Global research base:
36 great growers and kick-starters

North America
- Barrick Gold
- Bombardier
- Compaq
- ConAgra
- Disney
- Emerson Electric
- Enron
- Federal Signal
- Frito-Lay
- GE Capital

Europe
- Gillette
- Johnson & Johnson
- Lear
- Reynolds & Reynolds
- Sara Lee
- Charles Schwab
- State Street
- Thermo Electron
- Warnaco
- Wells Fargo

Asia-Pacific
- Germany
  - SAP
  - Bertelsmann
- Finland
  - Nokia
- Ireland
  - CRH
  - Jefferson Smurfit
- 7-Eleven Japan
- Acer
- Arvind Mills
- Coca-Cola Amatil
- Hindustan Lever
- Kyocera
- Land Lease
- Li Ka-shing
- Samsung
- Softbank
- Village Roadshow
The Three Horizons: Secret of Sustained Growth

Horizon 1
- Extend and defend core businesses

Horizon 2
- Build emerging businesses

Horizon 3
- Create viable options

Profit

Time
Concurrent Management Across Three Horizons

- Extend and defend profit generators in Horizon 1.
- Build Horizon 2 businesses that will drive medium term profit growth.
- Secure options in Horizon 3 that will ensure the company’s longer term future.

Simultaneously...

Time

Profit
Horizon 1
Extend and defend core businesses
- Australasia
  - Australia
  - New Zealand
- Western Europe
  - Austria
  - Switzerland

Horizon 2
Build emerging businesses
- Eastern Europe
  - Hungary
  - Czech Republic
  - Slovakia
  - Slovenia
  - Poland
  - Romania
  - Croatia
- Indonesia
- Philippines

Horizon 3
Create viable options
- Former Soviet republics
  - Belarus
  - Ukraine
- China/Asia
  - Option with Robert Kuok
- India
  - Option with San Miguel
- Other (more franchises, new products, new channels)

Profit
Time

Balanced growth at Coca-Cola Amatil - 1997
Cascading horizons: Coca-Cola Amatil Asia-Pacific, 1997

Profit

Horizon 1
- Australia
- New Zealand

Horizon 2
- Philippines
- Indonesia
- Fiji/Papua New Guinea

Horizon 3
- Korea?
- China?
- India?

Indonesia: New customers
- Jakarta
- Other major urban centers
- Rural areas
- Tourists
- Urban sites

Australia: Value delivery
- Vending machines
- New drinks
- Smart cards
- Traditional channels
Every leader at every level manages across Three Horizons
Gillette’s seven degrees of freedom

Current business

New customers
- Built female customer base with Sensor technology

Existing customers
- Massive brand and volume building through advertising and promotion

Innovation in products and services
- Successfully migrated consumers to higher margin shavers
- Leveraged Gillette brand in other products

Innovation in value delivery system
- Use of dual sales channels, e.g., with Oral-B and Braun
- Sale of Waterman pens through Parker’s corporate gift channels

Expansion into new geographies
- 70% of profits from outside US
- Dominant positions in most emerging markets

Expansion into new competitive arenas
- Toiletries, stationery, appliances, oral care, batteries

Improvement of industry structure
- Drove consolidation of stationery industry
- Acquired Wilkinson Sword in Asia & S. America

Improve-ment of industry structure
- Drove consolidation of stationery industry

Expansion into new geographies
- 70% of profits from outside US
- Dominant positions in most emerging markets

Existing industry structure
- Drove consolidation of stationery industry

Existing competitive arena
- Toiletries, stationery, appliances, oral care, batteries

Existing geography
- 70% of profits from outside US
- Dominant positions in most emerging markets

Existing value delivery system
- Use of dual sales channels, e.g., with Oral-B and Braun
- Sale of Waterman pens through Parker’s corporate gift channels

Existing products and services
- Successfully migrated consumers to higher margin shavers
- Leveraged Gillette brand in other products

Existing customers
- Massive brand and volume building through advertising and promotion

Existing competitive arena
- Toiletries, stationery, appliances, oral care, batteries

Existing industry structure
- Drove consolidation of stationery industry

Current business

Gillette
Staircases to Growth

Use staircases to
1. Build new capabilities
2. Adapt business model
3. Protect the venture

Capability platform

Existing capabilities
New capabilities
Required future capabilities

Aspiration
Staircase Architecture

- **Seed growth options**
  - Source and secure options for future growth

- **Test business model**
  - Test commercial viability of business concept

- **Replicate proven business model**
  - Realise growth potential through business-building initiatives

- **Manage for profitability**
  - Maximise growth potential by unlocking incremental growth, then manage value in decline
J&J’s Acuvue Contact Lens Staircase: Building Capabilities

1981
- Acquires Frontier Contact Lenses: 5% of US$1 billion market

1982
- Acquires rights to new moulding process
- Improves process with UV-cured polymer

1983
- Contract with NYPRO, leader in injection moulding, improves costs and technology ten-fold

1984–88
- Top-management time and US$250 million devoted to development

1988–92
- Introduces Surevue, 2-week lenses
- 45 countries, US$225m revenue

1993–95
- Introduces single-day, disposable lenses
- Achieves US$600m in worldwide revenues

Capability platform
- Contact lens manufacturing
- New lens technology
- Relationship with leading injection moulder
- Advanced lens manufacturing process
- Worldwide marketing and distribution network
- Soft moulding manufacturing process
Disney’s portfolio evolution

- **Animation**
  - 1920: Animated feature films
  - 1930: Character licensing
  - 1940: Music publishing
  - 1950: Book publishing
  - 1960: Television shows
  - 1970: Motion pictures
  - 1980: Hotel development
  - 1990: Disney Institute communities vacations

- **Character licensing**
  - 1920: Animated feature films
  - 1930: Character licensing
  - 1940: Music publishing
  - 1950: Book publishing
  - 1960: Television shows
  - 1970: Motion pictures
  - 1980: Hotel development
  - 1990: Disney Institute communities vacations

- **Music publishing**
  - 1920: Animated feature films
  - 1930: Character licensing
  - 1940: Music publishing
  - 1950: Book publishing
  - 1960: Television shows
  - 1970: Motion pictures
  - 1980: Hotel development
  - 1990: Disney Institute communities vacations

- **Book publishing**
  - 1920: Animated feature films
  - 1930: Character licensing
  - 1940: Music publishing
  - 1950: Book publishing
  - 1960: Television shows
  - 1970: Motion pictures
  - 1980: Hotel development
  - 1990: Disney Institute communities vacations

- **Television shows**
  - 1920: Animated feature films
  - 1930: Character licensing
  - 1940: Music publishing
  - 1950: Book publishing
  - 1960: Television shows
  - 1970: Motion pictures
  - 1980: Hotel development
  - 1990: Disney Institute communities vacations

- **Motion pictures**
  - 1920: Animated feature films
  - 1930: Character licensing
  - 1940: Music publishing
  - 1950: Book publishing
  - 1960: Television shows
  - 1970: Motion pictures
  - 1980: Hotel development
  - 1990: Disney Institute communities vacations

- **EPCOT**
  - 1920: Animated feature films
  - 1930: Character licensing
  - 1940: Music publishing
  - 1950: Book publishing
  - 1960: Television shows
  - 1970: Motion pictures
  - 1980: Hotel development
  - 1990: Disney Institute communities vacations

- **Disneyland World**
  - 1920: Animated feature films
  - 1930: Character licensing
  - 1940: Music publishing
  - 1950: Book publishing
  - 1960: Television shows
  - 1970: Motion pictures
  - 1980: Hotel development
  - 1990: Disney Institute communities vacations

- **Tokyo Disneyland**
  - 1920: Animated feature films
  - 1930: Character licensing
  - 1940: Music publishing
  - 1950: Book publishing
  - 1960: Television shows
  - 1970: Motion pictures
  - 1980: Hotel development
  - 1990: Disney Institute communities vacations

- **Walt Disney**
  - 1920: Animated feature films
  - 1930: Character licensing
  - 1940: Music publishing
  - 1950: Book publishing
  - 1960: Television shows
  - 1970: Motion pictures
  - 1980: Hotel development
  - 1990: Disney Institute communities vacations

- **EPCOT**
  - 1920: Animated feature films
  - 1930: Character licensing
  - 1940: Music publishing
  - 1950: Book publishing
  - 1960: Television shows
  - 1970: Motion pictures
  - 1980: Hotel development
  - 1990: Disney Institute communities vacations

- **Tokyo Disneyland**
  - 1920: Animated feature films
  - 1930: Character licensing
  - 1940: Music publishing
  - 1950: Book publishing
  - 1960: Television shows
  - 1970: Motion pictures
  - 1980: Hotel development
  - 1990: Disney Institute communities vacations

- **Disney Channel**
  - 1920: Animated feature films
  - 1930: Character licensing
  - 1940: Music publishing
  - 1950: Book publishing
  - 1960: Television shows
  - 1970: Motion pictures
  - 1980: Hotel development
  - 1990: Disney Institute communities vacations

- **Disney/ MGM Studios**
  - 1920: Animated feature films
  - 1930: Character licensing
  - 1940: Music publishing
  - 1950: Book publishing
  - 1960: Television shows
  - 1970: Motion pictures
  - 1980: Hotel development
  - 1990: Disney Institute communities vacations

- **Euro Disney**
  - 1920: Animated feature films
  - 1930: Character licensing
  - 1940: Music publishing
  - 1950: Book publishing
  - 1960: Television shows
  - 1970: Motion pictures
  - 1980: Hotel development
  - 1990: Disney Institute communities vacations

- **Animal Kingdom, Disney America**
  - 1920: Animated feature films
  - 1930: Character licensing
  - 1940: Music publishing
  - 1950: Book publishing
  - 1960: Television shows
  - 1970: Motion pictures
  - 1980: Hotel development
  - 1990: Disney Institute communities vacations

- **Cruise lines, planned communities**
  - 1920: Animated feature films
  - 1930: Character licensing
  - 1940: Music publishing
  - 1950: Book publishing
  - 1960: Television shows
  - 1970: Motion pictures
  - 1980: Hotel development
  - 1990: Disney Institute communities vacations

- **Vacations, resorts & property development**
  - 1920: Animated feature films
  - 1930: Character licensing
  - 1940: Music publishing
  - 1950: Book publishing
  - 1960: Television shows
  - 1970: Motion pictures
  - 1980: Hotel development
  - 1990: Disney Institute communities vacations

- **Theme parks**
  - 1920: Animated feature films
  - 1930: Character licensing
  - 1940: Music publishing
  - 1950: Book publishing
  - 1960: Television shows
  - 1970: Motion pictures
  - 1980: Hotel development
  - 1990: Disney Institute communities vacations

- **Baseball**
  - 1920: Animated feature films
  - 1930: Character licensing
  - 1940: Music publishing
  - 1950: Book publishing
  - 1960: Television shows
  - 1970: Motion pictures
  - 1980: Hotel development
  - 1990: Disney Institute communities vacations

- **Live entertainment**
  - 1920: Animated feature films
  - 1930: Character licensing
  - 1940: Music publishing
  - 1950: Book publishing
  - 1960: Television shows
  - 1970: Motion pictures
  - 1980: Hotel development
  - 1990: Disney Institute communities vacations

- **Broadcasting**
  - 1920: Animated feature films
  - 1930: Character licensing
  - 1940: Music publishing
  - 1950: Book publishing
  - 1960: Television shows
  - 1970: Motion pictures
  - 1980: Hotel development
  - 1990: Disney Institute communities vacations

- **Filmed entertainment**
  - 1920: Animated feature films
  - 1930: Character licensing
  - 1940: Music publishing
  - 1950: Book publishing
  - 1960: Television shows
  - 1970: Motion pictures
  - 1980: Hotel development
  - 1990: Disney Institute communities vacations

- **Merchandising, music and publishing**
  - 1920: Animated feature films
  - 1930: Character licensing
  - 1940: Music publishing
  - 1950: Book publishing
  - 1960: Television shows
  - 1970: Motion pictures
  - 1980: Hotel development
  - 1990: Disney Institute communities vacations
Define capabilities broadly

- Operational competencies
  - Acquisition & merger
    - Financing, risk management, and deal structuring
  - Regulatory management
  - Capital productivity
- Growth-enabling competencies
- Privileged assets
  - Brands
  - Networks
  - Infrastructure
  - Information
  - Intellectual property
  - Licenses
- Special relationships
  - Access-conveying relationships
  - Complementary relationships
Performance management systems

**Horizon 1: Superior execution**
- Bottom line results and cash flow
- Productivity improvement
- Costs
- Growth in net income
- Return on invested capital

**Horizon 2: Positional advantage**
- Top-line growth
- Order volumes
- Revenue growth
- Unit sales
- Market share/installed base
- New customer acquisition

**Horizon 3: Insight/foresight**
- Size of payoff and probability of success of options
- Project-based milestones
- Option valuation
- Conversion rates from ideas to business launch
- Number of initiatives
Sustained growth is essential

"Growth is essential. An organization that does not grow, dies."

Ralph Larsen, CEO, Johnson & Johnson