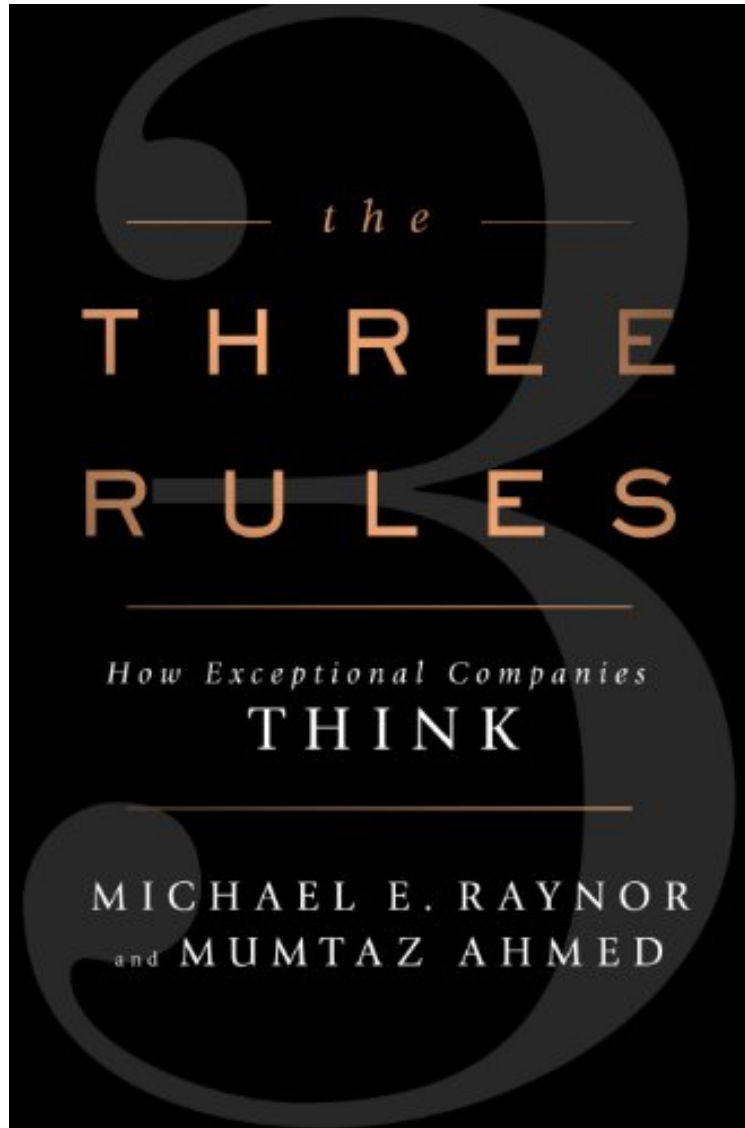


(Download free ebook) The Three Rules: How Exceptional Companies Think

## The Three Rules: How Exceptional Companies Think

*Michael E. Raynor, Mumtaz Ahmed*  
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**Michael E. Raynor, Mumtaz Ahmed : The Three Rules: How Exceptional Companies Think** before purchasing it in order to gage whether or not it would be worth my time, and all praised The Three Rules: How Exceptional Companies Think:

3 of 3 people found the following review helpful. Great alchemyBy A. HuunI stumbled across the paper laquo;A random search for excellenceraquo; a few days ago. To my amusement the article put another nail in the coffin on success studies like "In search of excellence" and "Good to great". I googled to find out more and to my disbelief I found that the authors had committed a "success study" themselves and come up with "The three rules". I bought the

book to dissect it (just so you know my starting point). After one read-through I must admit that I love the book BUT (with capital letters), once again, the success recipe has not been proven. Thus, the book is an excellent description of methodology and the book is no more useful to managers than previous "success studies". The best part of the book is chapter two. This chapter provides an in-depth description of the method used. I also recommend reading the paper "A random search for excellence" as you will find complementary information on methodology there. I must admit that I had started to list anticipated weaknesses in method already based on the book description. Maybe that is what I love most about the book: that you can read it like a detective story. Where is the error? As the story unfolded I could acquit most of my suspects and add new ones to my list. The book openly discusses strengths and weaknesses in method and why they have chosen the approach they have. The authors argue that the weaknesses are acceptable. I find that some of them are not and to the extent that their conclusions must be rejected. Below I will list my key objections to the three rules, i.e. not the book but its conclusions. My intention is to contribute to the debate and to further developments. Some or all of my critical remarks might be unjust or wrong. Please add comments if you agree or disagree. Here are my key objections:

- 1) The authors criticise other "success studies" for having investigated "false positive" exceptional companies. However, as they point out themselves, setting the statistical limit too high would have excluded all 22,403 companies in their database. Thus the hurdle has been set lower and some of the exceptional companies investigated in this study might just as well be "false positives". More worrisome, in my view and also pointed out by the authors, is that the "Average Joes" used to compare against have not had to pass any hurdle. This might be why so many expected success ingredients could not be proven, as several of the "Joes" might be exceptionally managed but unlucky companies (false negative).
- 2) Rule 1 is "better before cheaper". The authors seem to define market position as a continuum between non-price and price, i.e. any company charging a seemingly higher price than another company for a comparable product has a non-price position and vice versa. I do not like this definition of market positioning. It is quite analogue with Porter's differentiator vs. cost leader but the continuum dismisses "stuck in the middle"/"no strategy" positions. In my opinion the rule should have been "avoid stuck in the middle" as this is what the authors most probably have tested.
- 3) Rule 1 and further on definition. In my world and by my definitions, many companies in a given market and industry can have differentiator positions but only one company can be the cost leader. My a priori assumption (and experience) is that most companies in an industry compete for differentiation (or focus) and only a few truly battles for cost leadership. Thus, if you have a bag of many red marbles and a few blue, which colour do you think you will pick? My hypothesis is that luck/bad luck is the reason why only one of the nine exceptional companies investigated where the cost leader of their industry. One look at the list of the richest people on this planet indicates that the position as cost leader can't be all bad. The position might even become more attractive if this book sells well.
- 4) Rule 1 and on the design of the study. The rule is based on a cause and effect axiom made up by the authors. They claim that companies that have chosen a non-price position (cause) have thrived (effect), and vice versa. I do not accept this logic. In my world, companies develop new products, become more customer centric et cetera (cause) and then, if and when they start to experience increased sales, they might start raising their prices (effect). Companies standardise products and innovate their processes (cause) to be able to underbid their competitors (effect). Companies that do not succeed fully in their efforts can neither charge premium prices nor choose the low-price position for long.
- 5) Rule 2 "revenue before cost" falls as a consequence and for similar reasons as for rule 1.
- 6) Rule 3 "there are no other rules" should have been "we have found no other rules". The lack of life on Mars does not prove that we are alone in the universe. I recommend the book and encourage comments.

My background is 10+ years as a strategy consultant supporting clients across Europe. My current position is Head of Strategy, Group HR, in banking.

1 of 1 people found the following review helpful. A must read for those that want to run a world leading company

By Nicholas D Jerratt  
A fantastic book that explains the 3 rules that all exceptional companies follow. Clear and concise, the 3 rules are simple enough that you can apply them to real world business decisions, to chart a course towards an exceptional business. Unlike the majority of business books, the rules are not simply designed by the author based on one or two successful situations, but distilled through extensive scientific business research based on 25,000 companies using 45 years of data.

Raynor Ahmed answer the ultimate business question, "how do a few companies achieve exceptional performance over the long term?" In every industry, there is a stand-out company that delivers exceptional profits and performance. So what makes them different? Data has been analysed on more than 25,000 companies spanning 45 years to uncover what makes a company highly profitable. It has been found that exceptional companies follow 3 rules, "better before cheaper", "revenue before cost", and "there are no other rules". Here are the 3 rules: Better before cheaper; Select a non-price position and compete on value, not price. Revenue before cost; Prioritise increasing revenue over reducing costs. There are no other rules; Be willing to change anything else to stay aligned with rules 1 and 2. The book shows many case-studies, examples and explanations that are required reading to be able to apply the rules on the go in business situations. A must read for 2013/2014

1 of 1 people found the following review helpful. Fresh and Simple to Use

By Jim Grew  
The clear prose highlights rules so simple that they defy belief, except that extensive data (25,000 companies, 45 years of Compustat) makes a compelling case. The rules make intuitive sense, but have a hidden and powerful message: How you think about your business has enormous

leverage.....more even than behavior, values or focus. That thinking transcends strategy and implementation, providing a decision frame that seems eminently usable. The rules (Better before Cheaper, Revenue before Cost) are a maypole around which all other business plans and actions must circle.....say the authors. The book screams for hard work on value proposition. Jim Grew

Finally, an answer to the ultimate business question: How do some companies achieve exceptional performance over the long term? In every sector, there's an outlier. In the pharmaceutical industry, it's Merck. In discount retail, it's Family Dollar. It used to be Wrigley in candy and Maytag in appliances. Other superstars have been hidden in plain sight, like Heartland Express in trucking or Linear Technology in semiconductors. How do these exceptional companies deliver superior performance over the long run despite facing the same constraints as competitors? What are they doing differently? What can we learn from them? Michael E. Raynor and Mumtaz Ahmed have analyzed data on more than 25,000 companies spanning forty-five years. Their five-year study began with a sophisticated statistical analysis to identify which companies have truly exceptional performance, 344 in all. In collaboration with teams of researchers, Raynor and Ahmed then put a carefully chosen representative sample of twenty-seven companies under the microscope to uncover what made the stand-out performers different. They found that exceptional companies, when faced with difficult decisions, follow three rules: Better before cheaper. They rarely compete on price. Revenue before cost. They drive profits through price and volume, not thrift. There are no other rules. Everything else is up for grabs, and they are willing to change anything to remain true to the first two rules. The rules provide an indispensable compass that any company can use to chart its own path to greatness. Is it better to keep price down or invest in creating value that commands a higher price? Should you focus on talent and developing the abilities of your people or build processes to extend the capabilities of your organization? How about acquiring a sizable competitor to secure economies of scale or a small start-up to gain access to new technology? According to Raynor and Ahmed, the right answers to these and just about every other question are the ones most closely aligned with the rules. The Three Rules is built on a powerful combination of large-scale data analysis and in-depth case studies. Its guidance will increase the chance that your organization can become truly exceptional.

From Booklist What makes a great company great? How much of corporate success is due to random good luck or to good planning and execution that can be passed along to help other companies? Raynor and Ahmed analyzed performance data on more than 25,000 companies from 1966 to 2010 to uncover the essential elements of high corporate achievement. After settling on 344 exceptional companies, they explored those factors that set the exceptional apart from all others in industries as varied as semiconductors, pharmaceuticals, and confectionery. Looking beyond regulation, competition, and myriad other factors, they boiled down success to three rules: better before cheaper, revenue before cost, and don't get distracted by anything other than the first two rules. Among the exceptional performers are Merck in pharmaceuticals, Abercrombie Fitch in retail, and Maytag in appliances, each described in excruciating detail to explain how it outperforms competitors. But beyond the tables, charts, and statistics lies a book written in very accessible language and with a simplicity of focus on the basics that can apply to any sector and any business. --Vanessa Bush About the Author MICHAEL E. RAYNOR is a director at Deloitte Services LP, where he explores corporate strategy, innovation, and growth with clients in a variety of industries. He is the coauthor, with Clayton Christensen, of *The Innovator's Solution*, and the author of the bestselling and critically acclaimed *The Strategy Paradox* and *The Innovator's Manifesto*. MUMTAZ AHMED is a principal in Deloitte Consulting LLP and the chief strategy officer of Deloitte LLP, responsible for the U.S. firm's strategy, corporate development, innovation, eminence, and brand. www.threerules.com