

The Only Sustainable Competitive Advantage

by

Jeffrey Shuman and Janice Twombly

Over the entire history of business analysis, the conventional wisdom has been that if you have an idea for a business and the idea is good and you implement the idea correctly, the business will succeed. If the idea is bad or you fail to implement it correctly, the business will fail.

The conventional wisdom is wrong.

In reality, no matter how good a business idea is, no matter how well the idea is implemented, as soon as you open your doors for business, you will find your business has to change – not just minor adjustments and small shifts in marketing or product design but radical change. Customers you never thought of will want your product, and customers you counted on will want your product in an entirely different form or, perhaps, not want your product at all.

In short, those people who succeed in business are not so much visionaries who devise products and services no one else has ever thought of and that millions of people suddenly desire. Rather, they are flexible, information-alert individuals who understand what their customers tell them and who can quickly respond by shaping their business to profitably provide that exact product and service.

This process (which is not as easy as it seems to implement) means that business and business thinking flow in cycles. Every cycle begins with an idea or assumption based on an initial level of understanding. The idea or assumption is put into practice. Then, the business environment, primarily in the form of the customer, responds. After that, based on the response, a new idea or assumption is created. This cycle repeats and repeats as any business grows and develops.

The chief skill is not being right in the initial idea or assumption. No one is ever completely right with their first assumptions. The skill is in the ability to gather information from the response and then incorporate that information into the next idea or assumption which will necessarily be closer to what the customer needs and wants.

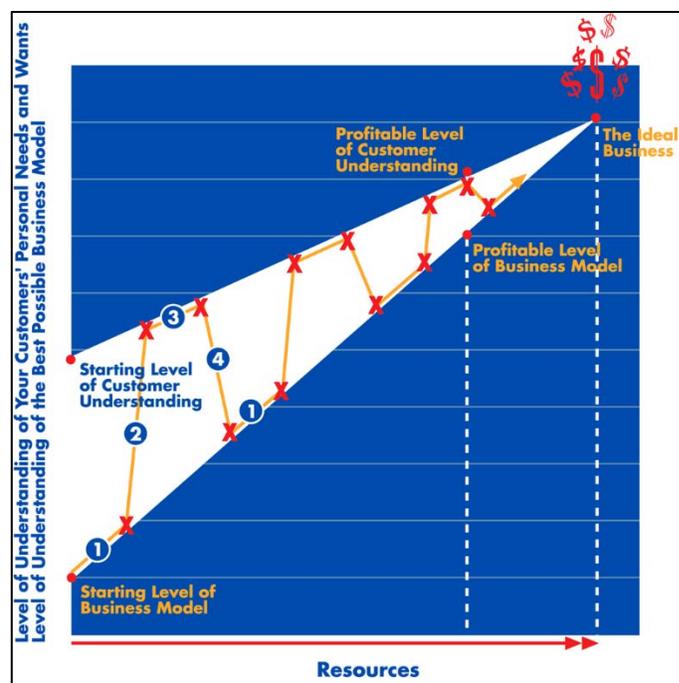
It is the knowledge of the process through which that stream of innovative business models flows and the ability to translate that knowledge into effective action that is the only sustainable competitive advantage. Monopolies, patents and other market protections and advantages all eventually end. The slower the introduction of technology, the longer competitive advantages last. But in a time of rapid technological innovation such as our own, it quickly becomes clear that the only truly sustainable competitive advantage is your ability to implement the iterative process of building a business.

As you can see, the vertical axis reflects your level of understanding of both your customers' needs and wants and the business model best able to satisfy those needs and wants. Also shown are the starting points for your level of understanding. The horizontal axis tracks the critical time, money and other resources. The object of the process is to get to the point shown as The Ideal

Business – the balance point – where your business profitably satisfies its customers' personal needs and wants better than anyone else in the world. And it needs to get to that balance point as quickly and inexpensively as possible.

The iterative nature of the business building process is represented in the diagram by repeating cycles. A cycle is comprised of four distinct steps.

- **Step 1 Planning** – This step identifies the business model best able to validate your critical assumptions and determines the business and information infrastructure and the resources needed to carry out your plans as quickly and for as little money as possible.
- **Step 2 Preparation** – In this step you do everything that has to be done to prepare to “open for business.” This includes identifying potential customers, developing your product, hiring a team, building relationships with the partners you need, putting in place the infrastructure, developing a profit formula, and obtaining financing.
- **Step 3 Interaction** – This step involves bringing your offering to the marketplace and interacting with your customers. Giving your customers an opportunity to actually purchase what you sell is the only way to tell if you are really able to satisfy their needs. So, no matter how long you've been in business, every time you interact with your customers you should consider that you are “testing” your business model's underlying assumptions.
- **Step 4 Analysis and Refinement** – In this step you evaluate the results of the customer interaction carried out in Step 3, and based on that analysis, refine your understanding of your customers' needs and wants and your business model. It is in this step that you learn which of your assumptions are right and which need to change. It can be tempting to skip this step. It can also be fatal.



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The positioning of Step 1 in Cycle 1 on the business building process diagram reflects your beginning the business building process. Step 2 is where you are preparing to interact with your customers. Step 3 is when you actually interact with your customers (i.e., you are open for business), and Step 4 is when you analyze the information gathered in Step 3 and then refine your assumptions about your customers and your business model. As you can see from the business building process diagram every cycle follows a rhythm – as you try out new assumptions, test the assumptions, analyze the results of the tests, and then develop better and better assumptions of your customers' needs and wants and the business model that profitably satisfies those needs and wants.

The steps are shown in a linear fashion to reflect the order in which your thinking should progress at any given time, rather than becoming distracted by the many varied activities your company may actually be engaged in. In other words, except when you're in your very first cycle, (referred to as a pushcart cycle) all of the steps may be in play at once. But your thinking needs to move sequentially as indicated in the diagram. For example, in one product line you may feel you have gathered enough information from paying customers interacting with your business (Step 3) to move on to the next step: analysis and refinement (Step 4), even though the company is (you hope) continuing to interact with paying customers (Step 3); and other product lines are in the preparation stage (Step 2); and still other product lines are in the planning stage (Step 1).

Business Building Block #2 – Customers

Underlying the thinking of many corporate executives and entrepreneurs is the belief that their companies need to, not only be better than the competition but, to use the jargon of war, to destroy the competition. In fact, many businesspeople frequently use terms such as destroy, strategy and tactics that are borrowed from military lingo. It's not that using these war metaphors is wrong. Business does sometimes feel like a battle. The problem is that with repeated use, metaphorical images take on a life of their own and can influence decisions and actions more than we realize.

Unfortunately, war metaphors ignore the most important aspect of business – satisfying the customer. Business is not about beating the competition. In fact, you can beat your competition and still not satisfy your customers, leaving room for another business to steal customers from you and your competition. For instance, if you and a competitor are in the manufacturing business battling each other on price, another manufacturer could win your customers' dollar, if what your customers really want is faster turnaround time or higher quality.

Of course, you should identify your competition and analyze what they do well and try to do better. You need to do that in the process of building and running a business. But if your main focus is on being better than your competition, you are focusing on the wrong thing.

Satisfying your customers is the only way to achieve lasting success and realize the full profit potential of your business.

Business Building Block #3 – Information

The value of information appears when you gather, process, and connect it, so that you can get the right information to the right person at the right time. Connecting the information is like the game of "Connect the Dots." When you connect the dots, you see a picture. When you connect the information, you see a pattern. The fewer the pieces of information you need to connect to see the pattern, the more quickly you can act. This requires you to get the right information to the right person at the right time.

Business Building Block #4 – Timing

The length of time it takes to decide that an assumption is valid or is in need of change is directly related to how much information you gather and how quickly you can process and connect it, and is therefore a measure of your sense of timing (knowing the exact moment in which to take action). Your ability to process and connect information in turn is based upon your talent, your experience, and your dedication to your business. Your talent, your experience, your dedication, and your timing together form your intuition.

The “Xs” on the business building process diagram reflect the transition points in your thinking. It is important to know that when to take the next step is where your intuition comes into play. Keep in mind that there are two aspects to each business building cycle: The knowledge aspect consists of knowing that the process is comprised of cycles and that each cycle has four steps; the intuitive part of the process consists of the understanding of when to take the steps (i.e., your sense of timing).

However, while timing is always to a certain degree intuitive, it can, in a very real sense, be taught, and in an equally real sense, developed.

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