

Rethinking Competitive Advantage: New Rules for the Digital Age

by Ram Charan

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“How do you gain a competitive advantage in the digital age?” Ram Charan’s *Rethinking Competitive Advantage: New Rules for the Digital Age* brings out new dimensions of competitive advantage that firms need in this digital age.

The concept of competitive advantage has attracted profound academic and business interest for the better part of half a century, being considered a key determinant of firms’ superior performance (Porter, 1985, 1990; Christensen, 2001). Many dominant theories have underpinned the academic study of strategy and competitive advantage throughout the years, ranging from the market-based view, the resource-based view, the knowledge-based view, the capability-based view, to the more recent transient advantage concept (McGrath, 2013). This is because strategists have found precisely different, and sometimes even opposite, factors to be sources of competitive advantage at different historical times, such as economies of scale, economies of scope, vertical integration and core competences (Christensen, 2001). During the late 1980s and early 1990s, the research field has changed thanks to Michael E. Porter who redefined strategic planning by questioning the traditional, more static and macroeconomic views on competitiveness and built a bridge between strategy and economic geography (Sölvell, 2015). With his pioneering work, he opened up for a new model of microeconomic drivers of long-run firm competitiveness. Many other “guiding lights” have inspired a generation of business leaders on how to compete and grow throughout decades, ever since Barney (1991) hypothesized that value, rareness, irritability and substitutability are the four factors of sustained competitive advantage; Eisenhardt and Martin (2000) extended the concept to dynamic capabilities or the late Prahalad and Hamel (2003) taught us about strategic intent and core competence.

However, today, in a world of fast-changing consumer behavior and consumer power, dominated by a dozen of “digital giants” – such as Amazon, Facebook, Google and Alibaba – new sources of competitive advantage are emerging, and the competitive landscape is rapidly shifting.

Ram Charan – who *Fortune* mentions as “the most influential consultant alive” and *Harvard Business Review* introduces as “one of the world’s preeminent counselors to CEOs” – makes in this book an insightful and valuable contribution to reflect on the new nature of competition in our post-pandemic, digital age. In the past, competitive advantage used to go to those that had the control of distribution channels, hard assets, large scale established brands or patents, whereas in a digital age, winning “consumer preference” is the driving and winning factor as outlined by the author. This comes both from what a company *does*, e.g.



selecting leaders, perceiving consumer experience, makes money and accesses data and funding and what it *has*. Throughout nine engrossing chapters, the author provides us with the “six new rules of competition” in a cogent form, unlike the usually convoluted tone adopted by many other books on strategy. The result is a lively, accessible guide to getting ahead in the age of big tech, highly recommended for strategic management researchers, as well as for managers and entrepreneurs who wants to reinvigorate their businesses today.

The author sets the context by stating that no competitive advantage is ironclad, even the established names need to earn it on an everyday basis in the digital age (epitomized in “Amazon’s forever day-one culture”). The digital giants came to be known for not following the old adage “stick to knitting”; unlike the established companies having enviable resources, brands and customer bases, the digital wannabes have changed the rules of the game. The traditional companies are feeling intensified competition in their core business both from digital companies and the pandemic, even going to the brink of collapse in view of COVID-19.

Through numerous examples of the upstarts which have cemented their name in the digital arena, the author says that the age-old principles of core competence, competitive advantage and strategy, the McKinsey and BCG matrix approach, as well as the quarter-to-quarter view taken by business leaders, fall short in today’s disruptive environment by assuming that current realities are largely static. With his experience of being on the board of seven companies over two decades, he outlines that none of the traditional organizations focus on the life span of their so-called core competence, which has a shelf life and are late to respond in the digital era; the mass (manufacturer) approach of the past needs to move to a “personalized consumer experience” using algorithms to achieve exponential growth. Netflix, Amazon gained from focusing relentlessly on paying attention to consumers and thinking “end-to-end ecosystem”, with no set dividing lines for the industry that they operate in. The boundary-less approach while keeping customer experience at the centerpiece has allowed them to think of 10x, 100x and 1,000x kind of scale as compared to the incrementalism approach of traditional companies.

Moving away from the competition focus of the past, the digital giants are completely customer focused. To this regard, the author quotes an example of the six-page note at Amazon on how the new initiative will serve the customer’s needs, driven personally by the founder-CEO Jeff Bezos. The “market of one” ($M = 1$) leads to the concept of providing a personalized experience to each customer, which can be provided at the same or lower cost in the digital age, as the author emphasizes. This personalized experience is not only limited to digitally focused companies but has also been picked up by traditional (brick and mortar) companies such as Starbucks which has 170,000 combinations of products but sends individualized tailored messages to the 18.9 million members of its loyalty club. Following the customer’s journey and experience has been a source of insights to many business leaders.

Filled with behind-the-scenes stories of companies such as Netflix, Amazon, Fidelity and Alibaba, the book highlights the tools these digital giants have relied on to reimagine customer experience and build competitive advantage: platform, data, and ecosystem. These companies are creating superior end-to-end experiences, that are personalized for each individual and at scale, by making dynamic algorithms and data central to their business. The author relates forecasting the demand in his age-old shoe business in rural India, as a primitive version of algorithms. “A digital platform in and of itself is not an enduring competitive advantage, but not having one is a competitive disadvantage”, as cautioned by the author.

The author then advocates working on creating, joining and managing ecosystems – also across various industries – to deliver superior outcomes to customers, by leveraging digital technologies to share data, cutting-edge capabilities and even financial resources. This also paves the way to multiple revenue streams for the company and is brought home through

relevant examples across a host of industries and organizations, such as Apple which pioneered the development of iPhone apps through software developers, or Tesla which opened its patents to other mobility players. “Are you afraid that your company will be overtaken by a digital competitor? Think again. It is not the individual company that is most threatening. It is the ecosystem it forges”.

Different financial metrics of revenue growths and cash gross margin are used in digitally focused companies as against earnings per share in traditional ones. This is because the “law of increasing returns” at digital companies virtually leads them to become a cash-generating machine on an S-curve of digital exponential growth. Amazon’s gross margin of 40%, Uber’s 50% when compared with 25% of Walmart give the frame of reference. The Opex of the digital company being its Capex has been highlighted as they do not invest in plant and machinery but in software developers and technology, experts to work toward customer experience and ecosystem development. The term “money-making model” instead of business models is used to keep it simple with focus on cash and business growth. A cash-generating digital company may continue to raise more funds in pursuit of growth, developing, and acquiring the technology.

Finally, Ram Charan brings our attention to one of the greatest and least recognized competitive advantages that the digital giants have over traditional companies, which is a powerful “social engine” driving their innovation and exponential growth. This social engine includes people, culture and way of getting work done, the efforts to eliminate bureaucracy and freeing up people’s imagination to drive innovation. Most digital companies operate with just three or at the most four organizational layers. Google’s approach of hiring “overqualified people with emergent leadership skills”, Amazon’s “bar raiders, builder’s and idea generators” feature in this. “Simultaneous dialogue” is even more powerful as it leads to the best ideas, solutions, innovations and breakthrough through back-and-forth triangulation, as has been pointed out by the author.

Just like in any other business, visionary leaders play a key role in developing a competitive advantage in the digital age. The author quotes the practices of not only the founders of Amazon, Netflix, Google but also organizations such as Disney which reinvented its business under the CEO, Robert Iger by developing and deploying the strength of digital technology in its streaming services, after having acquired traditional business (Pixar, Marvel, Fox in quick succession) taking huge bets (debts) along the way. The author takes pain to define the various characteristics of the Digital leader, notable ones among them being “fluidity in thinking” and “literacy in algorithms and AI” to drive the 10x or 100x future. The book closes with a brief on how a traditional industry leader, Walmart is reinventing itself under a non-digital age CEO, who is building on the company’s digital capability and at the same time turning its “financial albatross into a competitive advantage”.

The book is an authoritative account based on wisdom acquired from interacting with CEOs and C-suite executives daily and understanding their pain points. Based on the research of the past five years, this publication with a real-world perspective turns out to be a thought-provoking composition for management practitioners, and researchers working in this field. Companies such as Amazon and Netflix having exponentially redefined the ecosystem find a reference at several places, along with the respective dimensions. There are some case studies of companies in traditional industries having successfully adopted digital transformation, those are few and far. The book largely remains focused on organizations in B2C segment though the ones in B2B space find a brief mention here or there, including how Microsoft initially started as B2B but smartly transformed itself into B2C play. Zooming in on the practitioners’ perspective to a greater extent, theoretical context has taken a backseat in the book, which is something that gives scope for future research in this emerging field.

Coming from Ram Charan, a highly acclaimed business adviser besides being a Baker Scholar at Harvard Business School where he earned MBA degree with distinction, as well as his DBA, the book turns out not as a tome but a practical companion in competitive strategy.

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