High-Performance Business

Jumping the S–curve
How to sustain long-term performance?
By Paul F. Nunes and Tim Breene

Successful companies often manage growth to the curve of their financial performance. But that isn't enough. High performers also manage the maturing of three other equally important elements of their enterprise to make the jump from one market-leading business to the next.
Back in 2003, when Accenture began its program of High Performance Business research, there was a lot of talk about good companies becoming great. A generation earlier, a similar conversation had focused on the meaning of “excellence” in business.

Yet our ongoing research, bolstered by lessons from global client work across dozens of industries, has taught us that high performance isn’t just about achieving “greatness” or “excellence,” concepts that are far too static. Nor is it just about ensuring long-term survival by building a company that will last. High performance is about outperforming rivals again and again, even as the basis of competition in an industry or market changes.

Truly great companies show the world that their first arrival at the top was not an accident. To do this, they accomplished a difficult feat: They jumped what Accenture calls the S-curve of business performance. When we say S-curve, we mean the pattern of revenue growth in which a successful business starts small with a few eager customers, grows rapidly as demand for the new offering swells, and eventually peaks and levels off as the market matures. High performers not only manage to successfully climb S-curves; as each business performance curve begins to flatten, they jump to the start of the next curve.

**String of successes**
The ability to both climb and jump S-curves is what separates high performers from those that never manage to translate a brief period of accomplishment with a single winning offering into a string of business successes.

Making the jump again and again is crucial to sustained business success and outperformance of industry competitors. Consider that once a company hits a major stall in its revenue growth—as Matthew Olson and Derek Van Bever note in their book, *Stall Points*—it has less than a 10 percent chance of ever fully recovering. Those aren’t good odds, and they do much to explain why two-thirds of stalled companies are later acquired, taken private or forced into bankruptcy.

There are many reasons offered for why businesses fail to avoid a stall. Some companies simply don’t see the end coming, preferring to view slowing revenue growth as the result of a bad economy or an industry slowdown, not as a referendum on their own products or services. Others don’t recognize how slim their chances for late-stage recovery and change really are and thus fail to muster the urgency needed to jump to a new S-curve.

As we discovered when we wrote in these pages about the role of the chief strategy officer, many companies hope they can pull off a reinvention late in the game by appointing a CSO or a chief innovation officer. But no matter how good the executives put into such positions are, they usually aren’t miracle workers.

Still, companies see the problem primarily as one of execution. Observers after the fact often accuse companies of sticking too close to their core—or of moving too far from it. They fault a failure to commit to a new business model, introducing the wrong products and relying on the achievement of massive scale as a strategy (or in place of a strategy). The focus of such criticisms has typically been on fixing what is clearly broken with a company. But at that point, it’s almost always too late.

As a result of our research, we came to a very different conclusion about why companies fail to jump their S-curves. The secret, we found, lies in understanding the hidden S-curves of performance.
We observed that too many companies invest most or all of their energies managing to the growth curve of their revenues. In the process, they fail to manage to three much shorter but equally important hidden S-curves (see chart, below).

The hidden S-curves of high performance

Three key aspects of business mature and start to decline much faster than the financial performance of a company.

![Diagram of hidden S-curves](#)

Source: Accenture analysis

The hidden competition curve

Long before a successful business hits its revenue peak, the basis of competition on which it was founded expires. Consider cell phones. Competition in that industry, for both manufacturers and service providers, has shifted several times, from price to network coverage to the value of services to design, branding and applications. High performers see the shift and create the next basis of competition in their industry even as they exploit an existing business that has not yet peaked.

The hidden capabilities curve

In creating the offerings that will enable them to climb the financial S-curve, high performers invariably create new capabilities. If they are successful, these capabilities become distinctive. But distinctiveness is fleeting. As with the basis of competition, the end of the capabilities curve may not be apparent to executives until time to develop new ones has run out. Take Polaroid and Xerox, two iconic companies whose names were once synonymous with their offerings and the distinctive capabilities they possessed. For Xerox, the renewal of capabilities, including new skills in office services and software, came in time. But for Polaroid, the next round of distinctive capabilities failed to materialize before the company was forced to file for bankruptcy protection in 2001.
The hidden talent curve

While companies are in some senses always on the lookout for the best talent, they often lose focus on retaining in quantity what we call serious talent—people with both the capability and the will to drive business growth.

When the business is successfully chugging along but has not yet peaked, executives feel that operations can be leaner—they’ve moved far down the learning curve by then—and meaner, since they are under pressure to boost margins. They will then reduce both headcount and investments in talent, and will increasingly focus on talent that can best execute the existing business model. This has the perverse effect of driving away the very people—the entrepreneurial risk takers and business builder types—best able to help them reinvent the business.

As a result of managing to these hidden curves—and, it must be emphasized, in addition to keeping focused on the revenue growth S-curve—the high performers in our study had typically started the reinvention process well before their current businesses had even begun to slow. In essence, they had the fore-sight and wherewithal to begin to fix what didn’t yet appear to be broken.

If, in fact, this should be management’s real agenda, how do high performers create an organization that manages to all four curves simultaneously?

They do so by engaging in three distinct management practices: creating strategy in a way that is “edge-centric,” changing the top team well before it appears necessary; and ensuring that they have more talent than seems required by becoming hothouses of talent. These and other important insights gave rise to Accenture’s new book, Jumping the S-Curve: How to Beat the Growth Cycle, Get on Top and Stay There (Harvard Business Review Press, 2011), which presents the latest findings from our ongoing High Performance Business research.

We will return to these and other topics in future issues of Outlook as we continue to report on new insights drawn from our ongoing research. In this issue, we introduce one of three essential business practices a company must employ to successfully climb the S-curve of business performance.

In the following article, we examine the practice of being “worthy of serious talent.” It is critical to attract and retain the right talent for the right reasons, something that is at the core of the performance anatomy we have previously described as necessary for high performance.

The article makes clear how high performers turn the war for talent on its head. Rather than battle for high-priced stars, they focus on creating a corporate environment and culture that attracts and retains employees who have both superior skills and a strong desire to thrive in a demanding environment with equally skilled colleagues.

Jumping in a downturn

It may be argued that the recent severe downturn has made it impossible to think about reinventing the business—that mere survival was an accomplishment during the past two or three years, and may even continue to be so in the near future. But such reasoning is flawed.

Many managers believe that a recession is primarily a time for retrenchment, belt-tightening and a redoubled focus on selling. But economic slowdowns also call for greater attention to innovation and increased prepara-
Another reason: As a downturn bottoms out, the S-curve does not regain its original shape; thus companies do not regain time to recoup their losses. Here are four why this is so.

### Intellectual property continues to lose protection as patents expire

The patent office doesn’t put years back on the clock just because a company’s sales have tapered off in a bad economy. Such an unfortunate fact of corporate life can have a devastating effect on some businesses. In pharmaceuticals, for example, patented drugs are under continual assault from the relentless tide of approved generics. In 2009, the FDA approved 112 new generic drugs aimed at exploiting the recent rash of blockbuster patent expirations known in the industry as the “patent cliff.”

With the patent clock ticking, companies must be prepared for the ill effects of a downturn at some point during their period of protected rights.

### Technologies continue to evolve rapidly

Economic downturns can slow the introduction of new technologies. But they don’t hold them back for long. Disruptive technologies continue to advance even as companies struggle in lean times to recoup their investments in older technologies. Witness the fate of plasma television.

The recent downturn has pushed consumers to seek smaller televisions at lower price points. Expensive large-screen plasma TVs have a hard time competing with the improving quality of LCD and LED televisions. The intense price competition at the lower end and reduced potential for sales at the high end, along with other factors like LCDs showing better in a store setting, have caused Vizio, once a leading maker, to exit the plasma sector, and the former top plasma maker, Pioneer, to exit the television market altogether.

### Competitors continue to enter industries and press advantages

During a downturn, the competition can become even fiercer. Companies may be able to grow sales only by seizing market share from competitors, and already weakened businesses face possible extinction with further slips. In 2010, both Hollywood Video and Blockbuster filed for bankruptcy, while Netflix and Redbox (which offers DVD rentals through kiosks for $1 to $2 per night) gained market share and enjoyed surging revenues. A variety of new channels for obtaining movies drove the final nails into the coffin of brick-and-mortar outlets constructed by the titans of the VHS rental.
Consumer tastes and preferences continue to change

Novelty wears off with time, regardless of the strength of the economy. Therefore, products introduced in a downturn often fail to capture their full potential. Consumer tastes advance, and lost sales can never be reclaimed.

Even during the current downturn, for example, consumers accustomed to the idea of “fast fashion” will not be interested in last year’s styles. And innovators have to prepare for sudden changes beyond their control. Witness the automakers that introduced new pickup trucks targeted at American construction workers… just as the housing market crashed.

Bottom line: A strategy focused mainly on retrenchment during tough economic times is a strategy for continued trouble during the recovery. The logic of the S-curve demands early innovation and preparation for the jump, regardless of GDP growth.

For companies that want to be high performers, the lessons that result from these insights may sound counterintuitive. But what matters most to long-term performance is not so much what you do to reach the top—though that is certainly important—but what you do to cross over to the bottom of the next S-curve and begin the climb again. Similarly, the secret to successfully jumping the S-curve is not about what you do at or near the top of the curve, but what you do to prepare for the next jump on the way up.

About the authors

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