Jumping the S-Curve

How to beat the growth cycle, get on top, and stay there

By Paul Nunes and Tim Breene

Institute for
High Performance

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In business, winning once is not enough. Even if you score big, you can't rest on your laurels. You have to rack up repeated victories in the market, one after the other. Otherwise, you become a has-been, just another business that sparkled brightly before flaming out. This has been the fate of many once-successful companies that got to the top but couldn't stay there.

Yet, some organizations do thrive at the top for decades and even longer. They launch one successful business after another, and routinely outperform their rivals through both good times and bad. What's their secret?

In **Jumping the S-Curve**, Paul Nunes and Tim Breene—leaders of Accenture's High Performance Business Research program—reveal how the best companies get to the top and stay there. Drawing on nearly a decade of research on thousands of companies from scores of industries around the world, Nunes and Breene show that too many leaders manage their companies only to the **visible** S-curve of revenue growth—in which a business starts out slowly, grows rapidly until it approaches market saturation, and then levels off.

High performers, by contrast, actively manage to the cresting of three **hidden** S-curves that reach the end of their lives well before the company's financial curve reaches its peak. By jumping these three-curves early, while the core business continues to thrive, companies lay the foundation for a successful leap to a new financial S-curve later—and for lasting greatness by executing a series of these moves.

Jumping the S-Curve divulges the secrets of lasting high performance by first identifying what companies must do to successfully climb a business S-curve, including:

- Seeing and pursuing the "big enough" market insights that can take a company to the top of an industry.
- Reaching "threshold" competence before deciding to scale the business.
- Becoming worthy of the efforts and commitment of "serious talent."

It then reveals how high performers jump to the financial S-curve of a second successful business by:

- Creating strategy "from the edge" to find and capture the next winning business idea.
- Reconstituting their top team before the company's distinctive capabilities have become commonplace.
- Building a hothouse of talent to do what labor markets alone cannot.

Filled with original insights, solid practical advice, and detailed examples, **Jumping the S-Curve** reveals how companies can thrive by leaping from one successful business to another.

Shrinking S-Curves: Jumping in a downturn

Can companies that have been battered by the severe economic downturn really take on business reinvention? Shouldn't retrenchment, belt-tightening, and a redoubled focus on selling be the order of the day?

In fact, economic slowdowns call for **increased** preparation to jump the S-curve for two major reasons. First, recessions put downward pressures on revenue growth. Reduced sales and increased discounting tend to squash the revenue growth S-curve, so companies have even less money to invest in new initiatives than usual.

This might be manageable if S-curves were lengthened because of downturns, giving companies more time to reach the heights of their previous revenue growth and financial potential. But the curve doesn't recover its original length once the economy starts growing again.

Here are four reasons why.

Intellectual property continues to lose protection as patents expire

The patent office doesn't put years back on the clock just because a company's sales have tapered off in a bad economy. This unfortunate fact of corporate life can have a devastating effect on industries like pharmaceuticals, where newly approved generics are constantly challenging drugs coming off patent protection.

Technologies continue to evolve rapidly

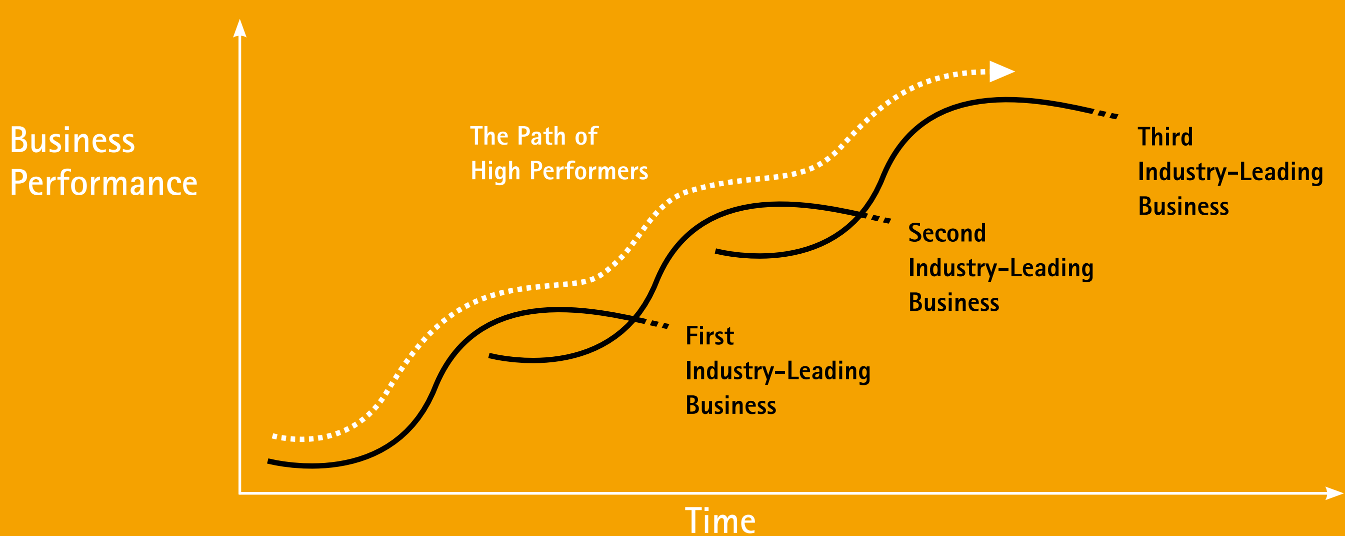
Economic downturns can slow the introduction of new technologies, but they don't hold them back for long. Witness the fate of some manufacturers of plasma television, which have been forced to exit the business under the double whammy of the downturn and steady improvements in LCD sets.

Figure 1-2, High Performance: The Climbing and Jumping of S-Curves

In the world of innovation, an S-curve explains the common evolution of a successful new technology or product. At first, early adopters provide the momentum behind uptake. A steep ascent follows, as the masses swiftly catch up. Finally, the curve levels off sharply, as the adoption approaches saturation.

For any new and successful business, the process is much the same for the sales of its products and services.

High performance is defined by companies that execute **repeated climbs** and **jumps** of the S-curve.



Competitors continue to enter industries and press advantages

During a downturn, the competition can become even fiercer. In the market for movie viewing, companies that dominated newer channels (such as DVD-by-mail and on-demand viewing) have driven bricks-and-mortar retailers into bankruptcy.

Consumer tastes and preferences continue to change

Novelty wears off with time, regardless of the strength of the economy. Even during the current downturn, for example, consumers accustomed to the idea of "fast fashion" will not be interested in last year's styles.

Even in the best of circumstances, the eventual shape of a company's S-curve is unpredictable. Sales may be exploding one day, only to collapse the next when a competitor introduces a new offering. Indeed, on the horizon today are a whole series of business "disruptors," including business analytics, cloud computing, digital marketing, and the rise of emerging market consumers. These developments promise to make jumping to a new S-curve even more critical—and difficult—in nearly every industry. Bottom line: A strategy focused mainly on retrenchment during tough economic times is a strategy for continued trouble during the recovery. And even during a period of recovery, companies can't become complacent: what is rare for economies as a whole is all too common for individual companies. Crises are a regular fixture of business life, and executives will need to focus on leaping from their existing S-curve sooner than they realize.

A Roadmap for Climbing—and Jumping—S-Curves

Chapter One
High Performance: The Business of Jumping S-Curves

To climb an S-curve, a business must have the right foundation in place—the building blocks of high performance. Fail to create these bulwarks of success, and your performance will be on shaky ground. Develop them properly and you'll have the solid base you need to succeed with a new business.

Part One: Climbing a Curve

In the first stage of high performance, companies successfully scale the S-curve by following through on a winning business idea. The keys to that accomplishment are the focus of chapters two through four.

Chapter Two
A Big Enough Market Insight

To climb the financial S-curve and outperform competitors, a company can't waste time and money on small or uncertain market opportunities. Instead, it must identify a "big enough market insight," or BEMI—that is, a substantial market change on the horizon that heralds the chance to build a major business for the company that identifies and seizes the opportunity.

Cases in Point:
Novo Nordisk created a sizeable portfolio of opportunities by recognizing that growing affluence in emerging markets would result in a dramatic long-term increase in the global incidence of diabetes.

Porsche pursued a more immediate opportunity by entering the SUV market with its Cayenne. The company recognized that the apparently saturated market still had plenty of room for a high-performance, sportster-bred SUV for suburban soccer dads.

Chapter Three
Threshold Competence Before Scaling

High performers are rarely first to market. They build essential capabilities before scaling their operations and plan for success far upstream, often focusing on details such as production and channel strategy early on. The key: they understand exactly how they must be distinctive in order to create the value the market demands.

Case in Point:
People Express built a powerful business model by doing almost everything differently—all seats on a flight were the same price, pilots helped load baggage and flight attendants checked-in passengers. But soon People Express was competing directly on routes with established carriers. It had to withstand fare wars and hire faster than it could train. Worker morale took a hit, service levels fell, and the coffers drained. The airline was sold just six years after its launch.

Chapter Four
Worthy of Serious Talent

High performers attract and keep the "serious talent" they need—the people with the abilities and the attitude to drive the creation of successful businesses. These companies instill a mindset of relentless improvement throughout their workforce and gain the confidence of critical employees, whether they are far-sighted senior executives, never-say-die salespeople, or engineers with a flair for creative genius. They reach these heights by:

- Seeking and then ensuring that a high degree of competence exists at every level of the organization
- Providing transparency and instilling mutual accountability, in all directions.
- Creating trust in which people do the right thing not because the rulebook requires it but because the company's culture of honor demands it.

Cases in Point:
At **Best Buy,** staff members at headquarters are highly accountable to each other in a culture built on honor: the company gives them the freedom to set their own schedules and decide how and where to get their work done.

UPS builds a culture of honor through storytelling that creates lore: a classic is the tale of the driver who figured out how to deliver an unclearly labeled package to a military base on Christmas Eve—containing airplane tickets for a flight home the next day for one very happy soldier.

Part Two, Jumping to a New Curve

Reaching the top of an S-curve is just the beginning. The same building blocks that a company uses to climb the curve erode over time—even as the company continues to achieve excellent financial results from the business.

Chapter Five
Hidden S-Curves

To gauge how much time is left on the clock of a currently successful business, a company should look for signs of trouble in each of the building blocks it used to climb the S-curve.

Fading power of a BEMI:
An important indicator is the waning strength of a once powerful insight, which can be glimpsed in a decreasing rate of growth in the target market or the increased presence of competitors with substitute products.

Decline of distinctiveness:
At some point the capabilities that drove the successful execution of an original market insight start to lose their distinctiveness: patents expire, new technologies are copied, or the components of the business model become standard.

Erosion of serious talent:
One unfortunate side effect of a successful business is less head-room for employees to quickly move upward. An increase in unplanned or unintended attrition, especially of top performers, is a dangerous sign that the company has reached the top of its talent S-curve.

Chapter Six
Edge-Centric Strategy

High performers have two processes for making strategy: one to drive the core business and the other to stay on top of market evolution. The latter processes get their strength from the edge:

Edge of the market—insights are gleaned at the periphery of market evolution and customer demand;

Edge of the organization—the process is directed from the top but not dominated by the center of the business;

Edge of control—strategy development is episodic but continual, and not centrally managed.

Case In Point:
UPS has reinvented itself numerous times since the 1920s, repeatedly entering new businesses on its own timetable rather than in desperate response to a financial crisis or competitor's challenge.

Chapter Seven
Top Teams that Change Early

High performers realize that succession planning is not about replacing executives in an emergency. Top management teams need to evolve when the distinctiveness of the company's capabilities begins to wane—not when business performance starts to plateau. High performance businesses reconstitute executive teams early and often, and groom new executive talent, to ensure that they have the right balance of managerial and entrepreneurial skill needed to the jump to the next S-curve.

Cases in Point:
After only seven years as **Adobe Systems'** CEO, Bruce Chizen at age 52 handed the reins to his long-time deputy to navigate the challenges of becoming a major force in digital media, a transformation Chizen had guided.

Colgate Palmolive's succession process begins at the business unit level and the board regularly tracks 200 employees to ensure significant internal bench strength for top positions.

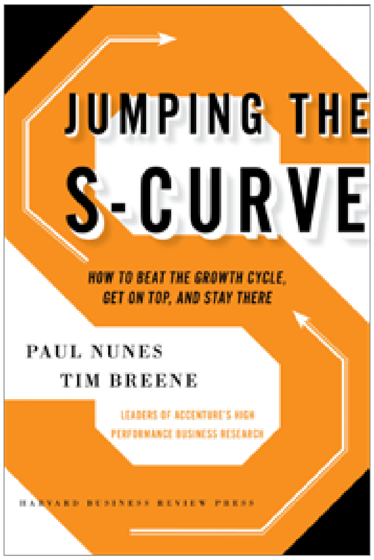
Chapter Eight
Hothouse of Talent

Jumping an S-curve requires an excess of talent—something that goes against the grain of companies that are trying to be efficient keeping headcount lean while a business grows. High performers plant and nurture the seeds of talent that let them successfully jump to the next business S-curve.

Case In Point:
Schlumberger invests heavily to obtain a steady flow of young engineering talent. It provides scholarships and internships at top universities to cultivate relationships. Rookie hires then undergo a multi-year training program to gain field experience. In addition, managers are expected to cultivate their successors, and the company demands a rigorous post-mortem after any high-potential employee leaves.

Chapter Nine
Sharp Curves Ahead

A variety of major developments on the horizon—from cloud computing to digital marketing to business analytics–promise to disrupt businesses in the coming decade, challenging them yet again to scale and jump the S-curve of high performance. To successfully jump to the next S-curve, companies must well know the likely future shape of their current one.



Five Dangerous Myths about Growth

Many executives and managers are skeptical about the possibility of high performance in their organizations. Our research has debunked several "urban legends" that underlie this skepticism.

Myth #1: Bigger is Better

Industry-leading scale is not a requirement for high performance. Our study found no correlation between the relative size of a company and its performance in an industry.

Myth #2: Some Markets are too Moribund for High Performance

We found that high performing companies exist in all but a tiny percentage of markets and industries.

Myth #3: Companies Must Choose Between Growth in Scale or Profit

High performers in our study consistently outperformed their peers in revenue growth and spread, the difference between return on capital and its cost.

Myth #4: Investments in High Performance Pay Off Slowly

Capital markets routinely reward businesses that have a powerful, compelling and long-term strategic vision.

Myth #5: Being good is good enough

The gaps in revenue growth and profitability between high and good companies are just as large as the gaps between average and underperforming businesses.

The Research Program behind the Book

What prompted this study in the first place were the questions frequently asked by Accenture's clients: How do we create lasting value? How do we successfully make the transition from an existing business, which is destined to stall, to an equally successful new one?

To answer these questions, Paul Nunes, executive researcher in the Accenture Institute for High Performance, and Tim Breene, for many years Accenture's chief strategy officer and now head of its digital marketing initiative, led a global team of researchers and practitioners in a research program aimed at identifying the secrets of high performance. In doing so, they came to a crucial understanding about performance: That all business performance is relative. This recognition became a key differentiator in Accenture's approach.

Most prominent studies of business performance selected their high performers after comparing them head-to-head across industries—ignoring the differences in the average profitability, maturity and risk across those markets. The victors had won what hardly seemed a fair fight. This led the team to see that their analysis could only be properly conducted on valid sets of peer companies. "Change the peer set, change the performance," became their mantra as they worked to create suitable sets for comparison.

In the end, they settled on 31 peer sets encompassing more than 800 companies for the initial study, groups that represented more than 80 percent of the Russell 3000's market capitalization at the time. Since then, the research team has identified and studied nearly one hundred peer sets.

Using 13 simple and common financial metrics, the researchers measured performance in terms of growth, profitability, consistency, longevity and positioning for the future—the last in order to avoid rewarding those companies that create high profits by cutting investment. They scored companies on a curve in their industry peer set, assigning grades for each measure based on its relative deviation from the peer set average. They then averaged each company's grades. Only companies that significantly outperformed the average score of their peer set were classified as high performers.

Of the more than 800 companies they started with, roughly 80 were initially judged to be high performers. If some of the high performers—Intel, PepsiCo, and UPS—were highly familiar, others were more surprising. At the time of the initial study, companies like Danaher, Illinois Tool Works and Reckitt Benckiser were well regarded, but their real achievements in creating the essentials of high performance were not yet well publicized.

In the months that followed, Nunes and Breene called on all of Accenture's knowledge to learn what the high performers had in common. In Accenture's industry practice areas, special teams were created; they were staffed with experienced consultants, internal and external industry experts, practitioners and professional researchers, including a number of academics. These teams then conducted studies to identify the drivers of sustained outperformance in the peer set of their expertise. Then one more team was formed to integrate those peer set insights into a cohesive set of findings, which are summarized in this book.

Having spent nearly a decade engaged in painstaking analysis and the continual refinement of ideas, the architects of the research program have written the book on high performance. Jumping the S-Curve delivers on the promise of its subtitle, revealing how great companies "beat the growth cycle, get on top—and stay there."

For executives and clients seeking to understand where they stand and what they need to do next, Jumping the S-Curve will be essential reading for years to come.

About the Authors

Paul Nunes and **Tim Breene** are senior executives at Accenture and the founders and co-architects of the company's High Performance Business research program, begun in 2003. This program's contributions were recognized as one of the ten most influential in advancing management thinking on business performance in "Toward a Theory of High Performance" in **Harvard Business Review**. Nunes and Breene have coauthored over a dozen articles on the program's research findings, and the results of their research have been featured in leading publications. They have also collaborated on such groundbreaking **Harvard Business Review** articles as "The Chief Strategy Officer" and "Selling to the Moneyed Masses."

Paul F. Nunes is the Executive Director of Research at the Accenture Institute for High Performance. He is coauthor of the award-winning book **Mass Affluence: 7 New Rules of Marketing to Today's Consumers** (Harvard Business Press, 2004). His writings have appeared in numerous publications, including **Harvard Business Review**, **MIT Sloan Management Review**, **Conference Board Review**, **Strategy and Leadership**, **Optimize**, **ComputerWorld**, **Wired**, and others. His research has also been featured in many news outlets, including the **New York Times**, **Wall Street Journal**, **USAToday**, **BusinessWeek.com**, **Forbes.com**, **Los Angeles Times**, and **Chicago Tribune**. He was recently awarded a U.S. patent for his method of improving companies' innovation processes. He lives near Boston.

Tim Breene is CEO of Accenture Interactive, Accenture's pioneering initiative to help companies navigate the transformation of marketing in the digital age. From 1999 through 2009, he served as a member of Accenture's Executive Leadership Team in a variety of roles, including group chief executive of Management Consulting and chief strategy and corporate development officer. In a business career spanning almost forty years, Mr. Breene also held senior leadership positions before joining Accenture in the retail, consumer goods, and advertising industries. His experience includes both senior line management roles and direct involvement in startups and acquisitions. He lives in a suburb of Boston.

About Accenture Institute for High Performance

The Accenture Institute for High Performance creates strategic insights into key management issues and global economic trends through original research and analysis. Its management researchers combine world-class reputations with Accenture's extensive consulting, technology and outsourcing experience to conduct innovative research and analysis into how organizations become and remain high-performance businesses.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with approximately 211,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$21.6 billion for the fiscal year ended Aug. 31, 2010. Its home page is www.accenture.com.

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