ISSN 2249-5908
Issue 6, Vol. 1 (January 2016)

Competitive Advantage for Business Sustenance

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Abstract:

Building competitive advantage is a part of the task of strategy – at the corporate as well as business level. It is the responsibility of strategy to endow a firm with the competitive advantages required for the survival and growth of the business. In their corporate and competitive strategy, firms incorporate the moves that would create the desired competitive advantages. Hence competitive advantage should be built at corporate, SBU, and product/brand levels.

It is interesting that while competitive advantage is needed for executing strategy, strategy is needed for building competitive advantage. Strategy, thus, not only uses competitive advantage, but also creates it. Firms build competitive advantage using different routes like lower cost, superior resources, technology and R&D, Integration, quality – in products, processes, services, product differentiation, and brand power, supply chain expertise, strength in distribution channels, manpower, innovation in various functions, superior marketing capabilities, speed in operations and compression of cycle time and response time.

Introduction

Strategic analysis and choice is the phase of the strategic management process in which business managers examine and choose a business strategy that allows their business to maintain or create a sustainable competitive advantage. Their starting point is to evaluate which competitive advantage provide the basis for distinguishing the firm in the customers mind from other reasonable alternatives. Businesses with a dominant product or service line must also choose among alternate grand strategies to guide the firms activities, particularly when they are trying to decide about broadening the scope of the firms activities beyond its core business.

Competitive advantage has become vital in today's dynamic business scenario and bestows on the firm the capability for superior value delivery. For this superior value delivery to happen, the firm has to have a superior strength relative to competition in the various activities. To quote Porter, Competitive advantage grows fundamentally out of the value a firm is able to create for their buyer that exceeds the firms cost of creating it. It may take the form of prices lower than the competitors' for equivalent benefits or the provision of unique benefits that more than offset a premium price.

Tools used by firms in diagnosing and building Competitive Advantage

Benchmarking and Value chain analysis are the two useful tools in identifying and building competitive advantage.

Benchmarking

Bench marking can be described as the process of improving one's performance by locating benchmarks/standards in other firms and replicating them in one‘s own organization. It is a learning process, by which a firm seeks to identify best practices that produce superior results in other firms, and to replicate them to enhance its own competitive advantage. The firm measures how much it needs to improve to be at the highest possible level of performance and sets about achieving that level. In other words, benchmarking helps increase competitive capabilities.

Benchmarking has larger scope than inter-firm comparison

Obviously, benchmarking is larger than inter-firm comparison. First benchmarking does not stop with comparison. It helps the firm secure a model for emulation. Second in benchmarking, companies go a step beyond inter-firm comparison and trace the best practices across industries and across countries, gathering still high standards for emulation. Third, unlike with inter-firm comparison, with benchmarking, firms encourage their internal departments to bench mark against one another and upgrade their performance.

Analyzing other players and locating the best practices is the first task in benchmarking. The firm then identifies and quantifies the performance gap – the gap between its own performance and the benchmarking.And, then, it bridges the gap. This externally oriented approach makes people in the firm aware of the distance they have to travel in achieving excellence. It has an eye-opening effect on them.

Internal benchmarking means comparison between the organization, typically, between the related divisions, site-to-site and department-to-department comparisons. Functional benchmarking refers to comparison of the firm's performance in a specific functional area with other firms. Competitive benchmarking refers to comparison of a company's performance against the best in the same industry, i.e. against direct competitors. Generic benchmarking refers to comparison across companies and industries on the universal level; here the firm's performance in a universal work process is compared with that of the best anywhere in the world, in any industry.

Using benchmarking for enhancing the marketing capabilities

Superior marketing capability is also a competitive advantage. Firms can build it over time. Marketing capabilities refers to capabilities in the area of marketing that are value creating and market-oriented and are capable of leading the firm to competitive advantage. They include

- The capability for smarter product launch in the market
- Distribution channel that can deliver efficiently and effectively
- Superior marketing communications and in particular the skill in managing customer's value perception
- CRM
- Effective management of marketing information
- Ability to conceive and implement marketing plans/strategy that optimize the fit between the firms resources and market opportunities
- Ability to price optimally

Using "value chain" in diagnosing and building competitive advantage

It is obvious that competitive advantage grows fundamentally out of the value a firm is able to create for its buyers which is superior to competition. It may take the form of prices lower than the competitor's, for equivalent benefits, or the provision of unique benefits that more than offset premium price. The name of the game is to enhance value relative to competition, in the vast matrix of value-creating activities performed by the firm and develop a value chain that is superior to that of the competitors.

By analyzing the value chain of the competitor, the firm gets a good grasp of the strengths and weaknesses of the competitor. It also gets an idea of the costs and performance in the competitor's value chain. By comparing the costs and performance of its value chain with those of the competitor, the firm can find out where it stands relative to the competitor. If the firm performs some value-creating activities better than its competitors, to that extent it achieves a competitive advantage. Obviously, in order to be useful in the context of competitive advantage building, the value chain exercise has to cover the value chains of the competitors. In fact, it should cover the value chains of the firm's suppliers, distributors and customers.

Evaluating and choosing Business Strategies: Seeking Sustained Competitive Advantage

Business managers evaluate and choose strategies that they think will make their business successful. Businesses become successful because they possess some advantage relative to their competitors. The two most prominent sources of competitive advantage can be found in the business's cost structure and its ability to differentiate the business from competitors. Disney world in Orlando offers theme park patrons several unique, distinct features that differentiate it from other entertainment options. Costco offers retail customers the lowest prices-on popular consumer-items because they have created a low-cost structure that result in a competitive advantage over most competitors.

Businesses that create competitive advantages from one or both of these sources usually experience above average profitability within their industry. Businesses that lack a cost or differentiation advantage usually experience average or below-average profitability. Two well-recognized studies found that businesses that do not have either form of competitive advantage perform the poorest among their peers, while businesses that possess both forms of competitive advantage enjoy the highest levels of profitability within their industry

The average return on investment for more than 2,500 businesses across seven industries looked like this:

Differentiation Advantage	Cost Advantage	Overall Average ROI across Seven Industries
High	High	35.0%
Low	High	26.0
High	Low	22.0
Low	Low	9.5

Initially, managers were advised to evaluate and choose strategies that emphasized one type of competitive advantage. Often referred to as generic strategies, firms were encouraged to become either a differentiation oriented or low-cost-oriented company. In so doing, it was logical that organizational members would develop a clear understanding of company priorities and, as these studies suggest, likely experience profitability superior to competitors without either a differentiation or low -cost orientation.

The studies mentioned here, and the experience of many other businesses, indicate that the highest profitability levels are found in businesses that possess both types of competitive advantage at the same time. In other words, businesses that have one or more resources/capabilities that truly differentiate them from key competitors and also have resources/capabilities that let them operate at a lower cost will consistently out perform their rivals that don't. So the challenge for today's business managers is to evaluate and choose business strategies based on core competencies and value chain activities that sustain both types of competitive advantage simultaneously. . ,

Evaluating cost leadership opportunities .

Business success built on cost leadership requires the business to be able to provide its product or service at a cost below what its competitors can achieve and it must be a sustainable cost advantage. Nirma is one of the few names which is instantly recognized as a true Indian brand, which took-on mighty multinationals and rewrote the marketing rules to win the heart of the consumer.

Low-cost activities, that are sustainable and that provide Tone or more of these advantages relative to key industry forces should become a key basis for the business's competitive strategy.

- **Low-cost advantages that reduce the likelihood of pricing pressure from buyers**
  When key competitors cannot match prices from the low-cost leader, customers pressuring the leader risk establishing a price level that drives alternate sources out of business.
- **Truly sustained low-cost advantages may push rivals into other areas, lessening price competition.**
  Intense, continued price competition may be ruinous for all rivals, as seen occasionally in the airline industry.
- **New entrants competing on price must face an entrenched cost leader without the experience to replicate every cost advantage**
  EasyJet, a British start-tip with a Southwest Airlines copycat strategy, entered the European airline market with much fanfare and low-priced, city-to-city, no-frills flights. Analysts have cautioned for some time that British Airways, KLM's no-pills

off-shoot (Buzz); and Virgin Express will simply match fares on EasyJet's key routes and let high landing fees and flight delays take their toll on, the British upstart. Yet first-mover EasyJet has survived and solidified its leadership position in the European airline industry's low-cost segment.

- **Low-cost advantages should lessen the attractiveness of substitute products.**

  A serious concern of any business is the threat of a substitute product in which buyers can meet-their original need. Low-cost advantages allow the holder to resist this happening because it allows them to remain competitive even against desirable substitutes, and it allows them to lessen concerns, about price facing an inferior, lower-priced substitute.

- **Higher margins allow low-cost producers to withstand supplier cost increases and often gain supplier loyalty, overtime**.

  Sudden particularly uncontrollable increases in the costs suppliers face can be more easily absorbed by low-cost, higher-margin producers. Severe droughts in California, quadrupled the price of lettuce-a key restaurant demand. Some chains absorbed the cost; others had to confuse customers with a "lettuce tax," Furthermore, chains that worked well with produce suppliers gained a loyal, cooperative "partner" for possible assistance in a future, competitive situation

  Once managers identify opportunities to create cost advantage - based strategies, they must consider whether key risks inherent in cost leadership are present in a way that may mediate sustained success, The key risks with which they must be concerned are discussed next. . .

- **Many cost-saving activities are easily duplicated**.

  Computerizing certain order entry functions among hazardous waste companies gave early adopters lower sales costs and better customer service for a brief time. Rivals quickly adapted, adding similar capabilities with similar effects on their costs.

- **Exclusive cost leadership can become a trap**.

  Firms that emphasize lowest price and can offer it via cost advantages where product differentiation is increasingly not considered must truly be convinced of the sustainability of those advantages, particularly with commodity-type products, the low-cost leader seeking to sustain a margin superior to lesser rivals may encounter increasing customer pressure for lower prices with great damage to both leader and lesser players.

- **Obsessive cost cutting can shrink other competitive advantages involving key product attributes.**

  Intense cost scrutiny can build margin, but it can reduce opportunities for or investment in innovation, processes, and products, Similarly, such scrutiny can lead to the use of inferior raw materials, processes or activities that were previously viewed by customers as a key attribute of the original products. Some mail-order computer companies that sought to maintain or enhance cost advantages found reductions in telephone service personnel and automation of that function backfiring with a drop in demand for their products even though their low prices were maintained.

- **Cost differences often decline over time.**

  As products age, competitors learn how to match cost advantages.Absolute volumes sold often decline. Market channels and suppliers mature. Buyers become more knowledgeable. All of these factors present opportunities to lessen the value or presence of earlier cost advantages, Said another way, cost advantages that are not sustainable over a period of time are risky.

Once business managers have evaluated the cost structure of their value chain, determined activities that provide competitive cost advantages, and considered , their inherent risks, they start choosing the business's strategy.

Evaluating differentiation opportunities

Differentiation requires that the business have sustainable advantages that allow it to provide buyers with something uniquely valuable to them. A successful differentiation strategy allows the business to provide a product or service of perceived higher value to buyers at a "differentiation cost" below, the "value premium" to the buyers. In other words, the buyer feels the additional cost to buy the product or service is well below what the product or service is worth compared with other available alternatives.

Differentiation usually arises from one or more activities in the value chain that create a unique value important to buyers. A business can achieve differentiation by performing its existing value activities or reconfiguring in some unique way and the sustainability of that differentiation will, depend on two things: a continuation of its high perceived value to buyers and a lack of imitation by competitors.

- **Rivalry is reduced when a business successfully differentiates itself.**

  BMW's Z4, made in Greer, South Carolina, does not compete with Saturns made in central Tennessee. A Harvard education does not compete with an education from a local technical school. Both situations involve the same basic needs-transportation or education. However, one rival has clearly differentiated itself from others in the minds of certain buyers. In so doing, they do not have to respond competitively to that competitor.

- **Buyers are less sensitive to prices for effectively differentiated products.**

  Pawan Hans Helicopters has ventured into holy pilgrimage with customized packages that provide pilgrims easy access to tough terrain shrines at affordable costs. Similarly, buyers of differentiated products tolerate price increases low-cost-oriented buyers would not accept. The former become very loyal to certain brands. Harley-Davidson motorcycles continue to rise in price, and its buyer base continues to expand worldwide, even though many motorcycle alternatives more reasonably priced are easily available.

- **Brand loyalty is hard for new entrants to overcome**.

  Many new beers are brought to market in the United States, but Budweiser continues to gain market share. Why? Brand loyalty is hard to overcome! And Anheus-er-Busch has been clever to extend its brand loyalty from its core brand into newer niches, such as nonalcohol brews, that other potential entrants have pioneered. Managers examining differentiation-based advantages must take potential risks into account as they commit their business to these advantages.

- **Imitation narrows perceived differentiation, rendering differentiation meaningless**.

  AMC pioneered the Jeep passenger version of a truck 40 years ago. Ford created the Explorer, or luxury utility vehicle, in 1990. It took luxury car features and put them inside a jeep. Ford's payoff was substantial. The Explorer became Ford's most popular domestic vehicle. However, virtually every vehicle manufacturer offered a luxury utility a few years later, resulting in customers beginning to be hard pressed to identify clear distinctions between lead models. Ford's Explorer managers have sought to shape a new business strategy, for the next decade that relies both on new sources of differentiation and placing greater emphasis on low-cost components in their value chain.

Technological changes that nullify past investments or learning.

The Swiss controlled more than 95 percent of the world's watch market into the 1970s. The bulk of the craftspeople, technology, and infrastructure resided in

Switzerland. U.S.based Texas Instruments decided to experiment with the use of its digital technology in watches. Swiss producers were not interested, but Japan's SEIKO and others were.

- **The cost difference between low-cost competitors and the differentiated business becomes too great for differentiation to hold brand loyalty**.

  Buyers may begin to choose to sacrifice some of the features, services, or image possessed by the differentiated business for large cost savings.

Evaluating speed as a competitive advantage

Speed-based strategies, or rapid responses to customer requests or market and technological changes, have become a major source of competitive advantage for numerous firms in today's intensely competitive global economy. Speed is certainly a, form of differentiation, but it is more than that. Speed involves the availability of a rapid response to a customer by providing current products quicker, accelerating new product development or improvement, quickly adjusting production processes, and making, decisions quickly. While low cost and differentiation may provide important competitive advantages, managers in tomorrow's successful companies will base their strategies on creating speed-based competitive advantages.

Speed-based competitive advantages can be created around several activities:

- **Customer responsiveness**

  All consumers have encountered hassles, delays and frustration dealing with various businesses from time to time. The same holds true when dealing business to business. Quick response with answers, information and solutions to mistakes can become the basis for competitive advantage-one that builds customer loyalty quickly.

- **Product development cycles**

  Japanese automakers have focused intensely on the time it takes to create a new model because several experienced disappointing sales growth in the last decade in Europe and North America competing against new vehicles like Ford's Explorer and Renault's Megane. VW had recently conceived, prototyped, produced, and marketed a totally new 4-wheel-drive car in Europe within 12 months. Honda, Toyota, and Nissan lowered their product development cycle from 24 months to 9 months from conception to production. This capability is old hat to 3M Corporation, which is so successful at speedy product development that one- fourth of its sales and profit each year are from products that didn't exist five years earlier. . '. .

ISSN 2249-5908
Issue 6, Vol. 1 (January 2016)

- **Product or Service improvements**

  Like development time, companies that can rapidly adapt their products or services and do so in a way that benefits their customers or creates new customers have a major competitive advantage over rivals that cannot do this.

- **Speed in delivery or distribution**

  Firms that can get you what you need when you need it, even when that tomorrow, realize that buyers have come to expect that level of responsiveness. Federal Express's success reflects the importance customers place on speed in inbound and outbound logistics.

- **Information sharing and technology**

  Speed in sharing information that becomes the basis for decisions, actions, or other important activities taken by a customer, supplier, or partner has become a major source of competitive advantage for many businesses. Telecommunications, the Internet, and networks are but a part of a vast infrastructure that is being used by knowledgeable managers to rebuild or create value in their businesses via information sharing.

These rapid response capabilities create competitive advantages in several ways. They create a way to lessen rivalry because they have availability of something that a rival may not have. It can allow the business to charge buyers more, engender loyalty, or otherwise enhance the business's position relative to its buyers. Particularly where impressive customer response is involved, businesses can generate supplier cooperation and concessions because their business ultimately benefits from increased revenue. Finally, substitute products and new entrants find themselves trying to keep up with the rapid changes rather than introducing them.

While the notion of speed-based competitive advantage is exciting, it has risks managers must consider. First, speeding up activities that haven't been conducted in a fashion that prioritizes rapid response should only be done after considerable attention to training, reorganization, and/or reengineering. Second, some industries –stable, mature ones that have very minimal levels of change-may not offer much advantage to the firm that introduces some forms of rapid response. Customers in such settings may prefer the slower pace or the lower costs currently available, or they may have on time frames in purchasing such that speed is not that important to them.

Evaluating market focus as a way to competitive advantage

ISSN 2249-5908
Issue 6, Vol. 1 (January 2016)

Small companies, at least the better ones, usually thrive because they serve narrow row market niches, This is usually called market focus, the extent to which a business concentrates on a narrowly defined market.

Market focus allows some businesses to compete on the basis of low cost, differentiation, and rapid response against much larger businesses with greater resources. Focus lets a business "learn" its target customers, their needs, special considerations they want accommodated and establish personal relationships in ways that "differentiate" the smaller firm or make it more valuable to the target customer. Low costs can also be achieved, filling niche needs in a buyer's operations that larger rivals either do not want to bother with or cannot do as cost effectively. Cost advantage often centers around the high level of customized service the focused, smaller business can provide. And perhaps the greatest competitive weapon that can arise is rapid response. With enhanced knowledge of its customers and intricacies of their operations, the small, focused company builds up organizational knowledge about timing-sensitive ways to work with a customer.

Managers evaluating opportunities to build, competitive advantage should link strategies to resources, capabilities, and value chain activities that exploit low cost, differentiation, and rapid response competitive advantages. When advantageous, they should consider ways to use focus to leverage these advantages. One way business managers, can enhance their likelihood of identifying these opportunities is to consider several different "generic" industry environments from the perspective of the typical value chain activities most often linked to sustained competitive advantages in those unique industry situations.

Conclusion

Not all business succeed and not all products sell. Business firms need to offer the customer some extra benefits in different ways coupled with cost effectiveness, if they have to make their products successful one. Converting a good product in to successful product is the name of the game. And only when the firm makes this happen, it becomes an effective player in the industry with a worthwhile market share. A firm needs relevant competitive advantage for making this happen. The route is clearly demarcated. It is delivery of superior value on the back-up of competitive advantage that enables a business to succeed.

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