Sustaining Competitive Advantage
Sustaining Competitive Advantage

Basically there are three main ways in which you can compete in the marketplace:

- On Price
- By serving a niche market better than anybody else
- On the individuality of your product or service

Which of these is the better long-term strategy? Undoubtedly a lower price than the competitor is an immediate advantage - but will it deliver a continuing competitive edge? Differentiating your products from your competitors will provide a much harder to match advantage for your business. This topic concentrates on how to deliver benefits that exceed those of competing products, by developing a differentiation strategy.

Drawing on some of Michael Porter’s ideas on how competition actually works in the business world, this topic explores the value of performing a competitive analysis on your business. This information will enable you to focus on how your products rate against those of competitors and thus in turn you can make informed decisions about the sort of strategy to use with your product to gain the best competitive advantage.

This set of Support Resources will provide you the slide visuals used in the recorded video. Work through the slides and take notes along with the video.

Tips:

- After starting the video you can double click on the window or click on [ ] in the video tool bar to view full screen.
- Make sure to download the action plan for the next steps
- Talk to your RAN ONE Business Advisor about the services they have to assist you

NOTE: Some slides may be different from the video used.
Basically the three main ways in which you can compete in the marketplace are:

- On price
- By serving a niche market better than anybody else and,
- On the individuality of your product or service
• Operations reform can provide some degree of competitive advantage

• But it is easily matched by competitors who change to more efficient methods themselves
  – Result: you are forced to compete on price alone

• Operations reform alone won’t deliver sustainable advantage
Serving Niche Markets

- Focus strategy
  - Sell small volumes
  - No access to economies of scale
  - Charge premium prices
- Risk factors
  - Tastes change and niches disappear
  - Larger competitors might put out imitative products

Differentiation Provides A Sustainable Competitive Advantage

- There is an inverse relationship between profit margins or returns and the intensity of competition: as the intensity of competition goes up, margins and returns are driven down.
- This can require changes in competitive strategy to remain in an industry
- So how do you develop a competitive strategy?
How Competition Works: The Five Forces

**SUPPLIERS OF RAW MATERIALS, PARTS, COMPONENTS, OR OTHER RESOURCE INPUTS**

**SUBSTITUTE PRODUCTS**

Competitive pressures coming from the attempts of outsiders to win customers over to their products.

**COMPETITIVE PRESSURE FROM SUPPLIER BARGAINING POWER**

Competitive pressures from supplier bargaining power.

**COMPETITIVE PRESSURE FROM RIVALRY AMONG Firms IN THE INDUSTRY**

Competitive pressures coming from the rivalry amongst firms in the industry.

**COMPETITIVE PRESSURE FROM THE THREAT OF ENTRY OF NEW BUSINESS**

Competitive pressures coming from the threat of entry of new businesses.

**COMPETITIVE PRESSURE FROM CUSTOMER BARGAINING POWER**

Competitive pressures from customer bargaining power.


**Force 1: Business Rivalry**

- Some factors that put the pressure on rivalry among existing competitors:
  - Many competitors and/or similar products
  - Slow demand growth
  - Competition on price alone
  - Low switching cost by customers to another product
  - High exit barriers
Force 2: Customer Buying Power

- These factors tend to increase customer buying power

1. You’re selling inessentials
   - Your products are very similar to your competitors’ products
   - They can easily switch to competitors
   - They are a well-organised group and act cohesively when buying

2. There are only a few buyers
   - Buy in large volume
   - Products are big ticket

Force 3: Supplier Selling Power
Force 3: Supplier Selling Power

- Suppliers gain strength when they:
  - Are few in number
  - Have close ties to each other
  - Sell products that lack alternatives
  - Supply goods critical to your processes
  - Are large and hungry: could buy one of your competitors and set up as direct rivals

Force 4: Attempts By Outsiders To Win Customers Over To Their Products

- A substitute product is a different product to what you’re selling that could be used to get the same end result
  - Spectacles vs. contact lens
- You should always be scanning the external environment for industry developments that might threaten your existing product range
Force 5: The Threat Of Entry Of New Rivals

- Competitive pressure is influenced by how hard it is for others to get into the industry. Barriers to entry include:
  - High start up costs
  - Intensive marketing requirements
  - Need for specific and unusual expertise
  - Heavy government regulation – the cost of meeting requirements
  - Brand identity
  - Threat of retaliation from existing businesses

Bullet Proofing The Barrier
Bullet Proofing The Barrier

- Differentiation provides a barrier to entry
  - Build brand and customer loyalty
  - Make it tough for new entrants
- Low barriers mean many competitors
  - Short on cash and competing on price

Scanning The External Environment

What’s Happening In The Business Environment?
What’s Happening In The Business Environment?

- Industry regulation
- Taxation structure
- Employment regulations
- Environmental regulations
- Economic growth

What New Technologies Are Emerging?

- What new technologies are in development or on the market?
- What is the cost or usefulness of implementing them?
Where Is The Industry Heading?

- Industry life cycle
  - Early development
  - Industry take off
  - Rapid growth
  - Competitive shake-out
  - Maturity
  - Market saturation
  - Stagnation
  - Decline

Benefiting From Competitive Analysis
Sustaining Competitive Advantage

Benefiting From Competitive Analysis

- Early warning on threats
- Early hints of opportunities
- Get ahead of the competition
- Minimise competitive pressure
- Safeguard profit margins

How Do You Scan The External Environment?

Internal Assessment Of The Organisation

Strengths  Weaknesses

Opportunities  Threats

External Assessment Of The Environment

Scanning The Competition
Scanning The Competition

- Identify direct competitors
  - Direct = same product and geographical area
- Identify indirect competitors
  - Indirect = related products that may compete
- Watch for new products or diversification

Identifying Strengths And Weaknesses

- Focus on top 20% of competitors
- Don't compete where you're weaker
- Market against their weaknesses
- Analyse their marketing:
  - Papers and magazines
  - Brochures
  - Annual reports
Sustaining Competitive Advantage

Listening To Customers

- Establish what customers think
  - Their perception is the reality

- Market research:
  - Focus groups (customer advisory boards)
  - Questionnaires

Identifying Strengths And Weaknesses
Identifying Strengths And Weaknesses

- List strengths and weaknesses of:
  - Business
  - Products

Example: Phone-Fax Product Matrix

- Speed of operation
- Memory capacity
- Compatibility with other devices
- Print and image quality
- Warranty conditions

Search For Differentiators
Search For Differentiators

- Use intellectual property?
- Brand development?
- Highlight customer service?
- Highlight skills?
- Work on product innovation?

Which Strategy?

- Cost leadership
- Differentiation
- Focus
Cost Leadership

- Low cost
- Cut prices to win market share
- Relies on low input costs
  - Raw materials
  - Labour
- Broad market

Cost Leadership Risks
Cost Leadership Risks

- Entry barriers lowered – must cut costs to deter new competitors
- Substitutes introduced – must lower prices to remain in consideration
- Industry rivalry intensifies – must compete on price
- Suppliers increase prices – can’t pass on to customers

Differentiation

- Unique product or service features
- Charge higher prices
- Need creative and innovative team
- Market to communicate uniqueness
- Risk of imitation
Conclusion

• Analyse on a continuing basis
• Look ahead
• Think strategically
• Be aware of threats and opportunities
• Call on us for help