

Competitive Advantage: Juggling Six Balls

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Four times the revenue growth, twelve times the stock performance, and over 700 times the profit growth over an eleven year period.

What competitive advantage led to this huge margin in performance of one group of companies over another in similar industries? In a landmark study of over 200 firms by Harvard professors John Kotter and James Heskett, it was found that companies which equally focus on three key stakeholders (customers, employees, and shareholders) dramatically outperform companies which emphasize one over the others.

This means companies exclaiming that the customer is #1; or that employees are the most important asset; or that the main focus of business is making money for the shareholders/owners will be at a significant competitive disadvantage over those firms that see and treat all three key relationships as equally important.

People/Relationships

This employee, customer, and shareholder triumvirate is what I refer to as the “people” or “relationship” side of the business where the main focus is on keeping all three of these stakeholder groups happy.

These three fundamental relationships also determine the cash flow of the business. Simply put, the employee group represents all those individuals and organizations you “employ” and pay, including suppliers, contract workers, government officials (OK, maybe not this one), etc. In turn, the customer group represents all those who pay you. And what’s left over, after you subtract one from the other, is hopefully some cash to pay back the bank, investors, and the owners.

It greatly simplifies how you view a balance sheet if you look at it through this three-stakeholder lens. If you think about the balance sheet, it lists a bunch of people and organizations with whom your business has a monetary relationship, telling you who owes who and what cash, if any, remains – hopefully a significant amount of cash(flow) if you’ve structured the business model correctly!

Process/Activities

These three groups of people, in any business, are then engaged in only three main activities or processes: making or buying stuff; selling it; and keeping track of the transactions. I refer to this as the “process” or “activity” side of the business where the focus is on doing things better, faster, and cheaper (less costly, for those that cringe when they hear the word “cheap”).

It’s these three fundamental activities that determine the profitability of the business. Simply put, making and buying stuff generates costs. In turn, selling this stuff generates revenue. And,

again, if you've structure the business model correctly, you'll have quite a bit of profit left over when you subtract one from the other.

Like with the balance sheet, this triumvirate of basic processes provides you a greatly simplified lens through which to understand and view your income or profit & loss (P&L) statement.

The Juggling Act

What you're left with is a model of business where you have three groups of people with whom you have to maintain a positive reputation; and three groups of activities you have to keep productive.

Like the tradeoffs between the balance sheet and the P&L; it's this reputation/productivity balance that is the essence of business. We want to make our customers, employees, and shareholders increasingly happier, which should lead to a more valuable company; but we can't give away the store in the process.

What the firm needs, then, are some key metrics that measure reputation and productivity on a daily or weekly basis. This brings us back to the six main areas of business we need to juggle and the challenge of finding easily measurable key performance indicators (KPIs) that let us know how we're progressing. Below are a few suggested KPIs for each of the six areas. You can also go to www.KPILibrary.com for additional ideas.

And once you have KPIs for each of the individual areas, you can create formulas that let you combine the "people" metrics into an overall Reputation Score; and combine the "process" metrics into an overall Productivity Score. With these two numbers, you'll be 90% ahead of those driving their business without a proper set of gauges – a key (and balanced) competitive advantage.

(In terms of layout, maybe something like below – six columns with the two main headings)

REPUTATION			PRODUCTIVITY		
Employees	Customers	Shareholders	Make/Buy	Sell	Recordkeeping

(and here's some info for each column)

Employees -- # of suggestions; retention; utilization rate

Customers – Net Promoter Score; On-Time Performance; Brand Promise Metrics

Shareholders – Cash Flow; ROI; Equity

Make/Buy – Quality, Cost, Speed

Sell – Pipeline; Sales Cycle Time; Close Ratio

Recordkeeping – Accuracy; Timeliness; Usefulness