

# Competitive Advantage

To achieve a **competitive advantage** is the goal of all business strategy. It means that a company either provides a better solution to a specific problem than its competitors or offers a similar kind of solution for a lower price and is a **marketing** concept. A business unit is said to have achieved competitive advantage when it “sustains profits that exceed the average for its industry” (<http://quickmba.com/strategy/competitive-advantage>). Michael E. Porter who formed the term ‘competitive advantage’ with his book *Competitive Advantage: Creating and Sustaining Superior Performance* in 1985, differentiated two basic types of competitive advantage: **cost** strategy and differentiation strategy.

## Cost advantage vs. differentiation advantage

Selling a product (or service) for a lower price than the **competitors** and being perceived as the cheapest **provider** (if the price is really the lowest or not) are both strategies to reach **cost advantage** through **price leadership**, i.e., to offer the lowest price for comparable products on the market. To achieve competitive advantages through **price leadership** cost leadership is a prerequisite. This means that a business unit must be able to produce a product at lower cost than its competitors. To achieve this, a cost benchmark can be conducted to detect reasonable alternatives for cost reduction.

To pursue **differentiation advantage** through **quality leadership** means to provide features that other providers don't and thus to differentiate oneself from other providers. Choosing this way to gain competitive advantage, it is essential to find out which features matter most to the customer and how customers aggregate these judgements to an overall evaluation. As, for customers, it is not possible to assess the quality of a product before buying it, e.g. taste or tenability, quality surrogates are advisable for “experience products” (*Erfahrungsgüter*) and “trust products” (*Vertrauensgüter*). Competitive advantages must be both effective and efficient. Effectivity refers to customer, whereas efficiency refers to the provider.

## Four characteristics of a competitive advantage\*

### Significance

Competitive advantages can only be achieved if the **customer** finds the improvement made important. It is thus vital to find out what the priorities of the customers are and to make sure one works on something that is meaningful to the customer. Improving a special feature of a product or service without cognition of the customer's priorities and needs can easily lead to misconceptions of what one needs to work on to provide a better, i.e. a more often asked for and bought product than the competitors.

### Perceptibility

Similar to the characteristic ‘significant’, it is important that the superiority of a feature into which has been put effort is perceptible to the customer. Attention might have to be drawn to the additional value via advertising. Even better would it be to push on features which are perceptible at first sight

as customers will be more willing to pay more if they know (or see) what has been improved or are more likely to choose a product which obviously has features that others do not.

## Profitability

There is no use to offer products which outperform every other of its kind on the market if – at the end of the day – it does not also make sense financially for the provider. Profit must exceed costs to be financially profitable.

## Defensibility

A competitive advantage must be defensible and thus sustainable to ensure that it not taken over by competitors. As competition is a principle of our economy comparative advantages are permanently challenged and to protect and strengthen advantages competitors must be impeded from imitating the **innovation**. This can be achieved through the methods of a) **concealment**, i.e., hindering the competitors to get insights in the details of the business concept and the evolvement of competitive advantages b) **deterrence**, i.e. to convey the message, that you are unbeatable in a specific category (e.g. price leadership) c) **blockade**, i. e. to secure the exclusive access to raw materials etc.

\* This model goes back to the definition of Meffert, H./Burmam, C./Kirchgeorg, M., Marketing, 11. ed., Gabler, Wiesbaden 2012. The role of defensibility has been stressed by Backhaus, K./Schneider, H., Strategisches Marketing, 2nd edition, Schäffer, Poeschel 2009

## Recommended Literature

### Primary Literature

- [Porter, M.E., //Competive Advantage: Creating and Sustaining Superior Performance//](#)

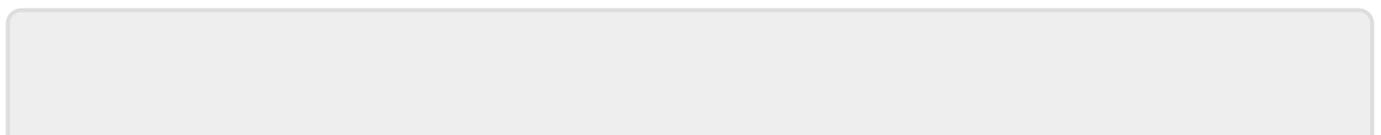
### Secondary Literature

- Backhaus, K./Schneider, H., Strategisches Marketing, 2nd edition, Schäffer, 2009, Poeschel.
- Best, M., *New Competitive Advantage*, Oxford University Press, 2001
- Cockburn, I.M., Henderson, R.M., Stern, S., *Untangling the Origins of Competitive Advantage*, MIT Sloan School of Management, 2000
- Huggins, R./Izushi, H., *Competition, Competitive Advantage and Clusters: The Ideas of Michael Porter*, Oxford, 2012, Wiley - Blackwell
- [Meffert, H./Burmam, C./Kirchgeorg, M., //Marketing//, 11th editin, Wiesbaden, 2012, Gabler](#)

### Online-Resources

- [http://www.investopedia.com/terms/c/competitive\\_advantage.asp](http://www.investopedia.com/terms/c/competitive_advantage.asp)
- <http://quickmba.com/strategy/competitive-advantage>

– *Julia Schmidt* 2012/05/06 15:50



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