

WHAT'S YOUR CORE COMPETITIVE STRATEGY?

THERE'S NO ONE-SIZE-FITS-ALL-MARKETS GAME PLAN FOR BUILDERS THAT WANT TO GROW, BUT GUIDING PRINCIPLES CAN OFFER DIRECTION

By Mark Hodges

In his seminal 1980 book, *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, Michael Porter proposed that all companies must compete through one of three core competitive strategic approaches.

1| Be the low-cost producer. There will always be a market for the lowest-price product, particularly if it stacks up to the competition. Companies selecting this strategic position focus on improving operations, such as production methods and efficiencies. Case in point: Toyota's success in providing high-quality, feature-rich cars at affordable prices.

2| Differentiate your product. Companies selecting this approach must focus their energies on unique value, exclusive features, or specialized services using a combination of competencies that set them apart. Case in point: Dell's unique "build your own computer" model.

3| Focus on a distinct market or customer base. Companies taking this tack focus strategy, product development, and organization to serve a specific customer demographic, or they

limit themselves to a very specific marketplace. Case in point: Southwest Airlines' early focus on cost-conscious flyers traveling short distances between second-tier cities.

Porter points out that companies that try to be all things to all people risk forfeiting the strong competitive advantage that's possible only with a focused competitive strategy. And so, choosing one of these strategic frameworks requires discipline and commitment. It's done by making all decisions based on the competitive advantages the chosen approach can provide.

BUT WHAT ABOUT BUILDERS?

Porter's principles have been widely embraced, but applying them to our industry is tricky. For most businesses, the product is the product (a golf ball is a golf ball; a laptop is a laptop), regardless of geography. There, a universal strategy devoted to industry dominance can work.

But in home building, our product is tied to land as well as to specific markets, each with its own competitive landscape,

demographics, and market conditions. For single-market builders, these principles can apply, since they can devise one competitive strategy unique to their one market. A word to these builders: Pay close attention to Porter's advice and settle on one core strategic approach.

AND WHAT ABOUT MULTI-MARKET BUILDERS?

How does a builder operating in many markets devise a single competitive strategy for the entire company? How does it select from one of the three core strategic options? Perhaps the answer is, "It can't." A multi-market builder shouldn't expect that a single competitive strategy will be successful in every market in which the builder operates.

Imagine a division whose headquarters announced a companywide low-cost-producer strategy. The division then had to compete in a market dominated by one or more highly efficient, cost-effective competitors that have already carved out that niche. Think of the division head who is directed to become Phoenix's active-adult leader, fighting for market share with industry pros already deeply entrenched in that product segment.

If a builder settles on one core strategic approach, it likely means a shift in focus. Decisions will be more about which markets

to enter, which to exit, or in which markets it needs to shift its current competitive position in order to match that universal competitive strategy. This may be a risky proposition. Entering or exiting markets is expensive, and doing so solely on the basis of a newly devised competitive strategy may be unwise, particularly as market conditions change over time.

I believe that while builders may be able to create a universal framework for competitive position, individual market leaders must be allowed—and directed—to create a market-specific strategy for competitive leadership, based on that market's unique considerations, limitations, and opportunities.

LOCAL STRATEGIES + NATIONAL REACH = NATURAL TENSIONS

And yet, a market-specific approach creates a strategic puzzle: The more distinct competitive strategies become in different markets, the more difficult it will be to come up with consistent organizational models and to prioritize corporate initiatives that a singular competitive strategy enables.

Some builders act as more of a holding company of smaller local builders via a growth strategy driven by acquisition.

Local leaders are permitted to operate more independently, as long as they meet the company's growth and financial goals. There's nothing wrong with this model, provided you recognize that a universal competitive strategy is nearly impossible to put into practice in this case.

Other builders aim for a standardized operating model where all local operations are required to adopt standard processes, products, and organizational models. Naturally, the more standardized a company's model, the more it can assert a global competitive strategy. But too often, the one-size-fits-all approach to strategy fails to take into serious account the challenges and opportunities unique to each market.

If you struggle with this philosophical question, you're not alone. Local leaders are better able to understand their markets and the forces that drive competitive leadership, but corporate strategies demand a focus on compliance, creating significant conflict. Local leaders who are instinctively entrepreneurial yet faced with financial and growth targets bristle at corporate directives that make competing in their markets more difficult, even burdensome.

A way to address this strategic conundrum is to:

1| Establish a core set of organizational targets and priorities. All divisions should be required to adopt it by creating "local" strategies intended to meet those targets.

2| Require each division to submit a formal plan of action. This is essential in meeting those targets based on local competitive considerations.

3| Monitor division performance over time. This will ensure that action plans are being executed and that competitive decisions take corporate objectives into account.

For example, to leverage economies and powers of scale, each division may be required to achieve a certain percentage of market share in a certain amount of time. Then unique blended strategies are devised in each market aimed at achieving that goal. This is what Jack Welch did at General Electric, driving its many different businesses to achieve market dominance or to exit that business. Now *that's* focus.

All growing builders need to contemplate these questions, earnestly debate them, and decide on a competitive strategic approach that they can commit themselves to with conviction. Then they need to guide decision-making in each market to implement that approach. In other words, Porter's strategy is spot on—as long as we're selling golf balls. **PB**

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