

BAIN & COMPANY

Achieving Full Potential

through strategies that work

Bain & Company has helped clients conceive and put into practice many of the most successful business strategies of the past two decades, from turnarounds to high-growth breakouts. That's why the bulk of our business comes from prior clients or from referrals. We pride ourselves on being practical, empirical, optimistic, and eager to pitch in.

The only success that counts for us are the results our clients achieve. Bain is one of the world's leading international strategy consulting firms. Its professionals serve major multinational and other organizations through a global network of offices in 18 countries. Its fact-based, "outside-in" approach is unique, and its immense experience base, developed over 25 years, covers a complete range of critical business issues in every economic sector. Bain's entire approach is based on two guiding principles: 1) working in true collaboration with clients on customized and implementable strategies that yield significant, measurable and sustainable results, and 2) developing processes that strengthen a client's organization and create lasting competitive advantage. The firm gauges its success solely by its clients' achievements.

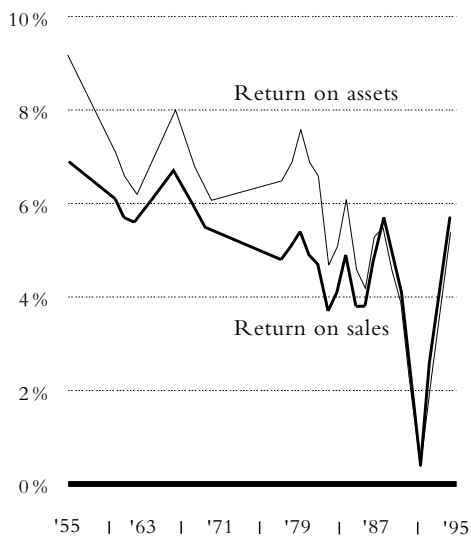
facing a tougher

business environment

Since the mid-1970s, the business environment has become dramatically less forgiving of companies that don't have a clear strategy and that don't have the right strategy. Returns for major U.S. industrial companies have been declining steadily for the past 25 years.

Recent Bain & Company analysis found that only 7% of U.S. companies and 6% of European companies qualified as "sustained, profitable growth companies" over the course of an eight year period. In fact, most growth companies fail to earn more than their cost of capital.

Fortune Industrial 500 Performance



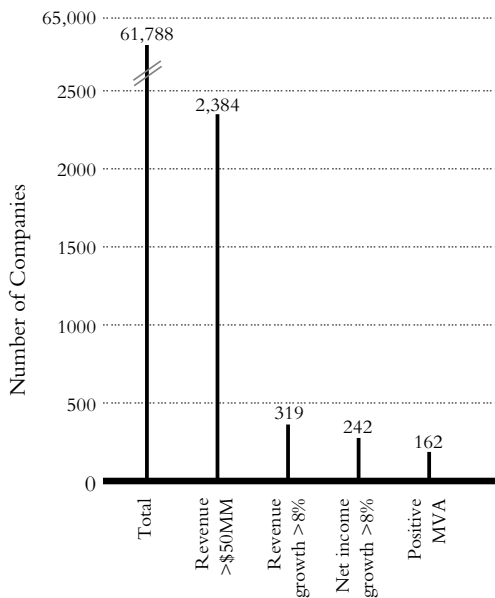
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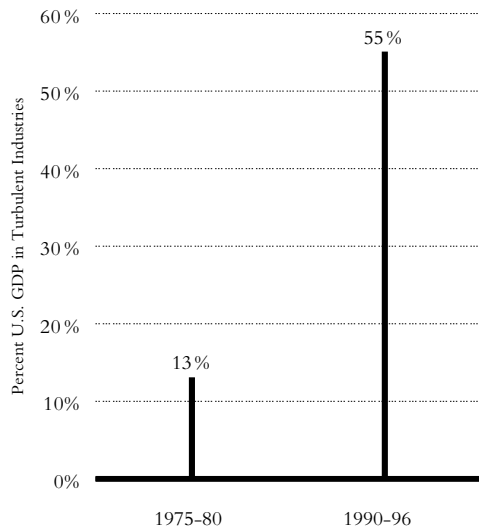
The number of industries experiencing fundamental structural change has increased from 15% of the total universe two decades ago to 55% today. Turbulence in an industry typically creates conditions out of which emerge bigger winners and bigger losers than before. We have documented this phenomenon in businesses as dissimilar as telecommunications, financial services, retailing, computers, health care, and transportation.


The experience of our clients leads us to believe that market share has become more fluid and has the potential to shift more quickly than would have been thought possible a few years ago. As a consequence, strategy can no longer be what it once may have been, something you develop in a formal exercise every three years or so and then put in a binder on the shelf. As business accelerates toward the 21st century, strategy must be what you live every day.

The Growth Minority: U.S. and Europe



The Growth in Turbulence





the **myth**
of implementation



In light of the rapid pace of change, it hardly makes sense to think of implementation as something apart from, or independent of, the underlying strategy. If you have a strategy you can't execute, you don't have strategy at all.

The bulk of strategies actually achieve less than 50% of what they initially set out to accomplish. Analysis of this "yield loss" indicates that the most common cause is a failure to anticipate and provide for how difficult implementation will prove for the organization. It's like making up a battle plan without taking into account the readiness of your troops or the security of your supply lines.

At Bain & Company, we work with our clients to explicitly calculate their organization's capacity to implement, and then to factor this capacity into the development of their strategy from the beginning. In this way, management can choose the appropriate level of difficulty or risk, and also think about the organizational capabilities that may need to be strengthened or obtained from outside in order to achieve high-confidence implementation.

The payoff can be huge. A strategy only 80% perfect but fully implemented almost always proves more valuable than an intellectually perfect strategy that is implemented incompletely.

**If you have a strategy you can't execute,
you don't have strategy at all.**





keeping an external focus

Review of high-performance management teams indicates that the best maintain an external focus; they spend their time gathering new data, discussing and exchanging them as a prerequisite to taking action. Low-performance teams, by contrast, are more internally focused; they spend a much larger proportion of their time exchanging opinion and looking within.

The most dramatic losses in strategic position can often be traced to the fact that a company had an inadequate base of facts about what was going on in its market, or that it neglected to interpret and act on new information about customers or competitors. On the other hand, some of the most successful companies today achieved highly profitable differentiation precisely because of their ability to gather and respond to marketplace information faster than their competitors. In a changing market, they always get the first chance to stake out the best strategic ground.

In our work with clients we've found that fresh, penetrating data on the outside world—especially on competitor capabilities and the switching behavior of customers—represent an essential and powerful competitive weapon.

the four key

strategic questions

From what we've seen, nearly 80% of the variation in profitability across businesses is a function not of the industry a particular business is in, or its environment, but rather of its competitive position and performance within its industry. We have also observed that in most industries only two or three participants earn their cost of capital over a full investment cycle; the majority of participants earn less, destroying value. Which is why there's a sharp competitive focus to the **four questions** that, in our view, every business strategy must answer:

- 1 Where should I choose to compete?
- 2 Who should my core customers be?
- 3 How should I differentiate myself competitively?
- 4 How should I discourage competitive investment?

Simple, timeless questions. The challenge is obtaining full, rigorous, up-to-date information with which to answer them.

how good could it get?

How valuable can a successful strategy be to a business? Is devising one worth the trouble, the work, the risk?

We believe that in working with a client to develop a strategy, it's important to calculate the full economic potential of its business. This potential typically consists of at least **four components:**

- 1 Its full operating potential: What kind of margins and costs could be realized given the competitive position it should be able to achieve?
- 2 Its full strategic potential: What kind of market share could it command? How fast can its segment of the market grow?
- 3 Its full expansion potential: What business "adjacencies" might it move into, and what kind of reinvestment rates would be required to do this?
- 4 Its redeployment potential: Is the business likely to be worth more to someone else? Why?

Going through this analysis helps focus the strategy process on what is most important economically. It also compels a discussion of the broadest range of options, and helps build a consensus on the answers to the most critical questions that management must decide. Questions like "What are the benefits – and the costs – of more market share?"

putting it all together

At Bain & Company, our overall approach to strategy is supported by a full range of proprietary techniques and diagnostic tools for special purposes ranging from analyzing potential acquisitions to reducing manufacturing complexity to improving productivity in service businesses. We find, though, that the real value of these techniques comes from clearly orchestrating their use in the context of a powerful strategy.

Great strategy arises from data, thought, discussion, experience, and insight. To marshal each of these at the appropriate time, we have evolved a process consisting of five overlapping stages:

Phase I: Determination of objectives and development of a strategic fact base

Phase II: Generation of hypotheses and subsequent, focused external analysis

Phase III: Assessment of full potential and the development of options

Phase IV: Evaluation of options, decision on strategy, and pressure testing of the choice under various scenarios

Phase V: Implementation planning, preparation, and follow-through

Executed well, this approach to strategy can lead your organization down a pathway to sustainable results.



the paradox

If asked, most executives would agree that strategy is central to business success. They operate on the assumption that a company can forge its own destiny, that it isn't at the mercy of economic events or market conditions. When CEOs reflect on a particular corporate success or failure, they invariably point to a handful of decisions that proved critical to the outcome. Indeed, one survey found that over 75% of the executives polled attributed changes in a company's financial performance more to management decisions and practices than to all outside factors combined.

A good strategy, properly implemented, will produce superior returns. Every business should have a strategy – and yet, amazingly, many don't. A true strategy must inform virtually all decisions – on where to invest, how to respond to competitors, which new capabilities to create, what to do at eight o'clock on Monday morning. Making business decisions without a strategy is like trying to navigate without a compass, stars, or ultimate destination.

While everyone acknowledges the importance of strategy, few companies have strategies that actually work. Why is this so?

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