

# Rita McGrath, Renowned Management Expert, on Unlocking Investor Confidence: Power of Imagination Premium (TIP) Metric

*Facing uncertainty, companies often prioritize short-term results & meeting numerical targets. What investors truly desire is evidence of imaginative thinking.*

LOS ANGELES, CA, UNITED STATES, June 27, 2023

[/EINPresswire.com/](https://EINPresswire.com/) -- During times of uncertainty in the business cycle, companies tend to retreat to familiar and safe areas of their operations. However, this approach fails to impress investors. The "Imagination Premium" (TIP) metric can demonstrate this phenomenon and serve as a countermeasure to the backward-looking performance measures commonly used in assessing corporate performance.

The TIP metric calculates the perceived value of growth divided by the value of company operations. A high TIP indicates investor confidence in management's ability to generate organic growth through innovation, resulting in increased market capitalization. Conversely, a low or negative TIP implies a bleak outlook for the company, often leading to activist investor intervention, calls for company breakup, and demands for a change in leadership.

For example, in 2017, when GE's then-CEO Jeff Immelt announced his early departure, the company's low TIP of 0.49 predicted its underperformance, ultimately leading to Immelt's departure and the subsequent breakup of GE into three separate companies in 2021.

The key takeaway is that reputation, PR, and CEO buzz cannot conceal a lackluster future. To achieve a high TIP, investors must genuinely believe in the company's exciting trajectory and potential for significant achievements.

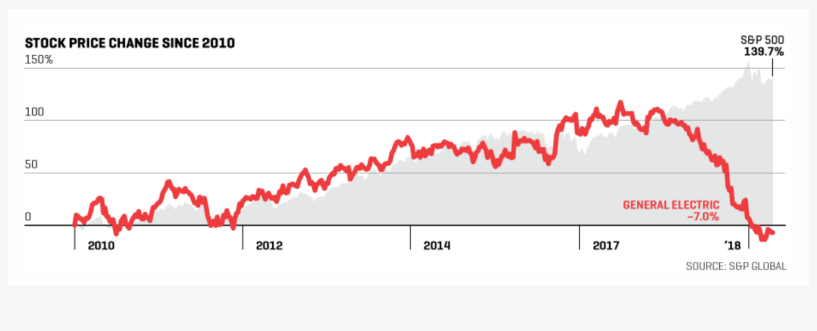


McGrath Instagram

The applicability of TIP extends even to challenging economic environments. Comparing Tesla and BMW provides an illustrative example. Tesla, as a tech upstart, integrates all-electric and software-enabled features into its vehicles, allowing it to navigate chip shortages more flexibly than traditional automakers heavily reliant on external suppliers. In 2022, Tesla surpassed BMW in luxury car sales, demonstrating the appeal of its vision.



On the other hand, BMW struggles to reshape its image as a technology innovator, with designs that have received mixed reviews. Additionally, BMW faced backlash when it disabled heated seats unless customers paid a separate subscription, further undermining customer satisfaction.



Despite BMW's larger market presence and revenue, Tesla's high TIP is reflected in its significantly higher market capitalization, outperforming BMW in terms of investor excitement. Tesla reported record profits and revenues in 2022, while BMW's performance was deemed merely "solid."

Investors are unimpressed by BMW's performance in disruptive markets and exhibit reluctance to pay for the value of its operating cash flow, which exceeds that of Tesla. To address this, BMW recently announced a major stock buyback, potentially linked to a lack of innovation and potential value destruction.

To improve BMW's situation, an emphasis on innovation, potential acquisitions in high TIP areas, and a more compelling narrative beyond seeking controversy would be advisable.

Tesla's exceptional TIP growth from 1.45 in 2019 to 6.17 in 2022 is noteworthy. However, it's important to note that Tesla's TIP increase did not surpass the growth of its operating cash flow during the same period. This suggests a shift in investors' perception of Tesla from a groundbreaking innovator to a more traditional automaker. While not necessarily negative, this alignment with established companies means that any missteps or failures to realize the vision could lead to a significant decline in TIP, as seen in the past.

In conclusion, companies with low TIP scores are perceived as unexciting investments compared to their higher TIP counterparts. Such companies often face vulnerability to activism, calls for management changes, analyst criticism, and even hostile takeovers. Conversely, companies with high TIP scores are seen as growth engines, gaining investor approval and management satisfaction. However, it is crucial for these companies to deliver on their promises; otherwise, their high TIP scores can quickly dissipate.

Amanda Kent  
Boundless Media USA  
+1 951-870-0099  
[email us here](#)

---

This press release can be viewed online at: <https://www.einpresswire.com/article/641003431>

EIN Presswire's priority is source transparency. We do not allow opaque clients, and our editors try to be careful about weeding out false and misleading content. As a user, if you see something we have missed, please do bring it to our attention. Your help is welcome. EIN Presswire, Everyone's Internet News Presswire™, tries to define some of the boundaries that are reasonable in today's world. Please see our Editorial Guidelines for more information.

© 1995-2023 Newsmatics Inc. All Right Reserved.