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Discipline of Market Leaders

By Steve Saenz

SteveSaenz.com

Lee Iaccoca once said, "In this business, you lead, follow or get out of the way." Although it sounds rather brash, this proclamation does raise some interesting marketing questions. For example, who are these leaders and how did they get there?

If one of your clients asked you to identify some market leaders, you might come up with a few names like, *Home Depot, Microsoft and Wal-Mart* without much hesitation. However, what would you say if they asked you to explain how these companies were able to achieve their leadership position? If you answered by pointing out that they were bigger, better, faster, cheaper *and* were able to deliver what their customers wanted, when they wanted it, you are absolutely right! But, that's only half the story. What you have just described are the visible signs that they are, in fact, market leaders. The real question is, what is going on *inside* these organizations that enables them to perform the way they do?

According to Michael Treacy and Fred Wiersema (*The Discipline of Market Leaders*) the answer to this important question lies in a company's ability to "find the unique value that it alone can deliver to its market." They point out that in order to become a market leader; a company must have three things:

1. Value proposition;
2. Value-driven operating model
3. Value discipline

A *value proposition* is the implicit promise that a company makes to its customers. It consists of a combination of values such as price, quality and service. A *value-driven operating model* is the structure, or culture, that allows a company to deliver on its value proposition. A *value discipline* is the way a company combines its value proposition with its operating model to become the best in its market. Having a value discipline is the key to developing a strategic advantage in a highly competitive industry. It is a structural decision that shapes the entire organization. The choice of a value discipline defines what a company does and therefore, what it is.

Treacy and Wiersema identify three basic value disciplines that a company can adopt. The first is organizational excellence. A company that pursues this strategy strives to provide its customers with low prices and convenience.

Wal-Mart is a good example of a company that has achieved organizational excellence. The second value discipline is product leadership. In order to become a market leader using this strategy, a company must be able to deliver superior, or "leading edge," products to its customers on a consistent basis. *Microsoft* and *Intel* are companies that seem to maintain product leadership. The third value discipline is customer intimacy, or service. Companies that compete on service are not interested in one-time transactions. Instead, they seek to cultivate high quality RELATIONSHIPS. The *Ritz-Carlton and Airborne Express* (yes, Airborne Express) are examples of companies that strive to achieve customer intimacy.

At this juncture, inquiring minds may be wondering if it makes sense to adopt one value discipline over another. The answer, of course, depends on the nature of the product or service a company provides. For obvious reasons, investment management consultants and money managers will find it difficult to *sustain* a competitive advantage on the basis of price and convenience or product superiority. On the other hand, it is quite conceivable that they may be able to achieve a significant advantage by competing on service. They must, however, *know what to do* and *be willing to do it on a consistent basis*. In short, they must be committed to achieving CUSTOMER SERVICE EXCELLENCE.

Before a company can become a market leader by pursuing a service-based strategy, it must first determine how much its customers are worth. One way to do this is to multiply the expected annual revenue for each customer *times* the number of years the company expects to keep them as a customer. While simplistic in its approach, this calculation begins to provide the organization with a sense of how much time and effort it should be willing to invest in each of its customers. If an organization views its customer relationships as "partnerships," the customers should be able to perform the same calculation from *their* perspective (i.e., How much is the service worth to me?) and arrive at the same dollar amount.

Once a company has a clear sense of how much its customers are worth, it can then begin to pursue the highly rewarding goal of achieving customer service excellence. In so doing, the organization will have taken an important step toward becoming a true market leader.

About the Author

Steve Saenz is a marketing consultant with more than 30 years of in-the-trenches experience in the financial services industry. His career began in 1983 as an account executive with Merrill Lynch. After five years of production, he moved into training and development as a marketing manager for Merrill Lynch Business Financial Services. In 1991, Steve joined Harris Bretall Sullivan & Smith as the managing director for the Southeastern U.S. In addition to raising $300 million of new SMA assets, Steve helped hundreds of commission-driven advisors make the transition to fee-based investment management consulting. In 1994, Steve founded Paragon Resources and became one of the industry's first practice management coaches. Over the years he has coached and trained thousands of financial advisors in the United States and Canada. He has written about and trained advisors in five key areas – business optimization, client advocacy, practice management, teambuilding and wealth management. His corporate projects include designing the practice management consulting group for a major financial services institution.

You can learn more about Steve and his current projects by visiting his website at SteveSaenz.com