

Core Competence Analysis

Building Sustainable Competitive Advantage

The idea of "core competences" is one of the most important business ideas currently shaping our world. This is one of the key ideas that lies behind the current wave of outsourcing, as businesses concentrate their efforts on things they do well and outsource as much as they can of everything else.

In this article we explain the idea and help you use it, on both **corporate** and **personal** levels. And by doing so, we show you how you can **get ahead of your competition – and stay ahead.**

By using the idea, you'll make the very most of the opportunities open to you:

- You'll focus your efforts so that you develop a unique level of expertise in areas that really matter to your customers. Because of this, you'll command the rewards that come with this expertise.
- You'll learn to develop your own skills in a way that complements your company's core competences. By building the skills and abilities that your company most values, you'll win respect and get the career advancement that you want.

Explaining Core Competences: The Value of Uniqueness

The starting point for understanding core competences is understanding that businesses need to have something that customers uniquely value if they're to make good profits.

"Me too" businesses (with nothing unique to distinguish them from their competition) are doomed to compete on price: the only thing they can do to make themselves the customer's top choice is drop price. And as other "me too" businesses do the same, profit margins become thinner and thinner.

This is why there's such an emphasis on building and selling USPs (**Unique Selling Points**) in business.

If you're able to offer something uniquely good, customers will want to choose your products and will be willing to pay more for them.

The question, though, is where this uniqueness comes from, and how it can be sustained.

In their key 1990 paper "**The Core Competence of the Corporation**," C.K.Prahalad and Gary Hamel argue that "Core Competences" are some of the most important sources of uniqueness: these are the things that a company can do uniquely well, and that no-one else can copy quickly enough to affect competition.

Prahalad and Hamel used examples of slow-growing and now-forgotten mega corporations that failed to recognize and capitalize on their strengths. They compared them with star performers of the 1980s (such as NEC, Canon and Honda), which had a very clear idea of what they were good at, and which grew very fast.

Because these companies were focused on their core competences, and continually worked to build and reinforce them, their products were more advanced than those of their competitors, and customers were prepared to pay more for them. And as they switched effort away from areas where they were weak, and further focused on areas of strength, their products built up more and more of a market lead.

Now you'll probably find this an attractive idea, and it's often easy to think about a whole range of things that a company does that it can do well. However, Hamel and Prahalad give three tests to see whether they are true core competences:

1. **Relevance** – The competence must give your customer something that strongly influences him or her to choose your product or service. If it does not, then it has no effect on your competitive position and is not a core competence.
2. **Difficulty of imitation** – The core competence should be difficult to imitate. This allows you to provide products that are better than those of your competition. And because you're continually working to improve these skills, means that you can sustain its competitive position.
3. **Breadth of application** – It should be something that opens up a good number of potential markets. If it only opens up a few small, niche markets, then success in these markets will not be enough to sustain significant growth.

For example, you might consider strong industry knowledge and expertise to be a core competence in serving your industry. However, if your competitors have equivalent expertise, then this is not a core competence. All it does is make it more difficult for new competitors to enter the market. More than this, it's unlikely to help you much in moving into new markets, which will have established experts already. (Test 1: Yes. Test 2: No. Test 3: Probably not.)

Using This in Your Business and Career

To identify your core competences, use the following steps:

1. **Brainstorm** the factors that are important to your clients.

If you're doing this on behalf of your company, identify the factors that influence people's purchase decisions when they're buying products or services like yours. (Make sure that you move beyond just product or service features and include all decision-making points.)

If you're doing this for yourself, brainstorm the factors (for example) that people use in assessing you for annual performance reviews or promotion, or for new roles you want.

Then dig into these factors, and identify the competences that lie behind them. As a corporate example, if customers value small products (for instance, cell phones), then the competence they value may be "component integration and miniaturization."

2. Brainstorm your existing competences and the things you do well.
3. For the list of your own competences, screen them against the tests of relevance, difficulty of imitation, and breadth of application, and see if any of the competences you've listed are core competences.
4. For the list of factors that are important to clients, screen them using these tests to see if you could develop these as core competences.
5. Review the two screened lists, and think about them:
 - If you've identified core competences that you already have, then great! Work on them and make sure that you build them as far as sensibly possible.
 - If you have no core competences, then look at ones that you could develop, and work to build them.
 - If you have no core competences and it doesn't look as if you can build any that customers would value, then either there's something else that you can use to create uniqueness in the market, or think about finding a new environment that suits your competences.

6. Think of the most time-consuming and costly things that you do either as an individual or a company.

If any of these things do not contribute to a core competence, ask yourself if you can outsource them effectively, clearing down time so that you can focus on core competences.

For example, as an individual, are you still doing your own cleaning, ironing and decorating? As a small business, are you doing your own accounts, HR and payroll? As a bigger business, are you manufacturing non-core product components, or performing non-core activities?

Tip 1:

As with all brainstorming, you'll get better results if you involve other (carefully-chosen) people.

Tip 2:

On a personal basis and in the short term, it might be difficult to come up with truly unique core competences. However, keep this idea in mind and work to develop unique core competences.

Tip 3:

You may find it quite difficult to find any true core competences in your business. If you've got a successful business that's sustainably outperforming rivals, then maybe something else is fuelling your success (our article on **USP Analysis** may help you spot this).

However, if you're working very hard, and you're still finding it difficult to make a profit, then you need to think carefully about crafting a unique competitive position.

This may involve developing core competences that are relevant, real and sustainable.

Tip 4:

As ever, if you're going to put more effort into some areas, you're going to have to put less effort into others. You only have a finite amount of time, and if you try to do too much, you'll do little really well.