

Introduction

Despite a highly educated and uniquely talented technical staff, Finrock Industries won and lost business on price. A respected firm in its industry, Finrock Industries was a midsize provider of precast/prestressed structural concrete components used in the construction of parking garages and other commercial buildings. The precast industry had turned into a commodity quagmire as the technology matured. General contractors (the purchasers of the precast components) based their purchasing decisions on cost and delivery alone. Financial returns were adequate at best, but there was a lot of red ink during economic downturns.

The company owner, coauthor Robert Finrock, was then the chairman of his industry's national association. This role made him aware that what was happening to his business was far from unique.

Robert came to realize that all precast solutions, from the general contractors' perspective, had matured to the point where there was not much difference between competitors' offerings or, for that matter, between precast and competitive structural building materials. Buying on price and schedule was a sensible decision on customers' part. In short, from the purchaser's viewpoint, Finrock Industries was just *one of many* qualified competitors with identical outcomes for the building project.

Robert had an intuition, although he could not quite explain why, that the only way to build a thriving business again was to move up the food chain, so to speak—to somehow deal directly with the building owners. They were the people with the most vested interests in the quality of Finrock Industries' products and its ability to help owners save money and reduce risk during construction.

Robert tried to articulate his intuition about owners to other leaders in his company. Steeped in the “rules” of the construction market, they were hesitant to rock the boat and join Robert in a major change effort.

In hindsight, Robert’s insight was a pivot point, because it led Robert and his management team to explore new directions. What would it take to successfully act on this new insight?

About that time, Robert met coauthor Mary Kay Plantes, a consultant who specializes in helping leadership teams innovate their firms’ business model—to rethink what their business is all about—in order to grow more rapidly. She helped him understand the economic principles that created and controlled commodity markets and provided a road map for transforming a business to escape from those constraints. That was exactly what Finrock Industries needed. Robert and his management team came to see that trying to get better at what they currently did would leave them in the same rut and get them nowhere. In fact, they realized that the rules driving the industry were flawed. They needed to start doing business differently—not just to redefine their offerings but also to reinvent the entire business that created their building project solutions.

Their next step was to define the company’s unique and true strengths, around which Robert and his leadership team could build a new business model. They realized they knew more about how to cost-effectively design, manufacture, and erect parking garages and other building structures than any of the architectural-engineering firms and general contractors in the marketplace. Yet all too often, Finrock Industries’ sales and engineering professionals gave this knowledge away free of charge, in an attempt to get architects and contractors to favor Finrock Industries with the “last look at price” during a request for proposal, bid, or auction process. The realization reinforced the need for doing business in a new way by selling directly to owners, because owners were the people who would gain the most value from the company’s superior knowledge.

It became clear to the leadership team that the predominant way that general contractors, engineers, architects, and subcontractors like Finrock Industries did business—with each separate company performing in its own self-interest—did not create the optimum solution for the building owner. What was most compelling about Robert’s idea of selling to owners was that there was no company that offered a vertically integrated, truly turnkey precast building solution for

parking garages and other structures. Being the first to do so would make Finfrock *a unique and more valued alternative for owners and developers*. The company could begin offering unique benefits—create a monopoly, in essence—rather than continue to suffer as *one of many* in a commodity bidding process. By being the single source of responsibility and self-performing much of the project, Finfrock Industries could create the highest-value solution for owners of parking garages and other structures—solutions that would maximize usable space and minimize cost and completion date risks for the dollars spent.

The vision that emerged was to turn what was a pure custom-engineered components manufacturing firm into a design-build construction firm. The change was not without its challenges: Finfrock Industries would have to learn how to handle everything from working with the customers to define their needs and wants related to a new building, to preparing architectural plans and specifications, to designing and making the precast parts, to completing construction of a building.

Robert recalls that the implications of that decision were scary: His company would have to develop expertise in a wide range of new skills. How quickly could they develop that knowledge and integrate it into the company? What if the change in strategic direction didn't work? Would his company lose the general contractor customers it currently had once it directly competed with them for owners' business?

The next two years were hectic, a blend of excitement and frustration mixed with high energy and long hours. The leadership team knew the general direction the company needed to go in, but it had a lot of work to do to define and develop into exactly what the company needed to look like to reach its vision of selling directly to owners. All that work happened through a detailed strategic thinking and action-planning process built on principles you'll find in this book.

Part of the initial work also included reshaping the management team itself. Although some original members quickly and easily accepted the new vision, others disagreed. Robert couldn't blame the dissenters who opposed the admittedly radical and risky changes. But he saw "business as usual" as being even riskier. He felt he needed people on the team who all interpreted the writing on the wall the same way, so that leadership could present a unified vision to the rest of the company.

In concert with completing the strategic plan, the company also started intensive education efforts. For example, Finfrock Industries had very limited experience working with other subcontractors such as electricians and plumbers. To educate the workforce, the company held hundreds of in-house seminars those first two years, and it continues workshop learning to this day. It also created a number of positions that were new to the company, such as architects and project managers. Selling to owners in these early years was limited to parking decks, where general contracting skills were more straightforward than were office and other types of commercial buildings.

At the end of about two years, the company could confidently call itself Finfrock Design-Manufacture-Construct, Inc. (Finfrock D-M-C)⁵, which is what it has been ever since. The company then had the major pieces in place and moved into other commercial construction markets such as offices, mixed-use structures (e.g., retail and residential), and multifamily housing (e.g., college dormitories).

What was initially seen as a huge risk for the company has turned into a huge boon. Since implementing the new strategy, Robert's business has increased more than tenfold, with much higher profit margins and total dollar profits exceeding former sales levels. Previous general contractor customers, impressed by Finfrock D-M-C's capabilities, now hire the company to construct entire buildings within sizable commercial developments.

Though in theory Finfrock's design-manufacture-construct offering could also become commoditized, Robert thinks the likelihood of that happening any time soon or in a way that threatens the survival of Finfrock D-M-C is remote at best. Why? Because his company continues to build advantages that will be hard for others to copy. Anybody can compete based on a product, but Finfrock D-M-C has a complete system, skill set, and culture that are very hard to duplicate. Robert and his team continue to apply the principles in this book to remain a category of one.

Building a Strategically Differentiated Business Model

What Robert's company ended up doing was to define a strategically differentiated business model: a new vision for how and where the company would

compete. A *business model* describes where a business competes—its target market(s) and offerings; its *value proposition*—why customers will choose it over other alternatives; and why competitors won't be able to easily or affordably copy its value proposition.

A strategically differentiated business model, executed effectively, will provide your organization with the following:

- Customers willing to pay a premium for your offering
- Longer-term relationships with customers and suppliers
- Different parts of the organization working collaboratively because they have a shared understanding of where and how you want to win business
- Easier and faster decision making related to pursuing opportunities
- Easier resolution of conflicts that naturally arise among different parts of the organization
- Better resource leveraging because the company is far more focused

The rest of this book will walk you through the steps needed to make the kind of significant changes that Robert's company made so you need not compete primarily on price and lose price premiums for innovations. You'll end up with a truly differentiated business whose offerings will be hard for competitors to copy.

Although our book is set up as a series of three parts divided into steps, achieving the kind of transformations described in this book is an evolutionary cycle: Decisions are made and acted on, then revisited and further enhanced when more and better information is available. You may work on more than

CAN YOU SKIP STEPS?

We suspect that most readers will be best off starting from Step 1 and working straight through to Step 8—at least the first time they try to apply the concepts and methods we discuss. However, you can really start with any chapter, depending on where you think your company needs the most change. For example, if you have strategically differentiated your business model and you think you have a market-understanding process that is as strong as your financial-understanding process, then you could pick up at Step 5 to build a stronger company.

PART I: Know Where You Are

Step 1: Understand the root cause of your problem. What is it that's trapping you in a commodity market? The economic forces can't be changed, only your response to them.

Step 2: Forget customer driven; become market driven. If you focus only on the stated needs of your current customers, it's unlikely your business will ever break out of the commodity trap. You need to take a broader look at the market. Becoming market driven in the strategic assessment of your business will let you drive the market by creating new-to-market categories and offerings.

Step 3: Conduct a strategic assessment. Become a consultant to your own business. Scour the marketplace for useful market insights that will help you redefine your biggest opportunities and risks. Ask a different set of questions about your business, questions that will shed new light on strategic risks and opportunities and point the way to business model innovations within your reach.

PART II: Design the Business You Want to Run

Step 4: Design a new strategically differentiated business model. There's no purpose in going through this effort if all you do is jump from one commodity market to another. The purpose of this step is to help you synthesize the information and strategic insights you've gathered in the assessment to define a new business model that will confer strategic differentiation. You'll have a unique selling proposition that your target market can't turn down and evidence you'll deliver on it. The new business model will likely broaden or narrow your target markets and redefine what business you're in.

Step 5: Realign the leadership team. Your leadership team consists of the key managers who have to steer your ship in a new direction. It is essential that each member understands that his or her role is first and foremost to run his or her areas of responsibility on behalf of the senior team. If each leader continues to maximize the success of his or her part of the organization, irrespective of other parts or strategy execution, your differentiation efforts will fail.

Step 6: Create a meaningful corporate aspiration. Once the leadership team is aligned, you can roll out the new business model to the rest of the management team or workforce. With them, you then define or refine the company's vision, purpose, and guiding principles. How this is done will determine whether you will build commitment to the new direction or let resistance and resentment stop your change efforts.

PART III: Create and Manage Your New Business

Step 7: Establish strategic goals and create an annual planning process to achieve them. The new vision and strategically differentiated business model will become a reality only if the company defines exactly what it will take to get there and builds the needed changes into its management structures and plans.

Step 8: Align culture with strategy. If the changes you arrive at are anywhere near as big as those faced by Finrock D-M-C—and odds are they will be if you're serious about breaking out of commodity markets—you will end up redefining your business and how it operates. This step will show you how to modify your culture to better support the new business model. You will fall short of reaching your strategic goals and vision without culture alignment.

one step at one time. The eight-step *Beyond Price* process will be your guide (see pages 6 and 7). It will help you conceptualize and lead an ongoing change process that otherwise feels and often becomes so chaotic that both leaders and employees alike lose their motivation to keep going.

As Robert Finrock's story has illustrated, going through these steps takes a lot of time and effort. But he'll testify that it's all worth it. Before, he and his management team were living in a constant fire drill, focused on solving problems and operational issues while cutting costs. Now they get to hear customers say they are elated with what the company has done for them. These customers are enthusiastic advocates for Finrock D-M-C. And that's how any company knows it has a thriving future.