

Competitiveness

SMEs must leverage the advantages provided to them by their size and flexibility in order to be competitive, rather than blindly adopt the precedent set by large enterprises, says Amit Kapoor, Professor, Strategy and Industrial Economics, Management Development Institute, Gurgaon

Competitiveness has become a generic word encompassing everything from cost efficiency to innovation. Its general use has obliterated its significance. A business maximising profits is said to possess a competitive edge, without actually delving into the factors that determine this difference. Sales and cost are synonymous with business and by reducing costs or increasing sales, profits can be increased.

More clearly, Profit = Sales – Cost

However, this is not an end. How do you increase sales and how can the costs be reduced? In the answers to these questions lies the root of competitiveness. Reducing costs is a matter of achieving optimum utilisation of resources, upgrading systems, improving human capital and introducing advanced technologies — a phenomenon we call operational effectiveness.

Sales, on the other hand, are a function of positioning, promotion and marketing. Both approaches achieve similar results but with a fundamental difference. Operational effectiveness has limits to it. One can use the best possible technologies available but cost curves can be

bent only to a certain extent. Sales is a marketing approach and can tap existing as well as potential markets to a wider extent.

Positioning as a strategy is therefore critical for a company to be competitive.

The competitive edge

Creating value and an image in the minds of the consumer about the product is the essence of positioning. The competitive edge is determined by its uniqueness. Its features, the value it provides and the emotions attached to it create a need for the product in the minds of the consumer.

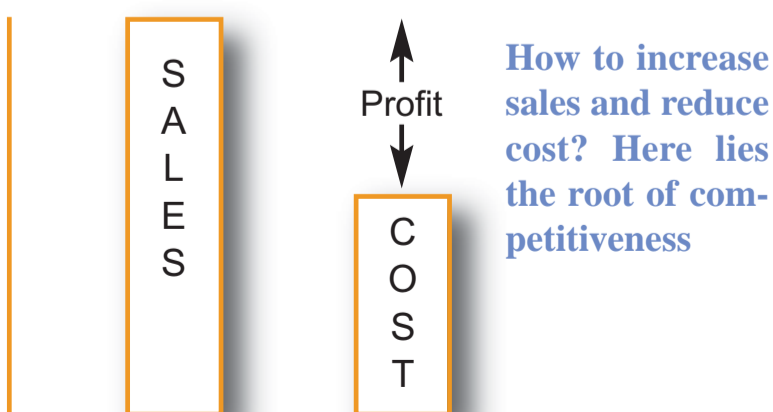
The competitive edge of the firm is defined by the novelty offered by the company. Its innovative structuring of the value chain defines its productivity, which in turn determines its competitiveness. This approach creates sustainability as well as vulnerability. The former is due to its continued ability to capture and retain market share while the latter occurs due to ever-changing customer and product environment.

Advantages of being small

Small rocks can hold within a great wave.

- Homer

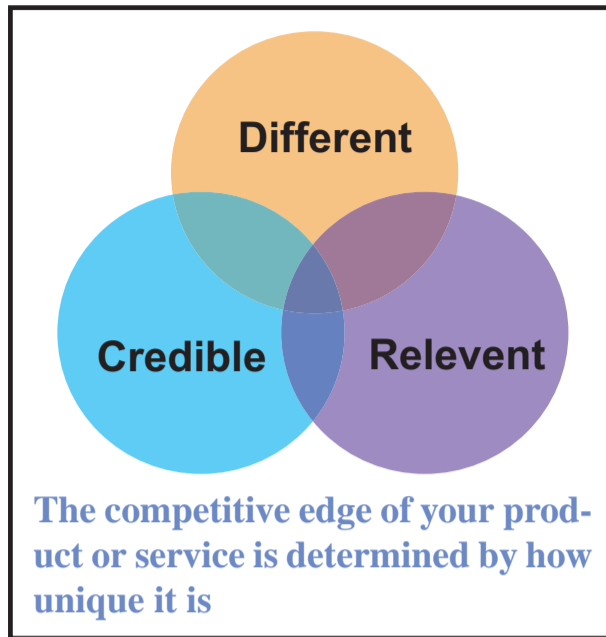
Big industrial structures exemplify operational effectiveness. They possess the resources and the capital to create an efficient and unique value proposition, but their weakness lies hidden in their strength. Unlike smaller units; their structures are rigid for the dynamic environment they exist in. Their imagination is restricted by



their sheer size and their strategies unbending to the ever-changing rules of the game. The small-scale sector has the agility required to compete with the shifting dynamics of the world. They are better placed to foresee the metamorphosis of the industrial structure and the origin of newer and different demands in the market. Their strength lies in their ability to grasp that change and adapt their structures to provide a solution. They become the epicentre of the tidal wave of innovation, which transforms the market realities as it spreads.

For example, during the dot-com bubble, small enterprises with minimal capital and equipment became the highest amassers in the game. Sabeer Bhatia did not require the backing of Microsoft to create Hotmail, which acquired it later. From a strategic point of view, a small-scale industry has a greater ability to respond to the changes in the environment and recreate its value proposition to maintain their uniqueness in the market. Continuous improvements, reinventions of ideas, consumer-centric products, creating niches in the market and competing with the changing political and economic environment are the need of the hour, but the stark reality

Small businesses can be far more agile and flexible in responding to changing market demands. In this, they have a distinct advantage over large enterprises



is the ever-shifting determinants. Another prime example of the effectiveness of a small structure is fashion designers. Their compact production and marketing units allow the designers to satiate the demand for variety and meet quick demand and supply schedule.

The last fifty years have seen a distinct shift from

supply-driven to demand-driven businesses. Technology has made transactions simpler. Consumer demands are met precisely. Big industrial structure cannot cater to the needs of the people at such close levels.

Small is BIG

What small enterprises need to do is adopt a more strategic approach and exploit their potential to cater to change. Their imagination at present is clouded with the brilliance of the bigger sizes around, oblivious to their own worth. Their strength lies in their size and their capability to produce, not goods and services, but solutions to the emerging challenges in the market.

They have the potential to form centres of innovation. Their focus should be to monitor these changes and to adopt their models to cater to them and create strategies to exploit these opportunities better. As David Lloyd George said, "Don't be afraid to take a big step if one is indicated. You can't cross a chasm in two small jumps."

