The Discipline of Market Leaders

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Introduction

• Authors
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  – Worked for CSC Index – the fastest growing management consulting firm during the early 90’s

• Process
  – 3 years of research
  – 80 companies
  – 3 dozen markets
  – Big, small, old, new, leaders, laggards
Introduction

• General findings
  – No company can succeed by trying to be all things to all people
  – Instead, find a unique value that it alone can deliver to a chosen market
  – This book answers the why and the how
Introduction

• To whom is this book useful?
  – Large companies facing turnarounds
  – Market leaders looking to sustain their leadership
  – And, to someone managing a small business, as small as corner donut shop in Anytown, USA
  – By highlighting the key issues upon which that business will succeed or fail
Introduction

• What do you need to know?
  – Three concepts
    • Value proposition
    • Value driven operating model
    • Value disciplines
Introduction

• The conclusion?
  – There are three distinct value disciplines
    • Operating Excellence
    • Product Leadership
    • Customer Intimacy
Introduction

• What will this book do for me?
  – Describe why a value discipline choice must be made
  – Provide help in identifying the right choice for me
  – Detail the means for implementing it
  – Ready?
How to Fail in Business without even trying

- Customers today want more of whatever they value
- Leading companies are driving the market by redefining the level of value that customers expect
- They don’t shine in every way
How to Fail in Business without even trying

• Components of value
  – Price
  – Time
  – Premium Service
  – Quality
How to Fail in Business without even trying

• The New World of Competition
  – Companies must lower costs to remain price competitive
  – Companies can no longer aim for less than hassle-free service
  – Customers demand premium service and raise their standards continuously
  – Companies must build products that deliver nothing less than superiority
How to Fail in Business without even trying

• The Road to Failure (Success)
  – It's the operating model
  – Focus and Discipline to
    • Define an unmatched value proposition
    • Build a corresponding operating model
    • Sustain it through constant transformation and improvement
The New Rules of Competition

- Companies can be hugely successful by selling *continually improving superior* customer value
- Master one band in the value spectrum
# The New Rules of Competition

## Customer value formula

<table>
<thead>
<tr>
<th>Sum of Benefits</th>
<th>The costs incurred by the customer in acquiring a product or service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefits build value to the extent that the product or service improves the customers performance or experience.</td>
<td>Costs include</td>
</tr>
<tr>
<td></td>
<td>• Money spent on purchase and maintenance</td>
</tr>
<tr>
<td></td>
<td>• Time spent on errors, delays, and effort</td>
</tr>
<tr>
<td></td>
<td>• Both tangible and intangible costs reduce value.</td>
</tr>
</tbody>
</table>
The New Rules of Competition

Value Destroyed

- Price
- Product Quality
- Product features
- Service Convenience
- Service Reliability
- Expert Advice
- Support Services

Value Created

- Performance
- Performance
- Performance
- Performance
- Performance
- Performance
- Performance
- Performance

Customer’s Expectation
The New Rules of Competition

• Different customers buy different kinds of value
  – Product performance or uniqueness
  – Personalized service or advice
  – Lowest total cost

• Market leaders choose to excel in delivering extraordinary levels of one particular value
The New Rules of Competition

• Four rules that govern market leaders’ actions:
  – **Rule 1**: Excel in a specific dimension of value
  – **Rule 2**: Maintain threshold standards on other dimensions of value
  – **Rule 3**: Dominate your market by improving value year after year
  – **Rule 4**: Build a well-tuned operating model dedicated to delivering unmatched value
The New Rules of Competition

• Three final key points regarding customer value proposition
  – Without customer value, there is no sustainable business
  – Value comes from choosing customers and narrowing the operations focus to best serve those customers
  – Customer satisfaction and loyalty are by-products of delivering on a compelling value proposition
The Winner’s Choice

• Companies cluster into three distinct “value disciplines”
  – Best total cost, named operational excellence
  – Best product, named product leadership
  – Best total solution, named customer intimacy

• Differentiate
The Winner’s Choice

• The operating model
  – Defines the very nature of a company
  – Different value disciplines demand different operating processes
  – Companies that excel in the same value discipline have the similar operating models
# The Winner’s Choice

<table>
<thead>
<tr>
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<th>Operational Excellence</th>
<th>Product Leadership</th>
<th>Customer Intimacy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Processes</strong></td>
<td>End-to-end product supply and basic services which are optimized and streamlined to minimize costs and hassles</td>
<td>Invention, product development, and market exploitation</td>
<td>Solution development (helping the customer understand exactly what’s needed), results management (ensuring the solution gets implemented properly), and relationship management</td>
</tr>
<tr>
<td><strong>Operations</strong></td>
<td>Standardized, simplified, tightly controlled, and centrally planned, leaving few decisions to the discretion of rank-and-file employees</td>
<td>Loosely knit, ad hoc, and ever-changing to adjust to the entrepreneurial initiatives and redirections that characterize working in an unexplored territory</td>
<td>Delegates decision making to employees who are close to the customer</td>
</tr>
<tr>
<td><strong>Management Systems</strong></td>
<td>Focused on integrated, reliable, high-speed transactions and compliance to norms</td>
<td>Results driven, measure and reward new product success and don’t punish the experimentation needed to get there</td>
<td>Geared toward creating results for carefully selected and nurtured clients</td>
</tr>
<tr>
<td><strong>Culture</strong></td>
<td>Abhors waste and rewards efficiency</td>
<td>Encourages individual imagination, accomplishment, out of the box thinking, and a mind set driven by the desire to create the future</td>
<td>Embraces specific rather than general solutions and thrives on deep and lasting client relationships</td>
</tr>
</tbody>
</table>
The Winner’s Choice

• Why Choose?
  – Purposely destines the company to choose a secondary role in other disciplines
  – If you think you are or can be excellent at all three, you’ll end up mediocre at all three
  – Not choosing at all means letting circumstances control your destiny
Summary

• Businesses succeed by delivering value to customers
• Different customers buy different value
• There are three primary value disciplines
• Market leaders choose one discipline in which to excel
Discussion Groups

• Did you read the material?
• Do you buy into the concepts?
• If so, are you pursuing one of the disciplines today or, if not, at this point which one seems to make the most sense for your business?