The SunTrust Guide to Competitive Strategy: How to Make Your Business Faster, Smarter, Richer and More Inventive Than the Competition
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CHAPTER 1
Introduction
What is Competitive Strategy?

Competitive strategy is far more than just keeping up with the Joneses. Without a clearly focused and sustainable competitive advantage, a business may quickly cease to exist. A company cannot be all things to all customers, however, so part of the competitive strategy challenge is determining the most important attribute or attributes on which to focus, and then keeping that focus top-of-mind as business decisions are made.

“The essence of strategy is choosing a unique and valuable position rooted in systems of activities that are much more difficult to match.”
—Michael E. Porter, Bishop William Lawrence University Professor, Harvard Business School

“A competitive advantage answers the question, ‘Why should the customer purchase from this operation rather than the competition?’”
—Cole Ehmke, Extension Educator, University of Wyoming Department of Agricultural and Applied Economics

“One gets paid only for strengths; one does not get paid for weaknesses. The question, therefore, is first: What are our specific strengths? And then: Are they the right strengths?”
—Peter Drucker, Management Consultant and Author

“If you don’t have a competitive advantage, don’t compete.”
—JACK WELCH, FORMER CHAIRMAN AND CEO OF GENERAL ELECTRIC
Competitive Strategy Survey Methodology

Surveys were conducted among those who met the following qualifying criteria:

- Geographically representative of U.S. midsize businesses
- Sole decisionmaker (or primary influencer) for financial decisions
- Working in one of 12 broad industries:
  - Retailing
  - Real Estate
  - Transportation
  - Capital Goods
  - Raw Materials
  - Automotive
  - Consumer Products & Services
  - Energy & Utilities
  - Technology Hardware & Software
  - Healthcare & Pharmaceuticals
  - Media & Telecommunication Services

317 interviews were conducted

Across businesses with annual revenue ranging from $10 million to $150 million
Inside the Survey: **Key Findings**

**Most businesses engage in some competitive strategy planning**

*Virtually all businesses* surveyed (98 percent) are guided by a competitive strategy.

The amount of time spent on competitive strategy increases with business size, but overall, *less than half of businesses* are spending significant time on competitive strategy.

**Several industries stood out as doing a significant amount of competitive strategy work:**

- Technology hardware and software
- Retailing
- Automotive

Quality is a core priority for *approximately two-thirds of businesses*, innovation and focus/targeting a niche are other common components of businesses’s competitive strategies.

Companies earning $25 million or more each year in revenue are most often focused on superior products and services (*55 percent*).

Businesses have fulfilled their competitive strategy by developing deep customer relationships and creating superior products and services.

**Financial partners, however, are not deeply involved in the process**

*37 percent of midsize businesses* are not certain their lead bank is aware of their competitive strategy.

*Just 54 percent of midsize businesses* say their lead bank has contacted them proactively to discuss their competitive strategy.

Midsize businesses plan to reach out for help with competitive strategy in the future, but banks are currently an untapped resource.

And yet, of those businesses earning $25 million or more in annual revenue that spoke with their bank about competitive strategy, *63 percent* found it extremely helpful, while *54 percent* said it was extremely impactful on their performance in the marketplace.

Businesses feel banks can best support their competitive strategy by assisting with access to capital, which may be used for fixed-asset purchases or leases, working capital, acquisition or product R&D financing.
CHAPTER 2

Quality
The **8 Dimensions** of Quality

Nearly three decades ago, Harvard Business School professor David Garvin took on the idea of “quality,” applying a scholarly framework to this slippery—but essential—element of strategic analysis.

In a competitive global market, it’s not enough to simply protect consumers from annoyances, he explained; a product has to truly satisfy their needs. Consumers look to a number of characteristics to determine whether those needs are met. Garvin’s insights into these essential elements of quality still resonate today:

1. **Performance**: How well the product or service delivers on expectations, based on measurable attributes
   
   *Example: Acceleration or handling of a car; average speed to resolve customer issues*

2. **Reliability**: Probability of the product or service failing within a specific time period
   
   *Example: Average time to first failure for a computer; first-contact response time for a call center*

3. **Durability**: Amount of use before a product or service is no longer usable and purchasing a replacement is the preferable (or only) solution
   
   *Example: The expected life span of a lightbulb’s filament; the warranty offered by a contractor*

4. **Aesthetics**: Subjective view of a product’s appearance, smell, feeling, etc.
   
   *Example: The “rich and full flavor” of a food; the appearance of a service business’s office, website or personnel*

5. **Features**: Characteristics that supplement the basic function—in other words, the “bells and whistles”
   
   *Example: Voice-activated remote control on a television; customer service offered through live chat*

6. **Conformance**: The extent to which a product or service meets established standards
   
   *Example: Defect rates in a factory; accuracy and timeliness of processing customer inquiries*

7. **Serviceability**: The ease, promptness, competence and courtesy of repair or services
   
   *Example: Service offered across multiple channels, such as toll-free hotlines or through social media; an airline’s provision of self-service options*

8. **Perceived quality**: Indirect measure based on a company’s general reputation
   
   *Example: Assumption that a product or service offered by a reliable company such as Apple, Sony or Zappo’s will be of high quality*

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The majority of midsize businesses cite quality as the primary focus of their competitive strategy, so developing a product that stands out from the competition can be a challenge. In this Q&A, Douglas Bowman, professor of marketing at Emory University’s Goizueta Business School, shares how commitment to quality can help your business maintain a competitive advantage.

How can businesses set themselves apart by providing products or services of superior quality?

Douglas Bowman: Strategies will differ depending on whether the business markets physical products or services. For instance, people often talk about technology products like Apple because of their design, but you don’t have to be the provider working on design. AT&T, for example, may offer quality through service or distribution. It’s possible to be multifaceted and compete on different dimensions.

How can businesses communicate the quality and reliability of their product or service?

Bowman: Customers form perceptions of quality and reliability from three broad sources of information: the physical specs or characteristics of the product (its engineering features), their own prior experiences with the product or service and the firm’s communication efforts. Each is a lever businesses can seek to improve.

Do you believe businesses can consistently provide the highest-quality product at the lowest price?

Bowman: It’s better to think of optimizing quality rather than maximizing quality because there may be some aspects of your product or service where maximizing leads to overinvesting. If a retailer provides Wi-Fi as a perk for its customers and the Wi-Fi becomes unreliable, for example, those customers are dissatisfied. But investing in a faster Wi-Fi may not make sense for the retailer because it’s not valued by customers for one reason or another and won’t have a measurable payoff. There may be other attributes where there are decreasing returns to the value created for customers. It may even get to a point where additional investments result in such modest incremental gains in value that they may not be worth it.

What are some ways businesses can learn about their customers’ quality needs?

Bowman: Think outside the “traditional market research” box. Conduct observational studies, in-depth interviews, and use focus groups to identify your customers’ pain points. What keeps them up at night? Once you understand that, you can look for solutions to address those concerns. Also, make sure you understand how your customers are defining quality. Your company may think it’s one thing, and your customers may think it’s something entirely different.

What is a mistake you often see companies make when focusing on quality?

Bowman: Many mistakes occur when companies are building their value proposition. The least sophisticated businesses are very internally focused and have the mindset of, “Here’s all the good qualities my company adds to the marketplace.” You should instead focus on understanding where your good qualities are, which ones your customers value and how these qualities differentiate you from the competition.

How do you recommend business leaders push themselves and their team to stay ahead?

Bowman: Determine solutions that aren’t obvious. I have a faculty member that teaches an entrepreneurship class and one of his exercises is, “How would you innovate the pillow?” And I’m always surprised what people can come up with. When you think higher order, you will see there are many different ways to solve the same problem.
Know When You’ve Overinvested in Quality

In the race to beat out the competition for a bigger market share, many midsize business owners are putting their money on quality.

• **31 percent** of midsize businesses that devote “significant time” to competitive strategy say they do so in order to meet or exceed their clients’ needs in relation to the competition.¹

• **40 percent** of midsize businesses say quality is the primary focus of their competitive strategy; of these, **63 percent** say they fulfill this component by offering a superior product or customer support.¹

Investing in quality may be a key step to satisfy customers and improve products, but there is a point at which investing in quality ceases to have a tangible ROI. In fact, some business owners risk allocating capital in the pursuit of quality that would be better served elsewhere.

So how do you know when you’ve reached the point of lowered returns?

The first step in the process is simply recognizing that choosing to compete on quality comes with measurable financial expenditures, and these costs are subject to evaluation and reassessment.

You should objectively review past and current projects using customer survey results, market information or other data you may have on file. Which projects were of sufficient quality? Were there any of insufficient quality? Exceptional quality? If possible, review the investments made in each of them, and see what costs were most instrumental in delivering the quality metric.

Most importantly, continue to track all expenditures related to quality improvement efforts, including all those incurred during testing, as well as time and money spent during defect detection and correction. Only by quantifying these costs can you ensure you are investing the proper amount to stay competitive (and profitable).

Quality has become more important than ever as online product comparisons and user-generated reviews impact sales across industries in both the B2C and B2B spaces.

Here are three common barriers companies face when trying to compete on quality, and what you can do to ensure a focus on quality enhances your competitive positioning:

**BARRIER:** Lagging technology

**TIP:** As demand increases, you’ll be tasked with increasing output without sacrificing quality. Investing in the latest technology and equipment to improve productivity can help you stay ahead of your competitors.

**BARRIER:** Insufficient personnel

**TIP:** A workforce that embraces quality as a core value is essential in order to bring high-quality goods and services to market, but identifying and recruiting new talent can be costly. Consider acquiring a competitor that boasts a workforce with the skill sets you require to foster sustainable growth.

**BARRIER:** Maintaining an underperforming division

**TIP:** Improve your focus on quality by selling a division of your company that is not a key component of your portfolio or essential for long-term growth.
Building Brand Awareness, One Customer At a Time

Use this checklist to elevate your brand’s familiarity rating and boost customer recognition.

SunTrust research shows that 40 percent of midsize businesses have made quality a central focus of their competitive strategy, and more than 50 percent of these companies are using brand recognition to successfully compete on the quality factor.¹

Here are five guidelines for helping your business build brand awareness and elevating your brand’s quality rating:

1. **Provide value**
   An essential component of building brand awareness is providing ongoing value that exceeds customer expectations. Establish yourself as the expert in your field or industry; offering educational materials like webinars, workshops or podcasts can help you develop a rapport with your customers. *Bringing products to market* that are of consistent and reliable quality will also help build a customer base that is firmly committed to your company.

2. **Offer incentive programs**
   Incentives are a great way to attract new customers, encourage existing customers to try a new product, reward loyalty or motivate customer referrals. Once you offer an incentive—be it a product discount, giveaway or other benefit—customers may be more inclined to spread the word and promote your brand. The return is typically much greater than the investment. The file hosting service Dropbox, for example, offered existing customers 500 MB of extra storage space for every referral, which led to a surge of new sign-ups and saved the company in advertising dollars.²

Maintain consistent messaging
Your brand tells customers what to expect and sets you apart from your competitors, so consistency is important. In fact, six out of 10 millennials expect consistency when dealing with a company across channels, including online, in a store and on the phone.³ Take Coca-Cola as an example. The company has one of the most recognizable and successful brands in the industry, with a logo and message (happiness) that has remained consistent for decades.
Monitor customer feedback
Find out what your customers like and what they want more of, and try to give it to them. Social media can be an effective tool for monitoring feedback, and you can leverage positive posts to promote your brand. Seventy percent of consumers trust earned media posted online (recommendations, comments and reviews), and 25 percent use social media sites to find information about a brand. It’s just as important to listen to customer complaints and issues, and find ways to respond to them. Domino’s Pizza’s mea culpa ad campaign drew success by acknowledging customer complaints and demonstrating a plan for improvement. Showing customers you care about what they have to say goes a long way in building brand loyalty.

Grow your social media presence
Establishing a strong social presence is no longer an option for businesses, it’s a necessity. Concentrate your energy on social platforms that reach your target audience. Facebook, Twitter and Pinterest, for example, tend to be effective channels for midsize business owners because they have the greatest volume of users. Once you determine which social platforms will contribute the most to your business, establish yourself as a thought leader by sharing valuable content, such as case studies and educational videos. Staying consistent, current and approachable will help increase your brand’s recognition and presence.

Why Social Media?[^6]

- Digital influenced $1.7 trillion of in-store sales in 2014, compared to just $0.33 trillion in 2012.
- 47 percent of millennials are influenced in their purchases by social media.
- 19 percent of all other age groups are influenced in their purchases by social media.
- 1/3 of U.S. consumers are influenced in their purchases by social media.
- Consumers who use social media while shopping are four times more likely to spend more on purchases than those who do not.

The Quality Factor

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<th>QUALITY</th>
<th>the act of offering higher quality goods and services is the primary competitive strategy.¹</th>
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- **63%** of midsize businesses list quality as one factor of their competitive strategy.
- **40%** of midsize businesses list quality as their primary competitive advantage.

The following are the outcomes midsize businesses look for when implementing a competitive strategy with a focus on quality:

- **63%** Superior product or customer support
- **58%** Depth of customer relationships
- **52%** Brand recognition

¹SunTrust Quarterly Nationwide Survey

Learn how a focus on quality can impact your business in “The 8 Dimensions of Quality” (Page 8) and “From the Expert: Stand Out From the Competition” (Page 9).
5 Ways to Become a Cost Leader

Use this checklist to refine your company’s approach to pricing.

Today’s executives are cost conscious. In fact, cost leadership is a focus of competitive strategy for nearly 40 percent of midsize businesses.1 Companies are making it a strategic priority for good reason: It’s one of the widely cited “generic strategies” coined by Harvard Business School Professor Michael Porter.2

According to Porter, cost leadership is one of three main ways a company can shape its competitive strategy, and it boils down to having the lowest per-unit cost at a given level of quality. No two strategies are identical, but here are a few essential ideas to keep in mind, so you can set your business apart from the rest:

1. Ensure access to growth capital and efficient working capital

Having the continued ability to invest in your production assets creates a barrier to entry, keeping competitors from gaining ground.

**Example:** Cost leader Walmart incurred $13.1 billion in capital expenditure in fiscal year 2014 to expand its retail footprint in the U.S. and internationally.3

2. Develop proprietary technology

Investing in new technology may be expensive and result in short-term losses. However, a properly researched investment in technology should lead to expanded market share in the long run. Institute an R&D program to cultivate new developments and set the stage for future success.

**Example:** Amazon has disrupted the retail business, in part, by developing or acquiring proprietary technologies such as its Kiva robots, which streamline order fulfillment.4

3. Streamline your inputs and improve your relationship with suppliers

Having the best access to supplies is essential to competing on cost. Conduct financial modeling of your raw material inputs—inorporating risk analysis, projections and cost tracking—to more adequately forecast ROI and identify areas for consolidation.

**Example:** Seabridge Gold secured access to the world’s largest undeveloped gold and copper mine in British Columbia and Canada, which has an estimated life span of more than 50 years.5
Closely monitor labor costs

Supervising your workforce to ensure it is maximizing its time is critical. Consider using tracking software to see how your staff members are spending their work hours, or invest in scheduling software to staff the right number of people at peak times of day.

Example: Trucking company Schneider National uses tracking software to monitor drivers’ safety and performance on the road.⁶

Re-evaluate your production and administrative costs

Controlling costs by ensuring you have a streamlined organizational structure and small corporate staff will keep your business operations as lean as possible. Consider outsourcing any functions you don’t need to cover in-house.

Example: In order to reduce its general costs and improve margins, data storage company Quantum outsourced its sales and marketing divisions to an outside company, which saves both time and money.⁷

Facing a Low-cost Competitor?

It’s a familiar story, one replicated in industry after industry. After years of dominance, a market leader is shaken to its core by a low-cost rival. What comes next is the interesting part. Researchers have found that companies tend to respond in one of several ways:

• They ignore the upstart, which often forces the former market leader to vacate an entire market segment
• They respond to the pricing challenge, which often ignites a price war
• They experiment with a dual strategy by launching a low-cost product of their own
• They differentiate their offerings

The bottom line? There’s room for both low-cost and value-added companies. The important thing is for businesses to stay on the offensive. As Nirmalya Kumar of the London Business School wrote in the Harvard Business Review: “If incumbents don’t take on low-cost rivals quickly and effectively, they can blame no one for their failure but themselves.”

Southwest Airlines
Earns Loyalty with Low Prices

In the age of the a la carte airline upgrade, Southwest has taken a different approach to become a cost leader and customer favorite.

THE COMPANY
Southwest Airlines Co. began modestly in 1971 as a Texas-based operation serving Dallas, Houston and San Antonio. Today, thanks to its ability to achieve rapid expansion through a model of lean operations and low overhead costs, the company serves 94 cities in seven countries.

THE SOLUTION
To achieve cost leadership, Southwest targets efficiency. The company uses only Boeing 737s in its fleet rather than a variety of aircraft, which reduces the training needed for pilots, crews and mechanics. It also forgoes seat assignments, eliminating the time and cost of reissuing new boarding passes in the event of a last-minute aircraft switch. Open seating contributes to a faster boarding process, which in turn allows Southwest to turn around flights in an average of 25 minutes, compared to 40 for other airlines. Quicker turns mean less time on the tarmac, more flights and happier customers.

Southwest also adheres to a “bags fly free” policy for checked luggage, which, in addition to earning customer appreciation, saves time during boarding since customers aren’t trying to carry on oversized bags. And, unlike many of its competitors, Southwest flights follow a point-to-point system so that planes fly from departure city to destination, turn around and repeat rather than funneling through hubs where the volume of air traffic can lead to delays.

By keeping operations simple and lean, Southwest achieves cost and time savings that can be passed along to its customers in the form of low fares and high satisfaction. In fact, the American Customer Satisfaction Index shows Southwest leading the industry for 16 of the last 20 years.

The lesson? Cost leadership, when used strategically, can be the key to out-pricing the competition and growing a satisfied and loyal customer base for your business.

THE CHALLENGE
Earning a profit in the airline industry has never been a given. In fact, the industry’s average per-customer profit is only $8.27. Cost-cutting strategies, such as reducing leg and headroom to allow for additional seats, may make room for extra revenue, but they often decrease customer satisfaction in the process.

“"The worst sort of business is one that grows rapidly, requires significant capital to engender the growth, and then earns little or no money. Think airlines.”
—Warren Buffett in a 2008 letter to investors
Is **Low Pricing** the Right Tactic for Your Strategy?

Before you decide to undercut your competition, ask yourself the following questions to determine whether low pricing is the best strategy for your business.

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1. **Cost Leadership**, Saylor Academy;
2. “Competitive Strategy,” California State University, Sacramento;
4. “Should I Lower My Prices to Compete?” July 2015, ConversionXL;

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5 Questions to Ask When Focusing on Your Target Market

Use this checklist to further identify the right market niche for your business.

Optimizing a target market can help maximize your marketing ROI; however, only 7 percent of midsize businesses list focus as their primary competitive strategy.¹ Take advantage of this opportunity by asking yourself the following questions to stay focused on your market niche:

1. **Who will value my product or service?**
   Identify the needs your product or service fulfills by carefully considering the buying power, spending habits, lifestyle trends and demographic background of your customer base. Conduct email and newsletter surveys to gauge the priorities of promising market segments.

2. **What problems does my product or service solve? What convenience is provided?**
   Examine psychographics such as consumer interests, values and purchasing behaviors to determine how your product or service is fitting into your target market’s lifestyle. If your company sells compostable products, for example, narrow your marketing efforts and focus only on those with environmental conservation interests.

3. **Are my customers always my consumers?**
   Many businesses overlook the important fact that the person purchasing the product or service may not be the end user. For instance, if a business owner, parent or grandparent purchases your product, is an employee, child or grandchild the one using it? Understanding how your product or service is being used will help you optimize your target niche.

4. **What existing data can I use to better reach my target market?**
   Use objective data to gather helpful insights. If you have a current customer database, leverage that information to find characteristics and qualities your best customers have in common. You can then use that information to target similar customers. Also, if you sell a product or service comparable to others already on the market, do your research on the types of customers purchasing products similar to yours.

5. **What are my competitors doing?**
   Evaluate your competition’s public-facing marketing efforts to isolate a niche audience they may be overlooking. If you can’t identify your existing competition, it’s not necessarily a positive sign. While it may mean other businesses haven’t yet identified your niche, it can also mean businesses tried to target this group and were unsuccessful. That’s why it’s important to conduct a thorough competitive analysis and test the market’s receptiveness to your product before refining a niche market.

¹ SunTrust Quarterly Nationwide Survey
Supercharge Growth by Focusing on the Niche

Savvy business leaders are finding that a narrower company focus can often widen profit margins.

Marc Weiner discovered the power of focus when he first went looking for clients for his business-consulting firm. He sent out 15,000 written invitations to a seminar, but only 60 people showed up. After spending months and approximately $30,000 on the campaign, he yielded just a dozen or so clients. “That’s when I decided to completely reverse the process,” says Weiner, managing director of Niche Creator Pro LLC of Virginia Beach, Virginia. “The next time, I was very focused. I spent about $2,000 to acquire my next 10 or 15 clients.” He even changed the name of the company, originally Empowerment Associates, to communicate exactly what the firm does.

He also discovered that many businesses make the same assumption he had.

“Most people think they will make much less money if they build their business on a focused niche when, in fact, the opposite is true,” he says.

A business that emphasizes the impact a product or service can have on a customer’s specific challenge will inspire more loyalty than one that attempts a one-size-fits-all approach. The company-customer relationship has a strong foundation because customers feel understood before they even make a purchase.

For example, a shoe company that focuses on a specific purpose, such as golf or running, will more easily attract customers than one that doesn’t, Weiner says. However, a company that’s even more focused and sells running shoes with a specific benefit, such as preventing foot pain, will find potential customers are especially motivated to buy because they want relief.

A clear focus can help midsize businesses leverage their size and serve as an advantage over larger companies. Rather than attempting to be everything to everybody, they simply need to trust that their own best customers will guide them to growth, says Bob O’Connor, a marketing consultant based in Memphis, Tennessee. The key is understanding that the most loyal 20 percent of customers drive 80 percent of any company’s profits, he says.

One way to add value for loyal customers is to track how offers affect their purchases. In this process, O’Connor cautions against emphasizing how many new customers the offers generate. “Most new customers won’t be loyal. They’re price shopping, or they’re in the market one time, for example. Of course, getting new customers is important, but it’s getting loyal customers that really grows a business.”

To grow their customer base, businesses should seek out people who are just like those in the top 20 percent but not yet customers. Over time, these practices build moats around highly focused businesses.

Specialized businesses can charge higher prices and even reduce competition and marketing expenses, Weiner says.

“You may find you end up with little or no competition because not as many people are focusing in on the specifics that you are,” he says. “When you are known for what you’re good at, people will begin to come to you by referral, and you don’t have to keep throwing out marketing strategy after marketing strategy to see what sticks.”
The **Focus Strategy** in Action

An international IT company reduced costs and increased revenues by demonstrating how its employees could address client needs.

**THE COMPANY**
An international company that designs and runs business computer systems segments itself into divisions—each with annual revenues ranging from $75 million to $125 million—to serve specific markets. Marc Weiner, managing director at consulting firm Niche Creator Pro LLC of Virginia Beach, Virginia, worked with one division that specializes in software architecture and implementation as well as database implementation and support. It had, at any one time, about 700 employees waiting to be assigned to client work.

**THE CHALLENGE**
The employees, whose responsibilities included consulting and program management, needed to interview with and be approved by a client before being assigned to a project. The company understood its clients’ needs and was presenting ideal candidates.

“Technologically, these folks are just brilliant. They know their technology. They know how to troubleshoot. They know how to manage. There was no question that their technical skills were very, very superb,” Weiner says.

However, technical expertise was not the only factor driving placements. During their interviews, employees struggled with demonstrating to clients that they’d already solved comparable problems for other similar clients.

The essence of niche marketing is “focusing on the needs of a tightly defined market segment,” Weiner says. “The idea is to match the specifics of what you can do to the real population who wants it.”

Because the company wasn’t effectively communicating how its employees’ skills could bring value to its clients, employees remained unplaced, and the firm was paying their salaries and benefits without generating any revenue from their time.

**THE SOLUTION**
Weiner taught the IT professionals to emphasize in interviews what mattered most to the specific client and how they were uniquely qualified to help.

Employees learned “how to present themselves in such a way that the client will go, ‘Wow, you’ve done all that for somebody else? I want you to do that for me, too,’” Weiner says.

Within six months, the number of employees waiting to be placed plunged from approximately 700 to about 350. Costs fell. Revenues rose, and profits climbed. The division also strengthened its client relationships by demonstrating how thoroughly it understands clients’ needs and how adeptly it can meet them.
CHAPTER 5
Innovation
How Do You **Innovate?**

In today’s hypercompetitive global economy, creativity is vital to a company’s success. In fact, nearly half of midsize businesses have prioritized innovation in their competitive strategy.¹

Midsize businesses achieve a competitive strategy based on innovation through:¹

- **67%**: Proprietary research and development (R&D)
- **49%**: Corporate reputation
- **46%**: Superior product or customer support
- **36%**: Superior database management
- **33%**: Depth of customer relationships

**Zeroing in on R&D**

Companies’ investments in their own R&D comprised the bulk of the spending:

| Year | Spending
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<tr>
<td>2011</td>
<td>$239 billion²</td>
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<td>2012</td>
<td>$247 billion³</td>
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**4 Ways to Enhance R&D Efforts**

Use this checklist to get the most out of your R&D investment.

Nearly 70 percent of midsize businesses with a competitive strategy focused on innovation rely on state-of-the-art research and development (R&D) to maintain a competitive advantage. If you are seeking to improve the effectiveness of your R&D program in order to cultivate long-term innovation and stay ahead of your competitors, consider these four steps:

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1. **Align R&D with your business strategy**

Companies that do this have reported greater success developing innovative products and services. This alignment is also correlated with financial success: Research shows that companies with an integrated innovation and business strategy have 40 percent higher operating income growth over a three-year period than their peers lacking such alignment. Bringing your R&D managers and business executives to the same table can also help streamline R&D portfolios by focusing on impactful projects that have higher rates of success.

2. **Emphasize customer insights**

Today’s consumers are defining how future products and services should function, so it’s more important than ever that your R&D team is in touch with your customers’ wants and needs. Companies that directly capture customer insights, for example, have twice the return on assets when compared to businesses that capture these insights indirectly. Don’t underestimate the value of social media when taking the pulse of your target markets. Meaningful data can be leveraged from social conversations, which can be especially valuable for companies with smaller R&D budgets.

3. **Establish a clear framework for measuring R&D**

Common indicators of R&D effectiveness, such as amount spent and number of patents, have failed to consistently predict market value. Instead, innovation researcher Anne Marie Knott has argued that research quotient (RQ) is a more accurate way to gauge the success of R&D and determine how changes in R&D spending impact both your bottom line and market value. Once your company’s RQ is calculated, you can establish the amount of R&D spending that would produce maximum profits—and at what point additional expenditures actually reduce revenue.

4. **Know when outsourcing is advantageous**

If your R&D team has limited resources or expertise, assigning every project in-house could delay speed to market and increase the risk of completion. Outsourcing to a third party with the needed capabilities could condense a project’s timeline, with work being completed at a fixed cost. Licensing another company’s existing technology—or acquiring that company outright—is yet another option. Assess your budget, required speed to market and the competencies you have in-house when determining the R&D path to success.

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*“Essentially, the research quotient equation defines the relationship between a firm’s inputs (what it spends) and its output (its revenues)... It tells us, for instance, how much a 1 percent increase in R&D spending would increase a firm’s revenue.”*  
—Anne Marie Knott, writing for Harvard Business Review

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1 SunTrust Quarterly Nationwide Survey  
Creating an **Innovative Environment** for Your Employees

A Q&A with marketer and inventor Drew Boyd

Drew Boyd is a 30-year marketing industry veteran, executive director of the Master of Science in Marketing program at the University of Cincinnati and co-author of “Inside the Box: A Proven System for Creativity for Breakthrough Results.”

During his 17 years at Johnson & Johnson, Boyd developed the company’s Marketing Mastery program, in which he taught employees how to systematically invent new medical products and integrate the inventions into long-range strategic plans. He is also an inventor and secured his first patent for a device that makes spinal surgery easier.

Here’s Boyd on how to create an innovative environment for your employees: According to research from McKinsey & Co., almost all senior executives say that people and corporate culture are the most important drivers of innovation, yet most executives report difficulty stimulating innovation among their employees. What can executives do to succeed here?

Drew Boyd: The only way to grow organically is to come up with clever ideas—novel and valuable ideas, repeatedly, using your own resources. A lot of times, company leaders think if we just made the culture more creative, if we made it more conducive to innovation, that alone will take care of it. That’s the fallacy. If you want people to be better at innovation, you have to train them. Innovation and creativity are skills like any other skill, whether it be in business like learning marketing or accounting, or something you learn in your personal life like a new sport or a language. You can learn to be creative, but that surprises people.

How do you train people to be innovators?

Boyd: It turns out that the majority of innovative products or services can be explained by one of five patterns. To be more systematically creative, you apply a pattern to your starting point to generate novel ideas that you would not likely have come up with on your own. It sounds too good to be
true, but it’s actually a method called Systematic Inventive Thinking. It’s been in use for about 20 years now, and it’s used by many large corporations like Procter & Gamble, General Electric, Kraft, Nestle and Eli Lilly.

How should business leaders approach investing in innovation?

Boyd: A company has a collection of individual units, divisions or departments. And the HR Department is going to have different innovation and creativity needs than the Finance Department, which is going to have different needs than the Marketing Department or R&D.

Apply innovation to the core strategic areas of your business first. That could be as simple as restructuring the loading dock at a Macy’s store, or it could be something as important as how you change the customer experience at a store. Don’t think that only the strategic issues need innovation.

At GE for example, their human resources competency is legendary. HR is very important there, so they always want to be thinking about how to be more innovative and successful in that area. But for a company like P&G, where you’ve got to have really great new packaging and retailing ideas, that’s the area where investing in innovation makes the most sense.

Once you’ve invested in innovation, how do you make it stick?

Boyd: Johnson & Johnson rewards people for successful outcomes as well as failed outcomes. You have to give people the sense that they can fail; otherwise they won’t try. One of the things I like to do is encourage companies holding an innovation workshop to create storyboards or prototypes, small models of the ideas, and start to fill the office with these, so people look around and say, “Look at all these ideas people have.” It just creates this environment where people get excited about being innovative, and they are willing to give the time and energy and to take the personal career risk to try to invent something new and useful.

The 5 Patterns of Creativity in Action

Subtraction: Creating a new innovation by removing a core element of an existing product, rather than adding new features.

Example: Sony Walkman. Sony took a tape recorder and removed the recording function and the speakers to revolutionize the way we listen to music. More than 200 million units\(^1\) were sold in the product’s heyday.

Task Unification: Assigning an additional function to an existing component so the innovation achieves more than originally intended.

Example: Rear-window defrosting wires in many vehicles now also serve as the antenna for the car’s radio.

Division: Dividing a product or product component and re-integrating it elsewhere.

Example: The TV remote control. Instead of being part of the set itself, it was separated and put into a handheld unit for convenience.

Dependency: Taking attributes of a product and its environment and creating a dependency that didn’t previously exist.

Example: Transition lens glasses. As the lenses are exposed to bright light, they get darker and vice versa.

Multiplication: Taking a component of a product and creating a copy of it to add to the original design.

Example: Bifocal glasses. Through multiplication, the glasses now contain the original lens, plus a smaller copy of the lens embedded in the glass in a different location and a different viewing focal point.

\(^1\)“Leadership and Innovation,” January, 2008, McKinsey Quarterly
Differentiators come in two main categories: Companies that know they have something unique to offer and are seeking to get the word out, and companies still trying to find a unique feature. In this Q&A, Bill Caskey, president of sales training firm Caskey Training, talks about the benefits and struggles of pursuing a differentiation strategy.

How can a business find its differentiating factor?

**Bill Caskey:** You have to take an honest look at your company to determine your uniqueness. Many companies are unable to do that, though, because they’re so close to it, and they start rattling off things any company would say. Maybe you think you’re different because you have spectacular customer service—but that’s something every company is going to push. So be rigorous about finding something truly different about your product or the way your company works, even if it’s a tiny little thing. Maybe all of your relationship managers are MBAs. That’s a small, but very concrete, specific differentiator that customers can point to and say, “They understand business better than anyone else.”

What does a differentiation strategy require of a company?

**Caskey:** A massive change in thinking and change in beliefs. If you have new strategies but are still stuck in old thoughts, the new strategies won’t work. Or they might have the potential to, but you may give up on them too quickly. And that happens because you never changed the core thinking about what it means to be in business, what this product really is and how you’re going to transform people’s lives with it. You need to be thinking about thinking. Organizations don’t give that idea enough credence. If you can’t change your belief, then your actions and your business are really not going to change.

What is a mistake you see companies make when focusing on differentiation?

**Caskey:** They’ll say something matters and then abandon it. I’ve heard a million companies brag that they’re different because they have “the best people.” But you can’t just say you’re different because of your people—why they are the “best” has to be made obvious to the customer. If I go to the company’s website to learn about their employees, and there’s no information about who they are or what they specialize in, I’m not going to trust the “best people” claim. You should build your employees’ sub-brands, show them off online and have them write blogs or make videos, so I know you truly value that differentiating factor. This isn’t something where you’re going to finish a strategy meeting, decide what makes you different, and say, “Okay, we’re done here.” You need to be constantly out there proving you’re different.

Is one consistent differentiator enough, or do companies need to continually find new ways to be different?

**Caskey:** That varies for each business, and you can determine your situation by making sure someone at your organization is paying attention to larger industry trends. You need to think in the long-term, which is easy to neglect if you’re busy trying to meet a quota for the next 30 days, for example. Keep refining your strategy. It’s easy to assume you’ll know if a strategy is flawed because the numbers won’t be there. In fact, you can be very successful and still pursuing the wrong strategy because you’re not thinking ahead to a sustainable, long-term future.

Sales training consultant Bill Caskey explains what companies need to consider in their efforts to differentiate themselves.
To stand out from the competition, many businesses are shining the spotlight on their “story,” but only a select few are extracting the true value of this approach.

One reason: Many business leaders view story in a limited way. “They just think about it as the storytelling, such as how to give a better presentation at a company event,” says Clay Hausmann, principal at Treatment, a brand strategy consultancy based in the San Francisco Bay Area.

Or, businesses will assume that putting their story on their About Us page of their website or into part of their mission statement is sufficient. “Your brand story is not a back-burner topic,” says Everett Bowes, a brand-story consultant based in West Palm Beach, Florida. “It is your company’s essence, your DNA, your filter, your guide. It’s everything.”

Businesses that effectively leverage their story build powerful connections with partners, such as customers and employees, who are then motivated to buy more or work harder, Hausmann says. “Story differentiates you from anyone else in your category.”

The key is using story elements to design a coherent strategy. One technology company Hausmann worked with described itself using generic terms like “innovative” and “disruptive.” When he asked executives to define the company’s specific genre, they focused on accessibility and the importance of an intuitive user experience. However, they didn’t realize the resulting implications of that distinction.

“I said, ‘If you want to be in this genre and be known for simplicity, then your product testing process has to change; your accessibility for customer service has to change; and your materials and language on your website have to change,’” Hausmann says.

When Bowes works with companies to develop their stories, he uses a framework that covers the brand’s identity, the target customer’s identity, the competitors’ identity and the brand’s communication goals.

When these elements align, they prevent businesses from making the common error of attempting to imitate other successful brands. “The key in the competitive landscape is to become more of who you are instead of becoming more like everybody else,” Bowes says.

For business leaders feeling uncertain about their stories, Hausmann recommends taking a critical look at your strategy and asking: Are we authentically qualified to do what we say we’re doing?

“A lot of companies will see an opportunity in the market and build a strategy around that, but then realize that either they don’t have the team or market position or background to do it.”

A successful strategy based on story isn’t about trying to be everything to everyone, Hausmann says. More simply, sustainable business opportunities lie at the intersection between what the firm is uniquely capable of and what its customers truly value.

“What typically happens is you look at your competitive neighbor and say, ‘They’re making a killing doing X. We need to do that, too.’ Then, you become like them.” — Everett Bowes

How to Talk About Your Company (and Say Something Meaningful)

Knowing your story is the key to knowing how your business can succeed.
5 Ways to Highlight Your Point of Differentiation

Use this checklist to help set your products and services apart from the competition.

According to a survey by Bain & Co., 80 percent of businesses believe they have differentiated offerings, but only 8 percent of customers agree. Experts estimate that companies with truly differentiated offerings have an 80 percent chance of long-term success, as opposed to 20 percent of companies with an indistinguishable selling point.

Here are five ways you can capitalize on your unique point of differentiation and distinguish yourself from the competition:

1. **Accentuate your strengths**
   Take advantage of what your company is good at. This could be anything from the quality of your product to the price, the customer service or the perks or warranties that come with it. Supermarket chain Whole Foods, for example, has become known for its commitment to healthier brands and products, to the point where customers can trust the quality of everything on the shelves, regardless of whether they recognize the label.

2. **Work on perceptions**
   The greater the competition, the more important it is to have a recognizable point of differentiation. However, being different isn’t enough; you have to make sure your customers know why you are the better option than your competitors. Market your points of differentiation, and cultivate strong customer relationships along the way.

3. **Know your target customer**
   It’s impossible to be all things to all people. Instead, concentrate your marketing efforts on consumers who are best suited for the unique offerings of your product or service. The car sharing company Zipcar has done this by appealing to millennials’ demand for car rentals that are low-cost, low-commitment and convenient and has established itself in cities with a large millennial population.

4. **Adopt a simple, unique selling proposition**
   A straightforward and simple selling point or product guarantee can help distinguish your products or services from others. Domino’s Pizza’s claim “we’ll deliver in 30 minutes or less, or it’s free!” is a noteworthy example. It’s easy to understand and lays out a clear, quantifiable promise to its customers.

5. **Be first**
   The first company with the newest advance in your industry, the first to combine two distinct products or the first to try a unique tweak to a proven idea. Apple has stood out from the pack by utilizing new technology and design to redefine existing products and markets. SunTrust research shows that 48 percent of midsize businesses value innovation in order to fulfill their competitive strategy.
How a Hotel Benefited by Leveraging Its Company Story

By refining its marketing collateral to promote specific amenities, a South Florida hotel is increasing engagement.

THE COMPANY
When a company’s story isn’t consistent across brand communications and everyday practice, customers can feel like they’re dealing with a split personality.

This common problem was plaguing a South Florida boutique hotel that called on brand-story consultant Everett Bowes for help with differentiating itself and creating a new social media and Web presence. The cause? A lack of internal understanding of the company story.

“Everybody thought they knew the story of the company, but they were going in completely different directions,” says Bowes, who is based in West Palm Beach, Florida.

THE CHALLENGE
The four keys to developing a story are the brand’s identity, the target customer’s identity, the competitors’ identity and the brand’s communication goals, Bowes says. For companies to connect with customers, all four need to work together.

At the hotel, nothing was in sync. Although management described the hotel as elegant, customers perceived it as having a casual, approachable personality. The hotel’s marketing didn’t fit its identity, and rather than being unique, was attempting to imitate that of a high-end competitor. Furthermore, the everyday actions of employees weren’t reinforcing the features that made the property worth visiting.

“I am not suggesting you should be imitating your competitor...” — Everett Bowes

THE SOLUTION
Bowes first worked with the hotel’s leadership to analyze the four keys and to identify what made the hotel unique.

“The hotel stopped trying to be everything to everybody, which is the common death trap for most brands,” Bowes says. “Management learned to develop aspects of the brand story that keyed into the sights, sounds, smells and tastes that are unique to the brand offering.”

The hotel now uses its story, which focuses on its high-quality food, drinks and atmosphere, as the blueprint for communications and actions. Advertisements were updated to feature those three amenities, and staff training changed, too. When employees interact with guests in one facility—be it the pool, the lobby or a lounge—they now promote the on-site restaurants, bars and other locations.

Brand awareness and recall are higher, and the hotel’s social media presence and engagement have also grown.

“Knowing who they are, and who they are reaching out to, gives them confidence to create content they know is on target,” Bowes says.

Because employees now understand their specific role in acting out the brand’s story, employee retention has climbed, as has the quality of customer service. That all adds up to a better, more consistent, brand reputation—and ultimately a competitive advantage.

“Brand story is about knowing who you are, who your customer is and how you are different from those around you.” — Everett Bowes
CHAPTER 7
One Step Further: Finding Your Business's Purpose
The Purpose of Your Business and Why It Matters

A strong purpose for your business can motivate employees and lead to a superior customer experience.

Many business leaders with a clear competitive strategy also find value in bringing a strong sense of purpose to their company culture. While this might seem like a luxury, it is also central for laying the foundation for growth and customer loyalty.

Steve Yastrow, author of “Brand Harmony” and president of Yastrow and Co., a consultancy based in Deerfield, Illinois, explains that employees with a strong, shared belief in their company’s purpose will align their everyday actions with that purpose and, in turn, influence the customer experience. Experiences drive customers’ perceptions of a brand and their response to it.

“So, what your employees believe and do has everything to do with everything in making money in business,” Yastrow says.

Somewhat paradoxically, though, a purpose establishes how a company makes the world a better place apart from making money, says Matthew Fenton, founder and president of Three Deuce Branding, a Chicago-based consulting firm. Fenton works with a midsize travel company that arranges performance trips for student groups. The company’s purpose is making moments that matter, and it seeks to practice that purpose with all of its clients. In addition to ensuring students enjoy themselves and parents know their children are safe, the company also prioritizes making the educators who run the trips feel valued.

“IT considers itself a service company that happens to be in the student travel industry,” Fenton says, and that approach is working. “Music education budgets are being slashed, but the company has nearly tripled in size just in the last five years.”

When businesses focus on deepening customer connections through purpose, Fenton says, they don’t have to rely exclusively on features to differentiate themselves. A clear purpose also makes it easier to separate activities that support success from those that don’t and allows a company to operate more effectively.

“You’re directing your limited resources of time, energy and money toward the same purpose all of the time,” he says. “Those resources build, and they become stronger.”

When determining their purpose, midsize companies have advantages over their larger competitors, Yastrow says.

Less bureaucracy expedites the purpose-definition process, and with fewer employees, it’s easier to be sure that everyone is on the same page with the company’s mission. From there, translating the purpose into specific employee behaviors is essential.

“Then, all employees are doing things all day long that add up to a unified customer experience,” Yastrow says.

Smaller companies can more easily involve all employees in brainstorming sessions to identify those behaviors, a process that Yastrow says yields two benefits: “One, you get amazing answers because they get it. Additionally, you get incredible enthusiasm, and that results in much better compliance with whatever is needed.”

The power of purpose extends to suppliers, too. “Customers are anybody outside the business whose actions affect your success,” Yastrow says. “If your purpose is focused on the impact you can have on those people and those businesses, they’re going to act in ways that improve your results, and you’re going to be much better off.”

“Consumers today want to do business with companies that have a purpose and have clear values. Purpose can provide a higher order type of connection with your customers.” — Matthew Fenton
Define yourselves

Clearly defining your purpose and your reason for existing helps ensure you will meet your goals and grow into the type of company you want to be. The simpler your purpose, the better. Whole Foods Market, which recently ranked on Fortune magazine’s “Change the World” list, runs by the motto, “Whole Foods, Whole People, Whole Planet.”

Talk the talk and walk the walk

Actions speak louder than words. If your company’s leadership team isn’t committed to the stated purpose, employees won’t be either and could quickly become cynical or head for the exits. Make sure executives are personally promoting a lifestyle that is congruent with the stated company purpose. Whole Foods co-founder and co-CEO John Mackey recently co-authored a book extolling the value of a business’s higher purpose and impact on the world.

Communicate perspective

Crook says it is critical to help every person in the organization understand that the work they do connects to something larger than themselves. Consider the story of the three bricklayers to instill perspective in your workforce.

Plan time to celebrate values

Each month, pick a value that’s key to your purpose—such as innovation, collaboration or integrity—to highlight in team meetings. You might also select an “employee of the month” who best exemplifies this value. This will keep the concept fresh in everyone’s mind and give all other employees a tangible example of what living that value looks like.

Use storytelling

Examples and experiences will resonate with the typical employee far more than facts and figures. Sharing examples of how your business is furthering its purpose (such as a list of charitable recipients) can emphasize company values throughout the enterprise and illustrate the full effect of your workforce’s efforts.

Three bricklayers were asked what they were doing:

The first answered, “I’m laying brick”

The second answered, “I’m building a wall”

The third answered, “I’m building a cathedral”

1Whole Foods Market makes Fortune’s ‘Change the World’ list, a ranking of 10 companies that are doing well by doing good. Aug. 20, 2015, Whole Foods Market Newsroom
How to Cultivate a Purpose-driven Business

Running your company with a larger purpose can help it succeed.

PURPOSE

71% of consumers would help a brand promote its products or services if there was a good cause behind them.

72% of consumers would recommend a brand that supports a good cause over one that doesn’t.

73% of consumers would switch brands if a different brand of similar quality supported a good cause.

Purpose can be a key part of your competitive strategy, but you need to go beyond just simply establishing one. Employees and customers want to know why you believe in your purpose—beyond that it improves your bottom line. Businesses that can articulate, be authentic and help people connect with their purpose can attract valued employees, loyal customers and sustained success.

“Evidence is mounting that focusing on purpose rather than profits is what builds business confidence.”
— 2014 Deloitte Core Beliefs & Culture Survey
Here are six key factors to consider in the pursuit of a higher purpose for your business:

**Do’s**

**Be authentic**
- An authentic connection between your brand’s actions and its purpose can boost customer loyalty (and even sales), as well as employee engagement.
- An inauthentic brand can lead to disloyalty, distrust and a decrease in sales.

**Hire the right people**
- Hiring people with a shared sense of purpose gives everyone in the company a common starting point.
- Employees who understand their company’s purpose and feel connected to the work they do are more engaged, more productive, less stressed and more likely to stay with a company long-term.

**Select and participate in a cause you care about**
- Refining your values to connect your company to a potential charity partner can strengthen your foundation.
- Surveying your customers to identify specific causes they support can show you care about what’s important to them.
- Identifying a cause that resonates with your employees can help inspire them and yield participation.

**Don’ts**

**Lose sight of your purpose**
- Companies that focus on sheer profit over purpose are less confident about their growth prospects.
- Effective companies keep their purpose on people’s minds and hearts by visibly and consistently demonstrating those behaviors.

**Administer your purpose-driven business alone**
- Bringing in experts, such as an advisory board, can increase your ability to achieve your business goals.
- Forming partnerships to support your purpose can set your company apart from competitors, increase brand recognition, open up new markets and improve relationships with the community and your customers.

**Forget to establish goals**
- Setting goals and expectations, such as hitting a specific financial amount, can help you create innovative business strategies.
- Implementing goals—and sticking to them—demonstrates the tangible results of your purpose strategy.

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CHAPTER 8

Conclusion
What’s the ROI of Competitive Strategy?

Investing in an ongoing competitive strategy is a major step for businesses at any level, but companies that make the effort see the payoff.

More than one-third of midsize businesses report dedicating significant time to competitive strategy, and companies with higher revenues and shorter tenure are the most likely to feel it’s time well-spent.¹

Compared to their peers, midsize businesses doing a significant amount of competitive strategy work feel stronger in the market and are better connected to their financial partners:

Believe they have a strategic advantage over the competition
Say their lead bank has knowledge of their competitive strategy
Have reached out to their lead bank about supporting their strategy

A strong competitive strategy is the advantage your business needs to begin widening the gap between itself and everyone else. The first step is getting your full team on board: Whether your focus is differentiation, or a combined strategy of quality and purpose, every person at your company needs to know the strategy and the game plan for getting it done.

With your team on board, look to external partners, too. Including your banker in strategy conversations can improve the quality of your partnership and better your odds of finding creative financial solutions to support your company’s strategic goals.

Whether your business could use consultation or support around traditional financing options, access to capital to invest in fixed assets or R&D, assistance with strategic buyouts or with streamlining cash flow, SunTrust can help.

Contact your banker to learn more about the resources available to you to support your strategy and strengthen your market share.

¹ SunTrust Quarterly Nationwide Survey