Classic comparative advantage vs. porter's competative advantage

ic Comparative Advantage vs. Porters Competitive Advantage In a particular industry, the firms are always competing with each other in order to sustain and grow. There are a few theories that try to define this industry competition; amongst which, Porter’s Five Forces Model and Classic Comparative Advantage are noteworthy. Both try to explain industry competition in their own ways.

The industry structure and the positioning within a particular industry are the basis on which Porter has promoted his theory of competitive advantage. He states that the bargaining power of buyers and suppliers, and the threats of substitutes and new entrants affect the industry competitors and in turn, the industry competition. These five forces explain the rules of competition in any industry. As per Porter, the ultimate aim of any competitive strategy is to cope and change the rules in the behavior of any firm. (Porter’s 5 Forces and Industry Structure, n. d.)

The firms create competitive advantage by discovering better and innovative ways and bring them to the market that act as an innovation. These innovations shift the competitive advantage when the rivals fail to perceive new ways of competing or are unable to respond. It is quite obvious that there are noticeable advantages for the early movers. The typical causes that shift the competitive advantage are shifting buyer needs, new technologies, changes in government regulations, shifting the availability or input costs, and the emergence of any new industry segment. A particular firm gains the competitive advantage by performing the strategically important activities in a more cheap way than its competitors. In other words, it is able to deliver similar benefits like its competitors, but at a much lower cost. A firm might also deliver benefits that exceed the benefits of its competitive products. Therefore, competitive advantage enables a firm in order to create greater value for the customers and in turn, higher benefits for itself. Thus, Michael Porter has identified two types of competitive advantages; differentiation advantage and cost advantage. (Competitive Advantage, n. d.)

David Ricardo has explained the famous theory of Comparative Advantage in explaining foreign trade. Explaining with the example of two nations and two commodities, he argued that trade is beneficial even if one country has absolute cost advantage over the other country in both the commodities. Ricardo has argued that there are gains from the trade, even if a particular nation specializes completely in the production of a particular good, which has a comparative cost advantage in the production and then trading with other nations for good. (Ricardo D., n. d.)

Thus, it can be concluded that both the theories are stressing on industry competition. Porter explains industry competition with the help of five forces model and two types of advantages, cost advantage and differentiation advantage. Though Comparative Advantage does not directly explain industry competitiveness but, competitiveness of industries can be judged by applying comparative advantage theory.

List of References:

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