



## How to Achieve a Competitive Advantage

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**Abstract** *In order to succeed in any market a company has to decide which strategy is more appropriate to use, which means identifying the sources of a potential competitive advantage such as skills or resources. Superior skills in creating a special product can represent the element that is setting the company apart from its competitors. That is easily translated into a very good quality of the products. The resources of the company refer to the great number of retailers (a good distribution chain that can lower the costs), the possibility of economies of scale, a good advertising programmed and others.*

**Key words:**

Competitive advantage,  
economy of scale, product,  
price, distribution, promotion,  
social responsibility

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M16

### 1. Introduction

Every company is trying to satisfy the basic needs of the customers. In order to be successful they must have a distinctive element from their competitors that will ensure what we are calling „competitive advantage”. Without it, Jack Welch, former chief executive of General Electric said that is better to not even compete at all.

It is essential for a company that has a competitive advantage consisting in skills to reinvest a part of the profits into research in order to maintain this advantage. All the work of any company is concentrating on providing satisfaction to the customer. This means that a company has to be sure that what it is considered to be a competitive advantage by the company is also equally perceived by its customers.

### 2. Content

Companies should be very careful which aspects they will emphasize. In order to do that, a very detailed analysis of the mix marketing should be made.

Products can provide competitive advantage regarding for instance speed, comfort, smell, taste, safety, design, low maintenance costs, long life (high quality materials that makes the product last longer – in furniture for example) and others. A big plus for the company in satisfying their customers is offering free installation (for example thermal stations) and further assistance in using the product.

Distribution is very important for the company in order to achieve a good delivery of its products in the quicker time and at the lowest cost. Using reliable distributors is

making unnecessary to change them all the time and creates a bond between the company and the customers.

Promotion can offer a competitive advantage by using creative advertising, as such used by Heineken that is differentiating from other campaigns using a lot of humor. A couple is showing to their friends their new apartment. The women is impressing her friends with her big wardrobe and at the same time the men is presenting his space filled with Heineken beer and of course they are all yelling of surprise and happiness.

The brand itself can be a competitive advantage and it can be made stronger with the help of advertising. In some cases offering the possibility to get in touch with a trained consultant can make the difference between the company and its competitors. For example, mobile phones companies have to stay in touch with their customers and must have strong relationship marketing.

Price can become a competitive advantage by using the low cost strategy, but it must be sustained by at least the same quality offered by the competitors if not superior.

In addition to these tools that are parts of the marketing mix, in order to be successful, companies should have a fast reaction to the environment changes. Products that are selling well have to be kept, but the once that are meeting difficulties must be quickly replaced.

A big goal for the company must be also to achieve a sustaining differential advantage, meaning that its advantage will be hard to copy by competitors.

Global companies have an advantage that national companies do not have and that is they can transfer

successful ideas and experiences from one country market to another. Managers from McDonalds always create a common strategy and share their knowledge's and it reflects in products prices that are quite low.

Another advantage of global companies over national once is that they have global recognition. It is very important for a company that its customers appreciate the products and purchase them in different countries, because of the relationship of trust.

Some multinational companies transfer personnel and also resources from one subsidiary to another creating more experienced managers, better information system and optimal use of resources (material or financial).

The current period can be described as inconstant, even turbulent. Globalization made things difficult, because it helped the crises spread all over the world. Companies must be prepared to see instant business behavior changes in competitors and customers. We are very far from the model of a perfect economy taught into schools at the economy lesson.

Not all the changes are good. Now by using the internet, people can see the news without going out to buy a newspaper, can download movies and favorite songs without paying anything (and even this is not legal it is a very common practice), can communicate even face to face without supplementary cost such as using telephones. This is if we like it or not the future.

Companies should spend a lot of time in studying the business environment before developing a strategy. Despite that marketing is more an art than a science. It does not involve a lot of mathematical equations, but more a description of company's motives, decisions and actions. It is very helpful for any top manager to take into consideration all advices from their employees that come for experience and never ignore them, because these people can know better than anyone the right solution of many problems.

Using competitive advantage as part of the business strategy means that the company must provide an added value in compares with what competitors are offering. A good use of the company's resources can make it achieve high profits.

The company must always know its adversaries and never sub estimate them. It is a mistake to ignore new competitors on a market and focus only on the ones that have been active for a long time. If it obvious those managers should not assume that their competitors are the same, so the next assumption is that the customer may change their preferences in terms of valuing the same attributes. For example, not so long ago everybody was crazy about eating in fast foods. It seemed to be the preference of most people that are enjoying that kind of restaurants and the food taste. Also popular drinks like Coca-Cola and others had a lot of passionate fans. All of the sudden it is a new trend to

consume bio products. They are very successful even they are commercialized at huge prices. People are no longer valuing a quick meal and very tasty, but they are prioritizing healthy products.

Also the companies must never give up on creating strategies and using marketing tools. For example, in the past, people knew very little about pharmaceutical products and bought in general only what the doctors prescribed. Now we can say that patience's are more informed by studding comments on the internet, or watching medical TV-shows and even by paying attention to the advertising campaigns. They are more enquiring and willing to test the products. In the Christmas holiday season it could have easily observed a rise of commercials for medicines that we help you avoid digestive problems because everybody is eating so much in that period. And it was surely a very successful campaign because it is everyone's dreams to eat everything they want and not feel seek after.

In the current period of time people feel good about themselves, want to be respected by others and they like to be informed about everything and especially how to take care of their body. Meeting their expectation can be a competitive advantage for any company.

Achieving a competitive advantage is easy, giving the power to the company to become known by customers, but the problem is how to maintain this advantage. Managers should be careful to preserve elements that are not easy to copy by the competition. A long term competitive advantage is called sustainable differential advantage. The low cost strategy is not enough, so the company must combine it with other elements, such as: protecting the products through patents, building a strong brand, developing good relationships with the customers, providing high level services, meaning also having best trained personnel, investing in research and innovation, always ensuring high quality that is hard to copy by competitors.

In some cases it is easy to imitate other company's ideas that are composing the competitive advantage. For example, people that are buying products for Body Shop appreciate the fact that they are environmental friendly, that they are 100% natural. But other companies reproduced that idea of creating a set of natural products that have a comparable quality and a much lower price.

In order to create a leadership position companies must understand what are the elements that are affecting their costs.

Economies of scale arise from production at higher volumes. It can be used by companies with standard products, such as biscuits or Coca-Cola for example. However it is difficult to manage high production units in terms of equally qualified personnel.

Learning can determine a fall of the costs. Better trained personnel will be able to do more assignments in a reduced time. The company will become more efficient. The experience curve reflects the combined elements presented above, meaning economies of scale and learning. For example when a company is entering in a new market it can be a competitive advantage to be by an existent company, that is activating in the same sector of industry and has trained personnel.

Capacity utilization is a very important factor because fix costs must be paid even if the manufacturing process is running at full or zero capacity. It is best that the production capacity is fully used. It is necessary a good planning strategy especially for seasonal products.

Linkages refer to how the costs of an activity can affect other costs of other activities. For example, if a company is improving the quality of their products it will lower the costs with repairs that they are obliged to make while the products have warranty. Having a good distribution chain also helps in reducing costs. An example of good exploitation of linkages is Seiko that paid to the US jewelers that are commercializing their watches a fee that includes reparation of the products which made the company not to require service facilities.

Interrelationships refer to sharing the costs between business units of the company. This strategy can be used for example for big brands that have under their umbrella other smaller brands. They can share transportation means, research facilities, marketing departments and others. If the customers know that it may determine them to not perceive the premium brand in such matter. The brands can become equal in the eyes of the customers (in the car industry for example). For example in the case of Renault and Dacia, the result is positive because the customers of Dacia feel that they are buying a better product. In the case of Volkswagen, Seat and Skoda, the customers may feel that the Volkswagen quality is reduced.

Integration of distribution facilities owned by the company can lower costs. Also using outside distribution can lower costs only by having a strong bargaining power and if the distributors have very small size, but however it rises the risks.

Timing can be in both advantage – of the first and the last company entered in a market. The oldest company has the advantage of becoming a strong brand easier with fewer competitors. It also has access to the best sources of materials and the best locations. The last entered in a market has the advantage of the newest technologies, that helps avoid a lot of research and development costs.

Policy decisions surely affect the overall costs. They imply details about production quantity and quality, channels of distribution to use, ways to become the brand known and how it is best to be perceived by the customers (what values identify with the brand of the company). In our days companies are encouraging customers to buy through Internet, cutting a lot of costs with trained personnel.

Not the least the well prepared managers are becoming a very strong asset. They are essential to any company and can lead it to either success or failure. They are responsible for setting objectives and following their completion, organizing activities, coordinating and controlling, identifying talented and dedicated personnel, motivating their efforts, allocation of resources, creating and developing business relationships, meeting stakeholder's demands. A manager must be as important as the brand for the company. He should be a model for his employees, he should teach them, inspire them and lead them to success.

Companies have in their structure business units, departments, and work groups, alliances with suppliers, partners, and customers.

An example of management innovation is a new company InnoCentive<sup>1</sup> that focuses on global market expertise. It has a network of more than 70.000 scientist around the world that are challenged to solve problems occurred especially in R&D teams of many companies. The main goal of InnoCentive is scientific innovation. Their experts implicate in any of typical business processes: planning, establishing budgets, project management, hiring, promotion and training personnel, internal communications, periodic business reviews, employee evaluation, suggesting the trend for the company's business behavior.

The competitive advantage can come from the brilliant managerial decision regarding new technologies, such as General Electric that in the early 1900 developed the industrial research laboratory, which allow this company to discover and register more patents than any other company in the US.

The DuPont Company had a pioneer role in implementing budget techniques that helped to control the use of profits into investment and to measure the performances of all the products of the company in terms of ratibility. Keeping resources under control and using them profitably made this company the big giant that it is right now.

P&G made assets from its strong brands that are recognized all over the world.

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<sup>1</sup> Lawler, E. (2006). *Build to change: How to achieve Sustained Organizational Effectiveness*, Kindle Edition.

Toyota is relying on its well trained personnel for finding the solution to any problem. Their capacity to reinvent products is the result of a true team work where nobody is underappreciated. Toyota Production System is called Thinking People System. This fact is proven by the statistics that only in 2005 the company received more than 540.000 improvement ideas from its Japanese employees.

Another good advantage over the competitors is building a global consortium. Creating Visa product was a big challenge but now it is no longer an idea but a very effective practice that allows a lot of banks to collaborate in terms of infrastructure in benefit of the customer all over the world.

### 3. Conclusions

In the present the main focus for any company is to have a business behavior that is social responsible. Governments, organizations and the media are militating for the companies to assume their actions in the benefit of the society.

This is very hard to achieve because companies are not willing to renounce of a part of their profits. Nike faced a lot of problems when media sound an alarm about the labor conditions of its Indonesian workers in 1990. Fast-foods are now held responsible for obesity. The main target of the activist in any field is in the first place multinational companies. The companies should take under consideration that by acting socially responsible and making public their behavior they will surely conquer a lot of clients. From bio-products to philanthropically events they all have impact on the consumers.

Nestle Company is an example of a multinational company that has a positive impact on the society. It emphasizes the relationship between social benefit and competitive advantage. In 1962 the company wants to start a milk business in India. The company strategy is

to collect milk directly from the farmers. They have elected the north district of Moga to start their activity. There people had no electricity, telephones or medical care. Nestle created collection points with refrigerators, sent trucks, elects veterinarians, nutritionist, agronomists, and quality assurance experts. They organized trainings for farmers, improved irrigations, ensured medical assistance for human and animals. Today in Moga people have an electricity, telephones, primary schools, doctors providing a good live standard. Nestles strategy is always to work with small farmers. This way the company obtains high quality products without paying other distributors. Nestle has experience in creating collecting points for other products as well, such as coffee and cocoa, that are grown in developing countries by small farmers in similar conditions.

In this case the company's progress is linked to the wellness of the community.

Perceiving social responsibility as a way to add value to the company requires a big change in business approach. However it is the future of any competitive success.

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