



The Three Ways to Compete

THE THREE WAYS TO COMPETE

One of my clients is a master. He and his company do superior work, use only the finest materials, and - importantly - know precisely what their clients want and give it to them. And that's not just a product either. He knows his target customers. He understands their psyches. He communicates, he collaborates, he understands their concerns. He does what he says he'll do, and he does it by the date promised. He takes care of any problems that arise. He delights his customers and they love him. But - he had a problem.

He told me six months ago that "low-ballers" were coming into his territory and undercutting his prices by almost half. "These guys use substandard materials and do junk work, but they do it for about half my price. How do I compete with that and still take care of my customers?"

My answer was, "You don't."

THREE COMPETITIVE STRATEGIES

Back in 1997, Michael Treacy and Fred Wiersma wrote a book titled *The Disciplines of Market Leaders* in which they described the three competitive strategies available to companies. Although the book is a bit academic and centers on large companies, the three strategies apply to small businesses as well. The three disciplines of competition are:

- Operational Excellence
- Product Leadership (Innovation)
- Customer Intimacy

The operational excellence strategy focuses on being the low-cost leader in your market. It means that you do things so efficiently that you can afford to compete on price. Low prices do not automatically mean excellent operations (as with my client's low-ball competitors), and excellent operations do not always mean low prices (Apple computers), but in any case, a low-price competitive strategy is really tough for small businesses. Ironically, it is expensive to become the low-cost producer. Low-cost producers are usually either very small companies in which the owners do most of the work and don't charge (enough) for their time, or very large companies (think Walmart) that spend millions of dollars to save pennies on billions of transactions. Becoming the low-cost producer requires commitments of time, money, and mental capacity. It involves the risk of investments in facilities, equipment, software, people, processes, and bulk purchases all to be repaid from slim margins. I don't recommend low price strategies to my clients. Many small companies compete on cost because they don't know their costs. (And -- If you succeed at becoming the low-cost leader, why give away your gains through low prices?)

The product leadership strategy focuses on providing new and innovative products and services. It is about bringing new innovative offerings to the market. Innovation is great, but it is difficult to routinely create innovations that the market values and will pay for.

The customer intimacy strategy focuses on a deep understanding of your customers and providing precisely what they want. It means that you personalize and customize your offer in order to delight them. It also means you understand the indirect wants and needs of your customers, including things like respect, communication, teaching, clear

expectations, and maybe a little hand-holding. People value those things and most (but not all) will pay for them! The difficulty is that you must say no to customers who do not value your offer.

THREE COMPETITIVE STRATEGIES

The ideal position is to excel at one approach and to be at least good at the other two. When choosing which strategy is right for you, consider your natural tendencies. Are you always tinkering with and improving processes, operations, and efficiency? Is your patent or trademark attorney on speed dial? Do you love and enjoy your customers more than any other part of the business? You don't have to compete using your natural tendencies, but work is more fun when you do.

What's your strategy? Choosing a competitive strategy provides clarity, which simplifies business. My master client from above obviously competes through a customer intimacy strategy. Before he realized that, he was stressed because he couldn't compete with the half-price low-bidders. Now that he knows, he doesn't even try. He gets better and better at understanding what his target customers want because he pays full attention. He tells customers (who ask) that he has to charge enough to take care of them, then he delivers precisely what they want - except for low prices.

If you have any further questions, please don't hesitate to mail me at Martin@annealbc.com or visit www.annealbc.com



Martin Holland

Martin Holland is the son of a successful entrepreneur. He grew up hearing about margins and markets, R&D and sales, risk and return on investment. He learned to love the language and rigors of business and grew to believe that business is both the most human of all endeavors and the highest calling. After selling a company in 2011, Martin became a coach in order to help other owners build profitable businesses that do not require their day-to-day involvement.

A native of Norman, Martin earned a B.A. degree from Hastings College in Hastings, Nebraska and a Masters in Business Administration degree from the University of Oklahoma. Over the past 7 years he has written business plans that have raised over \$52.4 million in bank and investor financing. He has helped 157 (and counting) business owners reduce stress and increase performance through clarity of purpose, better marriages, more money, and more free time away from the business.