

## TEACHING NOTE

# Sustaining Competitive Advantage: Resources and Capabilities (A) Overview

## Introduction to competitive advantage

A firm has a competitive advantage when it earns a higher economic profit than its rivals in the same market. This is achieved by creating and delivering more economic value. This advantage can stem from various sources, including unique resources, capabilities and market positioning.

Understanding how to create and sustain competitive advantage is crucial for any firm aiming to achieve long-term profitability and success in an increasingly competitive business environment.

The sustainability of competitive advantage is influenced by both internal factors, such as a firm's resources and capabilities, and external factors, including market structure and competitive behaviour. Firms must not only establish this advantage but also maintain it over time as changes in the market and competitive pressures constantly evolve. The ability to sustain competitive advantage is a key determinant of a firm's long-term profitability and survival in the market.

## Market structure and its impact on profitability

The structure of a market plays a significant role in determining a firm's ability to sustain competitive advantage and maintain profitability over time. Different types of market structure, such as perfect competition, monopolistic competition, oligopoly and monopoly, present unique challenges and opportunities that affect a firm's ability to earn profits.

## Sustaining competitive advantage and the theory of perfect competition

In theory, in a perfectly competitive market numerous firms compete against each other and no single firm can influence market prices. The theory of perfect competition suggests that economic profits are transient due to the ease of entry for new firms. As new entrants increase supply, prices fall; ultimately driving profits to zero. This scenario creates a challenging environment for sustaining competitive advantage as firms cannot rely on pricing power to maintain profitability.

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