Strategic Management

Undergraduate course in Management

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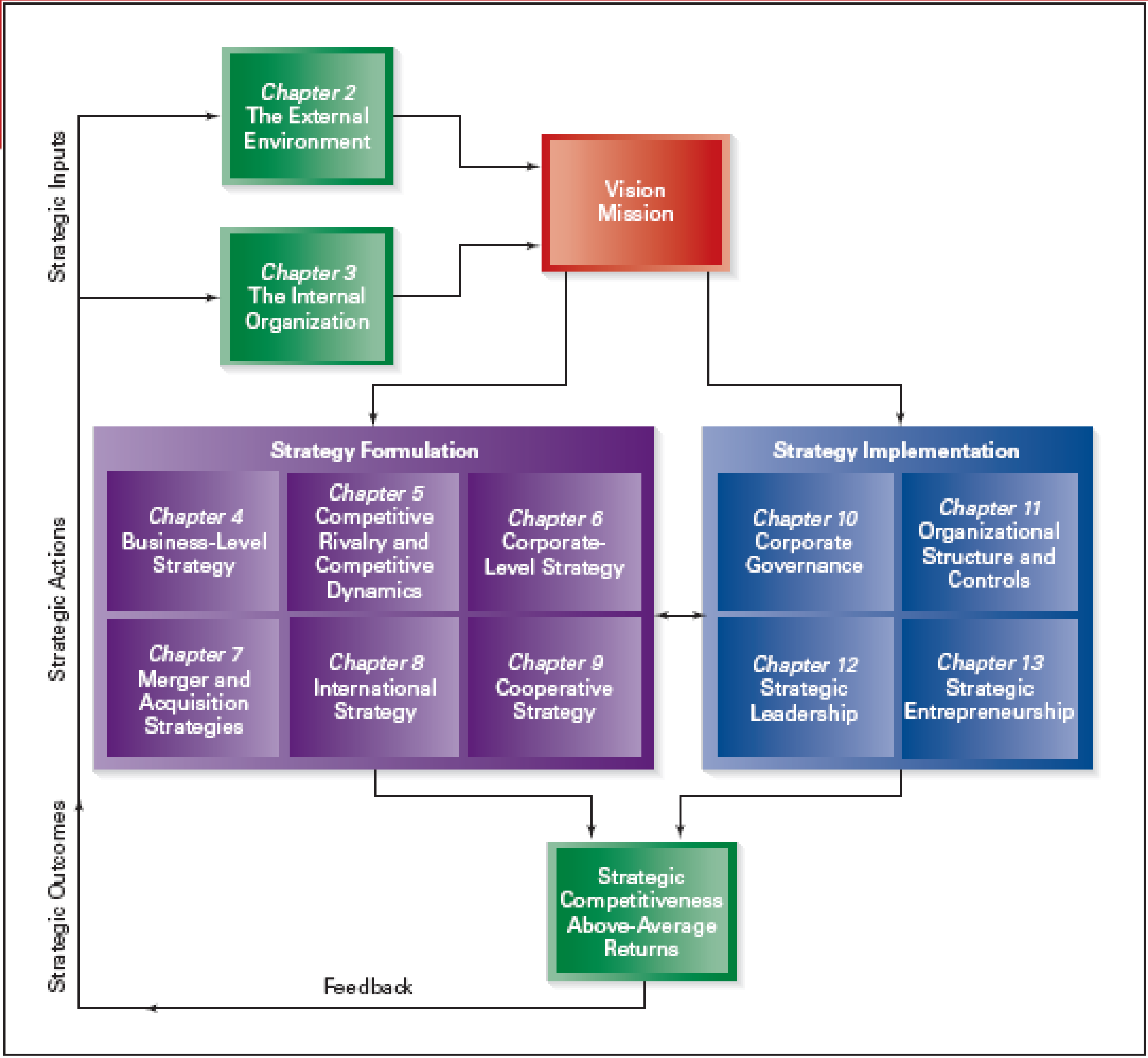
The Strategic Management Process



Six content areas

Competitors, competitive rivalry, competitive behavior and competitive dynamics

Market commonality and resource similarity: Building blocks of competitor analysis

Competitive actions: Awareness, motivation and ability

Factors driving competitor's competitive actions

Competitor's response to actions taken against it

Competitive dynamics in slow, fast and standard-cycle markets

Introduction and definitions

Competitors

Firms operating in the same market, offering similar products and targeting similar customers

Competitive Rivalry

Ongoing set of competitive actions and competitive responses occurring between competitors as they contend with each other for an advantageous market position

Competitive Behavior

Set of competitive actions and competitive responses the firm takes to build or defend its competitive advantages and to improve its market position

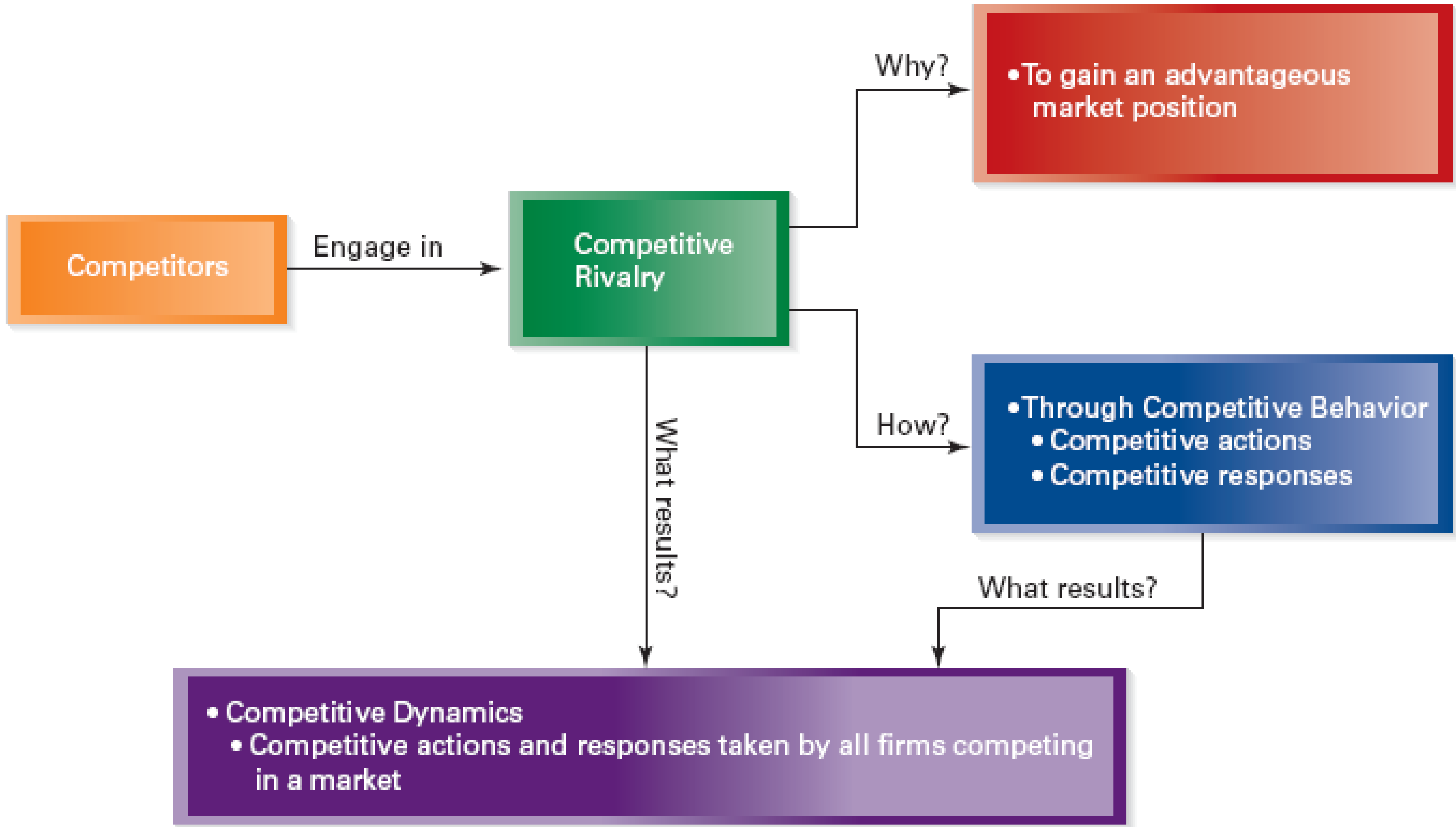
Introduction and definitions

Multimarket Competition

Firms competing against one another in several product or geographic markets

Competitive Dynamics

Total set of actions and responses of all firms competing within a market



From Competitors to Competitive Dynamics

Six content areas

- Competitors, competitive rivalry, competitive behavior and competitive dynamics
- **Market commonality and resource similarity: Building blocks of competitor analysis**
- Competitive actions: Awareness, motivation and ability
- Factors driving competitor's competitive actions
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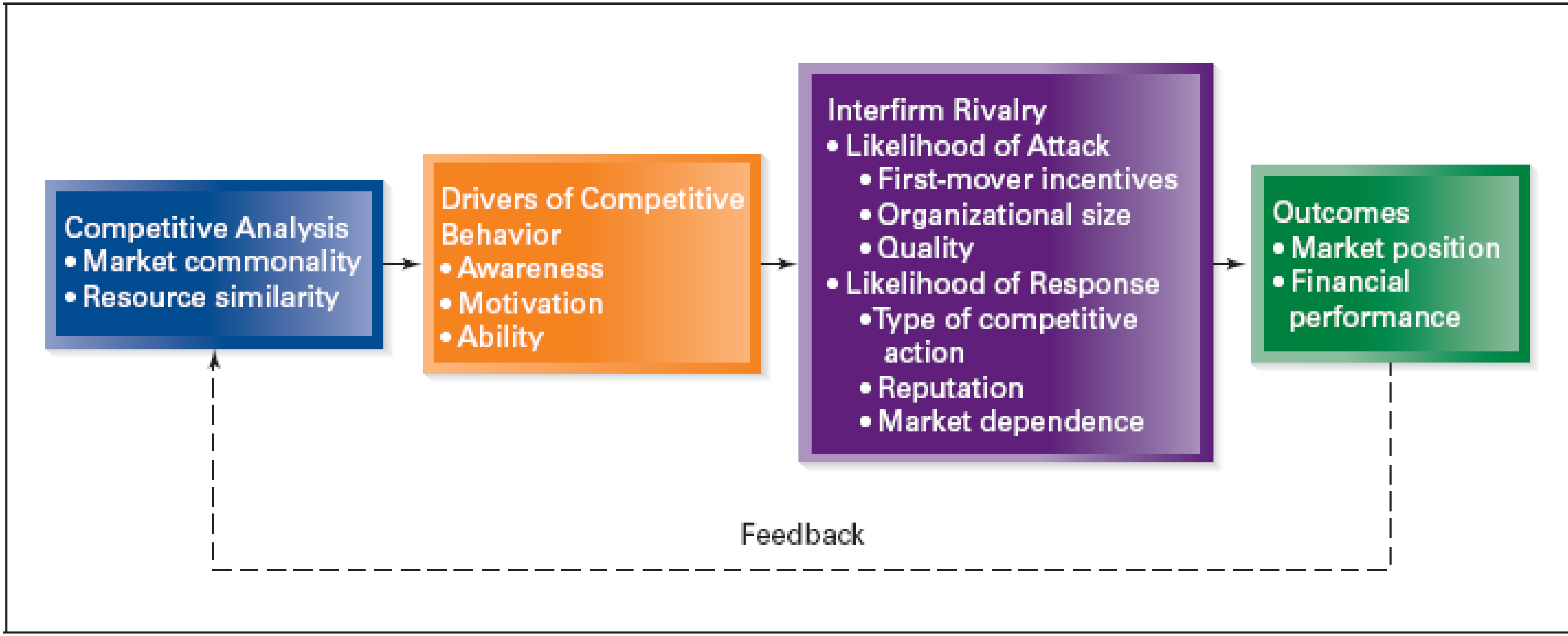
Model of Competitive Rivalry (assumptions)

- Over time firms take competitive actions/reactions
- Pattern shows firms are mutually interdependent
- Firm level rivalry is usually dynamic and complex
- Foundation for successfully building and using capabilities and core competencies to gain an advantageous market position
- Sequence of events (next slide) are the components of this chapter

Model of Competitive Rivalry



Competitor Analysis

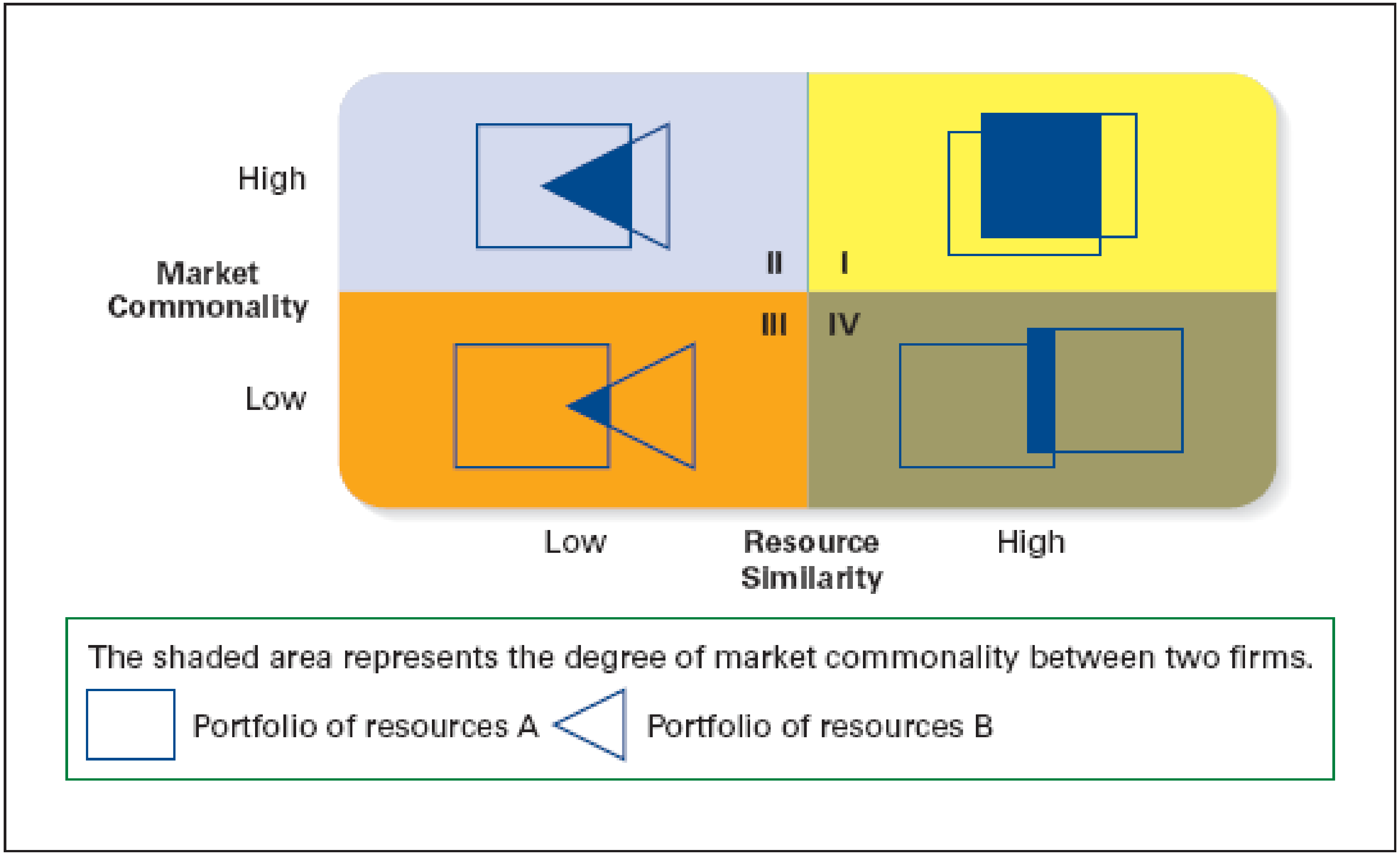
- The question: 'To what extent are firms competitors'?
  - Number of markets in which firms compete against each other
  - Competitor: High market commonality & resource similarity
  - I.e., Dell and HP are direct competitors

Direct competition does not always imply intense rivalry!

Market Commonality: each industry composed of various markets which can be subdivided into (segments) (i.e., financial industry)

Resource Similarity: extent to which firm's tangible/intangible resources are comparable to competitor's in type and amount (i.e., FedEx and UPS both have efficient operations and focus on cost reduction)

Combination of market commonality & resource similarity indicate a firm's direct competitors



A Framework of Competitor Analysis

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Drivers of competitive actions/responses

Market commonality & resource similarity influence three drivers of competitive behavior:

- **Awareness**
  - Prerequisite to any competitive action
  - Extent to which competitors recognize degree of mutual interdependence that results from market commonality and resource similarity
- **Motivation**
  - Firm's incentive to take action, or to respond to a competitor's attack, as it relates to perceived gains and losses
- **Ability**
  - Firm's resources that allow competitive action and flexibility in responsiveness

Drivers of competitive actions/responses

Other influences

The greater the resource imbalance between acting firm and competitors or potential responders, the greater will be the delay in response

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Competitive rivalry

Important to understand competitor's awareness, motivation and ability in order to predict the likelihood of an attack ('likelihood of attack' factors)

What are the strategic and tactical actions?

- Strategic actions/responses: market-based moves that signify a significant commitment of organizational resources to pursue a specific strategy: **difficult to implement and reverse!**
- Tactical actions/responses: market-based moves that involve fewer resources to fine-tune a strategy that is already in place: **easy to implement and reverse!**

Competitive rivalry

What are the strategic and tactical actions?

- **Competitive Action:** strategic or tactical action firm takes to build or defend its competitive advantages or improve its market position
- **Competitive Response:** strategic or tactical action the firm takes to counter effects of a competitor's action
- **Tactical Action (or Response):** market-based move the firm takes in order to fine-tune a strategy

Interfirm rivalry: likelihood of attack

Three possible 'likelihood of response' actions: 1) first mover incentives; 2) organizational size; and 3) quality

1. First Mover Incentives

- Firm that takes an initial competitive action to build or to defend its competitive advantages or to improve its market position
- Must have readily available resources (slack – buffer or cushion provided by actual or obtainable resources not currently used by an organization, resources in excess of the minimum needed to produce a given level of output)
- Often builds upon a strategic foundation of superior R&D skills
- Tends to be aggressive and willing to experiment with innovation
- Tends to take higher, yet reasonable, risks
- Needs to have liquid resources (slack) that can be quickly allocated to support actions
- Benefits can be substantial, but remember the learning curve!

Interfirm rivalry: likelihood of attack

1. First Mover Incentives: responses to:

Second Mover

- Responds to first mover, typically through imitation
- Is more cautious than first movers
- Tends to study customer reactions to product innovations
- Tends to learn from the mistakes of first movers, reducing its risks
- Takes advantage of time to develop processes and technologies that are more efficient than first movers, reducing its costs
- Will not benefit from first mover advantages, lowering potential returns

Late Mover

- Responds to market opportunities only after considerable time has elapsed since first and second movers have taken action
- Has substantially reduced risks and returns

Interfirm rivalry: likelihood of attack

Three possible 'likelihood of response' actions: 1) first mover incentives; 2) organizational size; and 3) quality

2. Organizational size

Small firms

- Act as nimble and flexible competitors
- Rely on speed and surprise to defend their competitive advantage
- Have greater variety of competitive behavior options available

Large firms

- Often have greater slack
- Have greater likelihood to initiate competitive and strategic actions over time
- Tend to rely on a limited variety of competitive actions, which can ultimately reduce their competitive success

Interfirm rivalry: likelihood of attack

Three possible 'likelihood of response' actions: 1) first mover incentives; 2) organizational size; and 3) quality

3. Quality

- Customer perception that the firm's goods or services perform in ways that are important to customers, meeting or exceeding their expectations

Interfirm rivalry: likelihood of response

Additional factors affect the likelihood a firm will competitively respond to a competitor's actions:

1. Types and effectiveness of the competitive action

2. Actor's Reputation

- Actor: firm taking an action or response (in the context of competitive rivalry)
- Reputation: positive or negative attribute ascribed by one rival to another based on past competitive behavior

3. Dependence on the Market

- Extent to which a firm's revenues or profits are derived from a particular market

Finally, if the action significantly strengthens or weakens the firm's competitive position

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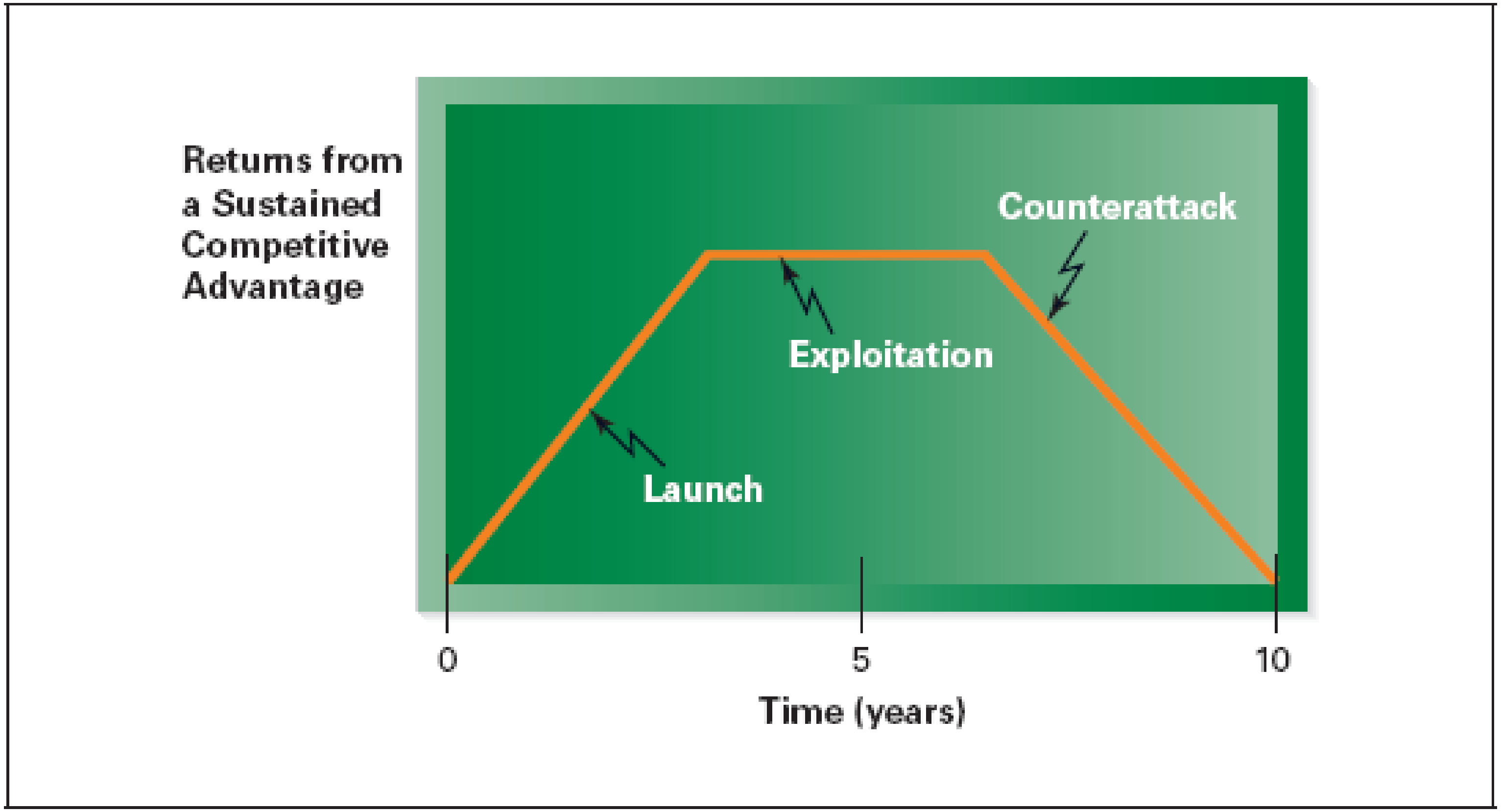
Competitive dynamics: 3 market cycles

1. Slow-Cycle Markets

- Markets in which the firm's competitive advantages are shielded from imitation for long periods of time, and in which imitation is costly
- Build a one-of-a-kind competitive advantage which creates sustainability (I.e., proprietary and difficult for competitors to understand)
- Once a proprietary advantage is developed, competitive behavior should be oriented to protecting, maintaining, and extending that advantage
- Organizational structure should be used to effectively support strategic efforts

Gradual erosion of a sustained competitive advantage

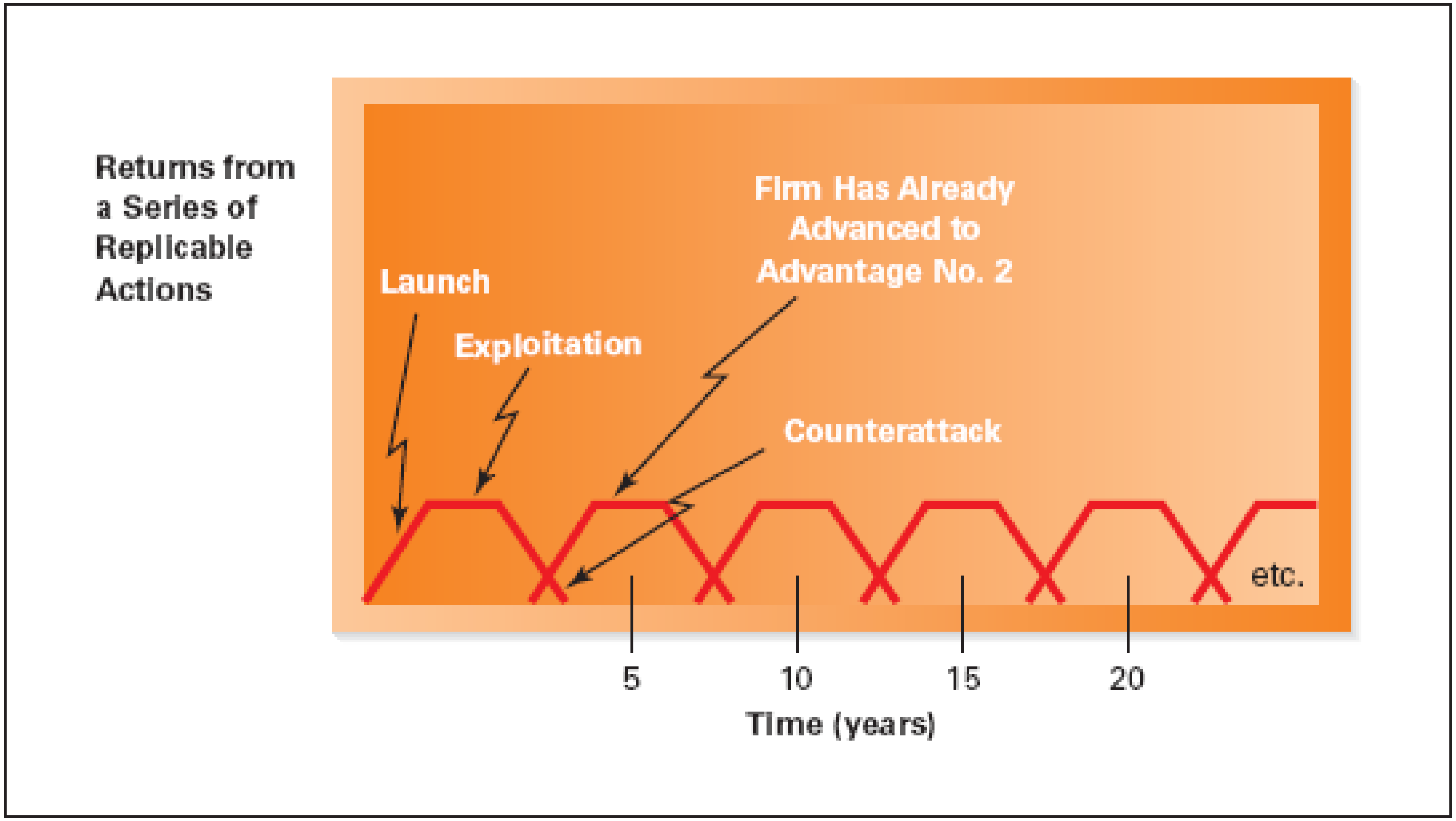


Competitive dynamics: 3 market cycles

2. Fast-Cycle Markets

- Markets in which the firm's capabilities that contribute to competitive advantages are not shielded from imitation and where imitation is often rapid and inexpensive
- Focus: learning how to rapidly and continuously develop new competitive advantages that are superior to those they replace (creating innovation)
- Avoid loyalty to any one product, possibly cannibalizing their own current products to launch new ones before competitors learn how to do so through successful imitation
- Continually try to move on to another temporary competitive advantage before competitors can respond to the first one

Developing temporary advantages to create sustained advantage



Competitive dynamics: 3 market cycles

3. Standard-Cycle Markets

- Markets where firm's competitive advantages are moderately shielded from imitation and where imitation is moderately costly
- Competitive advantages partially sustained as quality is continuously upgraded
- Seek to serve many customers and gain a large market share
- Gain brand loyalty through brand names
- Careful operational control/manage a consistent experience for the customer