

The End of Competitive Advantages – Keeping Corporate Strategy Moving*

Tamás Troján

Rita Gunther McGarth:

The end of competitive advantage – How to keep your strategy moving as fast as your business

Harvard Business Review Press 2013, 204 pp.

ISBN-13: 9781422191415

Rita Gunther McGarth is a professor at the Columbia Business School. She is an internationally acclaimed expert of creating strategy in uncertain and changing environments. In her book she is providing an answer, how to operate successful enterprises and remain profitable in the dynamically changing world, on the markets changing faster and faster, and with consumer demands becoming more and more individual. According to the author, in the world of changing or temporary competitive advantages, the continuous change of strategy is necessary in order to achieve the objective just mentioned.

Competitive advantage is the potential interpreted vis-à-vis competitors. According to *Porter*¹, the sustainability of a competitive advantage (idea, product, technology, service) is determined by five factors. These factors are: new entrants on the market, threat of substitution, bargaining position of buyers, bargaining position of suppliers, and competition among competitors in the sector.

We have to acknowledge that competitive advantages have never been truly permanently sustainable and today they are not so at all. The world of accelerated communication and developed IT technologies dictates an accelerating rhythm. We have to step from the world of sustainable competitive advantages to the world of changing or temporary competitive advantages.

Time supersedes every good idea increasingly faster. If someone sticks to a good idea, his thinking becomes easily static, and if he does not keep abreast of the constant changes, he will be bypassed and defeated just like the Maginot line

* The views expressed in this paper are those of the author(s) and do not necessarily reflect the official view of the Magyar Nemzeti Bank.

Tamás Troján is an economic analyst at the Magyar Nemzeti Bank. E-mail: trojant@mnbb.hu.

¹ Porter, M. E.: *Versenysztratégia [Competitive Advantage]*, Akadémiai Kiadó, Budapest, 1993.

was in 1940. Thus, the previously celebrated competitive advantage can become a dangerous trap.

In terms of its course of life, a classic industrial enterprise starts by founding on a good idea or good opportunity. In the run-up phase, the company obtains market share and customers, i.e. it grows gradually. In the phase of exploitation it attempts to maintain its favourable position, then finally comes the phase of decline.

In the phase of exploitation, but already in the run-up phase as well, competitors attempt to supplement (attack) the product with their own developments and technology; thereby, eroding the existing market advantage and profit. This occurs inevitably sooner than later, especially in today's accelerated digital and knowledge-based world. Market competition has accelerated by such an extent and has become so extensive and complex that it can be interpreted not as the rivalry of individual companies, but rather as an "arena" where everybody competes with everybody. The development of such a strategy or approach that holds its own even under such circumstances is necessary, i.e. it keeps pace in the market where competition is underway.

The rivalry of Kodak, Fuji Film and Sony is an example that is mentioned several times in the book. All three companies essentially dealt with roll film production and photography technology. The old type film roll and developing photography became very expensive by the 1980s and 1990s, mainly because of the significant increase in the world market price of silver (the most important raw material). It was Sony to first develop digital (sans-film) photography, getting hold of a considerable competitive advantage and endangering the company empires of the competitors which were based on the old, film developing technology. Kodak rejected the change, i.e. it declined the necessary changes, it tried to decrease its prices, but it went bankrupt in a couple of years. Fuji Film recognised the danger in time and fundamentally reformed its business in a couple of years, turning to printer technology, office automation and biotechnology and completely eliminating its old photo developing network. Thanks to this recognition and the quick reaction, Fuji Film did not get stuck within its past and by today it has become a market leader in its new areas.

Thus, success-oriented management has to develop dynamic competitive advantages with which they are competitive in the world of changes, what is more they can be winners. However, openness, vigilance and quick recognition of opportunities are necessary for this, which makes continuous re-planning possible. Returning to the life cycle of companies, steps have to be made before the start of decline. This approach provides both dynamism and stability for the companies. The possibility of re-planning, change and modification has to be present in each life cycle of the company or product. Such companies use their resources flexibly,

have a stable vision of the future, which is adjusted to the continuous changes, and this is reached with varied tools. In addition to all of these, the cost of re-planning or the cost of a lot small re-planning is construed as small at the corporate level compared to the growth potential that can result from the development of a new competitive advantage.

The most typical difference between the theory of “old, i.e. sustainable” competitive advantages and the strategy built on changing competitive advantages is the motive of breaking away in time. The company has to be able to perceive the early warning signals indicating that the company or product will start to decline and it has to be exited in a planned and systematic way, i.e. separation from it, is necessary and the company must proceed on a new competitive path. Separation should not be experienced as a drama, rather the company must learn from it. It has to be planned and it has to be made regular. The sometimes hard decision of the separation (breaking away from a previously successful idea or product) has to be made when leadership is still less urged by time and there is still value in the given business.

What kind of change in thinking or attitude is necessary in order to acquire the above approach? What is the correct adaptation of the above thoughts at the managerial level? You should not remain on a wave for too long because sooner or later it will cast you ashore. You have to prepare for leaving the wave consciously and you have to feel the appropriate moment via the early warning signals. The possibility of re-planning, change and modification has to be present in all life cycles of the company or product. This approach has to be present continuously. Resources (stocks) do not have to be possessed and accumulated, since the utilisation of those is also uncertain; thus, only the access to resources has to be ensured. Development has to be a central element of corporate processes, which is well directed and is present continuously with the greatest degree of freedom. The best resources and the best people have to be allocated to this area.

Swiftness and determination have to dominate in the decision making of the leadership. Precision and good decisions are less important than the leadership reacting quickly and taking the necessary corrective measures. The most important information in the world of changing competitive advantages may be “making unsure”, which may reveal risks, mistakes and dangers, questioning everything. All recommendations, reasoning, data and conclusions used have to be questioned. Sometimes even the motivation, the source of the idea and the basic principles have to be questioned as well; thus, the employees may learn thinking in an alternative way, and all these point to the direction of development.

It may be painful, but very useful to project the world of changing competitive advantages to the own life of people. Our efficiency may increase, our decision making may become faster. We can use our resources more successfully for

the established and well-defined objectives. Our deficiencies, which have to be developed, can be explored. There can be many twists and changes during our career. The carrier is managed by the individual; thus, changes in workplaces become more frequent and likely as a result of the dynamic and efficient way of life. Ensuring career models is a question of the past, since companies also look for employees for the changing environment and changing tasks. The development of special competences may represent an advantage for the individual. You should not collapse after an incidental failure, instead you have to look for the next opportunity; moreover, it is worth preventing it with flexible re-planning and a separation executed at the right time.