

## Article 30 – Competitive Strategy & Competitive Advantage are not the same

I have recently recorded a half-hour audio seminar for CEO Online on one of my favourite topics – being different and better. The seminar addresses the last two components of a Commercial Plan, Strategic Business Plan or Strategic Marketing Plan. Call it what you will, it has five components:

- Activities
- Markets
- Products
- Competitive Strategy
- Competitive Advantage

I liken Competitive Strategy to a game plan whereas Competitive Advantage is what, in the execution of the game plan, you do different and better than your closest competitors.

I like the concept developed by Michael Treacy and Fred Wiersema in their book “The Discipline of Market Leaders” that there are only three generic business strategies – Best Product, Best Total Cost and Best Total Solution. They argue that successful companies make a deliberate decision to adopt one of the foregoing and by doing so, they trade off market reach in return for greater focus and greater market share.

In the process of talking and writing about Best Product, Best Total Cost and Best Total Solution, I have summarised the impact of each on six key functions:

- Marketing strategy
- Operations
- Investment priorities
- Pricing strategy
- Promotional focus

In each case, success or profitability is driven by a different parameter and even organisational culture reflects the generic strategy adopted. The culture that encourages innovation is not the same that goes with the adoption of Best Total Cost. The three Competitive Strategies can be summarised as follows:

### Best Product – product leadership

<p><b><u>Marketing strategy</u></b> - target those that want the best or latest</p> <p><b><u>Operational focus</u></b> - entrepreneurial environment, speed to market, marketing/promotional expertise</p> <p><b><u>Investment priorities</u></b> - Research &amp; development, product marketing</p> <p><b><u>Pricing strategy</u></b> - charge a premium for providing best/latest</p> <p><b><u>Promotional focus</u></b> - on product attributes - what's different &amp; better</p> <p><b><u>Organisational culture</u></b> - flexible, small teams, encouragement of individual contributions, thinking outside the square</p> <p><b><u>Success driven by</u></b> - innovative products</p>
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## Best Total Cost – operational excellence

**Marketing strategy** - target those segments with very similar needs

**Operational focus** - customer service, team work, systems & logistics - superior balance between people & IT systems

**Investment priorities** - Information Technology & Infrastructure

**Pricing strategy** - competitive pricing - focus on value for money

**Promotional focus** - consistency, reliability, quality, value

**Organisational culture** - one that abhors waste, promotes teamwork and rewards efficiency

**Success driven by** - sales growth

**Best Total Cost = Price + Convenience + Risk reduction**

**Relationship between supplier & customer – FRICTIONLESS**

## Best Total Solution – customer intimacy

**Marketing strategy** - target those that have different and particular needs

**Operational focus** - building partnerships at all levels and in all areas

**Investment priorities** - low overheads, investment in Account Managers

**Pricing strategy** - differential pricing between customers

**Promotional focus** - people, partnerships, customised solutions

**Organisational culture** - one that embraces specific rather than general solutions and builds deep and lasting customer relationships - a people company - decentralised and empowered decision making

**Success driven by** - customers' successes

**Relationship between supplier and customer - SEAMLESS**

My experience from facilitating planning workshops is that people have difficulty in deciding which of these strategies best reflects what their strategy is now because invariably their current strategy is a combination of more than one and there is a natural resistance to greater focus because of what they perceive they will need to "give up".

I recall one company whose executives opted for Best Product – much to my surprise – and it was only after sleeping on the decision that they concluded that it could not possibly be Best Product because all the products that they were going to develop were designed to catch up with their main competitor – not achieve product leadership.

The most hotly debated choice is between Best Product and Best Total Solution usually because of the emphasis given to the product itself in both strategies.

If you are struggling to make up your mind between the two, use these two litmus tests.

The larger the number of end-user purchasers, the more likely Best Product is the strategy to adopt. In contrast, if you can customise the product to the specification of one customer, Best Total Solution is the way to go.

Look at the service component of your *product, as your customers perceive it*. If it results in the addition of significant value to the basic product, the strategy is much more likely to be Best Total Solution whereas if the service component is small, taken for granted or hidden from the customer, Best Product is the option to go for.

For example, I believe every car company adopts Best Product because the fortunes of car manufacturers are very much dependent on the consumer appeal of the cars they sell.

In contrast Airbus Industrie has adopted Best Total Solution. Airbus has relatively few customers who control many aspects of the specification of the planes they buy. Airbus provides customers with an extraordinary range of services from finance and crew training to 24/7/52 service and parts.

Whilst the adoption of one of these three generic strategies provides market focus and a better basis for investment decisions, it doesn't necessarily make you different and better than your competitors. That's the role of Competitive Advantage.

When I ask people what they think their Competitive Advantage is they invariably respond by citing an attribute that they believe is one of their strengths. This presupposes that their competitors show a corresponding weakness in the same attribute. This is often not the case. The more intense the competition between companies – that might be following the same generic strategy – Competitive Advantage is more likely to be found among the “nice to have” attributes in a supplier rather than the “must haves”.

You don't have to be the best, you simply have to be better than your competitors and often, the only way to identify a Competitive Advantage is through a customer feedback survey.

So let me conclude by asking you the same questions that I asked in the audio seminar.

Do you have a Competitive Strategy in the form of Best Product, Best Total Cost or Best Total Solution?

Do you know what your Competitive Advantage is?

Do your customers regard you as “different and better” or as “just another supplier”?

Do your customers buy from you because they *have to* or because they *want to*?

