

The Strategy Of Leverage

By Jerry W. Thomas

The use of high levels of debt (leverage) to fund buyouts, finance acquisitions, or defend against corporate raiders can make a company vulnerable to competitive attack. If your major competitor has just taken on a heavy burden of unproductive debt (i.e., ownership-related debt, as opposed to debt which finances investments in plant and equipment, advertising, etc.), then your company might have a strategic opportunity of great potential. Each industry and competitive situation is different, of course, but the basic strategic principles you should follow are:

1. **Seize the initiative.** Attack your competitor while he is weak.
2. **Trade off short-term profitability for long-term market position.** Your leveraged (and weakened) competitors should not be exploited for short-term profitability (a great temptation). Rather, you should go for the longterm and focus upon building your market share and building your consumer (or customer) franchise at the expense of short-term profitability. This strategy will keep your leveraged competitors “on their backs” for years to come.
3. **Be relentless.** Keep up the attack until the leveraged competitor is so weak that his potential as a strategic adversary is beyond repair.
4. **Focus the attack upon your leveraged competitors.** The mechanics of this focusing will vary by industry and competitor, naturally. For example, you might concentrate advertising and promotional spending in markets where leveraged competitors are strongest, or target your advertising and promotions to the users of leveraged competitive brands. All other things being equal, it’ll be easier to take market share away from your leveraged competitors.
5. **Attack in ways leveraged competitors cannot counterattack.** For example: Outspend the leveraged competitor in advertising. Cut prices on your products which are most competitive to the leveraged rival’s most profitable product lines. Build new retail outlets near leveraged competitor’s outlets. Use the competitor’s weakened condition as rationale to solicit his best distributors/dealers/accounts. Recruit the leveraged competitor’s best employees. These key employees will probably be more receptive to outside offers because of salary constraints within the leveraged company.
6. **Streamline your organization.** Cut waste and fat. Improve productivity and efficiency. Your leveraged competitors will be forced to make these kinds

The use of high levels of debt (leverage) to fund buyouts, finance acquisitions, or defend against corporate raiders can make a company vulnerable to competitive attack.

What strategy should you pursue? The underdog must become entrepreneurial in its thinking, organization, and decision making. Why entrepreneurial?

of cuts and improvements. Therefore, to maintain your relative advantage, you must become as lean and tough as your leveraged rivals.

There are many other ways to attack leveraged competitors, but these ideas are sufficient, perhaps, to stimulate your creative thinking about how your company might mount an attack. But what if the shoe is on the other foot?

Let's suppose you are the leveraged underdog (or just a plain underdog or small company) instead of the cash-rich, nonleveraged company. What strategy should you pursue? The underdog must become entrepreneurial in its thinking, organization, and decision making. Why entrepreneurial?

Many small companies compete effectively with larger ones every day, even though the small companies are debt-laden, cash poor, inadequately staffed, lacking in equipment, and having little or no reputation or image. These small companies survive and thrive by adhering to the following principles:

- 1. Simplify and speed up decision making.** If it takes more than a few days to make key decisions, then you are not entrepreneurial. You must move faster than your ponderous dinosaur rivals.
- 2. Work hard.** Some large companies (and all small ones) forget this. If your employees work 50 hours a week, and your competitor's employees work only 35, you have achieved a productivity advantage of more than 40%, all other things being equal.
- 3. Listen to your customers/consumers.** Talk to your customers. Survey your customers. Read customer letters and comment cards. Respond to your customers' needs and requests. Ignore your competitors; they are just as dumb about customer needs as you are. Too many businessmen spend too much time and energy watching (and copying) their competitors, and forget about their customers.
- 4. Be tactical. Be opportunistic.** Don't worry too much about grand strategy. Focus upon survival. Leap from rock to rock.
- 5. Be unorthodox. Be creative.** Shake up your industry with new products, unusual publicity, and new advertising and promotion tactics. Outthink your well-heeled rivals.
- 6. Pursue market segments too small for competitive Goliaths.** Find market niches and tailor your product/service to those niches.
- 7. Exploit distribution segmentation.** Introduce a brand for "drugstores" only, or "hardware stores" only, or "feed stores" only. This is a common and highly successful entrepreneurial ploy.
- 8. Pursue geographic segmentation.** This is the most common type of market segmentation and one of the most effective. Examples of geographic segmentation are concentrating your efforts on rural areas (instead of urban), on the Southwest (instead of the United States), on suburban

neighborhoods (instead of urban), on the top-20 metro areas (instead of the whole United States), and so on. Geographic segmentation still works.

9. **Exploit private label/unbranded opportunities.** Your cash-rich competitors will turn their noses up and scoff at such “dirty” business.

10. **Improve advertising effectiveness.** Test your advertising, and test your competitor’s advertising. Be sure your advertising is more effective than your competitor’s. True, your richer competitor can outspend you in advertising, but this can easily be offset if your commercials are more effective than hers.

11. **Cultivate word-of-mouth advertising.** An interesting “story” about your brand/service (and it must be true), a story your customers and dealers will want to tell over and over again, can help build a brand or a business. The “Jack Daniel’s story” about the quaint little distillery in Lynchburg, Tennessee, is a wonderful example of a brand with an interesting “story” that stimulates word-of-mouth discussion and recommendation.

There is only one moral to this article: Winning strategies exist, no matter what your company’s status or situation, and no matter if you are the top dog or the underdog.

Too many businessmen spend too much time and energy watching (and copying) their competitors, and forget about their customers.

About the Author

Jerry W. Thomas is the President/CEO of Decision Analyst. The author may be reached by email at jthomas@decisionanalyst.com or by phone at 1-800-262-5974 or 1-817-640-6166.

Decision Analyst is a leading international marketing research and analytical consulting firm. The company specializes in advertising testing, strategy research, new product ideation, new product research, and advanced modeling for marketing-decision optimization.



604 Avenue H East • Arlington, TX 76011-3100, USA
1.817.640.6166 or 1.800. ANALYSIS • www.decisionanalyst.com