At the same time, it is not always the best product that wins the market. Many users regard Apple's Macintosh software as better than Microsoft's software, but Microsoft owns the market. And Sony's Betamax offered better recording quality than Matsushita's VHS, but VHS won. Sometimes it is the better marketed product, not the better product, that wins. Professor Theodore Levitt of Harvard observed: **"A product is not a product unless it sells. Otherwise it is merely a museum piece."**

Profits

Should a company aim at maximizing current profits? No! Companies formerly thought that they would make the most profit by paying the least to their suppliers, employees, distributors, and dealers. This is *zero-sum thinking*, namely that there is a fixed pie and the company keeps the most by giving its partners the least. This is a fallacy; the company ends up attracting poor suppliers, poor employees, and poor distributors. Their outputs are poor, they are demoralized, many leave, replacement costs are high, and the company is impoverished.

Today's winning companies work on the *positive-sum theory of marketing*. They contract with excellent suppliers, employees, distributors, and dealers. They operate together as a team seeking a win-win-win outcome. And the company ends up as a stronger winner.

A company that is short-run profit driven will not make long-run profits. The Navajo Indians are smarter. A Navajo chief does not make a decision unless he has considered its possible effects on seven generations hence.

Some companies hope to increase profits by cutting costs. But as Gary Hamel observed: **"Excessive downsizing and cost cutting is a type of corporate anorexia . . . getting thin all right, but not very healthy."** You can't shrink to greatness.

Here's the story of one company that thought that its profits lay in cost cutting.

The company, a manufacturer of hospital devices, suffered from flat sales and profits. The CEO was intent on improving the company's profits and share price. So he ordered across-the-board cost cuts. Profits rose, and he waited for the stock price to rise as well. When it didn't, he went to Wall Street to find out why. The analysts told him that his bottom line had improved but not his top line—they didn't see any revenue growth. So the CEO decided to cut product prices to increase top line growth. He succeeded, but the bottom line now slipped. The moral: Investors favor companies that can increase both their growth (top line) and their profitability (bottom line).

Ram Charan and Noel M. Tichy believe companies can achieve growth and profitability together, and present that view in their *Every Business Is a Growth Business: How Your Company Can Prosper Year after Year*.[51] This is a bold claim, given that top management always faces trade-offs. But they make a compelling case.

Some companies have proven that they can charge low prices and be highly profitable. Car rental firm Enterprise has the lowest prices and makes the most profit in its industry. This can also be said of Southwest Airlines, Wal-Mart, and Dell.

To understand the source of the profits of these "low price" companies, recognize that *return* (R) is the product of *margin* × *velocity*; that is:

$$R = \frac{\text{Income}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Assets}}$$

A low-price firm makes less income on its sales (because its price is lower) but generates considerably more sales per dollar of assets (because more customers are attracted by its lower price). This works when the low-price firm gives good quality and service to its customers.

Profits come from finding ways to deliver more value to customers. Peter Drucker admonished: **"Customers do not see it as their job to ensure manufacturers a profit."** Companies have to figure out not only how to increase sales but how to earn customers' repeat business. The most profit comes from repeat sales.

At board meetings, the talk focuses primarily on current profit performance. But the company's true performance goes beyond the financial numbers. Jerre L. Stead, chairman and CEO of NCR, understood this: **"I say if you're in a meeting, any meeting, for 15 minutes, and we're not talking about customers or competitors, raise your hand and ask why."**

Here are four Japanese-formulated objectives for achieving exceptional profitability. Each deserves a textbook-size discussion:

1. *Zero customer feedback time.* Learning from customer reactions as soon as possible.
2. *Zero product improvement time.* Continuously improving the product and service.

3. *Zero inventory.* Carrying as little inventory as possible.
4. *Zero defects.* Producing products and services with no defects.

Too many companies spend more time measuring product profitability than customer profitability. But the latter is more important. **"The only profit center is the customer."** (Peter Drucker)

Public Relations

I expect companies to start shifting more money from advertising to public relations. Advertising is losing some of its former effectiveness. It is hard to reach a mass audience because of increasing audience fragmentation. TV commercials are getting shorter; they are bunched together; they are increasingly undistinguished; and consumers are zapping them. And the biggest problem is that advertising lacks credibility. The public knows that advertising exaggerates and is biased. At its best, advertising is playful and entertaining; at its worst, it is intrusive and dishonest.

Companies overspend on advertising and underspend on public relations. The reason: Nine out of 10 PR agencies are owned by advertising firms. Advertising agencies make more money putting out ads than putting out PR. So they don't want PR to get an upper hand.

Ad campaigns do have the advantage of being under greater