

Porter argues that if a firm is to attain competitive advantage

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Porter argues that if a firm is to attain competitive advantage; it must choose between the types of competitive advantage it seeks, discuss using an industrial example? An industry can be defined as a group of companies offering products that are closely substituting for each other in order to satisfy customers. Competitive advantage can be defined as when a firm sustains profit which exceeds the company's average; it automatically possesses competitive advantage over rivals. The business strategy for most companies is to achieve a sustainable competitive advantage.

This essay aims to discuss why firms must choose between types of competitive advantages using an industrial example. Michael Porter identified that there are 2 basic types of competitive advantage, cost advantage and differentiation advantage. A competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower price (Cost Advantage) or deliver benefits that exceed those of the competitors (Differentiation). Thus, the firm creates superior value and products for customers whilst it gains superior profit for the company.

A resource based view emphasizes that a firm utilizes its resources and capabilities to create a competitive advantage that results in creating superior value thus the firm must have resources and capabilities that are superior to those of the competitors. Resources are the firm specific assets used for creating either a cost advantage or differentiation advantage, examples of resources are brand equity, reputation, installed customer base. While, capabilities refer to the firm's ability of utilizing its resources, an example is the ability to bring out a product or market before competitors.

Thus, the resources and capabilities together result in distinctive competencies which allow innovation, efficiency, creativity, quality and customer responsiveness which can be leveraged to create cost advantage or differentiation. Essentially, a firm's relative position within its industry determines whether its profitability stands above or below industry average. Porter states that there are 2 types of competitive advantage a firm can possess as mentioned above however, there are 3 generic strategies for achieving competitive advantage in an industry; cost advantage/leadership, differentiation and focus.

The first type of competitive advantage is cost advantage /leadership, it is when a firm becomes low cost producer in its industry. It minimizes the cost to the organization of delivering products and services. According to Porter (1985), there are two ways of achieving cost leadership either by increasing profit by reducing costs while charging the average price. Or by increasing market share through charging lower prices while still achieving a reasonable profit on each sale because your cost has been reduced.

Furthermore, companies that are successful in achieving cost leadership usually have an access to the capital needed to invest in technology which helps reduce the cost. Also, they have very efficient logistics and a low cost base such as labor, materials and facilities (Ibid, 1985). Essentially, if a firm can achieve and maintain cost leadership, it can obtain above average performance whilst the prices are still affordable in that industry. Hence, the cost leader does not try to be the industry innovator, it seeks to position its products to appeal to the average customer taste.

The aimed goal is to increase efficiency and lower its costs in relation to competitors. Some of the advantages of the cost leadership strategies are it is protected by industry competitors by cost advantage, purchases in large quantities which increases bargaining power over supplier. Also, it has the ability to reduce price to compete with substitute products, less affected by a fall in the price of inputs as it has powerful buyers. Some of the disadvantages are competitors may lower their cost structure, they may imitate the cost leaders method and cost reductions may affect demand.

Furthermore, Porter argues that a low cost position acts to a firm's benefit against rivalry, and it can act as a defense against powerful suppliers by providing more flexibility to cope with input increases. The car industry has always been one of the most competitive industries because of the huge revenues and profits available at stake. The competition has increased drastically in this industry as there has been a constant need to continuously develop new kinds of car models to satisfy the needs of particular groups of buyers.

For example, Toyota has used its low cost structure to produce efficient and increasing ranges of vehicles tailored to different segments of the car industry. Its ability to move from the design to production stage in two to three years gives it the benefit of bringing out new models faster than its competitors and capitalize on the development of new market segments or niches. Also, Toyota has been a leader in positioning its range of vehicles to take advantage of emerging market segments.

For example , in the sports utility segment, it offers six models of sports utility vehicles each offering a combination of price, size, performance, <https://assignbuster.com/porter-argues-that-if-a-firm-is-to-attain-competitive-advantage/>

styling and luxury that appeals to different sets of buyers. The second type of competitive advantage addressed by Porter is differentiation. As opposed to cost leadership approach, differentiation does not seek to lower prices in order to gain competitive advantage. Porter states that by using differentiation approach, a firm seeks to be unique in its industry alongside some attributes that are greatly valued by buyers.

An industry selects few attributes that most buyers in an industry perceive as vital and aims to uniquely present and position itself to meet those needs. Differentiation approach is usually rewarded for its uniqueness with a premium price and to make a successful generic strategy, organizations need to have good research, development and innovation. They need to have the ability to deliver high quality products and services and have an effective sales and marketing team in order to understand the market demands.

Usually, companies that follow differentiation strategies create a product that is distinct for its competitors in an important way. Therefore, a differentiator strives to differentiate itself in as many dimensions as it can, it seeks to segment the market in many niches, and it focuses on the organizational functions that provide a source of distinct advantages. According to Porter, there are several sources of product differentiation that a firm must look at.

Firstly, firms should focus on the product and highlight which features they want to change, how complex they want the product to be, when they would like to introduce the product and the location. Secondly, firms should focus on their relationship with the customer, product customization, and <https://assignbuster.com/porter-argues-that-if-a-firm-is-to-attain-competitive-advantage/>

consumer marketing and product reputation. Lastly, firms should focus on linkages within and between firms, linkages among functions within a firm, linkages with other firms, product mix, distribution channel and service and support. Some of the advantages of differentiation strategy are customers develop brand loyalty.

Also, differentiators could pass price increases onto customers, powerful buyers are not a problem because the product is distinct and differentiation and brand loyalty are barriers to entry. Some of the disadvantages of differentiation strategies are difficulties maintaining long term distinctiveness in consumer's eyes, competitors can quickly imitate and difficulty maintaining premium price. For example, American Express carefully differentiated its product using famous people to advertise the virtues, exclusivity, and distinctness of possessing those cards.

Amex cards were premium products that allowed the company to charge both customers and merchants more because it offered quality service and conferred status on the user. By 2002, it offered 9 kinds of charge cards and 14 kinds of credit cards seeking to expand the market reach. The third strategy Porter mentions is the focus strategy which concentrates on particular niche markets and tries to understand the dynamics of that particular market. Alongside, the unique needs of customers in those markets, it seeks to develop low cost and well specified products for the market.

Usually, it results in strong brand loyalty amongst customers which makes their market segment less attractive to competitors. Focus strategy usually combines with either cost leadership or differentiation as it is not enough on <https://assignbuster.com/porter-argues-that-if-a-firm-is-to-attain-competitive-advantage/>

its own. In addition, the focuser strives to serve the need of a targeted niche market segment where it has either a low cost or differentiated competitive advantage. In cost focus, a firm seeks cost advantage as its target segment. In differentiation focus, firms choose differentiation as their main approach.

Some of the advantages of focus strategy is the focuser is protected from rivals by providing a product or service that they cannot offer, the focuser has power over buyers because they cannot get the same service from anywhere else. Also, the threat of new entrants is limited by customer loyalty to the brand and customer loyalty lessens the threat from substitutes. Some of the disadvantages of focus strategies are differentiators will compete for a focuser's niche and the focuser's niche may disappear because of technological change or changes in customer's tastes.