Spotlight

Reinvent Your Business Before It's Too Late

Watch Out for Those S Curves

by Paul Nunes and Tim Breene

ARTWORK Damián Ortega, *Cosmic Thing*, 2002
Volkswagen Beetle 1983, stainless steel wire, acrylic
The Museum of Contemporary Art, Los Angeles

Installation view, *Damián Ortega: Do It Yourself*
The Institute of Contemporary Art/Boston
September 18, 2009–January 18, 2010

PHOTOGRAPHY: JOHN KENNARD

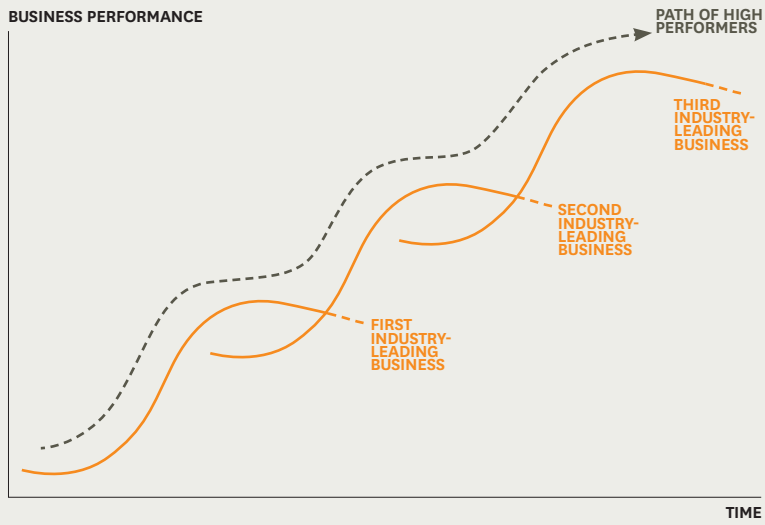
SOONER OR LATER, all businesses, even the most successful, run out of room to grow. Faced with this unpleasant reality, they are compelled to reinvent themselves periodically. The ability to pull off this difficult feat—to jump from the maturity stage of one business to the growth stage of the next—is what separates high performers from those whose time at the top is all too brief.

The potential consequences are dire for any organization that fails to reinvent itself in time. As Matthew S. Olson and Derek van Bever demonstrate in their book *Stall Points*, once a company runs up against a major stall in its growth, it has less than a 10% chance of ever fully recovering. Those odds are certainly daunting, and they do much to explain why two-thirds of stalled companies are later acquired, taken private, or forced into bankruptcy.

There's no shortage of explanations for this stalling—from failure to stick with the core (or sticking with it for too long) to problems with execution, misreading of consumer tastes, or an unhealthy focus on scale for scale's sake. What those theories have in common is the notion that stalling results from a failure to fix what is clearly broken in a company.

JUMPING THE S CURVE

High performers are well on their way to new-business success by the time their existing businesses start to stall.



Having spent the better part of a decade researching the nature of high performance in business, we realized that those explanations missed something crucial. Companies fail to reinvent themselves not necessarily because they are bad at fixing what's broken, but because they wait much too long before repairing the deteriorating bulwarks of the company. That is, they invest most of their energy managing to the contours of their existing operations—the financial S curve in which sales of a successful new offering build slowly, then ascend rapidly, and finally taper off—and not nearly enough energy creating the foundations of successful new businesses. Because of that, they are left scrambling when their core markets begin to stagnate.

In our research, we've found that the companies that successfully reinvent themselves have one trait in common. They tend to broaden their focus beyond the financial S curve and manage to three much shorter but vitally important hidden S curves—tracking the basis of competition in their industry, renewing their capabilities, and nurturing a ready supply of talent. In essence, they turn conventional wisdom on its head and learn to focus on fixing what doesn't yet appear to be broken.

Thrown a Curve

Making a commitment to reinvention before the need is glaringly obvious doesn't come naturally. Things often look rosiest just before a company heads into decline: Revenues from the current business model are surging, profits are robust, and the company stock commands a hefty premium. But that's exactly when managers need to take action.

To position themselves to jump to the next business S curve, they need to focus on the following.

The hidden competition curve. Long before a successful business hits its revenue peak, the basis of competition on which it was founded expires. Competition in the cell phone industry, for instance, has changed several times—for both manufacturers and service providers—from price to network coverage to the value of services to design, branding, and applications. The first hidden S curve tracks how competition in an industry is shifting. High performers see changes in customer needs and create the next

Idea in Brief

High performance companies rethink their strategies and reinvent their operating models before debilitating stalls set in.

In order to successfully jump from one financial S curve to the next, they do three things differently from their less-successful peers:

Focus on the edges. They pay attention to the edge of the company and the edge of the market, to avoid the myopia that long-running success engenders.

Shake up the top team. They change the makeup of the senior team earlier, and more radically, than their competitors do.

Maintain surplus talent. When other companies are cutting staff to cut costs, they go in the opposite direction: They cultivate serious talent with the capacity to grow new businesses.

High performance companies need up-and-comers who can grow a new business, not just manage an old one.

basis of competition in their industry, even as they exploit existing businesses that have not yet peaked.

Netflix, for example, radically altered the basis of competition in DVD rentals by introducing a business model that used delivery by mail. At the same time, it almost immediately set out to reinvent itself by capturing the technology that would replace physical copies of films—digital streaming over the internet. Today Netflix is the largest provider of DVDs by mail and a major player in online streaming. In contrast, Blockbuster rode its successful superstore model all the way to the top, tweaking it along the way (no more late fees) but failing to respond quickly enough to changes in the basis of competition.

The hidden capabilities curve. In building the offerings that enable them to climb the financial S curve, high performers invariably create distinctive capabilities. Prominent examples include Dell with its direct model of PC sales, Wal-Mart with its unique supply chain capabilities, and Toyota with not just its production method but also its engineering capabilities, which made possible Lexus's luxury cars and the Prius. But distinctiveness in capabilities—like the basis of competition—is fleeting, so executives must invest in developing new ones in order to jump to the next capabilities S curve. All too often, though, the end of the capabilities curve does not become apparent to executives until time to develop a new one has run out.

Take the music industry. The major players concentrated on refining current operations; it was a PC maker that developed the capabilities needed to deliver digital music to millions of consumers at an acceptable price. High performers are continually looking for ways to reinvent themselves and their market. P&G long ago recognized the untapped customer market for disposable diapers. The company spent five years perfecting the capabilities that would allow diapers to be priced similarly to what customers were then paying services to launder and deliver cloth diapers. Amazon.com CEO Jeff Bezos notes that it takes five to seven years before the seeds his company plants—things like expanding beyond media products, working with third-party sellers, and going international—grow enough to have a meaningful impact on the economics of the business; this process requires foresight, early commitment, and tenacious faith in the power of R&D.

The hidden talent curve. Companies often lose focus on developing and retaining enough of what we call serious talent—people with both the capabilities and the will to drive new business growth. This is especially true when the business is successfully humming along but has not yet peaked. In such circumstances, companies feel that operations can be leaner (they've moved far down the learning curve by then) and meaner, because they're under pressures to boost margins. They reduce both head count and investments in talent, which has the perverse effect of driving away the very people they could rely on to help them reinvent the business.

The high performers in our study maintain a steady commitment to talent creation. The oil-field services provider Schlumberger is always searching

About the Spotlight Artist
Each month we illustrate our Spotlight package with a series of works from an accomplished artist. We hope that the lively and cerebral creations of these photographers, painters, and installation artists will infuse the pages with additional energy and intelligence to amplify what are often complex and abstract concepts.

This month the Spotlight artist is Damián Ortega, whose works, as he puts it, subject everyday objects to a "mischievous process of transformation and dysfunction."

View more of the artist's work at **whitecube.com/artists/ortega/**.

PHOTOGRAPHY: COURTESY WHITE CUBE

for and developing serious talent, assigning "ambassadors" to dozens of top engineering schools around the world. These ambassadors include high-level executives who manage large budgets and can approve equipment donations and research funding at those universities. Close ties with the schools help Schlumberger get preference when it is recruiting. Not only does Schlumberger keep its talent pipeline flowing, but it's a leader in employee development. In fact, it is a net producer of talent for its industry, a hallmark of high performers.

By managing to these hidden curves—as well as keeping focused on the revenue growth S curve, it must be emphasized—the high performers in our study had typically started the reinvention process well before their current businesses had begun to slow. So what are the management practices that prepare high performers for reinvention? Let's look first at the response to the hidden competition curve.

Edge-Centric Strategy

Traditional strategic-planning methods are useful in stretching the revenue S curve of an existing business, but they can't help companies detect how the basis for competition in a market will change.

To make reinvention possible, companies must supplement their traditional approaches with a parallel strategy process that brings the edges of the market and the edges of the organization to the center. In this "edge-centric" approach, strategy making becomes a permanent activity without permanent structures or processes.

Moving the edge of the market to the center. An edge-centric strategy allows companies to continually scan the periphery of the market for untapped customer needs or unsolved problems. Consider how Novo Nordisk gets to the edge of the market to detect changes in the basis of competition as they're occurring. For example, through one critical initiative the pharma giant came to understand that its future businesses would have to address much more than physical health. The initiative—Diabetes Attitudes, Wishes, and Needs (DAWN)—brings together thousands of primary care physicians, nurses, medical specialists, patients, and delegates from major associations like the World Health Organization to put the individual—rather than the disease—at the center of diabetes care.

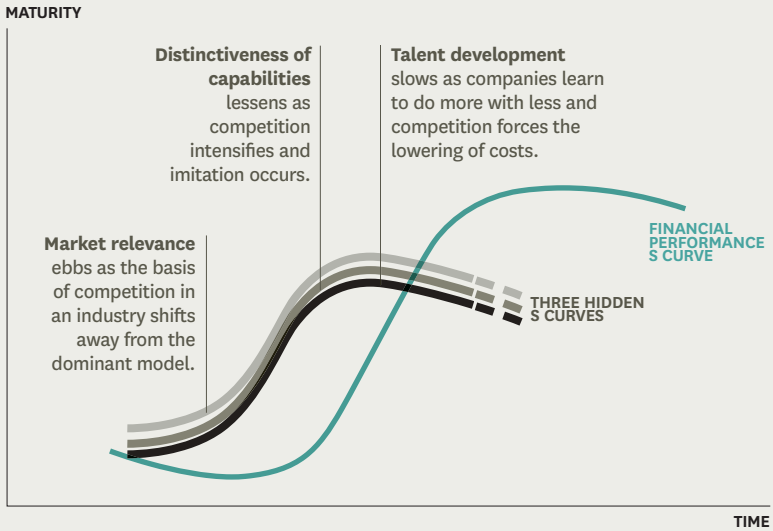
Research conducted through DAWN has opened Novo's eyes to the psychological and sociological needs of patients. For example, the company learned that more than 40% of people with diabetes also have psychological issues, and about 15% suffer from depression. Because of such insights, the company has begun to reinvent itself early; it focuses less on drug development and manufacturing and more on disease prevention and treatment, betting that the future of the company lies in concentrating on the person as well as the disease.

Moving the edge of the organization to the center. Frontline employees, far-flung research teams, line managers—all these individuals have a vital role to play in detecting important shifts in the market. High performers find ways to bring these voices into the strategy-making process. Best Buy listens to store managers far from corporate headquarters, such as the New York City manager who created a magnet store for Portuguese visitors coming off cruise ships. Reckitt Benckiser got one of its most successful product ideas, Air Wick Freshmatic, from a brand manager in Korea. The idea was initially met with considerable internal skepticism because it would require the company to incorporate electronics for the first time—but CEO Bart Becht is more impressed by passion than by consensus.

If strategy making is to remain on the edge, it cannot be formalized. We found that although low and average performers tend to make strategy according to the calendar, high performers use many methods and keep the timing dynamic to avoid predictability and to prevent the system from being gamed.

THE HIDDEN S CURVES OF HIGH PERFORMANCE

Three aspects of a business mature—and start to decline—much faster than financial performance does. They need to be reinvented before you can grow a new business.



As quickly as competition shifts, the distinctiveness of capabilities may evaporate even faster. By the time a business really takes off, imitators have usually had time to plan and begin their attack, and others, attracted to marketplace success, are sure to follow. How, then, do companies build the capabilities necessary to jump to a new financial S curve?

Change at the Top

Some executives excel at running a business—ramping up manufacturing, expanding into different geographies, or extending a product line. Others are entrepreneurial—their strength is in creating new markets. Neither is inherently better; what matters is that the capabilities of the top team match the firm's organizational needs on the capabilities S curve. Companies run into trouble when their top teams stay in place to manage the financial S curve rather than evolve to build the next set of distinctive capabilities.

Avoiding that trap runs counter to human nature, of course. What member of a top team wants to leave when business is good? High performers recognize that a key to building the capabilities necessary to jump to a new financial S curve is the early injection of new leadership blood and a continual shake-up of the top team.

Early top-team renewal. Consider how the top team at Intel has evolved. Throughout its history, the semiconductor manufacturer has seen its CEO mantle rest on five executives: Robert Noyce, Gordon Moore, Andy Grove, Craig Barrett, and current CEO Paul Otellini. Not once has the company had to look outside to find this talent, and the transitions have typically been orderly and well orchestrated. "We discuss executive changes 10 years out to identify gaps," explains David Yoffie, who has served on the Intel board since 1989.

Simple continuity is not Intel's goal in making changes at the top, however; evolving the business is. For instance, when Grove stepped down from the top spot, in 1998, he was still a highly effective leader. If continuity had been Intel's overwhelming concern, Grove might have stayed for another three years, until he reached the mandatory retirement age of 65. But instead, he handed the baton to Barrett, who then implemented a strategy for growing Intel's business through product extensions.

Indeed, each of Intel's CEOs has left his mark in a different way. Grove made the bold decision to move Intel away from memory chips in order to focus on microprocessors, a transition that established the company as a global high-tech leader. Since he took the helm, in 2005, Otellini has focused on the Atom mobile chip, which is being developed for use in just about any device that might need to connect to the web, including cell phones, navigation systems, and even sewing machines (for downloading patterns).

Through structured succession planning, Intel ensures that it chooses the CEO who is right for the challenges the company is facing, not simply the person next in line. And by changing CEOs early, the company gives its new leadership time to produce the reinvention needed, well before deteriorating revenues and dwindling options become a crisis.

Balance short-term and long-term thinking. Ensuring that the team is balanced with a focus on both the present and the future is another critical step in developing a new capabilities curve. When Adobe bought Macromedia in 2005, then-CEO Bruce Chizen took a hard look at his senior managers to determine which of them had what it took to grow the company to annual revenues of $10 billion. What he found was a number of executives who lacked either the skills or the motivation to do what was necessary.

About the Research

At Accenture, we have been conducting the High Performance Business research program since 2003. Starting from the premise that all performance is relative, we examined sets of peer companies. Previous research on high performance had compared companies head-to-head across industries, but that approach ignored the differences in average profitability, maturity, and risk from one industry to another, making it a contest among industries rather than among companies.

We settled on 31 peer sets for our initial study, encompassing more than 800 companies and representing more than 80% of the market capitalization of the Russell 3000 Index at the time. We analyzed performance in terms of 13 financial metrics to assess growth, profitability, consistency, longevity, and positioning for the future. In most cases, we applied the metrics over a 10-year span.

The businesses that performed extraordinarily well over the long term had all made regular transitions from maturing markets to new, vibrant ones. To find out how these organizations were able to maintain a high level of performance, we conducted years of follow-on investigation, creating special teams from our industry and business-function practice areas. Team members' expertise and experience was supplemented by contributions from independent researchers and scholars.

Today, the program includes regional and global studies of high performance, to take into account the explosive success of many emerging-market companies.

Jumping the S curve requires frequent injections of new blood and a continual shake-up of the top team.

Consequently, Chizen tapped more executives from Macromedia than from Adobe for key roles in the new organization. Those choices were based on Adobe's future needs, not on which executives were the most capable at the time.

Chizen wasn't tough-minded just with others. At the relatively young age of 52, and only seven years into his successful tenure, he handed over the reins to Shantanu Narayen, his longtime deputy. The timing might have seemed odd, but it made good sense for Adobe: The company faced a new set of challenges—and the need for new capabilities—as it anticipated going head-to-head against larger competitors like Microsoft.

> One sign that a company is investing enough in talent: Employees have time to think on the job.

In other cases, the executive team might need to gather fresh viewpoints from within the organization to balance long-established management thinking. Before Ratan Tata took over at India's Tata Group, in 1991, executives had comfortably ruled their fiefdoms for ages and rarely retired. But the new chairman began easing out those complacent executives (not surprisingly, some of their departures were acrimonious) and instituted a compulsory retirement age to help prevent the future stagnation of his senior leadership. The dramatic change opened dozens of opportunities for rising in-house talent who have helped Tata become India's largest private corporate group.

Organize to avoid overload. Finally, high performers organize their top teams so that responsibilities are more effectively divided and conquered. Three critical tasks of senior leadership are information sharing, consulting on important decisions, and making those decisions. Although many companies have one group that performs all three functions, this can easily become unwieldy.

An alternative approach, which we observed in many high performers, is to split those tasks—in effect, creating teams nested within teams. At the very top are the primary decision makers—a group of perhaps three to seven people. This group then receives advice from other teams, so hundreds of people may be providing important input.

Surplus Talent

Business reinvention requires not just nimble top teams but also large numbers of people ready to take on the considerable challenge of getting new businesses off the ground and making them thrive. High performers take an approach that is, in its way, as difficult as changing out top leadership before the company's main business has crested: They create much more talent than they need to run the current business effectively—particularly talent of the kind that can start and grow a business, not just manage one. This can be a hard sell in the best of times, which is probably why so many avoid it.

One of the signs that a company has surplus talent is that employees have time to think on the job. Many of our high performers make time to explore a regular component of their employees' workweek. (Think Google and 3M.) Another is a deep bench—one that allows promising managers to take on developmental assignments and not just get plugged in where there is an urgent need. High performance companies aggressively search out the right type of candidate and then take action to strengthen individuals for the challenges ahead.

Hire for cultural fit. High performance companies begin with the expectation that they are hiring people for the long term—a perspective that fundamentally alters the nature of their hiring and development practices. They don't just look for the best people for the current openings; they recognize that cultural fit is what helps ensure that someone will perform exceptionally well over time.

One company that gets this right is the Four Seasons Hotels and Resorts. It specifically looks for people who will thrive in a business that treats customers like kings—because, quite literally, some guests could be. "I can teach anyone to be a waiter," says Isadore Sharp, CEO of the luxury hotel chain in his book *Four Seasons: The Story of a Business Philosophy.* "But you can't change an ingrained poor attitude. We look for people who say, 'I'd be proud to be a doorman.'"

Reckitt Benckiser also puts cultural fit at the top of its hiring priorities. Before candidates begin the application process, they can complete an online simulation that determines whether they are likely to be a good match with the firm's exceptionally driven culture. The candidates are presented with busi-

ness scenarios and asked how they would respond. After reviewing their "fit" score, they can decide for themselves whether they want to continue pursuing employment with the company.

Prepare for challenges ahead. Making sure that new employees are fit to successfully navigate the tough stretches in a long career requires something we call stressing for strength. At low-performer companies, employees may find themselves wilting when faced with unexpected or harsh terrain. High performers create environments—often challenging ones—in which employees acquire the skills and experience they will need to start the company's next S curve. The goal is partly to create what our Accenture colleague Bob Thomas, in his book on the topic, calls "crucible" experiences. These are life-changing events, whether on the job or not, whose lessons help transform someone into a leader.

Crucible experiences can—and should—be created intentionally. When Jeff Immelt was still in his early 30s and relatively new in his career at GE, he was tapped by then-CEO Jack Welch and HR chief Bill Conaty to deal with the problem of millions of faulty refrigerator compressors—despite his lack of familiarity with appliances or recalls. Immelt later said he would never have become CEO without that trial-by-fire experience.

Give employees room to grow. After choosing and testing the right employees, companies must give them a chance to develop. To truly enable them to excel in their work, companies should take a hard look at exactly what people are required to do day by day.

UPS has long known that its truck drivers are crucial to its success. Experienced drivers know the fastest routes, taking into account the time of day, the weather, and various other factors. But the turnover rate for drivers was high, partly because of the hard physical labor required to load packages onto the trucks. So UPS separated out that task and gave it to part-time workers, who were more affordable and easier to find, allowing a valuable group of employees to concentrate on their capabilities and excel at their jobs.

Companies can also use organizational structure to provide employees with ample opportunities to grow. Illinois Tool Works, a global manufacturer of industrial products and equipment, is organized into more than 800 business units. Whenever one of those units becomes too large (the maximum size is around $50 million in sales), ITW splits that business, thus opening up managerial positions for young talent. In fact, it's not uncommon for ITW managers to start running a business while they're still in their 20s.

And high performance businesses aren't afraid to leapfrog talented employees over those with longer tenure. After A.G. Lafley took over at P&G, for example, he needed someone to run the North American baby-care division, which was struggling. Instead of choosing one of the 78 general managers with seniority, he reached lower in the organization and tapped Deborah Henretta. Lafley's move paid off. Henretta reversed 20 years' worth of losses in the division and was later promoted to group president of Asia, overseeing a $4 billion-plus operation.

Breaking the mold in one way or another—as leaders have done at UPS, ITW, and P&G—is critical to building surplus talent in the organization. It not only keeps key individuals (or groups, in the case of UPS's drivers) on board; it also signals to the organization as a whole that no compromises on talent will be made in order to achieve short-sighted cost savings.

EVEN TOP organizations are vulnerable to slowdowns. In fact, an economic downturn can exacerbate problems for companies already nearing the end of their financial S curve. (See the sidebar "Why Now?") Even in the best of times, business crises—whether they are caused by hungry new competitors, transformational technology, or simply the aging of an industry or a company—come with regularity. Companies in other industries may be feeling great, while your business (or industry) faces its own great depression.

In the face of all these challenges, companies that manage themselves according to the three hidden S curves—the basis of competition, the distinctiveness of their capabilities, and a ready supply of talent—will be in a much better position to reinvent themselves, jumping to the next S curve with relative ease. Those that do not are likely to respond to a stall in growth by creating an urgent and drastic reinvention program—with little likelihood of success.

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Why Now?

Why do economic slowdowns call for innovation and reinvention?

Reduced sales and increased discounting tend to squash companies' revenue S curves. Worse, the S curves do not stretch back out as conditions improve. Companies lose ground in four key areas:

INTELLECTUAL PROPERTY
Patent offices don't put years back on the clock just because a company's sales tapered off in a bad economy. This can have a devastating effect on, for instance, pharmaceuticals, where generics constantly challenge proprietary drugs as patents expire.

TECHNOLOGY
Economic downturns can slow the introduction of new technologies, but not for long. Witness the fate of some manufacturers of plasma televisions, which have been forced to exit the business under the double whammy of the downturn and steady improvements in LCD and LED sets.

COMPETITION
Companies looking to grow sales in a recession must take market share from competitors. As they press advantage, already weakened companies face possible extinction. In the movie-viewing market, for instance, companies that dominate newer channels have driven bricks-and-mortar retailers into bankruptcy.

CONSUMER TASTES
Novelty wears off, regardless of the economy. Even though they've bought less during the downturn, consumers accustomed to the idea of "fast fashion," for example, will not be interested in last year's styles.

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