Speaker 1: Welcome to the MIT CISR Research Briefing series. The center for information systems research is based at the Sloan School of Management at MIT. We study digital transformation.

Stephanie Woerner : Hi, I’m Stephanie Woerner, principal research scientist and director of MIT CISR. Today I’m excited to share with you the September 2023 research briefing that I co-authored with Peter Weill—

Top-Performing Companies Focus on Customer Domains

In our MIT CISR January 2021 research briefing “Hello Domains, Goodbye Industries” we argued that customer expectations and digital technologies were driving the breakdown of industry boundaries, in turn enabling companies to offer customers solutions that cross those boundaries. These comprehensive offerings fulfill customers’ end-to-end needs in areas such as mobility, energy efficiency, wellness, and lifelong learning—which we call domains.

In our latest survey, the companies we identified as being domain-oriented were top performers, with a huge premium on revenue growth and net margin. But taking a domain orientation requires a big mindset change of a company. In this briefing we explore what it takes to become a domain-oriented company with examples from Kaiser Permanente, Shopify, and Cemex.

The Evolution of Companies’ Customer Focus

We identified three kinds of company focus on customer needs: inside-in, inside-out, and outside-in. Companies with an inside-in focus optimize internal capabilities to provide specific solutions to customers. They are product-centric, and include traditional manufacturers, banks, and retailers. Companies with an inside-out focus analyze customers’ journeys and identify specific needs for which to provide solutions. They are customer-centric, producing solutions they can fulfill themselves, such as a bank selling home mortgages and insurance and offering savings tools for homebuyers as part of the homeownership journey. Companies with an outside-in focus aspire to fulfill customers’ end-to-end needs. They identify a customer domain and then organize and partner to enable the entire domain outcome—such as searching for, acquiring, and living in a home, or running a small business.

A domain-oriented company has an outside-in focus.

The Shift to Customer Outcomes and Curation

A domain-oriented company helps serve a customer’s end-to-end need by focusing on customer outcomes rather than on the sale of products and services. For example, the US-based health system Kaiser Permanente, with over 12 million members, provides value-based care, paying its healthcare providers based on patient health outcomes including quality, equity, and cost of care. The company’s value dashboard has four dimensions—membership, utilization, quality, and affordability—that track customer outcomes and that teams across four levels of Kaiser Permanente review regularly, including in a quarterly review by the executive team and board.

Because fulfilling end-to-end customer needs requires combining multiple offerings that typically exceed one company’s capacity, a domain-oriented company digitally curates products and services from different industries. For example, a company aspiring to serve a wellness domain would combine offerings from industries such as healthcare, insurance, retail, manufacturing, and technology. As part of changing its orientation from the healthcare industry to a domain for wellness, Kaiser Permanente partnered with Samsung to offer cardiac rehabilitation at home.

The Performance Premiums of Domain-Oriented Companies

To better understand how many companies today are domain-oriented and how they perform, we collected data at the end of 2022 on two key dimensions: one, the percentage of revenues from customer outcomes; and two, the percentage of revenues from outside a company’s core industry. We identified four types of companies, listed as follows in order of increasing performance:

One, product-oriented companies—66 percent of companies, focused on achieving product excellence

Two, outcome-oriented companies—10 percent of companies, focused on helping customers accomplish outcomes

Three, marketplace-oriented companies—11 percent of companies, focused on creating a marketplace of offerings as a one-stop shop, typically including their own products

And four, domain-oriented companies—13 percent of companies, focused on understanding the entire customer need, delivering on a chosen domain outcome promise, and curating offers with partners

Domain-oriented companies in our study were top performers, with revenue growth and net profit margins respectively 20.2 and 16.7 percentage points above their core industry averages. In contrast, the revenue growth and net profit margins of product-oriented companies were 7.8 percentage points and 4.7 percentage points below their core industry averages. Extending a company’s core offerings in innovative ways with an outcome orientation, a marketplace orientation, or both helps financial performance.

The Domains

In the current study, in an effort to pinpoint specific domains, we applied two criteria. First, we considered what customers ultimately care about as they solve specific problems or negotiate transactions in their life or business (the end-to-end need); and second, we selected a measurable outcome that was associated with the end-to-end customer need. Using this rubric, we identified fourteen domains. We then collected data from each company in the survey on the three top domains it served.

The most popular domains amongst the companies weren’t necessarily the ones with the highest innovation. Of the fourteen domains, the top five in terms of innovation—measured as a percentage of revenues from new products and services introduced in the last three years—were mobility, home, wellness, lifelong learning, and luxury.

What It Takes to Become Domain-Oriented

Some companies are born domain-oriented, like Shopify. Its vision is to support the entire customer need of running an e-commerce business, including building a brand, creating an online presence, setting up a store, selling, marketing, and managing finances. To deliver, Shopify helps customers achieve outcomes such as growth and global expansion by partnering with developers, designers, marketers, warehousers, payment companies, and others. That Shopify has captured 10 percent of US e-commerce market share in just a few years is testimony to the success of taking a domain orientation.

But for most companies, becoming domain-oriented will be a journey, often from being product-oriented. And many companies will typically operate in more than one domain, even at a given time. Global building materials company Cemex, for instance, has a very successful product-oriented offering with Cemex Go, an app that is a single point of contact for customers buying cement products. Cemex also runs successful outcome-oriented businesses, like Arkik, a company that offers solutions for managing concrete plants and interactions with builders; and marketplace-oriented businesses, like Construrama, Cemex’s construction and building materials chain for small companies. Cemex is also becoming domain-oriented with Regenera, which provides recycling solutions for building material waste.

The mindset change needed to become a domain-oriented company is enabled by both management mechanisms and strong technology capabilities. In analyzing our 2022 survey, we found that domain-oriented companies had leading capabilities in four areas, two areas associated with management mechanisms and two with technology capabilities:

Regarding Management Mechanisms…

The first area was a coach-and-communicate management style. Domain-oriented companies typically operate in real time, and don’t have the time or need for employees to go up and down the hierarchy for approvals and guidance. Instead, senior executives set the vision and guardrails and then empower teams to make it happen.

The second was effective use of dashboards. Dashboards make data transparent so that employees throughout the company can monitor performance, including customer outcomes, and can assess when to course-correct.

Regarding Technology Capabilities…

The first area was a robust and flexible API service layer to support platform reuse. A domain-oriented company connects in real time to the customer’s choice of channel and to the myriad of internal systems and partners that provide identity management, credit assessment, onboarding, customer data (via the CRM), and back-office operations (via the ERP), among others, to process the transactions.

The second was technologies for sharing information with partners (such as blockchain). Enabling a domain orientation typically requires sharing pre-agreed-upon information with partners in real time so they can help make the customer journey seamless.

Whether your company moves to become domain-oriented is a risk versus return decision. Helping customers achieve their outcomes requires a better understanding of customers’ needs, motivations, and goals, and is a step beyond selling products and services; thus, domain-oriented companies take on more risk. Seamlessly partnering with other companies outside of your core industry while being accountable when customer interactions involving those partners go awry also increases risk. But the returns for domain-oriented companies are stellar. Are you ready to become a domain-oriented company?