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MarketBusting

Strategies for Exceptional Business Growth

by Rita Gunther McGrath and Ian C. MacMillan

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MarketBusting

Strategies for Exceptional Business Growth

The Idea in Brief

You can't outperform rivals if you compete the same way they do. To be king of the jungle, not copycat, you must spur substantial new growth—quickly, profitably, and safely.

How? With deceptively simple moves. **Redefine your unit of business**—what you bill customers for—to reflect what customers value. Then **boost your performance on key metrics**. Mexican cement company Cemex shifted its unit of business from cubic yards of cement to delivery window: the right amount of concrete delivered when needed. Then it reoriented its information systems, logistics, and delivery infrastructure to improve truck utilization—a key metric for delivery businesses. For instance, it developed digital systems enabling real-time adjustments to trucks' destinations.

Also **improve customers' performance**. UPS handles shipping and repair for laptop makers—freeing these customers from employing expensive maintenance staff, and getting laptops back in owners' hands quickly. The service enhances notebook makers' productivity and lowers their costs. *And* it delights PC owners.

Market-busting moves catch rivals off guard, leaving them scrambling to catch up. The payoff? Dramatic, sustained growth—even in mature or commoditized businesses. Once-regional Cemex, for example, generated $7.17 billion in revenues in 2003 and is now the world's third-largest ready-mix concrete business.

The Idea in Practice

Redefining your unit of business, boosting performance on key metrics, and improving customers' performance are just three market-busting strategies. Consider these additional moves:

Work faster. You'll need less working capital and use assets more effectively.

▶ Example:
American Home Mortgage Holdings is one of the most rapid service providers in the mortgage lending industry. By integrating its systems with large refinancers such as Fannie Mae and Freddie Mac, it can make deals and move cash in record time. By originating and selling mortgage loans through its Web site, it gives customers 24-hour access to interest rates and product terms and enables them to lock in interest rates, obtain credit reports, and prescreen their own qualifications. Result? More refinancing deals sealed more quickly.

Reduce your assets. You'll improve performance on key metrics related to asset utilization—such as economic value added (EVA) and return on assets (ROA).

▶ Example:
Quanta Computer serves many notebook-producing customers as a contract manufacturer and design partner. It thus uses its assets invested in manufacturing more effectively than any one company could do in-house. Quanta's 2002 sales exceeded $4 billion—a stunning figure for a relatively recent start-up.

Improve consumers' personal productivity. When you make something complex more convenient for consumers, they reciprocate by buying more or paying you more.

▶ Example:
Mortgage broker LendingTree makes the process less onerous for consumers. Through Web-based technology, it links consumers to networks of mortgage providers—giving consumers more choices and improving offers' competitiveness. Participating lenders—not consumers—pay transaction fees to LendingTree. During 2001–2002, the company's sales skyrocketed 74%.

Improve your customers' cash flow. You'll make them more profitable and efficient, and they'll do more business with you.

▶ Example:
Software giant SAS, by adjusting its decision-support applications in response to customers' needs for improved operations, helps customers make better decisions faster. And with low employee turnover rates, its employees develop long-term relationships with customers, discovering how to best help them. Results? A 98% customer-retention rate and projected growth of more than 20% in 2005.

Reduce your customers' assets. They'll be more loyal to your firm and boost your profitability.

▶ Example:
GE's locomotive division decided to change its unit of business and sell haulage contracts, not locomotives, to railroads. This enabled railroad customers to take locomotives off their balance sheets—streamlining their assets and delighting their CFOs.

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A company can't outperform its rivals if it competes the same way they do. Reconceive your business's profit drivers, and you can change from copycat to king of the jungle.

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If company leaders were granted a single wish, their most frequent request would surely be for a reliable way to create new growth businesses. Business practitioners' overwhelming interest in this subject, which we as academics share, prompted us to undertake a major study of successful growth moves initiated by established companies in several industries. We looked at a wide range of strategic approaches to growth—everything from low-risk, incremental changes to high-risk, disruptive ones. In the course of our three-year study, we became intrigued by an approach that lay somewhere between those two extremes. At a high level, this strategy is about redefining profit drivers. At a practical level, it involves making several deceptively simple moves: Some companies reconfigured their unit of business—what they bill customers for—to more closely match the customers' needs. Some companies focused on different key metrics than their competitors did, and, in doing so, created a better business design. Still other companies helped customers change their own unit of business or key metrics. Once we started to look at new growth through this lens, we found success stories in industries that had been written off as hopelessly commoditized or strategically unattractive. In a few cases, the companies we studied succeeded so well at redefining their profit drivers that they had transformed their industries.

Building a Better Model

It's hard to imagine two businesses more mature than ready-mix concrete and reinsurance. Both industries have been around for more than 100 years, and competition in both has devolved: The companies offer standardized products and play by well-established rules. Yet in both industries, we identified companies that were enjoying sustained and impressive growth because they had redefined their profit drivers or changed their unit of business and key metrics.

Let's start with concrete. The problem with ready-mix concrete is that it's highly perishable; it begins to set when a truck is loaded,

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and the producer has only limited time to get it to its destination. In Mexico—as in many other rapidly urbanizing countries—traffic, weather, and unpredictable construction labor make it incredibly hard to plan deliveries accurately. So a construction contractor might have concrete ready for delivery when the site isn't ready or, worse, expensive work crews at a standstill because the concrete hasn't arrived.

Lorenzo Zambrano, who became CEO of the Mexican company Cemex in 1985, decided that there had to be a better way to run this business. Cemex, like all traditional cement companies, sold concrete by the cubic yard. But Zambrano's customers didn't particularly value cubic yards of concrete. They rightly considered concrete a commodity product. What they did value (and what Zambrano had the good sense to start selling) were deliveries—in other words, the right amount of concrete delivered just when it was needed. To figure out how to accomplish this goal, Cemex staffers studied how FedEx, pizza delivery companies, and ambulance squads worked. Eventually, they developed digital systems that allowed Cemex to adjust, in real time, where trucks were bound. They learned to optimize delivery patterns across a whole region; customers who unexpectedly needed concrete could be served, often by shipments that had unexpectedly been postponed by other customers.

Cemex can now deliver concrete within hours—sometimes even minutes. It can accept unlimited change orders. It can help customers anticipate demand and cash-flow requirements. Cemex, once a regional company operating in Mexico, is now the third-largest ready-mix concrete business in the world, with plans to capture the number two spot. In 2003, it generated $7.17 billion in revenues from about 30 countries, primarily because of its aggressive acquisition and transformation of firms in emerging economies.

Now let's consider the world of reinsurance providers. They sell backup policies to insurance companies so the latter can then cover customers they might otherwise have needed to decline. Many of the reinsurance companies' customers share a problem. Some types of primary insurance—life insurance, for example—can remain active for decades. And even after they stop selling a particular product, insurance companies need to support existing policies. As a result, they're often forced to maintain out-of-date legacy computer systems as well as control and accounting procedures. This maintenance responsibility ties up capital and hampers competitive effectiveness.

Swiss Reinsurance Company (Swiss Re) recognized an opportunity to help insurance companies solve this problem. The solution was in a product called "administrative reinsurance," or Admin Re. With this offering, Swiss Re changed its unit of business. It now handles the administration of the life insurance and health insurance policies no longer sold by its clients. Swiss Re administers the policies using proprietary business processes, sometimes with help from administrative partners.

This new service has freed up capital and human resources for Swiss Re's clients, while also allowing them to eliminate legacy computer systems. These benefits show up in the insurers' key metrics—the numbers that analysts use to judge the insurers' performance. The benefits flow back, in turn, to Swiss Re. In the seven years since it started to offer Admin Re, the company has taken on 4.5 million policies, making this service one of its fastest-growing business lines.

The Language of Growth

Before we get into the *how* of reexamining your unit of business and the associated key metrics—or those of your customers—let's make sure we're clear on *what* we're talking about. As industries emerge and evolve, most players eventually settle on a common unit of offering. Lawyers sell units of time (billable hours), consumer-goods producers sell bars of soap and boxes of cereal, airlines sell passenger trips, and so on. These are all units of business—the fundamental basis for transactions between buyers and sellers.

Associated with each is a set of measures—we call them key metrics—that can be used to assess how well a firm is doing with respect to its profitability drivers. Thus, key metrics for law firms involve the percentage of total billable hours actually billed, average hourly charges per employee, and administrative costs per unit of revenue. Key metrics for consumer-goods producers include asset and inventory turnover, working capital ratios, average margins, and product utilization. Key metrics for airlines include costs per passenger mile flown and seat yield. You get the idea.

It's often possible to grow a business by

Rita Gunther McGrath (rdm20@columbia.edu) is an associate professor of management at Columbia University's Graduate School of Business in New York. **Ian C. MacMillan** (macmilli@wharton.upenn.edu) is the Fred R. Sullivan Professor of Entrepreneurial Management at the University of Pennsylvania's Wharton School in Philadelphia. They are the coauthors of *MarketBusters: 40 Strategic Moves That Drive Exceptional Business Growth,* forthcoming from Harvard Business School Press.

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doing one of two things for your company (or for your customers):

Change your unit of business so it more closely reflects the value created for customers. You will probably also want to change how you measure the effectiveness of your performance.

Dramatically change your performance on existing key metrics in a way that uniquely favors your company.

To go back to our examples, Cemex's strategy was so powerful because the company changed its focus from the sale of a commodity to the sale of something customers really cared about. In short, the unit of business shifted from cubic yards to the delivery window. This was a simple change in one sense. But Cemex then oriented its information, logistics, and delivery infrastructure around the delivery-window concept, creating far-reaching changes in the company and eventually throughout the industry. Swiss Re also added a new unit of

MarketBusting Strategies

When we did research on organizational growth, we wanted to understand a range of strategies that would support organic, profitable growth. We decided to call these strategies MarketBusters. In order to qualify as an exemplar of MarketBusting, a business needed:

- a 2% change in market share within a year;
- 10% or more annual growth in sales or shipments over at least two years;
- or annual sales or shipment growth 5% greater than the growth in the overall market.

We identified five MarketBusting strategies. This article looks in-depth at one of them—redefining profit drivers by reconfiguring a unit of business or refocusing on distinctive **key metrics** that drive growth. All five strategies are described briefly below.

Lens	Strategy	Description	Example
Customers	Transform the customer's experience.	Dramatically change how customers meet their needs.	Coinstar ($176 million in revenues) converts loose change for customers—conveniently. It has placed about 10,000 change-conversion machines in easy-to-find locations, such as supermarkets.
Products and services	Transform your offerings.	Compare your product and service attributes with those of your competitors. Sort attributes into three categories: basic, discriminating, and energizing. Figure out how changes would give you leverage over rivals.	Procter & Gamble's battery-powered SpinBrush offers consumers the experience of using an electric toothbrush—for the price of a high-end manual brush.
Key metrics	**Redefine your business's profit drivers.**	**Identify the fundamental thing you charge customers for—your unit of business—and the key metrics used to measure how profitably you're selling it. Change one or both to better meet customers' needs.**	**Air Products installs industrial gas generators on customers' sites rather than shipping liquefied gas in tankers.**
Industry dynamics	Anticipate and exploit industry changes.	If a major industrywide shift is in the works, you can: provoke disruptive change; capitalize by being first to implement change or by seeing its implications more clearly than competitors can; or exploit second-order effects.	As Internet usage took off, Sealed Air Corporation anticipated demand for new packaging solutions. The company captured substantial advantages by being quick to respond.
Tectonic opportunities	Create a radically new offering.	These opportunities are major shifts, not just product or market extensions. And they're notoriously difficult to identify if you're an established company. Watch what entrepreneurs in your space are doing in regard to creating new products and services, and see if you can leapfrog or acquire them or their technologies.	Subway noted consumers' competing desires for low-calorie meals and fast-food convenience. In response, it has created the "healthy fast food" concept, helping to drive its 2003 revenues to $468 million.

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Easily imitated banking products weren't copied for 12 to 18 months—even though their threat was visible to all the industry players.

business to the traditional product portfolio of the reinsurance industry—creating services to free up clients' capital and resources. (For an overview of all the approaches to growth we observed in our research, see the sidebar "MarketBusting Strategies.")

A Profitable Alignment

Changing your unit of business, or radically changing your key metrics, can be a powerful engine for growth, particularly for early movers. If you can figure out quickly how to help improve a customer's core performance—as both Cemex and Swiss Re did—the constraints that tied you down in the past can melt away. You can begin to price your products based on their value to your customers, not according to low-margin commodity pricing. You can be more proactive; your business and your incentives will be aligned with what your customers care about. In the best case, you can create new shareholder value for your company because you are expanding the pool of problems that your company can address.

From a competitive point of view, a change in the unit of business can be difficult for rivals to respond to because it often comes as a surprise. Consider the medical-imaging-equipment industry. Let's say a maker of imaging equipment figures out that customers, such as hospitals, don't really care about the machines themselves; customers care more about the creation and interpretation of the images the equipment produces. Now consider the advantage the equipment maker can gain if it can figure out how to move from selling machines to selling imaging and interpretation services. If the company can execute this move effectively, customers will pay for what they value—the image and what it means to them. The equipment maker can also improve customers' key metrics by eliminating the costs associated with owning and maintaining the machines. The company can implement value-based pricing, not commodity pricing, and the customer will realize improved performance. Competitors still operating under the old model won't even *see* the threat—how can they when their competitive analysis is likely to involve only equipment sales? The new business doesn't even register with them.

Even if competitors do figure out what you're up to, it takes them time to respond. Everything about an established business—its power structure, incentive system, sales force, and so on—is built around the old unit of business. Change the unit and the company capabilities that go with it, and you can create a barrier to entry that lasts for a long while, though not indefinitely. In one study, we found that even easily imitated banking products were not actually copied for 12 to 18 months, even though their competitive threat was clearly visible to all the players in the industry.

Eight Moves for Growth

We've identified eight moves companies can make to redefine their profit drivers and realize low-risk growth.

Change your unit of business. We've already seen how rethinking the unit of business helped Cemex spark an upheaval in the global ready-mix concrete industry. Similar thinking is taking place in a host of other industries. More often than not, companies are moving away from selling a pure product and toward selling a product–service mix or even a pure service.

Privately held Madden Communications, once a conventional printing house, used to make its money by printing promotional materials for companies. In 1988, then-salesman Jim Donahugh visited a target supermarket to see his company's materials on display. Madden's displays were nowhere to be seen, nor could Donahugh find them at several other supermarkets he subsequently visited. Eventually, Donahugh and his bosses discovered that this was not at all unusual. Operating on thin margins, the supermarkets often didn't or couldn't take the time to display promotional materials properly. Donahugh also found that Madden's customers, primarily packaged-goods companies, often over-ordered promotional materials as a hedge against running short. Money was being wasted on printed materials that were displayed badly or not at all.

Today, Madden's customers no longer buy individual print jobs. Instead, they hire the company to print promotional materials *and* manage the distribution and installation of those materials on-site. Madden now focuses on a few large customers who are happy to pay more for the enhanced service. Conventional printing companies have found it difficult to respond to Madden's move, because the new business depended on new capabilities, including the capacity to connect with customers at a

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Improving cash-flow velocity is akin to a Monopoly player passing "Go" more frequently—thereby collecting his or her $200 more often.

senior level. Madden's revenues grew from $10 million in 1990 to $133 million in 2004, in an industry that many had come to regard as hopelessly mature.

Retain your unit of business, but radically improve your key metrics, particularly productivity. You don't always need to do something as radical as overturn the way your industry does business. Sometimes you can create dramatic growth by doing what you do right now—but much more productively. Digitization has helped many companies do this.

Lamons Gasket Company is a good example. An $80 million subsidiary of MetalDyne, Lamons manufactures and distributes static sealing solutions for the petrochemical, refining, nuclear, OEM, and pulp and paper industries. It sells more than 100,000 standard and special-order products, including gaskets, packings, nuts, bolts, and screws. Until recently, simply figuring out what customers wanted to buy and getting the right items to them was a horribly inefficient process at Lamons. Customers would phone or fax in an order, and a customer service representative would have to translate the information into Lamons's part numbers and format. The average order cost less than $500 but took 30 to 60 minutes to get into the system. This level of inefficiency was devastating to Lamons's profits and costly to customers as well, since they were spending the same 30 to 60 minutes to get the order right.

Then Lamons built an e-commerce Web site, and customers' ability to find, order, and pay for goods improved radically. The company's productivity improvements added to its bottom line considerably. Customers were so pleased by their own productivity gains that they drove up Lamons's market share. Customer retention rates also went up—which is particularly vital to a business whose strategy depends on serving large numbers of small repeat customers.

Improve your cash-flow velocity. In some industries, companies can create powerful growth engines by figuring out how to work faster—much faster. Improving cash-flow velocity is akin to a Monopoly player passing "Go" more frequently—thereby collecting his or her $200 more often. The higher your cash-flow velocity, the less working capital you need, and the more effectively you can use your assets. If you can also improve customers' cash-flow velocity, so much the better.

In recent years, it has become extremely popular for U.S. home owners to refinance their mortgages as interest rates have dropped and real estate values have risen. American Home Mortgage Holdings (AHMH) figured out a way to take advantage of this boom. It focused intensely on speeding up the refinancing process, building systems that made it one of the most rapid service providers in the industry. The company works closely with large refinancing companies, such as Fannie Mae and the government-owned Freddie Mac. Because AHMH's systems interact with those of the other providers, it can guarantee credit compliance, place deals, and move cash quickly. The more deals it closes in shorter time, the higher its cash-flow velocity. AHMH works fast by using automated systems and by doing a lot of its customer-related business electronically. It originates and sells mortgage loans through its Web site, which gives customers 24-hour access to product terms and interest rates. Customers can lock in interest rates, check the status of pending applications, obtain credit reports, calculate financing affordability, and prescreen their own qualifications.

AHMH didn't reinvent the financing business. It simply recognized an opportunity and aggressively focused on one way to benefit from it. As a result, the company is forecasted to grow at 28% a year and is expected to continue to produce above-average operational results.

Dramatically improve your asset utilization. For a lot of companies, the most important key metric is return on assets. The idea is that you should be adding economic value (often expressed in terms of EVA) or, at a minimum, providing a return on the funds tied up in capital (often expressed in terms of ROA). If you can reduce the assets tied up in your operations, your key metrics around asset utilization will improve. Do this for yourself, and you'll make shareholders happy. Do this for your customers, and they'll be happy; they'll reward you, and ultimately your shareholders will reap the benefits.

Consider the two ways in which Quanta Computer (a Taiwanese company founded in 1988 by entrepreneur Barry Lam) reduced asset intensity both for itself and its customers. First, it serves many notebook-producing customers (Apple, Dell, Gateway, Fujitsu Sie-

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mens) as a contract manufacturer and design partner, which means it spreads its assets invested in manufacturing more effectively than any one company could do in-house. Second, Quanta helps its customers reduce their asset intensity because they're using Quanta to manufacture some, preferably all, of the components they need. In this way, Quanta has effectively played a two-way game of reducing asset intensity. Its sales in 2002 exceeded $4 billion.

Improve your customers' performance. As we showed in the Swiss Re example, another powerful application of key-metrics analysis is to focus on your customers. Helping your customers improve their performance generates a more robust, profitable, loyal base of clients who are more willing and able to buy from you. To the extent that your system is critical to or embedded in the way customers do business, you can also achieve a certain amount of competitive sustainability.

For instance, package-delivery firm UPS has begun to branch out from its core business into an array of services designed to help customers improve their key metrics. Under the rubric "synchronizing commerce," UPS performs a variety of services that go well beyond picking up and delivering packages. Last spring, certified UPS technicians started doing repair work on Toshiba laptops. (Most of them have eight to ten years experience repairing notebooks, Toshiba officials have said.) As Mark Simons, a general manager of Toshiba's digital products division, told one trade publication: "Moving a unit around and getting replacement parts consumes most of the time…The actual service only takes about an hour." By taking over both the shipping and the repair aspects of PC servicing, UPS eliminates steps in the process, removes the need for PC makers to employ a maintenance staff, integrates the repair and shipping activity, and, most important, reduces the time that a broken PC is not in the hands of its owner.

Not only does the process outsource a tedious chore for the notebook makers (thus improving their productivity, asset utilization, and so on), it also increases end-user customer satisfaction, thereby creating value for all three parties.

Improve your customers' personal productivity. What asset productivity is to a commercial customer, convenience and time-savings are to a consumer. Whenever a company sees a way to make a complex process more convenient, it may be able to grow the business. Most people can readily recite the things that even well-intentioned companies do that drive them crazy. Banks and insurance companies force you to get information from third parties before they will do business with you; service desks run you through the "press 1, press 2" voice-mail gauntlet; retail establishments subject you to the same checkout delays whether you are buying a truck full of stuff or just a single item; and so on. Solve the irritations, and customers will gratefully reciprocate by increasing your sales volumes or paying you more.

Just as AHMH figured out how to accelerate refinancing, mortgage broker LendingTree figured out how to make the process less onerous for consumers. In contrast to the AHMH model, in which the company itself is a mortgage broker, LendingTree uses Web-based technology to link networks of mortgage providers in order to give consumers more choices and improve the competitiveness of offers. It sends requests to its network of lenders, who return bids. Consumers can also use the service to choose from a list of mortgages, credit cards, and home-equity, auto, and personal loans. LendingTree's model empowers borrowers by making lenders apply to them, rather than making the borrowers apply to the lenders.

Participating lenders pay transaction fees to LendingTree. Consumers do not pay a service fee. From 1998 through 2001, LendingTree processed more than five million credit requests and generated $10 billion in transaction volume. In 2003, it was acquired by InterActive Corporation—an acquisition inspired no doubt by LendingTree's 74% sales increase from 2001 to 2002.

Help improve your customers' cash flow. As we've seen, if you can help your customers become more profitable and efficient, it only makes sense for them to do more business with you. The software company SAS Institute grew rapidly because it was able to help customers make better decisions faster, ultimately improving their cash-flow velocity. SAS adjusted many of its decision-support applications in response to customers' needs for improved operations, and that responsiveness has turned it into a strategic partner for many of its customers.

SAS has one of the lowest employee turn-

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Prospecting Questions

The following queries can help you determine how best to change your unit of business or key metrics in the pursuit of sustainable, low-risk growth.

Change your unit of business.

- Can you charge for what you offer in a different way?
- Can you incur costs and make payments in a different way?
- Can you charge customers for what they might value rather than for what you traditionally provide?
- Can you create better incentives for your people by changing the unit of business?
- Would some other way of charging for what you sell be easier for you or easier to explain to your customers?

Improve your productivity metrics.

- Can you use the five REs (remove, replace, reduce, redesign, redistribute) to dramatically enhance your productivity?
- Can you dramatically enhance your productivity by deploying new technology?
- Can you leapfrog your competition in productivity? Look especially for situations in which the competition's resources are already committed to something else, such as integrating a large merger.
- Can you eliminate time-wasting, repetitive activities to enhance your productivity? Can you figure out how to eliminate transaction costs (such as internal reviews and approvals) by automating some of your internal control practices?

Improve your cash-flow velocity.

- Could you eliminate or reduce inventory?
- Might you delay payments to others?
- Can you speed up receipts from your customers?
- Can you generate cash before you have to incur costs?
- Can you speed up your customers' ordering cycles?
- Can you get paid more frequently over the lifetime of a contract?
- Can you automate the payment stream so that manual delays don't hold up cash coming in?
- Can you make sure that your invoicing mechanisms are easy for your customers to respond to, so you don't create additional payment delays?
- Could you offer customers electronic-payment options to speed them up?
- Have you explored technologies such as direct deposit or lockboxes to speed payments?

Improve your asset utilization.

- Can you reduce the asset intensity of your business by outsourcing some activities to specialists?
- Can you eliminate the need to own certain assets?
- Can you utilize assets owned by someone else, as needed?
- Can you use assets more effectively—for instance, by extending the time of day in which they are used or by using remote electronics to operate them?
- Can you pool your assets with those of other firms and reduce the asset intensity for the whole group?
- Can you change fixed assets to variable assets by, for instance, establishing utilization contracts with suppliers for certain services?

Improve your customers' key metrics.

- What numbers are your customers seeking to achieve? (Be explicit.)
- What outcomes are your customers measuring?
- What are your customers' key ratios?
- Can you think of ways to help customers improve their financial, operating, and investment ratios?
- Can you help your customers hit their desired market-share, cash-flow, EBITDA, revenue-growth, and profit numbers?
- Can you help your customers better understand what really drives success in their businesses?

Improve your customers' personal productivity.

- Can you find ways to help customers' staffers improve their productivity on the job…
- …and in their private lives?

Help improve your customers' cash flow.

- Can you help customers get cash earlier and pay out cash later?
- Can you help customers get better margins from *their* customers?

Improve your customers' asset utilization.

- Can you reduce customers' assets?
- Can you help customers use assets more productively?
- Can you help customers reduce their fixed-asset burden by taking on their assets and charging them for usage?

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over rates in its industry, so long-standing employees really know, and know how to help, their customers. The company boasts a 98% customer retention rate, and SAS has enjoyed a long track record of solid profits. It has a balance sheet free of debt and a projected annual growth rate of more than 20%.

Reduce your customers' asset intensity. We often say to businesspeople, "You should know your customers' balance sheets better than they do." If you can find ways to reduce or improve customers' utilization of their assets, you may profit from their increased loyalty to your firm. For instance, GE's locomotive division decided to change its unit of business and sell haulage contracts, not locomotives, to railroads. This allowed the railroads that signed up for contracts to take their locomotives off their balance sheets—much to the delight of their CFOs.

Putting These Ideas to Good Use

As we said at the outset, redefining your company by changing your unit of business or your key metrics can be among the lowest-risk routes to growth. Why? Because you already have a lot of the necessary information—you don't need to invent whole new markets, and you have interactions with customers that can give you the data you need. The sidebar "Prospecting Questions" provides detailed questions to think about for each of the eight moves described above. But before you drill down with that level of specificity, you will need to carefully consider what your unit of business is, what it could become, which key metrics offer the most leverage, and so forth. To assist in that process, we suggest an approach that we've used with clients. (If you happen to have a few underutilized MBAs hanging around, they can do some of the analytical work.)

Identify your unit of business and associated key metrics. It should be easy to determine what your current unit of business is. What do you charge for? When you send customers invoices, what do you bill for? Try to spell it out in the simplest terms possible: "We make money by billing our customers or clients for ________."

Next, be critical. Does what you sell really reflect the value you create for customers? If you sell a product, could you redefine it to reflect the benefits or services yielded by that product? If you sell a unit of time, could you instead sell the outcome that the customer wants? A good general guideline is to try to align your unit of business with some performance outcome that is relevant to your customer.

Getting at current key metrics is usually very straightforward. If you don't already outline them in your annual report, the analysts who cover your industry will be able to tell you what they are. It's often useful to create a table with the basic financial performance parameters of your business and, if you have the data, those of the top competitors in your industry.

Identify obstacles to change. What's keeping you from changing to a new unit of business or from achieving higher performance on the key metrics associated with an existing unit of business? In this part of the process, you want to remove the blinders that exist when you've been competing in the same way for a long time. A number of devices can help you gain a fresh perspective. Three have proven particularly useful in our work.

First is a well-known technique from the quality movement, popularized in Japan as the Five Whys exercise. For every metric, ask yourself, "Why can't we improve?" for five levels of answers. If you can get to a root cause, you can often conceive of ways to overcome it. If one root cause is affecting several key metrics, you can dramatically improve your effectiveness by addressing it. To illustrate how this works, let's simulate how Cemex might have derived the core capabilities it needed by using the five whys. Let's assume that the company has compared its key metrics with those of top U.S. firms and is unhappy with its truck utilization, a key metric for delivery businesses.

- Why are our truck-utilization ratios so low compared with those of ready-mix cement firms in the United States? Because we have much wider delivery windows.
- Why do we have wider delivery windows? Because the trucks often get stuck in traffic, and the clients are often not ready for the pour.
- Why can't we send a second truck when the first truck is stuck in traffic or send the first truck to another destination when the client isn't ready? Because we have no way to tell the two truck drivers to change their destinations. Besides, the second truck could get stuck in the same traffic.
- Why can't we set up mobile communica-

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tions between plants and trucks, so that more than one plant can dispatch trucks to avoid traffic jams? This still wouldn't handle cases where the customer is not ready to pour.

• Why can't we have a communications center that plants, trucks, and customers can call if they are delayed? This center could coordinate all deliveries, redirecting trucks to sites that are ready for a pour. Hmmm—let's think about that.

The second technique is our variation of the five whys, which we call the Five REs exercise. The idea is to look at all the key metrics that represent costs and assets and probe them ruthlessly. The five REs are:

• **Remove.** Why incur a cost at all? Why not remove it entirely from your cost base? Toshiba, mentioned earlier in this article, has handed off expensive repair costs to UPS. Everyone wins.

• **Replace.** If you can't remove a cost, can you lower it by substituting a less-expensive product or service? For instance, companies have sometimes used voice-recognition systems in place of expensive human operators, and manufacturers of sodas and candies have used corn syrup in place of sucrose.

• **Reduce.** If you can't replace the cost, can you reduce it instead? Lamons Gasket reduced the labor intensity of its ordering system by switching to an interactive online system. Alternatively, can you reduce the price you are paying?

• **Redesign.** If you can't reduce the amount you need to spend on a scarce resource, can you redesign your business to use it more efficiently? There are many ways companies can economize on technical or service resources. For instance, law firms may complement services from their expensive lawyers with services from less costly paralegals; hospitals may replace some physicians with nurse practitioners; software companies may encourage customers to use self-help Web sites or phone services rather than rely on costly help-desk technicians.

• **Redistribute.** If you can't redesign, can you redistribute costs over more units? Quanta, for instance, has built a formidable advantage by spreading its production and design costs over many notebook manufacturers.

Once you have attacked major cost ratios in this way, ask the same questions about assets. Can you remove, replace, reduce, redesign, or redistribute assets? People tend to resist these types of questions, so our rule is that there has to be strong, highly substantiated reasons to say no to any of these questions. Persevere—you may be thrilled by the creativity that persistence provokes.

A third way to gain perspective is to do some benchmarking—but not necessarily against your direct competitors. It's useful to benchmark against firms that have successfully transformed a particular metric through better business practices. Thus, we saw Cemex benchmark its delivery function against FedEx. Groups like the Conference Board and the Corporate Executive Board can help you identify best-in-class performers for the metrics you want to explore.

Review the key customer segments you serve. The next challenge is to apply the techniques described above to your customers. The questions you want to consider are whether you might benefit by developing a different unit of business for a particular set of customers, whether those customers might benefit if *they* developed a different unit of business, or whether you can help them with their key metrics.

Assess the need for new capabilities and the potential for internal resistance. Typically, a significant shift in your business design also implies major shifts in your capabilities. Cemex, for instance, had to add new skills in telecommunications, programming, and system administration. As you go through this assessment, you're bound to run into resistance from senior managers; they aren't likely to embrace a change that will require the company to develop totally different skill sets. So it's worth thinking about how to deal with the politics of changing a business before you find yourself stalled by internal opposition.

Decide on a marketing and communications plan. How can you convey the value of your new approach to your customers and your internal constituencies? And who needs to be part of the communications process? Make sure you consider which audiences are important, in which sequence, and with what types of communication. The idea is not to spend endless hours agonizing but to make sure that when you do make a move, it is decisive and clearly conveyed to critical constituencies. Remember, too, that analysts who are used to looking at your company one way may

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need to be educated on a more appropriate set of metrics to use.

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The approach we've described can be an easy path to substantial, quick, profitable, low-risk growth. The beauty of it is that your people already know the business, the customers, and the products. Indeed, after we've employed this methodology with clients, we often hear them say, "Well, that should have been obvious." Sure—except that some firms see the obvious first and move aggressively to take advantage of it, and others simply don't. Use this strategy to spark creative changes in your unit of business or your metrics, and you, too, will find seeds of quick, low-risk growth.

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MarketBusting

Strategies for Exceptional Business Growth

Further Reading

ARTICLES

Marketing Myopia
by Theodore Levitt
Harvard Business Review
July 2004
Product no. 7243

To ensure sustainable market-busting growth, focus on satisfying your customers' needs—not on your company's need to sell products. Ask, "What business are we *really* in?" If the railroads had understood that they were in the transportation business—not the railroad business—they might still be growing today. To avoid the railroads' fate, think imaginatively about your business, even if your market is expanding. Don't assume there's no competitive substitute for your industry's major product: there is—and it might well come from outside your industry.

Co-opting Customer Competence
by C.K. Prahalad and Venkatram Ramaswamy
Harvard Business Review
January–February 2000
Product no. R00108

The authors describe another market-busting strategy: inviting customers to co-create value with you. In a market where technology-enabled customers now engage in active dialogue with companies—a dialogue that *customers* control—business must include consumers in the value-creation process. How to make your customers co-creators of the value you offer? Engage them in ongoing dialogue about value. Mobilize customer communities, such as user groups. Co-create personalized experiences with customers. An online florist, for example, could let customers design their own floral arrangements. You may also need to revise traditional approaches to pricing and billing, since greater access to information will give customers unprecedented bargaining power.

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