Winning Without Competition: How to Break Out of a Commodity Market

An Educational Leadership Series for Precast Concrete Company Strategic Leaders

Pamphlet 1

Breaking Out of the Commodity Box

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Breaking Out of the Commodity Box

Key Messages

- All purchase decisions are based on value. Commodity markets emerge when purchasers view suppliers as identical on all factors but price.
- There is only one winner in a commodity market—the lowest cost supplier—except in periods of high demand when supply falls short of demand. In periods of high demand, companies may be fooled into thinking, "We are differentiated." Downturns reestablish commodity buying.
- The only way out of a commodity market is to create demand that exceeds supply. You achieve this by breaking the rules for how markets and companies traditionally behave. Accomplishing this requires a new view of your markets and a newly designed competitive strategy for your business.
- The first steps in breaking out of a commodity market are to understand risks and opportunities facing your company and create an initial architect's rendering of how things could be different.
- To break out of a commodity market and sustain differentiation, it is critical that your firm shift from being customer-driven to market-driven. Market-driven firms do not view all customers as strategic. They view decisions on what business they are in as strategic, not a result of history. Establishing a marketing department that is responsible for creating an effective market understanding process is the first step in becoming market-driven.

Introduction

Why Do Companies Win and Lose Business?

Why do customers choose your company over the competition (i.e., other precast firms or other structural and cladding material suppliers)? Why don't they select your firm? If price is the answer, you are in a commodity market. You may fool yourself into thinking precast is not a commodity product by pointing out many of the value-added services that your company supplies and the uniqueness of each project solution. Nevertheless, if price is the predominant reason why one company is picked over the viable alternatives, you are in a commodity market.

A commodity market exists when qualified suppliers are seen by customers as seemingly all alike. As a result, purchase decisions are based on price subject to meeting the requirements of being a qualified supplier, e.g., delivery date and expected quality levels. As long as there are two qualified suppliers, price determines who wins.

Commodity markets are ultimately the result of complacent and reactive suppliers. For example, prior to PC-21, the competitive strategy for most organizations in the precast industry was a reaction to what managers observed in selling. The thinking went something like this:

> *"We make structural and cladding building components with a precast process. Because our product is heavy to ship, we market and sell locally. General contractors have typically purchased these components on price, service and ability to meet schedule and achieve desired quality levels. Therefore, we compete by selling to general contractors for local projects where precast is cost effective versus steel and cast-in-place. We win on price, reliability, service and quality. But in the end it usually boils down to price. "*

Companies that are truly differentiated suppliers identify ways to proactively restructure how markets, industries and their company work so that they emerge as a truly better solution to customers' needs and get paid a premium for it.

I'm sure you are all familiar with the problems associated with being in a commodity market:

- Only the lowest cost supplier will earn acceptable profits.
- In a period where supply outstrips demand, suppliers run a significant risk of not being able to cover their fixed costs.
- The business and industry fail to attract and retain talented young employees.
- Work stops being fun.
- You find yourself working harder and harder to lower costs, improve quality and improve service levels, only to find that you continue to sell on price.

- The market generally grows slowly, absent business cycle upturns.
- During periods of declining demand, talented employees are let go. (See Sidebar A: Differentiated Firms Retain Talent)

So how do you break out of a commodity market?
- The first step is to be honest and acknowledge that you are in a commodity business.
- The second step is to take responsibility for the situation of your company rather than blame conniving or misinformed customers, untrustworthy competitors or unfair markets.
- The third step is to learn about why commodity markets exist. This knowledge will enable you to define a new way to compete and create a new vision for the future of your company.

After all, this is your job as a senior leader—to inspire your employees to work towards a meaningful purpose and vision, to develop the competitive strategy to get there and then to align all aspects of your company, including its culture, to execute the strategy. And let's not forget celebrating success as you secure victories, large or small, along the way.

Basic Market Principles

Breaking out of the commodity market requires understanding some basic marketing principles about markets. (A market is composed of all the potential buyers of an industry's products and services or its substitutes.) Think of these as "truths" about how markets work.

Principle #1: What you are is defined by the customer.

In the eyes of potential customers, you are not first and foremost a precaster. In the customer's eyes, you are usually being compared to a broader set of competitors than those in the narrowly defined "precast" industry.

Each customer views you relative to his own frame of reference for products like yours. A frame of reference is the category in the customer's mind within which it places potential suppliers. While you define your company in terms of its products, services or technology, customers view potential suppliers as solutions to a broader frame of reference. You say, "a precast structural products company" and they see "a building material, a building solution, a critical sub, a flooring alternative, a structural wall or a cladding alternative".

What customers and influencers care about is how they benefit from precast versus all its competitors (i.e., other precasters and building materials that are viable alternatives for a specific job). Customers will evaluate your company's capabilities relative to solving problems or meeting needs they have within this frame of reference. In other words, they're looking for what benefits you have to offer. They could care less about the features and advantages of precast technology except to make sure the promised benefits are believable.

Principle #2: Forget attributes. Sell benefits.

The attributes of your products and service, e.g., that it is fireproof or can be erected faster than steel, are not benefits. Benefits are what the customer gains as a result of using your product or service. Benefits are always defined by the customer. They are what really matter to customers. In business-to-business markets, benefits include:

- An improvement in competitive position
- Enhanced financial position from revenue increases, lower costs or greater asset productivity
- Less risk
- Increased speed, increasingly a code work for higher profitability through lower working capital and market share gains

Attributes are the aspects of your products and services that create benefits for the customer. Attributes, such as durability, quality, off-site construction, warranties or reputation are important to customers only to the extent that they create benefits that matter to them.

The difference between benefits and attributes is subtle, but extremely important. Most firms try to sell on the basis of attributes. Customers can always ignore your promotional and selling efforts by saying, "I have enough quality," or, "I already have a reliable supplier." A buyer is unlikely to stop listening, however, when you say, "I have an opportunity to dramatically raise your marketshare, enhance speed of the construction project or lower your overall building costs." Therefore, communication with the customer should focus on benefits first and foremost. Attributes are discussed to address the customer's forthcoming question, "How can you help me accomplish this?"

Principle #3: Value rules even in commodity markets.

All purchase decisions are based on value, even in commodity markets. In any purchase, the buyer contrasts each supplier's benefits against its costs and chooses the supplier with the greatest excess of benefits over costs, which is its net value. Benefits and costs include both emotional elements ("It makes me feel young") and tangible elements ("It takes an extra hour of my time").

> *For example, the benefits of precast over steel might include higher asset productivity, reduction in capital needs, greater speed, marketshare gains, reduction in the cost of other materials, lower maintenance costs and/or less risk. Cost would include both the acquisition cost and any indirect costs associated with purchasing the product or service. When benefits exceed costs net value is positive. Purchases aren't made when net value is negative unless mandated.*

Commodity products actually are of great net value to customers because the benefits the customer receives from the product or service exceed the acquisition price. The issue in a commodity market is that all the value goes to the customer. None of it is retained by suppliers as net profit margin. In a commodity market, the buyer views the benefits less indirect costs of each supplier as equivalent. The only driver of relative value, therefore, is price. The buyer chooses the lowest priced product or proposal as it has the highest value—all else equal.

When customers see custom product manufacturers as identical, the customer is able to bargain one qualified supplier against another in order to drive the price down to where it equals the supplier's costs. As prices are dropped, suppliers' potential profit margins drop until profits only cover the cost of capital invested in the firm. In fact, in periods of excess supply, price can be driven down to the point of just covering the firm's marginal cost for supplying the product or service. Customers in commodity markets end up happy because they basically won the battle with respect to who gets the value. Unfortunately, the same cannot be said of suppliers caught in the commodity box.

<u>Principle #4: Profits require differentiation.</u>

Suppliers earn a price premium only when they offer unique difference(s) that buyers feel benefits them or reduces other costs. (See Chart One: Commodity Markets = No Differentiation.) In this case, potential value is higher. The supplier can set a price higher than the competition as long as the higher price to the buyer does not match or exceed the value of the extra benefits or indirect cost savings. If a supplier has the lowest actual cost and lower asking price, his margin will be higher than the competitions' margins as long as the price reduction is less than the cost advantage.

Whereas in a commodity market all values goes to the buyer, the value is now <u>shared</u> by the buyer and the supplier. It is critical that the extra benefits are produced at a cost less than the value to the buyer. This is why it is critical to offer meaningful differentiation (i.e., greater benefits). Otherwise, you're adding costs without adding value -- and value, marketshare and profit margins will decline.

Do customers actually make these value calculations? Implicitly they do, although for experienced buyers the "umpteenth" calculation and purchase decision becomes habitual. (Think about your brand decision on toilet paper.) Tactical marketing and effective salesmanship can alter the customer's mental calculation (e.g., "Were you aware of what is different about our product?"). Tactical marketing and sales pitches by market leaders, on the other hand, reinforce key messages that created the leadership position in the first place, e.g., "ABC Precast is more reliable. Can you really afford the risk (i.e., potential cost) of training a new supplier?"

In essence, differentiation reduces supply. There are no competitors offering your cost-benefit proposition. Whenever demand grows relative to supply, prices increase.

When Do Commodity Markets Emerge?

Commodity markets emerge when markets mature and/or when there are buyers who have buying power. Mature markets are those in which there have been no changes in the product or its application for an extended period of time. In other words, the product or service is solving the same problems today as it did in the past. As markets mature, other suppliers learn how to copy technology or product or service features to the point where different suppliers are essentially offering the same thing to customers. This happens not just with direct competitors (i.e., other precast firms), but with substitute competitors as well. Heated concrete forms were introduced to offset the “all season” advantage of precast over cast-in-place concrete. As suppliers become more similar, they engage in win-lose or lose-lose competition, which magnifies the existing difficulties of commodity markets. In essence, suppliers engage in the price war a strong buyer is trying to create.

Buyer Power

When do buyers have power to extract all the potential value rather than share some of it with suppliers in the form of supplier profit margins? There are a number of factors that contribute to strong buying power:

- When buyers are large purchasers within the total supplier’s revenue (e.g., customers that are 8% or more of a supplier’s revenue)
- When buyers only need a standard product with no genuine customization (See Sidebar B: Custom Products Can Be Commodities)
- When there are very few switching costs from changing suppliers
- When buyers can integrate backwards and self-manufacture your product offering
- When the supplier’s product is not the key to quality of the customer’s finished goods
- When there are a sufficient number of quality suppliers that can be considered
- When the buyer controls access to the ultimate customer because owners generally want to engage in contracts with firms that take responsibility for the whole building project, not just one part of it (General contractors have this control.)

Buyer power is exercised by the purchaser when:

- An item is a significant part of a purchase (e.g., concrete or precast in a parking deck structure);
- The product is not important to the buyer's end product and suppliers appear about the same (e.g., hollow core);
- Buyers' profits are low and being squeezed (e.g., general contractors in a downturn); and
- Buyers' profits are low versus a supplier's profits (e.g., general contractors versus precast firms).

Buying power is demonstrated in the following types of statements: "Here's exactly what I want." "I'll only accept qualified bidders, i.e., those that have the capabilities to provide this quality level within this time frame" and "Tell me your final price" or "Here's the RFP." Any type of statement or gainsmanship whose primary motive is to lower prices by pitting one supplier against another is evidence of buyer power and commodity markets.

Supplier Power: The Key to Overcoming Buying Power

When suppliers have power, they earn an attractive profit margin because they retain part of the potential value of their offering to customers, captured in a price "premium" over the supplier's costs. Supplier power can arise from a number of different factors:

- Your competitors cannot offer as high a total level of benefits or cost savings (e.g., the best quality architectural panels for a Class A office building);
- There are multiple purchasers, but only a few suppliers -- and demand exceeds supply (e.g., precast versus specialized "add" mixtures);
- The customer is not a critical part of suppliers' revenue or profits (e.g., ready mix firms have more customers than do precast firms as they also supply to the residential markets);
- No—or few—substitutes for the suppliers' products and services exist (e.g., specialized "add" mixtures);
- Customers face high switching costs when they change suppliers (e.g., changing your add mixture supplier as a precast company);
- An effective relationship between buyer and supplier exists that has created trust, and there is a lot of risk associated with each transaction (e.g., design build firm and critical subs on a tightly scheduled project);
- The supplier can integrate forward into the customers' products (e.g., a precast firm that decides to take on all the job as a general contractor); and
- The product or service is a critical element in the success of the buyer's final product or service (e.g., add mixture companies).

In the presence of supplier power, suppliers and buyers engage in price negotiation to insure prices are fair and the potential value (total benefits less true cost to provide) is shared between the buyer and the seller. Nevertheless, as long as there is at least one other supplier that can meet the buyer's needs, the potential for a commodity market can exist. Only one company wins in a commodity market—the lowest cost supplier. And for that reason, the only way ultimately out of a commodity market is to create meaningful points of differentiation from other suppliers such that the buyer is willing to buy from you at a higher price. The greater the differentiation and potential value, the greater the premium. (See Sidebar C: Ways to Reduce Contractors' Buying Power)

Advanced Marketing Principles

To break out of a commodity market, a number of additional marketing principles become fundamental knowledge:

<u>Principle #5: To break out of a commodity box, you must look at your market with new eyes. Old thinking creates the same old results.</u>

Firms that see all customers as essentially identical typically end up competing as a commodity supplier. You must recognize that different customers want different things and they'll switch suppliers to get more of the benefits that they want or more of the cost reductions that they need. Nevertheless, you must meet the minimum requirements of any customer group you serve. Understanding the fact that different customers want different things is at the heart of developing an effective competitive strategy, i.e., differentiating your offering from that of the competition.

By segmenting the customer base (which will be discussed in Pamphlet #3), you can begin to identify subgroups in a market seeking a different set of benefits than other subsets within the market. To the extent that you can tailor your offering to meet the needs of one or more subsets in the market, you begin to become a differentiated supplier. When customers see that one firm can offer them more of a benefit they desire without an equivalent loss of another, they switch suppliers to gain higher overall value. In the precast market, for example, there might be differences in the needs of large contractors versus small contractors, industrial owners versus retail owners, and architects versus engineers.

Commodity suppliers also assume they know what customers want and need. They fail to look for or solve compromises and frustrations customers face in their daily work that the supplier could possibly do something about. The inflexibility of precast is a great example of this. Precasters that can break this compromise would be in a highly differentiated position. The solution may come from design tools, not necessarily a shift in the basic technology.

<u>Principle #6: You can't be all things to all people.</u>

In choosing potential points of differentiation, you also are implicitly not choosing other potential points of differentiation. While suppliers must meet the minimum requirements of customers, there are typically a number of different dimensions along which a firm can create meaningful differentiation, e.g., speed versus quality of finish versus breadth of the product offering versus contract terms, etc. The key to successful differentiation is being able to choose customers for whom you tailor your offering -- indeed your whole company -- to offer the very highest value.

In The Discipline of Market Leaders, Treacy and Wiersema create three archetypes for differentiation and argue that to pursue one archetype, you cannot excel at the others. This is because the internal processes and the kind of culture (i.e., the implicit rules of behavior you need to develop within the organization) needed to support and create the desired differentiation vary significantly from one archetype to another. (See Chart Two: Archetypes for How to Compete.)

Principle #7: Business scope is a strategic decision

Value derives from where you compete, not just how you differ from competitors with regard to specific technology, product, service and location offerings. Often times in a mature industry, there's nothing you can do with the product or service to create a point of differentiation absent a new technological change that creates different benefits and/or new applications of the product or service. In this case, the only routes to creating a point of differentiation are to change the scope of your business i.e., where you choose to compete. Changes in scope can occur in who you sell to, how you reach the customer (i.e, your channel) and what you sell. Examples of scope strategies include:

- bundling other products and services with your core product or service (e.g., parking maintenance services);
- narrowing your target market to create a more differentiated offering (going after national retail chains with big box solutions);
- broadening your target market or geographic scope to gain economies of scale (e.g., bringing an innovative bridge solution to a new state, using a partner to supply the precast);
- adopting a new channel for reaching the customer that reduces cost or time or enhances customer service levels (e.g., a precast design solution website that architects can use seamlessly in their design work and that automates the precast drawings);
- becoming more vertically integrated (e.g., acquiring a ready mix concrete operation and doing cast-in-place internally) or moving up the food chain (e.g., a general contractor also offering development services).

The broadening of a product line often times increases benefits by either reducing administrative costs, increasing speed, enhancing asset productivity or enabling customers to become more competitive as a result of the broadening of your product offering. We see this principle at work in the precast industry already. Combining erection with the manufactured precast components offers a better solution to contractors than selling only the precast component and asking the customer to erect it. The addition of erection services lowers risks, increases speed, reduces hassle and may lower other costs.

Sometimes a broader offering is required when you select a new target market. For example, companies that switch from selling to general contractors to selling directly to owners may need to offer a broader product line in order to be viewed as an acceptable supplier by the owner.

One implication of Principle #7 is that when markets reach maturity, there is growing risk of companies that offer complementary products or suppliers or even customers becoming direct competitors. When a PC-21 company decided to sell parking decks directly to owners by taking on "all the job," general contractors saw a complementary product (precast) become a competitor. The expansion of the product offering was a smart move because:

- Precast was a commodity product in the market the company served.
- Owners, far more than general contractors, valued the benefits of precast and general contractors controlled access to owners, making it hard for the precaster to pitch precast benefits to owners of parking decks. And, general contracting firms were winning parking deck orders offering cast-in-place technology to owners located outside the area but building in the area before the company even knew a parking deck job was being decided.
- By offering all the solution, the company could pull time and cost out of the parking deck project. They had, in other words, a unique offering relative to cast-in-place and other precast firms unwilling to take on all of the job.

Strategies for Breaking Out of a Commodity Market

There are six general strategies one can choose to break out of a commodity market:

- You can reinvent the technology in a way that reduces its cost, broadens its applicability or enhances its benefit to existing customers. New composites are being used in bridges as you read this.
- You can broaden the product and service offering. In essence what you're doing is changing the frame of reference for your offering and in the process creating a higher level of benefit. The PC-21 company's move into "all the parking deck" accomplished this. (See Sidebar D: Examples of Synergistic Products and Services to Add to Precast Offering.)
- You can find new uses for your product. Single-family home applications of precast or the use of "jail cell" approaches to create hotel/motel dorm room modules are examples of new precast uses.
- You can find out what frustrates the customer in using your industry's products and services and create an offering that breaks these compromises. Videos were a response to the baby boomers having children and no longer

being able to go to the movie theatre as often as they desired. Home theaters are today's solution to the same problem.

- You can tailor the offering to a specific segment within the market e.g., creating a company that brings precast components to the market faster than the competition, thereby appealing to owners of retail and manufacturing structures for whom construction time is of the essence.
- You can change the value chain (i.e., the series of transactions by which resources are transformed into the final product for the final customer) by eliminating steps that do not add value to the customer. The precast company selling directly to owners accomplished this.
- You can work collaboratively with others in the value chain to bring added value to a shared customer. When precast companies and construction companies align, they can often times pull cost and time out of a building project in a way that they can't when they have a transactional relationship. Walmart's 10% advantage comes from partnering with suppliers to eliminate warehousing of many products in Walmart stores. Products go from manufacturer to store shelves, eliminating storage and double handling in Walmart's distribution centers.

(See Sidebar E: Differentiation Strategies for Precast Firms)

Sustained Differentiation

"Revitalization strategies" are attractive because they create the opportunity to break out of the commodity box. Nevertheless, companies inevitably encounter the "law of nemesis." The law of nemesis states, "When people see a good thing, they try to copy it." Thus, when a company creates an attractive point of differentiation, other suppliers observe the success of this strategy in the market. They may start losing to the differentiated supplier or they may experience customers asking them to match their competitors' unique offering. In either case, suppliers begin to make changes in their offering to "mirror" the successful firm's offering. The "law of nemesis" demands firms engage in ongoing differentiation to prevent a return to the commodity box.

The "law of nemesis" explains why higher quality, which once was a key element of differentiation within your marketplace, became a requirement to even be considered. Thanks in large measure to the Deming-inspired "quality movement," we have gained methods, theories and disciplines to genuinely enhance customer satisfaction through improved product quality and service uniformity and excellence. As laggards in the quality and customer satisfaction field watched early adopters win accolades and gain marketshare, they followed. At a certain point, quality became high enough across suppliers in some industries that the buyer did need not to invest any more money to get any higher quality. Higher quality ceased being a differentiator as buyers grew to view companies as offering undifferentiated quality-driven benefits. They began to select again on price, using their buying power to create strong price competition across suppliers that met the quality standard.

The dramatic consolidation going on in most markets in response to information technology, stronger buyers and global competition is only making matters worse. Stronger buyers succeeded in driving prices down by establishing minimum, albeit high, standards. Any supplier that is acceptable is just that--acceptable. The customers pick the supplier with the lowest price and end up with an acceptable product or service.

Michael Porter describes this type of market transition as companies moving to the "productivity frontier" of an industry--the best anyone can be in terms of product quality and service at the market price. (See Chart Three: Productivity Frontier.) Absent significant shifts in how products are made and services are supplied, no firm can earn a premium for "better quality and service." Yet even if one firm does "reinvent" the wheel, the premium is short lived as other companies catch up.

The business lesson is clear: even though we have dramatically increased customer net value through our attention to quality and service, all this value has shifted to the consumer as a result of the “law of nemesis” and a lack of product and service differentiation among acceptable suppliers. Business managers describe this phenomenon as "We seem to be doing more and more for less and less money."

While total quality management may be a necessary ingredient to be considered, it is not a sufficient basis for breaking out of a commodity-like market. The only solution to the “law of nemesis” is to create a type of organization that can consistently create and maintain points of differentiation against the competition. I call this a market-driven company.

Becoming a Market-Driven Organization

It is time to declare the era of being customer-driven as over. This does not mean to say that companies will not continue to focus on satisfying customers. Rather, the key elements of "customer-driven" cultures are becoming “business as usual” expectations:

- Placing the customer at the center of the organization
- Improving and redesigning processes, products and services to better service customers
- Responding to customers' demand for change (often initiated by seeing another supplier do something new) so as to retain satisfied customers

Winning firms will do more than this; they will shift from being customer-driven first and foremost to being market-driven. What is market-driven and how does it differ from customer-driven?

- It is a shift from satisfying customers, whatever their request, to a proactive selection of the customers you want to satisfy and the basis on which you will measure satisfaction -- the basis on which you will win customers over other alternative suppliers.
- It is a shift from reacting to requests to delighting customers with what they needed but could not articulate that they wanted.
- It is a shift from reacting to market dictates and competitive hurdles and competing on what is "required" to creating new market place dictates, instituting internal changes that will let you seize new market opportunities and create ongoing competitive hurdles.

Market-driven firms use an understanding of the forces underway in this broadly defined market to decide both where to compete and how they will be different than the competition. They are customer-driven but only in the context of a strategically selected set of customers to serve and products and services to offer. And, they allow the market place, not customers alone, to inform them of requirements for enduring customer satisfaction.

At the heart of the market-driven organization is a lens on the market that is much broader than the "customers" of the organization, a view that helps create a deep understanding of the market. Market-driven firms employ workers who are not only economically literate and customer knowledgeable, they are market literate. They are astutely aware of the dynamics of the market place and able to understand where their organization fits within the context of broad industry definition. Their market lens includes not just customers and direct competitors but indirect competitors, suppliers and companies offering complementary products and services. It also includes the suppliers to those organizations as well as organizations higher up the value-chain (e.g., the owner of a building if we are considering the market place for subcontractors who sell building materials to general contractors.)

Why is being market-driven as opposed to solely customer-driven so critical to an organization's long term viability and success?

First, it is often changes from outside the customer group you are serving and your existing competitors that have the most dramatic effect on the competitive strength of your organization. Customers can't articulate what they really need. If they had the answer to what they really needed it would become part of the criteria for being considered. Customers can only (and you'll hear this repeated verbatim by your sales force) articulate only what they want.

- AT&T's move into credit cards and UPS' move into charter airlines brought a new set of benefits that led customers of companies traditionally serving these markets to define traditional benefits as substandard, even though customers appeared to be satisfied in the past. Market driven companies define their competition broadly because of their broad lens on the market. They regularly ask, "Who could enter our market easily and what advantages would they bring?"

Second, not all customers are created equally. A market focus demands that you decide where you want to compete -- the customer groups you will serve as well as the products and services you will offer. It makes some groups of customers more strategic than others.

- In many of the "ubiquitous" industries (i.e., those technologies or products and services that are used by many, many industries), a broad focus on all potential markets undermines these organization's success as each distinct marketplace has very different demands from its supplier. For example, in the packaging industry, medical customers have very different demands on packaging suppliers than do manufacturers of frozen food. Companies can differentiate themselves by focusing their offerings on a narrow set of synergistic market segments and tailoring offerings to the unique needs of the targeted markets. A thermoform packaging company moved from defining its market as all companies needing thermoform packaging to a narrowly defined set of industries in which packaging serves a functional role. A narrower focus in terms of customers, but a broader focus in terms of products and services, allowed the company to identify many non-packaging services needed in this segment and to truly differentiate its offerings.

Third, the future is no longer predictable. Perhaps it never was, but the pace of change enabled a small group to document trends, establish directions and make strategic decisions. Delays were not knock out punches. In today's markets, an organization's front line must serve as spies, soldiers and leadership in seizing opportunities and protecting against critical risks in the market. A front line focused only on the battle for today's customers may not see the key elements of the unfolding war.

- Internet communication and software industries are examples where speed of decision-making is becoming a competitive advantage.

Finally, waiting until your customers tell you what is needed can be a recipe for disaster in changing markets. By the time the customer shares the need with you, there are suppliers serving the market and knocking on your customers' doors. Victories in many markets occur well before the external battle for market share (Prahalad and Hamel).

- The movement of advanced composite technology from defense industries to construction markets will significantly affect many building material companies. It will be years, especially in the infrastructure market, before these new materials become standard. But the companies that are investing today to understand the production, design and performance implications of the new technology will secure long-term leadership. If existing precast companies fail to take a leadership role, they will become obsolete, replaced by the start-ups and others who understood that the new composites address customer needs, not what they currently say they want.

(See Sidebar F: The Shift to Becoming Market-Driven)

How do you become market-driven? If we compared market-driven versus customer driven organizations, what differences would we see? (See Sidebar G: The View of the Organization and its Markets from the Marketing Balcony.)

- Market-driven firms have a broad lens on their market and have developed an effective market understanding process. They acquire, interpret and use market information in all their decisions. The process is not unlike the financial understanding process. There is a process owner, process goals and individuals in all functional areas that know their role in the process and that there are investments to make the process better. Discussions about the market are as regular as discussions about the firm's financial performance. And individuals throughout the company, not just in the R&D and marketing-sales area, are involved in these discussions. Customer-driven firms have a narrower lens on the market and the market. Their market understanding process, other than defining what current customers want, is left to serendipity. (See Sidebar H: The Market Understanding Process.)

- Market-driven firms understand that the scope of their product and service offering and their selection of what markets to serve is one of their most strategic decisions. They define the purpose of their business broadly and regularly evaluate if where they are competing is maximizing the value they bring to their customers in served markets. Customer-driven firms will rule out entry into new product or service groups on the basis of "we do not do that." Historical business scope is taken as a given, not a decision to be regularly re-examined.

- Market-driven firms have an open culture and respect a diversity of voices and talents. They recognize that information about the broader environment of the organization is like oxygen to a living system. It provides the signals the organization needs to evolve in tune with the market so as to extend its existence and success.

- Market-driven firms have a different set of criteria for their decision making. They make decisions not just on the basis of financial, current customer and internal considerations, but on the basis of what will create the strongest market position. Perhaps the key area where this is most apparent is in organizational structure. Market driven firms organize in ways that are best in terms of the market, even if the change requires significant internal adjustment (e.g., moving from regionally defined business units to an organization that is designed around market segments).

- Market-driven firms are very selective in where they place their process improvement resources. They focus on those processes critical to the firm's differentiated position in its market and others that affect long-term competitiveness, not on those that are most easily tailored to traditional process improvement tools.

- Market-driven firms are led by managers who foster change and renewal on a daily basis. They do this by developing a keen understanding of the status quo and challenging it regularly and by demonstrating a passion for innovative people, ideas and environments. They are the managers who hire people that are not cast in their own liking, but rather bring a different set of gifts to the team than ones already present.

Market-driven firms know that marketing is too important to leave to the marketing department. Their marketing department is directed to champion processes that make the entire organization alive to its changing environment. Market driven organizations involve all functions in making market-related decisions so that the entire organization can move efficiently, effectively and speedily in chosen directions that will ensure an enduring organization is created.

Driving for Change: How to Move Forward

<u>Act One: Readiness: Create the provocation for change</u>

In order to create any momentum for change, leadership has to do a number of things. It must:

- Assess the readiness of the organization to change. Is there a motivation to change and an organizational capacity to create change?

- Build urgency to change by creating a gap between today's reality and the vision of where the company wants to go. The gap between the vision and the current reality of the organization creates momentum for change in an organization. This is a key part of getting an organization ready to break out of a commodity market.

- In an era of growing cynicism about management, it's critical that a leadership team not engage others in the organization in a change initiative until they themselves are primarily in agreement about the need to change the organization. And they must begin to reach some degree of commonality of thought about potential future directions. Absent motivation or capacity to change, organizations can feel immediately defeated when kicking off a change process.

Motivation for change is measured along a number of dimensions:

- Does a provocation for change exist?
- Does a sense of urgency exist within leadership?
- Does a change guiding coalition exist in the leadership team and will it be easy to have informal leaders be part of it?
- Is there a shared, meaningful purpose to the organization?
- Do individual leaders want to change personally? Individual change will be a key part of creating company change? (This is discussed further in Pamphlet Seven.)

Similarly, there are multiple indicators of whether or not the organization has the capacity to change.

- Is there are a core set of values that guide the company?
- Are there performance measures and are they linked to rewards?
- Are key managers flexible?
- Is the organization customer focused?
- Is the communications process fluid throughout the organization?
- Is the organization structured to minimize hierarchy?
- Does the management team have prior experience with forging change?
- Does trust exist among members of the leadership team and between the leadership team and the rest of the organization?
- Is the company culture such that people are open to change?
- Does the organization objectively understand the market and its position in the market?

To the extent that any of these capacity factors are missing, leadership must recognize that the early stages of the change process will require them to focus on these factors, not just the definition and execution of a new competitive strategy.

<u>Team Exercise: Customer Feedback</u>

In order to initiate discussion of ways to break out of a commodity box, interview customers and potential customers to learn more about:

- What factors influence who they consider and select as suppliers;
- What they see as your advantages and disadvantages relative to the competition;
- What they feel they can always count on your firm for;
- What their frustrations are in dealing with your industry in general; and
- The key problems they are facing in their business for which they would welcome innovative solutions

Open discussions between your company and its customers -- which are not about selling products, but rather about understanding your customers' business -- create critical insights that can lead you to identify points of differentiation your competition has not yet identified. In addition to gaining critical insights, this work helps the organization "unlearn the past" by breaking paradigms about today's market. (A paradigm is a set of rules that shape how we act and interpret what we see. They are taken as "fact" when in truth they are merely assumptions, e.g., "Contractors choose subs on price alone.") An organization must unlearn the past to see the opportunity for a new competitive strategy that leads it out of commodity competition.

Team Exercise: Creating Urgency by Redefining Reality

Urgency is created by developing a deeper understanding of the true risks and opportunities facing your company. Engage the leadership team and other employees in a meeting to identify where the company is currently competing, whether or not there are any points of differentiation, and risks and opportunities that exist with the company's current market position. Also discuss the following:

- How might the company's points of differentiation be captured by the competition?
- How could the value chain be changed to our advantage?
- What are the implications if the company lacks a differentiated offering?
- How is the company better than its competition? How is it worse?
- What could create differentiation that matters to customers? What risks does the company face if it does not change?

Team Exercise: Creating Urgency Through an Inspiring Vision of the Future

Urgency is created when leaders and associates have a different picture of the future from that which the company faces today. Sit down with individuals throughout the company and discuss:

- What can your company do that other companies cannot do as well?
- What opportunities exist in the marketplace for firms wih our knowledge and skills?
- How could we differentiate ourselves in ways that would secure customer loyalty?
- What kind of company do we want to create?
- What have been some of your most rewarding work experiences? Flash forward to your retirement and describe what you want to say about your career here.
- What kind of company would attract and retain today's young talent?
- What type of legacy do we want to create for those who follow in our footsteps?
- How do we want to compete in the marketplace?

These conversations serve to create a more detailed description of what the organization could look like in the future. They may, for example, end up describing:

- The deeper purpose of the company
- The types of people employed

- The basis of competition and management style
- Promises and expectations with respect to suppliers, employees and customers
- Basis of rewards and key business practices

The last step in creating urgency is to identify the key players in the change process. While the leadership team will guide the overall effort, it is critical that you know who is really on the change coalition team or not within the leadership team and elsewhere in the company. It's okay if not all senior leaders are part of the change coalition. There will always be explorers and pioneers (the change coalition) as well as settlers (those who will follow later). Eventually people who can't own the change process (the easterners so to speak) will be happier employed elsewhere. But the change process must give people time to understand what changes are needed and to grow. Remember also that the settlers and easterners are very helpful at the start of a process to shift the competitive strategy as their questions and concerns create a more focused, integrated and realistic change process. Members of the coalition will grow over time. Make sure that the senior leaders and the informal leaders in your organization are part of it eventually.

<u>Team Exercise: Creating the Change Coalition</u>

Join with a group of individuals who feel urgency to further change the organization.

- Identify explorers, pioneers, settlers and easterners within the company
  - ~ explorers are the first group to change
  - ~ pioneers quickly follow explorers when they see that the explorers have some good ideas
  - ~ settlers are people who change after evidence of initial victories, when it feels safe to change
  - ~ easterners are people who express little interest in changing, whatever the news from explorers, pioneers or settlers. They want to maintain the status quo, typically because they gain advantages from it.
- Identify what it would take to move pioneers and settlers towards change
- Identify members of the change coalition that will lead the company out of a commodity market and together read Pamphlet SIX
- Keep this list of members of the change coalition updated in your mind and regularly review whom you need within the pioneer group and why, and then listen to that person's concerns about the change process openly.

<u>Act Two: Design: Redefine what your business is designed to accomplish</u>

The purpose of Act Two is to establish new design parameters for your organization. The design gives employees a pathway from today to the future. The pathway is <u>essential</u>, as otherwise the desired vision looks too far away and movement towards it is too risky. The devil you know always feels better than the one you do not know.

The key steps in Act Two are:

- Develop your purpose and guiding principles.
- Discuss the organization's current competitive strategy (where and how it wins business versus the competition):
  - ~ product, service and technology scope
  - ~ target markets
  - ~ channels to reach target markets
  - ~ what it makes versus acquires or relies on from the outside
  - ~ strategic positioning: how it is different than the competition, as seen from the customers' perspective
  - ~ core competencies which are the cross-functional skills that create differentiated benefits or cost savings, are superior to that of competitors, are hard to replicate and can be used to move into new markets or additional products and services for existing markets.
- Deepen the discussion of what's changing in the marketplace and its implications for your company by conducting a strategic assessment of your organization.
- Outline a new competitive strategy that builds on your existing uniqueness (real or potential) and takes advantage of changes that are going on in the marketplace.
- Create a shared vision of the organization's future.
- Establish three-year strategic (i.e., change) goals for the organization
- Revise the organization's purpose if necessary.
- Communicate the new design of the business (especially the competitive strategy) broadly within the organization.

Pamphlets Three, Four and Five provide background, frameworks and exercises to help you complete Act Two.

<u>Act Three: Alignment: Fitting the Organization to its Competitive Strategy</u>

Act Three is about creating change. All the steps up to this point are in essence planning steps. Now the real work begins.

The organization that created its current problems will not solve its problems and achieve its vision. A new organization is needed. Every aspect of the organization is examined and brought into alignment with the underlying competitive strategy decisions. Act Three starts with a blank sheet of paper and asks, "If we started the company, how would we structure and run our organization to fit the design decisions: purpose, vision, guiding principles, competitive strategy and three-year strategic goals?" Among the many items that may change are:

~ Hiring criteria	~ Organizational structure
~ Compensation	~ Information systems
~ Measures	~ Core processes
~ Partnerships	~ Culture
~ Desire management style	~ Job descriptions and expectations
~ Strengths and sources of competitive advantage	~ Business practices (but not core values)

The key steps in Act Three are to:

- Define the nearer term objectives that must be attained to achieve the organization's strategic goals
- Identify elements of the company's culture that will be barriers to execution of strategy.
- Make sure you are becoming differentiated in fact and building underlying core competencies that create real points of distinction and competitive advantage
- Empower others to act on the vision--involve them in defining objectives and action plans
- Plan for and create short-term wins
- Consolidate improvements and produce still more change
- Institutionalize new approaches

Whenever the "change agenda" is viewed as work on top of "everyday work," the change agenda gets short-changed. The root causes of everyday work crowding out change are many:

- Lack of senior team leadership results in the leadership team doing day-to-day operational work to insure financial goals are met rather than overseeing changes in the organization. (See Pamphlet Two)
- The existing culture—how people work together—grinds change to a slow but steady halt. (See Pamphlet Seven)
- Failure to link annual plans to the design decisions of the firm, especially its competitive strategy, also limits change. (See Pamphlet Five)

Summary on Differentiation

In commodity markets, you must create and communicate a point of distinction, otherwise, customers reap all the value (i.e., benefits less costs to create the benefits) your company works hard to create. It's not what you say is different about your company that creates differentiation. Herein lies the challenge. You must, in fact, <u>create</u> true advantages and points of distinction. The only way to increase your power as a supplier and your strength as a competitor is to create differentiation that customers will pay a premium for. And, you must continue to maintain differentiation as other suppliers try to "catch up." The only alternative is to become the lowest cost supplier, which makes being the lowest priced competitor profitable.

The transition from being a commodity supplier to continually differentiating your company presents an organizational shift from being production-driven to market-driven. A *production-driven* company sells what it can make versus modifies its technology and expands its product offering to better address needs of customers. Production-driven companies measure success by capacity utilization and profitability as opposed to marketshare and customer retention and satisfaction. A *customer-driven* company is very focused on satisfying customers, but it lets customers lead so to speak. It provides what customers demand, often times creating huge resource conflicts within the organization. A *market-driven* company chooses the markets in which it wants to secure a leadership position. It develops an intimate and deep understanding of the target market so that it can combine this knowledge with the understanding of its own technology to best address the needs of strategic customers (i.e., those in the selected target markets). A market-driven company offers customers products and services they did not know they wanted, but are delighted to have. Market-driven companies solve problems customers did not think were solvable.

A key difference among these three types of firms -- production-driven, customer-driven and market-driven -- is how they view the scope of their business, i.e., what they sell (products, services, technologies), where they sell (channels and geographies), whom they sell to (i.e., target markets) and their relationship with other members of the value chain. Is scope taken as a given (i.e., production-driven), a response to customers' demand (i.e., customer-driven) or an opportunity to create strategic differentiation (i.e., market-driven)? Scope has a significant effect on customer value, and therefore the viability of your business long-term.

As markets mature, the shift from production-driven to customer-driven to market-driven is critical to the company's long-term success. Becoming market-driven does not mean you stop caring about customers or that you stop fully utilizing your production capability. Rather, a market-driven firm establishes that some customer segments are more strategic than others and that the organization will align its offering to meet the needs of strategic groups rather than align its operation to meet the needs of others.

A company cannot be market-driven if it wants to sell to everyone in the market and be all things to all people. There is no way you can understand all customers intimately and design the highest value offering for all of them. For this reason, market-driven companies must give up business to gain business, a tradeoff that appears frightening to the production-driven company, but is, in fact, extremely profitable once executed. Defining the competitive strategy and developing a marketing plan to implement it are the tools we use to focus a company more narrowly so that it can become market-driven. They help a company lead changes rather than be constantly battered by changes outside its control. Market-driven companies create the future they desire. They regularly transform dreams into realities by educating their workforce on the economics of the business and its markets, focusing their efforts and establishing a shared, meaningful purpose, set of guiding principles and vision.

Market-driven companies understand and apply key marketing principles:

Principle #1: What you are is defined by the customer.

Principle #2: Forget attributes. Sell benefits.

Principle #3: Value rules even in commodity markets.

Principle #4: Profits require differentiation.

Principle #5: To break out of a commodity box, you must look at your market with new eyes. Old thinking creates the same old results.

Principle #6: You can't be all things to all people.

Principle #7: Business scope is a strategic decision.

Leadership's role in the change process is essential. It creates change. Pamphlets Two and Six discuss leadership's role in greater detail. They include:

- Forming a change coalition
- Creating the provocation for change by creating a gap between today's reality and tomorrow's vision
- Defining a clear route to the vision which is the role of competitive strategy
- Defining a meaningful, shared purpose and set of guiding principles that encourage commitment, not just compliance on the part of employees
- Communicating the organization's vision, purpose, guiding principles and competitive strategy actively and extensively so that work plans developed by managers and their associates are aligned with the competitive strategy decisions of the firm
- Insuring there is a strong market understanding process in place so that strategies evolve over time and the company maintains strong differentiation
- Aligning the organization's structure, processes, skills/capabilities and its culture to "fit" the strategy
- Planning for effective actions: quick hits and annual objectives that move the company closer to its strategic goals and thereby help to maintain momentum within the organization
- Anchoring changes in the organization's culture

Questions and Challenges to Move Forward

- What risks and opportunities does your organization face?
- Is there a catalyst to change in your organization?

- Has your organization defined a viable competitive strategy? Is it broadly understood?
- Is your organization truly and effectively executing its strategies?
- If your organization does not change, how will you personally feel?
- How will you assess whether your current competitive strategy is effective?
- What beliefs, patterns or fears get in the way of effective leadership around this issue?
- Is your organization's market understanding process what it needs to be?
- Is your company production-driven, customer-driven or market-driven? What do you need it to be?
- What will you personally do differently tomorrow?

Sidebar B: Custom Products Can Be Commodities

Many companies in business-to-business markets argue that because their product is uniquely designed and manufactured for their customers, it cannot be a commodity. Nothing could be farther from the truth. As long as there are a number of qualified suppliers of custom solutions and the buyer sees no difference in benefits or costs across these suppliers, a commodity market exists. The fact that the product is uniquely made says nothing about whether it's a commodity or not. The criterion for a commodity market is whether price is the key determinant as to why one supplier is picked over another. Customization offers an opportunity for differentiation, but only if the customization creates a product that is different from the competition in terms of benefits or cost savings to the customer.

Sidebar C: Ways to Reduce Contractors' Buying Power

- Increase size vis-à-vis buyer
- Differentiate your benefits with respect to other materials and each other
- Create switching costs
- Preclude backward integration, e.g., tilt-up in establishing a new plant on-site of large precast jobs
- Make your product key to quality, speed or cost
- Go direct to the owner or the customer or contractor

Sidebar D: Examples of Synergistic Products and Services to Add to Precast Offering

- Other types of frames
- Foundations and roofs
- Maintenance services
- Precast and cast-in-place parking decks
- Scheduling the completion of the shell for the GC and oversee all jobs
- Engineer-of-record
- Renovation

Sidebar E: Differentiation Strategies for Precast Firms

<u>Generic Differentiation Strategies</u>

- Work collaboratively with others in the value chain
- Segment the market and tailor products and services to secure a niche
- Broaden your product-service
- Break forced compromises
- Reinvent the technology
- Find new uses for your product
- Eliminate elements of the value chain that add unnecessary cost or time

<u>Examples of Ways to Differentiate a Precast Firm</u>

- One-stop shop to get to dry
- The most innovative precast architectural panels
- Fastest
- Lowest cost
- Easiest to work with
- Most flexible—products and services tailored exactly to your needs
- Most parking spaces or offices or retail square footage per dollar spent
- Lowest ongoing maintenance costs and headaches
- Best value engineering solutions for saving time and money

Sidebar F: The Shift to Becoming Market-Driven

The need to replace being customer-driven with being market-driven occurs at different times in an industry:

- When product technology matures, competition is increasingly based on price and there are growing risks of existing companies from outside your industry entering or new entrants biting off an attractive niche
- When a new technology industry hits the "chasm" -- i.e., when the market shifts from early adopters to what will be the mainstream of the market. Without changing offerings and creating a deep understanding of differences between traditional markets and new markets (feature needs, complementary products, distribution channel options, potential competition), an organization or an industry as a whole will fail to grow the market to its full potential (see the book, <u>Crossing the Chasm</u>)
- When technology changes could fundamentally alter your industry
- When other industries and industry's value chain are experiencing economic pressures and vertically integrate into your industry to enhance their value and economic prospects

From a company's perspective, the need to shift from customer-driven to market-driven generally comes at a defined stage in the company's evolution. In their early stage, companies are driven by the need to survive. Proving their product concept, their technology or their operating approach is at the heart of management's interests. From here, companies become sales driven and later, when their sales growth begins to taper off, they become more and more profit driven. A customer-driven culture may have been part of the company's culture from the start or it may evolve during the sales and profit driven stages as the leadership realizes the link between satisfied customers and ongoing, profitable business. But at some point, the company's growth in both sales and profits slows to a halt. In some industries, they may actually start to decline. It is at this point that the company must become market driven and redefine where and how it will compete and what it must excel at internally to secure leadership positions in targeted markets (See Chart Four).

Sidebar G: The View of the Organization and its Markets from the Marketing Balcony

Just as engineers, sales and manufacturing professionals bring certain skills to the organization--and to problem resolution in particular--marketing professionals bring skills, beliefs and problem resolution perspectives. At different times throughout our PC-21 meetings, we shared many underlying marketing beliefs and philosophies--the "basic principles" so to speak--of the discipline.

Marketing Beliefs

- Value rules, not price
  - ~ Corollary: Value is in the eyes of the customer. Company can point out benefits but cannot turn non-benefits into benefits or hide costs that are costly.
- Value stems from more than the individual product
  - ~ Corollary: Breadth of line and value chain are key to value-creation.
- “I don’t go where the puck is. I go where it’s going to be.” (Wayne Gretzky)
- Different customers want different things.
- You cannot be all things to all people.
  - ~ Corollary: You must give up business to get business.
- What works today will not necessarily work tomorrow.
  - ~ Corollary: Paradigms develop quickly and must be challenged regularly.
- A discussion of what is needed must precede any discussion of what is possible to do.
  - ~ Corollary: Avoid operational “not invented here” syndrome at all costs.

Marketing Philosophies

- Leaders remain leaders unless followers better exploit external change.
- You will be as successful as your channels of information and influence.
- Your overall goal is to increase the long-term value of the corporation and secure enduring franchises with key customers. Maximizing capacity utilization is a means, not an end!
- Research is a valuable tool, but it does not provide the end-all answer. Good marketing solutions are derived from an in-depth understanding of the customer’s context and an ongoing dialogue from which you intuitively derive needed answers.
- Never damage the industry to beat a competitor. Often, strategies that improve the industry overall can be better than strategies that keep the industry the same, but dramatically improve your position, e.g., Yamaha digital pianos.
- Customers don’t care about your product per se. They group you into a larger frame of reference category. They want to know how you are a solution to their needs. Detailed technical specifications about what you do will, quite frankly, bore most of them. It’s important only if it provides the needed proof of the value you promise. Too much said suggests a fragile story!

Sidebar H: The Market Understanding Process

Most companies treat the internal acquisition, interpretation and use of financial information in company decisions as a core process. The financial information process belongs to the company, not to individuals in the company. Financial management develops policies and procedures and insures they are followed consistently month to month and staff person to staff person. Even if some of the finance associates leave, the process works as planned. Information is still acquired, interpreted and used in managers' decision-making. As a result, companies can survive the loss of a finance person because the company owns the "process."

> *The financial staff does a lot more than acquire and report financial information. They design and manage an internal information process, which encompasses the acquisition, interpretation and use of financial information concerning the sales, costs, assets, liabilities and profits of the company. Employees in other departments both participate in the process (e.g., manufacturing workers) and are beneficiaries of the process (e.g., new product development teams). The job of the CFO is to insure the process goals are aligned with, and contribute to, overall organizational goals and that the financial understanding process is efficient and effective. He or she oversees improvements in the process that result in better quality information, gained at lower cost or faster and used more effectively in decision-making. To accomplish this, the CFO establishes process goals, measures performance and invests in process improvements (e.g., new systems, consultants, training, etc.).*
>
> *Note that the "deliverable" of the financial understanding process is not the internal financial information per se, but better decisions that affect the organization's ability to meet its financial goals. Thus, training the management team to interpret and use internal information effectively is a key part of this financial understanding process.*

This is not the case for market information, however. The market information process is left to the serendipity of individuals. The process changes as the marketing and sales department members change. The implicit process will be as good or bad as individual sales and marketing managers and their commitment to market information.

The market understanding process also embraces acquisition, interpretation and use of information in decision-making. Market information is much broader than customer satisfaction, which some precast firms measure today. The focus is on customers--lost, current and potential--as well as the market, external trends (economic, demographic, societal, technological and institutional) and competitors. And, it includes understanding how things might change in the future, not just snapshots of today.

Unlike the financial information process, however, the market understanding process is not well defined, or managed well, in most companies, even when management recognizes it as a process. Imagine your company without reliable financial information. Now begin to think about the effect of a weak market understanding process, one characterized by the following:

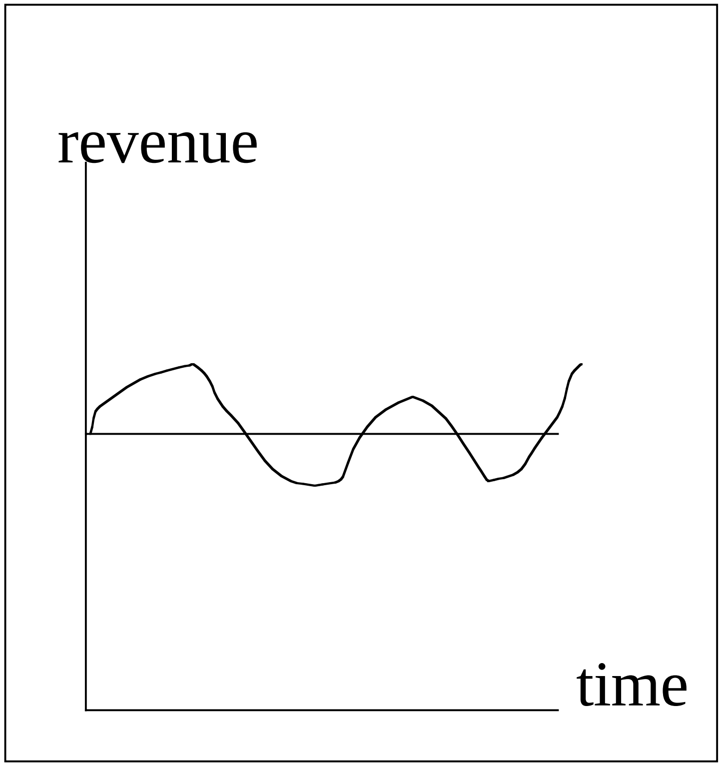
- When marketing and salespeople quit or retire, their knowledge of the market leaves with them; it is no longer "housed" in the company
- Marketing or sales does not necessarily receive information that comes into the company from other sources (e.g., engineers attending a tradeshow)
- No one formally oversees the process of interpreting and using market information effectively. For example, no one is responsible for developing the tools and training to insure management excels in using market information
- The organization limits investment in acquiring market information
- There is little, if any, management effort extended to improve the process, e.g., to enhance the speed of information collection and circulation, or to improve the use of the information in decision-making.

Team Exercise: Market Understanding Process

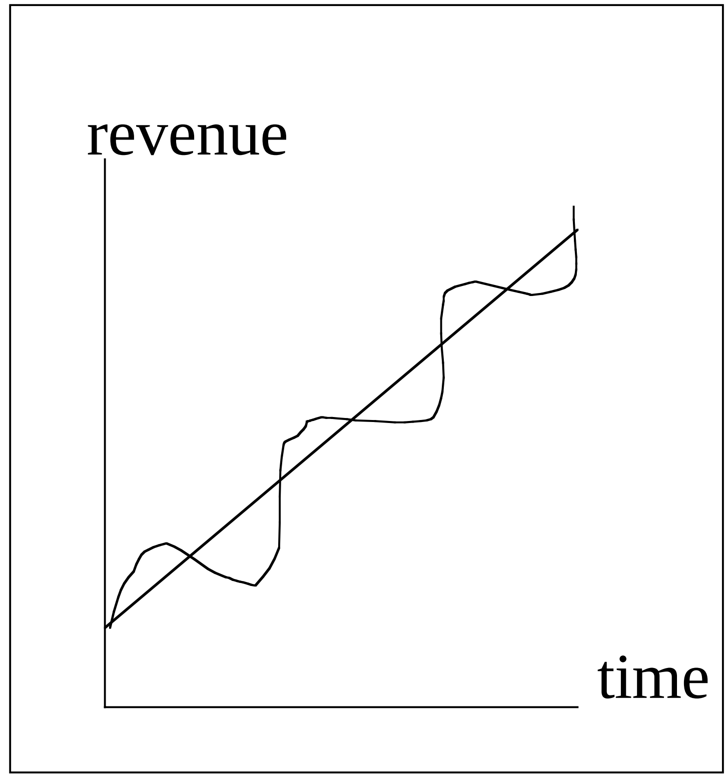
Discuss the following questions as a team:

- Is market understanding critical to our long-term success if we want to be a differentiated supplier--as opposed to a commodity supplier? (See Chapter One for a discussion of differentiated vs. commodity supplier.) Why or why not?
- In light of this, is the market understanding process a strategic process for our company?
- Who is the "owner" of this process? Who is involved?
- How should we measure the effectiveness of our market understanding process?
- How well is the market understanding process working?
  - ~ Acquisition of data
  - ~ Interpretation of data to create information
  - ~ Use of market information and knowledge in company decisions
- What improvement goals make sense for our company's market understanding process?
- Can we have an effective market understanding process without a marketing professional on staff?

Sidebar A: Differentiated Firms Retain Talent



Commodity suppliers loose Talented employees in downturns.



Differentiated suppliers gain share and grow into new markets during downturns, enabling them to retain talent.

Chart One
Commodity Markets = No Differentiation

Value rules, even in commodity markets.

- A commodity product has value, but -- in the absence of differentiation -- all value goes to the customer.

- You reap a portion of this value only when you offer a unique difference that increases the real value available to be shared. This is your goal!

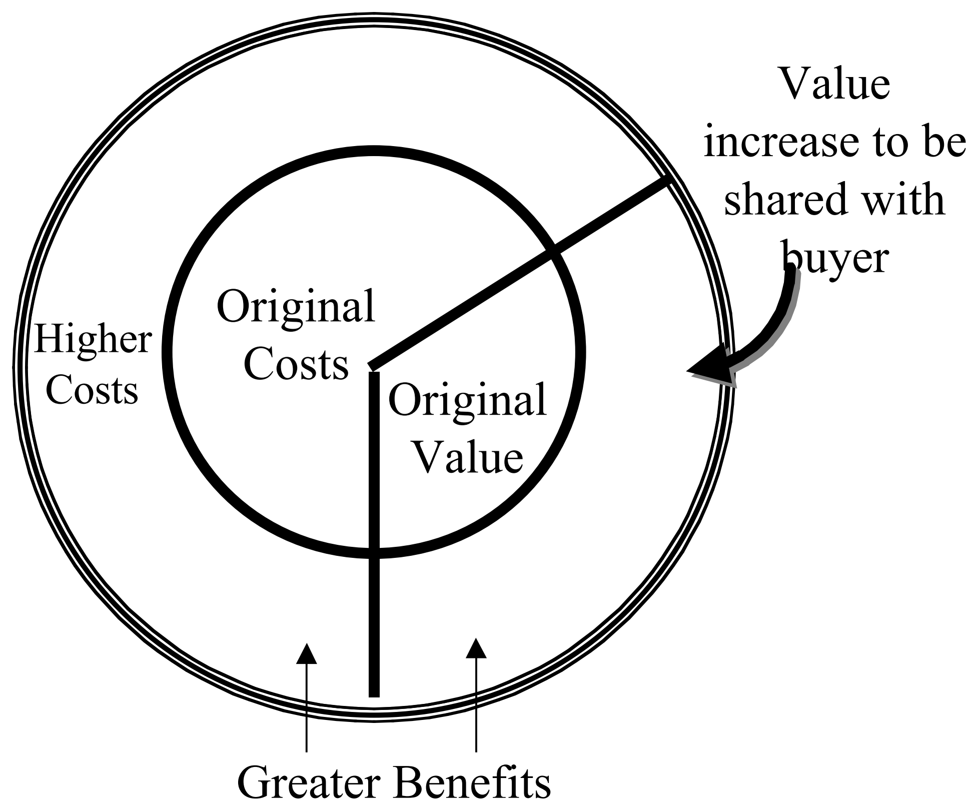
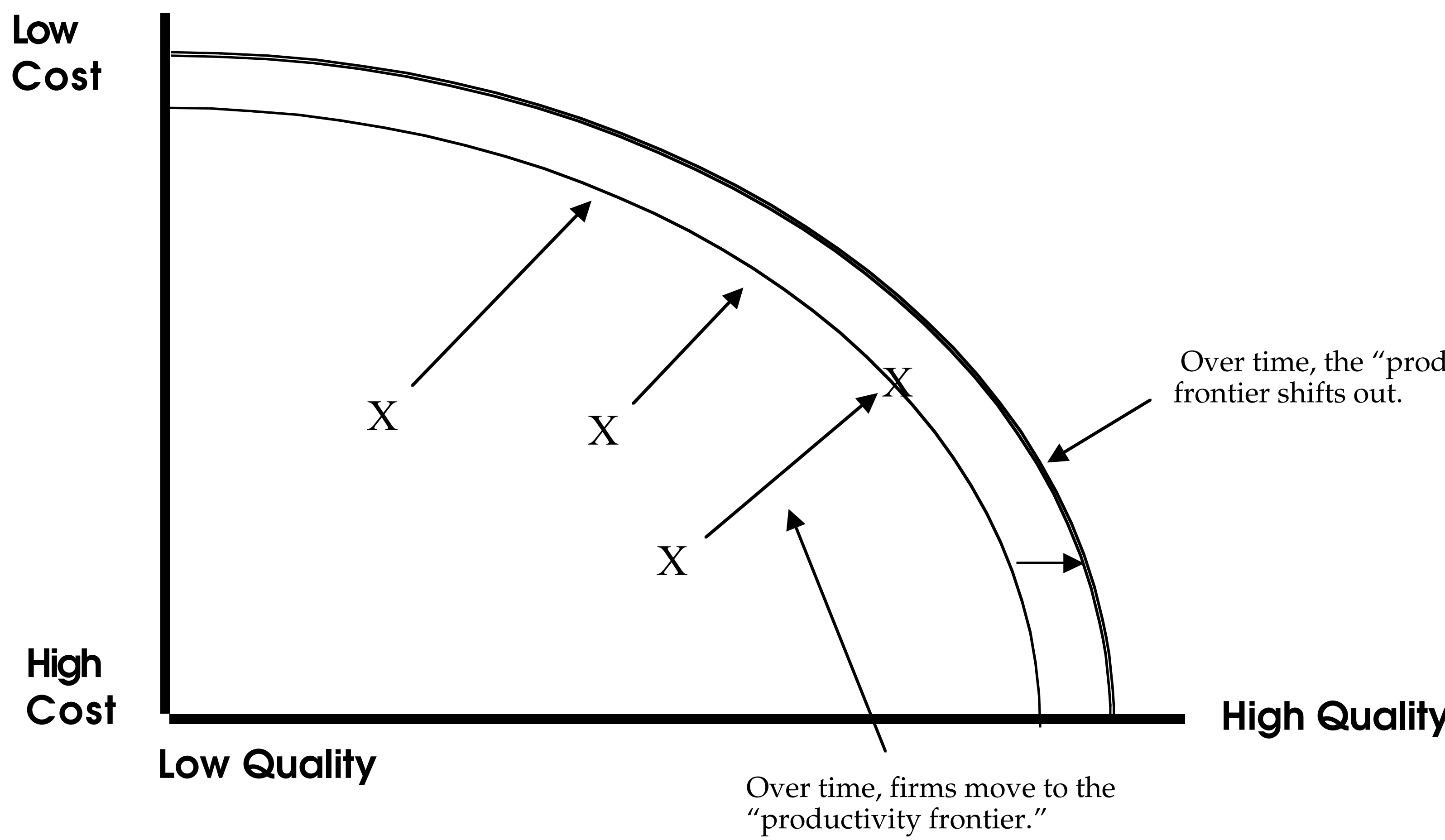


Chart Two
"Archetypes" for How to Compete

Source: *Discipline of Market Leaders*

	OPERATIONAL EXCELLENCE	**PRODUCT LEADERSHIP**	**CUSTOMER INTIMACY**
KEYS TO SUCCESS	• Lowest direct and indirect cost	• Surpass all past product benefits	• Solutions tailored to one customer (service & product)
EXAMPLES	• UPS, McDonald's, Ford, Wal-Mart, Hertz, PCL	• Nike, H-P, 3M, Intel, Motorola	• IBM, Colt, Tailor, EDS, Home Depot
CRITICAL PROCESSES	• Customer service • Leveling demand • Order entry • Process improvement	• Innovation • R&D • Marketing • Acceptance testing • Ability to produce	• Sales • Customer understanding • Strategic alliances
CULTURE	• Tight • Structured	• Entrepreneurial	• Decisions with employee
ABHOR	• Surprises • Inefficiency	• Mediocrity	• Standardized solutions

Chart Three
Productivity Frontier

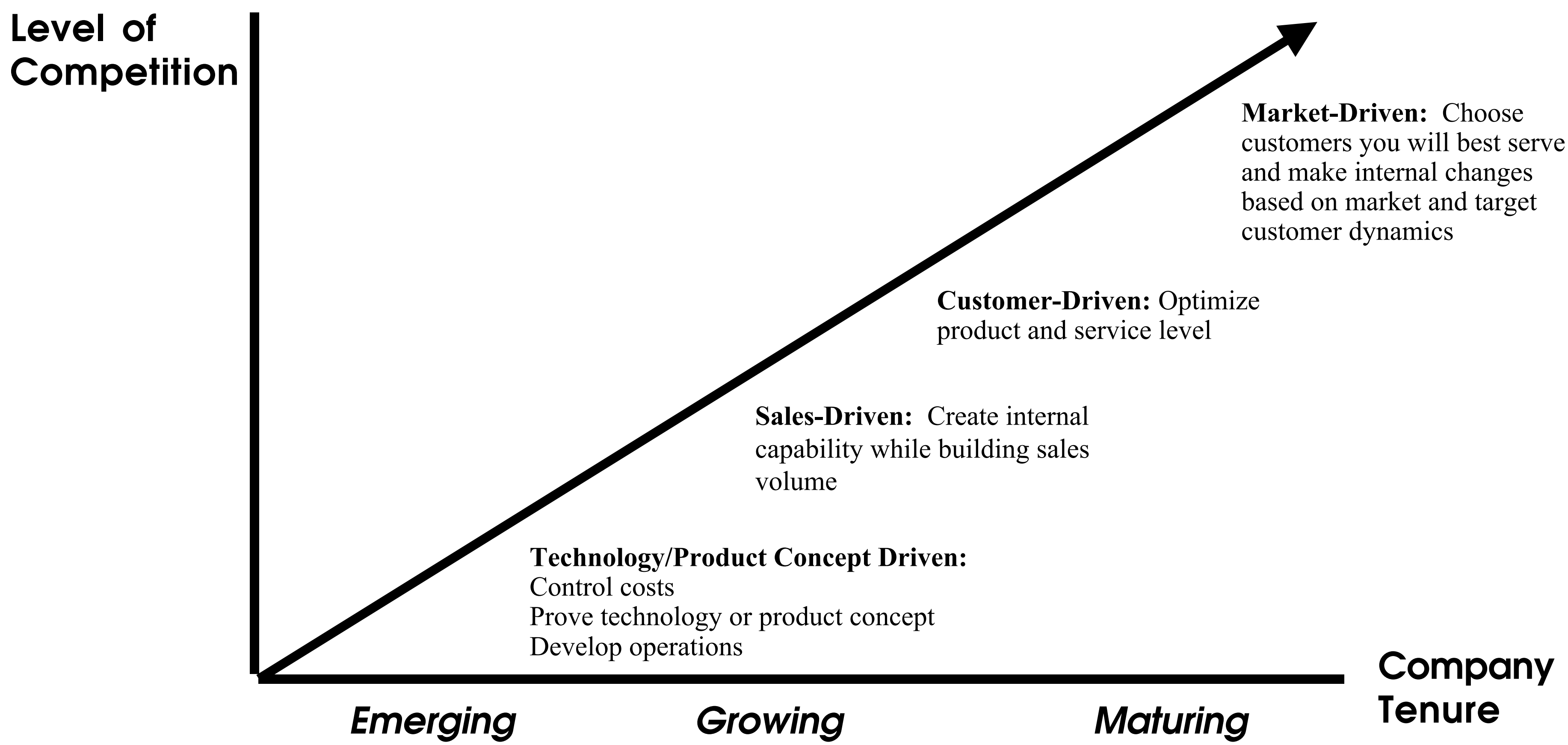


Note this graph could be done for other attributes (e.g., speed, service, etc.) as well.

Source: Porter, Harvard Business Review

Chart Four

The Evolution of Marketing



Marketing's Role:	**Identify potential markets:** pioneer selling	**Support selling:** manipulate demand	**Assess areas of dissatisfaction:** listen to customer "wants"	**Integrate customer into company to build long-term connection:** understand customers' business and their strategic issues and opportunities