Why Bad Things Happen To Good Companies

Bad things happen to good companies because their markets change, their business designs poop out, their organizations calcify, and their leaders fail. Many articles and books have discussed these topics individually, but our interest here is in showing specifically how these processes interact with one another to create crises. We begin by focusing on the prevalence of bad things happening to good companies, and then look at the processes by which markets change, business designs peter out, organizations calcify, and leaders fail. The focus throughout is on the malignant interaction of these processes. Finally, we end with a set of recommendations to help your company avoid bad things.

In the 1950s, we brushed our teeth with Ipana toothpaste, we bought our food at the A&P and our household appliances from Sears. We dreamed of flying to exotic places on Pan American Airlines. We settled for trips to Howard Johnson's, our favorite restaurant.

General Motors exemplified corporate greatness. While we ogled the 1957 Chevy convertible, our parents hoped to trade up to that ultimate symbol of American success, the Cadillac. GM shared a then invincible position with such firms as RCA, which produced one startling innovation after another.

By the 1970s, we considered IBM to be the perfect company ... yet curiously it missed the minicomputer boom. Digital Equipment Corporation, however, was growing by leaps and bounds, emphasizing distributed data processing that provided everyone maximum computing power at the point of use. As the 1970s faded into the 1980s, we were amazed that Digital did not emerge as the leader in personal computers.

In the 1990s, we ask: Where did these good companies go wrong? Why have GM and IBM been under siege? Why did Digital miss what seems to be a simple linear extrapolation of its corporate mission? Why did such "bad things" happen to such good companies, and to so many lesser lights in their time?

Our grandparents, who also lived in a period of enormous transformation, might have pointed out that in 1921, "everyone" had a Model T Ford. Every second car purchased in the United States that year was a Model T. The company controlled 55.7% of the market, and Henry Ford became the country's second billionaire (after John D. Rockefeller). But Ford also became a

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prisoner of success. Having parlayed a winning business design that accompanied his vision of mass "automobility," he fell into the trap of thinking that history stopped with that success. He began conceiving of himself as being in the business of manufacturing Model Ts, not of satisfying customers. GM was poised to enter the breach, and did so, successfully - until many years later, it too lost its way.

Between 1980 and 1993, IBM, Sears, and GM invested more than $150 billion in fixed capital and R&D - and lost a fortune in shareholder value. The difference in IBM's market capitalization from its high in the 1980s to its low in the early 1990s comes to over $65 billion. As their customers evolved, these once seemingly invincible organizations were unable, or unwilling, to modify their business designs, even when warning signals flared. Inevitably, operating profits in their core businesses eroded, and these firms eventually could not prevent the large-scale migration of value to competitors. IBM, Sears, and GM are not isolated cases of good companies in distress. In fact, they typify countless examples of a process that can lead to enormous upheaval.

With these examples in mind let us look at the pathology of the "bad things" processes.

Value Migration

When a business starts, its founders have an enormously strong imperative to design a company that meets customer needs and fills competitive voids. Survival is the issue. And, the company has two big advantages - small size and no history. The small size means that internal communication and coordination are quick and easy, and that every person is close to the external market periphery of the organization. The lack of history allows the company's business design to be created optimally around market needs and competitive opportunity. The design does not need to be compatible with pre-existing capital equipment and facilities, organizational structure, human skills, or culture. There is nothing to change - only opportunity to respond to, and survival to achieve.

These are the heady exciting times if the company succeeds. And, the more successful it is, the headier and more exciting it is. If the competitive opportunity is large, the early growth will be fast and soon the company gains substantial scale The growth may continue, if the opportunity is very special, for quite some time. We call this phase of development <u>inward value</u> migration because the company is attracting value from customers and competitors. Value is the ability to create profit.

Over time, growth inevitably abates. The company settles in to the second phase of the value migration cycle - <u>dynamic competitive equilibrium</u>. During this phase a group of established competitors fight with one another for sales, market position, and profits. The equilibrium is not static - there is a great deal of intense activity. If the market is large, each share point may be worth millions of dollars in sales, or even profit. At this point, the organization <u>must</u> focus on operating details because margins are tight and competition for each "price of business" is intense. If the company is really lucky, it has attained market dominance and has the luxury of adding staff to gain even more competitive power and success because its margins are higher than the competition. The focus in this period for the good company is on continuous improvement. The sales force fights for each piece of business; manufacturing, distribution, and service executives try to operate more leanly; and incrementally better products and services are regularly launched.

Exhibit 1 shows that over this Phase II, the good company gains share and market position. This is not a heady, exciting period. Instead, it is a period of difficult work to gain each inch of hard-fought territory. It is like World War I trench warfare.

Over time the organization adapts to the tactical nature of its work even if it is well run. If it is well run, it focuses on tactics that enable it to eke out another inch or two of competitive turf. Disciplined, precise execution is the game. Elegant strategies are not of consequence.

If it is not well-run, it grows sloppy and inefficient. Different functional and geographical units of the company grow apart and more insular. Quality and speed decrease, costs increase, and the company depends more and more upon its previously developed position and momentum.[1]

The Phase II period of dynamic competitive equilibrium can last from months to decades. The era of IBM's computer dominance was from the mid-1960s to mid-1980s. For television networks it lasted three decades. In the beverage industry, Coca-Cola and Pepsi-Cola have maintained operating margins of 20% for several decades as well.

At some point however, the world changes from dynamic competitive equilibrium to Phase III, outward value migration. That is, as customers, technologies, and societal preoccupations evolve, and as competitive products, services, and process development respond, economic value migrates away from some activities and towards others. As the structure of customer needs, utility, and power changes, what was once highly rewarded fades into economic irrelevance.

Value migrates away from activities such as direct sales and service approaches, and specific products - buggy whips, mainframes, even basic materials; it migrates from segments (e.g., regulated nonprofit segments in home health care). It migrates from entire business designs (i.e., how a company creates value, differentiates itself, and recaptures value).

Outward value migration is inevitable. That is why we can guarantee that your current business design will eventually fail. History proves it. The interaction between changes in customer function, fashion and feature needs, and competitive activity invariably leads to the competitive primacy of another, more current business design.

Television networks exemplify significant value migration involving several industries simultaneously. From the 1950s to the mid-1980s, ABC, CBS, and NBC dominated home entertainment. Broadcast stations fought for network affiliation, as that relationship alone could dramatically increase their cash flow. Alternatives were few. The Big Three created a phenomenally cost-effective tool with which their primary customers, packaged goods manufacturers, could build consumer franchises. The process fed on itself. As television penetrated more households thereby increasing its power, and as network program hours increased and color TV grew more pervasive, the networks could provide more value to viewer and advertiser, and market capitalization grew for the networks themselves.

By the mid-1980s, new home entertainment technologies hit the market, new competition arose, and viewer behavior began to change. Cable systems, independent TV stations, VCRs, and video rental stores proliferated, providing the studios, which generated programming, with additional outlets. As entry barriers for potential broadcast competitors were thereby lowered, Fox seized the opportunity. Another network may be formed, which would harness many remaining independent stations and supplement them with cable deals to create a national reach. These new players are taking advantage of the direction of value flow towards them. By 1993,

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[1] Benson P. Shapiro, and Adrian J. Slywotzky, "Leveraging to Beat the Odds: The New Marketing Mind-Set," *Harvard Business Review,* September -October 1993, pp. 97-107, Reprint # 93510 .

Turner Broadcasting, Viacom, and Blockbuster Entertainment had market capitalization totaling nearly $18 billion - a figure exceeding that of ABC/Capital Cities, CBS, and NBC combined.

Recent examples of value migration also include airlines, where in the US value has migrated from national carriers towards focused regional carriers; and retailing, where value has moved from middle-of-the-road formats toward "category killers," discounters, and TV home shopping. In steel, value has migrated from integrated US steel makers towards lower-cost Japanese, Korean, and Brazilian producers, towards aluminum and plastics manufacturers, and now towards the lowest cost and increasingly the most innovative suppliers: those who begin their manufacturing with scrap, not iron ore - the minimills. What minimills have done is rethink the process of making steel in order to provide their customers what they want: lower price, shorter cycle time, and closer adherence to end-user tolerances. The current increase in scrap prices, in turn, is challenging a fundamental premise of the minimills' business design.

Why Outward Migration Hurts So Much

Outward migration hurts so much because of an unfortunate coincidence of two factors. First, it is usually a surprise. Constant tactical maneuvering has forced the organization to focus on the fine-grained detail of the market. The field of vision, as in a high-powered microscope, is very narrow. In such a situation, broad basic changes are missed. This applies to customers and competitors. The narrow competitive field of vision makes it almost inevitable that new, and particularly non-traditional, competitors will take the lead in introducing a new business design. Even if the new design is right, customers will not flock to it immediately. Instead, they will move slowly, with those who need the benefits of the new approach, generally not the largest established customers, going first. Established competitors are likely to disparage the new products and services, the business design that yields them, and the customers who buy them. "Real" computer companies believed the early personal computers to be "toys" for "nerds." Real steel companies believed early minimills to be "wimpy" and their products of interest only to the "disloyal price buyer."

The limited ability to see evolving customer needs and competitive activity was called "marketing myopia" by Ted Levitt[2] three decades ago. Despite the popularity of the article and term, and the strength of his admonitions, people still suffer from it.

The second factor is the company's inability to respond to the new market opportunity and competitive imperative. Often, the new business design requires different skills from the old. Perhaps the technology changed from mechanical to electrical or from electrical to electronic. More basic, the existing competitors are locked into a mindset that prevents them from responding to the new imperatives. Everyone is looking through microscopes when they need telescopes. The organization is designed and populated to do the old things better, not to do new things. And, that is the best we can say if the company is well run. If it is not well run, it has grown bloated and unresponsive, and can't even do the old things well. **Exhibit 2** shows that the need to change is highest when the ability to change is lowest.

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[2] Theodore Levitt, "Marketing Myopia," *Harvard Business Review*, September - October 1975, pp. 26-48, Reprint #75507.

From Complacency to Panic

As outward value migration gains momentum, the organization goes through a period of denial, self-deception, and disavowal. The market myopia, fear of change and actual inability to change compound one another. Like deer mesmerized by the headlights of an oncoming automobile, movement becomes impossible.

Part of the tragedy is that the more successful the company has been, the more intense its denial. "We do great things because we are General International Amalgamated Behemoth." And, everyone spends an increasing amount of time proving to themselves and one another that the company was great and still is.

But, inevitably, the outward value migration continues. And, like a snowball rolling down the hill, momentum builds. Because of the nature of an innovation's diffusion, it takes some time for the trend to become clear. But often a self-reinforcing series of events provides a real turning point. Perhaps a major customer purchase validates the new technology and creates an implied industry standard. Or a series of suppliers or distributors accepts the new approach as "the way to go."

If the established well-run competitor had been able to move early it would have gained, the advantages of market position and momentum, employee morale, and financial strength. If, as is often the case, it delays action because of the denial, self-deception, and disavowal, it has none of these. The financial impact of waiting is enormous. **Exhibit 3** shows how the ratio of market capitalization varies with the phases of the value migration cycle. In the inward value migration phase the ratio is well above 2.0 and sometimes higher than 10.0. In the dynamic competitive equilibrium phase the ratio is between 1.0 and 2.0. And, in the outward value migration phase it goes below 1.0, and often well below 1.0.

The crisis process is ugly. Orders are lost, customers bolt, the best employees who are the least myopic and most receptive to change abandon ship, sales go down, profits plummet, and stock prices sinks. Inside, chaos reigns. The most loyal workers work harder at doing the old jobs better. But, despite long hours, perseverance, and perspiration, things don't improve. Even the most complacent begin to see the writing on the wall. And, the hardest working begin a pattern of infighting: "If I am working hard and the results are not forthcoming, you must not be working hard!" As the specter of lay-offs, down-sizing, right-sizing, and other euphemistic words for bloodletting grows more pronounced, the amount of effort put into productive work decreases. Everyone is fighting for his or her job. And, no one is creating customer value. The snowball get bigger and moves faster! Even the most loyal customers are now turned-off by the poor responsiveness and see the wisdom of the new competitive model. Crisis has replaced complacency and the world never looked so bad.

Leadership Failure

At this point, the swing variable is leadership at the top. If it is effective, <u>really effective</u>, hope can lead to success. The most effective leadership mobilizes resources and changes the strategy and the organization before it is necessary to do so. We have examples in Bob Haas of Levi Strauss, Dermot Dunphy of Sealed Air, and Henry B. Schacht of Cummins Engine. Each created a sense of urgency before it was urgent. Each had the benefits of market position and momentum, employee morale, and financial strength. Each created new business designs for his company.

But, few executives who have experienced a long period of dynamic competitive equilibrium, which may have lasted for several generations of top managers, can do the job. As most face the crisis they grow disheartened and turn to easier, more controllable activities than turning around myopic, calcified organizations. They discharge their community responsibility by becoming active in charities. They build a new headquarters and spend their time decorating it with world class art. They provide advice to government agencies. They write a book. They do anything to get some place where they can achieve something.

Sometimes, the leader is shamed into confronting the crisis at home in the company. Board pressure and the disdain of the press force action. At that point, all too often the action is ill-conceived and driven by panic not logic. There are "slash and burn" campaigns to cut cost. Divisions, sometimes including the winners, are sold. There may be little rhyme or reason to the activity. It is a knee-jerk, "if they want action, I'll give them action" response.

Finally, as the gap between the old business design and new customer priorities widens, leaders are vulnerable to two more forces. First is self-justification. Because so much investment - monetary and emotional - has been made, "the greater the decision makers' unwillingness to admit that their prior resource allocations were in vain, the more likely they are to continue allocating resources to the failing course of action".[3] As a result, while the business design grows increasingly obsolete, the CEO grows increasingly committed to it.

The second force at work is permitting honesty to die. In *The Emperor's New Clothes,* Hans Christian Andersen recounts how the emperor sends an "honest old minister" to examine the clothes being provided by dishonest weavers. Of course, no clothes were being woven. The minister asks himself as he looks at the obviously empty looms, "Am I really stupid after all? That has never occurred to me - and it had better not occur to anyone else! Am I really unfit for my office? No - it will never do to say that I can't see any cloth".[4] This fairy tale in fact realistically portrays how, in the face of a group of people who seem to believe one thing, it is exceedingly difficult for someone with a different perspective - even the true one - to speak out. And the more tenaciously the existing perspective is held by the majority, the more difficult it becomes for the minority to enunciate the contrary. Moreover, while the latter remain silent, the legion of corporate sycophants grows.

No one intentionally plans the fatal interaction of value migration that creates the need for change, organization calcification that makes change nearly impossible, and failing leadership that only reinforces the status quo. The resulting tangle of distraction, decreasing customer value, diminishing market capitalization, declining morale, and a pervasive lack of candor is not anyone's goal. Surely, in their heyday, the General Motors, IBMs, and Sears of this world and their leaders never imagined the stupendous loss - of customers, employees, assets, market value, prestige - they would eventually experience. Nor did the thousands upon thousands of other good companies whose decline, though less heralded, likewise triggered wrenching dislocation.

Stopping bad things from happening to good companies can be deeply unpleasant work, but it can also be genuinely liberating and release unanticipated energy. There are few unambiguous examples of success. The success stories, however, do have one thing in common: leaders who were unafraid to embrace reality. While that may appear to be a simplistic notion, the willingness to be exposed to what is really going on is fundamental to begin dealing with value migration and organizational calcification.

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[3] Joel Brockner, "The Escalation of Commitment to a Failing Course of Action: Toward Theoretical Process," Academy of Management Review, 1992, Vol. 17, No. 1, pp. 39-61 at pp. 43.

[4] "The Emperor's New Clothes", Anderson's Fairy Tales, (New York Capricorn Press, 1984), pp. 3-10.

Time magazine's January 2, 1956, story on its "man of the year," General Motors chairman, Harlow Herbert Curtice, was in fact an early warning signal of problems ahead:

> In many ways, he [Curtice] lives a life that is *beyond the comprehension of most of his car owners.* Platoons of *subordinates jump when he twitches.* Garages filled with gleaming limousines and beaming chauffeurs stand ready to transport him wherever he desires. A private 18-plane air force ... is at his disposal. Private secretaries and public relations men take care of bothersome detail, see to it that Cadillacs, hotel suites, restaurant tables, and theater seats are there when and where he wants them. High-salaried assistants *smooth his path,* greet him wherever he arrives, order his drinks, fetch his newspapers. [Emphasis added][5]

Must Leadership Fail?

We have described a disastrous interaction that often occurs among value migration which creates the need for change, organizational calcification that makes change almost impossible, and failing leadership that over time disintegrates into a morass of distraction, decreasing customer value, declining morale, and a pervasive lack of candor. No one means for this to happen, but it often does. The good news is that is doesn't have to happen that way. And, we have a few examples to support our contention that the positive assertion of leadership can work. The examples are few because the task is so very hard. It requires an extraordinary combination of intellectual capability to understand value migration and the need for change; emotional sensitivity to organizational dynamics that foster internal change; and the ability to mobilize internal and external resources, and create high commitment among many people. This is much more than "the vision thing," although it will fail without a clear vision that can be communicated to and embraced by many people.

The best way to deal with bad things, of course, is to avoid them. It is difficult to recognize the incipient signs of outward migration and to ward off organizational calcification, but we have several suggestions. Generally the shift from Phase I to Phase II of the value migration process is driven by the abatement in primary demand growth. The shift from Phase II, dynamic competitive equilibrium, to Phase III, outward migration, is more typically related to the pooping out of your business design. Essentially, another, better business design arises.

There are some important tell tale signs of impending outward migration. First, you begin to lose leading-edge customers to the new business model. Thus, it is necessary to constantly define who the leading-edge customer are, for they change over time. They are typically those who are most knowledgeable about product/service utility and most likely to try the emerging business design. Other customers view them as opinion leaders, so their influence on market share can be very high.

Sometimes, the shift to another business design happens below you in the industry "food chain." Thus, you may be increasing your share in your served market, while your served market is decreasing as a share of the total market. This might be called "secondary" value-out migration, but the result is the same. Ask the suppliers of buggy whips!

When your market place potency begins to wane you are typically forced to work extraordinarily hard to keep business. This is often reflected in discounts and promotional expenses needed to sell existing products, and new product failures.

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5 "Man of the Year: First Among Equals," Time, January 2, 1956, p. 54.

Careful real time analysis of your customer base, your customers' customer base, discounts, and new product failures can be combined into a sensitive set of early warning indicators. It also helps to put that information in the context of the last value migration. How did your company, if it became a growth leader, do it? How did you migrate value in from the last vanquished competitor?

Organizational calcification is an even more insidious process then value-out migration. It tends to be driven by two distinct mechanisms. The first and easier to spot is the hiring of too many people, particularly staff people. Careful focus on sales and profits per employee and line-to-staff ratios helps enormously here. Having too many people in a company increases costs, and even more serious, slows decision making and harms market responsiveness. Staff people who generate little positive work but who spend their time checking and analyzing for no useful purpose are particularly detrimental.

The second source of organizational calcification is more closely tied to the value migration process. The Phase II dynamic competitive equilibrium encourages people to focus on tactical issues. Over time the tactical focus shifts from the customer to the competition. And, ever so slowly, the detail-oriented organization begins to focus on detail for the organization's own sake. Every organizational jurisdiction, such as departments and divisions, develops its own parochial set of bureaucratic details. The organization begins to value loyalty over competence, and respect over communication. If the process continues, truth will die.

To allay the process, we have a rather Draconian suggestion that actually makes sense. Top executives should rate their subordinates on loyalty and competence. Those who are more loyal than competent should be fired because they are the dangerous ones. They will stay forever while other more competent, less loyal people will jump ship as problems develop. And, the loyal, non competent subordinates will "protect" their bosses from the truth. Reality will be too threatening and ugly.

When truth dies, really bad things happen. At that point, the CEO must go beyond prevention to energizing the organization. Bad things are happening!

Energizing the Organization

A natural way to think about asserting leadership when bad things are happening is to immediately short-circuit the whole organization and go directly to the customer. That is both right and wrong. It is right because it sets the right tone. It provides an external, future-oriented focus to the organization. It is wrong, however, because the CEO, except in very small companies, cannot individually develop the relevant view of value migration and underlying customer and competitor changes.

Thus, a good deal of the CEO's early work on rejuvenation and reinvigoration must concentrate on changing the internal organization so it can identify, clarify, and embrace the new external imperatives. The CEO hasn't the capability to do the job without a dedicated organization.

Leaders look outward, downward, and forward. They look outward toward the customers and competitors who, along with channels of distribution and business partners, will determine the destiny of their firm. They look downward into the organization where value is created and work done. And, they look forward to the future.

By and large, however, companies in trouble are led by those who look inward, upward, and backward. It is easier to look upward to the board of directors, and to attempt to curry its favor, than to dig deep into the bowels of the firm where truth and the true customer orientation tend to exist. And, it is much easier to look backward at the glory days of what has been, than to look forward into an uncertain future where change is the only constant.

To lead in situations where bad things are happening to good companies requires a CEO who is able to mobilize the informal social system and people for the improvement of the company. The formal organization structure and management processes are too rigid, and too locked in the past to provide the initial move to the future. That must come from people who are willing to step outside normal bounds, and to do so by working across jurisdictional boundaries.

For this reason we define leadership simply as the courage to hear and see the truth, and the willingness to share the credit. Capable leaders faced with disastrous situations must marshal the truth to their advantage. They must look deep down in the organization to understand the truth as it is seen by production workers, customer service people, and sales people. They must look outside to the customers. And by the customers, we do not mean the CEO should make official "state visits" in which they ceremonially review "the honor guard" of their customers. They must go deep into the bowels of their customers' organizations to talk to the people who use their services and products. They must engage reality at a real level.

The good thing about such activities is that they tend to be contagious. When other top managers see the CEO dealing with the truth openly and honestly, and relating to the myriad of "little people" who make things happen in their own company, the customer organizations, and other players such as channels of distribution, they catch on. This is one of the great powers of "managing by walking around."

Thus, our first action step for leaders who are in difficult positions is to get out of the executive suite and engage the real people. And the engagement, does not mean "talking to them." It means "listening to them." Production workers often know the quality problems better than the manufacturing vice president. And, the sales people understand customers better than the marketing vice president.

By going around formal hierarchies and jurisdictions, the CEO is empowering the organization to use the informal social system to get work done. That's often where the action is in good companies. People go wherever necessary to get the information they need or to get the cooperation they need.

But, chief executive officers aren't the only ones who must assert leadership when bad things are happening to good companies. The board, as the business press and notable academics have stated loudly and clearly, must assert itself. Often, we believe the board must go outside the company for a new CEO. The old CEO is wedded to the old business model, and can't even examine the assumptions of the current business system, and thus will never provide, or even positively respond to, the "out of the box" thinking needed to bring about change. They can diddle with the symbols, or work harder at the wrong things, but they can't make the necessary quantum leaps.

It's often hard for the board to face the realities of firing CEOs, writing down fixed assets, and focusing on the development of a new business model. But, in today's world such discontinuous change in the company is necessary to meet the discontinuous change in the marketplace.

The CEO and the board are not the only people who must assert leadership when bad things happen to good companies. Other senior managers must step forward and report that the emperor is naked if that is what they see. All too often, there is a conspiracy to subvert the truth. The CEO doesn't want to face it and other people don't want to force her or him to face it. But, truth is the absolute necessity when bad things happen to good companies.

Often the best way for senior managers to help the CEO face the truth is to use the customer and competition as the vehicles for exploring truth. Protecting the CEO from the realities of the marketplace is exactly the opposite of the necessary behavior. Yet, many managers do just that.

The unvarnished truth, brought directly to the CEO by the customer, often is the beginning of the process of developing a new business model. Searching for data that show the company in its best light is not productive. Instead, showing that new competitors and new business models are arising, and providing better customer value more efficiently, helps lead to discussions about a new business model.

The focus must be on benefits to the customer as opposed to survival of the company. As we discussed above, new and different business models generally provide customer value in new and very different ways. Existing competitors must face that reality and understand it.

Sometimes, the only solution is long-term liquidation of the company. It certainly is better to do so in a gradual, organized way over a long period of time than to try to hang on, not facing reality, until rapid, cataclysmic liquidation is needed.

We find that top management teams, and boards of directors, are unwilling to even face the possibility of liquidation. It is an undiscussible option, and its very undiscussability, as Chris Argyris of the Harvard Business School points out, is undiscussible. This tends to lead to even more discussions of the emperor's new clothes. Liquidation has to be considered as an alternative, if only to provide a base level from which to think.

The good leader focuses on external responsiveness and internal suppleness. He or she understands that every business model, much like a banana, ages in a bad way. It doesn't mean that the basic values or heritage isn't worthwhile, just that the business model has to be renewed. The renewal depends upon a leadership team that has the courage to listen to the truth.

The focus during this period of rebuilding must be even more devoutly on the customer than at other points in the company's life cycle. The bottom line is that if the organization isn't good for the customer, it isn't good for anybody.

Exhibit 1 Value Migration

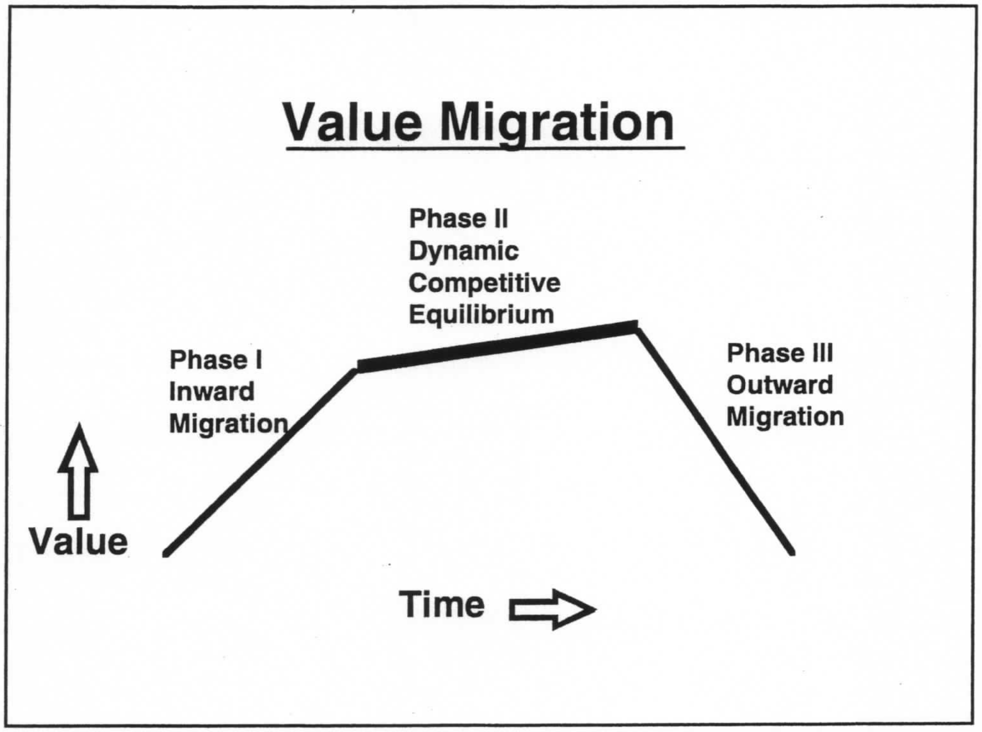


Exhibit 2

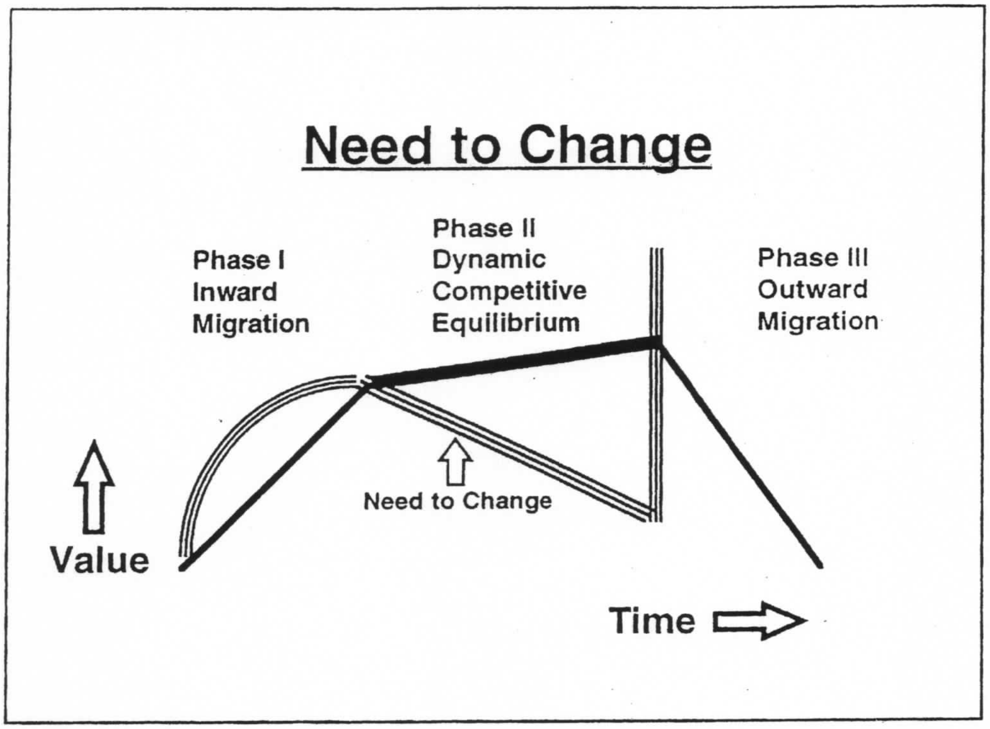

Need to Change
Phase I
Inward
Migration
Phase II
Dynamic
Competitive
Equilibrium
Phase III
Outward
Migration
Need to Change
Value
Time

Exhibit 2 Continued

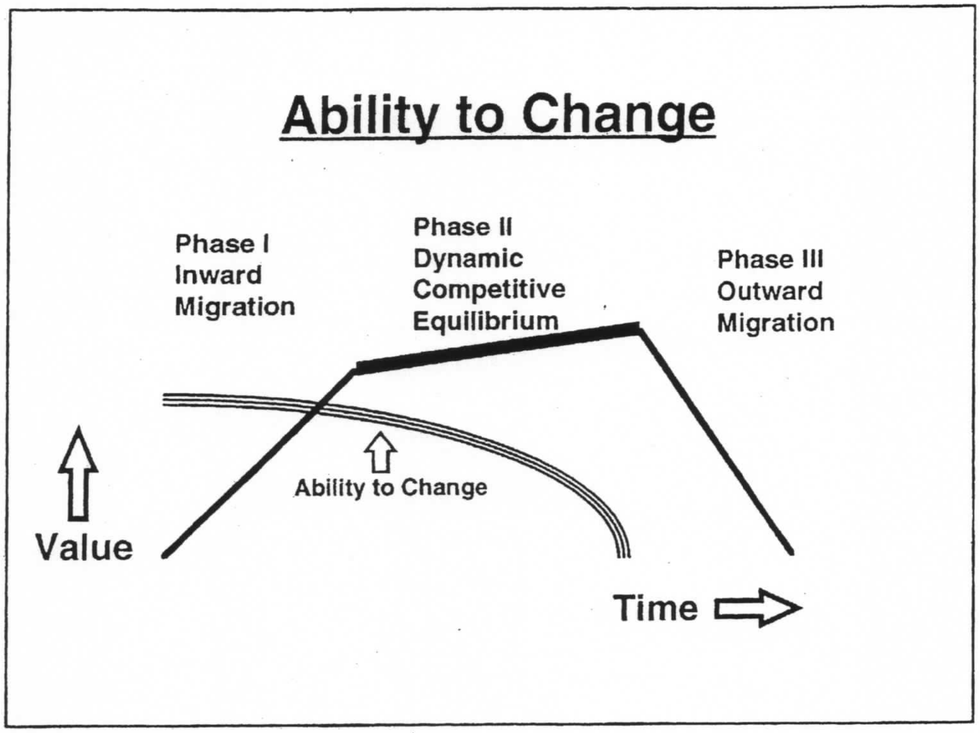
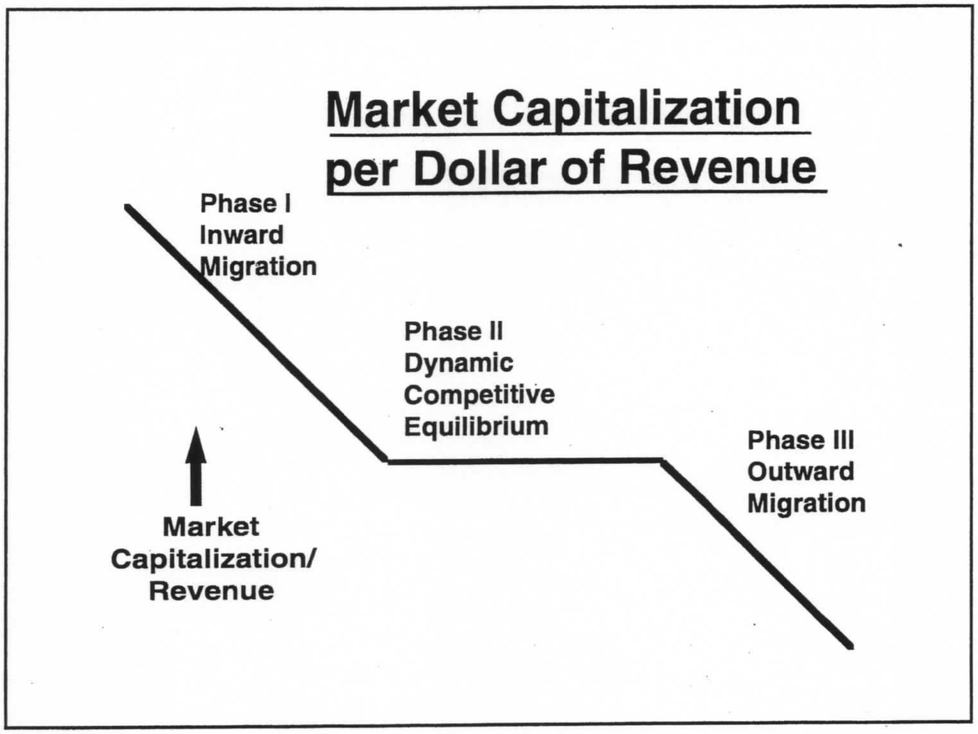


Exhibit 3


Market Capitalization
per Dollar of Revenue
Phase I
Inward
Migration
Phase II
Dynamic
Competitive
Equilibrium
Phase III
Outward
Migration
Market
Capitalization/
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