# Selecting a Strategy for Market Leadership

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Fractional CMOs for Accelerating Growth

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## **Introduction:** Selecting a Strategy for Market Leadership

Small and mid-size enterprises (SMEs) are the shoulders upon which America stands. With more than 90 percent of American businesses comprising the SME universe, it's easy to understand why they are considered to be the backbone of the economy.

Far more people deliver goods and services – and earn their paychecks – on behalf of SMEs than they do from large enterprises.In spite of this, it's the large corporations that make headlines on CNBC and wield disproportionate influence on their chosen markets. Though these headlines make it easy to believe that competition is a slug-fest between huge players in a market, the reality, it turns out, is quite different: Even in spite of the pandemic, many mid-market companies have maintained profitability -- and are still growing.

That said, size matters much less than having a sound strategy. CEOs must have a game plan that accounts for how to best compete against other companies, regardless of size.

### Meeting Customers' Needs Through Value

On the most basic level, businesses need to meet their customers' needs (and perhaps exceed their expectations) by delivering products and services that are considered worthy of the price paid. In other words, the value proposition needs to be attractive. In each industry, there will be several competitors trying to compete for the customer dollar. Meanwhile, customers usually do not care about which supplier is the largest -- instead, they will buy from whoever has the best value proposition.

This is good news for small and mid-market companies, because it means there is room for additional competitors besides those who have taken up residency on the Fortune 500. Your challenge, as an SME CEO? Making sure that you've put an effective competitive strategy in place, and that products and services offered are attractive to customers.

## Selecting Your Strategy

It is my hope that this eBook will help you choose the strategy that works best for your company in your target markets. Along the way, we'll talk about how to polish your competitive advantage in a way that would be difficult for others to imitate, and that holds up over time. Though my examples will mostly be industrial companies, you'll find that the ideas and concepts are valid for any industry.

As we will see, there are three proven options when it comes to choosing a competitive strategy

- Low-cost leadership
- Product leadership
- Customer focus

Each option requires different management systems, goal setting activity, production systems, marketing emphasis, company culture, and management style.

And, because each strategic option is distinct from the other, it is likely that more than one market leader will exist in an industry (as measured by each gauge). From a customer' perspective, this means that three companies can potentially meet their needs, coming at them from different angles.

On the following pages, we'll learn how to analyze trends, evaluate the industries and markets where you want to play (or want to enter), identify key success factors, and select the right competitive approach for market leadership.

The eBook is intended as a practical guide, with tables and charts that can be put to use. It is not an academic product; instead, it is based upon decades of experience in formulating and executing strategy with industrial and B2B service companies.

# **Chapter 1:** Understand Customer Needs

In the business-to-business (B2B) world, the purchasing process is far more complex than the journey undertaken by an individual consumer. B2B deals tend to be more concentrated and have larger value, and include more people in a higher-stakes battle for large sales.

Typically, this process will be initiated when a customer identifies a need. This can arise suddenly — for instance, if a machine part breaks or there is a flood; or as the result of a long-term budgeting and planning process, like what would be used to build a new plant or automate a production line.

In either case, the buying team will collect information about different options, evaluate them, and select a supplier that offers the best solution. Sometimes, this requires only having a single replacement part in stock for quick installation; other times, it can only be fulfilled through mastery of a complex, months-long RFP process with decision milestones.

This does not mean the largest supplier will always be selected – rather, it is most likely that the winning bid will go to the company offering the best combination of problem-solving, lead time, quality, and price.

Different suppliers can be competitive based on a variety of dynamic factors. Think, for example, about how laptops and notebooks have replaced desktop computers in many business applications (this switch has likely been sped up by employees who need to work remotely from home during the pandemic). Another emerging example is how autonomous vehicle technology will allow trucking companies to have one driver remotely operate several electric trucks, replacing one (or two!) drivers in each conventional truck.

Regardless of which competitive strategy is selected, it needs to be based on real, identified customer needs, and offer the flexibility to respond to changing market trends and competitive pressures.

## **Chapter 2:** Scan Company Environment for Trends

Before deciding on — or modifying — a competitive strategy, a company needs to understand how its offerings fit within its sales landscape. Experience shows that by identifiying major trends early, and understanding how these trends might influence a company's product-markets, is a great starting point for identifying future challenges. Consider looking to your board of directors or a peer group as additional resources when studying a business environment.

A systematic market scan should start by identifying important, larger trends. Good sources of information at this stage include trade press, conference presentations, industry experts, suppliers, and customer-facing employees. It is also a good idea for you to talk directly to key customers, and get their perspectives.

Based on a shortlist of these bigger trends, the team can start to make predictions about how the market will respond, and what the resulting impact might be on our business.

For example, the coronavirus pandemic accelerated a trend of underlying protectionism which already existed for many industries. When the onset of the pandemic caused companies to turn their focus to sourcing and supply security, they realized that much-needed PPE, medicines, and other products were unavailable domestically. The resulting challenge was to find domestic sources, and/or stockpile key components and raw materials as international trade becomes further crippled.

An environmental scan table is a handy way of summarizing data and conclusions. This specific example is from a manufacturing company. Naturally, the table will look different for different industries.

**Table 1:** Company Environment Scan and Trends for Manufacturing Company

| Major Trend | Market Response | Impact/ Result | Company Challenges |
|---|---|---|---|
| **Severe cost pressures** | • Value Chain Shrinkage<br>• Intense competition<br>• Supply Chain improvement<br>• IT improvements like blockchain | • Concentration, "Big Box" retail outlets<br>• Outsourcing of non- core activities<br>• 3PL service providers<br>• Private equity financing | • Ongoing price pressure<br>• Sales process<br>• Value selling<br>• Adding service concepts, e.g. on-site management<br>• Finding & keeping talent |
| **EHS focus from climate change and pandemic** | • Demand for PPE<br>• Design for ergonomics, Human Factors<br>• Corporate environmental stewardship "Go Green" | • Reduced carbon footprint<br>• DOT Hours of Service rules<br>• Mandated and voluntary reduction of solid waste<br>• More recycling of materials<br>• Non-compliance penalties | • Protect employee health<br>• Community relations<br>• Sustainability goals<br>• Increased recycling<br>• Sourcing of raw materials<br>• Diesel engine regulations |
| **Technological development** | • Declining cost of distance<br>• ERP systems integration<br>• Wearable technology<br>• IoT, Automated handling systems | • Capital requirements<br>• Companies interdependent<br>• Service sector automation<br>• Remote sensing and control | • Tech priorities and rollout<br>• Purchasing process moving on line<br>• Cloud data integrity issues |
| **Geo-political development** | • Reemerging geographic and trade barriers<br>• World trade shrinking<br>• Emerging market volatility | • Domestication of supply chains<br>• Reduced cost effectiveness<br>• Fastest economic growth still in Asia- Pacific<br>• US global hegemony eroding | • Redesign supply chains<br>• On-shore manufacturing<br>• Control costs<br>• Exporting more difficult |

# **Chapter 3:** Analyze the Industry and Identify Key Success Factors

Armed with an understanding of longer-term trends and their impact on your company, you also must study your company's industry. This is crucial for identifying the key success factors (KSFs), and determining how they fit with your company's strengths and offerings. The work should be undertaken by the full executive team, to assure diversity in thinking and buy-in to conclusions. This will be a huge help later, in the implementation phase.

Start the work by confirming basic demographics: Count how many competitors there are; determine if they are similar in size, or if the competitive landscape features a few large players with a longer tail of mom and pops. Estimate the size of the market in both volume and revenue dollars and how quickly it is growing (or shrinking). Look at profitability of the current market participants and try to determine if there is a threshold percentage of market share needed to make money.

Thinking in terms of a life cycle, estimate where the industry is on the curve – Development, Introduction, Growth, Maturity, or Decline – this is defined on the graphic below:

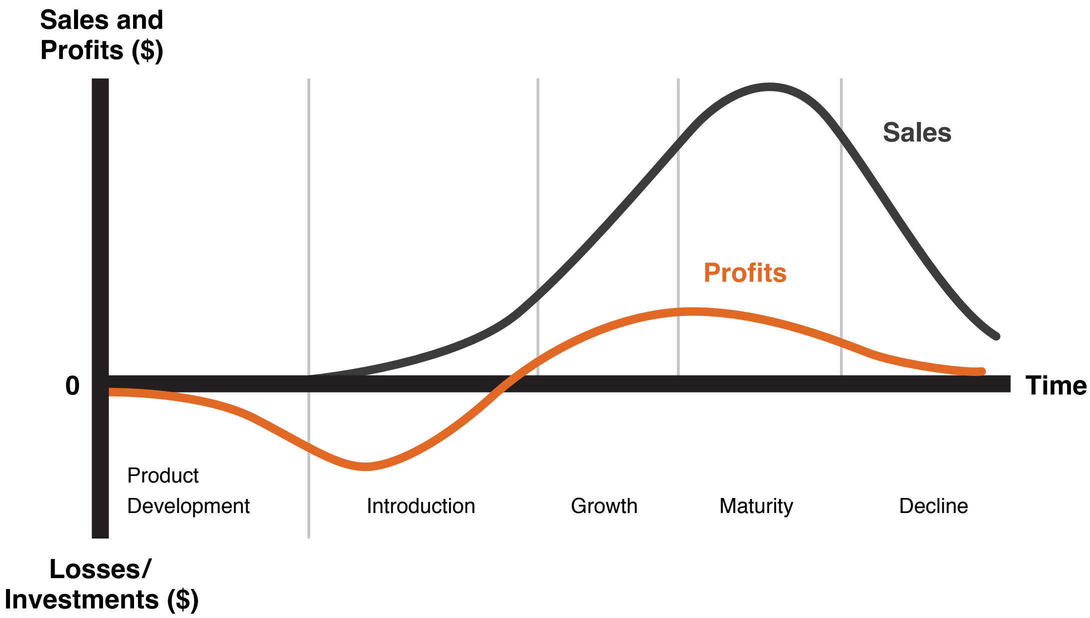



*Illustration: Marketing-Insider*

Look for signs of disruption, either through technology or a changed business model. If the industry is mature or in decline, look for innovations, new products, or processes that could help the life cycle restart.

On a whiteboard or in a spreadsheet, plot how many customers there are and sort them by type. If there are large dominating customers, look for patterns and levels of concentration.

## Supply Chain Considerations and Differentiators

Investigate how supply chain and distribution is organized, to understand whether competitors are selling direct or through distribution channels. Are there company sales forces, manufacturing reps, or ecommerce options? Map leading product categories and solutions, then determine the degree of standardization, lead times, and common custom elements.

How do competing offerings differ from each other? Are there both direct competitors and substitutes? Competitors can be regional, national, or international; can have deep pockets; or can be cash-starved. Some might be vertically integrated from raw materials to manufacturing to distribution, while others can be small or highly niched. How does this affect their competitive strength?

Are competitors owned by private equity groups, or are they part of divisions in larger corporations? If so, do they enjoy economies of scale — through volume pricing — in purchasing, manufacturing, or supply chain? Likewise, experience curves may allow unit cost to go down after a large number of units have been manufactured.

A key determination to make is how easy it would be to enter (or difficult to exit) the market. The need for large capital investments can be a powerful barrier to entry, as with pending investments by competitors. Another inhibitor is when the customer and one of your competitors are deeply integrated — even, perhaps, sharing manufacturing assets or overlapping supply chains.

## Key Success Factors, Explained

Based on this analysis, you now have the information and insights needed to effectively compete in an industry. These key success factors (KSFs) are the things you must do, and do well, to have success.

To avoid getting lost or overwhelmed, it is important to prioritize your KSFs. The most critical ones should be a small enough number that each one can receive full executive focus.

To jumpstart your thinking, I have listed some typical KSFs I have used at one point or another in the table below:

**Table 2:** Examples of Key Success Factors for Industrial Companies

| Technology | Organizational Capability | Skills |
|---|---|---|
| • R&D expertise<br>• Process innovation<br>• Expertise in a given technology<br>• Patent protection | • Management skills<br>• Ability to respond to market conditions<br>• Skilled workforce<br>• Access to capital<br>• Superior IT | • Superior talent<br>• Quality systems<br>• Value propositions and collateral<br>• Short time to market |
| **Manufacturing** | **Distribution/ Supply Chain** | **Marketing** |
| • Low-cost production<br>• Product quality<br>• High asset utilization<br>• Skilled operators<br>• Worker productivity<br>• Cost-effective product design & engineering<br>• Flexible manufacturing | • DC & branch locations<br>• Company-owned branches<br>• Distributor network Distribution costs<br>• Short lead times<br>• Order accuracy | • Good reputation<br>• Effective salesforce<br>• Customer Service and Technical Support<br>• Product line<br>• Strong brands<br>• Product design<br>• Warranties |

As you might recall, the purpose of a strategy is to maximize business value with a limited set of resources. Hopefully you now understand that a solid strategy focused around mission-critical KSFs allows a company to profitably grow, while compensating for any internal weaknesses and external threats.

We hear about companies using different strategies like “growing by acquisition,” “organic growth,” “international expansion,” or “divide and conquer.” These really are not strategies, but rather tactics that can fit under different strategic frameworks. We’ll explore these frameworks in greater detail in our next chapter.

## **Chapter 4:** Three Competitive Strategies

Against the backdrop of market analysis, you now are in a position to make some tough decisions and choices. A competitive strategy must be fact-based and informed by industry analysis. By working through the steps above, we laid a solid foundation for this strategy.

Building on Michael Porter's theory, and the work of Treacy and Wiersema, I will stay very practical and discuss strategic options that have been demonstrated to work in the real world.

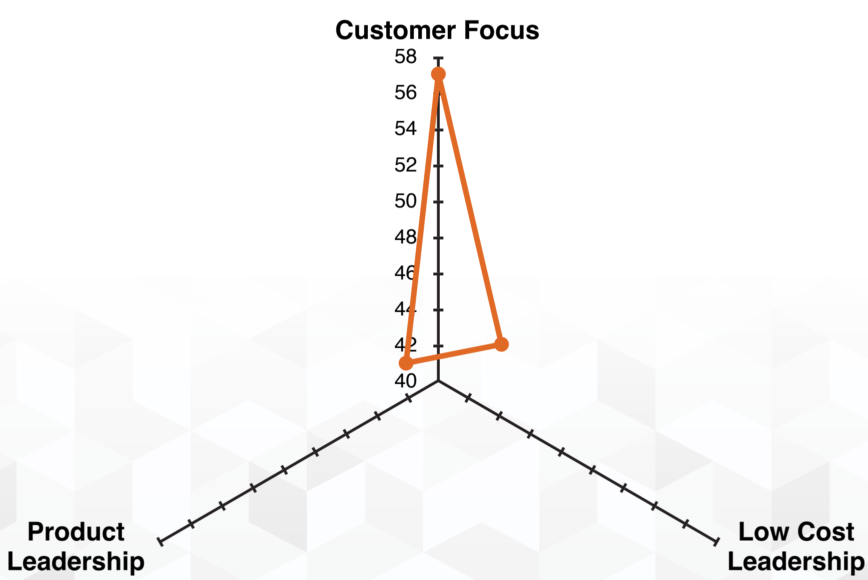
As mentioned in the introduction, there are three main competitive strategies:

1. Low-cost leadership
2. Product leadership
3. Customer focus

To be successful, a company must consistently focus on one of them, which typically excludes excellence in the others. That's because, in my experience, a business can achieve "world-class" excellence in one generic strategy. Though a small number of companies do well in two, nobody can excel in all three!

In a moment, we'll zero in on behaviors under each strategy — but first, a word of caution. Every business must embody a certain minimum level of all three competitive strategies to be able to compete in a market. This minimum level is like a cover charge or "table stakes" in a poker game. For example, it does not matter how customer-focused a company is, if manufacturing costs and prices are out of whack. Likewise, customer focus is meaningless if the products on offer are of poor quality or do not perform as expected.

In the chart below, each of the axes represents a competitive strategy. The line is a graphic illustration of a Customer Focused company, with table-stakes levels in Low-Cost Leadership and Product Leadership. Before we dig deeper into how to select a strategic posture, let us take a closer look at the specifics of each generic strategy.



## **Chapter 5:** Low-Cost Leadership

The low-cost leadership strategy requires a business to have a significant cost advantage over all competitors in the industry. To make the best use of plant and equipment, these companies want a high and even capacity utilization, with a strong management focus on product unit cost.

In this strategic approach, products should be standardized, without too many variations, and product lines narrow. Selling prices should be comparatively low, but profits can still be good due to low pay, economies-of-scale, and outsourcing to low-cost countries.

To ensure plants and processes are efficient, there needs to be a great emphasis on cost savings and continuous improvement. When new plants are built, processes are copied from existing plants, and experienced staff and managers are used to start up the new locations and train local workers.

Process improvement, incidentally, shouldn't just be a priority for manufacturing. It should be vigorously pursued by R&D, Sales, Marketing, HR and other business processes as well. Customer service generally is a priority, but marginal customer accounts should be shed over time.

Low-cost leadership works best in mature industries where end-use markets are stable, new process or product development is limited, and competitive intensity is low.

It's important to note that by being the low-cost leader, maintaining a good reputation can sometimes be a problem — since low-cost manufacturers do not always enjoy the best quality products. Building customer loyalty can be tricky when the majority of customers motivated by price. They tend to be finicky and will switch to another supplier if their prices are lower. Also, cost leadership as a strategy is not sustainable in a dynamic industry.

## SIDEBAR

### Examples of Low-Cost Leadership

Good examples of low-cost leaders can be found in automotive manufacturing. Toyota pioneered an effective production system starting in the 1930s that ultimately became the industry standard. A more contemporary example is Tesla, which has an innovative product, but also is relentless with cost containment in its plant design and process improvement activity.

Motorola, conversely, is a cautionary tale. As a pioneer in Six Sigma, they were very good at driving cost out of processes. Unfortunately, they were disrupted by the entire smartphone trend. This illustrates the table stakes idea – companies must have a minimum level of all three strategies. The ability to manufacture obsolete cell phones at lowest cost is not a platform for the future.

# **Chapter 6:** Product Leadership

Businesses striving to follow the product leadership strategy must have solid insights on customer needs and detailed knowledge of competitive offerings to stay ahead of the pack. No competitors can be allowed to perform at the same level; they must remain at least one step behind. Markets are segmented based on customer needs, and new products continuously developed to meet these needs.

Product leaders also tend to be price leaders, as they are very good at articulating value to customers. This is a critical component of the strategy. Product-leading companies also should place great emphasis on hiring and developing talent, and, when recruiting, should look for people with unique knowledge and experience.

Maintaining this uniqueness requires innovation and effective product development. Product roadmaps are used to allow continuous development and facilitate the launch of a new generation of higher-performing products and services that are difficult for the competition to duplicate.

A robust product development process allows degrees of freedom in the early stages but should become more regimented as projects progress through the Stage/Gate model. Intellectual property must be vigorously protected, both by patenting and by trade secret. Non-disclosure and non-compete agreements are widely used for assurance.

Important metrics for the product leadership strategy include volume and profitability. Both are closely tracked at the product level, with underperformers weeded out. Sales focus needs to be on adding volume through new customers; to this end, multiple channels are used, sometimes causing channel conflicts. Common examples would be distributors selling to designated house accounts, or regional distributors selling online to customers outside their territory.

A product leadership strategy is most effective in dynamic or growing industries, where the end-use markets are also dynamic. Typically, there are streams of new processes and product launches, and intense direct competition between suppliers.

## SIDEBAR

**Example of the Product Leadership strategy:**

A small software company had been spun off from a mining company that had a world-class reputation for efficiently running hard rock underground mines. A large contributing factor to this reputation was a top notch mine planning software tool, developed in house.

The principals of the new software company were allowed to retain the rights to the program they had developed. It was unique, having been built on years of planning and collaboration in this mining environment. With the parent mining company as a friendly reference, the planning tool was marketed to other large underground mines in Canada, Russia, South Africa, and Latin America. Several deals were struck with no real competition. Wins included a contract with Chile-based El Teniente, the world's largest underground copper mine.

# **Chapter 6:** Customer Focus

Businesses using a customer focus strategy tend to concentrate on a specific group of customers within the broader market, offering customized products with varying degrees of complexity. This strategy is common with smaller and mid-market businesses, since they often arise from providing a specific service or a handful of products to a single large customer or small group of customers. Sometimes they start as spin-offs from larger organizations, but, in most cases, they stick to a market or application they know very well.

A lot of effort is made to generate deep knowledge about a limited set of customers and their processes. In this strategy, solutions are tailored to customer problems, also in cooperation with third parties; and the products offered are average — but good enough to solve customer problems.

Management style in a customer-focused company is empowering. Authority and responsibility are delegated to employees that are close to the customer.

A customer focus strategy is most effective in large markets with plentiful buyers and competitors. Many companies start customer-focused, but later grow into either product leaders or low-cost leaders. Some companies never make the growth leap, instead, continuing to serve a niche group of customers.

## SIDEBAR

**Example of the Customer Focus strategy:**

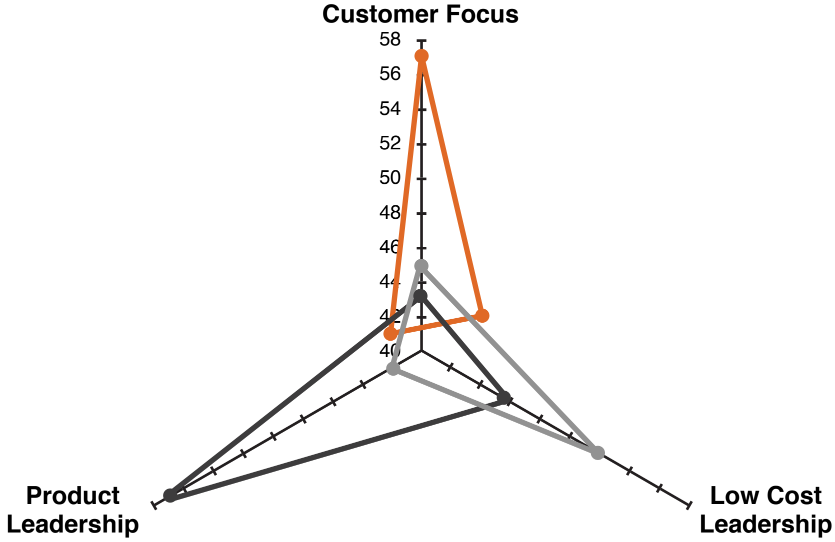
A manufacturer of concrete floor polishing equipment provided machines, tooling, chemicals, and related products to contractors, using a direct sales force and strong customer service. The industry was fragmented, with only one contractor enjoying a nationwide reach.

The company worked for several years to become a near-exclusive supplier to this large contractor, which came to account for half of the revenue. A dedicated sales organization led by a vice president supported the large customer with sales, service, and training. The quality of the products was good, but not superior. Product modifications were readily made if the customer so desired. This, in combination with strong personal relationships, created high barriers to entry for competitors.

# **Chapter 7:** Evaluating Strategies

Below is the same three-axis chart we saw earlier, but now the customer-focused company is overlaid with examples of a product leader and a low-cost manufacturer. We can see that all three companies have the necessary base level of each strategic discipline, but also a clear focus on one competitive strategy.

Any of these companies can be market leaders when it comes to servicing distinct customer needs.




It isn't a big leap to imagine what the chart would look like for a company with no strategic focus. It would exist as a small shape in the center of the chart – weak in all dimensions, literally, "stuck in the middle." It would have a very hard time competing against any of the leaders. I am sure you can think of examples like this in your industry.

Plotting competitors is also a good way of visualizing the competitive intensity of a market. Determining what competitive strategy a competitor uses is a good help when formulating tactics. Charting also offers a visual impression of whether several businesses use a similar go-to-market strategy, in which case we might want choose a different one.

# **Chapter 8:** Decision Time!

With the three-axis illustration fresh in mind, let us compare key features of the competitive strategies side by side:

| | Low Cost Leadership | Product Leadership | Customer Focus |
|---|---|---|---|
| **Strategic target** | Broad cross-section of the market | Broad cross-section of the market | Narrow market niche, with distinct customer needs |
| **Competitive advantage comes from:** | Lower costs than competitors | Better understanding of customer needs, better products | Customized offering based on needs and requirements |
| **Product line** | Standardized products, good quality, narrow product range | Many product/service variations, valuable differentiation features available | Customized to the needs of the target segment(s) |
| **Production emphasis** | High capacity utilization, process efficiency | Find ways to create value for customers | Tailor for target niche. Augment products with services |
| **Marketing emphasis** | Make a virtue of product features that support low cost | Premium value and pricing. Focus on key differentiating features; build reputation and brands | Communicate unique ability to satisfy the specific requirements |
| **Value Proposition** | Overall lowest cost | Best product | Best total solution |
| **Golden rule** | Variety kills efficiency | Cannibalize successes with breakthroughs | Know and solve the broader problem |
| **Core Processes** | End to end product delivery, Customer service cycle | Flexible organization, cross-functional teams for innovation, commercialization & market expansion | Customer acquisition and development. Propose new solutions |
| **Improvement Levers** | Process redesign, Lean, Continuous Improvement | Product technology, R&D cycle time, Service innovation | Problem expertise, customization of services |
| **Improvement challenges** | Shift to new asset base | Jumping to new technology or service model | New paradigm for solving customer problems |
| **Sustaining the strategy over time** | Provide best value, based on meeting needs. Manage costs down, all the time, in every area of the business | Understand customer needs. Constant improvement and innovation to stay ahead of imitation. Promote points of difference. | Know customers well, become “hardwired” into their business. Tailor valuable services, use 3rd party providers |

A competitive strategy must fit with a company's market, both in terms of geography, and with customer needs. It also must be completely in line with company strengths, abilities, and culture. Pick one of the three and start positioning the organization as a market leader!

Regardless of which option is selected, do not forget the point of all this — to increase business value. The success of a strategy is ultimately measured through cash, not profit.

An organization should always strive to reduce costs, even if the strategy is not based on low selling prices. A company also should increase revenue, even if it does not follow a product leadership or customer focus strategy.

## **Chapter 9:** Changing Market Conditions

A typical planning horizon for a mid-market company is three years. Well defined competitive strategies will be relevant for several years, but it is wise to check in annually to see if changes in the marketplace justify a course adjustment. This is a good discussion for the management team to have prior to kicking off annual business planning.

Remember: Competition is not the biggest threat to profitability — commoditization is. If once-unique product features or benefits ultimately become commonplace, this represents a systemic change that must be addressed.

Markets are, by definition, dynamic places. New technologies are introduced, processes are improved, and customer needs change. This dynamism can create opportunities for some organizations, but threats to others. One only needs to consider COVID-19, and how broadly it impacted many businesses.

Good companies always have their radar up, constantly monitoring trends and scanning for organic growth opportunities as well as acquisitions. Their CEOs are not afraid to pivot if needed, repurposing investments to the right growth initiatives.

Finally, there is a vital link between strategy and organization. The design of an organization must reflect its strategy, not the other way around. As with industrial design, form follows function. Too many times, organizational changes are carried out as savings exercises, with the unintended consequence of crippling a business's ability to meeting strategic goals.

## **Chapter 10:** What Now?

Hopefully, this approach of understanding customer needs, scanning for trends, studying industry, and finding KSFs, will make it easier to select a robust competitive strategy.

The decision to pick or modify a competitive strategy is not easy. If you would like to know more about how Chief Outsiders can help coach or facilitate the process, feel free to contact us.

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## Literature

Harvard Professor Michael Porter showed that companies that have a good relative competitive position in their industry are more profitable. In his book ”Competitive Advantage” he developed the concept of generic competitive strategies, that there are only three ways of gaining and keeping competitive advantage; through cost leadership, differentiation, or focus.

Consultants Michael Treacy and Fred Wiersema built on Porter’s concept in their book “The Discipline of Market Leaders”, suggesting three similar “value disciplines”: customer intimacy, product leadership, and operational excellence.

There are many other related books and articles on the subject. For example “Spetsforetag” (“Market leaders”) by Hans Thornell has several case studies, unfortunately, it is available only in Swedish.

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