
First Steps to a Smart Business

“What sort of a company are you?”

by Paul McKey

Many of the words of a business magazine article on the decline of small business in Australia in 2004, ring just as true today as when they were first published. “They (small businesses) have to see how globalisation and technology are changing their world – and then adapt. There is a growing divide between a small number of professional small businesses and the many others who are going backwards out the door”¹

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With the entry barriers for small to medium enterprises (SME) continually decreasing, and hence competition increasing, the message is clear – competitive advantage has to come from adapting to increasing globalisation, focus on people and technology innovation. That is they must act smarter.

What are the features of this growing number of professional businesses? I contend there are three primary features.

(The benefits are easy to describe – they stay in business long after their unsophisticated competitors have gone to the wall.) First, they usually have business models which fully support their purpose. Their purpose being supporting their ‘big idea’ – the product or service which they design, develop or deliver, better, cheaper or faster than everybody else. Second, they have an entrepreneurial culture which makes them restless, always looking for opportunity, learning from failure, assessing risk and trying again. Third, and possibly as a direct consequence of the previous two, they push the boundaries of technology and technical processes. Always seeking innovation, digitising the mundane and using the power of design in order to gain that edge and seize that opportunity. Call them professional, or sophisticated, I call them smart businesses.

These three elements – the business, people and technology – when leveraged together can radically alter the purpose (what the business actually does) making it appear more competitive and far more

memorable by changing the why, the who and the how. You can easily detect a smart business. They ooze confidence, they look good, they always deliver (and if they don't they make it up twice over). It is this combination of the obvious (and the not so obvious) which makes everyone else ask "How do they do it?"

Yet products, services and even business models can be quickly copied. And for those of us who aren't born entrepreneurs we can now study entrepreneurship at university. Also it can be argued that technology can be purchased and smart people can be hired. What is so hard? Well, as in the punch line of the well known advert, it is their successful integration and application which is so *priceless*. And that is mainly just plain common sense.

Smart businesses have no great secrets however they do put the right people and the appropriate technology and the most competitive business practices together in a way which few others can. It is not always the best or even the brightest person, or the superior technology, or even the latest and greatest business practice. But it is usually the most appropriate one. So while you can assemble all the components there is still no guarantee of success. We can't all emulate Richard Branson. Yet if you are short on the obvious, and possibly over emphasised, attributes such as entrepreneurship, the brilliant strategy or the golden epiphany etc. there are still some quite mundane and concrete steps you can take to establish what is

appropriate for your organisation. The first step on the path to becoming a smart business is to establish "what sort of company are we?"

When I ask this question of clients, large and small, at the beginning of a strategy session very few can answer me with any real conviction. Yet authors have written since the 1930s that there are only three types of business in the world depending upon their primary focus. Is the focus on customers, products or operations? The answer to this question is critical in establishing the approach you would take in building your company. As you shift perspectives

many variables change affecting your primary driver of profitability. And if profit is a motive then a clear answer is a necessity. (Or if you are a non-profit organisation you can simply replace the word profit, with

success, but the importance of the question remains the same).

Without this focus you will always be wondering why you are not a smart business. From the customer's perspective you will seem disjointed and your staff will appear unsure of themselves as they battle with the irrational prospect of trying to deliver "superior customer service" while simultaneously lowering costs. Sometimes you just have to spend a dollar to retain a good customer. I have compiled the following matrix from several sources. It shows some of the attributes and drivers of each focus.

"What sort of company are you?"

| | Customer Relationship Intimacy | Product Innovation and Commercialisation | Operations Infrastructure Management |
|-----------------------|---|---|---|
| Key driver | Economies of scope (the total experience) | Speed of development | Economies of scale |
| Profitability | Share of wallet Profile value | Number and quality of distribution channels | Utilisation of facilities and low-cost operations |
| Culture | Customer service individualisation | Employee/people focus | Cost reduction and standardisation |
| Measures | <ul style="list-style-type: none"> • Customer knowledge • Solutions offered • Personalization • Customer focus • Penetration/yield | <ul style="list-style-type: none"> • Marketing • Recognised superiority • Functionality • Quality | <ul style="list-style-type: none"> • Price • Selection • Convenience • Zero defects • Growth |
| Michael Porter | Best | Unique | Low Cost |

Hagel and Singer plus Treacy and Wiersema.

A good company has to excel in all three areas but knowing which one drives your profitability is critical. It should of course be your primary focus and the other two will support it. Many larger organisations start out with one focus but later develop divisions to cater for all three. IBM has all three – Services (customer), Hardware and Software (product) and Hosting (operations). Hence the value proposition you choose to pursue describes how you will differentiate yourself and consequently what markets you will serve. Michael Porter's strategy focus also supports these perspectives when he argues a business must be either the best, unique or the lowest cost.

Also industry sectors can migrate. Look at the education and training sectors. Online learning still has an operations

focus as it has been about reducing costs and leveraging existing resources to accommodate increasing participation in higher education and corporate training. Very few online educators have tried to differentiate based on the quality of their product. Apart from some notable exceptions few universities in particular embrace the power of the medium,

instead preferring just to extend the print medium by providing linear text-based courses. Almost no online institutions to date have

concentrated on the customer. There is still raging debate inside universities whether to call the people who pay, students or customers. Calling them students allows the institution to limit their rights and maintain authority. If they called them customers they might have to acknowledge consumer rights and give a little r.e.s.p.e.c.t.

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The banking and finance sector on the other hand has raced through basic operations (online banking), redeploying the cost savings into new product development and are now embracing the customer through personalised services and portfolio management.

Smart businesses understand the above matrix and its many subtle points and intuitively seek out a dominant focus. If you want to breed a culture of innovation and excellence to produce brilliant products, such as Apple or Sony do, then a mindset of

cost reduction and standardisation just won't do. You must nurture innovation. Alternatively if you're seeking to give customers a high level of intimacy and a unique experience then you may need to deploy technology which gives them selection and choice while developing your staff's high-level consulting skills. As Tom Peters argues to go beyond just delivering customer service they will need the expertise, trust and systems to ensure customer success. In the education sector the smart businesses will quickly move to developing better online learning product and treating their students as customers. And the rewards and profits should flow to them for having the insight and courage to be different.

Similarly, while low cost and operations-focussed companies may not be so glamorous they can still be very profitable and successful. Take the budget airline sector. One can argue that only by developing the rock solid foundations of smooth and reliable

operations can low cost carriers like South West and Virgin allow their staff the freedom to provide a consistent and friendly travel experience. (For some reason low cost *and* low quality just doesn't seem to work). The CEO of VirginBlue in Australia, Brett Godfrey, goes even further by firmly stating the company looks after staff first and customers second. This creates a culture and atmosphere that many of the larger airlines can't seem to buy – a happy,

respected staff who actually want to be there and are focussed on success not just service.

Smart businesses usually get behind their focus with passion and zeal

Each of the above value propositions

requires different approaches. In each sector there will be winners and losers. What differentiates them however is that the smart businesses often understand the subtle bond between their organisational culture, structure and how technology choices, integration and operations can either support or destroy that bond. Smart businesses usually get behind their focus with passion and zeal. They also clearly identify the performance measures they need to monitor in their business, purpose, operations and people. It is not enough to look at the competitors and say "look what they're doing, if we had that we would be competitive".

In addition Smart Business have a number of salient points. They:

- see a clear need to transform their business, not just improve it!
- can be confident that every last employee knows their focus and what that means to their job
- have clear processes and measures with which they run their business

- understand the value and cost points in their operational systems
- have superior staff learning and development programs – in fact they see their staff as a strategic competitive advantage, not a cost!
- have identified and support the appropriate culture for success
- can see the advantages of digitising mundane processes, leaving the quality customer contact to skilled staff which reduces costs and increases value.
- provide more information, increased personalisation and improved service via online technologies.

When you come across a smart business take the time to watch them at work. However don't expect to emulate them just by copying their strategies. The irony is that companies still seek out the latest technology (we need a Customer Relationship system) and the current business management trend (we need a leadership program) regardless of whether it is the appropriate solution for their particular value proposition and focus. Why? Because they think it will make them smart - it may help but not necessarily. Why not? Because they probably haven't taken the first steps to becoming a smart business - they haven't asked the primary question of "what sort of company are we?".

References and Bibliography

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