

**Instant Practice Builder**

# **Rainmaker Protégé Course**

**Instructor Guide – Session 103**  
**Porter's Generic Strategies**

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*Notes:*

Before we move into the parts where we discuss business models and tactics, start, you need to understand Strategy well. Especially as it applies to you.

In our last session, I discussed the origin of modern strategy. I want you to pay close attention in this session as I give you a breakdown of the options that are available to you. If you look closely, you'll find that most any strategy you come up with fits into one of the categories.

The key is to match your Strategy to your target market, your business model to your strategy, and your tactics to the resources and capabilities built into your business model.

But first, there is strategy.

Porter claims that there are only two Generic Strategies you can use to gain a Competitive Advantage; Low Cost Leadership and Differentiation. And, he claims that those two strategies can be either broad or narrow focus, with Narrow Focus generally being a narrower and tighter implementation of Low Cost Leadership and

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Differentiation, which gives you a Low Cost Leadership Focus and a Differentiation Focus.

Download Porter's Generic Strategies Worksheet and see what I mean. It's a two by two matrix, detailing two rows of Generic Strategy or Competitive Advantage on the side and two columns identifying the Scope of those two strategies as Broad or Narrow Focus.

Choosing a Low Cost Leadership strategy requires that you are able to provide your services at a substantial cost advantage over other competitors in order to gain a huge market share.

A Low Cost Leadership Strategy can be achieved with a technological advantage such as automation, which often results in a highly standardized product. One of the central theories is that cost reductions are achieved through repetition and experience.

A Low Cost Leadership strategy is not suited for a small market, even if there are only a few competitors as it requires the economies of scale that are only afforded to large markets.

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Consider the large chain tax preparation firms such as H&R Block, Jackson-Hewitt and Liberty. As national chains, they all operate in a large market.

Each of these provides their franchisees with an economy of scale in the development of marketing materials, and marketable products that an independent practitioner operating in a local market could not economically develop.

The next approach is a Differentiation strategy.

A Differentiation strategy is based on fulfilling a client need that makes your service or product distinct from that of competitors.

The key assumption behind the selection of Differentiation as a strategy is that clients are willing to pay a higher fee for a service that targets a specific need.

In the clients eyes, a higher value exists because your service has a special appeal that is not met by others. In addition, once this need has been filled, your clients are less likely to search for alternative suppliers.

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A Differentiation strategy has the potential to offer high profits when the fees charged are less than the cost of creating the uniqueness of the service.

Differentiation does not mean you can neglect your cost structure. The costs of developing a differentiated service cannot be so high that it completely wipes out the profit from your price increase.

Differentiation has an additional benefit. It allows you to develop a barrier that slows the development of competitive services and products in your marketplace. If you are able to differentiate your service in a way that is unique and distinctive, you can avoid price competition for an extended period.

An example of Differentiation may be the local practitioner who specifically employs a friendly, charming and homespun personality, along with deeper interviewing and client situation analysis, to offset the mass market and impersonal services employed by the chain or franchised preparer down the street.

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The practitioner is able to achieve a price premium by fulfilling the needs of his target market to be recognized as a valued client, rather than merely someone who has another form to fill out.

Branding and Positioning are forms of a Generic Differentiation Strategy. Branding the process by which companies distinguish their offerings from the competition. Positioning the choice of target market (where the company wishes to compete) and differential advantage (how the company wishes to compete).

Narrowing your Focus from a Broad Scope to a Narrow Scope relies on your ability to identify and serve a specific narrow niche or offer a unique specialized service.

While the Differentiation strategy allows you to serve a large or broad market, just as the Low Cost Leadership model does, narrowing your focus allows you to target a specifically and typically small market.

A niche could be a particular industry, such as the automobile body repair shop industry, the convenience store industry or the restaurant industry.

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The specialized service could be a service such as cost segregation studies, loan packaging services or marketing audits.

The basic idea behind narrowing the focus of your strategy is to specialize your practice's business in a way that your broader line competitors (Low Cost or Differentiated) practitioners cannot perform as well. You target a narrow or specialized niche.

You can build your Focus in one of two ways. Each of these require that you apply the concept of either the Low Cost Leadership strategy to serve a particular industry niche or market segment, or adopt a Differentiation based focus while serving a particular industry niche or market segment.

In other words, you are taking either the Low Cost Leadership Strategy or the Differentiation Strategy and focusing your attention to one very narrowly defined target in a way that solves the need of that target exclusively.

In order to utilize the Focus strategy, you must target a market segment that your competition cannot serve as well. You can

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maintain that position by understanding and serving your target clients better than new entrants into the segment.

By identifying a narrow focus, it is possible for you to remain highly profitable even when firms that serve the broader market are suffering. Concentration of your resources and efforts to serve this market makes you less vulnerable to major changes in the industry.

One thing to remember though, is that when your competitors recognize that you are achieving a significant premium for your differentiated services, they will seek to copy you, and offer similar or substitute services, at a lower price. Remember, Accountants as a Genus are insecure and copycats to the core. Present attendees excepted, of course.

This means that the Differentiation strategy requires that you employ a plan of continuous improvement or new service development continuously as a method of maintaining your pricing premium. You must develop a schedule to introduce new or improved services on a regular basis. We'll talk about this later in the course.

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However, a Focus strategy, where your target market is tightly defined, and your solution so refined to that target, does maintain a longer Differentiation “shelf life” and is easier to defend than a generic Differentiation strategy such as Branding or Positioning.