

## intelligence vault

### MANAGING A PROFESSIONAL SERVICES FIRM

#### it's better to be good than to be differentiated

~ Mark Healy / Partner / Torque

One of the biggest misconceptions I come across in talking with would-be or new business owners is: you have to be (very) differentiated to have a chance of running a successful company. That you have to come up with a sexy, newfangled model that will put you on the cover of Fast Company. Wrong. I've worked with plenty of new, me-too businesses and firms that have one little bent on an existing model who do just fine. The second year that the previous firm I ran made Profit's Hot 50 list, the #1 ranked company was Holy Soles who make footwear that look a lot like Crocs.

Who perpetuates the myths, then? Popular business books, like [Blue Ocean Strategy](#) by Kim and Mauborgne (a bestseller in 2005 and 2006) certainly do. And so do some (not all) courses taught in business schools. It's not that the idea of differentiation is incorrect – of course not – it's that it is unnecessary in most in industries/markets. The truth is, for most companies it's better to be good than to be differentiated, at least for the first few years.

Let's start with differentiation. The term is bandied about as if it is an absolute, a well contained idea. But differentiation is relative. Take Southwest Airlines (or WestJet in Canada). In many popular business books and case studies, this business model is the poster boy for differentiation. Run a discount, point-to-point, customer service-centric airline when everyone else is still running a hub-and-spoke model with high fares. Compete with cars and buses, not other airlines. Okay. Others (I'm in this camp) see a business that still sold seats to people on airplanes and then flew those people from one city to another city. Was this innovative? You bet. Was it highly differentiated to consumers? Well prices were lower, but... They followed a consumer trend that had been started by Wal-Mart – lower prices based on lower overheads. To me, there is a difference between differentiated and lower priced. Isn't differentiation in the eye of the beholder?

The practical problem with the idea that differentiation is an essential element of a solid business/business plan is the two main assumptions (rarely talked about) that come along for the ride, which are rarely applicable.

The first assumption associated with a need for a large degree of differentiation is 'perfect market information'. There are very few industries where there is perfect information in the market, i.e. where you and I know about all the providers of said product or service. Cars or banks jump to mind, but it's pretty unlikely any smaller business owner is going into business vs. Toyota or CIBC. You could come up with more, but the examples will almost certainly be aging industries with massive players – irrelevant for anyone managing a professional services firm – and they will all-but-guaranteed be B2C. In the B2B market the knowledge of direct and indirect competitors is even murkier. So, you really only have to be highly differentiated if everyone (customers and competitors) knows everyone else – and then, only if you aren't better than the guy down the street.

The second assumption normally made is 'market saturation'. Again, there aren't a ton of markets out there where you have to steal share from competitors upon entry, especially for smaller business start-ups. Cola would be one. But how many of us are looking to start up a cola company and go head-to-head with Coke or Pepsi, anyway? There is plenty of untapped opportunity out there in existing markets.



Okay, the point. The point is for every vaunted example of a successful differentiated company (usually a larger play), there are a ton of VC funded, brilliant (fully differentiated) ideas that fail. And a ton of not-so-differentiated (me-too-with-a-spin) start-ups that do just fine.

I have worked with north of fifty organizations over the last few years, quite a few of them SMBs. The successful, sustainable ones worry about being good first and different second. They're not chasing the magazine cover. What characterizes 'good'? They worry about the following:

- **Doing a great job on the core business.** Successful smaller businesses never take their eye off the ball to chase PR or more investors. They spend a lot of time, a lot of mental energy and a lot of money on ensuring the quality of their core product or service is top-notch – far exceeding the industry norm, even if means costs run a bit higher than average. A good example is an Ontario-based, world-renowned theatre company that was looking to get better at e-marketing. Not once during the engagement was their focus or spend diverted from the stage productions which made them famous.
- **Building and fostering business relationships and partnerships.** Businesses that make it don't go it alone. Customer or client relationships are nurtured and guarded like golden eggs. Sometimes being good also means understanding limitations and partnering with like-cultured firms to get stuff done. Business, especially for SMBs, is still done person-to-person. Successful start-ups understand this and orient heavily around ensuring customers are happy with *the company*, and not just the product. Given the choice between differentiated and isolated vs. undifferentiated and buffered by relationships, you'd be crazy to pick the first one hoping for a spot on Dragon's Den.
- **Doing business locally before nationally or globally.** The Canadian market is littered with the carcasses of failed businesses that tried to drink from the fire hydrant out of the gate. The logic for cutting the grass in your own backyard before heading down the street is straightforward. Span of control is the first issue here – I don't care what business you are in, it is just easier to respond to problems and iron out the kinks of the business when you don't have to board a plane or get someone on the phone in a different time zone. Relationship building is far easier to do locally in the early going as well, since you can tap into your local networks. And cultural norms can also be a hidden barrier. We all have a tendency to apply our own frame of reference on business problems and plans, and those frames can get you in trouble in other places. Even in Canada, business is done differently in Ontario than it is in, say, Alberta.
- **Developing talent and/or investing in infrastructure.** Good people and good processes get you through the rough spots. I've seen some SMB owners spend a ton of time with external stakeholders (like investors and coaches and mentors), thinking 'I've got to know more'. That is selfish and only makes one person better. They'd have been better served teaching their own employees what they knew and/or working on documenting the 'what's and how's' of core operations, which makes the whole organization better. Successful start-ups spend an inordinate amount of time team building (not in the cornball way you read about – in a very real, on-the-job-training way) and building out systems, so the business can scale smoothly.

Does it help to be differentiated? Sure. But not at the expense of being good. Business, ultimately, is about the fundamentals, isn't it?



*Mark Healy, P.Eng, MBA is a Partner at Torque Customer Strategy, a boutique marketing consultancy in Toronto, Canada. Torque focuses on bringing organizations closer to their customers via insight development and a no-assumptions™ model. Mark has completed over one hundred engagements in this new space over the last four years. He is regularly quoted in the national media on topics ranging from customer insight to managing professional service firms. Mark teaches "Customer Intimacy for Marketers" at the Canadian Marketing Association, and a "Demystifying Consulting" module at top Canadian business schools. His full bio can be found at [www.torquecustomerstrategy.com](http://www.torquecustomerstrategy.com).*

