



Crowe

6 Steps to Laying Out Your Competitive Strategy

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6 Steps to Laying Out Your Competitive Strategy

Why do so many companies languish and watch as their business turns into a zero profit zone, while others seem to thrive?

When you look at your business, whether it's a new venture or a company with a long history, can you answer the following questions?

- ▶ What does my company do better than anyone else?
- ▶ What unique value do I provide to my customers?
- ▶ How will I increase that value next year?

Companies that fail to answer these questions, and don't believe they are of paramount importance, relegate themselves to marginal profitability at best and failure at worst. But companies that can answer these questions are able to raise the value bar for their customers and reap the benefits of success.



Companies like Wal-Mart have figured this out and have redefined competition in their market by delivering a unique value to a selected customer group. By maintaining focus and discipline, they make it difficult for other companies to compete under old competitive terms.

Simply, competitive strategy has never been more important to success in today's business environment. It does not matter what type of business you are in or whether you are small, big or just starting out, a company cannot survive without an adequate and focused strategic plan to best the competition. Yet many companies fail to execute a successful strategy; it is these companies that languish in the zero profit zone.

In simple terms, for a company to achieve success and enter the profit zone it must first decide where it will stake its claim in the marketplace and what kind of value it will offer its customers. A company needs a clear marketing thrust, a precise knowledge of its customer base, and a product or service with a niche or some competitive advantage to be successful.

Unfortunately, many entrepreneurs and business owners get stuck in the process of defining their competitive strategy. They often have the idea and the product, but being the technician they are not sure how to define its market. Even worse, many entrepreneurs assume or guess their target market and often glaze over a competitive strategy, usually to the detriment of the business.

So what are the steps to laying out a competitive business strategy? While there are different methods you can follow, I have laid a series of 6 basic steps to help you.

1 Financial perspective

This step may not seem to have much to do with strategy, but it is important to determine the value of success quickly. Why? Because, in simple terms if the venture can't deliver significant returns, it may not be worth the risk, and you have to ask yourself if it is worth continuing with your business. In this scenario you complete a reverse income statement. You start by defining how much profit you want to see at the end of a certain time period, and then determine the amount of revenues needed to generate that profit and the costs to deliver that profit. Do the numbers add up and make sense? The goal here is to be objective, if the expected revenue is not sufficient to generate your required profit at the end based on an estimate of costs, don't simply fudge the numbers and assume you can reduce costs or increase revenue. Be diligent in your assessment.

2 Understand the industry and competition

In step 2 you are going to assess your industry and the competition. This basically comes down to assessing 5 factors:

Understanding who your competition is including factors such as competitor strengths and weaknesses, market position, pricing, new product development, advertising, marketing and branding. You should determine how you compare to your competitors.

Assessing the threat of new entrants into the industry (which may include you) and any potential reactions from existing companies. There are basically 6 barriers to entry you can evaluate: **economies of scale, product differentiation, capital requirements, cost disadvantages, access to distribution channels, government policy.**

Assessing the threat of substitute products (existing or future) that can place a ceiling on pricing. Assessing the bargaining power of suppliers who can increase prices, lower the quality of products or limit the quantity of supplies one can purchase. This all has an impact on profitability.

Assessing the bargaining power of customers who can force down prices or demand better quality, more services and play you off versus a competitor.

3 Understand the Customer Perspective

In step 3 you assess your customer. This is a key step, get it wrong and you may not be able to recover. In fact, the customer value proposition and how it translates into growth and profitability for the company is the foundation of strategy.

Start by asking yourself a couple basic questions:

- ✓ To achieve my vision, how must my customers look?
- ✓ Who are the target customers that will generate growth and a profitable mix of products/services?
- ✓ Next, ask yourself what is the value proposition which defines how the company differentiates itself to attract, retain and deepen relationships with the targeted customers?

There are basically 3 value propositions or disciplines that you can choose from:

- ▶ Cost leadership – In this discipline you choose to provide the best price with the least inconvenience to your customers.
- ▶ Product leadership – In this discipline you offer products that push the performance boundary (i.e. newer and better than competitors).
- ▶ Best total solution – In this discipline you deliver what the customer wants, cultivate relationships and satisfy unique needs. In this case, you may not be the cheapest or the newest, but the total package you deliver

In order to help you determine which of these value propositions you decide on, you may want to work through a value chain:

- 1 Determine your customer priorities
- 2 Determine the channels needed to satisfy those priorities
- 3 Determine the offering (products) that are best suited to flow through those channels
- 4 Determine the inputs (materials/knowledge etc) required to create the product
- 5 Determine the assets/core competencies essential to the inputs (ask yourself, in order to satisfy my customer at which processes must I excel? For example, product design, brand and market development, sales, service and operations and/or logistics).

4 Finish the business model

The business model shows how all the elements and activities of a business work together as a whole by outlining how the business generates revenue, how cash flows through the business and how the product flows through the business. By this time, you should understand the revenue capability of the business, how the industry works and your competition, who your customer is, what you are going to offer them and how you are going to offer it. By drawing a flow chart that shows how these activities are linked together you will understand how the business activities flow to generate projected profit, which you determined in step 1. This is also a good step to see if something is missing in your analysis.

5 Construct the business plan

By the time you get to this step most of your work is done. If you are looking for financing, a formalized plan will have to be completed. If you do not need financing, simply make sure the preceding tasks are documented so that they can be reviewed and changed as time progresses (strategy is an ongoing process, not a one-time task).

6 Learning and growth perspective

In this last step, you ask yourself how/where the organization must learn and improve in order to become and remain successful. For example, determine the skills, capabilities and knowledge of employees needed, the technology needed and the climate and culture in which they work.



We Understand

Having a thorough understanding of the client's business, current situation, needs, and expectations such that there should be no surprises.



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Communication before, during, and after an engagement—open and consistent communication at the right time to the right people.



We Collaborate

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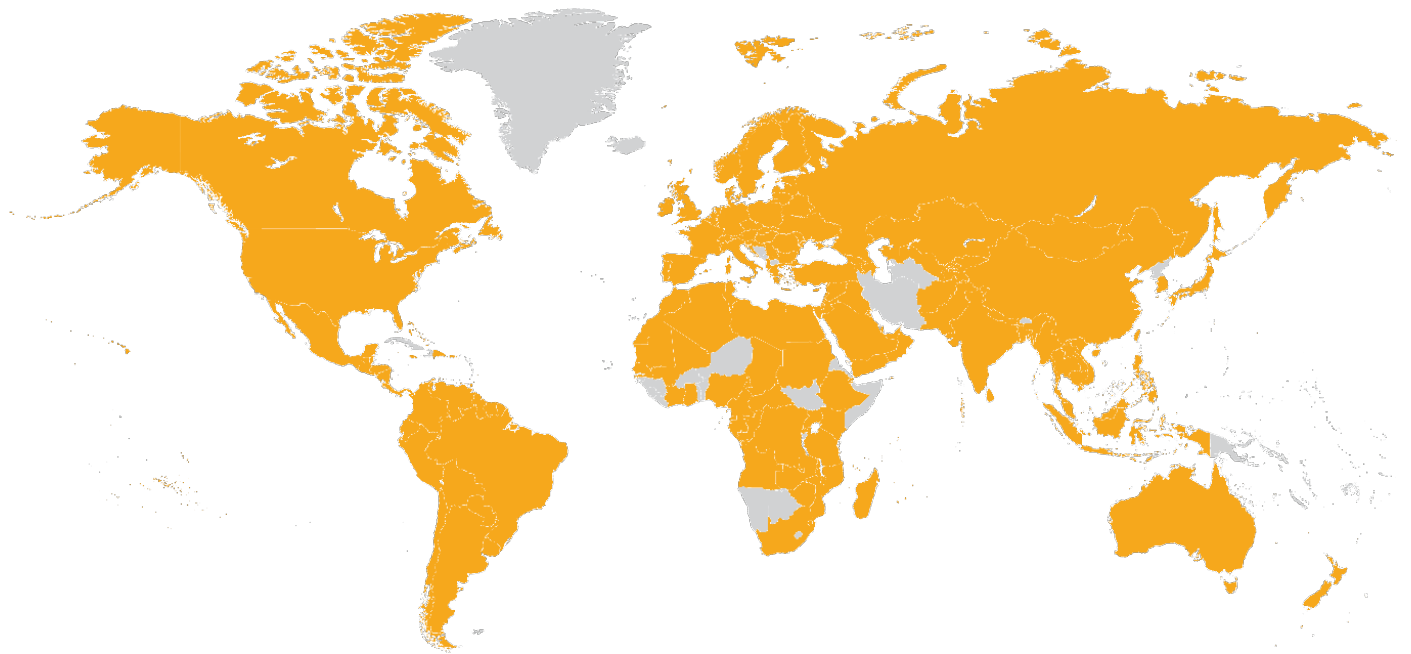
We Deliver

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decisions.
Lasting
value.**

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Crowe Global

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At Crowe, our professionals share one commitment, to deliver excellence.

Crowe Jamaica

Crowe Jamaica is a professional service firm offering a full range of Audit, Accounting, Advisory and Taxation Services. We are a firm of chartered accountants whose concept of service is to solve problems, exploit opportunities and turn advice into action. Our style is personal and our outlook progressive. We continually strive to create value for our clients.

Established in 2002, we have become one of Jamaica's leading accountancy practices and lead the field in the provision of advice to private clients and business owners.

Crowe Jamaica is one of the largest public accounting, consulting, and advisory firms in Jamaica. Crowe Jamaica uses its deep industry expertise to provide audit services to public and private entities while also helping clients reach their goals with tax, advisory, risk and performance services.

Crowe Jamaica serves clients worldwide as an independent member of Crowe Global. The network consists of more than 180 independent accounting and advisory services firms in more than 130 countries around the world. Our network of Jamaica offices (Kingston, Runaway Bay, Montego Bay and Mandeville) ensures that we can provide a local service backed by the expertise of a major national practice.

Our firm provides outstanding service to our clients because of our dedication to the three underlying principles of Professionalism, Responsiveness and Quality.

Crowe Jamaica is particularly known for our one – stop – shop concept that was, according to our client's experience, of invaluable significance to those companies that are establishing their business operations in Jamaica. To respond to clients growing demands, we developed deep industry specialization together with innovative technology, which enables our dedicated professionals to create value for our clients with integrity and objectivity. Furthermore, membership in Crowe Global provides us the worldwide capabilities of a highly integrated network to deliver value to multinational clients doing business across borders.

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