CHAPTER 5

Strategy competitors, competitive rivalry, competitive behavior, and competitive dynamics

Management of Strategy

Concepts and Cases

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Knowledge Objectives

Studying this chapter should provide you with the strategic management knowledge needed to:

1. Define competitors, competitive rivalry, competitive behavior, and competitive dynamics.
2. Describe market commonality and resource similarity as the building blocks of a competitor analysis.
3. Explain awareness, motivation, and ability as drivers of competitive behavior.
4. Discuss factors affecting the likelihood a competitor will take competitive actions.
5. Discuss factors affecting the likelihood a competitor will respond to actions taken against it.
6. Explain competitive dynamics in slow-cycle, fast-cycle, and standard-cycle markets.
Definitions

• **Competitors**
  - Firms operating in the same market, offering similar products and targeting similar customers.

• **Competitive Rivalry**
  - The ongoing set of competitive actions and responses occurring between competitors.
  - Competitive rivalry influences an individual firm’s ability to gain and sustain competitive advantages.
Definitions

• **Competitive Behavior**
  ➢ The set of competitive actions and competitive responses the firm takes to build or defend its competitive advantages and to improve its market position.

• **Multimarket Competition**
  ➢ Firms competing against each other in several product or geographic markets.

• **Competitive Dynamics**
  ➢ The total set of actions and responses taken by all firms competing within a market.
From Competitors to Competitive Dynamics

Competitors

Why?
• To gain an advantageous market position

Competitive Rivalry

How?
• Competitive Behavior
  • Competitive actions
  • Competitive responses

Competitive Dynamics
Competitive actions and responses taken by all firms competing in a market
Figure 5.1: From Competitors to Competitive Dynamics


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Competitive Rivalry’s Effect on Strategy

• **Success of a strategy is determined by:**
  - The firm’s initial competitive actions.
  - How well it anticipates competitors’ responses to them.
  - How well the firm anticipates and responds to its competitors’ initial actions.

• **Competitive rivalry:**
  - Affects all types of strategies.
  - Has the strongest influence on the firm’s business-level strategy or strategies.
A Model of Competitive Rivalry

• Firms are mutually interdependent
  - A firm’s competitive actions have noticeable effects on its competitors.
  - A firm’s competitive actions elicit competitive responses from its competitors.
  - Competitors feel each other’s actions and responses.

• Marketplace success is a function of both individual strategies and the consequences of their use.
A Model of Competitive Rivalry

- **Competitive Analysis**
  - Market commonality
  - Resource similarity

- **Drivers of Competitive Behavior**
  - Awareness
  - Motivation
  - Ability

- **Interfirm Rivalry**
  - Likelihood of Attack
    - First-mover incentives
    - Organizational size
    - Quality
  - Likelihood of Response
    - Type of competitive action
    - Reputation
    - Market dependence

- **Outcomes**
  - Market position
  - Financial performance

**Feedback**
FIGURE 5.2

A Model of Competitive Rivalry


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Competitor Analysis

• Competitor analysis is used to help a firm understand its competitors.

• The firm studies competitors’ future objectives, current strategies, assumptions, and capabilities.

• With the analysis, a firm is better able to predict competitors’ behaviors when forming its competitive actions and responses.
Market Commonality

• Market commonality is concerned with:
  - The number of markets with which a firm and a competitor are jointly involved.
  - The degree of importance of the individual markets to each competitor.

• Firms competing against one another in several or many markets engage in multimarket competition.
  - A firm with greater multimarket contact is less likely to initiate an attack, but more likely to more respond aggressively when attacked.
Resource Similarity

• Resource Similarity
  ➢ How comparable the firm’s tangible and intangible resources are to a competitor’s in terms of both types and amounts.

• Firms with similar types and amounts of resources are likely to:
  ➢ Have similar strengths and weaknesses.
  ➢ Use similar strategies.

• Assessing resource similarity can be difficult if critical resources are intangible rather than tangible.
A Framework of Competitor Analysis

The shaded area represents the degree of market commonality between two firms.

Portfolio of resources A

Portfolio of resources B

Drivers of Competitive Behavior

- Awareness is
  - the extent to which competitors recognize the degree of their mutual interdependence that results from:
    - Market commonality
    - Resource similarity
Drivers of Competitive Behavior (cont’d)

- Motivation concerns
  - the firm’s incentive to take action
  - or to respond to a competitor’s attack
  - and relates to perceived gains and losses
Drivers of Competitive Behavior (cont’d)

- Ability relates to:
  - each firm’s resources
  - the flexibility these resources provide

- Without available resources the firm lacks the ability to:
  - attack a competitor
  - respond to the competitor’s actions
Drivers of Competitive Behavior (cont’d)

- A firm is more likely to attack the rival with whom it has low market commonality than the one with whom it competes in multiple markets.
- Given the strong competition under market commonality, it is likely that the attacked firm will respond to its competitor’s action in an effort to protect its position in one or more markets.
Drivers of Competitive Behavior (cont’d)

- The greater the resource imbalance between the acting firm and competitors or potential responders, the greater will be the delay in response by the firm with a resource disadvantage.
- When facing competitors with greater resources or more attractive market positions, firms should eventually respond, no matter how challenging the response.
Competitive Rivalry

• Competitive Action
  ➢ A strategic or tactical action the firm takes to build or defend its competitive advantages or improve its market position.

• Competitive Response
  ➢ A strategic or tactical action the firm takes to counter the effects of a competitor’s competitive action.
Strategic and Tactical Actions

• **Strategic Action (or Response)**
  - A market-based move that involves a significant commitment of organizational resources and is difficult to implement and reverse.

• **Tactical Action (or Response)**
  - A market-based move that is taken to fine-tune a strategy:
    - Usually involves fewer resources.
    - Is relatively easy to implement and reverse.
Factors Affecting Likelihood of Attack

First Mover
A firm that takes an initial competitive action in order to build or defend its competitive advantages or to improve its market position.

First-Mover Incentives

- First movers allocate funds for:
  - Product innovation and development
  - Aggressive advertising
  - Advanced research and development

- First movers can gain:
  - The loyalty of customers who may become committed to the firm’s goods or services.
  - Market share that can be difficult for competitors to take during future competitive rivalry.
Factors Affecting Likelihood of Attack (cont’d)

• Second mover responds to the first mover’s competitive action, typically through imitation:
  - Studies customers’ reactions to product innovations.
  - Tries to find any mistakes the first mover made, and avoid them.
  - Can avoid both the mistakes and the huge spending of the first-movers.
  - May develop more efficient processes and technologies.
Factors Affecting Likelihood of Attack (cont’d)

- Late mover responds to a competitive action only after considerable time has elapsed.
- Any success achieved will be slow in coming and much less than that achieved by first and second movers.
- Late mover’s competitive action allows it to earn only average returns and delays its understanding of how to create value for customers.
Factors Affecting Likelihood of Attack (cont’d)

- Small firms are more likely:
  - To launch competitive actions.
  - To be quicker in doing so.

- Small firms are perceived as:
  - Nimble and flexible competitors
  - Relying on speed and surprise to defend competitive advantages or develop new ones while engaged in competitive rivalry.
  - Having the flexibility needed to launch a greater variety of competitive actions.
Factors Affecting Likelihood of Attack (cont’d)

- Large firms are likely to initiate more competitive actions as well as strategic actions during a given time period.
- Large organizations commonly have the slack resources required to launch a larger number of total competitive actions.
- *Think and act big and we’ll get smaller. Think and act small and we’ll get bigger.*
  
  Herb Kelleher  
  Former CEO, Southwest Airlines
Factors Affecting Likelihood of Attack (cont’d)

- Quality exists when the firm’s goods or services meet or exceed customers’ expectations
- Product quality dimensions include:
  - Performance
  - Features
  - Flexibility
  - Durability
  - Conformance
  - Serviceability
  - Aesthetics
  - Perceived quality
Table 5.1: Quality Dimensions of Goods and Services

<table>
<thead>
<tr>
<th>Quality Dimension</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product Quality Dimensions</strong></td>
<td></td>
</tr>
<tr>
<td>1. <strong>Performance</strong></td>
<td>Operating characteristics</td>
</tr>
<tr>
<td>2. <strong>Features</strong></td>
<td>Important special characteristics</td>
</tr>
<tr>
<td>3. <strong>Flexibility</strong></td>
<td>Meeting operating specifications over some period of time</td>
</tr>
<tr>
<td>4. <strong>Durability</strong></td>
<td>Amount of use before performance deteriorates</td>
</tr>
<tr>
<td>5. <strong>Conformance</strong></td>
<td>Match with preestablished standards</td>
</tr>
<tr>
<td>6. <strong>Serviceability</strong></td>
<td>Ease and speed of repair</td>
</tr>
<tr>
<td>7. <strong>Aesthetics</strong></td>
<td>How a product looks and feels</td>
</tr>
<tr>
<td>8. <strong>Perceived quality</strong></td>
<td>Subjective assessment of characteristics (product image)</td>
</tr>
</tbody>
</table>


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Factors Affecting Likelihood of Attack (cont’d)

- Service quality dimensions include:
  - Timeliness
  - Courtesy
  - Consistency
  - Convenience
  - Completeness
  - Accuracy
**Service Quality Dimensions**

1. **Timeliness**—Performed in the promised period of time
2. **Courtesy**—Performed cheerfully
3. **Consistency**—Giving all customers similar experiences each time
4. **Convenience**—Accessibility to customers
5. **Completeness**—Fully serviced, as required
6. **Accuracy**—Performed correctly each time

Likelihood of Response

• Responses to a competitor’s action are taken when the action:
  
  ➢ Leads to better use of the competitor’s capabilities to gain or produce stronger competitive advantages or an improvement in its market position.
  
  ➢ Damages the firm’s ability to use its capabilities to create or maintain an advantage.
  
  ➢ Makes the firm’s market position becomes less defensible.
Factors Affecting Likelihood of Response

- Firms study three other factors to predict how a competitor is likely to respond to competitive actions:
  - Type of competitive action
  - Reputation
  - Market dependence
Factors Affecting Strategic Response

Type of Competitive Action

- Strategic actions receive strategic responses
  - Strategic actions elicit fewer total competitive responses.
  - The time needed to implement and assess a strategic action delays competitor’s responses.

- Tactical responses are taken to counter the effects of tactical actions
  - A competitor likely will respond quickly to a tactical actions
Factors Affecting Strategic Response (cont’d)

- An actor is the firm taking an action or response.
- Reputation is the positive or negative attribute ascribed by one rival to another based on past competitive behavior.
- The firm studies responses that a competitor has taken previously when attacked to predict likely responses.
Factors Affecting Strategic Response (cont’d)

<table>
<thead>
<tr>
<th>Type of Competitive Action</th>
<th>Actor’s Reputation</th>
<th>Dependence on the market</th>
</tr>
</thead>
</table>

- Market dependence is the extent to which a firm’s revenues or profits are derived from a particular market.
- In general, firms can predict that competitors with high market dependence are likely to respond strongly to attacks threatening their market position.
Competitive Dynamics versus Rivalry

• **Competitive Dynamics**
  - Ongoing actions and responses taking place between all firms competing within a market for advantageous positions.

• **Competitive Rivalry**
  - Ongoing actions and responses taking place between an individual firm and its competitors for advantageous market position.
Competitive Dynamics versus Rivalry (cont’d)

• Competitive Rivalry
  (Individual firms)
  ➢ Market commonality and resource similarity
  ➢ Awareness, motivation and ability
  ➢ First mover incentives, size and quality

• Competitive Dynamics
  (All firms)
  ➢ Market speed (slow-cycle, fast-cycle, and standard-cycle)
  ➢ Effects of market speed on actions and responses of all competitors in the market
Competitive Dynamics

Slow-Cycle Markets

- Competitive advantages are shielded from imitation for long periods of time and imitation is costly.
- Competitive advantages are sustainable in slow-cycle markets.
- All firms concentrate on competitive actions and responses to protect, maintain and extend proprietary competitive advantage.
FIGURE 5.4 Gradual Erosion of a Sustained Competitive Advantage


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Competitive Dynamics (cont’d)

- The firm’s competitive advantages aren’t shielded from imitation.
- Imitation happens quickly and somewhat expensively.
- Competitive advantages aren’t sustainable.
  - Competitors use reverse engineering to quickly imitate or improve on the firm’s products.
- Non-proprietary technology is diffused rapidly.

Slow-Cycle Markets

Fast-Cycle Markets
Developing Temporary Advantages to Create Sustained Advantage

Returns from a Series of Replicable Actions

Firm Has Already Advanced to Advantage No. 2

Launch

Exploitation

Counterattack

Time (years)

5 10 15 20 etc.

Competitive Dynamics (cont’d)

- Moderate cost of imitation may shield competitive advantages.
- Competitive advantages are partially sustainable if their quality is continuously upgraded.
- Firms
  - Seek large market shares
  - Gain customer loyalty through brand names
  - Carefully control operations