

Vanishing point: The search for



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It's one of those immutable laws of business: Once you have competitors, your customers have a choice. And once your customers have a choice, you have to answer the question, "Why should we buy from you?"

The answer to this question is your competitive advantage, whether it's a matter of quality, price or some other consideration. Sooner or later, however, your competitor is going to make the same claims for his product or service, or match your price. In other words, creating that competitive advantage is only half the battle. When it comes to maximizing profits, it's sustaining the advantage that counts.

The search for sustainable competitive advantage can take many forms. It used to be that a patent would buy you as many as 20 years before your competitor could legally clone the protected features of your product or production process. But shorter product development cycles and software-based features have conspired to dramatically reduce the effective life of a patent.

The fleeting nature of legal protections like patents has led many companies to try to find the next breakthrough or substitute before the competition does. One of the best examples of this continuous innovation approach is the frenetic search for new drugs in the pharmaceuticals industry.

But such continuous innovation, although necessary, has its downside. Waking up each morning knowing you have to invent something the market will embrace is exhaust-

ing. And if your innovation doesn't take hold, you could be looking for a new job.

A more advanced approach to sustaining competitive advantage is converting your product to a platform through which you deliver services. A service provides an additional stream of revenue and is inherently more difficult to commoditize than a product. (For a related article, see page 26.)

Although many companies have begun to deliver services through their products (or maybe they were service companies to begin with), they will eventually find that even services can be commoditized. If services offer some companies a respite from the demands of continuous innovation and the globalization of competition, they also offer an attractive target for all competitors.

The next step in defending competitive advantage involves providing better service through deeper knowledge of your customer. The idea is that if you have developed or learned information about your customer's needs and processes, you can serve that customer better than your competitor can.

For example, an Internet bookseller can make you targeted offers based on your prior purchases. Retail banks have long pursued a strategy of treating the financial data they gather from customers—through services like direct payroll deposits and electronic bill paying—as proprietary information. This means that changing banks can be very painful.

Web services represent the most innovative attempt to date to create

sustainable competitive advantage

sustainable competitive advantage based on services that are rich in context—information that is specifically related to buyer-seller transactions. Web services are software applications that use open-standard protocols to communicate with other applications over the Internet. These protocols provide the raw material for new languages that can express your location, your preferences, your health data, your financial data and an inventory of your belongings.

As the web services model matures, it will include the ability to grant and revoke access to any or all of this data. Once this information can be expressed in nonproprietary forms, it won't be long before it can be held by a trusted third party and dispensed on your command. Once the information it holds is no longer proprietary, your bank will have to compete on the basis of services offered. A startup website can have as much knowledge about you as an established online retailer.

To be sure, none of this will happen without one heck of a fight. How many banks will lead the movement toward making their customer data open and transferable?

Before you answer, think back to the early days of text messaging. Those were the days when you could send a message to anyone—anyone, that is, who used the same cellular service you did.

Why did telecommunications companies agree to exchange text messages? Because the advantage of the proprietary solution went to the largest players. The next largest players in

the industry realized that if they connected, they could together be bigger than the largest players, neutralizing the advantage of size. The resulting market force required everyone to play nicely together or become the least attractive vendor.

The same kind of market pressure will apply to the sharing of financial and medical data with assistance from insurance companies (for health data) and regulators (for financial data). It won't happen tomorrow. It probably won't happen next year. But it will happen.

State-sponsored monopolies—gone. Tariff protection—vanished. Patents tend to have a practical life that is substantially shorter than their legal life. Products are commoditized and eventually morph into services. Services are commoditized and become context rich. Context is commoditized and made available through web services.

Now everyone will potentially have access to every piece of contextual or environmental data. That leaves two remaining sources of advantage.

The operative word here is *potentially*; companies will need permission for access to personal data and the potential it offers. So the first advantage depends on trust. You want access to my medical data? You want access to my spending patterns? Why should I grant this permission? Do I know you? Have we done business before? Do I know people who have had good or bad experiences with you in the past? The trusted incumbent company will most likely have the right answers to

these questions—and therefore will have the advantage.

The second advantage will depend on how your company uses that trust. If you and your competitor are equally trusted and have both gained access to the same universe of data, then the advantage will go to the company that has developed more useful insights based on that access and has used those insights to provide new or improved products or services. If your company is the first to correlate levels of methane within house walls to the presence of termites, then you can offer customers a more economical, accurate and proactive system of extermination than competitors who must trap the little blighters.

If you don't mind being a commodity supplier, then your strategy is simple: minimize cost and maximize scale. If you want to command a premium margin, it gets more complicated.

Innovation, patent protection and the move to services will continue to be important. But your future advantage will ride on your ability to make your offerings more valued through the beneficial use of personal and private corporate data. It's ironic. After accounting for all the technological advances of the past and future, your sustainable competitive advantage will rely on two very human characteristics: insight and trust. ■

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