Competitive

advantage

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**Note # 14/15**

# The success of a venture is inextricably determined by its ability to ensure that an increasing number of customers come back to purchase the products or services it provides. What drives customers to repeatedly buy products of a company is defined as the competitive advantage. Some of the sustainable competitive differentiators product, positioning, distribution, and execution, intellectual properties such as novel technologies & trade secrets, cost leadership, economies of scale, data, brand, and network effects.

**Product:** When we say ‘product’, we mean product-market-fit or something that customers have reasons to buy. We do not mean something that can be produced. Many startups come up with a product idea and tend to think that they have winning business models. The fact is that most of the new enterprises do not have product ideas that customers will buy. Do whatever it takes to ensure that you are planning to produce something that the targeted customers will buy.

You are not alone on the supply side. Make sure that your products remain superior to those of the competitors to create a barrier for others to enter into the segment you are catering to. One may build products that are difficult to copy (IPR), create customer loyalty, adopt unique storytelling, craft customers' convenience, give a unique experience, provide after-sale service, promotional schemes, customer engagements, and loyalty bonuses, etc.

**Cost and Pricing:** Beyond the product-market-fit, a product will sell if it is affordable. So, understand your customer's financial status and readiness to spend. If there is a lack of price-to-affordability fit, one can explore how to reduce the price without reducing customers’ values.

**Positioning:** Positioning is connecting the product with the right audience. You may cater to the lower end or upper end of the market segment. If you fail to tell the right people how your product is a perfect fit for their aspirations, liking, needs, and esteem, you may fail to attract a large customer base. You have to rightly position your offering – that includes telling stories, advertisement, promotions, and branding, etc.

**Coca-Cola** positions its product around the joy of sharing, happiness in friendship, and fun.

**McDonald’s** positions as quality, service, and cleanliness.

**Apple** positions itself as exclusivity, elegance, luxury, and things of high esteem.

Tata in general positions itself as a brand you can trust. However, they have different products in different segments.

Starbucks positions based on their unique customer experiences.

**Distribution:** Distribution helps ease of reaching out to customers and give them pleasant surprise or unique experience as you can place a product just in front of the customers. It is not so easy to have a wide distribution or delivery network, but once in place, it helps scaling your business in a cost-effective way.

**Execution:** One can create a successful business without disruptive technology just by great execution of an existing business idea. Google came to the horizon much after yahoo. But their execution was so effective that they left the competition far behind.

**Timing:** The timing of starting and running a business is another very important factor. Great timing is determined both by the technology paradigm, customers' choices, trends, and many more. Products that are ahead of time or are at a lag do not find success.

**Agility:** Technologies and customers’ choices are dynamic and companies have to keep changing to meet this changing aspirations. Only those who can preempt the emergence of new technologies and not react to keep pace with market win big time.

“if you’re actively learning from your customers and you never stop moving, creating, innovating, and learning, that puts you ahead of most companies in the world.” Saying that “I listen to my customers,” which (nowadays) is just as bullshit as “We’re passionate,”

**What are not competitive advantages?**

**Many features in the product:** Build a product that has only the features that customers value. Adding features cost money. Try reducing cost by eliminating the redundant features and you will create higher value for customers. Make it a habit.

**Copyright:** Hardly protects anything worthwhile.

**Patents:** It works in some industries, not all. Usually, there are ways to work around and copy your patented technology, particularly if you are not big enough to fight. Software patents have limited utility.

**Social media:** You may think you are strong in this dimension. But social media is ever-changing quicksand. You may appear at the top in google search today, but maybe nowhere tomorrow. You have no control over others, some of whom may be smarter. Do not underestimate others.

**Passion:** Everybody is passionate. You can’t be an exception. If you think you are, and if that is your competitive advantage, it makes no sense.

**Academic degrees of the founders or early employees:** Degrees are good, but they do not help much in execution and is not of much value in sustaining advantage.

All the above and many more features of your business model that are perceived competitive advantages are not unimportant. They are critically important provided you enjoy a collection of them and not just one or two. More importantly, many of them are not sustainable over the long term.

**More strong advantage is (collectively all of the following)**

* your understanding of the customers’ pain
* Your ability to define the pain
* Your ability to develop a solution that effectively solves the pain.
* Your solution is incrementally better in terms of efficacy and customer perceive that as better value for money.
* You keep researching to preempt the progression of technology and remain ahead of competition. You should keep filing for protection of IPR. Competitors will copy them, but they will remain poor followers and, at some point in time, get tired.
* Take care of business process management to ensure smooth service to customers. Gather data, understand changing behavior of customers, analyze why some customers are leaving and why some are sticking to your products (these are the most trusted data you will never get from anywhere and a new entrant will not have) and reorient accordingly.
* Once you establish firmly in your domain, focus to remain as the technology leader in that domain no matter what. Microsoft and Yahoo have tried very hard to displace google from being the most preferred search engine. But Google is unwaveringly devoted to refine their search algorithm applying whatever resources it takes with a firm determination to remain where they are. They have been doing many other things, but they never compromise on this line of activity.
* Better to contain the allurement to diversify if that would dilute your conviction to the one thing you do the best and that defines your enterprise.

Two examples:

# Hiten Shah’s third company: KISSMetrics.

“Customer Engagement Automation by Kissmetrics. Analyze, segment and engage all in one place with easy to read reports and friendly user interface.” It is a marketing metrics company, a hugely overcrowded business area. But Hiten has his mojo that no competitor has. He has networked with celebrity investors and mentors such as Dave McClure, Sean Ellis, Eric Ries (author of the book: Lean Startup), who actively promote KISSMetrics through blog, Twitter, and even personal appearances.

It is almost impossible for any competitor to match this advantage.

# Sridhar Vembu, the barefoot billionaire, promoted Zoho Corporation. Their main product is the Zoho Office Suite. It is a web-based online office suite containing ***word processing, spreadsheets, presentations, databases, note-taking, wikis, web conferencing, customer relationship management, project management, invoicing and other applications.***

Office 2010 of Microsoft was seen as a threat to Zoho. But see what Sridhar had to say when the market was agog with such conjecture. “Companies don’t get killed by competition, they usually find creative ways to commit suicide. Office 2010 will be the end of Zoho, if we **stop innovating**, **stop being nimble** and **flexible** in our business model. Then again, if we stop all that, Zoho will die anyway, no Office 2010 needed to do the job.”

The message is clear and is perhaps the best way of defining competitive advantage.