

of Australia's largest 2000 corporations run at a loss over any five-year period.

Source: Ruthven Institute

20%

PERFORMANCE DOZEN

How do you become world's best practice? Phil Ruthven AM FAICD identifies 12 commonsense themes.

Hundreds of management books have been added to our armoury of skills over the past decades, most advising that achieving long-term business success calls for skilled executives – especially CEOs – and wise mentoring by boards. But that's just the tip of the iceberg.

The following is a summary of the common rules of business success, as followed by Australia's most profitable businesses – drawn from ongoing research into the businesses that account for nearly half the nation's annual revenue. Conducted by IBISWorld over the past 45 years, the research offers rare in-depth analysis of business profitability.

IBISWorld aims to model everything we've learned. We are a private family company and have funded our expansion out of cashflow. We have close to 500 staff worldwide, with more than 6000 clients. We operate in the US, Canada, China, Indonesia, the UK, Germany, Japan, South Korea, India. France will be next. Australia and New Zealand now account for less than a fifth of our revenue. IBISWorld has achieved world's best practice profitability, having grown at a compound rate of 20 per cent a year for more than 15 years.

In this summary, we share the foundations we've learned for developing a business strategy to help achieve sustainable success and world's best practice profitability, where a consistent return on shareholder funds (ROSF) of over 20 per cent is attainable.

We've learned that achieving world's best practice profitability does not depend on the industry one is in or the ownership (foreign, private, listed or government). Size doesn't have to matter either – giant corporations and SMEs can both achieve it.

We've found 12 important themes:

1. Focus on one business at a time. In over 40 years of conducting such surveys, we've rarely observed more than five diversified companies in the Best 100 Enterprises in any given period.
2. Know your industry life cycle phase, and respond accordingly.
3. Emulate world's best practice.
4. Be forever innovative – have unique intellectual property.
5. Be the master of your own destiny, as a major, niche, ultra-niche or boutique company.
6. Plan from the outside in, not the inside out.
7. Outsource non-core activities to reduce complexity.



Phil Ruthven AM FAICD

Founder of IBISWorld, and the Ruthven Institute, providing online business info, forecasting and strategic services. Formerly a board member of the Melbourne Institute and CEDA.

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8. Don't own hard assets – these are passive assets and returns are too low.

9. Manage your finances wisely.

10. Develop strategic alliances (particularly overseas).

11. Value leadership first and management second.

12. Develop a unique organisational culture.

These guidelines may seem overly simple; some even folksy. But don't be fooled. If it were that easy, more than one in eight of Australia's largest 2000 corporations (accounting for over 45 per cent of the nation's revenue) would be achieving world's best practice profitability over any five-year period. They aren't.

Giving a tick to the above guidelines – and all the time, no less – is a big ask. We know that even some of the best businesses break a few of them at one time or another. However, ignoring one or more of these rules has also on occasion led to the collapse, and even demise, of businesses that had previously been in the Best 100 Enterprises.

By contrast, the businesses that do follow the 12 guidelines have entered a winnable contest in an increasingly competitive world, giving themselves the best chance of sustainable success. Of course, there will be other success factors in the future. The rules of success do not stand still indefinitely. Knowing where the outside world is going over the next five years or longer has also become more critical to success. ■



Best practice

Business success: Achieving world's best practice profitability by Phil Ruthven is available at ibisworld.com.au