HOW TO CREATE A SOUND BUSINESS STRATEGY

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QUESTION:

In today's world of heightened environmental awareness, what is the best approach to developing a sound business strategy?

ANSWER:

Attention to the environment is a necessity for future growth and certainly ought to be a key component in a company's business strategy. Indeed, today's environment of increasing environmental awareness and government regulation prompts many to assume that tremendous short-term growth opportunities exist in marketing low/zero VOC or HAPS free or even recyclable products. It is prudent, for a company to be ready with market-targeted compliant materials when regulations are enacted. The competitive advantage gained as a result can have significant positive impact on a broader strategy. Investing in major R&D programs that may not comply with future regulations would be foolish. However, basing one's business strategy blindly on compliance with pending government regulations, no matter how compelling, will most likely not fulfill business goals – at least not short term, unless the resulting products fulfill all of the cost and performance requirements as well.

One common misconception is that the industry will be willing to pay a premium for "green" technology. Although customers may eagerly evaluate environmentally friendly materials, the timing of commercialization of those products will depend heavily on the purchase and process economics involved in use. A small premium (10% or so) is usually acceptable, especially if value can be extracted as a result, but over-priced technology will encounter a long road to sustainable commercial success, despite compliance.

Especially when capital investment is necessary to use the product, the supplier must be able to prove the ultimate savings (or value) over time to the customer. Having developed a comprehensive understanding of the market, its unmet needs, and the costs involved in each step of the value chain all the way to the consumer, is critical to providing proof to overcome this barrier to entry.

Another potential pitfall is the assumption that government regulations will be implemented on the date originally set and that all participants will be expected to instantly comply. History has proven that this rarely happens. In many cases the implementation is delayed by industry opposition, spurred by economics and inferior performance. This can delay implementation for years or even soften compliance limits.

A good example is the furniture coatings industry, where regulations were introduced in the 1980’s to limit VOC emissions in the coating process. In anticipation of the impending deadlines, considerable money and time was spent by both resin suppliers and some coatings formulators on developing products that would perform at least nearly as good as solvent based systems, while meeting the regulations. However, the industry was able to convince the federal government that the technology was not yet acceptable at reasonable process economics, and full implementation of the Rule was radically delayed and growth of compliant technologies, such as water-based, slowed to a crawl. Other examples can easily be found in other markets, most notably marine and maintenance coatings and automotive refinish.

Having said that, environmentally friendly technologies will continue to enjoy strong growth at the expense of more conventional systems. The globalization of business provides markets for products in all stages of compliance, from those most innovative to those most conventional.

A solid business strategy will contain components for both short and long term growth. It is important to include plans for new developments that provide value to a target market, as well as for maintenance of existing markets with both conventional and new, cost effective, environmentally friendly systems. New developments may include substitute technologies, such as laminates and decals, as well as coatings.

To build a growth strategy that will deliver the desired short and long term results, first, assess your company’s core competencies. Core competencies are those that provide a distinct and defensible advantage over competitors.

Evaluate market opportunities against those competencies. Determine the potential for sustainable profit of the best by assessing the interaction of the five market forces at work within the chosen markets. Per Michael Porter's model these are: bargaining power of buyers, bargaining power of suppliers, threat of new entrants, threat of substitute products, and rivalry amongst existing firms.

Identify the potential to capture value and build barriers to competition through new technology, alternative paths to market, eliminating a process step or reducing scrap or waste for your customer, or a systems approach, perhaps with co-suppliers. The resulting strategy will be well balanced for both short and long term growth at sustainable profit -- a formula for success.

About the Author

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Susan joined The ChemQuest Group in 1997 after thirteen years with Zeneca Resins where she held numerous positions including Business Manager, Architectural Coatings, Business Manager, Adhesives & Sealants, Business Manager Graphic Arts, and General Sales Manager. During her tenure at Zeneca, she gained considerable experience in managing strategic planning teams, organizational change, and sales and marketing teams. Prior to Zeneca she spent six years in sales for Morton International Inc. and five years in product development and tech service for the 3M Company. She earned a B.A. in Chemistry and in Mathematics from Augsburg College.

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