Innovating to Win

How Work Truck Industry Leaders Can Beat the Odds in a Rapidly Changing Market

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Introductions

Today's speakers

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- **Global management consultancy focused on growth and value creation**
- **Deep sector expertise with analytical insight to help clients make critical decisions with confidence**
- **Automotive experience spans entire value chain and segments**

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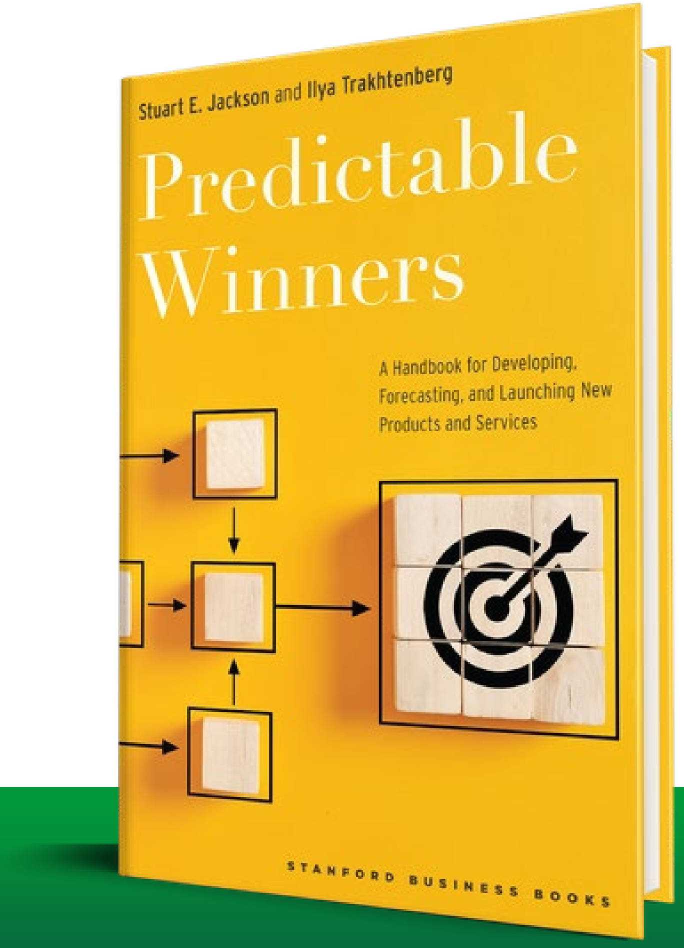
Predictable Winners is the handbook for improving the odds of innovation success



Innovation insights based on a 15-year review of >100 engagements focused on new product launches

Successful L.E.K.-advised launches have led to >$25B in combined annual revenue

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Session roadmap

1	**Context setting**	The market shifts creating urgency and opportunity in the work truck industry
2	**The *Predictable Winners* framework**	A sharper way to separate signal from noise
3	**What winners do differently**	Real examples of winning innovation at work
4	**If you remember nothing else…**	The takeaways that matter
5	**Q&A**	Pressure-test the ideas together

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Innovation-led growth among the "Magnificent Seven" has created massive value and global market influence

The Magnificent Seven

Alphabet

amazon

Meta

Microsoft

NVIDIA

TESLA

Evolution and impact

- **All founded within the past 50 years**
- **Total market capitalization of >$18T** *(larger than the Japanese, Canadian, and UK equity markets combined)*
- **Average YTD returns of >50%**
- **Significant and ongoing expansion beyond original scope**

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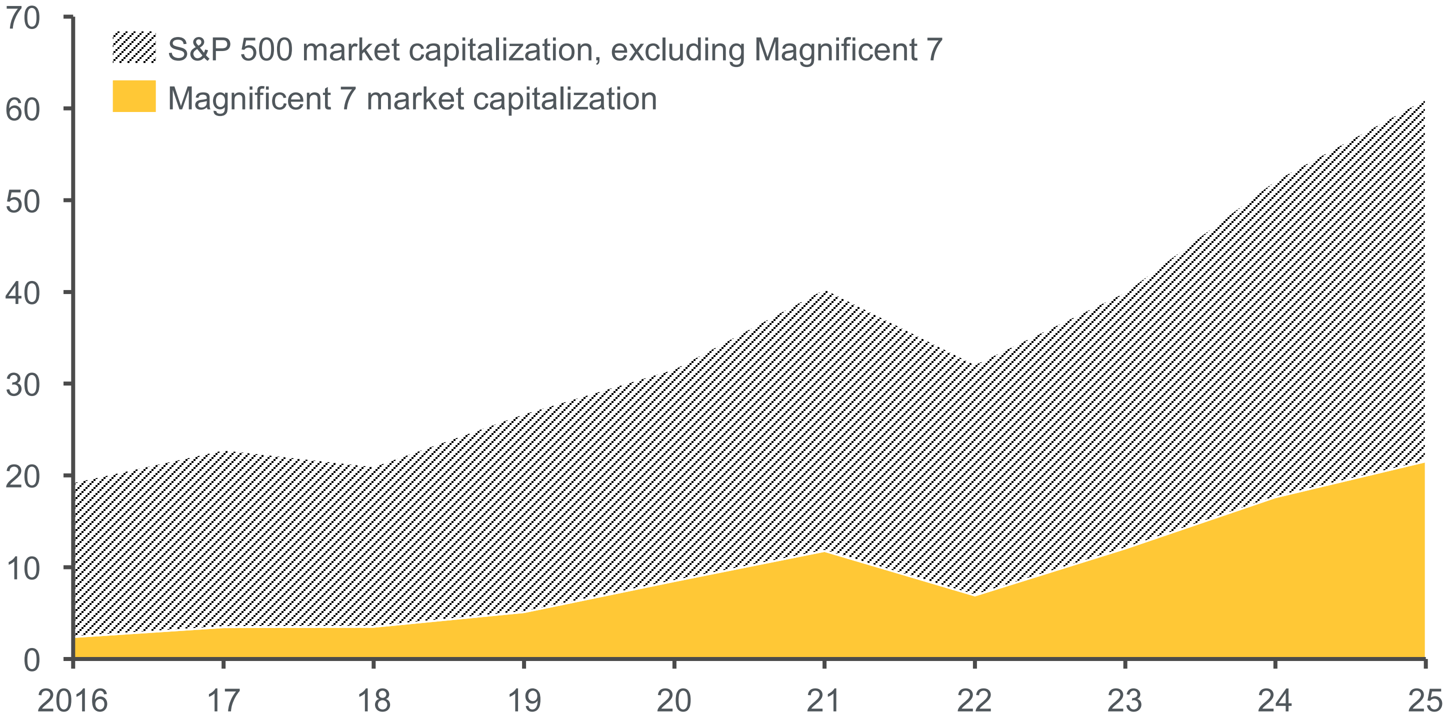
In fact, nearly half of all value creation in the S&P 500 came from the Seven over the last decade

Magnificent 7 vs. S&P 500 performance (2016-25)
Market capitalization (Trillions of USD)



Mag 7 share of S&P 500	12%	15%	17%	19%	27%	29%	22%	30%	34%	35%

	Market cap CAGR % (2015-25)
Total S&P 500	**~14**
Rest of S&P 500	~10
Magnificent 7	~28

% of S&P 500 market Cap growth attributable to the Magnificent 7 ***~46%***

Directionally similar results found when looking at publicly traded work truck companies

Source: Motley Fool; L.E.K. analysis

The work truck industry operates within a dynamic macro landscape ripe for innovative solutions

NON-EXHAUSTIVE

How do you respond to growing pressure to innovate but manage the uncertainty of what innovations will win?

Technology is accelerating
EVs, AI, software, sensors and connectivity are changing what customers expect and what can be delivered

Regulation and trade is uncertain / evolving
Emissions, sourcing, and safety requirements continue to evolve (e.g., new tariffs, ADAS integration requirement, EPA 2007 Nox rules)

Additional factors
e.g., supply chain dynamics, shifting demand, competitive intensity

Costs continue to increase
Increasing input costs, labor costs, etc.

Customer needs remain diverse
Work truck requirements vary significantly by application (e.g., delivery vehicle vs. utility maintenance vehicle)

Skilled labor scarcity + increased complexity
Customers increasingly want turnkey, more complete solutions as skilled labor becomes harder to find

Many work truck organizations have the requisite components to unlock innovation …

Enablers of innovation (not exhaustive)

Smart people to drive idea generation

Access to technology that can improve products and services

Demand growth and / or market unmet needs

Given this, why do so many businesses miss out on innovation?

… yet many structural factors hinder the pace of adoption in the work truck industry

Stiflers of innovation (not exhaustive)

- Long equipment lifecycles and high capex
- Misaligned incentives through value chain
- "Walled gardens" of technology ecosystems
- Fragmented customer base
- End market cyclicality
- Lack of digital talent

For many organizations, innovation struggles can become a doom loop

Innovation “doom loop”

Organizations with a **poor track record** lack confidence to invest sufficiently in innovation

Low investment results in **limited resourcing and further yields poor innovation outcomes**

Systematic risk reduction across the innovation journey can break the doom loop

Predictable Innovation is an approach that can help

Innovation journey

Configuring for Success

Improve odds of innovation success by systematically managing risk and taking the right leadership mindset

Developing Product Concepts
Identify high-potential innovation concepts

Forecasting Revenue
Develop a bulletproof business case

Ensuring Commercial Success
Drive market adoption with an optimized launch

Creating Long-Term Value
Build an enduring franchise

Reduce risk at each step of the journey to tilt investment to winners

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Across the innovation journey, several common challenges stand out

Developing Product Concepts	Forecasting Revenue	Ensuring Commercial Success	Creating Long-Term Value
• Wide net of ideas • Customer-centric solutions 1 **Early market signals** • Feasibility assessment • Embracing digital solutions • Overcoming organizational resistance	• Finding growth tailwinds • Targeting specific customers • Getting adoption estimates right • Anticipating competitive responses 2 **Pricing for full value** • Developing robust business plan	• Identifying and lowering adoption barriers • Optimizing channels to market 3 **Launch planning & excellence** • Preparing the organization	• Transition from single to multiproduct platform • Balancing incremental vs. breakthrough innovation • Managing long-term innovation milestones • Symbiotic internal and external innovation

Topics for deep-dive

1 Taking advantage of early market feedback is a key tool for appropriately matching investment with conviction in an opportunity

Example early market signals

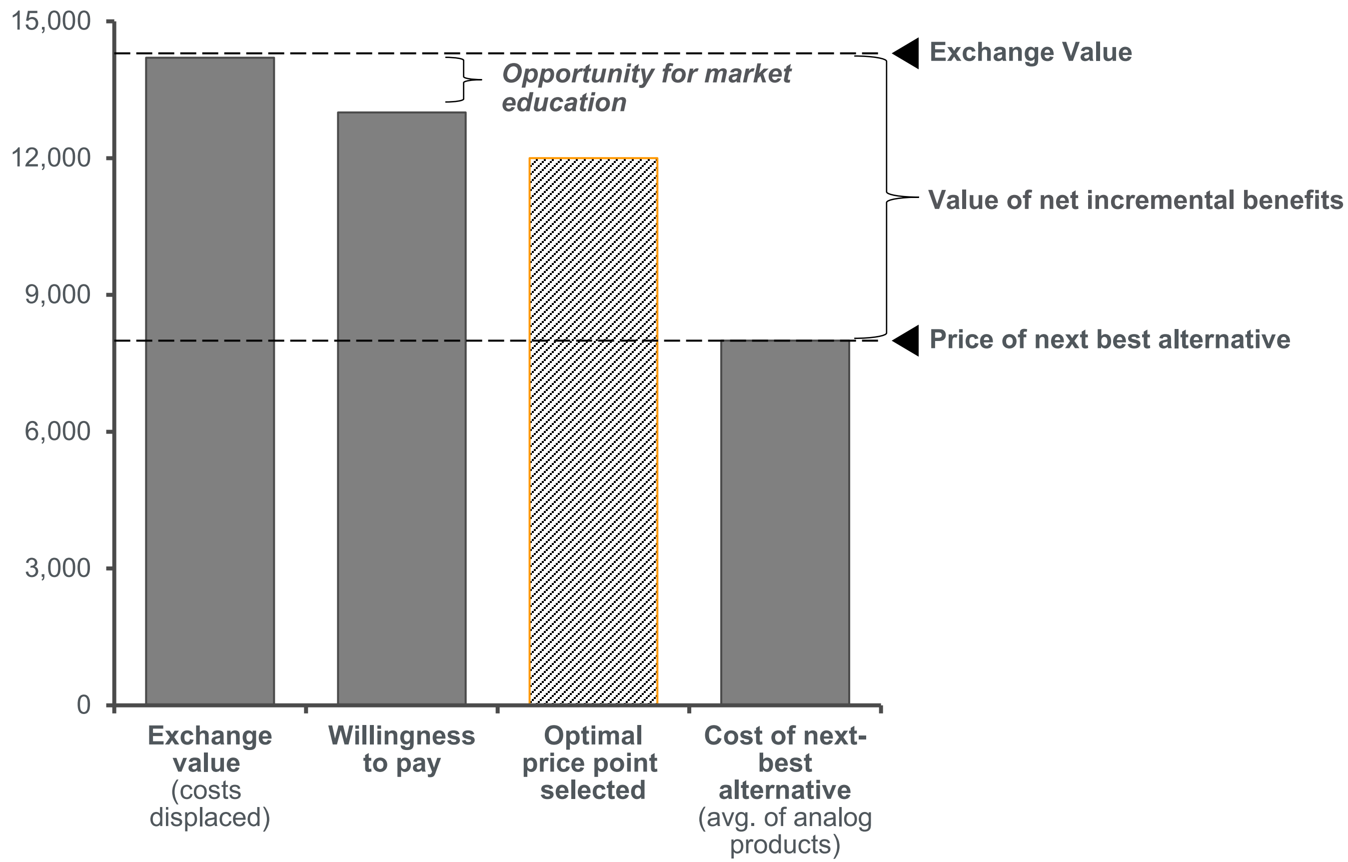
Feedback tools to inform early market signals

Low-cost and rapid prototypes	• *Create lightweight prototypes or mock-ups and place them with target users to observe behaviors and collect structured feedback*
Test market trials	• *Run limited, representative launches in select geographies, outlets, events to measure purchase and usage under real conditions*
Social media	• *Surface the customer problem (not the solution) publicly and track engagement, sign-ups, and commentary to gauge intensity of need and willingness to pay*
Analogs	• *Use close or indirect precedents as early indicators of likely acceptance (e.g., proven products/procedures in similar trade-offs), to judge whether the concept is likely to gain traction*
Deposits / waitlists	• *Secure pre-orders, refundable deposits, or opt-in waitlists to demonstrate intent and prioritize variants/SKUs; for lower-price items, use registrations as a lightweight demand proxy*

2 Pricing to capture optimal value can be complex and, ultimately, building confidence in these price points requires triangulating several key data points

Pricing for full value

Triangulated pricing zone for illustrative medical device
Dollars



- In **pricing to full value**, it is essential to adopt a **data-driven approach** so that prices reflect both the value created and what customers are willing to pay (not cost-plus guesswork)
- The essential data required includes:
  - The **price of the next-best alternative** (lower bound)
  - The **exchange value** (quantified benefits minus costs displaced), which sets the upper bound
  - **Willingness to pay (WTP)** from structured customer research
- When collecting WTP signals, it is essential to use reliable methods such as price-sensitivity testing, purchase-probability surveys, or conjoint analysis, supported by clear concept profiles
- Critically, **competitive benchmarks**, whether direct, indirect, or perceived to be a frame of reference, also need to be considered

2 Setting the right pricing model, which optimally ties price to how customers accrue value, is often at least as important as setting the right price point

Pricing model options

Pricing model	Model dimensions			Considerations
	Timing	Usage	Outcome	
Transactional	Pay now	Pay regardless of usage	Pay regardless of benefits	• Simple to understand and communicate • More difficult to align price with value (as value may not be known upfront)
Subscription	Pay over time	Pay regardless of usage	Pay regardless of benefits	• Simple to understand and communicate • Lower upfront cost • Predictable
Consumption-based	Pay over time	Pay based on how much used (optionally with thresholds)	Pay regardless of benefits	• Lower upfront cost • Cost linked to value accrual • Less predictable
Performance-based	Pay later (optionally with milestones)	Pay regardless of usage	Pay based on benefits derived	• Cost linked directly to benefits derived (particularly valuable if benefits unproven) • Requires agreement on clear and observable outcome metrics • Relatively complex to execute • May be risky for supplier

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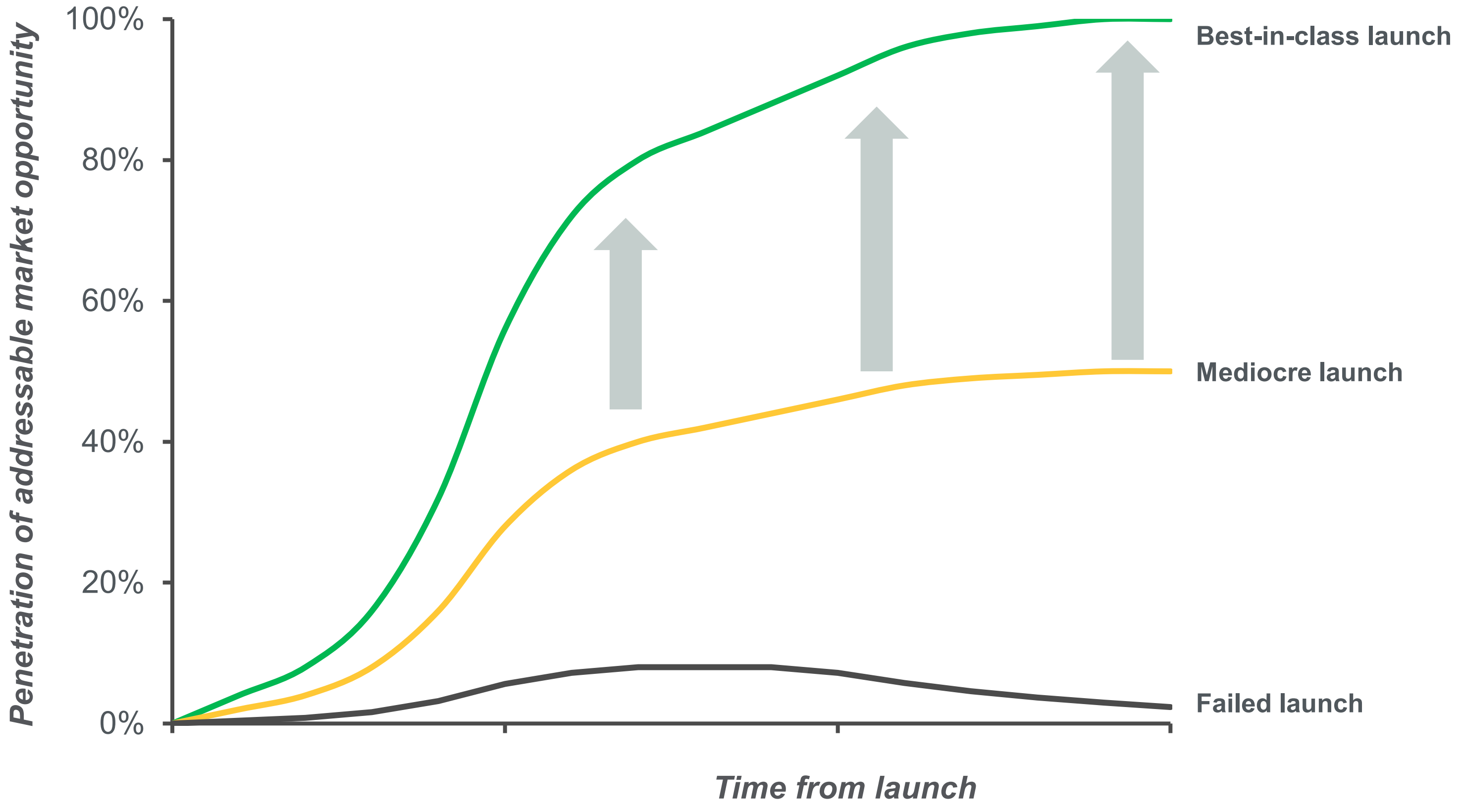
3 Launch planning is critical for best-in-class outcomes

Launch planning & excellence

Illustrative product launch curves



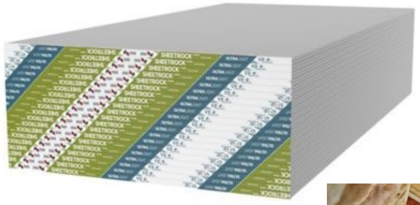
- The gap between mediocre and best-in-class launches often lies in **planning and execution**
- **A robust plan** elevates the curve, avoiding not just failure but missed potential; key topics essential in planning includes:
  - **Understand and reduce barriers to adoption proactively:** Identify how customers buy, which stakeholders matter, and the obstacles that could slow uptake; minimize post-commercial surprises
  - **Do not underestimate competitive response:** Anticipate how rivals may react (pricing, messaging, launches of their own) and prepare countermeasures in advance via wargaming
  - **Tailor organizational preparedness for launch**: Ensure the organizational structure, incentives, and processes are prepared for the requirements of the launch at hand (e.g., dedicated resources, right KPIs, alignment of incentives, etc.)

Case study: USG (1 of 2)

Sheetrock® UltraLight Panels

30% lighter

20% stronger



Overview

Business description	US Gypsum (USG) is the leading manufacturer of gypsum wallboard in North America, selling under the Sheetrock® brand into residential and commercial construction
Situation overview	In 2010, USG developed a lightweight, higher-strength wallboard, while bringing this premium product to market in a commodity category depressed by a supply glut
Results	USG won a durable premium in a commoditized category, retained the share gain even after competitors followed, and the won industry accolades for innovation

Source: *Predictable Winners*; USG SEC filings; L.E.K. research and analysis

Case study: USG (2 of 2)

Common challenges	*USG's solution*
Early market signals	*USG's innovation center understood customer journeys intimately enough to identify tangible, meaningful unmet needs for which customers were willing to pay a premium*
Targeting the right customers	*USG segmented & targeted customers (e.g., wallboard subcontractors vs. GCs vs. DIYs vs. remodelers) based on resonance of the value prop and thereby W2P*
Pricing for full value	*Despite a supply glut depressing category prices, USG secured a premium at launch by selecting channels to target highest W2P segments & manage cannibalization*

Case study: Collins Aerospace (1 of 2)

Connected Aviation Solutions (CAS)

Overview

Business description	Collins Aerospace, part of Raytheon, is a leading global supplier of avionics, connectivity and aerospace systems serving commercial, business, military & space customers
Situation overview	Building on a history of digital innovation, including the Pro Line 21 integrated avionics system, Collins looked beyond individual products to identify opportunities to improve outcomes across the broader aviation ecosystem
Results	Pro Line 21 became the near-universal standard for flight displays; Collins brought previously dispersed digital capabilities together, creating a dedicated business to accelerate development of connected, data-driven solutions

Source: *Predictable Winners*; L.E.K. research and analysis

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Case study: Collins Aerospace (2 of 2)

Common challenges	*Collins Aerospace's solution*
Overcoming organizational resistance	*CAS operated with its own P&L, operating model, engineering skillsets, sales force and service & support approach, allowing the new business to focus and move fast*
Embracing digital solutions	*Combining connectivity, data, analytics and aviation systems expertise to enabled CAS to develop broader ecosystem solutions across airlines, airports and passengers*
Balancing incremental vs. breakthrough innovation	*Collins built on its Pro Line 21 breakthrough innovation (vs. analog instruments) via incremental improvements, but continued to invest in enabling breakthrough innovation with an expanded ecosystem purview (e.g., traffic control, FlightAware)*

A few questions to help you assess where your innovation efforts stand today – and where the highest impact opportunities might be

- **How much of your innovation portfolio is incremental versus breakthrough?** Does your organization have the confidence to invest in breakthrough innovation?

- **Are you managing a portfolio of innovation bets – or a collection of standalone projects?** Is each initiative evaluated on its own P&L, or as part of a broader portfolio view?

- **How do innovation teams access capital – and keep it?** Is there a disciplined process for re-evaluating investments and reallocating capital?

- **How is feedback from the market incorporated into your innovation process?** Are pricing, channel, and adoption signals feeding decisions in real time – or only after launch?

Q&A

To learn more, visit PredictableWinners.com or feel free to reach out with additional questions / inquiries directly

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