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# Don't Compete on Price

**Competitive Strategies for the Small Business**

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A discussion between  
Small business consultant **Blake Hendrix of saltmineconsulting.com**  
and  
**John I. Todor, Ph.D., of The Whetstone Edge, LLC**  
and author of  
*Addicted Customers: How to Get Them Hooked on Your Company.*

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Blake Hendrix, Founder of saltmineconsulting.com and Author of *Strategic Decisions for Small Business* took an opportunity to interview John I. Todor, Ph.D., Managing Partner of The Whetstone Edge, LLC and author of *Addicted Customers: How to Get Them Hooked on Your Company* on their shared approach of transforming business models to maximize customer value and product niche. In context of the interview, the quintessential small business print shop is discussed.

In the eyes of most business people, printed material is a commodity. As a consequence most printers must settle for very narrow margins and fierce competition from different print processes. Around 2000, when the economy took a nosedive, many printers went out of business. Mimeo.com is the exception to the rule. In 2005, Mimeo managed to be ranked on Inc. Magazine's 500 fastest growing private companies.

Blake:

*John, I read your new book with a lot of interest. As you know, my clients are typically small businesses. I encourage them to find a niche; a place where they don't have a direct competitor. What excites me about your approach is that it seems to define a way for small business to thrive in the face of globalization, commoditization, and customers who seem to care only about price. Your approach is a practical guide that small business can use to find or create that niche.*

*So, how can small businesses compete with the Wal-Mart's of their industry?*

John:

The simple answer is they can't. Wal-Mart wins because they are the most cost-efficient. Because of their operational efficiency and buying power, Wal-Mart can under price competitors and still make a profit.

Some businesses attempt to use convenience and service to win sales. There are two major problems with this approach. First, being convenient to customers and providing good service has a cost. The higher prices these allow rarely cover the added costs.

Second, there is no built-in sustainability. Convenience stores like Seven-Eleven had a good run until gas stations added mini-marts. Now gas station mini-marts are competing with a different stratum. Grocery giants that add fuel service at their locations.

Small business can, however, thrive in today's fast-paced, hypercompetitive marketplace. To do so, they must align their value proposition with what today's customers' value and desire. They must get customers to scrimp elsewhere so they can splurge on their offering. Why would they do so? Because the offering has meaning to the customer—it is not just a commodity.

Blake:

*Okay, let's see if I can summarize in terms of my model, small business shouldn't try to compete with Wal-Mart, they shouldn't fight for a slice of market share. I think the way you put it in your book is that they focus on winning customer mindshare. Is this possible and is it profitable?*

John:

Before Starbucks came on the scene we paid about \$1 for a cup of coffee. Now people eagerly pay \$3 or more for coffee. Sure, it's dressed up with steamed milk, foam and maybe a shot of syrup. But this dressing is not what has driven Starbucks phenomenal growth and not what has enabled them to protect their margins. Starbucks now opens a new store every 5 hours. Starbucks can succeed in the low-rent districts. They open stores that are literally next door to each other. And, they don't seem to be affected by the independent coffee house that is cropping up. What accounts for this behavior? People scrimp elsewhere to splurge on the Starbucks experience. They are not buying coffee on price or convenience. They are buying based on desire—desire for the experience enabled by Starbucks.

Blake:

*Starbucks sells a product with "sex-appeal." What if the company sells something that is less interesting?*

John:

Okay! Printing is a commodity right? Well what the printer needs to do is de-commoditize their offering.

To de-commoditize something you need to put it in a context that has greater value or meaning to the targeted customers. Conversationally, we will say, "you took that out-of-context" implying that the meaning is different than the perception. Now let's turn this on its head and put the offering into a context (or perception) that is more meaningful to customers. Context is the interrelated conditions or situations in which something exists; the circumstance that defines meaning or value. When perception shifts so does meaning or value.

Anyone who has been in business for a while will tell you that business conditions have changed—there has been a shift-in-context. The important shift-in-context that many businesses fail to do anything about is the shift-in-context experienced by customers. When the context shifts, customers face new challenges. Helping customers address these challenges adds value. This spells opportunity.

Blake:

*John, this is getting a little abstract. Can you give a concrete example?*

John:

Let's get back to printing and see how one company de-commoditized their offering with tremendous success.

Mimeo.com sells printing. In most instances, printing is a commodity. Most printers are struggling and in recent years many have gone out of business. Yet, Mimeo.com has been very successful.

From 1999 to 2004, the company had an average annual growth rate of 184 percent. This performance ranked them 186th on Inc magazine's 2004 list of America's fastest growing private companies. Not only has Mimeo.com's customer base grown dramatically, the company has many repeat customers. Their margins appear to be considerably higher than printers using a similar digital printing press. So how do they get in-context with the challenges facing their customers? How do they elevate their offering from the low-margin product available from other printers? How do they make their offering meaningful to customers?

While Mimeo.com sells essentially the same product as the typical printer, they synchronized their offerings with the challenges facing their customers.

Printing is viewed by most business people as a cost-center that must be controlled. Usually, printing is bought on price. Quality is a given. Mimeo.com customers, however, have a different experience. They download a free print driver from the Mimeo Web site. When their documents are ready to print, they select the Mimeo print driver and click on Print. This launches the Mimeo.com Web site, where they are led through a series of questions to determine the way they want the documents printed, the number of copies, the paper stock, and how the materials should be finished. If the document is a brochure, should it be folded in half or made into a tri-fold? If it is a booklet, what type of binding should be used? Once the order details are established, customers get an instantaneous quote. If they complete their orders by 10 p.m., their printed materials will arrive anywhere in the U.S.A. by 8 a.m. the next day. Multiple locations for distribution is not a problem.

Mimeo.com has put printing in the context of the business travelers who are making presentations. They have also put it in the context of companies that are coordinating nationwide product rollouts. They are not just courting disorganized customers who need every spare minute. Mimeo.com enables customers to insure their printed materials have the very latest information. Because shipping overnight is an integral part of the service, print functions in a near real-time manner.

Blake:

*That's a very powerful example. But it requires Mimeo.com to think out-of-the-box. This isn't easy for everyone to do, especially for people who are in the trenches everyday. It requires people to take a fresh look at the business they are in. They need perspective. Can you give us some help?*

John:

Sure. Customers do not make all purchase decisions the same way. In fact, each custom-

er has a split buying personality. One personality is inherently NOT loyal and can even be adversarial towards vendors. The other seeks trusting, committed relationships and the value these relationships deliver.

The indifferent personality focuses on getting the best trade-off between price and convenience. The underlying goal is to acquire utility to complete a task. The product has no personal meaning beyond utility. Indifference develops because value is in the task completion. The customer simply wants to get the task done and to do so at the lowest price and with the least effort then move on to something more interesting and enjoyable. The next time, the same price/convenience trade-off will come into play and the vendors start from scratch again.

With this buying personality there is no potential of building customer loyalty. There are no barriers to competitors and the battle is fought over price and convenience. For companies facing this buying personality, repeat business is tenuous and should not be confused with loyalty. The customer is emotionally free to move from company to company.

Who courts this indifferent buying personality? Companies that drop price, throw in incentives, or use other monetary tactics to close the deal. This behavior fuels the indifference of customers. It encourages them to shop around on every deal. Customers wait for sales or financial incentives they know are coming.

We all buy products using this personality. For many of us, it emerges when buying gasoline. We perceive very little difference across brands and view filling up as a necessary but onerous task. Price and convenience become preeminent in our decisions. A station selling gas for a few cents less will be busy while the station across the street will be idle, and brand is immaterial. Marketing strategies for the stations revolve around price reductions and incentives. On the other hand, stations located near freeway exits or in remote areas get away with charging significantly more. Why? The indifferent personality is willing to pay for the convenience.

In any of these situations the competitive balance can be overturned with the appearance of a lower cost provider. Witness Wall-Mart's impact on retail business in small communities.

Only the most cost efficient vendor can sustain profit for any length of time using this approach. Even Wal-Mart's profits took a notable dip a few years ago when they didn't launch their Christmas sales before competitors. In an era of abundance and overwhelming choice, competitors lose out to each other, but the customer almost always wins. They win the battle to extract the greatest tangible goods for the lowest price or effort. But that isn't necessarily what they really value.

There is another way to upset the competitive balance. Sell to the engaged buying personality. Again, consider Starbucks. Starbucks has the most expensive coffee drinks around. Starbucks rarely has sales, except on close-out items. Starbucks regularly raises prices. Yet, the line of customers is almost continuous from opening, which in some locales is 4:30 am, through closing. The important question to ask is why? And the answer is the customer is there for the total experience, not the product. Customers build a relationship with Starbucks. The impact of this experience and relationship is powerful. Even in low income neighborhoods Starbucks succeeds because the people there are willing to

scrimp elsewhere to splurge on their Starbucks experience.

Starbucks is not alone. Apple retail stores became the fastest retailer in history to reach a billion dollars in sales. Apple was able to do this because they courted the engaged buying personality in each customer.

Apple has a modest slice of the personal computer market. However, Dell and Hewlett-Packard, constantly dueling each other for market share, end up with razor thin margins and a tenuous claim of being number one. In addition, both face an ongoing struggle to maintain profitability. HP replaced its CEO and restructured recently and Dell is restructuring now.

Apple has been enjoying a successful resurgence. Apple focuses on winning customer mindshare and they do a very good job of it. Walk into an Apple store and what do you see? Products that are nicely displayed and plugged in so a customer can experience them. Plenty of space and an open feeling. No “buy me” or “25% off” signs. But look closer. At least 30% of the floor space is not devoted to products. A classroom is openly set in the middle of the store. The Genius Bar occupies prime real estate.

What is Apple up to? The classroom helps educate new and existing customers in how to get more out of their products. Customers learn how to engage in things that are meaningful to them, like editing digital photographs and sending them to grandma, even if it requires software that is not an Apple product. The Genius Bar is staffed by technical experts devoted to helping customers when they run into problems. The “Geniuses” do this for free. Sometimes they diagnose a breakdown in the technology. Sometimes they just help customers overcome “idea gaps” that keep them from getting the complex technology to do what they want it to do. Like many products today, computers are frustratingly complex and customers are frequently overwhelmed. Apple knows that these problems degrade customer experience and reduces the appetite to get more involved and the desire to buy more.

The classroom and the Genius Bar are part of a larger strategy to get customers emotionally and mentally involved. When customers get involved they get more meaning from the experience. The more time a customer spends in the classroom or at the Genius Bar, the greater their lifetime value. Intrinsic gratification stimulates additional desire and commitment.

Businesses that court the engaged buying personality enable a customer experience that delivers emotional and psychological value. Relationship value accrues because both parties are engaged in a mutually beneficial, trusting relationship. Customers seek these kinds of relationships because they reduce complexity in an increasingly complex world. These relationships reduce stress but, most of all, they enable customers to engage in emotionally gratifying experiences. Trusting relationships enhance the present experience but are key to future behavior. Trust is the basis for long-term customer loyalty and the foundation of lifetime value.

Blake:

*So the question small business should be asking themselves is, “Am I courting the emotionally engaged? And How do I do so more effectively?”*

John:

Exactly. Engaged customers become what I call in my book “Addicted Customer.” They have the following characteristics:

- They desire the company’s offering
- The are not price focused
- Their consumption increase desire
- They forgive snafus
- They seek advice on big issues
- They value the relationship
- They become advocates
- They have high lifetime value

Blake:

*I would say the message is very clear. Court the engaged buying personality and you will win over highly profitable customers who will want to be your customers for a long time. Let the Wal-Mart’s battle over market share. By winning mindshare you sell the experience; customers stick with you and become your best source of word-of-mouth marketing. You will not have a direct competitor. You have found your niche!*

*How can people get the book and learn more about putting these principles into action?*

John:

The book, *Addicted Customers: How to Get Them Hooked on Your Company*, is available at [www.AddictedCustomers.com](http://www.AddictedCustomers.com) or [Amazon.com](http://Amazon.com). They can also check [www.TheWhetstoneEdge.com](http://www.TheWhetstoneEdge.com) for upcoming seminars or workshops.

Hendrix draws upon 20 years experience facilitating small business. His practice stresses perspective and simplicity in defining and solving the issues that confront the small businessperson. His keynote is integrating Strategy, Logistics and Tactics to achieve the goals of the organization. His latest book, “Strategic Decisions for Small Business” was published in 2006. The second in the small business series is due for release in June 2007. Learn more at [www.saltmineconsulting.com](http://www.saltmineconsulting.com).

John I. Todor, Ph.D. is the Managing Partner of The Whetstone Edge, LLC, a customer experience consulting and training firm that applies scholarly research on human behavior to buyer-seller dynamics including customer loyalty, trust, retention, customer service, CEM—customer experience management, and marketing strategy. He speaks and consults worldwide on these topics. [www.TheWhetstoneEdge.com](http://www.TheWhetstoneEdge.com)