Point of Diminishing Returns

Gary Hamel, 2000a

The explanation of this is that, recently, organisations have been trying to ring the last efficiency out of business models that have reached their use-by date, ie point of diminishing returns. Strategies have become virtually indistinguishable between competitors with senior management's attention focused internally on process and systems. Only a few organisations have successfully invented new business models or reinvented existing business models.

With rising shareholder expectations, new wealth needs to be created. This involves innovation which involves creating new industries, new products, new services and business models.

"...stewardship vs. entrepreneurialship; optimisation vs. innovation..."

Gary Hamel, 2000

These are the fundamental dichotomies between the mediocre many and the extraordinary few. Stewards focus on unlocked shareholder wealth, while entrepreneurs are obsessed with the challenge of creating and achieving new wealth.

No such thing as a mature industry

"...there are no mature industries, only mature managers who unthinkingly accept somebody else's definition of what's possible..."

Gary Hamel, 2000a

eg the market for pre-washed, pre-cut, pre-packaged lettuce (a salad in a bag) grew from nothing in the late 1980s to $1.4 billion by 1999. Lettuce is not regarded as part of the new technology, ie cannot put a Pentium chip in the head of a lettuce, nor digitise green leaves and send them zipping over the Internet!!!!!!

To determine where your organisation is on the graph of diminishing returns, you need to ask the following questions:

How much cost savings can your organisation wring out of its current business model?

Are you and your colleagues working harder and harder for smaller and smaller efficiency gains?

How much revenue growth can your organisation squeeze out of its current business model? Is your organisation paying more and more for consumer acquisition and market-share gains?

How much longer can your organisation keep propping up its share price through share buy-backs, spin-offs and other forms of financial engineering? Is top management reaching the limits of its ability to push up the share price without actually creating new wealth?

- How many more economies of scale can your organisation gain from mergers and acquisitions? Are the costs of integration beginning to overwhelm the savings obtained from slashing shared overhead costs?

- How different are the strategies of the 4 or 5 largest competitors in your industry from your organisation's strategy? Is it getting harder and harder to differentiate your organisation from its competitors?

If you answered "not much" and "yes" more than a couple of times, then you need to re-look at your organisation and business model.

Furthermore, you need to understand where the discontinuities and change differentials are by asking the following questions:

- where and in what ways is change creating the potential for new rules and new spaces?

- what is the potential for revolution inherent in the things that are changing right now, or have already changed?

- what are the discontinuities to exploit?

- what aspect of what's changing can we come to understand better than anyone else in our industry?

- what's the deep dynamic that will make our new business concept more relevant right now?

(source: Gary Hamel, 2000a)

Sometimes when growth levels off or declines, management is tempted to do silly things like make an unnecessary acquisition, slash expenses, etc to handle the criticism from brokers, investors, commentators, etc. For example, Wesfarmers in the 1990s was criticised by the financial media as it was unsuccessful in many of its takeover targets, ie always being the bridesmaid!!! Yet its performance over a 20 year period was exceptional, ie if you invested $8,000 and reinvested dividends in Wesfarmers, it was worth around $1 million a couple of decades later!!!!!