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Gaining Strategic Competitive Advantage



Every organization, business, large or small, needs a strategic competitive advantage to distinguish itself from the competition. In the aggressive business world, especially in today's economy, every advantage counts to establish your business in the top of your industry. Gaining a competitive advantage takes strategic planning, extensive research and an investment in marketing.

In order, a company to cope successfully with competitive market forces and generate a superior profit, in the long run, it has to obtain sustainable competitive advantage. This contribution explains theoretically how the company can achieve it. Analyses here are based on the model established by Michael Porter, according to whom, there are two basic types of competitive advantage: cost leadership (low costs) and differentiation. Both can be more-broadly approached or narrow, which results in the third viable competitive advantage: focus. According to cost leadership strategy, a company sets out to become the low-cost producer in its industry. The sources of cost advantage include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors. In a differentiation strategy, a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price. The generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others. The focus strategy has two variants. A) In cost focus a firm seeks a cost advantage in its target segment, while in B) differentiation focus a firm seeks differentiation in its target segment.

There are three major phases or parts.

- Examining your organization or business
- Creating a Competitive Advantage
- Maintaining a competitive Advantage

PART ONE OF THREE:

Examining Your Organization or Business

1 Learn what “competitive advantage” means.

A competitive advantage is simply a factor that distinguishes your business from others and makes customers more likely to choose your product over the competition. Without a competitive advantage, your business has no unique method of drawing in customers.[1]

- A competitive advantage is a way in which you can create value for your customers that your competitors cannot. This may be lower cost, faster service, better customer service, more convenient location, higher quality, or other factors.
- For example, a restaurant offering the best food in town (best-tasting, highest-rated, most well-known chef, or some other measure of quality) would have an advantage over its competitors by offering a higher-quality product.
- Alternately, a business could focus on reducing overhead and production costs to offer a market-quality product at a below-market price. Being able to offer this product at the price that they do would then be their competitive advantage.
- Creating a competitive advantage involves analyzing your business's strengths and those of your competitors, and then learning how to take advantage of these factors.

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2 Work to understand your customers.

Identify the demographic qualities of your customer base. If you serve businesses, what type of businesses do you typically sell to? If you serve individuals, are they typically young or old, male or female, married or single? Do they live within a 1/4 mile (0.4 km) of the business or 50 miles? What is their typical income? Are they different from your competitor's customers? If you do not understand your customers, you cannot determine why they patronize your business.

Take this one step further by seeking to understand your customers on a personal level. What are their hobbies? What do they care about? What aspects of your business or your product resonate with them?

Demographic information can be discovered through customer interaction, surveys, or analyzing customer information.

3 Examine your business's unique strengths.

Examining the strengths of your business can let you know which areas you can build on to create a competitive advantage. Ask yourself, “Why do customers buy from me?” The answer to this question will help you understand what value you offer them.

For example, if you own a Chinese food restaurant, the quality of food, the location, or perhaps the speed of the delivery service may all contribute to a customer choosing you over your competition.

Don't be afraid to ask your customers directly. You can make a survey for them to fill out, or just approach them, but your key objective is to discover why it is they choose you.

If many customers list location, for example, you can work on other aspects of your business to create an even greater advantage.

4 Look at your competitors.

A competitive advantage means you need to offer some things your competitors don't. Therefore, you need to know what it is your competitors do well, and do not do well. Think about your competitors' products, services, prices, location, and marketing. Then, compile a list of all the reasons you feel a customer would choose your competitors' business.

- Compare this to your list of advantages. What strengths do you have that your competition does not have? Which strengths does your competition have that you do not? The areas of strength that you have are the areas you should focus on expanding.
- Remember not to be a "me too" competitor as much as possible. For example, if your competition has one recipe that many customers come to that restaurant for, simply imitating their recipe will not add to your competitive advantage. Instead of trying to copy your competitor's advantages, strengthen your own to create a unique set of strengths that cannot be replicated.
- Remember that your competitors can include more than lookalike businesses. For example, a Chinese restaurant competes with other Chinese restaurants, but also with other dining choices.

5 Hire a company that specializes in providing business information.

For example, Cortera [2] will research, construct and analyze a competitive landscape of your target market. They and similar companies will have extensive databases to quickly access the information you will need. The more information you have, the easier it is to make decisions on what is working and what is not.

- Detailed customer knowledge is equally important as competitor knowledge. Gaining in-depth insights about your customer portfolio will allow you to maximize revenue potential, increase customer retention, and boost prospective customers.
- You can use a mix of many tools and methods to measure consumer insight and both your position in the market and the positions of your competitors. Along with traditional company information resources, consider social media analysis tools that allow consumer insight mining on a large scale.

PART TWO OF THREE:

Creating a Competitive Advantage

1 Review your core strengths.

Once you have identified your core strength areas, you can add to those using several market strategies to build a competitive advantage, or to create new areas of advantage.

- For example, you may have a major strength in terms of product quality. You can further add to this strength by focusing even more heavily on fantastic quality, but also trying to deliver your product faster, and at a lower cost.

2 Reduce costs. Cost reduction is one strategy that businesses can pursue to gain a competitive advantage, or to add to their advantage.

Most markets have price-sensitive consumers, and being able to offer your product or service at a lower price is a certain way to create value for your customers. Walmart, for example, has a competitive advantage due to its ability to provide low prices.[4]

- Examine your entire production process. This includes everything from purchasing supplies, to how your workers produce your products, to how your product is sold.
- Consider investing in technology that can reduce costs. If you own a restaurant, for example, purchasing energy-efficient equipment can reduce your operating costs. If your business has an excellent credit rating compared to your peers, you can finance these purchases at a lower cost.
- Examine how your workers are producing as well to make sure they are not wasting resources and that they are producing as much as possible.

What strengths do you have that your competition does not have? Which strengths does your competition have that you do not? The areas of strength that you have are the areas you should focus on expanding.

3 Focus on service.

In your particular market, service may be a key factor that differentiates competitors. If your business already has a strength in service, consider doing more to focus in this area.

Hiring better staff, improving training standards, managing staff closer, offering rewards and incentives for strong service, and offering more convenient hours of operation can all help generate an advantage. It is important to create a culture of excellent service. If your service advantage is based on a few simple factors (like longer hours), your competition can easily replicate it.

4 Focus on product or service quality.

If you cannot compete with your peers on location or on price, for example, you can always compete on quality. This is even more true if high quality is one of your strengths. Customers will often pay more or go to greater lengths for an exceptional product.

You'll need to first determine exactly what quality means in a particular market. For example, do customers want maintenance-free products, better design, or longer life? What does quality mean to your customers?

Look at best-selling products in your market. What aspects of these products make them desirable?

Focus on taking your unique talents and background and using these. For example, if you are in the restaurant business, and you spent three years overseas studying cuisine, you can use your experiences and contacts there to establish truly unique recipes.

Focusing on hiring the right people, and using higher quality supplies can dramatically enhance the overall quality of your product or service.

Once you've gained a competitive advantage, your work is far from complete. To be successful, you will need to continuously maintain your competitive advantage, through pricing, product features, and marketing.

5 Differentiate your products and services.

Look for one or more marketable attributes that you have that can set you apart from your competitors. Then find the segment of the market that finds those attributes important and market to them. For example, do you have the longest battery life? Frequent travelers need this. The lowest price? That's important to lower income customers. Free shipping? If you are the only one offering this it could attract new customers.

- This process can also work in the other direction by conducting research to determine which things consumers find most important and then developing a niche market for those products or characteristics. For example, people with arthritis have trouble opening cans and jars. You could design a gadget that makes it easier for them and then advertise in medical publications.

6 Form an alliance with another company.

Forming a partnership or alliance with another company can be an excellent way to gain a competitive edge. For example, assume you are a local equipment supply company. You could approach a local transportation company and offer to provide them with a discount on products in exchange for quicker or more preferential local transportation. In doing so, you can offer your customers their products in a shorter time frame than your peers, providing you with a competitive advantage.

PART THREE OF THREE:

Maintaining a Competitive Advantage

1 Create an "economic moat."

Take advantage of barriers to enter into the market, using them to dissuade competitors from challenging your market share. In some cases, an established company's ability to manipulate hurdles to enter and compete in its market becomes an effective tool against new competition, further entrenching the business and preserving its profit potential for the foreseeable future.

- For example, you may own an Asian-themed restaurant located in a mall. This would provide an economic moat, since it is unlikely the mall would want to open multiple Asian-themed restaurants in the same area. This prevents new business from competing with you.

- To create the moat, you may be able to negotiate a site monopoly on your type of business if you are located on a multi-business site like a mall or strip shopping center.

2 Stay on the cutting edge.

Once you've gained a competitive advantage, your work is far from complete. To be successful, you will need to continuously maintain your competitive advantage, through pricing, product features, and marketing. For example, if you are in the technology space, you need to be continually designing new products that are faster, less expensive and have more functionality. After all, your competitors are not going to sit back and allow you to steal their market share.

Sometimes you may need to take chances to keep ahead of the pack and differentiate your business, but with big risk often comes big reward. Just remember to do your research before diving head-first into new ideas.

3 Predict future trends in your industry.

A good way to do this is to join a local professional association that offers speakers with expertise in your field and an annual conference. You will be able to get new ideas and see what others in your industry are doing.

4 Research and monitor your competitors constantly.

Look for updates on their websites, get on their mailing lists, and watch for new product announcements as well as changes in pricing.

5 Adapt to your customers' wants and needs.

Ask for your customers' opinions frequently with online surveys and customer advisory boards. Your sales force should be updating you with feedback they hear from current and potential customers while on sales calls.



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