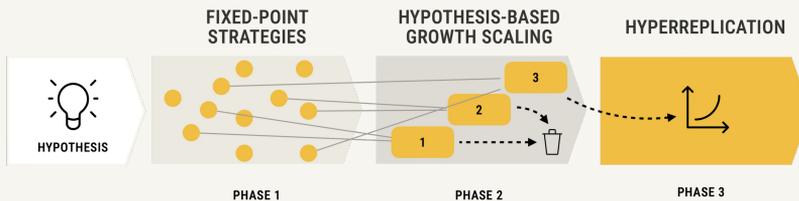


## THE INITIAL GROWTH HYPOTHESIS

De-risking starts with forming a growth hypothesis for market- and business-model testing and deciding on a number of key KPIs.



### HYPOTHESIS GUIDELINES

**Growth goal**

Define the primary objective or end goal for growth, such as achieving a dominant market position or reaching BCSA status. Define the time horizon for the test and the later implementation.

**Value drivers**

Identify the key value drivers and unique advantages of your business or technology that can be leveraged in new markets.

**KPIs**

Determine which KPIs will be most relevant for measuring the success of the hypothesis. What data do we want and why?

**Assumptions**

Clarify the assumptions underlying your growth strategy, including market demand, customer behaviour and competitive landscape. Do we have a predetermined opinion on what the preferred output is?

**Success and failure criteria**

Define clear criteria for what constitutes a successful or unsuccessful outcome for the hypothesis. How large should the test be to ensure representative conclusions?

**Outside influences**

Anticipate potential external factors or market dynamics that could influence the results of your hypothesis testing.

**Quick learning**

Ensure the hypothesis is structured in a way that allows for rapid iteration and learning from early feedback.

## 2. HYPOTHESIS-BASED GROWTH SCALING (HBGS)

In this phase, the company develops hypotheses for different, potentially successful go-to-market strategies. This is an iterative phase, where the company experiments with different strategies to find the optimal approach for scaling. Complexity and value creation begin to increase. The goal is to test and refine these hypotheses, identifying the most promising paths for scalable growth.

There are several rationales behind Hypothesis-Based Growth Scaling (HBGS). Assuming that you are representing a transformative technology, you are operating in uncertain market environments, which either means that you are going where no one has gone before, or you are challenging the status quo. Unfortunately, you don't have the luxury of calling up large management consulting companies and asking for them to build a road map because they will not be able to help you because of this uncertainty. We covered this challenge earlier in the Spiri example. Overall, HBGS will enable clarity on multiple fronts:

First, HBGS will enable you to test geographical and market expansion strategies prior to engaging in full scale deployment. If, for example, you are struggling to validate various theses around which countries to scale in, this new way of thinking will allow you to test new business models, new products or ideas and value-chain disruption strategies before they become too consequential. There are many variables and levels of uncertainty that, just because you have done extensive market and customer analytics, are still highly uncertain. Every variable affects effectiveness when it comes to scaling, and the CTM models proposed here can help maximise effectiveness before the choice is made to fully deploy. Second, approaching growth and scaling via HBGS will help limit biases such as positive or negative overinterpretation of market dynamics or the importance of a specific market, such as US presence. If you operate in a hardtech industry, the effectiveness of your

expansion plan is critical for your long-term traction and survival. The consequences of a misplaced full-scale expansion into a new region or several countries at once can be costly or even kill you if you are rapidly expanding into multiple new geographies at the same time. You will be surprised how many young companies end up with failed expansion strategies, often killing the companies before they can get off the ground. Such a misplaced strategy is often launched because a board member had some experience from a corporate growth plan or thought that there is a 'need to win the United States' based on an idea of the US being the world's largest market.

Most business leaders who have attempted to penetrate the United States will know how difficult it is. I witnessed this firsthand during my time as board member and close strategist to the CEO of an IT technology company. As many other IT companies, the board thought that because of the size of the US market that the company needed to be there. This was despite the fact that the company was perfectly capable of scaling successfully across key Asian and European countries. Needless to say, we completely underestimated what it required to build credibility and business scale in the United States, and the expansion took much longer than anticipated. It was a wrong assumption that we could make it in the US market as we could not reach a point of critical traction, and we could not attract serious clients in the space because our presence was not large enough. In the end, we successfully exited the company to a large US PE buyer, despite never getting a foothold in the United States. I also often hear such platitudes here in Denmark, where Germany is the largest export market, so experienced corporate board profiles often promote Germany as the next natural country to set up in. Although such generalising observations are dangerous, they are rooted in individual bias or predetermined positive or negative affection for markets or the culture around a market.

Some executives or members of the board may have ideas of what makes up great markets, or some may have ambitions to scale in a

## CHANGING THE MATH

certain market, but without any qualified data or market metrics to back such claims up. The great thing is that assumptions about markets can be tested and tried before one invests too heavily in deployment, but it requires that companies or their board members use or at least are familiar with the HBGS model or similar models, and this way of thinking. The same biases can exist when it comes to challenging a value-chain position or strategies that might pivot your businesses. Again, these are dangerous endeavours if not tested and tried as well as managed diligently. A hypothesis-based approach will free you from relying on guesses and bias and allow you to take the necessary decisions with reduced risk. If you realise that a potential pivot will drive much higher GP/CoE or change weight of your technology in a value chain, then of course you should pursue it, but in a de-risked way via the tools suggested here. Basing this type of decision on FPS data sets or at least gathering more useful data to inform HBGS is always, and I repeat always, the best thing to do, as it limits bias and uncertainty. Most important, it prevents your decisions from being based on platitudes and historic, anecdotal successes.

## HOW TO DO HBGS IN PRACTICE

The most difficult part of HBGS is removing biases from your approach. An ideal hypothesis to use when, for example, you are trying to identify which countries to enter next, is to test your value proposition with only minimal commercial efforts across a wider selection of countries. Several questions around your main hypothesis are crucial:

- How do you ensure that what you are doing is comparable?
- How do you ensure that the markets are representative?
- How do you ensure that there are no local forces in some regions that dilute the representative nature of the hypothesis?

To prevent these issues, a robust hypothesis should clearly define what constitutes both a good and a bad result. If you do not make it absolutely clear what both ends of the efficiency scale look like, you risk changing your perception of the desired outcome during the hypothesis-testing period. This is something we want to avoid, as we are seeking the best possible result and thus the highest possible level of efficiency in the given markets.

Overall, HBGS is associated with the concept and model framework of hyperreplication . Hyperreplication remains the most effective, efficient way to scale an industrial or hardtech offering. If you can define a hypothesis with results or metrics that you can replicate with great consistency after validation, then you have a strong road map towards efficient growth scaling, and you can confidently increase your CoE, as you are set on a de-risked hypergrowth path.

‘A robust hypothesis should clearly define what constitutes both a good and a bad result’.

We have built an HBGS template that you can fill out to gain a better understanding of what a hypothesis or a configuration for a hypothesis should be based on.

By now, you will recognise each of the fields that make up the HBGS template, and you should be able to fill in the fields with information.

Think of these fields as guidance areas for what data you will need to collect. Let the hypothesis determine where you look for data and how you collect it. Use the FPS structure to collect the data.

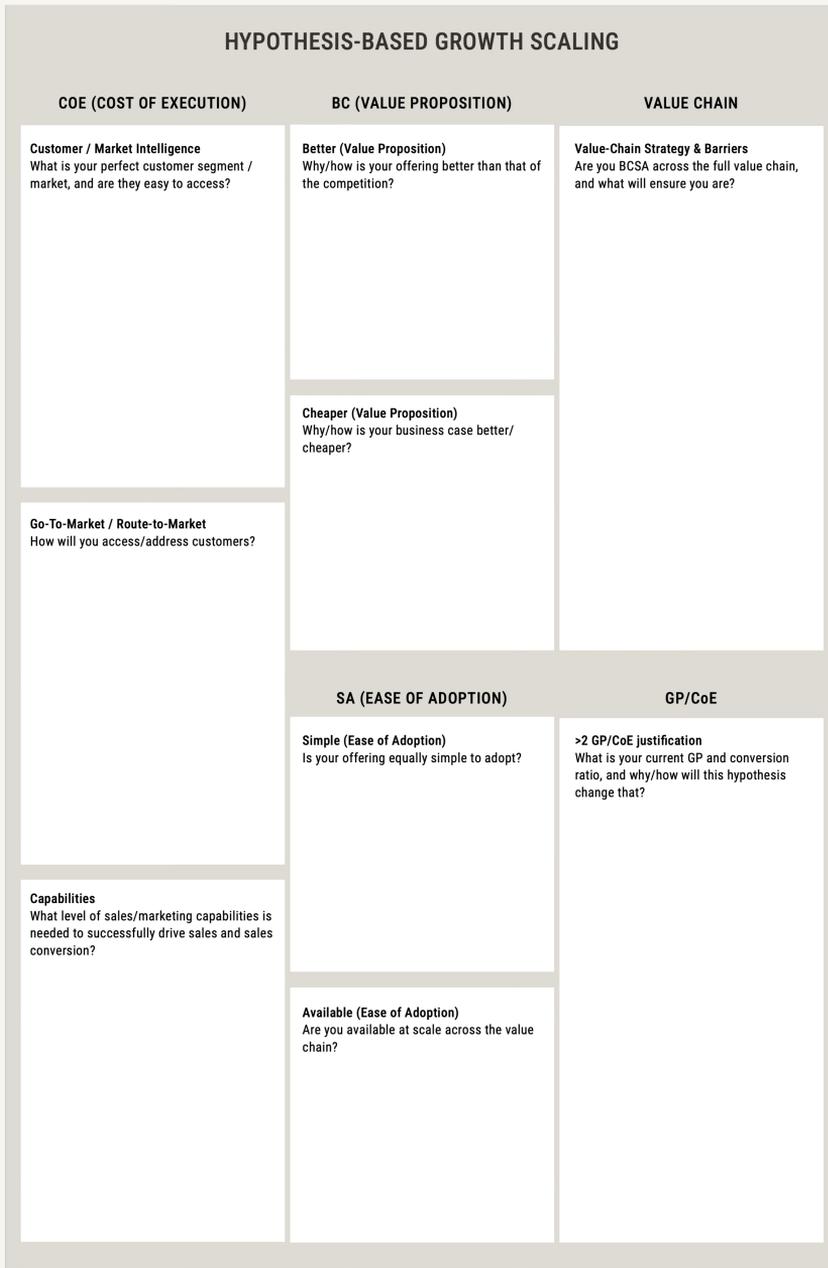


Figure 14. The Hypothesis-Based Growth Scaling Template

## EVALUATE YOUR OWN HBGS

The HBGS template on the previous page is a way to systematically assess your own performance against some of the key metrics of the CTM Tool Kit, namely CoE, BCSA and the GP/CoE ratio. Use the template before investing in hyperreplication and hypergrowth.

Below, you can see the contents of the template presented in a more readable format. For each element, you should define criteria, activities and KPIs that are important for your company.

|   |                                 |  |
|---|---------------------------------|--|
| <b>Cost of execution (CoE)</b>            | Market Intelligence             | What is your perfect customer segment/market, and are they easy to access?                             |
|   | Go-to-market                    | How will you access/address customers?   |
|   | Capabilities                    | What level of sales/marketing capabilities is needed to successfully drive sales and sales conversion? |
| <b>Value proposition (BC in the BCSA)</b> | Better                          | Why/how is your offering better than that of the competition?  |
|   | Cheaper                         | Why/how is your business case cheaper?   |
| <b>Ease of adoption (SA ind the BCSA)</b> | Simple                          | Is your offering equally simple to adopt?  |
|   | Available                       | Are you available at scale across the value chain?   |
| <b>Value chain</b>                        | Value chain strategy & barriers | Are you BCSA across the full value chain, and what will ensure you are?                                |
| <b>GP/CoE Ratio</b>                       | >2 GP/CoE justification         | What is your current GP and conversion ratio, and why/how will this thesis change that?                |