

Why are some
companies luckier
than others?

It's not luck that makes **leaders**

Market-leading businesses don't rely on luck to achieve their potential. They carve out success for themselves, taking control of their direction and leaving nothing to chance. Likewise, it took more than a stroke of good fortune to get them where they are today. Only an exceptional business can develop into a market leader, and the transformation never occurs overnight.



It's leaders that make luck

If market leaders are already outstanding businesses, what do they possess that sees them rising right to the top when others don't? Is it their talent, an ability to innovate or their dominance of the market? Perhaps it's a sixth sense they have for understanding their customers. To identify which of today's businesses have the potential to become market leaders, forget about luck (and don't waste time seeking out some special, elusive quality that you imagine leaders may possess).

Instead, examine the way a company addresses the six fundamental challenges facing all businesses. Do this, and you will see how exceptional enterprises draw upon the distinctive mix of key attributes that they have in common to overcome these challenges and accelerate growth.

This ability separates market-leading businesses from the rest.

Some call you lucky

For more than 30 years, Ernst & Young has helped many of the world's most dynamic and ambitious companies develop into market leaders. Our role as trusted business advisors has given us the opportunity to put a huge array of organisations under the microscope: businesses drawn from all industries and sizes, from early stage to fast-growing mid-caps.

Along the way, we've built up a wealth of knowledge and experience of what powers a handful of these companies to take up market-leading positions, and have gained insight into the factors that distinguish them from other successful companies.

Experience has taught us that all businesses face similar principal challenges on their journey to market leadership. Whatever their stage of development or strategic objectives, issues such as attracting customers, recruiting and retaining employees, and managing risk never disappear from the agenda. But, as a business evolves, so too does the nature of the challenges ahead.

On their route to the top, companies go through three distinct growth stages. They start as **emerging enterprises**, concentrating on identifying market opportunities and sources of funding, and recruiting the right people to kick-start the business.

Success during this stage paves the way for the **rapid-growth** stage, when companies focus their energies on becoming a supplier of choice for their most valuable customers, managing expansion and securing additional capital. From here, they evolve into a **next-generation market leader** and turn their attention to working effectively across global networks, balancing entrepreneurial spirit with corporate culture and optimising their capital structure. During each stage, the focus of the business challenges shifts and so too does the way a company responds.

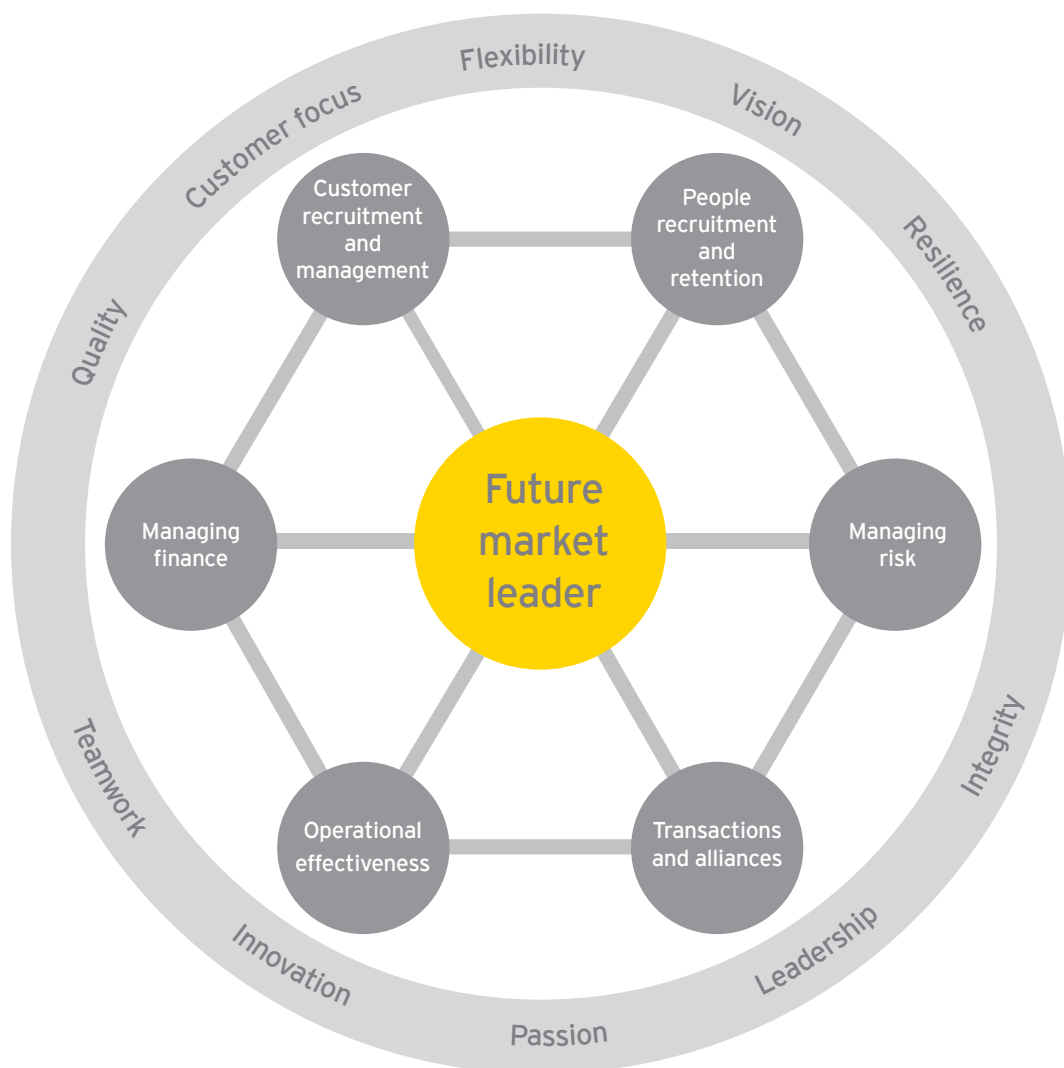
Ernst & Young's Exceptional Enterprise model highlights the six key business challenges companies should address and the actions they should take to become a market leader.

Exceptional entrepreneurs

The Ernst & Young Entrepreneur Of The Year award makes a difference through the unique way it encourages entrepreneurial activity among those with potential. For more than 20 years, the award has recognised the contribution of people who inspire others with their vision, leadership and achievement. As the first and only truly global award of its kind,

the Ernst & Young Entrepreneur Of The Year award celebrates those who are building and leading successful, growing and dynamic businesses, recognising them through regional, national and global awards programs in more than 135 cities in 50 countries. To find out more about the world's most prestigious business award for entrepreneurs, visit our website at www.ey.com/eoy.

We call you an exceptional enterprise



The more prepared you are, the less luck you need

Risk permeates all of the fundamental business challenges a growing company faces, from recruiting the best people to managing finance. Regardless of a company's stage of growth, the ability to identify and manage risk stands out as a vital element of success in the modern business world. Companies that wish to become market leaders should not fear risk, but embrace it and reap its rewards to accelerate their growth. Exceptional enterprises encounter risks in the same way that all other businesses do, but they educate themselves about the risks facing them and the steps they need to take to control and manage them. This approach sets them apart from the crowd.

Because risk-taking is a fact of life for an **emerging enterprise**, fledgling businesses must recognise and plan for the risks most critical to their short-term goals. For example, failing to understand and protect their intellectual property and legal rights could have disastrous consequences. Furthermore, the best emerging enterprises ensure that they have effective IT security and have developed robust disaster recovery plans, just in case the worst should happen.

Rapid-growth enterprises have already built up a sound understanding of risk. Knowing that change lies ahead, they seek processes to identify and address

the most significant financial, compliance, operational and strategic risks. They understand the geopolitical and economic risks as they prepare to expand their business globally and ensure that the risks of any new ventures, alliances or transactions are known and managed.

You can't become a market leader unless you understand, manage and embrace your risks. As you move forward to market leadership, ask yourself:

- ▶ **How do we identify and monitor the risks that are most important to our future success?**
- ▶ **Do we measure our team's performance on managing the risks as much as managing the rewards?**
- ▶ **How are our stakeholders affected by the key business risks and are we communicating to them effectively?**

By the time a business has become a **next-generation market leader**, it will need a sound enterprise-wide risk management approach. This means dedicating resources to developing strong internal controls and processes, and establishing a robust internal audit

function to ensure global compliance with new and evolving regulations. Additionally, exceptional enterprises ensure that they are regularly and consistently communicating their approach to risk management to all their key stakeholders.

Ernst & Young helps businesses manage their risks every step of the way. We'll help you assess your current risks by working with you to create a risk profile that identifies and prioritises your specific risks, assisting you to mitigate their negative impacts and maximize growth opportunities. We can help you improve the design or operating effectiveness of your risk processes and controls, and guide you in improving risk management practices. We know one size doesn't fit all, so we help you monitor your risk processes to make sure they remain right (and effective) as your business evolves. Ernst & Young can help your business approach the future with confidence, plan for the inevitable risks and make sure that your business is well-managed.



The right deal is not down to luck. It's about being alert



Market-leading companies rarely evolve by organic growth alone. To rise to the top, they seek successful partnerships and strategic acquisitions capable of enhancing their growth, competitiveness and profitability. Exceptional enterprises, while quick to grasp the value of transactions and alliances in today's dynamic markets, also appreciate that landing the right deal is not about luck. They make a concerted effort to remain alert, build profile in their markets and ensure that they're well positioned to seize an opportunity as soon as it arises.

Emerging enterprises identify cost-effective partnerships or alliances that will offer them the ability to drive value for their customers. Exceptional enterprises successfully spot the "right fit" to deliver benefits all round, identifying win-win situations. They adeptly leverage their personal and business networks to unlock the door to further opportunities.

By the time a company has reached its **rapid-growth stage**, it will have begun to evaluate strategic growth acquisitions and ensure an appropriate exit plan is in place for venture-capital backers and shareholders. To move forward, an exceptional enterprise will identify any gaps in its offering to customers and build an investor-supported acquisition strategy aligned to its business objectives. When considering international expansion, leading businesses often identify a

low-cost, low-risk alliance to gain valuable knowledge and experience before looking to make a long-term acquisition. Once a company has identified an acquisition, it must undertake thorough financial and commercial due diligence, to make sure there are no hidden surprises and the deal represents value for money.

Transactions can be a vital element in delivering and sustaining a market-leading business. As your business competes to become one of tomorrow's leaders, make sure you can answer the following questions:

- ▶ **How much can our business grow through organic growth alone?**
- ▶ **How do we identify potential acquisition targets or partners?**
- ▶ **What are the critical success factors that make our transactions and alliances generate real value for our business?**

Next-generation market leaders actively build their corporate agenda. They carry out regular value-adding transactions including acquisitions and the disposal of non-core elements of their business. They remain alert, dedicating resources to proactively evaluate targets, develop

appropriate funding strategies and triumph over the competition in securing the best partners. During this stage, an organisation also identifies opportunities to dispose of non-core businesses from the group and develop a planned response to a potential hostile takeover.

Every day, Ernst & Young helps exceptional enterprises complete deals and form partnerships to accelerate their growth. Our dedicated team of transaction professionals understands the conflicting forces affecting successful transactions – the need for you to react quickly to market opportunity versus the need to be thorough and diligent in your approach. This is why our team will work with you across the transaction lifecycle, helping you deliver effective transactions by focusing on the deal-critical areas of financial due diligence, valuations, business modeling, transaction tax and post-merger integration.

Winners don't trust luck. They trust attention to detail

Market leaders haven't progressed to where they are today by trusting their luck. Focused on the details, they understand that every aspect of their business must hold up to scrutiny and be constantly improved to stay ahead of the pack. An exceptional enterprise leaves nothing to chance but instead takes control by analysing its operations and ensuring that all parts remain at their most effective at all times, making changes as and when needed.

Even as **emerging enterprises**, the best companies clearly understand their core competencies and their position in the customer value chain, quickly becoming skilled at laying firm foundations for future growth. They establish a flexible infrastructure, including using short-term or contract resources to meet customer demand and responding to changing market circumstances. The best businesses also draw on their personal and professional networks to help source the lowest-cost, highest-quality suppliers.

In the **rapid-growth stage**, an exceptional enterprise will focus on developing a robust but scalable infrastructure. It will regularly review its structure and business processes, asking itself whether it is operating at maximum efficiency and whether its systems and processes

are robust, secure and suitable to support rapid-growth. It will also consider outsourcing aspects of its business to improve efficiency and manage costs, while never losing sight of the impact this will have on the customer experience.

It's not a coincidence that market-leading companies focus on delivering efficient and effective operations. As your business develops, ask yourself these key questions:

- ▶ **What key changes would we adopt to make our business even more effective?**
- ▶ **How do we ensure that our business operations are capable of responding to a major new challenge?**
- ▶ **How do our operational changes affect our customer experience?**

Often, by the time a company has become a **next-generation market leader**, it will be building a more global view of its operations and facing the associated challenges of operating across borders. This will often result in a much more complex structure that needs careful

management and analysis to understand potential efficiencies. The best companies also pay particular attention to leveraging income-generating assets and ensuring that their legal and tax structures are suitable for operating in multiple jurisdictions. While international expansion might present cost-reduction opportunities throughout the supply chain, a business must take care not to allow cost-cutting strategies to undermine its long-term vision.

Ernst & Young makes a difference by helping businesses identify opportunities to streamline their operations more effectively. Whatever your stage of growth, our professionals can help you assess and monitor supply chain risks and manage your company's tax burden, particularly as you begin to establish overseas operations. We can advise you on establishing a strong internal audit function to give you confidence in your growing business, and help you pay attention to the most important details. And, crucial to every aspect of your business operations, we can offer you guidance on your IT infrastructure and security.



Money can't buy you luck. But it can buy stronger growth



Ernst & Young's IPO Retreat program encourages delegates to consider whether an IPO is right for them, explains the process for listing on the capital markets and examines how a business will change post-IPO. Held around the world, the Retreats also provide valuable networking opportunities.

To learn more, go to www.ey.com/ipo

A business can't grow without capital, but that doesn't mean that throwing money at it will ensure success. How a business manages its money – and its new investors – will determine its course for the future. Exceptional enterprises identify the best mix of financial solutions needed to accelerate their growth, learning how to take control of, and successfully manage, the funds available to them.

Emerging enterprises give considerable focus to securing and managing their initial injection of risk capital. An exceptional enterprise takes the time to understand which funding sources are available and which best suit their needs. A well-thought-out business plan, clearly tailored to the needs of the potential investor, is a powerful tool and should be regularly reviewed and maintained. With the funding in place, the focus changes to responsible management. Maintaining accurate books and records, ensuring compliance with regulatory and financial requirements and developing a basic tax strategy will all help demonstrate to investors that their money is in safe hands.

Obtaining and managing the right level of expansion capital becomes pivotal during the **rapid growth phase**. Exceptional enterprises understand the

value of establishing flexible funding arrangements. With these in place, the company can react quickly to a new market opportunity or take advantage of a value-enhancing transaction more quickly than its competition. At this stage, many companies choose to implement scalable reporting and management information systems, helping them provide the right information to the right people at the right time.

Successful financial management is vital for sustainable growth. To ensure that you stay on track to reach market leadership, ask yourself:

- ▶ **How will we fund our future growth?**
- ▶ **What is the optimal mix of debt and equity in our business, and how will this change over time?**
- ▶ **How do we rate our own financial reputation?**

Once a business has evolved into a **next-generation market leader**, its focus will shift towards ensuring the most effective blend of funding arrangements are in place. This means fully evaluating

the cost of debt versus equity and regularly evaluating innovative financing solutions that could improve shareholder value and accelerate growth. As the business grows, financial management becomes more complex. Successful organisations invest significant time and resources to developing a world-class finance function, helping them to remain compliant with financial regulations, align their tax strategies with their business objectives, and communicate regularly and transparently with stakeholders.

At Ernst & Young, we understand the value of strong financial management. Regardless of your stage of growth, we will help you achieve your potential by offering the necessary guidance as you create and review your business plans, control your costs and manage your tax burdens. We'll provide audit and assurance services to help you stay in control, and can assist with international financial reporting requirements. You can also call on us to help design your organisation's actual finance function, setting you on the path to perform at your optimum efficiency on your journey to market leadership.

When you listen to your customers, you don't need luck

From the outset, leading companies make customers their focal point. Businesses that don't put customer needs and desires first don't get very far. Exceptional enterprises know all about their customers – who they are and what they want – and know that building customer loyalty goes hand in hand with long-term sustainable growth. Even after becoming market leaders, exceptional enterprises never stop thinking about how to keep delivering for each and every customer.

Emerging enterprises focus on doing the basics – but doing them well. An exceptional enterprise builds products and services around their customers, identifying market opportunities and establishing their customer base, while developing an understanding of who their competitors are and what they do. They may struggle to balance growth opportunities with available resources, but they take care not to grow too quickly. They know that making promises they can't deliver will only result in a damaged reputation and an unhappy customer. Seeking customer feedback, addressing service issues quickly and efficiently and communicating unique selling points will help establish the company's brand and market position and lay a solid foundation for further growth.

Rapid growth enterprises aspire to become the supplier of choice, taking their customer focus to the next level and trying to win market share from their competitors. An exceptional enterprise does this by understanding the needs of its most important customers, often embarking on research into buying decisions and behaviors to gain insight. Embracing new technologies to communicate with and serve customers more efficiently is a great way of adding value and differentiating itself from the competition. The best businesses also recognise the value of high-quality marketing and sales resources. Getting the right people on board at this time will help to enhance the brand, increase awareness and favorability, and turn the new opportunity into revenue.

If you want to accelerate your growth make sure you really understand your customers. As you grow, keep asking yourself:

- ▶ **How do our customers see us in relation to our competition?**
- ▶ **What are the best ways to capture customer insight and feedback?**
- ▶ **How can we use our insight to improve the customer experience?**

Next-generation market leaders have established a solid customer base and seek to broaden and deepen their offerings to their most important customers. An exceptional enterprise will further its growth by expanding internationally, perhaps considering new alliances or acquisitions to quickly establish a presence and access new markets. Companies at this stage should understand options for premium pricing, re-evaluating their pricing strategies if necessary, and benchmark their customer service performance against best practice.

At Ernst & Young we wouldn't be a market leader ourselves without understanding our customers. We can help you identify your most important customers and guide you as you structure sales contracts and provide financial education to your sales force where needed. We have the experience to assist with establishing processes and controls for measuring and forecasting sales, and can help you manage your supply chain risks to ensure that you can deliver on your promises.



It's not luck when you find the best people



Any organisation is only ever as good as the people working for it. Exceptional enterprises build an environment conducive to attracting and retaining the right people to help grow their businesses – not just great people, but those who share the company’s vision and fit its culture. Leading companies invest in their employees, nurturing their talent and helping them develop skills to match the demands of the business during each different growth phase.

A successful people strategy will change throughout a company’s lifecycle. To ensure their survival, **emerging enterprises** will build strong leadership teams capable of laying the foundations of corporate culture and driving the business forward. From the very start, the company should establish competitive benefit plans and incentives tied to key performance benchmarks and set up a basic HR function to support the business needs.

Once a business is experiencing **rapid growth**, managing the turnover of people and preparing for future expansion come high on the agenda. Management should identify the next generation of leaders from among the existing workforce, implementing structured development programs to enhance their skills and encourage retention. Remuneration packages offering share options and performance bonuses will help attract

exceptional new people, including professional managers, who share the belief in the future success of the business.

To make sure you remain competitive in the war for talent, ask yourself:

- ▶ **Why do our best people chose to stay with us in such a competitive marketplace?**
- ▶ **How can we attract people from market-leading businesses?**
- ▶ **What values underpin our culture and how do our employees embrace them?**

Next-generation market leaders face the significant challenge of retaining an entrepreneurial spirit in a regulated, more corporate environment. The best companies do not lose sight of the values and culture that have served them well. They invest in internal communications to keep the values alive, and seek new hires who demonstrate these values during the recruitment process. Exceptional enterprises link their people strategies to clear business objectives and fill any leadership gaps with experienced, global management to take the business to the next level.

At Ernst & Young, our success stems from the vision and capabilities of our people. We understand firsthand the significance of finding and keeping the right people, helping them achieve their potential and deploying them successfully across international boundaries to markets where they are most needed. We can make a difference to your businesses by helping you keep the best people through tax-efficient share options, equity reward schemes and global mobility advice. We can also advise on compliance with evolving legislation, offer guidance on employee tax and social security issues, and provide personal tax advice for your business leaders so they can improve the personal rewards of your organisation’s success.

Don't wait for luck

The Exceptional Enterprise model

We understand growing companies and the delicate balance between sustaining growth and innovation, while managing risk and building infrastructure. We are proud to have built our reputation on serving the market leaders of tomorrow.

Our research shows us that, on average, the major indices of leading companies churn by about 40% every five years. This means that the next generation of market leaders is already waiting in the wings, ready to take the helm. Having worked with many of the companies that have made it to the top, we know that the fortunes of future market leaders will not be guided by luck, but by how they use their unique attributes to face the challenges of change as their businesses evolve.

So don't wait for luck – take the lead and make your own. Regardless of your business stage of growth, the insights captured in Ernst & Young's Exceptional Enterprise model will help you benchmark your company against today's leading growth companies and tomorrow's market leaders. Let us show you where you are on the journey, and what steps to take to help your organisation grow into one with the capacity and flair to shape the future.

To find out more about Ernst & Young's Exceptional Enterprise model, contact a local member of our Strategic Growth Markets Network today.

Stand out from the crowd. Be **exceptional**

About the Ernst & Young Strategic Growth Markets Network

Ernst & Young's worldwide Strategic Growth Markets Network is dedicated to serving the changing needs of rapid-growth companies. For more than 30 years, we've helped many of the world's most dynamic and ambitious companies grow into market leaders. Whether working with international mid-cap companies or early stage venture-backed businesses, our professionals draw upon their extensive experience, insight and global resources to help your business achieve its potential. It's how Ernst & Young makes a difference.

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 130,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve potential. For more information, visit our website at www.ey.com.

Contact us

To find out more about how our Exceptional Enterprise model can help your business achieve its potential, contact your local Ernst & Young office or visit our website at www.ey.com/growth.

If you think your business is already exceptional, then why not be recognised for your achievements and celebrate your success through the Ernst & Young Entrepreneur Of The Year program? Find out more by visiting our website at www.ey.com/eoy.

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