

Competitive Advantage Insulates Your Firm

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Competitive advantage: does your company have it? In good economies and especially in bad, securing competitive advantage is critical to survival. It can insulate your firm from attacks and energize its growth.

A chief marketing officer once told me that a strong advantage over competition is like a moat of water surrounding the castle. It keeps the enemy at bay, with their ineffective arrows having little impact against the thick stone walls.

How do you find your firm's advantage? Competitive advantage derives from a comparative analysis of your firm and its competitors, along with deep awareness of what drives the customer purchase. What does your firm do extremely well that other firms cannot match easily? What factors are critical to your customers' purchase decisions and patterns?

In my experience, the most fertile ground for competitive advantage is the key benefits your customers seek when they are ready to buy. These key benefits are the drivers for purchase and the drivers of your revenue. They are what your customers want *most* regarding your product or service, and thus, to address your competitive advantage to these key benefits is to become truly valuable to your customers.

There are two basic types of competitive advantage: differentiation, and low cost.¹ Differentiation means that your company is truly unique from competitors. The relevant factors for differentiation vary by industry. Usually a strong differentiation strategy will allow a premium price, such as the Blackberry Storm and iPod from Apple. These are good examples of products whose differentiation lead to a price premium greater than the cost of differentiating, and this point is key to a differentiator's success. More examples of differentiation are Harley Davidson and the Digital Zen Alarm Clock.

In the second type of competitive advantage, a firm determines to be the low cost producer. This may be through achievement of economies of scale, proximity to raw materials or to the marketplace, proprietary technology or other factors. Examples of low cost providers are Southwest Airlines and Emerson Electric. In reality, a low cost competitor must also achieve parity (or closeness) of important differentiation factors, since the customers must still desire the product or service from the low cost company.

These two types of competitive advantage may also be applied to a narrow segment in the market, providing a firm strong focus on serving only this particular part of the market to the exclusion of the others.² These competitors focus on segments with special needs and serve them better. An example is Fisher Price preschool toys.

What is the Holy Grail of competition? *The Sustainable Competitive Advantage*. In finding *the Sustainable Competitive Advantage* for companies over the past 25 years, I can attest that it is worth the search or development. Read more about it and how to achieve it in my next article, or call me at 314-569-3102.

¹ Porter, Michael E. *Competitive Advantage*, New York, NY: The Free Press, 1998.

² Ibid.