

# Utilizing Strategic Life-Cycle Analysis to Maximize Value Creation

Mark Frigo, Ph.D., CMA, CPA, CGMA

May 16, 2022



The Association of  
Accountants and  
Financial Professionals  
in Business

# Webinar Features and CPE Credit

Q&A

Asking Questions



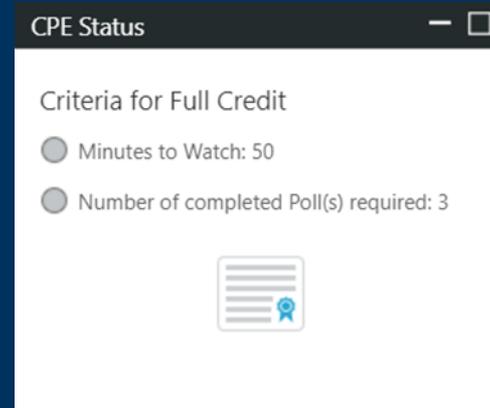
Closed Captioning



Help



CPE Credit



# Moderator

**William Duchan, CMA, CFM, CAE**

**Director, Credentials & New Initiatives**

**IMA**



The Association of  
Accountants and  
Financial Professionals  
in Business

# Featured Presenter

**Mark Frigo, Ph.D., CMA, CPA, CGMA**  
Professor  
DePaul University



The Association of  
Accountants and  
Financial Professionals  
in Business

# Mark Frigo's Biography

- Dr. Mark Frigo is founder of the Center for Strategy, Execution and Valuation and the Strategic Risk Management Lab and Ezerski Endowed Chair of Strategy & Leadership Emeritus in the Driehaus College of Business at DePaul University in Chicago.
- He is the author of seven books and over 125 articles published in leading business journals including Harvard Business Review. He is also the co-author of the book *DRIVEN: Business Strategy, Human Actions and the Creation of Wealth*, which describes the strategic activities of high-performance companies as described in the Return Driven Strategy framework and a recent COSO report *Creating and Protecting Value: Understanding and Implementing ERM* (2020).
- Dr. Frigo is the co-author of the IMA SMA “Strategic Analysis: Methods for Achieving Superior and Sustainable Performance” (2020) which is the subject of this Webinar.
- You can reach Mark at [mfrigo@depaul.edu](mailto:mfrigo@depaul.edu).

# Learning Objectives

1. Develop a Strategic Life-Cycle Analysis for your company (or business unit).
2. Explain how to prepare a presentation of a Strategic Life-Cycle Analysis for a company (or business unit) for delivery to boards and executive teams.
3. Give examples of ways to use Strategic Life Cycle Analysis in the budgeting and capital budgeting process.
4. Describe how to use Strategic Life-Cycle Analysis in risk assessment and ERM including assessing sustainability risks.
5. Use the Strategic Life Cycle Analysis as part of a Strategic Valuation Process for valuing a company (or business unit).

# Agenda

- Introductions
- What is Strategic Life-Cycle Analysis?
- Examples of Strategic Life-Cycle Analysis
- Applications of Strategic Life-Cycle Analysis for CFOs and Management Accountants
- Conclusion/Key takeaways

# What is Strategic Life-Cycle Analysis?

Strategic Life Cycle Analysis integrates the Life-Cycle framework (Madden) with the Return Driven Strategy framework (Frigo and Litman) to analyze the long-term value creating performance of companies.

# Benefits of Strategic Life Cycle Analysis:

1. Explain the relationship between reinvestment rates and economic returns (ROI) using the Strategic Life-Cycle framework.
2. Describe how reinvestment in intangibles (R&D, Brand, People) is the key to long-term sustainable value creation in the new economy.
3. Understand the strategic issues and priorities in each phase/stage of the life-cycle using the language and logic of the Return Driven Strategy framework

# “Strategic Life-Cycle Analysis: The Role of the CFO”

## *Strategic Finance* (October 2020) Frigo and Madden



# STRATEGIC LIFE-CYCLE ANALYSIS: THE ROLE OF THE CFO

**CFOs can play a pivotal role in driving long-term sustainable value creation.**

BY MARK L. FRIGO, PH.D., CMA, CPA, AND BARTLEY J. MADDEN

This article is part of the “Creating Greater Long-Term Sustainable Value” series launched by the October 2018 article (see Mark L. Frigo, with Dominic Barton, “Creating Greater Long-Term Sustainable Value,” [bit.ly/2RfCMwn](https://bit.ly/2RfCMwn)).

October 2020 / STRATEGIC FINANCE | 33

**T**o avoid competitive fade and decline, most companies work to create greater long-term sustainable value through a better understanding of when and where to invest capital and resources. But what can CFOs and management accounting professionals do specifically to ensure capital investment decisions will lead to that long-term sustainable value creation?

CFOs are responsible for decisions about allocating resources to business units, which is where long-term value creation gets the thumbs-up or thumbs-down. During the last several years, the Center for Strategy, Execution and Valuation in the Kellogg Graduate School of Business at DePaul University has experimented with the applications of strategic life-cycle analysis, which integrates the life-cycle framework with the Return Driven Strategy framework to analyze the long-term value-creating performance of companies.

In his latest book, *Value Creation Principles: The Pragmatic Theory of the Firm Begins with Purpose and Ends with Sustainable Capitalism* (Wiley, June 2020, [bit.ly/3H0Qp6c](https://bit.ly/3H0Qp6c)), Bartley Madden presents the competitive life-cycle framework to help CFOs, executive teams, and boards make better investment decisions using an underlying logic for management’s priorities, which are driven by the company’s or business unit’s life-cycle position.

**FRIGO:** You’ve described investment strategies that CFOs and management teams can use in each of the four phases (high innovation, competitive fade, mature, and failing business models) of the competitive life-cycle framework (see Figure 1). How would you describe those strategies?

**MADDEN:** Life-cycle track records show a time series of



**“The hallmark of the failing business model stage is ‘business-as-usual complacency.’ The primary task is to restructure early and purge an excessively bureaucratic culture, thereby avoiding bankruptcy.”**  
–Bartley Madden

**FIGURE 1: BUSINESS UNIT LIFE-CYCLE REVIEWS**

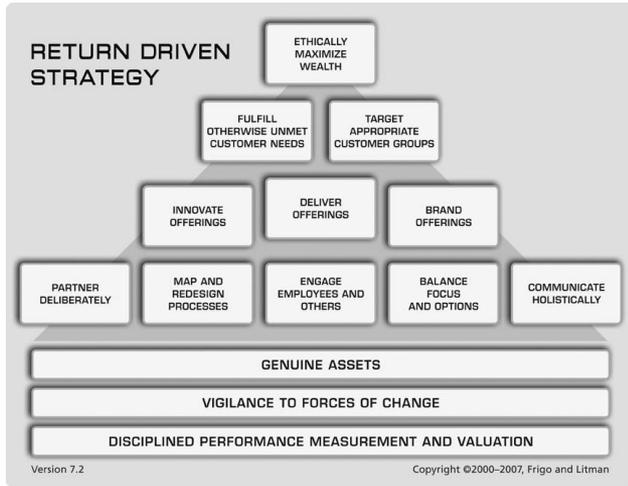
	High Innovation	Competitive Fade	Mature	Failing Business Model
%				

Source: Bartley J. Madden, *Value Creation Principles*, 2020. Used with permission.

34 / STRATEGIC FINANCE | October 2020

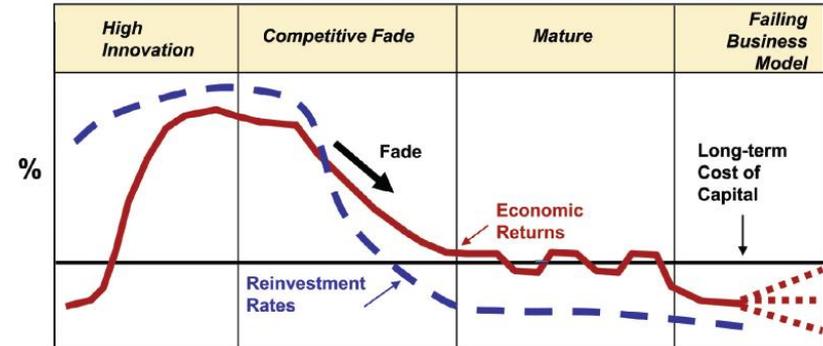
# “Strategic Life-Cycle Analysis: The Role of the CFO”

## *Strategic Finance* (October 2020) Frigo and Madden

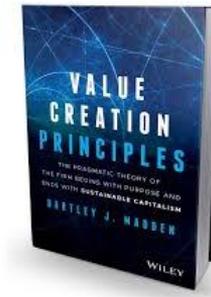
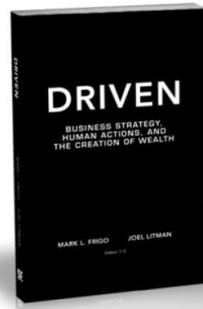


+

FIGURE 1: BUSINESS UNIT LIFE-CYCLE REVIEWS



Source: Bartley J. Madden, *Value Creation Principles*, 2020. Used with permission.



# Strategic Life-Cycle Analysis Uses for CFOs and Management Accountants

1. Conduct Life-Cycle Reviews on companies to avoid common mistakes in resource allocation
2. Conduct Strategic Analysis of a company with Return Driven Strategy (as a qualitative and analytical approach for understanding how well the current strategy is creating long-term value )
3. Use Strategic Life-Cycle Reviews for Strategic resource allocation for innovation and long-term value creation including investments in R&D, Brand and Sustainability Capabilities
4. Use Strategic Life-Cycle Analysis in M&A due diligence and Competitor analysis

# “Strategic Life-Cycle Analysis - The Role of the CFO” Strategic Finance (October 2020) Frigo and Madden

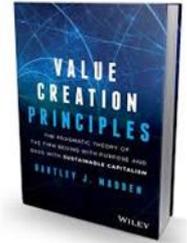
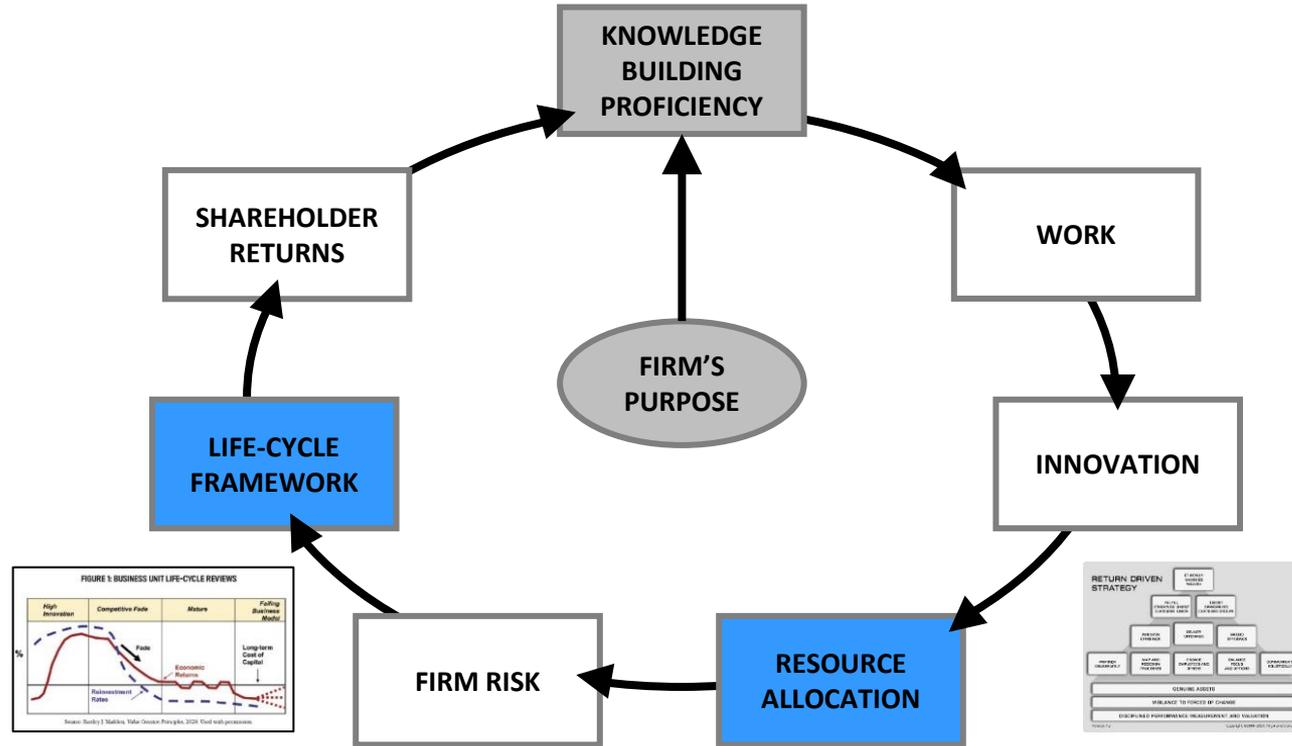


**“The hallmark of the failing business model stage is ‘business-as-usual complacency.’ The primary task is to restructure early and purge an excessively bureaucratic culture, thereby avoiding bankruptcy.”**  
–Bartley Madden



**“The life-cycle framework provides a disciplined logic for making capital investment decisions, especially as pertaining to intangible assets in the New Economy.”**  
–Mark Frigo

# Value Creation and Life-Cycle Analysis



Value Creation Principles: The Pragmatic Theory of the Firm Begins with Purpose and Ends with Sustainable Capitalism (Wiley, June 2020) Bartley J. Madden

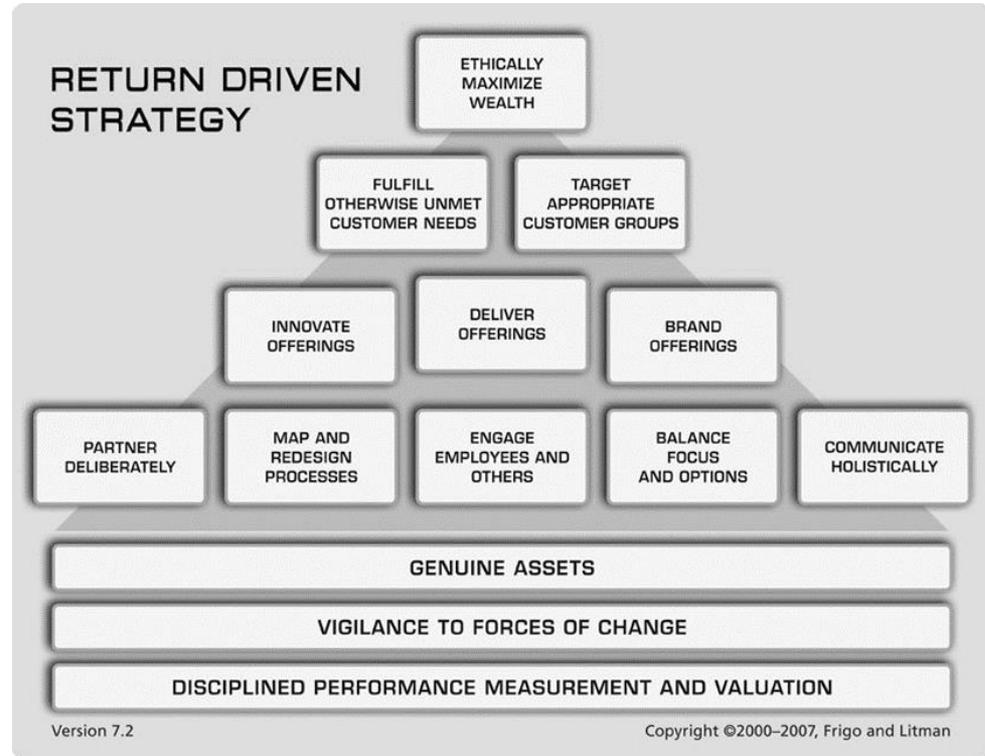
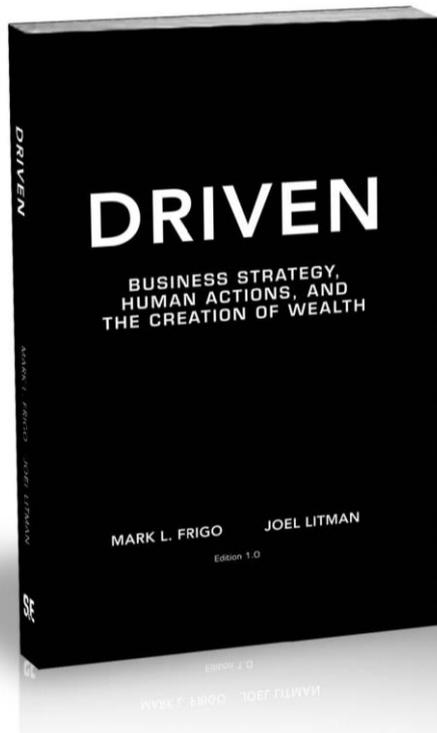
## Poll Question 1:

In your organization, which of the following is the most important metric used to evaluate the performance of a company (or business unit)?

- a. Return on Investment (ROI)
- b. Economic Profit
- c. EBITDA
- d. Cash Flow
- e. I'm not sure

# Poll Question 1 Results: (Placeholder)

# Return Driven Strategy: The Foundation of Strategic Life-Cycle Analysis



# The Return Driven Strategy Initiative

## Global Research on High Performance Companies

Studied >15,000 companies screened globally for a 20–30-year period.

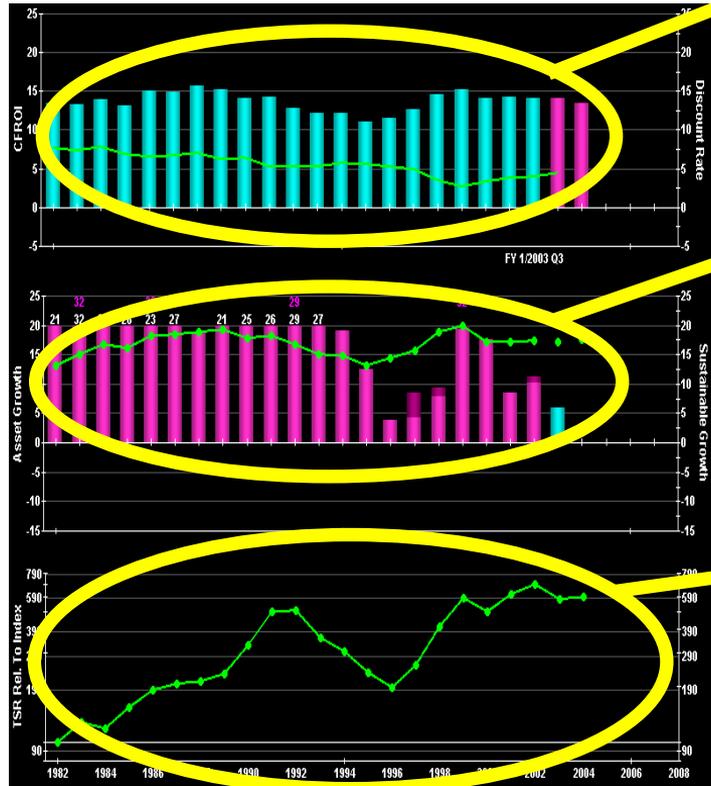
Note: The criteria for RDS companies is the same as the metrics in the Life-Cycle framework

**Study the Great: Long-term approach, needs a sophistication screening beyond one metric (ROI + Disciplined Asset Growth = Value Creation)**

1. **Superior ROI: 10+ Years CFROI about double (2x) or more the cost of capital every year for at least 10 consecutive years, AND**
2. **Disciplined Asset Growth: 10+ Years Asset Growth rates exceeding GDP Growth (while maintaining 2xROI spread), AND**
3. **Superior Shareholder Value Creation: 10+ Years Total Shareholder Returns (TSR) consistent with ROIs and Growth (usually about 2x market or more)**

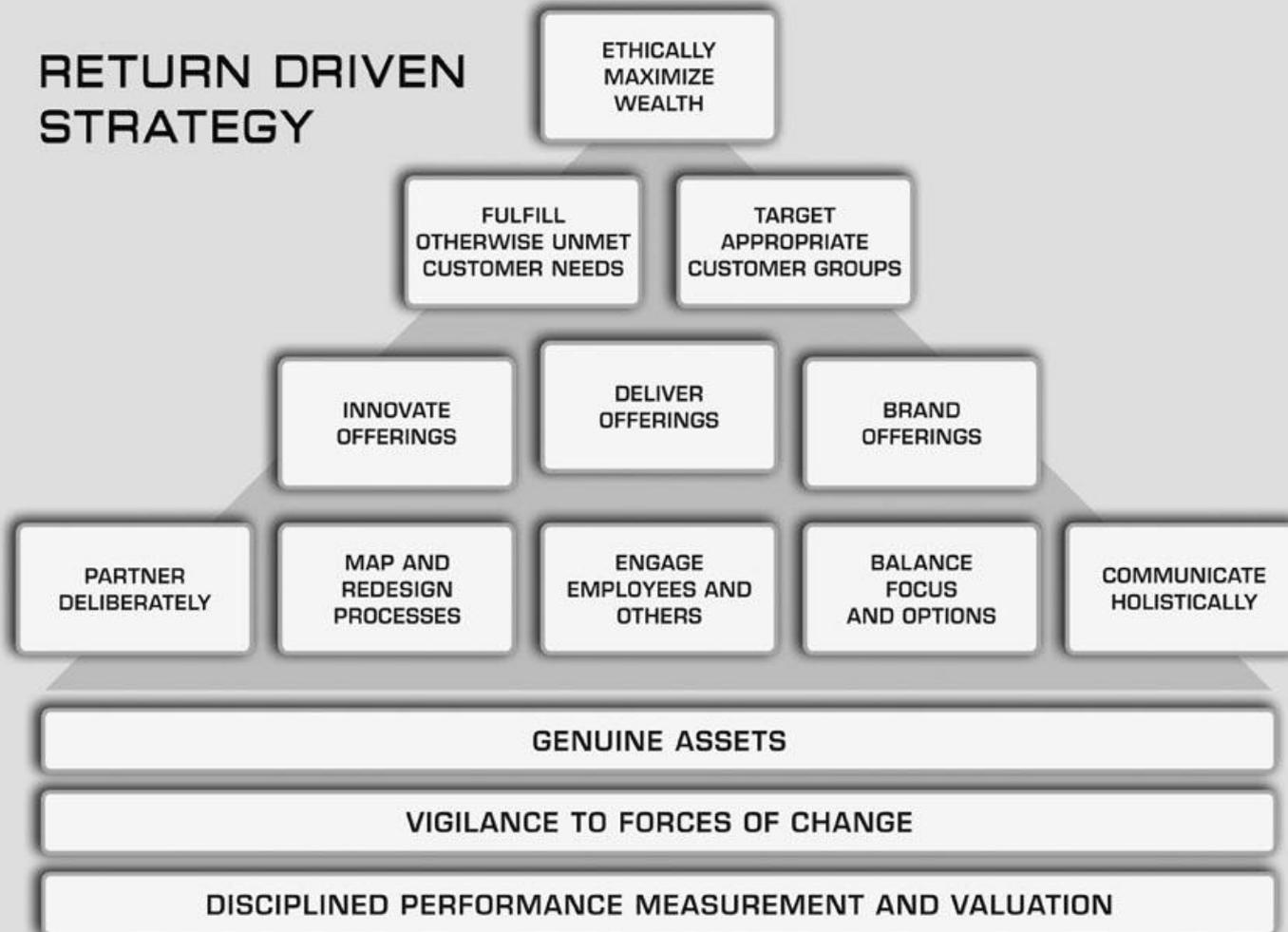
***The Result: “Return Driven Strategy”***

# Superior ROIs + Disciplined Asset Growth = Value Creation



1. **Superior and Sustainable ROIs:** For at least a ten-year period, the firm's returns must have exceeded its cost of capital by 2x or more, proving the companies resource allocation and efficiency capabilities.
2. **Disciplined Reinvestment:** For the same period, the company must have compounded its returns by reinvesting in itself, much like a high interest bank account, while maintaining superior ROIs. This Growth/ROI combination translates to rapidly growing economic value added.
3. **"Consistent" Shareholder Returns:** Total returns to shareholders relative to major market indices should be consistent with the ROI and growth patterns. This characteristic must take into consideration "embedded expectations" analysis, and therefore no hard-and-fast rule can be made about RTSR levels.

# RETURN DRIVEN STRATEGY

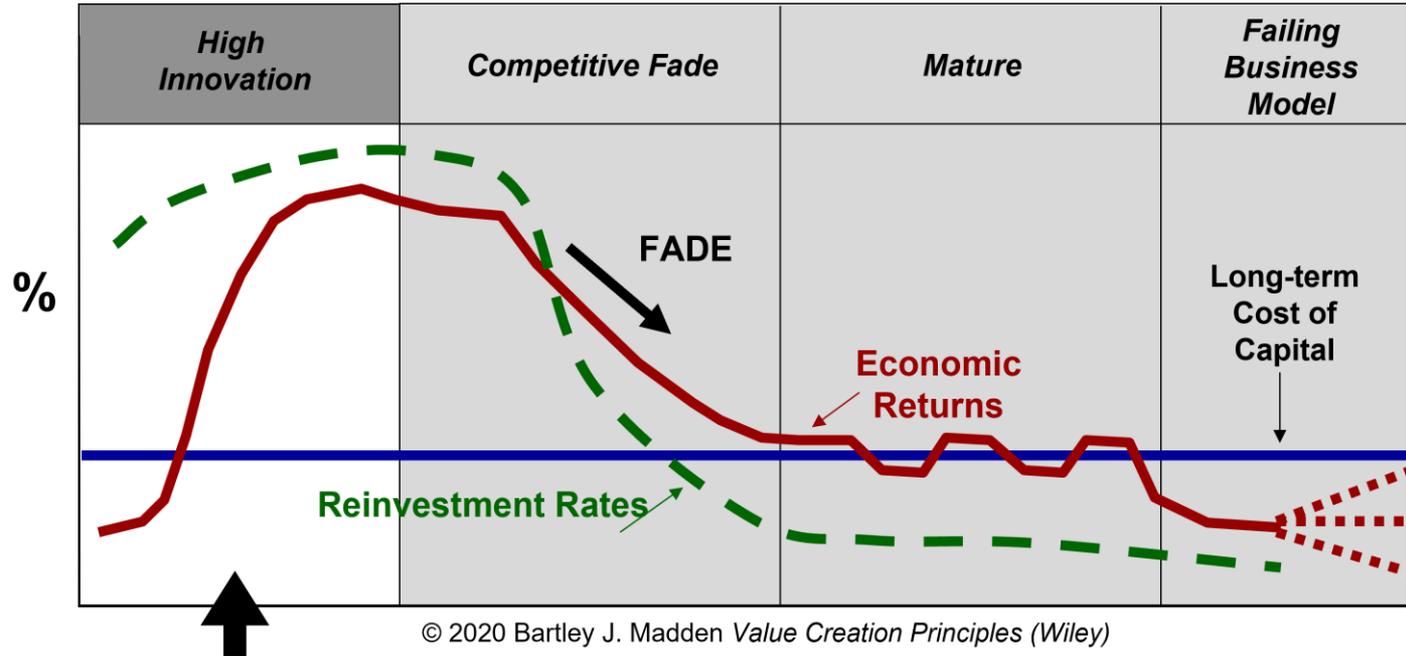


# Seven Questions from Return Driven Strategy for Strategic Life-Cycle Analysis

**To create greater long-term sustainable value, the following questions should be asked when considering a strategic investments:**

1. How does the investment help us to fulfill otherwise unmet customer needs in ways we could not do without the investment?
2. How does the investment help us to engage our customers?
3. How does the investment help us to better Innovate our Offerings to fulfill the unmet customer needs?
4. How does the investment help us to better Deliver the Offerings including the way we sell and market our offerings?
5. How does the investment help us to better Brand and Market the Offerings?
6. How does the investment create Genuine Assets that will drive competitive advantage?
7. How does the investment help us to ethically create long-term value? Will it generate Margins, Growth and ROIs that are superior and sustainable?

# High Innovation Stage Early Stage Growth Companies

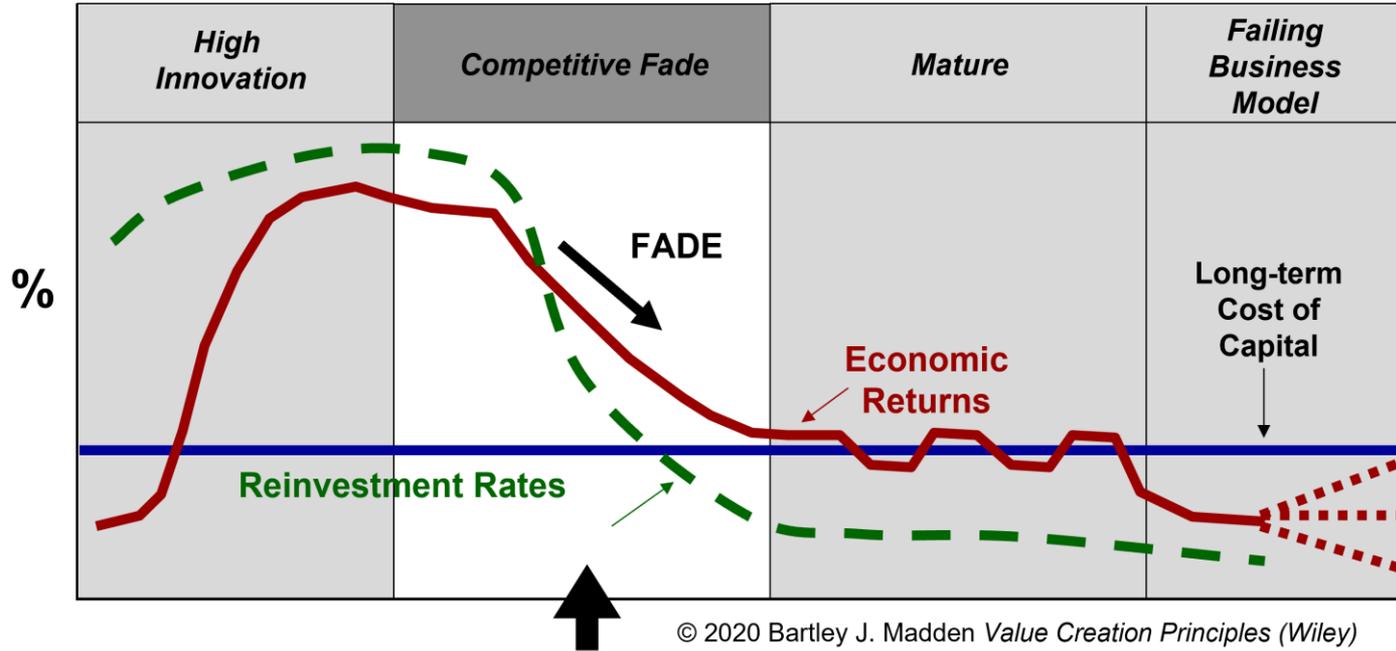


- Quickly confirm or disconfirm the critical business assumptions that determine if the business can create significant value.
- Experiment and learn how best to scale up and secure competitive advantage.

**Return Driven Strategy Commentary:** Innovate Offerings, Deliver and Brand. Balance Focus and Options, Develop Genuine Assets

# Competitive Fade Stage

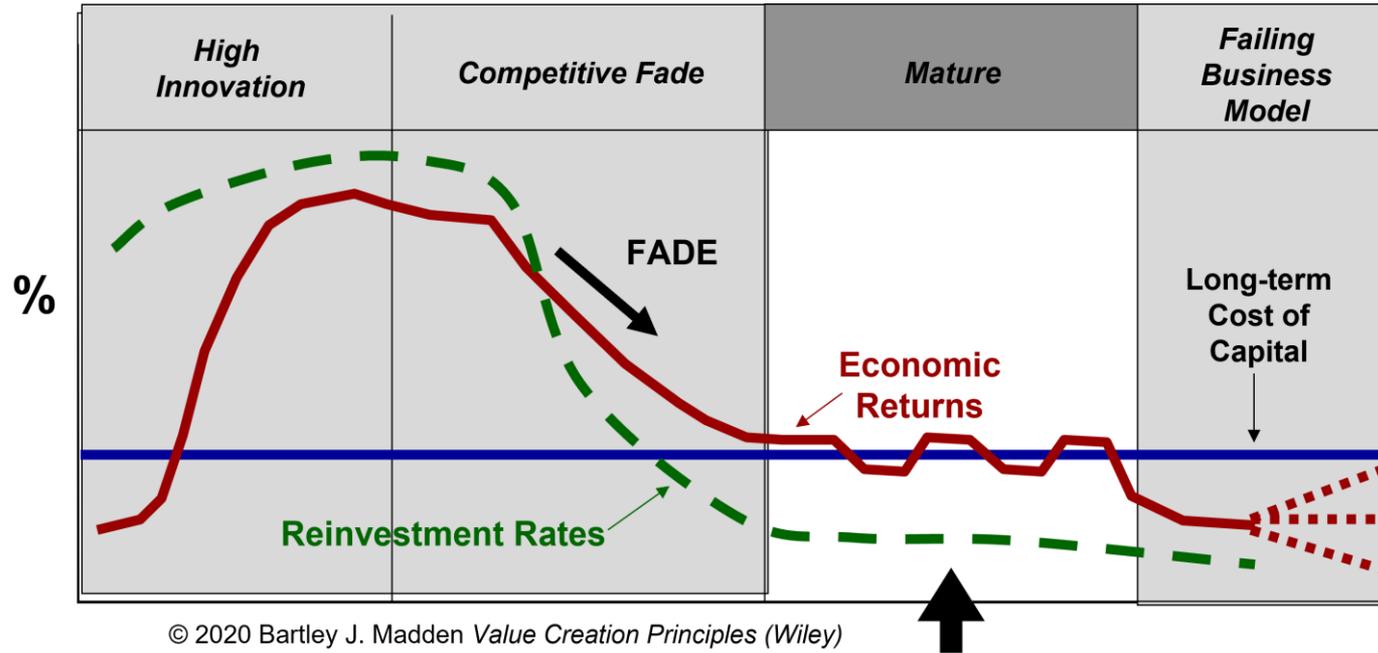
## High Growth/Slowing Maturing Business



- Organize for both efficiency gains and innovation in order to produce a favorable fade of economic returns and reinvestment rates. Build or acquire capabilities that can provide sustainable competitive advantage.

**Return Driven Strategy Commentary:** Continue to Innovate Offerings, Deliver Offerings, Brand Offerings, Develop Genuine Assets, Strategic Investments

# Mature Stage Mature Businesses

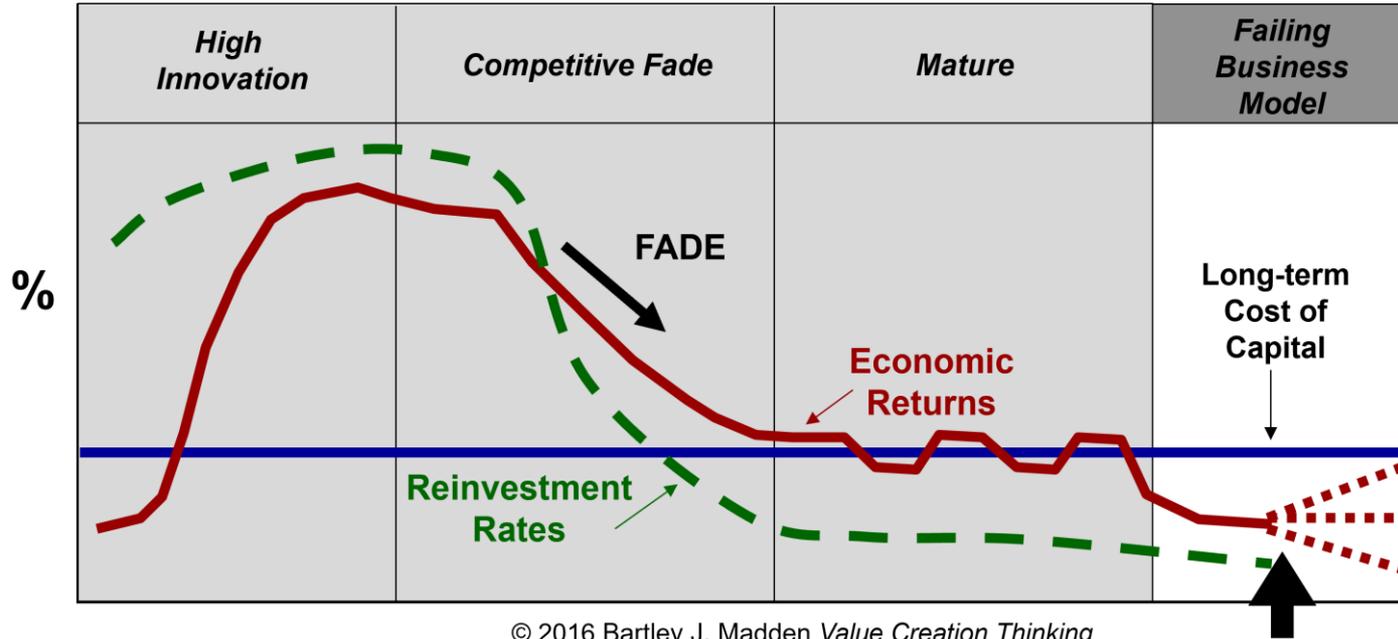


- Improve the efficiency of existing businesses. Divestitures may be needed.
- Avoid high reinvestment rates and mega-mergers with similar mature firms.
- Nurture new business opportunities.

**Return Driven Strategy Commentary:** Nurture new business opportunities using Return Driven Strategy, Disciplined Strategic Disinvestments and New Investments

# Failing Business Model Stage

## Distressed Businesses



- Purge business-as-usual assumptions.
- Recognize that the firm's culture is likely dysfunctional.
- New direction is needed, and possibly new management is needed.

**Return Driven Strategy Commentary:** Use Return Driven to define the New Direction and “Confront the Brutal Facts”.

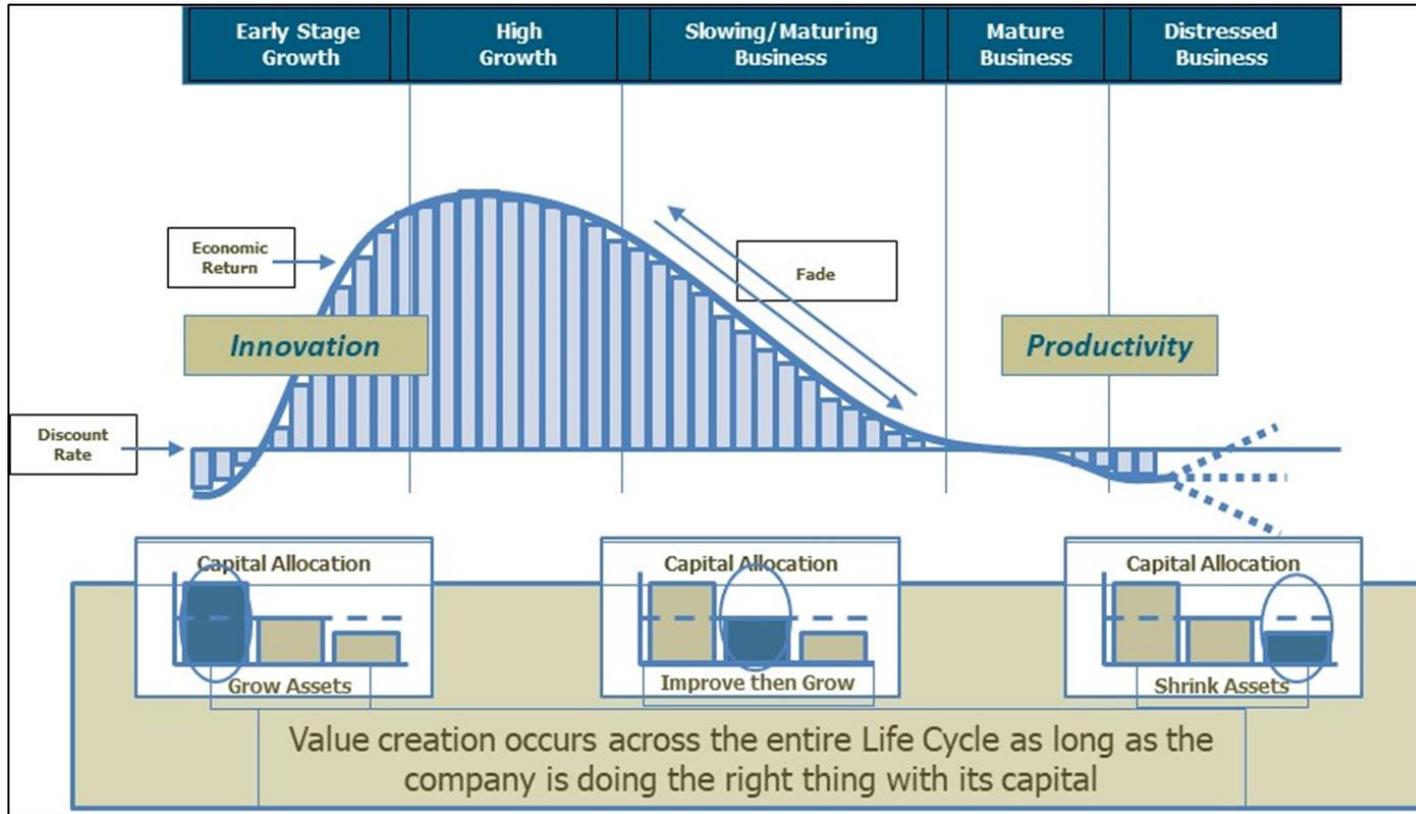
## Poll Question 2:

In your opinion, which phase of the Life-Cycle would you place your company (or business unit)?

- a. High innovation
- b. Competitive fade
- c. Mature
- d. Failing business model
- e. I'm not sure

## Poll Question 2 Results: (Placeholder)

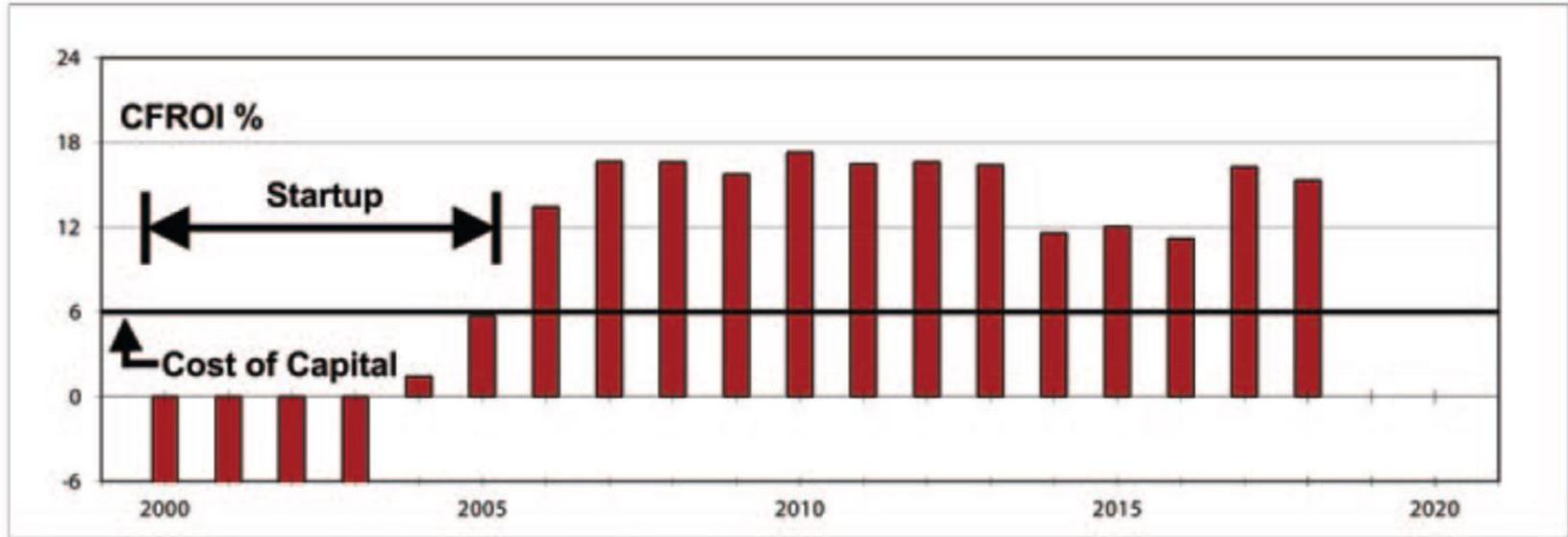
# How to Use Strategic Life Cycle Analysis in the Budgeting, Resource Allocation and Capital Budgeting Process



# Company Examples of Strategic Life-Cycle Analysis

Intuitive Surgical  
and  
John Deere

# “Strategic Life-Cycle Analysis: The Role of the CFO” Intuitive Surgical 2000-2018



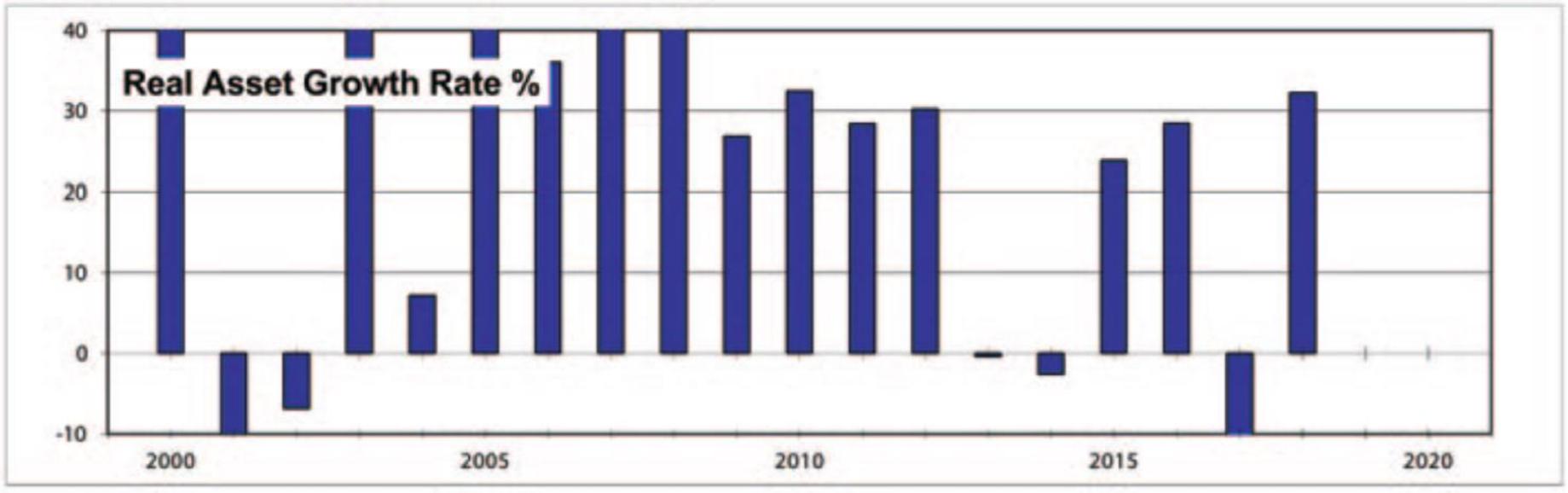
## How to Develop a Strategic Life-Cycle Analysis:

Step 1 Develop the time series of CFROI performance of the company with reference to the cost of capital. CFROI includes capitalized and amortized R&D

Step 2 Develop the time series of Real Asset Growth Rate % performance which includes capitalized R&D

# “Strategic Life-Cycle Analysis: The Role of the CFO”

## Intuitive Surgical 2000-2018

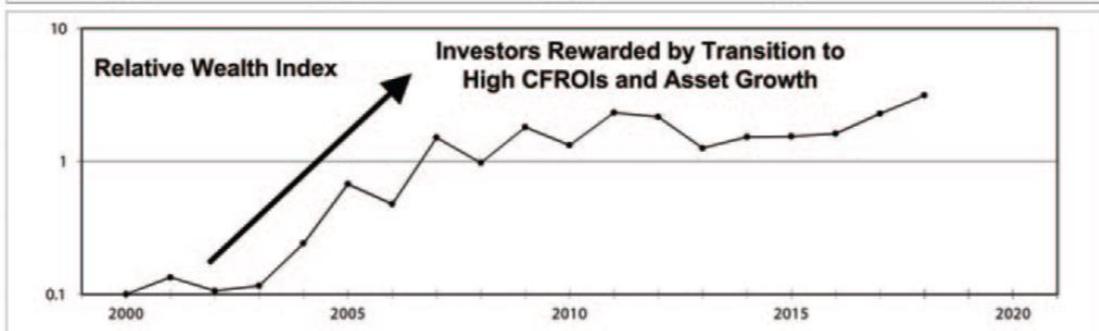
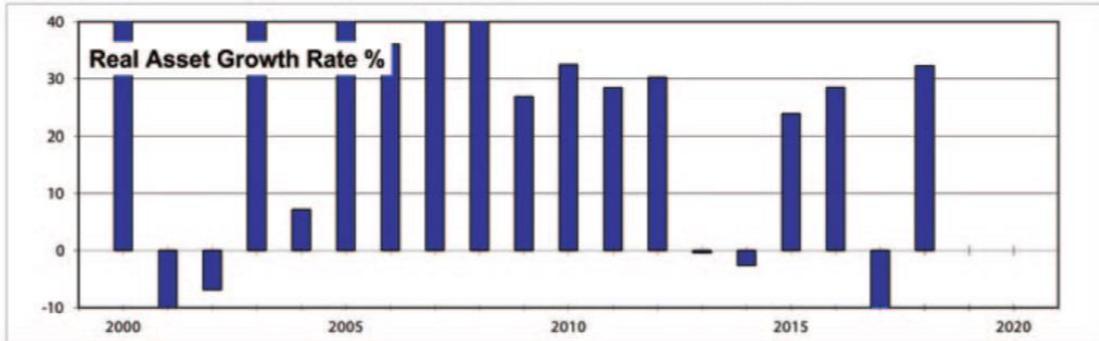
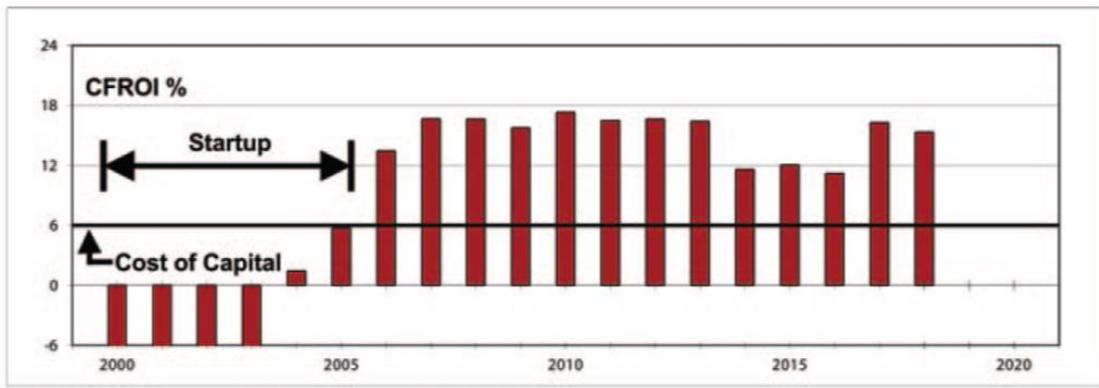


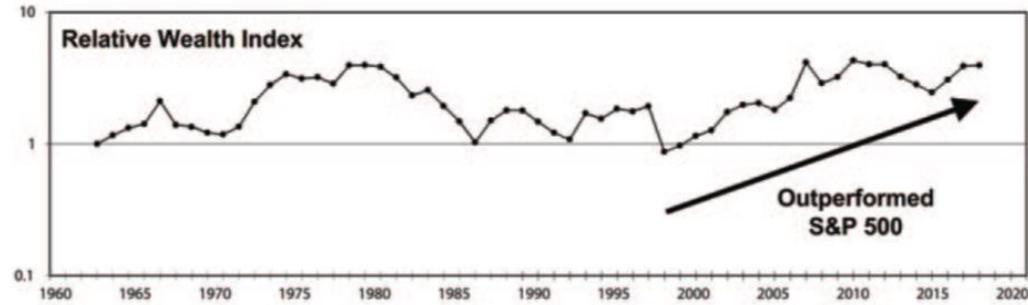
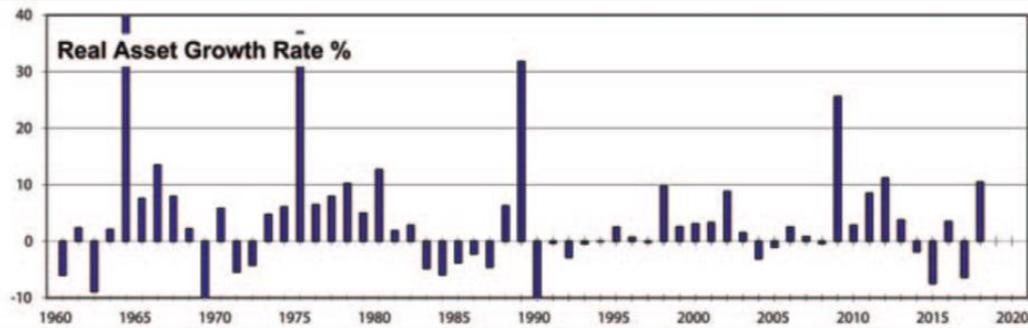
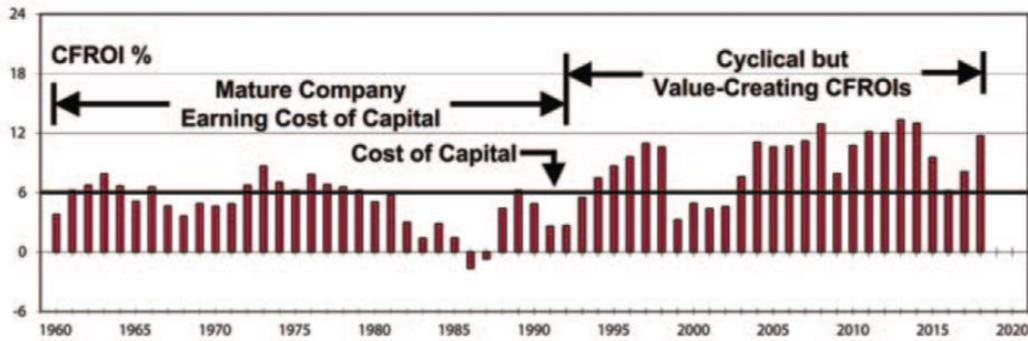
### How to Develop a Strategic Life-Cycle Analysis:

Step 1 Develop the time series of CFROI performance of the company with reference to the cost of capital. CFROI includes capitalized and amortized R&D

Step 2 Develop the time series of Real Asset Growth Rate % performance which includes capitalized R&D

# How to Present a Strategic Life-Cycle Analysis





# How to Present a Strategic Life-Cycle Analysis: John Deere 1960-2018

## Poll Question 3:

In your organization, how are R&D expenditures monitored in the company (or business unit)?

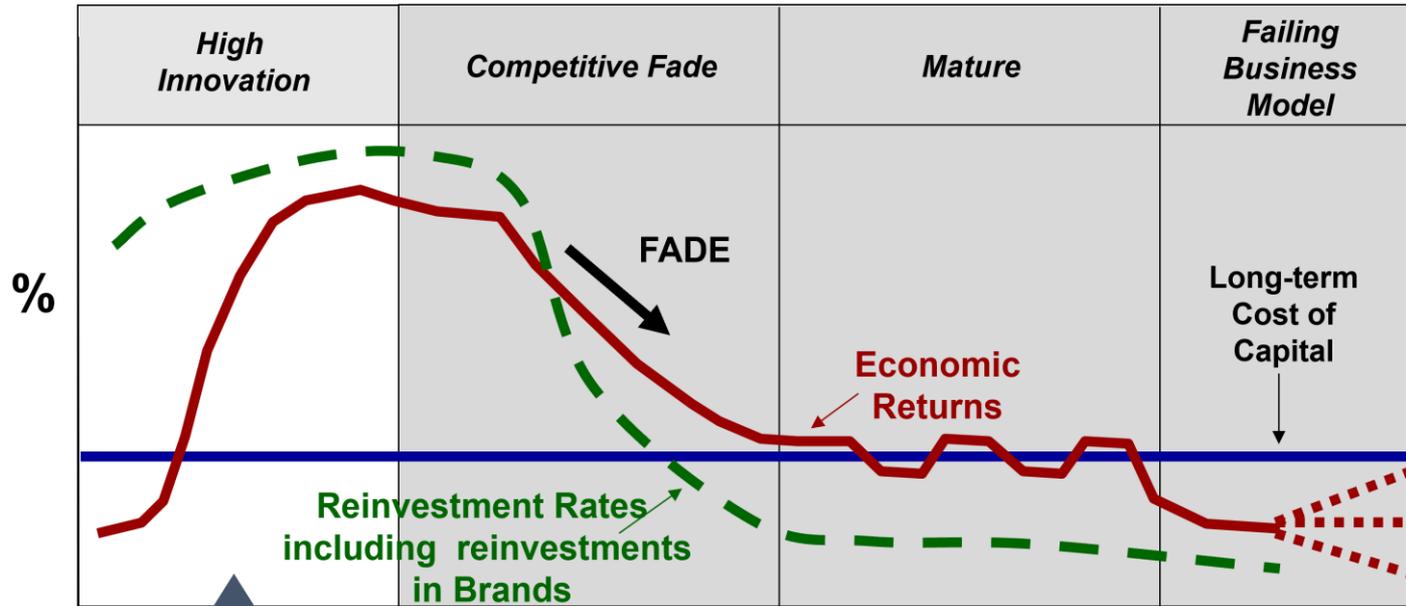
- a. R&D expenditures are tracked and measured
- b. R&D expenditures are capitalized and amortized
- c. R&D expenditures are not tracked and measured
- d. I don't know

# Poll Question 3 Results: (Placeholder)

# Applications of Strategic Life-Cycle Analysis

1. Brand Reinvestments
2. Avoiding Corporate Short-Termism
3. Sustainability Strategies and Net-Zero Goals
4. Strategic Valuation Analysis

# Strategic Life-cycle Analysis Brand Investment Strategy



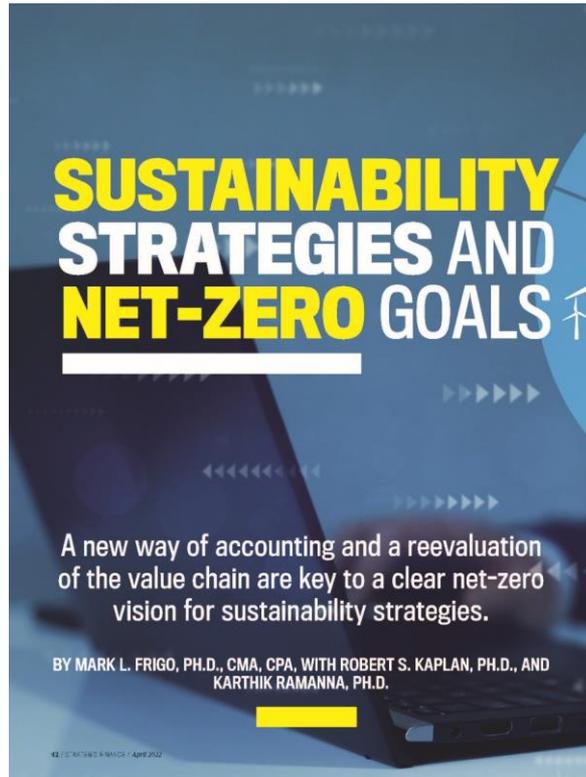
© 2020 Bartley J. Madden *Value Creation Principles* (Wiley)

- Brand investment strategy: “Create/Build the Brand” “High Level of Investment” (Tesla)
- For more information: “The Financial Value of Brand” Strategic Finance (October 2019) Bobby Calder and Mark L. Frigo

“Avoiding Corporate  
Short-Termism:  
The Role of the CFO”  
Strategic Finance  
(April 2021)  
Mark L. Frigo and  
Gregory V. Milano

- Conduct a performance measurement review with the express purpose of achieving better alignment with long-term sustainable value creation.
- Look for the unintended consequences of using existing performance measures in terms of motivating short-termism.
- Carefully review ROIC-type and economic profit performance measures for possible flaws that could lead to short-termism.
- Allocate resources focused on “thinking and acting like an investor (owner).”
- Conduct strategic life-cycle reviews as part of the resource allocation process, and experiment with handling the measurement of intangibles in ways that can easily be accommodated with life-cycle reviews.

# How to Use Strategic Life-cycle Analysis in Risk Assessment and ERM Including Assessing Sustainability Risks.



## Sustainability Strategy Tool Kit

- **Strategy risk assessment: an action plan for sustainability strategies, related metrics, and any identifiable risks**
- **Strategic valuation: how zero-carbon strategies can drive innovation, growth, and effective risk management**
- **Strategic life-cycle analysis: how the company invests in sustainability strategies and evaluates ROIs and reinvestments**



“Sustainability Strategies and Net-Zero Goals” Strategic Finance (April 2022) Frigo, Kaplan and Ramanna

© Copyright Dr. Mark L. Frigo 2021 - Do not copy or redistribute without express written consent

# How to Use the Strategic Life Cycle Analysis as Part of a Strategic Valuation Process for Valuing a Company

FIGURE 1: THE STRATEGIC VALUATION PROCESS

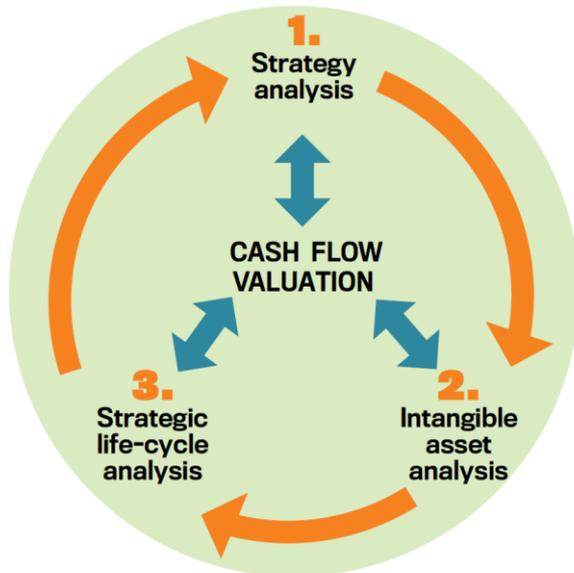
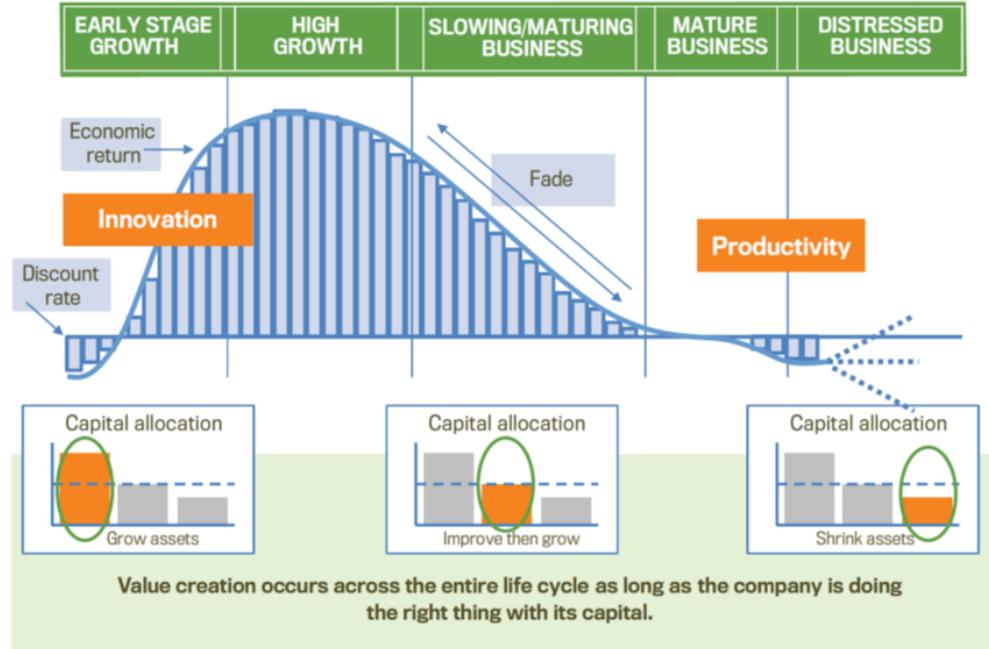


FIGURE 2: LIFE-CYCLE CAPITAL ALLOCATION GUIDE



“Strategic Valuation in the New Economy” Strategic Finance (October 2021) Mark L. Frigo

# Strategic Valuation for CFOs and Finance Organizations

**Strategic Valuation can be a useful tool to explain how Intangibles and reinvestments create long-term value to shareholders and a first step in valuing a company. Here are some uses:**

1. CFOs can incorporate the Return Driven Strategy framework and Competitive Life Cycle Analysis framework to guide reinvestments and resource allocation in intangibles (R&D, Brand, People).
2. CFOs can use strategic valuation to brief the Board of Directors on how the company intends to create long-term sustainable value.
3. CFOs can use strategic valuation in earnings calls and presentations to investors. CFOs can use strategic valuation to communicate to investors how the company will create long-term sustainable value.

## Poll Question 4:

In your organization, are R&D expenditures evaluated in terms of Return on Investment productivity?

- a. Yes
- b. No
- c. Unsure

# Poll Question 4 Results: (Placeholder)

# Life-cycle Review Checklist



## ✓ CONDUCT LIFE-CYCLE REVIEWS

Use life-cycle reviews as a critically important, CFO-directed tool to improve decision making and to continually refine how intangibles are treated (e.g., capitalizing R&D expenditures) in calculating an adjusted return on capital or economic return.



## ✓ MONITOR AND COMMUNICATE RETURNS AND REINVESTMENT RATES

Assess key insights about a business unit's financial performance by showing both historical and forecasted financial results in terms of the life-cycle variables—economic returns and reinvestment rates.



## ✓ KNOW WHERE TO REINVEST

Analyze the forecast given the business unit's track record and the skills of competitors. Is the business unit's strategy and resource allocation consistent with the business unit's position on the life cycle?

Strategic -life-cycle analysis - the role of the CFO" SF (Oct 2020) Frigo and Madden

# The Starting Point for Life-cycle Reviews



## STEP 1

A productive debate/discussion about strategy and resource allocation begins with a common valuation language provided by life-cycle reviews.



## STEP 2

Learn and master the life-cycle language of economic returns, reinvestment rates, and cost of capital, which are logically sound and pragmatic as depicted in the life-cycle framework.



## STEP 3

Once agreement is reached on where a business unit is on the life cycle, a conversation can focus on the key issue determining the future value creation of that business unit.

Strategic -life-cycle analysis - the role of the CFO" SF (Oct 2020) Frigo and Madden

## 4. Key Takeaways

1. How to develop a Strategic Life-Cycle Analysis for your company.
2. How to present of a Strategic Life-Cycle Analysis for a company for delivery to boards and executive teams.
3. How to use Strategic Life Cycle Analysis in the budgeting, resource allocation and capital budgeting process.
4. How to use Strategic Life-Cycle Analysis for: brand reinvestments, avoiding short-termism, sustainability investments and as part of a Strategic Valuation Process for valuing a company

# Resources

## Articles

“Strategic Life-Cycle Analysis: The Role of the CFO” Strategic Finance (October 2020) Mark L. Frigo and Bartley Madden

“Strategic Valuation in the New Economy” Strategic Finance (October 2021) Mark L. Frigo with Jeffrey Madden

“The Financial Value of Brand” Strategic Finance (October 2019) Mark L. Frigo and Bobby Calder (Kellogg Northwestern University)

“Achieving Purpose through Innovation” Strategic Finance (July 2021) Mark L. Frigo and David R. Koenig, CEO, DROC Institute

“Avoiding Corporate Short-Termism: The Role of the CFO” Strategic Finance (April 2021) Mark L. Frigo and Gregory V. Milano

## Books

*DRIVEN: Business Strategy, Human Actions and the Creation of Wealth.* (Strategy & Execution 2007) Mark L. Frigo and Joel Litman

*Value Creation Principles: The Pragmatic Theory of the Firm Begins with Purpose and Ends with Sustainable Capitalism* (Wiley, June 2020) Bartley J. Madden

# Questions and Answers



**Mark Frigo, Ph.D., CMA, CPA, CGMA**  
**Professor**  
DePaul University



**William Duchan, CMA, CFM, CAE**  
**Director, Credentials & New Initiatives**  
IMA

# Thank You to Our Presenter!

**Mark Frigo, Ph.D., CMA, CPA, CGMA**  
Professor  
DePaul University



The Association of  
Accountants and  
Financial Professionals  
in Business

# REIMAGINE

June 12-15, 2022 • JW Marriott, Austin, TX

[imaconference.org](https://imaconference.org)

# Final Reminders

- ▶ **Complete the Evaluation poll** – 2 options
  - On your screen
  - Evaluation Survey icon at the bottom of your console
- ▶ **Access to your CPE Certificate** – 2 options
  - Click the “CPE” icon at the bottom of your console
  - or
  - Click the link in your post-event e-mail
- ▶ Please print a copy of the CPE certificate for your records.
- ▶ Your CPE credit will be automatically recorded in your transcript.

# Thank you!



The Association of  
Accountants and  
Financial Professionals  
in Business