



Newsletter- March 2017



Life on the River

	Wellspring	Rapids	Flats	Swamp	Whirlpool
Success Formula	Experimental	Established	Locked in (Optimized)	Outdated	Obsolete
Sales Growth	Soaring	Soaring	Stagnant	Sinking	Crashing (Negative)
Profitability	Stagnant (Underfunded)	Breaking the Surface	Above Water	At the Waterline	Underwater

- The Wellspring and Rapids together are the engine of company growth.
- The energy to keep these two phases going is derived from Trends.
- Sales growth rate declines first followed by Profitability ultimately to demise in Whirlpool.

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In the Wellspring of the product lifecycle river, organizations are creating innovations (see last month's newsletter on the Lifecycle River [here](#).) In the Rapids it's all about finding customers for those innovations.

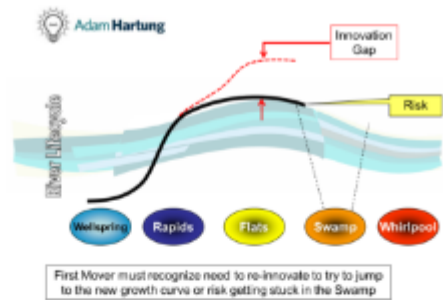
As volume grows organizations start focusing on optimizing operations, thereby "locking in" the Success Formula. Unfortunately, this decision – which seems obvious - almost always leads to decline!

Optimization causes an organizational shift away from focusing on the marketplace, toward focusing internally. More controls are implemented to insure standardization – and "process management" affects all parts of the company. The byword is "focus" as parts of the business are jettisoned, product lines dropped, assets sold and headcount lowered. These actions move the company from the Rapids of growth to the Flats of business model optimization – which produces short-term profit improvements, but cuts ties to market inputs necessary for long-term growth.

Think about GE. As CEO from 1981 to 2001 Neutron Jack expanded GE into multiple businesses from media (NBC/Universal) to financial services (GE Capital.) In the growth Rapids GE's value (adjusted for splits, etc.) rose from \$1.30/share to \$46.75 – 35x or 3,500%. As CEO Jeff Immelt has "refocused" GE on its "core," selling multiple businesses as he moved to grow profitability. Since 2001 GE's value has fallen to \$29.05/share – a decline of 38% (meanwhile the DJIA has almost doubled in value.)

In the Flats investments for low risk projects improving the existing business are approved rather than grander investments in new innovations. Although profits improve, the further the company (or product line) travels from the Rapids of customer focus into the optimization Flats, the greater the chance it will miss the next cycle of innovation and slip into the Swamp of decline.

As other companies continue innovating, market growth continues (often with substitutes) but the former leader does not participate. "First Mover" advantage disappears because innovators leapfrog the creator. This gap between market growth and company growth is called the Innovation Gap. The longer the company focuses on optimization, and profit maximization, the larger the Innovation Gap becomes.



To avoid becoming stuck in the Flats it is crucial to maintain a growth focus and avoid a profit focus. Like Amazon.com, you must track trends and competition and never hesitate to keep innovating. Investments in Wellspring projects must be maintained, and the lure of constantly investing to improve the old must be held at bay.

Next month we'll discuss how you can track your resources in order to keep investing in the Rapids

"You've got to keep reinventing. You'll have new competitors. You'll have new customers all around you."

Ginni Rometty
Chairman, President and CEO of IBM

We are your experts at identifying trends, creating scenarios and building monitoring systems. We've done this kind of work for over 20 years, and bring a wealth of experience, and tools to the task. You don't have to go into scenario planning alone, we can be your coach and mentor to speed learning and success.

Give us a call today, or send an email, so we can talk about how you can be a leader, rather than follower, in 2017 and beyond. Or checkout my [website](#) to read up on what we do so we can create the right level of engagement for you.

Forbes Blog- Hartung

[GE Needs a New Strategy and New CEO](#)

[Tim Cook's "Balmer-ization" of Apple](#)

[Why You Want to Invest in Trends, not Asset Managers](#)

[Take time to read. "Time Talent Energy" by Mankins and Garton](#)

For more on how to include trends in your planning, I've created a "how-to" that you can adapt for your team. See my [Status Quo Risk Management Playbook](#).

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