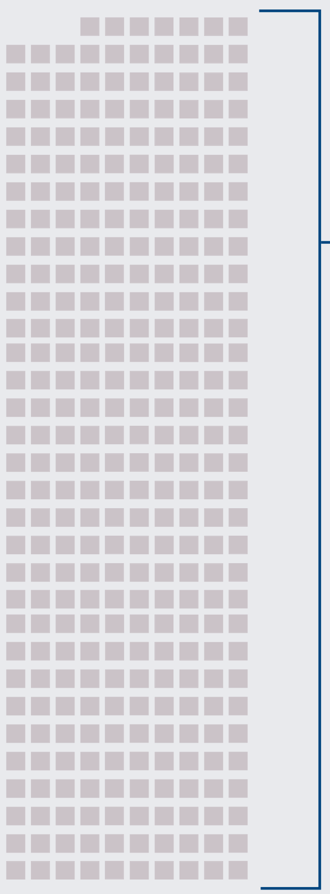
The SunTrust Guide to Competitive Strategy:

How to Make Your Business Faster, Smarter, Richer and More Inventive Than the Competition

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.

Competitive Strategy Survey Methodology



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
- 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 discussed competitive strategy with their bank, 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

The SunTrust Guide to Competitive Strategy: Quality

Know When You're 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.

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).

Read the complete chapter on Quality.

The Quality Factor

Quality: the act of offering higher quality goods and services is the primary competitive strategy.[1]

63%

63% of midsize businesses list quality as one factor of their competitive strategy

40%

40% of midsize businesses list quality the primary factor of their 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

[1] SunTrust Quarterly Nationwide Survey

The SunTrust Guide to Competitive Strategy: Cost Leadership

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. 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.

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.
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.
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—incorporating risk analysis, projections and cost tracking—to more adequately forecast ROI and identify areas for consolidation.
4. **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.
5. **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.

Read the complete chapter on Cost Leadership.

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."

[1] SunTrust Quarterly Nationwide Survey; [2] "What Is Strategy?" November/December 1996, Harvard Business Review; [3] "Analyzing Walmart—The World's Largest Retailer," Feb. 18, 2015, Market Realist; [4] "Kiva Systems officially rebrands as Amazon Robotics," May 20, 2015, DC Velocity ; [5] "Canada approves world's largest copper-gold project," Dec. 19, 2014, MINING.com; [6] "Memo to Workers: The Boss Is Watching," Oct. 22, 2013, The Wall Street Journal ; [7] "Witness How Quantum Corp. Improved Their Sales Process Through Outsourcing," Feb. 6, 2015, Invenio Solutions

The SunTrust Guide to Competitive Strategy: Focus

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.

“Businesses must find out, ‘What is it about our products or services that delivers value to our top 20 percent most loyal customers? And what doesn't?’ Then the businesses must do more of the former and get rid of the latter, even if customers outside the top 20 percent complain,” O'Connor 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.”

Read the complete chapter on Focus.

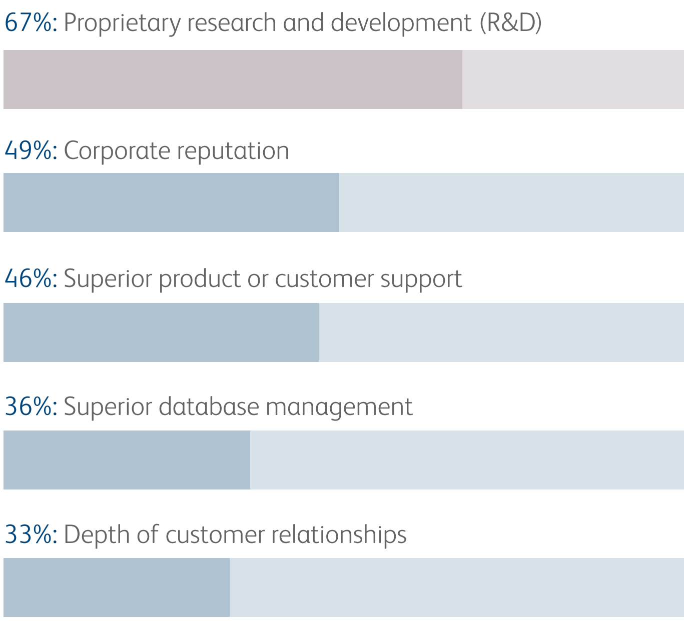
> “Understand your most loyal customers, and understand what adds value to them and what doesn't. And a lot of things companies do add no value to their best customers.” –Bob O'Connor

The SunTrust Guide to Competitive Strategy: Innovation

How Do You Innovate?

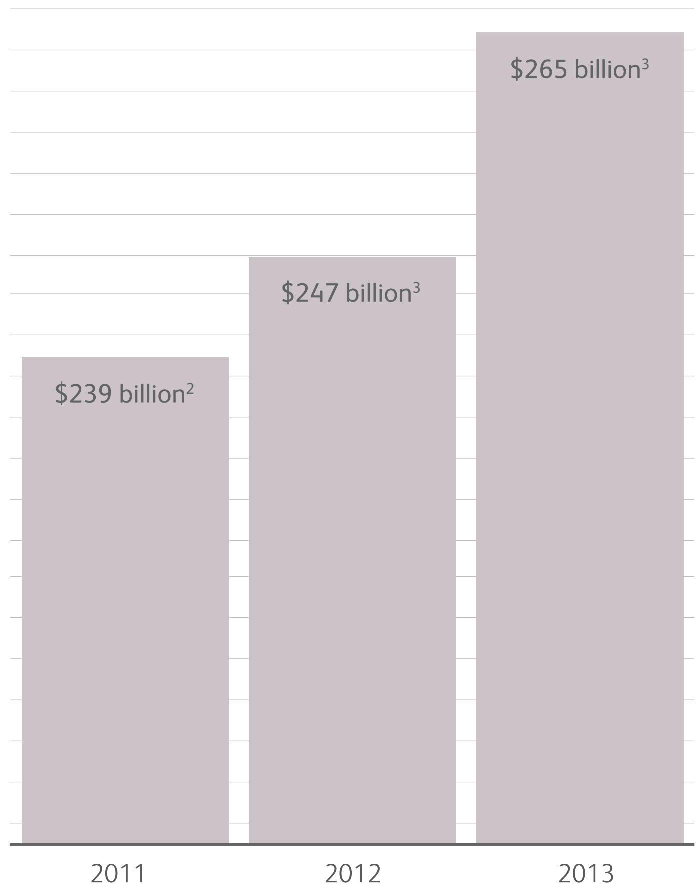
In today's hypercompetitive global economy, creativity is vital to a company's success. In fact, nearly half of midsize businesses have prioritized innovation in their competitive strategy.[1]

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



Zeroing in on R&D

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



[1]SunTrust Quarterly Nationwide Survey; [2]"Business R&D Performance in the United States Tops $300 Billion in 2012," Oct. 28, 2014, National Science Foundation; [3]"Business R&D Performance in the United States Increases Over 6% to $323 Billion in 2013," Aug. 20, 2015, National Science Foundation

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The SunTrust Guide to Competitive Strategy: Innovation

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.[1] 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:

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.[2] 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.[3] 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.

Read the complete chapter on Innovation.

> "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

[1] SunTrust Quarterly Nationwide Survey ; [2] "Proven Paths to Innovation Success," Winter 2014, strategy+business, published by PwC Strategy&LLC ; [3] "The Trillion-Dollar R&D Fix," May 2012, Harvard Business Review

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The SunTrust Guide to Competitive Strategy: Differentiation

5 Ways to Highlight Your Point of Differentiation

According to a survey by Bain & Co., 80 percent of businesses believe they have differentiated offerings, but only 8 percent of their customers agree.[1] 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.[2]

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.

Read the complete chapter on Differentiation.

[1] "Closing the delivery gap: How to achieve true customer-led growth," 2005, Bain & Company; [2] "Why do Most Products Fail? 3 Techniques to Leverage Hidden Needs," InnovationManagement.se; [3] SunTrust Quarterly Nationwide Survey

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The SunTrust Guide to Competitive Strategy: 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.

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 improve 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.

For more information on competitive strategy, read our complete guide. Or contact your SunTrust banker today to learn more about the resources available to you to support your strategy and strengthen your market share.

More than one-third of midsize businesses report dedicating significant time to competitive strategy, and younger companies with higher revenues 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:

[1] SunTrust Quarterly Nationwide Survey