

Answer on Question #40265 – Marketing – Other

Competitive advantage can be created or at least raised significantly. The improvement of competitiveness within an economy should be a key element of national export strategy. This means strategic initiatives should address competitiveness issues not only at the level of the individual product and service sector but at the national level as well.

An advantage that a firm has over its competitors, allowing it to generate greater sales or margins and/or retain more customers than its competition. There can be many types of competitive advantages including the firm's cost structure, product offerings, distribution network and customer support.

Competitive advantages give a company an edge over its rivals and an ability to generate greater value for the firm and its shareholders. The more sustainable the competitive advantage, the more difficult it is for competitors to neutralize the advantage.

Three generic competitive strategies

Porter argues that the fundamental basis for above average performance in the long run is a sustainable competitive advantage; without a sustainable competitive advantage, all a company can do, is "harvest" the windfall i.e. skim off the largest profits it can for as long as it is able to do so. Porter postulates two basic types of competitive advantage: cost leadership and product differentiation. These two basic types of competitive advantage, combined with the scope of the activities open to a particular firm, lead to three basic strategies for pursuing competitive advantage: cost leadership, differentiation and focus.

Cost leadership

Cost leadership is intuitively the easiest strategy to understand. The firm sets out to become the lowest cost producer in its particular industry rather than one of several firms vying for that position. To be a cost leader the company must do more than simply move down the learning curve. It must seek out and exploit every source of potential cost advantage. Typically, cost leaders sell a basic product or commodity and are concerned with pursuing economies of scale and absolute cost advantages. While the product may be relatively unsophisticated, the company must comply with the industry norms i.e. the product and/or service must be perceived as acceptable and comparable to its competitor's. A cost leader must therefore maintain some degree of parity with its competitor's performance in other areas while out performing them based on price.

Differentiation

The second generic strategy is differentiation. Here a firm try to be the best performer in its

industry grouping along some dimension or dimensions of the product or service other than cost. This attribute of its product / service must be something that a majority of its customers perceive as important, and the company must position itself uniquely to meet those needs. Its singular position will then be rewarded by a premium for its distinctive product or service. The premium is paid for the company's uniqueness, although the company must also maintain some degree of parity with its competitors cost levels in order that the cost of "uniqueness" does not begin to exceed the premium that the customer is prepared to pay. Unlike cost leadership, several different firms can simultaneously pursue successful differentiation strategies in the same industrial sector - if sufficient scope exists.

Focus

This strategy is not based on the selection of desirable attributes for a product or service across the whole of an industry grouping but upon the selection of a particular segment or group, within the industry as a whole, which is to be targeted, i.e. the company looks to exploit a niche market. A company whose strategic advantage lies in focus will select its niche and, having found it, will tailor its strategy specifically to serve the needs of that particular client group. The focuser seeks competitive advantage in its own segment, although it need not possess an overall competitive advantage. To be successful the focuser must exploit the under-performance of its more broadly based competitors in that niche based either on cost or of differentiation.