КАК ДА ПОСТИГНЕМ КОНКУРЕНТНО ПРЕДИМСТВО НА ПАЗАРА

HOW TO GAIN COMPETITIVE ADVANTAGE IN THE MARKETPLACE

Савица Димитриеска
Savica Dimitrieska

Abstract: *In order a company to cope successfully with competitive market forces and generate a superior profit, in the long run, it has to obtain sustainable competitive advantage. This paper explains theoretically how the company can achieve it. Analysis in the paper ar based on the model established by Michael Porter, according to whom, there are two basic types of competitve advantage: cost leadership (low costs) and differentiation. Both can be more broadly approached or narrow, which results in the third viable competitive advantage: focus. According to cost leadership strategy, a company sets out to become the low cost producer in its industry. The sources of cost advantage include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors. In a differentiation strategy a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price. The generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others. The focus strategy has two variants. A) In cost focus a firm seeks a cost advantage in its target segment, while in B) differentiation focus a firm seeks differentiation in its target segment.*

Key words: *competitive advantage, competition, costs, differentiation, focus*

INTRODUCTION

There are broad discussions on increased and tough competition in the markets and the company's economic ability or inability to cope with it. Competitiveness of companies is related to their capability to respond promptly and adequately to sudden changes in the market and maintain their position on it. Often, however, there is disagreement as to what particular competitive strategy should be taken by any individual company in the market, which evaluation criteria should be used to determine whether the company is competitive or uncompetitive and what recommendations should be made to improve the situation.

There are many ways to achieve a competitive advantage in the market, as: creating the highest-quality products, providing superior customer service, achieving lower costs than competitors, having a convenient geographic location, designing products in a way that they perform better than competing brands, making technologically modern and long-lasting products and providing buyers with "more value for the money" (a combination of good quality, good service and affordable prices). However, low costs and high quality are the most important drivers of success. In order a company to achieve a competitive advantage in the market, it must recognize what buyers perceive as a "high value", either a good product at a low price or premium product that is worth paying more for. Anyway, companies have discovered many different approaches to this end, and their best strategy is ultimately a unique construction reflecting its particular circumstances. However, at the broadest level, three internally consistent generic strategies can be identified (which can be used singly or in combination) for creating a defendable position in the long run and outperforming competitors. This paper explains how a company can achieve a competitive advantage using the theoretical expert opinions.

LITERATURE REVIEW

Many studies research the companies performance with an objective to understand the sources of sustainable competitive advantage. Finding the best compeititve strategy for a company becomes a major area of interest and research in the field of strategic management.

Competitive advantage has been defined as "something that the firm does better than its competitors that give it an edge in serving customers' needs and/or maintaining mutually satisfying relationships with important stakeholders" (Ferrell, 2012, p.16). A competitive advantage exists when the company is able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage). Michael Porter was the first who introduced the concept of competitive advantage in the late 1970s (Porter 1979, 1980). The concept of competitive advantage is built on the premise that companies can develop a differential advantage over their competitors. Thus, competitive advantage is discussed from a competitive perspective in the literature (Barney 1991; Dierickx and Cool 1989; Hunt and Morgan 1995). Barney (1991, p.102) described competitive advantage as a "value creating" strategy. Hoffman (2000, p. 1) followed this definition and defiined competitive advantage as the "prolonged benefit of implementing some unique value-creating strategy not simultaneously being implemented by current or potential competitors along with the competitive inability to duplicate the benefits of this strategy".

Several models have been developed to explain ways to achieve competitive advantage. The dominant paradigm in this area during 1980s was the competitive forces model developed by Porter (1980). This model views the essence of competitive strategy formulation as relating a company to its industrial environment in which it competes. In this model, five industry-level forces determine the profit potential of an industry, namely entry barriers, threat of substitution, bargaining power of buyers, bargaining power of suppliers, and rivalry among industry incumbents (Porter 1980). Porter (1980) has argued that a firm's strengths ultimately fall into one of two headings: cost advantage and differentiation. By applying these strengths in either a broad or narrow scope, three generic strategies result: cost leadership, differentiation and focus. These strategies are applied at the business unit level. They are called generic strategies because they are not firm or industry dependent. In the paper, an overview to the Porter models is disccussed and analysed.

METHODOLOGY

For preparation of this paper, a well known research methodology that fits the problem analyzed is used. At first, historical and comparative data are involved, as well as a full range of quantitative research methods. Out of many secondary data, Internet tool is used mostly. Also, a lot of facts and date from domestic and foreign recent marketing literature are taken into consideration.

ANALYSIS AND DISCUSSION

Competitive strategy of a company means taking steps to attract more consumers, to withstand the pressure of competition and improve its market position. Competitive strategy aims the company to create an edge over their competitors and provide a long-term competitive advantage in the market. The strategy that company applies can be both, aggressive or defensive, or change from one to another form depending on market conditions. Many competing strategies exist due to various specific industries, different market environment, internal conditions in companies, different management structures. There are as competitive strategies as companies compete in the market. However, in general, the following main strategies can be distinguished:[1] A) Cost Leadership Strategy, B) Differentiation Strategy and C) Focus (Niche) Strategy.

A) Cost Leadership Strategy

The Cost leadership strategy is a powerful competitive tool in cases where consumers are sensitive to prices. The objective of this strategy is to maintain a price advantage over competitors, to use low costs to oppose competitors, to achieve greater market share and higher profit margins by selling at lower prices. With this strategy, the objective is to become the lowest-cost producer in the industry. Companies that wish to become leaders with low costs should have total, cumulative costs lower than those of competitors, but to be careful not to create the wrong impression among consumers that they place cheap, low quality products in the market. This strategy is usually associated with large-scale businesses offering standard products with relatively little differentiation that are perfectly acceptable to the majority of customers. Occasionally, a low-cost leader will also discount its product to maximise sales, particularly if it has a significant cost advantage over the competition and, in doing so, it can further increase its market share. Maintaining low costs can be achieved in two ways: a) by working with more efficiency and implementing control of all costs for all the operations in the company and b) removing some non-priority activities that produce costs. Both approaches can be used simultaneously. Companies achieve low cost-leadership through savings in all operations they perform. Almost, there is no activity that is spared. Companies possess organizational structure dedicated to savings strengthened by Spartan behavior; they limit benefits to management, show intolerance for waste and unnecessary spending and closely monitor the budget requirements, asking employees to fully commit to cost control. Where possible, the company eliminates lots of

[1] Michael, E. Porter, Competitive Strategy: Techniques for Analyziring Industries and Competitors (New York: Free Press, 1980), chap. 2, especially pp. 35-39 and 44-46

business activities for achieving greater savings. Companies that succeed in cost leadership often have the following internal strengths:

A) Access to the capital required making a significant investment in production assets; this investment represents a barrier to entry that many firms may not overcome.

B) Skill in designing products for efficient manufacturing, for example, having a small component count to shorten the assembly process.

C) High level of expertise in manufacturing process engineering and

D) Efficient distribution channels.

The company that wants to be a lowest cost leader should defend itself from the following five competitive pressures[2]:

A) Competitors: competitive pressure refers to the number and capability of competitors. If the company faces lots of competitors and they offer equally attractive products, then probably the company has too little power and insignificant influence. If suppliers and consumers do not make a good deal with the company, they will cooperate with other companies. Conversely, if no other company offers what the company is selling, then it will have a great competitive advantage.

B) Consumers: refers to how easy is for consumers to decrease the prices with their influence. This depends on the number of consumers in the market, the importance of each individual consumer, the transferring costs from one to another product, service or company.

C) Suppliers: refers to how easy is for suppliers to increase the prices, based on the number of suppliers, the uniqueness of products, the power and control they have on consumers and the switching costs from one to another supplier.

D) New entrants: shows the ability of new competitors to enter the market. If competitors can enter the market with less costs in time or money, or they sense certain economies of scale or little protection to key technologies, they can easily enter the market and threaten the position of the company. Strong and durable barriers to entry for new competitors are established only by maintaining a competitive advantage.

E) Substitutes: refers to the ability of competitors to find new and different ways to imitate the product. If the product or service is easy to copy, then it weakens the competitive advantage of the company.

---

[2] Aaker, David A. "Managing Assets and Skills: The Key to a Sustainable Competitive Advantage." California Management Review, USA, 1999

Companies, that are low cost leaders, have advantage in attracting those customers for whom price is the most important factor in the decision-buying process. Therefore, these companies must manage their costs, and to strive the costs always to be lower than those of the competition. In order this strategy to be successful the efficiency has to be a priority. The competitive strategy that is based on leadership with the lowest costs especially is recommended when:

A) A company produces a standardized product in large quantities. This product has common features, meets the same / similar needs of many consumers, and for them, when products have the same features, performance or quality, the price is crucial for decision-buying process,

B) The price advantage among competitors is dominant competitive force,

C) The company has a large market share, with easy and secure access to resources,

D) There is not a great differentiation among products,

E) Management is prepared to reduce costs in various ways, such as implementation of new manufacturing technologies, using inexpensive product design, reducing distribution costs, finding cheap raw materials, lower profits and so on.

F) Consumers have power to negotiate lower prices.

However, this comparative strategy has certain disadvantages. With technological development, as well as using less expensive labor, competitors can lower their costs and threaten the position of the company. Competing companies can easily imitate the techniques for achieving low-costs, and they soon can gain a competitive advantage. There is also a risk that consumers can change their buyer's habits, tastes and preferences. The company obsessed with cutting costs, sometimes forgets to monitor and follow market changes, and easily can lose its customers.

B) Differentiation Strategy

The Differentiation strategy is important when customers' needs are very diversified and could not be satisfied with a standardized product. The aim of this strategy is to create a product or service that will differentiate significantly from the products or services of competitors. This strategy focuses on product differentiation. For the successful implementation of this strategy, the most important is the company’s research of the consumer needs and finding out what they perceive as important and valuable. The company should possess development skills, good relations with distributors, creative employees, marketing knowledge. This strategy is usually associated with charging a premium price for the product - often to reflect the higher production costs and extra value-added features provided for the consumer. Differentiation is about charging a premium price that more than covers the additional production costs, and about giving customers clear reasons to prefer the product over other, less differentiated products. Competitive advantage is achieved when a sufficient number of consumers strongly relate to the unique products and are willing to pay a higher price for them. Differentiation brings profitability whenever the higher price of the product exceeds the additional costs made for it. Differentiation fails when consumers do not valuate additional features enough to buy the product.

In general, there are numerous possibilities for product differentiation, including: offering better products and services, better after-sales services, good image and reputation of the company, a new flavor of the products, service, warranties and repairs, unusual interesting design, product safety, protection of consumer health, full range of additional services and so on. The most attractive are those differentiation strategies that can't be easily copied or imitated. Differentiation encourages long-term competitive advantage if it is based on: 1) technological superiority, 2) quality, 3) greater consumer service and 4) more value for money.

The differentiation gives advantages to the company as consumers become loyal to a different product and are willing to pay more for it. Also, the successful differentiation: 1) sets up barriers for new competitors who want to enter the market, 2) reduce the negotiating power of large consumers and 3) helps company to protect against substitutes.

As a rule, the differentiation strategies work best in situations where: 1) there are more opportunities for differentiation of products or services or a larger number of consumers consider those differences important, 2) needs of customers and ways of products usage varied and 3) only a few competitive companies use a similar approach for differentiation.

Companies that succeed in a differentiation strategy often have the following internal strengths:

A) Access to leading scientific research;

B) Highly skilled and creative product development team;

C) Strong sales team with the ability to successfully communicate the perceived strengths of the product and

D) Corporate reputation for quality and innovation.

Real value, perceived value and signals for value: Customers rarely pay for the value that they do not perceive, no matter how unique the product is. Thus, the high cost imposed by the differentiation strategy reflects the value that actually is delivered and consumers perceived (even if it actually is not delivered). Actual and perceived value may differ when customers have difficulties to assess the product in advance. Customers, without knowledge for the product, often estimate its value through "signals", such as the reputation of the company, attractive packaging, promotion messages, brochures, sales promotion, equipment, market share, the period in business, price, professionalism, appearance and politeness of sellers. These signals of value can be important as the actual value: 1) when the nature of differentiation is subjective and difficult to measure, 2) when customers buy such a product or service for the first time, 3) when the re-purchase is rare and 4) when buyers are sophisticated and demanding.

Strategy risks: there are no guarantees that differentiation will result in a significant competitive advantage. If the consumer sees little value in uniqueness (any standard product can satisfy his needs), then the low-cost strategy is a better option than the differentiation strategy. Also, differentiation makes no sense if competitors can quickly copy it. Thus, in order company to make a successful differentiation, it has to find a permanent source of uniqueness that can not be quickly and inexpensively copied. Despite these major shortcomings, this strategy has the following other disadvantages:

A) Attempt to differentiate the product on the basis of something that does not reduces the costs or does not increase the satisfaction of consumers,

B) Exaggerating with the differentiation, that can result in higher prices compared to those of competitors or product quality exceeds the needs of consumers,

C) Neglecting the signal values and paying attention only to the tangible features of the product to achieve differentiation,

D) Lack of understanding or inability to identify what customers consider as a value.

Differentiation strategy which aims to give consumers more value for the money usually combines the low costs with better quality, services, features and performances. The idea is to create superior value by meeting or exceeding the expectations of customers through higher quality, services, features or performance at the expense of their price expectations.

C) Focus Strategy (Specialization)

The Focus (Niche) strategy means that the company chooses to sell its products and services to a narrow market segment where buyers have special preferences or requirements. This segment (Niche) can be defined as a geographic entity where buyers have specific requirements for use of the product or product features are attractive to members of that segment. The basis of this comparative strategy is either to perform with lower prices than the competition, or to offer something completely different from competitors to that segment. The Focus strategy means the implementation of the low costs strategy or differentiation strategy to a narrow market place.

They can be successful when either the quantities involved are too small for industry-wide competitors to handle economically, or when the extent of customisation (or differentiation) requested is beyond the capabilities of the industry-wide differentiator. The important issue for any business adopting this strategy is to ensure that customers really do have different needs and wants - in other words that there is a valid basis for differentiation -and that existing competitor products are not meeting those needs and wants.

The focus strategy is particularly attractive in the following situations: a) market segment is large enough to be profitable, B) market segment has a good potential for growth, B) market segment is not crucial for the success of major competitors, d) the company that is directed towards the segment has the resources and skills to effectively serve that segment and D) company that focuses on the segment can withstand the pressures of the newly established competitors based on the satisfaction and loyalty of consumers in that segment.

Focusing on the part of the market works best when: 1) it is very expensive or hard for multi-segment competitors to meet the specific and specialized needs of the segment, 2) when no competitor takes efforts to specialize in satisfying needs of narrow market segments, 3) when the company does not have enough resources to serve a wider market and 4) the industry has many different segments and enables a company to focus on the segment that suits to her strengths and abilities.

The Focus strategy has several disadvantages. One of them is the possibility that competitors will find a way to serve the narrow market segment, especially if they find out that they can achieve higher profits. Another drawback occurs if the customer needs and preferences change over time, hence they open the doors widely for competitors. Third disadvantage is that segment can become so attractive that competitors cannot ignore it and will do their utmost to serve it.

CONCLUSION

Companies adopt business strategies in order to achieve competitive advantage in the market. Companies need these strategies to ensure that resources are allocated in the most effective manner. Thus, the challenge of competing strategies for low costs, differentiation and focus is to create a competitive advantage for the company. Comparative advantage comes from the company's positioning in the market and its dealing with competition in attracting more consumers. However, each strategy cannot be applied in any situation. Thus, the low-cost strategy works best in situations where: industrial product that is offered to the market is a standardized one, meaning that it is identical or similar among sellers, then the price competition dominates the market (or customers make a purchase decision based on price), there are fewer ways of production differentiation, switching costs from one to another company are very low, buyers have great bargaining power and so on. In order to achieve low cost advantage, the company must be more skilled than their competitors in controlling costs and finding new ways to reduce costs in all activities it performs.

Differentiation strategies can bring competitive advantage based on technological superiority, quality, services or providing more value for the money. These strategies best results achieve if: there are more ways to differentiate the products or services of the company, customer needs are diverse and when a small number of competitors apply a similar differentiation strategy. The competitive advantage of focus strategies stems from achieving low costs or producing differentiated products for a narrow market segment. These strategies are applied when: customers' needs are diverse, there is no other competitor interested in serving the same market segment and the company lacks ability to perform for a wider market.

The time for taking strategic steps is very important. If the company is the one who first takes steps, then sometimes it can achieve strategic advantage, but in some cases it is easier, cheaper and simpler to be a follower, not a leader.

REFERENCES

Aaker, David A., Managing Assets and Skills: The Key to a Sustainable Competitive Advantage, California Management Review, USA, 1999

Barney, J. B., Firm resources and sustained competitive advantage, J Manage, 17(1):99–120, 1991

Coyne, Kevin, P., Sustainable Competitive Advantage-What It Is, What It Isn't, Busness Horizons 29, USA, 1986

Dierickx, I, Cool, Asset stock accumulation and sustainability of competitive advantage, Manage Sci, 35(12):1504–1511, 1989

Ferrell, O. C., Marketing Strategy: Text and Cases, Cengage Learning, 2012

Harrigan, Kathryn, R., Guerrilla Strategies of Underdog Competitors, Planning Review 14, no. 16, November 1986

Hunt, S.D., Morgan R.M., The competitive advantage theory of competition, J Mark, 59(2):1–14, 1995

Porter, M., From Competitive Advantage to Corporate Strategy, Harvard Business Review, May-June, (3): 43–59, 1987

Porter, M., How competitive forces shape strategy, Harv Bus Rev, 57(2):137–145, 1979

Porter, M., Competitive strategy: techniques for analysing industries and competitors, Free Press, New York, 1980

Johnson, G., Scoles, K., Whittington, W., Exploring Corporate Strategy: Text and Cases, Prentice Hall-Financial Times, Essex, 2005

Eisenhardt, K.M, Sull, D.N., Strategy as simple rules, Harvard Business Review on Advances in Strategy, A Harvard Business Review Paperback, 2002

Hill, Ch., Jones, G., Strategic Management: An Integrated Approach, Houghton Millin Company, Dallas, 2002

Lynch, R., Corporate Strategy, Prentice Hall-Financial Times, Essex, 2006

MacMillan, Ian, C., Preemptive Strategies, Journal of Business Strategy, 4, no. 2, Fall 1983

David, F., Concepts of Strategic Management, Prentice Hall, New Jersey, 2002

Rothschild, William, E., Surprise and the Competitive Advantage, Journal of Business Strategy, 4, no. 3, Winter 1984