

2.1: Competitiveness

We have all competed in various types of activities, perhaps in sports, or school. There may have been prizes or rewards for ranking high in these competitions. Business is no different. We define **competitiveness** as the ability and performance of a firm to sell and supply goods and services in a given market, in relation to the ability and performance of other firms.¹ In other words, how will one firm win over customers in order to become the product or service of choice.

Competitive Advantage and Key Purchasing Criteria

Competitive advantage is the leverage a business has over its competitors. This can be gained by offering clients better and greater value. Advertising products or services with lower prices or higher quality piques the interest of consumers. This is the reason behind brand loyalty, or why customers prefer one particular product or service over another.²

Each organization needs to have a deep understanding of their customers and what drives their customers to make purchases. We refer to these as **key purchasing criteria**. They are the factors which customers evaluate and consider when making a product choice.

It is important to keep in mind that the customer is not always a consumer purchasing a good at a store. The customer in many instances may be another business. The city of Toronto may be purchasing heavy duty trucks to use in the landscaping of city parks or Toyota may be searching for a new supplier for automobile glass.

Key Purchasing Criteria include:

Price – Firms need to understand how much the customer will pay for an item. If products are seen to be very similar to one another, the customer will choose based on price.

Quality – Many customers are willing to spend more in order to obtain a product with specific characteristics or brand reputation. Not only are we considering a product with a great design, but also, one that is long lasting and defect free.

Variety – There is a part of the market that value the opportunity to choose from a wide variety of products. They look for options to change the style, colour, dimensions or technical characteristics.

Timeliness – Some customers care greatly about how long it will take to obtain the product or service. For companies' in the transportation business, this will be a key necessity in order to gain new customers. This can also be related to the capability of the company to deliver at the time that they had promised.



Figure 2.1.1: Categories of key purchasing criteria.

Order qualifiers versus order winners

Two concepts related to key purchasing criteria are order qualifiers and order winners, first introduced by Terry Hill.³ For important purchases, the customers will consider which characteristics are absolutely necessary (nonnegotiable) and which characteristics can

actually lead them to make their decision.

Order qualifiers are those characteristics that are “the nonnegotiable requirements” of the customer. Unless these characteristics are part of the product or service package, the customer will look elsewhere. Order qualifiers for a car may include and minimum safety features, and air conditioning.

An **order winner** is the characteristic that wins the order. Often it may be a new technical feature that is desirable. It could be a great warranty package or service agreement, or a better price.

Order qualifiers and order winners change over time. What was an order winner some years ago, may now become an order qualifier and vice versa. In 1989, air conditioning in a car might have been considered an order winner. It was new and desirable. In 2020 however, few customers purchasing a new car would consider buying a car without air conditioning. It has therefore changed from an order winner to an order qualifier.

Marketing must understand what the order qualifiers and order winners are for their customers. Operations must respond promptly to ensure that they are making these options and features available to customers.

Competitive Priorities

The competitive priorities are the ways in which the Operations Management function focuses on the characteristics of cost, quality, flexibility and speed. The firm’s customers will determine which of the competitive priorities are emphasized.

Cost – Firms whose customers prioritize price will be very interested in having processes that enable them to keep their costs low. These companies are typically paying close attention to identifying and eliminating waste within their operations. By reducing defects, they will reduce costs. These firms will closely monitor and seek to improve their productivity. Factors such as resource utilization and efficiency will be important.

Quality – Firms whose customers prioritize quality focus on creating both excellent product and process design. Marketing and Engineering collaborate to design products that meet customers’ requirements. Manufacturing must ensure that the process is able to produce the products defect-free. It is only by having excellent design quality and excellent process quality that the organization can ensure that customers will have their expectations satisfied.

Flexibility – Firms whose customers prioritize variety must prioritize the ability to change rapidly. Firms who value flexibility usually do so by carefully choosing equipment that is general-purpose and able to perform multiple functions. They will often strive to keep a small amount of spare capacity in case it is needed. Multi-skilled employees who are able to work in various areas of the firm or operate multiple types of technology are valued. These firms want to ensure that they can get new products to market quickly and transition from making one product to another quickly. Keeping machine set-ups fast is a critical way to do this. They also strive to be able to abruptly modify the volume of their output in case the need or opportunity arises.

Delivery (reliability and speed) – Firms whose customers prioritize speed of product/service delivery must be very efficient and quick at providing their products and services. McDonald’s and Amazon are examples of this.

Below is a table summarizing the relationship between a customer’s priority and a firm’s strategy.⁴

| Customer’s priority | Firm’s strategy |
|---------------------|--|
| Cost | Minimizing product costs and waste, maximizing productivity |
| Quality | Designing superior, durable products, minimizing defects |
| Flexibility | Adaptability in product design and output, utilizing general-purpose machinery and multi-skilled workers |
| Delivery | Maintaining reliable and speedy delivery services |

It is a long-held understanding that each major decision that needs to be made within the operations of an organization will include a trade-off because it is impossible for any one organization to excel on all the competitive priorities at once! An example is a manufacturer who competes on the basis of cost. In order to reduce defects, they may choose to change one of their input components for one with a better quality. This however will increase their costs. Cost and quality are common trade-offs. Flexibility and speed are also considered trade-offs. When organizations increase their number of options and varieties, it adds operational complexity. This will slow down their operations.

Core Competency (Core Capabilities)

Core competency is a management theory that originated in a 1990 Harvard Business Review article, “The Core Competence of the Corporation.”

Core competencies are the resources and capabilities that comprise the strategic advantages of a business. A modern management theory argues that a business must define, cultivate, and exploit its core competencies in order to succeed against the competition.

- Core competencies are the defining characteristics that make a business or an individual stand out from the competition.
- Identifying and exploiting core competencies are as important for a new business making its mark as for an established company trying to stay competitive.
- A company’s people, physical assets, patents, brand equity, and capital all can make a contribution to a company’s core competencies.

A successful business has identified what it can do better than anyone else, and why. Its core competencies are the “why.”

Defining Core Competencies

In the article, C.K. Prahalad, and Gary Hamel review three conditions a business activity must meet in order to be a core competency:

- The activity must provide superior value or benefits to the consumer.
- It should be difficult for a competitor to replicate or imitate it.
- It should be rare.

Some examples of core competencies:

- McDonald’s has standardization. It serves nine million pounds of French fries every day, and every one of them has precisely the same taste and texture.
- Apple has style. The beauty of its devices and their interfaces gives them an edge over its many competitors.
- Walmart has buying power. The sheer size of its buying operation gives it the ability to buy cheap and undersell retail competitors.⁵



References

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