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Your competitors are crazy, or are they?

Please indulge me and imagine this scenario: Your sales VP informed you about an outrageous and seemingly suicidal move by one of your key competitors. Offering to bear a substantial cost on behalf of the customers would no doubt cut into the already thin profit margin in this cutthroat industry, you think.

You asked for a thorough analysis from your sales VP how the competitor would be able to offer such a scheme to the market. You were disturbed by the competitor's move _ but even more so by the fact that the analysis showed that it could not be done profitably. It did not make any sense. Eventually you wrote it off as a desperate attempt by your competitor to gain market share and bet that it would have to revert to the industry's norm after a few months.

It has been over a year now and it seems your competitor is going strong _ in fact, stronger. It has eaten into every player's market share. Market intelligence has shown that its financial results are the envy of the industry. And you are now asking the same question you were asking a year ago: How can my rival make such a market offering and still be profitable?

If you think the above scenario only happens in a fictitious world, you are living in a pipe dream.

In every industry, a business exists on the premise that its market offering helps solve its customers' problem, be it a product innovation that meets consumers' unmet needs or a service solution that solves a customer problem. The well-being of the business over time is determined by, first, how well its product or service satisfy the needs of the users. And, second, by how well the provider of the product/service helps its customers run their businesses more effectively. Both points are common sense. But as Dr Goldratt, the inventor of The Theory of Constraints, said, ``Common sense is not always common practice.'' I bet the second point is not a common practice.

The persisting problems at one or more links in the supply chain in an industry are often caused by the norms and policies of the parties providing the products/services in that industry. These deeply rooted policies _ for example, mode of operations, payment terms, supply agreement, de facto lead time, and discount policy _ are very difficult to change in the view of the manufacturers or service providers; otherwise they would have been changed already. The customers are caught in the situation where they cannot find a solution to the problems caused by these norms of their suppliers. Therefore, when suddenly, a supplier comes up with an unconventional offering that breaks out of the industry norm, it is earnestly embraced by the customers because the new offering helps them achieve more from their business.

On the other hand, that very same offering is seen by its competitors as an unprofitable and desperate attempt that will not last. However, it has been proven time and again that these unconventional offerings are viable; for example, just think of some of the market offerings when they were first introduced to the market, e.g., Dell's mail-order computer supply, Wal-Mart's Every Day Low Price, and Xerox's Pay per Use.

These unconventional market offerings were made possible by changing modes of operations or policies in the way that the change will solve a major customer problem resulted by the industry norms. Not so surprisingly, it takes a long time for competitors to figure out a viable way to match the offering because this means changing some of the deeply rooted company or industry's policies.

Good news is there are logical steps offered by the Theory of Constraints that companies can learn to break out of the old paradigm. Since these steps are quite comprehensive, I will write about them one by one in future articles.

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