## *What is competitive advantage?*

There is no one answer about what is competitive advantage or one way to measure it, and for the right reason. Nearly everything can be considered as competitive edge, e.g. higher profit margin, greater return on assets, valuable resource such as brand reputation or unique competence in producing jet engines. Every company must have at least one advantage to successfully compete in the market. If a company can’t identify one or just doesn’t possess it, competitors soon outperform it and force the business to leave the market.

There are many ways to achieve the advantage but only two basic types of it: cost or differentiation advantage. A company that is able to achieve superiority in cost or differentiation is able to offer consumers the products at lower costs or with higher degree of differentiation and most importantly, is able to compete with its rivals.

I am a big believer in the fact that the only way a brand becomes successful is through a smart differentiation strategy. Today I am starting a series of articles that elaborates on the concepts of brand differentiation and positioning. Hopefully these articles will offer new ideas and avenues to explore when developing the marketing strategy for your brand.

There are many options of differentiating a brand, depending on the company’s internal capabilities and competitive environment. In this first post I will talk about how to gain competitive advantage through product differentiation.

***Differentiation Strategy: 3 Important Questions***

Before developing the differentiation strategy marketers should have the answer to these questions:

* Is my brand the first in the category to claim this differentiating idea? If one of your competitors already owns that positioning your best bet is to explore a different option.
* Will my company be able and willing to deliver on that competitive advantage over a long period of time? Brand building takes a long time, consistency and perseverance.  If management is not willing to allocate the necessary resources (which vary depending on the industry and level of competition) then your strategy will die in its infant stages.
* Does my differentiation idea translate into a meaningful benefit for the consumer? If the consumer is not willing to pay for it then you have to start from scratch.

***What Is Product-Based Differentiation***

This differentiation strategy involves using the characteristics of the product you market to differentiate from your competitors.

Every brand is built on a product (I include services here as well). As a result, especially in the early stages of the brand building process where not enough emotional connections have been built, product-based positioning might be one of the very few options available.

***Is Differentiating On Products The Right Strategy For My Brand?***

Companies most successful in using this strategy are those who focus on product innovation. They invest important resources in researching, developing, and introducing new products and improving the existing ones.

If you are marketing a commodity such as natural gas, oil, steel, you will find this strategy very difficult to implement. There are multiple ways to differentiate your brand as you will discover in my next articles.

***How Do I Differentiate On Product***

There are many benefits that consumer value and look for when purchasing a product. Below are the most common ways to create differentiation:

**Product features**– a product that solves problems faster, or solves the same problem cheaper is worth paying more for. Hyundai has positioned itself as a car company that offers “more vehicle” for the money. It is important for the Brand Manager to establish what the cost/benefit ratio is before making the decision to add a product feature and use it as a differentiation element. If the overall cost is higher than the premium that can be charged for it this strategy is not worth pursuing.

**Manufacturing process-**how the product is made can be a great way to set your brand apart from competition. In today’s economy where most products have become commodities, the “secret ingredient” or “proprietary technology” can definitely make the difference. Lululemon®, a well-known Canadian manufacturer of yoga-inspired apparel, has built its success on the proprietary luon®, a fabric that provides shape retention and great stretching capabilities. The brand has basically become synonym with yoga apparel and dominates the segment against giants such as Nike and Adidas.

**Performance**– is another great product attribute that can be used to separate your brand from competition. BMW makes great use of this concept  by positioning their cars as “The ultimate driving machine.” Cervelo’s dedication to designing and building aerodynamic bikes is what helped the brand carve a distinctive niche in the super competitive race bike segment dominated by much bigger players such as Trek, Specialized and Giant. Their slogan, “Speed. Engineered.” is a great reflection of their philosophy.

**Design**– Attractive, unique product design is a very effective way to differentiate. Apple is constantly pursuing this strategy which reflects in the entire assortment, from iPods to MacBooks.

Italian companies frequently pursue this strategy, be it in cars (Ferrari), clothes (Gucci), or bicycles (Pinarello, Cogliano). Nordic European countries are famous around the world for their design that combines simplicity, functionality and practicality.

These are just a few examples of how product-based differentiation can be achieved. There are basically unlimited number of options that a company can pursue, depending on its capabilities.

***Is “Product Quality” A Good Way To Differentiate?***

This question usually generates a lot of debate. Here is my take on it: in mature markets such as North America and Western Europe quality is a term that has become over-used and, as a result, can rarely be used effectively to differentiate a brand.

Faced with tough competition a company that offers sub-standard quality products has little chance of surviving. That’s because consumers take product quality as a given. As I wrote [in a previous post](http://branduniq.com/2011/points-of-parity-versus-points-of-differentiation/), quality has become a point of parity, rather than a differentiation element.

That being said, in emerging markets that are less competitive product quality might be the way to go. If your brand is perceived as offering the best quality products in the category you might have a chance to succeed.

Positioning on product quality is mostly suitable for brands that have a long history of delivering reliable products, accompanied by credentials to prove it. Industry awards and independent test results are great tools to support this type of positioning.

***Challenges of Product-Based Differentiation***

**The “me-too” danger.** Product features and characteristics can be easily copied. Your company needs to be one step ahead of the curve and invest in improving and perfecting the product, otherwise it will quickly become obsolete.

**The “lower price” danger.**Globalization brings a lot of benefits but also many challenges. There is always the threat that a competitor might launch a product with the same features, at a lower price.

**The “demanding consumer” danger.**Products have shorter life cycles as consumers gravitate towards the” newest stuff”. In order to remain competitive you need to keep up with the latest trends and technologies, or your target audience will switch to competitive offerings.

In my next posts I will explore other ways in which a brand can gain competitive advantage. I invite you to subscribe to my blog by e-mail to make sure you receive all the articles in this series.

***Cost Leadership***

Definition: Cost leadership is a strategy that companies use to achieve competitive advantage by creating a low-cost-position among its competitors. In other words, it’s a company’s ability to maintain lower prices than its competitors by increasing productivity and efficiency, eliminating waste, or controlling costs.

This is no easy task. In order for a company to become a cost leader in its industry, it must manage its [value chain](http://www.myaccountingcourse.com/accounting-dictionary/value-chain) and actively lower costs throughout the entire [supply chain](http://www.myaccountingcourse.com/accounting-dictionary/supply-chain). Keep in mind that a cost leader can’t simply make a cheaper product. Its products must be on par with competitors otherwise consumers will stop buying them and look for better quality alternatives. Instead, a company must maintain the quality of its products while lowering the costs of production through efficiency, size, scale, scope and the learning curve.

One of the most effective ways for a company to become a cost leader is the economies of scale. We can see this with manufacturers that produce huge volumes of homogenous goods like automakers or retailers that can purchase and ship huge volumes of product together like Wal-Mart. By lowering their operating and production costs, these companies are able to offer goods to consumers at a lesser price point than their competitors and consequently increase sales.

Let’s look at a few examples.

## *Example*

Here are a few example companies that have successfully used the cost leader approach in their industries.

**McDonald's**

This fast food chain has proven to be very successful using this strategy. They keep costs low by maintaining a division of labor that allows them to employ and train inexperienced staff instead of skilled cooks. This method allows them to hire a few managers who usually receive higher wages.

**WellPoint**

They asked the Food and Drug Administration (FDA) to make the allergy drug Claritin available over the counter. This may have been the first time an insurer has approached the FDA with such a request. If approved, as an over-the-counter-drug, Claritin would reduce patient visits to the doctor and eliminated the need for prescriptions – two reimbursable expenses for which WellPoint would otherwise be responsible.

**General Mill’s**

Stephen Sanger, CEO, recently came up with an idea that helped his firm cut costs. To improve productivity, he sent technicians to watch pit crews during a NASCAR race. That experience inspired the techies to analyze their production processes. They were able to reduce the time it takes to switch one of their plant lines from 300 minutes to 20 minutes. This provided an important lesson, not only in cost efficiency but also in business as a whole: Many interesting [benchmarking](http://www.myaccountingcourse.com/accounting-dictionary/benchmarking) examples can take place far outside of an industry.

Each of these companies came up with ideas to streamline operations and cut production costs in order to offer products to consumers at a lower price than their competitors.

# *Examples of Cost Leadership & Strategy Marketing*

When it comes to marketing your business, there are three generic strategies you can use: focus, differentiation and cost leadership. While the cost leadership strategy can be highly successful, it can be can be difficult to employ. It involves marketing your company as the cheapest source for a good or service. This means that you need to minimize your costs and pass the savings on to your customers. By looking at examples of firms that have employed this strategy successfully, you can see how it can benefit your own business.

## Wal-Mart

Wal-Mart Stores Inc. has been successful using its strategy of everyday low prices to attract customers. The idea of everyday low prices is to offer products at a cheaper rate than competitors on a consistent basis, rather than relying on sales. Wal-Mart is able to achieve this due to its large scale and efficient supply chain. They source products from cheap domestic suppliers and from low-wage foreign markets. This allows the company to sell their items at low prices and to profit off thin margins at a high volume.

## McDonald's

The restaurant industry is known for yielding low margins that can make it difficult to compete with a cost leadership marketing strategy. McDonald's has been extremely successful with this strategy by offering basic fast-food meals at low prices. They are able to keep prices low through a division of labor that allows it to hire and train inexperienced employees rather than trained cooks. It also relies on few managers who typically earn higher wages. These staff savings allow the company to offer its foods for bargain prices.

## Ikea

The Swedish furniture retailer Ikea revolutionized the furniture industry by offering cheap but stylish furniture. Ikea is able to keep its prices low by sourcing its products in low-wage countries and by offering a very basic level of service. Ikea does not assemble or deliver furniture; customers must collect the furniture in the warehouse and assemble at home themselves. While this is less convenient than traditional retailers, it allows Ikea to offer lower prices that attract customers.

## Southwest Airlines

The airline industry has typically been an industry where profits are hard to come by without charging high ticket prices. Southwest Airlines challenged this concept by marketing itself as a cost leader. Southwest attempts to offer the lowest prices possible by being more efficient than traditional airlines. They minimize the time that their planes spend on the tarmac in order to keep them flying and to keep profits up. They also offer little in the way of additional thrills to customers, but pass the cost savings on to them.

***Types of International Strategies***

A firm that has operations in more than one country is known as a **multinational corporation (MNC).**[[1]](https://opentextbc.ca/strategicmanagement/chapter/types-of-international-strategies/#footnote-218-1) The largest MNCs are major players within the international arena. Walmart’s annual worldwide sales, for example, are larger than the dollar value of the entire economies of Austria, Norway, and Saudi Arabia. Although Walmart tends to be viewed as an American retailer, the firm earns more than one-quarter of its revenues outside the United States. Walmart owns significant numbers of stores, as of mid-2014, in Mexico (2,207),  Brazil (556), Japan (437), the United Kingdom (577), Canada (390), Chile (386), Argentina (105), and China (400). Walmart also participates in joint ventures in China (328 stores) and India (5). Even more modestly sized MNCs are still very powerful. If Kia were a country, its current sales level of approximately $42 billion (in 2012) would place it in the top 75 among the more than 180 nations in the world (Wal-Mart Stores Inc., 2014).

Multinationals such as Kia and Walmart have chosen an international strategy to guide their efforts across various countries. There are three main international strategies available: (1) multidomestic, (2) global, and (3) transnational ([Figure 7.23 “International Strategy”](https://opentextbc.ca/strategicmanagement/chapter/types-of-international-strategies/#figure7-23)). Each strategy involves a different approach to trying to build efficiency across nations while remaining responsive to variations in customer preferences and market conditions.

## Multi-domestic Strategy

A firm using a **multidomestic strategy**[[2]](https://opentextbc.ca/strategicmanagement/chapter/types-of-international-strategies/" \l "footnote-218-2" \o "Multidomestic strategy: To sacrifice efficiency in favor of responsiveness to varying preferences across countries.) sacrifices efficiency in favor of emphasizing responsiveness to local requirements within each of its markets. Rather than trying to force all of its American-made shows on viewers around the globe, MTV customizes the programming that is shown on its channels within dozens of countries, including New Zealand, Portugal, Pakistan, and India.

Similarly, food company H. J. Heinz adapts its products to match local preferences. Because some Indians will not eat garlic and onion, for example, Heinz offers them a version of its signature ketchup that does not include these two ingredients.

## Global Strategy

A firm using a **global strategy**[[3]](https://opentextbc.ca/strategicmanagement/chapter/types-of-international-strategies/" \l "footnote-218-3" \o "Global strategy: To sacrifice responsiveness to local preferences in favor of efficiency.) sacrifices responsiveness to local requirements within each of its markets in favor of emphasizing efficiency. This strategy is the complete opposite of a multidomestic strategy. Some minor modifications to products and services may be made in various markets, but a global strategy stresses the need to gain economies of scale by offering essentially the same products or services in each market.

Microsoft, for example, offers the same software programs around the world but adjusts the programs to match local languages. Similarly, consumer goods maker Procter & Gamble attempts to gain efficiency by creating global brands whenever possible. Global strategies also can be very effective for firms whose product or service is largely hidden from the customer’s view, such as silicon chip maker Intel. For such firms, variance in local preferences is not very important.

## Transnational Strategy

A firm using a **transnational strategy**[[4]](https://opentextbc.ca/strategicmanagement/chapter/types-of-international-strategies/#footnote-218-4) seeks a middle ground between a multidomestic strategy and a global strategy. Such a firm tries to balance the desire for efficiency with the need to adjust to local preferences within various countries. For example, large fast-food chains such as McDonald’s and KFC rely on the same brand names and the same core menu items around the world. These firms make some concessions to local tastes too. In France, for example, wine can be purchased at McDonald’s. This approach makes sense for McDonald’s because wine is a central element of French diets.