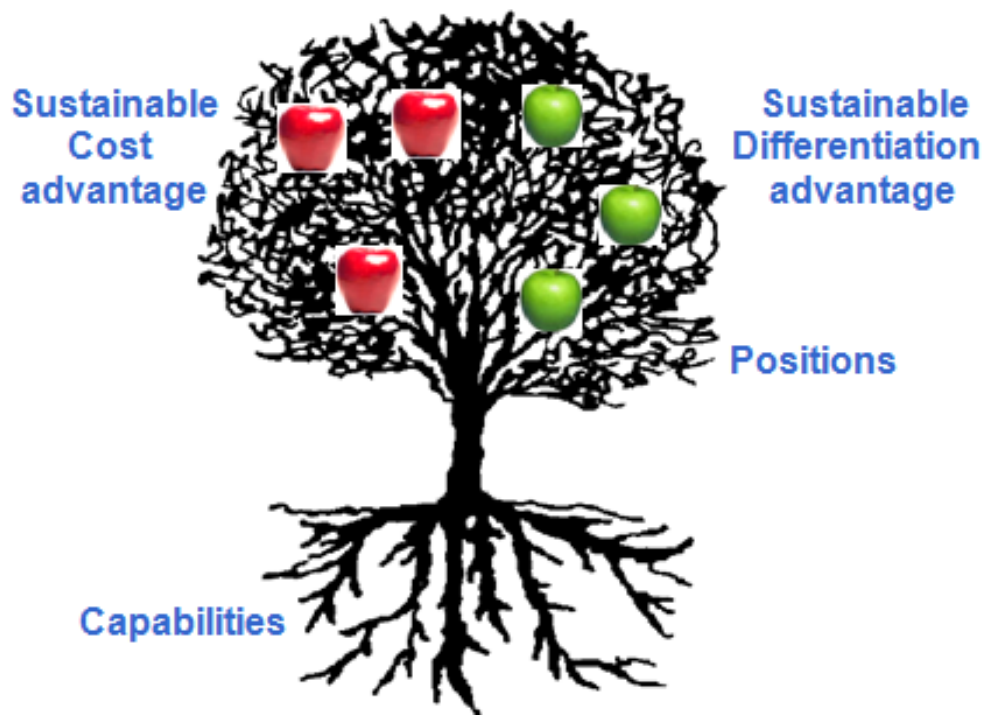


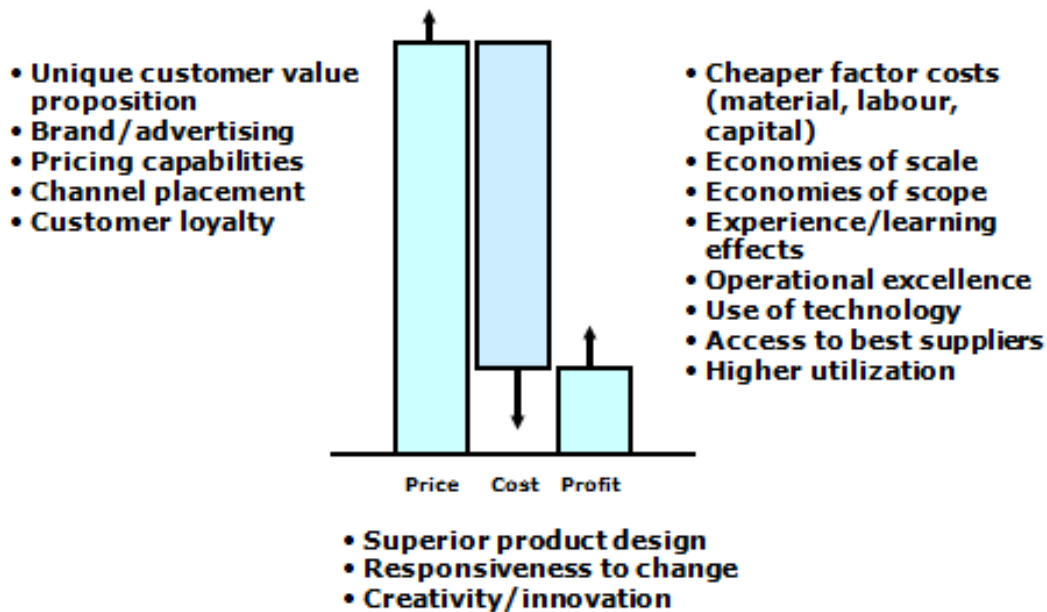
Competitive advantage – The Value Chain and other approaches

There are many tools for assessing Competitive Advantage. In this section I describe a few of the most popular.

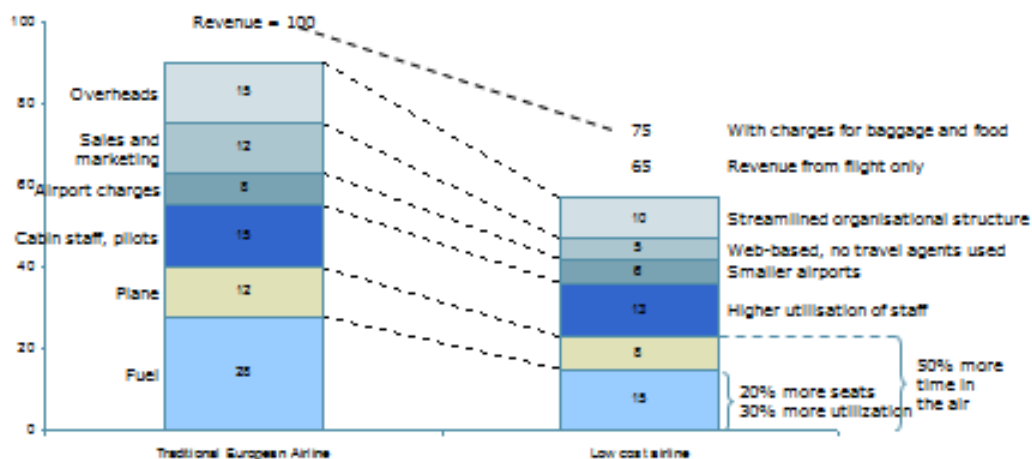
A place to start is by using what I discuss in the book as the Strategy Tree – highlighting the capabilities, positions and resulting levels of cost and differentiation (as this is in the book I am not going to discuss this further):



A simple complement to this, which we used as consultants, is to list the drivers of advantage in the business, asking what drives price, (or, more precisely, value) and cost. The drivers which contribute most to the differences between the profitability of different competitors are the major sources of advantage. Note, some drivers help drive both price and cost (e.g., superior product design). This format is easier to present to others than the tree – although it does not separate out the positions and capabilities as clearly:

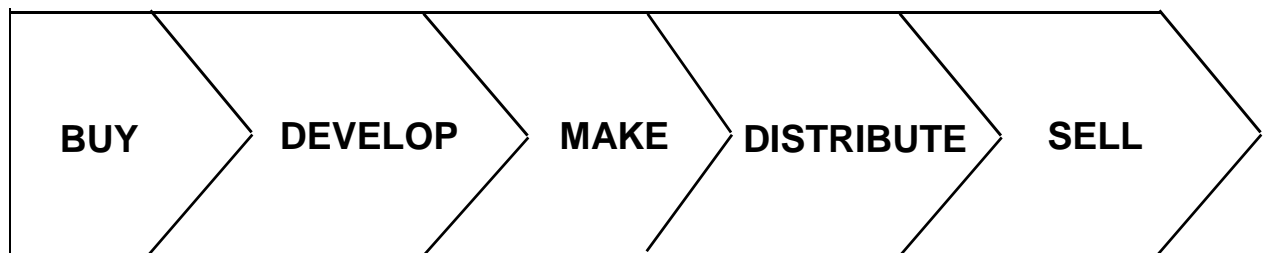


This approach can be developed further by actually modelling differences in cost and price and showing the drivers of these differences, as in the following example, which shows the difference in costs and price realisation for a normal airline and a budget airline:



A similar approach is to use the famous value chain. This involves describing the sequence of activities in your business, and then thinking through, or modelling, which parts of the value chain generate value for customers and competitive advantage. It focuses on the internal differences between competitors that define external differences in how they compete. This is really the same analysis as described in the previous framework, but done in terms of the activities of the organisation.

It appears in many different formats – the one shown below is a very simple one:



The value chain can be used to go through different parts of the business (buy, develop, make, etc.) to determine how you create advantage. For example, in which function of the business do you have unique skills or working methods that enable you to:

- generate more value (for a given cost)
- operate at a lower cost (for a given value)?

Another way to use the value chain is to think about different business models that competitors, and you, might use. What are the different ways to configure your value chain? What do you outsource? What do you keep in house? What do you focus on being the best at?

The value chain is a simple tool, hence its popularity, and can be used in many different ways.

A final approach that I find helpful is the following simple table, which summarises not only the sources of advantage but also what you should do about them:

Segment: Supply of gas turbine parts to purchasers of SW turbines	Drivers of customer value: Technical performance, availability, cost, security of supply and future prices, technical support
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Key success factors	% Weight now	% Weight 2015	Our company	Compet. A*	Compet. B*	Mgt. effort +	Financial resources +
Leading edge technology	50	35	3	4	2		
Incremental development	20	25	2	3	3	● ●	● ● ●
Availability in stock	15	15	3	3	5		
Price bundling/contracting	10	5	4	4	3		
Cost of production	5	20	3	4	4	● ●	●
		TOTAL	3.0	3.6	3.0		

We first define the segment we are competing in, and the drivers of customer value for that segment (what customers want). This then provides the basis for a description of the various drivers of advantage for that segment of the business (this column might be generated using the “tree” described above. For example if, as in this example, customers want technical performance from the product, leading edge technology may be an important source of advantage.

This analysis can be used to structure a logic about competitive advantage and strategy. We can think through the relative weight of different sources of advantage, how this will change over time, our competitive position relative to some key competitors and thus where we should be putting our management and financial resources.

There isn't any new idea in this template – rather, it is a way to integrate our thinking in a simple, one page document. Such a summary can provide the basis for a lot of discussion and debate!

The one issue with this template is that there is an underlying assumption that the competition all plays by the same rules – with the same sources of advantage. This may not be the case, in which event you need to think more broadly about the competitive position of different potential competitors. Also, this framework requires you to make a judgment about the drivers of advantage. This is a difficult step – so don't underestimate the work required to complete the left hand column! For this reason I find this framework best used AFTER you have done some analysis of sources of advantage – to avoid simplistic conclusions.