

Survival Strategies

ETA's SLNF Speakers Look at Changing Business Models

Ever since strategic management gained popularity as a discipline in the 1950s and 1960s, dealing with change has been a critically overlooked aspect. Alvin Toffler's *Future Shock* and *Third Wave* portray a movement toward increasing change whereby each generation brings technological standards with declining shelf lives, eventually evolving into an era of relentless change. Sound familiar? This phase causes enormous apprehension, because it concurrently creates conflict and opportunity in the business world. That is why strategic initiatives need to be re-examined periodically and the models readjusted to fit the marketplace, especially in the electronic transaction food chain.

Hundreds of authors, particularly since the early 1990s, have attempted to explain what this means for business strategy. Two of the most evocative and passionate advocates of recognizing how to adjust business models, Dr. Michael Treacy and Tom Peters, will speak at the 2005 ETA Strategic Leadership and Networking Forum

(SLNF) at Charleston Place in Charleston, SC on Sept. 27-29, 2005.

Mind Your Business First

Strategic management is the method incorporating specific objectives, developing policies and plans to achieve these objectives, and allocating resources to implement the plans. An organization's strategy must also be appropriate for its resources, circumstances and objectives.

When it comes to management tactics there are necessary initiatives that businesses must follow in order to achieve market leadership and sustain it, suggests Treacy, author of *Double-Digit Growth*, and an expert on corporate strategy and business transformation. Treacy believes the basics for executive-level planning that will help prepare businesses for forthcoming issues are:

◆ **The Value Proposition.** Each business (or ISO, vendor, acquirer or processor) must determine what is unique about what it offers. "Is it a hassle-free proposition? ('I make all those problems go away')," says Treacy. "The hassle factor for small

merchants is really a big issue." Alternatively, maybe the value proposition means a company really understands how to help drive customers to small businesses. Whatever it is, Treacy emphasizes the need to have "a really compelling, simple, value proposition."

◆ **Build a Growth Strategy.** A growth strategy needs to include a retention plan. "The churn rate in this industry is relatively high," points out Treacy. "This stops you from growing." Therefore, an effective strategy needs a plan defining 'how am I going to lock in my customers?' In addition, determine how to build share gain using market coverage and positioning.

◆ **Build your capacity to grow.** This involves building services to grow by recruiting the talent that will incubate innovation. This provides the company or business with the right growth environment.

Small Companies and the Future

When a company's concentration becomes too broad, that spreads

resources and business acumen excessively thin.

“The smaller the firm the greater the opportunity and the need to be focused,” says Treacy. “Complexity is what kills your opportunity for growth. You need to have a laser-like focus.”

What should be a small company’s focus?

- ◆ Focus on a particular class of merchant (e.g., mom-and-pops, quick-service restaurants, convenience stores).
- ◆ Specialize in specific product sets (e.g., stored value cards, debit cards, prepaid).
- ◆ Center on a specific geographic region. This can be particular helpful to a small business that want to keep its travel costs and resources manageable.

“Focus brings efficiency ... it gives you the ability to innovate and improve your value proposition faster,” says Treacy.

In many cases, former executives from larger corporations are the key principals in small business startups. This is both good and bad. People from the larger firms bring client relationships, which is important in the beginning, says Treacy.

However, their weakness is that they are inexperienced entrepreneurs that may not be nimble enough to change strategies quickly, especially in the electronic transactions industry. “This is very fast changing industry,” warns Treacy.

Once a business is up and running and starts to achieve some success, a big-organization background can be a big factor in growing a business. Their big strength, explains Treacy, is they know how to nurture a business. In terms of people and processes, “there is nothing like big business to understand scaling up,” he says.

Value Leadership

Treacy authored the term “value leadership,” which refers to offering customers a matchless value proposition

through a superior and uniquely designed operating model.

This is important in an era of rapid technological change. With new competitors emerging and the blurring of industry boundaries, executives must understand the value their companies provide to customers.

This means anticipating new customer demands for value, examining how

and what makes me more successful with them?” suggests Treacy. Why do they buy? Is there a genuine call for the product or service?

Treacy outlines some basic understanding of a business’ place in the market. Understand your target market (i.e., what do your customers want?). In addition, look at the competition. “Assure yourself you are not putting



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—Tom Peters



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—Dr. Michael Treacy

competitors could introduce superior value propositions and determining how a business can continuously increase its value levels relative to competitors. Without such understanding, a company’s market position is at risk.

Market leadership increasingly depends on creating new sources of value by focusing on some basic value disciplines: operational excellence, product leadership or customer intimacy. Decide if the business is going to specialize in being the hassle free shop, the product leader or the price leader.

Understanding a value proposition starts with understanding the customers. “Ask who the customers are

yourself in the path of destruction,” says Treacy. For example, a merchant that wants to become the price leader may struggle against competition from Wal-Mart, which already dominates that marketplace.

Next, look at your own competency. “Every company has its own DNA. In general, go with that flow,” explains Treacy. “Learn from your problems and complications, especially if mistakes and difficulties take place along the way, and they will. Value leadership is not limited to large business ... even for a small business you have choices on how you focus your value proposition. Then you have to pick a model

that will allow you to achieve your value proposition.”

Plans that Allow for Change

So which business plan works best?

“I have gotten away from [proposing] that you need a specific strategy,” says Treacy. “Whatever plan you come up with is flawed.”

Change moves faster than the speed of business plans. “The problem with traditional management strategies is that 90 days into the plan, it is already outdated,” says Treacy. In addition, execution is always slower than expected, so businesses are already struggling to cope with the changes early in the plan process.

Better organizations today are creating visions instead of a strategy, says Treacy. This allows companies to move in a strategic direction. Some strategies may involve quicker turnaround, and others will take more

time. The important element is that these visions be broken down into increments.

“Breaking things down in small chunks allows you to learn along the way, which allows business to evolve initiatives and visions and create newer directions,” says Treacy.

It is not enough to get 5 percent better without a direction. “You have to get better in a specific direction,” he says.

Treacy believes business should instill growth as a central objective. He proposes five disciplines for growth: retain your customer base, gain marketshare, exploit your market position, penetrate adjacent markets and invest in new lines of business.

Recognizing Changing Market Trends

Tom Peters, author of *In Search of Excellence* and a frequent speaker, has recently been at the vanguard to transform organizational management

fundamentals. He has focused on what he believes is so much dissection of the marketplace that it has obscured major opportunities.

Peters has identified what he calls “the two most glaring deficits in the markets/marketing portfolio.” Those are the need to take careful notice of women as purchasers of consumer and commercial goods and services; and understanding the impact of what he labels “boomers-geezerers.”

“There are a jillion things to say about markets. But of late, I’ve chosen to say just two things. That’s because I wish not to be distracted. The two things are big things—Women. Boomers-Geezerers.” Women and Boomers-Geezerers, claims Peters, each provide trillions of dollars of potential in the United States alone. (Women represent about \$6 trillion; Boomers-Geezerers could account for \$4 trillion). However, each market is considerably underserved.

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Create a Softer Value Proposition

Peters takes his observation a step further. "One more thought: What if we put the two together?" he asks. By mixing in wellness, environmental sensitivity and emphasis on the intangibles, "We arrive at an incredible nexus—Women—Boomers—Geezers—Wellness—Green—Intangibles."

Each of the following ideas, explains Peters, drives the fundamental/traditional enterprise economic value proposition toward the "softer side":

- ◆ From facts and figures-obsessed males toward relationship-oriented women
- ◆ From goods-driven youth toward experience-craving Boomers and Geezers
- ◆ From quick fix, patch-up and pill-popping health care toward a holistically inclined "wellness and prevention revolution"
- ◆ From the mindless exploitation of the Earth's resources toward increased awareness of the fragility

and preciousness of our environment

- ◆ From hard-edged goods and services toward design- and creativity-rich intangibles-experiences-dreams fulfilled—"lovemarks."

This so-called softer side is now and increasingly "where the loot is— damn near all the loot," emphasizes Peters. "And, there is not a damn thing 'soft' about the ... trillions of dollars ... involved!

"This softer side is quickly becoming the prime driver of tomorrow's hard economic value," adds Peters.

The potential does not stop there—it gets better, says Peters. Each of the five key ideas (women, boomers-geezers, wellness, green, intangibles) feeds off and complements the other four. "That is synergy. And that is a word I normally shy away from, but let's face it ... this time it applies." he explains.

He foresees an enterprise defining its entire reason for being (its lovemark) in terms of these five complementary and invaluable key ideas. However, he

adds that very few companies today "want to be the first on your block."

Change for the Better

There are many reasons why strategic management plans fail, especially the inability to comprehend the customer and the incapability to forecast market response. Often, these are byproducts of inadequate or incorrect marketing research. Another reason strategies break down is the failure to deal with change, including the deficient comprehension of the internal resistance to change, as well as the lack of vision on the relationships between processes, technology and organization.

Providing a milieu that anticipates change and responds to it allows businesses to respond and grow. "Excellent firms don't believe in excellence," claims Peters "only in constant improvement and constant change." **TT**

Roy W. Urrico is editor of the Association for Financial Technology newsletter.

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