# LEVERAGE DISTINCTIVE COMPETENCIES TO UNLOCK VALUE

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The essential ingredients of successful businesses and effective organisations are many and varied. There is visionary leadership. There are the essential elements of operational effectiveness and competent people. Passion, creativity, determination and courage can play their part. There are capital and resources, that are used to serve customer needs where others can't, or don't, in quite the same way. There are natural and artificial barriers to competitors, and the quality of human relationships, especially trust and loyalty. Strong brands and effective business models, in the right time and at the right place, also help to sustain profitable effective organisations.

For many organisations, faced with a recessionary market-place, softening demand and lower revenues, the need to trim budgets and cut costs is paramount. Discretionary spending across the organisation tends to be managed more tightly. Even functions that are critical to future organisational sustainability, such as marketing and brand development, training and staff development, and research and development, tend to receive less attention and budget allocation.

Tight operational control may be a short-term necessity when revenues are slowing, but can never be a sustainable solution if the other elements of the business model are not reassessed for ongoing sustainability. There is a pressing need at times like these to revert to the meta-view of the organisation, to review the effectiveness and sustainability of its business model, and in so doing to reassess inherent organisational capabilities and competencies, and purpose. New competencies may need to be acquired, the business model may need to be redefined, and new meaning may need to be assigned to the organisation vision and purpose.

There may also be inherent opportunities within the existing organisational business model, that only emerge when existing competencies are applied to new markets in new ways.

What is the organisation's business model? It is the combination of all the organisation's key decisions about how to engage in business activity. It includes decisions about which products, markets, channels, competencies, strategies, positioning, branding, alliances and value networks are preferred. Competencies are those areas of capability or utilisation of resources within the organisation that allow it to operate effectively in the business environment. Distinctive competencies in an organisation are similarly defined, but these competencies are better than in any other competing organisation, or are unique to this organisation.

Hamel (in his book 'Leading the Revolution', 2002) suggests that organisations can strengthen their business models by focusing on three important areas: 1) aligning products and services as closely as possible to customers needs, 2) aligning processes and strategies closely with organisational competencies and resources, and 3) building value networks, or alliances and partnerships, with key suppliers and other stakeholders. Hamel argues that if these three areas are strongly aligned and established, it will assist the organisation to lock customers in for longer, and lock competitors out for longer. These 'lock-in', 'lock-out' elements are essential for profitable business activity.

Consider one of the key elements of a strong business model as defined above, namely, established value networks that lock competitors out and extend the organisation's competencies. Nokia, the global mobile phone company, in transitioning out of the forestry (yes forestry!) sector in Finland, actively sought out partners with competencies it did not yet have within the organisation. It formed a complex set of alliances and partnerships with technology providers, government, marketers and distributers and even user groups. In so doing, Nokia accelerated dramatically its ability to expand into a fast-growing global market-place.

Another example of the power of alliances is illustrated by the business model of the fresh food organisation, Pret a Manger, which operates in Europe and America, and can be found in many busy intersections, including airport terminals. Their internal competencies of a strong brand and good store locations are further enhanced by alliances with suppliers of fresh produce from farms and fisheries. These suppliers are tasked to convert their produce into delicious lunchtime fare for Pret a Manger outlets. So Pret a Manger avoids the cost of kitchens, locks their suppliers in, and manages quality on the basis of customer satisfaction. If suppliers do not meet quality standards, they are quickly replaced. Woolworths in South Africa also effectively locks in many of its suppliers to produce its branded products, leveraging its distinctive competencies of sustaining brand recognition and positioning its network of stores optimally.

The Ansoff Matrix offers a number of logical paths for exploring the way forward for any organisation. Implicit in Ansoff's matrix (which can be found in Figure 1, below) is the idea that today's business is always only a subset of future business potential. Today's business (top left square 1 in the matrix), which concerns the current products and services of the organisation that are used to serve current markets, offers some growth opportunity in deeper market penetration of existing target markets. Future business potential can be explored further in squares 2, 3 and 4 in the matrix.

Square 2 of the Ansoff Matrix suggests a way forward by extending the organisation's range of products and services for existing customers, in other words, to deepen the organisation's share of wallet with these customers. Square 3 refers to a focus on extending the reach of the organisation to new markets with existing products and services.

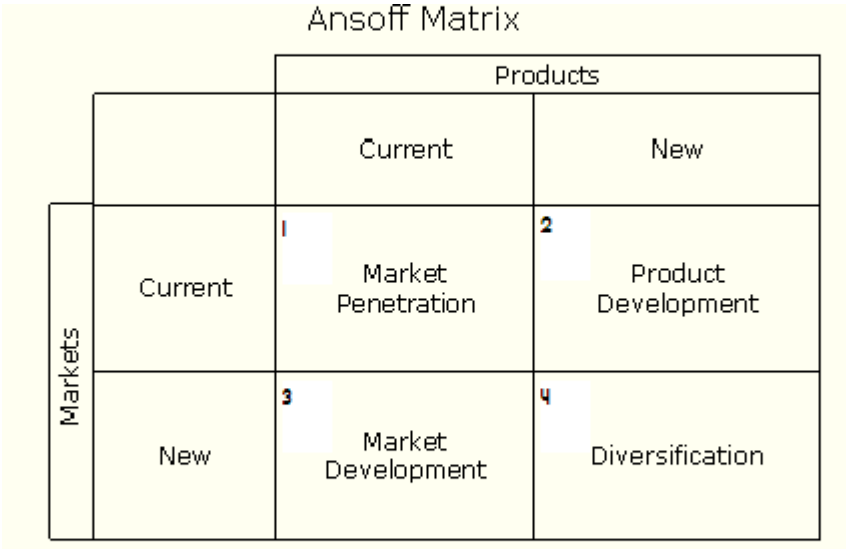


**Figure 1**

It is square 4 of the Ansoff Matrix, referred to as ‘diversification’, which possibly points to the most creative way forward. The strategic focus here is on developing new offerings for new markets. Logically, diversification cannot be divorced from the organisation’s competencies. The most effective diversification occurs when the organisation leverages its distinctive competencies to capture new markets with new products and services. In so doing, new distinctive competencies may also emerge.

An excellent example of diversification is Caterpillar, the strongly branded manufacturer of heavy earth-moving equipment. A visionary strategist at Caterpillar identified two distinctive areas of competency within the organisation that could be leveraged into a new business, namely, the established brand signature and reputation (including the easily recognised brand colour, yellow) and the production of its quality workwear, particularly boots. These two distinctive competencies were brought to bear on a new business completely diversified from earth moving equipment, namely, footwear and fashion. Within three years, Caterpillar was selling 26 million pairs of shoes a year!

In looking to diversify into new, profitable areas of business, the distinctive competencies of the organisation must be closely analysed, with a view to what can possibly be leveraged to offer new products and services to new markets. Such analysis would be incomplete without including some consideration of the organisation's vision and purpose. It is in these aspirational statements that the organisation's passion may be found. Leveraging distinctive competencies to diversify into businesses that are not connected with the organisation's vision may be a recipe for failure. The way forward through leveraging competencies and diversifying will invariably require leadership, commitment, passion and a clear vision if it is to succeed.

Hamel (2007, in his book 'The Future of Management') argues that when it comes to value creation, the attributes of passion, creativity and courage make a stronger contribution to organizational sustainability than those traditionally valued by organisation leadership, typically brain-power, control and obedience. It is ultimately passion that energises leaders to develop existing meta-competencies into new distinctive competencies.

Five key practices for creating new business value in 2009:

1. Identify which competencies may be able to be leveraged to support new products, markets or other business opportunities.
2. Explore possible opportunities for market penetration, product development, market development and diversification through the Ansoff Matrix.
3. Revisit the organisation's vision and purpose to identify what stimulates passion and commitment for leadership and other stakeholders.
4. Consider how to expand the organisation's value network of partners, suppliers and alliances.
5. Engage key staff in a strategy thinking process to unlock new ideas, resources and funding possibilities to move from vision to reality.

About the author

Dr Grant Sieff is CEO of the IC Growth Group, a research, strategy and leadership development consultancy. He teaches at leading business schools as a visiting professor and senior lecturer. Grant has worked as a vice-president for Citibank in Australia and a partner for Accenture. He consults to leaders at the top levels of organisations across African continent and abroad.

IC Growth Group (icgrowth.co.za) has initiated an Africa-based research, market insight and strategy development online portal, dedicated to development and growth in Africa (africamarketinsight.co.za). Grant can be contacted at grant@icgrowth.co.za or on +2721 462 7902.