

Do you need to transform your company? V4

What is the purpose of this article?

Enable the board of directors, C-Suite, investors, and founders to understand whether there is a need to transform the company.

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?

- 1) Many business leaders think that they need to change the direction of their company, in order to be financially viable.
- 2) Transforming while ahead of the competition is more successful than transforming when you are forced to.
- 3) Cost cutting is not the solution to under performance.
- 4) If your company is underperforming, compared to the competition, determine what changes are required to the board of directors and C-Suite,
- 5) Often the board of directors and C-Suite do not know that their company is in crisis or heading toward crisis.

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.¹
- 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.²

Transforming while ahead of the competition is more successful than transforming when you are forced to.³

1. Transforming while SR (Total Shareholder Return) matches or exceeds industry averages creates significantly more return in both the medium and long term, compared to transforming when you're behind industry averages.
2. At any point in the past 20 years, 30% of companies are significantly underperforming their sector but only 25% of transformations will result in outperformance in the short and long term.

Cost cutting is not the solution to under performance.³

- 1) Long term (five year) value creation TSR out performance is due 43% to revenue growth and 32% to successful (note the world SUCCESSFUL) cost reduction.

What did the analysis of 4,446 CEOs in 2021 reveal about the impact of consumer trust?⁴

- 1) Consumer trust and company performance are linked. Consumer trust is the second biggest determinate of performance variance, after industry conditions.
- 2) Most business leaders have little understanding of their consumers. 87% of business leaders said consumers highly trust their company. 30% of consumers said they highly trust.

What are the symptoms of a need for transformation?

The obvious facts demonstrate that the company is in crisis. E.g.

- 1) Losing customers or losing market share. Net Promoter Scores dropping. Customer churn increasing and customer retention decreasing. The lifetime value of customers is exceeding customer acquisition costs.
- 2) Benchmarked performance is poor compared to competition.
- 3) Debt and interest payments are causing major losses and negative free cash flow. The company is profitable with positive free cash flow, if debt and interest payments are not considered.
- 4) The company is unprofitable with negative free cash flow, even if debt and interest payments are not considered.
- 5) Employee turnover is unacceptable.
- 6) Employee ratings of the company are unacceptable.
- 7) Potentially valuable employees are not applying or accepting offers.
- 8) The overall market size is shrinking.
- 9) Not being able to meet payroll in the short-term or meet covenant requirements in financing.

Often the board of directors and C-Suite do not know that their company is in crisis or heading toward crisis.

- 1) No ongoing monitoring and analysis of: the number of customers or market share, the Net Promoter Score, customer churn and retention; lifetime customer value and customer acquisition costs.
- 2) No benchmarking relative to the competition.
- 3) No free cash flow forecasting and related scenario analysis

- 4) No monitoring and analysis of employee turnover.
- 5) No monitoring or analysis of employee ratings.
- 6) No forecasting of long-term ability to meet payroll or meet covenant requirements in financing.
- 7) No monitoring and analysis of the market size i.e. the number of customers with urgent problems and needs who are willing and able to pay for the company's solution.
- 8) No scenario planning.
- 9) No challenges from external advisors, consultants, and experts.

What is the root cause of the need for transformation?

The leadership talent (i.e. the board of directors and C-Suite) is the root cause of the need for transformation.

The leadership talent may not know what skills, experience, and knowledge they personally need in order to:

- 1) Continuously evolve the company to keep pace with customers, users, and the overall ecosystem.
- 2) Identify if the company is heading towards crisis, as noted above in the section regarding not knowing if in crisis
- 3) Avoid decisions which can result in crisis.

Your next steps

- 1) Define the words/concepts you're using, in a glossary. I've seen major confusion when the same words mean different things to different people.
- 2) If your company is matching or exceeding your industry peers, determine how transformation can maintain or increase your lead. In today's hyper competitive world, your competition is changing.
- 3) If your company is underperforming relative to your competition, first define the talent characteristics of a board of directors and C-Suite that would outperform the competition. Then assess your current board of directors and C-Suite relative to those characteristics.
- 4) Determine whether or not your company is in crisis or heading towards crisis.

Footnotes

¹ PWC's 27th annual global CEO Survey

<https://www.pwc.com/gx/en/ceo-survey/2024/download/27th-ceo-survey.pdf>

² PWC's 28th annual global CEO Survey

<https://www.pwc.com/gx/en/issues/c-suite-insights.html>

³ Bain, April 12, 2024 "Five truths (and one lie) about corporate transformation"

<https://www.bcg.com/publications/2024/five-truths-and-a-lie-about-corporate-transformation>

⁴ PWC Strategy + Business, "Translating trust into business reality"

<https://www.pwc.com/gx/en/issues/trust/translating-trust-into-business-reality.html>

What further reading should you do?

- 1) What is business transformation?
<http://koorandassociates.org/business-transformation/what-is-business-transformation/>
- 2) Is your company planning to fail?
<http://koorandassociates.org/avoiding-business-failure/is-your-company-planning-to-fail/>
- 3) Do you understand your customers?
<http://koorandassociates.org/understanding-customers/do-you-understand-your-customers/>
- 4) How do you succeed with transformation?
<https://koorandassociates.org/business-transformation/how-do-you-succeed-with-transformation/>