

EXIT for Success Series

July 2004 ~ Vol 1 ~ Issue 3
brought to you by



Bob Gillette, Malden, MA

A BIZMACH AFFILIATE

My Company is “Stuck”

“Stuck” is a term we often hear from business owners when describing their company’s present circumstances. They just can’t find a way to squeeze out the next dollar of revenue. Sales incentives, increased advertising, telemarketing campaigns – you name it and these companies have tried it. Unfortunately, in the absence of a price reduction, new business is typically a result of a problem between the new client and their former provider. Price reductions as a strategy are never recommended unless the underlying costs of the company can be likewise reduced so that margins remain unaffected.



Value to the prospective customer comes in two forms:

**Lower Cost
and/or a
Unique Valuable Difference**

So, what is the answer?

First and foremost, you must understand that companies are like people and they go through life-cycles. For people, the stages might be defined as infancy, adolescence, adulthood and senior citizen. For industries, it’s emerging, growth, mature and declining. Typically, when a company is “stuck”, it is a function of having reached the mature stage – i.e. the market is saturated with competition, every customer is being satisfied and the only new customer is one you can steal from a competitor. This last point is fundamental to understanding the “stuck” company.

Whereas a growth industry is defined as one in which “first-time” buyers are plentiful and competition is heating up to secure a share of this booming market, the mature industry has reached full market penetration and the number of competitors becomes largely fixed. The entire field of competitors is “stuck.”

The BIZMACH Answer

The majority of businesses we work with fall into the mature industry category.

No customer is going to switch allegiance unless there is a real or perceived benefit to do so or unless their existing provider has done something wrong.

One of our first recommendations to these business owners is to put themselves in the prospect’s place and ask themselves what it is that makes their value proposition better than that of the competition.

We typically get one of two responses. The first, is the that glossy-eyed “deer in the headlights” stare that says, “I don’t have a clue.” The second response is, “our service is better.” Well, guess what? It doesn’t matter if you think your service is better than the competition. If the competitor’s customers are not flocking to your door, it means that *they* don’t perceive “your service value” as having the same value as you do - a common mistake that is made by many small companies.

Lower Cost

Any company can reduce its price to gain new sales, but it does so at the expense of lower margins per sale. This is not considered a strategic advantage in that your competitors could likewise adopt this strategy to block your advantage until you and your competitors are right back where you started -- except everyone’s margins have shrunk.

(continued on page 2)

Therefore, the ability to compete at a lower price means that you must first have lower costs than the competition. When this is the case, the lowest cost provider will always outlast the competition in a price war and will ultimately drive many competitors out of the market.

Another lower cost advantage can be one in which your company isn't able to reduce its' own costs but seeks ways to lower the customers' costs. Remember, one company's output is another's input. Learn as much as you can about your customers' business and seek ways to help them in ways your competitors haven't ever considered – maybe it's in the concept design, inventory control, shipping or reducing one small process that helps speed the throughput cycle by a day.

Unique Value Difference

The second competitive advantage stems from the ability to create a differentiated value proposition. That is, **value that is unique to your company's offering and a difference that is truly valuable to the customer.**

Differentiation is expensive. It requires an investment, often when cash is short. But the right differentiator can turn your business around. The purpose of differentiation is multi-fold:

- It insulates you from competitors that may cut their price in an attempt to steal your customers;
- It may enable you to convert your competitors' clients who recognize the value of the offering before your competitor can respond;
- It builds new "salable" value in your company

Consider the following example in which a supplier finds both a cost reduction and value differentiator that succeeds in achieving a premium price and a potentially new growth advantage to increase its market share:

Example: Supplier of chocolate reduces its customers' costs and captures increase in market share

Chocolate manufacturers buy solid bars of palletized chocolate. The end product requires the manufacturer to have adequate warehouse space to store the pallets, workers and machinery to unload the trucks, stack the materials and to finally deliver the bars to the production area where each bar is unloaded and melted down. The pallets and wrappings must then be removed to another area where they will be picked up and recycled.

While our supplier could not lower its own costs, it recognized an opportunity to lower the costs of its customers by delivering tanker trucks containing liquid chocolate versus pallets of solid bars and connecting a direct feed from the tanker to the production area. In doing so, the manufacturer no longer needed the large warehouse space or the manpower and equipment to unload, stack and move the inventory to production.

In the end, the supplier's costs increased because they needed to provide the tankers as well as the connection mechanism to the production process. However, the manufacturer was happy to absorb these costs and pay a small premium because the overall cost savings plus the increase in productivity more than justified the added expense.

DIFFERENTIATION TIPS

Here are several avenues to potentially reduce your customers' costs:

- **Lower delivery, installation or financing costs**
- **Lower the required rate of usage**
- **Lower the direct cost of using your product, i.e. labor, fuel, maintenance, required space**
- **Lower indirect costs of using the product, i.e. a lighter product weight may reduce transport costs of the end product**
- **Lower the risk of product failure**

(Continued from page 2)

Soon after, the supplier was successful in using this “value differentiator” to convert several clients of competitors and expand their base at a premium price.

Therefore, the lowest cost strategy must be considered from two perspectives, reducing your own costs as well as those of your clients. This will provide you with true advantage that will be difficult for the competition to match



BIZMACH specializes in growth and transition strategies for mature industries as well as the financing needed to facilitate the recommended changes. BIZMACH Affiliates are uniquely qualified to evaluate your business and provide your business with detailed strategies needed to create sustained growth. Call us today for a free consultation.

BIZMACH is an association of highly skilled consultants, evaluation experts and merger and acquisition specialists. We take ordinary companies and create extraordinary value. Best of all, we only work with lower mid-market companies and our fees reflect our confidence. Ninety percent or more of our fees are contingent upon the successful transition of your company – even if that sale is years away.

If you're not working with



*you're not using the **BEST!***

(Business Evaluation and Salability Tool)

*Exit for Success Series
is brought to you by:*



**7 Tufts Street
Malden, MA 02148
Bob Gillette ~ 781. 397.7600
Email: bob@gillette.net**

A BIZMACH AFFILIATE