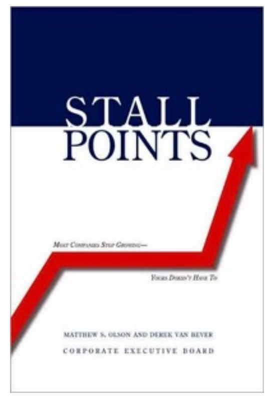


JAYMERA BOOK SUMMARY

MOST COMPANIES STOP GROWING YOURS DOES NOT HAVE TO

STALL POINTS IN LARGE COMPANIES' GROWTH RUNS

A stall point is the year in which the maximum difference is reached between ten-year revenue growth rates before and after this year: the turning point and precipice for revenue growth. It marks the year when someone close to the company could no longer miss that trouble of some sort is brewing. The metric used for stalls is revenue as this is hard to engineer or manipulate.

Stall points have been analysed for all Fortune 100 sized companies in the period 1955- 2005, thus involving more than 500 companies.

Most large companies stall: 87% suffer stall points. Companies can stall at any size, thought the vast majority of stalls occur in the $1 to $10 billion revenue range. Most stalls occur well before companies reach mega-institution size.

Restarting growth after a stall proves surprisingly hard to do: 87% of stalling companies never return to significant growth, i.e. at least 6% real growth in the period following the stall.

There are no clear leading indicators of a stall, at least from the outside. Stalls are often a surprise to management, at least in their ferocity and longevity. Financial model approaches to predicting impending revenue problems seriously miss the deeper drivers of stalls. There are as many companies with increasing and decreasing revenue growth and margins that stall. Soft landings are rare and most stalls exhibit a fairly steep, sudden drop-off in revenue growth.

COSTS OF A STALL

Although the market may be slow to react to a stall, the market impact on the company is devastating: companies suffer a median drop in value of almost 75% and 90% of companies lose more than 50% in market capitalisation.

Of the stalling companies 46% stall to moderate-high real growth rates. The remaining 54% stall to slow or negative growth and when this happens a company has only a 7% chance at recovering to moderate or high growth, i.e. more than 2% real growth per year. The vast majority, 67%, disappear from the radar entirely, by being acquired, going bankrupt or taken private.

MAIN ROOT CAUSES OF GROWTH STALLS

The primary stall factors are knowable and preventable: 87% of stall factors are controllable and related to a strategy choice or organisational design decision. Four top-line causes collectively account for more than half of all stalls:

1. Premium position captivity: failure to shift tactics in response to advent of low-cost competitor or changing customer preferences
2. Innovation management breakdown: failure to achieve desired or required returns on investments in new products and services
3. Premature core abandonment: failure to exploit growth opportunities in the core business or to adjust the business model to meet new competitive requirements
4. Talent bench shortfall: lack of adequate leaders and staff wit the skills and capabilities required for successful strategy execution

OVERVIEW OF ROOT CAUSES OF GROWTH STALLS

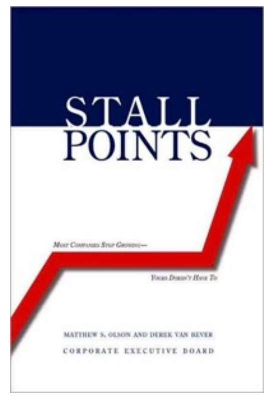
Analysis of 50 representative companies that experienced growth stalls reveals 42 root causes:

CONTROLLABLE STRATEGIC FACTORS (70%)
- Premium position captivity (23%)
- Innovation management breakdown (13%)
- Premature core abandonment (10%)
- Failed acquisition (7%)
- Key customer dependency (6%)
- Strategic diffusion/conglomeration (5%)
- Adjacency failures (4%)
- Voluntary growth slowdown (2%)

CONTROLLABLE ORGANISATIONAL FACTORS (17%)
- Talent bench shortfall (9%)
- Board inaction (4%)
- Organisational design (2%)
- Incorrect performance metrics (2%)

UNCONTROLLABLE EXTERNAL FACTORS (13%)
- Regulatory actions (7%)
- Economic downturn (4%)
- National labour market inflexibility (1%)
- Geopolitical context (1%)

Senior executive teams fail to adapt their strategies correctly and adequately because of shared mental models, which lead to isolation and resistance to new external market and strategy realities. The balancing act for an executive team wishing to avoid this syndrome is to achieve the benefits of group cohesiveness while continually revisiting its underpinnings, i.e. the shared assumptions that underlie strategy.



PREMIUM POSITION CAPTIVITY

By far the largest stall cause and increasingly important over time: the inability of a company to respond correctly to a disruptive challenge posed by a new low-cost competitor, or to a significant shift in customer valuation of product features.

Nearly all of these companies share a fixation on traditional rivalries and competitors with new disruptive competitors simply being off the radar. Incumbent leaders share the incredulity at having their dominance challenged by (seemingly) unworthy upstarts. They resort to disdain, denial and rationalisation.

Typical management responses to these challenges:

1. Nonresponse
2. Brand protection: fall back on presumed shelter of (over-estimated) brand equity
3. Gross margin captivity: continue to be constrained by own (generous) gross margin metrics
4. Innovation captivity: out-innovate with another round of product enhancement
5. Demand inflection denial: fail to recognise the importance of growing new behaviour or customer preference

Strategic assumptions behind premium position captivity:

1. FALSE ASSUMPTIONS ABOUT CUSTOMERS
   - Core customers will be unwilling to trade away some level of product performance for lower price
   - Pricing premiums earned through incremental product enhancements will stand up to pricing challenges from “lower performance” products and services
   - Customers will always continue to value and pay for incremental improvements in product performance; there is little risk of over-shooting market needs
2. FALSE ASSUMPTIONS ABOUT COMPETITORS
   - Low-end players will never be able to meet core customers’ performance demands or match the company’s rate of improvement in product or service features
   - Advantages in brand equity, sales force size and sophistication, and distribution networks will thwart inroads by low-end rivals
3. FALSE ASSUMPTIONS ABOUT MARKET EVOLUTION
   - The low end of the market is severable; losses of market share due to erosion at the bottom of the market can be limited and isolated from mainstream market segments
   - The competitive focus should remain on traditional rivals and their product and marketing initiatives; competitive benchmarking should be concentrated on at-scale rivals

To avoid premium position captivity companies should

1. have a structured approach to test for shifts in key customer groups’ valuations of the product and service attributes;
2. refresh this information frequently enough, at least annually;
3. track the volume and value market share held by new entrants whose business models differ;
4. prove capable of self-cannibalising their existing product and revenue streams with lower-cost products and services;
5. systematically test core customers’ willingness to pay a premium for superior performance and/or brand reputation.

This calls for market research to catch early customer preference shifts and contingency planning to respond to low-cost entrants.

INNOVATION MANAGEMENT BREAKDOWN

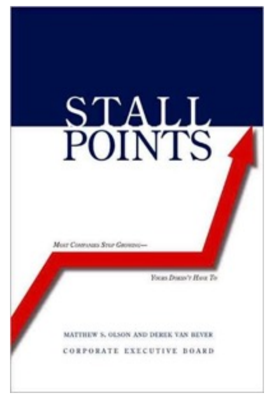
More than half of the stall histories had innovation management factors at play: serious inefficiencies or dysfunctions in activities somewhere along the activity chain of product innovation leading from basic R&D to product commercialisation.

There are six root cause manifestations of the problem:

1. Curtailed/inconsistent R&D funding: optimise short-term earnings through cuts in R&D spending with emptied innovation pipelines
2. Over-decentralised R&D: overemphasise ever-smaller incremental product opportunities at expense of structural R&D investments
3. Slow product development: internal processes dramatically out of step with the pace of external developments in the market
4. Inability to set new standard: fail to get the game-changing product established as a new industry standard
5. Conflict with core company technology: fail to exploit new superior technology that is in direct competition with existing own dominant technology in the core business
6. Over-innovation: iterative product innovation cycles begin slowly to yield more new costs than new revenues

Strategic assumptions behind innovation management breakdown:

1. Product proliferation: limitless market appetite for differentiation and product performance
2. Investment requirements: short-term cuts in innovation investment will not materially affect long-term revenue growth
3. Organisational structure: consistency of returns is best achieved through tighter direct links to business unit priorities
4. Sitting of disruptive new business: self-cannibalisation and smooth transition to the new core product can be best managed by the business unit with the existing technology at risk



To avoid innovation management breakdown companies should

1. budget innovation resources at corporate level in a process that is separate from business unit level innovation funding
2. maintain adequate visibility into BU-level funding decisions to monitor balance between incremental and next-gen investment
3. allocate some portion of innovation funding to lower-cost versioning next to enhancements for price premiums
4. maintain real-time coordination of market research and R&D efforts
5. expose the executive team regularly and directly to emerging customer and product trends

PREMATURE CORE ABANDONMENT

The third largest stall factor is the failure to exploit fully the growth opportunities in the existing core business. Indicators are diversification binges, i.e. acquisitions or growth initiatives in areas relatively distant from existing customers, products and channels, with a neglect of growth issues in the company's core business.

There are five root manifestations of this problem:

1. Growth rate envy: searches for presumed higher growth elsewhere causing slow-growing core businesses to collapse through management distraction
2. Misperceived market saturation: making the call that the industry is saturated and that no new innovations or market opportunities are likely to unlock new growth
3. Misperceived operational impediments: give up on apparently intractable problems in the core business
4. International growth masks core problems: management attention migrates to hot growth opportunities in international markets rather than fixing the issues in the core domestic market
5. Earnings growth over core reinvestment: slowed down core business reinvestment in order to fuel earnings growth rates

Strategic assumptions behind premature core abandonment:

1. Industry growth rate as firm growth rate limiter: industry's growth rate is a speed limit for their company's prospects
2. Operational and business model impediments to reinventing the core: core business requires competencies and business models too daunting in terms of stretch to current capabilities
3. Cash cow reinvestment rate requirements: mature businesses have steady or declining reinvestment rate requirements

To avoid premature core abandonment companies should

1. establish significant revenue growth and earnings growth goals
2. avoid using the term "mature" to describe the business
3. maintain core business reinvestment rate at historic levels
4. redefine core market boundaries outward regularly
5. explore new business models within the core business

TALENT BENCH SHORTFALL

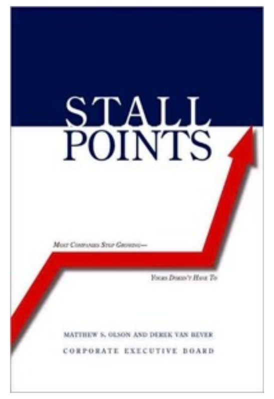
The fourth largest stall factor is the lack of adequate leaders and staff with the skills and capabilities required for strategy execution, most visibly at the executive level. This is often the result of too strictly applied promote-from-within policies, narrow experience base from well-worn promotion paths, loss of key talent in mass exodus or key person dependence.

Strategic assumptions behind talent bench shortfall:

1. Internal market bias: strong coherent cultures produce the best candidates with a shared mindset
2. Closure to external perspective in executive ranks: singularity of vision and focus on execution is more important than reconsideration of foundational strategy assumptions
3. Lack of clarity around critical talent sets: people development systems critical to the company's past success will als cover its future needs

To avoid talent bench shortfall companies should

1. allow freedom to select the best possible candidate, regardless of internal or external sourcing
2. manage the mix of company lifers (75%) and individuals newer to the company who offer novel perspectives (25%)
3. identify the internal skills sets and individuals that provide our competitive advantage and differentiation in the market place
4. dedicate resources and senior attention to ensuring that these individuals are internally engaged & safe from external poaching
5. include current and future competency requirements when identifying and developing high potential employees
6. coordinate strategic planning with human resources such that growth plans are translated into talent acquisition and retention



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AVOIDING STALLS - ASSUMPTIONS IDENTIFICATION & TESTING

Behind all stall points there is one root cause: a lack of effective action on the part of management to close the gap between the company strategy and the external environment. The assumptions the team has believed the longest or believes the most deeply are true, are the likeliest to be the team’s undoing, because these beliefs are so obvious and accepted that it is no longer ok to debate them.

Articulating explicitly and unambiguously on which strategy is based will render the opportunity of defining precise metrics that can be tested against external reality. These assumptions are to be prioritised to identify those that are critical to the continuing health of the company’s strategic direction. This can be done in two ways:

1. Core belief ID squad: hunting expedition to identify the firm’s most deeply held assumptions about itself and the market, involving a diverse group of senior mgt and company staff
2. Pre-mortem strategic analysis: charge teams of senior managers with developing competing visions of the future success and failure of the company

Exposing those identified assumptions to constructive challenge can be done in two ways:

1. Shadow cabinet: standing group of high-potential employees who participate in meetings of the ExCo on a rotating basis
2. Venture capitalist view: invite qualified venture capitalist to sit in on a panel that conducts strategy and investment reviews

AVOIDING STALLS - ASSUMPTIONS MONITORING

Monitoring key assumptions behind strategic positions requires:

1. Establish fact-based metric systems for moving the monitoring of key assumptions out of the realm of argument and differing perspectives and into the realm of measurable, objective change. This requires signposts for individual assumptions: measurable phenomena that (in)validate key beliefs and are related to customer behaviour and market demographics. Signposts can be monitored through tripwires set to alert management to meaningful changes.
2. Assign individual ownership of key strategy assumptions and their monitoring.
3. Use monitored assumptions in competitive disruption modelling by using a finite set of game-changing scenarios in evaluating the adequacy of current strategic initiatives.

WHAT TO DO WHEN IN FREEFALL

When your company is actually in freefall there are six foundational recommendations for recovering top-line growth momentum:

1. Advantaged strategies for restarting growth typically lie close to home by maximising core value; no restarts involve opportunities unrelated to the company’s core business.
2. Build consensus about the sources of weakness in the core business strategy and the blind spots to weakened strategic assumptions and underserving business processes.
3. Confront the operational and/or business model challenges in the core business that were previously have been avoided.
4. For the pursuit of opportunities close to the original business conduct a careful gap analysis to identify required changes to the core business model.
5. Examine the opportunity for new business models early in the new product development process by integrating business model design into the product development process.
6. Exploit privileged insight into customers in building new growth platforms. Fallow assets are most powerful as the basis of new sustainable growth platforms, when they combine privileged insight on customers with a strong, differentiated organisational competency.

As peer experience demonstrates, restarting growth is possible, but it does not get any easier with the passing of time: the need for speed in recovering from stalls.

The book offers a diagnostic survey of 50 red flags that can help signal the stall danger in time.

It represents a summary of the following management book:
“STALL POINTS - most companies stop growing, yours doesn’t have to”
Authors: Matthew S. Olsen, Derek van Bever (2008)
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