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VIEWS FROM THE TOP

Modeling success

To be competitive, new offerings require a tailored approach

Surprisingly, many business leaders I interact with cannot articulate their strategic competitive advantage. In other words, they do not know why customers buy their products or use their services. When they do answer the question, the response is often very generic: “We offer higher quality products” or “We provide better customer service.” They can’t specify exactly how they differ from the competition.

Business leaders often struggle with this because it means their business model is broken, or at least not well-defined. In addition to helping run the business, business models also help companies create clear messaging on their competitive advantages.

Some companies don’t realize their business model is broken. Customers or employees may know, and external stakeholders (anyone that has a vested interest in the company’s success) such as vendors and business partners may also know. But senior management is often too far removed to realize the business model is not working, or at least not working as well as it could.

Models can break for many reasons. Some companies only look at the organization as a whole or, conversely, by division. Some companies’ business planning is really nothing more than an incremental financial improvement plan — such as setting a goal to increase sales by 3% and asking managers to adjust their budgets accordingly. The overall plan should actually be a roll-up summary of individual product plans. Ideally, businesses need a model for each product or product group.

Developing a business model involves multiple steps, which can vary depending on the product or service as well as the market and the industry. The process can be started by answering a few basic questions:

- What is the customer need you intend to satisfy?
- How long will this need exist in the marketplace?
- What is it worth to a customer to have this need satisfied?
- How does our product/service fill the need?
- How will the value be delivered to customers?
- What will it cost us to deliver the value?
- What alternatives do customers have?
- Why will customers choose us?
- Start with a blank template for each product. For example, before using an existing sales force for a new product, consider if another sales channel might be more effective or less expensive.
- Ensure every component of the model is based on validated information rather than going by instinct. Check to ensure the information is current, accounts for recent market changes and is from a credible source.
- Check for broken model components: One malfunctioning component can cause the model to fail or at least to perform below desired levels. This includes detailed items within components such as poorly-trained personnel, broken processes or emerging pricing pressures from competitors.

This set of questions will help you answer the most important question: “What is your strategic competitive advantage?”

Taking the right tack

Some businesses try to use just one business model when they really need a separate model for each product. For example, a store that offers products to an older demographic that decides to offer a new product line to a younger crowd may need at least a partially different business model, such as selling online vs. in-store sales.

When you’re developing new business models or evaluating existing models, I recommend you perform due diligence on every product. Success often leads to complacency when launching new products. Managers often don’t realize the existing model isn’t working until they are well into the new product lifecycle. As your business goes through the process for each product, it helps to follow these general guidelines:

Businesses should assess their models regularly to consider if adjustments or total overhauls are needed. Using a business model framework can also help a company test new product ideas. This enables a company to “fail fast and cheaply” on ideas that don’t pay off, and to profit sooner from those that do.

In addition to helping businesses articulate their strategic advantages, well-constructed business models can reduce risk and increase the return on products and services. In today’s rapidly changing global economy, it can be a tool for ensuring survival, and for others, a tool to help move from surviving to thriving.

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