



BOARDROOM STRATEGY

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How to measure your company against the competition

Why do your customers choose you over your competitors? What is it that makes you stand out in your industry?

Let's look at sustainable competitive advantage – understanding what yours is and how it positions your business in the marketplace.

“A firm is said to have a competitive advantage when it is implementing a value-creating strategy not simultaneously being implemented by any current or potential player,” according to *Managerial and Decision Economics* author **Jay Barney**. Where many firms miss out is the sustainable part of the equation. A competitive advantage

that is easily duplicated by a competitor is not sustainable or an advantage.

The theory of competitive advantage was first postulated in **Michael Porter's** 1985 book, *Competitive Advantage: Creating and Sustaining Superior Performance*. Porter's definition of “superior” is favourable (when compared with your competitors), profitable and sustainable.

Using Porter's five competitive forces model, here is a series of questions to ask yourself as a way of determining where your organization sits in terms of its competitive advantage.

Threat of new entry. Don't underestimate the possibility

that others can enter easily into your market. Consider the effect online gambling had on the traditional console and PC game market: traditional retailers could be bypassed. Take the time to get clear on how big the threat of new entrants really is. What are the capital cost requirements of entering into your industry? How easy is it for your customers to switch from your product or service to that of your competitors? How much weight do your customers put on brand equity?

Supplier power. Understanding the power your suppliers hold over you is key to assessing your competitive edge. Are there a few or many suppliers in your industry? What is the cost to switching from one supplier to another? How important is volume-buying to your suppliers? How much of the cost of your goods or services is connected to your suppliers? Are your suppliers capable of becoming competitors, should

they choose to, with relative ease? How is your purchasing power when compared with the overall industry? Are your raw materials available to be bought from multiple suppliers? We only need to look at the computer chip market to see an example of this force. If **Intel** and **AMD** decide they don't want to sell a manufacturer their chips there are few other choices for supply.

Buyer power. Take a look at your customer base. Do you have a few large customers or is your revenue split between many buyers? How easy is it for your customers to substitute your product or service for your competitors'? How much information do your buyers have about your product or service as it compares with the rest of the industry? How sensitive are buyers to the price of your product? What incentive do decision-makers have to buy from you? How does your product or service quality affect your buyer? In a commodity business, for example, understanding buyer power is key. When buyers know your product is aging or becoming dated, the key to your success might just be to avoid desperation selling by

saying “no” to customers who want to grind you on price.

Threat of substitutes. In a perfect world, your product or service would be so unique that nothing else could achieve the same result. Smart strategies include an understanding of how easily your customers can find another way to do what your product or service is doing for them. Does a shift in

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price lead buyers to consider alternatives? How often do buyers switch suppliers? What is the cost to your buyer associated with switching to another supplier? For example, **Palm** owned the PDA marketplace until smartphones came into play and made it easier for customers to switch over to other devices with greater functionality.

Industry competitors. How intense is the rivalry between competitors in your

industry today? How likely are competitors to react to your strategic direction? How easy is it for your competitors to copy your innovations? How strong is your brand compared with your competitors' (from your clients' perspectives)? Are you growing faster than the industry's growth rate?

Answering these questions will help you understand your current position in the competitive landscape and the strength of your competitive advantage. You can also use what you discover from your answers to assess a strategic move *before* you make it. From here, take some time to review your current plan and decide how you can shore up areas of weakness to build a sustainable competitive advantage. ■

Mike Desjardins is the CEO at ViRTUS (www.virtusinc.com), an organizational development consulting firm with expertise in strategic planning and implementation, leadership development, change management and succession planning for medium to large organizations. This column was co-written by Glenn Wong, a mentor at ViRTUS.

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