CantonRep.com
CONNECTING STARK COUNTY

Dick Maggiore: How to build durable competitive advantage

By Dick Maggiore Special to The Canton Repository
Posted at 6:42 AM

Warren Buffet, the "Oracle of Omaha" and arguably one of the greatest investors of all time, is a man whose perspective is widely respected across a variety of business disciplines. His yardstick for selecting companies in which he might invest also measures up in the brand-building world.

"The key to successful investing is to determine if a company has durable **competitive advantage**," he said. "Companies with durable competitive advantage consistently deliver outstanding results for investors."

Buffett referred to "competitive advantage" as a company's "economic moat." That is, a company's competitive advantage provides protection similar to how a moat protects a castle.

As a business owner or one responsible for growing profit, our quest should be to find the durable competitive advantages that provide value to your customers and that are not easy for competitors to imitate.

The tougher the advantage is to imitate, the wider the moat. The more value to the customer, the deeper the moat.

Finding your difference is not easy, but it might be the most critical undertaking of the organization. We've narrowed the number of areas to search for competitive advantage to seven.

1. Strong Brand

A correlation exists between brand equity (the value of the brand) and the price and how much you sell. The correlation is positive. All else being equal, customers will pay more and buy more of the brand with the higher brand equity, awareness and meaning.

If you have a competitive difference — but nobody knows it — it's not going to get you very far. The world must know and appreciate your difference. Brand equity is most efficiently and effectively built by aligning the brand's communication with its competitive advantages.

2. Distribution

How you distribute your product of service can be a differentiator.

FedEx founder Fred Smith wrote an economics paper while studying at Yale. The paper was about making an overnight delivery service more efficient by using the "hub and spokes" concept he conceived.

Smith's professor said it would never work and gave him a C. Upon graduation, Smith founded FedEx and it became the world's largest overnight shipper. He differentiated his company by executing on a new distribution model.

Michael Dell started building PCs in his college dorm room and was the first to ship computers custom-outfitted direct to businesses — no middlemen, no bricks and mortar. Dell became the largest computer company in the world.

Today we can talk with and see our doctor by smartphone without leaving our home. Netflix differentiated itself by mailing DVDs, then cannibalized its own business by introducing online streaming of content.

Can you think of new ways to connect with your customers — new selling channels?

3. Intellectual Property

Patents, trademarks and copyrights are legal means to "own" a process, word or drawing. They can provide powerful and durable competitive advantages that prevent the competition from copying your brand. The goal is to own strategic assets legally and to also "own" what they mean in the mind — its branding.

Apple owns thousands of patents that allow its iPhone to do all those incredible functions so many of us enjoy all over the world. Apple also owns the mental correlate in our minds. It's what the Apple brand stands for, the almost magical interplay of design and function.

4. Location

Locating a plant close to its supply chain reduces shipping costs from suppliers and to customers. If the product is heavy, such as with a steel manufacturer, the savings multiply, providing a cost advantage.

Amazon has more than 100 fulfillment centers spread across the country, with more on the way. If you own a railroad with track spreading across populated areas, you might have a sustainable competitive advantage due to a competitor's inability to gain similar access.

Clearly, with retail establishments, location can make a big difference. Consideration should be given to paying more for the right location.

5. Management and People

Steve Jobs, Mark Zuckerberg, Jeff Bezos, Jack Welch, Henry Ford and Andrew Carnegie themselves were (or are) a competitive advantage. Highly talented and skilled employees in critical positions also qualify as durable competitive advantages.

It is true that we will be replaced sooner or later, so the durable competitive advantage of certain people is not forever, but good for a long time.

6. Technology, Process, Manufacturing

Companies are weaving together advanced manufacturing technologies providing significant advantages, at least temporarily. This could allow the company to be the low-cost or high-quality provider, or some other advantage.

Competitors eventually will copy technology or processes, so the sustainable advantage will come to the company that continues to innovate or reinvent itself.

7. Product

You can't be all things to all people. But focusing on an attribute that a subgroup of your customers find highly attractive can give you a sustainable competitive advantage.

This also is known as a segmentation strategy, narrowing the market to smaller segments. Smaller businesses can find success with this strategy.

Are you willing to give up something to get more? Consider the pizza category. Domino's decided to focus on the attribute of delivery and succeeded. Papa John's focused on taste with the tag line, Better Ingredients. Better Pizza — another good move. One brand can't own two disparate ideas.

As you seek your own brand's durable competitive advantage, remember: You can't have it all. You must find your niche. If you try to be everything for everybody, you'll end up being nothing for anybody.

Find your one durable competitive idea that you can own in the mind of your customers and prospects. It's what differentiates you from your competition. It's your brand position.

Dick Maggiore is president and CEO of Innis Maggiore founded in Canton in 1974 and today the nation's leading positioning ad agency, building strong brands for companies in competitive markets here and across the country.