

Becoming the Most Preferred Supplier: The Real Purpose of a Business Strategy

Being preferred most often.

Isn't that the ultimate goal of every well-run business: being the supplier preferred most often by its targeted customers for the goods and services it offers? Whether or not that position is ever achieved, isn't it a management team's responsibility to move their company closer to the top of their customers' 'preferred vendors' lists when making investments in facilities, systems, operations, people, etc.?

Being preferred most often is not simply one of many equally important business goals. It is the #1 goal.

Why? **It's the only time a sale happens.**

Every time a buying decision is made, only the most preferred vendor—the one whose offer sits at the top of the competitive rankings—gets the order (that's how we keep score of who's most preferred). Everyone else goes home empty-handed. And the key to becoming preferred most often is to strive to consistently present offers that deliver something of *compelling value* that is *superior* to those from all other vendors. In the long run, only the most preferred suppliers make *real* money.

Unfortunately, you can't assume that such a coveted position will materialize organically just by doing many things really, really (really) well—that's just not how business works in the real world. A company has to make very deliberate choices about specific elements of its business that, taken together, will get it there.

So how *does* a company become the most frequently preferred supplier? Let's start with the two most basic market elements: customers and competition.

Customers

A steady supply of customers is the lifeblood of every business. Nothing else even comes close in importance to the health of a company. Yes, there are many things a company has to do well to be viable, and in practice strength in one area can often help compensate for weakness in another.

However, there is nothing that can compensate for an inability to attract and retain customers. Even the best run, best financed company cannot survive for very long without a steady stream of buyers coming through the door. Anything that puts that supply at risk, by definition, puts the very existence of the business at risk.

So what poses the greatest threat to that supply of customers?

Competition

Companies relentlessly try to win customers at the expense of their competitors, each one looking for ways to have the most compelling offer every time a purchase is made. So it is essential for each business to tenaciously steer toward that position, else it will be left behind by the other market players who will, sale by sale, inevitably erode away its customer base.

How then does a company protect its customers from the threat of competition? It does so by using a **strategy** for guiding its business—a *real*, honest-to-goodness strategy.

Strategy in General

To proceed further, we need a practical understanding of what a real strategy *is*. We will start with this excellent definition:

“A strategy is a way through a difficulty, an approach to overcoming an obstacle, a response to a challenge.”

Rumelt, Richard. *Good Strategy, Bad Strategy: The Difference and why it Matters*, 2011

This definition brings attention to three facts about a real strategy:

1. The terms ‘way’, ‘approach’ and ‘response’ imply that a strategy is made up of multiple elements, not just a single decision, activity or goal
2. A strategy is not a *plan*; a plan contains details of activities, resources, timing, responsibilities, budgets, etc. that are to be used to achieve a set of goals or objectives; a strategy does not
3. Before a strategy can be formulated, the obstacle or challenge to be overcome must be clearly defined

Strategy in Business

The concept of strategy entered the business world in the 1960’s as a means for understanding why and how some businesses become very successful, while others fail to do so. Its subsequent development has allowed leaders in the field to effectively address this question by identifying which elements of a company’s makeup (its structure, operations, offerings, policies, activities, systems, etc.) are the ones which, as a group, enable it to most frequently ‘win’ against its competitors.

Some businesses have financial challenges; some have technology obstacles, while others have operational difficulties to address. But of all the challenges a business can face, none is more universal and ever-present than **competition**.

Therefore strategy’s first and foremost role in business was, and continues to be serving as a tool for specifically dealing with every company’s biggest challenge: competition. It is the *fundamental strategic challenge* of every firm. So when the word strategy is used here, it follows the usage of Michael Porter from Harvard Business School (the guru’s guru of strategy):

“...for Porter, strategy always means “competitive strategy” within a business.”

Magretta, Joan. *Understanding Michael Porter: The Essential Guide to Competition and Strategy*. 2012.

Taking this equivalence one step further, because its *competitive* strategy deals with the highest-level challenge faced by all businesses (or business units), it can be argued that it is also its *business* strategy (if not, what would be the higher level, more ubiquitous business *challenge* that deserves this overarching label?). In Porter’s view, both of these labels refer to the same concept. Call it what you will, as long as strategy’s real purpose is not lost.

To be clear, and contrary to how it’s used by many ‘strategy’ consultants, a firm’s business strategy is not intended to address the many *other* things it has to do to meet the needs of its customers and be an ongoing operation (many of those can be properly addressed by other means). Rather, its purpose is quite specific:

To effectively identify those aspects of a business that enable its offerings to be both unique and preferred over its competitors and make sure they are effectively and consistently addressed and delivered.

The prevailing custom of incorrectly referring to all manner of business concepts and ideas as strategies (e.g., ‘Be the market leader’, ‘Grow revenue 20%’, ‘increase social media use’, etc.) has kept many from becoming aware that strategy is a unique, very specific concept that makes a critical contribution to the business world. Mislabeled phrases like these are almost always goals, or objectives, or tactics, or aspirations, etc. They are certainly important tools for achieving business success, but they are separate and apart from strategy. The regrettable result of this misuse is the absence of a real business strategy guiding most of today’s firms.

What a REAL Business Strategy IS

One facet on which many experts agree is that a business strategy is made up of a **set of choices** that is intended to move a company toward a deliberately chosen market position.

In their excellent 2013 book, *Playing to Win: How Strategy Really Works*, Lafley and Martin offer the following definition of strategy:

“A strategy is an integrated set of choices that uniquely positions the firm in its industry so as to create sustainable advantage and superior value relative to the competition.”

I believe it would be more helpful and instructive for small- and medium-sized businesses to restate this definition in terms of the ultimate market position it is designed to help a business achieve:

A business strategy is an integrated set of choices that position a company as the most frequently preferred supplier of its targeted customers for the goods and services it offers.

How well a company selects and develops its points of advantage, how successful it is in creating compelling value in its offerings and how smartly it sets prices will determine whether it realizes the goals of ‘sustainable advantage’ and ‘superior value’. Whether it does or not, the target remains the same: *being preferred most often*—because that’s where the money and growth are.

What Choices?

Although many experts agree that a strategy is a set of choices, they all don’t describe them in quite the same way or at the same level of detail. However, each approach adds insight into what a business has to do to be competitively successful. Below is a synthesis of their ideas presented in a form that businesses can readily identify with, understand and realistically apply to the competitive environments they face.¹

The key business choices that have been identified fall into two groups.

The Market-facing Choices

This set of choices address the market in which a company will participate and the position within that market it intends to occupy. Although seemingly obvious, businesses often don’t deal with all these choices completely, or in some cases, at all.

1. The **products and services** to be sold
2. The **customers** to be targeted
 - a. This must be a subset of all potential buyers

¹ The core of this approach was taken from Lafley, A.G.; Martin, Roger L. *Playing to Win: How Strategy Really Works*. Harvard Business Review Press, 2013.

- b. They can be defined by demographics, needs, psychographics, channels, geography, product categories, stage of production, etc., whatever is most appropriate for the specific business
- 3. The subset of the chosen customer's **needs** to be addressed
 - a. All their needs regarding an issue usually cannot or should not be addressed
- 4. The *unique value proposition* to be offered
 - a. This is what sets a company apart from its competition—it is what is intended to make it preferred most often by its targeted customers

In practice this means choosing the set of customers and needs on which a business will focus all its efforts, and as a result intentionally allow all others potential buyers to be in some way disappointed because that focus misses, by design, one or more of their most important needs.

The Company-facing Choices

These choices speak to the internal elements required within the business for it to successfully achieve and maintain the chosen market position. The leaders in strategy are very clear that this second set **must** be part of a company's business strategy because it has to include the internal commitments necessary for realizing the promised unique market position—they are what gives a strategy its 'teeth' and makes it visible in the marketplace.

1. The company's definition of '**winning**'; what it's trying to achieve in terms of:
 - a. Its goals for customers—how the business will improve their situation; they address the circumstances or experience the company seeks to improve (often considered its *mission*)
 - b. The goals for the business itself
2. The set of **activities, resources and capabilities** that are needed to specifically create and deliver the unique (and only the unique) aspects of the value proposition
3. The **policies**, the guiding themes that communicate the right 'sense of the business' to employees, telling them what is **most important** to its success; they establish the proper mindset and priorities for decisions, inspire people to take action and align and **focus the behavior** of everyone in the company (often considered part of a company's *culture*)
4. The management and operational **systems** needed to enable, promote, support and measure the activities, resources and capabilities referred to in Point 2

Without these execution elements, the first four choices will bear no relationship with reality—they will merely be a wish list. And 'wishing will make it so' has never been a formula for business success.

To have a real business strategy means that these eight choices are made as a tightly linked set that integrate with and reinforce each other. A strategy so created results in a business that is seen by its customers as focused and consistent, with all parts of the organization conveying the same story in both words and actions. When buyers clearly know what a business stands for, it builds a powerful brand image, solidifies the company's credibility and reputation and ultimately creates a compelling preference for working with that organization.

Without a real strategy, there is no guiding mechanism, no reference for employees to turn to for assuring their activities and choices are consistent and build on each other's contribution to a common set of goals and objectives—something that is essential to real success in any competitive environment.

Operationally, a properly structured business strategy is the filter through which all proposed plans, initiatives, tactics methods, procedures, communications, content, etc. must pass to be approved; otherwise they will be made independently of each other to address immediate, local issues without sufficient regard

for their effect on the business as a whole. Adhering to a true strategy prevents the creation of a less-than-effective collection of '*random acts of business*' from wasting a company's resources on investments that appear to be good ideas but don't really contribute to achieving the #1 goal of being the most often preferred vendor among its targeted customers.

So the message is clear: If a company has not developed a real business strategy, it has not completely or effectively addressed how it intends to protect and build its customer base against the competitive forces operating in its market.

Creating a Business Strategy

It should go without saying (but it will be said anyway) that the first order of business for building a strategy for moving toward *most often preferred supplier* status is knowing just what makes a business 'most preferred' in the eyes of the targeted customers.

Identifying which elements of a company's offer could be the source of unique, compelling value requires real insight into the attributes customers use to choose one supplier over another. Many things can be important to a buyer, but there are only a few which significantly impact supplier ranking on any given purchase occasion. The potential differentiators can reside not only in what a company sells, but also in how it does business—characteristics which can be subtle and difficult to uncover through traditional management and sales interactions. It is absolutely critical to get this insight right because it underlies all future assumptions and decisions. Don't try this at home—hire a professional.

It is next to impossible to produce a fully integrated, highly effective business strategy in one big, bold first try. Those companies with the most effective strategies built them over a number of years and multiple business cycles of sequential learning and adjusting to get it right. Fortunately, it is not necessary to achieve a high level of coordination and consistency before a business can realize real benefits from the process of developing a true strategy. Any incremental progress in that direction can bring about a material contribution to improving a company's effectiveness.

Summary

Creating a real business strategy is the ultimate expression of working *on a business vs. in a business*. It is the *one and only* tool for focusing all investments and activities on those things which make a company's offerings more and more preferred by its customers, and eliminates spending on activities that don't contribute to attaining that market position. The outcomes of operating with a real strategy: improved business growth through a higher percentage of 'wins', higher revenue and profits, and lower costs—all the things that contribute to a health bottom line.

Yes, creating a real business strategy is not easy, but neither is running a real business. So for a tool to effectively contribute to succeeding in a real-world, competitive environment, it has to reflect reality. Real strategy, you see, is not a one-liner.

Businesses put themselves at a great disadvantage if they dismiss creating a real business strategy as too academic or time consuming to be of practical use. It does take significant effort to do so, but so does dealing with the costly, chronic problems which result from not having one (to which many business people can attest). In fact, many strategy experts believe that having a real strategy is one of the best forms of advantage a company can have.

What's important is to begin the process.