

## **What is A Competitive Advantage? And Who Needs One?**

**By**

**Linda Henman, Ph.D.**

Every organization is headed somewhere. Too often, however, that direction is not the result of a conscious choice. Instead, leaders engage in *perceived* potential, reactive decision-making, or short-term gains designed to placate shareholders and analysts. Conversely, an effective strategy provides a way to create and capture value while serving the customer. It offers the winning formula for an organization's purpose, direction, goals, and standards: the organization's mission, vision, and values.

The force that drives the strategy occurs at the intersection of its distinction, passion, and profitability—that sweet spot where you show you're different, love doing what you do, and make money doing it. This strategic force explains why customers choose your products or service, why you make money at what you do, and why people want to work for your organization. These combine to form the foundation of your competitive advantage, the area that exerts the greatest influence on your business. Clarifying what it is and leveraging it to its fullest allow you to do something your rivals can't match.

Another way to think about the intersection of your distinction, excellence, and profitability is to consider the world with your organization versus without it. The difference defines your unique added value—what would be lost to the world if your organization disappeared. To discover this unique added value, ask yourself the following:

- If we stopped doing what we're doing, to whom would it matter?

The overarching strategic force of any organization occurs at the intersection of the organization's distinction, passion, and profitability. This strategic force explains why customers choose your products or service, why you make money at what you do, and why people want to work for your organization. Identification of your organization's driving force establishes, or should establish, the unifying concept and the strategic framework that guides you in your decisions.

- Who would miss us most?

The people to whom you matter most define the essence of your business. These are your best customers—those who rely on you to improve their condition through your products or services. These are the same people who deserve most of your attention, marketing efforts, and best terms.

- How long would it take another organization to step into the void?

If anyone can do what you're doing at the rate you do it with the strong relationships you've built, you don't have much of a competitive advantage. But if you think about what it would take for a competitor to do what you do, get your hands around your uniqueness.

The answers to these questions will help you understand and recognize the unique contribution your organization makes.

Once you understand the nature of your competitive advantage, you'll want to analyze whether you're using it to define your strategy and to develop the tactics that will support the strategy.

Each quadrant represents desirable or undesirable ways for companies to operate.

**The Competitive Advantage** quadrant represents an organization that has established a competitive advantage that includes a strong strategy and the clear tactics to support it. Based on a proven track record, this company has identified those decisions that have led to success in the past and that promise success in the future. By responding to customer needs, developing talent, implementing effective operations, and defining sound financial objectives this organization has acknowledged what it must do to beat the competition and has identified ways to implement this strategy. A company that has clarified its competitive advantage commits itself to excellence, the foundation of strategy. High-performance organizations who have stood the test of time and promise to continue productivity in the future provide examples of this. When a commitment to excellence exists, passion and profitability often follow.

Organizations operating in the **Instant Gratification** quadrant often succeed in the short term. Despite current profitability, they lack a strong strategy. They engage in effective operations that have accounted for their success in the past, but success is doubtful in the future. Often hospitals and manufacturers operate in this quadrant. In the long run, rivals take over, but for a period of time, these companies can stay afloat with hard work. Companies like this frequently offer good products or services and are passionate about what they do, but they lack excellence or profitability.

Members of these organizations frequently resist discussions of strategy because what they're doing seems to be working. In these situations, I often encounter a significant commitment to lean processes, Six Sigma, or Total Quality Management, all tactics for driving a strategy. The leadership makes solving immediate problems their primary focus, and strategy formulation seems like a distraction from that priority.

Investing the time to engage in a strategy formulation process will lead them to fewer wasted hours and distracted efforts in the future, but for an organization accustomed to instant gratification, the future seems too far off and too abstract. Yet most failed companies get buried strategically, not tactically. They may have been making the best horse-drawn buggy in the world when they went under. They may have had strong day-to-day tactics, but they picked the wrong direction or chose too many directions simultaneously. In other words, the problem usually isn't an inability to produce a quality product or service; it's knowing what customers will want more of in the future.

**The Future at the Expense of Today** quadrant depicts a company that has invested the time and energy to write and develop a strong, clear strategy. However, they have failed to formulate the ways they will execute. Some of the high-tech companies and pharmaceutical manufacturers offer examples of how a company might operate in this quadrant. This kind of situation most often occurs when leaders have left the strategy setting session with no accountabilities for each initiative. When no one has a vested, personal interest in the outcome, you put tactics, execution, and implementation at risk, not to mention your overall success.

**Laurel Resting** organizations struggle tremendously. Most of the major airlines fall into this quadrant. At one time they may have had some clear direction, perhaps some strong leadership and committed employees who developed the processes and systems for driving the business. But, for whatever reason, these best practices have eroded. Apparently no one has asked recently, "Is this still worth doing?" Usually companies that operate in this quadrant for very long don't stay companies for very long.

If your organization is operating in quadrants other than the Competitive Advantage one, you must first rid yourself of the strategies

and tactics that no longer produce results, to begin sloughing off the decisions of yesterday in order to make the pivotal ones for tomorrow.