Competitive Advantage

What it actually is, and how long it lasts.

Business & Management

A firm has competitive advantage when it creates more economic value than its rivals — where economic value is the difference between a buyer's willingness to pay and the cost of supply.

VALUE	ADVANTAGE	SUSTAINED BY
WTP – cost	**a bigger wedge**	**barriers**

- Value created = willingness to pay – cost.
- Advantage means a bigger wedge than rivals, not a bigger firm.
- Sustainable advantage requires barriers to imitation.
- Most advantages erode; the question is how fast.
- Operational effectiveness is not strategy — rivals copy it.
- Strategy is choosing what NOT to do.

LOOK FOR IT

Two firms can both be profitable; the one with the larger gap between willingness to pay and cost has the advantage.

Being better at the same activities is operational effectiveness. Doing different activities, or the same ones differently, is strategy.