

## Thinking Dimensions Global

Insights and Actions for Executives

# CEO P.O.V.

**THE POWER OF COMPETITIVE ADVANTAGE**

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At Thinking Dimensions Global, we define Competitive Advantage as “a specific company capability or competency that provides a superior return relative to your competition and can be validated through the eyes of your customer”.

In simple terms, a company’s competitive advantage answers the question:

What is it that we do that affords us greater premiums in respect to our competition?

A company’s competitive advantage is confirmed when the customers truly deem it unique and valuable – and therefore either pay a premium or generate greater margins for the company.

## 1. CREATING/IDENTIFYING COMPETITIVE ADVANTAGE

Often, companies do not know what their competitive advantage is and have even less knowledge on the effects of this competitive advantage for their P&L.

To gain a competitive advantage normally requires significant effort, resources and investment: therefore it is important to value your competitive advantage and understand what actions can be taken to protect and sustain it.

Measuring the impact of your competitive advantage means understanding to which extent your sales (and profit margins) are due to unique capabilities you are delivering to your customers. Customers are the ultimate indicator of the value of your competitive advantage: when a customer is willing to pay a premium price he or she has identified a unique capability you offer.

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A premium price measurement alone compared to the competitors, however, is not sufficient data for an evaluation. Once you have validated your competitive advantage, and the value per single opportunity (premium price), you need to estimate the potential market in terms of the number of clients that have similar wants and needs and therefore are willing to pay for your unique combination and solution.

When the various stakeholders making decisions in the company are in alignment about your competitive advantage, performance improves, especially profitability. The objective of looking for alignment is to avoid internal and external customers “dissonance in perception” and to improve your company profitability by focusing on the right products, services, and messages both internally and externally.

The majority of company’s claim they want to focus on selling products and services where their competitive advantage is stronger and receive the benefits deriving from superior offerings. In a product portfolio, however, it is often the case that only a few products or services deliver true competitive advantage: therefore this needs to drive R&D investments including protection of intellectual property and underlying investments (i.e. rigorous global patent and trademark

*Do you want to invest money in R&D and patents for products that are not representing your competitive advantage? No.*

Products that do not provide advantages to your clients are also products that cannot be sold for a premium price, resulting in downward pressure on margins.

The final consideration is to ensure that customers are aware of what your competitive advantage is. Unfortunately it is just not as visible as management would like to think it is or should be

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## 2. ALIGNING INTERNAL FORCES AROUND YOUR COMPETITIVE ADVANTAGE

The definition of competitive advantage is very intuitive to most executives – as they understand a very foundational business formula: *Price-Cost=Profit*.

They also understand that of the products or services offered they are receiving more, less or a parity part of this equation. However the danger is that the dialogue on competitive advantage becomes too internally focused without testing the external factors that affect the three components of this *Price-Cost=Profit* relationship.

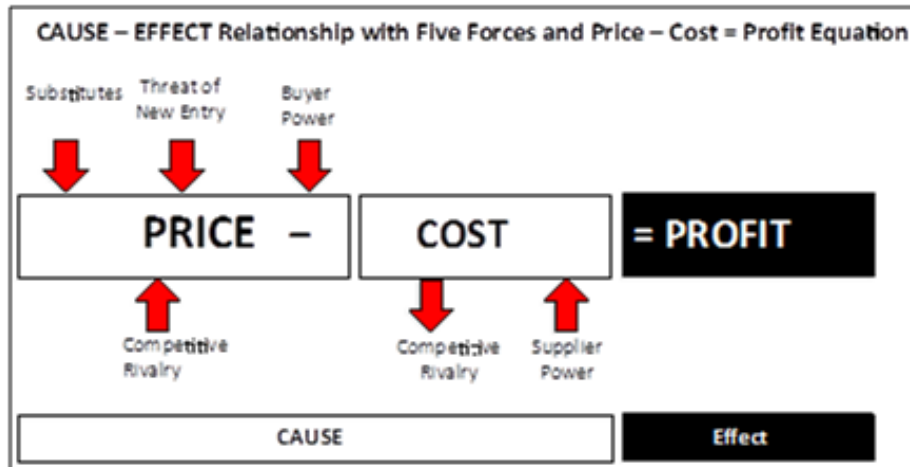
To enhance your management teams lateral thinking and cultivate strategic alignment, consider integrating the *P-C=P* discussion together with the well known Michael Porter's Five Force Framework in a two-step process.

**One** - Ask and capture the responses from your executive management/leadership team to the following questions:

- What impact do **Substitutes** have on Price? Cost? Profit?
- What impact does **Threat of New Entrants** have on Price? Cost? Profit?
- What impact does **Buying Power** have on Price? Cost? Profit?
- What impact does **Competitive Rivalry** have on Price? Cost? Profit?
- What impact does **Supplier Power** have on Price? Cost? Profit?

**Two** – Show them how the five forces relate to the *P-C=P* cause effect relationship (see below) and have them evaluate your own firm's situation with the new insights they have uncovered. Armed with this new visual on how it all fits together, they quickly see the critical factors which can (and cannot) be impacted through their areas of influence and more importantly the impact of these factors on the business.

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Three key benefits emerge from this management dialogue

1. It forces your management team to think externally about key dimensions that impact industry profitability and helps to guard against insular thinking.
2. It provokes them to focus on the causes of competitive advantage and discern if you really have one, rather than just the effects (profitability), which is an outcome.
3. It simplifies, connects and makes actionable important strategy thinking tools that once seemed academic.

### 3. VALIDATING COMPETITIVE ADVANTAGE

Once your competitive advantage is aligned, meaning that all of your management team(s) view it in the same way and can vocalize with consistency what the competitive advantage of the organization is, the time has come to test it with your customers.

One of the better approaches to testing this with your customers is to conduct a third party survey of:

- your most important customers
- the customers you have lost
- the customers you need to gain in the future for your strategy to be fully successful

Use this survey to test that the attributes and buyer benefits of your competitive advantage translate into a unique and valuable combination *as viewed by your customers*.

On completion of this survey- which normally has a duration of four to six weeks- schedule a meeting with your management team to view the results and ask:

- 1) How closely do the results of the survey correlate to the competitive advantage we believe we deliver to our present and future customers?
- 2) What unexpected deviations in results exist?
- 3) What is the root cause of the deviations in results? If we don't know- what data do we need to identify root cause?
- 4) What plans of action can we take/do we need to take to address the deviations? Having a well defined, well-communicated competitive advantage is one thing, but nothing lasts forever. It is always smart to validate that what brought you to the party will keep you there!

The answers to these questions will assist your management team as one step in achieving "Sustainable Competitive advantage".

#### 4. IS YOUR COMPETITIVE ADVANTAGE STILL WORKING?

Having a well defined, well-communicated competitive advantage is one thing, but nothing lasts forever. It is always smart to validate that what brought you to the party will keep you there! On at least an annual basis, you should re-visit the factors creating your competitive advantage and ask three basic questions:

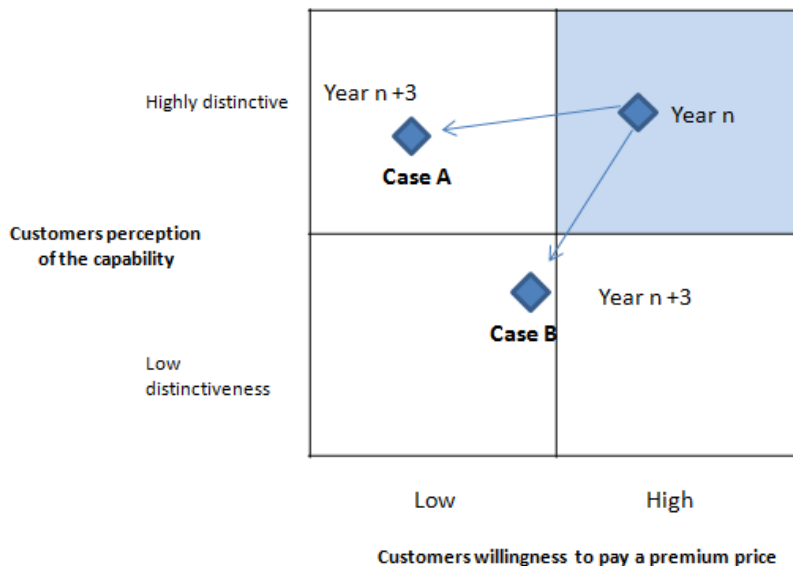
- 1) For which specific combinations of products and markets is your competitive advantage valid?
- 2) How long will the competitive advantage your company has today remain valid when looking into the future?
- 3) Which strategic choices will your company make to maintain and enhance competitive advantage in the future?

"Having a well defined, well-communicated competitive advantage is one thing, but nothing lasts forever. It is always smart to validate that what brought you to the party will keep you there!"

If you aren't looking at the weaknesses in your competitive advantage, you can be assured your competitors are. Consider two cases:

**Case A:** a multinational player in the plastic sector saw their margins evaporating because the management team understood late in the game that customers were no longer willing to pay a premium price for their "customized" products

**Case B:** a European company that develops and produces appliances almost went out of business after the management failed to recognize that the perceived ability to innovate was no longer perceived as distinctive by customers



**Fig 1: Evolution of company capability in time (source Thinking Dimensions Global)**

New market changes and rapidly evolving trends are increasing the volatility of competitive advantage and rendering previous assumptions invalid. Changes include:

- Faster adaptation by competitors
- Global competition
- Increasing speed in the changes of economic and regulatory conditions
- Increased sophistication of the criteria considered by customers to make decisions on suppliers

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The leading companies today are monitoring trends, evaluating how the relevant few impact on company competitive advantage, and, importantly, are making strategic decisions accordingly.

There are several source of data your company can use to monitor relevant trend and market changes but “current and potential customers” are in our experience two of the best which are frequently overlooked.

### **5. COMPETITIVE ADVANTAGE: PICK IT, BE IT, AND GROW**

Understanding your true competitive advantage, and crystalizing it with everyone in your company or business unit will drive enhanced decision making on a daily basis. It is a “primary filter” which as an important part of your strategy improves both top and more importantly bottom line performance. Three questions your management team should be able to answer for every investment decision include:

- How does a planned investment reinforce your competitive advantage?
- Which new product or service will enhance your competitive advantages?
- Where do additional resources (i.e. new hire) protect your performance?

A well-defined, clear competitive advantage needs to be nurtured, protected and continually reinvested in. It is not the end of the world if your competitive advantage is not clear today, but to let time pass before you define it and invest in it to make it real, will make sustainable growth very elusive.

When it comes to sustainable competitive advantage, “pick it...be it...and grow.”

“Understanding your true competitive advantage, and crystalizing it with everyone in your company, leads to key criteria for decision making on a daily basis.”



This article was edited by John Case and was authored by several partners and associates from the Thinking Dimensions Global team.

Thinking Dimensions is a global consultancy that assists clients in resolving strategic and operational issues.

We bring proven decision making methodologies to assist clients battling growth, cost, and security challenges. Our process-driven **KEPNERandFOURIE™** thinking technologies guide the development of effective corporate strategies, operational improvements, and Information Technology Root Cause Analysis (ITRCA) solutions. All of our client solutions recognize decision-making is the foundation of performance.

Thinking Dimensions is led by Drs. Charles Kepner and Mat-Thys Fourie who have over 60 years of combined thought leadership in decision making and process consulting. Today, Thinking Dimensions Partners and Associates in over 20 countries throughout the ASIA-PACIFIC, EMEA and AMERICAS regions deliver expedited results on pressing business issues.