Your company will fail. V3

What is the purpose of this article?
This article enables a discussion about your company's long-term survival and competitively differentiated returns to investors.

The audience for this article includes: boards of directors, CEOs, the C-Suite, individual investors, and institutional investors,

This article does not provide tax, legal or financial advice. You must do your own research and fact-based analysis using current and relevant information.

What are the critical learnings in this article?
Most companies will: fail, disappear, or provide poor returns to their investors.

Most companies will not survive.
<u>Few major companies survive:</u>
1) 16% of major companies in 1962 survived until 1998.[1]
2) Of the 500 companies in the S&P 500 in 1957, only 74 remained on the list in 1997. Only 12 of those 74 outperformed the 1957-1997 S&P index. An investor who put money into the survivors would have done worse than someone who invested only in the index.[1]
3) 31% of Fortune 500 companies went bankrupt or were acquired from 1995 to 2004.[2]
4) 52% of Fortune 500 companies went bankrupt, were acquired, or disappeared between 2000-2015.[3]
5) 50% of the S&P 500 will not be on the list in 10 years' time.[4]

<u>Most public companies will not survive</u>.
1) A Fortune 500 company will survive an average of 16 years.[5]
2) The typical half-life of a North American public company is 10 years.[5]
3) Global public companies with $250 million+ market cap have a typical half-life of 10 years.[5]
4) 28,853 companies traded on US public markets from 1950 to 2009. Half life was only 10.5 years.[6]

Global CEOs recognize that there's a good chance their companies will not survive.
1) In 2023, 45% of global CEO thought that their company would be financially viable for 10 years or less, if it kept running on its current path.[7]
2) In 2024, four in ten CEOs believed their company will no longer be viable in ten years if it continues on its current path. The majority of CEOs believed they will not be in their current role in five years time. [8]

Most companies will not recover from a crisis.
Companies do not recover from crisis.[9]
1) 20% of companies grow from insurgency to incumbency, but then two-thirds of them stall out and less than 1 in 7 stall-outs recover.
2) At any given moment, 5%-7% of companies are in free fall or about to tip into it. Only10%-15% of companies pull out of free fall.
3) 94% of large company executives site internal dysfunctions as their key barrier to continued profitable growth.

During turbulent times, the number of sinking ship companies increases 89%[10]

Few major companies have sustained value creation.
<u>Few major companies have sustained value creation:</u>
1) McKinsey analyzed the world's 2,393 largest corporations from 2010 to 2014. The top 20% generated 158% of the total economic profit (i.e. profit after cost of capital) created by those corporations. This was an average economic profit of $1,426 million per year. The middle 60% generated little economic profit, an average of $47 million per year. The bottom 20% all generated negative economic profit, with an average loss of $670 million per year.[11]
2) Less than 13% of global companies had sustained value creation in the 1990s.[12]
3) 12% of public companies had sustained value creation from 2002 to 2012.[13]
4) Mark Leonard, CEO of Constellation Software, in his final annual CEO letter said: "Qualified and competent Directors are very rare, and not surprisingly, the track record of most boards is awful. According to the 2017 Hendrik Bessembinder study of approximately 26,000 stocks in the CRSP database, only 4% of the stocks generated all of the stock market's return in excess of one-month T-Bills during the last 90 years. The other 96% of the stocks generated, in aggregate, the T-Bill rate over that period. This means that 4% of boards oversaw all the

long-term wealth creation by markets during that period. Even more disturbing, the boards for over 50% of public companies saw their businesses generate negative returns during their entire existence as public companies."[14]

5) John Rekenthaler study of the largest 5,000 US companies stock prices rom Jan 2011, to Dec 2020 showed that after 10 years, 42% ended in the black, 36% lost money, and 22% had disappeared. [15]
6) In 2023, 0.4% of large companies had SVC (Sustained Value Creation) for 10 years. 10% had done it for 8 years. Half the companies had 6% or less annual shareholder return over 10 years. [16]

Major changes almost always fail or create limited value.
1) Only 12% of major changes produce lasting results. [17]
2) 50% diluted the value of the company.[18]

Most large-scale tech programs fail
More than two-thirds of large-scale tech programs are not expected to be delivered on time, within budget, or within their defined scope. [19]

Most public companies underperform the indices.
1) The 1,000 biggest publicly traded US stock from January 2011, to Dec 2020, 80% underperformed the Morningstar U.S. Stock index.[20]
2) In 2023, 72% of the stocks in the S&P 500 index, underperformed the index.[21]

Most actively managed public market funds underperform the indices.
Over a 20-year period, over 93% of large cap US funds underperformed the S&P 500 index.[22]

The average hedge fund underperforms the public market indices.[23]
1) From 2011 to 2020, the average hedge fund underperformed the S&P 500 every year.
2) In 2007 Warren Buffet made a bet with Protegé Partners that an S&P 500 index fund would outperform a group of hedge funds. Protegé Partners selected 5 fund-of-funds, which were invested in a total of 200 funds. In the 2008-2017 time period, a $1 million investment with Protegé Partners selection would have earned $220,000. The S&P 500 index earned $854,000. In 9 of the 10 years, Protegé Partners selection under performed the S&P 500 index. Warren Buffet won the bet.

Many private equity funds underperform the public market indices.
In the 10-year period ending 2024, the top quartile of private equity funds significantly outperformed the S&P 500 index. The bottom quartile significantly underperformed the S&P 500 index. If you could have predicted which PE funds would end up in the top quartile, you would have beaten the S&P 500 index. If you could have predicted the top quartile stock in the S&P 500 index, you would have beaten the S&P 500 index. [24]

Many venture capital funds underperform the public market indices.
Half of VC funds underperform the public markets.[25]

What are your next steps?
1) Define the words/concepts/data you're using, in a glossary. I've seen major confusion when the same words mean different things to different people.
2) Your next steps will vary, depending upon the type of company you are. E.g. public, private, investment fund (e.g. Private Equity, VC fund, etc. The following suggestions should be reviewed an adapted to your situation.
3) Ask the question "Will your company be economically viable in 10 years if your company continues the current course? If yes, why? If not, why not". Ask: your major shareholders, your board of directors, your C-Suite.
4) Review the results of your scenario planning. You must have at least three scenarios: your company fails, your company is wilding successful, the future based on currently approved plans and
5) Based on the above analysis, what changes are needed to reduce the chance of your company failing. Step one is to consider the talent on the board of directors. Step two is to consider the talent in the C-Suite. Additional steps are specific to your situation.

Footnotes
[1] "Creative Destruction – why companies that are built to last, underperform the market", by Richard Foster & Sarah Kaplan
[2] "Unstoppable" by Chris Zook, 2007, page 7
[3] Accenture 2016
[4] "2018 Longevity Report" by Innosight Consulting
[5] "Corporate Longevity", Credit Suisse, February 7, 2017

[6] “Scale” by Geoffrey West, 2017, Penquin Press, New York, Page 402
[7] PWC’s 27th annual global CEO Survey
https://www.pwc.com/gx/en/ceo-survey/2024/download/27th-ceo-survey.pdf
[8] PWC’s 28th annual global CEO Survey
https://www.pwc.com/gx/en/issues/c-suite-insights.html
[9] “The founders mentality”, by Chris Zook and James Allen, 2016
[10] Bain website article “The “New Normal” Is a Myth. The Future Won’t Be Normal at All”
https://www.bain.com/insights/the-new-normal-is-a-myth-the-future-wont-be-normal-at-all/
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[12] “Profit from the Core” by Chris Zook. 1,800 companies in seven countries with sales in excess of $500 million analyzed. Criteria were: 5.5% after inflation sales growth; 5.5% real earnings growth; total shareholder returns exceed cost of capital.
[13] Christoph Loos, CEO Hilti Group, Swiss AmCham Luncheon, September 1, 2015. Analysis based on about 2,000 public companies in 2002 with revenues greater than $500 million. Sustainable value creation defined as: real revenue growth exceeding 5.5% per year, real profit growth exceeding 5.5% per year, and earning cost of capital.
[14] https://www.csisoftware.com/docs/default-source/investor-relations/presidents-letter/presidents-letter-april-2018-final.pdf
[15] “How many stocks beat the indices” John Rekenthaler, April 26, 2021 Morningstar
https://www.morningstar.com/markets/how-many-stocks-beat-indexes
[16] “Sustained value creation – the test of the best”, Bain Jan 21, 2025. Bain’s SVC definition: net profit exceeds cost of capital and real top line growth
https://www.bain.com/insights/sustained-value-creation-the-test-of-the-best-infographic/
[17] Transformations that work, Harvard Business Review May June 2024 Michael Mankins, Patrick Litre, Bain Partners
https://hbr.org/2024/05/transformations-that-work
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[19] November 13, 2024 Boston Consulting Grouphttps://www.bcg.com/publications/2024/most-large-scale-tech-programs-fail-how-to-succeed#:~:text=BCG's%20latest%20research%20shows%20that,year%20for%20a%20single%20program.
[20] How Many Stocks Beat the Indexes? Unlike the children of Lake Wobegon, most companies are below average. John Rekenthaler Apr 26, 2021
https://www.morningstar.com/markets/how-many-stocks-beat-indexes
[21] Marketwatch, Dec 30, 2023
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[22] SPIVA U.S. Mid-Year 2023 report
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https://www.aei.org/carpe-diem/the-sp-500-index-out-performed-hedge-funds-over-the-last-10-years-and-it-wasnt-even-close/
[24] CCC Google Gemini Deep Research Analysis, March 25, 2023
[25] Robert S. Harru, Tim Jenkinson, Steven N. Kaplan, and Ruediger Stucke
Has persistence persisted in private equity?
November 2020, Becker Friedman Institute for Economics at University of Chicago
https://bfi.uchicago.edu/wp-content/uploads/2020/11/BFI_WP_2020167.pdf

What further reading should you do?
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http://koorandassociates.org/avoiding-business-failure/is-your-company-planning-to-fail/

"Traditional corporate governance dooms your company to failure", Koor and Associates
http://koorandassociates.org/corporate-governance/5786-2/

"Traditional risk management dooms your company to failure", Koor and Associates
http://koorandassociates.org/corporate-governance/traditional-risk-management-dooms-your-company-to-failure/

"Traditional strategic planning dooms companies to failure", Koor and Associates
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"Traditional business transformation dooms your company to failure", Koor and Associates
http://koorandassociates.org/business-transformation/5920-2/

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