

International Competitive Advantage

Meaning of International Competitive Advantage

Competitive advantage refers to factors that allow a company to produce goods or services better or more cheaply than its rivals. These factors allow the productive entity to generate more sales or superior margins compared to its market rivals.

Competitive advantages are attributed to a variety of factors including cost structure, branding, the quality of product offerings, the distribution network, intellectual property, and customer service.

Competitive advantages generate greater value for a firm and its shareholders because of certain strengths or conditions. The more sustainable the competitive advantage, the more difficult it is for competitors to neutralize the advantage. The two main types of competitive advantages are comparative advantage and differential advantage.

Examples of Competitive Advantage

1. Access to natural resources that are restricted to competitors
2. Highly skilled labor
3. A unique geographic location
4. Access to new or proprietary technology
5. Ability to manufacture products at the lowest cost
6. Brand image recognition

How to Create Competitive Advantage

Creating competitive advantage is the goal of any successful business. If your business can create and maintain competitive advantage, then you can position yourself as a market leader. This ultimately results in making more sales and potentially higher profit margins.

Luckily, there is a known strategy for creating competitive advantage within a business. It was originally developed by Michael Porter, a professor at the Harvard Business School. Here are the methods Porter outlined for cultivating competitive advantage:

1. Differentiation

In order to stand apart from your competition, your business' product or service must provide unparalleled value to your target audience. To do this well, you should have a deep understanding of your ideal customer. You must identify what they want or need and how your offerings can make their lives better. Many businesses accomplish this by doing the following:

- Offering a higher quality product or service
- Creating distinctive branding
- Investing in intelligent marketing strategies

The differentiation strategy is difficult to execute, as the elements that make a product or service with value is dynamic and ever-changing. A business must stay ahead of industry trends and constantly adapt their offerings to suit a dynamic market. This is the only way businesses can consistently differentiate themselves from the competition and remain relevant to consumers.

2. Cost Advantage

Another strategy for gaining competitive advantage is by focusing on cost leadership. This strategy leans on the idea of providing the best value to the customer at the lowest cost. Many businesses accomplish this by doing the following:

- Increasing operational efficiency
- Finding more effective distribution channels
- Bargaining low prices for materials needed to create their product or service

Generally speaking, businesses that are the first in their industry to successfully strike the balance between providing high value at the lowest cost increase their market share quickly, only

driving down the cost of their product or service even further. The first company to employ this strategy can generally gain competitive advantage more easily.

3. Focus Advantage

The focus advantage approach to gaining competitive advantage relies on narrowing down a business' target audience at the exclusion of other industry segments. Tailoring a product or service to suit a specific market's needs allows businesses to easily offer the highest value. The focus advantage is typically executed by applying either the cost or differentiation strategy to a thoughtfully selected target market.

The challenge of utilizing the focus advantage strategy lies in selecting the correct target market. The ideal market segment of focus should have abnormal needs that are not being met. While it is possible to identify these markets and offer them finely tailored solutions, it is difficult to provide value at equal or lower cost than industry alternatives.

Importance of Competitive Advantage

A competitive advantage is the recognition that a company either delivers quality products at a lower cost than the competition or offers support and services at a greater value than the competition, according to the Quick MBA website. Establishing a competitive advantage takes planning and coordination among your departments. The importance of a competitive advantage is what makes it worth the investment of your organization's time and resources.

1. Marketing

Developing a competitive advantage means that your brand name becomes recognized in the marketplace as being the best. The advantage of that is the potency that your brand name adds to your marketing effort. Consumers will be interested in hearing about your new product because they recognize your company as an industry leader. In some cases, the consumer does not know why you are an industry leader but is familiar with your reputation. This adds efficiency to your marketing efforts.

2. Resources

As a company's reputation grows as an industry leader, other companies will express an interest in creating valuable partnerships that can improve both companies' standing in the marketplace. The competitive advantage causes developers and vendors to come to your company and express an interest in doing business with you. It increases the options you have to select quality vendors that can help you improve your standing in the marketplace.

3. Pricing

When you establish a competitive advantage for your service or support, you can dictate your own pricing. Developing the reputation of offering the best service or support in the industry allows your company to charge more for your offering. If you sell product along with your service, then you can ask for higher prices than the competition because your reputation as an industry leader creates the feeling among consumers that whatever you have to offer is worth the price.

4. New Markets

A reputation for being an industry leader creates demand in the markets where you are currently not offering products or services. It is important to plan your company's growth and monitor the marketplace to make sure that you are not expanding too quickly. But it can be a great help to your company's growth efforts when your competitive advantage creates a customer base for you in areas where you are not currently involved.