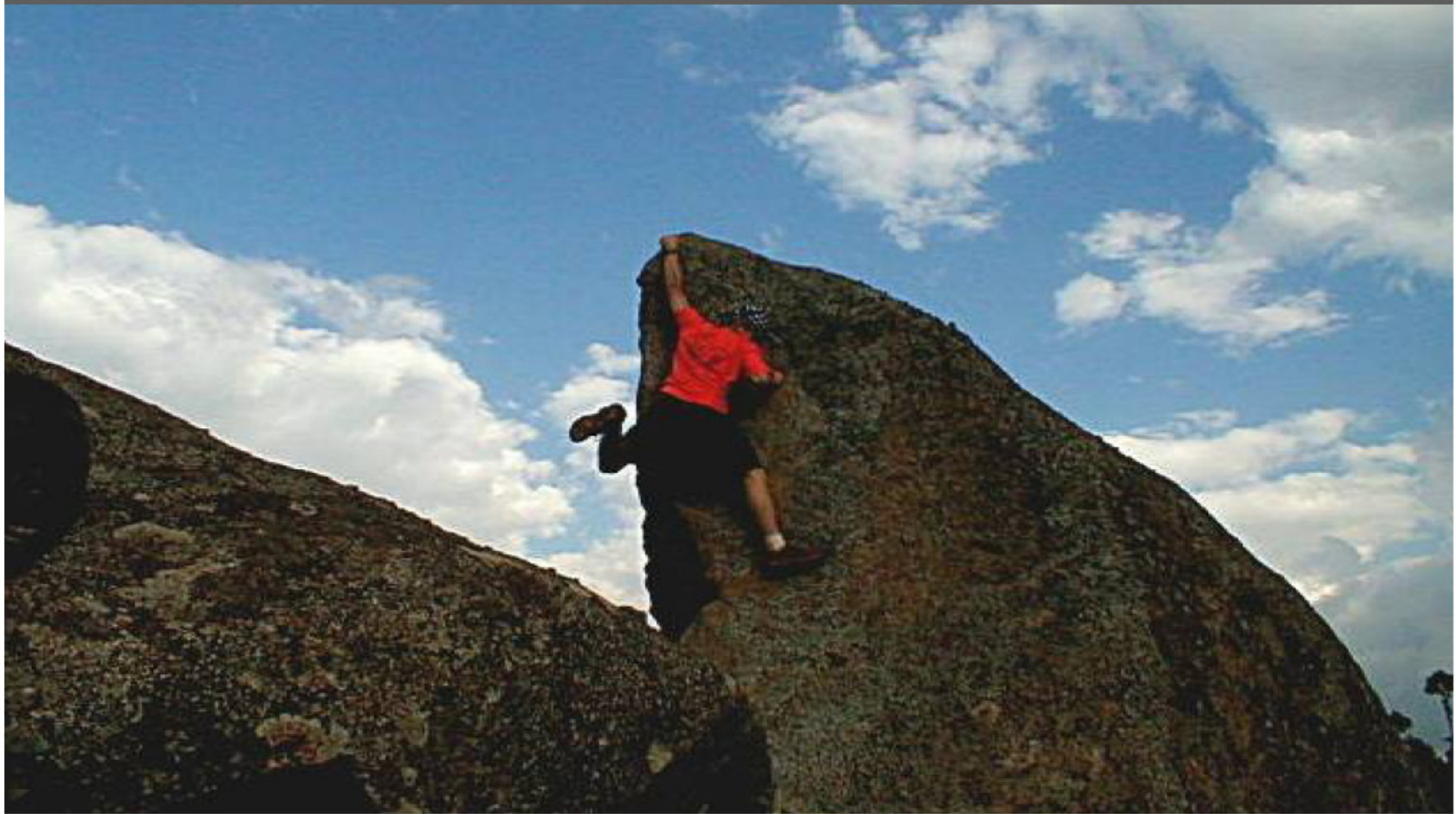
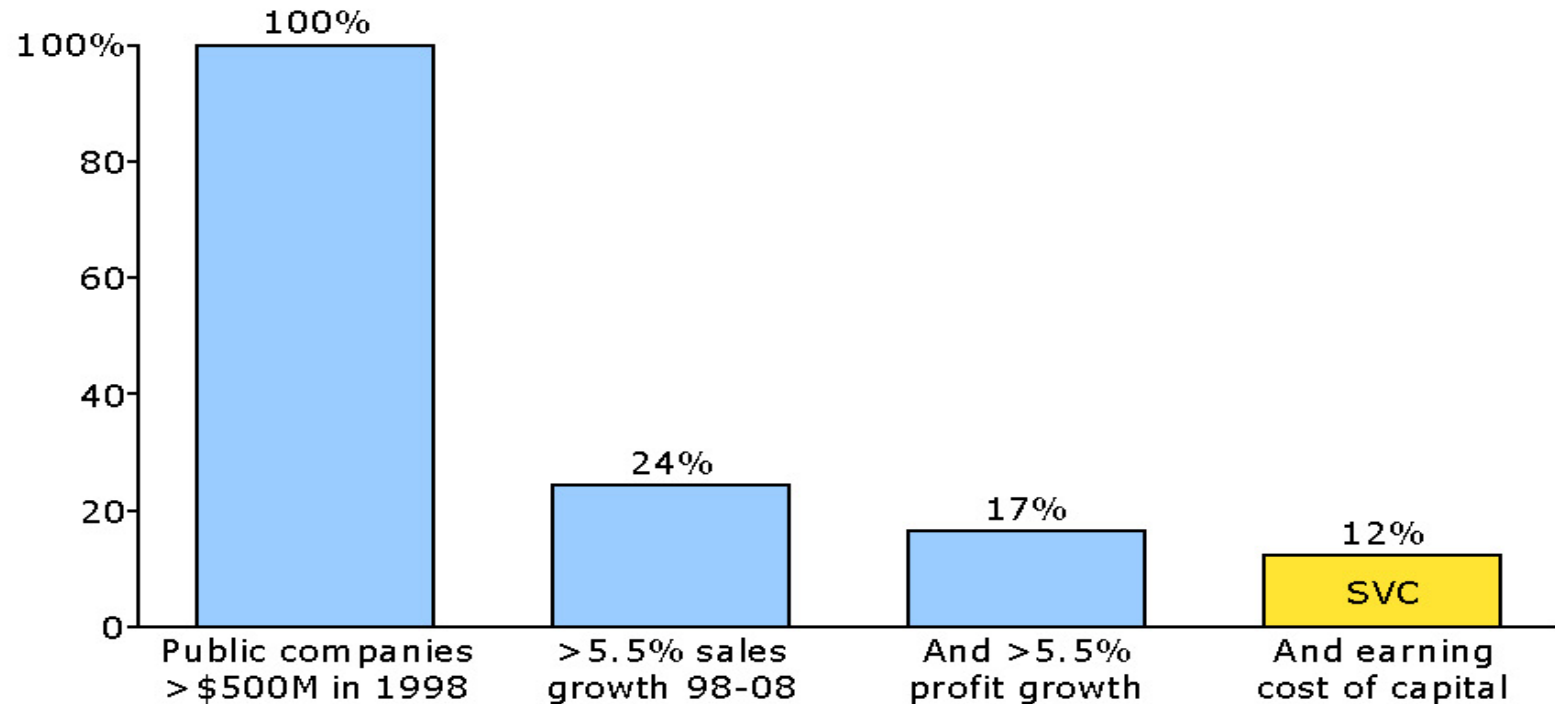


Sustained profit growth is hard to hold on to



Only 1 in 10 companies is a Sustained Value Creator (SVC)

Growth performance 1998-2008
Percentage of companies



Note: Earning cost of capital defined as above average total shareholder return

Note: 5.5% required growth rate is CAGR in *real terms* (i.e. after correction for inflation)

Note: Analysis of 2,000+ companies in 12 developed and emerging economies

Source: Worldscope Database; Bain Analysis

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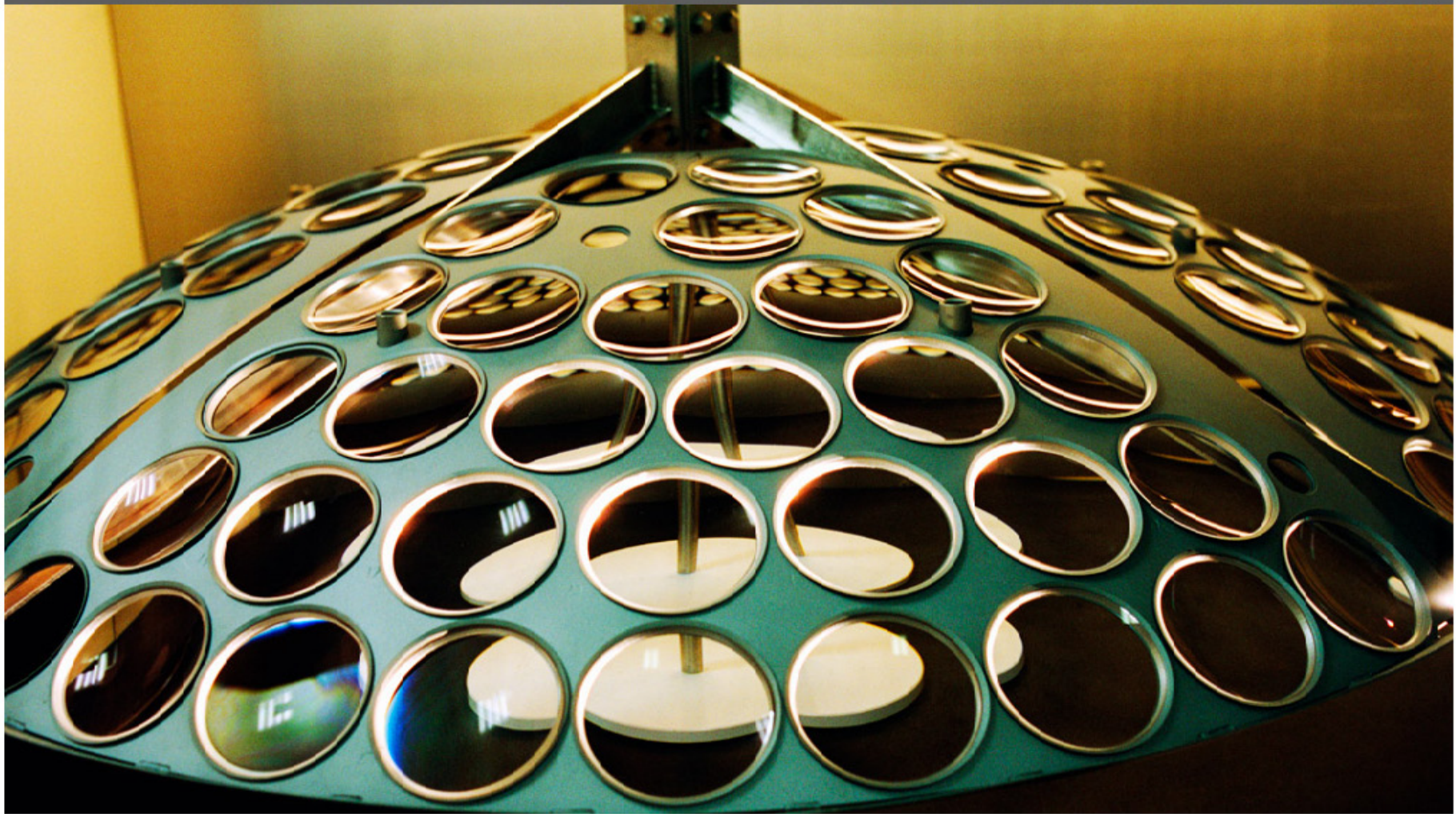
Four pillars of sustained (BU) growth strategy

- A strong, well-defined core with leadership economics in the “core of the core”
- Pursuit of the right adjacencies (avoiding wrong ones)
- Become the best at following the customer
- Use of repeatable formulas

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Pillar 1: Well defined core with leadership



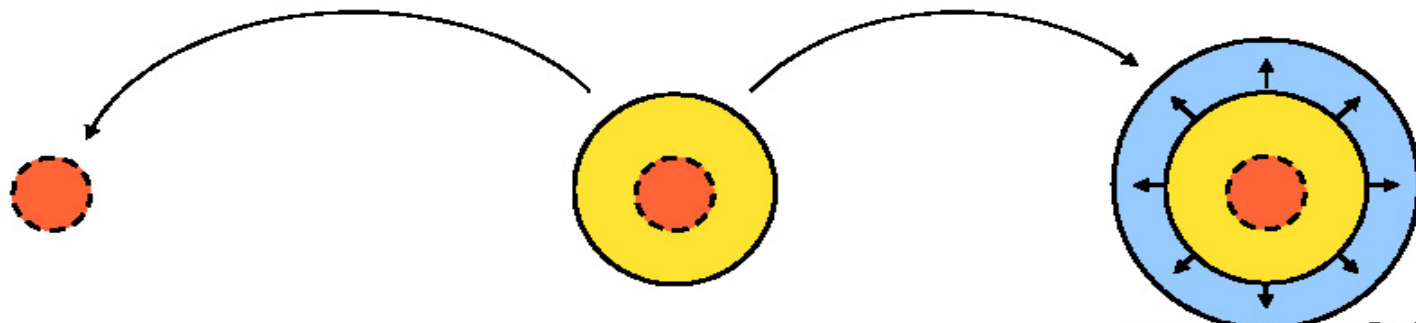
Defining the core: Beliefs

- Defining the core is the cornerstone of strategy
- “The core” is what makes you unique; the REAL root cause of competitive advantage
- More strategic errors come from inadequate self awareness – the core – than any other cause
- Many management teams do not agree on the core and some have never even talked about it

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Profit from the Core



-Core of the core

- Subset of the core
- Often traces back to the roots of the business
- Highest levels of success
 - Leadership economics
 - Customer loyalty
 - Competitive outperformance

-Core

- Core assets/capabilities (few: 4-7 items often)
 - Differentiated
 - Strategically important
 - Measurable
- Core positions
Intersection of strongest...
 - Customers
 - Channels
 - Products
 - Geographies
 - Value chain activities

-Business full potential

- Core full potential (Current markets/products)
- Adjacency expansion (New markets/products)
- Redefinition potential (New core models)

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The Paradox of Leadership

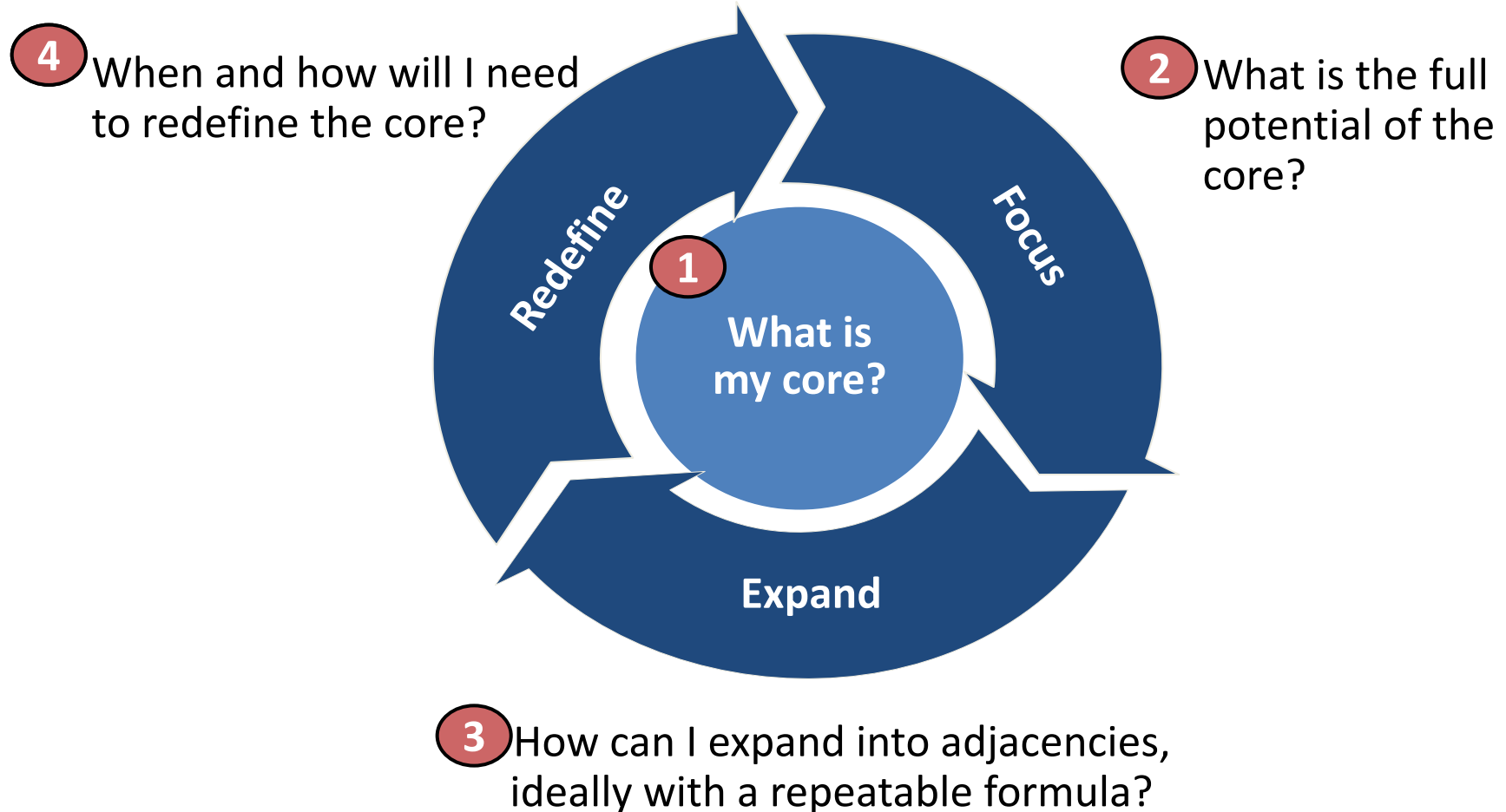


The stronger the position of your business the more likely it is operating below full potential

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Successful growth companies relentlessly pursue answers to these 4 questions



Source: Zook, C. and J. Allen. *Profit from the Core: Growth Strategy in an Era of Turbulence*. Bain and Company.

Question 1: What is “the core” of the business?

What are the business' core capabilities?

- What is our greatest competency?
- What are our fundamental skills and technologies?
- What differentiates us in our customers' minds?
- Do we have any unique assets?

Who are the business' core customers?

- Who do we define as our core customer segments?
- Who are our most profitable customer segments?
- What other potential customer groups do we touch?
- What do our core customers most value about us?

What are the business' cost advantages?

- What do we do better and more cost effectively than other players?
- What is the major source of our cost advantage?

What are the business' core products/services?

- What products or services are the most profitable?
- What products or services generate the most sales?
- What products or services have allowed the business to grow?
- What do our competitors offer that we don't?

Question 2: What are sources of full potential to “deepen” the core?

Strategic

- Do we have the **right scale**?
- Are we **participating** in the right **channels**, with the right **products and services**, targeting the **right customers**
- Do we have the right degree of **complexity**?

Operational

- Are we maximizing our **revenues**?
 - Customer segmentation
 - Product design
 - Delivery excellence
 - Pricing practices
- Are we minimizing our **costs**?
- Are we **measuring** ourselves effectively?

Organizational

- Do we have the right **capabilities**?
- Is it clear who makes **decisions**?
- Do we have a **high performance culture**?

Financial

- Can we increase **working capital and cash flow**?
- Is the **balance sheet optimized**?
- How efficient is our **use of capital**?

Ten signs that there are value opportunities in the core

Customers



Cost



Competition



Clarity on strategy & past successes



1. Core customer “share of wallet” has declined

4. Unit cost experience curves flattening

7. Competitor reinvestment rates or market share up

9. Core not well defined, no consensus

2. Customer segments not revised for years, not a driver of product priorities

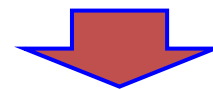
5. Business product and process complexity increased

8. Profit pool surrounding the core not well-mapped

10. Disappointment with “adjacency” expansions

3. Below average share in highest growth channels, geographies, customer segments

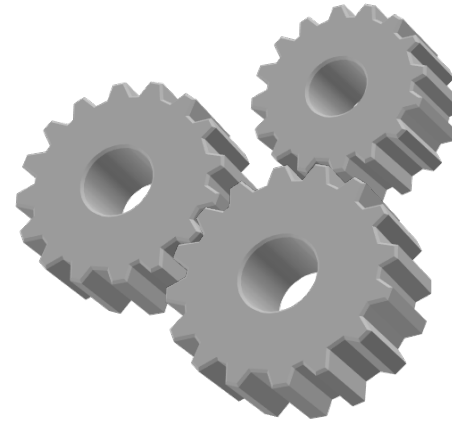
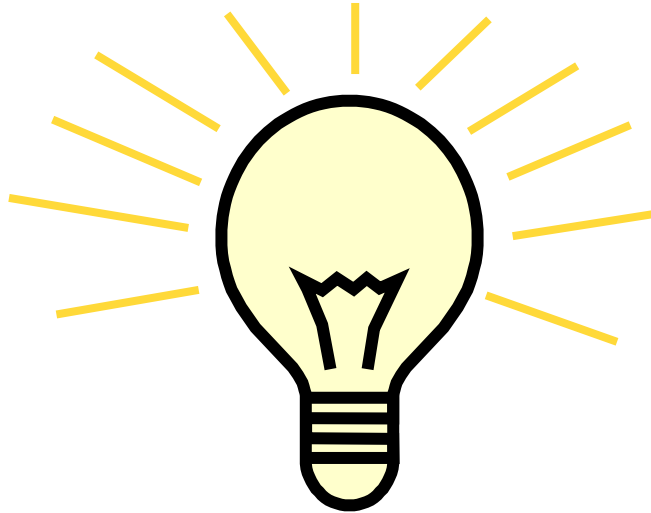
6. Large unexplained regional performance variations



How many of these apply to our business?

Question 3: What adjacencies should we extend into?

Identifying potential adjacencies is a mix of creative and analytic work.



- **Clean sheet brainstorming**

- “White space”
- New market opportunities
- New businesses
- New channels

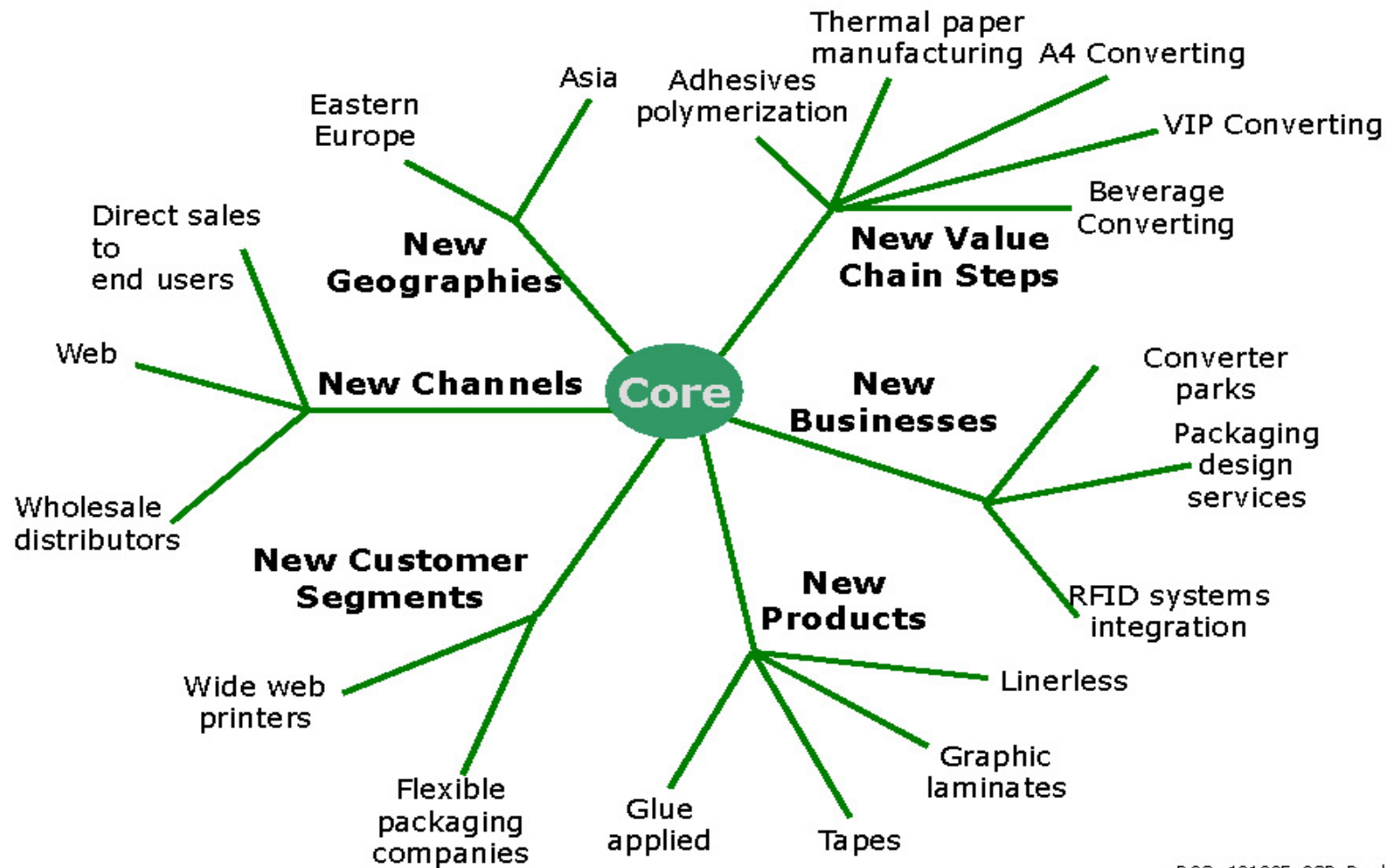
- **Assess customer needs accurately**

- Evaluate current competitor offerings
- Assess our true core capabilities objectively
- Develop financial model

Pillar 2: Managing odds of adjacency moves



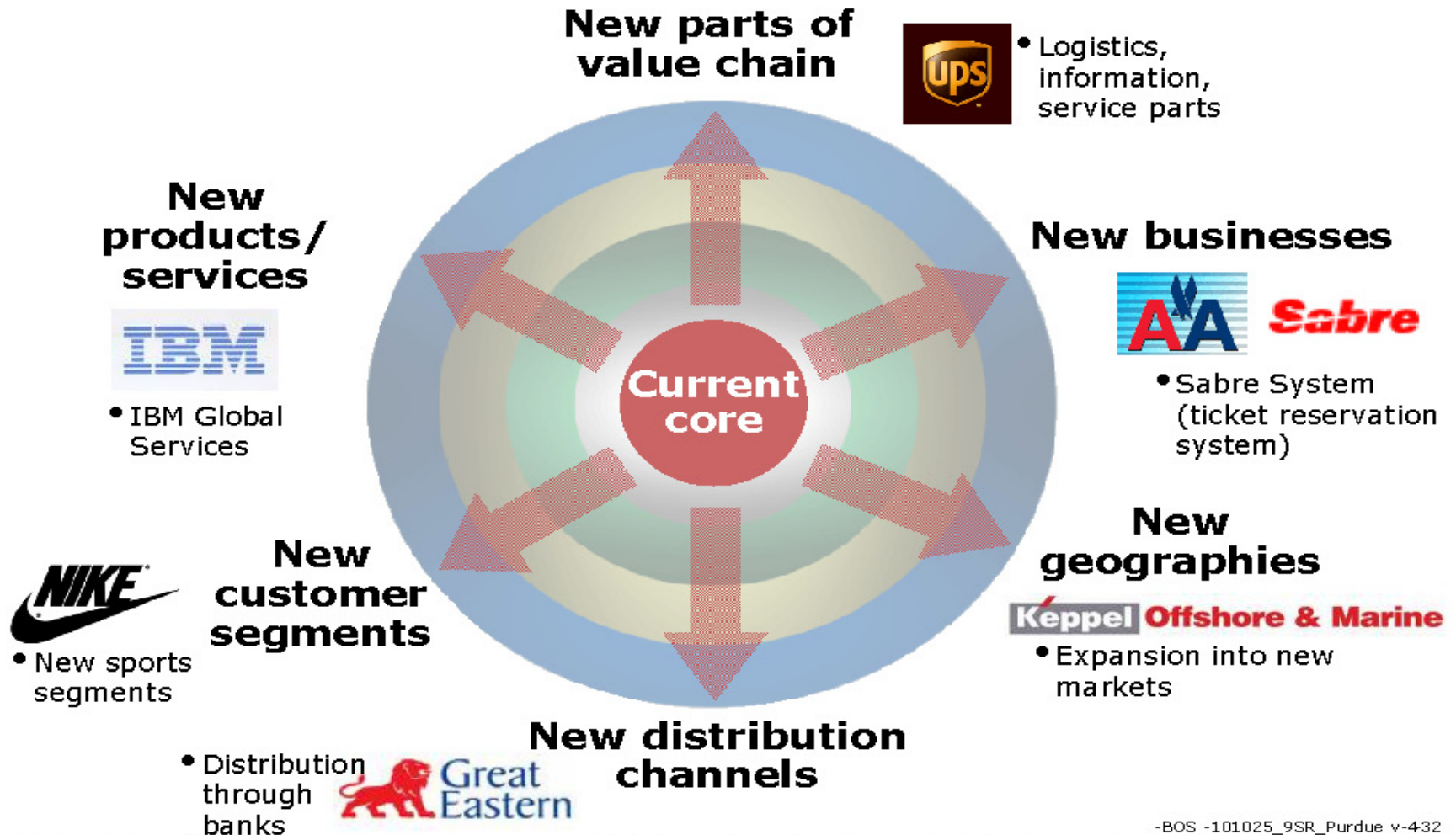
Businesses face many growth choices



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Six forms of adjacency growth

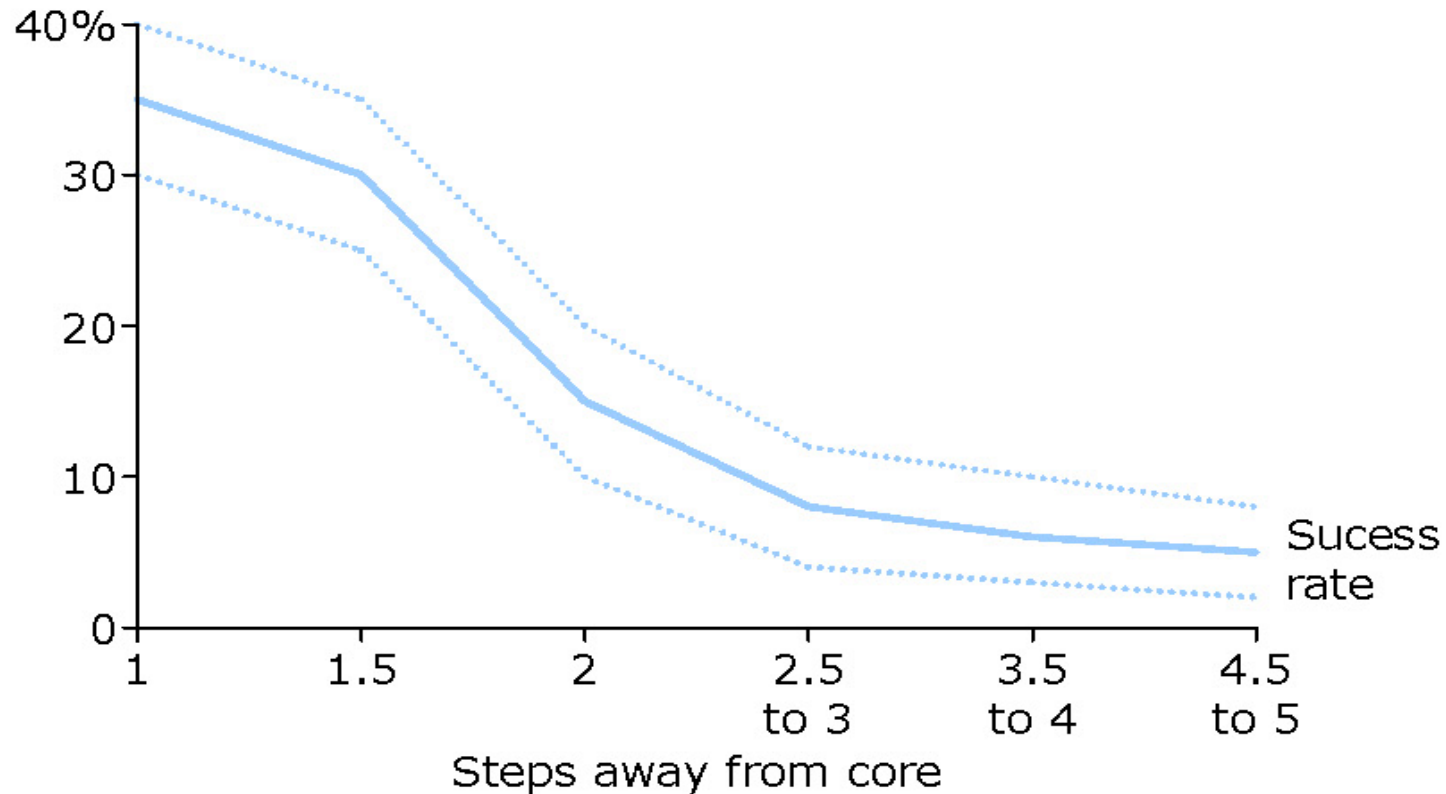


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Success declines exponentially from the core

Odds of success



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Economic Distance From the Core Is Measured on 5 Dimensions

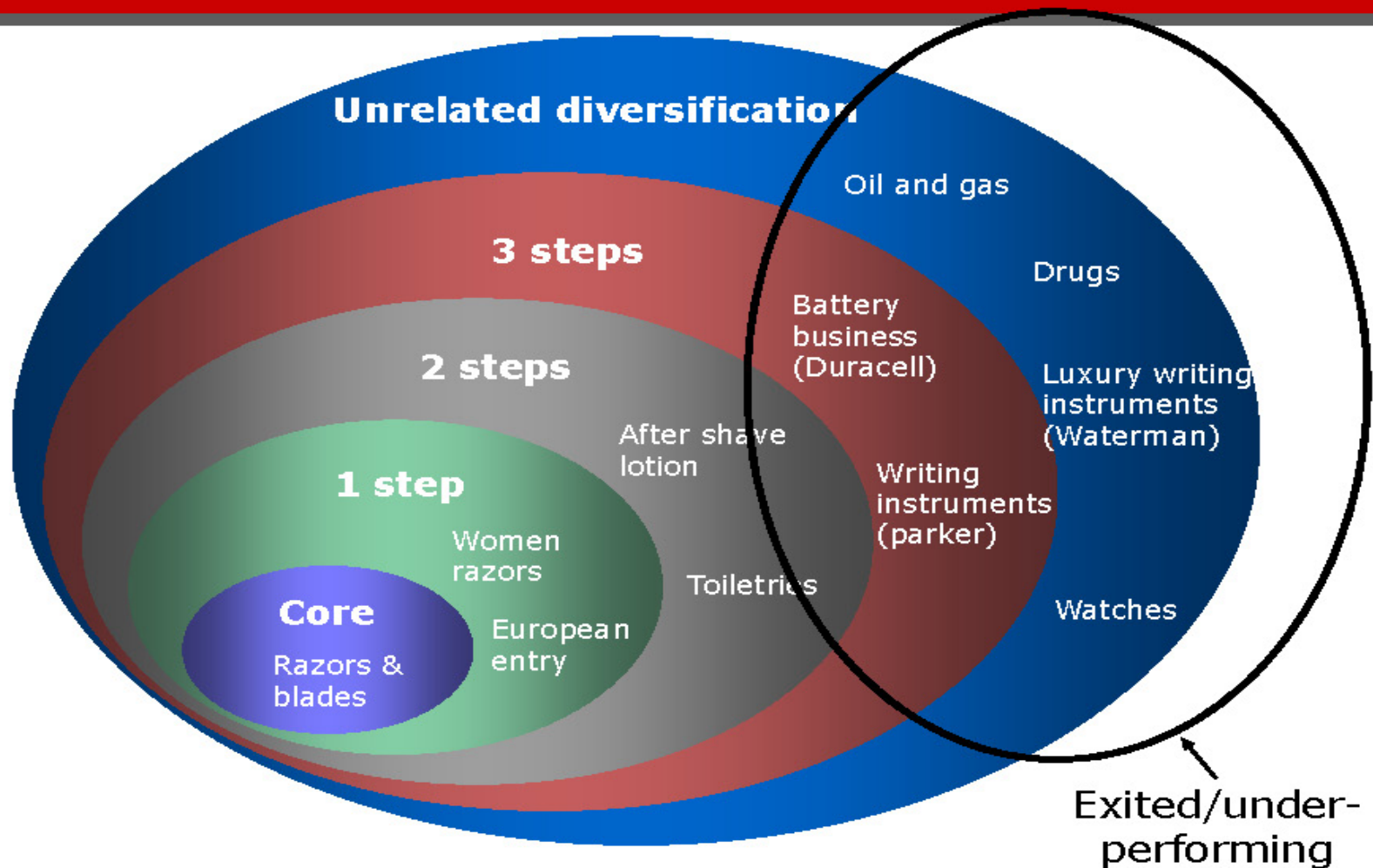
	Shared Customers	Shared Costs	Shared Channels	Shared Competitors	Shared Capabilities/ Technology
Core					
1 Step Adjacencies					
2 Step Adjacencies					
3 Step Adjacencies					
Diversification					
Primary dimensions					

- Full Share
- Partial Share
- No Share

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Example: Gillette's adjacency moves reinforced and expanded the core, but some may have gone too far



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The Paradox of Adjacency Expansion

The best adjacency strategies
leverage and reinforce the core
business

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Pillar 3: Become the best at following the customer



Nokia used customer insights to localize its business model in India

Customer Insights

- **Mobile phone more than a communication device**
- **Limited discretionary spend**
- **Limited hi-tech device experience**
- **“Rich” buying experience**
- **High durability & resale value**
- **Greater level of after sales service**

Localized products to target mainstream

- Launched **low-priced multi functional multi-lingual handsets** (Nokia 1100, Nokia 2280)
- Developed **sturdy and durable phones**

Distribution partnership and innovative rural marketing

- **Partnership to build local distribution network**
 - 2x reach of closest competitors (10k dealers, 90k outlets, 5000+ towns)
- **Nokia Retail trucks for semi-urban/rural customers** (access + rich buying experience)

Local R&D & production

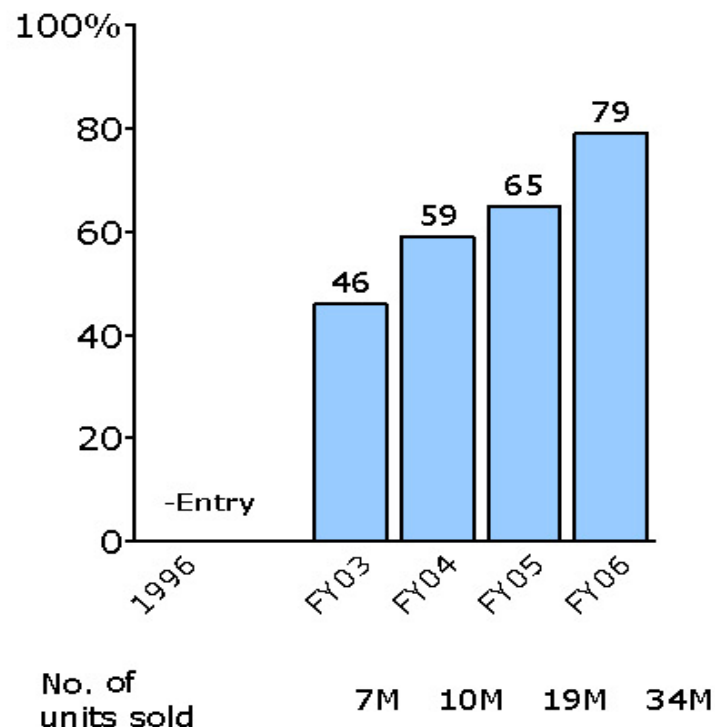
- R&D center in Bangalore 2001
- **Low cost production** in Chennai

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...and successfully cornered 80% market share

Nokia share of Indian GSM handset market



No. 1 brand in consumer durables sector

- **4th Most Trusted Brand** (Brand Equity, 2007)
- **'Brand of the Year'** (CII, 2005)
- **Most Respected Company in the Indian Consumer Durables Sector** (Business World, 2004 & 2006)

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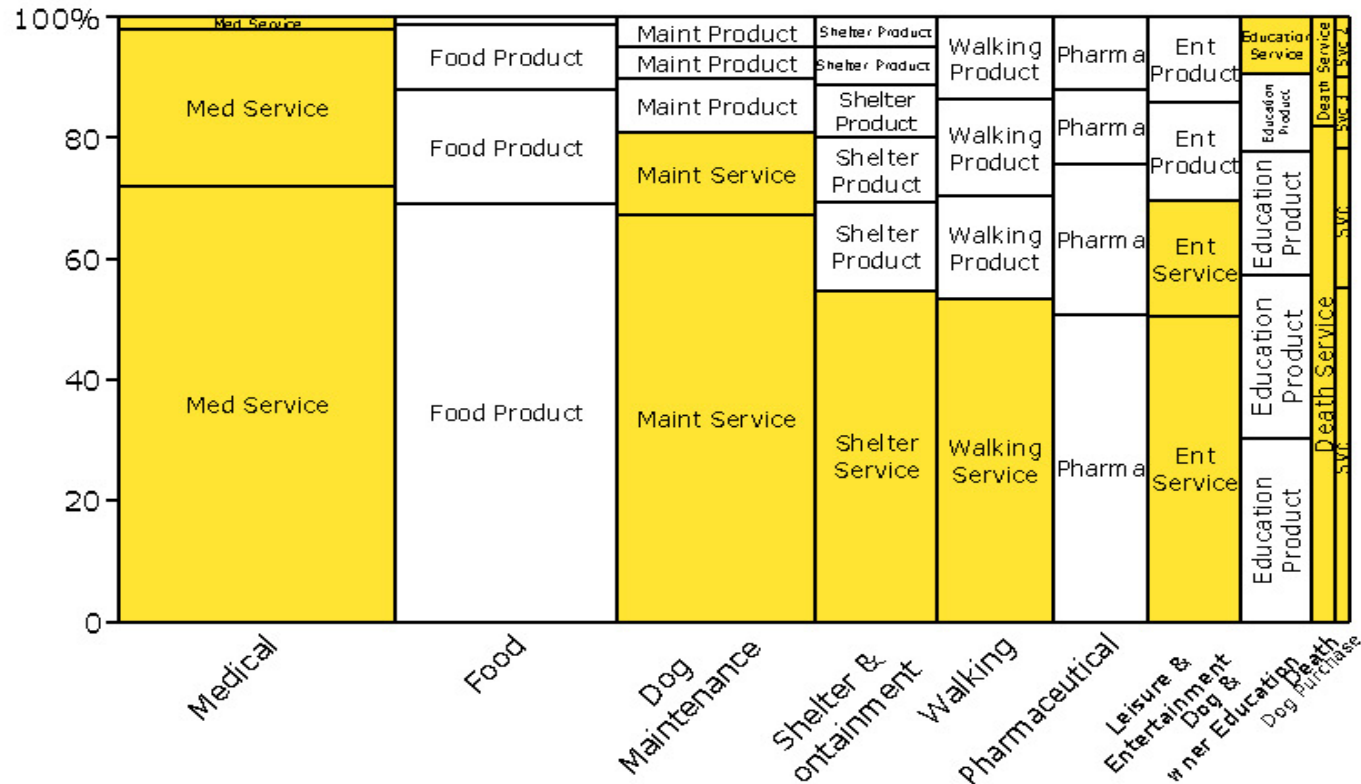
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Dog food in the 1990s: 'warehouse' look and feel



Key Insight: pet services are a substantial part of lifetime expenditures

Percent of total expenditures



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Creating new services: Pet Hotel



Comfort



Fun



Cuddly Care

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PetsMart was hugely successful with its new value proposition

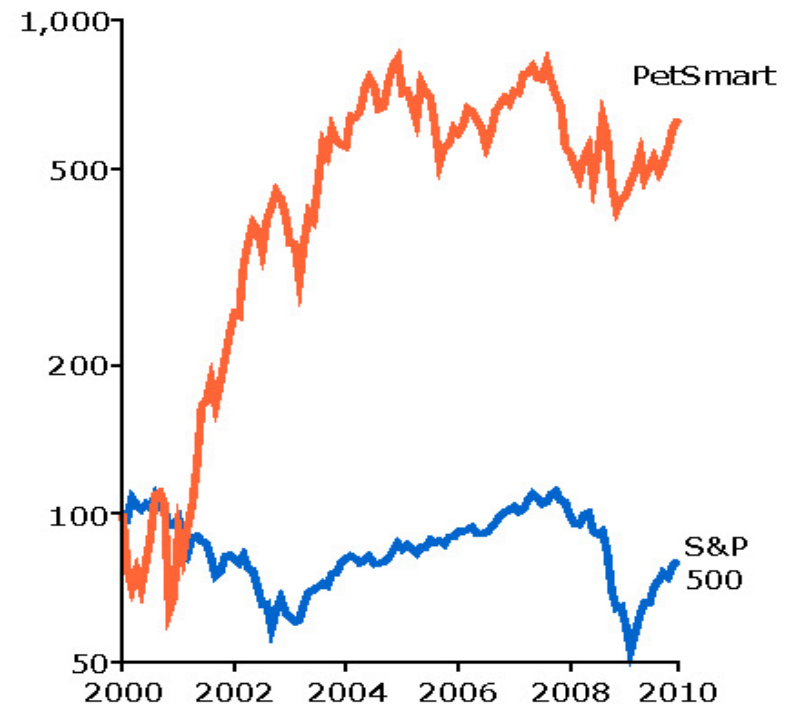


- **Revenues** grew **9% CAGR** over 1998-2008
- **Profits** grew **19% CAGR** over the same period

*"It's a new way of doing business. It's **a shift in thinking** that puts our focus keenly on the customer and has the power **to drive growth for years** to come."*

Chairman

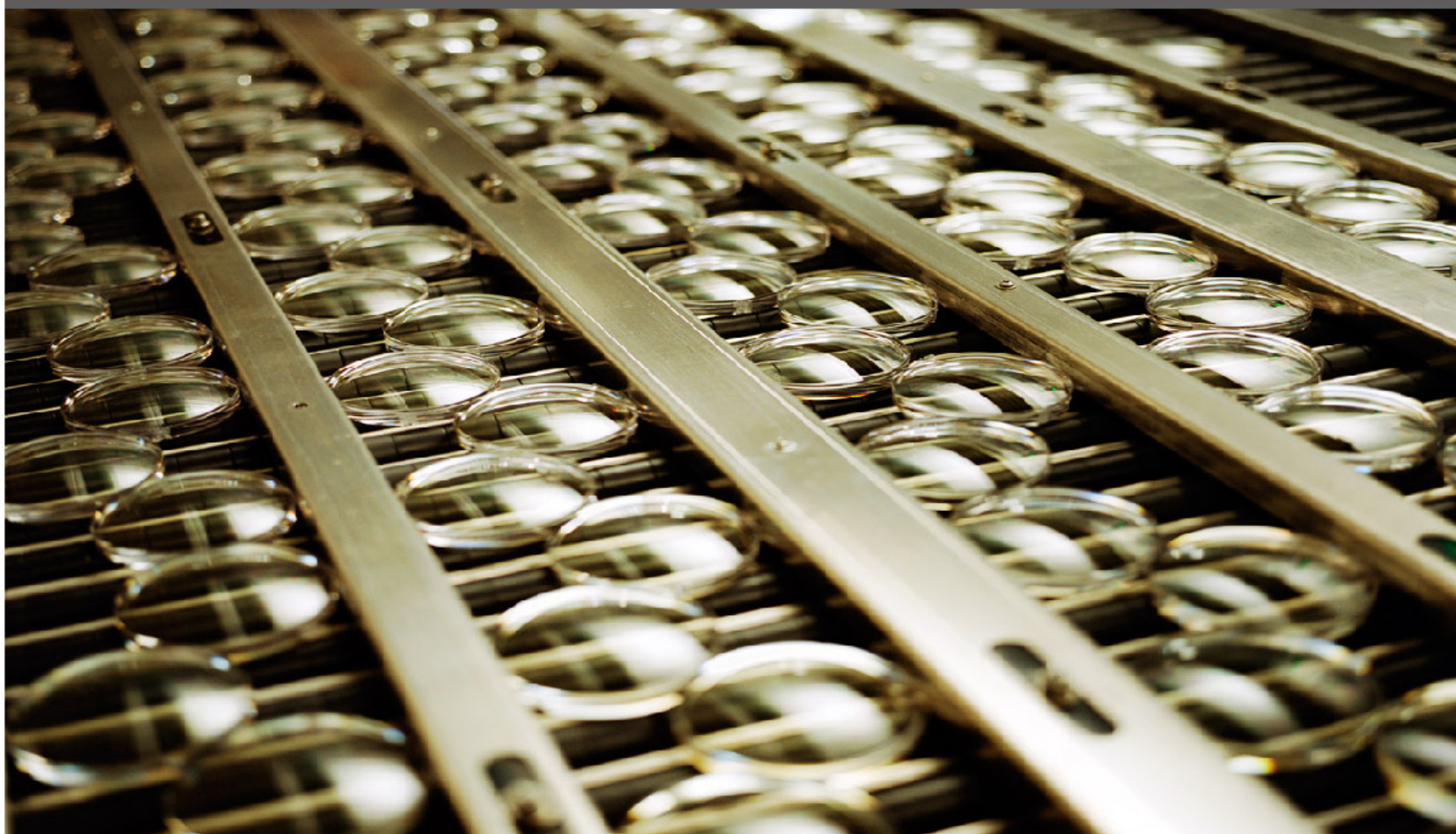
Indexed share price
(Jan 2000 = 100, log scale)



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Pillar 4: The Power of Repeatable Models



Nike vs. Reebok

*"You've got two winners," "Nike and Reebok have both been very strong, **neck and neck.**"*

Wall Street Journal, Dec. 19, 1989

*"In the race for athletic footwear supremacy, Nike and Reebok are headed for **a photo finish.**"*

USA Today, Oct. 27, 1988

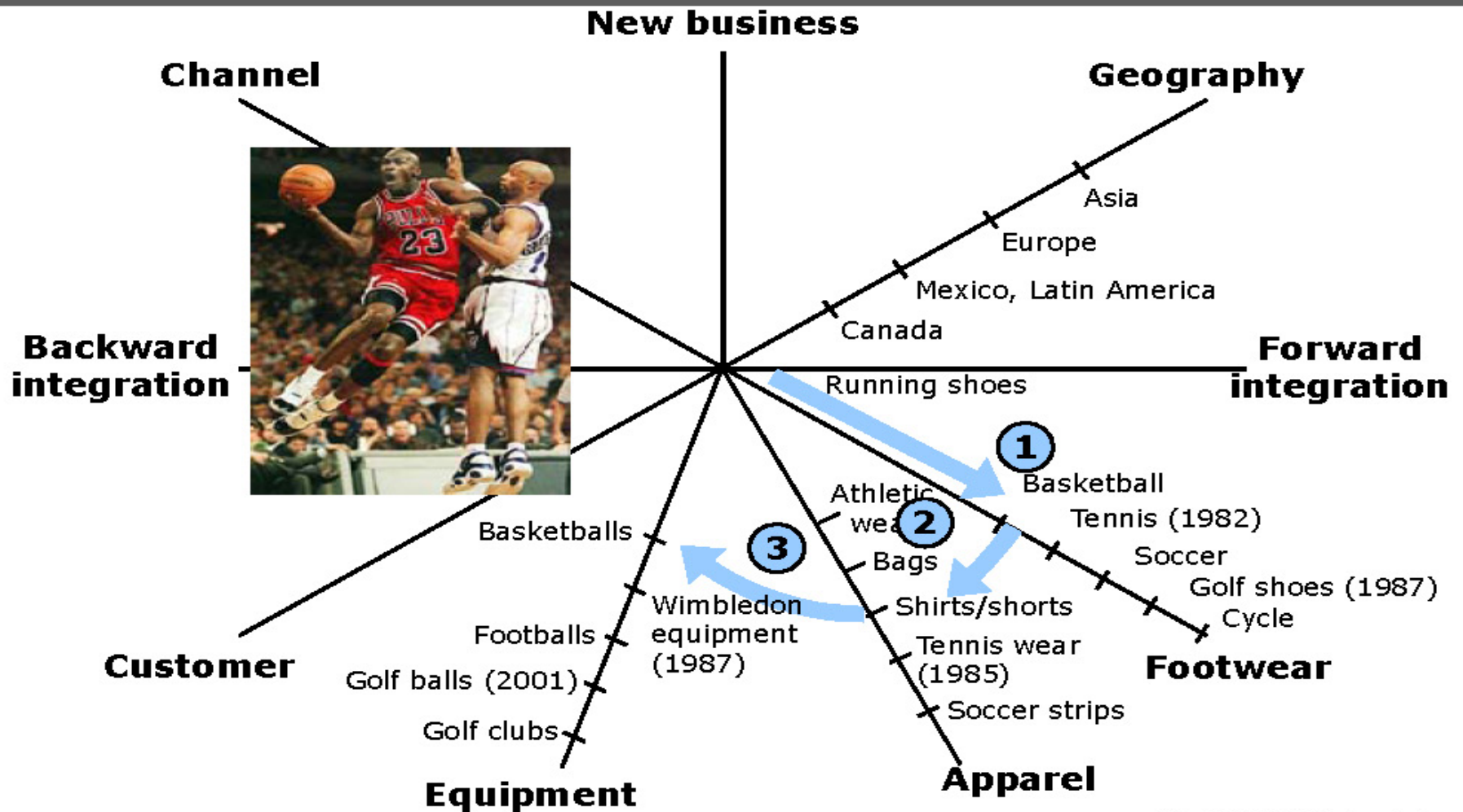
*"They are the titans of the industry, **the Coke and Pepsi of athletic footwear!**"*

The Boston Globe, Oct. 3, 1988

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Nike has relentlessly repeated its growth formula



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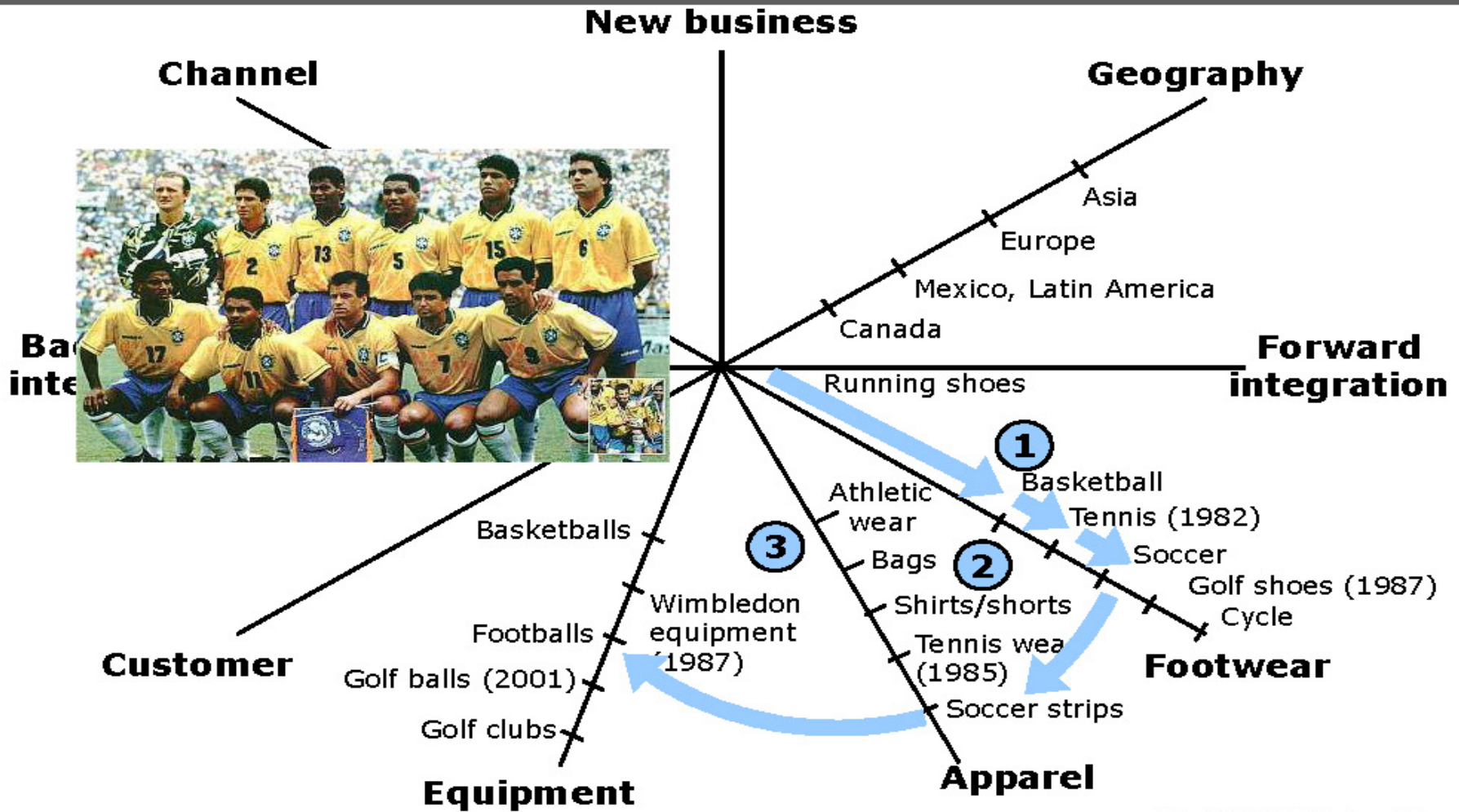
Nike repeatable formula for growth



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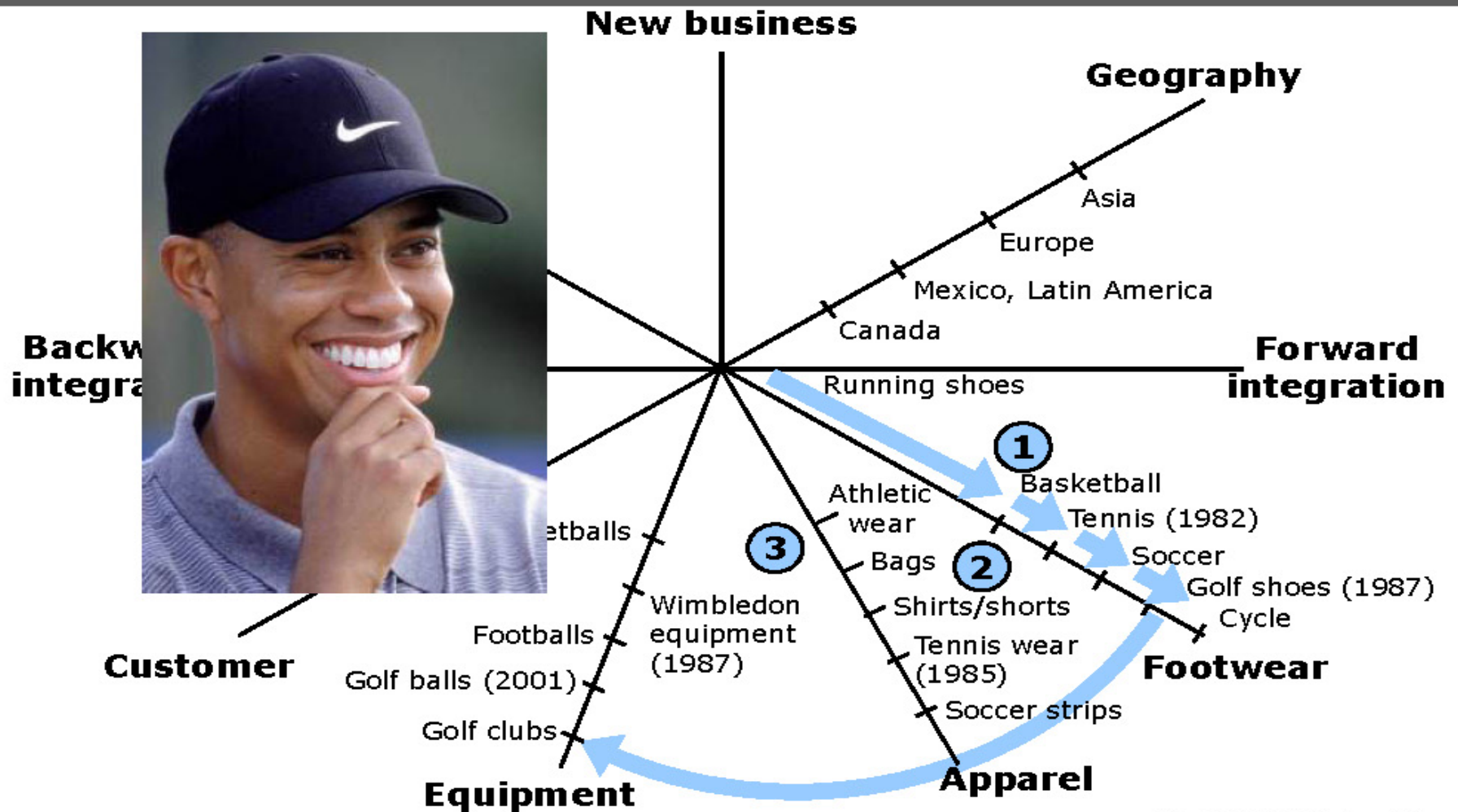
Nike repeatable formula for growth



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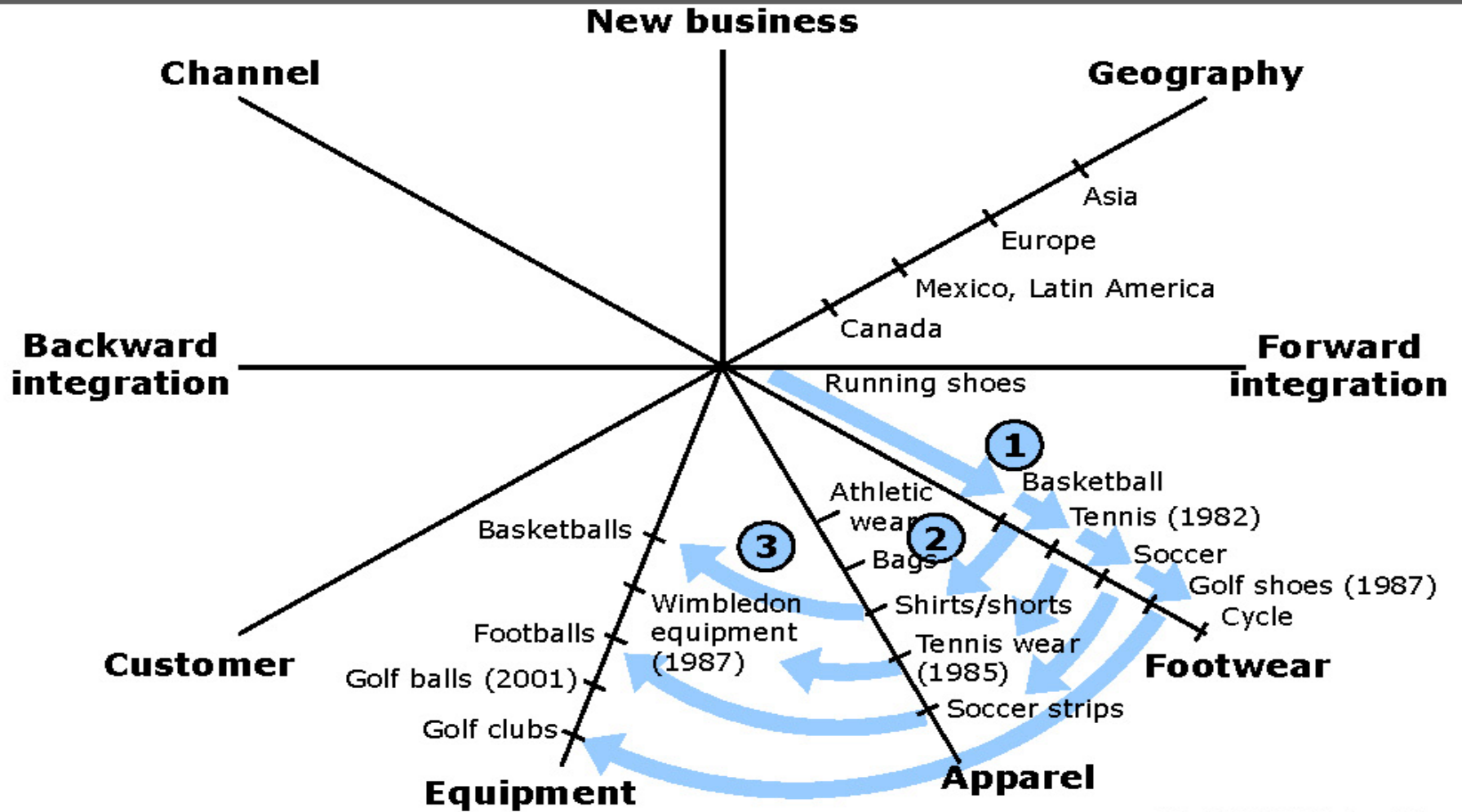
Nike repeatable formula for growth



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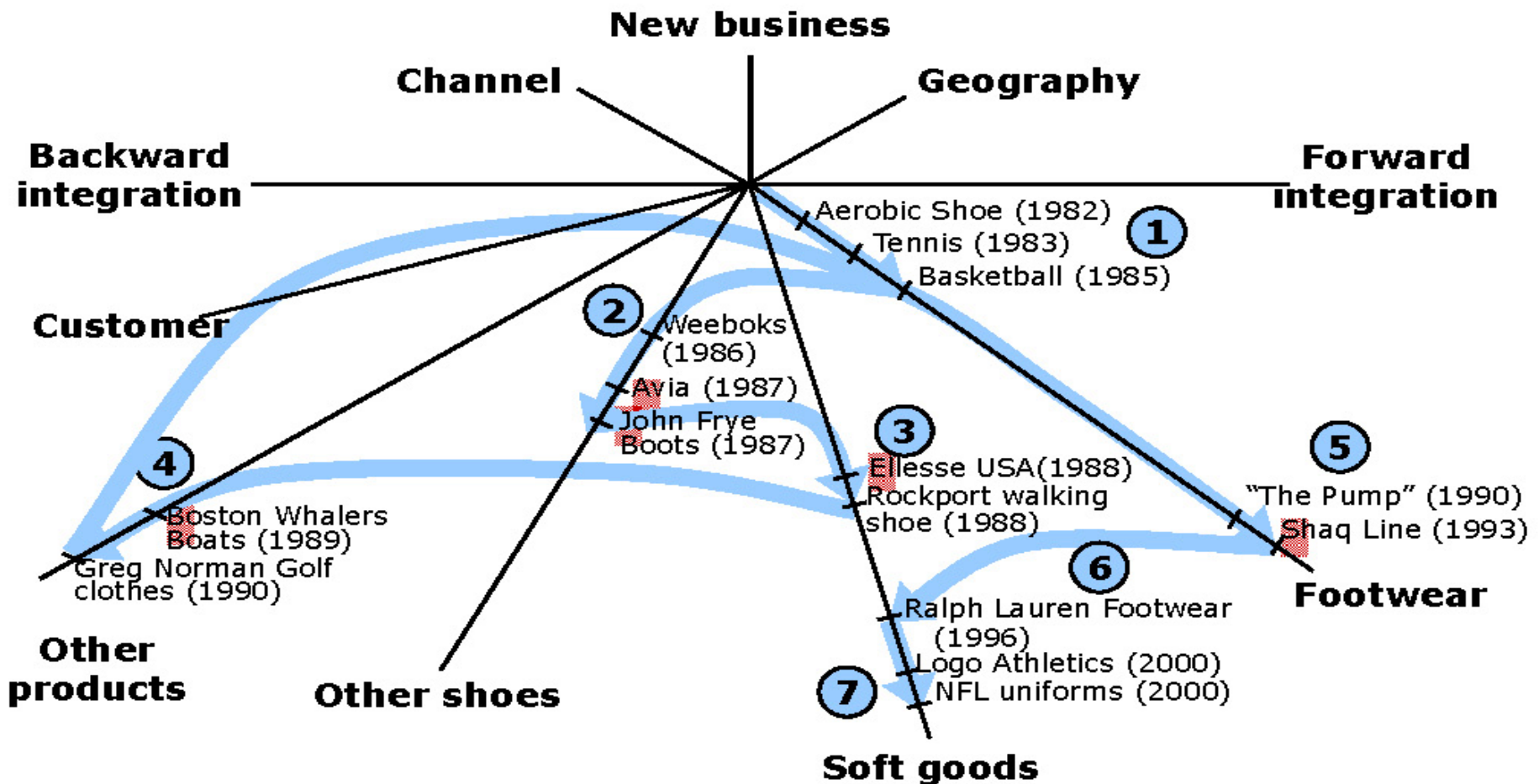
Nike repeatable formula for growth



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The dreaded pattern of no pattern



 Sold off

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Power of “repeatable formula”

- Strategic clarity
- Superior learning
- Speed -- of recognition, decision, action
- Lower management complexity
- More focused innovation

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Tests adjacencies for relatedness & attractiveness

Relatedness

Shared customers

Questions:

- What percentage of our current customers would want this product/service?
- How easy will it be to attract other customers?
 - How different would they be compared to our current customers?

Shared costs

- Is there a high degree of overlap of direct costs between this adjacency and the products and services we currently offer?
- Is there a need to increase costs to perform in the adjacent market?

Shared capabilities

- Do we have unique skills or talents that we would leverage as we pursue the adjacency?
- Would this capability give us a sustainable competitive advantage?
 - Can we win the game due to this capability?

Attractiveness

Market size

- Questions:
- What is size of the relevant market segment pertaining to the adjacency?

Market growth

- How quickly is this adjacency market growing?

Profit potential

- What are the profit margins in the adjacency industry?
- How competitive is this industry? How many players?
- Are these margin sustainable?

Economic Distance From the Core Is Measured on 5 Dimensions

	Shared Customers	Shared Costs	Shared Channels	Shared Competitors	Shared Capabilities/ Technology
Core					
1 Step Adjacencies					
2 Step Adjacencies					
3 Step Adjacencies					
Diversification					
Primary dimensions					

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Worksheet: Prioritize your adjacencies

Adjacency	Relatedness to core			Relatedness total (High = better)	Attractiveness of adjacency			Attractiveness total (High = better)
	Shared customers (4 = high)	Shared costs (4 = high)	Shared capabilities (4 = high)		Market size (4 = high)	Market growth (4 = high)	Profit potential (4 = high)	

List of prioritized “extend” opportunities

Relatedness

Top 5

