by **Joy James** | Joy James Group

Is Bigger Always Better? Focus on Your Core Competencies

Knowing what you your company's strengths are — and what they aren't — is a cornerstone of your company's competitive strategy, and remains critical to achieving a superior profit margin. I hate to burst anyone's bubble, but no single company can effectively be everything to everybody, and most companies that try this wind up being mediocre at everything (with a pretty confused staff!). Are you one of those companies with product offerings that have mushroomed over the years from manufacturing and selling toner cartridges, to now selling toner and ink cartridges, as well as empties, components, sometimes bulk ink and now paper? If so, you should read on ….

Entrepreneurs tend to be guilty of over-broadening the organization's focus by bringing in new ideas that promise to generate revenue. My personal favorite was when a former business associate of mine decided that we needed to distribute coffee with our toner cartridges. Really, coffee. He felt that it would be a good way to sell more to our existing customer base. Obviously, I disagreed and we never distributed any coffee, but it serves my point well: you have to know your strengths to be successful.

I think that building a business is like a building a house; both must have strong foundations to withstand the test of time. Just as you wouldn't unexpectedly add an addition to your home without proper planning and quality construction, you shouldn't consider adding new product lines or services without the same attention to detail.

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Despite the lure, having more and being bigger are not always better. Pepsico Inc. is an example of a company that learned this lesson the hard way. During the 1980s and 1990s, Pepsi acquired and ran a broad range of businesses that included fast food restaurants such as Pizza Hut, KFC and Taco Bell, as well as Frito Lay. At that time, Pepsi executives weren't sure whether they should be thinking about fast food restaurants or beverage channels of distribution, or if they should focus on the chicken, pizza, potato chip or soda markets. It would be hard for anyone to be good in all of those disconnected businesses.

In 1997, Pepsi finally woke up and spun off their restaurants in order to be a better beverage company, and it worked. Focusing on its beverage division allowed Pepsi to build up its international market share, improve its stock performance and add relevant new product categories such as the fast-growing and profitable non-carbonated market segment (its brands include Aquafina, SOBE and Gatorade). In fact, interestingly, Pepsi now ranks No. 1 in U.S. beverage sales, which includes both carbonated and non-carbonated beverages. Coke is No. 2 in this category, although Coke remains dominant in the soft drink sales category.

These lessons are directly transferable to your business. Although the scope of your business may be smaller than these (large) corporations, you, too, make heavy investments whenever you decide to expand into new products; costs can include management time, administrative expense, legal costs, direct labor, inventory holding costs, handling costs, engineering (R&D) costs, additional equipment costs and opportunity costs (the opportunities forgone because cash and resources are tied up).

In order to avoid this pattern, leaders must take the necessary steps to decide what the company is and what it isn't, which usually stems from the company's business plan and strategy. For example, previously, when I launched an inkjet remanufacturing company, I carefully analyzed the marketplace, and decided to focus on integrated-print-head inkjet cartridges only (mainly HP style). I felt that there were plenty of people manufacturing compatible cartridges (such as Epson) well, and so we decided to put all of our efforts into remanufacturing the more challenging integrated inkjet cartridges. The results paid off, as customers came to know our company for what we did, which helped our word-of-mouth advertising. Although we could have purchased compatible cartridges and resold them for a small profit, the drawbacks, particularly the loss of operational and engineering focus, outweighed any real benefit.

A good starting point is to know and develop your company's core competencies (what you do well). Consider preparing, distributing and analyzing surveys that acquire unbiased information to help you determine your strengths. For example, if you perceive customer service as a main strength of your organization, look for proof of how you're doing. How do your customers rate it? I recently visited a company whose president ranked its customer service as a key point of competitive differentiation — yet, as it turned out, 30-40 percent of their customers were geographically located in a time zone that is not staffed after 3 p.m. local time. These are common situations that often occur because we are too busy fighting fires and managing all our businesses to focus on planning for growth. This, of course, is exactly my point.

I also suggest that you analyze your product mix and real cost, and discontinue offering products and services that don't make sense. Many times, a company's product and service lines will follow the 80/20 rule — about 80 percent of the revenue comes from about 20 percent of the product line. Sometimes, unprofitable products are disguised because they aren't properly costed to include all of the fixed and variable costs that are directly associated with the product; a good alternative is using an accounting method known as activity-based costing (ABC).

Finally, while developing your image and your marketing materials, avoid confusing or vague statements such as "we serve all your office needs." Otherwise, you might just find yourself distributing coffee with your toner cartridges.

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