# The Grid — The master model behind business success

To succeed, every business must pursue three goals: **desirability**, **profitability** and **longevity**. These goals are affected by three forces: the **customer**, the **market**, and the **organization** itself. This reveals a grid of nine factors that together determine the success of every business. Each box contains three essential elements, defined below.

## DESIRABILITY

### CUSTOMER — WANTS AND NEEDS

**CUSTOMER VALUES & BELIEFS**
Customers prefer products and services that reflect their values, beliefs or self-image: like riding a Harley, or believing the more megapixels the better.

**CUSTOMER GOALS**
Every product or service is a means for customers to achieve a goal they care about. You bait the hook with what the fish wants to eat!

**BARRIERS**
Barriers prevent customers from achieving their goals or adopting your offering. A skill required or incompatible technologies for example.

### MARKET — RIVALRY

**CATEGORY**
Your product or service category determines the intensity of the rivalry. Customers like buying from clear categories where comparison is easier.

**TERRITORY**
Where your business is located and the area you cover impact the size of your opportunity, the regulations you must meet, and the rivals you face.

**ALTERNATIVES & SUBSTITUTES**
Alternatives are direct rivals, like competing airlines. Substitutes are indirect rivals, like an airline competing with a train.

### ORGANIZATION — OFFERINGS

**PROPOSITION**
The product or service proposition is the concept the customer is buying into. Customers must have clear, obvious reasons to choose it over alternatives.

**BRAND APPEAL**
The expectations and associations people have about your business – its brand appeal – affect the desirability of all your products and services.

**CUSTOMER EXPERIENCE**
If your website is confusing, staff are impolite or returning damaged goods is difficult, desirability will suffer – no matter how good your product.

## PROFITABILITY

### CUSTOMER — REVENUES

**REVENUE MODEL**
Your revenue model is how you make money: a fixed price, or charging by the hour, for example.

**PRICE**
Pricing typically has the most powerful impact on profitability. Undercharge and you leave profit on the table. Set prices too high and volume suffers.

**VOLUME**
Sales volumes are determined by the quantities people buy, and the frequency with which they buy them.

### MARKET — BARGAINING POWER

**WITH CUSTOMERS**
Powerful buyers can drive down your margins, so it's important to consider your bargaining power with customers and how it might be changing.

**WITH SUPPLIERS**
Bargaining power with suppliers is equally important. Powerful suppliers can also turn the screw on you – growing their profits at the expense of yours.

**RULES & REGULATIONS**
Every business must comply with basic regulations that limit their power – like tax, or health and safety laws – as well as industry specific regulations.

### ORGANIZATION — COSTS

**FIXED COSTS**
Fixed costs, like rent or salaries, stay the same regardless of how much you sell, affecting your break-even point and subsequent profitability.

**VARIABLE COSTS**
Variable costs depend on volumes – like the materials needed to make products. Cars have high variable costs compared to software, for example.

**CAPITAL EXPENDITURE**
These are longer-term investments, like factories or equipment. Their impact on profits are spread over the useful lifetimes of the assets.

## LONGEVITY

### CUSTOMER — CUSTOMER BASE

**AWARENESS**
People can't become customers unless they know you exist. Raising and maintaining awareness is vital to building and keeping your customer base.

**ACQUISITION**
Awareness should lead to acquisition – new customers joining your business. There's no customer base if people won't buy what you're offering.

**RETENTION**
Your customer base won't grow if existing customers leave at the same rate as new ones join. Retention – keeping hold of your customers – is often crucial.

### MARKET — IMITABILITY

**LEGAL PROTECTION**
Legal protection – patents, trademarks and copyright – can prevent rivals from copying you.

**DURABLE ADVANTAGES**
Durable advantages – such as a unique cost structure, product ecosystem or network effects – can make your business challenging to imitate.

**COMPETITOR LAG**
You can make yourself inimitable by moving faster than rivals, or forcing them to make difficult trade-offs that slow them down.

### ORGANIZATION — ADAPTABILITY

**CASH POSITION**
If you run out of cash, you cannot continue to operate the business. The stronger your cash position, the greater the scope of options you can pursue.

**SCALABILITY OR CAPACITY**
Operating at full capacity leaves you unable to plan for the future. If your business cannot scale it cannot grow.

**COMPLEXITY & RIGIDITY**
Complexity and rigidity within a business can make getting new ideas off the ground or changing direction agonizingly slow – if not impossible.

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