Competitive Advantage: “We’re Number One!”
by Rich Horwath

For all the debate and consternation over what competitive advantage in business really is, we can look to nature and our friend the good ‘ole Wood Frog.

How’s this for competitive advantage: the Wood Frog positions itself in the damp woodlands of North American mountains. When the brutal winter comes, it actually changes into another form of life, packing its cells with glucose (a natural anti-freeze) and freezing its own fluid into crystals small enough not to damage itself. Fifteen hours after the first ice crystal forms, the Wood Frog is completely frozen, including its blood. It stays in suspended animation for the duration of the winter—with no heartbeat, no blood flow and no breathing—which is normally the definition of death.

When spring arrives, the Wood Frog’s heart is shocked back to life. Sparks from the static built up by the electrically charged chemicals are forced out by the stretching fibers of the heart muscle, reconnecting the Wood Frog with life. The Wood Frog is then free to enjoy the competitive advantage of his domain.

See, achieving competitive advantage is really quite simple—as simple as being brought back from the dead.

Fortunately for us in the business arena, understanding what constitutes competitive advantage and the methods of achieving it are not quite as drastic.

Competitive Advantage
We are all striving to outperform our competitors and be successful in our markets. To that end, we all seek to have competitive advantage and for those of us that want it all—sustainable competitive advantage. As we might expect, the concept of strategy is helpful in understanding competitive advantage.

Strategy has been described as performing different activities than competitors or performing similar activities in a different manner. Just as the essence of strategy involves intelligently allocating our resources (time, talent and money) through a unique system of activities, these activities make up the basic units of competitive advantage. So to understand our competitive advantage or lack thereof, we need to assess our activity system.

The capabilities (or more popularly “core competencies”) allow us to perform activities which in turn enable our offerings to the market. Visually, the schematic looks like this:

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Capabilities
  ↓
Activities
  ↓
Offerings
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Coming full circle, the offerings we bring to the market embody our strategy and are the central element in competition between firms, providing the tangible representation to customers.

Capabilities
The genesis of products and services is the capabilities or core competencies that we bring to
the table to produce them. Capabilities can be classified as one of two types: distinctive or reproducible. As the descriptors acknowledge, distinctive capabilities are those that cannot be emulated by competitors or can only be emulated with extreme difficulty. In the end, distinctive capabilities allow an organization to do things for less money than its rivals or do something that rivals simply cannot do. Reproducible capabilities are those that can be successfully replicated by competitors.

A fundamental component of competitive advantage is to have distinctive capabilities. Distinctive capabilities come in a variety of forms, including intellectual property, marketing expertise leading to strong brands, effective leadership, and organizational culture to name a few.

Most initial searches for competitive advantage begin with the offerings themselves, examining products for differentiating attributes such as efficacy, safety, ease-of-use, convenience, etc. However, true competitive advantage takes root at the deeper level of capabilities. Examine your capabilities by listing them in one of two columns: distinctive or reproducible. This provides a stronger foundation for understanding the competitive advantage dynamic for your business.

Activities
Activities are the basic units of competitive advantage. We say activities are the basic units of competitive advantage because they are where capabilities merge with resource allocation to transform into the things that impact customers. The activities you choose to invest in—or just as importantly not invest in—determine your strategic focus. The challenge that most people face in trying to determine their competitive advantage is that they look at the entire organization or product as a whole. It’s not until we break the organization or product down into its individual activities that we get a clearer view of competitive advantage.

Once we’ve broken things down to the individual activity level, we can then assess the activities and equally as important, the linkages between the activities. The linkages between activities can lead to competitive advantage through both optimization (combining activities across functions to become more efficient or effective) and coordination (providing a seamless offering to customers).

Offerings
The weapons we ultimately brandish in our competitive battles come in the form of offerings (products and services). The emergence of competitive advantage then comes through three steps:

1. Customers perceive a consistent difference between offerings and that difference occurs in an attribute that impacts the buying decision.
2. The difference in the offering stems from a distinctive capability.
3. Both the offering difference and the distinctive capability last over time.

The attributes on which offerings are chosen play a key role in influencing customer use. We can visualize the two key parameters of product/service attributes in the Brand Driver Matrix:

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<tr>
<th>Relevance</th>
<th>Antes</th>
<th>Drivers</th>
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<tbody>
<tr>
<td>High</td>
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<td>Neutrals</td>
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<td>Low</td>
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<tr>
<td>Fools Gold</td>
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<th>Differentiation</th>
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This Brand Driver Matrix shows us that attributes can be rated on the two key parameters of relevance to customers and differentiation from the competition. Attributes that have little relevance or differentiation are considered ‘neutrals.’ Attributes with low relevance to customers but that are highly differentiated are referred to as ‘Fools Gold’ because they are appealing but not of value. Those attributes that are important to our customers but where we find little differentiation are considered ‘Antes’, or the price of playing in the market. Finally, the attributes we want to invest resources in are the attributes that have high relevance for customers and high differentiation from the competition (‘Drivers’).

“Are we there yet?”
After we’ve taken an in-depth look at our capabilities, activities, and offerings, and determined which end of competitive advantage that we’re on, the question arises— “Is this sustainable competitive advantage?” The sustainability factor results from gaps in capabilities which trigger gaps in activities and lead to gaps in offerings. We can achieve sustainable competitive advantage then if we can continue to hone our distinct capabilities and create new ones that anticipate the changing market dynamics and customer needs.

If after going through this process, we determine that we do not have competitive advantage, several options exist to help achieve it:
1. Change the offerings, creating better alignment between the capabilities and offerings.
2. Create new capabilities.
3. Influence customer preference by changing the relevance criteria or making the value of the offering clearer.
4. Change the game—innovate into the market white space, where competition is nonexistent.

The frustrating aspect for strategists trying to achieve competitive advantage is that it is seldom a quick process. If we are to have true competitive advantage that begins with our capabilities, fundamental resource allocation decisions need to be made. And in many companies, shifting or focusing resources, especially head count, to create or develop capabilities that may not immediately translate into short term results can be a Herculean task.

However, too few companies ever dedicate themselves to achieving true competitive advantage. The ones that do—companies like Microsoft, Dell, and Starbucks, —know the discipline it takes to be number one. So the next time you’re debating on whether to take the risk of making a sizable resource allocation to create distinct capabilities, remember our friend the Wood Frog. After all, it’s not like we’re killing ourselves to do so. ☐