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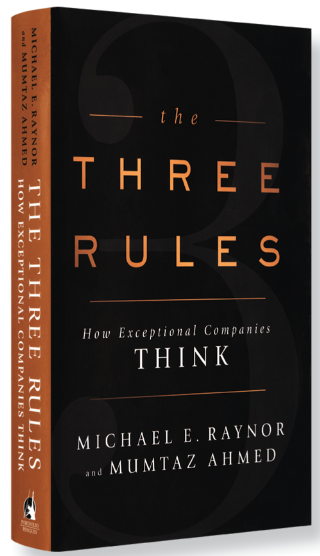

by Michael E. Raynor and Mumtaz Ahmed

The Three Rules

How Exceptional Companies Think

THE SUMMARY IN BRIEF

Finally, an answer to the ultimate business question: How do some companies achieve exceptional performance over the long term?

Michael E. Raynor and Mumtaz Ahmed have analyzed 45 years of data on more than 25,000 companies. Their five-year study began with a sophisticated statistical analysis to identify which companies delivered truly exceptional performance — 344 in all. In collaboration with teams of researchers, Raynor and Ahmed then put a carefully chosen representative sample of 27 companies under the microscope to uncover what made the standout performers different. They found that exceptional companies, when faced with difficult decisions, follow three rules:

1. **Better before cheaper.** They rarely compete on price.
2. **Revenue before cost.** They drive profits through price and volume, not thrift.
3. **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 Three Rules provides 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? 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.

IN THIS SUMMARY, YOU WILL LEARN:

- What the rules are and how following them drives superior profitability.
- What challenges you can expect when attempting to follow the rules and how to overcome them.
- What it means to treat the rules like *rules.*

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THE COMPLETE SUMMARY: **THE THREE RULES**

by Michael E. Raynor and Mumtaz Ahmed

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For additional information on the authors, go to www.summary.com or visit www.thethreerules.com.

More Than a Fortune Cookie

The quest for greatness leads naturally to the study of great companies. Unfortunately, the study of great companies does not lead naturally to great insight. Inquiries into the ebb and flow of top performers yield, as often as not, explanations built on the concatenation of unlikely and impossible-to-repeat events. These often amount to little more than entertaining corporate biography, falling far short of the powerful generalizations we seek.

With this in mind, our search for the drivers of superior, long-term performance began with a radically different premise: that what constitutes standout performance is not obvious. It is not enough simply to set up a performance benchmark, no matter how demanding it might seem, and see who clears it. We wanted only those companies that were good enough for long enough that we could be confident something special was going on. We wanted companies that were truly *exceptional*.

To that end, we analyzed 45 years of Compustat data on more than 25,000 unique companies — nearly 300,000 company-year observations from 1966 to 2010. From that universe we identified a population of 344 exceptional companies in two categories: 174 Miracle Workers, or the best of the best, and 170 Long Runners — still exceptional but at a lower level and for a longer period of time.

From this population of exceptional companies we selected a representative sample of trios, three companies from each of nine industries. Each trio consists of a Miracle Worker, a Long Runner, and a third company of average performance that we call an Average Joe. By comparing the very best with the very good and both with the merely average, we hoped to shed light on two different types of exceptionalism. First, what does it take to pull away from the pack, that is, how do Miracle Workers and Long Runners separate themselves from Average Joes? Second, how do Miracle Workers — the very best — pull away from Long Runners — the very good?

Better Before Cheaper

At the most generic level, whenever we buy anything, there are two dimensions to the value we get from our purchase: *price* and *non-price*. Price value is a function of how much we pay for something, and the less we pay, the more price value we get. Non-price value is a function of all the other dimensions of value that are not price: durability, functionality, quality, convenience, ease of use, style, brand, etc. How much of each of price and non-price value a company provides relative to its competitors defines its *position* in competitive space; that is, how a company creates value for its customers.

Of course, no company can afford to ignore its relative price position. That is why the rule is "better *before* cheaper": being price competitive is far from irrelevant, but when it comes to *position* in the market, exceptional performance is caused most often by greater non-price value rather than by lower price.

Revenue Before Cost

A company's position defines how it creates value for customers relative to other companies. A company's *profitability formula* describes how it captures value for itself compared with others. It turns out that just as there is a pattern in how exceptional companies create value (*better*

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before cheaper), there is a pattern in how they capture value.

We measure profitability using return on assets (ROA), which is defined as income divided by the book value of assets. Return on assets is the product of return on sales (ROS), or income divided by sales, and total asset turnover (TAT), or sales divided by assets. Consequently, there are only three ways either individually or in combination that a company can improve its ROA: increase revenue, decrease cost or decrease assets.

Our research reveals that exceptional companies are systematically more likely to drive their ROA advantage through higher relative revenue than by lower relative cost or lower relative assets. Going down one more level, a revenue advantage can be driven by higher unit price or higher unit volume, and exceptional companies tend to rely more on price. And so rule number two is *revenue before cost*.

We see evidence of our profitability formula rule in many industries, even ones in which you might think cost leadership would be indispensable. Take, for example, Family Dollar, a discount retailer. For more than 30 years Family Dollar delivered performance that has been hidden in plain sight, besting the legends of discount retailing since the mid-1970s and doing it in ways few might have guessed.

Family Dollar's Position

Family Dollar has consistently focused on serving the needs of customers from lower economic strata. You might think that if ever there were an industry in which lower prices and lower cost were key to superior profitability, discount retailing would be it. Certainly that was our assumption. It did not turn out that way. Family Dollar's success has been a function of *higher* prices earned through a willingness to incur *higher* cost and tolerate *lower* efficiency than many of its larger, lower-performing (but still successful) discount retail competitors.

How is that possible? How does a discount retailer serving the most cash-strapped customer segments turn in superior profitability for more than three decades with higher prices and higher cost than its most ferocious foes?

Start with Family Dollar's position compared with its competition. To capture the benefits of the low prices of the largest discount retailers, customers must often drive several miles to 100,000-plus-square-foot suburban locations and purchase products in relatively large quantities. In stereotypical but representative terms, spending $5 on gas to buy a package of 150 diapers at a unit cost of 15 cents adds up to $27.50. That makes more sense than walking three blocks and buying 15 packages of 10 diapers at 20 cents each for a total of $30.

When a customer has $27.50 to spend, the larger discounter wins the business. However, in the days or weeks leading up to the next paycheck when money is especially tight, a customer's calculus is much different. In these circumstances, poorer people can afford only smaller quantities and typically are shopping only for a smaller range of items that vary on a week-to-week basis. This week one has run out of diapers; last week it was laundry detergent; next week it might be toothpaste. In these circumstances, walking to a 20,000-square-foot Family Dollar located in an urban center for a package of 10 diapers at 20 cents each makes a lot more sense.

Serving customers coping with these constraints has led Family Dollar to build a position defined by convenience, selection and lower basket size — all non-price dimensions of value. An analysis of the company's financial statements reveals the economic implications of these choices. Family Dollar enjoys a gross margin advantage over its most significant competitors but suffers a sales, general and administrative (SG&A) cost disadvantage and inferior asset turns. Of course, a gross margin lead could well be driven by lower cost of goods sold (COGS) and not higher prices, but this is not the case: Family Dollar appears to have consistently higher quality-adjusted prices.

Now, Family Dollar has lower cost, greater growth, lower prices and better asset turns than high-end retailers such as Bergdorf Goodman. But then, Family Dollar does not compete with Bergdorf Goodman. It is when stacked up against another leading discounter that the nature and significance of Family Dollar's choices become clear: It has incurred the higher cost required to establish a position based on non-price dimensions of value. This has inflicted an efficiency penalty, but the company has been compensated with relatively higher prices. The net result has been more than 30 years of exceptional profitability.

There Are No Other Rules

The first two rules tell you what you *should* do: *better before cheaper* and *revenue before cost*. The third rule tells you what you should not do, namely, think anything else matters in a systematic, specific way.

Finding Signal in the Noise

In many success studies, claims of generalizability most often turn on the diversity of the companies in the sample — the range of industries, the time periods examined and so on. We have adopted this approach as well: Our nine trios are drawn from a diverse set of industries, including pharmaceuticals, electrical wiring, confectionary, trucking and fashion retail.

A diverse sample is certainly more likely to be generalizable than a homogeneous one, but diversity per se is far from sufficient, especially given what is at stake. The problem is that we cannot know what characteristics of similarity and difference are relevant. Should the industries studied be different with respect to asset intensity or growth rates? Regulatory constraints or technological change? Competitive pressures or exogenous shocks? There are simply too many ways to be different for any sample to be different in every possibly relevant way. Diversity helps, but it will not suffice.

In our case, we identified the population of exceptional companies and then chose a sample essentially at random from that population. We can confidently claim that our case studies at least potentially matter because they shed light on a much larger number of companies. Our explanations have a hope of saying something about companies other than the ones we happened to study.

Great Companies

Similarly, the study of great companies can leave us wondering if we have set our sights too high. Google is *Google*, for heaven's sake. The company certainly captures our imagination, but perhaps we are kidding ourselves if we think that the drivers of its exceptional performance are relevant to the rest of us.

The good news is that alongside the iconic, magazine-cover material of Microsoft and Oracle in software or Amgen and Genzyme in biotech, we find many companies and industries that exist on a much more human scale. Precisely because our method isolates the effect of managerial decision-making on performance, we find exceptional performers of all shapes and sizes.

Our methods are not perfect; no method is. But we believe that we have developed and employed material improvements in the identification of truly exceptional performance, isolating periods of higher and lower performance and connecting behavioral differences to performance differences in ways that justify a higher level of confidence in our conclusions.

Better Before Cheaper

Better before cheaper distills to its essence what our research reveals about the relationship between competitive position and exceptional performance. Of course, competitive position has been the subject of research and discussion for decades. For all the seeming differences among the various approaches, competitive space has typically been defined in terms of the non-price value the customer receives and the relative cost of production of competing suppliers.

For us, competitive position defines how a company creates value for customers, and thus the more useful of these two traditional dimensions is non-price value. For example, when buying a car, customers typically consider a variety of attributes, including safety features, reliability of operation, customizable features (for example, color or interior upholstery), the sales experience, ease and accessibility of servicing and so on.

Most elements of non-price value can be measured, albeit with different degrees of precision: a car's acceleration is highly quantifiable, safety ratings less so, and the "stylishness" can be given at best perhaps the appearance of specificity. Tools such as conjoint analysis can use these measurements to estimate the relative importance of each dimension, allowing companies to assess on which aspects, alone or in combination, they should seek to surpass the competition in order to win the business of specific customers or customer segments.

The second dimension of traditional approaches to positioning analysis, relative cost of production, is not directly relevant to *better before cheaper* because it does not describe how companies create value for customers. Companies can choose to exploit a lower-cost position to enjoy superior profitability at prices similar to their competitors. In that situation, although lower production cost is good for the company, it is irrelevant to the customer. Since *better before cheaper* is about creating customer value, our second dimension of position is relative price value, where price value (as perceived by customers) typically goes up as price goes down. Price — what a customer pays for something in money — is readily quantifiable, so one can usually determine fairly easily which of two sufficiently substitutable offerings is less expensive (has superior price value).

A car that was better than all other cars on all dimensions of value in the eyes of all customers would have 100 percent market share. No car has 100 percent market share, however, because different customer segments want combinations of dimensions of value that are necessarily negatively correlated. Some customers want a larger car (say, for seating capacity) and some want a smaller car (say, to fit in small parking spaces). In any pair-wise comparison, no car can be both larger and smaller. Similarly, speed and energy consumption are negatively correlated (all else equal) because it takes more power to move a given mass faster. Still other limitations are entirely contingent: Creating a minivan that has more sex appeal than a sports car requires only that people's tastes change.

In other words, constraints impose trade-offs. No product or service can be all things to all people, and everything we know about the power of market segmentation and focus is based on this inescapable fact. Companies that refuse to accept trade-offs among different dimensions of performance very often end up "splitting the difference" in ways that make few people happy.

In summary, the dimensions of position are price value and non-price value. Products or services occupy different locations in competitive space to the extent that they differ along these dimensions. Thanks to the existence of trade-offs among at least some dimensions of value, differentiated competitive positions can be profitable, while positions based on being better along all dimensions of performance simultaneously are rare.

Non-Price Positions

Non-price positions are systematically more profitable and more sustainable than in-the-middle or price-based positions. This falls far short of a complete blueprint for success, but it does, we hope, provide valuable guidance when you have to make tough choices among equally viable alternatives.

For example, when your customers are yelling for price cuts, you can drop prices and then squeeze your company elsewhere to try to preserve profitability, or you can see through their complaints on price to the more difficult truth that maybe you have gotten lazy or lost focus or that the competition has upped its game, and you no longer provide the superior value you once did. Addressing that problem means taking on the challenge of increasing and perhaps even changing the value you provide; it could mean changing any or all of your technologies, processes, markets or customers. Both courses of action — cutting price or increasing value — can be difficult to pursue successfully, and each of them can make equally good sense.

It is in just these circumstances that *better before cheaper* proves its worth. Faced with a choice between two difficult, similarly plausible but mutually exclusive solutions to what can be an existential challenge, the best you can do is play the odds. Our research suggests strongly that the most profitable course of action is to devote your resources to tackling the hard problem of creating anew the non-price value your customers will pay for, not the hard problem of how to remain profitable at lower prices.

Position comes first. It is the height to which your roller coaster climbs, and so it defines the upper limit of the profitability you can aspire to. Execution comes second, for it defines the thrill of the ride promised by that climb, or how much of that potential you capture as kinetic energy. Poor execution wastes potential energy in the form of noise and heat. So execution matters, but no level of greatness in execution can make up for poor positioning any more than a smooth ride can compensate for a short climb.

Industry, of course, is critical: It is difficult to imagine how any company could hope to be successful running clearly counter to the dictates of its context. All of our exceptional companies, in their heydays, were astute surfers of industry waves. But the key to winning is standing out from the background noise, not blending in.

Revenue Before Cost

How best to create value for customers is a question that can be usefully seen as a choice between competitive positions defined by an emphasis on price value (that is, low price) or non-price value. Perhaps somewhat unusually, seeing the question in these high-contrast terms is not a dangerous oversimplification. It is instead an accurate distillation of an underlying structure that is too often hidden beneath unnecessary complexity. Sometimes the world is nuanced and complex and colored with shades of gray. But sometimes there are clear choices to be made, and we simply do not want to face up to them. *Better before cheaper* is an unambiguous answer to a straightforward but too often ignored question.

Creating value for customers is a necessary condition for exceptional performance, but it is not sufficient. The value you create is only the "size of the pie." Whether or not a given company is an exceptional performer is also a function of the "size of their slice," or how value is divided between customers and the corporation. In other words, exceptional companies must not only create value but also capture it in the form of profits.

A company can increase its ROA by increasing price, volume or both, or by decreasing overall cost, the sum of cost of goods sold (COGS) and other costs, or reducing assets. As with the trade-offs among the dimensions of performance that define position, however, there are typically trade-offs among the variables that determine a company's profitability. For example, increases in both price and volume increase revenue, which increases income and hence ROA. However, price and volume can be negatively correlated, making it difficult to increase both simultaneously.

On the other hand, although higher cost (which reduces ROA) can be a consequence of inefficiency, it can also be a function of using higher-quality materials or more skilled labor, each of which can contribute to non-price value, thus justifying a higher price (which increases ROA). Consequently, price and cost can move in the same direction. Volume and assets also often move together yet exert contradictory pressures on ROA: Higher volume can increase asset turnover, which increases ROA but only if the higher volume does not require disproportionately more assets.

The key to superior profitability, then, is not how well a company manages any one variable in the ROA equation but how it manages the interdependencies among them in light of often unavoidable trade-offs. We call this a company's profitability formula.

We discovered that exceptional companies, by an overwhelming margin, have a common profitability formula, which we have summarized in our second rule, *revenue before cost*. This means that when exceptional companies face a trade-off between increasing profitability by increasing revenue or by decreasing cost, they systematically choose increasing revenue *even if that means incurring higher cost*. We have never seen an exceptional company spend with abandon. Rather, we have concluded that sustained profitability advantages are rarely driven by disproportionately lower cost or asset bases when compared with the competition and instead are very often driven by disproportionately higher revenues.

A large part of the significance of this finding lies in the fact that our data could have revealed the opposite, namely, that superior profitability is typically driven by relatively lower cost. But it is not. Profitability advantages driven by higher revenue, even when they incur higher cost, prove to be more valuable than advantages driven by lower cost.

The Structure of Differences in Profitability

The ROA decomposition analysis on our case study companies suggests very strongly that Miracle Workers (top companies) rely most heavily on a gross margin advantage for their overall ROA lead. Disadvantages in other costs (SG&A, R&D and so on), asset turnover or both are simply the consequence of unavoidable trade-offs, the cost of the differentiated products or services that earn the higher gross margins.

We wanted to know if this pattern was reflected in a meaningful way in our full population of 174 Miracle Workers, 170 Long Runners and 1,208 Average Joes. To figure that out, for each year that each company is in our database, we calculated the difference in gross margin, other costs and asset turnover between the company and the industry median. We then regressed each of these differences against each company's ROA difference from the industry median in that year. This allowed us to see how changes in advantages in these three drivers of ROA translated into ROA advantage. In other words, we could see how much an additional point's lead in gross margin percentage over the industry median affected the ROA lead over the industry median for Miracle Workers, Long Runners and Average Joes.

The results were telling and entirely consistent with the patterns revealed in our case study analysis. For each additional point in gross margin percentage advantage, Miracle Workers realized 0.51 percentage points in additional ROA advantage. The same increase in a Miracle Worker's advantage in other costs, however, yielded only 0.47 percentage points in additional ROA advantage. The implication is that Miracle Workers tend to have a profitability formula that is more efficient at translating a relative gross margin improvement into a relative ROA advantage than it is at translating a relative reduction in other costs into a relative ROA advantage. In more practical terms, it means that Miracle Workers have positions and profitability formulas that favor *revenue before cost*.

Companies classified as Long Runners will necessarily have a smaller ROA advantage over the industry median than Miracle Workers since these categories are defined by their different profitability levels. This does not say anything, however, about how efficiently they turn gross margin or other cost advantages into ROA advantage. Long Runners could easily have been more efficient at translating advantage in one or more of the drivers of ROA but simply have been unable to generate a similar magnitude of advantage.

Average Joes, not surprisingly (but by no means necessarily), are the least efficient of the three performance categories but, like Miracle Workers, are more efficient with respect to gross margin than other costs.

There Are No Other Rules

It might seem somewhat precious to posit "there are no other rules" as our third rule, but we feel it serves two important purposes. First, it is our admission that we were unable to find any other meaningful patterns in the behaviors of our case study companies that were associated with differences in performance. We cannot prove a negative, but in what follows we will explore at greater length why we dismissed such perennial favorites as M&A

or diversification as systematic drivers of performance. The irretrievably idiosyncratic and contingent nature of how these and many other behaviors contribute to performance led us to conclude that exceptional companies all have the same recipe (*better before cheaper, revenue before cost*) but use different ingredients.

Second, in addition to creating superior levels of performance, exceptional companies deliver superior levels of performance for longer than anyone has a right to expect. It seems worth exploring, then, if and how exceptional companies adapt. Is exceptional performance a function of deep moats and thick ramparts, or does it require agility and flexibility to cope with competitors' attempts to imitate a winning formula or with the technological, regulatory or other environmental changes that can render onetime advantages useless or even turn them into liabilities?

We found that not only were there no patterns between companies from different performance categories; there were no patterns across time within individual companies. So not only did Miracle Workers and Average Joes show no differences in their appetites for M&A, but individual Miracle Workers were just as likely to adopt M&A as to abandon it over time. In short, what mattered when assessing how a behavior affected performance was not the behavior or even its implementation but the contribution made to a company's adherence to or deviation from the first two rules. Where Lost It Miracle Workers typically changed in ways that violated the rules, Found It Miracle Workers became more aligned with the rules. Most revealing, Kept It Miracle Workers often showed evidence of the greatest degree of change in their specific behaviors, but always in the service of remaining in alignment with the rules. We conclude from this that exceptional performance demands an ability to change in order to stay the same.

Change to Stay the Same

The absence of any rules beyond the first two has important implications for how exceptional companies adapt. As with questions of position (*better before cheaper*) and profitability (*revenue before cost*), whether exceptional companies change over time is an empirical matter. It could have been that exceptional performance is typically achieved through relative intransigence: Find a winning formula and stick with it. Eventually it will be overtaken by events or the competition, but little matter; nothing lasts forever. On the other hand, superior performers might be characterized by change. In this case, we would like to know if there are any guiding principles that might help determine when and what to change.

We found that just as the specific recipes for exceptional performance were unique to each Miracle Worker, the nature of the changes each employed in order to create or sustain its exceptional performance defied meaningful generalization. There was neither a small, consistent subset of activities that responded to competitive or environmental shifts, nor did "everything" have to be reinvented. About all that seemed to matter was the first two rules.

Why You Should Use the Three Rules

An efficient market depends on the ability of a buyer to assess the merits of a purchase either before or after purchase and trial. The more completely and inexpensively one can make these assessments, the more efficient the market is.

By these criteria, the market for, say, instant coffee is likely to be relatively efficient. When faced with the challenge of deciding whether or not to try a new brand, you could explore the design and execution of the focus groups and surveys the coffee company undoubtedly conducted before launching its product. But you probably will not do that. Instead, because there is relatively little at stake in any given trial and few lingering aftereffects if it goes poorly, you will more likely listen to your friends or people who like what you typically like and try it out, or not. If you are the victim of a false negative, and you erroneously forgo trying something you would have liked, there is no real harm done there, either: You cannot miss what you have never known.

The market for pharmaceuticals that treat life-threatening, chronic illnesses is very different. When it comes to figuring out whether you should take blood pressure medication and, if so, which one, listening only to your friends is a very bad idea. The cost of a false negative — not taking something you should — could materially shorten your life, but so could a false positive (taking something you should not). Worse, we often cannot know after the fact whether taking the drug was good or bad for you, because your condition and the drug are but two of many factors affecting your health, and we cannot redo the experiment on you. Consequently, the mechanisms of market efficiency are much more heavily skewed toward understanding what is likeliest to work before you try it out. That means experimental design, data collection and analysis are absolutely critical to making an informed choice.

The most relevant companies to look to for indications of what works are most likely your competitors, but if you do what they are doing, you will not improve your relative performance. No individual can hope to have had a sufficient quantity or variety of experience — never mind the challenge of avoiding well-documented psychological biases that would render difficult an objective interpretation of that experience — to come to reliably correct conclusions of their own. Adopting any study's advice typically requires a commitment over time, often many years, and connecting outcomes to adoption of the advice can be very difficult since a company's performance is a function of many other variables.

Yet the behavior of both purveyors and consumers of popular management advice, including and perhaps especially that an offer in success strategies, suggests to us that we are treating what is more appropriately seen as a beta-blocker as if it were a caffeine-free breakfast blend. It is only too frequently that otherwise accomplished executives endorse and adopt the findings of prescriptions of a given work because the advice offered confirms what they already felt were the key drivers of corporate success. That is, they like what they have read precisely because it does not tell them anything fundamentally new.

Hence our emphasis on questions of research design and standards of evidence.

Glider Pilots

Glider pilots, like all airplane pilots, know the expression "takeoffs are optional; landings are mandatory." It means that no matter how high, fast or far you fly, you are going to come back down. Gravity always wins.

The same can be said of corporate performance. The only certainty for any company doing well is that eventually it will be doing worse. Every company that has ever soared has or will eventually become entirely average — or worse. Although you might not be able to predict precisely what will bring down any given high flier, it is a sure thing that something will.

Sometimes greatness erodes because of internal failings: Inertia born of complacency might lead you to resist obvious and necessary changes; or entropy born of hubris might dilute your focus on key customers or markets. Sometimes external forces undermine performance: Competitors, spurred on by your success, emulate your behaviors or even improve on your original insights, leaving you with no advantage at all; changes in customer preferences or regulatory or legislative constraints can render historical strengths irrelevant or even turn them into encumbrances. Whatever the proximate cause, just as no glider can stay aloft forever, no company can remain on top eternally.

This unfortunate fact of corporate life imposes an upper bound on the extent of the claims one can hope to make about the drivers of long-term, superior profitability. No advice can come with a credible promise of perpetual superiority. It might be theoretically possible for a corporation to deliver endlessly standout profitability, but as an empirical matter, we lack even an existence proof, never mind the sort of sample that might make possible the inference of general principles.

We have concluded, however, that even if defeating gravity is impossible, we can realistically hope to defy it. Despite the inevitability of a return to earth, some glider pilots do fly higher, faster and farther than others. Using the same equipment in the same circumstances, some pilots — the exceptional ones — remain airborne far longer, soar far higher, and travel far greater distances than others. For these pilots, gliding is not a passive experience. They understand their aircraft, the conditions and themselves and use that understanding to find lift where others find only the void, to achieve just the right angle of attack or to exploit the paradox of diving earthward to generate lift and head skyward again. Even exceptional pilots must land — but not until long after the rest of us.

Similarly, some companies are exceptional. They are able for a time — and occasionally for a long time — to overcome inertia, resist entropy and adapt to competitive or environmental changes. They create better performance and sustain it for far longer than anyone has a right to expect. Nothing lasts forever, but then, that is not the goal. The objective is to deliver the best possible performance for as long as possible.

Every glider lands eventually. But how long it stays up, how far it flies and the heights it reaches are all profoundly affected by the pilot's choices. It is our belief that by consciously adopting the three rules — *better before cheaper, revenue before cost* and *there are no other rules* — you can reasonably hope to defy gravity its due for just that much longer.

RECOMMENDED READING LIST

If you liked *The Three Rules*, you'll also like:

1. ***The Innovator's Solution* by Clayton M. Christensen and Michael E. Raynor.** Christensen and Raynor provide helpful advice on the business decisions crucial to truly disruptive growth.

2. ***The Innovator's Manifesto* by Michael E. Raynor.** In his 2011 book, Raynor shows how Disruption theory can help managers more accurately predict which businesses will survive – and which will die.

3. ***The Strategy Paradox* by Michael E. Raynor.** Raynor shows business leaders how to achieve results as they reduce the risks they must accept in the pursuit of success.