

## 5.6: Building a Competitive Advantage

### Learning Objectives

- Explain how a retailer can build a sustainable competitive advantage

### How Jeff Bezos Keeps Amazon Ahead of the Competition



Regardless of the industry, market or segment in which a firm competes, their over-arching goal is to create sustainable competitive advantage.

Sustainable competitive advantage means that a firm has an edge over their competition, which competitors cannot easily overcome and is thus enduring over time. These advantages can be in intellectual property, including technology leadership and strategic assets, scale, or barriers to entry. They allow the firm to compete on differentiation or cost in markets spanning from niche to mass.

Note: competitive advantages support HOW a firm competes. They are not WHAT a firm does to compete. Think about Wal-Mart, for example. One might argue that low prices are their competitive advantage. However, other retailers can and do reduce their prices to match Wal-Mart. Instead, Wal-Mart has an unmatched supply chain, focused on reducing costs. This focus extends from vendor relationships and negotiation through the distribution network to store operations and to the advertising. That is, at every step of the supply chain Wal-Mart seeks to reduce and remove costs. Further, they communicate this advantage to their customers; their brand is synonymous with value.

Thus, a competitor can't simply reduce costs to compete with Wal-Mart because Wal-Mart's competitive advantage is the infrastructure that supports the entire supply chain, which is focused on cost reduction. Further, Wal-Mart's price leadership is part of their branding and well understood by consumers. So, while a competitor may be able to match prices, they have a different cost basis than Wal-Mart and thus reduce their own margins in reducing costs. Over time, this makes them less competitive because they do not have the resources to invest in their business to match Wal-Mart's capabilities.

Think about Amazon as another example. As you've read, there is a heightened interest in convenience among consumers. So, it might be compelling to think that Amazon's competitive advantage is that they offer at-home delivery. However, this higher level of service to support convenience is an output of their true strategic advantage—impressive infrastructure to support efficiency in transactions and fulfillment.

Think about the wide breadth of products available at Amazon. Their algorithm recommends adjacent and complementary items. Their extensive network of warehouses store, pick, and package products. Their relationships with logistics partners like UPS and the United States Postal Service support efficient delivery.

Hopefully, you see that delivery isn't Amazon's competitive advantage. Instead, their edge is infrastructure through their web interface, their algorithm, their network of warehouses, and their relationships with carriers. These support transaction and fulfillment, which enables them to provide an expansive set of products and deliver them at very low costs.

Firms may possess powerful internal strengths like patents or customer contracts that would be costly or time intensive for a competitor to replicate. Or, they may compete with a robust distribution system that is so expansive that competitors cannot match it. Or, they may operate in a market so concentrated that they already possess the bulk of the market share or potential, making it unattractive to other competitors. Regardless, these advantages inform HOW the firm competes. When the advantages are sustainable, they create an on-going edge that competition cannot bridge.

**Excellent video explaining how to build a Sustainable Competitive Advantage**



#### Practice Questions

<https://assessments.lumenlearning.co...sessments/9189>

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