

Business Essentials: Competitive Advantage

It's not the tools you use that keep your customers coming back

by Fred Heintz, CPIM CIRM

A lot of advertisements lately seem to be trying to convince us that using certain business tools can be a competitive advantage. Software vendors are notorious for this claim. Can a tool *really* be a competitive advantage? Can't anyone, including your competition, use the same tool?

A competitive advantage is what makes a customer go to your company rather than anyone else. So what is your company's competitive advantage? Why do your customer's keep coming to you? At Sixth Floor Consulting Group, we tend to break competitive advantage into three categories:

- **Differentiation**

Does your business have an advantage based on brands, patents, or some proprietary knowledge? We've done a lot of work in the alcoholic spirits business, and having a brand name like Bacardi, Jim Beam, or Absolut is a huge advantage over any newcomers; however, this is not completely "bullet proof." For example, Grey Goose has risen over the last five years to outperform Absolut.

- **Cost**

Just as it suggests, a company that has a cost advantage is able to deliver a product at a price that the competition cannot match. This tends to be an advantage that is very hard to hold on to. Eventually, the competition will catch up. So McDonald's could only keep their price advantage in making hamburgers a short time before the Burger Kings of the world caught up. McDonald's now uses its name (brand) as much as cost for their competitive advantage.

- **Specialization**

Many people might consider this a part of differentiation. If a company uses either a narrow product range (e.g., stainless steel surgical screws vs. hardware screws) or a small geographic area with superior service, that company is developing a specialization advantage. Servicing these specialized needs or areas becomes a way to outperform larger competitors.

cont. on page 3

The Economic Stimulus Package: What's In It For You?

by Fred Heintz, CPIM CIRM

The U.S. Congress, at the urging of President Obama, has passed an economic stimulus package. This 787 billion dollar measure is meant to jump-start the economy, which has been plunging downhill for the past seven months.

Sixth Floor Consulting Group works to assist its partners in securing available forms of funding to help with their improvement initiatives. Much of this comes through energy conservation or worker training funds, available through the state or utility companies. These programs, of course, vary by state (and many are in flux. The State of Connecticut is facing a record deficit, and a lot of this funding has been placed on hold while budget debates continue.

It is possible, however, that funds from the federal stimulus package may be available to help businesses to keep driving improvements in how they work. Popular news has concentrated on help for individuals and infrastructure improvements, yet there are some funds available that can be used by manufacturing and service businesses. A quick overview shows the following Grants and/or Tax Credits are in the stimulus package:

Grants

Labor Grants to states for adult employment and training activities \$500M

Labor Grants to states for youth training, incl. summer jobs...\$1.2B

cont. on page 2





Stimulus, cont. from page 1

- Labor Grants to states for dislocated worker employment and training activities \$1.25B
- Labor Grants to states with highest unemployment numbers for employment and training \$200M
- Labor Funds to national reserve assistance for dislocated workers \$750M
- Health and services Renovation and health IT purchases for community health centers \$2B
- Health and services Grants to states for childcare services for low-income working parents \$2B
- Health and services Grants for community employment, food, housing and healthcare projects \$1B
- Health and services Extra money for Office of the National Coordinator for Health Information Technology \$2B
- Education Money for colleges' work-study programs \$200M

Tax Cuts

- Businesses will be able to more quickly deduct the cost of investments in plant and equipment from their taxable income \$5.074B
- Businesses will be allowed to recover alternative min. tax and research and development credits faster \$805M
- Small bus. will be allowed to write-off up to \$250,000 of capital expenditures in year of acquisition \$41M
- Manufacturing facilities producing "intangible property" such as patents can qualify for industrial development bonds \$203M
- Facilities making advanced energy property may be able to claim a new 30% investment tax credit \$1.647B

The first three items represent almost 3 billion dollars for worker training. This can represent education and training in Lean, production, and

inventory control, or better use of current business systems — all of which make for a workforce better prepared to compete in a global marketplace. Many of the other programs can help health and service agencies, either by supplying more services or paying for internal improvements to their organizations.

Connecticut has been allocated a total of \$30,303,942 by the US Dept. of Labor from the stimulus plan. Most of this money will go into individual training and youth programs (youth programs are emphasized in the plan).

The best news for manufacturers is that funding for Incumbent Worker Training is part of this stimulus package. Traditionally, the State of Connecticut has provided the lowest per capita support for this program,

according to **Bill Villano**, Executive Director of the Workforce Alliance. Companies need to apply for this money immediately. According to Mr. Villano, the funds will be available from now until June 2011, but the plan is for the majority of the funds to be used in 2009.

Most of the training money will go through the State to get to business. The funds are available now, and businesses need to pull together a plan to use these funds. The federal government is supposed to get the dollars to the states by the end of March. Using this slow time to train workers will better position your business to grow when the economy rebounds.

Contact Sixth Floor Consulting for further information on how we can help your business both secure and use these funds. ■

The goal of Sixth Floor Consulting Group is to create best-in-class processes, allowing each of our clients to take their businesses to a higher level of quality, profitability, and Lean operation.

Contact us today to put us to work on your team.





Sixth Floor BOOK REVIEW

by Lori Modifica

Leadership Lessons of the Navy Seals by Jeff Cannon and Lt. Cmdr. Jon Cannon (Published 2003 McGraw Hill)

I picked up this 200 page paperback in the local library, and I was very impressed. As a civilian with no family or close friends in the military, I had no firsthand knowledge of the Navy Seals. This effective organization offers many lessons for success both in business and personally. I was surprised to find many strategies that I would consider "Lean" contained in these pages.

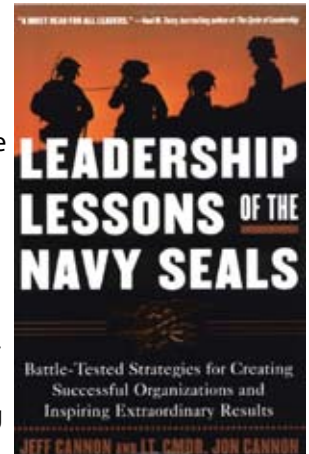
There are five main sections of the book: Goal Setting, Organization, Leadership, The Thundering Herd, and Building the Thundering Herd. A few examples of the lessons I found most valuable are:

- Goal Setting Lesson #15: "Don't wait for the no-risk solution."
- Goal Setting Lesson #16: "Take it in small steps." In Lean, we learn that continuous improvement come from small, continuous changes made over time. No

solution is perfect or risk free.

- Leadership Lesson #18: "Seek out and listen to the rest of your people."
- Leadership Lesson #25: "Communicating hysteria won't drive production."
- The Thundering Herd Lesson #4: "Your value during the battle has nothing to do with how close you are to the front." In Lean, the best ideas to improve the flow of a process are going to come from your people.

Using true stories from the Navy Seals, the authors creatively drive home two critical ideas: The Mission and The Take-Away. The book is very easy to read and is organized into lessons of just a couple of pages that can be read in five or ten minutes. This works well for two reasons: you can recapture those lost minutes normally wasted and you have time to reflect on the lesson. ■



Advantage, cont. from page 1

The main thing to remember is that these advantages are based on the value being delivered to the customer. Also, no competitive advantage is permanent, at least not without a great deal of effort on the part of the business. While it is easy to see that cost advantages can be made up, a differentiation advantage also requires effort to *keep* that advantage. Patents and proprietary knowledge eventually expire, and even what seem like strong brands can fade eventually. For every Budweiser, there are 50 "Schlitz" that remain only in our memories.

Based on the above, we don't believe any business tool can be a competitive advantage. This does not mean properly using these tools is not worthwhile. A company that properly runs a DOS based ERP system will out-perform a company that incorrectly uses SAP. Misusing a business tool, whether it is ERP, Six Sigma, or

Supply Chain Management, will do more harm than good. For example, incorrectly implementing Just In Time will cause major out-of-stocks and dissatisfied customers. This will put you at a competitive disadvantage.

Can Lean Enterprise be a competitive advantage? True Lean is a management philosophy, not a tool. It uses many tools (5S, Kaizen, etc.). The first principle of the Toyota Production System is to identify value through the customer's eyes. The value is increased by eliminating waste. This drives down the company's costs, allowing it to deliver greater value to the customer.

Lean most looks like a competitive advantage in its ability to drive out complexity. A major premise of Michael Porter, whose writing in the 80's helped define competitive advantage, is that a company could not pursue both cost and differentiation advantages. By using Lean Enterprise thinking, it does become possible to

both deliver low cost and differentiation (which is usually associated with increased complexity). Using Lean tools, a company can cut costs and complexity out of its production processes and still deliver options and customization its competitors can't.

So while you want to sharpen your tools to get any edge you can, your competitive advantage should be based on those traits that cause your customer to pick your company over any other. Only by ruthlessly guarding and exploiting your advantage over the competition can your company grow and prosper.

Sixth Floor Consulting Group can't tell you what your competitive advantage should be; only *you* know your business and competition well enough to say what it is. We can, however, help you better use the tools you have in your business arsenal. Contact us to help you review your ERP system usage or business processes. ■

Featured Workshop: "Lean Systems - Getting Accounting & IT Help on the Lean Journey"

Speakers

Sixth Floor Consulting's **Lorraine Modifica** and **Fred Heintz, CPIM CIRM**

When

Thursday, April 23

1:00 - 5:00pm (Registration begins at 12:30)

Where

Central Connecticut State University
The Institute of Technology and Business Development
Center (ITBD)
185 Main Street, New Britain, Connecticut

Visit www.APICS-Hartford.org for online event information, registration, and charge card payment.

email: VP-Programs@APICS-Hartford.org

Telephone: (860) 233-7411

Has your company started on the journey to become a lean enterprise? Do your accounting and information technology systems help or hinder this process?

Some of the topics we will cover in this workshop include:

- Lean basics, and how accounting and IT can support those efforts
- Accounting for a Value Stream
- The difference between Standard Costing and Target Costing
- Creating Management Reports that everyone understands and can action
- Understand the challenges for Finance in the Lean Enterprise

Having the proper Lean Systems becomes critical as the enterprise gets further into the lean journey. In this brief workshop, course participants will learn what it takes to create successful lean systems with the help of accounting and IT.

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