3 Competitive Advantage

Creating sustainable competitive advantage

The fundamental question of strategic management emphasised in Michael Porter's works is (Rumelt et al., 1994): How does a company create and sustain competitive advantage?

It is evident that a company has competitive advantage if it is embedded with the ability of pleasing the customers better than its competition. The essence of a competitive position is no longer comparative advantage as a consequence of mass production and market marketing, but competitive advantage as a consequence of flexible production and collaborative marketing. In the past, it was deemed that the decrease in corporation size had to be followed by a transfer of activities to others. It was recognised as a downfall of company vitality. Today, it is believed that a decrease in company has to be followed by a creation of strategic alliances. It is recognised as an increase of competitive advantage of a company (Todorović et al., 2000). As Nataša Renko (2009) states, competitive advantage is a special feature differentiating the company from its competitors and it is particularly valued by customers. Competitive advantage is not just a question of success, since a company with competitive advantage achieves above the average profitability.[1]

Strategic competition can be viewed as a principle of working out new positions to detach buyers from their established positions or attract new buyers to the market. Hence, competitive advantage presents the decisive issue of company survival. Competitive advantage is a function of at least two groups of variables (Raguž-Vrdoljak et al., 2013): (1) Favourable national, local and industry conditions; and (2) the result of effort, people and knowledge to achieve better profitability than competition. Hence, the sources of competitive advantage can be traced down both to the environment and the company. New companies can prosper by taking the position formerly occupied by the competitor, but give it up due to its practice of being indecisive or imitating others for years. New companies arising from other industries can create new positions due to their activities

DOI: 10.4324/9781003359173-3

conducted in the previous industry. However, new positions are more often created due to changes.

Then main idea of competitive advantage is creating advantages of a company to:

1 Overpower the strengths of competition;
2 Utilise the market potential.

There are several ways for a company to handle competition. The first way is to use standard factors (e.g. delivery time); the second way is through forming unions (e.g. forming alliances); and the third way is via guerilla warfare (e.g. marketing campaigns). In any case, it is possible to change the game rules and find an alternative. Competitive advantage embodies the total system of values. The value system represents an entire chain of activities included in the process of creating and using a product. Close co-operation and constant exchange with suppliers, middlemen and buyers is involved in the process of creating and maintaining the value system.

The only way to sustain competitive advantage is to constantly upgrade. There are only a few competitive advantages that cannot be copied. That is the vital importance of constant upgrading. In some cases, the acquired competitive advantage can be sustained for decades due to an established value system (Raguž-Vrdoljak et al., 2013).

If a company has a huge advantage over its competitors, then we have absolute competitive advantage on one side, whereas if a company has small advantage over its competitors, then we have relative competitive advantage, on the other side. Most strategic-related problems in the 1960s and 1970s were solved using methods created for dealing only with individual problems (Rahimić, 2006). Accordingly, the concept of the experience curve was focused on the digression of expenses based on the economy of scale and the concept of production portfolio was focused on blunt simplification based on general conclusions. Unfortunately, the application of such concepts was not suitable for solving strategic problems. Igor Ansoff[2] is recognised as a pioneer in creating grounds for contemporary understanding of competitive advantage, stating that it is a result of seeking for a unique chance … which will enable the company to achieve competitive advantage (Ansoff, 1965).

Peter Drucker (1992), for example, highlights that business strategy is the theory on how to gain competitive advantage. If a company wants to determine whether it has achieved its ultimate goal – creating economic added value, it has to create a profit for its generation. Petraph and Barney (2003) state that a company has competitive advantage when its competent to create more economic added value than its competitors. Economic added value is the difference between the value perceived by buyers when buying products from the company and all economic expenses of those products.