## competitive advantage: its sources and the search for value

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The concept of competitive advantage highlights the close interlink between marketing and strategy. Strategy seeks to relate a company to its environment and to determine where the manager wants the business to go. To get there managers need to identify an activity or activities that can collectively offer value to customers. In the book *Competitive Advantage*, Michael E. Porter (1985, p. 3) makes this point clear and states that "Competitive advantage grows out of the *value* a firm is able to create for its buyers that exceeds the firm's cost of creating it."

Value lies at the core of marketing. This is what customers look for and are willing to pay for. The pivotal role of value has long been recognized in marketing and is reflected in the more recent definition of marketing, which the American Marketing Association (2007) declares as "the activity, set of institutions and processes for creating, communicating, delivering, and exchanging offerings that have *value* for customers, clients, partners, and society at large." Value is not an absolute but a relative concept recognizing that new competitive offerings may erode any value offering that the firm may have in the market (*see* CUSTOMER SOLUTIONS).

Value must necessarily be considered from the customers' perspective, yet unfortunately many organizations fail precisely in this regard. There are numerous reasons for this. A focus on manufacturing or distribution may lose sight of the ultimate beneficiary for whom these activities are being undertaken, while with service offerings value is often defined by the professional with little focus on customers. Indeed, medical practitioners look at their clients as patients, which by definition implies that they often need to be just that – patient!

This contribution highlights the salient role played by value and how it underpins the identification of viable sources of competitive advantage. It commences by taking into account the centrality of cost leadership and differentiation as two important sources of competitive advantage. These interact with particular target markets to provide three main generic strategies. Marketing advantage is then considered as a further basis of competitive advantage and while discussing cost leadership and differentiation advantage, a typology is investigated that explicates major sources that sustain each of these advantages. This is followed by consideration of how the value chain enables the identification of activities that underline a particular value offering that underpins the different types of competitive advantage that the firm can provide. Finally, the main generic strategies are discussed while attention is also drawn to other perspectives on competitive advantage. In conclusion, the point is made that the various available frameworks are best viewed as aids and not as substitutes for management thinking on competitive advantage.

### Generic Strategies as Sources of Competitive Advantage

To provide value once is not sufficient and competitors will act to erode any advantage a firm may have, often via imitation and *innovation* (*see* INNOVATION DIFFUSION). For a competitive advantage to be real it must endure over time. When an advantage can be maintained over time it is said to be *sustainable* and managers can talk of a sustainable competitive advantage. For sustainability to exist, the relative advantage that the positioning achieves needs to have meaning for target customers (*see* MARKET SEGMENTATION AND TARGETING).

The challenge for managers is to identify the sustainable competitive strategy that will underpin the direction that they will pursue for their firm or for their product. Porter (1985) argues that there are two main sources of competitive advantage that he terms *cost leadership* and *differentiation*. Competitive advantage is possible by either pursuing a low-cost positioning or by underscoring differentiation that involves emphasizing some perceived uniqueness that exists or can be fostered among customers. Alternative positioning for the firm can be achieved relative to other players in an industry depending on the choice of strategic target (or competitive scope) in terms of whether the firm pursues a broad industry-wide target or whether it targets a narrower segment.

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| | | Competitive advantage | |
|---|---|---|---|
| | | Lower cost | Differentiation |
| Competitive scope | Broad target | Cost leadership | Differentiation |
| | Narrow target | Cost focus | Differentiation focus |

**Figure 1** The three generic strategies. Source: Porter (1985, 12).

These two dimensions of competitive scope and competitive advantage are utilized in a matrix to highlight the three potential successful generic strategic approaches achievable. Depending on the target market focused on, it is possible to identify three successful generic strategies that can enable the firm to outperform competing firms in an industry. These include the following:

1. Overall cost leadership
2. Differentiation
3. Focus.

Overall cost leadership and differentiation are positioning decisions that can have meaning for broad targets, while narrow targets require focus on either cost or on differentiation as depicted in Figure 1. Each positioning can provide a competitive advantage and represents a unique value offering to customers that allows different firms to compete in the same industry without being in direct competition with each other at most times.

It is clear that no firm, in whatever industry, can offer value and be all things to all people. To achieve a sustainable competitive advantage, the firm needs to make choices that can offer value to customers and that value must not be easy to imitate by competitors. Such value may arise from offering customers great service as a result of customer-centric delivery processes that are not easy to replicate. Value may also come from very efficient operating systems that are able to squeeze out costs and pass some of that value to customers. The search for value offerings is ongoing in all competitive industries.

The airline industry offers a good example of these strategies at work. In this industry, there has been an ongoing struggle to target and differentiate broad groupings. This has been pursued by players such as British Airways who have used full service differentiation throughout the organization in their Putting People First programs, calling themselves "the world's favorite airline" in an attempt to differentiate on a basis that goes beyond the British nationality factor that can offer only limited differentiation. On the other side of the cost leadership matrix, the entry of low-cost airlines such as Ryan Air and Easyjet underlines the pursuit of a positioning that has witnessed the erosion of customers away from the many airlines that previously sought a differentiated positioning. In addition, within the industry, there are many examples of small regional airlines that necessarily target narrowly and can compete on cost with the more differentiated airlines on particular routes. Before its demise, Volareweb that operated from Italy to select European routes sought to compete on price. However, it is also possible to target narrowly by focusing on routes that are not well served as between Rome and Lugano, Switzerland where Darwin Airlines can pursue a more service-quality-differentiated focus strategy.

Best (2004) recognizes cost advantage and differentiation advantage as the two primary sources of competitive advantage but also adds marketing advantage as a third source of competitive advantage. This involves marketing activities that make it possible for the firm to dominate competition on the basis of sales, distribution, or brand recognition, or some combination of these three. In addition, these three categories are used to provide a useful typology that clarifies the activities by which a business can achieve a competitive advantage. The typology seeks to drill down on each of the sources of competitive advantage by considering three variations under each category (Figure 2).

*Cost advantage.* The competitive advantage typology is useful and its three main variations are now discussed. We start by first looking at cost advantage, which arises when the business is able to generate economic value by having

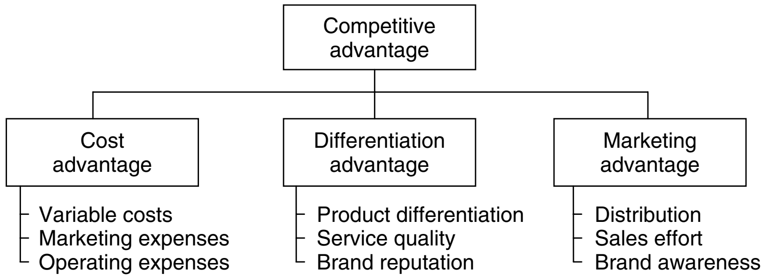


**Figure 2** Major sources of competitive advantage. Source: Best (2004, 140).

costs that are lower than those of competitors. The three main sources of cost advantage are reviewed.

**Lower variable costs.** Lower variable costs can result in lower prices or higher margins relative to competitors. One of the most common ways in which a firm can achieve lower variable costs is via economies of scale. A firm with a large MARKET SHARE is able to achieve purchasing efficiencies and lower the cost of production and can enable costs to be split across a larger output (*see* BRAND GROWTH STRATEGY). Such a position precludes competitors from gaining market share as it will be difficult for such firms to achieve the necessary volume to match unit costs. Large volume production can also benefit from a learning curve effect where not only do unit costs decrease because of growth in the volume of production but there is also a further drop that results from a learning effect. This comes about because, with practice, people and organizations become better at their tasks, thereby increasing the efficiency of production making it possible to cut unit costs even further. Typically, learning curves follow a negative exponential distribution.

**Marketing cost advantage.** Marketing cost advantage results from a marketing cost scope effect whereby the various costs of marketing can be divided over a broader range of outputs as a result of extensions in product breadth and/or width. The pursuit of umbrella branding is a case in point. In contrast to individual product branding, umbrella branding is especially widespread among service firms, including banks. Such firms can gain from economies of scope, in this case, with respect to advertising, whereby a single advertising campaign can be employed to promote an entire range of product offerings. It is possible to derive a marketing cost advantage not just from lower advertising costs but also from other marketing activities.

**Operating cost advantage.** Operating costs refer to the expenses involved in running a business that is not directly related to the production and sale of the current line of goods or services. These include such costs as the general and administrative expenses involved in running a business which, if they can be lowered, can also provide a low-cost advantage. The new Airbus A350XWB scheduled to come into service in 2013 is a wide-bodied aircraft that competes with the Boeing 777 and 787. The manufacturer claims that the A350XWB will be able to offer airlines buying the aircraft "a 20 per cent lower cash operating costs per seat than competing aircraft in this size category and fuel efficiency improvements of up to 25 per cent per seat." In addition, it has been reported that Airbus has been looking at putting a 10-abreast instead of a 9-abreast seat configuration allowing the operating cost per seat to be such that it could not be matched by any other aircraft.

Since not all businesses are able to have some type of cost advantage, managers can consider seeking a differentiation advantage as their source of competitive advantage. *Differentiation* (*see* POINT OF DIFFERENCE AND PRODUCT DIFFERENTIATION) represents a second alternative competitive advantage to the firm that arises when the business is able to generate economic value by giving a product offering that customers prefer over competitors' product offerings. A differentiation advantage is possible on practically any basis as long as it can meet some customer need or needs better than those of competitors. The three main sources of differentiation advantage are elaborated.

*Differentiation advantage.*

**Product advantage.** The product offering provides various attributes that allow for differentiation. While an exhaustive list is necessarily elusive, it is possible to provide a few examples that can give an indication of the possible alternatives available. Thus appearance, design, and features have been used by Apple to strongly differentiate their offerings. Product features have been used effectively by Toilet Duck where its original duck-shaped dispenser for toilet cleaner designed to reach under the rim of toilets was able to provide a distinctive *positioning* (*see* POSITIONING ANALYSIS AND STRATEGIES) in the detergent market. Product benefits are also widely used for the purpose of differentiation with the toothpaste market offering a good example with brands like Sensodyne for sensitive teeth and Crest against tooth decay clearly emphasizing different benefits to consumers.

**Service advantage.** Attribute characteristics that can provide a differential advantage to tangible products can also be leveraged for intangible or *service* products (*see* CONSUMER BEHAVIOR AND SERVICES MARKETING). Indeed most offerings in the market can be seen as representing a combination of the tangible and the intangible. However, the aspect of service quality is an area that has enabled differentiation among the more intangible offerings in the market and has received much research attention. Often defined as the difference between expected and actual performance, it has been shown that service quality has beneficial consequences in terms of customer satisfaction, loyalty, and ultimately profitability. Service quality is seen as encompassing dimensions of reliability, responsiveness, assurance, empathy, and tangibles. Service quality is demanding to be put in place and, if done successfully, can provide a service firm with a differential advantage. Singapore Airways is the only one in a handful of airlines that gets a five-star rating from SKYTRAX, the airline and airport quality certification firm, which confirms that Singapore Airways provides a high-quality service experience to passengers.

**Reputation advantage.** Reputation can be considered at both a product and at a corporate level. It is an aspect that is also able to provide the firm with a competitive advantage. Like service quality, building a reputation is demanding and it cannot be easily copied. While brands can be thought of as symbols around which relationships can be built between sellers and customers, brand and corporate reputation is essentially a feeling or a disposition to respond favorably or unfavorably to a brand or company. However unlike brands, reputation extends beyond customers and can vary by different communities or publics. Thus, while Abercrombie & Fitch is undoubtedly a strong brand that sells a lifestyle image popular with teens and young adults, the brand and its corporate reputation among some noncustomer groups and other communities have seen some of these noncustomer publics raise questions about such things as the quality of the clothes and the advertising approach adopted by the brand. On the other hand, Google is able to have a strong reputation among different publics. In its reputation, it possesses an asset that can provide various benefits to the firm. Therefore, its reputation advantage can result in increased sales; can foster more credible advertisements; can improve perceived product quality; can produce higher customer loyalty; can add value; attract higher margins, and increase cash flow and profits. It can also attract investors and high-quality job applicants.

*Marketing advantage.* Besides pursuing a cost or a differentiation advantage as their source of competitive advantage, it is possible for a firm to gain competitive advantage by leveraging a combination or a particular marketing strength relating to sales coverage, distribution, or brand recognition. These three aspects are further elaborated as follows:

**Channel advantage.** The ability to gain distribution coverage or to deny coverage to competitors is an important competitive advantage that goes beyond cost or a differential advantage. Cisk, a dominant market share lager brand in Malta that came under increased competition from a new local brewery that bottled Lowenbrau, was able to counter the new competition by effectively denying access to the distribution network to the competitor. It succeeded by using pricing and sales promotion activities directed at the distribution.

**Sales force advantage.** There are four key strategic sales force challenges that need to be met, which, if they are successfully tackled, can provide the firm with a competitive advantage. These relate to: how many sales people should be employed; whom they should visit, and with what frequency, and how the sales force should be organized. If met properly together, these can provide the firm with a sales force that is effective and can also afford superior coverage to that of competitors with sales forces that are larger or of comparable size.

**Brand awareness.** Brand awareness refers to the level of recognition that customers have of a brand together with knowledge of the specific product category to which it appertains. With many fast-moving consumer goods where the difference among products is marginal, brand awareness plays a very important role. Colas are a case in point. The differences in the colas at a taste level are relatively minor but brand awareness for the likes of Coca-Cola and Pepsi, together with the image they portray, results in higher sales for these brands and provides a significant barrier that precludes other colas from gaining market share. The brand awareness of these two brands effectively provides them with a competitive advantage irrespective of possible superior qualities in terms of attributes such as taste or price that other competing colas may have.

## Value Chain, Value Provision and Competitive Advantage

Porter (1985) sets out the concept of the value chain as a useful framework that describes how the organization undertakes certain activities that are able to create total value and uphold a particular competitive advantage. Any firm can be thought of as a set of limited resources that makes use of activities to provide value that enables the firm to earn a margin. Margin is generated when created value exceeds costs.

The value chain allows management to systematically consider the various activities involved. The primary activities in the value chain that enable the firm to make its offering are inbound logistics, operations, outbound logistics, marketing and sales, and service, while support activities consist of firm infrastructure, human resource management, technology development, and procurement. The latter three can support each of the primary activities while firm infrastructure acts to support the entire chain (Figure 3).

The value chain highlights the fact that value can be provided not just from the products and brands (*see* BRAND VALUE) that the firm makes available but also from effective procurement and the channels of supply and distribution. The activities that are brought together in the value chain allow value to be provided to customers, determining the differentiation that can take place, and the costs that will ultimately result. One needs to understand how these activities are being utilized, how they are controlled, and how they interact, with a view to devising ways so that they can be used to gain competitive advantage.

Analysis of the elements of the value chain underlines the search for synergetic effects that can result from the extra benefit that can be derived by the firm by not only looking at the elements of the value chain but also by bringing together the added value the different linkages in the value chain are able to provide. Competitive advantage results because the firm is able to undertake these activities more effectively or at a lower cost than competitors.

The value chain is not without its critics and it has been argued that the mental framework behind it appears to assume a manufacturing rather than a service entity. In addition, it appears to betray an assembly-line likeness in its linear, sequential, and unidirectional focus.

## Alternative Generic Strategies

Porter (1980, 1985) cautions against a failure to opt for one of the three alternative generic strategies and describes firms that fail to pursue one of the three generic strategies as "stuck in the middle." It has been suggested that such

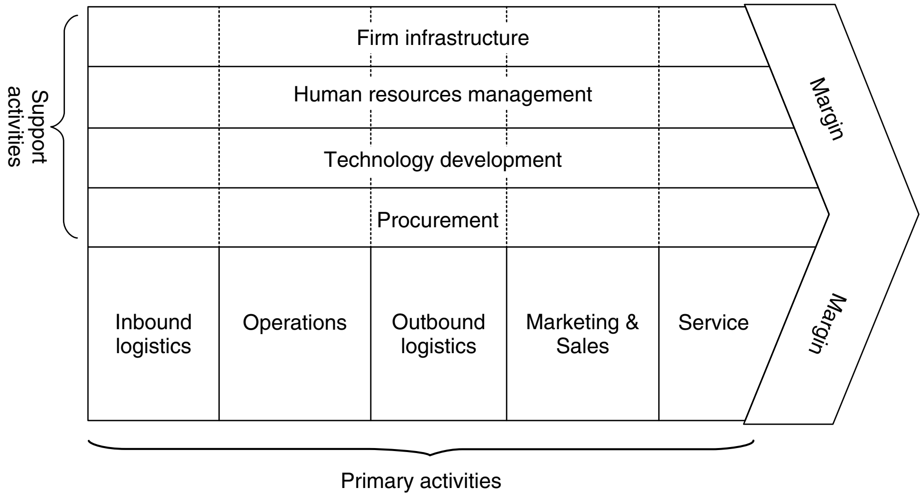


**Figure 3** The generic value chain. Source: Porter (1985, 37).

firms are unable to use their resources effectively and consequently can be expected to exhibit poor profitability. While accepting temporary situations where the pursuit of both a cost leadership and a differentiation strategy can be possible, firms are encouraged to look at their resources and determine the strategic orientation that can best be matched to their capabilities. It is therefore argued that firms cannot simultaneously pursue a cost leadership and a product differentiation strategy. Rolex, which pursues a narrow differentiated focus positioning, is a case in point. Its structures, management control, and compensation policies preclude the pursuit of a cost-focused positioning.

However, it has been suggested that the generic strategy positions may not always be as mutually exclusive as suggested. Hill (1988, 401) has argued that "the circumstances in which the simultaneous pursuit of differentiation and low cost make sense are common, depend on more factors than previously highlighted, and may well lead to the establishment of a sustainable competitive advantage." A contingency framework is therefore proposed where, in the circumstances of certain emerging and mature industries with particular characteristics, managers can successfully pursue a sustainable competitive advantage that can frequently involve the simultaneous pursuit of differentiation and low-cost strategies.

A similar point is made by Miller (1992) who argues against the notion of "stuck in the middle" and holds that a strategy that straddles both positions is viable. Therefore, Caterpillar Inc., which pursued a differentiated strategy that focused on providing earth-moving equipment with distinctive characteristics in terms of high precision and durability while paying less attention to efficiency and economy, enabled Japanese firms to undercut them on price by 30% – the point being that overspecialization and differentiation of the offering can omit important attributes that customers are also looking for and that may afford an opportunity that can be exploited by competitors. Toyota would seem to be an example of a firm that has been able to pursue both a cost leadership and differentiation strategy simultaneously. This is possible because some bases of differentiation have been able to also lower costs. The structures, policies, and controls employed are complementary, and enable such a stance to be possible.

The debate as to the relevance of generic strategies is ongoing. A number of authors have suggested that cost leadership and differentiation strategies are too generic and are limiting. Kim and Mauborgne (2005) look at what they call *value innovation* and argue that a firm should look outside their current paradigms to find new value propositions (*see* A FRAMEWORK FOR

CREATING VALUE PROPOSITIONS) in new market space or "Blue Ocean." The pursuit of a Blue Ocean strategy argues against a firm competing in the current market but rather to identify a market demand that has not yet been met.

More recently, Gurău (2007) notes the increased complexity of the current competitive environment that firms operate in and argues for the need for stronger relationship marketing among firms that can build a competitive advantage based on customer loyalty. He envisages management seeking to move their relationship with customers along a continuum from a weak to a strong relationship and suggests employing different aspects of generic strategies, starting with cost leadership in situations of weak relationships and progressing to product quality-based differentiation, support services-based differentiation, a niche strategy, personalized marketing, and ultimately value cocreation in the strong relationship condition on the continuum. Gurău sees relationships, which enable individual customers to cocreate unique experiences as a result of high quality interaction, as increasingly becoming an important source of competitive advantage to the firm.

While success can indeed come about by the adoption of one of the generic strategies, there are circumstances where a mixed strategy that combines elements of both cost leadership and differentiation strategies or a progression of generic strategies on a relationship continuum, can possibly represent a viable alternative way forward. Porter's generic strategies are not a substitute for management thinking. Matrices are by their very nature simplistic and reality is often not two-dimensional but multidimensional and complex. Rather, generic strategies and their related matrices should be viewed as aids to thinking that can provide useful insights and indications of possible options for management action in the pursuit of competitive advantage.

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