COMPETITIVE ADVANTAGE FOR FRANCHISES

Many organisations, including franchises, strive to attain a competitive advantage, but few truly understand what it is, how to achieve it and, perhaps most importantly, how to keep it.

BY DR GERHARD VAN WYK

A competitive advantage is a condition or circumstance that creates superior value for a company above its rivals. Such an advantage can be gained by, over a sustainable period, offering consumers greater value than your competitors, whether by offering lower prices for providing quality services or benefits that justify a higher price. The strongest competitive advantage, however, is a strategy that cannot be imitated by other companies.

American academic and economist, Michael Porte, defines three generic strategies that companies may use to gain competitive advantage:

1. **Cost leadership strategy** — to achieve the lowest cost of operation in the industry.
2. **Differentiation strategy** — developing products or services that offer unique attributes that customers perceive as better than other similar products.
3. **Focus strategy** — concentrates on achieving differentiation within a narrow segment, be it product lines, buyer segments or geographic markets.

**COST ADVANTAGE RESULTING FROM EFFICIENCY**

Efficiency is the ratio of inputs to outputs. Inputs being any materials, overheads or labour assigned to the product or service, while outputs are measured as the number of products produced or services performed. Efficiency can be improved either by maintaining constant outputs while reducing inputs, or maintaining constant inputs while increasing outputs. The company that achieves the highest efficiency for a service or product will widen the gap between cost and perceived value, effectively increasing their profit margin.

**PRODUCT DIFFERENTIATION**

Product differentiation is achieved by offering a valued variation of the product. However, the ability to do so will depend on how much the product lends itself to differentiation. While some products like appliances, restaurants, automobiles and even batteries are easily customized...
are thus highly differentiable, the same could not be said of beef, lumber and notebook paper. In Principles of Marketing (1999), authors Gary Armstrong and Philip Kotler note that differentiation can occur by manipulating many characteristics, including features, performance, style, design, consistency, durability, reliability or reparability.

Differentiation can enable a company to target specific populations. Many franchise restaurants differentiate themselves with consistency and style. Someone who enjoys a particular dish at a specific franchise restaurant can be assured that it will look and taste the same at any restaurant from the same franchise anywhere in the country. For theme restaurants such as Planet Hollywood and Hard Rock Café, the style of theme is their key differentiating factor.

**SERVICE DIFFERENTIATION**
Companies can also differentiate the services that accompany the physical product. Two companies can offer a similar physical product, but the company that offers additional services can charge a premium for the product. In the personal computer business, Dell and Gateway claim to provide excellent technical support services to handle any after-sale glitches. This 24-hour-a-day tech support provides a significant advantage over other PC makers who may be perceived as less reliable when a customer needs immediate assistance with a problem.

**PEOPLE DIFFERENTIATION**
While employees are often overlooked, hiring better people or providing better staff training than a competitor can become an immeasurable competitive advantage for a company. Employers who pay attention to employees, monitoring their performance and commitment, may find themselves with a very strong competitive advantage that is difficult for a competitor to imitate because the source of the advantage may not be apparent to an outsider.

People differentiation is important when consumers deal directly with employees as they are the frontline defence against poor customer satisfaction. Another way a company can differentiate itself through people is by having a recognisable person at the top of the company.

**IMAGE DIFFERENTIATION**
When competing against similar products or services, buyers may perceive a difference based on company or brand image. A favourable brand image takes a significant amount of time to build and a single negative impression can destroy a hard-fought image practically overnight. Everything a company does should support their image.

Often, a company will try to give personality to a product/service. This can be done through a story, easily recognisable symbol or other identifying means that reminds the consumer of the brand image. The Nike ‘swoosh’ is a symbol that carries prestige and makes the Nike label recognisable.

**QUALITY DIFFERENTIATION**
Quality is the idea that something is reliable in the sense that it does the job it is designed to do. When considering competitive advantage, in addition to the quality of the product, the quality of the materials used in manufacturing as well as the quality of production operations, should also be scrutinized.

Materials quality is very important; the better the quality of the material used, the lower the number of returns, rework or repairs necessary. The manufacturer that procures the best material at the best price will be able to widen the gap between perceived quality and cost. Quality labour also reduces the costs associated with returns and repairs.

**INNOVATION DIFFERENTIATION**
Process innovation is anything new or novel about the way a company operates. When people think of innovation their first thought is of product innovation and while it is important, to remain truly competitive, process innovation that reduces costs plays an integral role.

Some process innovations can completely revolutionize the way a product is produced and it offers the added advantage that could take competitors a while to discover and imitate. The assembly line is an example of an early twentieth century innovation that significantly reduced costs and gained a huge competitive advantage for companies bold enough to pursue this new initiative.

**SUSTAINABLE COMPETITIVE ADVANTAGE**
The achievement of competitive advantage is not always permanent or even long-lasting. Once an organisation establishes itself in an area of advantage, other firms will follow suit. A sustainable competitive advantage, however, means that competitors are unable to duplicate the benefits of the organisation’s strategy. In order for a firm to attain a sustainable competitive advantage, its generic strategy must be grounded in an attribute that meets four criteria:
- **Valuable** — it is of value to consumers.
- **Rare** — it is not easily obtained.
- **Inimitable** — it cannot be easily imitated or copied by competitors.
- **Non-substitutable** — consumers cannot or will not substitute another product or attribute.

**SELECTING A COMPETITIVE ADVANTAGE**
Not all differentiation is important; some differences are too subtle, too easily imitated and many are too expensive. For a differentiation strategy to be successful, consumers must want, understand and appreciate the differences offered.

A competitive advantage can make or break an organisation, so it is crucial that managers, franchisors and franchisees, as the case may be, are familiar with competitive advantages and know how to create, maintain and benefit from them.