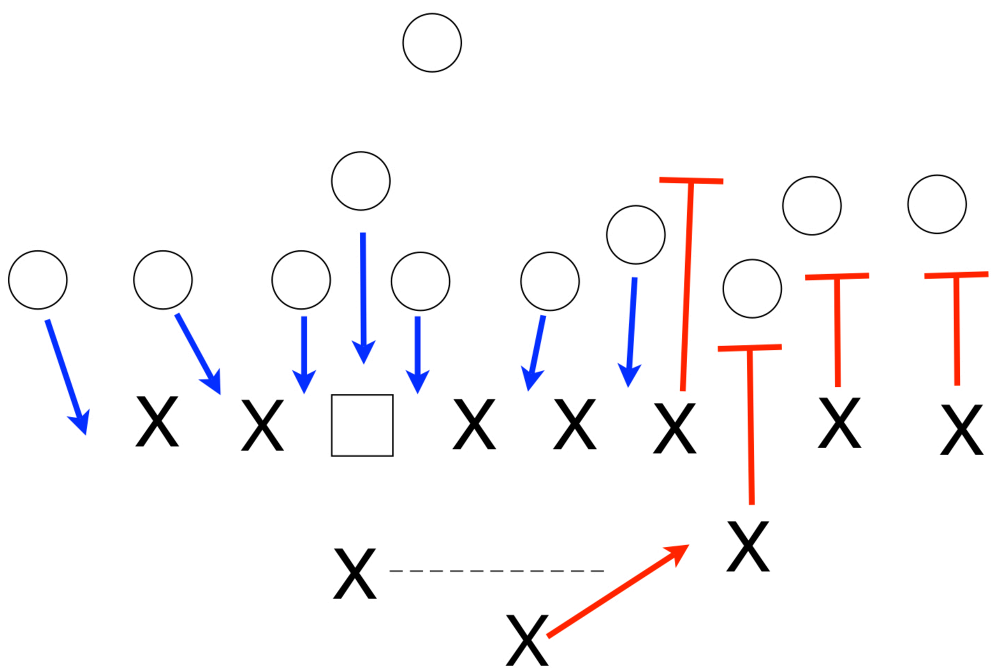
Competitive Strategy



Charles Plant -2017

materialminds

Competitive Strategy

Even if there are strong triggers that are pushing your buyer toward innovating, and even if you've managed to get through the information search phase by lowering barriers, you still have to face the threat of competition. Fortunately, though, you have a chance to get some control in this process. It is entirely within your power to develop a product or service that is clearly superior to the competition's and that can enable you to win a competitive battle.

Why should a buyer of innovation pick you? After all, you may have noted earlier that there are 90,000 new products introduced into the marketplace every year. And that doesn't account for all of the ones that are already established. There is a lot of noise out there, and it is incredibly difficult for consumers to be able to differentiate between one product and another.

In order to get picked from amongst the competition, you must be substantially better than them. Now, I know that you're thinking that of, course, you're better than the competition, and you might be relying on the fact that your prices are lower to make up for any difference in other product or service attributes. But this isn't enough. To consistently beat the competition, you must be really better, miles better. Can I emphasize this enough? Probably not, so let me say this again: You must be on a scale of magnitude better.

Why do you need to be so much better? Just think about the number of innovative products you've bought in the last month. When I ask innovators what they've bought recently that is innovative, most of them can't think of anything. And these people are innovators. They are people who are inventing new products and services and trying to get people to adopt them. They are the ones who you would think would be most innovative, most willing to try new things, but this just isn't the case.

Look at what you buy for food. If you eat breakfast cereal, you probably, like me, buy the same cereal every time you shop. And yet there are maybe 50 other types of breakfast cereal out there trying to get your attention and failing. Why are they failing? Probably because they aren't much different than what you already buy.

To be successful in the competitive wars, you must do something radically different. Sure you can build a product or a company where you're doing pretty much the same thing as the next person, and if you want to do this, go ahead. But you better be radically better at executing or at selling if you want to get anywhere.

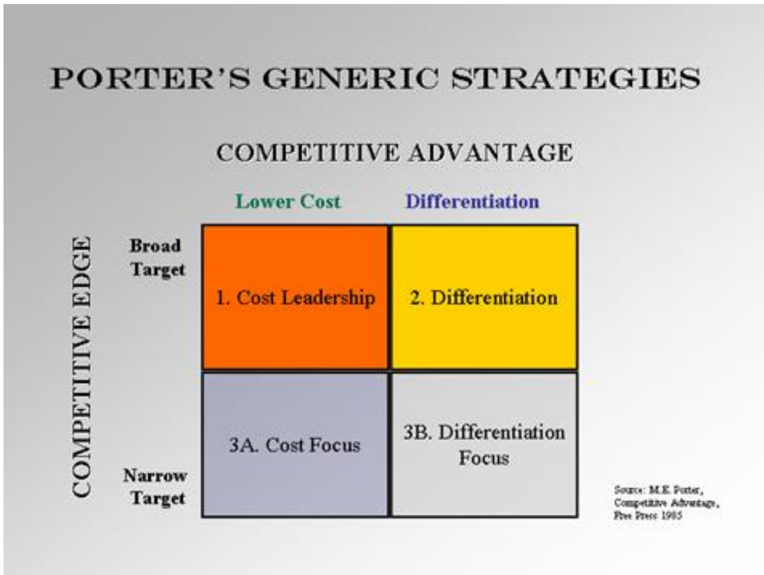
Take a look at Amazon's Fire Phone as an example of a product that failed due to a lack of differentiation. It was launched in mid-2014 into a market where competitors had been around for many years. Six weeks after it was introduced into the market, its on-contract price was reduced from $199 to 99 cents. Four months after its introduction, Amazon took a $170 million write down. A year after it's introduction, the product was effectively off the market.

Amazon blamed a too-high introductory price for lack of sales, but the price reduction didn't help at all. To be able to beat Apple and Android devices in the market, the Fire Phone would have needed to have significantly superior technology. But its flashy interface with a 3D effect didn't prove enough of a differentiator and the product died. Don't forget that this is Amazon, a huge, successful company that had a big flop. They have massive reach in the marketplace and tons of resources behind them, yet they still couldn't make it work. How do you think a small, unknown market entrant is going to fare with an undifferentiated product? This is why you need to be radically different.

Porter's Generic Competitive Strategies

Michael Porter, one of the world's foremost strategic thinkers introduced the concept of competitive strategies in his book *Competitive Advantage*. Porter argues that a company's profitability is determined by its position within the industry and that the only way to have above-average profitability in the long run is by having a sustainable competitive advantage.

In Porter's theory, there are only two advantages that a firm can have: low cost or differentiation. When seen with a perspective of competitive scope, there are only three strategies a firm can employ—cost leadership, differentiation, and focus—as shown below:



1. **Cost Leadership**

   Under this strategy, a firm sets the objective of being the lowest cost producer in its industry. Note that I said producer, not necessarily the lowest price. If a firm can charge average prices but be the lowest cost producer, then it gains a competitive advantage and can produce above average profits.

2. **Differentiation**

   A differentiated strategy would have a firm be unique in its industry by virtue of some product or service differentiation. By being unique, it can charge higher prices and thus earn higher margins and be more profitable.

3. **Focus**

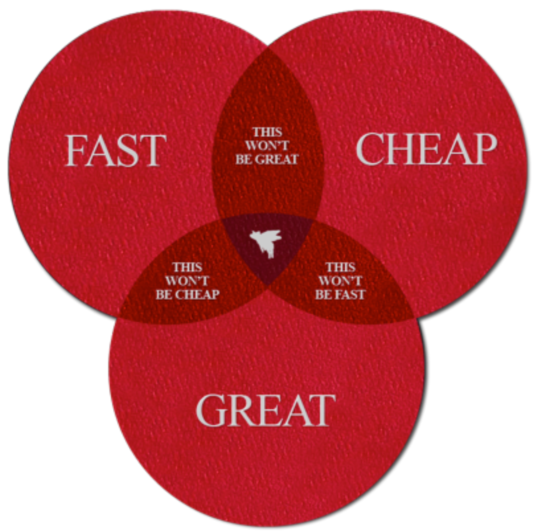
   A focused strategy would have two variants, one of cost and the other of differentiation but in both cases, focusing on a small market segment would allow a firm to own that segment and thus produce above average profits.

Fundamentally, these are relatively simplistic strategies and there are more nuanced ways of looking at this. Porter developed these strategies in the 1980s, before the advent of the Internet and the proliferation of product choices.

The world is much noisier than it was in Porter's time and as a result, companies have a harder time maintaining a competitive differential over a longer term. What they need to do to be successful now is to be radically different.

Radical Differentiation

You might ask the question "How can I be radically different?" Well, you need to pick one or more bases upon which you can compete and thoroughly trounce the competition on one of those dimensions. And there are only three dimensions upon which you can compete. There are quality, cost, and speed.



Quality

When it comes down to beating the competition, in my opinion, the most effective way is by having better quality. I know I keep bringing up Apple as an example but there really is no better example when it comes to beating the competition. Their products are clearly different, their costumers believe they are clearly better and as a result, they are much more profitable than anyone else in their industry (or industries.)

It's easy to say that you must have better quality but quality itself can be measured in many ways. There are all sorts of different dimensions of quality and you don't need to be better on all of them than the competition but it surely wouldn't hurt. You need to be better on at least one of them, and if you want to get noticed, then you must be radically better.

While there may be other dimensions of quality that I haven't listed, I've broken down quality for the sake of this book into nine different dimensions:

- Performance
- Features
- Reliability
- Conformance
- Durability
- Service
- Design
- Vendor experience
- Vendor knowledge

I haven't ranked these in any particular order, as I haven't bothered to figure out whether there is one dimension of quality that trumps all others. I suspect this isn't the case and that you just have to choose whichever dimension enables you to beat your competition in your target market.

Performance

Performance relates to how a product operates. This dimension of quality involves measurable attributes, and different competitors can be ranked objectively on individual aspects of performance. Performance can, though, be one of those things that are personal to the buyer. One person's high performance is not necessarily the other's so differentiating on this dimension will get you an audience that is attuned to the type of performance you offer.

My brother-in-law Brent is a good case in point. (Hi Brent!) He is an absolute maniac when it comes to barbequing. He does it in winter and summer, rain and shine and his greatest love (I hope aside from my sister) is to spend all day getting numerous types of meat ready for dinner. Not being content with one barbeque, he has two so that he can cook different types simultaneously on different types of heat. He even went to the extreme last year of re-doing much of his backyard to create an outdoor kitchen that centers on his love of barbeque. I'm sure you get the picture.

While I'm content to fire up a gas powered Weber, Brent has carefully researched and is devoted to his Big Green Egg. This barbeque literally looks like a big egg. According to the product literature "Its design is modeled on the clay cooking vessels first seen during the Chinese Qin Dynasty and then used by the Japanese beginning in the 3rd century." It is a kamado styled barbeque that has extremely thick ceramic walls (the ceramic was designed for the Space Shuttle program) and uses charcoal (lump wood charcoal is recommended.) The sealed design of the Egg means that is uses a small amount of charcoal and allows for a very slow burn, thus resulting in very tender, juicy meat.

People like Brent who are devoted to the Egg are referred to as Eggheads and they have an Eggfest in Kentucky every year. In a world where there is not much difference between charcoal barbeques and not much either between propane barbeques, the makers of the Big Green Egg have managed to stand out by a slavish dedication to high performance. It isn't for everyone but they are so highly differentiated along the lines of performance that they stand out and can attract a devoted following.

Features

Next up on the list of potential ways to differentiate is that of features. These are components of a product that enable users to accomplish a variety of objectives. Many new product developers live in a world where feature differentiation is their modus operandi. Unfortunately, this practice frequently leads to feature creep, particularly with meaningless new features that eventually end up confusing the buyer. Features really only matter to the buyer if they are material to their needs but this doesn't stop manufacturers from loading them on in an effort to differentiate.

The best example I have of feature creep is the Swiss Army Knife. Originally developed in the 1880s as a pocketknife for soldiers, it was produced by two separate manufacturers, Wenger and Victorinox, who eventually merged their brands into one. In an ultimate foray into the world of feature creep; Wenger produced a knife in 2006 called The Giant. It included every implement that the company had ever made. It was useful for 141 different functions, contained 87 different tools, and retailed for about $1,000.

The problem with adding more and more features as a way of differentiating is that you appeal with each added feature to a smaller and smaller target audience. And in the process, you create something so complex that the original target market, which didn't need all those features, gets turned off and migrates to a simpler, and probably less expensive product. Think of the complexity of Word and how much of it you actually use. Or in fact any Adobe product, which has multiple features that I'm convinced, does exactly the same things.

And this feature rich strategy gives an opportunity for someone to utilize an inverse feature strategy. Many innovators now take a complex product with multiple features and eliminate many of them to appeal to purists. In the process they create a Blue Ocean Strategy and appeal to a whole new target audience at a radically reduced price. And the world goes around.

Reliability

This is getting to the nitty gritty here and a basis that a lot of companies use to differentiate. Reliability of product or service is one of those things that is easy to measure, In fact Consumer Reports and other organizations like JD Power make their living from measuring reliability while others make their living by differentiating based on it.

The American car industry was decimated by the Japanese move to more reliable cars in the 1970s, and even though American cars have become much more reliable over the years, the Japanese probably still hold the consumer positioning as the ones producing the most reliable cars. Once you stake this basis of competition out and succeed in proving it, competitors will have a hard time displacing you and you'll have carved out a particular niche of customer.

At Synamics, we deliberately chose reliability as a basis of competition. We claimed that our mass calling systems would never fail and we actually wrote contracts that paid customers money if our systems went out of production for longer than a specified amount of time every year. Fortunately, we never had to pay anything out based on that claim. But the corollary was that it was difficult to convince clients to pay for support on an annual basis, as the logic just didn't work. How could we claim that out systems never failed and yet also claim that clients needed to pay for support?

We purposely engineered our systems with all sorts of redundant components, failure detection software, and automated recovery routines specifically to meet the needs of telecommunications companies. These companies lived in a world of five nines reliability and as a result, were willing to pay more for systems that never failed.

Conformance

When we talk about conformance, we're talking about how a product meets specified standards that may exist for the product category. One of the biggest ways in which conformance has come to the forefront is through food. As each component of food has become demonized, new products have arisen to fill the void and to eliminate the demonized component. As a result we have food that is:

- Fat free
- Dairy free
- Sugar free
- Gluten free
- Nut free

In fact there are so many examples of how products have been engineered to meet specific standards that the list could go on and on. The end result may have been the creation of an obesity epidemic as fat-free meant added sugar and sugar free meant artificial sweeteners, both of these substitutes being worse off in the long run than the thing they replaced. But I digress.

The backlash to conformance through elimination of specific components has resulted in the "organic food" movement that takes food back to its original roots. After all, when it comes to food, there are not many bases upon which to differentiate one product from another. It is hard to compete based on performance or reliability although many manufacturers have managed to compete on features by adding vitamins where they don't occur naturally.

Next time you are at a grocery store, look at the cereal aisle and try to figure out how each of the manufacturers is competing and you'll probably end up laughing at the lengths they go to separate themselves from the competition.

Durability

I better move away from food when talking about durability. After all, I'm not sure that how long the product lasts is the best way to differentiate food. Before I move away though, take a look at the packaged bread you buy for sandwiches or toast and compare how long it lasts on the shelf compared to the fresh bread you can buy at a bakery. All the chemicals in packaged bread make it last longer than fresh bread but I haven't seen anyone claim that "our bread lasts a month on the shelf!" as I'm sure it would cause consumers to take a closer look at what they are eating.

A better example for durability is the Timex watch. I had one as a kid and I still have it in a drawer somewhere. In fact my father also had one and I still have that one as well. (Talk about the endowment effect.) I bought a mechanical Swatch recently that didn't last a year and my sport watches get replaced for small problems regularly. But those Timexes take a licking and keep on ticking. (Oops, I just repeated the Timex slogan.)

Timex was first heavily marketed in the 1950s, a time when there were a few products but not enough that a consumer could be overwhelmed with choice. They demonstrated their reliability by subjecting watches to torture tests. Men's watches were shown being subjugated to torture by an outboard motor and women's watches were subjected to torture in a washing machine. (I won't even comment on the sexist nature of the examples used, men for a leisure activity and women for housework.) The slogan was that Timex "takes a licking but keeps on ticking."

By 1975, Timex had sold 500 million watches and had a 50 percent market share, up from their 33 percent market share in 1960. Obviously, durability worked as a basis of competition.

Service

Next up on the list of ways that a company can differentiate itself from the competition is that of service. Service relates to everything beyond the product that goes on in the buying process including:

- Personal selling
- Phone service
- Email service
- Shipping
- Installation
- After sales support
- Maintenance
- Repair
- Return
- Replacement

Customer service is one of those competitive dimensions that you see companies claiming as their own. In fact organizations similar to Consumer Reports evaluate customer service in the same way that CR does product evaluations. One such organization is StellaService. From August to October of 2015, they researched which company delivered the best customer service. They measured multiple dimensions of service to issue a report and this is what they found:

> "According to the report, LL Bean came out on top because the company's customer service representatives consistently respond to all inquiries — and quickly, as well. StellaService's analysts claimed that during the study, they were able to speak to live LL Bean representatives in under 30 seconds when they called, and in less than an hour when they emailed the company."
>
> "However, even though LL Bean came out on top overall, it wasn't the highest-rated for any individual category. Net-A-Porter had the best phone-based customer service, Best Buy had the best shipping, Burberry had the best customer service for returns, and iHerb came out on top for email and chat-based responses."
>
> **http://www.businessinsider.com/retail-brands-best-customer-service-2015-11**

Design

Design as a basis of competition is one of those subjective areas where it is difficult to measure as one person's idea of good design is not necessarily another's. Certainly, companies like Apple have focused on design and generally appeal to a more design conscious target market than other electronics vendors.

In looking online for more information on product design as a basis of competition I stumbled upon (not using StumbleUpon) the website red-dot-org. They have been awarding prizes for design since 1954 and I must admit that the site worked like click-bait for me. Not only is the site a beautiful one but also I got lost for a while in the Communication Design category.

Fast Company ranked the world's top 10 most innovative companies in design in 2014 and the list was as follows:

- AirBnB
- Nike
- Warby Parker
- Nest
- Philips
- Starbucks
- Dyson
- Quirky
- Jawbone

What you will see from the list is that many of the products can elicit an emotional response and that's the idea of good design; separate yourself from more utilitarian competitors by creating a strong emotional response. Just as with any of the other categories on this spectrum of techniques in differentiation, it is expensive to compete through design. I often wish I could do it but never seem to be happy about what I produce.

Vendor Experience

The next two categories of competitive differentiation are about the vendor, not about the product. In certain product categories, software for instance, it is very difficult to have a long-term differentiation that is based on product. Frankly when you look at many software categories, most vendors look quite the same, all with about the same set of features, the same performance, etc. So how do you compete in a world where there isn't much opportunity to differentiate?

If you've been around for a long time, you can rely on vendor experience as a basis of differentiation. When a buyer looks for a solution, they can easily tell whether someone has been in the business a long time or is a brash new upstart. Since much of corporate buying is based on risk reduction, it seems logical for many buyers to rely on length of existence as a method of separating one vendor from another.

If you haven't been around for a while, then it is hard to compete this way but there is another dimension of vendor experience that can work, and that is specialization. Many buyers, mistakenly or not believe that it is important that a vendor understand them by having a great depth of experience in their industry, geography, or some other dimension of segmentation.

IBM is a company that benefitted from this basis of differentiation. In the 1980s the expression used was that "No one got fired for buying IBM." It was infuriating at the time for competitors because it was true. Even if you bought a substandard solution, the fact that you bought it from IBM was enough to excuse any mistakes in the purchase selection. The hard part for competitors was that even with superior products, service and a host of other differentiators, IBM could still win competitive battles.

I spend a lot of time in Colombia, working with a variety of companies in the IT industry there and they are always frustrated that American IT suppliers routinely beat them at large customers simply because the Colombian buyers perceived the American competitors as having greater vendor experience. For the Colombian firms, they usually retaliated by having a much lower price but this left them with too little money for marketing in which case they failed at competing on the next dimension, vendor knowledge.

Vendor Knowledge

Finally, if all else fails in finding a way to be different, companies have to rely on being special, having more knowledge and thus being able to help customers more through the purchase and use of a product. While companies are checking out your product and your base of experience, they are also checking to see whether you have the knowledge to be able to add value.

This is where content marketing comes in. Loosely defined, content marketing is the art of making all sorts of valuable content that is customer focused available to customers to help them with work issues that are either directly or loosely related to the business you are trying to do with them. It is based on the expression, “You have to give to get” and your marketing content, either presented in written or video form or even personally can establish your credibility and set you apart.

While working with a number of Colombian firms that competed with SAP, the giant German enterprise software firm, I had a chance to compare how each of them dealt with content marketing. Frankly I was blown away by how much attention SAP paid to this method of competition. Their content was great and really useful for buyers where Colombian firms had barely anything available. One of the results of this was that SAP was able to charge double the price for their software and services, win more deals and thus generate more profit that they could then be deployed in doing more marketing.

Think about it

OK, now it’s up to you to figure out how you’re going to compete. The first step is looking at your competition and ranking them on their ability to compete on each of the dimensions we dealt with in this section. To make this process easy, I’ve used a three-point scale to enable you to make a quick decision as to how to score your competition.

In the grid that follows, score each of your competitors as to how well they compete using scores between one and three. (One is bad, 3 is good.)

Name of Competitor			
Performance			
Features			
Reliability			
Conformance			
Durability			
Service			
Design			

Experience			
Knowledge			
Total			

Having done that for your competitors, now figure out what basis or bases you're going to choose to compete on and how you're going to do that.

Speed

While it’s easy to see how companies compete based on quality, competing on speed is another case. It isn’t something that you would normally think of as a competitive differentiator. That’s due to the fact that before the Internet came along there wasn’t much opportunity to compete based on speed. For the most part, transactions were done in person and unless delivery was an option, speed wasn’t too much of a factor.

But the Internet introduced a new dimension to service, one that could be objectively measured and for which retailers could assume responsibility. Now some people reading this may be thinking that speed is only another dimension of quality but that isn’t the case. Speed can be used as a basis of competition wherever there is a service process where time to completion plays a part. So while you can measure quality of service, it is also possible to measure speed.

To look at how speed plays a factor, you can look at the service process or the various places that service plays a role in customer satisfaction. It starts with the ordering process, moves on to delivery, to implementation, learning, and then support. In each of these areas it is possible to measure and manage the time to completion; thus, it is possible to pick any of these areas as a basis upon which to compete.

Transaction

Let’s look first at the process of completing a transaction. Have you ever stood in line at an old-style bakery waiting to be served as person after person waits in line and the sales clerk very patiently serves each one in turn?

There is a bakery I go to called Henrietta’s on Highway 60 near Dwight that is just such an old style German bakery. Every time I stand there waiting in line I am amazed at how slowly the process goes. The clerk first has to write down everything that you want on an order pad. Then he or she moves up and down the counter places the things you ordered in a box. After the packing is complete, the clerk writes down the amount for each thing on the form and adds up the total. Next, the amounts have to be entered into the cash register, paid for and you finally get to go.

For some reason the line is always long and there are usually a number of people behind the counter bumping into each other as they each laboriously serve customers. No division of labor and no streamlining. I have a friend (Hi Keeley!) who runs the Dwight

Market down the road who would love to take over the bakery just to speed up the wait time and throughput of the line. This is a very popular bakery in cottage country that could be even more profitable if people didn't have to wait as long.

Now I live to improve process and if I were doing it, I would have one person on cash who takes an order, collects payment and passes the completed sales receipt over to another person for picking and packing. This would drastically speed up service but then again maybe part of the appeal of the place is the fact that service runs as slowly there now as it did 40 years ago. Who knows?

Certainly you can't do that on the net. You can't make customers wait through a laboriously long order process if you expect to get any business. Amazon knew this and turned ordering into a competitive advantage when they introduced the 1-Click method. In fact they patented the process in a very broad patent that has held up to attacks in the US but not in Europe. For others like Apple who wanted to use the method in the US, they had to license it from Amazon.

What 1-Click does is to completely remove any barriers from the transaction process by having the customer's information on hand from past transactions and enabling a customer to place a complete order with one click. Just the simplicity and time saving alone results in an extremely high conversion rate from existing customers.

Delivery

Next up in the ordering process is delivery. If you're shopping at a store, you get to take what you buy home with you. It's pretty hard to beat that in terms of speed as a differentiator. But if you're shopping for books at Barnes and Noble, you have to trade off a smaller inventory in store than you would get online with faster delivery when you take it home yourself.

When I was a kid, my father worked for Eaton's, Canada's largest department store. One of their biggest differentiators was speed. They owned and operated (and my father ran) a huge fleet of delivery vehicles that crisscrossed the city delivering things that had been bought in store or things ordered over the phone. One of the greatest things was that you could go shopping and leave all your purchases with the store to be delivered later. It made shopping for a lot of stuff very easy, as you didn't have to think about how you were going to get it home. But you could still get it same day if you bought in the morning and next day if you were shopping later in the day.

One of the grocery stores in town here has made speed one of its prime differentiators. In this case, though, what they do is to do all of your shopping for you and for a fee of $5 you can place an order with them and specify a time of delivery. You the just roll up in your car to the delivery area and they load your groceries right into your car, saving you the hassle of spending time shopping and thereby competing on speed.

I hate going back to Amazon all the time but in an area like this, how could one not? Amazon has made delivery speed a key in their battle to win their proportion of the shopping dollar. They have spread warehouses out across North America to makes certain goods available closer to the consumer, thereby saving shipping time and cost. They are also experimenting with same day delivery in certain areas. To cap that off, they are hoping to use drones for local deliveries.

Implementation

If you're following this chain of thought, the next item that you can use to differentiate based on speed is implementation. After a customer has taken delivery of whatever it is you're selling, the next thing up on the to-do list is its implementation. This doesn't matter most of the time for simple consumer purchases but for many industrial purchases, implementation is a big deal.

Take computer software as an example. Many years ago most computer software was customized and implementation of it took forever. (I'm talking many many years ago.). Then someone smart came up with the idea of a standard database. Having the database structure in place when you went to customize an application meant that you could drastically shorten the amount of time to customize and implement a solution. Then some smart people came up with the idea of packaged applications. These might have required some customization but it was a lot less than when the application had to be written from scratch on a database platform. But you still had to place an order, maybe buy a new server, get it configured to the precise demands of the software you were buying, load it, test it, commission it etc.

This was how the world of software had evolved until the Internet changed the game entirely. Salesforce is an excellent example of a company that used implementation as a very large component of their basis of differentiation. If you haven't heard of Salesforce.com, they are in the world of Customer Relationship Management (CRM), software that helps you keep track of customers and your interactions with them. (If you haven't heard of software I'm not going to explain it and perhaps you should crawl back under your rock.)

When Salesforce started out, they focused on a huge un-served customer base, ones that didn't use the dominant CRM software of the time, Seibel. Their proposition was that you didn't need to buy a server and install software at all. You could simply use software over the Internet. Salesforce kept the software installed on their premises, on their servers and you didn't need to worry about implementation at all. In fact you didn't need to worry about software ever again, installing it, servicing it, supporting it, upgrading it. By making it available on the net, they disrupted the software industry and as a result, claimed the dominant position in the industry, eventually moving on to serve the larger companies that were not their target market initially.

The whole Software as a Service (SaaS) model of delivering software dramatically reduced implementation time by making software available online with no waiting time whatsoever. If you're still awake and remember back to when I was pontificating about barriers, you'll remember that costs and time for implementation are one of the barriers that get in the way of companies landing customers. Well, SaaS based software companies not only eliminated that barrier but they made implementation a competitive differentiator.

Learning

After you've purchased a product and have it up and running, you have to learn how to use it. For some products, this is simple. For others, a significant amount of time is required to learn to use it. My personal favourite (not) is Adobe. I can't understand why their products are so difficult to learn to use. Something about them is just not intuitive. I probably should have taken a course in Photoshop years ago but I've never taken a course with any other piece of software I've learned to use so I can't understand why I need to take a course for Photoshop.

Whenever I have to do something new on Photoshop, the way I've learned to figure it out is to go onto YouTube and look for a video that can explain it to me. What I've noticed is that even this isn't simple as there are usually several ways of accomplishing any given objective I've had and I'm never sure which one is the right one to use. I have also noticed that I need to specify my release number as the method for doing things seems to change with every release.

Apple products on the other hand are remarkably intuitive. Once you've learned to use one (and this isn't very hard to begin with) the rest of them are pretty intuitive and quick to pick up.

From the position of competitive differentiation, the world of creating websites is an interesting one. In the beginning there was HTML, something that only people with a penchant for programming could get their teeth into. Wordpress solved that problem by presenting an interface to enable non-programmers to develop a website. With all of the different themes available, it didn't require too much in terms of learning to be able to complete a site. What you did need to figure out though was where and how to host your site and use the tools connected with hosting.

But for many, even this was too much and a host of even simpler interfaces were developed that enabled a user to drag and drop their way to website heaven. Wix even made it easier than that in that they didn't make you pay anything to use their platform to develop your own website in the hopes that a certain number of users would sign up and pay money for the privilege of doing something more complex and that wouldn't show ads for random products.

Wix removed almost all barriers to the creation of a website. They eliminated the risk, any costs, and complexities of implementation and complexities in learning how to do it. This really set them apart from the competition.

Support and Service

Finally, in the last area that speed can be a competitive differentiator, we get to support and service.

Think about it

OK, now it's up to you to figure out how you're going to compete using speed as a differentiator. The first step is looking at your competition and ranking them on their ability to compete on each of the dimensions we dealt with in this section. To make this process easy, I've used a three-point scale to enable you to make a quick decision as to how to score your competition.

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Learning			
Support			
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Cost

Failing everything else, you can compete by having the lowest cost on the market. Now of course, cost has many elements to it so you shouldn't think of it only in one dimension. There is a whole variety of ways to compete based on cost, some that mean a lot to your customer but not a lot to you perhaps in terms of profitability.

Capital Costs versus Operating Costs

This costs stuff may get a little boring but bear with me, as it is important to understand the customer's perspective when they are looking at your pricing. When you sell something to either a company or an individual the cost to them can be seen either as a capital cost or an operating cost.

Take a look at buying a car. Let's say you're looking for a mid range car and that car is going to cost you about $25,000. If you've got the money on your bank account (unlikely for most people) you can plunk the cash down and you own the car. In that case $25,000 is your capital cost. The same thing happens if you borrow the money from a bank and buy the car. You own it and you have some debt to pay off. The $25,000 is your capital cost in either case.

But the car companies, knowing that people don't all have the money sitting around burning a hole in their pockets, decided that it would be a good idea to lease cars to people. That way, someone could pay for a car only during the time they lease it and then they could hand the car back to the lessor, thereby never having obtained ownership. The lessee may pay $300 a month or something for the privilege of using the car for three years. That $300 becomes an operating cost and you haven't used any of your capital.

SaaS based software developers really utilized this concept when they started renting software to customers instead of selling a license for it. So this is the first way you can compete on cost, by deciding whether you want the cost to be an operating cost instead of a capital cost. While your cash flow may be reduced in the short term, in the long run, you can earn a lot more money from a customer if they keep it past the point when they would have paid off the capital cost equivalent. You have also made it easier for the customer to acquire what you sell as it is usually easier for people to get access to operating dollars that it is to get access to capital dollars.

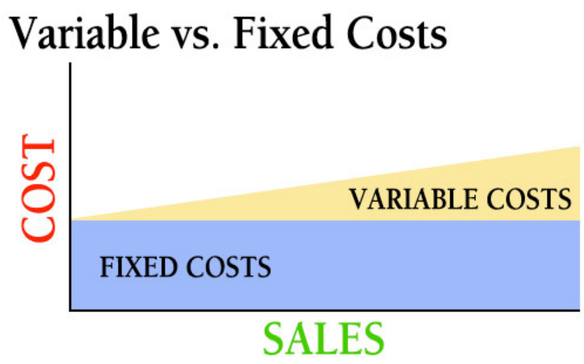
I was never able at Synamics to move our software from being a capital cost to an operating cost for customers as the upfront hit was too much. But I was advising a software company on their first sale recently and we debated making their software available on a license or an operating cost basis. Because this was their first sale, they could structure their expenses (owner compensation) in a way so that the sale could be made for a fixed minimum term over a number of years. The result was that it was much easier to get that initial sale and if the continue on this path in the long run, they'll create a company with excellent value.

One big advantage of pricing your product as an operating expense as opposed to a capital expense is that you'll be able to create recurring revenue. Banks, phone companies, and office lessors have businesses with recurring revenue and the market values this type of revenue very highly as it is predictable. So by differentiating based on how you price what you sell, you may:

- Make it easier to sell.
- Make more in the long run
- Drive a higher valuation for your firm.

Fixed Costs versus Variable Costs

OK, now we're going to get really boring and talk about fixed versus variable costs. When this is done, you're going to wish you had gone into accounting instead of marketing. (NOT) The best way to explain the difference between the two is to go back to an example. Let's go back to this car you decided to lease a few paragraphs ago. You didn't have a spare $25,000 so you elected to pay $300 per month for having the right to drive the car. This becomes to you, a fixed cost. The amount is fixed no matter how much you drive (up to a limit over the three years.)



But instead of leasing a car and having a fixed price for usage, you could have decided to use Zipcar and paid every time you use the vehicle. You would then have a variable cost for using a car instead of a fixed cost. When you look at what car companies are doing to increase their revenue, this is exactly their strategy. They have moved from selling cars (capital cost) to leasing cars (fixed operating cost) to renting cars for limited amounts of time (variable cost). In each case, they have expanded their existing market to people who were not previously served there by opening up new potential for revenue.

Photography companies such as Kodak and Polaroid figured out this fixed versus variable cost thing a long time ago. They virtually gave away their cameras or at least sold them at a very low margin in order to get you buying film on a regular basis. This they priced with a very high margin, earning gobs of money every time you took a picture. Banks do it with service fees and phone companies do it with minutes.

What you need to decide is how you're going to structure your pricing so that you are differentiated from the competition in a way that makes sense.

Reducing Margin

If there isn't any room to restructure your pricing, the next trip is just to reduce it. This means cutting prices without any changes to costs whatsoever. This can get you into dangerous territory as you eventually can put yourself out of business doing this.

In the days of the telecom wars in the early 2000s, there were all sorts of upstart telephone carriers that priced what they were doing for just a little less than the competition. The trouble was that there were enough of them doing it that prices kept on going down as each one tried to wait out the other's eventual disintegration into bankruptcy. In the long run, this price reduction didn't help and most of these low cost carriers went out of money.

I knew one person who was a director of just such an alternative carrier. They were analyzing their business one day and they determined that it cost more to get each new customer than that customer was worth over their lifetime with their company. So they decided that the only way to return to profitability was to stop marketing and thus stop acquiring new customers. Trouble was that they needed new customers to replace the old ones who left because there was someone cheaper willing to sell to them down the road.

When you try to be the cheapest out there, you'll attract customers who are cheap and who will leave you if there is somebody cheaper. So this company became profitable in the short term but eventually went out of business as they kept losing one customer after another until there were too few left to sustain the business.

Reducing Quality

The next way you can compete on costs is to reduce quality. This is a no-brainer and done by companies all the time. Lower costs to produce something usually means that you can sell it for less money. This provides a pretty good incentive for certain people to switch to whatever you're selling. There is a danger though in reducing quality so much that you end up tarnishing a company's reputation.

Clothes used to last a long time and now they are just disposable. Manufacturers and retailers have realized that they can use cheaper materials and outsource manufacturing to extremely low wage countries and drive prices down. This means that they can change fashions and colors on a frequent basis, driving consumers to stores to buy new clothes that are now really cheap, on a regular basis. In the end, these manufacturers and retailers make more money by making goods disposable and selling more frequently.

Appliances are also things that used to be well made and are now very cheaply made with low quality components so that they can meet the needs of a population that is hungry for low cost timesaving conveniences. You can create a huge new market by making things just a bit cheaper than the next guy.

Reducing Speed

Similar to reducing quality, you can reduce speed. The way to do this is to manufacture on demand, making something for a customer only once it has been ordered and even paid for. This way you can reduce costs of inventorying parts and final products, thereby enabling you to cut costs and cut prices at the same time. The customer has to wait a little longer to get something than they originally would have but the wait may be worth the price reduction.

Dell Computers has turned this into an art. When you order form Dell, they don't have anything in inventory. They actually order the component parts to your computer when you place an order. The parts are shipped just in time to the assembler who puts the order together turning it into a computer and shipping it to you.

Disintermediation

I love this word and love using it when I'm giving speeches. The trouble is that it doesn't really flow off my tongue well and I keep messing up the pronunciation unless I speak very slowly which of course makes me sound like a bit of a dolt. But I still like this word. Essentially, it means getting rid of somebody in the middle of the value chain in order to reduce prices. You can think of a value chain as all the companies who have to come together to make sure you get the end product you want. Value chains start with the designer of a product; go through a manufacturer, shipper, distributor, and retailer to land in your hands. When you get rid of someone who was originally part of the value chain, you have gotten rid of an intermediary, hence disintermediation.

IKEA turned disintermediation into a fine art. Not only did they get rid of the assembler of their furniture by making you assemble it yourself, they reduced the cost of shipping by reducing the size of the furniture because it came disassembled. Amazon has gotten rid of all sorts of players in the book value chain and disrupted the entire book industry. In fact the Internet has been a very successful tool for disintermediation and cost reduction over the last 20 years.

Think about it

OK, now it's up to you to figure out how you're going to compete using cost as a differentiator. The first step is looking at your competition and ranking them on their ability to compete on each of the dimensions we dealt with in this section. To make this process easy, I've used a three-point scale to enable you to make a quick decision as to how to score your competition.

In the grid that follows, score each of your competitors as to how well they compete using scores between one and three. (One is bad, 3 is good.)

Name of Competitors			
Capital			
Operating			
Fixed			
Variable			
Margin			
Quality			
Speed			
Disintermediation			
Total			

Having done that for your competitors, now figure out what basis or bases you're going to choose to compete on and how you're going to do that.

Novel Differentiation Strategies

The thing about competition is that you have to eat or be eaten. There is no way around it. If you don't do something to stand out, to really differentiate yourself from the competition, you'll end up being a product in search of a market or at best a product that ekes out an existence when those around you are flourishing.

So before you go out there and build a product, figure out which elements of quality, speed, and cost are important to your target market and establish the basis on which you'll compete.

While you're doing that, why not do something really special. If you want to hit one out of the ballpark, why not think of an entirely new way to compete, something that is completely novel, radically different.

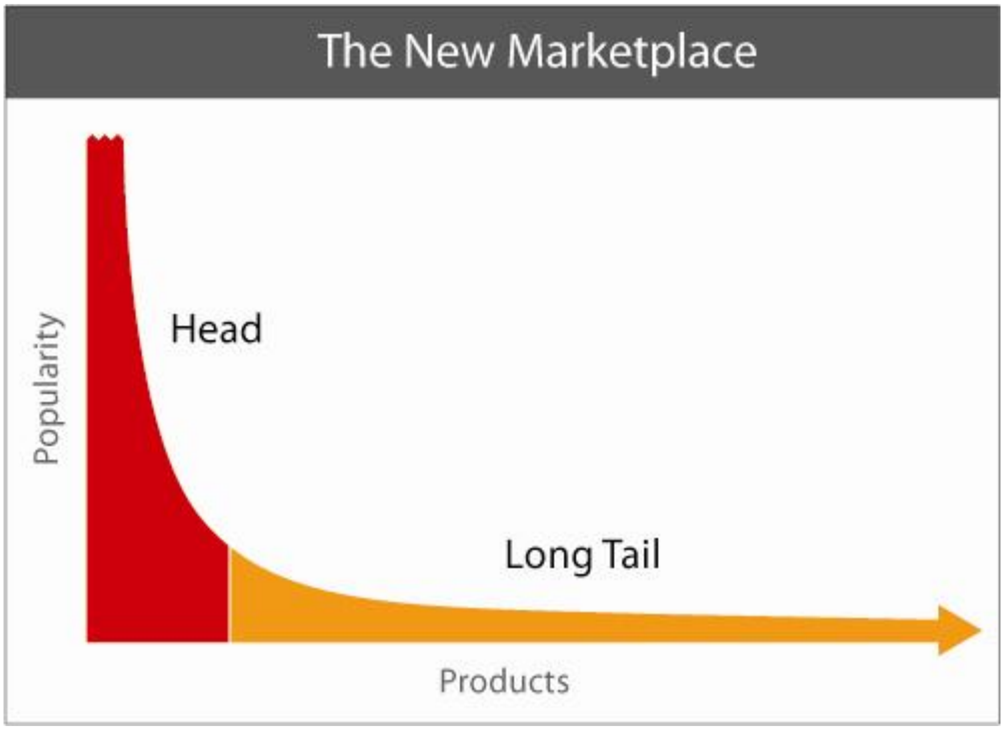
Go big or go home.

One of the biggest changes to come as a result of the Internet is the move to novel strategies to face the competition. We are continuing to see new companies like AirBnB and Uber develop new and effective ways of defeating the competition. So if your challenge is to do something radical, I've laid out in the section that follows a few of the ways companies have been able to be radical and as a result created fabulously successful companies or products.

The Long Tail

There is a lot that has been written about the long tail. In fact there is a great book about it by Chris Anderson, the Editor-in-Chief of Wired magazine.

The idea of the long tail is that we no longer need to produce one size fits all products that are marketed to the mainstream. The costs of production and distribution have come down so much and the opportunities for selling and marketing a product have increased so much that we can develop products that appeal to the long tail of the market. That is to say that they appeal to very small market niches that have very differentiated demands. Take a look at this chart from http://www.longtail.com/about.html



Sure you can build an average product that appeals to the masses or you can go to the right on the curve and build a product or service that appeals to a much smaller segment of the market. This method of differentiation goes right back to what we were talking about in the beginning of this book. (Oh, by the way, congrats for making it this far.) You are picking an unserved market niche, a target market for which you can build a highly differentiated product that appeals directly to them.

In the choice between quality, speed, and cost, you have probably differentiated based on cost and specifically therein based on features that appeal to you very narrow segment. These features are something that your target market can't do without and that aren't worth it for the mainstream competitors to add.

There are a lot of examples of niche products that appeal to the long tail:

- Exotic spices
- Specialty coffees
- Craft beer
- Religious TV channels
- Yoga clothes (which started as a niche and became mainstream)
- Special sizes

Some of these even go so far as to make it into the mainstream by appealing to the innovators and then migrating into popular consciousness. That's happening with the Sous-Vide cooker which was a decidedly niche based cooker for foodies.

For those of you who haven't tried one, food is sealed in airtight plastic bags and brought up to temperature by being immersed in water that is precisely the temperature you want to cook something to. You can cook a steak this way and then grill the outside lightly.

In any case, if you're looking to create a long-tail strategy, look for an under served part of a mainstream market for whom you can develop a product or service that is highly differentiated by features or performance that doesn't appeal to the mainstream.

Ultra high end versus ultra low end

Another thing that is happening out there in the market is that products are migrating away from the middle toward either end of the value spectrum. While there used to be a lot of mid range products, marketers are seeing success by producing very low cost products or very high cost products.

You can see this in the world of retail. Wal-Mart is flourishing at the same time that Tiffany's is. But stores like Macy's are challenged by this trend as they have a hard time showing how they are different. You know Wal-Mart is going to be different by having everyday low prices. And you know Tiffany's is going to be different by having very high quality and prices. So depending what you want, you gravitate to one or the other. In actual fact, much of this differentiation is based on perception, not reality. Wal-Mart has low prices for everyday items that you buy frequently but not for everything else. And Tiffany's may not be better quality but you think they are.

When it comes down to it, you don't actually have to have the highest quality or lowest prices to use this type of strategy, you just need to make your clients think that you do.

This trend in product differentiation is following the trend towards the stratification of society. The rich are getting richer and the middle class are staying in place, challenged to try to create a better lifestyle but having less and less disposable cash with which to do so. So the wealthy turn toward more expensive items to show that they are wealthy and the middle class buys a greater quantity to cheaper goods to show that they can keep up. When you look at it, it's actually quite sick.

But there are other trends that are creating an opportunity for differentiation along two ends of a spectrum. The aging baby boomer will need differentiated products due to old age and a mid range product can be re-engineered to appeal to younger buyers.

Radical differentiation on one dimension

One way to stand out from the crowd is through radical differentiation along one dimension. You can pick whatever dimension you want but there are a few very good examples of companies that have picked one element and stood above all their peers on that one thing.

- **Ryanair**

  As far as low cost airlines go, Ryanair set the standard in Europe that many other airlines are seeking to mimic. They started out offering ridiculously inexpensive flights around Europe, flights as low as 5 pounds. They did this through a slavish focus on prices. First they flew into airports that were looking for traffic. Frequently located in smaller centres near a major city, these airports were often willing to pay Ryanair to fly planes there as a way of improving tourist traffic to the area. They provided no frills, charging for everything from seat selection to luggage, all food, drink, etc.

  They make much of their money on their website helping travellers book hotels and rental cars through the Ryanair site. They even charge a flyer more to get on a bus to the airport than the flyer pays to fly. Their extremely cheap prices have even created a new way for people to be employed as many workers from Poland can now fly to England and work all week, flying home on the weekend.

- **Vacheron Tour de l'Ile**

  Now there's a name you don't hear every day. It is a watch that costs $1.25 million. Yes that is right, $1.25 million. In a world where mechanical watches are collected by the wealthy, even this takes the cake. Vacheron has been in business since 1755. This watch has a tourbillon, which is a wrist mounted antigravity device that prevents gravity from adversely affecting accuracy. It has two faces and so many complications and parts that it is the most complicated serial wristwatch ever made.

But standing out with an ultra high quality product like this may only be temporary as there is frequently a race to the top, to claim the record for being the most expensive whatever sold.

- **Domino's Pizza**

  You've probably heard of Domino's 30-minute delivery guarantee. Well they've taken it up one notch in Australia where there is now a 20-minute guarantee. "Domino's now offers a 20 minute delivery guarantee, when it's safe to do so. We have worked on new technology that allows an algorithm for online orders based on various factors, including how busy the store is, the distance of the delivery and driver safety and the size of the order to determine if we can deliver your order in the service guarantee. If your delivery meets the algorithm's criteria you will be offered to purchase the guarantee option during the online order process. A small fee applies and should your delivery not arrive in the guaranteed time, we will email you a free pizza voucher for your next order."

Ambiguity

The last two strategies we looked at appealed to the customer on a logical basis. But you can also differentiate on an emotional basis. The first of these is through the reduction of barriers by resolving ambiguity.

We have long known that consumers hate ambiguity in purchase decisions. It results in reduced sales and lower consumer satisfaction. But the Internet and the long tail of product proliferation have made the problem even worse. Consumers are more confused than ever, especially in the world of technology where there is often little product differentiation.

For innovators and entrepreneurs whose success rates for product introduction and startups are abysmally low, there is a real challenge to introduce products that can get noticed and bought. Some really smart marketers have used consumers' lack of tolerance for ambiguity as the foundation for their businesses.

Google succeeded primarily through the reduction of ambiguity. It is often said that half of marketing expenditures are wasted. The only problem is that no one knows which half. Well Google solved that problem by charging only when web browsers clicked through on their ads. Previously you knew that your online ad was seen by a certain number of people and you could figure out how many clicked through but Google changed this by charging only on click-throughs.

This first step went a long way to reducing ambiguity but they then added another dimension by having advertisers bid on the use and placement of ads and keywords. The third thing they did was to enable an advertiser to set a monthly limit on spending. Thus an advertiser who really knew their business model could budget to spend a certain amount of money and know exactly how many people would click through to their site. If the advertiser also knew how many of those clicking on the site would end up purchasing then there was perfect predictability to advertising and complete reduction of ambiguity.

The Connection Economy

Resolving ambiguity is a way of addressing clients' fears. The flip side of fear is love and this is another technique that marketers have used. Of course they don't call it love but essentially, that's what it is. Good marketers form an emotional connection with a buyer.

We've moved in one generation from an industrial economy through the knowledge economy and straight on to the connection economy. This is a new subject that I've begun to explore as a result of my own experiences in several startups. I've watched as social media has disintermediated traditional media and made thought leadership move towards irrelevancy.

Fundamentally, consumers don't respond to thoughts, they respond to emotions and social media has enabled an emotional connection with consumers that Internet 1.0 didn't deliver. But many marketers are still stuck in 1.0, trying to create thought leadership. This will be the ultimate challenge for technology marketers, to be able to help left-brained technologists understand how to make an emotional connection.

I don't know how they've done it but Apple is the best example I can think of a company that has formed a very strong emotional connection to their customers. Apple devotees will watch product announcements online, eagerly awaiting even the smallest product enhancement and going crazy at any brand new product introductions. For new products, devoted buyers will line up for hours to be able to be the first to own the latest product.

These devotees will act as product ambassadors, evangelists even. Apple adherents won't use anything else, seeing themselves as superior beings who are in on a huge secret. That's a rather strong emotional connection for a competitor to try to break.

And how do you create such a strong emotional connection. It isn't by having the lowest cost or the fastest speed. It isn't about performance or features. I think it comes down to design. In all cases where I've seen an emotional connection evolve, there is something about product design or the design of the marketing campaign that appeals to the consumer in a visceral way. Of course only certain consumers have the design sensibility to react with an emotional response but once you've got them, they're yours as long as you can deliver the design experience.

Blue Ocean Strategy

What we've looked at to this point in time is how to take one dimension of competition and really stretch how you compete on that one dimension. What you are doing is what is referred to as a Red Ocean Strategy in which you:

- Build your business in an existing market space.
- Beat the competition through differentiation
- Play to existing demand
- Follow Porter's strategy choice to differentiation OR low cost.

Now it's time to add another variable and really maximize your potential by competing in a completely new market space. This is referred to as a Blue Ocean Strategy. The concept was popularized in a book titled, you guessed it, *Blue Ocean Strategy*, which was published in 2005 by Renee Mauborgne and W. Chan Kim. In it, they say that Blue Ocean Strategy:

- Creates entirely new market space without competition.
- Renders the competition irrelevant.
- Creates entirely new demand.

- Ignores Porter's strategy choice to compete with both differentiation and low cost.

To follow this strategy one would lower quality and price for example at the same time in order to find an uncontested market space in which to be successful. A perfect example of this is the Ford Motor Company.

Ford introduced the Model T in 1908 and made it accessible to the mass market. At that time there were a lot of automobile manufacturers and anyone looking at the industry would have concluded that it was sheer folly to be starting up another car company. At the time, cars cost $1,500, twice the average annual family income.

So Ford brought the Model T into the market at $850, dropped the price to $609 the next year and by 1924, the car was priced at $240. His market share surged from 9 percent in 1908 to 61 percent in 1921. And he did this, not by taking market share but by finding an entirely uncontested market.

Think about it

OK, now it's up to you to figure out how you're going to compete by being radically different. What can you do that would completely change the nature of competition either by finding an uncontested space or really ramping up competition on one dimension?

Use the chart below to plan your attack on one dimension and figure out how that will create an unassailable competitive space for you.

New Market	
Quality	
Speed	

Cost	

Boiling the Ocean

Finally, we get to what I think is the biggest trend in strategic differentiation today. The strategies we have been looking at are all one-dimensional. They take one element of competition and maximize the differentiation in order to be radically different. We added another dimension to that differentiation by competing with a Blue Ocean Strategy. But what if you could compete simultaneously on multiple dimensions. What would happen if you decided to beat the completion in terms of quality, cost, and speed?

I've called this Boiling the Ocean and there are a few companies that have done this extremely successfully. Let's go back and look at Amazon and Uber, how they dealt with Triggers and Barriers, and what they've done for Competitive Differentiation.

Amazon

Jeff Bezos founded Amazon in 1994 and from the beginning he had a vision for it not only as a seller of books but as "an everything store." Don't forget that this was back when the Internet was relatively new. Today it has revenue of $107 billion. So why was it successful?

1. **Triggers**

    The great thing about selling books is that when you finish one, you need to buy another one. And unlike salad dressing, it isn't wise to buy the same book you bought last time. Thus there is a natural trigger for change that causes people to look to acquire a new book on a semi-regular basis.

    But the natural thing to do in 1995 was to go to the same bookseller to buy a book as you did the last time. But what if you go there and you can't find the book you want. You might phone a few other stores in 1995 but you also might have ventured online to check out Amazon to see if they had what you were looking for. Eventually you would end up checking them out because at some point in time, your bookstore wouldn't have what you were looking for.

    About the same time in 1995, you would have been using the Internet for a few things and if you were a techie, would have been trying to use if for everything you could. And even if you are a Luddite, chances are one of your friends would have tried it and told you all about it.

So there were a few natural triggers and one large societal change in the use of the Internet that propelled people to look at buying books through Amazon.

2. Barriers

And given that you are buying something relatively inexpensive, there aren't many barriers to buying books online. There aren't really any transaction or learning costs, nothing to dispose of so Amazon didn't detract from what you were already doing. The risks aren't too great. After all, it's just a book.

Maybe it's hard to break the lovely habit of trolling a bookstore looking for books. But just because you bought from Amazon once, it didn't mean that you couldn't go back to your old bookstore every now and then to drink in the experience that book lovers adore, looking at a whole store full of new books.

For some people, there was no Internet access but for enough people this was no problem. If Amazon had started two years before, when there was less internet access and almost no online shopping they could have gone out of business before it caught on, but they were lucky or smart with timing so they caught a wave.

So no barriers to stop people from trying it out, but what about the competition; the old neighborhood bookstore?

3. Quality

The first dimension that is apparent when you go on Amazon to search for a book is that they really give you a choice of every book that is available, almost worldwide. Even back when they started, they had enough inventory to be able to beat the average bookstore in terms of selection.

In other terms, here's how they compete against a normal bookstore:

	Amazon	Bookstore

Performance	Much bigger selection	Smaller selection
Features	No coffee shop	Candles and wrapping paper
Reliability	Almost guaranteed selection	Potentially variable selection
Conformance	Not applicable	Not applicable
Durability	Not applicable	Not applicable
Service	Not needed	This would have been good in smaller stores but probably missing in big box stores
Design	Not as good a shopping experience for book lovers	Great for book lovers
Experience	Not needed	Not needed
Knowledge	None	This would have been good in smaller stores but probably missing in big box stores.

What you can see from this list is that the one thing where Amazon had the local bookstore beat was in terms of selection. And since you could go to your local bookstore to browse, there were enough cases when you would want to shop at Amazon just for their selection that you would end up using both. As of March 2014, Amazon had a 41 percent market share of all books sold, either online or in store and they control 65 percent of the online printed book market.

4. **Speed**

Speed is an interesting variable when you are shopping online. Certainly it takes much less time to order a book online than it does to go to the store, find the book and walk to the counter to pay for it. But when you walk out of the store, you have the book with you whereas if you buy online, you have to wait for it to arrive. It could be said that Amazon doesn't beat the local bookstore on speed but that isn't the way I see it. Let's look at all the speed variables.

	Amazon	**Bookstore**
Transaction	Virtually instantaneous	Much slower
Delivery	Much slower	Virtually instantaneous

Implementation	Not applicable	Not applicable
Learning	Not applicable	Not applicable
Support	Not applicable	Not applicable

I think for book purchases where you want to browse and want a book right away, people will still go to a local bookstore. But where you know what you want and don't mind waiting a few days, shopping through Amazon saves you actual time at the expense of elapsed time. Thus there will be a market for both but in many cases, Amazon's transaction speed will win the day.

5. **Cost**

Finally there is the matter of cost and here there is no competition. I don't even need to pull out the chart to do this one. Amazon is almost always cheaper than the local bookstore. Hands down they win the cost battle.

So there you have it. With a lot of natural triggers and no Barriers, Amazon was easy to try out for most consumers. And for certain types of purchases they had better selection, faster transaction times and lower cost. They managed to compete on Quality, Speed, and Cost simultaneously and these were the factors that got them to $107 billion and 41 percent of the market in 20 some odd years.

Uber

So let's look at a more recent market entrant, Uber. The so-called taxi ordering service or transportation network company (but not a taxi service.) They were founded in 2009 and by late 2015 were worth about $62.5 billion. Not bad for a taxi company without taxis. So how were they able to get so valuable so quickly?

1. **Triggers**

Taxis are another thing like books. When you need one, you need one and this happens fairly regularly. There isn't the need to get a different one than last time as there is for books but it really doesn't matter in this case because there was something else working to the advantage of Uber.

For many years, there has been something else happening though that acted as a trigger for the use of Uber. Since the mid 1990s, people have been doing more and more of their personal business online. And since the advent of the smartphone, more and more of that business was being done on personal devices.

People have become very used to living their whole life on their smart phones and have probably been looking at how they can use it for ordering taxis as well. After all, they have to use their smart phone to call a taxi company so why not just press a button or two and order it online directly. Uber benefitted from this move of ecommerce to smartphones so benefitted from a societal trend.

2. **Barriers**

When it comes down to it, Uber offered few barriers and the ones that existed; they got around through clever marketing. In fact Uber even managed to remove a few barriers that impede people from using a regular taxi service.

First of all, there is risk. When you order a taxi or an Uber, you don't know what you're going to get until it's right in front of you. Uber changed this paradigm by telling you the name of the driver, showing you a picture of the driver and telling you what kind of car the driver is driving. These are all advantages over regular taxi companies and remove significant risk barriers.

In terms of things like transaction costs, learning costs and other costs that would have impeded Uber's acceptance, there were none. You might think that there would be a learning cost in adopting the service the first time, but let's not forget whom we're dealing with here as customers. The typical Uber driver is doing a lot more complex things online than ordering a taxi so the small learning costs would not have prevented a barrier.

In terms of the status quo, there was a general reluctance to try a service that was potentially acting outside the law but since there was no law against using Uber for a passenger, this factor probably only played a part until such time as a potential passenger got fed up with the competition.

And finally, there were no psychological factors such as the endowment effect to deal with as people always take different taxis. There is no relationship with most cab companies and most certainly not with particular drivers.

So very small barriers to the use of Uber but how about the competition?

3. Quality

This is where Uber really scored a big win. They were able to improve the whole taxi experience and present the user with a higher quality option than a regular taxi. Let's look at the components of quality again.

	Uber	Taxi
Performance	Ability to rate performance	No ability to rate performance
Features	Much better ordering interface	Fewer features
Reliability	Visibility into arrival	No visibility re arrival
Conformance	Against local regulations	In line with regulations
Durability	Not applicable	Not applicable
Service	Potentially friendlier	Variable friendliness
Design	Better vehicles	Awful old cabs
Experience	Not as experienced but not surly.	Variable experience
Knowledge	Not as knowledgeable so rely on Google Maps for directions	This would have been good in smaller stores but probably missing in big box stores.

There are a few quality issues with Uber but overall, the whole ordering experience puts Uber light years ahead of regular taxis in terms of quality. The ability to order online, and find out when the car will arrive dramatically improves the experience.

4. Speed

In terms of speed as well, the Uber experience is superior to the Taxi experience. In this case we aren't talking about the speed of getting you to where you are going but the speed before the car arrives. Back to the grid.

	Uber	**Taxi**

Transaction	Much better speed at ordering a car.	Slower due to requirement for verbal request.
Delivery	Perception of arrival time being faster happens because you can track the arrival of the vehicle.	This is a great unknown every time you order a cab.
Implementation	Payment faster as it is automatic	Slow payment
Learning	Not applicable	Not applicable
Support	Not applicable	Not applicable

Uber solved the speed equation by making ordering, delivery, and payment all online. Payment for Uber charges is dramatically faster than paying a cabbie with a credit card. Ordering is a bit faster as you don't need to talk to someone and delivery is perceived to be faster because the guesswork is taken out of the equation.

5. **Cost**

And now we're on to the issue of cost. Uber wins hands down in spite of periodic surge pricing. Uber is just less expensive to begin with and the inability to tip a driver makes it even cheaper still. Uber wins this one without a doubt.

So there you have Uber, existing triggers, removal of barriers and better quality, cost, and speed. They have boiled the ocean and presented a user with a much better transportation choice.

Think about it

So this is it, the last chance to think for a while. I want you to think about how Amazon and Uber managed to boil the ocean by competing on all three dimensions of quality, cost, and speed at the same time. Is this something that you can do or is there another strategy that will vault you into the pantheon of the startup gods?

Use the chart below to plan your attack on all three dimensions.

Quality	
Speed	
Cost	