

Strategies for Competitive Advantage

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Overview

A competitive advantage is an advantage gained over competitors by offering customers greater value, either through lower prices or by providing additional benefits and service that justify similar, or possibly higher, prices. For growers and producers involved in niche marketing, finding and nurturing a competitive advantage can mean increased profit and a venture that is sustainable and successful over the long term. This fact sheet looks at what defines competitive advantage and discusses strategies to consider when building a competitive advantage, as well as ways to assess the competitive advantage of a venture.

The Essence of Competitive Advantage

To begin, it may be helpful to take a more in-depth look at what it means to have a competitive advantage: an edge over the competition. Essentially a competitive advantage answers the question, “Why should the customer purchase from this operation rather than the competition?” For some ventures, particularly those in markets where the products or services are less differentiated, answering this question can be difficult. A key point to understand is that a venture that has customers has customers for a reason. Successfully growing a business is often dependent upon a strong competitive edge that gradually builds a core of loyal customers, which can be expanded over time.

Producers and suppliers familiar with farming and ranching may know that successful ventures in the agriculture industry have typically operated in a commoditized, price-driven market, where all parties produce essentially the same product. Such conditions imply that the ultimate “winners” are the most cost-efficient producers, meaning that agricultural producers have historically relied on strategies that focused on lower costs and higher volumes (i.e. a bushel of hard red winter wheat is assumed to be of similar quality across the entire high plains region, meaning each bushel is assumed to be of the same value; so there is an incentive for producers to keep prices low and volume high).

With the advent of product differentiation and niche and direct marketing, that reality has changed, and now there are niche markets in which both individual and wholesale buyers are looking for products with very specific characteristics or special services. These characteristics often use strategies that don’t focus on costs and volumes exclusively; rather the product or service may be of premium quality, be differentiated from other products and services available in the market (such as organic, natural, or humane production), or have a value-added component (i.e. flavored meats, pre-washed salad mixes, etc.).

Successful ventures perform a combination of business activities well, including marketing, production, distribution, finance, customer service, and/or other activities important to the enterprise. However, a competitive advantage is often a single key element that gives an edge to a business beyond what the competition has or does.



10 Reasons Businesses Succeed

- 1. The experience and skills of the top managers.** Over half of business failures are directly related to managerial incompetence.
- 2. Energy, persistence and resourcefulness (the will to make the business succeed) of the top managers.** Many business owners have failed or come close several times before their “instant” success. Don’t give up.
- 3. A product that is at least a cut above the competition and service that doesn’t get in the way of people buying.** There must be a compelling reason to buy; the product is great, the people love to provide service, the buying experience is easy and fun, etc.
- 4. The ability to create a “buzz” around the product with aggressive and strategic marketing.** Make scarce marketing resources count. Do as much homework about your customers and their choices as you can before investing your marketing dollars.
- 5. Deal-making skills to sell the product at the highest possible price given your market.** It comes down to your customers’ perception of the value of your product and sometimes the power of your personality.
- 6. The ability to keep developing new products to retain and build a customer base.** Consider gradual product development based on improvements to the current product line and sold to the current customer base.
- 7. Deal-making skills to work with resource suppliers to keep costs low.** Keeping costs lower than competitors’ and continuing to look for cost reductions even when the business is profitable is key.
- 8. The maturity to treat employees, suppliers and partners fairly and respectfully.** Trust and respect result in productivity increases in ways that may be difficult to see and quantify.
- 9. Superior location and/or promotion creating a connection between your product and where it can be obtained.** Studies have shown it can take seeing your product or name seven times before a customer is ready to buy.
- 10. A steady source of business during both good economic times and downturns.** Over the long term, develop a product mix that will include winners during good economic times and other winners when times are tough.

(King, 2005)

Mastery of that single key element often provides marketers with a distinct niche in the marketplace and may lead to the creation of a competitive advantage that serves to establish or preserve success. To be successful in this environment, a manager needs to identify those activities at which the management and the venture excel, not just activities in which they perform equally well with the competition.

Potential Strategies for Differentiation

The following strategies may be helpful in differentiating a product or service from those of the competition. It is important to keep in mind that a venture’s most effective differentiation—the one that will bring the venture the most success—will likely come from just one or two strategies.



Product Features and Benefits

What makes the product unique and desired? Consider product characteristics such as style, handling, taste, quality ingredients, comfort, production methods (such as natural or organic), certification and so on. Are the product characteristics significantly different from those of currently available products? Can the venture provide these features or benefits effectively?

Location(s)

What about the venture's location is a draw to customers? The office or store location is often a very important factor, particularly for ventures selling directly to the public. Location should be chosen with care, preferably in an area near customer traffic. For example, in a farmer's market setting, is the booth located in a visible, convenient, and accessible place? Being tied to an existing location will directly influence other decisions, such as marketing, product distribution (such as mail order/Internet versus roadside stand), and even product selection. If this is the case, would it be possible for the venture to partner with someone who has a better location, if the one provided is not as attractive?

Staff

Consider the factors which ensure that front and managerial staff produce a good product and provide a positive customer experience. Does the venture's personnel follow these factors? Do they act professionally? Do they have expertise with the product, on which customers can rely?

Operating Procedures

What policies, processes, and standards could be employed to smooth operations, create value, and offer a positive customer experience?

Price

What fundamental cost advantage does the venture have which would justify permanently low prices? Most ventures operating in the same industry in a location will tend to have pretty much the same cost structure, meaning that when one competitor cuts price, others usually follow, thus erasing whatever advantage the first competitor gained by reducing prices. Ways to achieve a fundamental cost advantage might be through lower overhead or shipping costs (perhaps through geographic closeness to markets), cheaper labor, and/or low-priced raw materials (perhaps through long-term purchase agreements).

Customer Incentive Programs

Does the venture employ programs to attract new and repeat customers through efforts such as giveaways, coupons, sales, promotions, and/or volume discounts?

Guarantees and Warranties

If the venture is conveying to customers that it provides a quality product, is that perception reinforced with guarantees and warranties?

Brand Name Recognition

A carefully conceived and executed marketing plan with a focus on the customer is a major contribution to business success. A good marketing strategy can be enough to differentiate one

business from the rest, all other things being equal. Brand name recognition is reliant upon a good marketing strategy and a consistent, reliable product and venture. Ventures who do not have the resources available to market themselves as their own brand may want to consider joining an alliance or cooperative to market their product under a recognizable brand name.

Goodwill

Is the business venture recognized within the community as a contributor and a valuable member?

Value-Added Products/Services

Does the venture offer a further service or more developed product? These value-added aspects may often be free with the purchase of a product, such as free installation or delivery.

Extended Growing/Operating Season

Is the venture's product available before or after competitors' products? For instance, with sweet corn, is it the first available of the season?

Soils, Buildings, Location, and Landscape

Do the physical facilities and resources of the venture contribute to the quality of what is being produced and sold?

Water, Access to Irrigation, and Wetlands

Are there sufficient water resources available to produce a product which might not typically be produced in the region? Is it possible to differentiate the venture to consumers by performing good stewardship of the venture's water resources?

Weather

Is the weather conducive to producing and selling the product or service? For instance, common weather resources are wind, rain, and sun. While in a small geographic area these same resources would be available to all competitors, a venture that is trying to compete in a larger geographic area may face competition from producers located in an entirely different region, who are exposed to different weather resources.

Plants and Animals

If the venture is agritourism-based, then what wildlife can be supported? For example, can the agritourism venture involve bird watching, or is livestock available for a petting zoo or for rides? For more traditional operations, can the venture's location support the plants and animals that are intended for use? Can the venture offer a unique heirloom variety or exotic breed with potential benefits?

Organization and Alliances

Does the venture have unique alliances or sources of supply? Some ventures are able to pool resources to provide a unique offering, such as through a cooperative.

Customer Experience

Providing customers with additional information about the farm/ranch is a way for clients to connect to the physical operation. This connection can be strengthened through identifying with the farmer/rancher or visiting the farm/ranch (or the website and making a connection there), as well as through educational resources such as recipes and information about the history of and people associated with the farm or ranch (the “farm/ranch story”).

Quality

With all of the above potential sources of competitive advantage, quality is an underlying factor. Successful ventures offer consistent quality, so an important consideration for any venture is how quality is going to be perceived and measured. In some cases quality may be related to value-added strategies, such as obtaining third party certification for organics, kosher production, etc. In other cases, quality may be related to the fact that the product being offered is of a higher physical quality than the competitor’s product, or from providing excellent customer service.

Competitive Advantage Evaluation Process

When a business is just starting out, it may be worthwhile to perform a comprehensive evaluation of the business’ goals and how it might fit into the market.

Evaluate Resources

The basis for a competitive advantage often lies in the resources and abilities that are already available, even though the resources may not initially be recognized. Begin by taking a critical look at the existing resources and product/service offerings. What does the venture have that could be used as an advantage? Reading through the potential options for competitive advantage above, which of these resources are already available and which does the venture need to obtain in order to focus one or more of the strategies?

Clarify Goals

Has a clear idea of what the venture seeks to accomplish been established? Businesses with specific and achievable goals tend to have better and more consistent growth. Challenging, but realistic goals should be written out to help clarify what the business will do for itself and its customers in the future. These goals will become benchmarks for success and will help maintain focus among all involved parties.

Define Customers

Determining the products and services customers want and cannot get from the competition is a first step toward defining the business’ potential customers. Once the needs and wants of the potential customers have been established, the characteristics of those customers can be examined in an effort to identify commonalities. For instance, the development of salad mixes came from the realization that for convenience, some consumers needed a pre-washed and mixed salad alternative, rather than bunches of greens that needed to be rinsed and spin-dried.

When developing a hypothesis about what potential customers will buy, speaking to potential customers will provide an understanding of their needs. This may help the venture to learn about what features customers need and what they will pay for, and provides an opportunity to ask them for additional suggestions. Additionally, there are many research sources available through

publicly available sources (see the “Resources” section of this fact sheet), and venture-specific research can be organized through surveys, focus groups, questionnaires, and observation (for examples, please see fact sheet WEMC FS#7-08, “Conducting Market Research Using Primary Data” in this publication). Such research can help the venture to be sure that there is a large enough market for the product/service.

Examine Competitors

With an understanding of what customers want and an idea of how this can be provided, it is important to take a look at other ventures that might be targeting the same market. First, look at the direct competition. For example, a venture selling fresh produce in a farmers’ market would have direct competition from other vendors at the market, while the indirect competitor would be grocery stores in the same area. Once the competition has been identified, compare the strengths and weaknesses of the competition to the strengths and weaknesses of the venture. This will provide more insight as to where the venture’s competitive advantage lies.

Make Sense of it All

In the end, building a competitive advantage will involve understanding the needs of the market (customers), and devising a strategy to make use of the resources that are available (or can be obtained) to set the business apart from the competition. The strategy will need to take into account the target market, the business’ strengths and weaknesses, the business’ goals, the product/service the business has developed, and the strategies of the competition. Key questions to address include:

- Are the business and the target market clearly defined?
- Who is/are the business’ competitors?
- What is the business’ specific strategy for success?
- Are the competition’s moves being tracked regularly?
- Is the business taking advantage of the competition’s weaknesses and/or any competitive opportunities?
- What has been learned from the competition’s mistakes/strengths?
- How do the business’ prices and products compare with the rest of the industry?
- Who are the customers? Does the business have (or can it build) a loyal base?
- Are the employees trained in customer service?
- What trends are ahead, and can the business take advantage of them?

“Building sustainable competitive advantages revolves around differentiating a product from the competition along attributes that are important and relevant to customers.” (Barone and DeCarlo, 2003)

Keeping the Edge Sharp

Competitive advantages don’t tend to stay competitive advantages without significant effort. Over time the edge may erode as competitors try to duplicate a successful advantage for themselves and as the market changes. Half the battle is establishing the competitive edge, while the other half is maintaining it. Continual analysis of the venture’s product offering and management will help the venture to stay current with the situation.



Resources

The following resources are a brief overview of agencies and organizations that may be helpful in building or strengthening a competitive advantage.

Information about value-added agriculture can be found at USDA's Agricultural Marketing Resource Center website, at www.agmrc.org. The website provides information about commodities and products, market and industry trends, business creation and operation, research results, and value-added resources.

Appropriate Technology Transfer to Rural Areas (ATTRA) provides a National Sustainable Agriculture Information Service, which is a multi-state organization dedicated to providing information to farmers, ranchers, Extension agents, and others. This effort is managed by the National Center for Appropriate Technology (NCAT) and funded under a grant from the USDA's Rural Business-Cooperative Service. ATTRA can be found on the Internet at www.attra.org, or by calling 1-800-346-9140, while information about NCAT can be found at www.ncat.org or at 1-800-ASK-NCAT (1-800-275-6228). USDA's Rural Business Cooperative Service is online at www.rurdev.usda.gov/rbs/, and a directory of individual state offices is available at 1-800-670-6553.

The Digital Center for Risk Management Education provides an online budget library at www.agrisk.umn.edu. This group is funded by the Cooperative State Research, Education, and Extension Service (CREES).

The National Agricultural Library (NAL) of the USDA seeks to advance access to global information for agriculture. NAL online provides access to agriculture-related news articles, research, and links to other agriculture information sites, and features a resource where users can ask questions of the library's professional reference staff. NAL's online resources can be found at www.nal.usda.gov.

The U.S. Small Business Administration (SBA) is an independent federal agency created to aid, counsel, assist, and protect the interests of small business concerns, as well as to preserve free competitive enterprise and to maintain and strengthen the overall economy. More information on the SBA can be found online at www.sba.gov, while questions can be directed to the SBA Answer Desk at 1-800-U-ASK-SBA (1-800-827-5722).

Sustainable Agriculture Research and Education (SARE) is supported by USDA and CREES. The goal of SARE is to provide grants and information to improve profitability, stewardship, and quality of life. SARE's website provides information about sustainable agriculture, links to data, reports, and publications, and information about available grants and the grant application process. SARE can be found online at www.sare.org.



Alternative Enterprising Definitions

Alternative enterprising can mean marketing an existing product differently, adding value to a product before it is sold, or adding a new enterprise (new product or service) to the mix. Alternative enterprising is also referred to as *enterprise diversification*. Aside from the production of food and fiber, alternative enterprising includes the following activities:

Agritourism: inviting the public onto a farm or ranch to participate in various activities and enjoy an agricultural experience. Agritourism enterprises include bed and breakfasts, for-fee fishing or hunting, pick-your-own fruits/vegetables, corn mazes, farm markets, and much more.

Agritainment: providing the public with fun on-farm or on-ranch activities, such as haunted houses, mazes, miniature golf, horseback riding, and hayrides.

Agrieducation: formal and informal education about agriculture through signage, tours, hands-on classes, seminars, etc.

Cultural and Heritage Tourism: the use of historic and cultural attractions to teach visitors about the past and present.

Direct Marketing: any form of marketing in which a consumer purchases a product or service directly from a producer.

Nature Tourism: consumptive and non-consumptive use of the natural resources. Nature tourism ranges from birding, rock climbing, camping, hiking, stargazing, and even skydiving, to hunting and fishing.

Value-Added: a product whose appeal to consumers has been increased through packaging, processing, marketing, or production practices or services. Each step of adding value to a product is an alternative enterprise.

(Southern Maryland Resource Conservation and Development Board, 2004)

References

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