



Prof. Robert Grant – Bocconi University, Italy

Key Concepts: Introduction to Strategy

Competitive Advantage

PART 1

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Goals and Agenda

Goals for this talk:

- To understand what competitive advantage is
- To examine cost and differentiation as sources of competitive advantage
- To recognize the dynamic character of competitive advantage



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Goals and Agenda

Outline of this talk:

1

The nature of competitive advantage

2

The static analysis of competitive advantage:
the sources of cost and differentiation advantage

3

The dynamics of competitive advantage

What Is Competitive Advantage?

Competitive Advantage
is a firm's ability to outcompete its rivals



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What Is Competitive Advantage?

Competitive Advantage
is a firm's ability to outcompete its rivals

This is revealed in it's ability to outperform rivals





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What Is Competitive Advantage?

?

What performance measure do we use to identify and measure competitive advantage?
Traditionally, competitive advantage equated with superior profitability

↑

However: this may be too narrow a measure
Firm may forgo profit to expand market share

What Is Competitive Advantage?

?

What performance measure do we use to identify and measure competitive advantage?
Traditionally, competitive advantage equated with superior profitability

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However: this may be too narrow a measure
Firm may be a not-for profit

What Is Competitive Advantage?

Competitive advantage is a firm's ability to create more value than its rivals

● This takes account of customers' willingness to pay rather than actual revenues



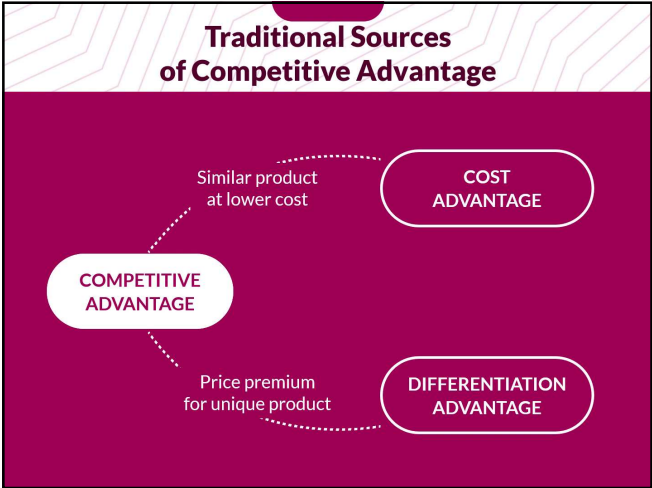
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Traditional Sources
of Competitive Advantage

Competitive advantage equates
to superior profitability



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Traditional Sources
of Competitive Advantage

COST
ADVANTAGE

- Economies of scale
- Economies of learning
- Lower input costs
- Process technology
- Capacity utilization

DIFFERENTIATION
ADVANTAGE



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Traditional Sources
of Competitive Advantage

COST
ADVANTAGE

DIFFERENTIATION
ADVANTAGE

- Design
- Quality
- Performance
- Brand
- Customer service
- Customization
- Endorsement

Establishing Differentiation Advantage

COST
ADVANTAGE

DIFFERENTIATION
ADVANTAGE

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Establishing Differentiation Advantage

DIFFERENTIATION
ADVANTAGE

More important

Sustained competitive advantage

- More likely to be conferred by differentiation than by cost advantage. Cost advantage easily imitated and vulnerable to external factors



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Establishing Differentiation Advantage

Achieving differentiation advantage

- Product Integrity**

The total balance and integration of the attributes of a product

INTERNAL INTEGRITY	EXTERNAL INTEGRITY
Consistency among product features	Fit between the product and customers' objectives, values, and lifestyle

Establishing Differentiation Advantage

Achieving differentiation advantage

- Product Integrity**

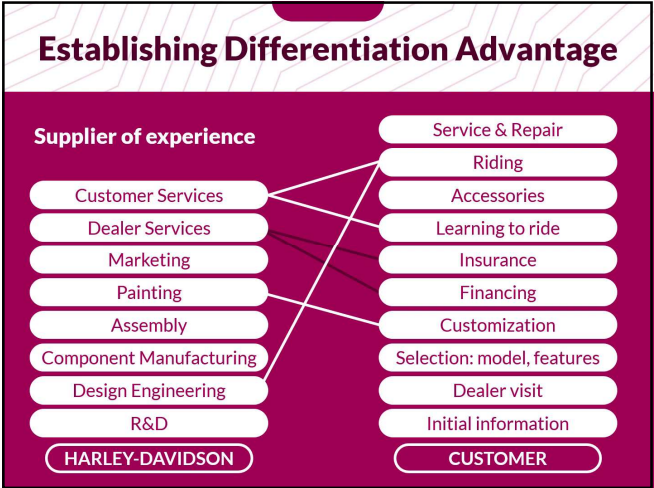
The total balance and integration of the attributes of a product
- Linking the firm's potential to create differentiation with the customer's realization of value**

Link the firm's value chain with that of the customer

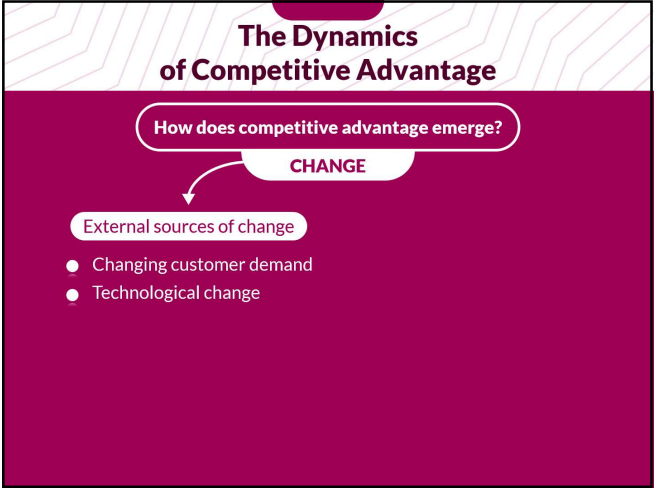
Establishing Differentiation Advantage



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