

## **A Review of 'The Discipline of Market Leaders'**

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I want to call your attention to an excellent book which could provide a lot of food for thought. The book is:

The Discipline of Market Leaders by Michael Treacy & Fred Wiersema, Addison-Wesley Publishing, Reading, Ma., 1995.

I've summarized what I see as it's major points here for you. I hope that this will wet your appetite to read the whole book.

The book deals with the new rules for competition in the marketplace of the 90's. They've found, for example, that: "Different Customers Buy Different Kinds of Value." This perception leads to the first two rules:

- Rule 1: Provide the best offering in the marketplace by excelling in a specific dimension of value
- Rule 2: Maintain threshold standards on other dimensions

A second truism supported by their research is that "As Value Standards Rise, So Do Customer Expectations." This leads to:

- Rule 3: Dominate your market by improving value year after year

Finally, "Producing Unsurpassed, Ever-Improving Value Requires a Superior, Dedicated Operating Model," which leads to:

- Rule 4: Build a well-tuned operating model dedicated to delivering unmatched value

Based on their studies, they suggest that there are three possible operating models which can be used to establish market leadership. These are Operational Excellence (for example, FEDEX and AT&T Universal Card), Product Leadership (Intel), and Customer Intimacy (Nordstrom's).

Operational Excellence has four distinct features:

- Processes for end-to-end product supply and basic service that are optimized and streamlined to minimize costs and hassle
- Operations that are standardized, simplified, tightly controlled, and centrally planned, leaving few decisions to the discretion of rank-and-file employees
- Management systems that focus on integrated, reliable, high-speed transactions and compliance to norms
- A culture that abhors waste and rewards efficiency

The main features of Product Leadership are:

- A focus on the core process of invention, product development, and market exploitation
- A business structure that is loosely knit, ad hoc, and ever-changing to adjust to the entrepreneurial initiatives and redirections that characterize working in unexplored territory
- Management systems that are results-driven, that measure and reward new product success, and that don't punish experimentation needed to get there.
- A culture that encourages individual imagination, accomplishment, out-of-the-box thinking, and a mind-set driven by the desire to create the future.

Customer Intimacy is driven by:

- An obsession with the core processes of solution development, results management, and relationship management
- A business structure that delegates decision-making to employees who are close to the customer.
- Management systems that are geared toward creating results for carefully selected and nurtured clients.
- A culture that embraces specific rather than general solutions and thrives on deep and lasting relationships

Achieving this kind of market leadership requires discipline to the particular focus of the business. The Discipline of Operational Excellence includes:

- The Management of People
- Efficient Transactions
- Information Technology
- Customer Service
- Exploiting the Value Leadership Advantage
- Formula! Formula! Formula!

The Discipline of Product Leaders is driven by:

- The Operating Model of Product Leadership
- Directing the Portfolio of Operations
- The Role of Structure and Process
- Talent: Product Leader's Foremost Resource
- Exploiting the Value Leadership Advantage

The Discipline of Customer Intimacy places its main emphasis on:

- The Operating Model of Customer Intimacy
- The Management of People
- Hollow Delivery Systems
- Creating Deep Relationships
- Exploiting the Value Leadership Advantage
- Solution! Solution! Solution!
- Managing People for Customer Intimacy
- Intimacy for the Long Term

The book points out that there are a lot of ways that a company can get into trouble in pursuing market leadership. Executive team failures have a lot of impact though because this whole process has to be driven by the commitment of the executive team. The failures which the book highlights include:

- The tendency for executives to delegate work too quickly after just an initial pass.
- The all-too-common tendency to underestimate competitors that look different or operate in a different way.
- The tendency to pursue multiple markets and value propositions through one business unit, rather than through multiple business units.
- The tendency to be 'team players' and avoiding the conflict needed to surface and resolve differences.

The book gives executives a plan for moving forward. The plan is broken down into three phases. For each phase, there is a set of questions to direct attention to the important aspects of the problem at that point.

**Phase One:** Understanding the Status Quo

- What are the dimensions of value that customers care about?
- For each dimension of value, what proportion of customers focus on it as their primary or dominant decision criterion?
- Which competitors provide the best value in each of these value dimensions?
- How do we measure up against our competition on each dimension of value?
- Why do we fall short of the value leaders in each dimension?

**Phase Two:** Realistic Options

- Irrespective of industry, what are the benchmark standards of value performance that will affect customers' expectations? How do firms achieve these standards?
- For value leaders, what will their standards of performance be three years from now?
- How must the operating models of these value leaders be designed to attain those levels of performance?

**Phase Three:** Detailed Designs and Hard Choices

- What does the required operating model look like (design specifications for the core processes, management systems, structure, and other elements of the model)?
- How will the model produce superior value?
- What levels of threshold value will the market require in the other dimensions? How will these be attained?
- How large will the potential and captured market be for this value proposition?
- What is the business case - including costs, benefits, and risks - for pursuing this option?
- What are the critical success factors that can make or break this solution?
- How will the company make the transition from its current state to this new operating model over a two- to three-year period?

The book goes on to advocate creating the "Cult of the Customer." They feel that this sort of focus is important to market leadership. Since this is a cultural issue, it can't be done by decree. It has to be done by helping everyone learn to live in the customer's shoes.

Sustaining market leadership is a continuing process. "To Stay Ahead, You Have to get Better and Better." Each business model has threats that have to be addressed. If we want to sustain operational excellence, then our threat is "assets that turn into liabilities." Operational excellence requires investments which can lock us into an operating model well past the point where it is effective. If we want to sustain product leadership, our threat is "sense that turns into nonsense." The 'right thing to do' of yesterday can become the devastating strategy of tomorrow. If we wish to sustain Customer Intimacy, we have to beware of "knowledge that turns into ignorance." With customer intimacy, we are selling our expertise to the customer. When that expertise becomes outdated, we are at risk.