

Reinvent your business
Decoding the formula
for superior performance



Executive summary

Why do some companies achieve exceptional performance while so many others struggle to survive? What do they have in common? And can their winning formula be easily replicated by others?

To uncover new evidence about what makes companies successful in today's economy, Deloitte undertook a comprehensive research project to identify, decode, qualify, and quantify the management practices that contribute most to sustained and superior corporate performance. Our research project went beyond identifying shining examples, with revenue and profitability performance many times that of their peers. It aimed at discovering the winning formula that has allowed high-performing companies to achieve superior corporate performance over the last decade.

We leveraged proprietary insights from Monitor Deloitte¹ collected over years of business practice, undertook an in-depth analysis of the financial performance of 5,050 companies with significant business in Belgium, captured opinions of 350 CEOs, and conducted 30 interviews with corporate leaders, professional associations, and industry experts. We uncovered more than 200 companies across various industries that, despite today's challenging economic environment, have consistently outperformed their respective markets over the last ten years, both in terms of revenue growth and return on assets. We call them the Super Achievers! We then looked for specific patterns and rules that made them more successful than others over time.

The three rules

Management is all about making difficult trade-offs in conditions that are always uncertain and often volatile. But high-performing companies approach these trade-offs and competing priorities with three simple rules in mind – sometimes consciously, sometimes unconsciously.

Rule # 1: Prioritise increasing value over reducing prices

Differentiation is a primary driver of superior long-term profitability. Research shows that organisations are more likely to succeed in the long run by offering superior non-price benefits – such as excellent functionality, convenient service, or a great experience – as opposed to minimally acceptable standards at lower prices. High-performing organisations have systematically adopted a unique, differentiated, competitive position based on non-price dimensions that create superior value for their customers.

Rule # 2: Prioritise increasing revenue over reducing costs

While keeping an eye on operational efficiency, high-performing organisations continuously look for new ways to strengthen their top line. Indeed, in place of decreasing costs, organisations are more likely to achieve superior corporate performance by achieving higher revenue than their competitors, charging higher prices, or reaching out to more customers.

Rule # 3: Prioritise rapidly experimenting with new ideas over developing extensive business plans

As we navigate through a weak economy and systemic disruption, corporate leaders appear to be awaiting the arrival of a more robust recovery and a lessening of uncertainty before committing to large investments. While it is understandable, we have entered a new era characterised by low growth, rapid change and fundamental uncertainty. High-performing organisations understand the dynamics of today's economy. They encourage employees to innovate and look for rapid ways to experiment with different ideas and models. And they expect and accept failure.

¹ In 2013, Deloitte acquired substantially all of the business of Monitor, one of the world's leading strategy consulting firms.

Case studies

Through desk research and interviews with industry captains and professional associations, we identified eight remarkable and inspirational success stories to share: Audi, Bonar, DEME, EVS, GSK, Nespresso, Soudal, and Vivaldis Interim. While these cases all face very different dynamics specific to their industries and companies, every one of them followed our three rules. When allocating scarce resources among competing priorities, all eight companies systematically prioritise initiatives that contribute most in the long run to realising the three rules: Value, Revenue, and Agility. Our extensive report provides insights into some of the key strategic choices these companies' corporate leaders face: How do we create value for customers? How do we capture value for our stakeholders? How do we adapt when the world around us changes?

The way forward

Our three rules are simple enough to be actionable, accurate enough to be trusted, and general enough to be applied under just about any circumstances. We think about the rules the way one might think about a compass. They point the way towards sustainable growth. Of course, walking a straight line towards the final destination is not always easy. Obstacles might come in the way, such as lower-cost competition, macro-economic recession, rising commodity prices, or pressure for quick wins. When dealing with these challenges along the way, organisations should keep their compass handy.

In order to grasp the full potential of future growth opportunities, today's corporate leaders will need to reinvent their business (sometimes fundamentally), adjust to the rapidly changing environment, and establish advantage for the better times ahead. Tomorrow's Super Achievers have already started applying our three rules to find new ways to create value and differentiate themselves.

Will you be the next Super Achiever?

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Should corporate leaders expect the European economy to return to pre-crisis growth levels?

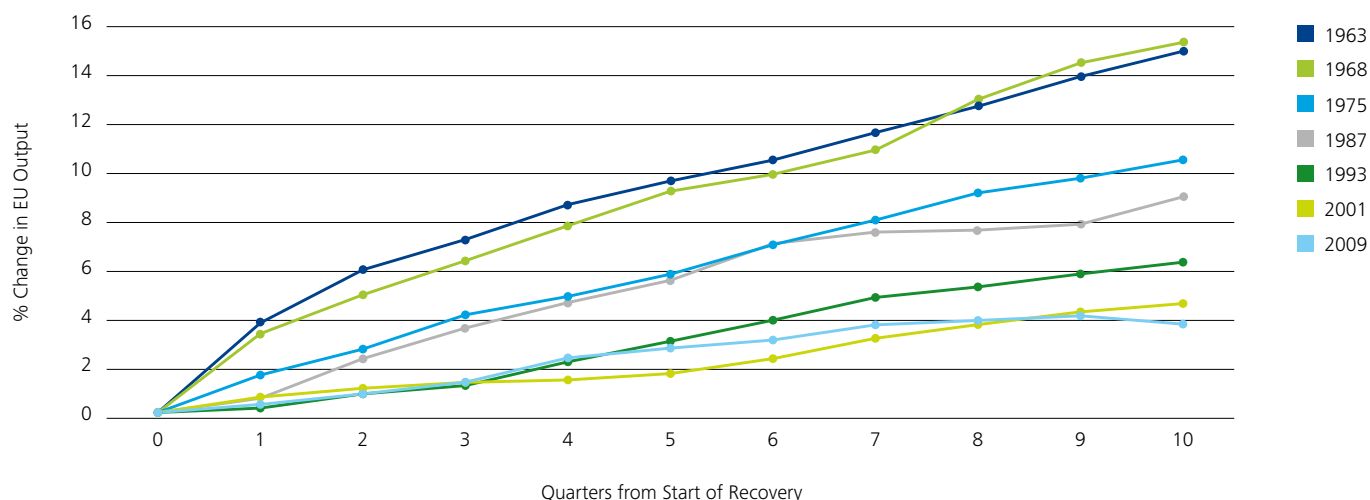
The financial crisis that occurred back in 2008 has left the European corporate landscape with unprecedented fears. Companies tend to keep more cash and liquid assets to face further cash-flow volatility in case of sudden market drops. At best these resources are invested very short-term in low-risk products like term deposits, or worse left untouched in current or savings accounts.

Over the last four years post-crisis recovery has been weak and uneven across economies. Today the global economy resembles a patchwork of persistently divergent growth outcomes: weak performance in mature economies – 1.5% to 1.7% growth in the United States and close to zero in Europe – and solid performance in emerging economies – spearheaded by China with around 7.5% growth forecast for the end of 2013.

In the Eurozone, growth rates are expected to remain low due to high risk of deflation, critical sovereign debt levels in certain peripheral Eurozone countries, and high fiscal pressure. Other structural causes also play a major role in the slow recovery of the European economy, such as the high level of maturity and saturation of European markets, the demographic stagnation in Europe, the lack of integrated governance and policy between countries at European level, and to some extent the lack of flexibility of the European labour market.

As can be seen from the graph below, the economy has downshifted to an unprecedented low-growth cyclical pattern that will likely persist for at least several years. Indeed, the trajectory coming out of the 2008 crisis does not conform whatsoever to the conventional cyclical patterns of the post-World War II period. For each relevant shock our economy has experienced, the evolution on a quarterly basis of the change in European output (%), or the strength with which the various recoveries occurred, makes us believe that we are currently about halfway through a decade of challenging structural components that are not likely to improve in another four to five years.²

Recovery of the European economy as % of the change of European output per quarter



² Adapted from "Growth in a low growth economy", by Eamonn Kelly and Steven Weber, Monitor Deloitte, 2012

While the downsides and risks are significant, the opportunities generated by today's challenging environment are equally substantial, especially for those willing to embrace them with conviction and urgency. Indeed, the challenges have reinforced and accelerated meaningful shifts in both the patterns of consumption and the structure of the global business environment, creating a significant untapped potential for future growth.

- **Consumption patterns:** Consumption is entering a radically new period with the emergence of a "new middle class". This is generating profound changes in consumer behaviour, choices, and profiles, both in and outside Belgium and Europe.
- **Global business environment:** The global playing field will be much more evenly matched in terms of production, consumption, and innovation capabilities thanks to, among other things, new technologies and new means of communication.

While on average our Belgian economy has not grown since 2008, how have some companies been able to report very good results over the past few years? And how can companies prosper in such a low-growth economy that is not expected to recover in the near future?

“The European economy has downshifted to an unprecedented low-growth cyclical pattern that will likely persist for at least several years”



What is this paper all about?

Why do some companies achieve exceptional performance in a low-growth economy while so many others struggle to survive? You have to learn the rules of the game. And then you have to play better than everyone else...

Research context and objectives

To uncover new evidence about what makes companies successful in today's economy, Deloitte undertook a comprehensive research project to identify, decode, qualify, and quantify the management practices that contribute most to sustained and superior corporate performance.

More than identifying shining examples whose efforts are being rewarded with revenue and profitability performance many times that of their peers, our research project aimed at discovering the winning formula that made certain companies consistently outperform their respective markets over the last ten years³. Specifically, our research project addressed the following questions:

- What is their competitive position? Or how do they create value for their customers?
- What is their profitability formula? Or how do they capture value for themselves?
- What do they change when the world around them changes? Or how can companies reinvent themselves in order to stay (or become) highly performing in today's low-growth economy?

At the start of our research project, we looked at papers that were produced around the globe on the topic of corporate performance in recent years. While they provided some useful information, we were surprised that only a few delivered pragmatic advice to corporate leaders that combined the strength of an in-depth quantitative analysis with the pragmatism of real-life examples, along with insights gathered directly from corporate leaders and industry captains. This triggered our own research project and specific methodology.

³ We analysed the performance of companies with complete information on turnover and return on assets over the period 2003-2011. When available, we also used information for the year 2012. Source of financial information: Belfirst

Methodology

In order to complete our research project, we leveraged our firm's proprietary insights collected throughout years of business practice. Over the last four months we also conducted desk research and financial performance analysis, an online CEO survey, interviews with industry experts and FEB-VBO member federations, and interviews with corporate leaders.

Desk research and financial performance analysis

To kick off our research project, we undertook an in-depth analysis of the financial performance of 5,050 companies with significant business in Belgium over the last decade, in order to identify patterns of financial success and high performers.

To evaluate corporate performance we used the company's turnover and return on assets⁴, a strong proxy for the value captured by firms relative to their size. This reflects strong, stable performance and is not impacted by stock market variations or changes in investor expectations, unlike, for example, total shareholder return. Through our analysis we uncovered dozens of companies that have done well enough over the last decade to qualify as high-performing companies.

To further ground our own findings we carefully considered "The Exceptional Company" by our Deloitte US colleagues Michael Raynor and Mumtaz Ahmed. The collection of eight articles is a culmination of Deloitte's "Persistence Project", five years of research on the performance of more than 25,000 US companies over 44 years, which attempted to find a consistent pattern of behaviour separating exceptional companies from the pack. While our research project does not aim at replicating our colleagues' methodology, their subsequent book, "The Three Rules", provided us with a valuable source of inspiration and served as a statistically proven starting point for our own work.

Online CEO survey

To supplement our in-depth quantitative analysis, complete our research hypotheses and guide our investigation efforts further, we performed a four-week online survey. It captured opinions of 350 CEOs on their overall corporate performance, their past and future strategic choices, their level of confidence in the future of the Belgian economy, their respective industries, and their companies' prospects.

Interviews with industry experts and FEB-VBO member federations

We also conducted interviews with Deloitte global and local industry experts, as well as the top management of eight FEB-VBO member federations: Agoria, Comeos, Construction, Essenscia, Febiac, Federgon, Fedustria, and Fevia. We gathered qualitative insights as to what leads some companies to outperform their respective sector of activities – considering their specific value drivers, market trends, challenges and opportunities.

Interviews with corporate leaders

Based on our in-depth quantitative analysis and interviews with industry captains and federations, we selected a series of high-performing companies that were kind enough to share their success stories with us and discuss the rationale behind their sustained financial performance.

We conducted 30+ interviews with corporate leaders of highly successful companies active in Belgium, with whom we discussed, challenged, and fine-tuned our findings and recommendations. We also captured a series of practical insights and real-life experiences to confirm and illustrate our findings.

⁴ Return on assets = net income/total assets.

What has been the financial performance of companies active in Belgium over the last decade?

Before investigating the companies' peer performance based on the combination of two widely-used metrics – revenue growth and return on assets – let's have a look at each of these metrics individually, as they will set the scene for further analysis.

Growth and profitability

While different industries provide different growth and profit potentials, there can be winners and losers within both more and less attractive industries.

Despite today's gloomy economy, we uncovered clear double-digit growth winners in every industry, both pre- and post-crisis. However, with only a few exceptions revenue growth after the 2008 crisis has not yet caught up with growth rates prior to the recession. All industries without exception also saw their average return on assets decrease after the crisis of 2008 and none of them has been able to come back to pre-crisis profitability levels yet.

It is interesting to note that, with the exception of the Pharma and the Broadcasting, Media & Telecom industries, medium- and large-sized⁵ enterprises across industries have usually achieved higher revenue growth rates than smaller enterprises, which suffered the most from the crisis. Larger enterprises have indeed seen the size of their workforce grow more post-2008, or decrease less, than medium and small enterprises. Across industries, we have, however, identified a series of smaller players that have managed to also achieve high growth rates due to their unique positioning and niche strategies.

Similar to revenue growth, but with the exception of the Automotive industry, medium- and large-sized enterprises appear to have a greater chance of becoming profitable over the long term than smaller enterprises.

Peer performance analysis

It is important to remember that when measuring firm performance for the purposes of identifying true outliers, absolute performance measures are of very little use. What matters is the relative performance of firms – how well they do compared to each other.

With that in mind, we structured our model to generate "percentile rankings"⁶ for firms, based on revenue and return-on-assets values. That is, we ranked the entire data set of company-year observations within each industry, as defined by four-digit NACE codes, to create a revenue value and a return-on-assets value that are comparable. Within each industry, each company received a ranking of 0 through 99 based on which percentile of the total population it fell into for both revenue growth compared to the previous year and the average return on assets over the years.

Companies with a peer performance higher than the 70th percentile in both revenue and return on assets, for at least 50% of the time between 2003 and 2011, qualified as high-performing companies, also called "Super Achievers". Based on our analyses, slightly over 200 companies met our very stringent criteria and can be considered high-performing companies, which represents approximately 4% of the 5,050 companies analysed.

In order to share and visualise the results of our exercise, we developed a simple matrix that outlines four performance clusters for each industry.

5 Large-sized enterprises employ more than 250 workers; medium-sized enterprises employ between 50 and 250 workers; small-sized enterprises employ less than 50 workers.

6 Definition of percentile: one of 99 actual or notional values of a variable dividing its distribution into 100 groups with equal frequencies; the 90th percentile is the value of a variable such that 90% of the relevant population is below that value.

Performance matrix



- **Super Achievers** outperform their respective markets in both turnover growth rate and average profitability (> 70th percentile in both metrics). They manage to grow at a high rate while securing profitability so they can keep investing in other growth opportunities.
- **High Rollers** are growing companies that do not meet our high profitability targets (> 70th percentile in revenue, < 70th percentile in return on assets). They also manage to grow at a high rate but struggle to be highly profitable.
- **Money Masters** are profitable companies that either experience moderate or declining growth rate (> 70th percentile in return on assets, < 70th percentile in revenue). They are the number-one wealth accumulators although they do not experience high growth (anymore).

Over 200 companies can be considered as Super Achievers, which represents 4% of the total population of analysis

- **Safety Players** do not meet our stringent performance thresholds both in terms of turnover growth rate and average profitability (< 70th percentile in both metrics). They are average earners that sometimes miss opportunities for more financial growth by not taking calculated risks.

Through our peer performance analysis within each industry, we investigated how companies achieved superior performance and evolved from one performance quadrant to another over the period 2003-2011. Key insights of our research include:

Small-sized companies faced a higher level of volatility in performance over the last decade than medium- and large-sized enterprises.

Among the 60% of companies that moved from one performance quadrant to another over the last decade, usually downgrading to a less favourable position, most of them actually were smaller enterprises. Although the percentage appears to be relatively stable across industries, we observed significantly higher volatility in the Technology industry, which can be explained by the relatively higher degree of fragmentation of the industry and a fast-evolving market. On a similar note, industries composed of larger enterprises tend to be more stable.

The rewards of victory are sweeter than ever, but they accrue to fewer, while defeat affects a much broader population.

The crisis of 2008 precipitously affected most companies active in Belgium. Super Achievers generally dealt with it better than lower-performing companies, with two out of five companies maintaining their superior status after the crisis, whereas only 3% of companies appeared to have somewhat benefited from the crisis by acquiring the sought-after Super Achiever status right after 2008.

The Textile industry, which has not been doing well over the last decade, is, however, the industry that has seen the highest percentage of companies (5.5%) increase their performance levels. This is not an isolated case. Companies active in the Wood & Furniture industry have also benefited somewhat from the crisis, as 5.4% of them upgraded to Super Achiever status.

In other industries as well, a few companies managed to increase their performance while many companies lost more than ever before. While it is a little premature to draw long-term conclusions, most industry captains and federations believe that the crisis will generate a smaller number of bigger winners and a larger number of (small and big) losers. Only time will tell if such a trend will persist and accentuate over time.

When companies evolve from one performance quadrant to another, it is more often because of variances in turnover than in asset profitability.

Across industries, companies are more likely to make vertical moves from one performance quadrant to another (reflecting larger variances in turnover growth) than horizontal moves (due to variances in asset profitability). Furthermore, we have also observed more frequent moves between High Rollers and Safety Players than between Super Achievers and Money Masters.

It is also interesting to point out that companies who have achieved relatively higher returns on assets, either the Money Masters or the Super Achievers, tend to face more stable turnover growth rates than the ones that have been struggling with profitability.

This leads us to believe that on the one hand, relative turnover growth is more volatile than relative average return on assets, and that on the other hand, it might be relatively easier to improve turnover than corporate profitability.

Super Achievers have generally dealt with the crisis better than anyone else, and the rewards of victory are sweeter than ever

High Rollers seem to have adopted growth strategies that generally do not allow them to turn profitable over the long term.

Based on our analysis and several interviews with corporate leaders and industry experts, we observed that High Rollers seem to have adopted growth strategies that ended up not being sustainable over the long term.

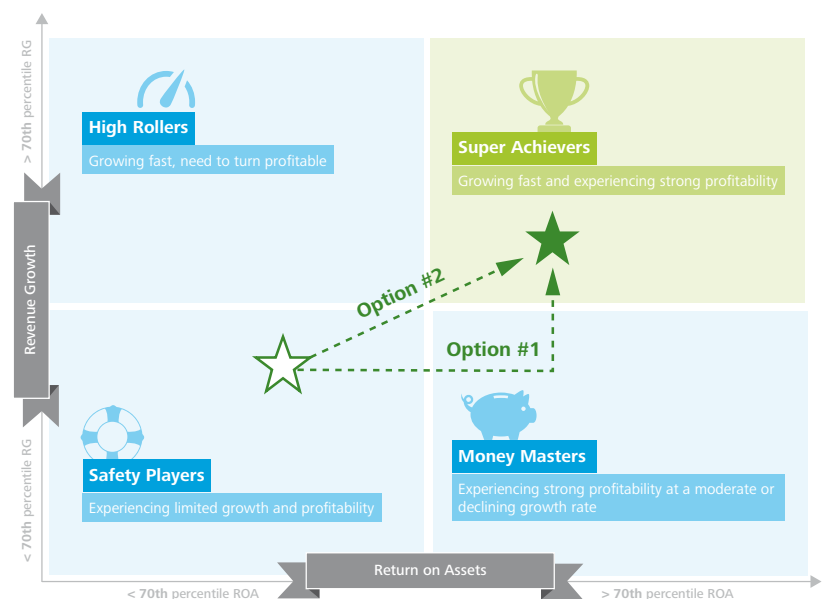
Indeed, we observed that more than 75% of these High Rollers, across industries, have faced declining turnover growth rates over the period. Moreover, in the rare event that they managed to maintain high turnover growth rates for a long period of time, they rarely succeeded in improving their profitability over time. In fact, only 3% of High Rollers succeeded at becoming Super Achievers over the analysis period.⁷

Possible explanations for this phenomenon are varied. They include high pressure to grow fast with products and services that are unfortunately easily copied by competitors, fast-evolving markets with intense local and global competition, short-term shareholder expectations, or even strict regulations.

The fastest and most efficient way to sustainable performance is to grow revenue and asset profitability simultaneously.

There seems to be mainly two roads or options to becoming a high-performing company. Of the companies that became Super Achievers over the period, 46% made the strategic choice to secure their profitability prior to achieving higher-than-average growth rates (Option #1). Another 36% of companies directly evolved from the Safety Player performance bucket, and ended up growing in both turnover and asset profitability simultaneously (Option #2). While no one-size-fits-all rule can be drawn from this, the second road is obviously shorter and more financially attractive.

In both cases, high-performing companies seem to have established strong and sustainable positions over the long term as, when faced with declining markets, they more often than not manage to maintain higher-than-average profitability levels.



⁷ An analysis over a longer time period, especially with no crisis in the middle, might lead to slightly different results.

What is the winning formula for superior sustainable performance?

All these observations, although insightful, would be pointless if we did not look for specific patterns and rules that made Super Achievers more successful than others over time. Indeed, why do they reach superior performance while so many others struggle to survive? What do they have in common? Can their winning formula easily be replicated by others?

Our business practice and extensive quantitative and qualitative analyses reveal that strategic choices of high-performing companies have been consistent with three elementary rules. Not surprisingly, each high-performing company had dramatically different drivers of superior performance. A Super Achiever in the Retail industry faces very different competitive forces and reaches for very different levers than a Chemicals company. Indeed, while the first deals with a very fragmented and local business-to-consumer environment, the second plays a global and aggregate business-to-business game. Yet our research would be meaningless unless we could find some set of general principles that addressed the roots of what put these companies on top.

Management is all about making difficult trade-offs in conditions that are always uncertain and often volatile. But high-performing companies approach these trade-offs and competing priorities with three simple rules in mind, sometimes consciously, sometimes unconsciously.

- First, companies are more likely to succeed in the long run if they compete on quality or value rather than on price.
- Second, companies are more likely to succeed in the long run by generating revenue (for example by charging higher prices or reaching out to more customers) than by decreasing costs.
- Third, companies are more likely to succeed in the long run by increasing their agility and speed to market (through fast experimentation and adjustment) than by developing lengthy linear business plans that will soon become obsolete in today's fast-paced economy.

Every time you make a decision you need to keep in mind these three simple rules. This is what this chapter is all about: making sure you learn the rules of the game, so you can start playing better than anyone else. It's as simple as that.



Prioritise increasing value over reducing prices

Our first rule aims to answer a fundamental question all business leaders are confronted with: “What is my competitive position?” Or simply put, “How am I going to create superior value for my customers, or at least more value than my competitors?”

Strategy starts with the customer, not the firm’s assets. Perhaps the most fundamental choice a company must make is how it will differentiate itself from the competition in order to create value for its customers. Will it provide superior price value (in the form of lower prices) or superior non-price value (in the form of better reliability, durability, convenience, brand)? It is possible to have the lowest price and the highest quality. But in reality it tends not to happen very often. You almost always face a choice.

During our interviews with industry captains and corporate leaders, as well as through our CEO online survey, we discovered a common denominator:

High-performing companies garner superior profits by offering superior non-price benefits – such as excellent functionality, convenient service, or a great experience – as opposed to offering minimal acceptable standards at lower prices.

Indeed, an overwhelming majority of industry captains and business leaders agree that strategies aiming at increasing value over reducing prices have more potential to lead to long-term success, even across industries.

85% of surveyed corporate leaders believe that strategies aiming at increasing value have more potential to lead to long-term success than strategies aiming at reducing prices.

According to the “The Three Rules”⁸, while there are a lot of examples of companies that have done very well with low price positions, whether they are low-cost airlines or successful discount retailers, a lot of them are very rarely the ones that maintain high performance levels over the long term. Differentiation based on non-price dimensions is systematically a primary driver of superior long-term profitability. In most cases, customers are willing to pay a premium price for superior value, such as reliability, convenience, ease of use, and durability. And this premium price usually more than compensates for the higher costs associated with that higher quality offering.

It is important to note that this rule must be interpreted relative to the relevant competition. When Apple introduced the iPad mini, the company did not abandon the rule. True, the iPad mini was not better and more expensive than the iPad. But its main competition was other small tablets and even smartphones. And compared to them, the iPad mini has a much clearer claim to Apple’s traditional competitive position that prioritises delivering quality over reducing prices.

On a similar note, companies that institute “price match guarantees” are not necessarily competing on price either. Indeed, a “price match” says only that no competitor will have a lower price than you do. That means your customers will be choosing you for a reason other than price, since your price is not lower than anyone else’s. This is a particularly aggressive form of “price competitiveness,” but it does not rise to the level of competing on price. In contrast, companies that claim, “We’ll refund you twice the difference,” are actually competing on price.

⁸ For further details, refer to “The Three Rules” by M. Raynor and M. Ahmed.

Who are some of these Super Achievers who compete on non-price attributes?

In the Food and Beverage industry, the manufacturing of innovative and specialised products – such as frozen products, dairy products and ready-made meals, and high-quality Belgian products – has been a highly successful strategy for years. Despite today's tough global economy, premium foods and beverages remain attractive, with consumers willing to spend a premium price for premium products. Belgian producers are even considering introducing a "Belgian Food" label in order to enhance visibility of the high quality and safety of Belgian agriculture and food. Belgian success stories include, for example, Lotus Bakeries, which produces and sells high-quality authentic specialities from the biscuit and cake world.

The Construction industry has witnessed an evolution from pure construction companies towards general, project management contractors and concession companies. Construction companies, such as DEME, are now able to provide their customers with "all-in" solutions, from the raising and structuring of funding to maintenance. By doing so, integrated suppliers create significant value for their customers by reducing project complexity, mitigating risks and ensuring consistent quality and adherence to budget and timing constraints. Hence, this strategy enables these companies to break out of the commodity trap and start capturing value.

The offering of (temporary) exclusive collections is one of the non-price attribute strategies that have been successful in the retail sector these last years. A nice example is IKEA, which introduced a high-end collection in the first half of 2013. The collection was inspired by the 50's and 60's and premium materials were used. Other examples of these exclusive offerings that are often "limited edition" are the frequent collaborations of top fashion designers and H&M, or the collections Belgian celebrities design for JBC.

Prioritise increasing revenue over reducing costs

Our second rule aims to answer another fundamental question all business leaders are confronted with: "What is my profitability formula?" or "How am I going to capture value for myself?"

Through our in-depth financial performance analysis, online CEO survey and interviews with industry captains and successful corporate leaders, we concluded that:

High-performing companies garner superior profits by achieving higher revenue than their competitors through either higher prices or greater volumes, as opposed to optimising costs, which very rarely drives superior profitability over the long term.

Close to two-thirds of the companies surveyed agree or fully agree that strategies aiming at increasing revenue over reducing costs have more potential to lead to long-term success. In contrast to our first rule, the adherence to this second rule varies slightly per industry, at least in perception. Indeed, while corporate leaders of the Chemicals, Textile, HR Services and Pharma industries overwhelmingly support this second rule, leaders from other industries can be a little sceptical at first:

Two-thirds of surveyed corporate leaders believe that strategies aiming at increasing revenue have more potential to lead to long-term success than strategies aiming at reducing costs.

- The Automotive industry in Belgium has been facing very specific challenges, such as a continuing decrease in the demand for passenger cars in Western Europe. This led several car assemblers to embark on major cost reduction programmes and even close production sites. However, significant opportunities to grow revenue exist: by swiftly responding to trends like sustainability, smaller cars (ageing population, more single-person families), smaller carbon footprint, and enhanced connectivity.
- The construction industry in Belgium has been facing severe price pressure because of, among other things, increased competition coming from Eastern and Southern European countries, sluggish demand and the need to keep activity levels up to the mark. This challenging environment will require some companies, especially those competing in highly commoditised segments, to prioritise cost cutting in the short term. However, the majority of high-performance companies in the industry follow diversification strategies to pursue revenue growth opportunities in the long run, in addition to finding short-term efficiency gains in commoditised segments. They consciously select and enter attractive growth markets and segments in which they can establish a niche position or take advantage of domestic infrastructure opportunities.

As such, it should be noted that high-performing companies do not blindly focus on increasing revenues. It goes without saying that they also pay attention to operational efficiency and to the elimination of non-value adding activities, even more so for business segments that compete in commoditised markets or for long-established organisations with disproportionate cost bases. This should be seen as a temporary deviation to the rule and we expect that even those severely-hit industries will, sooner or later, come back to strategies that prioritise increasing revenue over reducing costs.

How did we get to this second rule? Let's have a look at numbers...

Companies with superior profitability must have disproportionately higher revenue, driven either by higher unit prices or higher unit volumes, or disproportionately lower costs. According to our research, not only do high-performing companies rely on superior revenue to drive their profitability advantage, they usually accept the higher cost they must incur to deliver superior non-price value.

On average across industries, Super Achievers have systematically accepted seeing their costs increase at a similar or even higher rate than their revenue over the period 2003-2011. These costs were generally required to support the company's growth and future investments but did not prevent these companies from achieving higher-than-average return on assets.

Let's now have a look at two different industries and compare the performance of a Super Achiever and a Safety Player in terms of return on assets, revenue growth, and cost growth over the period 2003-2011. We should keep in mind that Super Achievers will by default achieve higher return on assets and revenue growth rates than Safety Players over the period, as these were the exact criteria we used to categorise them in the four performance quadrants.

Example #1: HR Services

As a first example we looked at the HR Services industry, which has been one of the most successful industries over the decade in terms of growth and profitability.

By looking at the table below, we can see major performance variances between the two performance quadrants: high-performing companies have achieved an average return on assets more than 12 times that of Safety Players and an average revenue growth rate of more than three times that of Safety Player over the period.

HR Services	Average ROA	Revenue Growth	Cost Growth
Super Achievers <i>Average of 4 companies</i>	27.7%	20.1%	19.5%
Safety Players <i>Average of 49 companies</i>	2.2%	6.8%	10.5%

However, it is when we look at the evolution of their respective costs that we uncover very valuable insights. While the Super Achievers have seen their costs increase at a rate close to the inflation rate⁹ over the period 2003-2011, average costs incurred by the Safety Players are significantly lower than inflation. This leads us to believe that, while Super Achievers accepted the higher costs that were required to deliver superior value, which eventually led to larger returns, Safety Players adopted cost reduction strategies over the period that did not result in superior financial performance.

Example #2: Retail

In our second example we investigate the Retail industry. One might have expected that financial metrics would behave differently in an industry that suffered more throughout the last decade. However, our observations and conclusions remain the same as for the HR Services industry.

Indeed, we can see that here also high-performing companies focused on increasing their revenue while accepting slightly higher costs. We can assume that the cost increases were necessary to support growth, but did not prevent the company from achieving a double-digit average return-on-assets over the period. On the contrary, the Safety Players focused on reducing costs and saw both their revenue and profitability levels stay relatively stable over the period.

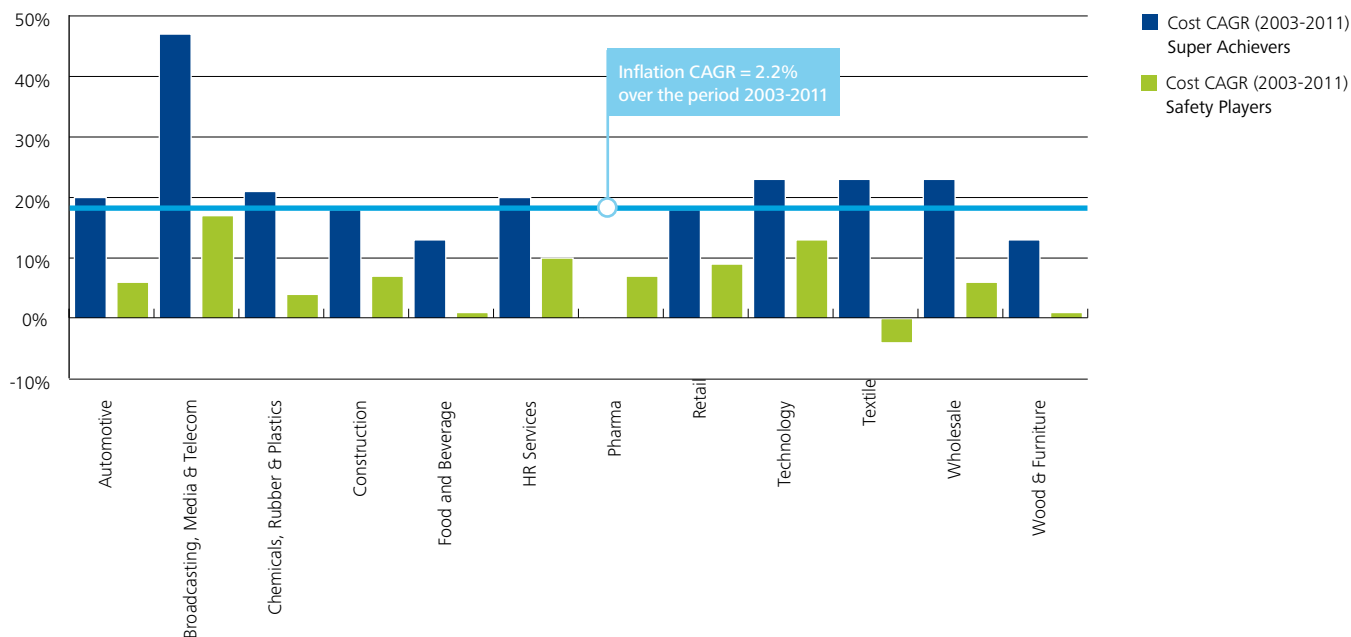
Retail	Average ROA	Revenue Growth	Cost Growth
Super Achievers <i>Average of 22 companies</i>	18.8%	15.2%	17.8%
Safety Players <i>Average of 225 companies</i>	1.2%	1.3%	9.1%

We could go on and on... In every single industry, Super Achievers¹⁰ have on average accepted higher costs to support their growth ambitions. Safety Players, on the contrary, reduced costs relatively more and ended up in a less profitable position than their competitors.

⁹ Compound annual inflation growth rate is estimated at approximately 2.2% over the period 2003-2011 (source: National Bank of Belgium).

¹⁰ No Super Achiever was identified in the Pharma industry over the period.

Costs Compounded Annual Growth Rate (2003-2011)



Who are some of these Super Achievers that primarily increase revenue?

Following a difficult year in 2009, Vivaldi's Interim changed courses and laid the foundation for exceptional growth. As a temporary employment agency with a focus on the SME market, the company realised it needed to be closer to its customers. In two years' time, Vivaldi's Interim invested in the opening of ten new offices, going from 16 to a total of 26, and succeeded in doubling its revenue compared to 2009.

Because of its innovative services, such as a running academy, many have recently compared Décathlon to Lululemon¹¹, the self-described yoga-inspired athletic apparel company, which produces a clothing line and runs international clothing stores. Lululemon's No. 1 goal is to build healthy communities. The company, which started as a yoga outfitter for women, does this in a number of ways, from offering free yoga at stores,

to helping brand ambassadors launch their careers in fitness, to sponsoring sport events. A fun and dynamic atmosphere in the stores is critical: any displays that take up floor space are on wheels, so they can be pushed aside when stores hold yoga classes on weekends, while a community board gives customers information on local yoga studios and running clubs. Employees, who go through goal-setting workshops, also post their aspirations on the store walls for anyone to read.

“More than cost reduction programmes, technical and aesthetic innovation in textiles represent undeniable elements for creating added value, competitiveness and sustainability of the sectors.”

– Fedustria

¹¹ Lululemon Athletica Inc. (NASDAQ: LULU) is a leading designer and retailer of technical athletic apparel operating primarily in North America and Australia, which employs +/- 6,500 employees.

Increasing productivity leads to higher revenue and job creation over the long term.

As mentioned before, it goes without saying that companies should not totally ignore their cost structure and should continue to pursue efficiency gains and increase productivity where applicable. This is critical in order to stay competitive on the domestic and international marketplace and ensure that Belgium remains an attractive place in which businesses can operate, invest, and expand.

Productivity is a term that is often misused. By definition, productivity growth can come either from a reduction of the amount of input required to deliver a given output, or from an increase in the volume or value of output for any given input. Belgium needs to rely on both types of productivity gains to generate future growth and guarantee the high standard of living the country has enjoyed over the last decades. Individual companies will have a significant role to play in the recovery of the Belgian economy, as nationwide productivity gains are simply the result of many minor company-level improvements.

Interestingly, when looking at the results of our market-wide financial analysis, most high-performing companies that have successfully generated additional revenue have also increased their value-added per worker, which is a widely used measure of productivity. Indeed, across industries we identified a moderate¹³ positive relationship between productivity growth and revenue growth over the long term, which means that the more productive a company is, the more likely it is to grow its turnover over time.

Entrepreneurial learning helps organisations achieve higher performance faster.

¹² Positive correlation of 0.4 between productivity growth and revenue growth.



Prioritise rapidly experimenting with new ideas over developing extensive business plans

Our third rule aims to answer another important question: “What persists and what evolves?” Or, “What do you change when the world around you changes?”

More than ever, corporate leaders appear to be awaiting the arrival of a more robust recovery and a lessening of uncertainty before committing to a determined programme of substantive investments. This is in many ways prudent. But there is a real danger that in waiting for uncertainty to resolve in something resembling a V-shaped recovery, today’s corporate leaders are implicitly betting on a return to familiar growth patterns and trajectories that may not be coming back¹³.

Through our online CEO survey and interviews with industry captains and successful corporate leaders, we discovered the following:

High performing companies garner superior profits by increasing their speed to market, experimenting (and potentially failing) rapidly, and adjusting their business models, as opposed to developing lengthy linear business plans that will soon become obsolete in today’s fast-paced economy.

Think big, start small, learn and adapt fast, act smart. When launching a new idea, strategy or business model, you face a choice. You can choose to adopt traditional strategy development approaches or you can choose to embrace more agility:

Traditional strategy development approaches are linear and implementation-driven. They rely on complete operational data and usually need to be supported by detailed business cases and financials (including income statement, balance sheet and cash-flow statement forecasts) that will make or break the case. New ideas are not tested in real life and are usually considered as final when they are launched. Failure is not an option.

Agile strategy development approaches are iterative and hypothesis-driven. Companies that choose this type of approach accept operating on limited operational data and encourage the wide adoption of customer-oriented performance metrics, such as customer lifetime value, customer retention and net promoter scores. New ideas are tested with end-customers and are continuously assessed and improved. Failure is expected, and accepted.

Corporate leaders of high-performing companies shared that they are increasingly adopting more agile strategy development approaches, which allow them to increase their speed to market and better serve market needs and demands. They consciously and continuously look for new growth opportunities that closely support their overall strategy and intrinsic strengths. However, they do not begin with developing lengthy business plans. They begin with the search for a hypothesis-driven idea or business model. They anticipate market needs, decide and then move fast, even in the event of incomplete available data, and look for rapid ways to experiment and capture customer feedback. They launch new strategic initiatives persistently and create a growth portfolio of advantages that can be built quickly and abandoned just as rapidly. They expect and accept failure and improve initial ideas by iterating and pivoting away from the ones that did not deliver expected results.

Think big, start small, learn and adapt fast, act smart.

¹³ Refer to Section 1 of the document for further detail.

In order to embrace this new corporate philosophy, organisation structures will also need to become more agile and flexible. They must attract and retain the right talent and cascade down the right management style, corporate culture, customer mind-set, and performance management processes and rewards, among other things.

Successful corporate leaders continuously challenge the status quo: they challenge their convictions, look for a diverse sounding board and engage employees at all levels. Corporate leaders of today and tomorrow will need to develop specific capabilities to effectively address current economic challenges and grasp the full opportunities lying ahead. Agility, resilience, entrepreneurship, fast decision-making, and tolerance for ambiguity are some of the characteristics and values that will make or break tomorrow's corporate leader.

“Speed of decision has become increasingly important, with strategy development cycles becoming shorter and shorter.”

– Agoria

Who are some of the Super Achievers that demonstrated high agility throughout their expansion?

The ability to quickly go to market and reposition existing offerings in attractive high-growth segments and geographies has increasingly been a critical success factor in the Construction industry. This is illustrated by the Denys success story, for example, and the way the company manages to always stay close to the market. In order to provide maximum space for its strategy of diversified growth, Denys has been working steadily on expanding internationally. By leveraging the experience and technical competences built up on its home turf, it has especially focused on expanding within the attractive growth market of complex projects for drinking water and water treatment, as well as high-pressure pipelines for gas and oil.

In the Food and Beverage industry many Belgian companies have responded swiftly to changing markets by completely reinventing their businesses when required. Many of the successful frozen vegetables producers, for example, were linen producers decades ago. Similarly, Maselis, known for milling cereals, started Snack Food Poco Loco in 1994 as a producer of tortilla chips. Thanks to its know-how and excellent state-of-the-art equipment, it has become a leading private-label manufacturer and is now part of the World Foods & Flavouring division of the Finnish Paulig Group.

In order to facilitate collaboration and decision-making in the Oil, Gas and Automotive industry, Barco developed a high-end product that enables its users to simultaneously share multiple laptops or workstations on a screen and over a networked connection. Where to drill for oil or choosing a car design are crucial, high-impact decisions, and this product fulfils a niche need. However, by listening to its customers Barco discovered there was high demand for a solution outside the high-end segment that addresses the need for improved collaboration and decision-making. Against this background Barco developed its award-winning product ClickShare by selecting key capabilities of the high-end solution and packaging them in an innovative way. In order to make the product valuable for a much broader market segment, the user interface was reduced to an absolute minimum and much attention went into design. ClickShare enables meeting participants to share their screen with only one click of one button plugged into their laptop. The company launched ClickShare in September 2012 and achieved break-even within one year. The product even meant the start of a new division for Barco.

In the Retail industry, classic seasons (two cycles with two sales periods) have been replaced by six-week cycles to adapt quicker to changing trends and customer preferences, a concept introduced by H&M & Zara.

How can you apply the three rules?

The three rules are simple enough to be actionable, accurate enough to be trusted, and general enough to be applied under just about any circumstances. So, how should any company apply these three powerful rules?

We think about the rules the way one might think about a compass. If you are lost in the jungle and are trying to find your way back to civilisation, knowing that the closest village lies north is of little value if you do not know where north is. Having a map with a clear step-by-step directions would be of great help. Such a map could be developed, industry by industry, one company at a time. In the meantime, we can tell you where you should be heading: we can give you a compass.

Our three rules are the compass that will indicate your direction of travel over time. Of course you cannot always walk a straight line to your ultimate destination, as some obstacles might come your way, such as lower cost competition, macro-economic recession, rising commodity prices, or pressure for quick wins. Under some circumstances, you may have to pay closer attention to your prices than you might like or you might even have to drastically reduce your costs in order to keep your organisation solvent. As you deal with these challenges and distractions along the way, keep your compass handy. It will keep you and your organisation focused and moving towards your goal. If you follow the rules, you will dramatically increase the likelihood that you too will deliver, or continue to deliver, superior value for your customers and for yourself.

The three rules are the compass that will indicate your direction of travel over time.



How can corporate leaders reinvent their business?

Looking at our three rules closely, we found out that the common denominator among them is the importance for corporate leaders across industries to invest in sustainable growth.

While some corporate leaders will not be surprised to learn that it is better to find a profitable niche and focus on boosting revenues than to compete on price, the difficult next question is how to find such a profitable niche and protect it over time.

Strategic choices that were made to win yesterday are unlikely to produce the desired outcomes for tomorrow unless they are executed in more innovative ways. We are entering a period during which the creation of “next practices” will yield far more value than the adoption of someone else’s “best practices”. Practically, what can corporate leaders do in order to reinvent their business?

Growth strategy map

As we navigate through uncertain times, growth will continue to be critical to ensure survival and establish advantage for the better times to come. In order to grasp the full potential of growth opportunities lying ahead, today’s corporate leaders will need to reinvent their business, sometimes fundamentally, and rapidly adjust to business conditions they have never faced before.

Sustainable long-term growth requires a company to both fortify its existing business and enter or create new businesses. While opportunities close to the existing business provide more immediate financial certainty, creating future options and entering new business segments is imperative to sustaining growth over time. Indeed, protecting and extending the current business is often not sufficient, and new and innovative opportunities are required to sustain growth over the long term.

Practically, which growth levers do corporate leaders have at their disposal to create superior value for their customers and themselves? Our growth strategy map is a framework that has been developed based on years of business practice and tested and proven with many corporate leaders, both in the context of this research project and in our consulting activities. The growth strategy map describes how an organisation can create, deliver, and capture value to grow in today’s economy, and provides a holistic view on the potential sources of growth that organisations can tap. In response to specific challenges arising from industry dynamics and competitive environments, companies will build and tweak their growth strategy to unlock their full growth potential.

The growth strategy map can help organisations unlock their full growth potential.

A canny self-assessment, evaluating the impact of the recent economic turmoil on your past strategic decisions, will provide you with valuable insights into which growth levers you are already pulling, and others that have remained unexplored. To address these uncovered blind spots and maximise growth potential, the growth strategy map delivers a number of tactics to capture new growth opportunities.

Our growth strategy map is structured around three categories of complementary growth strategies: market, value proposition, and operating model.

MARKET

Market-related growth strategies look at whom the company creates value for, ranging from existing to potential customers or customer segments, and where a company has or could have significant business.

Customers

Customers are central to any business model. Without customers, no company can survive. So-called customer strategies aim at defining which groups of people or organisations a company should reach and serve, and which ones it should not.

Geographies

Similarly, strategies around geographies provide options for companies to develop and penetrate specific markets, whether domestic or international.

VALUE PROPOSITION

Strategies that surround a company's value proposition focus on a company's customer-facing elements, such as how a company develops distinguishing features and functionalities, how it enhances the value of its offering through added-value services, how it nurtures compelling interactions with customers, and how it showcases its offering and business on the market.

Product

A product-based growth strategy consists of producing a notably superior product or system of products: by developing unique features and functionalities, or by being simpler or easier to use than competing products. This allows a company to earn a substantial premium and achieve a higher market share.

Service

A service-based growth strategy consists of enhancing the value of the core product or product system through added-value services, such as product guarantees, maintenance plans, or customer support.

Customer experience

Enhancing customer experience is all about developing and nurturing compelling and meaningful interactions with customers to engage them and create a sustainable emotional bond with them.

Brand

Brand strategies consist of enhancing the representation of a company's identity, products and services to the market, including its customers, prospects, suppliers, competitors, and other key business partners.

OPERATING MODEL

A company can also pursue growth by focusing on its business and operating models, including how it makes money, how it connects with business partners, and how it sustains the business over time.

Profit model

Companies can grow by establishing new ways to generate revenue and increase margins.

Network

Partnerships or network strategies provide a way for a company to deliver superior value by capitalising on its own strengths while leveraging the capabilities of others. Partnerships can happen at multiple levels of the value chain and with different business partners, ranging from suppliers and customers to even competitors.

Operations

Companies can also grow by making sure their organisation structures and operations fully support their value-creation ambitions, for example by instilling the right corporate culture and developing efficient processes in order to ensure the sustainability of the business.

Note: Tactics describe how strategic growth levers can be translated into concrete business actions. The set of tactics provided is not exhaustive but represents the ones that have been most observed. Some are expected to be more relevant in certain industries and competitive environments than others. However, they are a pragmatic source of inspiration and will enable you to build a sustainable growth path.

Growth strategy map



Operating Model

These growth strategies are focused on **the innermost workings of a company**

Brand



How a company represents its offerings and business

Profit Model



How a company makes money

Network



How a company connects with others

Operations



How a company delivers value

Brand Extension

Subscription

Alliances

Culture

Certification

Freemium

Collaboration

Management

Co-Branding

Auction

Coopetition

Structure

Private Label

Premium

Consolidation

Performance

Transparency

Membership

Public Private Partnerships

Process Efficiency

Values Alignment

Licensing

Complementary Partnerships

Corporate University

Brand Awareness

Cost Leadership

Open Innovation

Sustainability

Overview of tactics

Customers	Customers	Products	Services	Customer Experience
Acquisition	Market Penetration	Customisation	Try Before You Buy	Simplification
Acquire new customers by purchasing companies with relationships in targeted customer segments	Sell more of existing offering to current geographies	Customise products to comply with individual requirements or specifications	Let customers try and experience an offering before they proceed to purchasing	Reduce complexity and focus on being excellent at delivering specific experiences
Retention	Market Development	Bundling	Concierge	Personalisation
Retain customers by providing benefits to frequent and high-value customers	Target new, attractive geographies and enter with existing offering	Put together several products for sales as one combined offering	Provide premium service by taking certain burdensome tasks out of the customer's hands and perform them yourself	Reduce complexity and focus on being excellent at delivering specific experiences
Development	Diversification	Complements	Add-on Service	Engagement
Acquire new customers by identifying new uses and users for current products	Target new, attractive geographies and develop new product to enter	Sell additional related or peripheral products to a customer	Provide supplementary services that fit with your offering	Engage in a two-way dialogue with customers
Marketing and Sales	Partnership	Superior Product	Superior Service	Connectivity
Acquire new customers by improving marketing efficiency, increasing time spent selling, emphasising relationship-building	Establish partnerships (e.g. joint venture) with companies that have a strong presence in existing and new geographies	Develop an offering of exceptional design/ quality/convenience and/or experience	Provide higher quality/ efficacy/... services or services that offer a better experience than any competitor	Facilitate connections to make people feel they are part of a group, a community, or a movement
Cross- and Upsell Potential	Acquisition	Niche	Support Communities	Experience Extension
Grow current customers by leveraging cross- and upsell potential	Target new, attractive geographies and acquire companies with strong presence in these geographies to expand footprint	Design a product for a particular audience	Set up user communities (such as a moderated user forum) for product and service support	Extend the array of what's possible to offer a previously improbable experience
Switching Barriers	Downsizing	Design for Sustainability	Self-Service	Relationship Building
Retain customers by making it difficult to change suppliers	Reduce activities in declining existing geographies	Create offerings that do not harm the environment or that allow the customer to reduce energy/raw material consumption	Provide users with control over activities that would otherwise require an intermediary to complete	Build relationships with customers through customer knowledge and recurrent contacts
Customer Insights	Upscaling	Innovation	Tailored Service	Experience Consistency
Collect, deploy and interpret customer information to acquire, develop and retain customers	Expand presence in emerging geographies	Invest in the development of new or adjacent products	Tailor the service to individual customer needs, based on their own information	Ensure a consistent customer experience across channels, geographies, interaction moments and align them seamlessly

Brand	Profit Model	Network	Operations
Brand Extension	Subscription	Alliances	Culture
Offer another product or service under the umbrella of an existing brand and which is linked with it	Create predictable cash flows by charging customers upfront a fee to have access to the product or service over time	Share risks and revenues to jointly improve individual competitive advantage	Foster a compelling culture in the company and ensure all employees are heading in the same direction
Certification	Freemium	Collaboration	Management
Develop a brand or mark that signifies and ensures certain desirable characteristics in third-party offerings	Offer a basic service or product for free and charge a premium for the more advanced or special features	Partner with key business partners for mutual benefit	Ensure fast decision making close to the people or business
Co-Branding	Auction	Competition	Structure
Combine brands in order to strengthen together some key attributes or enhance the credibility of an offering	Allow a market – and its users – to set the price for goods and services themselves	Partner with competitors for mutual benefit	Create a flexible structure that can adapt over time and align infrastructure with core qualities and business processes
Private Label	Premium	Consolidation	Performance
Provide goods made by others packaged under your company's brand	Price at a higher margin than competitors, usually for a superior product, offering, experience or brand	Acquire other companies in the same market or complementary markets	Monitor performance and offer specific rewards to provide motivation for a particular course of action
Transparency	Membership	Public Private Partnerships	Process Efficiency
Let customers have a look into your operations and participate with your brand and offerings	Charge members a time-based payment to allow access to locations, offerings, or services that non-members don't have	Venture with public sector authorities	Standardise and create or produce more while using less in terms of material, energy consumption or time
Values Alignment	Licensing	Complementary Partnership	Corporate University
Make your brand stand for a big idea or a set of values and express them consistently in all aspects of the company	Grant permission to a group or individual to use your offering in a defined way for a specified payment	Leverage assets by sharing them with companies that serve similar markets but offer different products and services	Group all the training of the company in a university or competency centre
Brand Awareness	Cost Leadership	Open Innovation	Sustainability
Increase the proportion of the target population that knows the company exists and what the product offers and stands for	Keep variable costs low and sell high volumes at low prices	Obtain access to processes or patents from other companies to leverage, extend and build on expertise and/ or do the same with internal IP and processes	Use sustainability as a way the company operates, not as a specific initiative, (e.g. produce own electricity)

Overview of past and future corporate strategies

While most companies have primarily invested in offering a superior value proposition over the last several years, corporate leaders are now looking for new ways to differentiate themselves on the market and are starting to rethink their business models.

Over the last five years most surveyed companies across industries have focused their growth efforts on traditional growth levers, by targeting existing or new customers and by improving their product offerings. Highly-performing companies, however, have successfully shifted their growth efforts towards offering added-value services and delivering customer experiences that foster superior customer interactions.

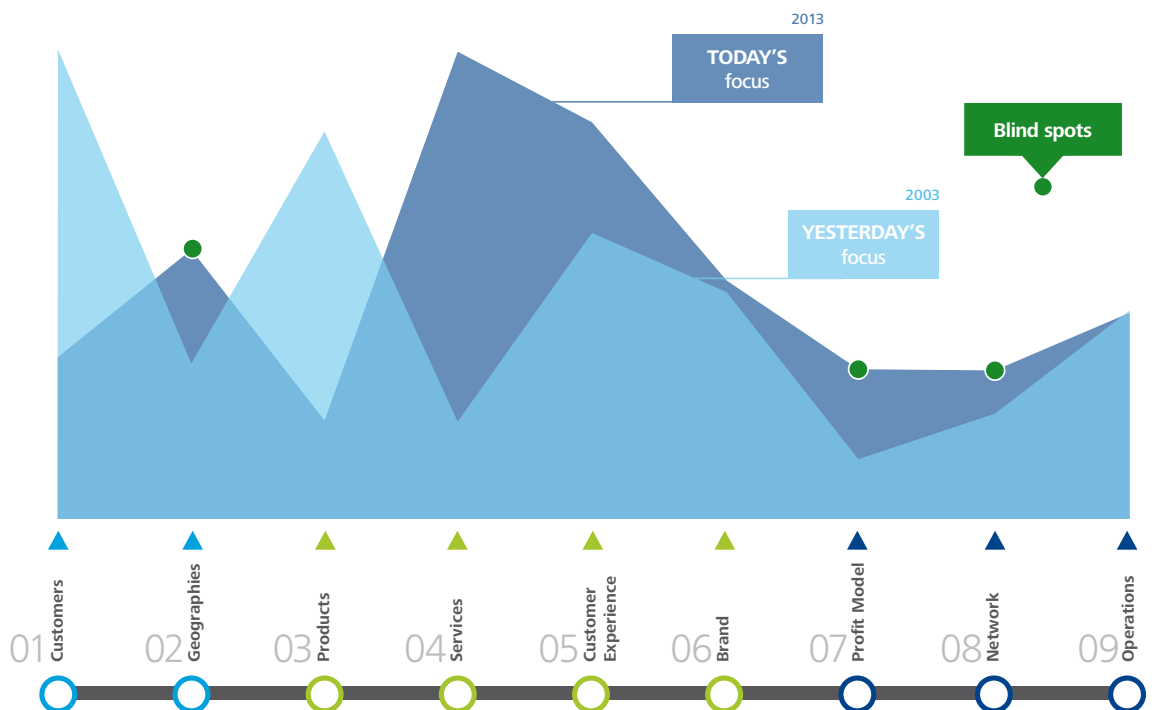
Our study uncovered a series of unexploited blind spots which companies are slowly starting to consider. Indeed, over the next two to three years companies are planning to invest in enhancing their business and operating model to drive growth, for example by creating

alternative revenue streams and developing partnerships with not only suppliers and customers but also with competitors through open innovation strategies. Similarly, companies have yet to fully exploit new geographies through the potential internationalisation of their activities.

According to corporate leaders, using a combination of multiple strategic growth levers is expected to lead to higher performance levels and produces more sustainable results than isolated improvements, and does so in ways competitors cannot easily spot or copy.

While there is no single way to profitable growth, there seems to be a “traditional” sequence of growth strategies that could be followed to maximise return. Practically, starting with growth levers that are close to current capabilities and continuing with those that are entirely new will increase the chances of success and maximise return on investments.

Growth strategy



Tomorrow's Super Achievers have started experimenting with new ways to differentiate themselves by rethinking their business models, sometimes drastically.



Who are some of the Super Achievers and which growth strategies have they adopted?

Taking a step back, we started our journey by analysing the financial performance of companies active in Belgium over the last decade. Then we broke down the winning formula for superior sustainable performance into three simple yet powerful rules. Finally we provided a proven framework for corporate leaders to reinvent their business.

Slightly over 200 companies consistently outperformed their peers in both turnover growth and return on assets over the past decade and earned the Super Achiever label. By means of desk research and interviews with industry captains and federations, we identified eight remarkable and inspirational success stories to share: Audi, Bonar, DEME, EVS, GSK, Nespresso, Soudal, and Vivaldis Interim. While these companies all face very different industry- and company-specific dynamics, every one of them followed our three rules. When having to allocate scarce resources among competing priorities, all eight companies systematically prioritise those initiatives that contribute most to the realisation of the three rules in the long run: Value, Revenue, and Agility.

In order to keep winning in a constantly changing environment, each of the eight success stories has developed a unique take on the execution of these three simple yet powerful rules. Indeed, they all have developed a unique growth DNA code by combining

different growth levers and tactics, taking into account the specificities of their industry as well as their own capabilities and assets. While all of them have generally explored multiple sources of growth to support their ambition targets, we have assigned companies to the most relevant sources only for comprehensibility reasons.

Prior to embarking on a journey towards sustainable growth and constructing a portfolio of sustainable growth initiatives, corporate leaders should consider three types of growth strategies: core, adjacent, and disruptive.

In order to choose the right level of growth ambition for themselves, companies need to assess their existing capabilities and own appetite for risk, revisit their competitive position, examine how competitors capture and meet customer needs and expectations, and imagine how to better serve them.

By being clear about where and how you will grow, you will significantly increase your odds of success

Core – Changing the known

Protecting their current business is the traditional focus of companies looking to sustain their core competitive advantage. Companies who choose to “change the known” focus on maximising profitable growth from their existing products, services, and markets by delivering incremental improvements. They aim at sustaining and strengthening their competitive advantage and in order to do so, leverage their unique capabilities to differentiate themselves and meet customer needs.

In terms of sources of growth, companies adopting core growth strategies usually focus their investments on improving their value proposition. They incrementally improve existing products and services, build a strong brand and deliver a superior customer experience to attract and retain customers in their existing markets.

When should a company “change the known” by focusing on its core business?

Companies who have developed a strong core business but underperform in their respective market should consider attaining the full potential of their core business prior to embarking on more distant growth options. Core opportunities are the most relevant when, on the one hand, current value propositions are strong in the market and drive reasonable growth and, on the other hand, strong assets and capabilities can be leveraged to strengthen a competitive advantage in existing markets.

Companies that prioritise growth opportunities close to their core business generally do so to fully exploit underexplored potential in their current market. Indeed, while it might seem attractive for many to pursue some new hot markets, it could be distracting or risky to abandon a still-viable core business prematurely.

Growth strategy map



Do what you do today better to get a larger slice of the pie

– Change the known



Anke Ulen
CEO

Strategy

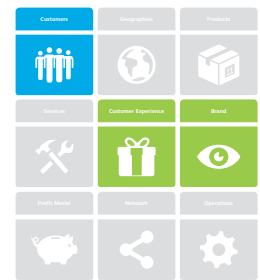
CORE

3
rules



"Our strategy to focus on niche markets has allowed us to achieve exceptional growth"

Growth DNA



Vivaldis Interim

Vivaldis Interim is an employment agency that specifically focuses on the local and regional SME market. With Vivaldis Construct it also has a division that exclusively targets the construction industry. The company competes in a saturated, highly competitive market, and is confronted with the commoditisation of temporary agency work. However, the demand for flexible work is expected to grow as economies alternate between periods of positive and negative growth. And the increasing mismatch of talent around the world will likely make more important the role of employment agencies as matchmakers between demand and supply on the labour market.

Over the course of the last decade Vivaldis Interim has achieved and maintained a profitability level three times superior to the industry average. It has done this by continuously investing in generating growth through increasing proximity with its end markets, enhancing its customer experience and brand, and investing in effective operations to support its growth ambitions. While the HR Services industry was hit hard in 2009, Vivaldis Interim successfully weathered the crisis because of the solid basis created by its carefully-crafted growth approach, its "lean and mean" structure, and its ability to quickly respond to rapidly-changing market dynamics and customer needs.

Rule #1 – Prioritise increasing value over reducing prices

Following a difficult year in 2009 Vivaldis Interim laid the foundation for exceptional growth in the following years. As an employment agency with a focus on the SME market, the company realised it needed to be closer to its customers. SMEs only have a limited number of vacancies and find it crucial to place the right person in the right place. The company delivers a personal service to both candidates and SMEs, setting it apart in the eyes of both types of customers. A thorough understanding of its customers and business allows the company to react fast and tailor services to their needs. The superior value for clients that results from this higher-cost and labour-intensive approach justifies its price premium compared to competitors that focus primarily on multinationals.

Rule #2 – Prioritise increasing revenue over reducing costs

In the two years following 2009 Vivaldis Interim invested in the opening of 10 new offices, going from 16 to a total of 26, and succeeded in doubling its revenue compared to 2009. Now the company has more than 35 offices and aims at being within a 15-kilometre radius of every company in Flanders and Brussels, a strategy which results in continued strong revenue growth. Indeed, over the last decade the company saw its turnover grow by more than 20% on a yearly basis and accepted higher costs than its peers to deliver superior non-price value.

Rule #3 – Prioritise rapidly experimenting with new ideas over developing extensive business plans

In order to accelerate its speed to market and pursue new growth opportunities quickly and efficiently, Vivaldis Interim has introduced a flat organisational structure. Offices in the network are self-managing clusters that consist of an office manager and one or two consultants, eliminating the need for middle management and enabling fast decision-making. By investing in the retention of its office managers, the company succeeds in establishing and nurturing long-term relationships with clients.

Vivaldis further differentiates itself from competitors thanks to its open, home-like corporate culture that fosters diversity. Key performance indicators are used to provide insights and steer, not to control. The company invests in its employees by letting them do what they are good at and enables them to further develop their strengths. This culture, combined with confidence in the future because of great results, creates employee engagement and motivation, which is essential for the company's success.



Gerhard Schneider
General Manager

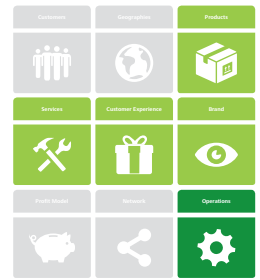
Strategy

CORE



"We ask our people to challenge themselves on a daily basis: what can we make tomorrow better than today"

Growth DNA



Audi

Audi Brussels is part of Audi Group, an international organisation employing about 67,000 people globally, assuring the delivery of almost 1.5 million Audi cars in 2012. The group generated €48.7 billion of revenue which represents a 10.6% increase compared to 2011.

The Belgian production unit, situated in Vorst/Forest, has existed since 1954 under the name Anciens Etablissements D'leteren Frères. In 1970 Volkswagen AG took over and modernised the site. After a restructuring in 2007 Audi gained responsibility over the site and the company was renamed Audi Brussels. Today about 2,551 people work there producing the Audi A1 and A1 Sportback.

Rule #1 – Prioritise increasing value over reducing prices

At the heart of Audi Group is the Audi brand, which embodies modern, distinctive design and technological innovation, along with a high standard of quality in its build and the materials it uses. Audi's number one priority is to satisfy high customer expectations and develop pioneering automotive concepts. This is given outward expression in the brand essence "Vorsprung durch Technik".

Audi's global vision is very clear-cut: the company wants to become the world leader in delighting customers. In pursuit of that vision, excellent products and a unique world of discovery and experience are offered. The introduction of the Multi Media Interface (MMI) is a good example of tapping into important trends – like connectivity, networking and experiences – by the use of Google Street View, photos as destinations, the City Events function and the recognition of handwritten letters and numbers.

Audi realises that customers do not just buy a vehicle. A high level of emotion is also involved, as is image, experience and prestige. This can be illustrated by Audi's "showroom for senses"; the Audi City in London, where customers can virtually customise their own Audi in the showroom.

Audi also pays particular attention to customer experience in the sales and aftersales process. Both sales force and service people receive dedicated training in how to approach customers and deliver value for them. Clear rules, high standards, regular mystery shopping and end-customer interviews are put in place to assure the focus on high quality and customer delight is also translated into the sales and service process.

Rule #2 – Prioritise increasing revenue over reducing costs

The last couple of years brought major economic challenges, which have hit the automotive industry hard. There was a clear slowdown in global economic growth and many passenger car markets proved

intensely competitive, especially in Western Europe. Amid this difficult environment, Audi Group's continuing expansion of its worldwide manufacturing network and focus is an unmistakable proof of its strength.

Audi heavily invests in new product development, innovation, technology, and expansion of the production network. As part of its long-term product initiative, Audi introduced a large number of new products in 2012. For example, the A1 car line gained a five-door version, which affords more headroom, provides easier access and, thanks to innovative efficiency technologies, has lower fuel consumption.

For Audi Brussels, the people aspect is one of the most important focus points. While technologies and machines can work anywhere in the world, Audi employees make the difference in delivering daily high quality. In the learning centre on the Brussels site, employees will not only learn how to build a car through extensive training, but also be taught how to improve processes. Additionally, Audi Brussels takes part in a dual education system with Brussels schools, where students can put the theory they learn at school into practice in the Audi factory.

The mindset of continuous improvement is an important part of Audi's DNA. This is reflected in the Audi Idea Programme, where employees are encouraged to come up with new ideas and improvements and to put them in place. Another fundamental aspect for continuous improvement, collaboration, and involvement is the concept of shop-floor management, where the shop-floor manager captures improvement points on the floor through open dialogue and discussion.

Rule #3 – Prioritise rapidly experimenting with new ideas over developing extensive business plans

Continuous improvement and high quality is stimulated by a healthy internal competition between the different production sites in their quest to be granted the permission to produce the next model. Despite this competition, collaboration and shared knowledge between the different Audi sites exists. The different sites have considerable freedom to experiment with new ideas, specific technologies, or process improvements. If a novelty proves successful at a certain site, it can be implemented or introduced in other sites through extensive team collaboration.

Next to internal rivalry, the intense competition with other carmakers in the same premium segment, like Mercedes and BMW, also stimulates Audi to become better and better and think forward to introduce innovative solutions.

Adjacent – Changing the boundaries

Extending their current business is the traditional focus of companies looking to strengthen and spread their advantage. Companies who choose to “change the boundaries” typically adapt their existing assets and capabilities or develop new ones to capitalise on pockets of demand in near adjacencies. By leveraging their existing assets and capabilities, these companies stretch the boundaries of their existing business outward.

In terms of sources of growth, companies adopting adjacent growth strategies usually invest in the development of new products and services instead of incrementally improving their existing offering, or enter new markets or geographies instead of penetrating existing ones.

When should a company “change the boundaries” by focusing on developing adjacencies?

Adjacent opportunities are critical to the survival of businesses with a weakening core. Throughout their development, many companies will face declining growth and profitability due to market saturation, intense competitive pressure, or the existence of better substitutes, to name a few. Similarly, companies that benefit from a strong core business but are close to full market potential will most likely need to rely on adjacent moves to ensure their long-term sustainability.

In both cases, companies should consider opportunities that will allow them to play differently in current markets. Companies should be looking at opportunities to invest in adjacent opportunities, by leveraging existing assets and capabilities in new ways to create new advantages.

Reframe what you do today to get a larger slice of the pie.

– Change the boundaries





Orwig Speltdoorn
CEO

Strategy

ADJACENT

3
rules



"Unfortunately, we can't take the time to celebrate; we go for the next challenge"

Growth DNA



Bonar

Bonar is part of Low & Bonar plc, a market-leading international group manufacturing and supplying a wide range of products to the Performance Materials industry. Low & Bonar supplies yarns, fabrics and fibres to a broad range of end markets including civil engineering, building products, transport, sports & leisure, agriculture, and other industrial applications. The group employs about 1,900 people worldwide and has production facilities in Belgium, the Netherlands, Germany, UK, USA, Czech Republic, and Hungary, as well as joint ventures in China and Saudi Arabia.

Located in Belgium since 1925, Bonar NV is a leading European producer and supplier of technical fabrics. It has capabilities in extrusion and textile technologies like nonwovens and woven, as well as 3D technology. The company focuses mainly on three segments: Civil is the most important, followed by Interior & Transport and Building & Industry.

Over the last decade, Bonar has achieved and maintained a profitability level about ten times higher than the industry average despite the fact that textile companies have been hit hard by the economic crisis. Bonar also clearly outperforms the industry average in terms of revenue growth by building leading positions in strategic niches, tapping into growth opportunities in emerging markets, the use of unique technologies, and an important focus on talent.

Rule #1 – Prioritise increasing value over reducing prices

Bonar has become a very successful player in the complex technical textile industry through a very clear strategy, as illustrated by its slogan "Performance materials engineered to help build your business". Bonar holds leading positions in niche industrial markets thanks to its high focus on the innovative design and manufacture of components to meet specific customer needs.

Bonar does not sell products, but does sell performance. The performance of Bonar's products is crucial, as this is one of the most important value drivers for their customers. Through unique techniques and close collaboration with its customers, Bonar offers innovative solutions.

In its innovation and R&D much attention is given to sustainability, efficiency, and ecology. Bonar pays particular attention to using resources in the most efficient way throughout the production process.

A very high service level, fast delivery, and reliability are other very important differentiating factors that Bonar offers its customers.

Rule #2 – Prioritise increasing revenue over reducing costs

Over the last decade Bonar has clearly focused on niches and does not aim to play in specific volume markets. In order to evaluate whether to tap into a specific niche, Bonar uses a strategy based on three rules. First of all, the segment should have a growth opportunity of at least 1.5 to 2 times global GDP growth. Secondly, Bonar determines through benchmarking whether the margins in the niche are satisfactory. Finally, it should be possible for Bonar to become leader in this particular niche.

By applying the same strategy, some niches are abandoned (e.g. by selling a specific division) or some technologies and know-how are re-used in another market where the niche is still attractive.

Bonar experiences accelerating growth through investing in emerging markets (like joint ventures in China and recently in Saudi Arabia) by creating business and technology platforms outside their "heartland" and pulling existing technologies, products, and expertise to exploit opportunities.

Bonar's leading position in its niches is based on innovative design. In order to supply innovative solutions and to differentiate itself, the company has a research centre and collaborates with universities and embedded scientists. Bonar also works closely with its suppliers, customers and even with some competitors. M&A is another important way for the company to gain specific technologies and know-how.

Rule #3 – Prioritise rapidly experimenting with new ideas over developing extensive business plans

The success story of Bonar owes much to a clear and focused growth strategy that accompanies the large investment in the organisation, R&D, M&A, innovation, new niches, and geographical expansion.

The company is continuously looking for new innovative solutions and assesses the potential of interesting emerging markets. By using unique technology platforms and leveraging market and customer knowledge, Bonar uses its innovation process to create new products that make a difference for its customers and differentiate it from competition.

The company's culture promotes the values of focus and engagement, and refuses to stand still. Moreover, the company's ability to effectively apply the three Bonar rules (growth, margin, leadership), to be consistent, and to proactively manage its product portfolio are assets to developing and maintaining a sustainable competitive advantage.



Christophe Weber
President

Strategy

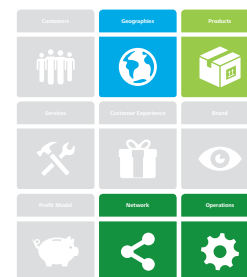
ADJACENT

3
rules



"By delivering innovation and expanding access to our products we create value for society and our shareholders"

Growth DNA



GSK Vaccines

GlaxoSmithKline is a science-led global healthcare company that researches and develops a broad range of innovative medicines and brands. GSK has three primary areas of business: pharmaceuticals, vaccines and consumer healthcare. The firm has operations in over 115 different countries on five continents and employs a little more than 99,000 people worldwide.

GSK's vaccine business produces a broad range of paediatric and adult vaccines to prevent a range of infectious diseases. The business is a sector leader with nearly 900 million doses distributed to 170 countries in 2012. The growth of emerging markets is creating an opportunity for the company to develop a new business model.

Rule #1 – Prioritise increasing value over reducing prices

In 2012 GSK Vaccines had the widest range of vaccines in stock with a large product portfolio of 30 vaccines. Today's success allows the business to invest to ensure tomorrow's success. The R&D organisation has recently been transformed to be better able to sustain a pipeline of prophylactic and therapeutic products that offer valuable improvements in prevention and treatment for patients and healthcare providers. GSK also invests in strategic alliances, allowing it to access new areas of science and share the risk of development with partners. Today GSK Vaccines has the strongest pipeline among its peers. It targets all three of the World Health Organisation's priority diseases – HIV, malaria, and tuberculosis – with a very comprehensive, tiered pricing strategy to give access to vaccines to a broad population.

Rule #2 – Prioritise increasing revenue over reducing costs

GSK aims to create a balanced business and product portfolio capable of delivering sustainable revenue growth. Over the past two years GSK Vaccines has implemented a global transformation programme to deliver significant savings. This will support investments in its priority growth businesses, as well as offset pressures on the organisation's margins resulting from changes in the shape and mix of its business.

Due to significant healthcare cuts in Europe, investments in Asian countries have become more attractive. The low penetration in Asian countries and high prevalence of infectious diseases offer growth opportunities for vaccine manufacturers. Like some others, GSK has substantially increased its investments in higher-growth areas such as emerging markets and Japan.

In Europe, GSK has been transforming and simplifying its operating model so that it can reduce complexity and become more efficient. The company has begun a new, major change programme across manufacturing and R&D to deliver further savings, with the ultimate objective to focus resources on growth opportunities in a challenging market environment.

Rule #3 – Prioritise rapidly experimenting with new ideas over developing extensive business plans

Going forward, GSK Vaccines will continue to increase the capability to innovate beyond his core business, put the customer first, and promote the flexibility and agility of the organisation, as well as its speed to market. This will allow it to anticipate and effectively meet market needs and stringent regulations. To do so the company is working on effectively integrating the value chain, from R&D to manufacturing, while increasing synergies across the organisation. Continuous investments in leaders, talent, and internal mobility across departments are also expected to significantly contribute to the realisation of the company's growth ambitions.



Vic Swerts
Chairman of the Board

Strategy

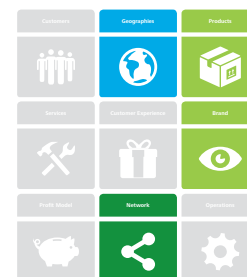
ADJACENT

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rules



"If you start to relativize or think about what is important, you are already wrong. Speediness and sense of urgency are critical."

Growth DNA



Soudal

Soudal is a family-owned manufacturer of sealants, polyurethane foams and adhesives. The company serves professionals in construction, retail channels and industrial assembly in over 130 countries worldwide. It employs about 1,800 people and is independent from large multinational corporations.

The difficult economic climate and its impact on the building and construction sector have confronted Soudal with a number of challenges. Because of declining new construction and sales of existing housing in Europe and North America, contractors have had to compete for a share of the stagnating or even declining market. This has caused a trend toward lower-cost products and makes it increasingly difficult for Soudal to pass on higher raw material costs. On the upside, however, the fast pace of urbanisation and the explosive growth in the number of middle-class households in emerging markets are expected to boost the demand for construction. A surge in customer and end-consumer demand for sustainable buildings and energy efficiency has also become apparent, and is likely to boost demand for Soudal's solutions.

Over the course of the last decade, Soudal has achieved and maintained a profitability level largely superior to the industry average by combining organic and inorganic growth, agility, and presence in emerging markets, with developing innovative system solutions and investing in effective operations.

Rule #1 – Prioritise increasing value over reducing prices

One of the pillars of Soudal's strategy is to develop and deliver superior-quality products and tailor-made solutions in selected market segments. As mentioned by Vic Swerts, Soudal's founder and Chairman of the Board, "The bitterness of poor quality remains longer than the sweetness of a low price." The company's positioning is to prioritise its own brand, which represents more than 65% of its global revenue, over private-label products in order to gain sustainable long-term competitive advantage.

The company heavily invests in continuous innovation. It develops new products, new services, and new automated production processes to effectively respond to market needs and global megatrends, such as climate change. This innovation strategy aims at reinventing and enlarging the company's product portfolio by partnering with a wide array of chemical suppliers and by developing an intimate relationship with clients. With sales of innovative products in 2012 more than double that of 2011, this strategy clearly pays off.

Rule #2 – Prioritise increasing revenue over reducing costs

The company's first focus is sales rather than manufacturing. ("Manufacturing is a temporary challenge while sales is a challenge for a century.") The market segments for Soudal's product offering are gigantic, which could explain how the company is able to achieve double-digit growth in a sluggish market.

The growth path is characterised by a clear international orientation (90% of the revenue comes from exports) while maintaining a sturdy and permanent anchor in the Benelux. Soudal continuously invests in production and storage capacity expansions to accelerate organic growth and create new opportunities for its business. Simultaneously, the company also expands through acquisitions in order to quickly react to emerging markets. For example, the company recently took over Slovenian company TTK Srprenica, obtaining half of the market share in Slovenia and Bosnia & Herzegovina. It also opened a new plant in India, acquired a competitor in Turkey, acquired shares of a joint venture partner in South Africa, established a sales subsidiary in Brazil, and expanded its plant in China.

Soudal has clearly adopted a strategy of local production to conquer local markets. The company's product mix is adapted to local needs. And with 11 manufacturing sites on four continents and 35 subsidiaries worldwide, the company is able to ensure optimal technical and logistical support. Through its premium after-sales service, Soudal differentiates itself from its competitors.

Rule #3 – Prioritise rapidly experimenting with new ideas over developing extensive business plans

According to Vic Swerts, speedy decision-making is one of the critical success factors, as "the absence of a sense of urgency negatively impacts motivation." The company intends to identify and pursue various potential sources of future growth simultaneously, as opposed to prioritising and cutting down ideas too early in the process. Being privately owned the company is able to speed up its decision-making process, build an entrepreneurship DNA, and promote passion throughout the organisation. The next challenge for Soudal's Chairman of the Board is to keep this passion alive and pass it on.

Disruptive – Changing the game

Disruptive players focus on finding or developing new businesses by creating new markets, or by shifting the basis of competition through the development of new assets and capabilities. These players disrupt markets because they play by entirely different rules and use different capabilities and assets from the norm. Disruptive players generally embed innovation across the organisation and put in place operations and processes that provide them with unique capabilities and enable them to differentiate and meet customer needs.

Although disruptive growth can be accomplished by focusing on a limited number of growth levers – by completely changing the profit model, for example – disruptive players often combine multiple levers to help sustain growth. They typically play on a holistic combination of market, value proposition and operating model growth levers.

When should a company “change the game” by focusing on finding or creating entirely new businesses?

Disruptive opportunities are typically not predictable. They are more distant and uncertain, carry the greatest risk, and demand the most commitment to succeed. However, they usually represent the most financially rewarding potential. They are best indicated when a market is stagnant, when current offerings need to fundamentally evolve to drive growth, or when competitors are taking drastic measures that put the traditional core business at risk.

Create new markets to enlarge the size of the pie.

– Change the game





Alexander Schoenegger
Managing Director

Strategy

DISRUPTIVE

3 rules 

"We deliver the ultimate coffee experience"

Growth DNA



Nespresso

Nespresso is an autonomous, globally managed business of the Nestlé Group. With corporate headquarters in Switzerland, it is present in almost 60 countries and counts over 8,300 employees worldwide. The company serves business-to-consumer and business-to-business segments, allowing consumers to enjoy high quality coffee at home and to recreate these coffee moments wherever they are.

Over the course of the last decade Nespresso has cemented its position in its mature European markets and expanded its presence in the strategic Asia Pacific and Americas regions. Despite the crisis the company has managed to maintain a profitability level more than two times superior to the industry average by continuously investing in generating growth. This has been achieved through a strong focus on developing superior products and services, enhancing the customer experience and engagement, and selectively investing in distribution channels to support its exclusive brand.

Rule #1 – Prioritise increasing value over reducing prices

Nespresso has revolutionised the coffee industry and become one of the most successful global food and beverage brands in the world by delivering the “ultimate coffee experience”. To build on the insight that customers want to be part of luxury brands, not just use them, Nespresso set up the Nespresso Club, which creates an exclusive sense of belonging and offers an unparalleled opportunity to engage and strengthen relationships with its customers.

In addition to one-time transactional sales of espresso makers with a distinctive design, Nespresso also generates repetitive business from selling Nespresso capsules at a premium.

Rule #2 – Prioritise increasing revenue over reducing costs

Nespresso pursues a business model by owning the coffee value chain from the bean to the cup. To achieve this it had to build dedicated distribution channels for the sales of coffee capsules. Furthermore, a set of exclusive services were created to allow the consumers to access Nespresso coffee capsules wherever and whenever they desire.

Today Nespresso uses and integrates a wide array of channels, including a global network of over 270 unique boutiques, an online e-platform, and call centres available 24/7.

In addition to these business-to-consumer channels, Nespresso provides business-to-business solutions, partnering with 25 major airlines and over 5,000 business jets as part of their exclusive offering to customers. It also partners with major international luxury hotel chains and top-end restaurants, working together to enhance the culinary experience of the guests.

Rule #3 – Prioritise rapidly experimenting with new ideas over developing extensive business plans

Nespresso has developed the organisational capabilities required to engage with customers on a frequent basis in order to continuously and quickly imagine and develop innovative products and services. The Nespresso Club, for example, allows the organisation to engage and strengthen relationships with existing customers. On a yearly basis Nespresso launches limited editions from specific areas around the globe, enabling club members to discover new, exclusive coffee varieties. The campaign is supported by 360° campaigns, engaging with millions of customers and gathering real-time feedback.

The next challenges for Nespresso consist of continuously strengthening the direct relationship with its Club members, ensuring a continuous evolution of its sustainable business programme, and further maintaining its entrepreneurial spirit and culture to effectively support future strategic ambitions.



Alain Bernard
CO
Els Verbraecken
CFO

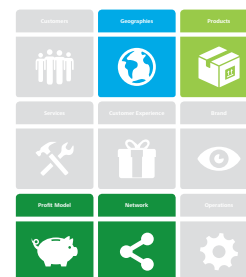
Strategy

DISRUPTIVE

3 rules 

"Our DNA is our capability to renew ourselves, to develop a technological leadership and advance."

Growth DNA



DEME

DEME is a Belgian dredging, environmental and marine engineering group, whose core activities are dredging and land reclamation. In support of its core business, DEME also offers marine engineering solutions at sea, services to oil and gas companies, installation of offshore wind farms, and environmental activities such as soil remediation and recycling of dredged materials. The group has operations in over 50 different countries on five continents and employs a little more than 4,300 people worldwide.

The company has for years been confronted with a plethora of challenges, such as increasing international competition in its core business, a raging war for talent, and challenging economic conditions that left governments with little room for large infrastructure investments. However, it also saw numerous new growth opportunities emerge. The renewable energy market grew rapidly, and demand for land reclamation and adaptation of waterborne transport infrastructure was boosted by demographic growth and rapid urbanisation in emerging markets, to name a few examples.

Rule #1 – Prioritise increasing value over reducing prices

By means of its diversification strategy (materialised by Dredging+), the company has evolved from a pure dredging company to a full-blown engineering, procurement and construction (EPC) contractor. Through project financing, the development of concession agreements, and maintenance contracts, DEME focuses on the development of new projects from an early stage. Thanks to its multidisciplinary capabilities, the synergies in many projects, and its integrated corporate structure, DEME has become a global solutions provider recognised for delivering superior value.

Rule #2 – Prioritise increasing revenue over reducing costs

The company highly values cooperation within and across industry borders for the development of new activities and delivery of projects. It has set a clear strategic aim to be strong in its home market (Benelux) while consciously but selectively settling in a number of high-growth countries, such as Singapore, Brazil, Qatar, and India. It has also adopted a "hit & run" strategy in other countries. All the activities that the group chooses to perform in addition to dredging and reclaiming land must support the core business, either directly or indirectly. Over the last decade, DEME saw its turnover grow, mainly organically, by 13% on a yearly basis.

In combination to this growth, DEME is continuously managing its cost of different head offices worldwide.

To maintain profitability levels in its core business, which is facing increasing competition, the company has recently implemented initiatives aimed at improving efficiency and productivity. They are, however, always executed with the ultimate goal of supporting future growth.

Rule #3 – Prioritise rapidly experimenting with new ideas over developing extensive business plans

Heavy investments in R&D and a multidisciplinary and methodical approach to innovation significantly contribute to DEME's competitive advantage and are one of the main drivers behind the company's worldwide commercial success and growth. By continuously investing in new activities and solutions that address future needs and challenges, DEME puts in place long-term business drivers offering new opportunities for the group. DEME's ability to continuously renew its business and bring its innovations to the market faster is recognised and allows the company to claim an innovation leadership. The company's technical leadership is indeed widely acknowledged in the industry, and innovations are often trendsetters in the sector.

While these cases all face very different dynamics specific to their industries and company contexts, every one of them has followed our three rules. When allocating scarce resources among competing priorities, all eight companies systematically prioritise initiatives that contribute most in the long run to realising the three rules: Value, Revenue, and Agility.



Jacques Galloy
CFO

Strategy

DISRUPTIVE

3 rules



"We need to 'delight' our customer; we do not often discuss price."

Growth DNA



EVS

EVS is a global supplier of broadcast production equipment and services. The company is headquartered in Belgium and employs about 460 people in Europe, the Middle East, Asia Pacific, and the Americas. It provides media servers and integrated hardware and software solutions to the TV broadcast industry.

The broadcasting industry consists of both large players such as Sony, Panasonic, and Microsoft, and smaller specialised players. It is technologically advanced and highly competitive, with a risk of mass technology disruption. The recent period of economic turmoil confronted EVS with challenges such as balance-sheet-constrained customers and currency fluctuations that impacted its competitive positioning. However, the industry is also characterised by strong underlying growth drivers, such as obligatory technology replacement. TV stations are pursuing efficiency improvements, which stimulates the conversion from tape-based to tapeless workflows. Increasing demand for higher picture quality and more engaging productions, growing interest in live programmes, and developments in emerging markets are also expected to boost growth.

Over the past decade EVS has achieved and maintained a profitability level fourteen times superior to the industry average, by developing truly innovative products that perfectly meet market needs and delight customers.

Rule #1 – Prioritise increasing value over reducing prices

EVS typically targets niches in the complex market where the combination of its core strengths (strong integration of its high-performance and reliable technological platforms, a wide range of applications, and top quality service) can be leveraged successfully.

The company has launched a user community concept to foster dialogue among 16,000 users and anticipate and create future market needs. The focus is not on the productivity of the EVS organisation but rather on its clients' productivity. Indeed, EVS invests in specific clients and primarily aims at increasing its clients' productivity through the design of innovative solutions and products. Such a strong interaction between the company and its customers allows EVS to consistently improve and innovate, which is essential to secure its sustained growth.

The group has strong vertical integration between design, assembling, and sales activities at local level and with its R&D departments. This facilitates rapid adaptation of products to ever-changing customer needs, drastically shortens product development cycles, and provides technology independence. More than half of the staff now works in R&D and the company is widely recognised as a very strong innovator in the industry.

Rule #2 – Prioritise increasing revenue over reducing costs

EVS has recently adopted a new growth strategy that focuses on four growth markets: sport, entertainment, news, and media (ENM). Sport is EVS's historical focus, representing 67.5% of its 2012 revenues. The company dominates the remote broadcasting niche and aims at expanding its sales reach in emerging countries catalysed by upcoming international sporting events. These major events are also used for large-scale testing of new products. With the new growth strategy, the company targets a bigger share of the much larger ENM market in the medium and long term.

EVS pursues an "installed base strategy" to generate future growth. The company is playing on Q (quantity of products sold) rather than H (development hours) to develop standardised solutions that can be sold globally.

EVS consciously invests in future growth to translate its important R&D investments into revenue. For example, the company significantly expanded its service and sales network between 2008 and 2012, doubling the number of field engineers and increasing its presence in emerging markets. This focus on revenue, as opposed to costs, is ingrained in the corporate culture. Financial controllers focus on the top line, and employees are categorised as costs centres or revenue generators, with a strong willingness to be part of the second category ("Green Caps").

Rule #3 – Prioritise rapidly experimenting with new ideas over developing extensive business plans

The development of EVS has been facilitated and accelerated by its ability to rapidly make decisions, and by establishing a governance model that brings capital, labour, owners, management, and employees closer. Indeed, the soul of the company during this fast growth period was in its ownership and capital. Recent changes and a new strategy will most likely change this equilibrium. But speed, anticipation, and reactivity will remain of utmost importance to continue on the road to success.

What to remember?

Surveyed corporate leaders remain concerned about the way public policy issues and the highly competitive market landscape may affect their ability to grow their business in the future. While existing downsides and risks are significant, the opportunities generated by today's challenging environment are equally substantial, especially for those willing to embrace them with conviction and urgency.

As illustrated throughout the publication, our research project looked to identify, decode, qualify, and quantify the management practices that contribute most to sustained, superior corporate performance. Despite today's challenging economic environment, we uncovered more than 200 companies across industries that have consistently outperformed their respective markets over the last ten years, and which qualify as Super Achievers.

More than being lucky, highly successful companies have adopted strategic choices that are consistent with three elementary rules.

Rule # 1: Prioritise increasing value over reducing prices

Differentiation based on non-price dimensions is a primary driver of superior long-term profitability. Super Achievers systematically invest in strategies that aim at enhancing value by offering non-price benefits, such as excellent functionality, superior customer service, or a great customer experience.

Super Achievers listen and engage with their customers to truly understand and anticipate what they need and expect. They involve customers in every step of product development and capture their feedback throughout the customer journey.

Rule # 2: Prioritise increasing revenue over reducing costs

Our research revealed that highly successful companies garner superior profits by achieving higher revenue than their competitors, through either higher prices or greater volumes, not by solely reducing costs.

While keeping an eye on operational efficiency, Super Achievers generally accept higher costs as long as they help the organisation deliver superior non-price value and generate sufficient resources to keep investing in revenue-enhancing growth strategies.

Innovative partnerships with academics, suppliers, and companies from different and/or similar sectors are often considered to take advantage of the partners' offerings, processes, and resources, while capitalising on internal strengths.

Rule # 3: Prioritise rapidly experimenting with new ideas over developing extensive business plans

More than ever, corporate leaders appear to be awaiting the arrival of a more robust recovery and a lessening of uncertainty before committing to large investments. This is understandable. However, we have entered a new era characterised by low growth, rapid change, and fundamental uncertainty. High-performing companies have increased their speed to market and adapted corporate structures, culture and behaviours accordingly.

1/

Prioritize increasing value over reducing prices

85%

of surveyed corporate leaders believe that strategies aiming at increasing value have more potential to lead to long term success than strategies aiming at reducing prices



2/

Prioritize increasing revenue over reducing costs

2/3

of the companies surveyed agree that strategies aiming at increasing revenue over reducing costs have more potential to lead to long term success



3/

Prioritize experimenting new ideas rapidly over developing extensive business plans

100%

of interviewed corporate leaders agree that experimenting new ideas rapidly has more potential to lead to long term success than developing lengthy, extensive business plans



High-performing companies take the time to explain to various stakeholders how the organisation is planning to create value in the future and which growth levers they will focus on in order to create awareness, gain buy-in for future growth strategies, and facilitate access to capital.

Setting up the right organisational and governance structures is a key to success, as well as to ensuring the organisation becomes more agile and flexible. This is achieved by cascading down the right leadership and management styles, customer mind-set, and performance management processes and rewards, among other things.

Super Achievers instil an entrepreneurship culture, encourage employees to innovate, and look for rapid ways to experiment with different ideas and models. They expect and accept failure, and always learn from past experiences as a foundation and fuel for future endeavours.

As we navigate through a slow economy and systemic disruption, growth will continue to be critical to ensure survival and establish advantage for the better times ahead. In order to grasp the full potential of future growth opportunities, today's corporate leaders will need to reinvent their business, sometimes fundamentally, and adjust to the rapidly-changing environment.

Prior to embarking on a journey towards sustainable growth, corporate leaders should determine the right level of growth ambition for themselves by assessing their current capabilities and own appetite for risk, revisiting their competitive position, examining how competitors capture and meet customer needs and expectations, and imagining how to better serve them.

Tomorrow's Super Achievers have started experimenting with new ways to differentiate themselves by applying our three rules.

Will you be the next Super Achiever?

Will you be the next Super Achiever?



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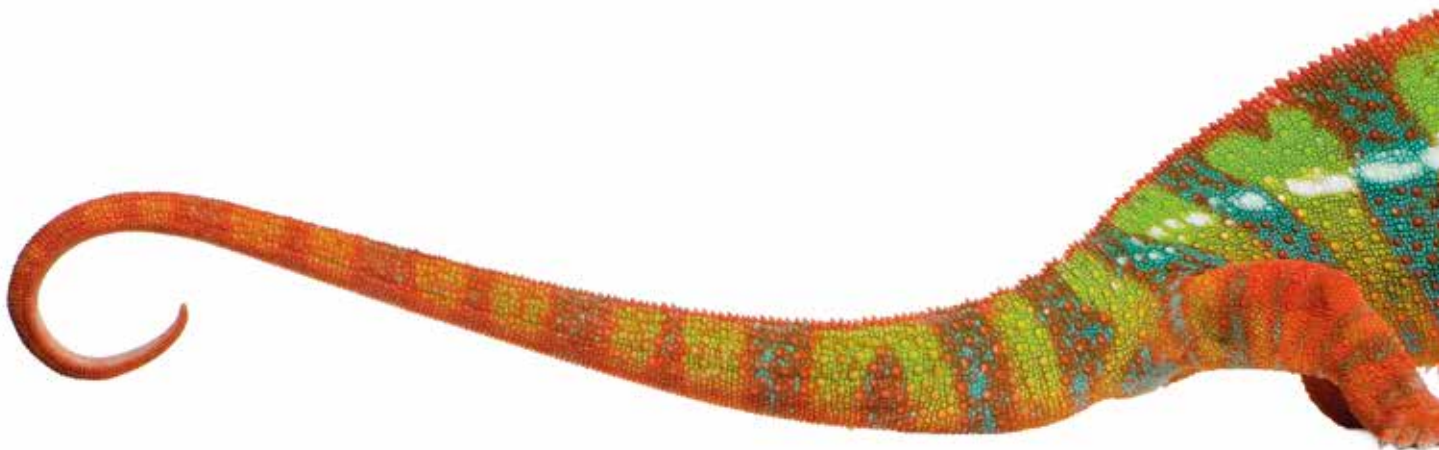
Acknowledgments

We would like to thank the many interviewees who took the time to speak to us and share their insights on the topic. More specifically, we would like to thank the top management of the FEB-VBO, of the FEB-VBO member federations contacted throughout the research project, the industry captains as well as the top management of the following companies who kindly accepted to contribute to our research project by providing valuable insights: Ageas, Audi, Axa, Bonar, DEME, EVS Broadcast Equipment, GSK Vaccines, Nespresso, Soudal, and Vivaldis Interim.

We would like to reference two books, which were of particular interest and were used as a source of inspiration throughout our research project:

- “The Three Rules” by Michael Raynor and Mumtaz Ahmed from Deloitte, which looked for consistent pattern of behavior that separate the exceptional companies from the pack. While our research project did not aim at replicating our colleagues’ methodology, “The Three Rules” provided us with a valuable source of inspiration and served as a statistically proven starting point for our own work.
- “The Ten Types of Innovation” by Larry Keeley, Ryan Pikkell, Brian Quinn, and Helen Walters from Monitor Deloitte, which complemented our findings and helped augment the growth strategy map described in this report.

Finally, we would like to thank Thomas Artoos, Leen Buyens, Orfée Dejonghe, Yvan Gilliard, Ken Langenakens, Jérôme Libioul, Wouter Travers and Jennifer Wieland for their research contribution to the Deloitte “Decoding the formula for superior performance” report.



Appendix 1:
How relevant is the winning
formula for superior sustainable
performance in various industries?



Our three rules and growth strategy map are relevant across industries, across growing or declining markets and across markets of different maturity levels. For each of the nine industries¹⁵ in the scope of our research project, this section of the document provides a short industry outlook, summarises key trends, challenges, and opportunities, and illustrates how the three rules are applicable, through real-life examples, CEO online survey results, and interview findings.

Automotive¹

Industry outlook

The global automotive industry is going through a very challenging period. With demand for vehicles declining in most mature markets in the face of the global economic crisis, increased fuel costs, and restrictions, automotive companies are moving their focus towards the emerging middle class in developing countries.

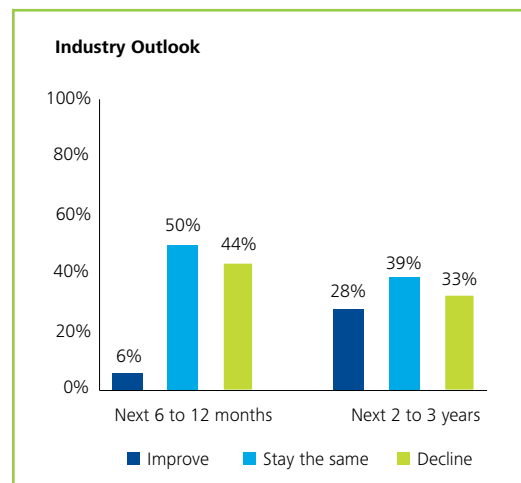
Economic growth and government decisions will drive sales volume, especially in the US and emerging markets. Experts expect total motor vehicle sales to stand just below 100 million units by 2015. European carmakers, however, will have to brace for another tough year ahead. The European car market is saturated and product capacity does not match demand anymore.

The Belgian automotive sector consists primarily of the trade of vehicles (59%), the trade of spare parts (15%) and vehicle assembling (13%). More than 90% of the cars assembled in Belgium are exported.

The sector generated a turnover of €106 billion in 2012 in Belgium, which is a decrease of more than 3% compared to 2011. Car sales dropped by 15% in 2012, due to the euro zone crises and the consumer spending crunch. In 2011 one could note a sales record, which was the result of the ending of the “green premium” by the end of that year. Since 2006 the car assembling activity in Belgium has declined annually with a CAGR of -7%. Also the investments in the automotive sector in Belgium have plummeted, going from €441 million

in 2007 to €259 million in 2011, which represents a decrease of more than 40%. Competitive pricing and continued lagging sales are putting pressure on car manufacturers to close plants and find other ways to better utilise capacity. The closure of the factory of Ford Genk is a recent and painful example.

The difficult economic conditions and the complex challenges are clearly reflected in the corporate leaders’ outlook for the automotive industry in Belgium. Indeed, only 6% of them anticipate a recovery of the industry over the 6 to 12 months. The outlook for the coming 2 to 3 years is slightly better although more than 2 out of 3 corporate leaders believe the economy will either stay the same or decline over the period.



¹⁵ Nine industries include: Automotive; Broadcasting, Media, and Technology; Chemicals; Construction; Food and Beverage; HR Services; Pharma; Retail, and Textile.

Key trends, challenges, and opportunities

Automotive companies are faced with very complex challenges, including competitive and regulatory pressure combined with overcapacity, especially in Western Europe. Companies will also have to respond to global megatrends as well as to shifts in customer demand. However, significant growth opportunities exist in emerging markets.

Key trends, challenges, and opportunities include:

- **Challenges in mature markets:** Motor vehicle market behaviour is driven by two elements: population and economy. New opportunities exist where populations can at least start thinking of buying a car. In contrast, mature markets like the European Union face challenges, with the majority of their populations already owning a vehicle and successive economic slowdowns limiting the turnover in the new car market.
- **Growth potential in emerging markets:** With a lot of developed markets being close to saturation, the focus is shifting to the emerging countries. The BRIC countries are characterised by similar levels of economic development and growth rate. Today they are gathering all the elements of an attractive automotive market: economic growth, low motorisation rate, and increasing disposable income. The market potential is also real in the ASEAN countries. With healthy economic growth and a very low motorisation rate these markets are the key source of growth for today and tomorrow's global automotive industry.
- **Impact of mega trends:** The impact of so-called megatrends on the automotive industry cannot be overstated. These trends will drive changes and challenges in the industry, thereby creating unmet needs. There are two uncertainties involved when considering megatrends: The first is the speed at which technological enhancements will create opportunities for the automotive industry. Availability and allocation of corporate funds and government stimuli for R&D is a key driver. Secondly, how and when governments use regulation to steer the outcome and desired behaviours in view of the natural evolution of these megatrends (e.g., stringent CO2 legislation). The trends include: resource scarcity, sustainability, new patterns of consumption, demographic change, technological convergence and new technologies, urbanisation, globalisation, human health, and new patterns of mobility.
- **The future of mobility:** Consumers are becoming even more demanding, which will have an impact on the way they move. Tomorrow's consumer is likely to be interested in flexible access to multiple types of transportation. An illustration: access to a luxury or larger car during the weekend, while a small and efficient vehicle will be used for commuting during the week. On the other hand, the consumer will also be interested in the integration of multiple transportation modes, due to the emergence of mega-cities and the growth of public transportation. This will require a seamless experience between vehicles and other transportation options. All these changes in mobility patterns will drastically change the way we work, move and live.
- **The green vehicle:** Sustainability is high on the investment agenda of today's carmakers and will drive key decisions in the future. Alternative power will go through further innovation in the years to come. Battery technology will be omnipresent; hybridisation is under extensive development. Experts expect that every new vehicle will have some level of hybridisation over the course of the next decade.
- **The connected car:** The connected car will connect with other vehicles, infrastructure, homes, businesses and other sources. This communication wonder has sensing technology, software, and wireless communication. It will improve the experience of the driver in terms of safety, driver assistance, and service. The car will become an extension of the driver's lifestyle, with extensive entertainment solutions like audio, video, and communication. The introduction of the "connected car" will also create cross-industry opportunities for mobile operators, application developers, consumer electronics manufacturers, etc.

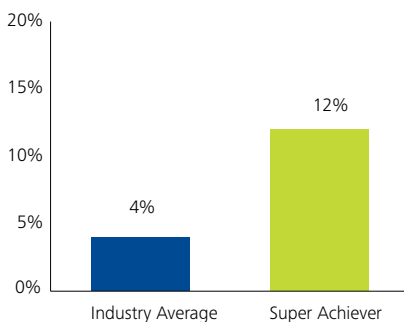
Superior corporate performance and the three rules

Not one company out of our sample of 16 automotive companies active in vehicle assembling qualified as Super Achiever. Potential reasons include: the substantial decrease in demand, over-capacity in Western Europe and increasing labour and input costs.

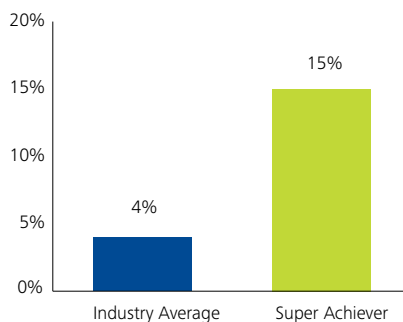
Out of our sample of 400 automotive companies active in car retail, 14 qualified as Super Achievers. With only 3 Super Achievers being medium sized, i.e. with between 50 and 250 employees, the majority of the Super Achiever companies were small, with less than 50 employees.

The average Super Achiever in the sub-segment of vehicle retail achieved 12% revenue growth and 15% average ROA over the period 2003-2011, which is more than three times the industry average for both metrics.

CAGR Revenue Growth 2003-2011



Average Return on Assets 2003-2011



Surveyed and interviewed leaders in the automotive industry have widely acknowledged the validity of the three rules:



66% of surveyed corporate leaders in the automotive industry agree with rule #1

Automotive consumers are highly informed, demanding, impatient, and environmentally conscious. Most highperforming companies have diversified their portfolio to effectively respond to different customer needs and preferences (e.g. smaller and cleaner cars, luxury cars, good and cheap cars) and focus on non-price elements such as superior quality and brand, which is especially relevant in the domestic market. In terms of car retail, specific attention is given to end-to-end customer experience, from ordering, through maintenance, until repair.



2/3 of surveyed corporate leaders in the automotive industry agree with rule #2

Although operational efficiency is very important for companies active in the automotive industry, high-performing companies do heavily invest in innovation, such as the use of new technologies and collaboration with other industries. Also, the people aspect is very important for Belgian automotive companies, as they are the main driver for quality. These companies stimulate continuous quality improvements through the launch of programmes within their organisations that encourage team work, collaboration, learning from peers, dialogue, etc. These companies also keep on investing in their production facilities by modernising them and opening new sites in emerging countries. Leading automotive companies also partner with business partners that complement them, which fosters cross-industry collaboration that enables them to get access to specific technologies, knowledge, or markets.



100% of interviewed corporate leaders in the automotive industry agree with rule #3

In the automotive industry innovation and the launch of new products or technologies is very important, as well as optimising the process of quality improvements and interactive learning. High-performing automotive companies give, to a certain extent, the freedom to a specific site to test and experiment with a new idea, an advanced technology, and a new way of working, or quality improvements.



Media, Telecom and Technology

Industry outlook, key trends, challenges, and opportunities

Media

The media & entertainment sector comprises the creation and distribution of content through various channels and platforms. The global media & entertainment sector is dominated by US players; eight out of the top ten players are US-based companies. The cable and broadcasting sector continues to be the largest contributor to the global media & entertainment industry revenue. However, in terms of forecast revenue growth, online media and electronic games outpace cable and broadcasting. The global media & entertainment sector is expected to grow at a CAGR of 4.0% during 2011-2016 to reach \$1,538 billion in 2016.

Key ongoing and future trends in the media industry in 2013 include:

- **4K kicks off.** In 2013 the television industry will commence the rollout of the next generation of high definition (HD) TV, known as 4K, which will offer four times higher resolution than the current highest standard HD.
- **Dual video screening readies for prime time.** In 2013 about 10% of households in developed countries, and about 3% of households in developing countries, will dual-video-screen their television consumption on a monthly basis. That is, they will have two (or more) screens, most likely of different sizes, showing television programmes at the same time and in the same room.
- **Connected TV.** Hits and misses: in 2013 tens of millions of connected TV sets will sell globally, and the installed base of TV sets with integrated connectivity should exceed 100 million. By the end of the decade the vast majority of new TV sets sold in developed countries will likely incorporate two-way connectivity.
- **Over-the-top may lift legacy broadcasters and distributors more than pure plays.** In 2013 in markets where services are available, two of the top three over-the-top (OTT) TV programme and movie services are likely to be provided by existing broadcasters and distributors.

Telecom

The telecom sector consists of companies that operate and maintain access to facilities for transmission of voice, text, and data. It also includes companies

engaged in manufacturing mobile devices, telephones and data communications equipment. The telecom sector is dominated by wireless operators. The sector's revenue growth during 2011-2015 will be driven by further proliferation of smartphones across all geographies. The global telecom sector revenue is expected to grow at a CAGR of 3% during 2011-2016 to reach \$2,641 billion in 2016.

Key ongoing and future trends in the telecom industry in 2013 include:

- **A strong year for LTE adoption.** More than 200 operators in 75 countries will have launched a long-term evolution (LTE) network by the end of 2013, Deloitte predicts. By year-end LTE subscriptions should exceed 200 million, a 17-fold increase in just two years. About 300 LTE devices (smartphones, tablets and dongles) should be available by year-end, including a range of sub-\$100 smartphones.
- **Smartphones ship a billion but usage becomes simpler.** In 2013 global shipments of smartphones will likely exceed one billion units for the first time. The installed base of all smartphones, per this definition, is likely to be close to two billion devices by year-end.
- **"Mobile" advertising is dead.** Long live tablet and smartphone advertising: In 2013 what is currently described as "mobile" advertising will get split into two categories representing two similar but distinct devices: tablets and smartphones. The smartphone sector may generate about \$4.9 billion in revenues in 2013, while advertising on tablets may be worth about \$3.4 billion.
- **All-you-can-app.** In 2013 between 50 and 100 mobile operators will offer all-you-can-eat services with unlimited access to specific applications. All-you-can-app (AYCA) will, for a fixed monthly subscription, offer unrestricted use of each service's content, with connectivity charges bundled in. Over the course of the year the portfolio of AYCA services available should grow. Pricing is likely to range from zero to tens of dollars per month, with the price indicative of the content's value and data volumes. AYCA services will complement existing data tariffs.
- **The looming spectrum shortage.** Worse before it gets better: although additional spectrum will continue to be made available in 2013 in many global markets, spectrum exhaustion will continue to exacerbate in many countries, especially in dense urban areas. End users will continue to see performance impacts as a result, primarily in the form

of lower speeds, but also through inability to access networks and dropped calls or sessions. The reason is simple: demand for spectrum will exceed supply. Demand for wireless bandwidth continues to grow in leaps and bounds, but supply is relatively constrained.

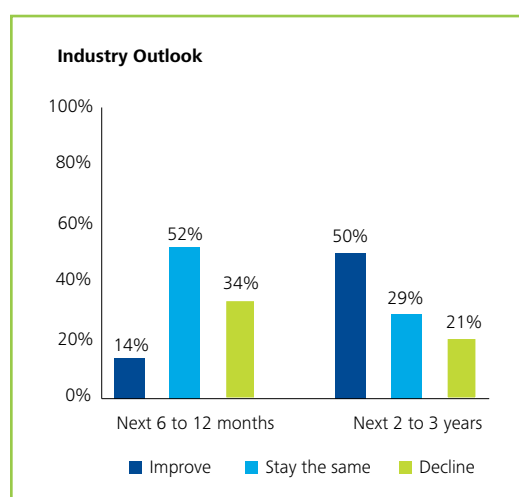
Technology

The technology sector consists of companies that design, develop or manufacture electronic components, products and/or solutions. The global technology sector is dominated by US players such as HP, Apple and Microsoft. The growth of the technology sector will be driven by increasing use of Internet services across different computing devices. The global technology sector is expected to grow at a CAGR of 7% during the 2011-2015 period to reach \$4,755 billion in 2015.

Key ongoing and future trends in the technology industry in 2013 include:

- **The PC is not dead.** It's about usage not units: in 2013 more than 80% of the Internet traffic measured in bits will continue to come from traditional desktop and laptop personal computers. In addition, more than 70% of hours we spend on computing devices will be on PC.
- **Bring your own computer.** A tale of two interpretations: in 2013 very few companies will adopt a bring-your-own-computer (BYOC) policy, and some of those that already have will abandon them.
- **P@\$\$1234: the end of strong password-only security.** In 2013 more than 90% of user-generated passwords, even those considered strong by IT departments, will be vulnerable to hacking. Inadequate password protection may result in billions of dollars of losses, declining confidence in Internet transactions, and significant damage to the reputations of the companies compromised by attacks.
- **Enterprise social networks.** Another tool, but not yet a panacea: In 2013 more than 90% of Fortune 500 companies will have partially or fully implemented an enterprise social network (ESN), a 70% increase over 2011.
- **Let's get together.** Crowdfunding portals bring in the bucks: in 2013 crowdfunding portals will raise \$3 billion, double the \$1.5 billion raised in 2011. Growth is accelerating as new platforms are launched, investor interest rises, and regulatory constraints are reduced. In the UK there are several platforms that provide equity-based financing for start-ups and growth capital.

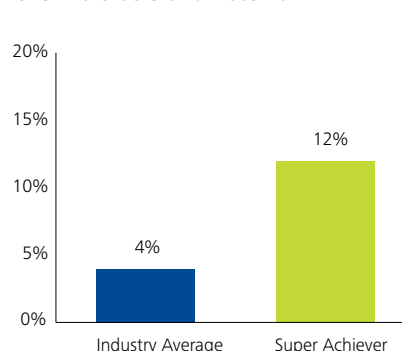
- **The button stays beautiful.** In 2013 a growing range (tens rather than hundreds) of high-end TV sets are likely to incorporate gesture- or voice-based controls in 2013. However, while the vast majority of consumers purchasing a TV set with gesture or voice capability will try out the functionality, more than 99% them may in the medium term revert to a standard remote control.



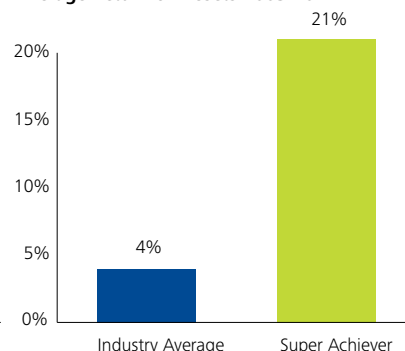
Superior corporate performance and the three rules

Out of the 567 technology companies in our sample, 19 of them qualify as Super Achievers. The average Super Achiever in the chemicals industry has achieved a 12% revenue growth and 21% average ROA over the period 2003-2011, significantly higher than the industry averages of 4% and 4% respectively.

CAGR Revenue Growth 2003-2011



Average Return on Assets 2003-2011





Chemicals¹⁶

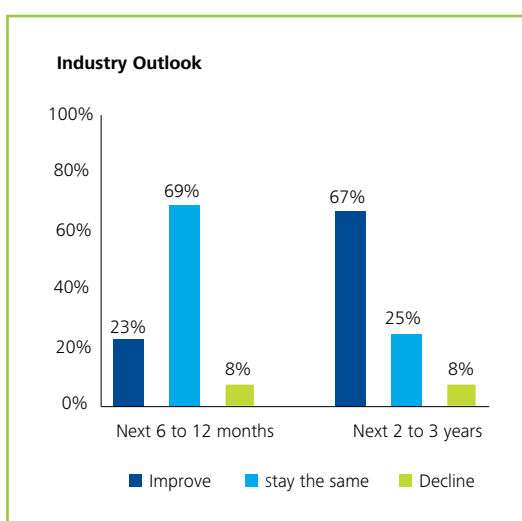
Industry outlook

In Europe the performance of the chemicals sector is typically linked to the GDP. As a result, the European chemicals output is expected to contract by 1.0% this year before returning to modest growth of 1.5% in 2014¹⁶. The 1.0% fall in European chemical output during 2013, compared with 2012, will be the second consecutive year of modest output decline. Important industrial markets for European chemicals are continuing to struggle. Although demand is stronger in some individual countries, both automotive and construction remain generally weak. Sales of new vehicles are being held back by high unemployment and weak income growth, although the need to replace older vehicles will in time help to revive the market. Working off the excesses of past speculative building activity is happening at a painfully slow pace, and European construction output remains at historically low levels. Moreover, the European chemicals sector will continue to face tough competition from US producers benefiting from cheap energy and feedstock.

Cefic forecasts a return to moderate positive growth for chemicals output in 2014 of 1.5%. The gradual recovery will be founded upon stabilisation of industrial production in Europe after two years of weakness, and a modest rise in exports. Petrochemicals and fine and specialty chemicals subsectors both are predicted to grow by 2%. Consumer chemicals, a subsector that will remain in positive growth territory in 2013, will further expand by 1.5% next year, followed by a 1% uptick for inorganic basic chemicals. Employment in the sector is forecast to remain stagnant.

World manufacturing output growth is expected to accelerate in 2014 after two years of slower progress. This should strengthen export demand both for European chemicals and for products that contain them. Japan is striving to galvanise its economy, a US recovery is underway, and developing and newly industrial economies are continuing to expand rapidly, becoming important consumer markets.

The above forecasts are also clearly reflected in our surveyed industry leaders' outlook. The majority of surveyed CEOs expect the industry to remain the same in the next 6 to 12 months, but to pick up again in 2 to 3 years.



Key trends, challenges, and opportunities

Contrary to the US and the Middle East, Europe has limited access to cheap feedstock and energy. The rapid decline in US natural gas prices driven by the exploitation of shale gas, the availability of cheap feedstock and abundance of capital in the Middle East and enormous demand in Asia, especially in China, have caused overall chemicals sales in these regions to grow at a much faster pace compared to Europe and have weakened the competitive positioning of European petrochemicals manufacturers. This decreasing competitiveness mostly affects the base chemicals segment, for which costs are the decisive factor, and is causing a shift to specialties and consumer chemicals in Europe.

¹⁶ European Chemical Industry Council | Cefic

On the upside, megatrends such as shifting demographics, growing demand for food, nutrition and health in the emerging markets, and solutions required for energy security and sustainability, represent significant growth opportunities for the industry. Leveraging inventive combinations of materials and process technologies with new business models and partnerships will open unique opportunities for growth. By focusing more on systems engineering and functional solutions, than on new molecules and materials, the sector will be able to develop distinctive and protectable offerings that will enhance its competitive position.

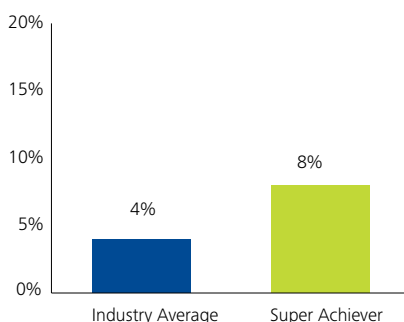
Key growth opportunities include:

- **Proximity to end markets.** Moving closer to the end-user in the value chain and providing distinctive solutions for specific niche markets allows for higher margins and profitability. The commodities and intermediates, produced in bulk and sold to system integrators, compete mainly on price, a competition that can hardly be won by Belgian companies.
- **Solution- rather than material-driven innovation.** Materials and processing technologies do not bring breakthrough value by themselves. When they are organised in a system we tend to see them as a solution that does better in the marketplace. Many chemical and material companies feel uncomfortable engaging in, or contributing to systems-level engineering and take responsibility for a solution delivered to an end-user, away from the traditional business model of selling liquids and solids. Recently markets consistently tend to favour system integrators over material suppliers, driven by factors such as higher RONA.
- **Internationalisation.** Growth opportunities are arising in emerging markets, supported by megatrends such as shifting demographics and growing demand for food, nutrition, and health.

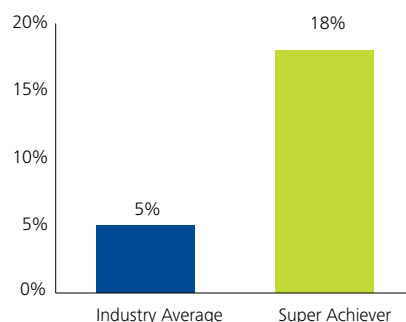
Superior corporate performance and the three rules

Out of the 338 chemicals companies in our sample, 10 of them qualify as Super Achievers. The average Super Achiever in the chemicals industry has achieved an 8% revenue growth and 18% average ROA over the period 2003-2011, significantly higher than the industry averages of 4% and 5% respectively.

CAGR Revenue Growth 2003-2011



Average Return on Assets 2003-2011



Surveyed and interviewed leaders in the chemicals industry have widely acknowledged the validity of the three rules:



100% of surveyed corporate leaders in the chemicals industry agree with rule #1

In the chemicals industry we observe that European companies lose competitiveness in product groups that mainly compete on price, and generally maintain or gain competitiveness in product groups that mainly compete on non-price factors. High-performing companies typically try to leverage inventive combinations of materials and process technologies to create solutions for their clients.



92% of surveyed corporate leaders in the chemicals industry agree with rule #2

Companies with superior performance in the chemicals industry typically invest in both organic (new products and services) and inorganic (acquisitions) growth to be agile and quickly react to emerging markets, while maintaining a sturdy and permanent anchor in their home market. They also invest in adapting production and products to local needs.



100% of interviewed corporate leaders in the chemicals industry agree with rule #3

High-performing companies in the chemicals industry typically identify and pursue various potential sources of future growth simultaneously as opposed to prioritising and cutting down ideas too early in the process. Fast decision-making is a key success factor.



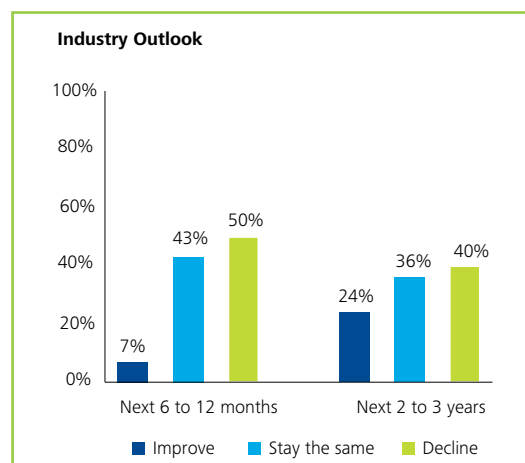
Construction^{III}

Industry outlook

Between 2009 and 2012 the construction investments in the European Union have declined by 4% on an annual basis. Wide variations among Member States can be observed, with Estonia, Romania, and the United Kingdom performing relatively well while other countries, such as Spain, Greece, Cyprus, Portugal, and Slovenia suffer from reduced investments in construction – mostly as a consequence of the deficit-cutting policies implemented by their respective governments. The construction market in Western Europe is forecast to decline by 5% by 2025 as compared to its 2007 peak.

Against the background of a weak European and national economy, 2012 was a reasonably good year for the Belgian construction industry, which experienced 1% growth. However, judging by important industry indicators such as employment and bankruptcy levels that are turning red, the industry is experiencing major structural difficulties and is likely to undergo negative growth in 2013. This is especially true for the civil engineering and renovation segments, which are expected to decline by 5% and 1% respectively. The 2013 outlook for new residential and non-residential buildings segments is a little brighter, with 1% and 4% growth rates respectively.

The difficult economic conditions and challenges in the home market are clearly reflected in the industry leaders' opinions, as more than 90% of surveyed leaders of construction companies believe that the industry in Belgium will stay the same or decline in the next 6 to 12 months. The same corporate leaders are slightly more optimistic about medium-term outlook, with 24% of them believing the industry will improve over the next 2 to 3 years.



Key trends, challenges, and opportunities

The limited size of the Western European market and its low performance in recent years, accelerated by the euro crisis and government austerity measures, are causing sources of growth for construction companies in Western Europe to dry up. However, the fast pace of urbanisation and explosive growth in the number of middle-class households are expected to generate substantial investments in infrastructure in emerging markets. In addition, certain developed economies will likely need to adapt their infrastructure to meet quality, efficiency, and sustainability standards.

Faced by a series of challenges in their home market, such as price pressure, social dumping, evolving customer demands, and a raging war for talent, construction companies in Belgium are increasingly pursuing business opportunities beyond their national borders and are increasingly diversifying their portfolios.

Key trends, challenges, and opportunities include:

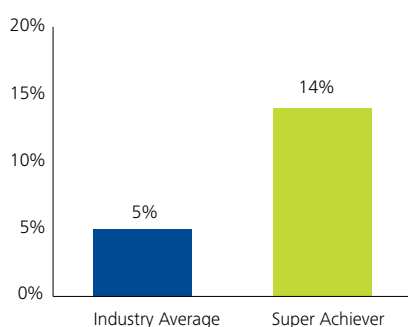
- **Slowdown in home markets.** Construction activity is influenced by business and consumer confidence, interest rates, and government programmes. In Europe low consumer and business confidence, declining household purchasing power, deteriorating lending conditions, and high unemployment resulting from the euro crisis as well as government austerity measures are continuing to hold construction activity in check.
- **Growth potential in emerging markets.** Conversely, the fast pace of urbanisation and explosive growth in the number of middle-class households in emerging markets is expected to boost the demand for construction. Substantial investments are indeed required to support the economic growth and social transformation of these emerging markets.
- **Fierce war for talent.** While the construction industry is already facing a relatively tight labour market, forecast growth in construction activity in emerging markets will likely accentuate the current war for talent.
- **Growth potential related to energy efficiency and sustainability.** The surge in customer and end-consumer demand for sustainably-built environments, green construction, and energy efficiency will remain a focus of renovation and new buildings. In Europe buildings delivered as of 2020 will need to be nearly energy neutral and many developed economies will need to adapt existing infrastructure to meet efficiency and sustainability standards.

Superior corporate performance and the three rules

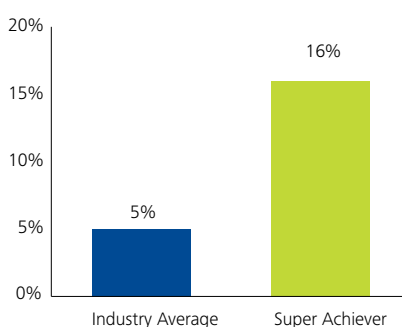
Out of the 452 construction companies in our sample, 15 of them qualify as Super Achievers: 9 of those 15 companies are medium-sized companies (between 50 and 250 workers), the remaining 6 companies are equally composed of small (less than 50 workers) and large companies (more than 250 workers).

On average a Super Achiever in the construction industry has achieved 14% revenue growth and 16% average ROA over the period 2003-2011, which is close to three times the industry average for both metrics.

CAGR Revenue Growth 2003-2011



Average Return on Assets 2003-2011



Surveyed and interviewed leaders in the construction industry have widely acknowledged the validity of the three rules:



91% of surveyed corporate leaders in the construction industry agree with rule #1

High performing companies in the construction industry have generally diversified their portfolios both upstream and downstream, providing their customers with "all-in" solutions, including the raising and structuring of funding and maintenance. The evolution from pure construction companies towards general, project management contractors and concession companies creates significant value for customers by reducing project complexity, mitigating risks and ensuring consistent quality and adherence to budget and timing constraints. Hence, this strategy enables construction companies to break out of the commodity trap to capture additional value.



Half of surveyed corporate leaders in the construction industry agree with rule #2

The construction industry in Belgium has been facing severe price pressure because of, among other things, increased competition coming from Eastern and Southern European countries, sluggish demand and the need to keep activity levels up to the mark. This challenging environment encourages many construction players, especially those competing in highly commoditised segments, to pursue efficiency programmes in the short term. This should be seen as a temporary deviation from the rule, and industry experts expect that the industry will, sooner or later, come back to strategies that prioritise increasing revenue over reducing costs.

Indeed, despite this challenging context high-performing companies in the construction industry have managed to pursue revenue growth opportunities through diversification of activities, and have heavily invested in innovation and R&D to anticipate and capture future growth opportunities.



100% of interviewed corporate leaders in the construction industry agree with rule #3

The ability to quickly go to market and reposition existing offerings in attractive high-growth segments and geographies has been increasingly important in the construction industry. High-performing construction companies consciously select attractive growth markets and segments where they can establish a niche position or take advantage of domestic infrastructure opportunities.



Food and Beverage^{IV}

Industry outlook

The last couple of years, the Belgian food and beverage industry has experienced considerable volatility in terms of turnover, with a dip in 2009 in the midst of the crisis, followed by moderate growth, mainly driven by a growing share of exports. The industry is very closely following the evolution of Belgian GDP. Exports continue to play a significant role in the food and beverage industry, and reached 52% of total industry turnover in 2012.

The Belgian food and beverage industry will likely experience further market consolidation as companies look to benefit from additional economies of scale and higher productivity levels. The consolidation of the market has been fairly controlled (-2.2% number of employers) over the last decade, but specifically harms very small companies with less than 5 workers. Employment in the industry has, however, been stable over the last 5 years with a 0.1% and 0.2% growth rate in the number of jobs and number of FTEs respectively.

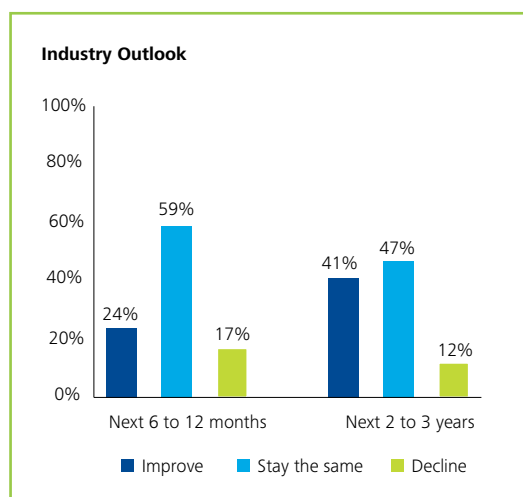
Surveyed food and beverage leaders are relatively positive about their industry's outlook. While about a quarter of surveyed leaders believe the industry's condition will improve in the next 6 to 12 months, close to 60% of them anticipate no major change compared to today's situation. When looking at mid-term industry outlook, surveyed corporate leaders are slightly more optimistic, as 41% of them believe the food and beverage industry will improve.

Key trends, challenges, and opportunities

The last couple of years were tumultuous for food and beverage companies. Rising food commodity prices, the economic downturn, the decrease in consumer spending, and shifts in consumption patterns are only a few examples of the increasingly complex challenges the food and beverage industry is facing. Despite this challenging environment, the Belgian food and beverage industry remains strong and can tap into numerous opportunities.

Key trends, challenges, and opportunities include:

- **Shifts in consumer spending in developed countries.** Due to the current downturn, manufacturers are forced to rethink their brands and product ranges by value-engineering existing products, introducing low-cost products, and offering smaller packaging alongside the higher-end items for smaller but more affluent groups. They also need to improve customer and product profitability through more effective brand and trade support to protect margins and secure sales. Additionally, they have to focus on innovation and convenience. Today consumers are shopping more frequently, for fewer items, and in smaller retail formats. With convenience and online channels becoming more important in serving changing consumer habits and needs, there are significant opportunities for manufacturers to deliver product formats that are innovative, add value, and support new consumer priorities.
- **Growing global appetite.** Within the next decade the global economy will rebalance towards the leading developing countries of the world, and this will have a profound impact on the food and beverage industry. The rise of the middle class (due to rising incomes and urbanisation) will lead to changes in diets that will shift consumption to more processed foods, fats, and animal proteins. This rapid growth is turning emerging economies into major food importers. By 2030 the world will need 50% more food and energy and 30% more water. At the same time, countries such as Brazil, China, Indonesia, Thailand, Russia, and Ukraine are forecast to increase their own share of global agricultural trade, effectively intensifying competition.
- **Access to new markets.** Although exports to neighbouring countries will remain very important, especially for smaller companies with limited export business, broadening the scope to include new



markets (e.g., Eastern Europe, BRIC) will help diversify the export portfolio. Targeting the demand for food and beverages in emerging markets will require careful consideration of specific trends, such as unique needs, tastes and values; different levels of urbanisation; purchasing power disparity; access to better food; or the emergence of two-income households.

- **Rising food prices.** The food and beverage sector is heavily exposed to the issues of increasing global demand and the higher costs of food production. In the last decade global food prices rose twice as much as inflation, and increasing demand will continue to drive further food price volatility and price increases. One of the biggest challenges of food and beverage companies is the squeeze of company margins caused by volatile input prices and brutal price-led retail competition.

- **Retailer power and discounters.** Food and beverage companies are facing increasing pressure from retailers. Retailer consolidation continues, as well as the establishment of stronger and larger buyer groups. Private label products will continue to be a significant and growing competitor to branded consumer products. With private label in European groceries representing an almost 50% share this may still have some way to go. With this strong position, retailers are able to put more pressure on their suppliers. Examples include insisting on extended payment terms, and lower flexibility in price setting and promotions. The recession did not only impact how much money consumers spend but also the way they spend it. The success of discount grocers is substantially increasing, which offers particular challenges, but also opportunities for food and beverage companies.

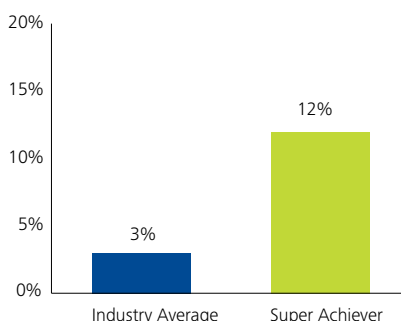
- **Technology and big data.** With the emergence of digital shopping channels the connected consumer interacts more often with retailers and manufacturers, giving companies access to ever-more detailed data about who their customers are and how they behave. Investing in acquiring customer and pricing analytic capabilities is becoming critical, not only to create meaningful and actionable insights, but also to respond by optimising product offerings and price architecture.

Superior corporate performance and the three rules

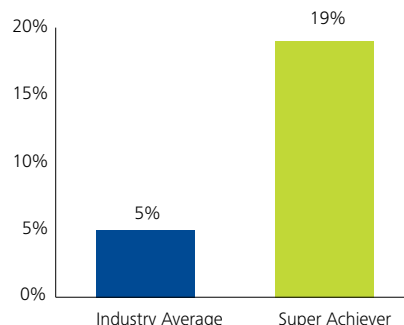
The level of fragmentation of the food and beverage industry has had little impact on the typical profile of a Super Achiever. Indeed, out of the 10 Super Achievers we identified in our sample of 336 food and beverage companies, one is a large-sized company that employs more than 250 workers, 5 are medium-sized companies that employ between 50 and 250 workers, and 4 employed less than 50 workers in 2011.

The average Super Achiever in the food and beverage industry has achieved 12% revenue growth and 19% average ROA over the period 2003-2011, significantly higher than the industry averages of 3% and 5% respectively.

CAGR Revenue Growth 2003-2011



Average Return on Assets 2003-2011



Surveyed and interviewed leaders in the food and beverage industry have widely acknowledged the validity of the three rules:



88% of surveyed corporate leaders in the food and beverage industry agree with rule #1

Faced with offering a better product or a cheaper product, leading food and beverage companies have generally prioritised increasing value over reducing prices: offering superior non-price benefits such as a great brand, an exciting style or packaging; offering a niche product; or focusing on sustainability. Indeed, despite today's tough global economy, premium foods and beverages remain attractive. Many Belgian food and beverage companies have taken advantage of the sought-after "made in Belgium" image, which allows them to be appreciated internationally while charging a premium. Today's market also strives to meet more specific dietary needs of consumers, such as frozen products, dairy products, and ready-made meals.



60% of surveyed corporate leaders in the food and beverage industry agree with rule #2

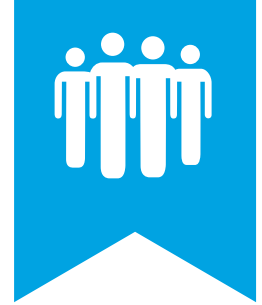
Over the last several years many food and beverage producers have been concentrating on cost containment more than on price increases. For many it is difficult to pass direct costs on to retailers because strong retailers and retailer concentrations push back on price increases, and competition makes it very difficult to price through to the marketplace.

Leading food and beverage companies do find ways, however, to increase their revenue through geographic expansion, innovation, use of advanced technology, or collaborations with companies in the same and other sectors.



100% of interviewed corporate leaders in the food and beverage industry agree with rule #3

Food and beverage companies need to quickly react to trends in the industry and the needs of the ever-demanding customer. Finding the right balance between competing opportunities and the agility to get in fast, for instance by launching new products or repositioning existing offerings, are important success criteria. An example: high-performing food and beverage companies are able to react quickly when specific items on the health agenda change or when healthier alternatives for their ingredients are approved and become available. Think about companies that replaced sugar with Stevia when it recently became approved and available. Fast decision-making is required in order to manufacture, test, market, and promote these new versions. The sector continues to heavily leverage part-time and temporary positions to increase flexibility.



HR Services^v

Industry outlook

2012 was a challenging year for the HR services industry in Belgium. An ageing population and rapid technological evolution have been causing a growing mismatch between demand and supply in the labour market. In spite of rising unemployment, the number of vacancies remained high and the uncertain economic environment led most companies to postpone investments in human capital.

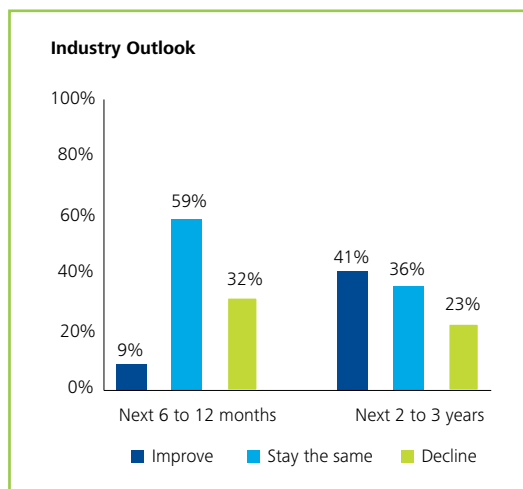
The use of agency work mirrors the behaviour of the economy at large, as the volume of hours worked is strongly correlated to the GDP. Both have the same tipping points, but the growth or decline in the volume of hours worked is much more pronounced than that of the GDP. As a result of the challenging macro-economic environment and a declining GDP, temporary agency work-turnover fell by 3.3% between 2011 and 2012. The recruitment, search & selection subsector experienced a significant 12% decline in turnover between 2011 and 2012, whereas declines in training, project sourcing, and interim management were moderate, at -1.6%, -1.8% and -2.2% respectively. Personal and household services, on the contrary, recorded substantial turnover growth of 7.8%, while the number of outplacement assignments also grew by 2.8% over the period.

Temporary agency work is by far the largest subsector of the HR services industry in Belgium in terms of revenue. When we refer to the HR services industry in the following paragraphs, please bear in mind that we have mainly focused on the dynamics and success factors in the subsector of temporary agency work.

Labour conditions in the European Union are forecast to remain difficult for the coming months, with no immediate prospects of a rebound in economic activity that would stimulate hiring. The major economies are facing a period of incremental emergence into positive growth, while wrestling with the process of structural adjustment and spending restraint. However, the EU economy is projected to return to growth in the second half of 2013, and for 2014, economic activity is projected to expand by 1.4% in the EU and 1.2% in the euro area. Unemployment is forecast to reach around 11% in the EU and 12% in the euro area in 2013, and

to stabilise at these levels in 2014, while differences across Member States will remain very large.

The majority of surveyed CEOs in the HR services industry expect the industry to remain stable in the next 6 to 12 months, and to pick up again in 2 to 3 years.



Key trends, challenges, and opportunities

Fluctuating economies, demographic evolution, globalisation, and rapidly evolving attitudes to work have shaped a new reality in labour markets: they are now more complex, volatile, and unpredictable than ever. While unemployment levels remain persistently high, shifting global demographics are creating a significant mismatch of talent around the world. Simultaneously, workers are increasingly interested in ways of working that allow a better balance between work, leisure, and family interests, requiring further individualisation of employment relationships.

Though challenging, the new reality of labour markets also represents significant growth opportunities. The cyclical fluctuations of economies have increased demand for flexibility and outsourcing – organisations are looking for support to find the right balance between a permanent and a flexible workforce. Furthermore, we see a growing need for the facilitation of mobility and the creation of new jobs and skills, as well as for HR services and local staffing know-how in emerging markets.

Key trends, challenges, and opportunities include:

- **Increasing demand for flexibility and outsourcing.**

As economies alternate between periods of positive and negative growth, organisations are increasingly looking for flexible workforce management solutions. Organisations that strike a right balance between permanent and flexible workers are better equipped to breathe with the tides of the economy and accelerate growth when opportunities arise. Against this background, increasing demand for outsourcing of HR services can be observed, allowing organisations to deal with volatility in activity levels while mitigating risks.

- **Changing demographics and mismatch of talent.**

Shifting global demographics are creating a significant mismatch of talent around the world. An ageing and declining population in Western Europe, the US, and Japan is likely to cause a potentially enormous labour shortage, while the number of workers in the southern hemisphere is expected to outstrip the number of jobs. Moreover, there is a growing mismatch between the qualifications and skills of workers and the rapidly evolving demands of the labour market. We will increasingly need new skills for new jobs. By enabling the development of these skills and efficiently matching supply and demand in labour markets, the HR services industry will play an increasingly important role in the reduction of both structural and frictional unemployment.

- **Globalisation, regulation, and mobility.** A growing number of organisations are downsizing in regions such as Europe and establishing call centre operations, sales, R&D, and production sites in emerging markets. Hence, the need for HR services and local staffing know-how in these emerging markets is increasing. Moreover, low penetration rates of temporary staffing

services in the emerging markets offer significant untapped growth potential for HR service providers, provided they can operate in a fair and effective regulatory environment. Simultaneously, more and more companies in the Asia-Pacific region are exploring options to expand into Europe and North America. Companies in the HR services industry will play a central role in facilitating this mobility, by taking advantage of their global presence and/or providing training and lifelong learning to increase employability.

- **New attitudes to work and individualisation of employment relationships.**

Since people live longer and may need to work longer because of reduced pensions, workers are increasingly interested in ways of working that allow a better balance between work, leisure, and family interests. Individualisation of employment relationships and a growing demand for flexibility will require an even more diverse set of labour contracts. The rapid growth of cafeteria plans – i.e. plans that allow employees to choose between different types of benefits, similar to choosing items in a cafeteria – perfectly illustrates the trend towards individualisation of employment relationships.

- **Involvement in the full lifecycle of candidate and client.**

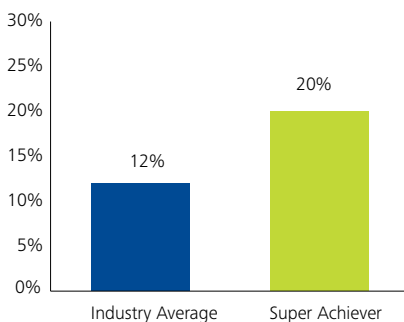
Following the analogy of banks, companies in the HR services industry are increasingly looking to support their clients, both organisations and job seekers, throughout their entire lifecycle. HR service providers will try to support their clients throughout the start-up and growth phases, the maturity phase and periods of slowed growth or even downsizing. Similarly for job seekers, HR service providers aim at supporting them from their very first career steps on, developing their talent to reach their professional goals and helping them to re-orient during phases of career transitions.

Superior corporate performance and the three rules

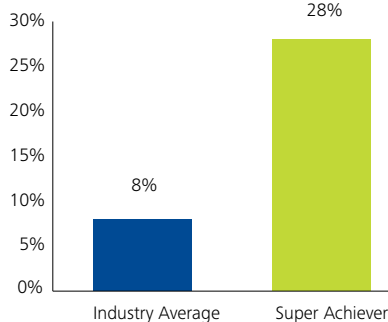
Out of the 75 HR services companies in our sample, 4 of them qualify as Super Achievers. All of our Super Achievers are large companies, employing more than 250 people in 2011. Two of them are part of international groups.

A typical Super Achiever in our sample realised an average ROA of 28% and revenue CAGR of 20% over the period 2003-2011, clearly outperforming the HR services industry (average ROA = 8%, revenue CAGR = 12%). The HR services industry displays a clear correlation between size on the one hand and profitability and revenue growth on the other. Large companies significantly outperformed their medium-sized (between 50 and 250 workers) and small peers (less than 50 workers) in both average ROA and turnover growth over the period 2003-2011.

CAGR Revenue Growth 2003-2011



Average Return on Assets 2003-2011



Surveyed and interviewed leaders in the HR services industry have widely acknowledged the validity of the three rules:



73% of surveyed corporate leaders in the HR services industry agree with rule #1

High performing companies in the HR services industry typically aim at cultivating a thorough understanding of their customers' needs and businesses. Even though this is a cost- and labour-intensive approach, it allows them to charge premium prices, react fast and tailor services to customer's needs, which creates superior value.



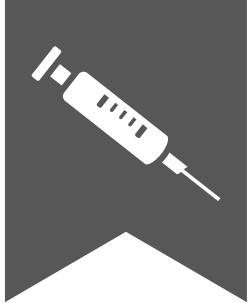
86% of surveyed corporate leaders in the HR services industry agree with rule #2

When surveyed about higher revenue versus cost leadership as a driver of superior profitability, 86% of leaders in the HR services industry indicated that increasing revenue should be the priority. High-performing companies in the HR services industry typically invest in being close to their customers, by opening new offices or by adding additional resources in order to focus on a specific industry segment. They also invest in the retention of office managers, which enables establishing and nurturing long-term relationships with clients. However, it is important to note that high-performing companies manage to keep their structure lean and mean. Their offices in general do not need to generate gigantic revenues in order to be profitable. In case of an economic downturn, this means that their office network remains largely unaffected, ready to grow again when the economy picks up.



100% of interviewed corporate leaders in the HR services industry agree with rule #3

High-performing companies in the industry typically quickly test and react to market opportunities, with no extensive planning exercises. In order to do so, they set up small and autonomous teams in markets that seem to have sufficient potential. The autonomy of the teams allows for fast decision-making, a key success factor in the industry. Only when a team reaches a certain productivity threshold does it get expanded.



Pharmaceuticals^{vi}

Industry outlook

The global pharmaceuticals, biotechnology, and life sciences industry generated total revenues in excess of \$1.1 trillion in 2011, representing a compound annual growth rate (CAGR) of 6.7% between 2007 and 2011. Among specific market segments, pharmaceuticals accounted for \$798 billion in market revenue in 2011. The Americas region accounts for the largest share of the global market, representing 46% of total revenues.

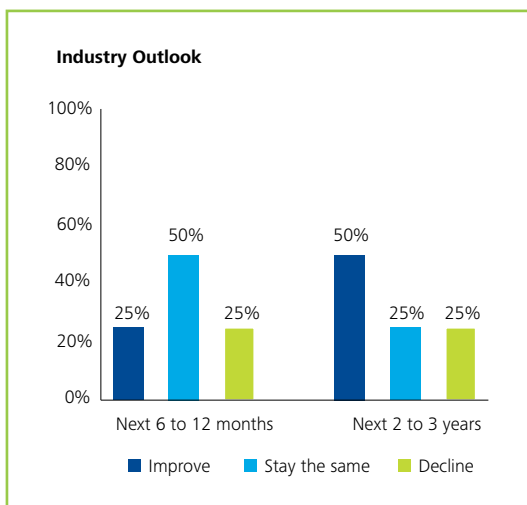
Global pharmaceutical sales were projected to increase 4% in 2012 (\$1,026 billion) compared to an annual sales growth rate of 7% from 2007 to 2011. Concurrently, life sciences companies are spending fewer resources (time, money, and personnel) on developing new drugs. Globally, the pharmaceutical industry in 2010 spent \$68 billion on R&D, down nearly 3% from the \$70 billion spent in 2008 and 2009. Finally, company profitability is declining: higher R&D and regulatory expenses, in addition to pricing pressures, are lowering margins. Globally, the Big Pharma operating margin for 2013 is forecast at about 20%, down from more than 24% from 2003 to 2009. This decline means that there are increasingly fewer dollars available for reinvestment in the business – just as regulatory and operational requirements are calling for major infrastructure investments, especially for regulatory reporting, drug safety systems, electronic pedigrees, “big data” analytics, commercial brand strategy, supply chain, M&A, and global business services.

While the life sciences sector has remained partially immune to the current economic uncertainty in some parts of the world, the industry is facing reimbursement pressure from spiralling costs and overwhelmed health systems around the globe. The use of price cuts for pharmaceutical products has been a feature of several governments’ successive attempts to control general spending on health care.

The same dynamics apply to the Belgian market, where the sector generated a turnover of €8 billion during 2011. Revenue grew at an annual rate of 8.1% from 2005 to 2011, but growth is slowing. The industry in Belgium currently employs about 32,000, with 80,000 downstream. This employment level is stable compared to 2008 but increased by 28% since 2006. In Belgium total investment in R&D reached €1.9 billion. This

represents 40% of all private investment in R&D in the country. However, from 2009 R&D productivity declined and the number of clinical trials decreased by more than 20% between 2005 and 2012. Belgium is a world leader in the pharmaceutical industry. Contributing to this has been a strong tradition in science, early investments in biotechnology with a strong local presence of major pharmaceutical companies, more than 16 universities and research centres active in the life sciences, and the financial incentives and tax reductions for R&D.

While three quarters of surveyed corporate leaders in the pharma industry believe it will stay the same or decline over the next 6 to 12 months, mid-term outlook is slightly more optimistic.



Key trends, challenges, and opportunities

Following years of growth and favourable market trends, the pharmaceutical industry now finds itself facing a challenging “new normal”. A changing healthcare landscape, expiring patents and generic competition, pricing pressures, heightened regulatory scrutiny, expansion into emerging markets, a persistent economic slowdown, and decreasing productivity are all prompting pharmaceutical companies to adopt new business models. These are designed to counter slowing sales growth and declining profitability, deliver better patient outcomes at lower cost, and position them for success in the coming years.

Key trends, challenges, and opportunities include:

- **The patent cliff.** The generic erosion will wipe a multi-billion chunk off pharmaceuticals' revenues. The exclusive production of a drug is lost after 20 years. Patents for many blockbusters (revenue > \$1 billion) will expire by the end of 2015, which will lead to a decrease in revenues with consequences for R&D investments.
- **Poor productivity and tighter regulation.** Pharmaceuticals' annual output has flattened over the past 10 years. Developing new medicines is becoming an increasingly expensive business. The estimated cost to bring a new molecule on the market has exploded from \$450 million in 1991 to \$1.5 billion in 2012. Additionally, regulation is becoming tighter through better collaboration of regulators around the globe and the launch of a range of specific plans, surveillance systems, and new approaches.
- **Global growth.** The global pharmaceutical market is growing steadily as the global population increases, ages, and becomes more sedentary. By 2020 the population is expected to reach about 7.7 billion people. More than 30% won't get enough exercise, more than 20% will be overweight or obese, and more than 13% will be 60 or older. The global incidence of infectious diseases is increasing as well. In short, the proportion of people requiring medical assistance is expected to rise drastically.
- **Increased demand in emerging markets.** Many growth economies are improving access to healthcare, including opening clinics in rural areas, and providing health insurance plans and universal coverage. By 2020 access to healthcare might be regarded everywhere as a basic human right. Consumer spending in emerging markets is expected to grow three times faster than consumer spending in developed nations, allowing an important part of the population to afford the care and the products they need. The growth markets look very interesting as they are expanding quickly in terms of purchasing power. On the other hand, these markets come with major challenges, like geographic size, underdeveloped infrastructure, cultural diversity, weak regulation, etc.

Superior corporate performance and the three rules

Out of the 335 pharmaceutical companies in our sample, no pharmaceutical company could be classified as a Super Achiever, as no company could meet our performance criteria in a consistent way (> 70th percentile in both metrics for 50% of the time). The industry averages for ROA and revenue growth over the period 2003-2011 were 3% and 7% respectively.

Potential reasons might include: the length of the product development and innovation cycles, the impact of the patent cliff, reimbursement pressure, and declining profitability due to higher R&D and regulatory expenses.

Surveyed and interviewed leaders in the pharmaceutical industry have widely acknowledged the validity of the three rules:



50% of surveyed corporate leaders in the pharmaceutical industry agree with rule #1

High-performing companies in the pharmaceutical industry offer a wide and diversified range of products and tap into specific niches, such as "orphan drugs", which provide extra patent protections. They also start focusing on how they can create and prove the value of their product, which is becoming increasingly important, as it is a significant driver for healthcare payers. Building relationships and connectivity with medical service providers and consumers is also gaining importance, as the pharmaceutical industry seeks to play a role in enabling informed decision-making when matching needs of educated consumers with the provision of innovative pharmaceutical and medical devices. Top pharmaceutical companies also invest in strategic alliances, allowing them to access new areas of science and share the risk of development. In emerging markets price is an important driver and the challenge for pharmaceutical companies is to deal with these price issues, especially when the government pays for the drugs. Leading pharmaceutical companies are selective about the products they choose to launch in these markets, based on market-specific disease profiles, patient affordability and regulation.



75% of surveyed corporate leaders in the pharmaceutical industry agree with rule #2

While efficiency programmes have always been an important profit lever for pharmaceutical companies, leading pharmaceutical companies are primarily exploring opportunities in growth markets, sometimes under uncertain and difficult conditions. Increasing M&A and alliance activities allow them to tackle new markets, get access to specific opportunities, or share the investment.



100% of interviewed corporate leaders in the pharmaceutical industry agree with rule #3

Even though it takes about a decade to develop a new product in this industry, leaders in the pharmaceutical industry agree that experimentation and fast decision-making are critical for success. Patent expiry induces companies to look for faster ways to grow their business, like embracing new commercial models with different types of engagement methods and an expanded use of data analytics.



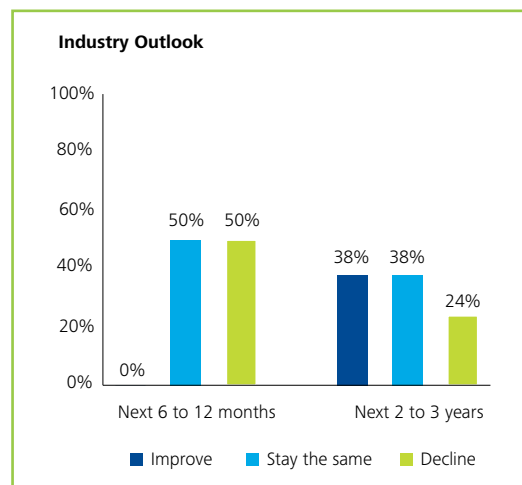
Retail^{IV}

Industry outlook

While the European retail sector is expected to stabilise over the next 12 months, squeezed operating margins and market pressures are expected to persist in 2013. With consumers still cautious about their spending, retailers in Europe are suffering. A decline in retailers' profitability is expected, due to a shift in consumption patterns, like the growing success of e-commerce, and the increased acceptance of discounters.

In Belgium the retail industry weathered the crisis relatively well, although purchasing ability and willingness to spend remain relatively low. Retail sales are seasonal, volatile, and very important for the Belgian economy, representing 11.2% of GDP. In terms of employment the retail sector is one of the most important in Belgium, accounting for almost 11% of total employment.

Surveyed corporate leaders are expecting the retail industry to stay the same or decline over the short term. Over the next 2 to 3 years an equal proportion of 38% of respondents believes in an improvement or maintenance of the status quo.



Key trends, challenges, and opportunities

The years since the 2008 crisis have been chaotic for the global retail industry. Factors that affect retail sales, like purchasing ability and willingness to spend, were at rock bottom. But the crisis also acted as a catalyst for change and interesting opportunities have emerged in emerging countries. Key trends, challenges, and opportunities include:

- **Future markets.** By 2016, China is expected to overtake the US to become the largest retail market in the world. India, Brazil, and Russia are also stepping up. The big global retailers already have a presence in China, and the other emerging markets remain the focus of much attention. The easing of regulation of foreign investment will be a key factor in how these markets behave in the coming decade. But emerging markets will also influence Western markets more directly. For now, emerging-market retail investment is mainly focused on domestic or regional markets, but this is expected to change in the next decade, with outbound M&A activities from emerging countries rising.
- **Post-recession smart shopping.** The recent economic downturn has acted as a catalyst for increasingly sophisticated consumer behaviours. Customers are making informed purchasing decisions, keeping retailers on their toes to provide enhanced shopping facilities and precise information. Today customers collect all information about product features, prices, warranties, availability, and environmental impact and then compare them with competitors. "Showrooming" has emerged as a trend where customers visit stores to find items they like, but then compare prices and make the purchase online. In order to boost sales and enhance the customer experience, retailers are coming up with innovative techniques, for example by revamping stores, establishing new retail formats, and adopting online and social media to promote and/or sell products.

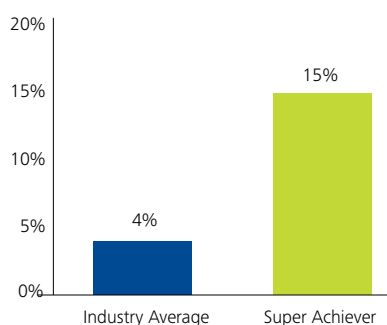
- The virtual market place.** Over the last 10 years online retail sales growth has dramatically outpaced that of traditional retail channels due to the emergence of tech-savvy consumers, larger internet access and connectivity, and increased confidence in online payments. Most consumers value low and transparent prices, convenience (24-hour access from any PC, tablet, or smartphone at home, in the office, or on the move), and a more comprehensive assortment of goods and services. The research firm Forrester anticipates that between 2011 and 2017 the value of mobile retail transactions will rise eleven-fold across Europe. Never before have customers had so many, easy possibilities to check out a product, compare prices, give a compliment, or log a complaint. Consumers are increasingly able to make impulse buys on the move in a variety of ways. E-commerce represents about 3% of GDP in Belgium in 2011, and it is steadily growing (12% since 2009). But Belgium is still significantly lagging behind in comparison to neighbouring countries. The main reasons are the relative density of the retail network in Belgium, the lack of local/national online retailers, and the conservatism of the Belgian consumer.
- The omni-channel.** The rise of online retail, combined with out-of-town developments and the effects of the crisis, have hit the traditional “shopping streets” and physical stores. The “bricks-and-mortar” stores will not disappear in the future, but they will play a different role. The physical store is no longer the dominant medium for purchasing goods. Instead, it serves as one of many potential connection points between customers and the retailer. It will continue to act as one of the channels for customers to see, feel, and try out products, even if they use another channel for the purchase itself. Store presence can also enhance the service offering of online channels. New innovative delivery models will rise, like drive-thru pick-up, or drop boxes. Physical stores will be more focused on establishing brand visibility and a reputation for service than on generating in-store sales. The convergence between online shopping and in-store experience can help create a seamless relationship between the retailer and the ever-more-connected customer.

Superior corporate performance and the three rules

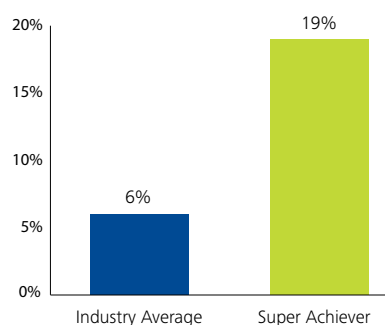
Out of the 386 retail companies in our sample, 22 of them qualify as Super Achievers. With eleven in all, small-sized companies (less than 50 workers) were most represented. Six out of the 22 companies had more than 250 workers in 2011, and five were medium-sized companies, employing between 50 and 250 workers.

The average Super Achiever in the retail industry achieved 15% revenue growth and 19% average ROA over the period 2003-2011, significantly higher than the industry averages of 4% and 6% respectively.

CAGR Revenue Growth 2003-2011



Average Return on Assets 2003-2011



Surveyed and interviewed leaders in the retail industry have widely acknowledged the validity of the three rules:



100% of surveyed corporate leaders in the retail industry agree with rule #1

Many high-performing companies in the retail industry have applied our first rule by offering new delivery models (e.g., click and collect), introducing differentiating store formats (e.g., smaller city stores), serving specific niches (e.g., bio-food), or offering a compelling customer experience. Other examples include providing exclusive, sometimes temporary, assortments; offering hyper-service; 2-way interaction with customers through social media; creating a compelling integration of the physical store (with advanced payment options, easy returns, customisation, etc.); and the virtual world.



63% of surveyed corporate leaders in the retail industry agree with rule #2

While revenue growth activities are critical, it goes without saying that performance-enhancing-growth retailers also keep an eye on cost containment, especially given the fact that labour and real-estate costs represent the biggest chunk of overhead. In the context of limited customer spending and a true omni-channel revolution, smart retailers are reviewing their business models to better deal with these changes. For example, optimising stores to integrate the physical and virtual experience, adding specific services (e.g., home-delivery or pick-up service), adopting specific technologies to better serve the client, and enhancing the customer experience.

Some retailers are also collaborating with other retailers or companies in other industries to gain access to new markets or customer segments. One example is the collaboration between a sports retailer and a major supermarket chain. This allowed the supermarket chain to offer a wider assortment to its customers and increase traffic, while the sports retailer was able to obtain exposure to different and wider types of customers. Geographic expansion or tapping into specific niches are other examples of revenue-prioritising activities of leading retailers. An illustration can be found in supermarket chains that open bio-stores in or close to the city, or smaller city-stores with long opening hours. In retail fashion one can note the success of pop-up stores, which are an interesting concept to test the market in a new geography.



100% of interviewed corporate leaders in the retail industry agree with rule #3

Given the momentum in the industry, fast decision-making and testing new ideas are of vital importance in retail. Leading retailers are experimenting with new store formats, pricing and promotion activities, payment methods, flexible delivery choices, etc. As mentioned before, pop-up stores are an interesting way to test the market in a new geography, or to test a renewed concept of an existing retailer. Another example found at leading retailers is experimenting with ways to skip checkout lines, by introducing apps allowing customers to check, buy, and pay for products, and have them delivered or picked up. To be close to the customer and get access to a whole range of ideas, some leading supermarkets and grocers are crowd-sourcing, e.g. suggestions for local food.



Textile^{VIII}

Industry outlook

The Belgian textile industry consists of five main product groups: indoor textile, garment textile, technical textile, textile finishing, and spinning mills. In 2012 the Belgian textile industry realised a turnover of €5.8 billion.

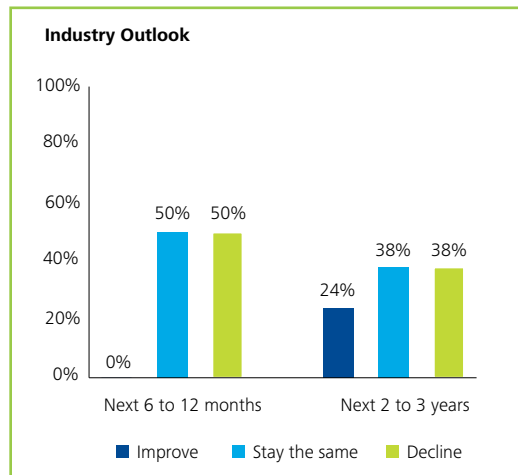
In general, the textile industry in Belgium has been shrinking since 2007, at an average rate of 3.1%. The turnover level of 2012 is still about 15% lower than the pre-crisis turnover of 2007.

About 75% of the Belgian turnover in textiles is exported. In 2012 exports decreased by almost 8% across all product groups. In the EU market, which accounts for about 85% of total textile exports, volumes declined by 6% in 2012. In France and Germany – Belgium's first- and second-largest export countries for textiles – levels dropped by 10% and 6% respectively. Exports to most regions outside the EU also declined considerably: -27% for exports to non-EU Western Europe and -37.7% to the US. Yet exports to Eastern Europe (+18%), Latin America (+4%), and Africa (7%) all increased considerably.

The decrease in turnover and activity also had an impact on employment. Between mid-2011 and mid-2012 about 1,500 jobs, more than 6%, were lost in the textile industry.

According to Fedustria, investments in the textile industry increased in 2010 (23%) and 2011 (19%), but given economic issues and pressure, the investment level declined again in 2012 (-21%).

An equal proportion of surveyed CEOs in the textile industry expect the industry to remain stable or decline in the next 6 to 12 months. For the longer term, i.e. 2 to 3 years, a quarter of respondents believe the industry will pick up, while the remaining CEOs are equally divided between a decline and a maintenance of the status quo.



Key trends, challenges, and opportunities

In the last few decades the textile industry has undergone intensive structural changes dominated by falling domestic production, relocation (i.e. the move of production to foreign lower-wage economies), fierce competition (especially from developing countries), and the major importance of wage and environmental costs. In response to these structural changes, the Belgian textile industry became more international and flexible, and oriented itself towards more technically-demanding textiles and higher-quality and innovative products.

Key trends, challenges, and opportunities include:

- **Barriers to trade.** Despite the early onset of the trend towards globalisation, international trade was and still is heavily regulated. Although quite a number of WTO quotas have been abolished, there are still a vast number of product- and country-specific import tariffs. Emerging markets increasingly tend to protect their markets, like Argentina, which introduced an import registration in 2012, while Brazil raised its custom controls and product checks and plans to introduce an import tax.
- **Sustainability and regulation.** In the near future textile companies are expected to face more stringent regulations, especially in the field of sustainability and energy consumption, as textile companies are important users of chemicals, water, etc. The REACH regulation – in force since 2007 – is a further step towards protecting consumer health and the environment. It makes registration of chemical substances mandatory, and allows the use only of chemical substances that have been registered. This obligation also has a significant

effect on the importation of chemicals, including, for example, textiles polymers, and on articles or article components.

- **Sourcing textile raw materials and increasing prices.** The trend of increasing raw material costs – and the inability to recover these additional costs via price increases – will be an important driver for the economic performance of the sector. Also, energy prices are highly important, as it is one of the most energy-intensive sectors.
- **Technical textiles as a source of growth.** The shift of production to lower-wage economies over the last few decades forced textile companies in mature markets to focus more on high-quality, technically-demanding, and innovative textiles. The demand for technical textiles is driven by long-term global trends, like the rising population, higher disposable income, increasing industrialisation (particularly in developing countries), growing mobility requirements, an increased focus on environmental protection and energy efficiency, as well as rising health spending. Technical textiles are used in a variety of applications, such as the construction industry, where technical textiles could contribute to cutting CO2 emissions, reduce weight, and help address a global rise in the demand for infrastructure. One can also note multiple applications in the medical field, as well as in the area of environmental protection and energy efficiency. According to EURATEX, these textiles are growing in Europe and worldwide – despite the massive build-up of capacity in China that will impact world markets in the coming years. Today Europe is still in the lead with high-growth technologies.
- **Innovation and R&D.** In order to differentiate and shift the focus to high-quality and more technically-demanding textiles, investments in innovation and R&D are crucial for the sector. According to EURATEX, the technical textile sector is one of the most innovative in the industry and ranks among the five high-tech sectors with the greatest future growth potential. Thanks to constant innovation and diversification, textile companies are able to develop products and solutions for market niches where technological know-how is more valuable, using a multi-disciplinary approach in different applications. These include construction, automotive, consumer, medical, and sustainable applications.

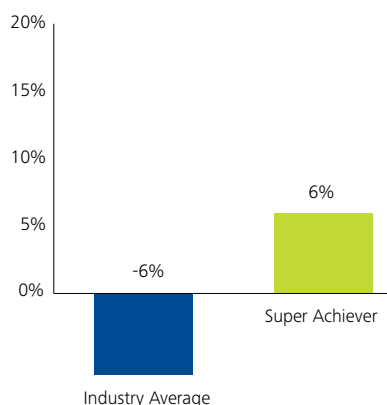
- **A new eco-system.** Textile companies are increasingly working together with both suppliers and customers in order to provide new textile solutions for new applications. Textile companies have shifted from selling products to selling solutions that are tailored to the needs of their customers. Textile companies are also looking at cross-border industry applications and integrated sustainability approaches. Thanks to these collaborations, the fragmented market of textile companies can mutually benefit from new technologies to serve specific segments, tapping into new niches or developing new applications. This could help the large number of small- and medium-sized companies in Belgium and Europe to respond to the myriad new markets and niches worldwide, and to protect against competition from low-wage countries.

Superior corporate performance and the three rules

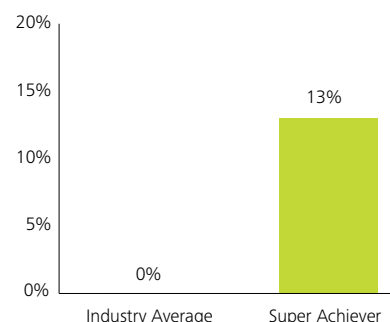
Out of the 130 textile companies in our sample, 6 of them qualify as Super Achievers. One is a large enterprise employed more than 250 workers, 2 are medium-sized companies that employed between 50 and 250 workers, and 3 employed less than 50 workers in 2011.

The average Super Achiever in the textile industry achieved 6% revenue growth and 13% average ROA over the period 2003-2011, significantly higher than the industry averages of -6% and 0.4% respectively.

CAGR Revenue Growth 2003-2011



Average Return on Assets 2003-2011



Surveyed and interviewed leaders in the textile industry have widely acknowledged the validity of the three rules:



100% of surveyed corporate leaders in the textile industry agree with rule #1

Given the competition from low-wage countries and the commoditisation of textiles, it is of crucial importance for textile companies in Belgium to focus on non-price-related aspects of their products and solutions. Also, the textile market being highly fragmented, smaller companies increasingly look for differentiating positions, especially in niche markets.

In order to diversify, leading textile companies have shifted their attention to innovation, offering unique, technically demanding solutions and applications to their customers. Quality, reliability, customisation, offering additional services, and excellent customer service are other non-price-related elements that high-performing textile companies apply and which makes them stand out from the crowd.



88% of surveyed corporate leaders in the textile industry agree with rule #2

The textile sector has seen a very strong decline over the last decades and is currently facing some structural issues. Additionally, the economic crisis hit the textile industry hard and some leading retailers acknowledge having faced dramatically decreasing sales in some of their segments. Despite these challenges, leading textile companies confirm that they have continued to focus on revenue growth. By clearly assessing new niches or re-using proven technologies for new concepts, they were able to tap into new markets. Collaboration with customers helped them to tailor high-quality, innovative solutions to their needs, and cross-industry discussions have led to new applications. The mind-set of leading textile companies – “We help our clients become better” – is an important driver.

Leading textile companies focus on well-evaluated niches and also dare to take the decision to abandon niches that do not meet their criteria. By having this very clear objective, they also deliberately decide not to play in niches or volume markets that are not interesting enough.

High-performing textile companies are geographically expanding by opening production sites in emerging regions in order to be closer to customers there. Other examples of revenue prioritising initiatives by leading textile companies are M&A activities to get access to a specific technology, market or segment; and collaboration with universities and scientists to further drive innovation.



100% of interviewed corporate leaders in the textile industry agree with rule #3

Leading textile companies adopt smart strategies to assess the attractiveness of a specific niche or even abandon some technologies or niches. This requires swift and smart decision-making, enforced by flat management structures and cross-functional project teams. In order to react swiftly to client needs, fast decisions, actions, and implementation in launching innovative products is also required. Another illustration: when sales in a very successful segment plummet almost overnight, fast action is crucial to re-use technology and know-how in other segments or create an innovative alternative.

Appendix 2:

Note on the insurance industry^{IX}

While for most industries, turnover and return on assets are two key metrics to identify high-performing companies, the insurance industry, facing long term engagements, is governed by specific performance metrics. These include the evolution of total premiums received (inflows), the combined ratio (operating profitability of non-life activities), the ratio of life investment returns on life technical liabilities, and the solvency ratio as determined by regulators. No in-depth quantitative analysis was performed for the insurance industry and the insights presented in this section are based on quantitative analyses exclusively.

The challenges faced by the insurance industry throughout the past years have stressed the leading performance metrics in many different ways. Each individual insurer has been impacted differently by these changes in overall conditions, depending on the segments they are active in. Not only did the economic environment change, but also distribution channels, customer behaviour, and regulations; creating a new, level playing ground for the industry.

The economic environment has been characterised by a shift in financial markets following the subprime crisis and subsequent euro crisis, leading to financial markets determined by low interest rates, increased volatility, and low liquidity complemented by reduced customer spending. The insurance industry is also confronted with changing distribution channels and customer behaviour. Both are driven by a rise of information aggregators and multi-channel customer interactions, further putting pressure on the classic “bancassurance” and brokerage models. On top of these challenges, the industry has also been put under close monitoring by regulatory bodies. Regulators are enforcing various new rules covering, among other things, financial reporting, solvency, and customer transparency (e.g., IFRS 4, Solvency II and IMD). This is further reducing the latitude in conducting business, and increasing the overall costs of support functions (e.g., finance and IT).

Considering these evolutions, the different impacts they have on each insurance business segment, and their related metrics, we outline how two well-known insurance companies, Ageas and AXA Belgium, have consistently applied our three rules.





Bart De Smet
CEO

Strategy

CORE

3 rules



Growth DNA

Company	Geography	Product
Customer	Customer Experience	Brand
Profit Model	Network	Capabilities

"It's all about superior product quality combined with excellent service at the correct price"

Ageas

Ageas is an international insurance group active in both Europe and Asia. The group employs more than 13,000 people in its consolidated entities and over 20,000 in its non-consolidated partnerships, and has annual inflows of more than €21 billion. In Belgium, Ageas is the market leader in life insurance, as well as a leading non-life player. In the UK, Ageas has a strong presence as the third-largest player in private car insurance in number of vehicles insured. Ageas succeeded in getting through the economic crisis and sustaining its leadership position thanks to a strategy focused on 3 priorities: internationalisation of its business, collaboration with its business partners, and innovation and quality of products and services.

Rule #1 – Prioritise increasing value over reducing prices

The recent years have been challenging for the insurance sector due to the changing regulatory and fiscal environment, as well as difficult economic conditions. Aside from preparing the company for Solvency II, it was essential for Ageas to adapt its offering to the evolving needs of its customers. Ageas has always been convinced that a key competitive advantage is to act differently from competition, primarily through service quality and customer experience. This objective was achieved through the adoption of differentiated and innovative approaches. For example, as well as providing its products through broker networks, Ageas has also partnered with less traditional distribution channels, including retail (Tesco in the UK) and automotive servicing (Kwik-Fit in the UK). The success of this multi-channel approach has been due to the quality of the collaboration with its partner's networks, which in turn have knowledge of local and specific markets. This has enabled Ageas to meet customers' expectations regarding product design, and to differentiate themselves from local competitors.

Rule #2 – Prioritise increasing revenue over reducing costs

Ageas followed a growth strategy based on the internationalisation of its target markets, combining sophisticated operations in mature markets like Belgium with a presence in emerging growth markets in Asia. Recent developments include entry into the Turkish market, the strengthening of its UK activities through acquisitions to increase market share and volume, and further expansion in Asia. The two key success factors in the successful implementation of this strategy were 1) the identification of the best local partners and the creation of a joint value approach with them, and 2) the

international mobility of its talent pool. This has allowed for the diffusion of expertise and experience across different geographical regions, as well as sharing best practices and innovative approaches. Even in the UK market where the increasing role of aggregators (e.g. product comparison sites) is pushing the insurers into ongoing cost reduction programmes, Ageas' acquisition of Groupama UK is enriching its product portfolio within niche markets where underwriting margins are showing strong growth potential. In the Belgian market AG Insurance has so far implemented a core strategy, but it might evolve to expand within the insurance value chain by integrating more activities on the claims management side.

Rule #3 – Prioritise rapidly experimenting with new ideas over developing extensive business plans

In the insurance market, particularly in innovative and fast-moving markets such as the UK and the emerging economies, the ability to be flexible and to rapidly adopt winning approaches will be key to the future success of organisations. Ageas has already displayed strong abilities in this regard, having successfully adopted non-traditional distribution methods via its multi-channel approach, while at the same time seeking value-generating acquisition opportunities. These can give additional market share while also enlarging its existing portfolio of products. Experimenting with new products to better react to customer wishes has also been a hallmark of the firm's success. The extensive pool of talent which the firm has to hand, combined with its expertise across various operations, should give Ageas a continuing advantage into the near future.

Digitalisation is also a key factor in agility, especially in emerging markets in Asia where it is implemented very quickly thanks to the limited transformation effort required in these markets.

Finally, the key enabler of Ageas' agility and speed-to-market is its ability to work with its partners by leveraging its main assets: capital, technical competencies, bancassurance, non-life expertise, and excellence in distribution management.



Sonja Rottiers
CFO

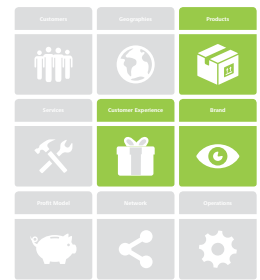
Strategy

CORE

3 rules 

"There is only one boss. The customer. And he can fire everybody in the company by spending his money somewhere else"

Growth DNA



AXA

The AXA group is a major financial services leader with a global brand, and is enjoying strong growth in emerging markets, especially in the APAC region. Present in 57 countries, the 215,000 employees of AXA are committed to serving 102 million clients. AXA Belgium supplies financial products and services to individuals, SMEs and large companies in the fields of insurance, pensions, daily banking, savings, loans, and asset management, and has 4,450 employees and over 3 million customers. AXA is Belgium's largest provider of non-life insurance, its third-largest provider of life insurance and its fifth-largest bank.

Over the past years, AXA Belgium has successfully maintained its leadership position despite having to grapple with a widespread recession, fierce competition and tough economic conditions. Despite the adversarial context, the company even managed to improve its technical performance through four key factors: flexibility in the face of changing market conditions, the quality of its product lines, its diversified "assurbanking" business model and the ability to leverage its strong branding and position in the market.

Today AXA Belgium continues to lead in a mature market where the major challenges for insurers are to continuously improve the efficiency of their operations, drive down the costs of new client acquisitions, and maintain a profitable client base.

Rule #1 – Prioritise increasing value over reducing prices

Over recent years, AXA Belgium has had two main focus areas: 1) to build upon and strengthen the trust-based relationship it enjoyed with its clients and distribution network thanks to the quality of its product offering, and 2) to improve the quality of services. In both cases, the core strategy was to increase the value of its offerings and retain its base of clients and business partners.

AXA has leveraged its outstanding technical talents to develop and maintain a complete range of products so that it could offer each customer flexible products adapted to their actual needs. AXA invested in digitalisation projects to improve the efficiency of its organisation, but also to support its distribution infrastructure to better meet the needs of its customers as well as their changing behaviour.

Rule #2 – Prioritise increasing revenue over reducing costs

Prior to 2008 AXA pursued a strong revenue growth strategy that included a number of key mergers and acquisitions, including the integration of Royal Belge and Winterthur. This period of growth enabled AXA to build a diversified distribution channel model and position itself as the clear leader in the Belgian non-life market.

The worsening market conditions from 2008 onwards had a significant impact on the firm's priorities due to the combination of the financial crisis and preparations for Solvency II. Consequently AXA moved from a growth- to a more consolidation-oriented strategy, which involved a transversal process improvement programme and a technical profitability improvement plan for all business lines. The assurbanking model gave the company the resilience it needed to cope with the contraction of the life insurance market during the period between 2008 and 2011, and AXA Belgium leveraged this business model to compensate for the decline in life revenues. These elements together enabled AXA to strengthen earnings during the past years.

Rule #3 – Prioritize rapidly experimenting with new ideas over developing extensive business plans

The ability to adapt to the changing environment (whether regulatory, economic, fiscal, etc.) has always been a key success factor for AXA. In recent years AXA was one of the first companies to offer new products responding to the evolving needs of its clients, following the economic crisis and the new regulations. A key enabler of this ability to adapt was the depth and breadth of technical expertise, but also soft skills within its talent team, something which AXA had strongly developed over the years. AXA has also been working to enhance the leveraging of its central functions in the different businesses to increase its agility to be more customer-centric.

Looking forward, AXA sees its ability to adapt as a key asset in answering the demands of its new business environment, whether this means offering clients more flexible services that address their needs in a proper timing, or giving greater flexibility to a new generation of employees in their working environment. AXA will continue to invest in new ideas, always in line with its core values ("Born to protect"), so that those ideas may become AXA's competitive advantage of tomorrow.

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