



Baptism by fire: a sustainable competitive advantage or else!

I spent some time with an insolvency practitioner in the past. Because this was a first meeting with a potential client, I waited a full 10 minutes before challenging the viability of his business model.

Fortunately, my guest's profession had equipped him to take my combative approach in his stride. My guest gained a growth strategy for his practice. And I gained a new technique I can use to assist our clients in the formulation of their sustainable competitive advantages (not to mention, material for this bulletin).

My guest opened our meeting by explaining that he had a boutique insolvency practice. Now, when I think of the word 'boutique', three attributes spring immediately to mind: 'small', 'specialized' and 'expensive'. However, my questioning uncovered that my guest's practice was endowed with only one of these attributes. He admitted that while he was small, he wasn't particularly specialized, and that his fees were pretty much on a par with those of his larger competitors.

I discovered that my guest's clients were those people who enjoyed the opportunity to work with him personally (rather than having their work shared among less skilled associates). I also discovered that, because he did a good deal of the work himself, his margins were quite high. That's when I pounced!

I explained that while his business model didn't prevent his practice from being profitable (and it is profitable) the absence of those two missing attributes ('specialized' and 'expensive') would impose a ceiling on his growth.

The importance of specialization

As I've explained many times in the past, if you're small, it's better to be different than it is to be better. It's almost impossible to convince the market that you have a service that's better than those of your larger competitors. Even if your claim is true, it isn't believable. The market naturally associates 'big' with 'better'.

If you're small, it's a lot easier to convince the market that you're different. Being different is about being a specialist - and the market naturally associates 'small' with 'specialist'. You get to be a specialist by focusing on serving a niche market. A niche market is a group of customers whose needs are not adequately met by the cookie-cutter solutions served up by your larger competitors.

Now there are three types of niche markets on which you can focus. You can focus on a vertical niche, which is defined by market (a range of services for a specific market). You can focus on a horizontal niche, which is defined by service (a specific service for a range of markets). And, just in case neither a vertical nor a horizontal niche provides the degree of focus you are looking for, you can have both a vertical and a horizontal focus (a specific service for a specific market). Of course, the million-dollar question is: 'upon which niche market should you focus?'

The importance of being expensive

Now, traditionally, in order to answer this question, a team of MBAs will scrutinize your business, your market and your industry, and then prepare a SWOT analysis (SWOT stands for 'strengths', 'weaknesses', 'opportunities' and 'threats'). This SWOT analysis will (hopefully) provide you with a map that will lead you to the buried treasure - your ideal niche market.

Unfortunately, my guest and I had just a couple of hours to consider this question (and there were no MBAs anywhere in sight). I suggested we address the problem with a kind of baptism by fire!

We agreed that the niche we chose would have to allow my guest to charge a premium for his services. (Because he doesn't have his larger competitors' economies of scale, unless he charges a premium, his growth will result in margin shrinkage).



So, rather than identifying a niche market, designing a custom service offering for this niche and then setting a price, I suggested we work backwards. I challenged my guest to take the hourly rate charged by a partner in one of his competitor's firms, add 50%, and *then* go looking for a niche market that would be prepared to pay this higher fee to work with a specialist.

Interestingly, it wasn't until we attacked his problem from this perspective that the question became easier to address. Immediately we were able to disregard some markets that would not be prepared to pay this premium. We eliminated others that were not large enough to provide the growth potential that my guest was looking for. And we identified a couple of niche markets (one vertical and one horizontal) that were worthy of further investigation.

A challenge for you!

My appointment with this insolvency practitioner was just one of 15 appointments I've had with owners of small- to medium-sized businesses in the last three days. Over those three days, I discovered nine organizations that are faced with exactly the same challenge. Almost all of these organizations had the good sense to preface their descriptions with the 'boutique' adjective. But none of them had actually targeted a niche market. None of them was a specialist. And, as a result, none of them was in a position where they could charge enough of a premium for their services to fund ongoing (profitable) growth.

Here's my challenge for you. If you are charging prices that are on a par with those of your larger competitors, program a significant price rise to occur in exactly one month's time. Over the next 30 days, identify a niche market that will be prepared to pay a premium for a customized service, and then go about designing a service package to serve the unique needs of this market. My guess is, when the pressure's on, you'll identify your ideal niche market!

It's easy to defer making this tough decision - particularly if your business is profitable. But if you want to grow your business - and I'm guessing you do - you need a business model that's scalable.

That means, if you can use the word 'small' to describe your business, you must also be able to add the words 'specialized' and 'expensive'.