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Marketing Tip of the Month

Three Rules for Business Success

M.E Raynor & M Ahmed, Harvard Business Review, April 2013

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A massive survey found only 3-rules

"The rules are especially powerful when it comes to dealing with those dreaded financial ratios that govern so many lives and lead so often to pathological consequences."

"Don't be misled by the simplicity of the rules. Long-term success in any industry is a rare and difficult achievement, and finding a workable strategy that stays within the rules requires enormous creativity and flexibility."

Surprisingly Simple Guidelines for Making Your Company Great

This study included 25,453 companies over 44 years -- so we better take the authors advice. Much of what has been written about company successes over the years has been thumb-sucked (i.e. the good or bad environmental-context created the business success or failure).

Rule #1: Better before cheaper: rather than compete on price, *find your point of difference (PoD*). Average Joes typically compete on price. Don't forget to go for the segment that values your PoD the most.
It is important to realise that there can only be one cost-leader, so in most cases, outstanding performance is created by greater value and not by lower price.

Rule #2: Revenue before cost: strategise to *increase revenue* over reducing costs. Very rarely is cost leadership a driver of superior profitability.
A good example of this is Tata India launching a cheap car (The Nano, 2011). The poor did not want to be seen driving a cheap US$3,500 car; the more expensive US$7,000 Ford outsold it.

Rule #3: There are no other rules: there were many other criteria (e.g. leadership style, reward systems, talent development) that also played a role, but they were not as consistent as rules #1 & #2. "In other words, top performing companies are doggedly persistent in seeking a position unrelated to low prices and adopting a revenue-driven profitability formula, while everything else is up for grabs."

The authors say, "The rules can serve as an antidote to leaders' all-too-fallible intuition. When income is declining, for example, it can be tempting to make the company's results look better by slashing assets and investment to reduce costs. But great companies typically accept higher costs at the price of excellence, putting significant resources, over long periods of time, into creating nonprice value and generating higher value."

Enjoy!