

ALTERNATIVE COMPETITIVE ADVANTAGES

Introduction-

This mini-lecture provides a high level overview of an alternative way to characterize the main approaches to achieving a competitive advantage.

Process, Product, Customer

Cost leadership and differentiation are two common ways to characterize generic strategies, but they are not the only ways to characterize competitive advantages. A different approach was suggested by Michael Treacy and Fred Weirsma in their popular 1995 book called “the Discipline of Market Leaders.” They categorize competitive advantages into three fundamentally different types according to whether the focus of the advantage is on the process, the product, or the customer.

Operational Excellence (Process Focus)

Companies that focus on process tend to be characterized by operational excellence. In other words, these companies operate in ways that allow them to deliver similar products as rivals but at lower prices and/or greater convenience. These companies raise the bar of competition by constantly pushing the limits on efficiency in their systems, processes and supply chains. Thus, these companies tend to set new standards in their industries for minimal cost, minimal waste and/or maximum convenience. This level of efficiency usually requires highly standardized and centralized operations.

A great example of a company that focuses on process is Motel 6 – a classic example of an operationally excellent hotel chain. The Motel 6 corporate profile declares that the company’s goal is, “clean, comfortable rooms at the lowest price of any national chain.”

In the early 1960’s Motel 6 pioneered the first real budget motel designed for the no frills traveler. Indeed, the name of Motel 6 came from the original 1962 price: just \$6 per night. The promise of the best price of any national chain and a clean comfortable room are Motel 6’s virtues. For years Motel 6 was a household name, synonymous with quality and value. Indeed, Motel 6 enjoys the highest brand recognition factor of any budget lodging brand.

Product Leadership (Focus on The Product)

Companies that focus on the product itself tend to have product leadership. The fundamental goal of a product leader is to have a truly distinctive and superior product. The prices charged by a product leader are no great bargain, and the service may be nothing special either, but these factors are more than compensated

for by the performance of the product itself. Indeed, product leaders raise the bar for competitors by constantly pushing the limits of product performance. Product leaders tend to set new industry standards for technology, style, features and/or speed. Achieving this requires a passion for imagination, invention and innovation as well as heavy investments in R&D and new market exploration.

Whereas an operational excellence leader usually uses a standardized and centralized organization with tough penalties to eliminate waste, a company pursuing product leadership usually takes the opposite approach. A product leader needs a loose, flexible, fluid, organizational structure in order to adapt to the constantly evolving new product initiatives and must find a way to reward product success without punishing all the many failed experiments that are needed in order to find those few rare successes.

Product leadership also requires the organizational flexibility to adapt quickly to entrepreneurial new product initiatives. BMW is a classic example of a company that is focused on product leadership. BMW's advertising portrays its product as "the ultimate driving machine." BMW trumpets features like superior acceleration, handling, responsiveness, and fuel efficiency. So BMW is all about making engineering number one above everything else. Even if that makes cost and service secondary.

Let's come back to the hospitality industry for another example. W Hotels, part of Starwood, is a classic example of a hotel chain focused on differentiating the product itself. W's advantage is all about the unique style of the physical hotel itself. Calling itself "a storybook of style," The W Hotel's website describes the company as follows: "the difference with W is in the details. Inspiring, ironic, innovative, influential, from our inception W hotels has approached its spaces with both design and comfort in mind. The artistry of our architecture coupled with the comfort, luxury, and whimsy within is designed to become a beacon in our cities. A civic center of culture. Influences of old and new local and global come together in playful harmony, crafting this distinctly local but always international sensibility, is a subtle art required innovative vision which is why W Hotels collaborates with some of the most elite names in design such as David Rockwell, to bring each location to life. Along with our storybook tradition of style and design, W Hotel is a world of sensory experiences. A world of wow. Immediately as a guest makes his or her entrance into our living room, the flirtation begins as lighting signature sensed, art and music transform the moment."

So you can see from this description that W Hotels is focused on distinguishing itself through the product - It is a product leader.

Customer Intimacy (Focus on the Customer)

The third category is customer intimacy. A customer intimacy focused company distinguishes itself through outstanding service and by providing the best total solution tailored to each customer's unique needs. The prices charged by a customer intimacy focused company are no bargain, and although its products may be excellent, it will not be the very best performing product in the market. Nor will it be the most distinctive or cutting edge product. But these factors are more than compensated for by the superior service that the customer intimate company uses to anticipate, understand, and fully meet the needs of each carefully selected customer. The ultimate goal of a customer intimate company is to create a lifelong bond with its customer - even if that means sacrificing the short term profitability of the current transaction. Achieving the superior level of customer intimacy requires an extreme level of delegation and decentralization, so that decisions are always made by the employee who is closest to the customer.

It also requires information systems that help employees keep track of each customer's unique needs, tastes, and preferences such as the personal book database maintained by Nordstrom. As the name suggests, this system was originally a simple paper book kept in the store to keep track of each customer's past purchases. But today it is a powerful system that enables any Nordstrom associate to say, "welcome back Mrs. Wilson we just got some beautiful floral print scarves that would be a perfect match for the yellow blouse that you bought six months ago and can I help you find something for your husband's birthday next week?"

Again, let's look to the hospitality industry for an example of customer intimacy. Ritz-Carlton takes the pursuit of customer intimacy to the highest level of any hotel chain. The official credo of Ritz-Carlton says "The Ritz-Carlton Hotel is a place where the genuine care and comfort of our guests is our highest mission. We pledge to provide the finest personal service and facilities for our guests who will always enjoy a warm relaxed, yet refined ambience. The Ritz-Carlton experience enlivens the senses, instills well-being, and fulfills the unexpressed wishes and needs of our guests."

Even beyond this company credo, all Ritz-Carlton employees are also required to adhere to twelve service values, and the first seven of these service values are direct expressions of customer intimacy. Those seven service values are as follows. "(1) I build strong relationships and create Ritz-Carlton guests for life. (2) I am always responsive to the expressed and unexpressed wishes and needs of our guests. (3) I am empowered to create unique memorable and personal experiences for our guests. (4) I understand my role in achieving the key success factors and creating the Ritz-

Carleton mystique. (5) I continuously seek opportunities to innovate and improve the Ritz-Carleton experience. (6) I own and immediately resolve guest problems. (7) I create a work environment of teamwork and lateral service so that the needs of our guests and each other are met.

So you can see Ritz-Carleton is a classic example of a customer intimacy focused company.

Comparison of the Generic Strategies

Now, there are clearly some connections between this categorization and the more common categorizations of cost leadership versus differentiation. We can imagine that an operationally excellent company may also be a cost leader. Likewise, a product leader may also be a differentiator. However, customer intimacy focused companies are also differentiators in a sense because they differentiate through customization rather than through price or quality.

Conclusion

The purpose of this mini-lecture is NOT to suggest that the cost leader versus differentiator categorization is not valid, it is simply to introduce an alternative way of categorizing strategies. IN summary:

- An operationally excellent company simply does what they do more efficiently than anyone else
- A product leader offers the best product available
- A customer intimacy focused company gives the customers exactly what they want

Finally, the three value disciplines of operational excellence, product leadership, and customer intimacy give us a critically important tool for our strategy toolkit. They help us to identify whether or not a company has a strategy and, if so, what type of strategy. How can they do this? Whenever I meet someone from a company that I'm unfamiliar with and I want to learn more about that company I always start by asking one deceptively simple question that can be a tool in your strategy toolbox. "Why do your customers choose your company over every other competitor in the market?" You can tell a lot about the company from the answer to this one question. The answer to this one question can give you a pretty good idea about whether or not the company has a true strategy and, if so, which of the three value disciplines that strategy falls into. Answers like, "we are cheaper", "more convenient" or "more efficient", and so forth likely indicate an operational excellence leader. Answers like, "we have better technology", "more features", "cooler style", or "superior quality" indicate a product leader. Answers like, "we listen to our customer's needs", "offer better service", "anticipate customer wants", or "deliver tailored solutions" indicate

a customer intimacy leader. What worries me is when I hear random or even conflicting combinations of these answers which would seem to indicate that a company is confused about which value discipline it is pursuing. And I worry even more when the answer is, “I don’t know”, because that usually means that the company doesn’t really have a strategy at all. Any way, you can use this same question whenever you meet someone from an unfamiliar company whose strategy you want to learn about quickly. For example, it can be a very helpful question to use when you are interviewing for a job. So think of this question as another tool to keep handy in your strategy toolkit.