



Competitive Advantage

Overview:

This is a management idea describing how competitive forces in a company's business environment shapes its strategy. The "five forces" are: suppliers; customers; new competitors; existing competitors; and alternative products / services. These shape a company's strategy such that each company has two main options: being the cheapest, or becoming a different (such that its customers see it as special, better, or more relevant).

This was an elegant and intuitive approach to look at strategy and became extremely influential at senior executive levels. By simplifying the competitive environment to five main elements, it is possible to analyse any factor in a systematic manner. Legislation is not considered as a "force" because it is deemed to impact on all competing companies in the same way.



This idea was then extrapolated to an international level with a national competitive model. There are four attributes to a nation's competitiveness: the nature of the home-market's demand; the country's infrastructure (such as skilled workforce, transport and legal framework); the presence of related and supporting industries (forming a cluster of excellence); and the way the companies are organised and managed and the nature of the country's competitive market. The government's role is advocated as one of catalyst, challenger and to provide a framework for strict health, safety and environmental standards. Open competition, not managed trade was recommended together with the deregulation of monopolies and national champions.

Origins:

The concept of competitive advantage as a strategy was developed by Michael Porter, a professor at Harvard University in the early 1980's.

Using the Competitive Advantage / 5 Forces analysis:

Although Porter intended this for the highest level of strategy, the approach is equally applicable at any level of business.

Every department in a company will have internal "customers" to deliver services and products to and they also have colleagues that supply them with information and materials. Interdepartmental competition is common in many companies as are ambitious managers

building their own mini empires that duplicate your work like the new entrants in Porter's analysis. Finally, the introduction of new technology, or the creation of a new department can form an alternative replacing your services or activities.

Porter's strategic options towards sustainable competitiveness are also relevant at the departmental level: yours can be the lowest cost department, or it can be the indispensable specialist team that provides a unique and desirable skills or services.

The national level of competitiveness can be applied by a company wishing to build up a network of supplier companies, or to build a supply of skilled workers.

Resources:

The Institute for Strategy and Competitiveness, Harvard Business School:
<http://www.isc.hbs.edu/>

Porter, M., "How competitive forces shape strategy", Harvard Business Review, March - April 1979

Porter, M., "Competitive Strategy", Free Press, 1980

Porter, M., "The Competitive Advantage of Nations", Harvard Business Review, March - April, 1990

Porter, M., "The Competitive Advantage of Nations", Macmillan, 1990