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April, 2003

Key Success Factors— a Cornerstone of Strategy

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Key Points:

- Key success factors—KSFs—are assets or skills that enable success in the marketplace, whether they provide sources of sustainable competitive advantage or create parity with competitors.
- KSFs may be technological, financial, legal-contractual, behavioral, or cultural. Increasingly, they are human resources-related and reside in how the work force is recruited, developed, managed, and rewarded.
- Some KSFs are basic—strategic necessities or “market qualifiers”—that a company must have to compete. These market qualifiers can be binary—you have it or you don’t—or scalable—companies can vary in the degree to which they possess the asset or skill. The relative difference provided by a scalable market qualifier can be a source of competitive advantage.
- Other KSFs represent strategic strengths or “order winners.” Businesses do not have to have these assets or skills to compete, but if they do and can exploit them successfully, they may obtain a market advantage.
- KSFs provide a useful framework in which to assess organizational strengths and weaknesses—yours and competitors’. It is important that the KSFs you identify be anchored in marketplace realities and reflect resources necessary to deliver value to customers.
- KSFs are useful in making strategic business decisions—especially, which segments to target. When making strategic business decisions, you have to be concerned not only with today’s but also with tomorrow’s key success factors.

Marketplace Challenges

Consider how you might answer the following questions:

- What advantages, if any, would you have over competitors were you to enter a market new to your organization?
- What might you do to reverse a market’s increasing commoditization of your products?
- How serious a threat might be posed by a well-capitalized new entrant in your market who offers an attractive solution built on an alternative technology?

There is a highly effective approach for responding to such challenges, objectively and convincingly. It involves understanding key success factors—a concept introduced by David Aaker in *Strategic Market Management*.¹ Analysis of key success factors (KSFs) can yield exceptional insights and lead to development of more effective market-focused business strategy.

What Is a Key Success Factor?

An asset or skill that enables a company to win in the marketplace. It may provide a differentiable advantage or be necessary to achieving parity with competitors. Key success factors vary by industry. For example, in the case of e-commerce marketers, KSFs can include the ability to track a customer’s buying habits and motivations and to tailor product offerings and interactive presentations to this particular individual. Technology-based solutions providers, on the other hand, might require access to appropriate intellectual property rights via licensing or patent portfolios to be able to deliver innovation to the market.

¹ Aaker, David A., *Strategic Market Management*, 6th edition, New York: John Wiley & Sons, 2001, pp. 88-89

Although KSFs can vary by industry, they share two important characteristics:

- They are not specific to a particular company. Rather, they represent the assets or skills that any company must have to achieve and maintain a strong position in a given market.
- They are rooted in the requirements of the marketplace. They represent the resources any company requires to satisfy customers effectively.

Identifying KSFs

Key success factors can take myriad forms: access to particular raw materials, close proximity to customers, alliances with complementary suppliers, proprietary technologies, process “know how,” expertise about customers’ customers, reputation and longevity in business and the like.

Increasingly, KSFs are human-resources related. They have their genesis in highly-trained employees directed by managers skilled in the art of motivation. Such KSFs are often not immediately apparent or visible. Although you can readily observe a computerized information system or manufacturing process, it is often difficult to “see” how a company recruits, develops, manages or rewards the people who operate the system or process.

For example, the culture and practices that enable Southwest Airlines or newcomer jetBlue to succeed in the airlines industry are not obvious. Furthermore, such KSFs are not easily understood since they consist not of one thing but several things that fit together in an interdependent system. As traditional sources of competitive success—product and process technology, regulation, access to financial resources, and economies of scale—provide less leverage than they once did, understanding the role played by organizational culture and capabilities is increasingly important.

Categories of KSFs

When applying the concept, it is important to recognize that there are differences among KSFs.

1. Market Qualifiers

Some KSFs are basic: they are strategic necessities or “market qualifiers”—resources that, at a minimum, any company must have to compete in a given market. For example, to succeed in the soft-drink market, access to bottlers is a strategic necessity. Without it, you can’t become a player—unless you want to build your own bottling operations, which for even the largest firms is prohibitively expensive.

Market qualifiers can take one of two forms:

- They can be binary in nature: You either possess the asset or skill or you don’t. An increase in performance on such a KSF won’t necessarily improve your market position. Such KSFs are minimum requirements, the “cost” of doing business.
- Market qualifiers can also be “scalable.” Although requiring some minimum level to compete, companies can vary in the degree to which they possess a scalable market qualifier. This relative difference can be a source of advantage if the need or want the KSF satisfies is important enough to the customer.

2. Order Winners

Other KSFs provide strategic strengths—factors that give you the potential for creating a strong and, perhaps, sustainable market advantage. These “order winners” are not necessarily required by the marketplace but they can be exploited in a way that enables one business to differentiate itself from its competitors.

For example, the ability to provide 24/7 technical service may not be a requirement (“market qualifier”) to sell successfully to process industries like pulp & paper, chemicals or oil refining, but the organization that can develop and successfully exploit this KSF may have an important advantage over its competitors.

KSF Analysis—an example

This example illustrates how one firm completed a key success factors analysis by: 1) identifying KSFs; 2) weighting the relative importance of KSFs in terms of satisfying customer needs or wants; 3) rating the performance of the firm and each of its major competitors against each KSF; and then, 4) determining a total score for the firm and each of its competitors. As noted in the observations below, the analysis provided an eye-opening “dose of reality” that enabled the firm, after its initial shock, to formulate strategy for improving its competitive position.

You and Your Competitors															
Key Success Factor List only Scalable Market Qualifiers (MQS) and Order Winners (OW)	MQS or OW	Rank (1, 2, 3, etc.)	Weighting (1—100)	You		Competitor A		Competitor B		Competitor C		Competitor D		Competitor E	
				Rating (1—10)	Score	Rating (1—10)	Score	Rating (1—10)	Score	Rating (1—10)	Score	Rating (1—10)	Score	Rating (1—10)	Score
1. Technology know-how and market understanding	OW	1	25	6	150	6	150	6	150	6	150	4	100	5	125
2. Ability to deliver what customer wants when wanted, as wanted, where wanted	MQS	2	20	3	60	2	40	6	120	7	140	5	100	7	140
3. Cost-effective products that meet varying customer needs	OW	3	15	3	45	3	45	8	120	8	120	7	105	8	120
4. Reliable quality and processing, ensured supply sources	MQS	4	10	4	40	4	40	3	30	2	20	3	30	4	40
5. Ease of doing business, handling of routine and complex transactions	MQS	5	10	2	20	4	40	8	80	7	70	6	60	8	80
6. Technical service to support start-ups, on-going operations of customers	MQS	6	10	6	60	3	30	5	50	2	20	6	60	7	70
7. Ability to adapt quickly and effectively as market changes	OW	7	5	4	20	3	15	7	35	6	30	5	25	7	35
8. Relationship, ability to deliver what is promised, to engender trust	MQS	8	5	5	25	5	25	6	30	5	25	5	25	7	35
			100	total	420	total	385	total	615	total	575	total	505	total	645
Memo: market share today					46%		4%		16%		<6%		<4%		>24%
Memo: market share trend in future					down		slightly down		slightly up		flat		flat		strongly up

Primary observations from our assessment:

1. We have been coasting on our long-established position in this market.
2. Competitor E is rapidly catching up in terms of market understanding and technology know-how, poses significant threat.
3. We believe competitor B may be on the verge of a technology breakthrough. If so, watch out!
4. If we work on the basics—delivering what the customer wants, providing a more cost-effective offering, ensuring reliable quality and processing—we can significantly strengthen our competitive position.

Competitive Advantage, Core Competence and KSFs

These terms, widely used in the business lexicon, are certainly related... but how?

Competitive Advantage

In his book, *Competitive Advantage: Creating and Sustaining Superior Performance*, Michael Porter argues that there are two basic types of competitive advantage: cost advantage and differentiation. Porter describes sources of cost advantage as varied and dependent on the structure of the industry. Differentiation, on the other hand, he says, requires that a business

become unique along some dimension that is valued by its customers. The “sources of cost advantage” and “means of differentiation” that Porter describes are quite analogous to “market qualifiers” and “order winners,” two categories of key success factors. Another category, scalable market qualifiers, are also a “means of differentiation.”

Core Competence

In their 1990 Harvard Business Review article, *The Core Competence of the Corporation*, Gary Hamel and C. K. Prahalad argued that the cornerstone of corporate strategy is “core competence,” which they defined as the combination of technologies and skills

that underlie a company's myriad product lines. Hamel and Prahalad used Honda's underlying competence in 4-cylinder engines and power trains, among other examples, to explain the ease with which Honda, originally a motorcycle manufacturer, was able to enter new and seemingly unrelated businesses, such as lawn mowers, outboard motors, all-terrain vehicles, and automobiles.


While Honda's engine competence is certainly important, it alone can't explain the company's success in business diversification. Other factors are also important—among them, Honda's skill in dealer management, first developed in its motorcycle business, and its "product realization" process that has enabled Honda to introduce new products faster than competitors.

Key success factors analysis typically creates a broad framework that encompasses not only production practices but other capabilities like distribution and product realization which may be equally important to market place success. More importantly, key success factors analyses keep managers' attention focused outward rather than inward by anchoring the analysis of competencies in the requirements of the market-place. Too often managers get caught up in identifying what is 'core' to the success of their businesses and overlook the fact that the starting point for such a quest is the needs or wants of the customer.

Final Notes

To compete successfully, you have to be strong in several KSFs important to your marketplace—and weak in none. Moreover, since KSFs for a given marketplace tend to evolve over time, you will need to be on the lookout for and to respond to changing requirements. What is key today may not necessarily be key tomorrow.

Many markets have experienced a shift over time from a focus on products and product technologies to a focus on services and process technologies. You may miss the opportunity to prepare for change if you haven't fully thought through the factors that will be key to your success in the future. Accelerating rates of product obsolescence and diminishing life cycles make the ability to employ key success factors analysis a critical component in fashioning effective market-focused business strategy.

Brutal honesty is important in assessing your company's performance on key success factors. Such honesty can provide powerful clarity and drive not only strategy development but the investment initiatives necessary to make your strategy a reality. 

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