By Paul J. Emello

How to Work Smarter, Not Harder

Last month, I discussed business strategy – what it is and why it is needed to be successful. If you recall, business strategy is defined as the selection and use of resources to achieve company goals and obtain a competitive advantage in the marketplace. This month, I will discuss what competitive advantage is and why it is needed.

There has been much ink spilled on the subject of competitive advantage. Although there is no agreed upon definition, at its most basic level, competitive advantage is as it sounds: the advantage your company has over its competitors. This advantage is gained by offering customers greater value, either by means of lower prices or by providing better products, services, or benefits that justify charging higher prices.

Creating competitive advantage is central to a successful business strategy. It answers the question, "Why should customers buy from your company?" If you don't have a compelling competitive advantage or if the market forces change and render your competitive advantage obsolete (i.e. you don't have a good answer to this question or the correct answer changed) the results can be disastrous. Remember the company Pets.com? Despite advertising during the Super Bowl their sales never took off the way they planned. There was no compelling reason for customers to buy their products until they lowered their prices below their costs. The result was one of the larger dot bombs.

A competitive advantage can be created by effectively using your company's resources and capabilities to achieve either a lower cost structure or a differentiated product (Ref 1). Therefore, in developing a business strategy, one of the first decisions to be made is whether to position your company through cost advantage or product differentiation. To help make this decision, it is useful to start with an analysis of the competitive structure of our industry.

Figure 1-1 outlines the five basic competitive forces that exist in all industries (Ref 2). The combined strength of these five forces determines the ease (or difficulty) at which a company can make money in a given industry. The stronger the total force, the more difficult it is to earn an acceptable return on investment.

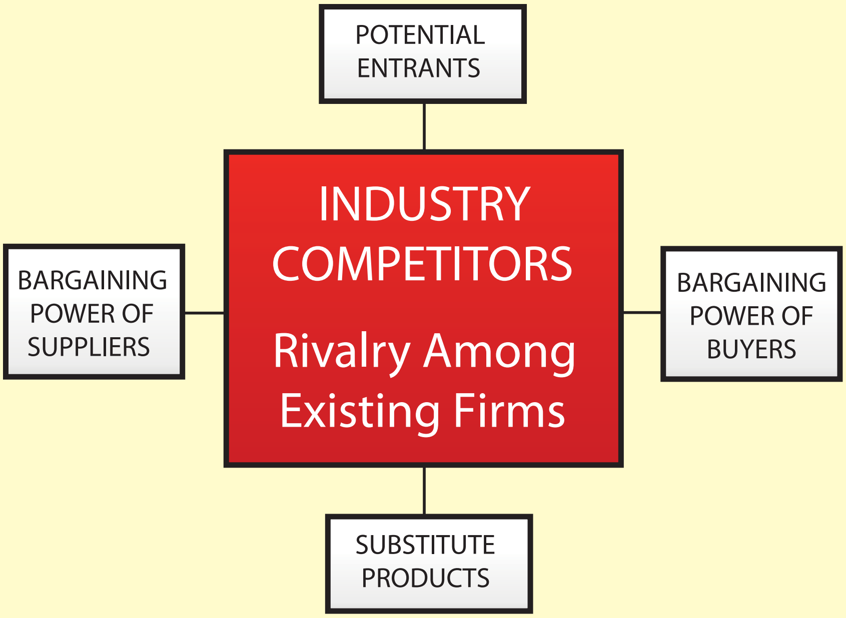

Fig 1-1 Forces Driving Industry Competition

Let's look at the strength of these competitive forces in the North American PCB manufacturing industry. First, we have the threat of potential entrants. With the advent of new electronic technologies, the manufacturing landscape changed. Board design data could be transmitted quickly to vendors anywhere in the world and shipping methods became more efficient, thereby significantly reducing delivery times for foreign manufacturers. It was only a matter of time before most North American customers started sending their volume orders to low-cost offshore sources. I think we can agree this force is very intense.

Second, we have the bargaining power of buyers. Who hasn't had the pleasure of trying to win orders in an online quoting exercise only to see last year's selling price cut in half. How about having to stand in the lobby of your largest customer because all the chairs were taken by your competitors, also waiting to see the buyer? Again, I think we can agree that this force is high.

Third, we have the bargaining power of the suppliers. It seems counterintuitive to think this force is strong, but it is. Many suppliers have exited our industry, giving the few remaining players more opportunities to raise prices.

Fourth, we have the threat of substitute products. It is debatable whether this force is high, but it certainly is a factor. For example, as more devices are packed onto IC chips, the area of PCB space needed is reduced. Those nice, large orders for memory boards are just memories now—another victim of Moore's law.

The fifth and final force is the rivalry that exists among the existing firms.

This too is high due to low customer switching costs, lack of differentiation (actual or perceived), and high exit costs. Therefore, most, if not all, of the basic market forces that exist in the North American PCB market today are very strong.

The structural analysis above explains why so many companies in our industry are having trouble making money. The current underlying economic structure of our industry has led to strong competitive forces, which results in extremely high competition. In what many board shop owners refer to as the good old days, these competitive forces were relatively low and it was not necessary to have a competitive advantage to do well. That is why it was much easier to make a decent profit.

However, there is hope. A business strategy that includes a sustainable competitive advantage will defend your company against these negative competitive forces that exist in our industry and allow your company to grow and prosper. Did you notice I threw in the word sustainable? It is the last concept I want to discuss. For obvious reasons,

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your competitive advantage cannot be easily imitated or duplicated by the competition. For example, buying the newest drill will not give your company a sustainable competitive advantage as it is very easy for your competitors to buy the same type of drill. However, developing and patenting a new manufacturing process that reduces your selling price could lead to a sustainable competitive advantage.

To sum things up, if you want to counteract these competitive forces and start realizing acceptable profit margins, you need to create a competitive advantage for your company, otherwise you'll continue to work yourself ragged for little to no money. Let's work smarter, not harder. □

References

1. "Competitive Strategy." The Free Press, Michael Porter 1980
2. Id.

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