Competitive Advantage and Strategies

Competitive advantage can be defined as superior performance relative to other the industry average performance. A company is said to have competitive advantage over its rivals when its profitability is greater than the average profitability and profit growth of other companies competing for the same set of customers (Jones & Hill, 2008). Organizations need stay relevant for as long as possible and to do this, a company must create clear goals, strategies, and operations to build sustainable competitive advantage. Michael Porter outlined the three different strategies companies can use to achieve a competitive advantage.

Cost Leadership Strategy

This strategy involves choosing a business model that will do everything possible to lower its cost structure so that the company can make and sell goods or services at a lower cost than its competitors. These strategies include functional strategies designed to improve its operating performance, and competitive strategies intended to influence industry competition in its favour. Using the cost-leadership model, a company will seek to achieve a competitive advantage and above average profitability by developing a model that positions it on the value creation frontier as close as possible to the lower cost axis. This strategy gives the company an advantage because it will be more profitable than other companies because of the lower costs and lower cost structure. This is achievable by offering the same kind of value from a product at a lower price will attract more customers which leads to increased sales and profits (Jones & Hill, 2008).

Differentiation Strategy

This strategy allows an organization to create a unique product that is viewed by the consumers as distinct in some important way. A company that differentiates its products gains competitive advantage because it has the ability to charge premium prices by satisfy consumer needs in a way that its competitors cannot. A company can achieve differentiation by providing a unique or high-quality product that is valued by consumers at the same price or premium price (Johnson, Scholes, & Whittngton, 2008). Companies typically achieve differentiation with innovation, quality or customer service. Innovation means you meet the same needs in a new way. Quality means you provide the best product or service. Differentiation strategy allows a company positions itself more on branding, advertising, design, quality and new product development rather than efficiency, outsourcing or process innovation. Customers are willing to pay higher price only for unique features and the best quality (Barney, 1995).

Focus Strategy

In this strategy the company chooses to combine the differentiation and focussed, generic business level strategies to specialize in making distinctive products for one or two market segments. The company can differentiate in terms of cost where it targets market niches where consumers are prices sensitive, or differentiation focus where it targets niche markets with luxury or added value products. It focusses on one kind of consumer or product (Barney, 1995). The company is able to better meet the needs of consumers in a particular segment. A competitive advantage is developed because the company possess better knowledge about a specific segment of consumers or superior expertise in a given field. The focused strategy also allows the company to be more responsive to consumer needs and sometimes allows the company to develop innovations more quickly (Capon, 2008).