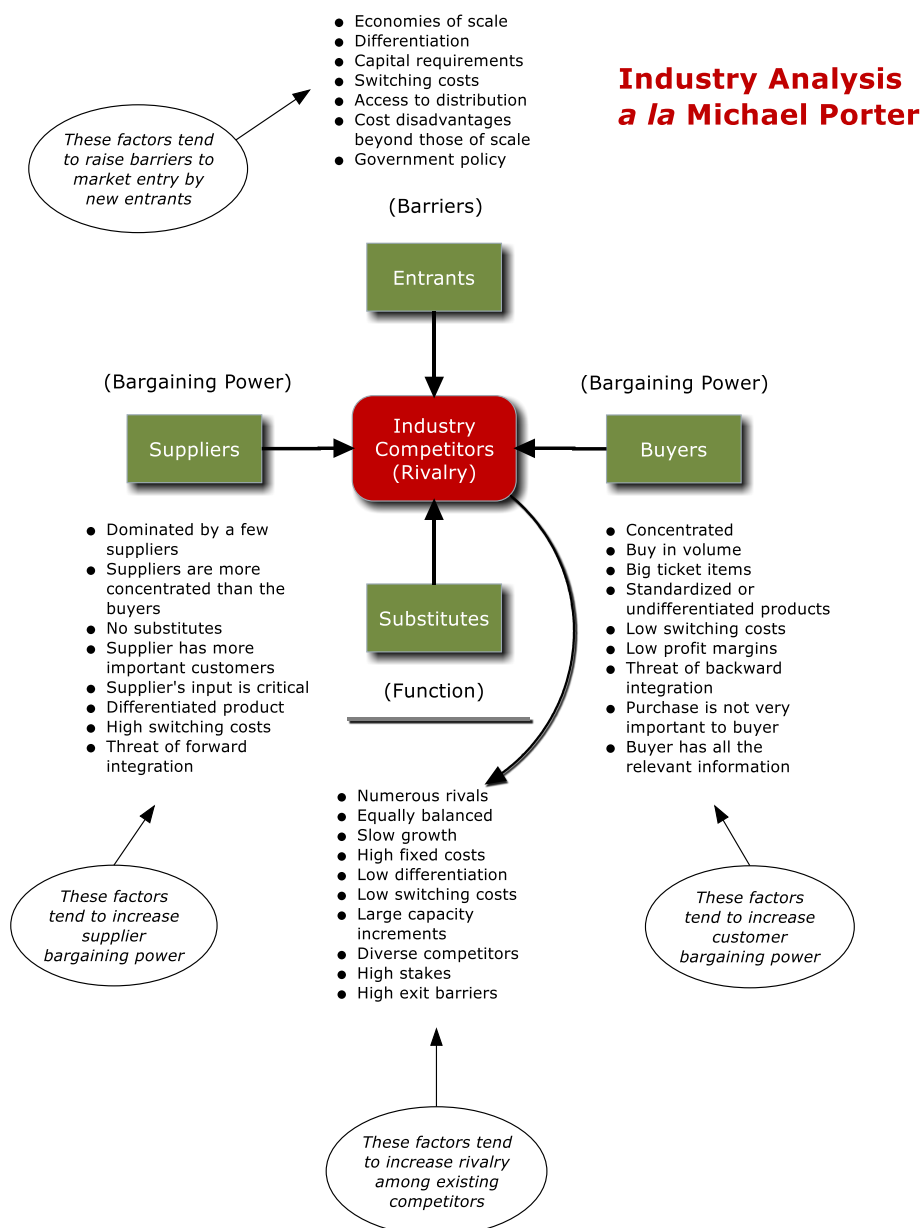


Knowledge Worker

Competitive and Industry Analysis for HPT Practitioners

(March 2013)

If we, as performance improvement professionals, want to be taken seriously by our clients, we have to understand their world and we have to speak their language, whether it is marketing, finance, strategy, operations, HR or legal. One of the “languages” spoken in many for-profit organizations is that of “competitive strategy” and it’s spoken with a distinct Michael Porter accent. You don’t have to be an expert in competitive strategy but, chances are, the subject will crop up from time to time, especially if you’re working on performance at the organizational level. So, at the very least you need to be conversant in the basics. The two main areas to be examined here are (1) Porter’s Five Forces and (2) Porter’s Three Strategies. First, the five forces.



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The diagram above is based on one that appears on page 4 of Michael Porter's 1980 book, *Competitive Strategy*. It indicates five factors or forces that drive competition in an industry. Four factors surround the fifth, which is the intensity of the rivalry between and among competitors.

These five factors or forces influence decisions related to the choice of competitive strategy on which a company will rely. The table below sets forth the three basic strategies laid out by Porter: Cost Leadership, Differentiation and Focus.

Competitive Strategy	Required Skills and Resources	Organizational Elements	Associated Risks
<i>Overall Cost Leadership</i>	<p>Sustained capital investment and access to capital</p> <p>Process engineering skills</p> <p>Intensive supervision of labor</p> <p>Products designed for ease of manufacture</p> <p>Low-cost distribution system</p>	<p>Tight cost control</p> <p>Frequent, detailed reports</p> <p>Structured organization and responsibilities</p> <p>Incentives based on meeting strict quantitative targets</p>	<p>Technological change that nullifies past investments or learning</p> <p>Low-cost learning by industry newcomers or followers through imitation, or through their ability to invest in state-of-the-art facilities</p> <p>Inability to see required product or marketing change because of the attention placed on cost</p> <p>Inflation in costs that narrow the firm's ability to maintain enough of a price differential to offset competitors' brand images or other approaches to differentiation</p>
<i>Differentiation</i>	<p>Strong marketing abilities</p> <p>Product engineering with creative flair</p> <p>Strong capability in basic research</p> <p>Corporate reputation for quality or technological leadership</p> <p>Long tradition in the industry or unique combination of skills drawn from other businesses</p>	<p>Strong coordination among functions in R&D, product development, and marketing</p> <p>Subjective measurement and incentives instead of quantitative measures</p> <p>Amenities to attract highly skilled labor, scientists, or creative people</p>	<p>The cost differential between low-cost competitors and the differentiated firm becomes too great for differentiation to hold brand loyalty. Buyers thus sacrifice some of the features, services, or image possessed by the differentiated firm for large cost savings.</p> <p>Buyers' need for the differentiating factor falls. This can occur as buyers become more sophisticated.</p>

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Competitive Strategy	Required Skills and Resources	Organizational Elements	Associated Risks
	Strong cooperation from channels		Imitation narrows perceived differentiation, a common occurrence as industries mature.
Focus	Combination of the above policies directed at the particular strategic target	Combination of the above policies directed at the particular strategic target	<p>The cost differential between broad-range competitors and the focused firm widens to eliminate the cost advantages of serving a narrow target or to offset the differentiation achieved by focus.</p> <p>The differences in desired products or services between the strategic target and the market as a whole narrows.</p> <p>Competitors find submarkets within the strategic target and out focus the focuser.</p>

It is worth noting that some of us are in the *business* of performance improvement, which is to say Michael Porter's ideas apply to us as well as to our clients. If that applies to you, it's probably worth your while to spend some time poring over the summaries of Porter's work laid out above and think about how they apply to your business. As just a few considerations, think about the ease with which someone can set up a performance improvement practice. What are the barriers to market entry on that score? What are the switching costs for your clients to shift from you to another practitioner or performance improvement firm? Are there just a few practitioners out there in your space or are there many? What does that say about your bargaining power as a supplier? What are the substitute products or services with which you must compete? Do this kind of thoughtful analysis for your own practice or business. You might think about it in relation to ISPI as well. After all, it's your society.

Oh, and if you are "an employee" and think that these notions don't apply to you, you're wrong. You are a business of one and very much in competition for continued employment and a paycheck. So think about those competitive strategies and the basis of your competition. Are you competing on the basis of cost (i.e., are you basically "cheap labor")? Or do you have some clear-cut way of differentiating yourself from the rest of the employee population? If so, what kind of a job are you doing of marketing yourself and your distinct services? Perhaps your basis of competition is focus and, if so, on what do you focus? Processes? People? Training? Financial impact?

Think about it.

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About the Author

Fred Nickols, CPT, is a knowledge worker, writer, consultant, and former executive who spent 20 years in the U.S. Navy, retiring as a decorated chief petty officer. In the private sector, he worked as a consultant and then held executive positions with two former clients. Currently, Fred is the manager partner of [Distance Consulting LLC](#). His website is home to the award-winning [Knowledge Worker's Tool Room](#) and more than 200 free articles, book chapters, and papers. Fred is a longtime member of ISPI and writes this monthly column for *PerformanceXpress*. A complete listing of all Knowledge Worker columns and access to them is available [here](#).