

# discipline of market leaders

target your Customers

narrow your focus

dominate your market

*Michael Treacy and Fred Wiersema*

# Organization development, where to start

## Knowing the client's key issues

- Processes, People, ICT, Commerce

## Which strategic choice did the client made:

- Customer centricity
- Product innovation
- Operational excellence

## What about the Operating Model

## What are the focal points for starting the upgrade (change) process

- Internally
- Externally
- Commercially

# Choose the Race to Run

- Is your company willing to cannibalize its hottest product with a risky, untested new one?
- Offer a service at a loss hoping to establish a long-term relationship?
- Link up with an adversary to drive its costs even lower?

***If not,***

***– or if you believe the answer isn't of paramount importance –***

***get used to mediocre market performance and  
to playing competitive catch-up continuously.***

***Your company will never be a market leader,  
not until it learns to discipline.***

# Different Customers buy different Kinds of Value

Cost	Benefit	
<ul style="list-style-type: none"><li>• Price</li><li>• Reliability &amp; Durability</li></ul>	<ul style="list-style-type: none"><li>• Unique features</li><li>• Brand experience</li></ul>	<b>Products</b> “what we sell”
<ul style="list-style-type: none"><li>• Service dependability</li><li>• Convenience</li></ul>	<ul style="list-style-type: none"><li>• Service advice</li><li>• Personalized services</li></ul>	<b>Service</b> “how we do business”

*customer value is the sum of benefits received minus the costs incurred by the customer from the product and the service that we provide*

# What Customers say about Value

Cost	Benefit	
<p><b><u>Best Total Cost</u></b></p> <p>“Great prices and quality”</p> <p>“Their products last and last”</p> <p>“A no-hassle firm”</p> <p>“Consistency is their middle name”</p>	<p><b><u>Best Product</u></b></p> <p>“Premium priced, but worth it”</p> <p>“Consumers ask for it by name”</p>	<b>Products</b>
	<p><b><u>Best Total Solution</u></b></p> <p>“They are experts in my business”</p> <p>“Their services are exactly what I need”</p>	<b>Service</b>

market leaders choose to excel in delivering extraordinarily levels of one particular value and their customers recognize them for it

# New Rules that govern Market's Leaders' Actions

Provide the best offering in the marketplace by excelling in a specific dimension of value

- A value proposition that is compelling and unmatched

Maintain threshold standards on other dimensions of value

- You can't allow performance in other dimensions to slip so much that it impairs the attractiveness of your unmatched value

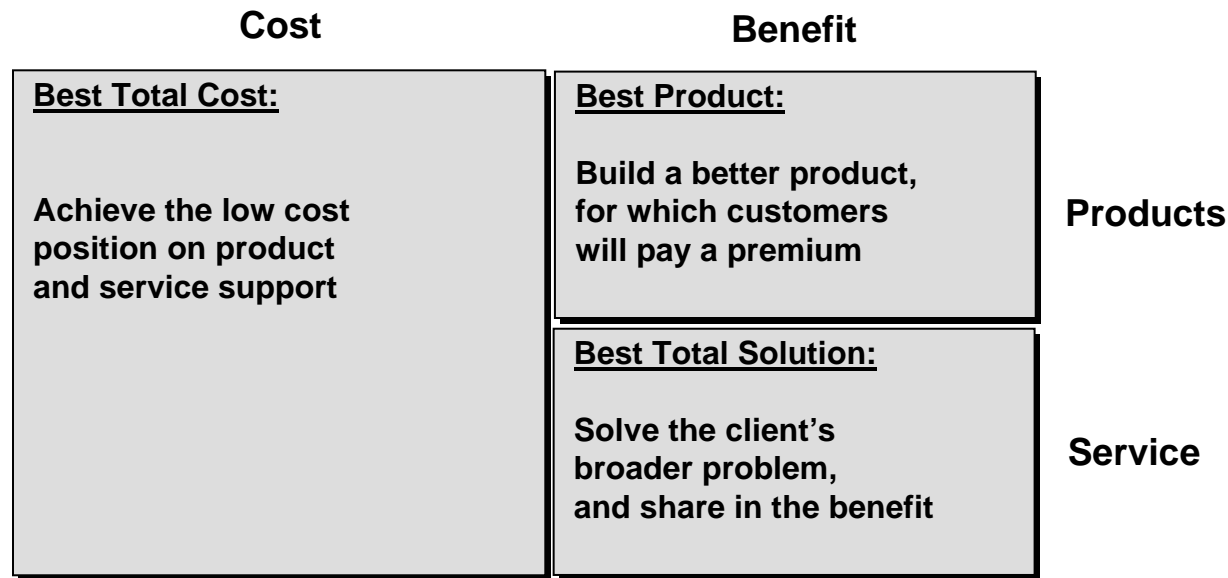
Dominate your market by improving value year after year

- No company can be best at everything, so focus on one dimension and you will be better than others who has not that focus

Build a well-tuned operating model dedicated to delivering unmatched value

- Improving customer value is the market leader's imperative. Improving your operating model can make competitor's offerings look less appealing, or even shatter their position by rendering their value proposition obsolete

# What's different, Value Leadership and Profit



**in all market-leading companies – customer value, shareholder wealth, and employee satisfaction move in locksteps**

# The winner's choice

## 3 Different "Value Disciplines"

Based upon the kind of value proposition:

- Best total costs → Operational leadership
- Best products → product leadership
- Best total solution → Customer Intimacy

# Three Value Disciplines

## Operational Excellence:

- Provide the customer with reliable products or services at competitive prices, deliver with minimal difficulty or inconvenience

## Product Leadership:

- Providing products that continually redefine the state of art

## Customer Intimacy:

- Selling the customer a total solution, not just a product or service

# Operating Model

- The choice of a value discipline shapes the company's subsequent plans and decisions, coloring the whole organization, from its culture to its public stance
  - Operating models are made up of:
    - Operating core processes
    - Business structure
    - Management systems
    - Culture
- All of which are synchronized to create a certain value

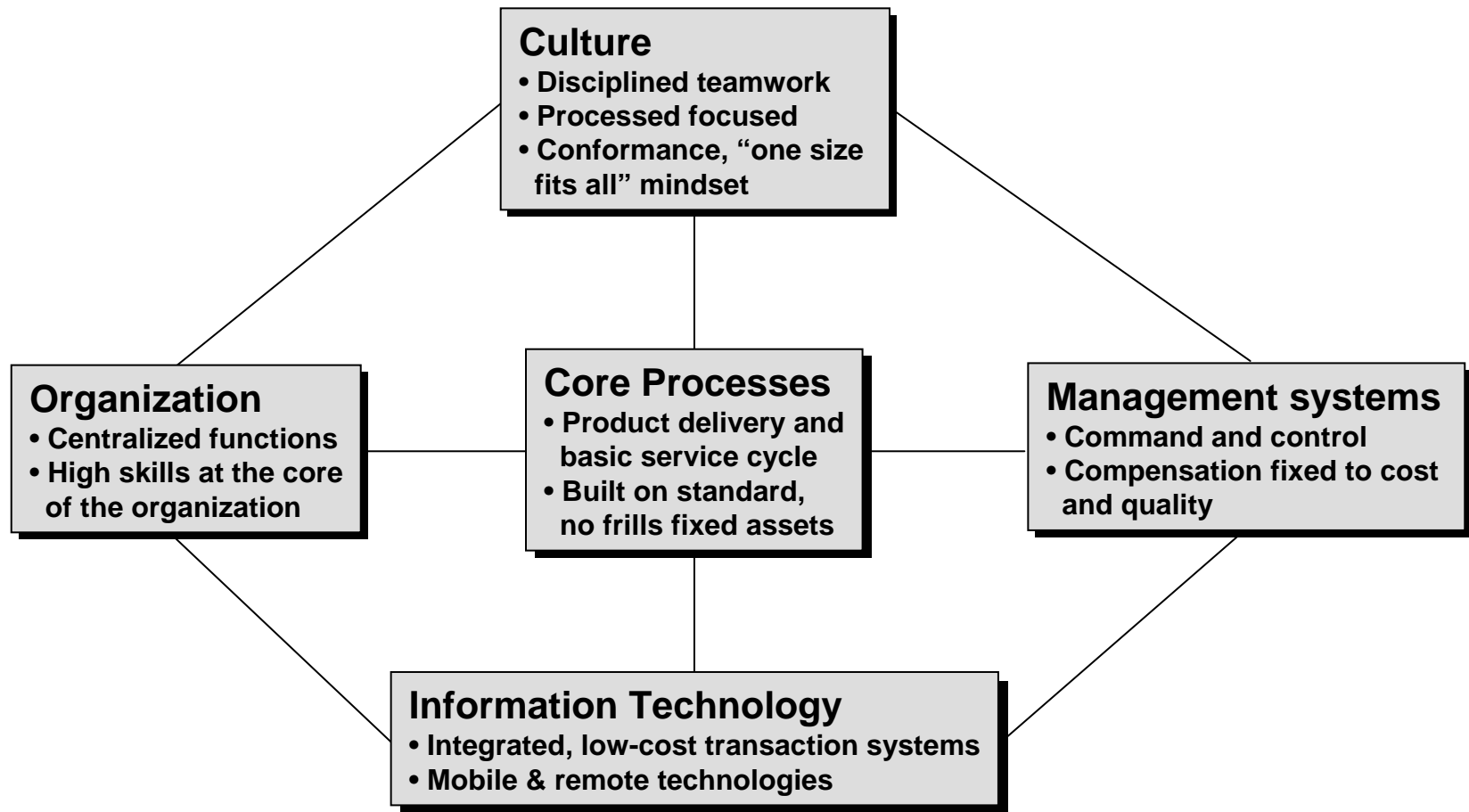
# Operational Excellence

- Operational excellent companies deliver a combination of quality, price, and ease of purchase that no one else in the market can match
  - They are not product or service innovators, nor do they cultivate one-to-one relationships with the customers
  - They execute extraordinarily well, and their proposition to customers is guaranteed low price and/or hassle-free service
- ➔ Dell Computers – EasyJet – McDonald – Hertz – Honda – Toyota

# Four distinct features

- Processes for end-to-end product supply and basic service that are optimized and streamlined to minimize costs and hassle
- Operations that are standardized, simplified, tightly controlled, and centrally planned, leaving few decisions to the discretion of rank-file employees
- Management systems that focus on integrated, reliable, high-speed transactions and compliance to norms
- A culture that abhors waste and rewards efficiency

# Operating Model of Operational Excellence



# The Discipline of Operational Excellence

## People:

- The team is what counts, not the individual
- Everybody knows the battle plan and the rule book

## Efficient transactions:

- Automated routines, tasks and coordinated activity through better communications
- Low overhead, efficient, reengineered business processes
- Virtual integration of the whole extended value chain
- Streamlining the connections among team members eliminates duplications, delays, and even payment complications

## Information technology:

- Integrated information systems, not only in the core operating processes, also in measuring & monitoring to ensure rigorous quality control and cost control to make fast management decisions
- Aggressively mobile technologies to extend their control and to improve customer service

# The Discipline of Operational Excellence

## Customer service:

### Redesign of the customer-service cycle

- Aggressively streamlining the selection, ordering, receiving, paying for, and maintenance of their products

Getting the client to adopt to the operationally excellent company's way of doing business

## Exploiting the value:

### Growth

- To assure a constant , steady volume of business
- To find new ways to use their existing assets
- To replicate their formula in other markets

## Formula:

1. *Less product variety*
2. *Having the courage, to not please every customer*
3. *Forging the whole company into a single focused instrument*

# Product Leadership

- A company pursuing product leadership continually pushes its products into the realm of the unknown, the untried, or the highly desirable
- A product leader consistently strives to provide its market with leading-edge products or useful new applications of existing products or services

1. Creativity

2. Commercialize the ideas quickly

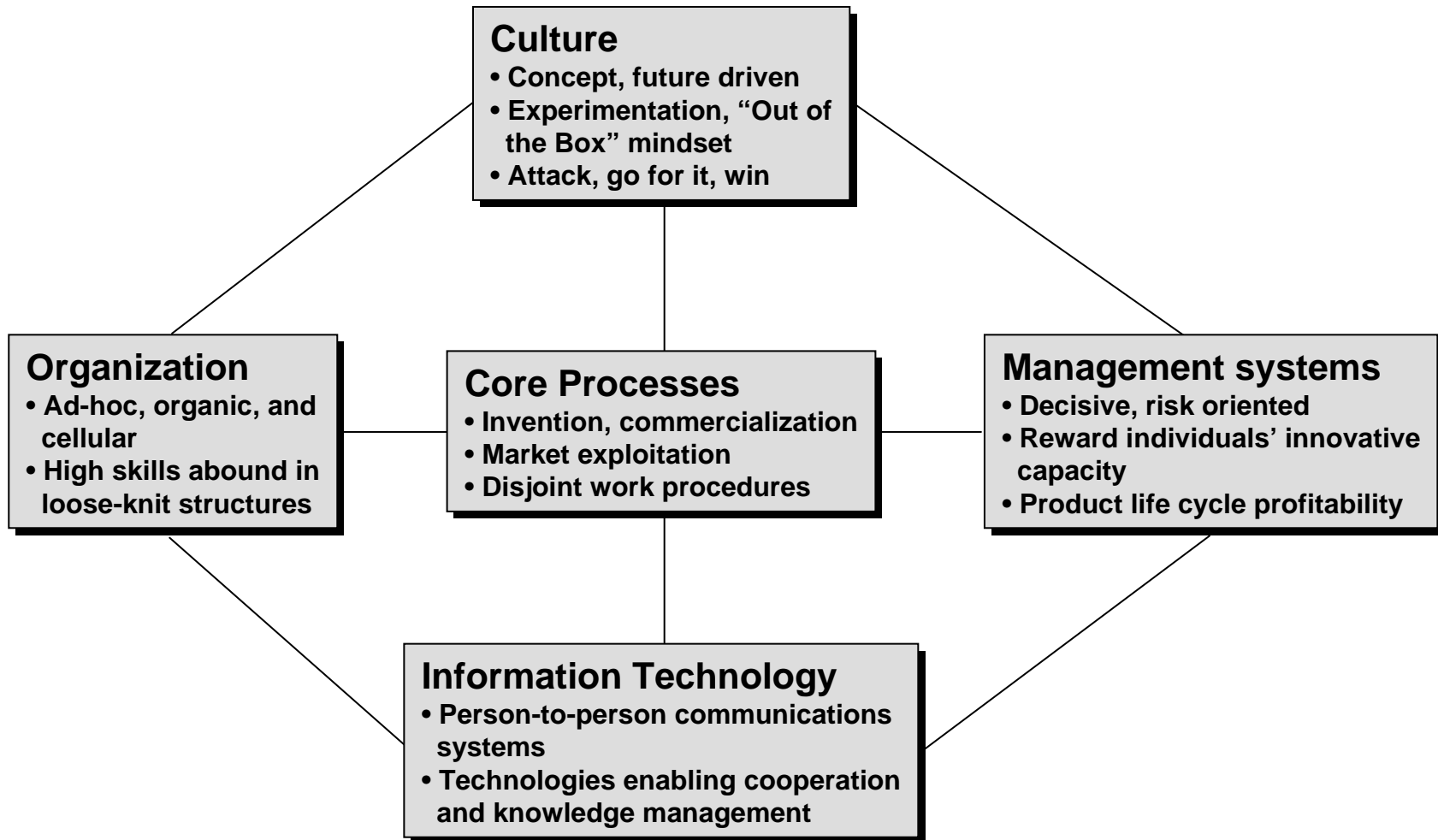
3. Relentlessly pursue ways to leapfrog the latest product or service

➔ Microsoft – Harley-Davidson – Nike – Swatch – Sony – Intel - Apple Computers

# The main features

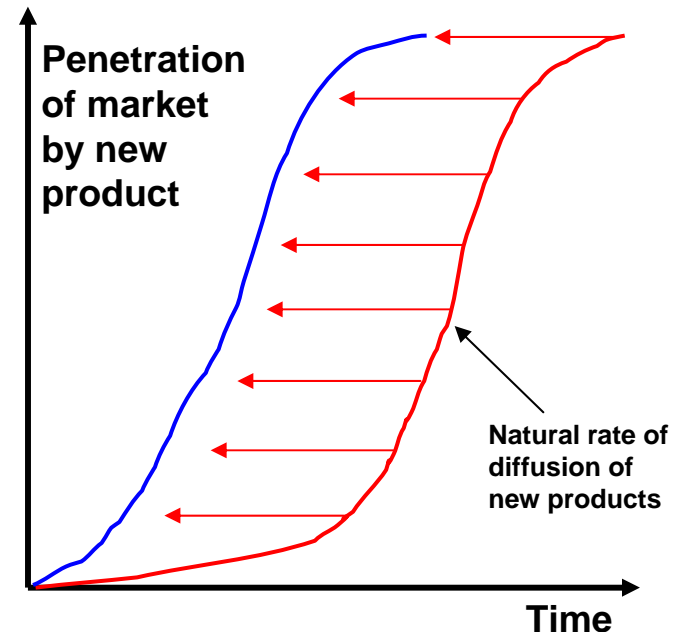
- A focus on the core processes of invention, product development, and market exploitation
- A business structure that is loosely knit, ad hoc, and ever-changing to adjust to the entrepreneurial initiatives and directions that characterize working in unexplored territories
- Management systems that are results-driven, that measure and reward new products success, and that don't punish the experimentation needed to get there
- A culture that encourage individual imagination, accomplishment, out-of-the- box thinking, and a mind-set driven by the desire to create the future

# Operating Model of Product Leadership



# The Discipline of Product Leadership

- Product leaders have to prepare markets and educate potential customers to accept products that never before existed
- Cultivation of markets must go hand in glove with breakthrough product development
- The challenge is to push the rate of diffusion beyond what is natural and common, to get demand to climb faster, earlier
- Larger-than-life launches, early adopter programs, and massive marketing are all in the repertoire
- Find ways to quickly narrow the portfolio
- Concentrate resources on the handful opportunities with the greatest potential to hit big



# The Discipline of Product Leadership

Product leaders don't just follow their gut feeling, they squeeze as much uncertainty as possible.

It comes down to vision, insight, and judgment of a few people at the top

## Structure and Process:

Create flexible organizational structures and robust processes

1. Keep people on track by organizing the work in a series of well-paced challenges, each with a clearly defined outcome and tight deadline. Intermediate milestones, and the chance they create to celebrate interim victories, generate the excitement on which talented people thrive
  2. Create business structures that don't oppress
  3. Stress procedures where it pays the biggest dividend
- ➔ Map the processes and workflows backwards to learn what created those time delays and misdirections

# The Discipline of Product Leadership

## Resources:

- Talented people are the agents of success, and ultimately breakthroughs are born at individuals
- Top management spend 20% of their time on recruiting, interviewing and training
- Managing people comes down to finding, motivating, growing, guiding, and keeping talent
- Stretch people's potential by throwing tough challenges at them and inciting collegial *"rivalry"* (*great colleagues bring out the best in each other*)

## Exploiting value:

- They know how to get customers to pay an adequate price for their high-value products
- Experts at launching new products, using a big-bang launch, creating larger-than-life events
- Tend to be proud, protective, and ferociously supportive of their brainchildren
- Live by the adage, "Give no Ground"

# Customer Intimacy

- A company that delivers value via customer intimacy bonds with customers like those between good neighbors
- Does not deliver what the market wants, but what a specific customer wants
- Makes business of knowing the people it sells to and the products and services they need
- It tailors the products and services, and do so at reasonable prices

***“we take care of you and all your needs”***

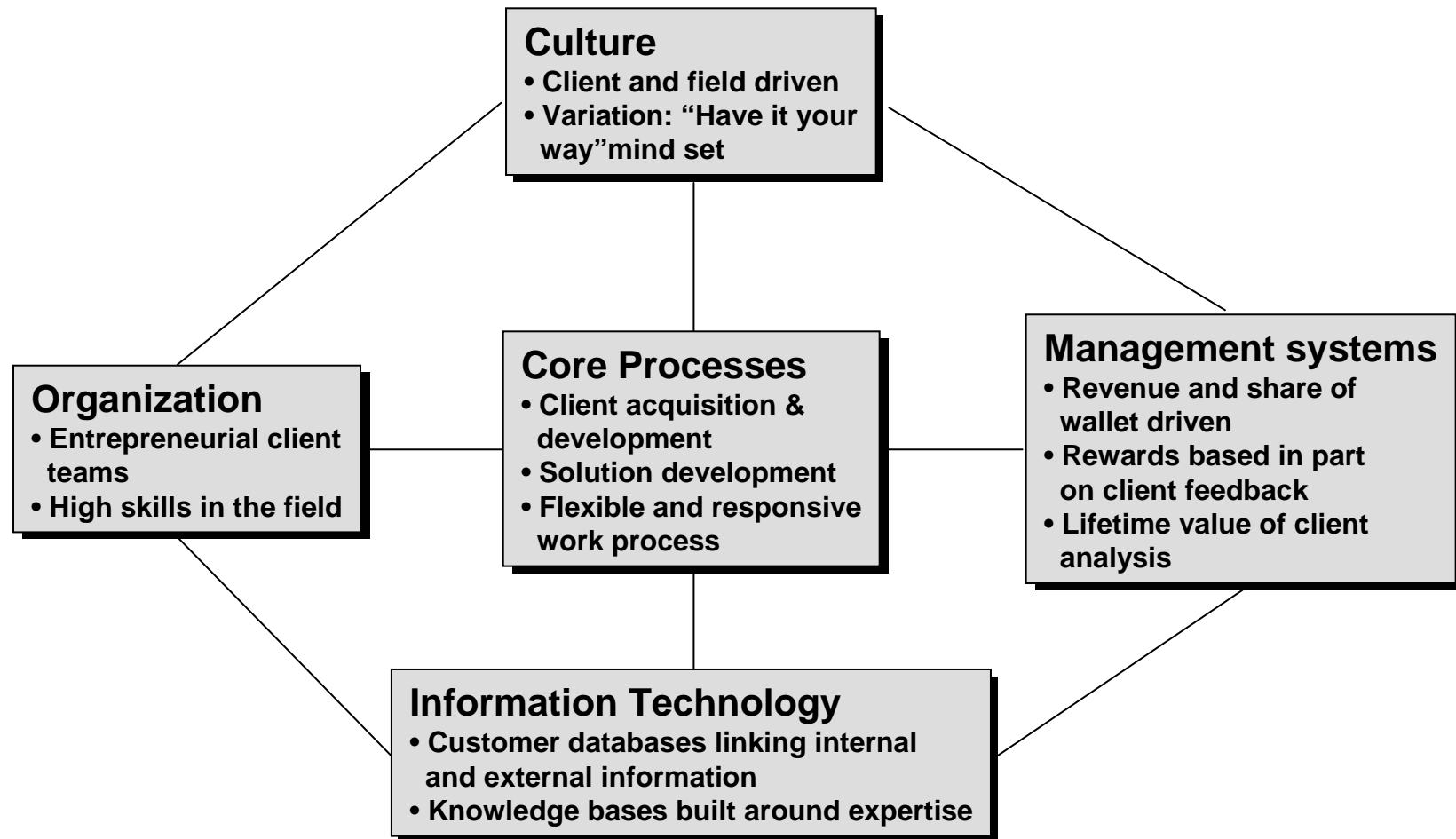
***“we get you the best total solution”***

Customers don't have to be resold through expensive advertising and promotion  
Customer-intimate companies don't pursue transactions, but cultivates relationships

# Customer Intimacy, its main features

- An obsession with the core processes of solution development, results management, and relationship management
- A business structure that delegates decision-making to employees who are close to the customer
- Management systems that are geared toward creating results for carefully selected and nurtured clients
- A culture that embraces specific rather than general solutions and thrives on deep and lasting client relationships

# Operating Model of Customer Intimacy



# The Discipline of Customer Intimacy

## People:

- Tremendous skills at effecting change within client organizations
- Get things implemented, to make things happen
- Proof of their value is found only in results

## Delivery systems:

- Offer a staggering range of products and services
- They “rent” rather than own many of these capabilities
- Strength lies in what they know and how they coordinate expertise to deliver solutions
- Using the network is key
  1. Ability to broaden the range of its total solution by extending its network into areas in which it lacks capabilities
  2. It can avail itself and its customers of components that have other value propositions of lowest cost or best products

# The Discipline of Customer Intimacy

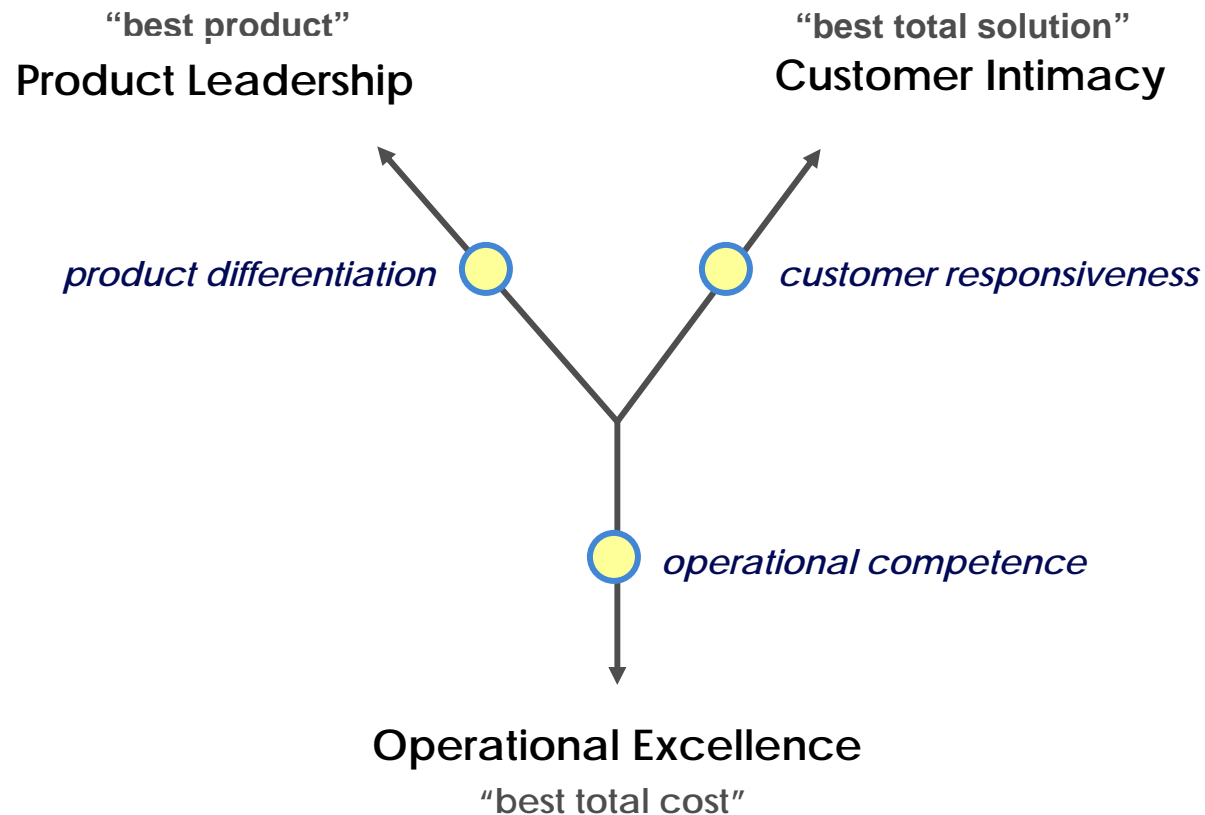
## Relationships:

- They go for the long view as long as the long-term relationship promises to be profitable
- A steady client is a lasting asset; one-time client is a poor investment
- If they pursue “transaction customers” they will find itself competing with operational excellent and product-leadership companies
  1. Attitude: customer must be open to a relationship in which some independency is lost
  2. Ideal operational fit exists when compelling expertise meets client’s incompetence
  3. Ideal financial fit occurs when the customer understands he has a problem, has the money and wants the solution delivered by another party.

## Exploiting value:

- Creation of an unmatched value proposition of best total solution
  - Growth within the client and growth of accounts
- ➔ Offer expertise that drives client performance; a willingness to share in client’s risks; and real, meaningful tailoring and customization of products and services

# Thresholds vs. Leadership in Customer Value



*you can't do it all, do what you're good at*

# Why Choose?

## Some companies say:

*“What you’re saying about making hard choices doesn’t apply to us,  
we are good at all three disciplines”*

## The answer is:

1. You’ve maintained threshold levels of performance in each dimension of value
2. You have not created a breakthrough on any one dimension to reach new heights of performance ...

*... so, if you decide to play an average game, to dabble in all areas,  
don’t expect to become a market leader!*

# Setting the Value Discipline Agenda

## Phase one:

Understanding the status quo

H2 find fact-based answers to five fundamental questions

1. What are the dimensions of value that customers care about?
2. For each dimension of value, what proposition of customers focus on it as their primary or dominant decision criterion?
3. Which competitor provide the best value in each of these value dimensions?
4. How do we measure up against our competition on each dimension of value?
5. Why do we fall short of the value leaders in each dimension of value?

# Setting the Value Discipline Agenda

Phase two: (realistic options)

Management wants to generate some go-forward options

Explore the following questions for each dimension of customer value

1. Irrespective of industry, what are the benchmark standards of value performance that will affect customers' expectations?
2. How do firms achieve these standards?
3. What will their standards of performance be three years from now?
4. How must the operating models of these value leaders be designed to attain those levels of performance?

# Setting the Value Discipline Agenda

Phase three: (detailed design and hard choices)

Use small groups of high performers mandated by the executive team to turn realistic options into practical solutions.

Each team is chartered to consider one of the viable options and thoughtfully answer the following questions.

1. What does the required operating model look like – i.e. what are the design specs for the core processes, management systems, structure, and other elements of the model?
2. How will the model produce superior value?
3. What levels of threshold value will the market require in the other dimensions?  
How will this be attained?
4. How large will the potential and captured market be for this value proportion?
5. What is the business case – including costs, benefits, and risks – for pursuing this option?
6. What are the critical success factors that can make or break this solution?
7. How will the company make the transition from its current state to this new operating model over a two-to-three-year period?

# Drive Better Value Every Year

Operational Excellence	Product Leadership	Customer Intimacy	
<ul style="list-style-type: none"> <li>• Best total cost</li> </ul>	<ul style="list-style-type: none"> <li>• Best product</li> </ul>	<ul style="list-style-type: none"> <li>• Best total solution</li> </ul>	<i>Value proposition</i>
<ul style="list-style-type: none"> <li>• Variety kills efficiency</li> </ul>	<ul style="list-style-type: none"> <li>• Cannibalize your success with breakthroughs</li> </ul>	<ul style="list-style-type: none"> <li>• Solve the client's broader problem</li> </ul>	<i>Golden rule</i>
<ul style="list-style-type: none"> <li>• End-to-end product delivery</li> <li>• Customer service cycle</li> </ul>	<ul style="list-style-type: none"> <li>• Invention</li> <li>• Commercialization</li> <li>• Market exploitation</li> </ul>	<ul style="list-style-type: none"> <li>• Client acquisition &amp; development</li> <li>• Solution development</li> </ul>	<i>Core processes</i>
<ul style="list-style-type: none"> <li>• Process redesign</li> <li>• Continuous improvement</li> </ul>	<ul style="list-style-type: none"> <li>• Product technology</li> <li>• R&amp;D cycle time</li> </ul>	<ul style="list-style-type: none"> <li>• Problem expertise</li> <li>• Service customization</li> </ul>	<i>Improvement levers</i>
<ul style="list-style-type: none"> <li>• Shift to new asset base</li> </ul>	<ul style="list-style-type: none"> <li>• Jump to new technology</li> </ul>	<ul style="list-style-type: none"> <li>• Total change in solution paradigm</li> </ul>	<i>Major improvement challenges</i>

For Questions and further Details please contact



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