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MarketBusting

Key ideas from the Harvard Business Review article By Rita Gunther McGrath, Ian C. MacMillan

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.

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).

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.

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.

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.

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.

- Purchase the full-length Harvard Business Review article here.
- Visit Harvard Business Online.
- See more on Strategy and Execution at Harvard Business Online.

Further Reading

Articles

Marketing Myopia

Harvard Business Review

July 2004

by Theodore Levitt

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

Harvard Business Review

January-February 2000

by C.K. Prahalad and Venkatram Ramaswamy

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.

About the Authors

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Ian C. MacMillanis 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.