

C. Mature Categories. This is where the overwhelming bulk of the world's economic returns are generated year after year. It is also where the vast majority of jobs and tax returns are generated. Mature categories offer stability and predictability. Growth is cyclical. Market leadership positions change very slowly and established enterprises dominate.

D. Declining Categories. These are categories that have transitioned from cyclical growth rates to persistently negative ones. This is also a secular change, meaning it is only going to get worst. That said, like many things in life, it may take a long time to get a lot worse.
Established enterprises are the only players of merit at this stage. The market is not looking for new vendors; rather it is deciding whether to bite the bullet on changing out infrastructure now or to stretch its current position for a little longer.
The key point for us to take away is that in Stage D, for the first time, category power is a negative force. We are swimming against the tide.

E. End of Life. This phase is the end of a category's commercial viability, as in telegrams, telexes, rotary phones, movie projectors, slide rules, typewriters, carbon paper, jukeboxes, transistor radios, rabbit-ear antennae, carburetors and the like. A category reaching end of life has been known to cripple an entire enterprise's viability, which is nothing short of tragic. This happens when a company stays too long at the fair.

The great challenge in portfolio management is onboarding a nascent business with good prospects for Stage B growth at a time when its current revenues are not yet of material size. This demands you allocate premium resources for an extended period of time, particularly on the go-to-market side of the house. These resources are under enormous pressure to meet short-term revenue commitments, and the contention for them too often results in short-changing the emergent opportunity. Thus portfolios fail most often not for lack of R&D innovation but rather inadequate go-to-market representation.

Company Power: Making Asymmetrical Bets

Company power is the sum of all the bargaining power you can bring to bear relative to your customers, your suppliers, your sales-channel partners and your whole-offer partners. In its most spectacular from, it is the sort of thing that IBM demonstrated in the 1980s, Microsoft in the 1990s, Google in the first decade of this century, and Apple at the present time. But one need not achieve such dramatic positions of power to create superior returns for your shareholders. You just have to make yourself different enough to matter.

Achieving this kind of escape velocity from your competitive set, freeing yourself from power-deflating bake-offs with competing companies, means you must field one or more unmatchable offers. Such offers, in turn, are born from an unmatchable set of capabilities — what we call your "core" — which is unique to your company, hard to replicate by competitors, and in great demand by customers.

The idea of *core* evolved from the concept of value disciplines introduced in the 1990s — companies can generate escape velocity in one of three ways: *product leadership*, *customer intimacy*, or *operational excellence*. The theory was further refined by the introduction of *innovation types*, which made the choice of a vector of differentiation more granular. But the key in all cases is to develop or acquire "crown jewels" — unique assets that are proprietary to you, hard for competitors to replicate,

and highly valued by customers. Crown jewels come in many forms — technology patents, brand loyalty, domain expertise, a massive installed base, a disruptive business model, and the like. The key to realizing company power is to overweight resource allocation to intensify the impact of these assets in the marketplace.

By contrast, the failure mode is to peanut butter resources evenly across all requests, such that no one area ever gets beyond the boundaries of the competitive set's generic capabilities.

Being laser-focused about the specific direction of your core innovation investments and being Star-Trek-bold about skewing resource allocation to their specific ends together let you achieve escape velocity from your category norms.

Market Power: Capitalizing on Markets in Transition

Market power is simply company power specific to a particular market segment. Within the segment, you are the top dog, the big fish in your pond. Indeed, market power is always best measured in terms of a fish-to-pond ratio, where a 50 percent share of new sales into the target market segment is the entry stake and 80 percent is more likely to be the sustainable steady state. In your pea patch, you are quite simply the vendor of choice.

Thus it is that Google is the worldwide category leader in search, but not in China, where the market leader is Baidu. Facebook is the worldwide category leader in social networks, but in Spanish-speaking countries it is hi5 and in Brazil it is Orkut. In each of these market segments, the worldwide leader doesn't have a little *less* power — it has a *lot* less, as in *none to speak of.* Customers in each of these markets have built a fence around their local vendor of choice and that has fundamentally altered the dynamics in the marketplace.

Market power of this kind *guarantees* competitive separation from your category set. When you dominate a market segment to the point that customers and partners self-organize to marginalize your competition, you have truly achieved escape velocity.

And why would market segments do this? Why would they confer on your company's exceptional bargaining power, allowing you to earn margins well above the industry standard in the global market? The primary reason is that they want and need you to give very special attention to their particular details.

Global standard products go a long way toward meeting most of the specifications for any given category, but they never go all the way to meeting all the needs. That is left either to the customer or to some intermediary. This works fine for most cases, but in some segments, some of the time, the needs are high, the specifications are demanding and the global value chain is simply not up to the task. This creates an opening for a company to develop special products and services, often augmented by a specialized value chain, and take the segment by storm. This is the reward of niche markets.

Thus Silicon Graphics and subsequently Sun workstations took the first decade or two of business from visualization-intensive segments like oil-and-gas seismic pro-

When a Segment Strategy Works

There are at least eight situations in which a segment strategy is likely to pay for itself many times:

1. **Gaining market adoption for a disruptive technology.** The goal is to accelerate mainstream acceptance of a disruptive next-generation technology by first winning over a beachhead segment.
2. **Penetrating a new geography.** Targeting an underserved segment and meeting its end-to-end needs all the way is a great way to get market insiders to pull you in.
3. **Getting out from behind the market leader.** Underserved market segments provide the opportunity.
4. **Anchoring a turnaround.** There is nothing like a niche market segment for solving this.
5. **Solving for the "stuck in neutral" problem.** A management team can retake control by targeting a niche market segment in need.
6. **Capitalizing on a great niche opportunity.** In niche markets where a handful of companies spend lots of capital on next-generation facilities and tools, you can build high-value sustainable franchises without leaving the niche.
7. **Exploiting the "granularity of growth."** When markets mature and commodotize, value migrates from the core offer to the secondary elements surrounding it.
8. **Capitalizing on a market in transition.** When every company in a segment is looking for a safe haven that is compatible with the new world order, the first whole-offer teams to arrive with true end-to-end solutions to their problems will delight them.

cessing, computer-aided design for semiconductors, technical publications for user manuals, industrial design for consumer products and special-effects cinema.

Thus Lecroy's digital oscilloscope became the instrument of choice for nuclear physicists, HP's 12C became the calculator of choice for real estate agents and Tandem computers became the engine behind all the ATM machines that retail banking could deploy.

As these examples illustrate, while niche market segments may be lucrative, they are not particularly large.

Offer Power: Breaking the Ties That Bind

Thus far in our discussion of escape velocity, we have imagined the pull of the past as a gravitational field holding our rocket ships prisoner to a home planet. That is how categories, competitive sets and even market ecosystems exert their claims on companies and keep them in their place. When it comes to offer power, however, it's a different story.

To achieve escape velocity, your next-generation offers must free themselves from the entanglements of the myriad of legacy commitments, a long tail of products, promises and one-off customizations, each with its own trickle of revenue, each nattering for some share of the sales force's attention, each tugging at the sleeve of enterprise marketing to get some murmur of the total corporate voice. This is not gravity at work.

This reminds us more of Gulliver in the first of his travels, waking up in the land of Lilliputians, the six-inch-tall citizens who render him powerless to move; his giant limbs held captive by an infinitude of tiny, threadlike ropes. Thus does the long tail of your legacy offer set exert its power over your next-generation giants.

How can it be that the mighty is so subordinated to the minuscule? In the world of business, it is easy. In any given quarter, you are doing your best to meet your revenue commitments and, not uncommonly, you find yourself a bit underpowered to do so and very much at risk of falling short of plan. Indeed, you are much in need of a next-generation giant that could replenish your power. But instead, under the pressure of events and the compulsion to make the quarter, you find yourself taking revenue from wherever you can get it, grasping at any and all straws, fearful of cutting off any source of funds, however small.

So how are you going to break out of this tangle? Well, like Gulliver, you are going to have to innovate, not just to create your future but also to coexist in your present and to release yourself from your past. All this entails a much broader model of innovation than most people have in mind.

The model consists of three different types of innovation, each pursuing a return that is unique to it and contrary to the goals of the other two types. The types are:

1. **Differentiation.** The goal here is to be unmatchable, to create the escape velocity that will define your future.
2. **Neutralization.** The goal here is to keep up with or catch up to new market expectations, typically reset by some competitor's latest differentiation. You don't have to outperform, you just have to show you are good enough. But you have to do this *quickly* because a failure to respond here could have a big impact on your present results.
3. **Optimization.** The goal here is to do what you were doing before but faster and cheaper, thereby freeing up resources for use elsewhere or to be taken to the bottom line. This is all about productivity. It is also how you free yourself from the pull of the past.

All three forms of innovation are valuable, and all are required for an enterprise to sustain a strong market position. But here is the rub: Each type is incompatible with the other two.

- *Differentiation* is not readily managed to budget or schedule — you cannot say when you are going to become unmatchable, nor can you predict accurately how much it is going to cost. You just have to commit to get there, no matter what.
- *Neutralization* must be managed both to budget and schedule, with the latter being critical because you cannot afford to keep on disappointing the market with sub-par features. At the same time, you do not want to spend heavily here because all you really need is to be good enough soon enough.
- *Optimization* runs perpendicular to the other two — it is not about creating output, but rather about improving process. What it must do is respect the other two types and not impose on them constraints that will violate their prime objectives.

The key lesson here is that you must not bind any one type of innovation too closely to another type. Instead, use neutralization to set your project calendars, layer in differentiation whenever it is ready, and conduct optimization in the background as a continuous quality improvement effort.

Execution Power: Engineering the Escape

Everything we have discussed, all the various types of power we have labored to put in place, are for nought if we cannot actually execute our escape-velocity initiative. The challenge is to deploy a next-generation initiative at scale, overcoming the inertial resistance of our current go-to-market system to do so. To fully appreciate the dimensions of that challenge and address it successfully we need to:

- Model enterprise execution dynamics in general as they evolve over the life cycle of a given generation of offers from their invention to their deployment to their optimization
- Dig specifically into the dynamics of the transition between invention and deployment at scale, with particular attention to the criticality of achieving a tipping point and the catalytic role of programs in that regard
- Map these requirements to organizational development frameworks that call out the leadership attributes and organizational structures best aligned with meeting the escape-velocity challenge.

Transitioning to Escape Velocity

When you organize and staff around the life cycle of innovation, you get great traction in each of three execution zones: invent, deploy, optimize. For the complex-systems model this means invent via great *projects* to drive entry into new categories and markets, deploy via great *playbooks* to scale up to capture market share during secular growth and optimize via great *products* to extract maximum returns from cyclical growth.

On the volume-operations side, this same arc of execution from invention to deployment to optimization translates into great *product* R&D to enter new categories and markets, great *partner relationships* to scale out to deploy new offers during secular growth and great *processes* to capitalize on established market positions during cyclical growth. What's not to like?

Well there is one thing not to like: *transitions*! Each transition program, be it from invention to deployment or from deployment to optimization, must drive the organization to a tipping point so that what began under the purview of one set of managers is now taken up fully by another. Inventors do not relate easily to deployers, nor do deployers relate easily to optimizers, so these hand-offs are somewhat unnatural acts. But they must succeed, else the whole initiative is lost.

The Six Levers Model

The framework that underlies the playbook for product innovation is the Six Levers model:

1. Centralize. Bring operations under a single authority.

2. Standardize. Reduce the variety and variability of processes delivering similar outputs.

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.

Transition programs, in other words, must in effect catalyze conversions, bringing on the next set of leaders, getting them committed to carry the effort through the next phase. This is not the normal way to think about programs, so let us take just a minute to underscore what is required.

Most programs are level-of-effort affairs. Think training programs, lead generation programs or quality improvement programs. The program teams are assembled and as long as they are working on the issue, improvement in results is expected. But when the teams stop working, those results taper off. It is a pay-as-you-go model, if you will.

We're not talking about pay-as-you-go here. A transition program is a one-time intervention that changes the state of its object of focus. It is catalytic. By driving the organization to a tipping point, the center of gravity shifts and control migrates from one locus to another: behavior changes, the culture changes, the way things get done changes, all in fundamental and nonreversible ways. In other words, this is *big* change.

Conclusion

Let's look at one last major case example in which bringing together a number of levels of the Hierarchy of Powers created a major break from the past.

By the end of the 1980s, IBM had lost its way. In the early 1990s, it turned in such a catastrophic performance that even its most loyal supporters questioned its reason to be and were calling for its breakup. Instead Lou Gerstner and his team were able to engineer a now-famous turnaround, restoring a commitment and then a capability to be *the end-to-end solution provider for information technology to global enterprises.* That was what they decided the world wanted IBM to be and subsequent events have proved them right. This was their core, the foundation upon which they would restore the company's power.

In choosing this escape trajectory, they capitalized on several of IBM's crown jewels: its long-standing customer relationships anchored in the original mainframe business, its deep service capabilities and its brand reputation for end-to-end delivery. The team took these to a new level by refocusing the company on whole new classes of offers. That is, they transformed the decaying offer power of their legacy, prioritizing service offers over products and software offers over hardware. Then they doubled down in both areas with major crown-jewel acquisitions, including PricewaterhouseCoopers in services and Lotus Notes, Tivoli, Rational, Filenet and the like in software.

On the execution-power front, they redeployed executives from corporate-facing to field-facing jobs, letting them either sink or swim in their new customer-intimate assignments. They encouraged the services teams to support competitors' products, not just IBM's, because that is inherent in keeping an end-to-end commitment. They leveraged broad system-maintenance pricing agreements to help middle-of-the-road products compete against best-of-breed point solutions. In short, they tilted the whole company toward a services-oriented core. And everywhere they leveraged the complex-systems execution paradigm of projects-to-playbooks, eventually extracting themselves altogether from volume-operations businesses like printers (spun off to Lexmark) and PCs (sold to Lenovo).

Hitting the market in the middle of the 1990s, this dramatic repositioning caught HP and Sun off guard and set them back on their heels. This let IBM exploit a major category-power transition to Internet-enabled business-process reengineering at a time when everyone thought that was Silicon Valley's private pea patch. But what the Valley's engineers did not understand fully enough was that IBM's core was rooted in its abiding passion to help customers derive business value through technology investments, in part by sticking around long past the product sale just to make sure it paid off.

The other companies in their competitive set just wanted to drop off their products and move on. That's not what a large portion of the world wanted, however, and so IBM was able to win the nod. In other words, their *services-led* offer model trumped their competitors' *product-led* approach.

Closing Remarks

The reengineering of the global economy from a universe of vertically integrated corporations run by command-and-control management systems to one of highly specialized and disaggregated enterprises interoperating collaboratively to create global value chains has been an impactful change. In this new environment, change happens much faster than ever before because the whole no longer has any way to hold back the part. And that means that market transitions and technology disruptions are much more frequent.

Two things are critical to note here. First, in an era of change, it is critical to focus more attention than normal on power and less on performance. That is because the very foundations of your current performance are being eroded, and your No. 1 priority is to establish a next-generation foundation. If your company does not have an authentic dialog around power, if it is unable to reallocate resources to capture new power, if it instead remains bound to the performance obligations and expectations set by your legacy power, then it will become increasingly marginalized and eventually extinct.

Second, it also means that responses to these changes must be negotiated across a broader set of constituencies, many of which you have no command or control over. Collaboration has never been more at a premium.

In a collaborative network, the advantage goes to whoever can call the tune first, identify the relevant changes under way, find the pivotal role to play and communicate the vision in actionable frameworks. The purpose of the frameworks introduced here is to help you achieve that advantage and free your company to participate in its rewards.

RECOMMENDED READING LIST

If you liked *Escape Velocity*, you'll also like:

1. ***Beyond Performance* by Scott Keller and Colin Price.** McKinsey & Company's Keller and Price give you everything you need to build an organization that can execute in the short term and has the vitality to prosper over the long term.
2. ***How Companies Win* by Rick Kash and David Calhoun.** Learn how a revolutionary, demand-driven model can help your business capture pools of high-profit demand.
3. ***Eat People* by Andy Kessler.** Kessler provides 12 surprising and controversial rules for radical entrepreneurs.