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Are you really working with strategic positioning?

Why should companies work with strategic positioning?

Most companies spend many resources on establishing an attractive position in the market. However, quite often they are working on a tactical level, and use the strengths of the company's existing *business platform* as their basis with regards to the existing market opportunities.

This approach is close to being a very *push-oriented* way of attacking the problem, meaning that optimizations are made in order to push as many services or products into the market as possible. Sometimes, this is supplemented with a development of the existing portfolio, benefitting the development in market needs.

When we talk about strategic positioning in the following paragraphs, we use a *pull-oriented* view, where we decide where to position the company in order to develop a *sustainable strategic platform* through this positioning.

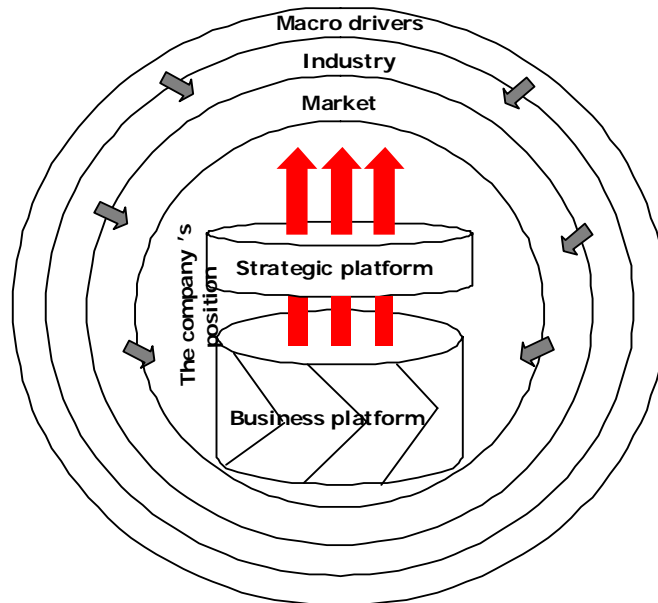
In other words, the company positions itself in market areas, where the development is advantageous seen through a strategic perspective. Sustaining the position will force the company through a development during which a sustainable strategic platform is created.

- *The business platform* describes the company's performance and position and forms the company's foundation.
- *The strategic platform* describes whether the company with its current actions and developments is founded on a sustainable platform.

It is essential to work with both elements. Working solely with the business platform causes a risk of basing the company on a platform that will not survive over time – even if the performance is optimal. On the other hand, working only with the strategic platform could result in a situation where the company moves in the right direction towards the right position, but with a very slow speed and with a performance too fragile to actually establish the right strategic position. The business platform forms the company's foundation and it must be optimized and made competitive in order to give the company enough robustness to benefit optimally from working with the strategic platform.

It is important to point out, that neither the business platform nor the strategic platform are static items. They are constantly subjected to influences from e.g. essential macro drivers, which cause significant movements in industrial- and market structures. In addition, a constant flow ensuring the best possible linkage between the business- and the strategic platform should be achieved.

Influence and development of the strategic platform



A strategic positioning is defined as the company positioning itself in a part of the market where it is obvious that a pull from the identified market contributes to establishing a sustainable platform. An analysis must be made in order to identify where to position the company, and to find the answer to a series of questions.

How do the macro drivers affect the development of different market areas and industrial structures? The following should be investigated:

- Growth and volume
- How will the markets develop technologically and innovatively?
- In the future, which markets will be first movers with changing needs, demanding increased innovation of products and services or technological quantum leaps?

By mapping macro drivers, which influence opportunities for:

- Market developments
- Development of new competencies or technological quantum leaps
- Development of new business structures

a picture is established which lays the groundwork for deciding where a sustainable strategic platform for the company can be created.

The above must be regarded along with an evaluation of the real market value of the company's products and services. Hereby, the continued development is ensured without blocking the view. And with the right efforts an adequate perspective has been made.

The goal is to create revolution through evolution by immediately establishing a position for the company, which strengthens the goal of pulling the company through a development ensuring a sustainable strategic platform.

The company should be positioned in those markets, whose requirements and demands contribute to achieving the desired position. Hereby, the company is forced to constantly develop its competencies and resources, so they match developments in market needs. This requires that the strategic mapping happens with an insight and a perspective ensuring that the company is constantly able to make strategic decisions which significantly move the company and its position.

How the customer portfolio can help position the company.

After mapping the markets in which the company should position itself, a more detailed approach is needed for structuring the customer portfolio.

Within the various market areas there are always some segments, which are characterized by being the most demanding and the first to request new competencies. The same pattern applies to each individual market segment where there are always customers, who stand out as being the most demanding. Both conditions must be analyzed before the company can identify its focus customers.

Focus customers are characterized by being innovative and demanding. In order to enter a competitive cooperation the company must have a deep expert knowledge on strategic factors influencing the developments and positions of these customers. In other words, the company must become a knowledge center for the conditions of these customers. Thus, the possibilities for establishing a real strategic cooperation with the focus customers have been set. This kind of cooperation ensures that the company develops its competencies with such a high degree of innovation that it not only becomes a first mover within the chosen market segments, but also plays a role in setting the agenda for the industry as a whole. The motivation of the focus customers must be seen in the light of the fact, that the company also supports the strategic development and the competitive strength of the customer.

A focus customer does not need to belong to the group of "large corporations", but it is important that a need is identified at the focus customers, which may later give a spin-off effect with the main stream customers. This means that the developments of products and competencies initiated in cooperation with the focus customers are expected to be demanded by the main stream customers at a later date.

This also means that it is not by selling to focus customers that the company immediately generates profit. To a large extent we are talking small numbers, as the activities directed towards these customers groups are coined by high development costs. Likewise, a set-up with a knowledge center in the company is very cost demanding. The work puts great demands on the company's strategic and organizational capabilities.

The purpose of working with focus customers is to gain speed and marksmanship in the activities meant to ensure the company's strategic position on a competitive basis. The moment a similar need arises in the group of main stream customers, the company has already held its development costs. Through a continued conceptualization of the products for the focus customers, a good aim at the demands of the main stream is secured, as well as finalization of a cost-effective product-, service-, and process design, which decisively increases the company's competitive strengths.

Good examples of this can be seen among the innovative and leading suppliers in the electronics industry. This industry is characterized by very large development costs, where quite often a stretch strategy is applied. This means that the strategic development bases itself

on the development of core competencies in connection with new product developments. This is important for capitalizing the development costs necessary in this industry.

When companies in the electronics industry identify focus customers, it will be customers who are typically the first ones to implement new technologies. These customers' most significant parameters for choosing a supplier are largely found within performance and perceived value, whereas price parameters plays a relatively smaller role.

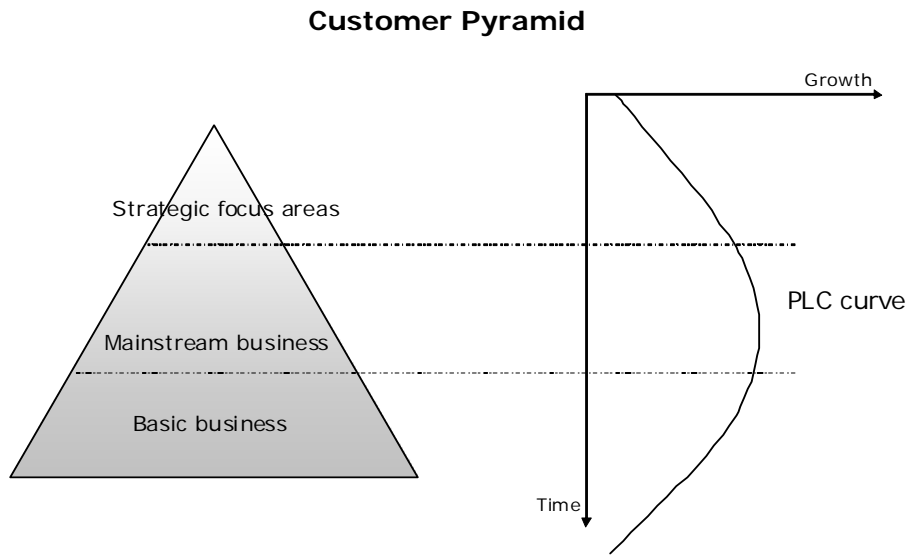
A very typical example of a *focus customer* within the electronics industry could be a customer located in the weapons industry or the military sector. These are often characterized as being years ahead in relation to development and usage of new technologies. By entering into a co-operation with such customers, an extensive knowledge and a significant development capacity is required. On the other hand, companies which cooperate with customers in this industry will have the possibility to be the first on other markets by launching the newest technology, as the co-operation constantly demands a top performance and innovative thinking. Through a positioning in this market, the company will be able to move towards a first-mover situation with new technological leaps.

The prioritizations leading to the co-operation have their origin in the possibility of obtaining a spin-off effect with the main stream customers.

Typical main stream customers of an electronics company could be e.g. OEM's for some of the innovative process industries, the pharmaceutical industry or electronics OEM's with a prominent position within the hospital sector, aerospace or similar industries. The common denominator for this customer category is the fact that top performances are decisive for a constant, sustainable competitive strength. Customers in this category are subsequently often found at the start of the growth curve for a certain product area. However, there will also be situations where electronics companies bypass the OEM link and go directly to one of the industries in question through further conceptualization of a core product.

In any case, the company has carried the initial development costs for the new technology in co-operation with the focus customers, and through a further conceptualization of it, the company will be very competitive with the main stream customers compared to the existing, currently used products.

Basic customers could be customers within the commodity area, where the product/service usually has already been through a product maturity stage, a conceptualization phase and a cost effectiveness phase. This leads to a better matching on price and new usage methods in the more consumer oriented part of the market, e.g. wireless networks, GPS in cars, new screen technology, new options for PC's or similar new usage areas. A penetration of this market demands a very low price level made possible through the already capitalized new development as well as a continued development of process-, product-, and service design.



The lowest level in the customer pyramid is made up by the company's basic customers. They are characterized by being those groups of customers in the selected market segments, who individually do not imply a large degree of attractiveness for the company and its business platform. They are customers who create a pull in the company towards products/services and competencies, which have reached an economy of scale and a further cost effectiveness through the pull previously created by the main stream customers. Thus, the basic customers contribute to a utilization of capacity and a creation of cash flow. In this customer group outsourcing activities must be constantly monitored, so the company achieves an optimal set of resources for a continued flow in the pyramid.

Thus, we are working with three different areas of activity on the customer side:

- The activity towards focus customers is strategic and must ensure a constant development of the company's strategic platform. The work should be concentrated on business development, which comprises business intelligence and development of technology, products/services, competencies and markets
- The activity towards the main stream customers is primarily tactical. It must ensure a continued sustainability and financing of the company's strategic platform. The work should be concentrated on conceptualization, market development and cost effectiveness.
- The activity towards basic customers must be characterized as tactical/operational. It generates further cash flow and an optimization of the company's business platform. Here, the work is concentrated on cost effectiveness and outsourcing activities.

The major part of all companies operate on the tactical and operational level, hereby subjecting themselves to the risk of competitors suddenly setting off with a quantum leap and a different performance and matching of market needs.

Which tools are used for selection of customers?

Establishing a sustainable strategic platform and positioning is not done solely by carrying out analysis, which map market development and movements in a strategic perspective, and which form the base for making choices. But this preliminary activity significantly simplifies the company's work with maintaining sustainability. However, it is a precondition that this work is supplemented with a constant monitoring, which the company is able to perform by establishing a business intelligence function.

When the focus customers are identified, this also happens through a series of analyses to uncover attractiveness and potential activities. An obvious tool for this qualitative investigation is a series of hearings within the business areas, which have been identified initially. These hearings take their starting point in a strategic perspective and hereby say something about:

- The customers' strategic platforms and their development
- How macro drivers influence the customers' strategic platforms
- Influence, development and movements in customer markets and their customers needs
- Specifically: the customers' degree of innovation
- Specifically: the customers' planned development areas
- Specifically: the placement of the development areas in the life cycle curve
- The customers' business areas and their placement in the life cycle curve
- The customers' business platforms and their performance
- The customers' competitive situations

This mapping makes up the foundation for selecting focus customers, as well as giving the company a basis for optimal marksmanship in matching the development in demands.

In order to obtain a first mover effect, it is important to uncover the areas placed at the beginning of the life cycle curve in relation to developing with the focus customers. As mentioned earlier, a faster capitalization of development costs is hereby achieved, because the company has placed itself in an attractive position for obtaining the largest part of the market over the full lifetime of the product. Additionally, more analyses will show how attractive, sustainable and robust the customers' business and strategic platforms are.

Just choosing focus customers is not sufficient for attacking every single development project in cooperation with the customers. All larger activities concerning new developments must also be investigated by identifying:

- Business cycle of the development area: expected increase in sales, how long is the expected lifetime, how drastic are the expected decreases in the decline phase?
- Business cycle: additionally, turbulence and expectations for other innovations in the business area must be analyzed
- Is there a spin-off effect for main stream customers, and will a sufficient part of these customers demand the product so that activities can be capitalized?
- Spin-off effect for other focus customers and relevant market segments?

- Necessary activity to conceptualize current development into main stream?

The total potential and costs of the development area are hereby mapped. An analysis of the area's business cycle indicates a market potential in relation to the total lifetime of the area. Then, a picture of how large ongoing investments have to be to ensure a continued placement in the market can be made. Finally, opportunities for more sales through adjustments and conceptualization in order to mature the product for main stream customers can be mapped.

The tools used for selecting focus customers as well as for the prioritization of activities with focus customers, must ensure the largest possible degree of marksmanship in the actions, which must lead to the strategic positioning of the company.

Moving from acting tactically to acting strategically

A large effort is required to create the foundation, which moves the company from a tactical to a strategic level in its positioning. However, if the base work has been done, the company will find itself in a position for deciding and acting, which is far more simple and tangible. A more optimal use of resources is achieved, and prioritizations and the consequences of these will be much more strategically targetted.

However, a completely different angle for working with positioning is required. A deep, perspective analysis and decision work are essentials for a sustainable strategic position. An overview of every condition moving markets, structures and technologies is required, as well as being able to use these movements as back-wind for the company's strategic development. The current powerful winds must be used to build wind turbines instead of shelters. At the same time, efforts to position the company must be based on where the most attractive movements are, not only in wind conditions, but also with regards to derived products.

Especially in a knowledge based society like ours, a perspective angle is important for the long-term existence of many industries, and consequently also for maintaining jobs. We are talking about an angle focusing on a larger value contribution and a larger supply of knowledge, as well as building excellence in conceptualization and cost effectiveness to ensure continued flow in the relationship between business- and strategic platform and activities in the customer pyramid. Neither platforms or the set structure for the customer pyramid are static items; many external influence will constantly re-arrange the positions.

When frames and preconditions are set, the work will consist of securing a constant and optimal flow, and an optimal balance. This work will also significantly move the company, but through the preliminary work the company is able to place itself on a level, where it has the strategic and organizational competencies to operate with high performance in a dynamic market. Then, it is a relatively simple and tangible task – the initial strategic positioning has already been done.

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