

What is Competitive Advantage?

Worksheet

Competitive advantage is a condition that puts a company in a favorable business position over its rivals, typically achieved through lower costs, differentiated products, or a protected market niche.

Questions

1. Which of Porter's generic strategies focuses on being the lowest-priced provider?
 - A) Differentiation
 - B) Cost leadership
 - C) Focus strategy
 - D) Diversification
2. A company that charges more because customers see its product as uniquely valuable is using
 - A) Cost leadership
 - B) Differentiation
 - C) Market penetration
 - D) Vertical integration
3. Which factor makes a competitive advantage sustainable?
 - A) Easy to copy overnight
 - B) Protected by patents or strong brand loyalty
 - C) Based on temporary discounts
 - D) Available to all competitors equally
4. IKEA's flat-pack furniture and self-assembly model mainly supports which strategy?
 - A) Differentiation through luxury branding
 - B) Cost leadership through lower production and shipping costs
 - C) Focus on a tiny niche market
 - D) No competitive strategy at all
5. An airline strips down services (no free meals, tight seating) to offer the lowest fares in the market. What competitive advantage strategy is this?
6. A phone maker charges a premium price, citing unique design, ecosystem, and build quality. What strategy is this?
7. Two competing coffee shops sell similar coffee, but one has a patented espresso technique customers can't get elsewhere. What kind of advantage does this create?
8. Define: What is competitive advantage?
9. Define: Name Porter's two generic strategies.
10. Define: What is cost leadership?

Answer Key

1. B) Cost leadership - Cost leadership means winning by offering the lowest costs and prices in the industry.
2. B) Differentiation - Differentiation lets a company charge a premium for perceived unique value.
3. B) Protected by patents or strong brand loyalty - Sustainable advantages are hard for rivals to replicate, such as patents or strong brand equity.
4. B) Cost leadership through lower production and shipping costs - Flat-pack design reduces shipping and storage costs, supporting a cost leadership strategy.
5. Cutting costs to offer the lowest price is the core of cost leadership. The airline relies on high volume and operational efficiency to stay profitable at low margins. This matches budget carriers like Ryanair or Southwest.
6. Charging more for perceived unique value is differentiation, not cost leadership. Customers pay extra because they see the product as meaningfully better or different. This matches brands like Apple.
7. A unique, hard-to-copy process is a source of sustainable competitive advantage. If it's protected (e.g., a patent) or genuinely hard to replicate, competitors can't easily erode it. This supports a differentiation strategy with pricing power.
8. A factor that lets a company outperform rivals - via lower cost, unique value, or a protected niche.
9. Cost leadership and differentiation.
10. Winning by having the lowest costs and prices in the industry, relying on scale and efficiency.

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