

Building Business Around Customers: The Key to Growth and Long-Term Competitive Advantage



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If there's one word that describes the challenges confronting today's businesses, it's growth. Growth in sales. In profitability. And in market share. So important has the emphasis on growth become that a company's stock can nose-dive if its sales or net income fail to meet analysts' growth projections—even if sales and profits are up.

But generating corporate growth is not the straightforward matter it once was. As Thomas L. Friedman writes in his new book "The World Is Flat," the lowering of trade barriers and exponential advances in technology have made it possible to do business instantaneously with billions of people across the planet—and to do business from anywhere on the planet—almost regardless of company size. The result: established companies now often must struggle just to maintain their current position, much less improve it. Indeed, the current 'topple rate' (the frequency at which established companies lose their leadership position) has doubled since the 1970s.

A global survey conducted last year by IBM underscores just how difficult corporate growth is to achieve. Even though four out of five responding CEOs named growth as their top corporate priority, almost half strongly agreed that their companies were not currently reaching their growth potential. And among larger companies, fewer than one-third were highly confident that they would achieve their growth goals.

The Importance of Customers

So what's the answer? Research repeatedly demonstrates that the key to corporate growth is the same as it has always been: delivering the value that customers want, and delivering it in new and innovative ways. Harvard Business School professor Clayton Christiansen made this thesis the central point of his 1994 book, "The Innovator's Solution." The secret to growth-promoting innovation, he said, lay in "breaking the mold" in satisfying customers' needs and expectations. In fact, companies that differentiate themselves in this way are more than six times as likely to achieve their growth goals as are those that pursue more incremental approaches.

What's more, a study of high- and low-performing firms, carried out by Accenture earlier this year, uncovered that 40% of the difference in revenue growth and 38% of the difference in shareholder value was due directly to their ability to enhance customer loyalty. And a 2004 survey by the University of Michigan's National Quality Research Center determined that increasing a company's customer satisfaction by just 1% was associated with a 3% increase in market capitalization.

Embracing the Opportunity

Yet most corporations don't seem to be getting the message. A 2004 Deloitte survey of 150 technology CEOs—a group one would presume was highly skilled in using innovation to deliver greater customer value—discovered that just 6% of these firms view customer loyalty as their biggest challenge to sustaining revenue growth. Bringing new products to the marketplace, hiring salespeople and developing strategic relationships all ranked higher.

While recognizing the importance of customers to corporate growth is critical—it's only the first step. How do firms develop sound customer-focused strategies and then mobilize the right combination of people, processes, and technology to bring those strategies to life? How do they translate their customer-focused initiatives into actual improvements in revenues, profits, and market share? We'll explore these vital questions and others in upcoming articles in this series.