A NEW APPROACH TO COMPETITIVE ADVANTAGE – ESSENTIAL ASPECT OF THE ORGANIZATION’S STRATEGY

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ABSTRACT
The place an organization will occupy in relation to its competitors is determined by the strategic competitive advantage it will be able to develop. Conventional approaches consider that an organization can essentially target either getting a „low cost” for its products or services (which forms the basis of a cost domination strategy), and here the competitive „weapon” would be the „price”, or it can target a „differentiation” (in one or more respects) of their products against those of the competitor, the focus in this case being on „quality” (which underpins the strategy of domination through quality).
We consider that in the actual state of strong competition, in which the organizations have reduced to minimum possible their costs (they also did that to survive the recent crisis), and the quality has long ago become, even in our market, an implicit thing, intrinsic for any transaction, the issue of finding those aspects that truly represent competitive advantage elements should be the concern of more and more managers.
This paper presents the authors’ vision on issues that can truly become elements of a company’s competitive advantage against its competition in the current economic context.

KEYWORDS: competitive advantage, cost advantage, differentiation, perceived value, value chain

JEL CLASSIFICATION: L1, D4, M2, M1

1. INTRODUCTION

Competitive advantage is considered to be the component of the strategy that is invisible and unknown by competitors that all other visible components of the strategy subordinate to (Popa, 2004). The concept of „competitive advantage” was introduced by Michael Porter and then assumed by most authors in the scientific literature, competitive advantage, according to renowned specialist M. Porter, is reduced essentially to ensuring a low cost or a product that it is different by its qualities from the products offered by others or most competitors (Porter, 1982).
Cost advantage is to achieve levels of production costs and sales below those of competitors, thanks to the exploitation of scale economies, accumulation of effect of experience or any other source to reduce unit costs while maintaining certain parity or certain proximity in terms of quality.
Differentiation as a strategic approach to the development of a strategic competitive advantage involves giving more value to customers and maintaining this position by differentiating products and services. In essence, this consist in giving the buyers the feeling that product or service is unique, that no equivalent on the market exist, based on one or more attributes that buyers are sensitive to, aspect that makes possible to adoption of a high prices strategy.

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Meanwhile, the issues of competitive advantage have become more nuanced, that invisible and unknown component imposing becoming increasingly more visible and well known, and aspects of „cost advantage” or „differentiation” become more subtle. Moreover, we believe that competitive advantage cannot be reduced to the competitiveness of a product or service compared to competitive offerings, but should be considered the overall competitiveness of the company.

2. ASPECTS OF COMPETITIVE ADVANTAGE

Many consider strategy a secret that must be kept in the vault of the organization and at which have access only those from the top of the organization (there are fears that some competitors could use that information to their advantage), the mystery surrounding this concept greatly increasing. Or, the attitude should be exactly the reverse: requiring good communication both within the organization and externally. Organization’s managers are confused when it comes to strategy. M. Porter pointed that although threats seem to usually come from the outside competition, the most feared enemy is right inside the organization, since poor strategy often comes from the way managers are reporting to their competitors. Organizations are imitating each other, assuming rivals know more, which represents the biggest strategic mistake leading to an escalation of rivalry, which in turn leads to lower prices and higher costs, falling, in fact, to what is called „destructive competition”. This aspect, which proved to be a good approach to business in the last 20 years will turn into a destructive competition between organizations and the rescue of this is strategy, which involves „creating a unique and valuable position which involves a set of different activities of competitors” (Porter, 2008).

Once adopted, a strategy requires a greater transparency both within the organization and externally. It is essential that everyone in the organization understand its strategy and through everything he does, being motivated, contribute to its realization. At the same time, it is also good that competitors know your strategy, because there is the chance that they will seek other elements of competitive advantage to focus on, so organizations that share the same market can avoid engaging in a destructive or zero-sum competition.

In a development strategy, the strategic analysis of competition has a special place, since the rivalry great among competitors existing in order to obtain advantageous positions, in most cases, have the effect of damaging the overall profitability of the activity’s field (Porter, 2008). But this strategic analysis of competition will have to have as a starting point, the rigorous knowledge of the customer’s characteristics for the strategic segments analyzed.

Usually, customers have a wide range of products that would satisfy a particular need, and the question that arises and for which we must necessarily find the answer is: How they choose between these products? The choice will vary from buyer to buyer based on the value they each perceive according to their needs and their advantages. Therefore, in the competitive environment, the position of an organization is determined by the value they offer by selling its products or services, the relations with customers depend on their perception for the value of the product/service offered, and the place it will occupy in relation to competitors is determined by the elements of competitive advantage which it holds opposite to competitors and perceived compulsory as additional value by customers, as shown in Figure 1.

We believe that, concerning issues regarding the elements of competitive advantage (in the current stage of strong competition, as the organizations have reduced to minimum possible the costs, including to survive the recent crisis, and the quality, which led to the differentiation strategy became, for a long time even in our market, a implicit issue, intrinsic to any transaction), arise the question of finding those aspects that truly represents real competitive advantage elements, mandatory elements correlated with perceived customer value.

We therefore consider that a request identification of the elements of competitive advantage has to have as a starting point the rigorous analysis of the elements that have a direct impact on
customer perceived value, which determines their willingness to pay and completion of the act of sale.

![Diagram of the strategic triangle]

**Figure 1. Strategic triangle**
*Source: adapted from Deac, Vrîncuț, Păun (2014, p.48)*

As outlined above, customers have a wide range of products that would satisfy a particular need. How they choose between these products? Suppose you build a house and must choose its heating system. This need could be met by a variety of products, from classic wood stoves, thermal plants with different types of fuels (solid, liquid or gas) to the wind or solar power. *All this are answers for satisfying the basic need (to produce heat), but in addition to this need, each has other needs: the desire for comfort, higher safety, lower operating costs, protect the environment.* Each solution chosen meets these needs differently: the classic wood-burning stove will provide reduced comfort (must buy wood, must feed the stove, must remove the ash, the whole system pollutes the environment), but is much cheaper than solar power (which provides enhanced comfort, protect the environment, but does not work in periods without sun and is very expensive). The choice will vary from buyer to buyer based on the value they each perceive linked to these needs and price of that product (considered the total sacrifice that the client consents in order to take possession of the product in question).

**Based on this judgment, in the competitive competition, the organization will must to focus efforts on detecting those elements that confer superior customer perceived value compared to the competition, as these are indeed elements of competitive advantage.**

The concept of „customer perceived value” refers routinely to the overall economy of the valuable gains, benefits or satisfaction that a buyer obtains following the acquisition of a product. Practical understanding of an organization, regarding the buyers perceive this value after using the product in question, is a very complex and difficult problem, requiring detailed information about product’s users. We consider that those „benefits” offered by the product, underlying the determination of value, are both quantifiable and measurable, but also unquantifiable, less tangible, aspects that rise several problems in quantifying the value (from the buyer’s perspective). Given this, the first step in quantifying the value is the correct identification of all factors that influence this value. The range of factors influencing the perceived value is very wide and from our point of view can be divided in two large categories.

**1. Objective factors.** In this category are included those objective needs of customers on which the product of manufacturer may have a direct impact such as: increased productivity, savings in various categories of costs (power, fuel, raw materials, labor, with maintenance product, etc.), greater reliability, additional attributes required, time savings, etc.. This applies both in cases where consumers are individuals, involving individual consumer goods (for example, a customer can consider that the fridge from „brand X” has a greater perceived value than „brand Y” and he is willing to pay a high price because it has a lower consumption of electricity, higher reliability and
has a longer warranty term) and in situations where there are industrial goods (industrial equipment, raw materials), being about buyers - organizations (I buy „machine Z” at a higher price than the „machine V”, because it has a higher efficiency and will reduce the cost of labor, or I buy alumina from „provider T”, although the price is higher because I will get savings much higher with the energy, compared to the situation in which I buy alumina from the „supplier K”). This category includes also the cases where the product manufacturer being incorporated into products buyer, give them a higher value, giving to customer the possibility to increase prices and hence profits (eg: Intel company sought by all means to convince buyers that their microprocessors are really the best and in this sense, subsidizes the ads for manufacturers of PCs that wear the inscription „Intel Inside” for each buyer can be sure that the purchased PC has an Intel processor, PC manufacturers claiming that through this ads increased the value of products and the advertising efficiency made by them).

We meet these objective factors especially for **products where the emphasis is on their functional side**. In general producers seek to quantify this value conferred to its products by these factors, since consider they **sell to consumers only product attributes and the superiority offered by these attributes is critical and important for consumers**, they recognize this fact and consequently they are willing to pay for it.

**2. Subjective factors.** In this category are the factors determining the spiritual, psychological value fund in products that **focus on the emotional side of them** (comfort, pleasure, safety, satisfaction, status, prestige, and so on). In practice they are very difficult to identify, estimate and quantify, even impossible directly because they represent natural extensions of personality and objectives specific to the customer (for example, we can describe and even observe very rigorous the technical characteristics of a luxury car, but it is impossible to determine which of them are relevant for a particular customer).

They differ from customer to customer. Something that is natural, normal for a client, for others has no justification (whether for an individual, let’s say, buying a Rolex Daytona Platinum for 190,000 lei is normal, because he wants to impress his friends and business partners, projecting an image of successful person, for other individuals this may seem like something extravagant).

Usually the value offered by these subjective factors, present more in the reputation (lux) products, can be much higher, aspect very well exploited by the vendors who increase prices and hence profits. Some authors consider that the price is an element that determines the perceived value, especially in situations where it is difficult to determine (Monroe, 2003).

**Exploiting these psychological factors, organizations seek, in reality, to attract buyers through emotional involvement at the expense of functionality.** A typical case is that of Starbucks, which in the 80s started to transform coffee from a functional product, used under a habitual routine in an emotional experience or what consumers call „oasis created by coffee”, selling the concept of „place of coffee consumption”, namely **coffee shop**. These coffee shops not only offer a great coffee but also a pleasant meeting place, a certain status, relaxation and conversation. Starbucks has turned coffee into an emotional experience, and turned the ordinary consumers of coffee into „coffee connoisseurs” for which the three dollars price per coffee cup seemed reasonable. Thus Starbucks brand became in the US the national brand with a market share five times greater than the respective industry’s average.

What Starbucks made for coffee, the Swatch organization has done for ordinary watches. Long considered as a functional item, these watches were bought simply to keep track of time. The industry leaders Citizen and Seiko companies compete on the advance in terms of functionality, using quartz technology to improve accuracy or electronic display (which is easier to read). Swatch exploiting the emotional side turned these watches in **fashion accessories**. This approach was then copied by other companies in the industry (we consider famous diamond watches of hundreds of thousands or even million euro, considered genuine jewellery), or in other areas, most recently in the mobile industry, starting with the famous assorted to fashion outfits and finishing with the mobile phones with diamonds, considered jewellery accessories.
Very few industries are facing emotional attraction exploiting subjective factors more than the cosmetic industry. This industry sells brilliance and beauty, hopes and dreams, just as they sell products. On average, packaging and advertising represent 85% of the organization’s costs in the cosmetics industry (Kotler & Armstrong, 2007).

We consider therefore that only after detecting those aspects that can create superior perceived value to customers (compared to what the competition offers, and taking into account all its powers, which gives his performance) an organization will be able to decide if it can or not to engage in competition (on the analyzed strategic segment, exploiting the competitive advantage items it holds or can create), to avoid a deterioration of the overall profitability of that segment.

To illustrate the importance of this issue, we consider the case of a French organization (having no agreement of it we will not give its name), one of the largest European manufacturers of adhesive film, recognized by the quality of the product and who was the leader on the Romanian market. However, due to the inflexibility to adapt to customer requirements, which does not focus on quality but on price (not understanding that product protection provided by the adhesive film has no importance in their logistics sales since the final customers in Romania are only interested in the product’s price, and this protection product increases its cost and therefore the price), have completely lost, in the last four years, the Romanian market. We believe that real competitive advantage on the Romanian market, particularly in the context of the financial crisis existing at that time, which could strengthen his leadership position, could be “offer better quality recognized at the same price as the competition”. Maintaining and even increasing its price (as confirmed by the company's exclusive agent market in Romania), in a context of crisis was a “suicidal” act for the organization.

3. THE COST ADVANTAGE

Consist in reaching cost levels of production and sales below those of competitors, due to the exploitation of scale economies, accumulation the effect of experience or any other source, to reduce unit costs while maintaining certain parity or certain proximity in terms of quality. If cutting costs is the expense of quality, this competitive advantage is not only ineffective but is damaging. If customers do not perceive a big difference in the quality of competitors and the company's products, it will have higher returns than average (Deac & Bâgu, 2002):

- either applying equivalent to the market prices, that will allow a higher profit given the lower cost;
- or the price reduction, which would consent to do in order to create a competitive advantage, will remain lower than the cost difference.

The main factors contributing to cost reduction are (Cârstea et al., 2002): scale economies in various basic activities; “the experience effect” and knowledge transfer that the organization could benefit in each activity; the existence of lower production costs due to a more rigorous control of resources used in manufacturing processes; the degree of integration, whose influence on the current cost varies from one industry to another; the utilization of production capacity; the time of launch into the industry, to the extent that age may bring advantages (notoriously, the effect of training, and so on), but can also present disadvantages (need to find suppliers to train distributors, customers, and so on); privileged access to certain resources that are priced very good; relations with institutional partners (government, trade unions, public power, and so on) that are not accessible to all other competitors.

Low production and selling costs underlie the adoption of low-price strategy, but adopting this strategy implies that the products are poorly differentiated from the existing ones, the price representing the principle variable which determine the customers’ will of paying. It follows that
the goods must be very close in area characteristics, avoiding manufacturer to give its products too sophisticated features, not necessarily to the customers. Any additional attribute implies an increase in costs and therefore the risk of losing the cost advantage.

Over the years, many organizations have built strategies to increase market shares based on the offer price, practicing lower prices than their competitors (the Japanese carmakers in the 70s, the Wal-Mart organization, the Ikea organization are just a few known examples), but each of these organizations, besides the fact that they have created elements of competitive advantage enabling them to reduce costs below those of competitors (thanks to superior operational efficiency) have carried out an informational campaign to convince competitors that their cost advantages are decisive in time and does not warrant a „battle price”.

Moreover, if the factors listed above are obvious, cost advantage may result from more subtle aspects, namely a rigorous management structure pimple and not necessarily its level. (Deac et al., 2014). In situations where in an organization there are many cooperative relationships, in the manufacture of its products, to other independent organizations or interdependent divisions (constituted as profit centers of the same companies that determine the price of products passing from one to another) this may be much less competitive and profitable in terms of price compared to competing vertically integrated companies. Consequently, a maneuver of a price change made by an organization in the sector can be fully valid in terms of the profitability of its concerned company and completely uninspired to other competing companies whose cost structure is different due to the different degree of cooperation in production. For companies with high degree of cooperation in the manufacture of its products (like automobile manufacturers, for example Dacia Mioveni cooperates with more than 70 suppliers of parts, assemblies and subassemblies), the prices of all inputs different parts, assemblies and subassemblies are considered relevant variable costs in price substantiation. But these costs in reality comprise the fixed costs of the organizations from which these inputs come, plus their profits, which are not relevant in terms of price substantiation. The different degree of cooperation for organizations that belongs to the same sector translates ultimately into a different cost structure, namely a high percent of variable costs and one low fixed cost for organization with high degree of cooperation, in contrast to the vertical integrated organizations, where the situation is exactly the reverse. This structure causes completely different responses to a decision of changing the price.

In order to better understand these issues, we present the following hypothetical example. Organizations Alfa S.A. and Beta S.A. operate on the „Hope” market, with the following situation in terms of price, market share and profitability:

<table>
<thead>
<tr>
<th></th>
<th>Alfa S.A.</th>
<th>Beta S.A.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales volume</td>
<td>22,000 units/year</td>
<td>20,000 units/year</td>
</tr>
<tr>
<td>Market share</td>
<td>27,5%</td>
<td>25%</td>
</tr>
<tr>
<td>Price of sale</td>
<td>1.275 v.u/unit</td>
<td>1.250 v.u/unit</td>
</tr>
<tr>
<td>Variable costs per unit</td>
<td>870 v.u/unit</td>
<td>620 v.u/unit</td>
</tr>
<tr>
<td>- own variable costs</td>
<td>350 v.u/unit</td>
<td>620 v.u/unit</td>
</tr>
<tr>
<td>- cooperation variable costs</td>
<td>520 v.u/unit</td>
<td>-</td>
</tr>
<tr>
<td>Fixed costs</td>
<td>4,000,000 v.u/year</td>
<td>8,400,000 v.u/year</td>
</tr>
<tr>
<td>Profit</td>
<td>4,910,000 v.u/year</td>
<td>4,200,000 v.u/year</td>
</tr>
</tbody>
</table>

Source: adapted from Deac (2009), p.78

Although, in terms of price, market share and profits the Alfa organization has a better position, in terms of strategy the Beta organization is better positioned. We notice that Beta is an integrated organization, and this has an impact on the structure of total costs: from 20.8 million v.u./year,
59.62% were variable costs and 40.38% were fixed costs, while the Alfa organization’s variable costs account 82.71% and 17.29% are fixed costs. This difference has a crucial importance when the management of Beta organization decided a price reduction to exploit an opportunity for profit growth due to the increase in sales volume, to increase its market share and to become the market leader. A simple mathematical calculation shows that if the organization Beta, following a decision to reduce the price by 10%, can hope to profit growth if the sales volume increase by more than 24.75%, but this judgement is not valid for the Alfa organization in the context in which the sales volume does not increase over the 45.95% (unlikely situation) the Alfa organization will record losses. **This impact difference on profitability is greater as the degree of cooperation is higher.**

Given this, the organization will have to manage the relations with its input suppliers and their costs so as to have the best cost structure in strategic report (e.g. fusion with key component suppliers, pay the fixed costs of its suppliers through a single amount, negotiate a higher price for initial entry which covers fixed costs and lower prices for all additional quantities, covering only the variable costs and a reasonable profit and so on) (Nagle & Hogan, 2008).

4. DIFFERENTIATION

At this stage of strong competition, in which the organizations have reduced to minimum possible the costs (including surviving to the recent crisis), the aspects of differentiation should concern increasingly the organization’s management in order to obtain a competitive advantage in the competitive battle.

Among the differentiating factors the most frequent are (Porter, 1982): the **election of the strategy and general policy**; the **existence effects of internal integration** (between the basic activities of the organization) or **external integration** (to suppliers and customers); the **moment of entry into the industry**; the geographical location of offices; the **existence of inter-relationships due to a wide range or to the simultaneous presence of the organization in several sectors**; the **degree of integration**; the size and diversity of activities; relations with political and social actors. Differentiation generate a return above the average of its competitors if it allows the organization to benefit from a premium compared to the market price, but extra profits will not be achieved unless a differentiation does not imply an increase in production costs greater than the possible increase of price. Thus, **an organization that sought to differentiate will have to select carefully the product attributes that it wants to improve to pass through the „originality sample”** (Deac et al, 2014). For example, Google created a innovator search engine and established a dominant position in Internet searches, thus competitors will take long time to equal the performance, but nor Google stands still.

Not all attributes have the same importance in the eyes of the customer. He or she is ready to pay a premium, more or less important, by the type of improvements made to the product, and therefore the organization should choose the kind of differentiation that allows it getting the biggest differences between price increases and unit cost increases. Because in practice it is not possible to seek a differentiation for all product attributes, for positioning to be profitable, it is necessary that all product components that do not affect differentiation to be similar to competitors’ products and therefore to have equivalent or smaller costs.

**In conclusion, differentiation should be based only on some items - those to which customers are more sensitive, others have to remain undifferentiated.**

In a how to dress and how to look world, a Christian Dior dress worth ten times more than the price of any other unknown tailor, no matter how good he is. Louis Vuitton sells handbags at some prices probably a hundred times higher than those found for the imitation offered by vendors. No matters how successful are these reproductions, the difference of price between original and fake is colossal. Where does it come from? Furthermore obviously not from the customers’ desire to avoid
committing an offence. Indeed, not the fear of police push the women to buy more expensive Vuitton bags, but the existence of an essential force - which the Anglo-Saxons nominee by the expression - **pricing power** (Pascal, 2008).

Adoption by an organization of one of the two types of competitive advantages (cost or differentiation) depends on many factors: used production technologies, product design, their quality control, the importance given to advertising, the potential for research and development etc. (Thietart & Xuereb, 2009).

In the past, experts in the field have focused on one or another of these factors, each of these factors seemed to be the trump competitiveness in all industries. Thus, it is considered that:

- to obtain a low cost - economies of scale or effect of experience would be decisive;
- for product differentiation - crucial is the size of the budget allocated by the organization for advertising or research and development.

Reflections on competitive advantage are today less dogmatic, accepting the idea that this results from many factors (without stress the great importance of one or another). Now, when we are facing with strong competition, when organizations have minimized their costs, an increasingly attention is paid to differentiation, considered to be the survival chance of the organizations, however, in our opinion, differentiation does not necessarily mean a domination of the sector through quality, according to M. Porter’s conception. In fact, Jack Trout (Trout, 2006) stresses the need for an organization to identify those ways through it can truly differentiate (highlighting: the holding of an attribute or characteristic, a specific feature of that product; holding leading position, regarded by the authors as the most powerful way through which you can differentiate a brand; tradition, which has the power to highlights your product; specialization of an activity or specific product, that gives to organization the quality of being expert; the mode of manufacture a product or incorporation into product of an „magic ingredient” to distinguish it from the competition; the ability to position itself as a new and better brand, with emphasis on „new”) and to beware of those items that sounds different, but in fact, they are not different (for example, in his opinion, quality and customer orientation are rarely ways of differentiating, currently, most often, these are implicit elements).

5. CONCLUSIONS

**The essential question that arises is: is top management the one that must be concerned with detecting the true source of competitive advantage?**

Typically, managers believe that marketing specialists and advertising agencies know what must be done to ensure a strong competitive advantage, turning more of their attention to execution. This way of thinking, in our opinion, is totally wrong, being certified by numerous examples related more to a flawed strategy than flawed execution.

Joshef Antonini, manager at Kmart, tried to compete with Wal-Mart in the early 90s, based on price, but lost, given that he omitted the aspect that is very difficult to „attack” such a company without a consistent structural advantage. He needed, in addition to price, a strategy to attract customers to Kmart.

Robert Stermpel, manager at General Motors, inherited in the early 90s a company that destroyed its well differentiated brands through identical prices and looks, not realizing that this approach is unsuccessful, and in no time it was finished (Trout, 2006)

To detect sources of competitive advantage, scientists have proposed several models of analysis. A model adopted by many specialists, is proposed by M. Porter as the „value chain” and is the main tool used for identifying elements that creates value for the customer. „**Value** is the amount that customers are willing to pay to get the given product,” M. Porter considering that this value is based on using a „value chain”.

In the last period more and more organizations have turned to **benchmarking**, comparing their
products and activities with those of competitors or leading companies in other sectors, to find ways
to improve the quality and performance of products, benchmarking has become a powerful tool for
increasing competitiveness (Ducreux et al., 2009).

These two issues are discussed in more detail in the scientific literature and are very well known by
the specialists in the field. What should be remembered, in our opinion, is that, in the current
context, the organization’s management is “tested” in every moment by the various “actors”
internal or external to the company (employees, suppliers, banks, clients, competitors, etc.), each
seeking to be in a more favourable position in relations with the organization, to found, generalizing
the issue, a element of competitive advantage, for overcoming the current conjuncture with
minimum negative effects. As it is impossible that everyone win, it is essential that each “actor”
assume some sacrifices and risks, act in the same direction, based on the truth that none of the
“actors” has the real interest that an organization disappear (employees will have to find other
jobs; suppliers have to find new customers to whom sell their products, for banks means less
interest and bank fees collected, for the state means less collected taxes, and direct competitors must
bear in mind that, by eliminating a competitor, the risk that it will be taken over by another
competitor increase, which in this way will strengthen its position on that strategic segment).

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