How to Hit A Moving Target

These days all competitive advantages are fleeting. So the smartest companies are learning to create new ones—again and again and again

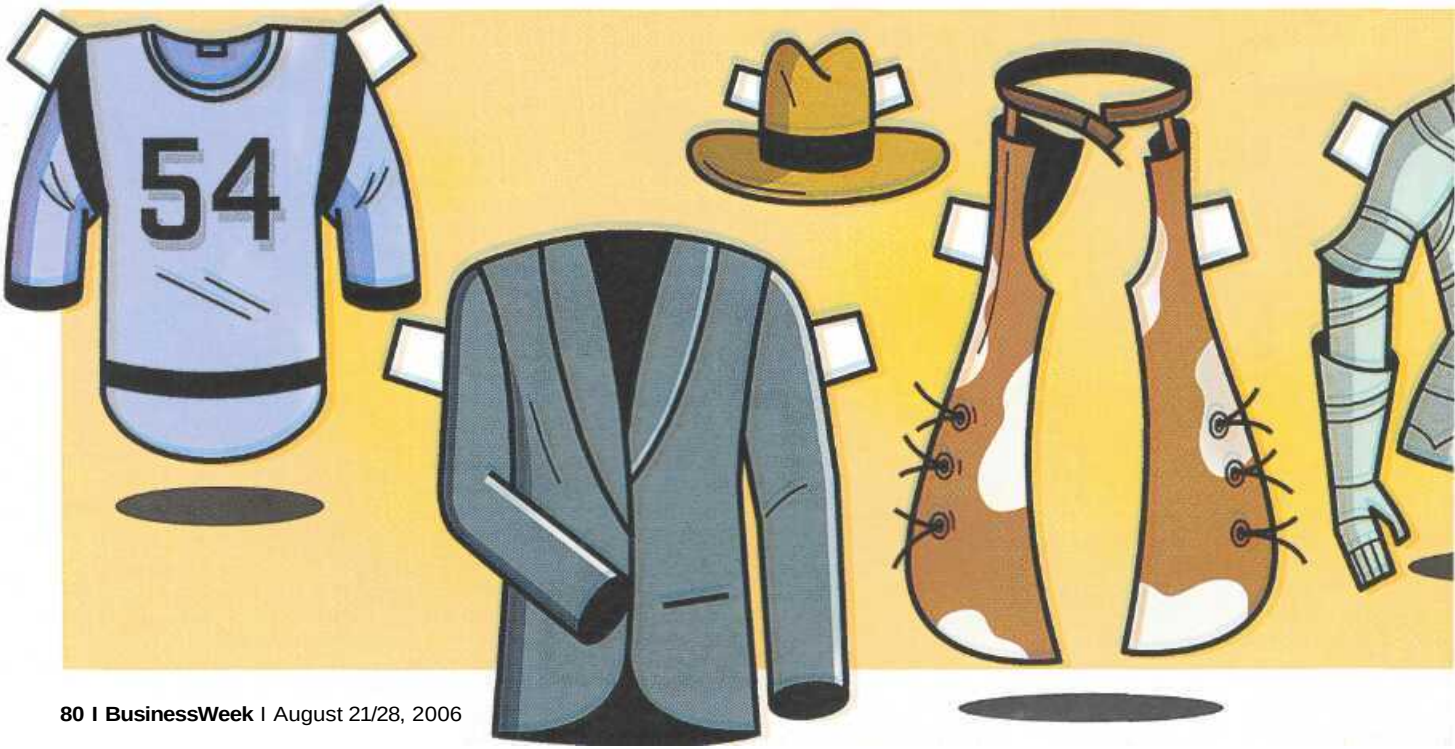
BY ROBERT D. HOF

SPEND A WEEKEND PLOWING THROUGH even the best of the 18,038 business books found on Amazon.com that mention the word "competitiveness," and you're left with four things: a splitting headache, two bleary eyes, and a mishmash of utterly random and conflicting advice.

Differentiate your products. No, nothing's unique anymore; just slash your costs. *Sorry, everyone's doing that. Invent new markets instead.* Hug your customers, that's the ticket! *Get real, you wuss—it all comes down to squashing your competitors like bugs.*

The message between all those lines is unmistakable: No matter what strategy you try, competitive advantage—whether it's Home Depot's big-box appeal, Intel's chip technology, or Disney's magic aura—is tougher to create and sustain with each passing year. Says C.K. Prahalad, professor of corporate strategy at the University of Michigan at Ann Arbor and co-author of several books on competition: "Whatever advantage you have, someone will take it away from you."

Yet there's hope behind this harsh truth. As hard as it has become to create an edge, some smart organizations are finding new ways to do it. Not for good, mind you—maybe not even for the years that many companies and their investors have come to expect. But a few standouts are managing to do the next best thing: They keep creating new competi-



tive advantages, over and over, faster and faster.

Meet the corporate chameleons. They're organizations that have learned to adjust to rapid social, economic, and competitive changes with relative ease. The most successful among them don't settle for hunkering down in soul-depleting market-share wars to protect an increasingly fleeting edge. Instead they zig and zag with the Zeitgeist to keep coming up with new ideas.

Experiment Fearlessly

AND THEY DON'T much care if those ideas sound a little nutso. Analysts still aren't sure, for example, about those digital music kiosks at Starbucks. And what the heck is Amazon's Mechanical Turk? (It's a sort of online marketplace for farming out small jobs.) But a culture of experimentation is crucial in a fast-changing world. As Amazon Chief Executive Jeff Bezos told a group of Stanford University students last year: "Invention always leads you down paths that people think are weird."

Not that there's much choice. Competition keeps intensifying around the world. For one thing, after decades of rising power, Asian companies are starting to run circles around American and European rivals across a wide variety of industries. A few years ago, who would have thought that India's Wipro, Infosys, and Tata Consultancy Services each would have market caps bumping up against, or even eclipsing, that of General Motors?

Not only that, the Internet is busting the boundaries of many industries, creating openings for unexpected newcomers. With its Net communications subsidiary Skype, for instance, eBay is assaulting telecommunications players by offering free phone calls. Even more broadly, as the Net helps more businesses evolve from merely selling products to providing services, companies are invading markets they could never touch before. Google's new online services, such as e-mail and word-processing, challenge Microsoft's cash-cow software applications. Caterpillar's new logistics services go up against the likes of Ryder and FedEx.

What's most striking is that the classic *mano-a-mano* battles, such as Coke vs. Pepsi and Microsoft vs. Apple, are only one small part of being competitive. From Starbucks and Cirque du Soleil to Caterpillar to Whole Foods Markets, companies are finding new ways to differentiate themselves and create entirely new markets. Many are finding that in an intensely networked age, cooperation works better than direct competition. Leaders know that if they fixate on competitors, they'll miss the real prize. "If you want to do a breakthrough, don't look around," says Daniel Lamarre, president of Cirque du Soleil. "Look ahead."

That's what the best of the bunch are doing. Granted, not all of the practices they em-

HARRY CAMPBELL

ploy will work for every company in every industry or at all times. But in an era when the competitive playing field is constantly morphing, a few key guidelines have emerged for how to stay ahead of the pack.

DON'T JUST GET BIGGER, GET UNIQUE. Dell, Wal-Mart, Intel, Home Depot, and Microsoft: Each dominates its field—and each faces new challenges to growth and profits. Is the quest to be an 800-pound gorilla the smartest strategy? Harvard Business School strategy guru Michael E. Porter doesn't think so. In an age of infinite choice, he contends, there's a better way to achieve competitive advantage. "There is no best auto company, there is no best car," he says. "You're really competing to be unique. One can now be a very, very large company by really meeting a very well-chosen set of needs—but doing it on a global basis."

Whole Foods Markets, for instance, is "not just trying to be a great food retailer," says Porter. "It's trying to meet the needs of a certain set of customers." Those customers view the 183-store chain's eco-friendly ethos as representative of a healthy, socially responsible lifestyle they want to identify with (not to mention that they crave those Medjool dates and organic heirloom tomatoes). It's unlikely that Kroger's or Wal-Mart will ever be able to claim that kind of brand loyalty—even if Wal-Mart is out trumpeting its goal of "going green."

WHY COMPETE? CREATE NEW MARKETS. Niches are nice, but inventing a new market is a whole lot better. Former fire-eating street performer Guy Laliberte founded Canada's Cirque du Soleil 22 years ago on the notion of a unique combination of circus (but without the animals) and theater (but more acrobatic). Despite massive global expansion, with about $700 million in profitable annual sales, Cirque has no significant direct competitors.

Cirque's Lamarre attributes the company's edge to a stubborn resolve to "stay crazy" and keep "the suits" away from all creative decisions. To keep shows fresh and get a read on shifting public tastes, an in-house group called New Tendencies studies what's new in restaurants, car design, fashion, and other unrelated industries. One result: The group noticed the ascendence of Asian themes, so that flavor was injected into Cirque's hit MGM Grand show *Kd*.

This kind of market-making lets innovators from Cirque du Soleil to Apple to Starbucks avoid market share wars and reap big rewards, says W. Chan Kim, co-author with Renee Mauborgne of the 2005 book *Blue Ocean Strategy*. Their research over the past decade shows that 86% of launches by 108 companies were mere line extensions, which accounted for 39% of profits from all new-business launches. The remaining 14% represented new markets, and they generated 61% of profits.

OBSESS ABOUT CUSTOMERS, NOT RIVALS. Heavy equipment is an intensely competitive business, but No.1 Caterpillar keeps its eyes on the prize: what its customers want. Instead of just selling that familiar yellow gear, the Peoria company sells service—or, as its informal motto says, "Buy the iron, get the company."

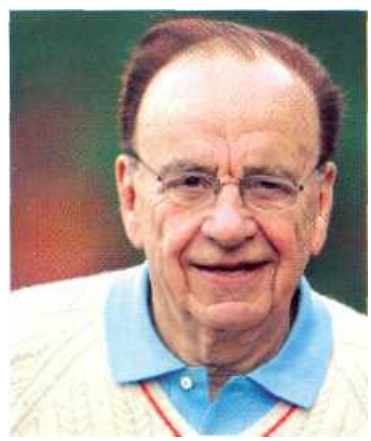
Caterpillar will ship spare parts to a customer anywhere in the world, from the Alaskan tundra to the deserts of Timbuktu, in just 24 hours. But the dividends of that high level of service extend beyond customer loyalty. The company's various service contracts serve as a kind of annuity, and the need to arrange distribution of several hundred thousand parts worldwide led it into a profitable, fast-growing logistics business. Even with a recent slowdown in housing construction, Caterpillar saw its second-quarter profits jump 38% and raised its earnings outlook for the year.

GIVE AS GOOD AS YOU GET. More than a decade ago, James F. Moore noted in his book *The Death of Competition* that huge, cooperative networks of companies such as the IBM, Intel, and Microsoft troika in computing, or Toyota and its close-knit

HOW I COMPETE

Rupert Murdoch

Starting as *head of a tiny newspaper chain founded by his late father, the News Corp. CEO built a media giant.*



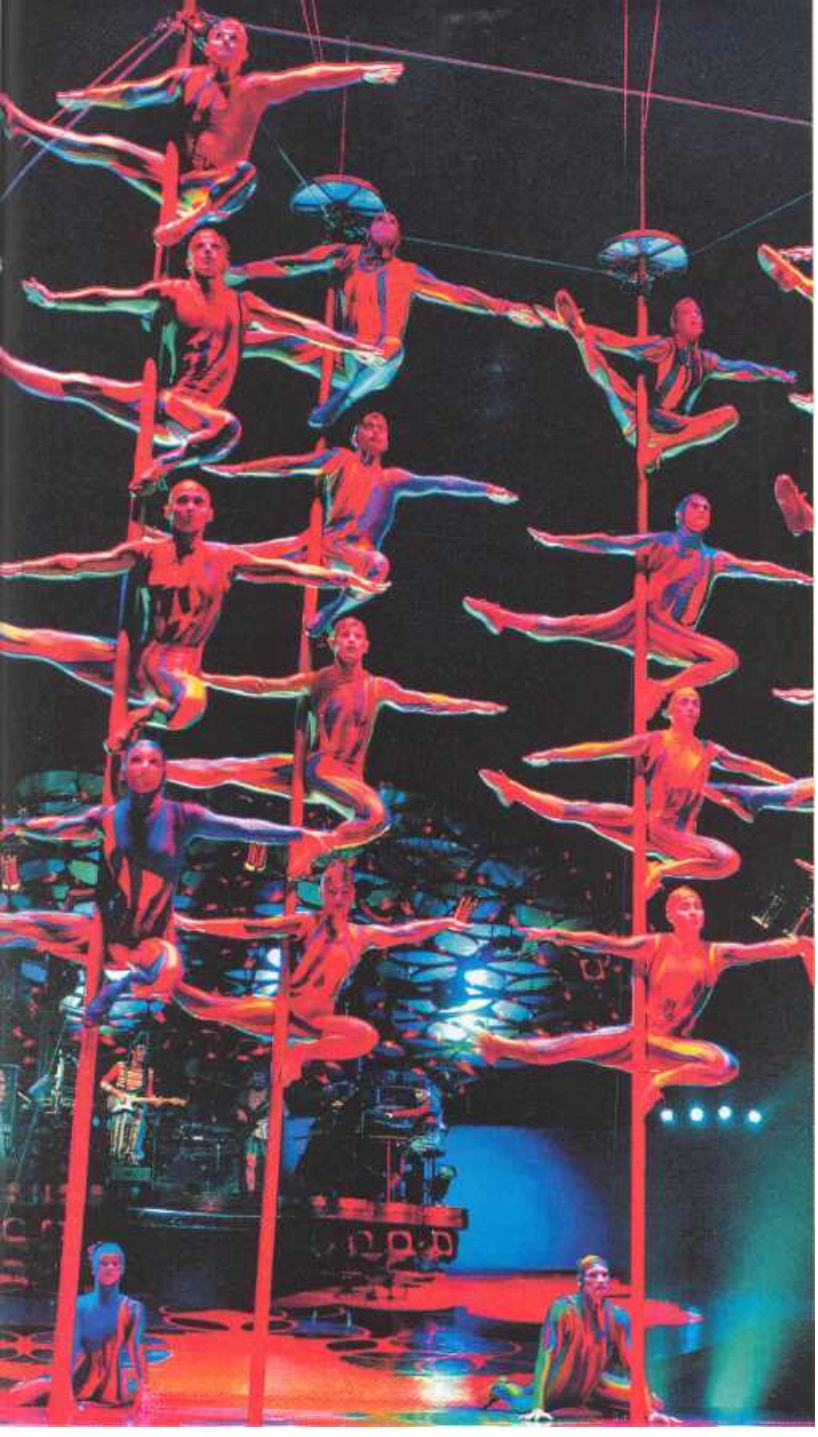
Competition is enjoyable. It's the reason for being in business. You have to like to win. I like to win. My father was more of an editor and publisher. I would have liked to do more of that. But I had to be more concerned with other things, and it dragged me into other businesses. But maybe it's in my genes. When I started, there was a much larger newspaper than us, and we had to compete to survive. You do that with better journalism. And then you have to endure. Stick it out. And we did that.

It's what we've done in New York with the Post. There's a tremendous amount of competition in that market, but we've created a superb newspaper, and we're the only ones who go up in circulation at a stable rate.

Probably the toughest thing I have ever done was in Britain when we bought [satellite operator] BSKYB. We saw a real opening. About the only TV people were getting back then in Britain was the BBC and BBC Lite. We felt people wanted better TV and were willing to pay for it. We lost money in the first two or three years. My bankers weren't very happy with me, but we knew that if we could stick with it there would be a huge market, and there is.

We saw an opening for Fox News [in 1996], too. We didn't think CNN was entitled to a monopoly on 24-hour news, and the entire news business had become monolithic, with the three networks and CNN. In the beginning it was tough getting people to carry us. But we did it.

Now we've got MySpace. When we first got it, it looked like we paid a lot for that [and outbid Viacom in the process]. We came into that a little late, and I think Viacom probably thought they had it. But we wanted it more, and I told my people to get it. I like to win, and that was a big win for us.



CIRQUE DU SOLEIL An in-house group studies what's new in a slew of unrelated fields to glean fresh ideas

DAVID LEFRANC/GAMMA

supplier network, were overtaking individual companies as new competitive forces. Now a lot of companies are taking an even bigger leap forward. They're tapping into the cooperative crowds that create things like open-source software, eBay's massive marketplace, and Skype's peer-to-peer Net phone network.

In some cases they're finding ways to leverage that cooperative force to huge advantage. Google, for instance, instantly polls millions of people and businesses whose Web sites link to one another, and as a result the company produces better search results than its rivals do. That has allowed Google to continue gaining market share. It has also enabled the company to build a highly profitable ad business with $6.1 billion in revenues, up 93% from a year ago.

GET PERSONAL. Thanks to the Web and just-in-time supply chains, the mass-market era is fading as customers begin to tailor companies' products to their tastes. Amazon offers personalized book recommendations based on your literary leanings, Build-a-Bear Workshop lets your kids design their own teddy bears, and virtually every Dell PC is a custom job. "With personalization, you have infinite ways to differentiate," says Prahalad, whose 2004 book *The Future of Competition*, co-authored with Venkat Ramaswamy, urged companies to "co-create" products with customers.

That approach is working wonderfully for Lands' End. Six years ago the mail-order and Web apparel retailer began offering customers the ability to order jeans, men's dress shirts, and other items to their exact measurements. Today, even though the clothes cost at least $20 more apiece, up to 40% of Lands' End customers choose the customized versions. And 33% of those customers reorder the personalized product. Even better, about a quarter of these made-to-measure fans are new customers.

STAY HUNGRY. A low-cost business model isn't much of a differentiator anymore, but staying efficient remains crucial. So is engaging in direct combat when necessary—let's face it, in some industries competition ain't pretty. "It's a hard world," shrugs Boston Consulting Group's George Stalk, co-author of 2004's *Hardball: Are You Playing to Play or Playing to Win?* "It's 'I'm going to eat your lunch or you're going to eat my lunch.'"

18,038
Business books on Amazon.com that mention "competitiveness"

Today, even the most dominant companies need to stay on their toes. The truth is, there's no final winner in the global game of corporate competition. "All winning does is let you compete against a whole new set of better-funded competitors," observes Joe Kraus, founder and chief executive of Web collaboration software startup JotSpot. "Competition never ends." II

-With Michael Arndt in Chicago

Fonte: Business Week, n.3998, p. 80-83, 21 Aug. 2006.