1.3. COMPETITIVE ADVANTAGES

1.3.1. Competitive Strategy

Competitive strategy refers to how a company competes in a particular business. Overall strategy for diversified firms is referred to as corporate strategy. Competitive strategy is concerned with how a company can gain a competitive advantage through a distinctive way of competing.

Competitive advantage is defined as the strategic advantage one business entity has over its rival entities within its competitive industry. Achieving competitive advantage strengthens and positions a business better within the business environment.

A successful competitive strategy focuses on assessing unique strengths, identifying growth opportunities, collecting competitive intelligence, and responding to competitive threats. It will effectively support company's top-line growth objectives by helping to develop a differentiated and sustainable competitive position.

1.3.2. Porter's Model

Porter's Model helps a firm to identify threats to its competitive position and to devise plans including the use of IT and e-commerce to protect or enhance that position. Porter identified five forces of competitive rivalry described as under:

1) Threat of potential/new entrants to the sector
2) Threat of substitute product or service in the existing trade
3) Bargaining power of the buyers
4) Bargaining power of the suppliers
5) Competition between existing players

These five forces are also shown in **figure 1.14**:

1) **Threat of New Entrants:** This threat relates to the ease with which a new company or a company in different product area can enter a given trade sector. Typically, barriers to entry are capital, knowledge or skill.

   IT/E-Commerce(EC) can be a barrier for new entrants, for example, where competing businesses have heavily invested in EDI and are using the same, their investment would act as a barrier for new businesses to enter that trade sector. Conversely, advancements in technology have given rise to new ideas providing opportunity to new entrants without any need to build the IT infrastructure or make heavy investment to compete existing players.

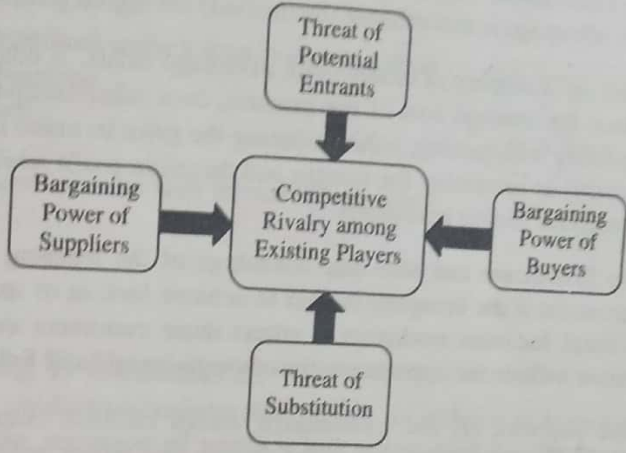

Figure 1.14

   For example, to start online banking a company does not require heavy investment in constructing buildings (branch offices), hiring staff etc. as required in traditional banking. Rather, making use of internet technology coupled with a sound marketing plan, unique online banking services can be initiated.

2) **Threat of Substitution:** This threat arises when a new product is available that provides the same function as existing product/service.

   For example, cotton fiber was, in the past, replaced by synthetic fiber, and glass bottles were substituted by plastic ones. This threat got materialised in case of music shops in physical world when due to the advent of e-commerce; music became available in downloadable format through the artist's website. The site, in fact, had provided a substitute distribution channel.

3) **Bargaining Power of Buyers:** The cost of producing and distributing a product should be less than the price it can bring in the market in order to be profitable. Number of competitors and the supply of a product are the two major factors that determine bargaining power of the buyers. A buyer is in a strong position to bargain for low price if there are many competitors and/or the supply of the product in the market is in surplus. Note that with the help of e-commerce, low production cost, more inventory control and quick response time can be achieved.

   Besides, direct sale to the customers is also possible that cuts the cost of involving intermediaries. Therefore, a business using IT/EC can reduce the overall production cost and afford to keep the price of the product relatively low.

4) **Bargaining Power of Suppliers:** Businesses try to find more favorable terms from their own suppliers. If supply of raw material is plentiful and/or there are many suppliers, the supply can be procured at a low price. Otherwise, position is more favorable to the supplier having more bargaining power. Ability to trade electronically is a factor in the quality of service and may be a requirement of the buying organization. Accordingly, bargaining power of a supplier is reduced if it is not electronically enabled.

5) **Competition between Existing Players:** Competition among businesses is to get more buyers and trade at a price that produces an acceptable profit. If there are many players of the same size, capacity and strategy having little difference between their product/service, then there is fierce(violent) competition among them as regards the price of the product/service.

Even a small change in the price of product/service can be crucial for the business. Again, the use of electronic commerce can cause a significant difference by reducing administration/transaction cost, increasing efficiency of supply chain, improving product quality and customer service.

1.3.3. First Mover Advantage

The First-Mover Advantage refers to the advantage gained by the first company that enters a certain market. This advantage is exacerbated (intensified) for digital products and markets.

There are a number of reasons this advantage exists. A company that is able to increase sales quickly is able to reduce the average cost of the product, over other competitors. This allows the first company to have more flexibility with pricing, either reducing the price to make it less attractive for new entrants (increasing barriers to entry) or increasing the margin and therefore profit while prices remain fixed, this additional profit can then be used for further innovation.

The first-mover can also take advantage of the learning curve effect. First-mover advantage can be further successful if the company is able to achieve lock-in of its installed-base. Thus once lock-in occurs, it is more difficult for other marketers to attract those customers away from the first marketer. Risks of being the first mover include the opportunity for others to imitate and follow best practices (learn from any mistakes).

The business, IT, and e-commerce worlds all have examples of companies that succeeded with first-mover advantage, companies that failed despite first-mover advantage, and late movers that are now success stories. Generally, the advantages of being first include an opportunity to make a first and lasting impression on customers, to establish strong brand recognition, to lock in strategic partners, and to create switching costs for customers. The risks of being a first-mover include the high cost of developing EC initiatives, making mistakes followers into the market can avoid, the chance that a second wave of competitors will eliminate a first-mover's lead through innovation, and the risk that the move will be too early, before the market is ready (e.g., home banking systems in the early 1990s). Although the importance of a speedy market entry cannot be dismissed, some research suggests that over the long run first movers are substantially less profitable than followers and that switching costs and network effects are not as substantial as claimed.

So what determines whether a first mover succeeds or fails? In their examination of "the first-mover advantage misconception", **Rangan and Adner** suggest that the following factors are important determinants of e-commerce(EC) marketplace success:

1) The size of the opportunity (i.e., the first-mover company must be big enough for the opportunity and the opportunity must be big enough for just one company).
2) The nature of the product (i.e., first-mover advantage is easier to maintain in commodity products in which later entrants have a hard time differentiating their product).
3) Whether the company can be the best in the market.

First mover can gain advantages but it is a risky business. New technologies and new ways of using them are expensive to develop and are often not successful. There are advantages to being late mover:

1) The idea has been tried or tested
2) Its effectiveness can be assessed
3) Improve version of the new system
4) New technology is cheaper and easier to implement

1.3.4. Sustainable Competitive Advantage

Sustainable competitive advantage may be realised by adoption of e-commerce strategies and business models. Rather than simply exchanging procurement transactions as with e-commerce practices, leading enterprises are executing e-commerce to share intellectual capital with their trading partners working as a value chain that provides a competitive advantage for the development and distribution of their products.

The idea of giving the customer access to tracking information via the internet was a new one that had considerable appeal to the customer.

For example, the use of new system also had considerable advantage to FedEx who no longer had to deal with a vast number of calls checking up on progress of consignment; because the customer could now access the system themselves. But e-commerce development and implementation could not be entirely private- customer had to become involved at some stage. The competitor was quick to catch on to the idea and UPS (United Parsal Services) was soon able to make available a similar system built onto their internal IT infrastructure for tracking packages. DHL, on the other hand, were unable to react as quickly because of technical difficulties in implementing and integrating a competitive system.

To gain advantage:

1) System need to be out in the market before competitors make a start in copying ideas
2) Technical advantage is converted into brand advantage
3) Provide better and better services to the customer

Sustainable competitive advantage appears to be more common with internet e-commerce:

1) The element of surprises can be greater.
2) Entry cost is low
3) Regular development in the sites and services

... Advantage Using E-Commerce

... In addition to buying and