

CHOOSING AND USING CORE COMPETENCIES

Michael D Brown
Vice President

The ChemQuest Group, Inc.
Cincinnati, Ohio

Modern Paint and Coatings – “Paint Doctor”

July/August 2002

QUESTION:

What is the definition of capabilities and core competencies for a business?

ANSWER:

A simple definition of *capabilities* is “the assets (tangible and intangible) that a business chooses to use to compete in a marketplace”.

Capabilities can be broken down into four broad areas as follows:

Capabilities	Examples
What you Know	<ul style="list-style-type: none">• Market Knowledge• Customer Knowledge
What you Own	<ul style="list-style-type: none">• Intellectual Property• Fixed Assets and Reserves• Brands
What you Do	<ul style="list-style-type: none">• Business Processes<ul style="list-style-type: none">– Manufacturing, supply chain– Sales/marketing– Innovation/research• Financial Risk Management• Mergers/Acquisitions
Who you Know	<ul style="list-style-type: none">• Joint Ventures/Alliances• Government Policy Makers• Preferred Customer/Vendor Relationships

Figure 1 - Example of Business Capabilities



A definition of *competency* is “those capabilities at which you *excel*”.

To be a *core competency*, a capability should meet ALL of the following criteria:

- Strategically important to the business
- Relevant to the markets you serve or wish to serve
- Superior to competitors with similar capabilities
- Create sustainable value for your customers

In assessing your core competencies, these criteria should be considered through the eyes of your customers. It is through this filter that you can get an appreciation of how well your core competencies truly match up with customer needs. You will also get an unbiased assessment of your competencies versus your competitors’ competencies.

Core competencies are relatively rare, and as a general rule, most businesses will have no more than two or three. More than that and you may be kidding yourself.

QUESTION:

What consideration should be given to my core competencies as I prepare my annual business plans?

ANSWER:

Core competencies should be a cornerstone of on-going business planning. They represent the critical assets that differentiate you from competition in the minds of your customers. As such, there are several ways that core competencies should be considered in your annual business plans:



1. Your company Mission and Vision should highlight and clearly define your core competencies. This is especially important so that you and your employees keep the competencies high on your priorities and worthy of continuous attention and nurturing.
2. Your Strategies should address how you will use your core competencies to meet customer needs better than your competition. Figure 2 shows a simple schematic of an “optimized” business with core competencies that meet customer needs in a “balanced” fashion. The “balance” comes from having the right competencies (not too many, not too few) to meet the needs of your customers. Too many competencies can result in wasted resources and lack of focus; too few may make you uncompetitive in the market.

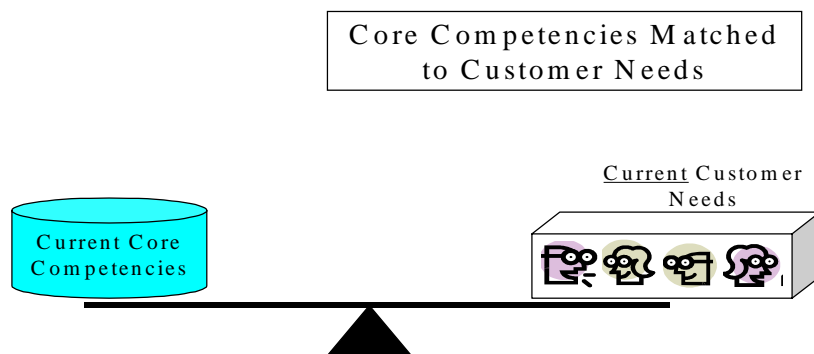


Figure 2 - A "Balanced" Business - Core Competencies Match Customer Needs

3. Your Strategies should also address how you will improve and add to your competencies based on changing customer needs and/or competitive actions. Figure 3 shows how new and emerging customer needs can “outweigh” your current core competencies. In order to



bring your business back in balance you need to “add” to your core competencies by developing the technologies, processes and relationships necessary to meet these new customer needs. Monitoring emerging and latent customer needs and benchmarking the competencies of your competitors should be a part of your business plan.

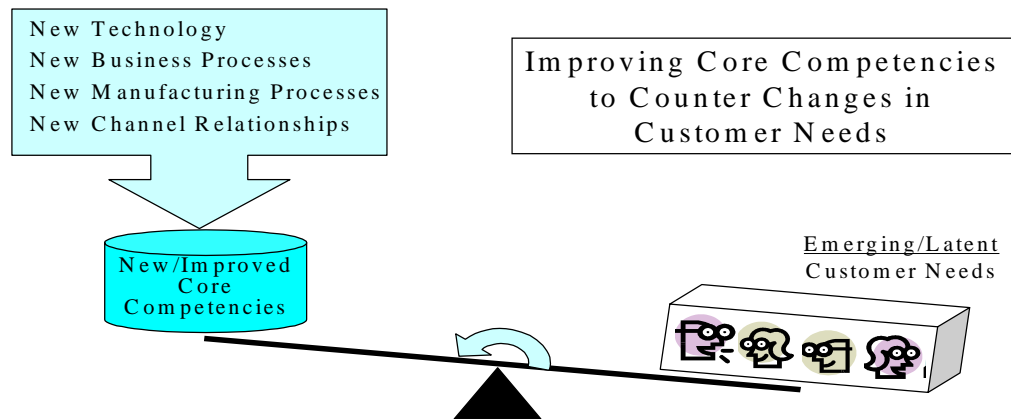


Figure 3 - An "Unbalanced" Business - Competencies Need to be Improved to Meet Emerging Customer Needs

4. If your Strategies call for entering new markets, your business plan should reflect your understanding of these new customers and their needs as well as how you will use current and/or improved core competencies to compete in the new market. Once again, you need to carefully consider the customer needs in the new markets and the competitors' competencies, and compare them to your own competencies.
5. Your Tactical Plans should describe the day-to-day activities associated with implementing your Strategies. Your tactical business planning should reconcile the costs of owning and maintaining your core competencies with the profit you expect from your customers(current and



new). You may find that certain core competencies do not bring great value to customers and no longer make sense for you to own.

In summary, core competencies should be viewed as any other asset. While they may not always show on the balance sheet, they still require maintenance and investment and you should expect an attractive return on that investment. Your business planning should ultimately address how you will get that return.

About The Author



Michael D. Brown

Vice President
The ChemQuest Group, Inc.,
an international strategic
management consulting firm
specializing in the Adhesives,
Sealants and Coatings industries,
with headquarters in Cincinnati, OH.

Michael joined ChemQuest in 1999 after 17 years with DuPont Automotive, where he was Business Manager, Light Industrial Coatings. Prior assignments were in marketing and product management positions with DuPont in the Refinish automotive and fleet aftermarket business. His automotive experience also includes sales and technical experience in the engineering plastics markets. He holds a B.S. in Chemical Engineering from Kansas State University. Contact Mike at (302) 235-2217 or mdbrown@chemquest.com



Questions or request for additional copies of this paper may be directed to the author at:

The ChemQuest Group, Inc.
8150 Corporate Park Drive
Suite 250
Cincinnati, OH 45242

(513) 469-7555

(513) 469-7779 – FAX

www.chemquest.com

