

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

**An Educational Leadership Series for Precast
Concrete Company Strategic Leaders**

Pamphlet 3

The Design that Created your Problems Will Not Solve Them

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The Design that Created Your Problems Will Not Solve Them

Key messages

- Companies win by being focused. Trying to be all things to all people is a sure path to competing as a commodity supplier.
- Einstein commented that you cannot solve a problem with the same mindset that created the problem in the first place i.e., the avenues to break out of a commodity box can only be identified with new eyes. If you keep looking at your company, customers, competitors and markets in the same way, entertaining the same types of strategic conversations, you will remain a commodity supplier. To break out of a commodity box, you must create a new competitive strategy.
- There are two key elements in a competitive strategy:
 - ~ Strategic positioning: defines how the company is positively differentiated from the competition *in a way that is meaningful to the customer*, thereby affecting his purchase decision and the price he will pay. Strategic positioning summarizes four interrelated decisions:
 - *target market (s)*: what customer groups are strategic
 - *frame of reference*: how the target market thinks about what business you are in and its implications for *business scope* (i.e., products, services, technologies, channels and geographies)
 - *differentiated value promise*: superior benefits or cost savings that lead customers to select you
 - *advantages*: attributes of the firm or its products and services that support its ability to offer higher valueIn essence, the strategic positioning describes how your business model differs from the competition in terms of what you do or how you do it.
 - ~ Key value-creation strategies: what you need to “get right” to secure a differentiated market position. Value-creation strategies are an integrated set of decisions related to:
 - *core competencies*: These are the “mega skills” of the organization that create customer value, are hard to replicate and in which you excel relative to other organizations. Successful strategic positionings build from existing or potential core competencies.
 - key operational alignment strategies
 - key sales and marketing strategies
 - key partnerships and alliances
- Breaking out of a commodity box requires an innovative business model, far more than an innovation in a specific product or service. Changing your

target market (e.g., going after owners), expanding or narrowing business scope (e.g., offering all types of parking decks, not just precast) , innovating key elements in the value-creation chain (e.g., partnering with other subs to speed up completion of the shell) are all potential avenues to creating differentiated value. In fact, absent changes along these dimensions, you are unlikely to create higher value for customers. Innovations in the business model are much harder for competitors to copy than individual changes in a product or service offering (e.g., resolving drainage problems in a parking deck).

Introduction

Imagine a market where there's high demand for your organization's products and services, yet no competition. All work would be negotiated and profits would reflect the high potential value precast solutions create for owners. What a difference from quoting on a defined solution against other qualified suppliers--the experience of most precast companies today. The exception occurs in periods of very high demand versus supply--like 1999 and 2000 when long order books essentially created a "no other qualified suppliers can meet my date" situation. Contractors were forced into negotiation and paying high margins. When the economy cools down, will you return to a commodity market or your dream market situation (See Pamphlet One)?

The dream market can become a reality if your company offers a truly differentiated solution customers value. In this case, you get selected over the competition, despite higher prices; or, you negotiate a payment as a sole source supplier that is fair to you, as well as to your customers. Strategic positioning is a process for creating meaningful and profitable differentiation. Companies that are strategically positioned have broken away from the commodity-like nature of their markets.

Competitive Strategy

Competitive strategy is an essential "design" decision for a firm, along with purpose, vision and guiding principles. It defines in broad terms how the firm will focus its efforts so as to reach its vision. Absent a new competitive strategy, visions are dreams that do not match the reality of commodity markets. Over time, hopes fade and, along with them, aspirations and effort.

We can think of the competitive strategy as the model for the type of business you are trying to create. There are two interrelated elements to competitive strategy: strategic positioning and value-creation strategies.

Strategic positioning defines and communicates to all market participants (customers, competitors, partners and employees) the high value territory within an industry the company wants to dominate. It defines how the company is different than the competition in a way that is meaningful for the customer. It is much broader than individual brand positionings. (See Sidebar A: The Advantages of Creating a Strong Strategic Positioning.)

Strategic positioning is a concept I developed that stems from communications positioning, a marketing concept we experience in our role as consumers. Communications positioning is the placeholder in the customer's mind for product or service. The more attractive the placeholder, the more likely the product will be selected. For example, in the Scope versus Listerine battle, Scope's placeholder is the mouthwash that tastes good. Mouthwash is the frame of reference, i.e., the category the product fits in. The name mouthwash conveys

the product solves bad breath, something we know thanks to Listerine. “Tastes good” is the differentiated benefit, i.e., why the consumer should select Scope over other brands of mouthwash. In addition to defining the communications positioning, Scope’s manufacturer would also design the product, its packaging, merchandising material and other communication tools in ways that both communicate and create the differentiated benefit of the product. This is why Scope is green (i.e., think nature) versus Listerine’s yellow (i.e., think medicine).

Individual Exercise:

Think about five product categories where you have a brand preference and think about the brands you choose over their competitors in each category. For each, ask: “Why do you select these over the competition? What is the placeholder in your mind?”

Strategic positioning of a company also incorporates the concept of holding a position in the consumer’s mind. But it pertains to the company as a whole, not just a product. Strategic positioning summarizes four interrelated decisions:

- *target market (s)*: what customer groups are strategic
- *frame of reference*: how the target market thinks about what business you are in and its implications for business scope (i.e., products, services, technologies, channels and geographies)
- *differentiated value promise*: superior benefits or cost savings that lead customers to select you over the competition and/or to pay you a price premium
- *advantages*: attributes of the firm or its products and services that create and therefore support its ability to offer higher value

Here is an example for a typical precast company:

To: (target market)	Local general contractors
We are a: (frame of reference)	Source of structural and cladding building materials <ul style="list-style-type: none"> • precast technology • beams, double T's, wall panels, architectural panels and hollow core manufactured and sold locally • sold direct
That: (key differentiating benefits)	Offers the best value (service and quality) for the price
Because: (advantages)	High customer satisfaction recommendations; PCI certification; strong quality processes; ISO 9000 certification, first in the precast industry; dedicated project managers; salesmen serving as project managers to insure that there was seamless customer-driven service throughout the building process.

The fact that other companies have the same positioning is what creates the commodity market.

A strong strategic positioning is necessary but not sufficient for breaking out of the commodity box. The company must align its operations to “fit” the positioning. This is where **value-creation strategies** enter. They describe key elements of how the firm will work that insure the differentiated value is achieved and, furthermore, is hard to replicate by competitors. They create the consistency needed between how the firm says it wants to win business and how it in fact operates. They generally are defined around five dimensions:

- *core competencies*: These are the “mega skills” of the organization that create customer value, are hard to replicate and in which you excel relative to other organizations. Successful strategic positionings build from existing or potential core competencies.
- *key operational alignment requirements*
- *key sales and marketing requirements*
- *key partnerships and alliances*
- *key cultural and other human resource elements*

Continuing with the above example, the value creation strategy was to:

- excel at service and quality through continuous process improvement
- use sales people that also double as project managers insured effective service levels.

The company lacked a core competency, further evidence of a commodity market.

Archetype Strategic Positioning Problems

As markets change, so too must competitive strategies. Otherwise, the way the organization wins business is no longer consistent with securing a successful market leadership position. When this occurs, “stress” signals arise, i.e., symptoms of a strategic positioning problem, appear.

These stress signals include:

- Each customer asks you to do different things, which collectively pull your organization in too many directions
- There is no or little shared, common understanding within the company about why it wins business; in fact, different functional groups cite different reasons
- The business growth strategy is not clear and there are never enough resources focused on one thing to really create momentum for growth
- The business is not being approached by potential partners for new business opportunities
- The business has high consideration rates, but very low win rates
- There are conflicts between the different functional units that can only be resolved by a referee, as opposed to by collaboration on the part of managers of different functions
- Management faces significant dilemmas about where to invest limited resources
- Growth occurs without increased profitability
- There is growing price competition and growing similarity in customer’s evaluations of suppliers
- Business is basically won on price, which is not your company’s desire

Team exercise: Symptoms of Strategic Positioning Problems

How many of the above factors are true for your business?

These “stress” symptoms are evidence of strategic positioning problems. When two or more of these symptoms are present, your organization’s strategic positioning should be reexamined. Oftentimes, one of ten “archetype” strategic positioning problems exist.

Classic Strategic Positioning Problem #1: The business becomes the sum total of what the company can make and hopefully sell, and pursues a strategic positioning that “embraces” all the disparate parts.

Background: A new precast company’s initial offering is custom precast components for commercial buildings. It later creates a construction services group. They also move into the lawn and garden business by making garden wall

components. Construction services are sold directly to owners of multi-family housing developments, precast components are sold to general contractors and garden wall components are sold to the lawn and garden stores. The same direct sales force is used to sell to all three customer groups. The company manages all three products with one operational group since they all use concrete.

Diagnosis: The company has expanded based on "what it could make." The net result is a collection of market positions that may not "fit together" very well, diffusing the focus of the organization. In point of fact, there are likely to be three separate businesses under one roof. By running them all as one, the CEO is sub-optimizing the performance of each.

The lawn and garden part of the company not only has a different customer base, it is also likely to have a different basis of winning than the precast components business. Trying to put both under the same operational manager is fraught with problems as operations for standardized components are likely to be very different than those for custom components. Making both products with the same people, measures and processes will do a disservice to both. Similarly, construction services are very different operationally than either precast operation.

Using one sales group to sell to all three customer groups is also fraught with problems. It may save sales salaries, but it will cost the company a lot in terms of lost margin opportunity. The sales force will not develop the level of expertise it needs to sell effectively. Garden wall sales will be especially compromised. "Garden walls" is likely to be a national business, requiring a different distribution method than local sales reps in one geographic market.

Repositioning: The company created a separate lawn and garden business, dramatically expanding its product offering in this category and positioning itself as "one-stop solution" for concrete garden wall products. In addition to a broader product offering, they created attractive merchandising pieces that made it easy for the retailer and landscape contractors to convince their customers to buy the wall products. They developed sales channels to sell their products nationally. A separate operations location was established to insure the most cost-effective methods for standardized products were used.

The company sold its custom precast components business to another supplier, choosing to invest instead in the construction services company. It targeted the multi-family housing market. The decision to sell the precast operations stemmed from the fact that the precast custom components were not a good fit in the multi-family housing market, where wood is a more cost-effective solution in the local market the company serves.

Team Exercise: Questions to Ponder:

- What are the different markets our company serves? How, if at all, are they synergistic?
- Has our company combined things under one functional manager that would be better served by specialized teams or facilities (e.g., factories within a factory)?
- Are we trying to be all things to all people? Are we trying to serve all different types of contractors and participate in all the different structure markets in the same way? If so, are we compromising our success?

Classic Strategic Positioning Problem #2: The business fails to see the total value chain and how it can change the value chain to its advantage.

Background: Most precast companies who sell structural building components sell their products to contractors. The contractors then sell services directly to the owners of the building. Or, they are hired by design-build firms and construction managers who are hired by owners. Many of the advantages of precast building components accrue to the building owners (i.e., durability, speed of erection, fireproof, lower maintenance costs, etc.). The company is losing market share to non-precast building materials.

Diagnosis: The benefits of the clients' products are primarily valued by owners and design-build firms, not by general contractors. By redefining the value chain to sell directly to owners and design-build firms, the organization can create a differentiated product. By selling directly to the owner or developer, precast companies can shorten the overall construction process and, through better linking of design decisions with manufacturing process design, can also decrease building costs. This does not mean that the precast firm must become a general contractor. They could partner with a general contractor to enhance the value chain.

Repositioning: The organization positions itself as the best overall structural solution to design-build firms and owners in building markets where their material offers the greatest advantage. Working with a select set of general contractors, they take on all the job in markets where precast is over one-third the cost of the project.

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Team Exercise: Questions to Ponder:

Think about the advantages of your company over other building material solutions companies. Then ask:

- Are you selling to the right customer?
- Are you making things internally that you would be better outsourcing or vice versa?
- How could you better use differentiated ad-mixtures to create a stronger market position and product offering?

Classic Strategic Positioning Problem #3: A company fails to see how market changes are and will affect it, continuing to take the rules of the market as a given.

Background: Companies in the building products industry historically view their industry as serving local markets, selling to general contractors who serve the local market. With the consolidation and nationalization of the retail industry (e.g., Walgreens, The Home Depot, etc.), construction companies have consolidated as regional and national entities so they can serve “national” accounts. A building materials manufacturer did not change its geographic scope, arguing it was too expensive to ship products long distance. They remained focused on markets in which transportation costs of their product remained economic. At the same time, a competitor with broader geographic scope gained significant share.

Diagnosis: The shifts in the customer base demands reconsidering all elements of a company’s positioning. In this case, analysis of the company’s P&L statement suggested that engineering, sales and marketing costs could be leveraged through geographic expansion. And, a broader geographic base would enable the companies to sell to nationally- and regionally-focused contractors.

Repositioning: The company determined that the market was truly national and targeted their marketing and selling and up front-value-added services to address the national and regional customer base. As a result, they regained their share loss and then some. The value to owners and contractors of a building component they could source nationally was great enough to overcome shipping costs. The client was also able to build or purchase new plants and/or contract with other plants for production that was outside the new economically efficient transportation area.

Team Exercise: Questions to Ponder:

- Who is making the material decisions in your local market?
- Does it make sense to sell only where you can ship to? If you sold into a broader geographic market, which, if any, of your current resources could you use?
- How would a group of precast companies working together be more successful than only one? What type of customer would the group appeal to that the individual precaster could not appeal to?

Classic Strategic Positioning Problem #4: A company gives away the fruits of its core competencies (i.e., unique company-level skills that produce benefits or lower costs for customers) for free. This is a very common problem in business-to-business markets, in which products are custom designed for customers.

Background: A precast products company knows more about how to design and build a building than anyone else. Nevertheless, they end up selling components because they are submitting value engineering ideas and designs to their customers--in this case, architects, structural engineering contractors and design-build firms--to insure their material gets specified. These same ideas then appear in general contractors "bid" specifications. The precast product company must compete on price because the general contractor's motivations are solely to purchase product that meet pre-established quality standards and can be delivered within the desired delivery times at the lowest possible cost. Companies that save owners and design-build firms millions of dollars end up selling their products at cost.

Diagnosis: Once a solution is defined, the custom product has truly become a commodity and the purchasing decision will always favor the supplier that can make the product at the lowest cost, subject to meeting the company's quality standards and delivery requirements.

One of the unique advantages of the precast industry is that it is essentially the manufacturing engineers of the construction process. It understands how the design of building structure affects both the functional and aesthetic variables of the architect, as well as the schedule and cost implications for the general contractor. This understanding is extremely important for pulling time and money out of a building project. To the extent that precast firms value-engineer an architect's design and give this information for free to the general contractor, they are essentially giving away their core competencies.

Repositioning: The company strategically aligns with selected contractors as a design-build team selling to owners. The precast company's cost savings ideas help the team significantly lower costs to owners; the new positioning captures the market.

Team Exercise: Questions to Ponder:

- Why does your company do value engineering for free?
- How could your company get paid for it?
- Are your customers really your competitors?
- Would your company be better off working with selected contractors as partners rather than selling the same thing to everyone?
- If you give the same solutions to every contractor, why should a contractor pay you for developing them?

Classic Strategic Positioning Problem #5: The business narrows its product and service scope based on tactical rather than strategic considerations.

Background: A structural precast company offers only precast frame and block products. In the parking deck market, the company's material is far better than the substitute product (cast-in-place), but the client holds at most 50% market share. The other half is held by their customers -- the general contractors -- who are further up the "food chain." They win business from owners before the precast company is even aware a new parking deck will be built.

Diagnosis: The business lacks what owners need to buy their material--a one-stop place to buy the entire solution. Only general contractors have this and, as a result, they control access to the end-user. The client tries to get owners to specify their material, but often times the owner's contractors negate the client's arguments. Contractors are motivated to do this as many self-perform, i.e., provide cast-in-place services, especially during slow economic periods.

Most precast firms participate only in the *precast* parking deck market, fighting battles with general contractors and architects as to whether the parking deck should be precast or cast-in-place. A company may be more successful by defining its scope as all parking decks, recognizing it will need some type of construction partner to do those parts of the construction that are cast-in-place. This broader scope of offering, however, might appeal more to owners who would like to talk with someone who is knowledgeable about all types of parking decks. They are likely to allow the precast firm to determine what is in the owner's best interests for different parts of the parking deck—precast or cast-in-place.

Repositioning: The precast company re-positioned itself as selling parking decks, working with the owner directly to decide on the most applicable material. They significantly increased their consideration rates and, thus, their market share. When cast-in-place was the better solution, they contracted with a small group of contractors to do the cast-in-place work. They also could have repositioned themselves as a full-line "concrete" solutions source for general contractors (precast or cast-in-place), enabling contractors to lower their

overhead and increase speed of their work by outsourcing cast-in-place and precast.

Team Exercise: Questions to Ponder:

- How does our company's scope restrict our value to different types of customers?
- What have customers asked us to do in the past that we have not been able to do, or we have replied "No, we don't want to do that." Would we be better off offering that now?
- What kinds of products and services (e.g., foundations) are used alongside our product such that suppliers of these products would be better off partnering with us as opposed to going to the market alone?
- Would our company be better off overseeing all of the structure, i.e., being the one to schedule all the other subs involved in creating the building shell? How would contractors benefit from this? How would owners benefit?
- Why does our company only offer precast and not cast-in-place? If we offered both, which resources could we better leverage?

Classic Strategic Positioning Problem #6: The business' point of distinction becomes the required standard; as a result, businesses is increasingly won on price.

Background: A precast company focuses on hollow core. A new company in their market offers a broader array of miscellaneous building products (precast and non-precast), positioning themselves as the one-stop hassle-free source of supply to GCs. GC's report that they really like the no-hassle approach to working with one supplier as it lowers overhead. The new competitor sources their precast hollow core from another state, as the investment level to make hollow core was deemed too large and the price charged by the local precast company was way too high. Their hollow core supplier agreed to absorb the shipping costs as it saw this opportunity as incremental business.

Diagnosis: As precast technology has matured, it is now a commodity. The competitor has found new construction industry "territory" no one else had entered. The out of city hollow core producer wins business on lower costs.

Repositioning: The company discovered its problem too late and went out of business. It lacked the volume to gain a competitive cost position and it lacked the resources to broaden its product offering.

Team Exercise: Questions to Ponder:

- What is your company's sales pitch? What do you tell customers about why they should buy from your company? Could they find this elsewhere?
- Is there still a differentiation in your markets?
- Where is quality still critical and hard to create? Could your company specialize in this?

Classic Strategic Positioning Problem #7: The business has not moved beyond its niche or grown its niche, frustrating employees and shareholders alike and exposing the business to competitors with the skills to eliminate its niche.

Background: A general contractor which was focused on the construction market faced declining market share as architects teamed up with its competitors to create design-build offerings. It increasingly found itself doing "repair and maintenance and small expansion" projects, which are less profitable than new structure construction. As it researched its markets, however, it found that all the good architectural firms were "partnered" with general contractor companies.

Diagnosis: Design-build met owners' needs for one-contract risk management and became a trend that was here to stay. By not combining with architects, the GC found itself in a niche that was no longer defensible.

Repositioning: Recognizing it had lost its opportunity to emerge as a design-build firm, the company decided to specialize in small expansions and repair and renovation. It partnered with its former competitors to cover these services for them so that their expensive equipment would not be tied up in lower-margin work.

Team Exercise: Questions to Ponder

- What services must you add to secure a position as design-build grows as a contracting principle?
- Who in your markets could add your product offering to their line and, in so doing, provide more value to customers than you can?
- Is "moveable" precast technology viable? Will we see more contractors move across the county doing this?
- What are the focused cast-in-place companies up to? Could they integrate into our business and cause problems for us?

Classic Strategic Positioning Problem #8: The organization forces the same strategic positioning on all parts of its business, leading to sub-optimized performance in the individual parts.

Background: A precast company manufactured both architectural panels and structural components. The company sold both of these products to general contractors, winning on lower price and higher service levels. General contractors usually selected the firm over competitors, as they really liked the quality of the panels. Architects liked the consistent finish of this company's panels and, as a result, there was no need to replace any panels, which adds time to the building schedule and cost to the owner.

Diagnosis: "Structural components" was a commodity market. Selling on price and service made sense. But the company has an advantage in the architectural panels that it is not leveraging. The contractor is the one who is gaining all the financial advantages of the precast firm's uniform quality.

Repositioning: The company started to sell cladding "systems" with architects as their target market. They included the structure and the panels as one unit, promising the benefit of "first the right time," which saved valuable time in the building schedule. To execute this, the company partnered with a steel company so it could offer either steel or precast structures. Since contractors saw the benefit of buying both panels and structures together, they were willing to not put these items out to bid. In essence, the company differentiated not just the panel but, buy bundling it with the differentiated product, the structure as well. Over time, the company leveraged its excellence in architectural panels into a new business focused on concrete residential and commercial countertops. They now sell and produce products across the nation.

Team Exercise: Questions to Ponder:

- Do all customers want the same things?
- Do we really understand why our customers buy from us and how they see us as different than our competition?

Classic Strategic Positioning Problem #9: There is a major mismatch between the strategic positioning of the organization and how the organization operates.

Background: A precast company positions itself on faster speed when it competes against cast-in-place.

Diagnosis: While speed of production and erection is an advantage, all the other processes of the organization add time and complexity for the owner and the general contractor. If a precast company genuinely wants to compete on the basis of speed, speed needs to be the basis upon which all processes are defined and enhanced.

Repositioning: The company re-engineered every process--from selling to designing to manufacturing to erecting--to reduce time. For example, it started

drawing before all design decisions were finalized. And the company released components to be purchased before the drawing was finalized. The company partnered with other subs to reduce time in the overall process of constructing the shell as well. In essence, they looked at every opportunity they could to pull “time” out of the schedule. In the end, no one could match their speed advantage. Note that the firm changed its target market in the process, focusing first and foremost on those customers and types of structures where speed is a real benefit to the owner, developer or GC.

Team Exercise: Questions to Ponder:

- On what basis is our company trying to win business?
- What parts of our business—and the way we do things—work in ways that are inconsistent with how we want to win business?
- How could we better align our company’s operations, sales and marketing operations to take better advantage of precast’s potential speed advantages?

Classic Strategic Positioning Problem #10: Corporate management treats each business unit as a separate company, failing to seize and exploit synergies.

Background: A construction company has a general contracting, a ready-mix concrete division and a precast division. Each business unit is treated autonomously and, although the divisions are successful, they are not growing as rapidly as desired for securing the price premiums they once earned in the past.

Diagnosis: The organization fails to see that there are many situations in which combining the construction services business with the precast business could allow them to move up the food chain and deliver superior value to customers. The superior value comes from the fact that when there is closer alliance between the construction company and the precast company, quality and schedules can be dramatically improved.

Repositioning: The client targets larger contractors (those who build bigger buildings the client can go after as a general contractor), offering to take over the entire “structure,” thereby saving the large contractor time and reducing his risk.

Team Exercise: Questions to Ponder: (for precast companies that are part of larger organizations):

- Are there synergies between our plant and other plants (in our company)?
- Is our parent company the best parent for us? Who would be a more strategic owner?
- What could we do in conjunction with our sister divisions that would benefit both of our customers that we are not doing today? Why are we not working together? Could these barriers be overcome?
- If we started from scratch, how would we redesign the total corporation? How would we establish measures and incentives to encourage the different divisions to work more collaboratively?

Root Causes of Strategic Positioning Mistakes

There are a number of root causes of strategic positioning mistakes:

- Leadership adopts too narrow a view of its markets, making decisions about where to compete (i.e., target market, product-service-technology scope, geography and channel) based upon historical fact as opposed to market opportunity. When companies are product or operations-driven, they tend to take the definition of their product line as a given, not realizing that by expanding or narrowing the product and service offering, they can dramatically influence the value provided to the customer. Or, they assume that what they try to sell to now is the only choice for the customer base. Leadership of these companies generally have much stronger orientation and expertise on the operational side than on the marketing side of running a business. As a result, the senior leadership team does not appreciate the importance of strategic positioning decisions and leaves competitive strategy decisions about where to compete as well as how to be “better” than the competition to the Sales & Marketing Department. Often times, this leads to strategic positions which are inconsistent from year to year, driven by current market “hot buttons.”

Leadership teams that view the decision about where to compete as a strategic decision automatically take a broader view of their marketplace. The broader view defines an industry to include complimentary and substitute products. The broader view focuses not just on current customers, but also on lost and potential customers. With a broader view of the marketplace, you can see more opportunities for differentiation. Strategic thinking is, in the end, viewing a situation from a broader perspective with fewer constraints.

Any organization should be opportunistic with regards to trends. But shifting strategic positioning from year to year creates extremely confusing messages for customers. Furthermore, it makes it very difficult for the company to create the underlying capabilities required to execute a positioning. Just as a

brand image for a product should stay constant over time, barring major changes in target customers or competitors, so should a company's strategic positioning. Changes are ideally evolutionary, with new, synergistic target customers and elements of value added over time.

- Lack of a market understanding process. Too few organizations, especially in business-to-business markets, listen effectively to the marketplace. Or, the people they listen to are their current customers, excluding lost and potential customers. Conducting customer satisfaction market research with existing customers fails to identify emerging market trends that create risks in staying with the existing positioning, as well as repositioning opportunities. As a result, it is not uncommon to see companies with high customer satisfaction ratings lose market share after a competitor provides customers with what the customers really needed, but didn't realize they wanted. A strong market understanding process focused on identifying the issues and compromises facing numerous market segments and competitors' likely moves yields much richer information for developing a new strategic positioning.
- The company fails to align its organization to deliver on the value proposition contained within the strategic positioning. Too many companies view their strategic positioning as a key element in advertising copy rather than a fundamental way to focus the activities of the organization and its investment in new resources and capabilities. For a strategic positioning to be effective, the organization must align its processes, measures, systems and culture to fit the positioning. Every internal decision should be made within the context of the organization's positioning. Often times this demands changes in organizational structure and dropping of one customer group in favor of another. It is often said that market-driven companies are those that give up customers to insure success with other customers or obsolete current products and services to secure success for the future. Aligning the organization to fit the strategic positioning is one of the key attributes of market-driven companies, a topic that will be discussed in Pamphlet Five.

Let's look at a detailed non-construction case study and a continuation of the construction example at the start of this pamphlet to see how a change in strategic positioning and subsequent value-creation strategies enabled a company to break out of its commodity market boxes.

Case Study: ABC, a commercial sewer

Background: ABC, a commercial sewing company, manufactured fabric products and product components for original equipment manufacturers (OEMs) in the medical, machinery and power sports vehicle (e.g., motorcycles, snowmobiles and boats) markets. In fact, any sewing contract over \$10,000 was within the scope of their business. They also offered a branded line of after-market covers sold to consumers through power sports vehicle dealers. Most covers have the manufacturer's brand name on them. The majority of these are produced by ABC as an OEM product. Covers that are not branded by the manufacturer are often purchased as replacements, or for travel needs. In this segment, ABC was also the #1 supplier.

The company's service level was very high. They were able to produce their products on time due to a responsive organization and the owner's willingness to order materials and equipment in advance of orders from their customers. Nevertheless, high service was the result of heroics far more than processes that repeatedly created outstanding service.

Issues: ABC faced a number of issues at this point of their business:

- Intense price competition, especially from overseas; there were a number of new cover entrants selling in both the retail and OEM markets.
- A new purchasing push by Harley-Davidson's purchasing organization threatened to push margins down significantly. Currently, this large customer had 45% of ABC's sales.
- Markets are very different in medical versus motorcycles. The medical products company ABC served required big investments in manufacturing operations. While margins were high in the medical segment, these investments had no application beyond medical, thereby lowering their payback. The power sports vehicle market also had competing demands for limited investment capital.
- ABC was highly vulnerable if the OEM's decided to package the cover with the new equipment.

Essentially, ABC had two strategic positionings:

To: (target market)	Original equipment manufacturers
We are a: (frame of reference)	Commercial sewer
That: (key differentiating benefits)	Offers great service at a competitive price
Because: (advantages)	<ul style="list-style-type: none"> • Our people • Our investments • Our track record

ABC's second business was positioned as:

To (target market)	Power sports vehicle dealers
We are a: (frame of reference)	Cover manufacturer
That: (key differentiating benefits)	Offers a lower price point quality
Because: (advantages)	<ul style="list-style-type: none"> • We are the OEM supplier of choice--a proof of our quality • There is no profit margin going to the original equipment manufacturer • We stand behind our products

The company lacked any core competency, as heroics were used to provide great service and the cost advantage did not exist relative to other after-market cover manufacturers.

Strategic Insight: In conducting the strategic assessment of the business, the managers learned that fabric accessories were almost an "after thought" for most manufacturers of expensive power sports, medical, in fact almost any equipment. Rather, "accessories" was a product category they had to offer to get people to buy their equipment. They did not want to tie up their capital and people in products that were not "core" to their success the way the equipment was. As a result, they sought outside suppliers. Never the less, ABC's OEM customers still designed, stocked, distributed, merchandised and advertised the fabric accessories.

Repositioning: ABC's frame of reference was changed to embrace a much broader solution; at the same time, the target market was narrowed to power sports vehicle OEMs. A broader solution exploited the desire of equipment manufacturers to do minimal work on accessories.

The new strategic positioning is:

To: (target market)	Manufacturers of power sports vehicles
We are a: (frame of reference)	Single source solution to your fabric accessory business
That: (key differentiating benefits)	Maximizes the return on your investment in the fabric accessory category
Because: (advantages)	<ul style="list-style-type: none"> • We produce differentiated products • Your industry is our exclusive focus • Our processes are defined to give you seamless service • We know your customer base. • We identify customer needs • We design products • We manufacture stock and ship products • We merchandise the products (brochures, point of purchase displays) • We work with dealers to make sure the products are sold well • We report results to you

The company narrowed its target market to power sports vehicle manufacturers, as it would be hard to take on all the elements of a fabric accessory business for lots of different types of markets. It chose power sports vehicle OEMs for three reasons.

- First, the company had about 65% of its sales in power sports already.
- Second, it knew this market well.
- Finally, this target market was synergistic with the second area the company chose to focus on--branded products.

The new strategic positioning for the ABC-branded part of the business was:

To: (target market)	Consumers of motorcycles, snowmobiles and other power sports vehicles
We are a: (frame of reference)	Manufacturer of fabric related accessories
That: (key differentiating benefits)	Offer you the greatest functionality and styling for the dollar
Because: (advantages)	<ul style="list-style-type: none"> • We know your markets • Our quality is so high the manufacturers of the equipment use us as their supplier • There is no add-on margin from the equipment manufacturer for their brand name

The value creation strategy was the same for both business units, underscoring how synergistic these two business areas were. It consisted of:

- Create a design-driven culture
- Create a core competency in identifying new product opportunities
- Build a stronger new product development process
- Create a merchandising unit to insure products are effectively merchandised through dealers
- Enhance selling skills so as to sell higher in the clients' organizations and sell directly to dealers

ABC is going directly after the consumer, offering products at a much lower price point than OEMs' products. The fact that the company also manufactures high quality products for the OEMs reinforces the notion that their products are higher value than other after-market brand competitors.

While both lines of business involve sewing, they focus on different customers. As a result, different "front-end" organizations consisting of sales, marketing and design engineering were created for each business line. But, they share manufacturing operations, where there are many synergies across the two businesses areas.

The new strategic positioning demanded many changes in ABC. Sales representatives needed to learn to sell to owners rather than purchasing agents in the power sports vehicle OEMs. Design skills were needed to create products that appealed to end-users, whether they were as OE brand products or to the end-users directly as ABC products. The company needed to learn to stop selling on price and sell on the profitability of the line to the equipment dealers and the OEMs. Marketing communications skills were needed to create effective point-of-purchase merchandising tools and advertisements for placement in cycle and

boating magazines. Both created awareness for ABC branded and OEM branded products.

OEM marketing and purchasing managers became concerned over the fact that ABC was developing a broader line of competitive products through the same dealers that carried the OE brands. ABC sales reps helped diffuse this tension by convincing concerned managers that there are really two segments of end-users: those that only buy the OEM branded accessories and those that go with the lower price alternative.

In essence, ABC segmented the market and found the best approach to each segment. Both OEMs and consumers benefited from ABC serving both markets as it enabled ABC to deepen its expertise and gain economies of scale in the design, manufacturing and merchandising of accessories for motorcycles, boats and other power sports vehicles. ABC decided it would prefer to manage this tension than to rely exclusively on OEMs for their revenue. ABC wanted more control over its destiny than OEM business allowed.

Case Study One: Precast Company XYZ

Background: Precast Company XYZ manufactured and erected precast structural elements and architectural panel cladding. XYZ's sales personnel influenced architects to specify precast in their designs, yet they viewed the general contractor as their customer, i.e., the person who selected XYZ over its competitors. When they failed, the firm's engineers would value engineer an architect's design done in another building material. This would help convince the general contractor to bid precast, as it would increase speed of the building project or reduce its cost relative to steel. In other words, the precast company relied on the general contractor to push for precast.

If the building material decision was changed to precast or precast was allowed to be bid alongside the other material, the precast company would be one of multiple suppliers asked by the general contractor to bid on the project. As long as XYZ's price matched that of other precast competitors, it would be selected for the job--a payback so to speak for offering value engineering services to the general contractor during the pre-bid stage.

Company XYZ had a second division which sold contracting services. Their geographic market was primarily outside the precast markets, lest the company be viewed as a direct competitor of the precast business units' GC customers.

Issues: The company faced growing commodity competition for the precast components. This was a result of significant general contractor consolidation (i.e., fewer and fewer contractors controlled a higher and higher percent of total contractors in a geographic area. This made each contractor in XYZ's geography into a very important customer for each precast firm. Contractors were asking precasters for more and more, yet paying less and less. The move towards

design-build also led general contractors to demand much faster response from precast companies. Precast firms also had to establish a firm price before the final building decisions were made, which increased the risk associated with each new project.

Company XYZ also faced a declining share in its market versus cast-in-place concrete and steel, technologies that had experienced a number of changes in the last few years. Lead times on steel had fallen and the speed of cast-in-place concrete was rising. Furthermore, production during cold months was now possible due to heated cast in place concrete forms.

Another problem the company faced was that more and more decisions about building materials were being made outside its local market. Locally owned retail stores and malls were now owned by national chains and developers who made decisions about building material prior to purchasing land and getting a building permit in the local market.

The strategic positioning for Company XYZ was:

To: (target market)	Local general contractors
We are a: (frame of reference)	Source of structural and cladding building materials <ul style="list-style-type: none"> • precast technology • beams, double T's, wall panels, architectural panels and hollow core manufactured and sold locally • sold direct
That: (key differentiating benefits)	Offers the best value (service and quality) for the price
Because: (advantages)	High customer satisfaction recommendations; PCI certification; strong quality processes; ISO 9000 certification, first in the precast industry; dedicated project managers; salesmen serving as project managers to insure that there was seamless customer-driven service throughout the building process.

Strategic Insight: In conducting XYZ's strategic assessment (a process discussed below), managers realized that the few occasions when the construction division and the precast division worked together, quality and speed were dramatically enhanced, as was project profitability. Nevertheless, these instances were the exception rather than the rule.

A second insight from the assessment was that XYZ's core was knowing how to design precast components and schedule all subs to pull costs and time out of the building project during the "get to dry" stage. Nevertheless, when XYZ provided their solutions for potential building projects, they would find their answers showing up in bid requests. XYZ could do things GC's could not do, without them. But, by giving their knowledge away for free to the GC's, all other precasters had access to their knowledge. Inevitably, smaller precast firms always undercut XYZ's price as they did not have to carry the overhead of high-level engineering professionals.

Repositioning: Using these insights, the strategic positioning work created two distinct business units for XYZ. The first division's positioning was targeted on the general contractor, selling them a total shell.

To: (general contractor)	Local general contractors
We are a: (frame of reference)	Key partner for the entire shell
That: (key differentiating benefits)	Gets you to drive faster, less expensively, with fewer hassles and less risk, making you more reliable and profitable
Because: (advantages)	<ul style="list-style-type: none"> • We offer precast, cast-in-place, steel erection, wood framing and general contracting all under one integrated roof. • We schedule the subs • We can do off-site manufacturing, speeding up the building project • We guarantee our completion date

The second division's positioning was:

To: (target market)	Owners and design-build firms focused on decks, stadiums, food processing plants, big box retail and parking structures, i.e., structures that use a large amount of concrete
We are a: (frame of reference)	Design-build organization <ul style="list-style-type: none"> • design • construction • precast concrete manufacturer
Because: (advantages)	Vertical manufacturing pulls out time and money as we can design for manufacturability, something architectural and general contracting firm cannot do

Interestingly, while the company feared selling directly against general contractors, it found that general contractors were so impressed by the ability of the firm to offer the whole solution in selected markets that they brought XYZ in on their projects.

XYZ's new strategic positioning demanded that XYZ change internally so that their desired position in the industry would be secured in fact, not just in theory. The company added additional products and services, some of which they did internally and some of which they partnered with outside suppliers. New skills were needed, which came from training as well as bringing new people into the firm. The old organizational structure—a precast firm and a construction services firm--was dismantled. In its place, two sales-marketing-project management groups were created, one focused on owners and one on large GCs. Three operating groups—a construction services group (including erection services), a design group, and a precast manufacturing group--were structured as cost centers, serving both of the "front-end" groups. The new structure insured everyone had the incentive to maximize success. What a contrast to the old structure in which managers minimized their success so as to not hurt division sales of the sister division!

Case Study Summary

When a company's offerings increasingly feel like commodities (i.e., they are selected primarily on the basis of price), a new strategic positioning is required to break out of the commodity box. ABC and XYZ both fundamentally changed their strategic positioning. They competed in new ways. And they had to change internally to turn desired differentiation into actual differentiation. Focusing the organization on executing the strategic positioning, i.e., creating the position in fact versus as a stated desired or strategy, ensured ABC delivered on its promise of higher value for customers in their target markets.

Selecting a strategic positioning

The work starts with deciding on your organization's criteria for selecting one strategic positioning option from another. Defensibility, feasibility, competitive intensity, the magnitude of financial return and investment and downside risk are examples of potential criteria. A strategic assessment (See Pamphlet Four) of the business is then conducted by a cross-functional group, followed by the leadership team assessing the strategic risks and opportunities facing the business. This list serves to help identify potential strategic positioning options. The positioning options are then assessed against the pre-established criteria, and one is chosen. Pamphlet Four provides more detailed information related to this process.

Summary

There is much to be learned from the examples shared in this chapter of companies competing in commodity markets. Leaders selected a new strategic positioning that took advantage of their company's relative strengths and market changes. In each case, a significant amount of innovation in the business model (i.e., competitive strategy) occurred. The change was not limited to new features and benefits of one product offering. Rather, target markets were changed, product-service-technology scope was expanded, and the promised value statement was changed to appeal to customers' measure of benefits and cost savings. Innovation in the business model is needed far more frequently in mature markets to break out of a commodity box than in emerging markets. Emerging markets still contain enormous opportunity to change the product or technology and thereby create higher value. The same cannot be said of mature markets.

It takes an innovative leadership team to innovate their business model or competitive strategy:

- They see their markets in new way.
- They see that how they compete is not a given of the market.
- They do not take "what we do" as a given. They move into a new market space by changing who they sell to, the breadth of their product and service offering and how they reach their target market customers.
- They redefine how they do things internally to fit the new positioning.

The key task of the leadership team is to design the competitive strategy for their company. In essence this requires challenging and redefining the company's business model. There are two parts of the strategy: strategic positioning and value creation strategies. The former defines where and how the company wants to compete and the later specify the key ways the company must run to "fit" the desired positioning.

More specifically, strategic positioning answers four questions:

- What is our target market, i.e., what group of customers are we trying to attract?
- What is our frame of reference, i.e., how do we want our customers to think about the business we are in?
- Why do we win, i.e., what is our differentiating value against the competition that leads the target market to select us over the competition?
- What advantages are we building in our company and products and services that support our promise of higher value?

The strategic positioning will also serve to define what products, services, technologies and geographies inside and outside its scope as well as its growth strategy.

The value creation strategy defines what the organization needs to “get right” to create the higher differentiated value. It summarizes the key approaches the organization will take to “fit” the company to the strategic positioning. Porter in a wonderful article entitled “What is Strategy?” ([Harvard Business Review](#)) argues that it is the interlocking nature of different value-creation strategies that makes them hard to duplicate and secures the strategic positioning.

Questions to Move Forward

- Is your organization’s market understanding process what it needs to be? Have you defined a viable strategic positioning?
- Is it broadly understood in the sense that individuals throughout the company understand what it is, why it is what it is and what the keys to successful execution are?
- Are you truly and effectively executing your strategic positioning?
- How are you assessing whether the current positioning is effective or not? If it’s not, how will you go about creating an effective positioning?
- What beliefs, patterns and fears get in the way of effective leadership around this issue?
- What will you do differently tomorrow?

Sidebar A: The Advantages of Creating a Strong Strategic Positioning Versus Competing as a Commodity Supplier

- Higher profitability
- Easier decision-making
- There's focus and consistency in all actions from year to year
- Employees and teams know they contribute to the organization's success
- Customers want to spend time with you
- Competitors have a hard time copying your advantages
- Different functional activities are better integrated
- Shareholder value exceeds book value
- Customers build long-term partnerships with your company