

## 2.5: Competitive Advantage and Strategy

### What is Competitive Advantage?

The concept of **competitive advantage** came into popular usage in the 1980s as an attempt to identify and define the strategic goals of the firm. In his now famous work *Competitive Advantage: Creating and Sustaining Superior Performance*, Michael Porter showed that the goal of all firms is to achieve a **competitive advantage in relation to their rivals**. This they do either by selling at a **lower cost/price** or by **differentiating their product** from those of their rivals (Porter 1985).

Text Source: Reinert, Kenneth A., and Ramkishen S. Rajan, editors. "Competitive Advantage." *The Princeton Encyclopedia of the World Economy*, by Nigel S. Grimwade, 1st ed., Princeton University Press, 2010. *Credo Reference*, search.credoreference.com/articles/Qm9va0FydGljbGU6MzE0MDIx. Accessed 1 Sept. 2023.

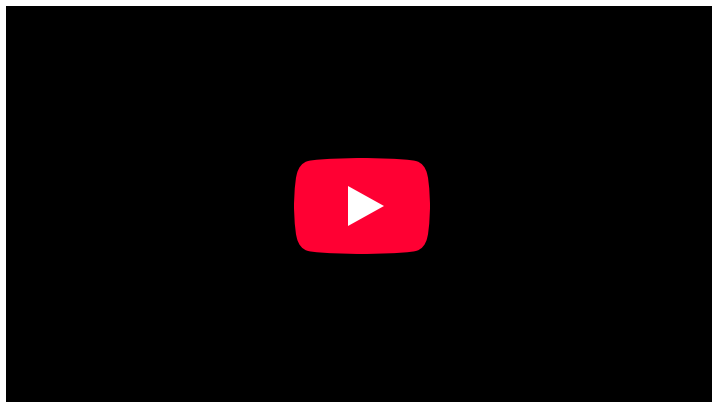
Take some time to review the following graphic that depicts Porter's ideas:



Figure 1: Porter's Generic Strategies: Cost Leadership, Differentiation and Focus

Image Source: "Porter's Generic Strategies: Differentiation, Cost Leadership and Focus," B2U (Website)

In addition to the strategies identified within the above graphic, a fifth strategy called 'best-cost' will be introduced in the 2:57 video that follows:





Where do you think the 'best-cost' strategy would be visible if it were included on the above graphic?

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