

**Competitive advantage** is a business concept describing attributes that allow an organization to outperform its **competitors**. These attributes may include access to **natural resources**, such as high grade ores or inexpensive power, highly skilled personnel, geographic location, high entry barriers, etc. New technologies, such as robotics and information technology, can also provide competitive advantage, whether as a part of the product itself, as an advantage to the making of the product, or as a competitive aid in the business process (for example, better identification and understanding of customers).

## Overview

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Competitive advantage is what a business has over its competitors. This can be gained by offering clients better and greater value. Advertising products or services with lower prices or higher quality interests consumers. Target markets recognise these unique products or services. This is the reason behind brand loyalty, why customers prefer that particular product or service.

Value proposition is important when understanding competitive advantage. If the value proposition is **affective** it can produce a competitive advantage in either the product or service. The value proposition can increase customer expectations and choices.

**Michael Porter** defined the two types of competitive advantage an organization can achieve relative to its rivals: lower cost or **differentiation**. This advantage derives from attribute(s) that allow an organization to outperform its competition, such as superior market position, skills, or resources. In Porter's view, strategic management should be concerned with building and sustaining competitive advantage.<sup>[1]</sup>

Competitive advantage seeks to address some of the criticisms of **comparative advantage**. Porter proposed the theory in 1985. Porter emphasizes productivity growth as the focus of national strategies. Competitive advantage rests on the notion that cheap labor is **ubiquitous** and natural resources are not necessary for a good economy. The other theory, comparative advantage, can lead countries to specialize in exporting primary goods and **raw materials** that trap countries in low-wage economies due to terms of trade. Competitive advantage attempts to correct for this issue by stressing maximizing scale economies in goods and services that garner premium prices (Stutz and Warf 2009).<sup>[2]</sup>

The term competitive advantage refers to the ability gained through attributes and resources to perform at a higher level than others in the same industry or market (Christensen and Fahey 1984, Kay 1994, Porter 1980 cited by Chacabaghi and Lynch 1999, p. 45).<sup>[3]</sup> The study of such advantage has attracted profound research interest due to contemporary issues regarding superior performance levels of firms in the present competitive market conditions. "A firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential player" (Barney 1991 cited by Clulow et al.2003, p. 221).<sup>[4]</sup>

Successfully implemented strategies will lift a firm to superior performance by facilitating the firm with competitive advantage to outperform current or potential players (Passemar and Calantone 2000, p. 18).<sup>[5]</sup> To gain competitive advantage, a business strategy of a firm manipulates the various resources over which it has direct control and these resources have the ability to generate competitive advantage (Reed and Fillippi 1990 cited by Rijamampianina 2003, p. 362).<sup>[6]</sup> Superior performance outcomes and superiority in production resources reflects competitive advantage (Day and Wesley 1988 cited by Lau 2002, p. 125).<sup>[7]</sup>

Above writings signify competitive advantage as the ability to stay ahead of present or potential competition. Also, it

provides the understanding that resources held by a firm and the business strategy will have a profound impact on generating competitive advantage. Powell (2001, p. 132)<sup>[8]</sup> views business strategy as the tool that manipulates the resources and create competitive advantage, hence, viable business strategy may not be adequate unless it possess control over unique resources that has the ability to create such a unique advantage.

## Generic competitive strategies

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Michael Porter a graduate from Harvard University created a book in 1985, which identified three strategies that can be used to tackle competition. This book was named this ninth most influential management books on the 20th century. These approaches can be applied to all businesses whether it's a good or a service. He called these approaches generic strategies; they include cost leadership, differentiation and focus. These strategies have been created to improve and gain competitive advantage over competitors. These strategies can also be recognized as the comparative advantage and the differential advantage.

### **Cost leadership strategy**



Cost leadership is a business ability to produce a product or service that will be at a lower cost than other competitors. If the business is able to produce the same quality product but sell it for less this gives them a competitive advantage over other businesses. Therefore, this provides a price value to the customers. Lower costs will result in higher profits as businesses are still making a reasonable product on each good or service sold. If businesses are not making a large enough profit, Porter recommends finding a low-cost base such as labor, materials and facilities. This gives businesses a lower manufacturing cost over those of other competitors.<sup>[9]</sup>

### **Differential strategy**



A differential advantage is when a businesses products or services are different to similar competitors. According to Michael Porters strategies 1985, he recommends making those good or services attractive and stand out from other competitors. The business will need strong research, development and design thinking to create innovative new ideas. These improvements to the good or service could include delivering high quality to customers. If customers see this product or service different from other products consumers are willing to pay more to receive these benefits.<sup>[10]</sup>

Along with this, the business will need very effective marketing and advertising so consumers understand how this product or service will benefit them or could be seen as better than what they already have. If the business has a strong idea but weak marketing consumers won't know the benefits of this specific item in comparison to competing products.

### **Focus strategy**



Focus strategy ideally try's to get businesses to aim at a few target markets rather than trying to target everyone. This strategy is often used for smaller businesses, as they may not have the appropriate resources and ability to do so. Businesses that use this method usually focus on the needs of the customer and how the products or services could improve their daily lives. With this some firms may let consumers have input into their product or service.<sup>[11]</sup>

This method can also be called the segmentation strategy, which includes geographic, demographic, behavioral and physical segmentations. By narrowing the market down to smaller segmentations, businesses are able to meet these needs of the consumer. Porter believes that once businesses have decided what groups they will target its essential to

decide if they will take the cost leadership approach or differentiation approach. Focus strategy will not make a business successful. Porter mentions that it is important to not use all 3 generic strategies, because there's a high chance companies will come out achieving no strategies instead of achieving success. This can be called 'stuck in the middle' and the business won't be able to achieve a competitive advantage.<sup>[12]</sup>

When businesses can find the perfect balance between the two 'price and quality' it usually leads to a successful product or service. A product or service must offer value through price or quality to ensure the business is successful in the market. To succeed, it's not enough to be 'just as good as' another business. It comes to firms that can deliver a product or service in a manner that is more meaningful and different to customers based on their needs and desires. Deciding on the appropriate price and quality will depend along the business brand image and what they hope to achieve relating to their competition.<sup>[13]</sup>

## See also

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- [Resource-based view](#)
- [Core competency](#)
- [Economies of scale](#)
- [Comparative advantage](#)
- [Value chain](#)
- [Differentiation \(economics\)](#)
- [Cost leadership](#)
- [Tacit knowledge](#)

## References

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2. <sup>^</sup> Warf, Frederick P. Stutz, Barney (2007). *The World Economy: Resources, Location, Trade and Development* (5th ed.). Upper Saddle River: Pearson. ISBN 0132436892.
3. <sup>^</sup> Chacarbaghi; Lynch (1999), *Competitive Advantage: Creating and Sustaining Superior Performance by Michael E. Porter 1980*, p. 45
4. <sup>^</sup> Clulow, Val; Gerstman, Julie; Barry, Carol (1 January 2003). "The resource-based view and sustainable competitive advantage: the case of a financial services firm". *Journal of European Industrial Training* **27** (5): 220–232. doi:[10.1108/03090590310469605](https://doi.org/10.1108/03090590310469605).
5. <sup>^</sup> Passemard; Calantone (2000), *Competitive Advantage: Creating and Sustaining Superior Performance by Michael E. Porter 1980*, p. 18
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7. <sup>^</sup> Lau, Ronald S (1 January 2002). ["Competitive factors and their relative importance in the US electronics and](#)

[computer industries"](#). *International Journal of Operations & Production Management* **22** (1): 125–135.

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8. ^ Powell, Thomas C. (1 September 2001). ["Competitive advantage: logical and philosophical considerations"](#). *Strategic Management Journal* **22** (9): 875–888. doi:[10.1002/smj.173](#).

9. ^ ["Porter's Generic Strategies: Choosing Your Route to Success"](#). *www.mindtools.com*. Retrieved 2016-04-01.

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13. ^ ["Business Strategies for a Competitive Advantage"](#). *smallbusiness.chron.com*. Retrieved 2016-04-01.

## Further reading

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- *Competitive Advantage: Creating and Sustaining Superior Performance* by Michael E. Porter
- *Creating Competitive Advantage: Give Customers a Reason to Choose You Over Your Competitors* by Jaynie L. Smith
- *Using MIS* by David M. Kroenke pages 71–77
- *Unraveling The Resource-Based Tangle* by Peteraf M. & Barney J (2003). *Managerial and Decision Economics* 24. doi:[10.1002/mde.1126](#)
- Erica Olsen (2012). *Strategic Planning Kit for Dummies, 2nd Edition*. [John Wiley & Sons](#), Inc.
- [Profit from the Core: Growth Strategy in an Era of Turbulence](#) by Chris Zook and James Allen
- [Beyond the Core: Expand Your Market Without Abandoning Your Roots](#) by Chris Zook
- [Unstoppable: Finding Hidden Assets to Renew the Core and Fuel Profitable Growth](#) by Chris Zook
- [Value Migration: How to Think Several Moves Ahead of the Competition](#) by Adrian Slywotzky

## External links

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- [Competitive Advantage](#)
- [Porter and Competitive Advantage](#)
- [Competitive Advantage in Business](#)