

BBA SEM – V

FUNDAMENTALS OF STRATEGIC MANAGEMENT
(CODE: UM05SBBI05)

UNIT 3: COMPETITIVE ADVANTAGE AND CORE COMPETENCE

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CONCEPT OF COMPETITIVE ADVANTAGE

A competitive advantage is essentially a position of superiority on the part of the firm in some function/ factor/ activity in relation to its competition. It is through this superiority that the firm attempts to carve out a comfortable position for itself in the relevant industry. The superiority can be in any one of the multitude of functions/ activities performed by the firm. It means a firm can gain competitive advantage in several ways.

Competitive advantage means a superior, or distinctive competence in some function/ area relative to the competition; the areas may include practically all functions/ activities carried out by the firm, such as marketing, production, finance, new product launch and brand management. The superiority or distinction may also cover the resource and capability dimension and encompass factors like technology. The phenomenal winners in any industry usually possess competitive advantage in several functions/areas.

SIGNIFICANCE OF COMPETITIVE ADVANTAGE**1. It is the heart of marketing strategy:**

Successful companies normally bring into shape those strategies which revolve around an area of distinctive competence to the firm. The real need for acquiring the competitive advantage is as clear as crystal that the companies have failed to acquire competitive advantage needed to make the strategy to work in favour of the company.

It is competitive advantage that takes the company to its preset objectives for objectives remain elusive and the strategies naturally hollow. Any successful strategy is fabric of competitive advantage.

2. It is the antidote for competitor's superiority:

Scoring over the competitors as well as defending against the competitors is founded on competitive advantage. It is the well thrashed out competitive strategy and the competitive advantage of the firm that is clearly understood by examining the various activities of the company by observing as to how differently and distinctively the firm performs these activities as compared to its open and hidden competitors.

3. It is the route to the long-term marketing success:

The opening up of borders has really shaken up the existing protected industries. Therefore, a time has come to have a look at what competitive marketing strategies one needs to follow to counteract the likely competition from global players of this global village.

The competitive actions are bound to evoke a response from competition. Competitive strategy has to be one that is sure to give competitive advantage. Having given the competitive advantage, the strategy should also be able to sustain the advantage. Put in other words, competitive strategy should give sustainable competitive advantage.

This needs competitive analysis that consists of:

- (a) The long-term profit opportunity and
- (b) The company's competitive position – the strengths and weaknesses.

To grasp the implications of the phrase “profit opportunity” it is inescapable to have knowledge of the market, knowledge of the government policies and clear-cut idea about expected for projected growth rates in the markets; to understand the real meaning of phrase “competitive position”, one should know the source or sources of competition. The source or sources can be intra-industry, inter-industry, globalisation, liberalisation, buyers and suppliers and even cheaper and substitute products.

4. It makes profit a secondary product:

Good many organisation are increasingly learning where to draw the line of difference. Those that did not learn the distinction had to experience the inevitable hard way through lost- customers and lost market share, finally leading to downing the shutters of business and business houses. Here profit means an advantage or a benefit or the excess of returns over the expenditures.

Therefore, “profit” is no longer considered a bad word though “profiteering” is. Profits are important because they provide much needed basic energy Profit is something that an organisation generates in the process of transforming its resources into customer satisfaction; part of it is utilized for survival.

While the balance is ploughed back with increased importance on newer customer need identification and effective and efficient means of consumer satisfaction. Thus, profit is the “by-product” and not the “end product”.

Effective organisations do not exist and grow for making profits; they never work for maximisation of profits. Instead, they continuously struggle to use the resources optimally towards consumer delight.

5. It makes the unit to remain competitive evergreen:

Every organisation wants to grow. As it grows, it is natural that its structure becomes more fragile, shape becomes less flexible, and the nerve system

tends to be more rigid. Organisations develop several restraining forces as they grow, and therefore, they need to be watchful and continuously manage themselves to remain competitive.

Competitive means an attempt or a struggle to strive for the number one position in parameters of COST – QUALITY DESIGN and MARKETING – a multi-dimensional process, the management of which is difficult but not impossible.

BUILDING COMPETITIVE ADVANTAGE

1. Building competitive advantage is part of the task of corporate strategy

Building competitive advantage is a function of corporate strategy. Firms invariably use their corporate strategy for acquiring/ building competitive advantage. They incorporate in their corporate strategy the moves that would ensure the creation of the desired competitive advantages. In other words, they create a build-in mechanism in their corporate strategy which takes care of the task of competitive advantage building.

It is interesting that while competitive advantage is needed for corporate strategy to work, it is corporate strategy that create competitive advantage. Corporate strategy not only uses competitive level, which form a part of corporate strategy, cumulatively lead to competitive advantage building. E.g. corporate level decisions on acquisitions, mergers, alliances, fresh investments, technology-upgradation, etc. are all steps that would result in competitive advantage building.

2. Internal appraisal and industry-competition analysis help identify competitive advantage

Identifying competitive advantage needs the support and internal appraisal and industry-competitive analysis. This is quite natural. Competitive advantage being a relative concept, a firm can assess the position regarding

its competitive advantage only after analyzing the industry and competition. It has to compare and constant its strengths and weaknesses with those of its competitors. E.g. market share, customer service, brand power are all competitive advantage factors for a firm.

3. Benchmarking, an effective tool in competitive advantage building

Benchmarking is an effective tool in building competitive advantage. Benchmarking can be described as the process of improving one's performance by locating benchmarks/ standards and replicating them in one's own organisation. Analyzing the competitive and locating the best practices within the given industry is the prime task involved in benchmarking. It helps in appraising the firm's position vis-à-vis the best in the industry. Many companies go a step further and trace the best practices across industries and across countries, gathering higher standards for emulation and adopting them as the benchmarks to be attained and excelled.

McKinsey & Co. views benchmarking as a skill, an attitude and a practice that ensures excellence instead of mere improvement. The firm measures how much it needs to improve to be at the highest possible level of performance.

4. 'Value chain' approach will be of use in identifying and building competitive advantage

The firm can use 'value chain' concept proposed by Michael Porter in identifying and building its competitive advantage. It is obvious that competitive advantage grows fundamentally out of the value a firm is able to create for its buyers. If such value should become a competitive advantage for the firm, it should be superior compared to the value that is generated by competitors in the concerned activities. In other words, the firm has to create differential value. It may take the form of prices lower than that of competitors for equivalent benefits, or the provision of unique benefits that more than offset a premium price. The name of the game in gaining competitive advantage is to create/ enhance value in each of the vast matrix of value-

creating activities performed by the firm and develop a value chain that is superior to that of the competitor.

5. Core skills of the corporate serve as anchor for competitive advantage building

Usually, a firm builds its major competitive advantages around its core skills. And such competitive advantages which are built around the core skills usually prove to be enduring. In fact, the core skills, when handled and developed in the ideal manner, blossom into a core competence for the corporation.

6. Firms build competitive advantage using different strategic routes

Firms build competitive advantage using different strategic routes such as: innovation in any of the functions performed by the firm, integration, de-integration/ outsourcing, R & D, mergers and acquisitions, strategic alliances with other firms, creating entry barriers for others, etc.

- Videocon acquires competitive advantage through integration – color tubes
- International Data Management Ltd. (IDM) through R & D
- Nestlé's through brand power: Maggi Brand – instant food
- Through Alliance: IBM-Apple, Motorola-Toshiba, Apollo, Kotak Mahindra, etc.
- Creating entry barriers: MarutiUdyog and Bajaj Auto

7. Building competitive advantage- a conscious and long-term process

Developing and nurturing durable competitive advantages involves a conscious choice and medium/ long-term efforts. It also needs considerable resources. But more than resources per se, what is important is the strategic application of the resources. Even when the resources available with the firm are limited, the firm has to ensure that the right share of the limited resources

goes to those factors which constitute the source of its competitive advantage. It will have to nourish the particular factors that confer the competitive advantage. It will have to nourish the particular factors that confer the competitive advantage, whether it is R & D, personal selling or brand power.

CORE COMPETENCE

Core Competence can be defined as the fundamental strength of a business which includes a unique combination of various resources, knowledge and skills, which differentiates a company in the marketplace. It is the profound dexterity that provides one or more lasting competitive advantage to the company in creating and delivering perceived benefits to the customers.

Core Competency is something that provides access to a number of markets, difficult to catch up by rivals and must make a considerable amount of contribution, in providing value to the customers. It can be gained by the distinct set of skills or production techniques. It provides a structure to the companies, which is helpful in ascertaining their major strengths, to strategize accordingly.



A core competency is a concept in management theory introduced by C K Prahalad and Gary Hamel. It can be defined as "a harmonized combination of multiple resources and skills that distinguish a firm in the marketplace" and therefore are the foundation of companies' competitiveness.

Core competencies fulfill three criteria:

- Provides potential access to a wide variety of markets.
- Should make a significant contribution to the perceived customer benefits of the end product.

- Difficult to imitate by competitors.

Alexander and Martin (2013) state that the competitiveness of a company is based on the ability to develop core competences.

DIFFERENCE BETWEEN COMPETITIVE ADVANTAGE AND CORE COMPETENCE

| Sr. No. | Competitive Advantage | Core Competence |
|----------------|--|--|
| 1 | A competitive advantage does not necessarily imply a core competence | A core competence does imply a competitive advantage, perhaps a number of competitive advantages. |
| 2 | A competitive advantage does not constitute a sure success formula for a firm | A core competence usually does a success formula for a firm |
| 3 | Competitive advantage accrues from the functional strength in any of the manifold activities of a firm | A core competence does not normally accrue from functional strength. The strength has to be at the root of business and products; it has to be a core strength like excellence in technology/ process. |
| 4 | Competitive advantage helps a firm in a specific and limited way | A core competence helps it in a far-reaching and multifaceted manner. |

| | | |
|---|--|---|
| 5 | Competitive advantage provides competitive strength to the firm in a given business/product. | A core competence helps the firm to play in a variety of businesses/products. |
| 6 | A competitive advantage can be easily imitated; competitors do catch up fast with a firm in competitive advantage. | A core competence is an exclusive and inimitable preserve of a firm. It is long-lasting; competitors cannot easily catch up with the firm in core competence. |
| 7 | A competitive advantages are not unique to any firm over the long-term | A core competence is fundamental and unique to a firm |

ACQUIRING CORE COMPETENCE

Acquiring a core competence is much more difficult than acquiring a competitive advantage. Technological excellence, especially competence at the root of technologies, capacity to integrate multiple streams of technologies and the expertise to harness diverse production skills, are some of the requirements for acquiring core competence. For building core competencies, it is necessary for firms to invest heavily in technology and R & D. They have to look for relevant technologies in their field and build competencies in them. They have to develop the human expertise that would use the technologies as building blocks and work on them. Only thorough expertise over several technologies and a command_over their infinite variety of uses and applications can a firm aspire to develop a core competence. It is through this route that firms bring out proprietary products which confer on them an advantage of a lasting kind. This becomes particularly relevant in an era where technology is fast altering existing boundaries of businesses.

DuPont core competence in chemical technology

ITT's core competence in electronics

NEC's core competence in computing, telecommunications and semiconductors have seen them through many difficult situations brought about by sweeping technological changes.

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