ANALYSIS OF COMPETITIVE ENVIRONMENT

Competitive Rivalry =
the ongoing set of competitive actions and competitive responses occurring between competitors

Competing firms are mutually interdependent

firms competing against each other in several product areas, and/or several geographic markets

From Competitors to Competitive Dynamics

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

A Model of Competitive Rivalry

Competitor Analysis

• Competitor analysis is used to help a firm understand its competitors
• The firm studies competitors’ future objectives, current strategies, and capabilities
• With the analysis, a firm is better able to predict competitors’ behaviors when forming its competitive actions and responses

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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

Market Commonality and Resource Similarity – So what? Who cares?

Rivals with market commonality and resource similarity are highly likely to respond to the competitive actions of each other.

A Model of Competitive Rivalry

Drivers of Competitive Behavior

Awareness is
- the extent to which organizations recognize the degree of their mutual interdependence and the potential threat from their competitive rivalry
Drivers of Competitive Behavior (cont’d)

- **Motivation**
  - the intensity of a firm’s inclination to take action or to respond to a competitor’s attack
  - relates to perceived gains and losses
  - may involve egos

- **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)

- **Awareness**

- **Motivation**

- **Ability**

Drivers of Competitive Behavior (cont’d)

- A firm is more likely to attack the rival with whom it has low market commonality

- **Market Commonality**

- Given the high stakes of competition under market commonality, there is a high probability that the attacked firm will respond to its competitor’s action in an effort to protect its position

Drivers of Competitive Behavior (cont’d)

- **Market Commonality**

- **Resource Dissimilarity**

- The greater the resource imbalance between the firms, 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

Drivers of Competitive Behavior – So what? Who cares?

Organizations are **highly likely to respond to competitive actions** when the following conditions are present:

- Market commonality
- Resource similarity
- Awareness of the competitive threat
- Motivation to respond
- High ego involvement in the rivalry
- Available resources to respond

A Model of Competitive Rivalry


*Figure 5.2*
Factors Affecting Likelihood of Attack

First Mover
- First movers allocate funds for:
  - Product innovation and development, aggressive advertising, advanced research and development
- First mover incentives = ?
- First mover hazards = ?

Factors Affecting Likelihood of Attack (cont’d)

First Mover
- Second mover responds to the first mover’s competitive action, typically through imitation:
  - Studies customers’ reactions to product innovations
  - Tries to find and avoid any mistakes the first mover made
  - Also avoids the huge product/market development spending of the first-movers
  - May develop more efficient processes and technologies

Factors Affecting Likelihood of Attack (cont’d)

First Mover
- 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)

First Mover
- Large organizations commonly have the slack resources required to launch a larger number of total competitive actions

Factors Affecting Likelihood of Attack (cont’d)

First Mover
- Small firms are more likely:
  - To launch offensive competitive actions
  - To be quicker in doing so
- Small firms are perceived as:
  - Nimble and flexible competitors
  - Relying on speed and surprise
  - Having the flexibility needed to launch a greater variety of competitive actions

Factors Affecting Likelihood of Attack (cont’d)

First Mover
- Firms with higher quality are more likely to attack
  - Product quality can involve performance, features, durability, consistency, image, etc.
  - Service quality can involve timeliness, courtesy, convenience, accuracy, completeness, etc.
Summary – Factors that Increase the Likelihood of Competitive Attack

- first mover incentives
- active first movers
- small firms
- firms with high “quality”

A Model of Competitive Rivalry

Strategic and Tactical Actions

- Strategic action or a strategic response =
- Tactical action or a tactical response =

Likelihood of Response

Factors Affecting Strategic Response (cont’d)

- An actor is the firm taking an action or response
- Reputable firms are more likely to elicit a response
- Market leaders are more likely to be copied
- Firms that are not well regarded, or price-predators, are less likely to be copied or elicit a response

Factors Affecting Strategic Response (cont’d)

- 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
Summary – Factors that Increase the Likelihood of Competitive Response

- Actions that are tactical rather than strategic
- The organization initiating the original competitive action is reputable
- High dependency on the market involved

A Model of Competitive Rivalry

**Competitive Rivalry = continuous “play” of offensive and defensive moves**

**Offensive Moves**
- To establish a position
- To reposition
- Less frequent than defensive moves
- Attacking rivals’ weaknesses is usually more successful
- Attacking rival’s strengths – especially head-on – carries more risk and takes more resources and capabilities

**Defensive Moves**
- To protect an existing position
- Common approaches =
  - Increase structural barriers (fill positioning gaps, increase switching costs, increase scale economies, block supplies or channel...)
  - Increase expected retaliation
  - Lower inducements for attack