



# Book The Momentum Effect

## How to Ignite Exceptional Growth

J.C. Larreche  
Wharton School Publishing, 2008  
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## Recommendation

Apple’s customers love its products. They line up overnight to be the first to buy its newest offerings. They form user groups, becoming Apple “tribe” members. With such loyal customers, Apple has attained self-sustaining business momentum. How did it achieve this rank? Do its managers spend their time slashing costs? No, Apple’s leaders focus on developing products that people feel they simply must have. In this carefully conceived, comprehensive book, business professor and consultant J.C. Larreche examines the way firms that have such momentum gain it and sustain it. The book is dense and it uses a fair dose of jargon to convey the power of momentum. Yet, Larreche’s lesson that product quality and customer satisfaction (or, better, adoration) are the roots of momentum comes through clearly. It might cross your mind that if you could create products that engender as much devotion as the iPod, well, you already would have done it. This book sets out to show you how. *BooksInShort* recommends this treatise on innovative, customer-driven products and services to executives who want to pump up their products and their sales.

## Take-Aways

- Business leaders must set their sights high. Aim for spectacular growth and profits.
- Such growth requires momentum, which comes from great products and services that consumers love.
- Many companies focus too much on cost cutting instead of concentrating on researching and developing better products and services.
- Firms without momentum overspend on marketing and underspend on quality and R&D.
- Firms with momentum do not need excessive marketing. Consumers seek their products and provide word-of-mouth recommendations.
- To create value, use “value extraction” to boost “internal efficiency,” “value capture” to increase market share and “value origination” to create new products.
- Superior goods are “power offers” that build customer loyalty and retention.
- To develop such products, seek “compelling insights.” Listen to consumers to discover what they know they want and what they want but don’t yet recognize.
- Creating great products is an iterative process of constant improvement.
- To create momentum, follow the “MDC action roadmap: mobilize stakeholders, detect sources of friction and insights, and convert customers.”

## Summary

### The Importance of Momentum

Businesses should aim for superlative growth that beats expectations every year and moves them well ahead of their competitors. This type of growth depends on momentum, not just marketing. One study shows that firms that capitalized properly on their momentum increased “shareholder value 80% above the Dow Jones

index” over a 20-year period studied by growing revenues and profitability, effective marketing and lower advertising-to-sales ratios.

“Momentum accumulates energy from its own success, and provides ever-increasing acceleration for firms smart enough to build and harness it.”

“Momentum-deficient firms” bog down with inferior products, fail to develop new, better products, lack creativity or are lacking in some other way. To make up for these inadequacies, such businesses tend to resort to “heavy-handed marketing” to force-feed their products to the public. Because they overspend on marketing, they have less money for the polished operations and innovative research and development (R&D) activities that could result in superior products. Such companies are in a momentum-stifling rut.

“The unique combination of factors that creates exceptional growth is too important to be left to entrepreneurial Darwinism or corporate chance.”

Toyota is a momentum-driven firm. It focuses on satisfying its customers and constantly developing new value (for example, the Prius and the Lexus) so it can stay ahead of the pack. In contrast, American auto manufacturers, while leaner, have created some products that did not earn consumer enthusiasm, despite substantial advertising expenditures, sales promotions and discounts. Meanwhile, Toyota has risen to the top position in auto sales worldwide, “riding a fantastic wave of momentum.” Of course, higher marketing expenditures can build profits, but firms with momentum don’t have to overspend on advertising to grow. Businesses with momentum follow the motto “First build your wave, then ride it.”

## “Momentum Strategy”

To achieve momentum, businesses must create value three ways:

1. **“Value extraction”** – Develop “internal efficiency.”
2. **“Value capture”** – Increase market share by beating your competitors and making sure you are getting the most from your partnerships and alliances.
3. **“Value origination”** – Create new merchandise or services that appeal to consumers. Center all your efforts on your customers. Value capture and value extraction depend entirely on value origination, the activity that offers maximum growth potential.

“Momentum is cumulative. As a firm moves forward...constantly improving its power offer, its momentum increases, accelerating its progress as it pulls further...away from its more limited competitors.”

Many firms become mired in value extraction, beset with “restructuring, downsizing [and] outsourcing,” and absorbed by quality management programs. Emphasizing value extraction alone is a mistake. Instead, companies should broaden their approaches and build strategic momentum by trying to achieve these conditions:

- **Create attractive products or services that customers want** – This results in growth that companies can nurture and promote to develop momentum.
- **Grow at a competitive rate** – Make your competitors play catch-up all the time.
- **Build opportunities with great products and strong customer engagement** – Focus on developing products or services that people feel they must have. Firms that achieve this primary goal can use marketing efficiently to reinforce and complement “customer traction.” They do not have to wage costly battles against “market resistance.”

“Momentum-powered firms come in all shapes and sizes, in all sectors, and in different times of business history, but the one thing they all have in common is a positive ambition.”

Restructuring and cost cutting can help companies extract additional value, but they do little to promote growth. Growth requires originating “new sources of value from customers,” as Apple did with the iPod.

To grow, develop a momentum plan based on the “twin engines” of “momentum design” and “momentum execution.” Momentum design, which gives your strategy traction, means creating products customers will want even if you don’t stage massive marketing efforts. Such irresistible products are called “power offers.” Momentum execution creates movement in the market that overcomes customer resistance and generates “vibrant buzz.” Momentum itself comes from linking traction and movement, first by “designing a power offer” and then by “executing” it. This generates momentum only if the offer is truly enticing, like the Wii or Prius. A weak offering kills momentum.

“Compelling customer insights are at the heart of a momentum strategy.”

### Momentum design requires these four elements:

1. **“Compelling insights”** – Strive to develop a deep understanding of what motivates your customers, what they want and what they value. This element presumes that your company’s leaders share ambitious product development goals.
2. **“Compelling value”** – Moving beyond function and cost, product designers must explore the “deepest human drivers,” such as “customers’ dreams” and “fantasies.”
3. **“Compelling equity”** – Pay attention to the value your customers provide to you, like innovative product recommendations or supportive public opinions and word-of-mouth.
4. **“Power offers” (design)** – Design goods and services your customers will love. “Power” refers to the product’s ability to attract customers and spur business growth.

“Momentum is dynamic. In business, success can vanish in a flash unless it is constantly renewed.”

### Momentum execution requires four more elements:

1. **“Power offers” (execution)** – Make your great new offering a commercial reality your customers can acquire. This is an iterative process; the initial versions of products seldom are as good as the later versions. Companies must constantly tweak and improve their products, using customer feedback to make them as

good as possible. Be aware that “the gap between the design of a power offer and its execution can be enormous.”

2. **“Vibrant satisfaction”** – Great products lead to exuberant customer fulfillment.
3. **“Vibrant retention”** – Such strong customer satisfaction makes buyers loyal.
4. **“Vibrant engagement”** – It also leads to highly engaged customers. iPod customers routinely buy accessories for their iPods and download numerous recordings.

“Customers develop their perceptions of value by intuitively trading off perceived benefits against perceived costs.”

Together, these eight elements can “ignite momentum” for your company, particularly if it is “externally focused, not internally obsessed.” Your product must be new or superior to an old product to increase momentum. Smaller, more nimble businesses often find it easier to develop momentum than large ones. Big firms’ size and complexity can get in the way, though giant firms certainly can achieve self-sustaining momentum. Just look at Toyota.

## Getting Started

First, try to develop “compelling insights” about your products or services. Such insights are the “launchpad of momentum.” Highlight ways to serve your existing customers better and to draw new customers. Do not rely solely on “traditional management analysis” to develop these insights. To systematize the way you build insight, create an “insight discovery matrix” that helps you investigate consumers’ desires via four “discovery paths”:

1. **“Knowing-doing”** – This relates to needs both the company and its customers recognize. If you are aware of an area where your customers are unhappy, fix it as quickly as you can.
2. **“Listening to customers”** – This tells you about needs your customers feel that your firm doesn’t perceive. Listen to your buyers explain what matters in their own words.
3. **“Customer learning”** – This deals with things the firm knows that customers may not know, but can learn, such as a product’s special features.
4. **“White discovery path”** – Search for needs that are “currently unknown” to the firm and its customers, as Internet browsers once were. This is “virgin land blanketed with snow.” An undiscovered need can inspire new products. Your intense knowledge of your customer is a valuable plus in product development and will help you gain momentum.

## The Concept Behind the Products and Services

Your power offers will unfold as you build your perceptions about your customers. Your study of what they value should uncover the right touchstone for developing strong customer traction. For example, for Wal-Mart, this conceptual proposition is “community.” The right concept will resonate strongly with targeted customers so that the product it inspires will sell itself profitably.

“Power offers...deliver compelling value to customers, who in turn offer compelling equity to the business.”

This product design concept, called “power crafting,” delivers superb customer value while reaping profits. Power crafting involves everyone in your organization who works on a product as it goes through “technology, design, manufacturing, pricing, packaging, advertising, promotion and distribution.” Plan to spend a great deal of time polishing and perfecting your power offer, making sure that everyone involved understands its concept and its customer. See the power offer as a two-way winner that delights the customer and enriches the company. Constantly adapt and improve your power offer to make “design and execution” symbiotic. If you do this correctly and satisfy your customers, you will build the kind of enthusiasm that generates cross-selling opportunities and valuable word-of-mouth. This is execution that counts, momentum that builds on itself. The three-step “MDC action roadmap” can help you sustain this momentum:

1. **“Mobilize stakeholders”** – Make sure your staff continues to provide “a momentum-building experience.”
2. **“Detect sources of friction and insights”** – Eliminate factors that slow momentum; boost factors that enhance it.
3. **“Convert customers”** – Draw more consumers with your power offer.

“Even the most talented and experienced business leaders totally underestimate the astonishing returns that momentum can generate.”

Of course, creating this kind of momentum relies on developing a power offer customers truly love. Measure the response it gets to confirm that you’re delivering maximum satisfaction and increasing retention. The longer you keep your customers, the greater your profits will be. Retention “offers an extraordinary acceleration of profitable growth.” Use the versatile MDC approach to guarantee vibrant engagement, where satisfaction enhances retention, which builds more satisfaction, which reinforces retention, in a nice profitable cycle. Thus, your momentum grows and becomes self-sustaining. That’s how Apple, Toyota, Nintendo and other firms that delight their customers benefit from “the momentum effect.”

“Momentum is a journey, not a destination.”

Are you a “momentum leader”? If so, you know your customers are your true “sources of value creation.” That is how Sam Walton built Wal-Mart. He understood his customers intuitively and completely. He made them the center of Wal-Mart’s operations, and the purpose for every action the company took, large and small. Walton never forgot that his stakeholders – his employees, vendors and suppliers – were customers as well. “If you want the people in the stores to take care of the customers, you have to make sure you’re taking care of the people in the stores,” he taught.

“Momentum...Some hold onto it. Most don’t.”

You cannot gain momentum unless your employees and other participants are engaged in the effort. Otherwise, any momentum you develop will fade quickly. Develop a “momentum culture” at your firm that is devoted to customer satisfaction, innovation and exploration. Help your firm adopt Hewlett-Packard’s long-held axiom: “Believe that together we can do anything.”

## Create Your Own Wave

Momentum-driven firms build on their knowledge of their customers to “set the momentum effect in motion and to maintain it.” This gives them great potential to create exceptional growth and secure continuous profits. The premise behind the momentum effect approach is straightforward: Find out what customers really want and deliver superior value to supercharge your company’s growth. In the process, you can manage your resources more efficiently and economically. Don’t wait to catch the next big wave that will turn everything in business upside down and inside out. Instead, create your own giant wave, a stream of profitable, beloved products or services that will swamp your competition and leave them foundering as your firm steadily steams ahead.

## About the Author

**J.C. Larreche** holds the Alfred H. Heineken Chair at INSEAD. He is a consultant to numerous global *Fortune* 500 corporations and the founding chairman of a strategic development consultancy firm.

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