

**CREATING A SUSTAINABLE COMPETITIVE ADVANTAGE**

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**Introduction**

In today's world which is characterized by stiff competition and inevitable dynamic changes in technology, organizations are continuously striving to sustain themselves in the market. In these circumstances, there arises a need to craft better methods of sustenance, including creating a sustainable competitive advantage.

Sustainable competitive advantage consists of the moves and approaches taken by the firms to attract buyers who are under pressure from other competitors, thereby improving the firm's market position. The main concern is eclipsing the rivals and winning the competitive edge in the market place. This involves among other things, creating superior value for customers such as lowering prices than your competitors, offering superior products and unique benefits for the customers which in effect leads to retention of more customers

There are many competitive strategies that organizations could adopt. However, Michael Porter in his competitive analysis model singles out three generic strategies which may assist organizations to gain competitive edge. These include cost reduction strategy; differentiation and focus strategy. Michael Porter stresses the need to perform cost benefit analysis to evaluate the sharing opportunities and resources so as to enhance competitive advantage by lowering cost and embracing differentiation. He also stresses on the need to transfer the skills and expertise among business units effectively in order to gain competitive advantage.

## **The concept of competition**

Competition occurs when firms offer the same products and services in the same market. Michael Porter's competitive analysis model illustrates that intensity of competition varies across industries and that competition is found to be fiercest in low return industries. According to Michael Porter, the nature of competitiveness can be viewed as being composite of the following driving forces:

- (i) Rivalry among competing firms
- (ii) Potential entry of new competitors
- (iii) Potential development of substitute products
- (iv) Bargaining power of suppliers and consumers

These driving forces have the greatest influence in shaping the landscape and altering competitive conditions. Competition poses a huge challenge to organizations as those not able to compete are forced to exit the market. To survive in the market therefore, an organization must craft strategies responsive to those driving forces. Identifying the competitor and collecting the information on this competitor is critical for strategy formulation. One of the techniques incorporated in this strategy formulation is competitive advantage

## **Crafting a competitive strategy**

Critical analysis here includes the identification of the type of driving forces and determining the strategy changes required. Competitive strategy aims to establish profitable and sustainable position against forces which determine completion. The choice of competitive strategy is anchored in attractiveness of industry for long term profitability and its determinants. Competitive advantages are part of business of corporate strategies which deal with management's plans for competing successfully. It entails: How to build competitive advantage; its offensive and defensive moves to counter rivals; How to defend against competitive pressure; How to strengthen the firm's market position in the industry and securing competitive advantage over rivals. The ultimate goal is gaining a better position over the rivals, hence survival.

## **Core competency**

Building core competencies and competitive capabilities which are difficult or costly to rivals to emulate would push a company closer to operational excellence. This is one of the best and most reliable ways to achieve sustainable competitive edge. Successful strategies seek to exploit what a company does best which include: expertise strength, core competence and stronger competitive capability. According to Philip Kotler, in his book "Marketing Management", a core competence has three attributes namely: acts a source of competitive advantage as it makes

significant contribution perceived to benefit customers; its applicability in a wide variety of markets and the difficulty for competitors to imitate.

Core competence entails what a company does better compared to the competitors. It is embedded in quality control, ability to provide better services, know-how in cost advantage, superior design capability, unique ability to pick out a good market location and inventories in developing new products. Importance of core competence strategy making rests with the added capability that gives a firm seeking competitive edge it can yield and its potential for being the cornerstone of the strategy.

It is easier to build a competitive advantage when a firm has core competence in an area important to market success, when rival firms lack off-setting competencies and when it is costly and time consuming for the rival firms to match the firm's competence. Core competencies and competitive capabilities are important avenues for securing a competitive edge over the rivals

### **Gaining sustainable competitive advantage**

Michael Porter asserts that one of the aims of competitive advantage addresses the firm's relative position within the industry. Positioning determines whether a firm's profitability is above or below the industry average. A firm that positions itself well may earn high rates of return even when the industry level is unfavorable. The ultimate result of this in the long run is gaining sustainable competitive advantage.

It is important to note that gaining competitive advantage alone is not enough. The biggest challenge is how to sustain it through retention of customer loyalty and continuous attraction of new customers. Sustainability is critical as all firms wish to continue operating. Rivalry among competing firms is usually very powerful.

It is also worth noting that strategies pursued by one firm can only be successful over a relevant range, and to the extent that they provide competitive advantage over those pursued by rival firms. However, strategies of one firm may be met with retaliatory counter-moves such as lowering prices, enhancing quality, extending warranties and increasing advertisement. The other driving force which threaten survival of firms include fast technological changes which bring new competitors, successful market innovations and frequent changing social attitudes and lifestyles which in effect change customer taste.

### **Strategies for creating competitive advantage**

Strategies allow firms to gain competitive advantage and then sustain themselves using different phases. In this generic strategy model, Michael Porter proposes three generic thinking namely: Overall cost leadership, differentiation and focus. However, with advancement in technology and increasing complexity of organizations, there are as many strategies of sustainable competitive advantage as there are competing organizations.

### a. **The cost leadership strategy**

Firms work hard to achieve lower product and distribution costs so that they can charge lower prices than their competitors thereby winning larger market share. Firms pursuing this strategy must be good at value engineering, purchasing and physical distribution of the product. Cost is a vital component in ascertaining competitive advantage and therefore it is imperative to understand the cost behavior. Value chain provides a basis for analyzing the cost. Cost advantage is cumulative cost which enables organizations to perform better than their competitors.

To understand cost behaviour entails ascertaining cost determinants such as economies or diseconomies of scale, percentage capacity utilization achieved and linkages with suppliers and distributors, learning or experience curve effect, potentials for cost sharing and knowledge, research, cost of new or modification of existing products and cost of labour and taxation.

### b. **Differentiation strategy**

Those strategies dependent on differentiation are designed to appeal to the customers with special sensitivity for particular product attributes. Differentiation strategy is adopted if a firm can be unique at something which is valuable to the buyer and that uniqueness cannot be imitated by the competitors. It assists to change the perception of consumers leading to superior performance when the premium exceeds costs as a result of uniqueness.

Just as cost drivers influence costs, uniqueness drivers achieve differentiation. The policy in this strategy is that of uniqueness of cost driver which a competitor is not able to understand or imitate. Skillful differentiation strategy allows firms to charge higher prices or premium and gain customer loyalty. Skillful differentiation and therefore uniqueness translates to greater product flexibility, greater compatibility, lower cost, improved service delivery, reduced maintenance cost, greater convenience, effective communication and customer loyalty all leading to greater profitability, performance and sustainable competitive advantage.

This strategy is pursued only after a careful analysis of buyers' needs and presence to determine the feasibility of incorporating one or more differentiating features into unique products with desired attributes. Special features of differentiation include: superior services; availability of spare parts; engineering design; product performance and ease of use.

However, there are risks in pursuing this strategy. The risks include the fact that the unique product may not be valued highly by customers to justify high prices and the competitor may develop way to cope with differentiating features quickly thereby weakening the firm's uniqueness. Therefore, there is need to find durable sources of uniqueness which cannot be imitated quickly and cheaply. The common organizational requirement for successful

differentiation strategy entails co-ordination among the research and marketing functions and substantial investments by organizations to attract scientific creativity.

### c. **Focus strategy**

The focus strategy whether anchored in low cost or differentiation bases attempts to attend to a particular market segment. A firm pursuing this strategy is willing to serve isolated geographical areas to satisfy needs of customers with special financial problems or tailor the product to somewhat unique demand of small and medium-sized customers.

This strategy is dependent on an industry segment with sufficient size, good growth potential but not crucial to the success of the competitor. Strategies such as market penetration and market development offer substantial focus advantage. It is only applicable with large organizations which are able to pursue focus strategy with differentiation or cost leadership strategies. In essence, all firms employ differentiation strategy – as one firm differentiates itself with lower cost, the other firm improves other ways to differentiate its product.

In this strategy, a firm focuses on one or more narrow market segments with the ultimate aim to understand and know the segment intimately so as to pursue either cost leadership or differentiation within the segment. It is worth noting that the focus strategy is best applicable when consumers have distinctive preference and also when the rival firms are not attempting to specialize in some target segments.

Equally, this strategy suffers from some of the limitations which include: Competitors recognizing successful strategy focus and copying the strategy and Consumer preference may drift towards product attributes desired by the market as a whole.

Firms pursuing this strategy may concentrate on a particular group of consumers' geographical market so as to view well defined but narrow markets better than the competitors who serves the broader markets(s).

### **The role of value chain analysis**

The value chain analysis acts a tool used to diagnose competitive advantage and finding how best to enhance it. The value chain activities could either be primary or secondary activities. Primary activities are for creation or delivery of the product such as marketing or sales, service and operation whole secondary or support activities assist to enhance the primary activities, thereby creating value that the customers wants. The latter includes technology, infrastructure

and human resource. Value chain activities have will lead to sustainability as firms will be able to position themselves strategically in the market.

According to Michael Porter, value chain is a valuable tool of identifying proposed ways to of creating value. Every firm is a synthesis of activity performed to design, produce, market, deliver and support activities. To be successful, a firm needs to look for competitive advantage beyond its own operations into value chain of suppliers, distributors and customers. It is worthy to note that small chains, say in a division have a bearing in the whole organizational value chain, and that performance of firms in the industry differ because of value chain differences.

## **METHODS OF ACHIEVING SUSTAINABLE COMPETITIVE ADVANTAGE**

Generic strategies as proposed by Michael Porter do not lead to performance unless they sustain themselves against competition. They have to be nurtured. There are a number approaches used to enhance competitive strategies including the following:

- a. **Joint venture or partnership:** Joint venture exists where firms share resources and activities to pursue a strategy. It has become increasingly popular because organizations cannot always cope with complex environments such as globalization from internal resources and competence alone. There is need to obtain resources, materials and competencies or access markets. This is possible through forming alliances aimed at exploiting resources and new opportunities.

This is a popular strategy when two or more firms temporarily form a partnership to capitalize on an opportunity by sharing equally. It enables firms to improve communication and networking to globalize operations, therefore minimizing risks as they endeavor to attain sustainable competitive advantage. The drawbacks to this strategy include:

- i. Partnering firms may not benefit the customers.
- ii. It may not be supported by all parties equally.
- iii. The venture may begin to compete with one of the partners, hence jeopardizing the main goal of long term survival.

- b. **Mergers and acquisition:** Mergers occur when two or more firms of equal size and magnitude unite to form an enterprise while acquisition occurs when a large organization buys a small organization. The forces which lead to this strategy include deregulation, technological changes, excess capability and inability to utilize depressed stock markets to gain economies of scale. The benefits to mergers and acquisitions which enhance strategies include:

- i. Improves capability utilization
- ii. Making better use of existing sales

- iii. Gaining opportunities for economies of large scale
- iv. Smoothing out seasonal trends in scales
- v. Gaining access to new customers
- vi. Gaining new technology and,
- vii. Reduction of tax obligation

c. **Business process re-engineering (BPR):** Business process re-engineering is a management approach aimed at improvement by means of elevating efficiency and effectiveness of processes which exist within and across organizations. BPR is one of the approaches used to boost competitiveness of business through reducing operating costs, differentiating products and countering trends of new entrants to the market. Strategic managers using this strategy must completely rethink as their organizations go about their businesses. A business process is any activity such as order processing and inventory control which is critical in delivering goods and services to the customer quickly as it promotes high quality, but at low cost. This strategy alters the way a firm organizes its value creation and links them to improve its performance.

d. **Restructuring:** Restructuring involves divesting some business and acquiring other to put a whole new phase on the company's business line-up. It entails reducing divisions and hierarchies or downsizing by reducing the number of employees. Organizing use this approach as a means of implementing strategic change aimed at improving performance. This is in view of unforeseen changes such as technological changes, which may render a company's products obsolete, worldwide recession, need to reduce high operating costs and shifts in consumer demand.

e. **Innovation:** Innovation is a process by which firms use their skills and resources to create new technology, goods and services in order to change and respond better to the needs of customers. If organizations are to avoid being left behind in the competitive race of producing new goods and services, they must take steps to introduce, new and better products or develop technology to produce those products reliably and at low cost. All these contribute to sustainability. However, the approach suffers from some risks which include:

- i. Lost outcomes of research and developments
- ii. Activities are often uncertain
- iii. Investments in research require huge funds which small firms may not afford.
- iv. While technology can lead to a firm to where it wants to be, it can also usher in undesirable changes such as inefficient technology and some products that customers may not want.

- f. **Diversification:** Diversification as a strategy, takes organizations away from their current markets or products or competencies. Philip Kotler in his book, “Marketing Management” also asserts that diversification growth makes sense when good opportunities can be found outside the present business. A good opportunity is one in which the organization is highly attractive and has the right mix of business strengths and portfolios to be successful. These include seeking new products which have technological or marketing synergy with existing product lines and searching for new products appealing to the customer. The ultimate goal of this is enhancing positioning and competitive edge of the firm.
  
- g. **E-commerce;** E-commerce is a vital tool of strategic management. Many companies gain competitive advantage by embracing the use of internet for selling and communication with suppliers, customers, partners, shareholders and competitors who may be dispersed globally. It enables firms to sell products, advertise, track inventory, eliminate paper work and share information cost effectively. Firms which embrace this strategy minimize expenses and inconveniences of time, distance and speed in doing businesses, thus yielding better service delivery, greater efficiency, improved product efficiency and high profitability.
  
- h. **Total quality Management (TQM):** Total quality Management is a philosophy of managing a set of business practices which emphasizes continuous improvement in all phases of operation, accuracy in performing tasks, involvement and empowerment of employees, team based work design, benchmarking and total customer satisfaction. The strategy aims at production of quality goods to satisfy customers’ expectations, continuous improvement of business philosophy, instilling enthusiasm and commitment to doing things right from the top to the bottom of the organization.
  
- i. **Supply Chain Management:** Supply chain management is a complex management process of being able to offer customer’s goods and services they require and when they require the. It is a total system approach of managing the entire flow of information, materials and services through production, warehousing, distribution, merchandizing and retailing to the end user-the customer. It ensure excellence in producing the right products or serves from the right suppliers, to the right place, of the right quantity and finally to the right consumers. A good supplier chain management strategy strips away time and costs from the products and service delivery cycle to increasing cost effectiveness and customer satisfaction. Effective supplier chain management systems are going to be critical for competitive success especially in emerging markets as they increasingly parts of the global marketing system.



## **Conclusion**

Competition real and it affects all firms in the industry. The solution each firm wishing to remain in operations to have strategies which are well formulated, implemented and continuously evaluated to ensure that they are effective and in tandem with the long-term objectives and interest of the organization