The word compete originates from the Latin competere, meaning “to strive together.” To compete means to strive toward a goal. In attempting to reach the goal, we strive with others seeking that same goal, which supplies the motivational catalyst for us to try harder. Whether it was thousands of years ago during the Ancient Olympic games in Greece, hundreds of years ago during the Italian Renaissance or this past century in American business, competition has motivated individuals to higher levels of performance. In fact, research shows that in the arts, athletics and academics, the act of competing helps most people perform at a higher level. Authors Po Bronson and Ashley Merryman summarize their findings on competition when they write, “The real benefit of competition is not winning--it is improved performance. Competition liberates, or generates, hidden reserves of additional effort. Competitors discover an extra gear.”

While it’s been debated how long a company can sustain competitive advantage in a market, the aim of most firms is to deliver superior value to their customers in a profitable way. And research shows that the primary means to profitably deliver superior value is through differentiation. A study involving 25,000 companies over a 40-year period demonstrated that the firms achieving the highest return on assets delivered superior value because of their positive differentiation. Another study of 200 companies showed that 93 percent of the top 20 percent of financial performers have a strong form of differentiation in their core, which led to competitive advantage in their market. Differentiation enables a firm to charge a premium price relative to competitive offerings, operate at a lower cost than competitors or potentially both. As ESPN president John Skipper said, "If you are going to compete, you have to have points of difference. There is no value coming into the market and doing the same thing."

Creating, developing or discovering real differentiation that fuels the delivery of superior value takes time, thought and the courage to make trade-offs with one's resources. The intellectually lazy leader's shortcut of offering similar products or services in the same way as competitors, only trying to do it slightly better, does not constitute differentiation. It's common to hear these people complain that the products or services their research and development group have come up with don't offer any differentiation.
Look, if people selling bottled water can find ways to create differentiation, then so can you. One could argue that bottled still water is as close to a commodity as you could find. So, following that logic, all bottled water producers should have the same market share, right? Wrong. According to market research firm Information Resources Inc., Nestle Water Pure Life had a 10 percent market share in the still waters category as of May 2012 while Poland Springs was at 6 percent. As former Harvard Business School professor Theodore Levitt wrote, "One thing is certain: there is no such thing as a commodity--or, at least from a competitive point of view, there need not be. Everything is differentiable, and, in fact, usually is differentiated. All goods and services are differentiable."

A majority of leaders deceive themselves into thinking they've cultivated valuable differentiation. A study conducted by Bain & Company surveyed executives and their customers on the level of differentiation they believed the offerings possessed. The researchers concluded, "We found that while 80% of executives felt their offering was highly differentiated, only about 8% of their customers actually agreed with them." True differentiated value isn't determined by you. It is determined by your customer, and it shows up in the form of your profits.

Competitive advantage can be defined then as "the ability to deliver superior value based on differentiation rooted in capabilities." Capabilities are comprised of resources and activities that are competitively relevant. Capabilities are what you do (activities) with what you have (resources). Competitive advantage isn't defined as having the best product or a better service, because in the end, "best" and "better" are subjective, depending on the customer and the type of value they seek. Harvard Business School professor Michael Porter echoed these sentiments when he said, "There is no best auto company, there is no best car. You're really competing to be unique... Whole Foods Markets is not just trying to be a great food retailer. It's trying to meet the needs of a certain set of customers."

One of the areas that surprises experienced senior leadership teams when they participate in my strategy development workshops is their lack of meaningful insights about the competition. In working with a highly successful mobile technology leadership team based in Latin America whose members averaged more than twenty years of industry experience each, they were unable to clearly and concisely
articulate their competitor’s strategic approach to the market. They knew many facts about their competitors, things like locations, head count, service areas, contracting approaches and product specifications. But, facts and information are different than insights. Insights are created by the ability to piece together previously unrelated bits of information—to connect the dots—uncovering the competitor’s strategic intent and their relative advantage or disadvantage in the market.

To begin shaping your competitive strategy, have your team answer the following questions for your business and your most dangerous competitor:

1. What is the current competitive position?
2. What is the core competency?
3. What are the capabilities?
4. What is the value proposition?
5. Who has competitive advantage and why?

A study of 2,135 global leaders showed that only 53 percent would describe their firms’ strategies as focusing on the development of advantage versus their competitors. The remainder characterized their strategies as simply matching industry best practices and maintaining operational standards. It can be argued that competitive advantage is fleeting. It can be argued that your source of competitive advantage will sooner or later be copied. But, it cannot be argued that you should constantly be striving to deliver superior value to customers; in other words, creating competitive advantage.

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