How to build a competitive advantage

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I know that when you wake up in the morning, the first thing on your mind is how you can improve your organization's competitive advantage? What set of new features can I add? There are two things that cause competitive advantage, product differentiation and/or improved cost-position. Let's take a look.

Product differentiation is more about perceived value and cost than it is about being different. You can be different all you want, but if the client doesn't value the capability your being different with, you haven't increased differentiation. If the cost of that increased capability is more than the value it delivers, you don't have differentiation. By cost, yes money is one measure, but so is time and complexity. Examine what the user has to go through to get at the value, if it's too much, then you don't have differentiation.

Below is a matrix showing all the ways you can differentiate your product. Delivering more value for more cost is questionable. Likewise, so is less value for less cost.

The best plan is to insure that you are always delivering one of the three green value propositions if your intent is to increase differentiation. To make it even simpler, all value propositions can be placed in one of three categories; Uniqueness, Intimate Understanding, or Large Volumes.

Uniqueness is about delivering a capability that no one else can. If you have a unique set of features that your market needs, and are offering it at a price below the perceived value, then you have differentiation. This is more common in new markets. As markets mature, competitors typically end up delivering the same capabilities, and you’re forced into another category of value proposition.

Intimacy is about understanding the client's needs better than they do. You are claiming that you have an intimate understanding of their issues, and by using your product, you can help them accomplish their goals better, faster, and/or cheaper than your competitors can, even though you don't have a unique product. Software vendors use this a lot when they claim their application's interface is really better than anything anyone else could do, because you have an intimate understanding of what the task really takes.

Large Volumes is about economy in scale. You deliver so much product that you have a better supply chain than your competitors, and you can charge less because it costs you less. You have templates that make it quicker, taking less of your manpower, and so on.

By choosing a value proposition category, and aligning a competitive cost to it, the product management team can increase differentiation. This doesn't always mean lowering your price. Look at the total experience your clients have to go through to receive the perceived value. If you can get them to that point quicker than your competitors can, you have differentiated your organization.

Now, how do you turn that differentiation into a competitive advantage? Simple, do it for less. If it costs you less to deliver a capability than it does your competitor, then you have a competitive advantage. Assuming you decide to sell at the same price as your competitor, you will have wider profit margins than your competitor. In this case, if you're pushed into a corner, you can always drop your price. This tactic is not sustainable for your competitor with smaller margins, and you will have the competitive advantage.

You can improve your cost-position in many different ways, but the most common is through process and capability improvement. In other words: execution. This factor has more to do with your innovation culture than any other factor. That's one of the reasons why it's so critical to focus on change adoption and communication when starting new product management initiatives. The competitive advantage you seek from product initiatives can be consumed in a poor cost-position created by low adoption, misunderstanding, and misdirection.

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