

COMPETITIVE ADVANTAGE

What Is Competitive Advantage?

A competitive advantage is a value proposition that allows a company to stand out from its competitors (Zimmerer, Scarborough, & Zimmerer, 1998). This advantage allows an organization to provide superior value to its customers, shareholders, and to the firm itself, while at the same time achieving margins that are much more attractive than that of the competition (What Is A Competitive Advantage, n.d.).

A competitive advantage must be difficult, if not impossible, to duplicate. If it were easily achieved, then everyone would be doing it, and it would, by definition, no longer be an advantage.

Examples of Competitive Advantage:

1. Access to natural resources that are restricted to competitors
2. Uniquely skilled labor force
3. A unique geographic location
4. Possession of unique technology
5. Ability to manufacture products at the lowest cost
6. Brand recognition

Organizations should investigate five internal facets of their business to discover their competitive advantages:

1. ***Products they sell.*** What sets a company's products apart from everyone else? Are they cheaper or more efficient? Do they last longer or are they better quality? Pinpointing the features that allows your product to outperform competitors can allow one to discover how they can differentiate their business from their competitors (Zimmerer et al., 1998).
2. ***Service they provide.*** There can only be one price leader. What can other service providers do to differentiate themselves from the competition? Many businesses focus on providing a level of customer service and personal attention that larger competitors cannot match (Zimmerer et al., 1998). Ritz Carlton Hotels is a prime example. This luxury brand exemplifies personal service in the hotel industry. Their commitment to customer service is heard at the end of every customer request with the reply, "My pleasure." This same phrase has even been adopted by Chick Fil A to set themselves apart from other fast food providers.
3. ***Pricing they offer.*** Everyone wants a bargain and the business that can provide a quality product at the lowest price point has a decided advantage. Large companies will have an easier time instituting this strategy, while smaller companies must highlight the value of their higher priced products (Zimmerer et al., 1998).
4. ***Way they sell.*** Today's business environment is customer centric. Customers expect to conduct business when it is convenient to them. So companies that offer extended hours,

possibly even 24 hour a day operation or at least over the internet have a decided advantage over their competitors (Zimmerer et al., 1998). Proctor & Gamble has extended its flagship brand, Tide, into the dry cleaning business. Tide Dry Cleaners not only enjoy the advantage of the Tide name brand, but hold a competitive advantage of other dry cleaners by offering 24 hour service, free curbside, concierge service, self-serve pickup lockers, and an Inner Circle Rewards program to encourage store loyalty (Tide Dry Cleaners, 2018).

5. **Values to which they are committed.** The most successful corporation recognize that making a profit, creating better communities, and protecting the environment do not need to be mutually exclusive. The companies have found ways to connect with the values held by their core market, in turn driving brand loyalty (Zimmerer et al., 1998).

Constructing a Competitive Advantage

Before a competitive advantage can be established, it is important to know the:

1. **Benefit:** A business must be certain what benefit(s) their product or service offers to their customers. It must have worth and generate interest (What Is A Competitive Advantage, n.d.). Do you know who your customers are and have a real understanding of their needs? How does your product benefit your customers? These are all questions that are essential to know (Amadeo, 2018).
2. **Target Market:** A corporation must identify their core consumers and how it can cater to this target market.
3. **Competitors:** In order to be competitive, a company must understand what other players in the market have to offer.

In order to establish a competitive advantage, a company must be able to fully explain the **benefit** that they provide to their **target market** in ways that other **competitors** can not (What Is A Competitive Advantage, n.d.).

Strategies for Competitive Advantage



There are three strategies for creating a competitive advantage: Cost Leadership, Differentiation, and Focus (Cost-focus and Differentiation-focus) (What is a Competitive Advantage, n.d.)

Cost Leadership

In a cost leadership strategy, the objective is to become the lowest-cost producer. This is achieved through large-scale production where companies can exploit economies of scale. If a company is able to utilize economies of scale and produce products at a cost lower than competitors, the company is then able to establish a selling price that is unable to be replicated by companies. Therefore, a company adopting a cost leadership strategy would be able to reap profits due to its significant cost advantage over its competitors (What Is A Competitive Advantage, n.d.).

Differentiation

In a differentiation strategy, a company's products or services are differentiated from that of its competitors. This can be done by producing products or services of high quality for consumers or innovating products or services. If a company can achieve this aim successfully, it would be able to set a premium price on its products or services (What Is A Competitive Advantage, n.d.).

Focus

In a focus strategy, a company focuses its product or services towards a narrow market segment. This strategy is successful if customers have different needs or wants and the company is able to successfully create products/services that can cater to these customers (What Is A Competitive Advantage, n.d.). The focus strategy also has two variations;

Cost-focus: This strategy calls for a company to be the lowest-cost producer in a narrow market segment.

Differentiation-focus: Differentiated products/services in a narrow market segment

Competitive Advantage in the Marketplace

Three great examples include:

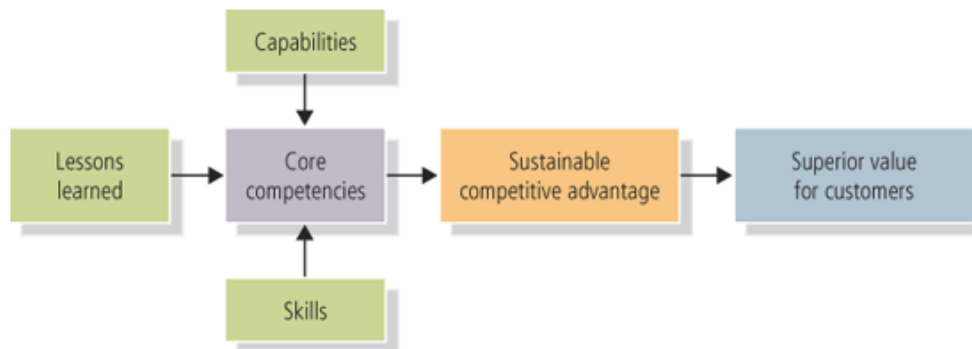
1. **McDonald's:** McDonald's main competitive advantage is realized through a cost leadership strategy. The company is able to utilize economies of scale and produce products at a low cost and as a result, offer products at a lower selling price than that of its competitors.
2. **Apple:** Apple's advantage relies on both differentiation and a differentiation-focus strategy. The company is able to be a leader in the both the cell phone and tablet markets while commanding premium prices through product uniqueness.
3. **Walmart:** Walmart's advantage relies on a cost leadership strategy. Walmart is able to offer 'everyday low prices' through economies of scale.



(Amadeo, 2018)

It is not enough to simply build a competitive advantage; the advantage must pass the test of time to be considered a sustainable competitive advantage. This sustainable advantage is realized when a business develops a set of core competencies that allow it to serve their target audience better than their competitors. Core competencies are a unique set of capabilities that a company develops in key areas - such as superior quality, customer service, innovation, team building, flexibility, or responsiveness - that allow it to vault past competitors (Zimmerer et al., 1998). These competencies typically manifest from important lessons and skills that the organization has gained over a period of time.

Most businesses develop core competencies in a maximum of five to six (often fewer) areas. Many factors may change over time - competitors, markets, customers – however, the core competencies tend to stay as solid pillars upon which company success is built. Companies often develop competencies that complement their size. Perhaps they possess the advantage of operational agility, speed to market, superior service, or the ability to innovate. The key to success is building a company strategy upon core competencies and concentrating them on providing value for target customers (see figure below) (Zimmerer et al, 1998).



Building A Sustainable Competitive Advantage
(Zimmerer et al., 1998)

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