

Competing for Customers And Winning with Value

**R. Eric Reidenbach
Reginald W. Goeke**

MVS

MARKET VALUE SOLUTIONS

Competing for Customers and Winning with Value

R Eric Reidenbach
Reginald W. Goeke

Introduction

Elementary economics would tell you that every business firm seeks to identify and occupy a position that is somehow unique from that of its competitors. This is the very essence of competition. Uniqueness creates a compelling selling proposition and an opportunity to increase the firm's share of the market as long as the uniqueness is something that is valued by the market. In the past and, to a large extent even today, this uniqueness has been based on product differences such as those created and enjoyed by Microsoft. Distribution differences, such as those that have powered the Caterpillar engine are another form of differentiation. Image differences have been a powerful tool employed by companies such as Mercedes or Lexus. Price differences are yet another type of differentiation perhaps no better employed than by Walmart. Outstanding firms are constantly seeking newer and better ways to differentiate themselves from their competitors.

All firms compete. Some are better at it than are others. Less innovative firms, lacking the ability and capacity to effectively differentiate can only challenge the leaders at best, or follow. Some industries, to their current detriment, have managed themselves into a commodity situation where differentiation is no longer possible.

The retail banking industry had, in response to the dying S&L industry, bet the ranch on a price competition where the belief was that the only way banks can woo customers from the S&Ls was to cut their fees and prices. In the face of the dubious S&L strategy of losing a dollar on every transaction and making it up in volume, bank managements panicked and began cutting prices. In fact, this price cutting evolved into strategies of giving product and service away for free. The current result is that many banks have turned themselves into kernels of corn or hog bellies in the eyes of their markets. There is little if any differentiation among banks. They are commodities. Unfortunately, as any marketer worth his or her salt will tell you, there need be no such a thing as a commodity. Just ask Orville Redenbacher or Sam Purdue.

Banks are not alone. The US airline industry has flown into significant turbulence as the flying public has learned that it can endure a cramped, stressful, and all around uncomfortable traveling experience on any airline. It doesn't matter if it's Delta, United, US Airways or Continental. All are the same. How to lure customers? Improve service, on time arrivals, or comfortable seating? No. Reduce prices. Now you can fly in the same cramped, stressful and all around uncomfortable airlines at a cheaper price.

Telecom has also found that the conventional wisdom of trying to differentiate a dial tone is a difficult process. Ignoring the host of attendant services and support that customers want, telecom companies dialed down their prices in an attempt to lure customers from one carrier to another.

A second law of economics points to the nature of competition and how it forces firms to differentiate. When Henry Ford began the mass production and mass marketing of his automobile his strategy was simple – “Give them any color car that they want as long as it’s black”. Ford saw the US automobile buyer market as homogeneous. Enter competition. Now the challenge was how do we offer the US auto buyer a compelling reason to buy our product instead of Ford’s car? The answer, of course, was to provide something different – a different color, style, name, etc. As more and more companies entered the auto market, the greater was the need to differentiate.

Competition forces differentiation and in the face of a growing and intensive global competition, firms must learn how to compete effectively. They must better learn how to create and sustain a differential advantage or relegate themselves to a mere challenger or worse, a follower.

The competition for a differential advantage, as indicated above, has taken many forms. Neutralization of these advantages has become significantly easier making the advantage less sustainable. Price advantages have always been recognized as the easiest and quickest to be neutralized. However, technology and its availability to all types of businesses has made it easier to neutralize product, distribution and even image advantages.

The process of creating a differential advantage has always been somewhat more magic than science - magic in the sense that it is random and not a systematic outcome of a deliberate and disciplined approach. That this is so is easily substantiated by the number of followers or challengers relative to true market leaders. Clearly, there are more followers than there are leaders. Unfortunately, too many organizations treat the competition for customers as an unsystematic, agenda driven process often directed by corporate lore and the individual with the loudest voice.

This is the challenge facing many organizations today. How does an organization create and deploy a process that makes the organization an effective machine for attracting new customers and holding onto current customers? How does a business enterprise hardwire a competitive differentiation process into its culture and its way of doing things? Can a challenger or a follower become a leader? Can they learn the process of differentiation and incorporate it into their enterprise management?

As was said earlier, all firms compete, but not all firms compete effectively. Many firms stumble over the first question in effective competition – where do you compete? Do you compete across all market segments and all product lines? The idea that a business

enterprise can and should be all things to everybody has long passed but the myth, in practice, lingers.

This book is about competition, effective competition, for customers. There is a systematic and disciplined approach, a step-by-step process, for creating and sustaining a differential advantage that can be deployed throughout the different functional and operational areas of the organization. It is a systematic process designed to remove the randomness of crafting effective competitive strategy. It is a process that is arguably more important than Six Sigma or Lean and learning how to use this process will make Six Sigma, Lean or any other initiative even more powerful.

Competing for Customers begins with understanding the context and roles of the different aspects of corporate strategy. These roles are often mixed up resulting in competitive confusion. This chapter focuses on the context of competition and keys in on three issues of competition: 1) how does the organization grow and 2) where do we compete and 3) how does the organization compete. The first issue is a higher up question that corporate level types have to decide. The second and third issues are answered at the SBU (strategic business unit) or division level. The latter are the two critical components of competition.

Chapter 2 takes an in-depth look at a powerful concept and how it propels sustainable advantages. Customer value provides both the conceptual basis for creating and sustaining a differential competitive advantage while at the same time providing the operational tools for deploying a value driven competitive strategy.

Chapter 3 discusses the need for a strategic measure – one that provides the information critical to the development of a competitive strategy. In recent years customer satisfaction has provided the strategic measure employed by many organizations. Unfortunately, customer satisfaction has proven incapable of providing the critical information platform that has actionable linkages to factors such as market share or return on sales or top line revenue. Customer value measurement provides just such a strategic measure and Chapter 3 details not only how to measure, but also describes three key value tools that are essential for effectively winning customers away from the competition.

Chapter 4 addresses the issue of retaining customers once you've won them over from the competition. Customer loyalty is the key to **profitable** increases in market share, and value – creating and delivering it – is the key to customer loyalty. Chapter 4 describes the fourth key value tool, one that will enable the identification of the organization's most loyal customers, as well as those customers who are less loyal. More importantly, this tool enables the organization to identify those factors that are leading to disloyalty so that a competitive strategy can be developed to enhance the loyalty of the organization's most profitable customers.

The fifth chapter provides a tool for answering the question “Where do we compete?” The reader is introduced to the product/market matrix. By aligning the two key factors for revenue generation, products and customers, the P/M Matrix provides a basis for identifying key opportunities for competition. Instead of trying to be everything to everyone, the P/M Matrix permits the sorting of different opportunities in terms of their greatest economic and strategic potential for the organization. These are the competitive battlegrounds for investment.

Chapter 6 begins a four chapter sequence that examines the issue of “How do we compete?” Understanding the organization’s current value proposition is a key to effective competition. Every organization has a value proposition, arguably one of the firm’s most important assets. How to improve or leverage the firm’s value proposition is a critical decision.

The second chapter in the “How do we compete?” sequence (Chapter 7) focuses on the question of “What do we want our value proposition to be?” Are we to lead, challenge, follow or niche? These are the four options facing the firm.

Chapter 8 looks at the question “How do we change our value proposition?” What do we need to do to lead, to challenge, to follow or to niche? What is necessary to pull the organization’s resources together to compete effectively?

Chapter 9 examines the last of the “How do we compete?” questions by answering “How do we manage our value proposition over the long run?” Once we have reached our value objectives, how do we sustain our differential value advantage? This is an often overlooked question and failing to address this question leads to a differential value advantage that is not sustainable. And, sustainability is critical to long term success.

Chapter 10 brings competitive planning full circle, to measuring and monitoring the effectiveness of the competitive strategy as it unfolds. This chapter describes a monitoring system that measures the effectiveness of process improvements as they are implemented, from both an internal and an external perspective. The only process improvements that have any value are those that customers can actually see. This system monitors customer perceptions of value delivery.

Chapter 11 presents 14 keys to the successful deployment of the competitive market planning process. Based on the experiences of management teams across many industries, this chapter describes some of the barriers to successful deployment, along with “lessons learned,” and tips on proactive management strategies for an effective deployment.