Chapter 9

COMPETITION FOR DIFFERENTIAL ADVANTAGE*

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The application of ecology to marketing organizations provides a new starting point for the study of competition. It begins with the assumption of heterogeneity in the market as the normal or prevailing condition, rather than building on an assumption of homogeneity as the ideal condition. The emergence of relatively homogeneous conditions at certain stages of the competitive process is treated as a tendency which can be functionally useful for some aspects of marketing operations rather than as an essential aspect of effective competition.

Starting as it does with an analysis of organized behavior systems, the functionalist approach tries to understand how competition of the prevailing type can contribute to the effective operation of behavior systems. This is in sharp contrast to the approach that starts with a competitive ideal and finds itself obliged to reduce behavior systems such as firms to bloodless and abstract entities because the going concern of real life does not fit the pattern. There is no desire, however, to detract from the great achievement of economists in developing their deductive analytical apparatus to the point where it approximates the view of competition which is obtained more directly by making a fresh start from ecology. The substance of the functionalist approach is very similar to what Chamberlin implied by “monopolistic competition” and what J. M. Clark has recently designated as “the economics of differential advantage.”

1. The Economics of Differential Advantage

The functionalist or ecological approach to competition begins with the assumption that every firm must seek and find a function in order to maintain itself in the market place. Every business firm occupies a position which is in some respects unique. Its location, the products it sells, its operating methods, or the customers it serves tend to set it off in some degree from every other firm. Each firm competes by making the most of its individuality and its special character. It is constantly seeking to establish some competitive advantage. Absolute advantage in the sense of an advanced method of operation is not enough if all

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competitors live up to the same high standards. What is important in competition is differential advantage, which can give a firm an edge over what others in the field are offering.

**Differential Advantage and Dynamic Competition**

It is the unending search for differential advantage which keeps competition dynamic. A firm which has been bested by competitors according to certain dimensions of value in products or services always has before it the possibility of turning the tables by developing something new in other directions. The company which has the lead is vulnerable to attack at numerous points. Therein is a strong incentive for technical innovation and other forms of economic progress, both for the leader who is trying to stay out in front and for others who are trying to seize the initiative.

Departures from previous product designs or patterns of practice will not be successful unless they appeal to needs or attitudes of the buyer. Differentiation by the seller is an adaptation to differences in taste and requirements among consumers. Demand is radically heterogeneous or diversified and quite independent of the actions of the seller. Supply also breaks down into heterogeneous segments according to differences in location, raw materials, plant equipment, and the skills of management and labor. The processes of exchange in the marketplace are directed toward matching up segments of supply and demand to provide the best fit.

This conception of an economics of differential advantage has important consequences for the analysis of monopoly and competition and for the choice of criteria to determine the degree of competitiveness in a given industry. New firms enter a field because of an expectation of enjoying differential advantage. Their chance for survival depends on whether their expectations were realistic in the first place and whether the original advantage is maintained or wrested from them by others. The profit incentive provides the drive for vigorous competition, but this drive is directed toward differential advantage because of the fundamentally heterogeneous character of markets. The enterpriser accepts the risks of innovation in his search for differential advantage. Success may be rewarded by profits until other enterprisers overtake him. Later sections will develop further implications of this view for both market structure and market behavior.

The term “differential advantage” is currently being used by J. M. Clark, who developed the concept of workable competition. It is adopted here as the term which best characterizes the dynamics of competitive advantage. Much of the underlying analysis was developed by E. H. Chamberlin, who inaugurated a new era in the theory of the firm something over twenty years ago.