

The Path to Outsized Profits

Focus on the Customer in Your Strategy

The Paradox of Business Today

Top managers of businesses have an obligation to the owners/shareholders to grow the firm and generate profits. If this becomes the primary focus of their activity, however, the management and the workforce can focus on the wrong things. Instead, the primary focus should be on the customer – as Peter Drucker said back in 1973, “The goal of a company is to create customers”.

When the focus is put primarily on “maximizing shareholder value”, a litany of bad practices can occur that actually destroy long term customer value in the name of short term increases in shareholder value.

Examples of these include:

- A management focus on “denominator management”, so called because time and energy are spent mostly on trying to cut costs in the business to improve quarterly results
- Merger and Acquisition (M and A) activity whose only goal is top line growth with overhead savings for the merged entity
- Using available cash or worse, borrowing low interest rate money to add debt for share buybacks to improve earnings per share
- Placing a systemic lid on innovation by starving new research investments
- Business unit competition focused on the numbers versus cooperation to add value to customers

On the other hand, businesses that are focused on adding long term customer value to drive growth in their companies will demonstrate:

- A focus on delighting the customer with continuous innovations

- Investing cash in innovative new products and services
- M and A activity to add new capabilities but only when it takes too long to grow them organically
- Use of incentives or other business structures to have business units cooperate

The Path to Profits Starts with Customer-Focused Innovation

As shown in the following diagram on the left hand side, starting the engine of innovation will result in the increase in value that the shareholders are looking for by creating customer delight that leads to market leadership. By keeping the managers' and employees' eyes on the customer first, they do the right things to make this happen.



If however, you start at the bottom with eyes on the stock price, many decisions can be made that ultimately hurt the ability of the company to produce the innovation needed to generate customer delight, thus prioritizing the short term result over the long term market leadership that could have been obtained.

The Strategic Framework to Implement the Correct Path

Now of course, this will not just happen by itself, and the company needs to have the proper strategic framework to guide the activities in the right fashion. By creating the right strategic architecture – which consists first of an inspiring strategic intent for market leadership focused on the customer, followed by strategic planning

which defines the investments needed in competencies to win competitive advantage, the organization will have a multi-year roadmap to success.

Implementing this in the right environment is equally necessary though, and so having both a company culture in place that will enable the innovations needed as well as a focused execution methodology to track and monitor progress over time and allow for mid-course corrections are required.

Outcomes

There are many examples of organizations that are continually focused on creating new value for the customer through innovation that earn the highest market share – companies like Salesforce.com, Whole Foods Markets, Google, Facebook and Starbucks are all good examples.

Outsized profits result from delighting the customer and providing disruptive, first to market innovations – witness Apple who owns 90% of all of the profits in the mobile phone market, even as a late entrant and even while Samsung is the market share leader in terms of units produced.

When top management can put the direction in place and the planning effort up front to lay out a multi-year roadmap, and commit to the investments needed for competitive advantage at a rate that the organization can afford them, the company can then enjoy a stream of continuous innovations generated by working teams in pursuit of the strategic intent and realize a steady, managed march to market leadership.

That is what will generate the growth and profits that exceeds the competition and of course result in the valuation the owners desire.

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