Finding and Communicating Your Competitive Advantage

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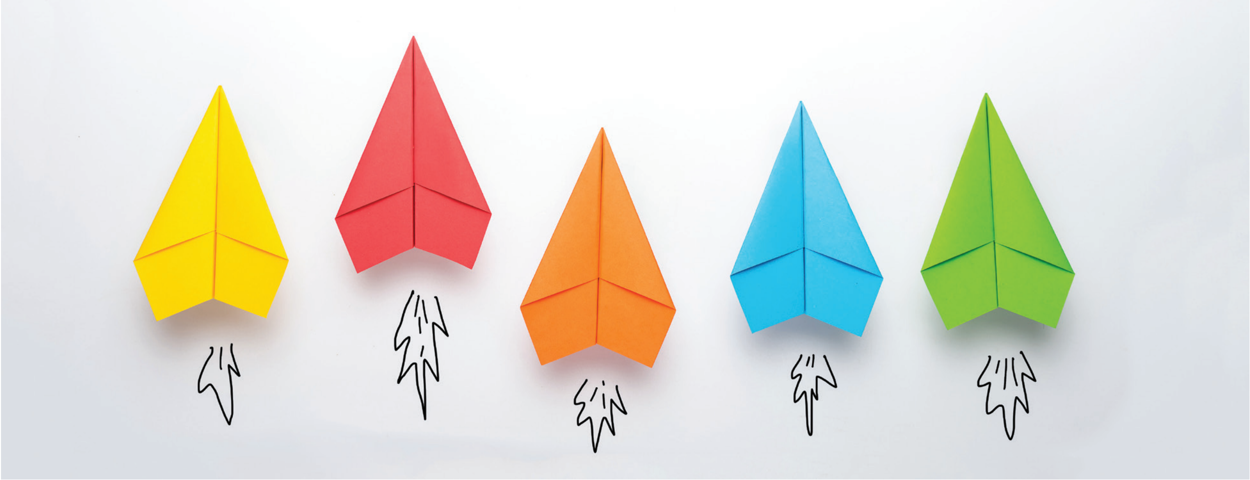

It's hard to disagree that the global market is highly competitive. The long-term success of a company is determined by its ability to find a competitive advantage over its rivals. Finding a space within the industry that isn't being exploited or a space where your business excels will give you a competitive advantage. It could be your company's product line, cost structure, manufacturing process, relationship with suppliers and distributors, logistics, service, or something else completely.

But just being different isn't enough. You need a competitive strategy. An effective competitive strategy will allow a company to maintain a profitable and sustainable position over its competitors.

Understanding the Industry and Your Competitors

The first step in creating a competitive strategy is to understand your industry and who your competitors are. Most companies have too narrow a view of their competitors. Michael Porter, a Harvard business professor and author of 19 books and numerous articles, wrote *How Competitive Forces Shape Strategy,* which discusses five forces of competition. The article was first published in the *Harvard Business Review* in 1979 and updated in 2008. His five competitive forces are still used today as a simple framework for assessing the competitive position and strength of a business or business line within an industry.

The five forces of competition at work within industries include:

1 **Rivalry among competitors—** High rivalry among competitors through price discounting, new product introduction, marketing, and service improvement can limit the industry's profitability.

2 **Threat of entry—**Profitable industries attract new entrants and imitators. New entrants put pressure on prices, costs, and the rate of investment necessary to compete, which decreases profit potential for existing competitors. Barriers to entry, such as capital requirements, economies of scale, customer loyalty, etc., can give incumbents an advantage.

3 **Substitute products or services—** A substitute product that performs the same function as an industry product and offers customers an advantage (e.g., price, functionality, convenience) can erode industry profitability.

4 **Power of suppliers—**Powerful suppliers may charge higher prices, limit quality or services, or shift costs to industry participants.

5 **Power of buyers—**Savvy customers can play one company against another, demanding lower prices or higher quality.

Understanding the forces that shape your industry is the first step to developing a competitive strategy. Looking at the industry as a whole provides a baseline for evaluating your company's strengths and weaknesses. To increase profitability, companies can take action against the industry forces, such as positioning your company where the forces are weakest (e.g., focusing on a niche group that is underserved by your competitors), exploiting changes in the forces, or reshaping the forces in your favor (e.g., making it difficult for customers to leave through technology, convenience, services, etc.).

A company that can position itself well within the industry may earn high rates of return even in industries that perform poorly. In Porter's book *Competitive Advantage,* he discusses the two types of competitive advantage a company can have: low cost or differentiation. Both of these have focus subsets: cost focus and differentiation focus. Cost leadership and differentiation strategies are applied broadly across an industry, while the focus strategies are applied to a narrow or niche market.

Using SWOT to Match Strengths to Opportunities

In industries where forces limit a cost leadership position, differentiation either to the broad market or a focused underserved segment will be necessary for long-term growth. This is where having a clear understanding of the competitive forces is critical. It is not enough to just be different; you need to match your differentiation to a market need.

One way to determine your position is by conducting a SWOT (strengths, weaknesses, opportunities, and threats) analysis. The first two components are an internal look at your company to see where you do well and where you need work. Opportunities and threats look at the external environment.

A SWOT analysis should be based on your customer perceptions and not your own. Many companies, for example, feel they have excellent quality and the best people. If your competitors can say the same things about themselves, it's probably not a significant strength, and if your customers don't agree with you, it is definitely not a strength.

The SWOT analysis allows you to focus on competitive advantage by matching strengths with opportunities, which will lead you to your positioning within the market. It can also give you an opportunity to see where weaknesses can be converted into strengths.

Implementing and Communicating Your Competitive Advantage

If your analysis uncovered significant changes that require new hires, staff training, policy or procedure changes, acquisitions, capital improvements, etc., you will need a plan or series of plans for carrying out the objectives. Tracking and measuring the implementations is critical to ensuring they stay on schedule and are effective once implemented.

Once you have your competitive advantage nailed down, you will need a 20- to 30-second elevator pitch that effectively communicates your position, speaking to the value you bring, not to your capabilities. Effective communication means that your audience understands what you are saying. Internal acronyms, jargon, unnecessary words, and complicated sentences just muddy the waters. Just because you know what you mean, it doesn't mean others will understand. Your message needs to be crystal clear. Simpler is better.

Once you have your message perfected, you must communicate your strategic advantage to the marketplace. Your plan should focus on your target market, market communications (e.g., direct mail, e-blasts, social media, blogs, case studies, phone calls, tradeshows, etc.), budget, and schedule. Develop a plan with a schedule to push your message out into the marketplace (ensure all your employees are familiar with your message as well). The key is to ensure your competitive advantage message is consistent in all forms of communication.

Once your message is out in the marketplace and leads start coming in, it's easy to forget about your target market and competitive focus. Stay true to your plan, and don't be afraid to turn away business that doesn't match your positioning. Saying no strengthens your message and frees you up to concentrate on clients that will develop long-term relationships with you and continue to add to your profitability. ■

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