ANALYZING INDUSTRIES AND COMPETITORS

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The present state of competition, the expected future state of competition, and anticipated retaliatory moves of competitors necessarily affect the planning of marketing strategy of a company. It should, in addition to studying markets, continuously study the competitors. Failure to correctly evaluate competition is one common reason for unprofitable marketing programs. If competition is intense, a different marketing program might be required than if it is moderate. The bases of competition in an industry help determine the appropriate marketing strategy as well as the success of the organization.

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Lesson 1: Analyzing Competitors - Necessity and Concepts

Objectives of this lesson

After reading this lesson, you will be able to:

- Know the reasons for identifying your competitors
- Understand the industry concept of competition
- Know the basic competitive market structures
- Know the entry and mobility barriers to a market, and
- Understand the market concept of competition.

Reasons for Identifying the Competitors

Competition is a powerful influence in determining the extent and nature of a firm's marketing activities.

Competition is a powerful influence in determining the extent and nature of a firm's marketing activities. Very few firms operate in a market environment all by themselves. Most companies face competition from at least one other business, and usually from several. Broadly speaking, all firms compete with each other for the buying power of consumers. From a more practical viewpoint, however, a business generally views as competition those firms that market products similar to, or substitutes for, its product in the same market (s). Thus, competitive forces make substitutes available for almost every product or service on the market. They may not be perfect substitutes. Yet under certain conditions, bicycles are substitutes for cars. Most firms cannot believe that "we have no competitors," because consumers make trade-offs. When the costs of automobiles and gasoline become too high, people may switch to bicycles.

A marketing organization, must deal with competitors in two ways.

To effectively compete with other companies operating in the marketplace, the marketing executive needs to know who are the competitors of him, what are they doing, and have a strategy for counteracting their activities. The products a firm offers, their prices, how they are promoted, and the channels of distribution used all depend to some extent on what the competitor is offering. Furthermore, the marketing executive must assess possible competition from industries other than its own, and from foreign industries. Effective marketing programs can be developed by adjusting to forces within the existing market and monitoring potential competition from the outside. A marketing organization, therefore, must deal with competitors in two ways. ***First,*** the company must find out who its competitors are and what they are doing. ***Second,*** it must decide how to act or react in light of competitors' activities. It is relatively easy for a company to identify its apparent competitors, but it is really difficult to identify the range of actual and potential competitors. "A company is more likely to be outdone by its emerging competitors or new technologies than by its current competitors".[1] A company may face four levels of

[1] *Philip Kotler, Marketing Management: Analysis, Planning, Implementation, and Control, 9th edition, Prentice-Hall of India Private Limited, New Delhi, p, 229*

competition. These four levels are based on the degree of substitutability of product. Let us now have some idea on these four levels of competition:

- **Brand Competition:** If other companies offer similar product and related services at similar prices to the same customers, we can say that the company is facing brand competition. For example, Aromatic may consider Meril and Keya as its major brand competitors.
- **Industry Competition:** If all companies in the same industry make same product or class of products, a company considers it industry competition. Aromatic for example, will see here all cosmetics company as its competitors.
- **Form Competition:** Form competition occurs when a company sees its competitors as all companies manufacturing products that supply the same service. For example, an automobile manufacturer would see itself competing against not only other automobile manufacturers but also manufacturers of other vehicles as buses, trucks, cycles, and motorcycles.
- **Generic Competition:** If a company considers all other companies as its competitors who compete for the same consumer discretionary income we call that a generic competition.

A company's competitors can also be identified from two other perspectives and they are more specific. They are industry competition and market competition. We shall now discuss these two views at some length:

A. Industry Concept of Competition

Law defines industry as any business, trade, manufacture, culling, service, employment or occupation. Industry here includes all concern involved in a particular trade or business. Jute industry, for example, includes all firms in jute business. Philip Kotler defines industry more precisely. To him "an industry is a group of firms that offer a product or class of products that are close substitute of each other."[2] If a product can be used by a buyer instead of the other satisfying the same type of need, the two products can be called substitutes to each other. Tea and coffee in this respect can be called substitute products. There are number of ways to classify an industry. The usual ways are: number of sellers and degree of differentiation; entry and mobility barriers; exit and shrinkage barriers; cost structure; degree of vertical integration; and, degree of globalization. We shall try to give you idea on the concept of each of the above. Detail discussion on the above is not possible in this text since this is not an economics text. Let us now look at them:

1. **Number of Sellers and Degree of Differentiation**

The number of firms that control the supply of a product as well as the

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[2] *Ibid, p., 230*

homogeneity and heterogeneity among the products may affect the strength of competition. When only one or a few firms with more or less homogenous offer control the product, competitive factors will exert a different sort of influence on marketing activities than when there are many competitors. Table below shows four general categories or models of industry structure:

Figure 4.1 : General Industry Structures and Their Characteristics

Type of Structure	**Number of sellers**	**Ease of entry**	**Product**	**Knowledge of Market**	**Price**	**Marketing effort**
Momopoly	One	Many Barriers	Almost no substitutes	Perfect	Much control over price	Little
Oligopoly	Few	Some barriers	Homogene ous or differentia-ted	Imperfect	Pricing in concert	Very large amount of non price competition
Mono polistic competition	Many	Few Barriers	Product differentiati on with many substitutes	More knowledge than oligopoly	Pricing in concert	Very large amount of non price competition
Perfect competition	Unlimited	No barriers	Homogene ous products	Perfect	No control over price	None

Monopoly or monopolistic market structure is that structure where only one large firm operates in the marketplace and has complete control.

- ***Monopoly Structure:*** Monopoly or monopolistic market structure is that structure where only one large firm operates in the marketplace and has complete control. By definition, no competitors exist and no competitive forces are at work. Utility companies (electricity, gas, water etc.) could be examples of monopolies. In a monopolistic situation a firm's product has no close substitute. In this case, a single seller can erect barriers to potential competitors. The firm has much control over price, but can sell only what market will take at his price. Entry of other firms is very difficult because resource access is blocked. Marketing efforts are found little here, but the monopolist can enjoy benefits if less product elasticity is created.
- ***Oligopolistic Structure :*** The oligopolistic market structure is one of the most important structures because of the sheer market power it contains. This structure is characterized by a relatively small number of competitors who are very large in size. Because there are so few, each knows what the others are doing. They also have at least some capacity to replicate each others' marketing strategies. This type of structure assumes that consumers do not always behave in a rational manner nor do they have the perfect market knowledge found in a purely competitive market. Examples of this type of market structure are numerous: automobiles, steel, oil, chemicals, rubber etc. Theoretically, every oligopolistic firm has a great capacity to influence the market environment simply because of its size. Yet, sometimes this very capability creates something of a stand-off. The

firms are somewhat reluctant to cause too many disruptions since the competitors will react very quickly. In practice, most competitive forces occur in the area of promotion. At least in the short run, unique methods of promotion coupled with creative advertising, personal selling, or sales promotion messages can have a significant impact. Pricing in concert is a strong tendency found in a oligopolistic structure.

- ***Monopolistic Competition :*** When marketing executives distinguish their products from those of the competition, even though they are essentially alike, a monopolistically competitive structure is created. In these markets there are a fairly large number of competitors selling relatively homogeneous products. The differences between this structure and a purely competitive market structure are that the firms are bigger and the consumers do not have full market knowledge nor do they always behave in a highly rational manner. The marketing executive attempts to create a perceived difference about a product, and hopes that the consumers develop a preference for it over the competing merchandise. The uniqueness may be in the form of better quality, better value for the money, convenience of purchase or service, or some other factor. Even though all of the products are functionally similar, people may believe they are different. When this occurs, competitors' products are no longer substitutes, and the firm can engage in its own effective marketing strategies. It seeks a differential advantage to obtain a partial monopoly in its market.
- ***Perfect Competition or Purely Competitive Structure:*** This type of structure envisioned by economist Adam Smith. Over time, however, this vision has proven to be more idealistic than realistic. The concept of pure competition holds that a large number of small companies compete in the marketplace, the products they sell are perfectly substitutes, all consumers have perfect market knowledge and are rational buyers, and no barriers exist to firms wanting to enter the market (or to those wanting to leave it).Under this structure, a marketing executive's job is relatively simple. Since all the products are the same, and all consumers know it, there is really very little for marketing executives to do. If they raise prices they will be driven out by new competitors, and there is no advantage to lowering prices since they assume that they will sell all they produce at the market price. Furthermore, it makes little sense to promote or uniquely distribute the product since the firms are so small and consumers already know about the products. This particular structure, as tranquil as it may sound, is largely a thing of the past. Although some agricultural products and industrial supplies in West have market structures that approximate a purely competitive environment, they cannot fully satisfy its assumptions.

You should appreciate that the industry structure does not remain same throughout, rather it may change with the elapse of time. There are lot of industries started as monopoly and turned into oligopoly and finally took the shape of monopolistic competition.

2. Entry and Mobility Barriers

In some industry it is relatively easier for other firms to enter. But, in other industry it is quite difficult for a new firm to enter. It means that some industries are subject to entry barriers. The usual barriers are: high capital requirements; economies of scale; patents and licensing requirements; scarce locations, raw materials, or distributors; and reputational requirements. Among the barriers some are intrinsic in nature, while others are created deliberately by the existing firms. The barriers may be created either by a single firm or by the concerted efforts of all the firms operating in the said industry.

In addition to entry barriers, an existing firm may face mobility barriers, that is moving into other segments it considers attractive. The mobility barriers may be created by the single firm or by the combined efforts of the existing firms in the said market(s).

3. Exit and Shrinkage Barriers

A firm has the right to leave the industry if it finds the industry unprofitable or unattractive from any other point. But, a firm always cannot has such option, that is it may even face exit barriers. The exit barriers that a firm may face are: legal or moral obligations to customers, creditors, and employees; government restrictions; low asset salvage value due to overspecialization or obsolescence; lack of alternative opportunities; high vertical integration; emotional barriers and so on. In this circumstance, a firm may decide to stay in the industry so long it is able to cover its variable costs and a part of fixed costs by selling its produce. If quite a few firms pursue such a policy it dampens profits for everyone, and what the other firms do in such a situation is to help those wanting to exit. It may be done through buying their assets, meeting customers' and creditors' obligations.

Some of the firms in a particular industry may suffer loss due to their inefficient sizes and may wish to downsize. But it may also be difficult due to the barriers faced such as contract commitments and stubborn management. Here again competing firms may help firms not optimum in size to downsize their operations.

4. Cost Structure

Cost structure may vary from industry to industry. By cost structure, we mean here, the mix of costs. Some industry may involve heavy marketing and distribution costs while others may involve heavy research and development costs, and another may involve heavy production costs. Every firm in a particular industry should try to minimize its major costs by making it optimum. Strategic move may help a firm to minimize its major cost and thus operate economically and profitably.

By cost structure, we mean here, the mix of costs.

5. Degree of Vertical Integration

In a vertical integration, "operations in successive stages of production or marketing or both are carried on under a single ownership."[3] Vertical integration may take two forms such as integrating forward and integrating backward. A garment manufacturer, for example may go for vertical integration. It may set up or buy yarn manufacturing factories (backward integration), and own transport facilities(forward integration) to ship its output. It may help a company reduce costs, wield more control, and achieve economies of operation. The cost reduction helps the integrated firms or operations to lower sales prices and have more market coverage and profits. Yet, it runs the risks of cost increase as well because of lesser flexibility and improper handling of certain operations.

6. Degree of Globalization

There are some industries that operate locally and sell their outputs/services locally. Again, there are industries whose products/services are sold beyond the places of production or origin. Industries that operate globally must be very smart in terms of their operations and offers. To be attractive and compete world-wide they must control costs and adopt latest technologies to prove their worth and penetrate the global market.

B. The Market Concept of Competition

While discussing the industry concept of competition, we considered companies making the same product for a market. There we have overlooked the needs of customers. Companies basically produce their products/services to satisfy some or other need of customers. We can, therefore, look at competition from the view point of customer need satisfaction, that is considering companies trying to satisfy same customer need through their offers. This is more a logical approach to view competition. A trucker, for example, normally sees its competition as other truckers. But, from a customer point of view, a customer hiring a trucker is actually buying transport service for which he may also go to the railways, steamer companies or any other transport operator. If a company looks at its competition from this perspective it will be able to visualize potential competition. This visualization will help a company strategize its operation to make it more competitive in the face of ever-changing environment. From the market concept of competition view, a company can identify its competitors by linking industry analysis with market analysis. By mapping out the product/market battlefield, a company can comfortably identify its present or potential competition. A hypothetical product/market battlefield map for toothpaste can be seen below :

[3] *Principles of Marketing, Clark F. E., The Macmillan Company, New York, 1945, p., 153.*

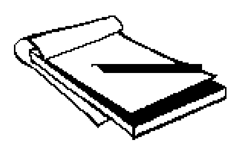
Figure - 4.2 : Product/Market Battlefield Map for Toothpaste

Product Segmentation	Customer Segmentation			
		Children/teens	Age 16-30	Age 30+
	Plain toothpaste	Tibet Aromatic	Tibet Aromatic	Tibet Aromatic
	Toothpaste with fluride	Tibet Aromatic	Tibet Aromatic	Tibet Aromatic
	Gel	Tibet Aromatic Pepsodent	Tibet Aromatic Pepsodent	Tibet Aromatic Pepsodent
	Striped	Colgate	Colgate	
	Smoker's toothpaste		MacLean	MacLean

Source: *Adapted from Philip Kotler, Marketing Management: Analysis, Planning, Implementation, and Control, Ninth Edition, Prentice Hall of India Private Limited, 1997. p. 233.*

In the above figure, the product/market battlefield map for toothpaste is illustrated according to the customer age group and product types. It is seen in the figure that nine segments of toothpaste market are occupied by two brands viz. Tibet and Aromatic, where, Pepsodent occupies three and Colgate and McLean both occupy two segments. A particular brand not occupying a particular segment may also be aimed at that segment. The firm deciding to offer its brand in the untapped segment must estimate that segment's market size, shares of the existing competitors, their capabilities, entry barriers, competitors' objectives and strategies. After the above estimates a firm can decide to offer its brand to new segments if it finds it attractive.

Activity:
Draw a hypothetical Product/Market Battlefield Map for edible oil and analyze it.



Questions for Review

1. Firms compete with each other for –
   a. The buying power of consumers.
   b. To earn more reputation
   c. Both a & b
   d. None of the above.

2. To effectively compete with other companies, the marketing executive needs to know –
   a. Who are the competitors of him
   b. What are they doing
   c. And have a strategy for counteracting their activities
   d. All of the above.

3. A marketing organization must deal with competitors in –
   a. Many ways
   b. Two ways -
   c. 3 ways
   d. None of the above.

4. A company may face –
   a. Many levels of competition
   b. Psychological level of competition
   c. Four levels of competition
   d. Financial level of competition.

5. If all companies in the same industry make same product or class of products, it is called –
   a. Brand competition
   b. Industry competition
   c. International competition
   d. Both a & c.

6. Number of sellers in oligopoly are –
   a. Few
   b. One
   c. Many
   d. Could be one or many opportunities, skills, and resources.

7. In monopoly, the firm has –
   a. No control over price
   b. Some control over price
   c. Both a & b are correct
   d. Much control over price.

8. In monopolistic competition, firms are selling -
   a. Differentiated products
   b. Unique products
   c. Relatively homogeneous products
   d. Substitute products.

9. Perfect competitive structure was envisioned by –
   a. Philip Kotler
   b. Adam Smith
   c. Keyns
   d. Clark.

10. Vertical Integration may take –
   a. Forward form
   b. Backward form
   c. Both a & b
   d. None of the above.

11. List and briefly describe the different types of market structures presented in this unit.

12. Discuss in short the usual ways to classify an industry.

Answers

1. a, 2. d, 3. b, 4. c, 5. c, 6. a. 7. d, 8. c, 9. b, 10. c.

Lesson- 2 : Identifying Competitors' Strategies, Objectives, and Assessing Their Strengths and Weaknesses

Objectives of this lesson

After reading this lesson, you will be able to:

- Define and identify the strategic group
- Identify the competitors' goals
- Understand the competitors' behavior patterns
- Identify competitors' resources and capabilities
- Locate their weaknesses.

Introduction

Normally, a company does not compete on a direct basis with all firms in an industry so it is necessary to find out which firms should be considered key competitors. Also, if specific customer needs can be satisfied by product categories from other industries, potential competitors should be included in the analysis. Information that is obtained from a key competitor analysis often covers the following areas:

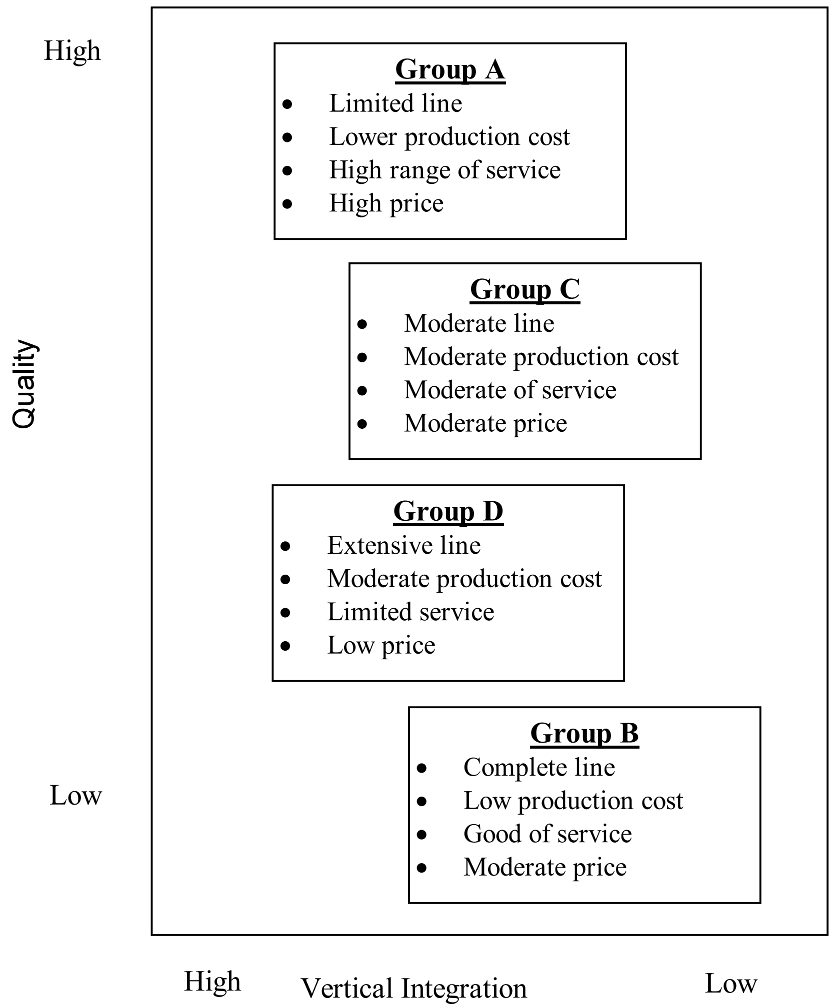
- Identifying the strategic group
- Identifying their goals
- Estimate overall business strengths and limitations of each key competitor as well as to have idea on their behavior patterns.

Identifying Competitors' Strategies

A company can consider those firms as its nearest rivals who are pursuing the same types of strategies and trying to reach the same market segments as the company is pursuing. The firm can call this group a strategic group which includes the company itself. It is essential for a company to locate its strategic group in order to decide on policies and future course of action. Let us discuss the hypothetical strategic groups in the air-conditioner industry (figure may be seen in the next page.

Let us assume that a company named 'XYZ" co wants to enter the air-conditioner industry. Let us also assume that quality image and vertical integration are the two important strategic dimensions of this industry. Form the figure (shown on next page) we can see that there are four strategic groups in this industry. The groups can be named as 'A', 'B', 'C', and 'D'. Suppose group 'A' consists of two competitors, group 'B' two, group 'C' five and group'D' five competitors. From this strategic group identification the new company planning to enter this industry can get some important tips that help it to decide which group to enter.

Figure- 4.3 : Strategic Groups in the Air-conditioner Industry



Source: *Kotler, Philip, Marketing Management, 9th edition, p. 234.*

The company knows in the beginning, the difficulty it may face entering into a particular group. Second, it knows what competitive advantage it should have to sustain in the industry and also knows which particular firm with which it will have neck to neck fight. From the above figure, we can say that a new company will find it easier to enter group 'D' because it will require minimal investment in vertical integration and in reputation and quality components. But it will be very tough to enter group 'A' or group 'B' because it will require heavy investment to integrate vertically as well as to ensure quality output. A firm, after entering into a particular group must also be prepared to face competition from group member(s) and should possess strengths to face it.

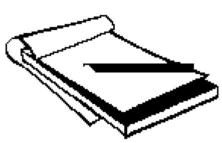
A firm faces competition from other firms in the strategic group.

By this time you know that a firm faces competition from other firms in the strategic group. In addition, there may have competition between groups. There are number of reasons for such competition is seen between groups. They are: offering products to the same group of customers by different strategic groups; generalization of offers by the customers - customers may consider offers of different groups similar in many aspects; the expansion plans pursued by different groups which led them to attack each others' customers; and the minimum mobility barriers.

The figure on the previous page has taken into consideration only two dimensions to identify strategic group. They are quality and vertical integration. There could be many other dimensions that may be used to identify strategic group. Some of the dimensions are: level of technological sophistication, manufacturing methods, innovative features, geographical scope etc. Before deciding which group to enter, a company should go for more detail analysis and identify the strategic group based on that. To do this, it should collect detail information on competitors covering their business, marketing, manufacturing, research & development, financial, human resource strategies, product quality, product features, marketing mix, customer services, pricing policies, distribution coverage, sales force strategy, sales promotion and advertising programs and so on.

A company should not continuously pursue its strategies based on the first analysis.

A company should not continuously pursue its strategies based on the first analysis. It should know that competitors very often bring changes in their policies and consequently a company should monitor competitors from above dimensions on regular basis. More so, customers' needs change which may require different policy to be pursued by a company. A company should, therefore, monitor changes in customers' needs and resultant competitors' moves. Based on this it should revise its policies as and when necessary.



Activity:
Develop a table on strategic group of a toiletries industry taking price and vertical integration as two dimensions.

Determining Competitors' Objectives

By this time you are aware of your competitors and strategies pursued by them. To move forward, you should pose yourself with a number of questions and try to get the answers to those. The usual questions that should ask yourself are: what are the objectives of operation of my competitors? what stimulate my competitors to behave in a particular fashion? Answers to these two questions are very important to you. How accurately you find out the answers to these questions determines your success in the marketplace.

With regards to the objectives pursued by your competitors you may make two assumptions. The first one is that competitors operate to maximize their profit, and hence the main objective is profit maximization. Though companies may pursue a profit maximization objective, but the relative weight put on to the profit varies from company to company. Some may emphasize on short-term profit and others may emphasize on long-term profit. Again some companies may link profit with customer satisfaction. They try to maximize their profits through providing maximum satisfaction to their customers. They know that they could make quicker profit provided they would follow other strategies.

The second assumption on competitors' objectives is that competitors do not pursue one objective rather a mix of objectives are pursued by them. Some of the individual objective consisting the mix are: current profitability, market share growth, cash flow, technological leadership, service leadership etc. After identifying the objective mix, the intending company should try to find out how each of the individual objectives are weighted by the competitors. It will help the firm to ascertain the satisfaction level of competitors of each of the objective. In addition, it will help the firm to guess how competitors may react to different strategic move of the company. If a competitor, for example, pursues the service leadership objective, will react more strongly to a competitor that offers innovational and improved services than to one announcing price reduction.

After having idea on competitors' objectives, the next question that may come to your mind is that what shape(s) their objectives? There are lot of things that shape competitors' objectives. Some of the important ones are: size of the firm, its history, current management, financial situation, its position in the larger organization and so on. A competitor, for example, if the part of a larger company, you should know whether the parent company is running it for milking or growth. This will help you to decide on attack strategy. If you know that your competitor is not considered critical by the parent company, you can decide to attack it easily.

Besides analyzing things that shape your competitors' objectives, you must monitor the expansion plans of your competitors if they have any. The product/market battlefield discussed before will help you to identify expansion plans of your competitors. If you can ascertain this in advance, you may work on creating mobility barriers so that it becomes difficult for them to expand. More so, by doing this you may solidify your position in the industry.

Assessing Competitors' Strengths and Weaknesses

Assessing competitors' strengths and weaknesses helps a company decide on its strategies more appropriately. Competitors' success depends to a great extent on their abilities and resources. Identifying its competitors' strengths and weaknesses, a company should gather information on its competitors along different lines. Areas on which information are usually collected include sales data, market share, profit figure, ROI, cash flow, new investment, utilization of capacity, product improvement and so on. If your competitor is a publicly held company, by buying one share of stock, you can receive its annual report and have a fair idea of where it stands financially. Is it cash-rich and able to move quickly to take advantage of opportunities, or is it deeply in debt and vulnerable to threats? But, all information about competitors cannot be collected so easily and requires lot of efforts. One of the commonly used sources of information is secondary data. In some instances, firms use primary source to gather information on competitors' strengths and weaknesses. They may conduct consumer surveys, dealer surveys, and supplier surveys to collect data on competitors. Competitors' strengths and weaknesses may be identified by getting consumer responses on five dimensions about competitors. The following table shows the hypothetical results of customer survey on four competitors along five dimensions :

Table- 4.1 : Customers' Ratings of Four Competing Company

Company	Customer awareness	Product quality	Product availability	Technical assistance	Selling staff
Company 'A'	VG	E	VB	G	E
Company 'B'	E	VG	VG	E	G
Company 'C'	G	VB	E	VG	VG
Company 'D'	G	G	G	G	G

Note: VG = very good, E = excellent, VB = very bad, G = good.

The table above shows that company 'A' produces excellent quality product, selling through excellent salesforce and providing good technical assistance to customers. But, its product is not widely available. Competitor 'B', on the otherhand, is found superior to company 'A' in almost every respect, except quality of the product. Company 'C' is found to be better in every respect except quality of the product, and company 'D' is good in all respect. This picture can help a company to identify strengths and weaknesses of its competitors and decide whom to attack from which respect.

In analyzing its competitors, a company should monitor three variables viz. share of market, share of mind, and share of heart.

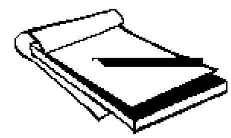
In analyzing its competitors, a company should monitor three variables viz. share of market, share of mind, and share of heart. Share of market means the percentage of target market occupied by the competitors. Share of mind, on the otherhand, means the percentage of customers who named the company in responding to statement, for example, 'name the first company that comes to mind in this industry'. Share of heart indicates the biases of customers toward particular company's product or preference for certain brand. These three shares have got relationship among them. The market share is very much dependent on the mind share and heart share. If mind share increases, it will have a positive impact on heart share and ultimately the increased heart share will contribute to increase market share. Note that increase market share will lead to increase profit, and hence a company should try to increase mind share and heart share for increased profitability.

In identifying the weaknesses of your competitor, you should look for the assumptions they make about their business and market. Studying their assumptions, you will be able to know whether they are working on any such assumption which is not true. This will show you the gap of your competitors and you can easily exploit him on it. One of the assumptions, for example, which one of your competitors is pursuing is, 'customers are influenced more by the dashing salesperson'. If you know this, you can work based on it to exploit your competitor and reap the benefit out of it.

While assessing your competitors' strengths, you should bear in mind that strength evaluation goes well beyond mere lists of competitors' physical, financial, and human assets. An assessment must include how well the firm has used - and is likely to use - its strengths.

Activity:

List a number of company strengths and weaknesses of a toothpaste manufacturer. Show how the strengths be translated into customer benefits and also show how the weaknesses may be overcome to give the company a competitive advantage.



Questions for Review

1. A company can consider those firms as its nearest rivals –
   a. Who are pursuing the same types of strategies.
   b. Who trying to reach the same market segments
   c. Both a & b
   d. None of the above.

2. Which of the following could be a dimension to be used in identifying a strategic group?
   a. Level of technological sophistication
   b. Manufacturing methods
   c. Innovative features
   d. Any of the above.

3. With regards to the objectives pursued by your competitors you may make –
   a. Many assumption
   b. Two assumptions
   c. Three assumptions
   d. None of the above.

4. The second assumption on competitors' objectives is that –
   a. Competitors do not pursue one objective rather a mix of objectives
   b. Competitors pursue one objective at a time
   c. Competitors change their objectives very frequently
   d. None of the above.

5. Which of the following could be a part of objective mix?
   a. Current profitability and market share growth
   b. Cash flow
   c. Technological leadership, service leadership
   d. All of the above.

6. Which of the following may shape your competitors' objectives?
   a. Size of the firm
   b. Its history, current management and financial situation
   c. Its position in the larger organization
   d. All of the above.

7. Areas on which information are usually collected to assess competitors' strengths and weaknesses include –
   a. Sales data, market share, profit figure
   b. ROI, cash flow, new investment
   c. Both a & b.
   d. None of the above.

8. One of the commonly used sources of information on competitors is –
    a. Experiment
    b. Secondary data
    c. Observation
    d. None of the above.

9. In analyzing its competitors, a company should monitor three variables viz. –
    a. Share of market
    b. Share of mind
    c. Share of heart
    d. All of the above.

10. In identifying the weaknesses of your competitor, you should look for the assumptions they make about –
    a. Their business
    b. Their market
    c. Both a & b
    d. None of the above.

11. Write an essay on determining competitors objectives and assessing their strengths and weaknesses

Answers

1. c, 2. d, 3. b, 4. a, 5. d, 6. d, 7. c, 8. b, 9. d, 10. c .

Lesson- 3 : Estimating Competitors' Reaction Patterns and Selecting Competitors to Attack and Avoid

Objectives of this lesson

After reading this lesson, you should be able to:

- Define different categories of competitors
- Understand the likely state of competitive relations
- Identify the steps involved in the design of a competitive Intelligence system
- Select competitors to attack and avoid.

Introduction

No company can expect to operate in a market without having competition. Companies thus face competition. A company can face four categories of competition. It should be prepared with strategies to attack immediate and potential competitors. Identifying competitors to attack is vital for a company to survive in this age of extreme competition.

Estimating Competitors' Reaction Patterns

Competitor reaction can be a major barrier to a company's operation, and hence, a company should have ideas on its competitors' reaction to other companies' strategies. Competitors can react by cutting their prices, taking aggressive promotional measures, or introducing new products. In understanding competitors' actions or reaction a company should have clear comprehension of its competitors, their ways of doing business and their cultures. Since competitors vary in the above dimensions, a thorough knowledge of competitors is a must. The first step in this process is to have knowledge about the categories of competitors. Let us now look at the type of competitors. There are four categories of competitors a company may come across. They are as follows:

- ***The Laid-Back Competitor:*** A laid-back competitor is a firm that does neither aggressively nor quickly react to or act against other competitors' actions. There are reasons for such actions or reactions of laid-back competitors. The important ones are: high loyalty level of customers as considered by the laid-back competitors, reasonable amount of profit earned from the business by them, inability to notice the move of competitors quickly, or lack of fund to react by them. A firm should try to understand quite clearly the reasons for the particular behavior of the laid-back competitors.
- ***The Selective Competitor:*** A selective competitor is one who does not react to all moves of his competitors, rather he reacts only to a selective ones. Competitors may take number of moves of which

offering additional service, quantity discount, aggressive promotion could be mentioned. A selective competitor does not consider all of these moves to react, rather he selects one or few to emphasize such as quantity discount offer. If a firm can identify which moves of competitors are considered for reaction by its key competitor, it can accordingly decide on attack strategy.

- ***The Tiger Competitor:*** A tiger competitor does not let any action of its competitors go unchallenged. He acts very quickly and aggressively to any move of his rivals. Such a strategy of a tiger competitor is a potential threat to any firm trying to attack the tiger from any perspective. It is therefore wise for a company to assess its strengths and resources and give a second thought before deciding to attack a tiger competitor.

A tiger competitor does not let any action of its competitors go unchallenged.

- ***The Stochastic Competitor:*** A stochastic competitor is one whose actions or reactions are far from prediction. It relates to the concept of probability, i.e. something may happen or may not happen as in the case of a coin toss. It is very difficult to devise strategies to attack stochastic competitors since their behaviors are very unpredictable. A stochastic competitor reacts only when it can afford to do so and keeps silent when it finds fighting unaffordable from either financial or physical point of view.

A stochastic competitor is one whose actions or reactions are far from prediction.

The competitive scenario varies from industry to industry. In some industry firms are found to be in harmonious relations where in other they are in continuous battle with each other. Bruce Henderson conducted studies on the competitive relations among firms within industry. From his study he noted number of important observations. They are mentioned below:

The competitive scenario varies from industry to industry.

- Where competitors are closely identical and run their operations in the same way, then their competitive equilibrium is unstable. The reason for such a situation is that customers cannot make any difference among competing products, and as a result they are attracted very much by a lower price offer. This makes the competitive equilibrium very unstable.
- Where a single minor factor is considered the critical factor, the competitive equilibrium becomes unstable. In markets where buyers are very price sensitive and where cost saving is possible through different means, a firm offering product at lower price can create price war. This results in the dis-equilibrium in competitive relations.
- Where number of factors are considered critical, then it is possible for each competitor to have some advantages and be differentially attractive to some customers. The number of coexistence of competitors depends on the number of factors considered critical. The more the number of critical factors, the more the number of firms exists in equilibrium. The reason is that each firm can focus on a particular factor and thus attract a particular segment ensuring its

existence.

- If the number of critical factors is few there will be fewer numbers of competitors to be found in existence. It means that the number of coexistence of competitors depends on the number of critical variables. The relationship is positive.
- If a ratio of 2 to 1 in market share between any two competitors is considered to be the equilibrium point, then it is neither realistic nor advantageous for either of them to change their share - either increase or decrease. In such a situation it is not advisable for any of the firms to spend extra money on promotion or distribution.

Designing the Competitive Intelligence System

By this time you are already convinced that you need lot of information on your competitors. How do you gather information on your competitive environment? The answer lies in the design of a competitive intelligence system. If you collect information using a competitive intelligence system you are not inundated with useless and irrelevant information. The design of the system should be such that which helps you to save money and provide timely and accurate information on your competitors. You should encourage everyone in the organization to provide competitive information to the concerned person or department. You may also form a team to collect and scan information on this. In designing such an intelligence system you should follow a logical process consisting of four steps. They are discussed below :

- ***Step # 1- Setting Up the System:*** In this very first step you first identify the types of competitive information that you need. Next, you locate the source(s) of such information and finally, you assign responsibility to a person for managing such a system.
- ***Step # 2- Collecting the Data:*** In the second step you go for collecting the necessary data. Remember, the data collection is a continuous process. You may collect data from a number of sources of which your salesforce, channel members, suppliers, market research firms, trade associations, competitors' employees, competitors' channel members and suppliers are important ones. You may also observe competitors and analyze physical evidence. In addition, you may rely on different published data as well as browse internet. While collecting data you should note that all of the techniques you apply are neither legal nor ethical. You should develop an effective and efficient way of collecting information giving due regard to legal restrictions and ethical norms.
- ***Step # 3- Evaluating and Analyzing Data:*** While evaluating the collected data you should first go for their validity and reliability checks. After they pass the validity and reliability checks, you may organize and interpret them for use in policy formulation.
- ***Step # 4 - Disseminating Information and Responding:*** After the

analysis is done the key information should be passed to the concerned persons to help them in decision making.

The competitive intelligence system helps the company get on time information as well as predicting competitors' move. This can help a company taking measures on time and making its position strong in the face of competition. You should appreciate that every company cannot afford to maintain such a system because of resource (both man and money) constraints. In such a situation the concerned personnel himself should follow the competitors closely take to measures based on his observation.

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Selecting Competitors to Attack and Avoid

If a company has a sound competitive intelligence system put in place and work, it is easier for the company to devise strategies to deal with competitors. Because information provided by the said system will help the company decide which competitors should be attacked and which to be avoided. Before going to decide on attack and avoid strategies, managers usually go for customer value analysis. This analysis helps the company look at its strengths and weaknesses. Customer value analysis also helps to identify the needs and wants of the target buyers as well as their rating of competing products in terms of their needs and want. Customer value analysis consists of five steps which are described next :

Steps in Customer Value Analysis

Step -1: Identifying the main attributes that customers value : This may be identified by asking a group of representative customers of the target segment(s). You may ask them what they look for in a product, and how they select a particular seller. You should record their responses to help you in identifying your company's position in the minds of your target buyers.

Step-2: Assessing the quantitative importance of the different attributes : To assess the importance of different attributes that customers consider important, you may request them to rank the attributes in order of ascending value. By averaging their rating you can decide which attribute is most important, which comes next to it and so on.

Step-3: Assessing the company's and competitors' performances on the different customer values against their rated importance : On the third stage, you may ask your respondent customers to compare your company's performance with that of your competitors with respect to each of the attribute they consider important.

Step-4: Examining how customers in a specific segment rate the company's performance against a specific major competitor on an attribute - by - attribute basis : Here respondent customers are requested to compare the company's performance with that of the major competitors against each of the attribute customers value. It helps the company identify its position with respect to its major competitor. This helps the company to decide whether it should raise its price, reduce it, or keep the price unchanged.

Step-5: Monitoring customer values over time : Customers' values always do not remain same. They may change with the elapse of time, and consequently, a company should, after certain intervals, measure customer values for revising its strategies if required.

Once the customer value analysis is done the company is in a position to decide on attack and avoid strategies. To decide on this, it should analyze different classes of competitors. This analysis helps the company to decide which competitor(s) to be attacked and whom to be avoided. Let us now look at different classes of competitors :

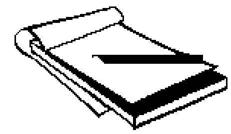
Weak versus Strong Competitors: The usual practice found in the industry is to attack weak competitors and to avoid the strong ones. If you attack the weaker one it requires you to spend limited resources and time. But it is not always advisable to attack only the weaker competitors. You should at times decide to attack stronger ones. It helps you to acquire latest technologies and improve your image and goodwill in the market. On the contrary, if you always attack weak competitors you may end up with zero improvement in your acquiring new technologies and increasing image.

Distant versus Close Competitors: Some of the competitors may be very close to you in terms of product, offer, prices, and other aspects, where others may nor resemble you in these respects. Normally, companies prefer attacking their close competitors and avoid distant ones. The purpose of competing with the close competitors is not to destroy them but to make the market situation more healthy.

Bad versus Good Competitors: In almost every industry there are good as well as bad firms in operation. Companies should help their good competitors grow and attack bad ones so that they are eliminated. Companies support their good competitors since they conform to the industry's rule, make realistic assumption about the industry's growth potential, set prices in a reasonable relation to costs, favor a healthy industry, limit themselves to a segment of the industry, motivate others to lower costs or improve differentiation, and accept the general level of their share and profits. But the bad competitors do not conform to the rules of the industry and take unusual risks, invest in over-capacity, and upset the equilibrium of the industry. Bad competitors in fact try to destroy the industry and take the advantage out of it.

Activity :

Suppose, you are the manufacturer of a brand of mineral water. Identify your different classes of competitors and show how you will select whom to be attacked and whom to be avoided. Decide conclusively how you are going to do this.



Questions for Review

1. Competitors can react by –
   a. Cutting their prices
   b. Taking aggressive promotional measures
   c. Introducing new products
   d. All of the above.
2. How many categories of competitors are there that a company may come across?
   a. Four
   b. Numerous
   c. Two
   d. Three.
3. A laid-back competitor is a firm that –
   a. Does not aggressively react to or act against other competitors' actions
   b. Does not quickly react to or act against other competitors' actions
   c. Both a & b.
   d. None of the above.
4. A selective competitor is one who –
   a. Does not aggressively react to or act against other competitors' actions
   b. Does not react to all moves of his competitors
   c. Does not quickly react to or act against other competitors' actions
   d. None of the above.
5. A selective competitor may take number of moves such as –
   a. Offering additional service
   b. Offering quantity discount
   c. Undertaking aggressive promotional measures
   d. All of the above.
6. A tiger competitor –
   a. Does not let any action of its competitors go unchallenged
   b. Acts very quickly and aggressively to any move of his rivals
   c. Both a & b
   d. None of the above.
7. A stochastic competitor is one –
   a. Whose actions or reactions are very much predictable
   b. Whose actions or reactions are far from prediction
   c. Somewhat predictable
   d. Somewhat unpredictable.
8. A stochastic competitor reacts only –

a. When it can afford to do so
b. When it senses ambiguity
c. Both a & b are correct
d. None of the above.

9. Where a single minor factor is considered the critical factor –
   a. The competitive equilibrium becomes stable
   b. The competitive equilibrium becomes unstable
   c. The competitive equilibrium becomes very unstable
   d. The competitive equilibrium becomes very stable.

10. If the number of critical factors is few there will be –
    a. Fewer number of competitors to be found in existence
    b. Large number of competitors to be found in existence
    c. Only one competitor to be found in existence
    d. Only two competitors to be found in existence.

11. The competitive intelligence system consists of –
    a. Seven steps
    b. Five steps
    c. Three steps
    d. Four steps.

12. You may collect competitive intelligence data from –
    a. Your sales force
    b. Your channel members
    c. Your suppliers
    d. A all of the above sources.

13. The usual practice found in the industry is –
    a. To attack weak competitors
    b. To avoid the strong ones
    c. Both a & b are correct
    d. None of the above.

14. Why is the concept of strategic groups useful to marketing strategists? Discuss in detail how would you select competitors to attack and avoid.

Answers

1. d, 2. a, 3. c, 4. b, 5. d, 6. c, 7. b, 8. a, 9. b,
10. a, 11. d, 12. d, 13. c.