How Competitive Strength is Being Attained These Days

At Apparel’s Tech Conference, the founder of a stock research firm shared his own unique formula for industry success — a system he says distinguishes the top companies from the rest of the pack even in the most challenging of economic times.

Gary A. Williams, the founder and owner of independent stock research firm wRatings and the keynote speaker at Apparel’s recent Tech Conference held in New York, came to the event armed with sobering economic numbers — which he immediately followed with a wealth of constructive advice for overcoming the downturn, defying the business cycle and outmaneuvering rivals for market leadership.

At the event, Williams, a former Harvard Business Review author, opened with grim (though not surprising) 2009 statistics revealing that the United States’ gross domestic product was about to contract for the first time since 1949.

“It really has been a tough year, the toughest in 60 years,” Williams acknowledged as he addressed the Fashion Institute of Technology auditorium filled with apparel executives. “I know there are diverse companies here, but I have to believe everyone in this room shared in feeling the pain of that. But I believe the worst is over. We expect to see the rise in GDP from here. And it’s going to be everyone in this room who helps turn that around.”

Throughout the keynote presentation, titled “The Hunt for Competitive Strength,” Williams offered a blueprint for that rebound. He shared anecdotes and common success stories on companies that have all received the highest marks from his wRatings set of indicators. The wRatings system, which was developed by Williams in 1999, relies on a consistent framework across industries as well as an algorithmic formula to measure the competitive strength of familiar companies and brands. wRatings studies both consumer and executive buying behavior to project the future earnings performance of companies.

Following his initial analysis 11 years ago of more than 2,600 companies, Williams and his team at wRatings shaved that list down to an elite group of 15 companies that he says are now exemplifying true “competitive advantage” based on four criteria they are all realizing. Those are: high revenue share; high economic profit; the ability to meet consumer expectations (for this, wRatings analyzed 135,000 interviews with consumers); and a proven ability to consistently outperform rivals.

Among the top 15 are Anheuser-Busch, Coca-Cola, Walgreen, Microsoft, UPS and one apparel company, TJX Companies, the retailer that operates TJMaxx and Marshalls.

Beyond “cutting price”

Beyond today’s accepted economic challenges and consumer reluctance, Williams said, price pressure remains among a top concern — but one he indicated is overstated: “Whenever I receive a call from a CEO it is about ‘a challenge in our pricing power.’ Something has happened where ‘we’ve been undercut and we’re going to have to continue to lower our price.’ But consumer demand still exists. The world is constantly changing and the smartest

wRatings founder and CEO Gary A. Williams says building pricing power entails tapping into nine sources of competitive advantage his firm has identified — the nine are dispersed through the supply chain, production and the delivery chain. “Competitive advantage is easy when you know where to look,” he says.
companies, including those top 15, are instead focusing on adapting to new customer expectations, new needs.”

Williams suggested that while manufacturing proficiencies such as developing scale (globalization) and TQM (total quality management) were still integral strategies, successful companies on his ratings list are also more attuned to grabbing market share by capitalizing on built-in strengths such as competency of staff (UPS), brand leadership and trust (Coca-Cola) and product usefulness (he cited Dell, which he notes offers comparative quality at a fair price).

“The question is what can your company do that your rivals cannot?” Williams said. “There’s a lot that you can tap into.”

He cited Under Armour for instance, which, undeterred by price pressures, emerged as a pioneer in the sports apparel marketplace by focusing on its “design dominance,” and by fortifying its stupendous brand perception.

“Strategy is all about focusing on the things you choose to,” Williams said. “Most companies today have enough money to do just about anything they want. The question is where are you going to focus?”

Making “moats”

Williams, who is a frequent speaker and co-author of the book The 5 Paths to Persuasion: The Art of Selling Your Message, during his presentation related nine identifiable “moat” categories to his wRatings approach, characteristics that he said the top companies have established as barriers to entry for their competition. The moat concept is adapted from Warren Buffett, who says he won’t invest in a company unless it has a moat — that is, a competitive advantage around its core business — to protect his profits.

Williams said to establish moats, the top companies on his wRatings list are looking beyond the traditional roadmap for business success, one that once centered on building and selling great products; additionally, they’re investing in technology and services “to defy the business cycle.”

Beyond great product, Williams says, they are also leading the way with superior business ecosystems (supply chain) and figuring out the best ways to captivate their customers (delivery chain).

To illustrate his point, Williams cited Microsoft Windows’ early market-share triumphs over Apple and its Macintosh. “Why didn’t the best product win?” asked Williams. He noted that Microsoft capitalized on the superior delivery of its operating system through its agreement with IBM and other PC companies — an advantage Apple in effect never overcame as it offered a richly engineered experience but relied on high profit margins and failed to establish an equally strong delivery strategy.

Williams and wRatings have identified nine “moat makers” divided between supply chain (economies of scale, economies of skill, cost containment); products (design dominance; brand perception; routine reliance) and delivery chain (channel lockout; switching lock-in and network effect). With the delivery chain, Williams lauded companies including Microsoft and eBay, the latter succeeding at “bi-nodal community growth” as it masters connecting buyers and sellers online.

Alluding to the nine “moat maker” categories, Williams said, “growth is easier when you know here to look.”

Today, said Williams, truly innovative companies are partnering with other companies to leverage their own core competencies. They are also overcoming their own relative weaknesses by tapping into the complementary strengths of other firms for an even more decisive competitive advantage.

He cited the Nike+iPod sports kit, a device that measures and records the distance and pace of a walk or a run. The kit consists of an “accelerometer” attached to or embedded in a specialized Nike shoe; iTunes software can be used to view walk or run history.

With the launch of Nike+iPod in 2006, the successful Nike and Apple partnership capitalized on Nike’s economies of scale and considerable supply chain capabilities and leveraged some of Apple’s pronounced strengths including product uniqueness and consistency, reputation in the marketplace and product quality. Combined, Williams said, Nike+iPod sports kit has captivated the customer and the two companies built an enviable delivery chain that connected the pair’s products with new customers and established a niche consumer community that shares fitness data with one another.

Williams also pointed to PetSmart, which consulted the Ritz-Carlton Hotels a few years ago before launching its PetSmart Hotels for dogs and cats. Transcending beyond products into services propelled a comeback for the franchise, which had struggled financially earlier in the decade, and helped the retailer improve in establishing a more simplified and unified shopping experience that deepened its relationships with customers.

“The moat makers are the ones that create and think beyond just ‘what my product does’ and focus on ‘what is my brand going to be,’ Williams said. “If you start thinking about how you can partner, you can build that pricing power. ... You can beat the business cycle by using technology to extend your product into service. You can grow revenues and build competitive strength by tapping into all nine sources of competitive advantage and finally, you can-out maneuver rivals to become a leader by borrowing proven ideas from other industries.”

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