Taking a new look at competitive advantage

Everyone claims to have a competitive advantage in the marketplace but, as Graham Kenny explains, the obvious answer to what forms competitive advantage isn't always correct*

Ask managers what makes their organisation successful and you'll get a description of internal activity rather than the precise results of this activity. And, you know, they'd be wrong!

Take, for example, the private hospital that lists, as its critical success factors, "capital development, responsible financial management, developing key partnerships, quality models of care, efficient systems and working together."

What we have here is a catalogue of internal processes and, as praiseworthy and as well-performed as they might be, they are not what determines the success of the hospital. They are not competitive advantage.

The fatal flaw in many organisations' strategies lies in their misunderstanding of competitive advantage – and this error is widespread.

Most organisations misread performance on internal processes and capabilities as competitive advantage. They become complacent in the knowledge that their systems are "best practice" or "quality." Yet the response to such claims should be, "So what?"

Why are managers so clearly unable to identify the essential ingredients of their organisation's competitive advantage? The answer is that they insist on looking at their performance from the inside out, rather than outside in.

We're like the fly in the honey. We become entrapped by our own organisation. We become weighed down by policies, procedures, systems, processes, practices and they become our world. What's worse, they become the world.

So what are those things around which organisational activity must focus and which lead to success? The answer is looking at your organisation's (or business unit's) performance from the outside in. By seeing yourself as your customers, suppliers, employees, owners and others see you, and asking: how do they evaluate our performance? What do they look for from us?

Take 7-Eleven for example.

7-Eleven convenience stores are found in many suburbs and towns and carry a range of essential items, such as milk and bread; they are "conveniently" located for a local population. In the marketplace they occupy a niche quite different from that of the supermarket.

The 7-Eleven convenience store is a classic example of a small business that has many of the attributes of the large ones. It has customers, employees, owners, and other key stakeholders.

The six strategic factors relevant to the relationship of a 7-Eleven store with its customers are listed in Figure 1. Also listed are the benefits that the latter derive from each of these strategic factors. The strategic factors emerge when we picture a potential customer driving down the street and making the decision to stop at a convenience store. It is at this point, this moment of truth,

Figure 1 – Strategic factors and customer benefits in a 7-Eleven store

Strategic factors	Customer benefits
Location	Lower travel costs; ease of parking
Hours of operation	Open when needed
Customer service	Pleasant staff, able to give good advice and knowledgeable about stock
Range of goods sold	Plenty of choice from wide range of goods
Store presentation	Attractively laid out to make shopping pleasant; easy-to-find products; speedy shopping; clean and hygienic
Price	Savings

when all the strategy that 7-Eleven has developed is tested. The outcome of this decision is a measure of 7-Eleven's competitive advantage. He or she weighs up the customer benefits listed in Figure 1 that each strategic factor delivers.

The first thing a driver might weigh up is where the store is located. Is it on a busy road? Can I park right outside the store? Or do I have to walk a considerable distance after parking the car? These and other questions concerning location will be on the driver's mind.

Next comes consideration of the hours of operation: Is the store open now? Are its hours 9am to 5pm, or is it open 24 hours a day?

The question of customer service looms large: Are the staff pleasant? Are they abrupt or offhanded? Do they know what they're selling? Is the service fast?

There are other factors to be weighed up as well, such as the variety of goods sold. Does this store carry everything I need? Or is it a one-stop shop? What about its presentation? Is it clean? Is it well laid-out? Can I find items easily?

Finally, the driver considers price and asks: Is its pricing competitive? This doesn't mean, of course, that a convenience store has to be the cheapest around. Far from it. But it does have to be competitive with the other choices available to the driver.

The driver's final assessment is a trade-off of one strategic factor against another. A set of strategic factors such as those in Figure 1 could also be developed for other key stakeholders of a 7-Eleven convenience store, such as owners, suppliers and employees.

Value is the result of balancing Strategic Factors. In the case of 7-Eleven, price against the other five factors. Competitive advantage is the extent to which an organisation delivers value superior to that of its competitors. This way of defining competitive advantage applies to the relationship between an organisation or business unit and each of its key stakeholders. You need competitive advantage not just with customers but with suppliers, employees and shareholders.

Let's consider Woolworths, a company that bases its strategy on strategic factors. Woolworths is a significant organisation globally. It's ranked 415th in Fortune's 500 largest corporations in the world, with revenues of $11.9 billion and profits of $162 million. In Fortune's Food and Drug Stores Category, there are 25 companies worldwide out of the top 500. Woolworths ranks 22nd on profit, but 10th on profit as a percentage of assets. Woolworths has guided its development by a keen focus on strategic factors.

Not long ago, the giant retailer spotted a significant new concern among its customers that caused a fundamental shift in its strategy: safety had become the dominant issue in shoppers' minds. The company's research found that a decade before, the principal reason people chose to shop in a given store was price – they looked to see what they could save. About five years ago, the emphasis moved from price to convenience. Location, another strategic factor, dominated. Customers wanted available parking, they wanted the stores to be close to home and close to other stores serving their needs. They also wanted longer hours.

Safety has become the dominant issue at present through a combination of causes. One of these was a disturbing incident: a producer of preserved meats distributed product that led to food poisoning and fatalities. This frightened a number of Woolworths' customers; they became concerned about the food they were purchasing from Woolworths and other stores. This concern has now been transformed by the debate about genetically modified food. Customers are seeking reassurance that the food they are buying, whether genetically modified or not, is safe to eat.

But Woolworths has ascertained that, in addition to purity of food, its customers are also concerned about physical safety in shopping centres.

Woolworths' strategy is clearly focused on strategic factors, four in particular: safety, price, location and hours of operation.

What's illustrated in this example is how strategic factors underpin strategy and give rise to competitive advantage. They also form the foundation for value, differentiation and positioning.

But you have to know them, as David Jones seems to – now.

Positioning a department store in this era of specialisation is a difficult task. There is no single blueprint. In Australia, David Jones and Myer Grace run at about 50 percent apparel and accessories, with the rest in a wide range of home wares, electrical and other goods.

Positioning a department store is difficult because of the product range and, potentially at least, the wide variety of customers it caters for. David Jones, however, has flip-flopped in its positioning over recent years. Traditionally – and its history goes back 160 years – David Jones was seen as a high-quality, prestigious store set apart from its competitors. A few years ago, the company deliberately drifted down-market and began to compete on price. It took on its competitors at the bottom end of the market, such as Target and Kmart. Standards of service also slipped, and employees as well as customers were confused.

The strategy has been to rediscover those strategic factors that located David Jones in its special position in people's minds. It now emphasizes product quality, customer service, its history, the quality brands it stocks, fashion parades and personalities. It is also considering location, different merchandising methods and point-of-sale techniques.

The upmarket move of Australia's traditional prestige department store has been achieved by focusing on strategic factors and positioning the organisation accordingly. David Jones' share of the total Australian department store market has risen to just under 10 percent, after falling for five years. Margins are also improving. The retailer hopes, through its strategy, to reposition its brand, differentiate itself from the competition, achieve superior value for its customers and obtain competitive advantage. So far it's working!

Figure 2 – Internal processes and capabilities vs strategic factors

Internal processes and capabilities	Strategic factors
Advertising (process)	Image
Well-trained staff (capability)	Customer service
Up-to-date computer system (capability)	Delivery
Training (process)	Customer service
Product development (process)	Range of products
High-quality manufacture (capability)	Product quality
Efficient production (capability)	Price

What competitive advantage is not

Competitive advantage is doing something better than a competitor, but in a way valued by stakeholders. What's important is not what we as members of an organisation or business unit consider competitive advantage to be. It's how our key stakeholders define it. That is fundamental. We can delude ourselves that we have competitive advantage when, in actual fact, we don't.

Competitive advantage is not the same as having superior internal capabilities. (Figure 2 illustrates this.) Planning teams will often say that they have a competitive advantage because they have better technology, or more highly qualified employees, or a lower cost structure. These capabilities may be the springboard to deliver competitive advantage, but managers should not be misled into thinking that they constitute competitive advantage itself. This important message is emphasised here.

These things mean nothing to customers or any other stakeholders unless they translate into something that is valued. For example, better information technology only means something to customers if it delivers better customer service, or if it allows an organisation to achieve a lower price. It may be that the presence of more highly trained and skilled employees leads to better customer service but, if it doesn't, it is of no consequence as far as customers are concerned. It also means nothing in terms of competitive advantage.

Again, to be the lowest-cost producer in an industry is not a competitive advantage. Customers do not buy our costs, they pay our price. Being a low-cost producer is, of course, a desirable position to occupy in any industry but, unless this is translated into something customers or other stakeholders value (e.g., price in the case of customers), it means little in competitive advantage terms.

We are not simply playing with words here. We're talking about a totally different way of looking at competitive advantage.

Remember that competitive advantage is how your key stakeholders perceive your performance on strategic factors, not how you perceive your performance on internal processes, practices, systems and the like.

** Graham Kenny heads the company Strategic Factors and he has recently written **Strategic Factors – Develop and Measure Winning Strategy**, from AICD Publications on (02) 8234 3333*

FULL
PAGE
AD