

“What’s wrong with my Strategy” – Part I

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Most owners of small companies have to stop and think when we ask the question: “what is your company’s competitive strategy?” We are creatures of habit and most of us come into work each day and begin where they left off yesterday. Before long, sales begin to dip, salespeople are demanding price concessions for fear of losing key accounts and/or customers have stopped buying from you. One day we sit back and ask ourselves – “what’s going wrong with my business?”

All industries move through life cycles and the businesses within each industry are affected accordingly. Old strategies that used to work no longer appear to be effective. There is a scientific term called the “invisible baseline”, which refers to the subtle rate of changes around us that we tend to miss because they happen slowly and in small increments. For example, you may have lived in a town for the last twenty years and it has gone through tremendous change. Because you live there and drive the streets daily, you fail to notice the changes in aggregate. However, somebody that left this town 20 years ago and returned for a family reunion can hardly recognize the place.

All of our businesses are facing a changing market. Some changes are dramatic, like the announcement of a new Home Depot to be built across the street, while others are subtle and take time, such as customer demographics i.e. aging customer base or geographic shifts in population. We tend to miss or react too slowly to the subtle changes in our markets; those that were telling us that yesterday’s customer needs have been changing.

Try the following quiz. How many of you can answer the following questions factually – no assumptions or guesses?

- *How many different reasons are there to explain why customers buy from me?*
- *How many of them also buy from my competitors? How much and why?*
- *What makes my company different than my competitors (good and bad)?*
- *Is my goal to keep up with, stay ahead of or be different from my competitors?*
- *Do I have the right mix of products and services or am I trying to be too many things to too many people?*
- *Are my customers in growing, mature or declining industries?*

If you must either guess or don’t know the answer to any of the above questions, you may no longer have a strategy or equally disturbing, you have a strategy but you don’t understand what it is. If this is the case, you might want to take a time-out and find the answers. I recommend multiple brainstorming sessions to deal with each question. Include your key people, especially salespeople and others who have regular contact with customers. To insure that you have a productive meeting, try the following:

- Have each person write down their answers to the specific question in advance of each meeting. It is not important that answer sheets be signed. Anonymity

is preferred to achieve truthfulness and candor. Require that each answer be supported with the factual data supporting each person's answer. Provide a single and secure drop off place for this information to ensure anonymity.

- Begin each meeting by writing the question on a white board. List each answer given. Hand out separate sheets that include the specific answers given by each participant as well as the data to support each answer.
- Initiate the brainstorming and discuss each answer and the supporting facts until it is accepted, modified or dismissed by the group.
- Based on the above, leave the answer up on the white board, erase it or modify it based on the group's final input.
- Each question may result in multiple correct answers. Record all accordingly.

Once you have completed these sessions and have comfortably arrived at the answers to all of the questions above, we're ready to begin step two: "Formulating a New or Improved Competitive Strategy."

"What's wrong with my Strategy" – Part II

In Part I of this newsletter series, we suggested having a meeting amongst key company personnel to "brain-storm" answers to the questions below. In this issue, we will discuss the first three questions:

- *How many different reasons are there to explain why customers buy from me?*
- *How many of them also buy from my competitors? How much and why?*
- *What makes my company different than my competitors (good and bad)?*
- *Is my goal to keep up with, stay ahead of or be different from my competitors?*
- *Do I have the right mix of products and services or am I trying to be too many things to too many people?*
- *Are my customers in growing, mature or declining industries?*

This exercise is designed to make us think differently about what is happening in our business. The above questions are similar to those many consultants might ask you early in the process of correcting or re-implementing a new growth strategy. These questions often illicit a response from business owners commonly referred to as the "deer in the headlights response."

Let's consider your staff's answers to the first three questions above. These relate to why customers buy from you and why others buy from your competition. Customers typically buy for one or more reasons but usually those reasons will fall into the following five categories:

- a. Price
- b. Quality
- c. Convenience
- d. Service
- e. Relationship

Since most customers have mixed reasons for choosing one “provider” over another, we’re looking for that reason that appears more than any other. For example, suppose the range of answers presented during the meeting included price, service and convenience, however; service was mentioned more often than the other two. List these reasons in a column on a white board and use different colors for each – Black (least mentioned), Blue (mentioned often) and Green (mentioned most). Put your company name up top.

Step two involves a comparison of the reasons why people buy from your competitors. This might include your own customers if they sometimes use competitive sources. How do these reasons compare to those listed for your own company? There must be differences, no matter how subtle. List these reasons in a second column using the same colors as above. Establish columns for each competitor.

The key to this exercise is to understand what motivates people to buy from you versus your competitors and what separates your competitors from each other. You are now better prepared to adjust your marketing to reflect your “value differentiators”, i.e. those attributes that separate you from the competition. For example, let’s suppose your price is a little higher than the competition but your customers remain loyal because they prefer your service. You might run a short-term sale to attract customers from the competition and then “wow” them with your service.

You may find that you need to be more like the competition in some ways and remain different in others. For example, suppose your service department were open until 7PM versus closing at 5PM. You may find that many of the competitor’s customers would switch to buying from you because you are closer but they require later service hours. Maybe your competitor carries complimentary products that make it easier for customers to get what they need in one stop. Perhaps you need to reconsider your inventory mix.

Remember, price is the last thing you want to change to drive new traffic. Besides, it represents a tactic that every competitor can easily match. Within six months, everybody will be exactly where they are today but making less per sale. Playing with price just corrupts the market for all participants.

Sometimes differences between you and the competition are so subtle that they don’t provide any basis of competitive comparison? This isn’t necessarily a bad thing. It may mean that an opportunity exists to create a “value differentiator” and catch the competition flatfooted.

For example, a local, in-town gardening center was competing for the same customer as larger competitors in the country having acres of product at lower, volume-based prices. After performing a similar competitor analysis with a trained consultant, they decided to no longer compete head-to-head with these larger competitors. They began reducing inventory in low margin areas and expanded inventory in higher margin, specialty items including unique gifts and seasonal home decorations. They also leased 1,200 feet of space to Starbucks and repositioned themselves as a gift and gardening “boutique” and

actually improved profit margins and created an enhanced shopping experience for their customer.

“What’s wrong with my Strategy” – Part III

In Parts I and II of this newsletter series, we examined some strategies and suggestions to determine how our company measures up to the competition and why our customers buy from us.

In this newsletter, we’ll analyze the final three questions to see if we can shed any more light on this issue of “differentiated value”, which is at the heart of any business strategy.

- Is my goal to keep up with, stay ahead of or be different from my competitors?***
- Do I have the right mix of products and services or am I trying to be too many things to too many people?***
- Are my customers in growing, mature or declining industries?***

Many business owners do not like to admit it but they focus so hard on internal company issues that fail to monitor their business relative to the competition. Others seem comfortable so long as they are the same. Fewer still are the owners that constantly seek to lead the way, forcing the competition to keep up.

There is an old saying that suits this situation well and it goes like this: “You can’t be better unless you are different.” As simple as this may sound, it is actually a difficult formula to implement. The goal is not to be different but to be different in such a way as to influence customer behavior i.e. increase customer base and/or expand average purchases per customer. Here is where we return to the term, ‘differentiated value.’ It is what makes you better than your competitor and not simply different. Therefore, the difference we bring to our business must be viewed from the customer’s perspective and not our own.

For example, the local coffee shop has a different clientele than Dunkin Donuts and then there’s Starbucks, whose customers represent still another customer segment. If one were to ask what differentiates these three coffee retailers, the answer isn’t the coffee. All three have great coffee. Consider the evolution of these businesses.

First, there were coffee shops, where “the locals” gathered to sit down, enjoy coffee and perhaps have breakfast. Along comes Dunkin Donuts with a different marketing proposition that included take-out coffee and donuts and a pledge to brew fresh coffee every hour, all day long. Many coffee shop clients migrated to this new business concept because it was less expensive and more convenient than the coffee shop. Many people who hardly ever went to a coffee shop saw Dunkin Donuts as a novelty and a convenient way to grab a coffee on the go. In other words, Dunkin Donuts changed the way people thought about getting their “coffee-fix” as well as incorporating a convenience factor

(take-out) at an affordable price. Starbucks then entered the picture but it did so with a different value proposition, “the coffee experience.” Starbucks sought to carve out a specific niche in the market, one that would attract “image conscious” consumers possessing the economic means to appreciate a new coffee experience. Starbucks created a “coffee cult.”

Prior to the entry of Dunkin Donuts, coffee shops were considered a “mature industry” and every coffee shop competed with the other based on location, price and menu quality. Many coffee shop customers were prepared to try something new. Many non-customers of coffee shops were also prepared for a new experience.

So, what is the point of this coffee shop analogy? We need to understand that our customers may all look the same and behave the same based on the common product-service offerings that exist, much like coffee shops. In other words, their behavior is governed by the constraints an industry forces upon them. In fact, our customers are actually comprised of segments that given the right options would behave differently. There are also non-customers (people who don’t presently buy from you or your competitors) who would change their behavior if tempted by the right value proposition. Again, consider the people who drank coffee daily but never frequented coffee shops. Many of these non-customers of coffee shops became customers of Dunkin Donuts or Starbucks because they weren’t looking for a sit-down, breakfast experience. They simply wanted or needed their coffee experience to be compatible with their lifestyle requirements.

Therefore, as you re-think your customer base in terms of segmentation, you must ask yourself, “Am I giving my customers what they need or what they want?” Coffee drinkers need coffee in the morning but are not willing to take the time to stop at a coffee shop when they may be late for work. Therefore, the coffee shop has what these people need but not what they want. Compare this analogy to your own business.

All of the thoughts discussed above are relevant within stable or growth industries. Sometimes, companies are faced with a situation in which their market is either very mature or in decline. The strategies for these cases are different.

If you are in an industry that is in or caters to customers who are in mature or declining industries, you may not want to make any further changes or investment in your own business. After all, why bother when you know that your customer base will be shrinking by the month? There still may be options:

1. If your company’s financials are stable, you could sell the company now
2. You could seek to dominate the market by acquiring competitors at bargain prices, or take over their contracts but agree to continue producing for them under private label, use your new size to get better supplier pricing, and squeeze out any small remaining players.

3. Seek out the best niche(s) within this market and focus. This would include those products-services offering the best margins and the longest life expectancies. Reduce overhead and shut-down all unnecessary operations.

BizMACH Affiliates are trained professionals who specialize in formulating competitive strategies for small companies. Why not contact your local *BizMACH* Affiliate now for a free consultation. After all, you've worked hard building your company. Won't it be nice to "Cash-Out" someday?