

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

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

Pamphlet 4

Strategic Decision-Making

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Strategic Decision-making

Key messages

- A new strategic positioning is needed to break out of a commodity box. An effective strategic positioning meets some or all of the following criteria. The more criteria that are met, the stronger the positioning.
 - ~ It captures critical profit synergies.
 - ~ It creates a positioning you are the first to occupy.
 - ~ It can be enduring, yet obtainable.
 - ~ It places you in attractive markets where you can secure leadership.
 - ~ It leads to a focused company.
 - ~ It reflects market changes.
 - ~ The differentiated benefits stick in the customer's mind.
 - ~ The position is defensible; in other words, it is hard for the competition to replicate your advantages because they require extended learning and cultural elements in the company.
 - ~ The promised benefits can be effectively communicated.
- Selecting a strong strategic positioning requires a strategic assessment of your organization and its markets. A strong market understanding process insures the organization can conduct a good strategic assessment. If you do not have outside information about your markets and how customers view your organization relative to your competitors, you must invest time and money to conduct market research as part of the strategic assessment.
- A winning strategic positioning builds from the core competencies of the organization. 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. They enable you to successfully move into new markets or products and services. A new strategic positioning is likely to require a new core competency(ies).
- A new strategic positioning 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 and operational conversations, you will not change your positioning or its execution.
- In choosing a strategic positioning:
 - ~ Always focus on value. The highest value for the target market always wins market share. Don't think about beating the competition as you brainstorm strategic positionings. Rather, think about how to offer customers the most value. Getting rid of an accepted, but disliked, compromise is one of the best

ways to break into a new, higher level of value. This is what design-build did for owners. It provided cost containment without the owner in the middle and it shifted risk from the owner to the design-build partners.

- ~ Resist easy answers and search for really interesting and new alternatives.
- ~ You can't be all things to all people. To choose requires you to exclude. This does not mean you can ignore the "must" requirements of your company. Similarly, it does not rule out taking on "capacity filler" work, i.e., jobs that are not from your desired target market that you can perform without realigning your organization away from executing its strategy.
- ~ Avoid meaningless, uneconomic and invisible differentiation.
- ~ You will not increase customer value without rethinking what your product is all about and what the customers' inherent needs are versus their stated needs.

Introduction

In Pamphlet Three, we defined strategic positioning as 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 value

In essence, the strategic positioning describes how your business model differs from the competition in terms of what you do or how you do it.

We can also look at strategic positioning as a verb, i.e., something the organization does to increase its focus. In this context, a strategic positioning is an organized system for:

- Defining and securing a specific territory within an industry that can be successfully identified and differentiated in the customers' mind. (Successful differentiation requires that the differences are meaningful to customers and affordable.)
- Carving out the scope of the business, the reason for the victories and the direction of the company's future growth.
- Defining the desired leadership position for the company and, as a result, implicitly defining a key part of the future vision of the company.
- Focusing every resource in the organization.

The key to developing a successful strategic positioning is to conduct a strong strategic assessment of the business. An effective strategic assessment builds from information collected from the market place. Use a small group to develop the different components of the strategic assessment. But be sure to rely on a more broadly based group within your company to draw out the implications of the assessment for company risks and opportunities.

The Strategic Assessment

Strategic positioning starts from an objective strategic assessment of the business. A strategic assessment is a process of looking at your business from different perspectives. These perspectives help you better understand the strengths and weaknesses of your organization and the risks and opportunities it faces (See Chart One: How to Identify and Select a Strategic Position).

If you approach developing a new competitive strategy for your organization with the same people, at the same time of the year (before budgets) and with the same information (the inside view of the marketplace), don't expect a new competitive strategy to emerge. You will merely spend time confirming that you are doing everything you can in the marketplace you have. This breeds cynicism and dampens motivation to change.

Too often companies re-examine their strategy or decide on their strategy in preparation for the budget. This is exactly the wrong time to engage in this type of work. This is because the budget process itself immediately pulls managers' perspective into the current time frame. Their thinking will undoubtedly be extremely tactical as opposed to strategic. It's best to engage in strategic positioning at the very start of a fiscal year after budgets for the current period have already been established.

While a leadership group, along with others in the organization, can conduct a strategic assessment absent external market information, it's highly unlikely that the assessment will offer rich new insights. When the framework for a strategic assessment is used to guide collection of information from current, potential and lost customers, the strategic assessment is much stronger.

The strategic assessment process will embrace an outside view of your organization with the assistance of a market research professional. Or, you can ask key leaders and others in your company to interview lost, current and potential customers and suppliers. Since what we hear is biased by what we believe, do not use insiders if there is anything less than a strong desire to learn new things. Often times in my consulting work, I have started an assignment with market research in order to create a gap between reality and vision, and hence more momentum for a change process. Good information from the outside will both shake confidence in the security of reality (i.e., the status quo) and identify opportunities that help to paint a new vision.

Chart Two: Collecting Information from the Market is an example of a simple market research questionnaire your company can use to gather outside information from customers and about your organization. Be sure to interview customers, non-customers and lost customers. Also, please do not ask your sales force to conduct these interviews. Although sales representatives will try to conduct the interviews in the best way possible, they will inevitably turn the interviews into a step to gather data to secure sales. Instead, ask the sales force to set up the interviews and introduce the interviewer to the customer. The salesperson should then leave the interview (if it is an in-person interview), as his or her presence creates a subtle image in the interviewee's mind that this is a sales call. Customers are less open in a selling situation and will speak from a narrower agenda than desired.

A more detailed approach to understanding the market comes from reviewing the strategic assessment exercises that follow and defining the research objectives in

light of what you need to learn to do the assessment. (Some of the items you may already have and others you will want to gain external insights into.) However you proceed, remember that there is no one “right” way to do this information gathering. It will depend on your time frame, resources and level of existing knowledge. Tailor the solution that makes the most sense for your company.

The goal in listening to the customer is to understand what it feels like to sit in his shoes. You want to understand the world from his eyes, not that of a supplier. And you certainly want to gain a lot more than just feedback on your product and services. You want to understand his daily frustrations, with his job and with your industry, and you want to gain insight into his company’s strategic direction and success factors. (See Sidebar A: Thinking Strategically.)

Each "view" of the strategic assessment is discussed below. Team exercises are presented to assist your organization in assessing your company. After the team completes each exercise, they should summarize the company’s strengths and weaknesses identified in the exercise and implications for strategic problems and opportunities. Note that you may not want to do all of the team exercises listed below. Some will seem like obvious ways to think about your business and others may feel too obtuse (e.g., brand equity). But try to do as many as you can.

The assessment components were developed to help you look at your business in a new way and help you think strategically. It is vital that you keep track of strengths, weaknesses, opportunities and threats (what I will refer to as SWOT in the rest of this pamphlet) as you go through each exercise. Otherwise, it will feel like you are doing the work for no purpose. Failure to identify risks and opportunities is a failure to think strategically. As you identify risks and opportunities, categorize them in terms of:

- Target market
 - ~ Risks e.g., owners will be building fewer office buildings in light of the current vacancy rates
 - ~ Opportunities e.g., state government has received more funding to build bridges
- Points of differentiation versus the competition
 - ~ Risks e.g., heated forms will allow general contractors to cast concrete year round
 - ~ Opportunities e.g., we can better design parking decks for lower cost manufacture than can architects

Adopting this approach will make it easier for you to develop strategic positioning options from the risks and opportunities list.

Also recognize that a strategic assessment of the business and development of a strategic positioning are processes that insure you are managing and leading the business strategically. You may do the work one year with limited information, using the process to establish research objectives for the year that will enable you to

do a more thorough assessment the year following. It is not uncommon for a solid strategic positioning to emerge after two years time. So, even if you lack good customer input for each exercise, there is value in trying the exercise because it underscores what you do not know about your market position. As you go through the exercises, keep track of what you would like to learn from the market place over the next year. This "tracking" will lead to a listing of your research objectives.

The components of the strategic assessment are:

- Marketing accounting: Why are sales what they are?
- Frame of reference: What are the pros and cons of where we compete?
- Current strategic positioning: How do customers see us today?
- Product and target market synergies: Is the whole worth more or less than the sum of the parts?
- Customer compromises: What must customers give up to work with our industry?
- Core competencies: What unique skills do we have that create benefits and customer value?
- Market changes: What factors drive the future?
- Value chain: What are the different steps that link initial inputs to the end user product?
- Product portfolio assessment: What are the strong and weak positions within our portfolio of products and services and markets?
- Financial analysis: What drives our profitability?

It is also valuable to conduct key competitor analysis(es) as part of your work. You can use many of the same analysis components. The only difference is you are looking at it from the competitors' perspective, not your own. Key elements you may want to use include:

- Market accounting
- Frame of reference
- Current strategic positioning
- Core competencies
- Value chain
- Relative strengths and weaknesses, key risks and key opportunities

Marketing Accounting: Why are sales what they are?

While most manufacturing firms can explain a manufacturing variance down to the dollar, very few firms can explain why their sales are what they are, or, when sales fall short of forecast, why the gap emerged. Effective companies understand what is driving their sales. They know the best leverage points for improving sales. Lacking this understanding, it's very difficult to truly understand the strengths and weaknesses as the company stands today.

Marketing accounting dissects sales into a number of components, using simple algebra. (See Chart Three: Marketing Accounting.) From this perspective, the

assessment identifies the strengths and weaknesses of the company--in absolute terms and relative to the competition--that have created sales results. The number of jobs (contracts) your company wins equals:

- The number of jobs in the market times
- Your consideration rate (the percent of jobs for which the company is considered) times
- Your win rate (the percent of jobs you win)

The consideration rate and win rate are critical variables to measure and track over time. The consideration rate provides insights into customers' awareness of your company and whether they feel you meet minimum requirements to be considered. It is an effective measure of your marketing and sales efforts. The win rate measures your success against other qualified suppliers who are asked to bid or present a proposal. The win rate is a critical measure for understanding return on the engineering and sales resource required to put together a proposal. Low win rates reflect wasted engineering resources. The win rate also sheds light on whether or not customers see your company as offering more value than the alternative.

Revenue is the product of the number of contracts you win times the average contract value. We can measure average contract value as:

- The average market contract value times
- The ratio of your average contract value to that of the market. As you do "more of the job," this ratio and your revenue will increase.

Revenue grows through:

- Overall market growth
- Going after a larger percent of the market (E.g., a precast firm that would go after all parking decks, not just those that are only specified for precast or performing more of the job.)
- Increasing your win rate
- Getting considered more often
- Taking on more of the job or
- Earning a higher price premium

Understanding sales from this perspective is very valuable, as different strategies are used to influence different components of growth. To the extent that low consideration is a reflection of low awareness about your firm, communication strategies that increase awareness (e.g., direct mail) offer high returns. Changes in win rates may require internal changes in your company that create greater customer value.

The key to identifying new strategies to grow revenues, therefore, is to understand the exact drivers of current market size and growth rates, consideration rates, win rates and relative contract value. Information from the customer is critical to this

understanding. For example, win rates may be low because a company is new to the market and has not built up a reputation yet as a supplier. Consideration rates may be low due to low awareness or because the company lost a number of customers in the past. When customers no longer consider your firm, your consideration rate falls. (See Sidebar B: Quality Function Deployment is a useful tool for clarifying the strengths and weaknesses of specific products.)

Team Exercise: Market accounting

- Use the analysis of sales to better understand the drivers of your company's revenue and market share.
- Identify your company's strengths and weaknesses that create its sales results. Which of these are strengths and weaknesses relative to the competition?

Then, to unearth risks and opportunities, ask:

- How could the competition take greater advantage of our weaknesses?
- How can we reduce the adverse affects of our weaknesses?
- How can we better utilize our relative and absolute strengths?

Frame of Reference

While you may think of yourselves as a precast firm, customers in general will think about your company in a broader context. General contractors may think of you in the broader context of structural materials, and owners may think of you in yet an even broader frame called potential "subs."

The Industry Map framework serves as a catalyst for market-driven strategic discussions on the part of the leadership team. The map exercise locates your organization's product and service offerings and target markets in the context of a broadly defined industry--far broader than a company's typical reference. As such, discussions focus on a broader, more strategic set of issues and opportunities than normally occur when looking at the existing market for your company's offering. Much of the value of the industry map comes from its construction, because it forces the leadership team to think about a broader market than it normally focuses on.

The industry map is, in essence, a matrix in which the columns identify all the potential market segments the company could choose to serve. The rows represent all the various products, technologies and services that are supplied to customers to make his end product. The key to a good industry map is that you work with a much broader definition of the industry than that which contains only your current product offering. For example, a thermoform packaging company would define their industry as "all packaging," and a precast company would define their industry as the non-residential construction industry.

An industry map is used to better understand the risks and opportunities associated with the business' current scope. It will also help you better understand where future competition might emerge. Finally, the industry map is a useful framework to refer to as you identify and select specific strategies in terms of target market and product-service offering.

Typically, an organization will work with two, possibly three, different versions of the industry map columns in making its strategic decisions. Construction markets can be segmented in a number of ways. (See Sidebar C: Segmentation.) In the case of precast, you might want to segment the market on the basis of type of structure as in Chart Four (Industry Map 1) and/or on the basis of decision-maker as in Chart Five (Industry Map 2). In all cases, we're segmenting the total market into groups whose needs are distinctly different—owners of parking decks have a different set of needs for the design, construction and maintenance of their structure than do owners of an industrial plant. And these needs are likely to be different than the needs of owners of multi-family housing projects.

The rows of the industry map are likely to be the same and include not just precast products, but substitute products (CIP, wood, steel) and complementary products (lighting, foundation work, etc.). The services customers in the different market segments purchase are also listed as rows, e.g., design, erection, secure permits, etc.

Team Exercise: Market Segmentation

Segment the market for your products and services (See Sidebar C: Segmentation).

For each segment, ask:

- What is this market segment's frame of reference for that contains products and services, and that of competitors, including its substitutes?
- What is the market size for this frame of reference?
- What is our addressable market size if it's less than the entire market? Should we go after less than the entire frame? Why?
- What other frame of reference would embrace our current offering?
- What are the segments "musts," i.e., absolutely required to be considered? What benefits and attributes would they want more of? What would truly delight them? What issues do they face that currently lack acceptable solutions?
- Which segments can we most successfully serve given our strengths, industry conditions and competition?
- To really go after these segments, how must our business change?
- What are our strengths, weaknesses, opportunities and threats that stem from our discussion of segmentation?

The relationship between scope and strategy

The industry map is a useful tool for considering three different generic competitive strategies—niche versus channel versus technology. You can use it to determine which best characterizes your company's current strategy and that of the competition. (See Chart Six: Generic Strategies).

A *niche positioning* brings a narrow product offering to a narrow market segment. The key to success as a niche company is to tailor the product and service offering to the unique needs of a segment. This tailoring allows the niche company to offer the “best” solution to the target market.

Channel positionings bring a broader offering of products and services—and possibly technologies—to a market segment. They offer the advantage of one-stop shopping and lower pricing through bundling. They are more able to afford a direct sales force. They are also able to physically combine the different products and services to create a better solution. Channel companies often times have the highest awareness levels. They are the first company that comes to mind when you ask a target market to identify names of companies that supply products and services they use. Higher awareness creates higher consideration rates, which increase sales levels.

Technology positionings take a narrow product or service offering and sell it to a broad array of potential market segments. They often times compete on the basis of newest technology and/or lower cost. Both are a result of the economies of scale they attain by selling to multiple markets.

No one archetype competitive strategy is the best strategy for serving an industry. In fact, the advantage of the different strategies will change over the life cycle of the industry. Often times, a new technology is introduced to the market by companies pursuing a technology positioning. As the technology matures, it is adopted both by channel companies, as well as niche companies. What is important in deciding on your strategy is to understand customer needs and competitor strategies and figure out which “scope” strategy makes the most sense given your current and potential skills, potential customer needs and potential changes. It’s also important to constantly challenge your scope strategy so as to make sure your strategy evolves as the market evolves.

Some of the most attractive industries consist of companies pursuing different strategies defined by channel, niche or technology. For example, in the educational publishing market, there are large printers who serve the overall needs of education publishers, as well as large printers that specialize in specific printing and binding technologies that serve multiple segments of publishers. Finally, there are niche printers who focus only on a narrow type of needs within one type of publisher, e.g., web printing for educational publishers. Companies with three distinctly different strategies compete for the educational publishing market. Publishers choose different suppliers depending on their needs. In essence, the printers have divided the customers and their specific publishing jobs into different segments, with each printer segment serving one better than the others can. The niche company, for example, has secured the leading position in publications in which speed is of the essence, student workbooks and teachers manuals. These are written after the textbook material is developed, but must be available for review and for sale at the same time as the textbook.

Team Exercise: Scope Implications

Use the industry map to identify where in the broader industry your organization now competes. Use the same map to locate current and potential competitors, e.g., a construction firm might backward integrate into precast, or a specialist cast-in-place sub may add precast to its offerings. Then use the map to discuss the following questions:

- How does our current scope affect our ability to deliver value to our customers?
- Are industry boundaries changing in any way, such that we're seeing a change in the business scope of our competitors or of complimentary product suppliers?
- Would we be better off with a narrower scope? In particular, are we serving too many market segments? Or, do we have too broad a product service offering?
- Is our scope too narrow? What advantages would customers gain if we broadened our scope by targeting additional markets, or broadened our product and service offering?
- Do we lack needed economies of scale by serving too narrow a market segment?
- What strengths, weaknesses, opportunities and threats stem from our existing scope?

What is our Company's Current Strategic Positioning?

How do your customers see you? What frame of reference do they use, i.e., what file folder in their drawer contains your brochure? What do they see about your company that is different than the competition, if at all. Asking customers why they selected you and learning more about why you lost certain orders would go a long way towards understanding your current strategic positioning from the customer's perspective.

Sometimes it's best to use an outside researcher to identify why you lost orders, as customers can be hesitant to truly open up to an organization's managers when they are speaking directly to managers in the business. Customers have a secondary need of maintaining relationships with their suppliers and, for this reason, they can often times "sugar coat" adverse information or fail to share competitive information. Alternatively, customers may be very direct, but managers in a company can only hear things through rose-colored glasses or a framework of desires.

Some companies have a clear and strong strategic positioning that is differentiated from that of the competition, i.e., they are not commodity suppliers. Some of the tests of whether or not your organization has a strong positioning include:

- Customers see the distinction.
- Customers value the distinction.
- You have observed a shift from bid to negotiation and from winning on price to winning on value.

- You have loyal customers for reasons other than too much demand chasing too little supply.
- Your margins are high and attractive, especially versus the competition.
- Your areas of differentiation are enduring from year to year versus driven by fiscal year imperatives.
- Other companies failed in trying to copy one or more of your points of differentiation.

If your company can say YES to these measures, your company’s strategic positioning has equity and you can think of your company as a “brand.” Like a strategic positioning, a brand represents the set of promises that a name conveys to potential buyers—the differentiated value and the advantages that create the higher value. It differs in that we also think of a brand as including the “emotional references” customers make when they think of the brand. Therefore the promises of the brand are:

- What the brand does: attributes of the brand and advantages of the company that enable it to offer these attributes
- What the brand means: perceived (and differentiated) value of the brand
- What the brand is: the emotional references and meaning for the user in terms of other connections he or she makes to the brand (e.g., one architectural firm is like a Mercedes and another is like a used truck)

For example, the Ralph Lauren brand in clothing and home furnishings conveys:

- What it does: fine, classic detailing and rich fabrics used with enduring styles
- What it means: it will help me appear successful and traditional
- What it is: exclusive; Audrey Hepburn (versus Madonna), a Rolls Royce (versus a Chevy)

Why does this matter? If you have a differentiated strategic positioning today (versus being "one of the commodity suppliers"), you must be careful if you select a new one so as to avoid suddenly veering too far from the current position, as the "misconnect" between current brand equity and what you communicate will confuse customers. Volkswagen broke with their positioning of "small," in the 1980’s, after building an attractive position with the "bug" in the 1960’s and 1970’s. As a result, they lost a loyal target market. By way of contrast, Honda evolved their product line as the baby boom aged (from the basic Honda to today’s Acura), consistent with a brand image of more (car, fuel economy, durability, etc.) for the money.

Team Exercise:

What is our current strategic positioning? (Do this for every target market.)

TO:

WE ARE A:

THAT:

BECAUSE:

- Do we have any brand equity in this positioning?
- Which of our competitors have brand equity?
- What is the brand equity of precast as a material in the eyes of architects? Owners? General contractors? Is there any place where it is positive and strong?
- What emotional meaning would most appeal to architects? To owners? To general contractors? What advantages could we offer that would create emotional meaning?
- What SWOT are suggested by this conversation?

Product and Target Market Synergies

Synergies exist when the success of the total product offering or target markets served exceeds how successful the company could be if it did not serve as broad a group or have as broad an offering. E.g., when serving multiple market segments gives a company economies of scale, we view these market segments as synergistic. Or, when a broader product offering creates valued time savings for customers, we view these products to be synergistic.

The precast industry has many examples of synergistic combinations. The manufacture, hauling and erection of structural components are synergistic as are in-house engineering services and manufacturing. Design-manufacture and construction of a structure with significant precast is also synergistic as you can design for low cost manufacturing. Some product-service combinations, however, may not be synergistic. Are high-end architectural panels synergistic with hollow core?

Manufacturing costs can be a source of synergies. But, be very wary of “overhead absorption” arguments, i.e., serving multiple markets absorbs overhead costs, thus lowering overall costs for any one product line. Many people say that a broad array of products and services absorbs overhead, but often times the breadth of offering creates complexity that only adds to overhead costs. Other synergies include: sales costs, marketing costs, large administrative costs, management knowledge, market knowledge, consideration factors, sales representative effectiveness, product bundling, product integration and leverage of assets.

Some of the synergistic combinations you may be missing include:

- Being the engineer-of-record along with value engineering services;
- Offering steel frames as well as precast structures so as to sell all structures rather than selected structures;
- Serving a national market as opposed to just the local market;
- Building the foundation, structure and roof, i.e., not just the structural components;
- Going after all parking deck as opposed to just precast parking decks.

And there are many more.

Team Exercise: Synergies

Answer the following questions related to synergies:

- What synergistic sub-units exist in this business?
- What growth directions are synergistic? What growth moves are not synergistic, i.e., they are moves into distinctly new businesses?
- What partners will offer the most synergies if we aligned all or part of our company?
- Are there synergies with geographic areas outside our served markets? If so, what are they?
- Are we organized to best capture our synergies?
- What strengths, weaknesses, opportunities and threats are suggested by this discussion?
- Where do we see conflicts in trying to serve two market segments or in offering different product lines?
- What products/services or target markets are synergistic with what your company offers that we might want to consider adding?

Customer Compromises

Every industry evolves through the establishment of basic rules about how the industry creates and delivers its offering to target markets. These rules inevitably create compromises, i.e., issues that arise for customers because suppliers have elected to trade off one benefit in exchange for another. For example, historically in the automobile industry, quality and price were seen as alternatives. The auto industry compromise was that a buyer could get higher quality, but at a higher cost. The transformation of the auto industry in the 1980's and 1990's broke this compromise. While a buyer may pay a premium for performance, styling and functional attributes, the quality of a car in terms of whether it performs to specifications and how it wears over time is far more uniform across cars. Identifying the compromises in an industry and brainstorming around how they might be resolved is a key element in identifying attractive opportunities facing your business. (See Stalk et. Al.)

To identify compromises, you must identify the unmet needs and keys strategic issues facing customers in your current target markets and in any synergistic target markets you might consider serving. You can conduct interviews to find out what compromises customers feel they must make when dealing with your industry. Typically this is not the subject matter of conversations between customers and suppliers, as customers take these tradeoffs as a given, much like we assumed there was a tradeoff between speed and cost in delivery service. The advent of Federal

Express, faxes and, more recently, the Internet has significantly reduced this compromise to the point that the fastest delivery (e-mail) is the cheapest.

In the construction market, there may be a tradeoff between design flexibility and structural durability, e.g., precast offers a more durable structure but less design flexibility than cast-in-place. The best way to surface customer compromises is to put yourself in the seat of the customer and understand exactly what it feels like to be running his business. It's critical that the conversations you have with customers have nothing to do with the technical elements of your business. Often times, someone not familiar with your business can be very effective in leading these discussions.

Nevertheless, your understanding of your technology is a critical part of finding a solution to compromises. Matching your company's knowledge with a deeper understanding of the customer issues, compromises, frustrations and opportunities results in ideas for new services, product offerings and features. You know you've addressed a customer compromise when you find yourself with a product or service or way of competing that competitors can't match and your customers are telling you, "How did we ever live before this?"

Team Exercise: Compromises

- What are the compromises customers using your industry face? What causes them to occur?
- How could they be solved?
- What SWOT are suggested by this discussion?

Core Competencies: Building Blocks for Strategic Positioning

Core competencies are an organizational "mega" skill--built from a number of different organizational skills. (See Prahalad and Hamel.) They represent a tapestry combining bundles of depreciable skills and technologies that--when combined together--generate superior value for customers. They describe what the organization does exceptionally well that is reliant upon the organization's employees working together in a certain way. Core competencies are built from past learning on the part of employees. The relevant question, therefore, is how do your employees work with assets, technologies, knowledge and each other in a way that differs from the competition?

Competency means ability. While an endowment, patent, access to a natural resource or financial capital are all assets, they are not a core competency. Determining how to most effectively use assets, on the other hand, is a core competency, e.g., how to use a computer system to pull a time out of the design process.

I could go on with examples, but you get the idea. Core competencies give the company the ability to provide a particular benefit to its customers. They also pave

the way to a more attractive future by allowing a company to move into new products and markets. Without core competencies a company will not have a basis for differentiation. In essence, commodity suppliers are companies without core competencies.

Core competencies are the basis of competitive advantage and market place victories. Companies that lack core competencies fight margin battles from now until the company goes out of business. Examples of core competencies include:

- Miniaturization of electronic products (Sony)
- Lowest cost distribution (Wal-Mart)
- We supply the manufacturing engineering expertise to the building process (A precast firm)
- We manage our customers like channels to secure end-market leadership (Master Builders)
- We are catalysts to translating training into learning (A training firm)
- We create cutting edge health plans, thereby shaping the market (A health care purchasing alliance)
- We offer the freshest products in our category (A yogurt company)
- We create great tasting food without the calories (Healthy Choice)
- We can offer more features per dollar of cost of goods sold (Motorola)

There is a four-fold test of a core competency:

- Does the core competency create value to the customer?
- Would it be hard for a competitor to replicate this competency?
- Is the organization superior (vis-a-vis the core competency) compared to other organizations that serve, or could serve, this market?
- Can the core competency be used to help the organization succeed in new markets or new products and services?

Sony developed a core competency that allowed it to miniaturize multiple products—from televisions to stereos and provide the benefit of “pocketability” to their customers. At this point, Sony is extending its core competency into medical products by partnering with other firms to create miniature medical devices that are inserted into the body through catheters.

Core competencies are analogous to the root system of a tree, with the different markets, products and services an organization offers as the branches. Behind every strong tree there are strong roots and behind every major market place victory are core competencies. For example, Wal-Mart’s success stemmed from a lower cost distribution system and unusually friendly service, especially for discount stores. Harley-Davidson’s core competency is their ability to create authentic experiences. (See Sidebar D: Why Care about Core Competencies?)

What is not a core competency?

- An attribute of a material or technology, e.g., fire resistant
- An asset, e.g., large capacity
- An individual, e.g., Joe the designer
- A market requirement, e.g., erection
- A manufacturing process, e.g., pre-stressing
- A capability with no impact on value, e.g., finish on components that will not be seen

Processes are also not core competencies. Lots of companies have the same processes as your company. A core competency emerges in how you conduct different processes or how the different processes in your company are linked together to create customer value.

It's important to recognize that the attributes of precast material, such as fireproof and lower maintenance costs, are not core competencies. Your material is an asset. But its properties could form the basis of a core competency when blended with organizational skills, e.g., a precast company could have a core competency of "lowering owners' maintenance costs." This would be a weaving of:

- The material advantage
- How the firm constructs the structure
- The suppliers they pick for complimentary products
- Systematic preventative maintenance services
- How the precast company works with architects to create designs that help prevent drainage problems from ever arising, etc.

Core competencies create many strategic alternatives for your company:

- They can be used to strengthen your competitive position in the markets you currently serve. For example, the company with the lower maintenance cost and competency could offer a guarantee that would be very hard for competitors to replicate, except at the expense of their profits relative to your organization.
- They can be used to broaden or change your served market, e.g., core competencies that work in the parking deck market may allow you to move into the one or two-story office building.
- They can also be used to diversify synergistically, although this is the most risky of any of the alternative growth strategies, e.g., you may be able to start a parking deck maintenance business. Doing this in another city would be far riskier than staying with your same customer base and offering this as a service.

Team Exercise: Core Competencies

Engage a cross-functional group of employees to answer different questions about your organization's skills and strengths. This group need not be limited to the team doing the strategic assessment. The questions include:

- When we are at our very best, what are we doing for our customers and others? What skills, knowledge, technologies and assets enable us to provide this value?
- What can we do that other companies cannot do?
- Which of our people or which teams would be most difficult to replace and why?
- In a deregulated world, why would customers pay us an amount that exceeds the material, labor and overhead cost of our products and services? What, if anything, lets us earn a price premium over the competition or a profit margin that exceeds the cost of capital?
- What have our competitors tried to copy that has proven unsuccessful? What have we done far better than our competition?
- In what areas or on what activities do the different functional areas work most cooperatively? effectively? When they work together, what are they trying to optimize? What are the hard problems they excel at solving?
- What “threads” link our different skills together?
- If employees from other companies came into our company for a week to replace all of us, what couldn’t they do that we can do because we’ve been here? What activities in our company have the longest learning curves?
- Why do customers stick with us?
- Why do we attract new customers?
- Do we have less waste than other companies?

Post each individual’s answer to each question on a single post-it note. Then place all the post-it notes on a wall. Ask participants to place post-it notes into groupings of similar answers, i.e., post-it notes with similar themes, e.g., speed of approvals or work with architects to get exact color match. In essence, what you’re trying to do is find the “threads” that, when woven together, create a core competency. This is hard work—be patient.

After grouping the answers into different buckets of similar concepts, place a title on each organizational skill bucket using a different color post-it note. Then repeat the exercise, using the new (i.e., “title”) post-it notes. Is there a core competency that combines these different titles? (An example is found in Chart Seven: Interdependency of Organizational Skill Buckets).

It’s critical that you test whether or not the hypothesized core competency is, in fact, a core competency. Ask:

- What is the value to our customers or potential customers?
- What is the proof of our superiority?
- Is this competency extendable to new customer segments, products or services?
- How hard would it be for others to replicate this competency and why?

You may want to interview your customers and suppliers to see if they agree with your own read on relative strengths of your organization that create the core competency.

What if you don't have a core competency? Knowing your company lacks a core competency is far better than assuming you have one when you don't. This exercise is still extremely helpful because it will give you the idea of what could emerge as a core competency for your organization. Looking at the existing skills and talents of the organization, you can ask, "What might we have to do differently, or what skills must we add in conjunction with what we already do well to form a core competency?" Speed, lower overall costs and flexibility are all examples of potential core competencies a precast company could create using its existing advantages.

The question we now ask is, "How can you translate your company's core competence into points of distinction?"

Team Exercise: Core Competency (continued)

The team completing the strategic assessment works together to answer the following questions:

- What benefits does, or could, the core competency (actual or potential) provide?
- What types of customers most need these benefits?
- Could this group of customers, in fact, form the basis of a new target market? Or does the core competency suggest that some current target markets are more important than others?
- How could your firm use the core competencies to move into a new product or service category? Would existing or new target markets be the best target for the new product or service?
- What SWOT does the analysis of core competencies suggest?

The core competency assessment led a precast company to identify that owners were, in fact, the customer that most needed the benefits of the company's design for lower cost competency. This type of assessment also led to a synergistic expansion into the office market.

Prahalad and Hamel, in writing about core competencies, state "It is the critical task of management to create an organization capable of infusing products with irresistible functionality or, better yet, creating products that customers need, but have not yet imagined. In the short-term, companies win or lose on the basis of their price performance attributes of their current products and services. Nevertheless, in the long-term, companies win or lose based on their ability to build at lower cost and more speedily than competitors--the core competencies that spawn unanticipated solutions to customers' problems and desires."

Market Changes

Companies that are already in a leadership position will stay in that leadership position unless they become complacent and stop listening to customers or watching competitors. Nevertheless, in a changing market, all players go back to square zero and any company has an opportunity to win market share. This is

especially true in industries in which market share does not provide a competitive advantage to existing suppliers, which fortunately is the case in the construction industry.

By understanding the market place, your competitors and current and potential customers, you identify problems and opportunities facing your organization today. To unearth emerging problems and opportunities, look at what is changing such as customer demand levels, buying process, buying influence and buying criteria. Examine technical, social, regulatory and economic changes at large. Competitors, complimentary product companies and industry supplier changes are also important, as are changes in the labor force.

Changes destroy existing market paradigms around which suppliers built their competitive advantage. Paradigms are frameworks within which we acquire, interpret and use information about the world around us in order to save time, reduce complexity and chaos, i.e., the area generally shared by others that you work with, live with or have grown up with. Paradigms can exist on a personal level ("You get ahead by working hard"), organizational level ("You get things done in this company by helping other people so they will help you back"), industry level ("General contractors buy on price. Period.") or national level ("Vietnam is strategically important to us.") When paradigms break, new strategies to attain market leadership emerge.

It's important to recognize that industry or market paradigms change when there are opposing forces at work. Thus, in looking at what is changing, you might want to consider whether or not you can identify *turning points* or *breakpoints*. *Turning points* are trends that are underway that create their own backlash, e.g., standardization and consolidation in an industry often times give way to rejuvenation as small and new companies go after niche markets. To the extent that contractors increasingly see all precast companies as equal and bid down price significantly, there may be a turning point in which they begin to see that the reliability and the quality of the supplier are more important than price.

Breakpoints occur when there are trends that are diametrically opposed to one another or trends that are offset by very strong resistance, e.g., there is a growing need for cost containment in health care by elderly and employers and their employees. But, there are more and more elderly in need of health care as the baby boom ages, dramatically increasing health care costs. These two forces will create a breakpoint in terms of how the elderly are insured through Medicare health care providers.

Team Exercise: What If's

Read the following and answer the question for the following target markets: owners; architects; general contractors; other structural subs

“What if’s” are an effective tool for thinking about changing your organization to dramatically increase value. What if’s are fantasies of what customers and suppliers would like to have happen, but are unsure how to make this happen. What if’s are the changes which, if they occurred, would fundamentally improve customers and suppliers lot. Put your judgment skills aside for a moment and imagine each group talking openly about an ideal market for non-residential construction materials and services. In each setting, create the group’s "what if" list. In other words, each precast customer group is asking, "What if a company that sells to me could." The precast group is asking "What if's" about their technology customers or a building process.

- What opportunities and threats does this discussion suggest?

Team Exercise: Market Changes

Discuss:

- What is changing in the marketplace? What are potential breakpoints? turning points? What are their implications for you?
- What are the key strategic agenda items of your customers?
- What is the competition doing differently that could significantly affect you?
- What potential changes in technology could have a dramatic affect on your position?
- What is the one thing that is impossible today, that if were possibly, would fundamentally alter your industry and your company position.
- What SWOT does this discussion present?
- It is helpful in answering the question to think about changes you could induce that would create significant opportunities for your company and changes your competitors could induce that would create significant risks for you.

Value Chain

A value chain analysis is a macro process overview of all the participants and activities leading to the production of the end-user product or service. In order to create the value chain for precast, you ask the question, "How does the final building get created? Changing the value chain is often times a strong strategic move. (See Chart Eight: Value Chain) Strategic ideas are unearthed by asking, “How could we reconfigure our business, combine or eliminate different steps of the value chain, and its relationship to suppliers and customers to reduce costs or increase end-user benefits, i.e., to increase value?”

Team Exercise: Value Chain

- Draw the value chain for your company and industry.
- Discuss: “How could we change the value chain to increase value to the end-user and enhance our competitive position?”
- What SWOT does this discussion suggest?

Product Portfolio Assessment

Some organizations have multiple products or multiple businesses under one roof. Understanding the competitive position of each one and the market conditions surrounding each can unearth deeper insights in your business.

Matrices are used to facilitate the learning. The *rows* of the matrix refer to the position of your company versus the competition, a combination of market share and strengths and weaknesses relative to competition. Is your company:

- Dominant or very strong i.e., our share far outweighs that of the competition?
- Favorable i.e., high share but other close competitors?
- Tentative i.e., weakest of the companies participating actively in this market?
- Weak i.e., -not really a player; in competitors' "other" category?

Be sure to use the entire competitive set, not just other precast firms.

The *columns* of the matrix refer to market conditions. Some groups may want to choose life cycle measures of a product that are based on market size growth.

- Introduction i.e., just coming into market
- Growth i.e., significant year-to-year sales gains as more and more customers adopt and more and more new applications are identified
- Maturity i.e., size leveling off
- Decline i.e., size declining as substitutes take more share

Others choose to use market size growth (higher than average, average and below average) or market attractiveness (a combination of market growth and competitive intensity) as the columns.

Team Exercise: Portfolio analysis

Think about your company's offerings in terms of different typologies:

- Types of products (e.g., hollow core, wall panels, etc.)
- Technologies (precast) and its competitors (CIP, wood, etc.)
- Markets (office, parking, multi-family, etc.)

For each typology, "locate" the different members on the matrix of competitive position. Feel free to try different types of measures for the column labels. E.G.,

- Life cycle (new, growing, mature, declining)
- Market growth (falling, stagnant, slow, moderate, fast)
- Market attractiveness (very unattractive, neutral, highly attractive)

After locating today's business and that of your key competitors, ask:

- Where is our business headed in terms of competitive position if we maintain our current business strategies? Will our competitive position decline owing to strong competitors who are changing? Is the market attractiveness going to decline absent some change by our company?
- What could "reforest" a mature or slow growing business?
- Are mature/declining markets and tentative/weak positions worth investing in?
- How could we enhance our competitive position?
- Which businesses should we invest in?
- Which businesses might we want to harvest?
- Are there new "introduction stage" positions (i.e., product, technology or markets) we could add to our portfolio? Are there growth or maturity positions we could add in which could have a strong/dominant position?

Then, add to the SWOT analysis:

- What are our strong positions?
- What are our weak positions?
- What are the risks we face going forward given our positions?
- What are some opportunities we face to improve our positions?

Financial Analysis

As part of the strategic assessment, it's also important to conduct a financial analysis by asking the following questions to unearth strengths, weaknesses, problems and opportunities from a financial perspective.

Team Exercise: Financial Analysis

- What are the key drivers of profitability, e.g., volume, amount of overtime, etc.?
- What are the significant leverage points in the cost structure that could hurt or promote profitability?
- Do competitors have any cost advantages over us? Can we counteract them?
- What cost advantages do we have over the competition?
- When, if at all, are there economies of scale, i.e., cost synergies?
- How great is the cost of variations in production due to unpredictable scheduling and uneven demand flows?
- How can we reduce these costs?
- What SWOT does this discussion suggest?

Strategic Problems and Opportunities

The greatest value of the strategic assessment comes from prioritizing the risks and opportunities the organization faces. A new strategic positioning (whether it is an evolution from the current one or a significant repositioning) must address one or more major opportunities and help offset the risks. The problems and opportunities are also critical for the annual marketing planning you will do as part of the "alignment" of fitting your organization to its strategy (See Pamphlet Five).

You may want to use a larger group for this work than the group that did the strategic assessment exercises. Why? Because it will deepen the organization's understanding of why you selected the strategic positioning you did. It will also help create more of a gap between reality and potential vision. The size of this gap, as we saw in Pamphlet One, determines the organization's overall motivation to change.

Team Exercise: Problems and Opportunities

Your first step is to narrow the list of problems and opportunities that surfaced from the various strategic assessment team exercises. There are various ways to narrow the list:

- Risks that convey the same concept or are symptoms of the same deep cause can be grouped together (e.g., scope too narrow can be stated in all kinds of ways e.g., full line suppliers are better positioned; owners will not talk to subs; etc.)
- Synergistic combinations of opportunities can be grouped together, e.g., you might have identified a number of new product opportunities which can be grouped into "broaden the product line" by offering other miscellaneous building components to reduce the "hassle" factor of general contractor estimating staff).
- Rule out opportunities that are way outside the scope of what you want to do with your company. For example, some companies may not want the risk of becoming a general contractor. In such cases, identify what could secure the same opportunity, but in a different way, e.g., form a joint venture with two general contractors.

Prioritize the problems or risks identified from earlier team exercises in two ways:

- Potential magnitude of the risk or opportunity; and
- Near-term versus far-term

The greatest risks are near-term with high impact. It's not uncommon for a risk to also be an opportunity, e.g., lighter weight concrete could be a technology opportunity, but at the same time a risk if another company enters the market with it before you. Prioritize opportunities according to:

- Attractiveness (i.e., What is the dollar return and payback?)
- Feasibility (i.e., Can we do it?)
- Defensibility (i.e., If we did it, could we defend our position?)

Choosing a Strategic Positioning

There are a number of lessons from the positioning of individual products in consumer markets that are pertinent for deciding on your organization's strategic positioning. These lessons suggest attributes that will help you identify the characteristics of an effective strategic positioning.

- You can't be all things to all people.
- Being the "first" product of its type is key to a successful position.
- Position from your organization's strengths and competitors' weaknesses.
- Don't change positioning in one leap or you'll lose a substantial portion of your customers.
- Don't go head-to-head against the leader--do something a market leader can't do or won't follow.
- Use the power of leadership to create further advantage.
- View business scope as a key ingredient in your overall value.

Effective strategic positionings meet some or all of the following criteria. The more criteria that are met, the stronger the positioning.

- They capture critical profit synergies.
- They create a positioning you are the first to occupy.
- They are enduring, yet obtainable.
- They place you in attractive markets where you can secure leadership.
- They are focused.
- They reflect market changes.
- The differentiated benefits stick in the customer's mind.
- They are defensible; in other words, it is hard for the competition to replicate your advantages because they require extended learning and cultural elements in the company.
- The benefits can be effectively communicated.
- Execution creates barriers to copying by current or potential competitors.

In deciding on a new positioning, you must be open to changing or broadening the product offering or target markets of your organization as part of this process. Look at scope alternatives that include synergistic combinations of products, services, geography and distribution methods. Also choose points of differentiation that are new, that could be enduring and that exploit market changes.

In brainstorming options, remember that the highest value always win and that different customer groups different things. Note also that any future growth strategies must be consistent with the organization's strategic positioning, unless you're starting a new business unit. Thus, think about potential strategic positioning in light of what each suggests about future growth.

The positioning should also be secured by competitive advantage—things you can do better than the competition. Ideally this would be a core competency, but realistically, at this stage you may be building on strengths, and then using the new strategic positioning to identify the desired core competency which you will then try to build within your organization. Some examples of competitive advantage are:

- Specialized knowledge about a distinct segment that leads to better product development
- Scale or share advantages
- Switching costs
- Speed or flexibility
- Superior access to resources or customers
- Core competencies
- Restrictions on competitors' costs

Other important principles to remember with regard to strategic positioning include:

- Leaders will only be unseated if you change the game, exploit market changes or exploit the leader's weaknesses. You cannot beat the leader at his game.
- Always focus on value. The highest value for the target market always wins market share. Don't think about beating the competition as you brainstorm strategic positionings. Rather, think about how to offer customers the most value. Getting rid of an accepted, but disliked, compromise is one of the best ways to break into a new, higher level of value. This is what design-build did for owners. It provided cost containment without the owner in the middle and it shifted risk from the owner to the design-build partners.
- Resist easy answers and search for really interesting and new alternatives.
- You can't be all things to all people. To choose requires you to exclude. This does not mean you can ignore the "must" requirements of your company. Similarly, it does not rule out taking on "capacity filler" work, i.e., jobs that are not from your desired target market that you can perform without realigning your organization away from executing its strategy.
- Avoid meaningless, uneconomic and invisible differentiation.
- You will not increase customer value without rethinking what your product is all about and what the customers' inherent needs are versus their stated needs.

Team Exercise: Positioning

Your first goal is to decide on the "criteria" you will use to choose one potential strategic position over another. A good starting point for criteria is to reference the above list of attributes of an effective strategic positioning. There is not one "right" criteria list other than that it include financial considerations and competitive considerations. To choose a positioning for "I like it" reasons when it has no sound basis in terms of financial returns or ability to secure a market position is foolish.

Your second goal is to brainstorm a set of positioning options and then select one strategic positioning. Strategic positionings are brainstormed by exploring scope (product, services, markets and channels) and value (promised benefits and overall costs versus the competition) decisions concurrently. You choose these concurrently because scope has a huge impact on value. (Some strategic positioning approaches to consider as you try to brainstorm options are outlined in Chart Nine: Three Generic Strategies for "Solution of Choice".)

There are generally at least two good strategic positionings a company can select to break out of the commodity box. Identifying them requires keeping ten basic marketing principles in mind.

- You cannot be all things to all people. To gain sales you must give up sales.
- The decision on where you compete and the decision about how you will be different than the competition are interrelated. Look for the combination that can provide you with the greatest opportunities for sustainable differentiation and financial performance.
- Companies grow profitably when their different market positions are synergistic. In other words, the value of the whole of the company is worth more than the sum of the values of different offerings or markets.
 - ~ Look for synergies and exploit them as long as the benefits of acting on these synergies exceed the costs to do so.
- Once you know your target market, design the value chain to find the most effective and efficient way to reach the target and provide products. The choice of channel and the choice of what to make or buy are key strategic decisions that should enhance the ability of the company to secure its desired differentiation.
- Choose the market segment for your target market that most values what you do better than the competition.
- Pay attention to what is changing in your markets. Change pushes everyone back to ground zero.
 - ~ Be sure to pay attention to the different ways customers can order your type of offering as well as substitutes (i.e., an alternative) and complements (i.e., used alongside). While you may choose to not use all the channels, lack of awareness of emerging channels will cost you sales.
- Never give away for free that which creates genuine benefits or cost savings for customers.
- Make product, service, technology, geography and channel decisions i.e., all decisions about where you compete, into a strategic decision. Take none of these as a “fixed” decision.
 - ~ Always question whether or not a niche position is sustainable, whether that niche is defined around a channel, a location, a market or a product or service
 - ~ Limiting your product or geographic scope will always present the risk of an indefensible niche. These niches are defensible only if customers are willing to unbundle their purchases and buy locally.
 - ~ If you want to dominate a product category, be sure to understand the different segments within the market. To protect against niche competition, create tailored offerings for each segment. Tailored selling and marketing strategies are also likely to be needed.
- In a commodity market, the only winner is the lowest cost supplier. If you cannot secure this position, find a position with differentiated benefits or non-acquisition cost savings.

- Build from your strengths and never try to beat a leader at his own game. Use market changes to find ways to obsolete the leader's advantages.

Sidebar E: Strategies for Thinking Out of the Box about Strategic Positioning outlines some strategies to use to “think out of the box” to identify strategic positioning possibilities.

After brainstorming, decide on two or more focused directions for your company, recognizing that choosing where to compete and how you will win forces you to not focus elsewhere. The organization will not secure a leadership position until you focus. The value of choosing more than one strategic positioning is that it forces you to evaluate each against your pre-established criteria. It also gives you an opportunity to share the potential positioning with a group of customers to see if one is more attractive than another or seems to be a better fit with the company's current advantages. (See Treacy and Wiersman for a further discussion.)

Selecting the Strategic Assessment

The assessment between two alternative positionings is extremely important. While people may intuitively know that one position is better than another, an actual comparison of the two against the criteria yields rich insights. Also, asking questions such as, "How hard would it be for us to do this?" and "What would our competition do in light of this?" leads to a deeper and richer understanding of the positioning. This will shorten the time period involved in execution of the strategy. (See Pamphlet Five).

Some things to avoid when selecting strategic positioning alternatives are:

- Lack of profitable advantages in an unattractive market
- Competitors can easily catch up
- Indefensible business scope positions
- Conflicting resource requirements
- Mismatch between segment needs and your skills
- Meaningless or unprofitable differentiation

Two tools that may be helpful in choosing strategic positioning options are the value-differentiation matrix and a mapping exercise.

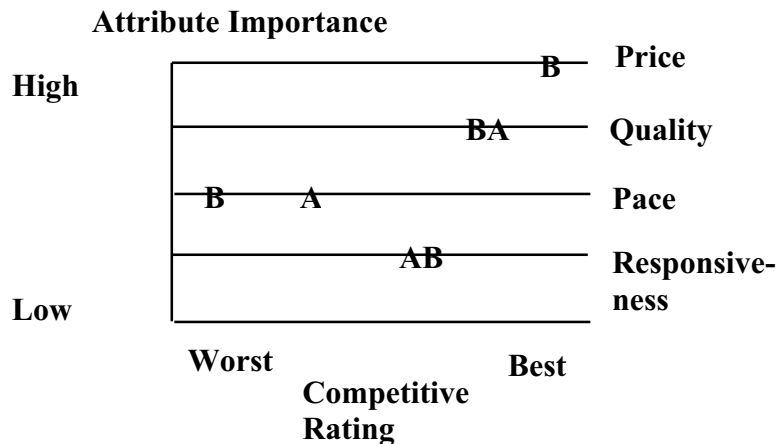
Value-Differentiation Matrix

Here you are comparing where you have competitive differences against what customers value. Divide your advantages over the competition into those where the difference is large and those where it is small. Then for each, identify whether the difference creates large or small value for customers. (You may want to do this for different target markets.) The resulting matrix gives you insight into which competitive differences to build from.

Customer Value(s) Derived From Your Significant Advantage(s)	Hi	Key success factors: Concentrate resources to secure/broaden lead	Change game to secure much larger advantage
	Low	Look for segments where advantage could be significant	Low priority

Mapping Exercise

Create a graph with the y-axis listing attributes ranked by importance to the customer and the x-axis listing worst to best. Plot your company and each of your competitors, using both where your company is today and where you feel you could move your company. Look for the places in the map that are important to customers in which you have advantages. While your advantages may not be in the most important attributes, as long as you can match competitors on the most important attributes, you can make lower ranked attributes the deciding factor in the comparison of potential suppliers. In the map below, pace (or speed) can become a force of differentiation for firms that are essentially the same in price and quality.



Key success factors in strategic positioning

What are the secrets to success in the strategic positioning process?

- Active participation of the leadership team
- Strong market understanding process that generates marketplace literacy within the firm
- Doing this work away from the budget process--i.e., not at the start of the budget process
- Using creative people in the company to identify new strategic directions (in the problems and opportunities stage)
- Using of an outside facilitator with strategic planning skills (not just a facilitator—but rather someone who will help you think more strategically) if you are new to this process
- Giving the process enough time to create deep thinking. In the end, this work is far more important to the "value" of your company than this year's profits and sales. Delegate more of the operational work to others as you participate in this process. This is the work of leadership. (See Pamphlets Three and Four)

The positioning you select must:

- Come from the customer, i.e. reflect customer benefit/cost perspectives not your internal interests and concerns. It must not raise "so what" questions.
- Be differentiated vs. the competition in the minds of the various customers
- Be believable by customers
- Build/enhance the company's franchise in strategic markets
- Provide competitive insulation from others in the market
- Establish a platform upon which to build all future communications
- Leverage any existing positive brand equity
- Be broad enough to encompass all target customer groups but able to be tailored so as to be meaningful for any one segment

In the end, strategic positioning is only successful as an activity if the leadership team aligns the organization and its annual activities to this positioning. This is the focus of Pamphlets Five, Six and Seven. Keys to success in alignment include:

- Translating the execution of the positioning into steps the organization will change to actually have this positioning come about
- Communicating the position to all within the company, supplier base and current and potential customer base
- Making sure that the marketing plan, sales plan and operational plans and all communications to the market are consistent with the strategic positioning
- Using strategic positioning to guide all decisions
- Redesigning for the organization “from scratch” to insure the structure is aligned with the strategy
- Identifying cultural barriers and enablers and creating new norms so that the culture supports the strategic positioning rather than opposes it
- Making a long-term investment in the positioning; while this does not preclude regular testing, especially with communications positioning, it does suggest that a firm stay the course absent convincing evidence that the course is the wrong course
- Redefining measures from top to bottom that fit the strategy and being prepared to start anew while managing a maturing position

Pamphlets Three and Four discuss the role and skills of leadership in both defining the desired positioning and aligning the organization so desires become reality. Pamphlets Five, Six and Seven focus on alignment.

Summary

You cannot break out of the commodity box until you break out of how you have traditionally looked at your company. Most managers are so busy managing, they lack the “balcony” perspective needed to fully understand the position of the company in its market place and how that market place is changing. Risk and opportunities stem from operational considerations, not strategic considerations.

Changing industry- or company-specific paradigms (assumptions that over time become facts) about its markets, products and services, and competitors is at the heart of successful strategic positioning. The strategic assessment process outlined in this pamphlet provides new frameworks to help you break paradigms. While new frameworks are necessary to break out of a commodity box, they are not sufficient. You also need new information from the market and you need new people from within your company assessing this information so as to glean new insights.

There are a number of components to a strategic assessment. They include:

- Marketing accounting: Why are sales what they are?
- Frame of reference: What are the pros and cons of where we compete?

- Current strategic positioning: How do customers see us today?
- Product and target market synergies: Is the whole worth more or less than the sum of the parts?
- Customer compromises: What must customers give up to work with your industry?
- Core competencies: What unique skills do we have that create benefits and customer value?
- Market changes: What factors drive the future?
- Value chain: What are the different steps that link initial inputs to the end user product?
- Product portfolio assessment: What are the strong and weak positions within our portfolio of products and services and markets?
- Financial analysis: What drives our profitability?

While all the components are important, the analysis of core competencies oftentimes provides the catalyst to see new strategic positioning opportunities. Core competencies are organizational skills that pass four tests:

- Does the core competency create value to the customer?
- Would it be hard for a competitor to replicate this competency?
- Is the organization superior (vis-a-vis the core competency) compared to other organizations that serve, or could serve, this market?
- Can the core competency be used to help the organization succeed in new markets or new products and services?

Many organizations will find they do not have a core competency. But the exercises outlined in this pamphlet related to core competencies will help you identify potential competencies you can build from. Core competencies become the anchor of the value-creation strategies that flow from strategic positioning decisions. (See Pamphlet Three.)

The strategic assessment is used to identify the strategic risks and opportunities facing the company. From this work, at least two strategic positioning options are identified and one is selected as best, based on pre-established criteria for choosing among potential positionings. The positioning you select must:

- Come from the customer, i.e. reflect customer benefit/cost perspectives not your internal interests and concerns. It must not raise “so what” questions.
- Be differentiated vs. the competition in the minds of the various customers
- Be believable by customers
- Build/enhance the company’s franchise in strategic markets
- Provide competitive insulation from others in the market
- Establish a platform upon which to build all future communications
- Leverage any existing positive brand equity
- Be broad enough to encompass all target customer groups but able to be tailored so as to be meaningful for any one segment

There are generally at least two good strategic positionings a company can select to break out of the commodity box. Identifying them requires keeping ten basic marketing principles in mind.

- You cannot be all things to all people. To gain sales you must give up sales.
- The decision on where you compete and the decision about how you will be different than the competition are interrelated. Look for the combination that can provide you with the greatest opportunities for sustainable differentiation and financial performance.
- Companies grow profitably when their different market positions are synergistic. In other words, the value of the whole of the company is worth more than the sum of the values of different offerings or markets.
 - ~ Look for synergies and exploit them as long as the benefits of acting on these synergies exceed the costs to do so.
- Once you know your target market, design the value chain to find the most effective and efficient way to reach the target and provide products. The choice of channel and the choice of what to make or buy are key strategic decisions that should enhance the ability of the company to secure its desired differentiation.
- Choose the market segment for your target market that most values what you do better than the competition.
- Pay attention to what is changing in your markets. Change pushes everyone back to ground zero.
 - ~ Be sure to pay attention to the different ways customers can order your type of offering as well as substitutes (i.e., an alternative) and complements (i.e., used alongside). While you may choose to not use all the channels, lack of awareness of emerging channels will cost you sales.
- Never give away for free that which creates genuine benefits or cost savings for customers.
- Make product, service, technology, geography and channel decisions i.e., all decisions about where you compete, into a strategic decision. Take none of these as a “fixed” decision.
 - ~ Always question whether or not a niche position is sustainable, whether that niche is defined around a channel, a location, a market or a product or service.
 - ~ Limiting your product or geographic scope will always present the risk of an indefensible niche. These niches are defensible only if customers are willing to unbundle their purchases and buy locally.
 - ~ If you want to dominate a product category, be sure to understand the different segments within the market. To protect against niche competition, create tailored offerings for each segment. Tailored selling and marketing strategies are also likely to be needed.

- In a commodity market, the only winner is the lowest cost supplier. If you cannot secure this position, find a position with differentiated benefits or non-acquisition cost savings.
- Build from your strengths and never try to beat a leader at his own game. Use market changes to find ways to obsolete the leader's advantages.

Questions to Move Forward

- Is your organization's market understanding process what it needs to be? Have you defined a viable strategic positioning?
- Do you have a full understanding of the position of your company in its markets? Do you understand its strengths and weaknesses and its strategic risks and opportunities? Is it what you want to believe or is it realistic?
- Do people throughout the company understand the position of the company in its markets and its risks and opportunities?
- What beliefs, patterns and fears get in the way of conducting a thorough strategic assessment?
- What will you do differently tomorrow?

Sidebar A: Thinking Strategically

The key to thinking strategically is to have a broad perspective on the questions you are trying to answer. The broader the perspective, the broader the set of options you consider and therefore the more room there is for good ideas to emerge. Coupling a broad and deep understanding of your customer (current, lost and potential) with knowledge of your technology will allow you to find answers to problems the customer has that the customer assumed were not fixable. Solutions that break the traditional compromises customers experience in working with your industry's products is at the heart of differentiation. Listen to understand, so you can identify what is possible.

Sidebar B: Quality Function Deployment (QFD)

QFD is a tool to evaluate the strengths and weaknesses of specific products versus that of the competition. Here, you can think about products as the physical product (e.g., hollow core) or as your offering for specific market segments (e.g., office market structural components). Both views are important. The former will shed more light on your company versus other precasters, whereas the latter will shed light on your company's competitive building materials versus others.

QFD starts by identifying what customers look for in a supplier and the specific attributes that give rise to what customers are looking for. For example, customers want to work with companies that are easy to work with. Specific attributes could include:

- Sales representatives' knowledge
- Sales representatives' availability
- Project manager availability
- Quick problem resolution
- Fair and smooth handling of change orders
- Cost effectiveness

Then rank the relative importance of each of these attributes by distributing 100 points across all attributes. You may only be able to weight the "bundled" category, not the specific attributes. You then identify how your company compares to the competition on each attribute. It is critical that you use your customers' feedback to do the ranking and spread the points. The "inside view" is likely to be more optimistic or more pessimistic (depending on your company's culture) than the truth.

Questions to ask after completing this framework include:

- On what important attributes do we have a low rating—absolute terms? relative to our competition?
- Where are we strong and where could we genuinely differentiate ourselves?
- What will our competitors most likely use to position themselves? How will this hurt us? How can we offset this?
- Is there an important attribute that no competitor excels at?

Sidebar C: Segmentation

Segmentation is a tool for focusing your business strategy on groups of customers that are large enough to serve profitably, yet different enough from others to serve in a differentiated manner. The key to a winning market segmentation is to categorize customers by their needs. By tailoring your offering to the needs of one or more groups, you differentiate your company's offerings and deliver more value than the competition.

The selection of a target market(s) in strategic positioning is based upon a macro segmentation, e.g., are we creating differentiated value for owners, contractors, architects? Are we selling to retail or commercial owners? Tactical marketing decisions, e.g., do we send a direct mail to all parking lot owners or only those who are privately owned is based on a more micro level segmentation, i.e., a division of the strategic target market into smaller groups? Macro market segmentation is at the heart of strategic positioning insights. Micro segmentation is also critical. It is used to develop effective tactical marketing strategies: pricing, programs, advertising, communications positions, etc.

Questions to ask that unearth ways to segment the market include:

- What are the factors that differ across customers in our market that impact what they need from a supplier?
- How can we best sub-classify customers into meaningful segments? How would we ideally structure sales?
- What are the distinct needs of each of these segments?
- If all our current and potential customers got together and self-organized into groups with similar needs, what groups would emerge?

Sidebar D: Why Care about Core Competencies?

- Assessing competitors' current products may fool you into complacency about your current position -- a company with strong core competencies will have better products tomorrow.
- They help you decide on a competitive strategy--they are what create your differentiation and they point to the customer segment that most needs you (e.g., architects).
- They let you see new opportunities you wouldn't otherwise see.
- Managing them insures your value stays superior.
- They are the source of competitive advantage.
~ Customers want what you offer and competitors can't easily replicate.
- They keep you strong even if unexpected entrants come into your market (e.g., complementary product companies).

The risks of ignoring core competencies include:

- Competitors may surprise you
- You may divest yourself of valuable skills
- New entrants may surprise you
- Limited growth opportunities
- You may become too dependent upon your suppliers
- Truncated opportunities
- You may lose key people
- Fragmented or weakened market position
- Other companies become superior and capture your core competency

Sidebar E: Strategies for Thinking Out of the Box about Strategic Positioning

- Find market segments (niches) not currently well served; a new "segmentation" of the market (i.e., a new paradigm is often required).
- Change the implicit rules.
- Obsolete the advantages of your competitor.
- Find competitors' weak spots and exploit them.
- Focus on resolving unaddressed customer issues (e.g., risk, speed)
- Offer benefits no one knew they needed but which really matter (e.g., no callbacks, no change order costs).
- Change industry boundaries.
- Exploit external changes.
- Address emerging needs before other competitors.
- Solve compromises customers have grown to expect (e.g., fast costs more).
- Rethink the product offering: What is the customer really buying?

Chart One: How to Identify and Select a Strategic Position

Value Chain

What is the underlying economic model of our business? Our industry? Can it be changed to increase customer value?

Marketing Accounting

Why are our sales and profits what they are? What strengths and weaknesses create our results?

Industry Map

Where do we compete in the broader industry? Where do our current (future) competitors compete? How does (could) scope affect our value to customers?

External Changes

What is changing or could change in the market and how can we take advantage of it?

Strategic Problems and Opportunities

Strategic Positioning Today

What is our current strategic positioning (i.e., how do customers see our “value” as different than others, if at all)?

Core Competencies

What are our core competencies and how can we use them in current markets? New markets?

Customer Understanding

What are the unmet needs and key strategic issues in our current markets? In synergistic markets? Do they differ across market segments? What compromises are customers required to make when dealing with our “industry?”

Synergies

What is not synergistic in what we offer? What products, services and markets are synergistic with what we offer?

Financial Analysis

What drives profits?

Portfolio Assessment

Which positions are Strong?

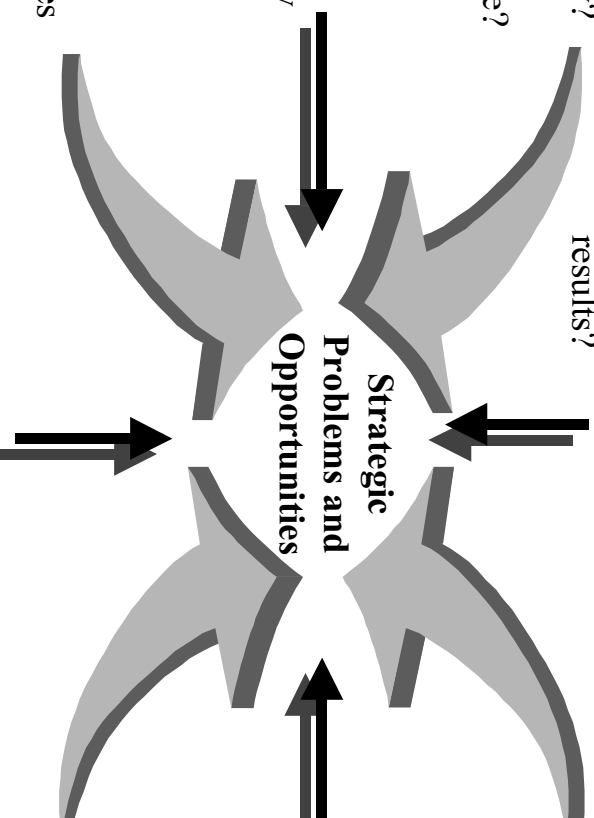


Chart Two: Collecting Information from the Market

Part I

Identify at least three competitors that you regularly bid against in one or more types of building structure markets (e.g., parking decks, bridges, commercial-industrial). Ideally, at least one would be a competitive building material other than precast (e.g., cast-in-place or steel). Complete Attachment One for each competitor.

Part II

Interview at least one local contractor in preparation for the marketing plan work. Ideally, you would interview a project manager and one of the senior managers of the contractor's firm. Your goal is to gain feedback on their needs and how your organization fits their needs. Ideally, all of the people attending the meeting from your company would interview different customers.

The interview questions are on Attachment Two. Please use this as a "guide" for what you want to learn. A personal interview usually becomes less structured as the conversation progresses.

**PC-21 Marketing Plan Assignment
Attachment One**

Competitor Name: _____

1. How are your product lines different than this competitor?
2. Does this competitor have any new products that are affecting your success and vice versa in this market?
3. How do you feel you compare to this competitor on the following attributes? Rate each category (+ = you are ahead; 0 = you are the same; - = you are behind). Note: You can use ++ and -- also if the gap is significant. Check the most important factors in each category.

	RATING
Product Attributes:	_____
___ quality	
___ reliability (e.g., built to what was specified)	
___ fire proof	
___ easy to maintain	
___ other: _____	
Service Levels:	_____
___ lead time	
___ responsiveness of personnel	
___ technical expertise of personnel	
___ meet promised delivery dates	
___ ability to handle large jobs	
___ flexibility (e.g., responding to a sudden change in schedule or design or doing something unique or desired by designer)	
___ ease of use for others involved in construction process (other subs, contractors and architects)	
___ other: _____	
Pricing and Other Cost Factors:	_____
___ cost	
___ ability to value engineer the design to save money or time or both	
___ terms	
___ amount of oversight required on part of customers	
___ other: _____	
Other: _____	
___ reputation and image of company	
___ breadth of product offering and therefore ability to do more of the job and reduce scheduling problems, solve interface issues and remedy other headaches	
___ ability to help customer get more work	
___ capacity available when needed	
___ any other considerations that may be important	

PC-21 Marketing Plan Assignment Attachment Two

Customer Name: _____

Company: _____

1. What do you expect from a supplier of structural and cladding building products, be it precast or some other material? (Try to get at which categories are the most important and which of the things within the categories matter the most.) Rate each category (++ = very important; + = somewhat important; o = not at all important). Check the most important factors in each category.

- | | RATING |
|--|--------|
| <ul style="list-style-type: none"> • Things related to the physical product _____ <ul style="list-style-type: none"> ___ quality ___ reliability ___ easy to maintain ___ durable ___ other | _____ |
| <ul style="list-style-type: none"> • Things related to breadth of products and services offered. Probe: How does breadth of offering (i.e., offering more of the solution) help scheduling problems, solve interface issues and remedy other headaches. | _____ |
| <ul style="list-style-type: none"> • Things related to how you service the account (e.g., meet promised dates, available, etc.) _____ <ul style="list-style-type: none"> ___ lead time ___ responsiveness of personnel ___ technical expertise of personnel ___ meet promised delivery date ___ ability to handle large jobs ___ flexibility (e.g., responding to a sudden change in schedule or design) ___ ease of use for others involved in construction process (other subs, contractors and architects) | _____ |

Attachment Two (continued)

RATING

- Things related to overall cost _____
 - ___ cost
 - ___ ability to value engineer the design to save money or time or both
 - ___ terms

- Other items _____
 - ___ reputation and image of company
 - ___ ability to help customer get more work
 - ___ any other considerations that may be important
 - ___ capacity available when needed

2. What factors tend to make the most difference in who you select for the job among those you ask to bid?
3. What factors have or could lead you to negotiate work (vs. bid process) with the structural and cladding building products sub(s)?
4. Are we meeting your expectations?
 - a. What makes you satisfied with what we do?
 - b. What makes you dissatisfied with what we do?
 - c. What do our competitors do better than we do? (precast and other building materials)
 - d. Do we excel at anything in your estimation?

Be sure to probe why they are not satisfied and why they feel you excel. You may want to use the lists above as areas to probe.

5. What could we do to help you win more business? What could we do to really help you better serve your customers?
6. How else can we improve (be sure to get specifics)?
7. Putting aside our products for the moment, what are the most vexing problems or issues you have in your company today?

Chart Three: Marketing Accounting

$$\begin{array}{l} \text{Co. Jobs} = \text{Job (or unit)} \times \% \text{ market} \times \text{Co. consideration} \times \text{Co.} \\ \text{(or units)} \quad \text{market size} \quad \text{served} \quad \text{rate} \quad \text{win rate} \end{array}$$

$$\begin{array}{l} \text{Co. \$} = \text{Co. jobs} \times \text{Average contract} \times \frac{\text{Co. average contract (sales) price}}{\text{Avg. contract (sales) price in market}} \\ \text{(or units)} \quad \text{(or units)} \quad \text{(sales) price in market} \end{array}$$

Chart Four: Industry Map I

	Owners	GC	DB	Eng./Arch.
Services				
~ Design				
~ Value engineering				
~ CM/GC				
~ Financing				
~ Post tension				
~ Estimating				
~ Freight				
~ Installaton				
~ Design-Build				
Structural (Non-Residential)				
~ Frames				
- precast				
- other				
~ Walls				
- precast				
- other				
~ Architectural Cladding				
- precast				
- other				
~ Floors				
- precast				
- other				
~ Roof/Foundation				

Industry Map I (continued)

	Owners	GC	DB	Eng./Arch.
Residential Structures				
~ Precast				
~ Other				
Transportation Structures				
~ Beams				
- precast				
- other				
~ Decking				
- precast				
- other				
~ Walls, Piling				
Concrete Products				
Internal Value-Added				
Other				

Chart Five: Industry Map 2

	Bridges	Offices	Decks/Stadium	Other
Services				
~ Design				
~ Value engineering				
~ CM/GC				
~ Financing				
~ Post tension				
~ Estimating				
~ Freight				
~ Installaton				
~ Design-Build				
Structural (Non-Residential)				
~ Frames				
- precast				
- other				
~ Walls				
- precast				
- other				
~ Architectural Cladding				
- precast				
- other				
~ Floors				
- precast				
- other				
~ Roof/Foundation				

Industry Map 2 (continued)

	Bridges	Offices	Decks/Stadium	Other
Residential Structures				
~ Precast				
~ Other				
Transportation Structures				
~ Beams				
- precast				
- other				
~ Decking				
- precast				
- other				
~ Walls, Piling				
Concrete Products				
Internal Value-Added				
Other				

Chart Six: Generic Strategies

*Niche
Strategy*

Customer segments

Channel strategy

*Technology
Strategy*

Products,
Technologies
& Services

Chart Seven: Interdependency of Organizational Skill Buckets

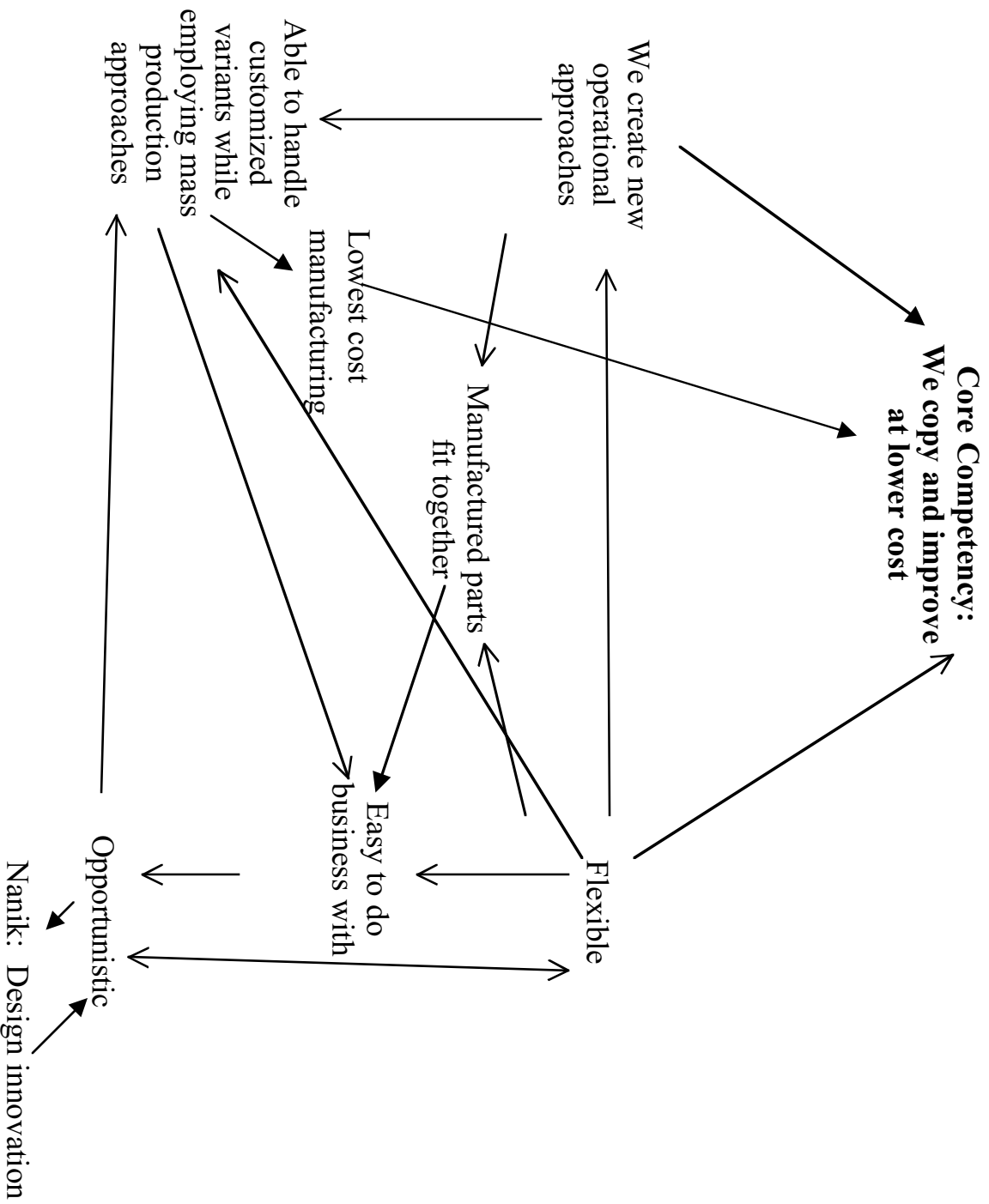


Chart Eight: Value Chain Analysis

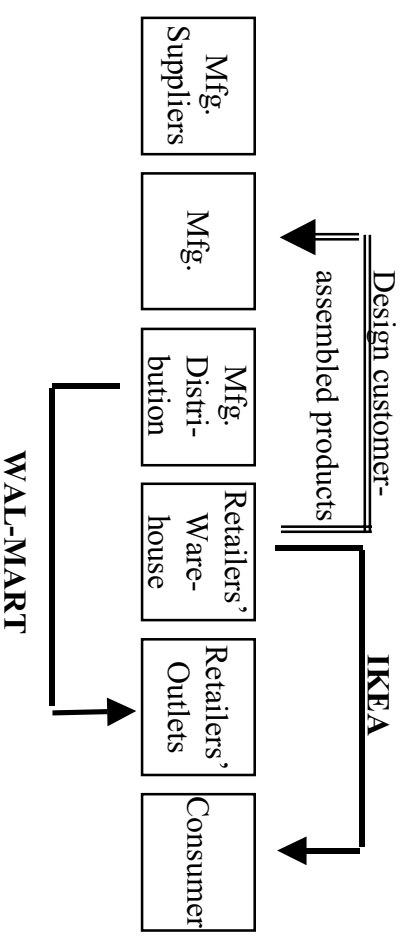
What Is It?

- A “macro” process overview of all the participants/activities leading to the production of the end-user product.

Questions to Ask:

- How does the final product get built?
- Could we reconfigure our business (e.g., combine or eliminate steps) and its relationship to suppliers and customers to reduce costs or increase end-user benefits (i.e., increase value)?

Example from Other Industries



Your Industry

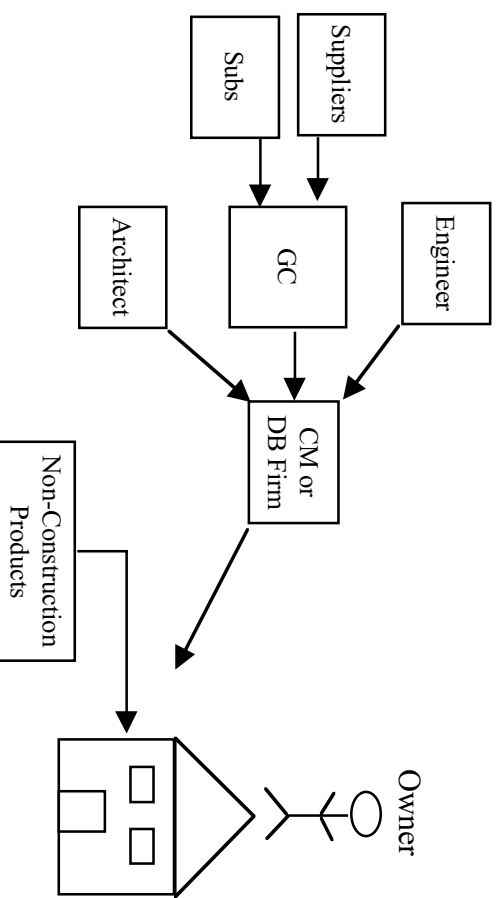


Chart Nine: Three Generic Strategies for Solution of Choice, Strategy 1

Focus on Design-Build

Where: Applications with high PC/PS content

- Parking decks
- Stadiums
- Prisons
- Schools (?)
- industrial buildings
- multi-family residential
- commercial
- bridges

Value Proposition: Best overall solution

- Cost/time savings due to concurrent design & manufacturing engineering
- Most spaces per \$ spent
- Readily upgradable

Key Core Competencies:

- Defining customer needs and solutions
- Integrating design and value engineering and construction management expertise to enhance overall value of the building (more features or lower cost)

Chart Nine: Three Generic Strategies for Solution of Choice, Strategy 2

**Focus on Aligning with Selective General Contracting
Companies or Const. Mgmt. Companies**

Where: Geographic areas they serve

- Building shell--foundation, structural components, cladding material and roof

Value Proposition: Guaranteed performance on the piece you must get right from the start to have profits at the end

Key Core Competencies:

- Managing multi-sub projects on time, on budget
- Value engineering of structure and curtain wall, especially as it relates to reducing cost and increasing construction speed of overall building

Chart Nine: Three Generic Strategies for Solution of Choice, Strategy 3

Focus on Concrete Products

Where: Any place where concrete can become the preferred material

Value Proposition: Lowest cost solution

Key Core Competencies:

- Substitute marketing to identify innovative concrete solutions
- Manufacturing process design and control to drive to lowest cost
- Licensing or multi-plant management
- Material innovations