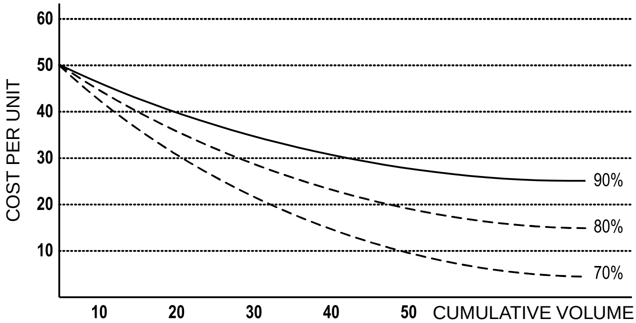

Figure 6.2 The curve of experience.

Source: Henderson, 1981, *116*.

product units. After its introduction, the curve of experience had a wide practical application. Empirical research has revealed that the curve of experience can have different forms. According to Momčilo Milisavljević, the curve of experience is a formal model illustrating the relation between production costs per product unit and the experience gained in the production process. Following the popularisation of the curve of experience in the 1970s, Michael Porter (1980) based his generic strategy of cost leadership on the curve of experience and expanded this concept by the strategies of differentiation and focusing as alternative strategies to creating competitive advantage.

To put it simply, prior to the identification of the generic strategy type followed by the company, it is necessary to design the two following dimensions to foster a better understanding (Porter, 1980):

1 Competitive advantage
2 Competitive volume.

Competitive advantage

The way of playing the strategic game is the formula for company success in the environment. The selection of the way of playing the strategic game depends on the possibility of creating superior value for customers, which enables the generation of above-the-average profitability for the corporation. This represents the principal element of competitive advantage which is used by a company to create a set of assumptions to deliver superior value to its customers generating above-the-average profitability.

According to Michael Porter (1985) there are two main sources of competitive advantage:

1 Low cost
2 Differentiation

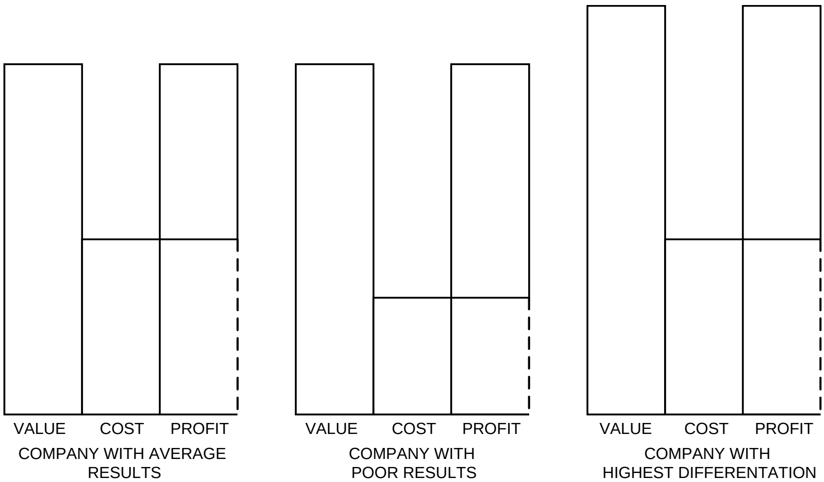

Figure 6.3 Low cost vs. differentiation.

Source: Đuričin et al., 2015, *435*.

This means that competitive advantage is created by either delivering equal value to customers with lower cost compared to competitors (low cost advantage) or by delivering higher value to customers with average industry cost (differentiation). If a company wants to create competitive advantage, it is necessary to choose which the type of competitive advantage it wants to achieve and the market volume it wants to cover.

Both generic strategies provide above-the-average profitability, i.e. higher profits which represent the difference between total revenue (operative effectiveness) and total cost (operative efficiency), i.e. more value at lower cost compared to competitors (Đuričin et al., 2015). That is the foundation of sustainable competitive advantage and the ultimate goal of generic strategy (Figure 6.3).

Simultaneous creation of competitive advantage based on both low cost and differentiation is scarce and it exists only in special cases. There is a limited number of cases where it is possible to apply both sources of competitive advantage. It can hardly have a long-lasting character; it is sooner or later surpassed or neutralised by the competition. However, that does not imply that a company cannot simultaneously focus both on low cost and differentiation in some situations. As long as the company is not at the level of above-the-average profitability of the industry, the steps taken towards low cost and differentiation are compatible.

A company transfers from one source (low cost) to another source (differentiation) based on four generic blocks (Hill and Jones, 1998): (1) superior efficiency, (2) superior quality, (3) superior innovation and (4) superior responsiveness (Figure 6.4).