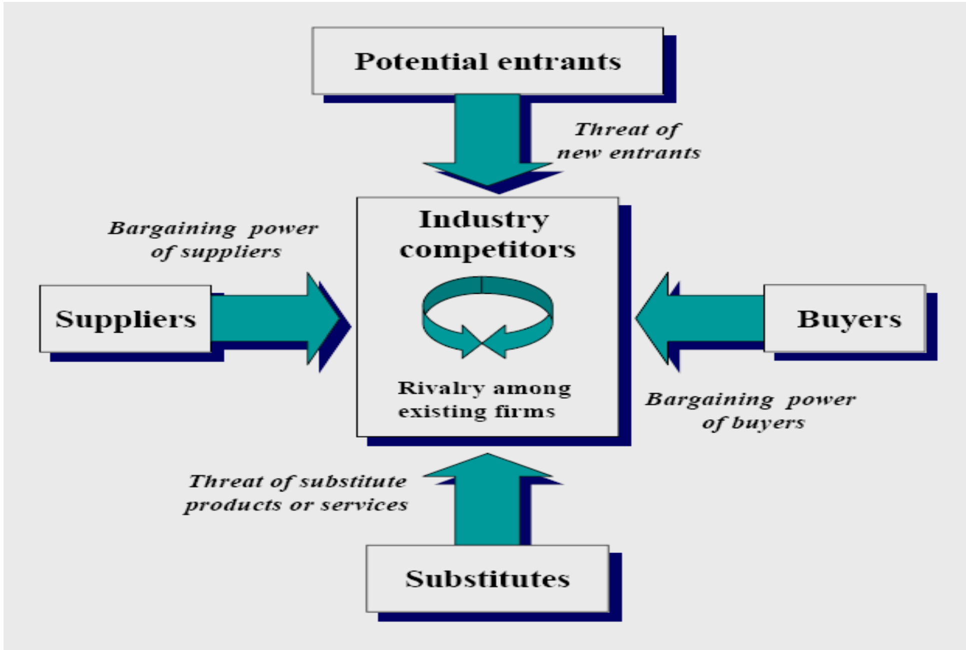
Competition Analysis

Porter's Approach to competitive analysis

One of the major contributions in the recent years in the study of competitive analysis is by porter. His work is based on the idea that "competition in an industry is rooted in its underlying economic and competitive forces that go well beyond the well-established combatants in a particular industry."

Porter suggested that the nature and intensity of competition within any industry is determined by the interaction of the five key forces as follows:

- The threat of new entrant
- The power of buyers
- The threat of substitutes
- The extent of competitive rivalry
- The power of suppliers



1) The Competitive Force of Potential Entry

Barriers to entry are related to:

- Economies of scale
- Brand equity and identity
- Product differentiation
- Proprietary products
- Access to inputs
- The existence of learning and experience curve effects
- Brand preferences and customer loyalty
- Capital requirements
- Cost disadvantages independent of size
- Proprietary learning curve

- Access to distribution channels
- Switching costs
- Expected retaliation
- Government actions and policies

New entrants to an industry bring new capacity, a desire to gain market share and position, and, very often, new approaches to serving customer needs. The decision to become a new entrant in an industry is often accompanied by a major commitment of resources. New players push prices downward and squeeze margins, resulting in reduced industry profitability. Porter describes eight major sources of barriers to entry, the presence or absence of which determines the extent of the threat of new industry entrants.

The first barrier, economies of scale, refers to the decline in per unit product costs as the absolute volume of production per period increases. Although the concept of scale economies is frequently associated with manufacturing, it is also applicable to research and development (R&D), general administration, marketing, and other business functions. Honda's efficiency at engine R&D, for example, results from the wide range of products it produces that feature gasoline-powered engines. When existing firms in an industry achieve significant economies of scale, it becomes difficult for potential new entrants to be competitive.

Product differentiation, the second major entry barrier, is the extent of a product's perceived uniqueness-in other words, whether or not it is a commodity. High levels of product differentiation and brand loyalty, whether the result of physical product attributes or effective marketing communication, "raise the bar" for would-be industry entrants For example, managers at Monsanto's G. D. Searle subsidiary achieved differentiation and erected a barrier in the artificial sweetener industry by insisting that the Nutrasweet logo and brand mark-a red-and-white swirl-appear on diet soft-drink cans and bottles.

A third entry barrier relates to capital requirements. Capital is required not only for manufacturing facilities (fixed capital) but also for financing R&D, advertising, field sales and service, customer credit, and inventories (working capital). The enormous capital requirements in such industries as pharmaceuticals, mainframe computers, chemicals, and mineral extraction present formidable entry barriers.

A fourth barrier to entry is one-time switching costs caused by the need to change suppliers and products. These might include retraining, ancillary equipment costs, cost of evaluating a new source, and so on. The perceived cost to customers of switching to a new competitor's product may present an insurmountable obstacle preventing industry newcomers from achieving success. For example, Microsoft's huge installed base of PC operating systems and applications presents a formidable entry barrier.

A fifth barrier to entry is access to distribution channels. To the extent that channels are full, expensive to enter, or unavailable, the cost of entry is substantially increased because a new entrant must create and establish new channels. Most foreign companies have encountered this barrier in Japan. This is not a so-called non-tariff barrier, or a barrier designed to discriminate against foreign firms-it applies to any firm, domestic or foreign, seeking market entry.

Government policy is frequently a major entry barrier. In some cases the government will restrict competitive entry. This is true in a number of industries, especially those in the low, lower-middle, and upper-middle income countries that have been designated as national industries by their respective governments. Japan's post war industrialization strategy was based on a policy of preserving and protecting national industries in their development and growth phases. In many cases, the Japanese companies in these protected industries have gone on to become major world competitors in their industries. Komatsu, for example, was a weal local company when Caterpillar announced its interest in entering the Japanese market. Komatsu was given two years of protection by the Japanese government, and today it is the number-two earth-moving equipment company in the world. China is following a policy today of requiring foreign investors in many industries to join with local partners in their Chinese investments. In telecommunications, for example, it is not possible to invest in China without a partner.

Established firms may also enjoy cost advantages independent of the scale economies that present barriers to entry. Access to raw materials, favourable locations, and government subsidies are several examples.

Finally, expected competitor response can be a major entry barrier. If new entrants expect existing competitors to respond strongly to entry, their expectations about the rewards of entry will certainly be affected, a potential competitor's belief that entry into an industry or market will be an unpleasant experience may serve as a strong deterrent. Bruce Henderson, former president of the Boston Consulting Group, used the term brinkmanship to describe a recommended approach for deterring competitive entry. Brinkmanship occurs when industry leaders convince potential competitors that any market entry effort will be countered with vigorous and unpleasant responses.

2) The Competitive Force of Substitute Products

A second force influencing competition in an industry is the threat of substitute products. The availability of substitute products places limits on the prices market leaders can charge in an industry; high prices may induce buyers to switch to the substitute. The factors relating to threat of substitutes are:

- Low switching costs
- High fixed cost
- Low differentiation
- Large capacity requirements
- Diverse competitions
- Price performance payoff of substitutes
- Buyer propensity to substitutes

For example, Barnes & Noble watched the upstart Amazon create a new product the on-line bookstore. Customers could now order from millions of books and have them delivered to their doors in a matter of days. For a segment of the book market, local bookstores with only a few thousand books and a Starbucks Coffee facility were not necessary. Since it started in 1995, Amazon.com has grown to over $1.6 billion, expanded its product line into CDs and videos, diversified into pet and drug supplies to name but two areas, and served 17 million customers in 160 countries. Amazon.com is growing at the rate of 169 percent while Barnes & Noble is only growing at 16 percent. Apparently, the virtual bookstore is an extremely successful replacement for a traditional format.

- The price and availability of acceptable substitutes for product X places a ceiling on the prices, which the producers of product X, can charge.

- Unless the sellers of product X can upgrade quality, reduce prices via cost reduction, or otherwise differentiate their product from its substitutes, they risk a low growth rate in sales and profits because of the inroads substitutes may make.
- The competitions form substitutes are affected by the ease with which buyers can change over to a substitute. A key consideration is usually the buyers switching costs- the one-time costs facing the buyer in switching from use of X over to a substitute for X.

3) The Bargaining Power of Suppliers

If suppliers have enough leverage over industry firms, they can raise prices high enough to significantly influence the profitability of the industry. Several factors influence supplier bargaining power:

1. Suppliers will have the advantage if they are large and relatively few in number.

2. When the suppliers' products or services are important inputs to user firms, are highly differentiated, or carry switching costs, the suppliers will have considerable leverage over buyers.

3. Suppliers will also enjoy bargaining power if their business is not threatened by alternative products.

4. The willingness and ability of suppliers to develop their own products and brand names if they are unable to get satisfactory terms from industry buyers will influence their power.

A good example of the bargaining power of suppliers is OPEC, which controls the price of oil. In the 1970s and again in 2000, gasoline prices were significantly raised. At one point in time gasoline prices at the pumps had increased about 33 percent in six months. Since there is no alternative, customers are forced to pay the higher prices.

A group of supplier firms has more bargaining power:

- When the impact of input on total product costs is, in one way or another, important to the buyer.

- For the case of supplier concentration i.e. when the supplier industry is dominated by a few large producers who enjoy reasonably secure market positions and who are not beleaguered by intensely competitive conditions
- When the switching cost of firms is more
- When suppliers' respective products are differentiated to such an extent that it is difficult or costly for buyers to switch from one supplier to another.
- When the buying firms are not important customers of the suppliers.
- When the substitute inputs are not available
- When the inputs are well-differentiated
- When one or more suppliers pose a credible threat of forward integration.

4) The Bargaining Power of Customers

The ultimate aim of industrial customers is to pay the lowest possible price to obtain the products or services that they use as inputs. Usually, therefore, the buyers' best interests are served if they can drive down profitability in the supplier industry. The following are conditions under which buyers can exert power over suppliers:

- When they purchase in such large quantities that supplier firms depend on the buyers' business for survival.
- When the supplier's products are viewed as commodities-that is, as standard or undifferentiated-buyers are likely to bargain hard for low prices because many supplier firms can meet their needs.
- When the supplier industry's products or services represent a significant portion of the buying firms' costs.
- When the buyers have sufficient information about the company to take any proactive decision
- When the buyer concentration is high
- When the profit margin is low
- When the purchase is not so important for the buyers

- When the brand does not enjoy high equity
- When the buyer is willing to achieve backward vertical integration.
- When the bargaining leverage is very high

Some of the important points to be considered are:

- The leverage and bargaining power of customers tend to be relatively greater:
- When customers are few in numbers and when they purchase in large quantities.
- When customers' purchasers represent a sizable percentage of the selling industry's total sales.
- When the supplying industry is comprised of large numbers of relatively small sellers.
- When the item being purchased is sufficiently standardized among sellers that customers can not only find alternative sellers but also they can also switch suppliers at virtually zero cost.
- When customers pose a credible threat of backward integration.
- When the item being bought is not an important input.
- When it is economically feasible for customers to purchase the input from several suppliers rather than one.

5) The Competitive Force of Rivalry

Rivalry among firms refers to all the actions taken by firms in the industry to improve their positions and gain advantage over each other. Rivalry manifests itself in price competition, advertising battles, product positioning, and attempts at differentiation. To the extent that rivalry among firms forces companies to innovate and/or rationalize costs, it can be a positive force. To the extent that it drives down prices and, therefore, profitability, it creates instability and negatively influences the attractiveness of the industry. Several factors can create intense rivalry:

- Once an industry becomes mature, firms focus on market share and how it can be gained at the expense of others.

- Industries characterized by high fixed costs are always under pressure to keep production at full capacity to cover the fixed costs. Once the industry accumulates excess capacity, the drive to fill capacity will push prices-and profitability-down.
- A lack of differentiation or an absence of switching costs encourages buyers to treat the products or services as commodities and shop for the best prices. Again, there is downward pressure on prices and profitability.
- Firms with high strategic stakes in achieving success in an industry generally are destabilizing because they may be willing to accept unreasonably low profit margins to establish themselves, hold position, or expand.

The relevant points to be considered are:

- Rivalry tends to intensify as the number of competitors increases and as they become more equal in size and capacity.
- Rivalry is usually stronger when demand for the product is growing slowly.
- Rivalry is more intense when competitors are tempted by industry conditions of intermittent overcapacity to use price cuts or other competitive weapons to boost unit volume.
- Rivalry is stronger when the products and services of competitors are so weakly differentiated that customers incur low costs in switching from one brand to another.
- Rivalry increase in proportion to the size of the payoff from a successful strategic move.
- Rivalry tends to be more vigorous when it costs more to get out of a business than to stay in and compete.
- Rivalry is intense when the exit barrier is low
- Rivalry becomes more volatile and unpredictable the more diverse the competitors are in terms of their strategies, personalities, corporate priorities, resources, and countries of origin.
- Rivalry increases when strong companies outside the industry acquire weak firms in the industry and launch aggressive well-funded moves to transform the newly acquired competitor into a major market contender.

- Rivalry is more intense when the market shares of competitors are very close to each other
- Rivalry gets intensified when cost of switching from to another product is low

Strategies for leaders

Six military defence strategies that can be used are as follows:

1) Position Defence

Also called fortress, this method relies on apparent impregnability of a fixed position. The attacker on the other hand adopts an indirect approach rather than head-on attack as the leader who follows this strategy expects. For instance, Land Rover failed when attacked by Toyota Suzuki and Sabaru.

Regarding this strategy Saunders has highlighted “a company attempting a fortress defence will find itself retreating line after line of fortification into shrinking product market. The stationary company will end up with out-dated products and lost markets, undermined by competitors who find superiority in the new products in the market place. Even a dominant leader cannot afford to maintain static defence. It must continually engage in product improvement, line extension and product proliferation, the examples being Unilever and Coca Cola have.” Tata group in spite of being emerged as one of the leading business groups has acquired Daewoo Commercial Vehicle Works to strengthen their automobile portfolio.

2) Mobile defence

This strategy of defence is based on the concept of marketing myopia by Theodre Levitt. Rather than becoming preoccupied with defence of current product and markets through the proliferation of brands, the strategist concentrates upon market broadening and diversification. The firm wants to occupy new territory, which will serve as offence or defence in future.

- Market broadening: It involves the company in shifting its focus from the current production to the underlying generic need. GAIL is transforming itself from an “only gas distribution company" to "Energy Company". Such a strategy should take into account the 'principle of objective' (i.e. following a clearly defined and attainable objective) and the 'principle of mass' (i.e. concentrating efforts at a point of enemy weakness)

- Market diversification: To diversify in unrelated industry is another option which reduces their vulnerability to predators Tata group diversified into booming software industry through formation of Tata Consultancy Services (TCS).

The firms have to not only fight back attacker but also retaliate. One needs to define and redefine the business it is in. The marketing strategist should not lose sight of two principles: The principle of objective (pursue a clearly defined and realistic objective) and The principle of mass (focus your efforts on enemy's point of weakness). The strategy of market broadening should be real and reflect company capability

3) Flanking Defence

Flank of an organization is often less well protected than other parts. This implies that secondary market should not be ignored. The market leader should also erect outposts to protect a weak front or possibly serve as an invasion base from counterattack. Due to growing anti-smoking campaigns, ITC is slowly diversifying into food and agro industries and to stay ahead in this field, it has successfully launched packaged rice, *atta* under Aashirbad brand and conceptualized e-choupals for successful procurement of agricultural produce.

4) Contraction defence

This is a situation where faced with an actual or potential attack, a company will recognize that it has little hope of defending itself fully. So it withdraws from those segments and geographical areas in which it is most vulnerable or in which it feels there is least potential. It then concentrates its resources in those areas where it is less vulnerable. Hindustan Lever Ltd. has contracted its huge brand portfolio to only 30 power brands.

5) Pre-emptive Defence

Recognizing the possible limitations both of a position defence and a contraction defence, many strategists in recent years have recognized the potential value of pre-emptive strikes. This involves gathering information on potential attacks and then capitalizing upon competitive advantages, striking first. This strike can take one of two broad forms: either the company behaves aggressively by, for example, hitting one competitor after another, or it uses psychological warfare by letting it known how it will behave if a competitor acts in a particular way, a strategy which has been labelled FUD marketing-that is spreading fear, uncertainty and despair. This has been successively used by P&G. Here the pre-emptive behaviour takes the form of consistent and broad ranging product development, heavy advertising, aggressive pricing and a general philosophy of what is referred to as "competitive toughness". In 1996, when Coca-Cola bought the official sponsorship of cricket world cup, Pepsi has introduced its breakthrough campaign "nothing official about it" thus stealing all the limelight that obviously would have gone to Coke's favour.

6) Counter Offensive Defence

Most market leaders will respond to any attack with a counterattack. Thus this strategy comes into play when attack has taken place. Faced with a competitor's significant price cut, a market leader needs to respond to minimise threat by new product launch and/or increasing advertising budget. The response takes three forms

1. Meet the attack head on
2. Attack the attacker's flank
3. Develop a pincer movement in an attempt to cut off the attacker's operational base

Of these three strategies the first one is most straightforward. Secondly market leader can try searching for a gap in the attacker's armour. Finally the third one is fighting back by hitting the attacker's base. Reliance counterattacked its GSM rivals like Airtel and Hutch when it introduced WLL mobiles through huge promotional campaigns and simultaneous hectic appeals to TRAI.

Strategies for market challengers

The challenger must meet three basic conditions:

1. It must have sustainable competitive advantage either in terms of cost or differentiation.
2. It must be able to partly or wholly neutralise the leader's advantage, typically by doing almost as well as the leader that which the leader does best.
3. There must be some impediment to the leader retaliating.

Though ideally the challenger will meet all the three conditions, fulfilling one or two can often offset a degree of weakness in meeting the others. A successful attack by a challenger is typically based on a degree of reconfiguration of the activities that make up the business be it in the form of design, manufacture or delivery. If a challenger cannot do this best option is to ignore the leader and pursue others of same or smaller size and potentially more vulnerable. Thus the profile of challenger, cost and risk involved are the major determinants of challenger success. Recognition of this should lead the strategist to a clearer perception of the course of action that is likely to be the most cost effective. This means choosing between:

- Attacking the market leader (a high-risk but potentially high-return strategy)
- Attacking forms of similar size to itself bit which are either under-financed or reactive
- Attacking smaller regional firms

The strategies for the market challenger are as follows:

1) Frontal Attacks

It is an all-out attack on opponents' territory. In launching a frontal attack, a market challenger can opt for either the pure frontal attack by matching the leader product for product, price for price and so on, or a rather more limited frontal attack by attracting away limited customers. Although the success of pure frontal attack is limited, some very common examples include Xerox who attacked Gestetner and 3M in copying market and captured the market by virtue of better product quality. Subsequently, when they became market leader, they were attacked by a large number of companies like Sharp, Canon, Panasonic, Toshiba and Mita. A similar attack was made by TDK against the pioneer 3M in magnetic recording tape industry in 70's that made 3M a minor player by 1982. Having learnt the lesson, 3M launched a second brand EXG to ensure dominance in the premium quality and price sector. It then capitalised on its distribution strengths by opting for intensive distribution covering office suppliers to chain stores. With regard to price, it matched the Japanese blow for blow to ensure that it maintained its leadership position. But Saunders pointed out that pure frontal attack proves to be an expensive failure citing the example of Laker against larger airlines such as British Airways, Pan Am and TWA and in the mainframe computer market, attacks by RCA, Xerox and GE against IBM. The challenger attacks with utmost effort and resources in using all possible marketing-mix tools and other resources based on the principle of force, which states that the side with the greater manpower and other resources will win. As per principle of offensive warfare, it should concentrate strength against the weakness of defender. Times of India when enters in a new city attacks the leader from all possible fronts in order to gain the market leadership.

2) Flank Attack

It is an indirect approach and is more economical and more effective. In business terms, flanking attack translates into an attack on those areas where the leader is geographically weak and in market segments or areas of technology, which have been neglected. Honeywell used geographical approach in 60's and early 70's against IBM in American computing business by concentrating its efforts on the small and medium-sized cities in which IBM's representation was high but not intense as in the major cities. Alternative to geographical flanking is technological flanking which is also called leap-frogging, the example being Japanese car industry, which rewrote the rules of how to mass produce cars to such an extent that not only did they manage to undercut the traditional market leaders, but also reversed the flow of technology transfer in the industry. HP has used segmental flanking with mini computers, Apple with micros, Toyota and Volkswagen.

The lesson in each case is same: identify the areas of market need not covered by the market leader and then concentrate resources on building both size and share. In doing this it is essential that the attacker moves quickly because the challenge becomes clearer over time and can lead to a sudden competitive response in which the company that attacks regains the initiative. In majority of cases however the company being attacked either fails to recognise the significance of the challenge or is unsure of how best to retaliate and as a result responds only slowly. A flank attack can be directed along 2 strategic dimensions:

Geographic: The challenger spots areas where the opponent is under performing. In white goods industry, LG emphasised to strengthen its rural marketing network through decentralised, well-connected 40 branch offices, 60 central area offices (CAO) and 65 remote area offices (RAO).

Segmental: The challenger serves unmet market needs. Kinetic Group started Kinetic Marketing Services Ltd. (KMSL) in 1999 to sell mopeds and other two-wheelers directly to the customers in order to do away the hazards for the consumers to interact and negotiate with the trade channels

3) Encirclement Attack

Whereas flanking in its purest form involves an attack on just one front, encirclement has parallels with blitzkrieg in that it involves launching an attack on as many fronts as possible in order to overwhelm the competitor's defence. In this way the defenders ability to retaliate is reduced dramatically. Although quite obviously an expensive strategy to pursue and one which is almost guaranteed to lead to significant short-term losses, its record of success in the hands of certain types of company is impressive. The Japanese companies in different sectors have developed encirclement strategies with emphasis on rapid PLC, frequent and radical new product launches, wide product ranges, aggressive pricing, strong dealer support etc.

Real Life Case Scenario

Seiko

It made use of encirclement strategy not just with the sheer number of models, which are changed constantly, but also by acquiring distribution in every watch outlet possible and by heavy advertising that gives emphasis to fashion, features, user preferences and everything else that might motivate customers.

Komatsu

It attacks market leader Caterpillar based on internally used slogan, 'Encircle Caterpillar'. It translated into a series of attacks on market niches, improvements in product quality, extensions to its product range and pricing at levels of 10-15% lower than those of Caterpillar.

Yamaha

By the early 60's, Honda established in US as the undisputed leader in motorcycle market through its aggressive sales, distribution and product development strategy. Attracted by the size and profitability of the market, Yamaha entered into market and identified Honda's weaknesses and areas of potential vulnerability including a number of successful but complacent dealers, a series of management changes, and discouragement of some new and more aggressive franchise-seeking dealers. Yamaha offered its own franchises to the best of these dealers and recruited an ambitious sales force to train and motivate team. It invested heavily in the design of motorcycles to demonstrate mechanical superiority followed by heavy advertising designed to increase buyer awareness and dealer motivation. It also invested in safety measures and promoted them extensively. As a result of these measures better known as "Yamaha's Kamikaze attack", Yamaha became no. 2 in the market. But the subsequent moves to become number one by introducing new models with advertising slogan 'Yamaha take the lead' failed significantly.

4) Bypass Attack

In short term it is the most indirect of assaults, in that it avoids, any aggressive move against the defenders' existing product or markets. Instead the strategist typically concentrates on developing the organisation by focusing on <u>unrelated products</u>, <u>new geographical markets</u> for existing products and in case of high tech industries, by <u>technological leap-frogging</u>. It involves bypassing the enemy and attacking easier markets to broaden one's resource base. This strategy offers 3 lines of approach:

- Diversifying into unrelated products
- Diversifying into new geographical markets
- Adopting new technologies to emulate the present product

5) Guerrilla Attack

This is best suited to small companies with relatively limited resource base. Whereas frontal attacks, flanking, encirclement and even bye pass attacks are generally broad based and costly to pursue, a guerrilla attack is made up of a series of hit-and-run moves designed to demoralise the opponent as a prelude to destabilising and keeping the competitor off balance. In practice this involves drastic short term price cuts, sudden and intensive burst of advertising, product comparison, damaging public relations activity, poaching a competitor's key staff, legislative moves and geographically concentrated campaigns. The success of this kind of strategy depends partly on competitor's response.

Real Life Case Scenario

Boots

Boots launched its Rufen brand of ibuprofen, an anti-arthritic drug in US in late 80's with radical penetration pricing strategy with 20% discount under market leader Motrin's price along with $1.50 rebate on purchase of 100-tablet bottle. Since the government's Medicare and Medicaid programmes reimbursed pharmacists only for the lowest cost drug suited to the treatment. Boots gained 20% of Motrin's sales. Moreover, since most of the arthritis patents are price-sensitive aged people, Boots' strategy proved to be appealing to them

It is too understood that the market challengers should not only rely on just one strategy, but should design a strategy made up of several strands, which by virtue of their cumulative effects, can give the challenger a competitive advantage. In choosing among these various targets, the strategist is likely to be influenced by a variety of factors, including perception of the leader's likely response, the availability of the resources needed to launch an effective attack, and the possible pay-offs. In addition, however, the strategist should also perhaps be influenced by the findings of the military historian, Liddell-Hart. In an analysis of the 30 most important conflicts of the world from the Greek wars up to World War One (this included 280 campaigns), Liddell-Hart concluded that a direct head-on assault succeeded on only six occasions. By contrast, indirect approaches proved not only to be far more successful, but also more economic. This thinking, when applied to business, has led to a series of guidelines for challengers, which are summarized below.

The 10 most commonly used and strategic strands are:

1) Price discounting: Fuji attacked Kodak by offering photographic film and paper which they claimed was of the same quality as the market leader, but 10 per cent cheaper, a similar strategy was pursued by Amstrad in the personal computer market.
2) Cheaper goods: Aldi's attack in the grocery retailing market was based on providing a different quality-price combination than that of the other players in the market. Similarly, the coach travel company National Express has based its attack upon British Rail on a strategy of lower prices.
3) Prestige image: Much of the success achieved in the car market by Mercedes and BMW has been based on the development of an image of quality, reliability and consumer aspiration
4) Market development: Walker's Crisps achieved considerable success in the 1960s by focusing on the previously ignored market sector of children. The market leader, Smiths, had traditionally concentrated on adults and had distributed through pubs. The attack on such a different front took Smiths by surprise.
5) Product proliferation: The success of Seiko's attack on other watch manufacturers owes much to its strategy of developing some 2400 models designed to satisfy fashion, features, user preferences and virtually anything else that might motivate consumers.
6) Product innovation: By offering a constant stream of new and updated products, a challenger gives buyers a powerful reason for changing their purchasing patterns. Among those to have done this successfully are Polaroid with cameras and, in the 70's, Apple with microcomputers.
7) Improved services: Avis challenged Hertz, the market leader in the car hire market, with a strategy that promised a faster and higher level of service. Its advertising slogan, 'Avis, we're number two, we try harder', is now part of advertising mythology.
8) Manufacturing cost reduction: Many Japanese companies entered the European and North American markets in the 60's and 70's on the back of a cost-reduction, price-led strategy designed to put pressure on domestic manufacturers. Subsequently, a large number of these Japanese companies have modified their approach and repositioned by, for example, emphasizing quality, reliability and prestige. Their place has now been

taken by a second wave of companies, this time from Korea, Taiwan and the Philippines, which are emphasising cost reduction and lower prices.

9) Distribution innovation: Timex watches achieved considerable sales success as the result of a strategy, which pioneered a new approach to watch distribution. Rather than selling the product through specialist jewellery stores, the company opted for a far broader approach by distributing through chain stores and supermarkets.

10) Intensive advertising promotion

Strategies for market followers

Unlike the challengers the followers adopt far less proactive posture simply by following what others do. Levitt on this issue has suggested that a strategy of product imitation can often be as profitable as a strategy of innovation. According to Kotler the innovator bears the huge expense of developing and introducing the product in the market, educating the customers and followers takes away all the benefits by introducing the same improved product.

Followers do not become leaders but earn huge profits, as the initial expenses are low. Followers are there as to beat the leaders a breakthrough in terms of innovation, price and distribution is necessary, which is difficult to achieve. They avoid risk of confrontation and retaliation. In strategic terms it meant that that they copy the market leaders by offering broadly the similar products, prices and levels of service. This is often called “me too strategy”. The result is direct competition is avoided and market shares tend to remain relatively stable over a considerable period of time. This does never mean that the followers do not have a strategy of their own in spite of this the followers have their own strategies as Saunders points out the strategies of successful low share followers

1. Careful market segmentation, competing only in areas where their particular strengths were highly valued.
2. Efficient use of limited R&D budgets
3. They thought small and stayed small

4. The companies were willing to challenge conventional wisdom, their leaders were often strong willed, committed and involved in almost all aspects of their companies' operations.

A follower should have a distinct strategy of their known and not follow a strategy that is largely derivative and implicit. In other words they should position themselves individually so that the customer base is not eroded, sales increase in line with market growth and that it is not overly vulnerable to market challenger or leader. For this they should do tight cost control, early recognition of developing opportunities and a clear product and service strategy. It is possible to identify three quite distinct postures for market followers, depending on how closely they emulate the leader:

1. Following closely: similar marketing mix and market segmentation
2. Following at a distance: to maintain distinct areas of difference between the two
3. Following selectively: to minimise chances of direct competition

In other words the strategies that a follower would adopt to are as follows:

- Counterfeiter: The counterfeiter duplicates the leader's product and package and sells it on the black market or through disreputable dealers. Leading FMCG brands frequently face this type of market practice.
- Cloner: The cloner emulates the leader's products, name and packaging with slight variations. There are innumerable products with slight variation from established brands like Sunrise, Kwality, Nirma in name, logo design etc.
- Adapter: The adapter takes the leader's products and adapts or improves them. After 2nd World war, many Japanese companies have started by adapting and then improving products developed in US.
- Imitator: The imitator copies some things from the leader, but maintains differentiation in terms of packaging, advertising, pricing etc. Walkman was developed by Sony, which was copied by so many other companies with slight variation in externalities.

A framework on competitive strategies for leaders, followers and challengers is given below.

	Stages of industry development

Strategic position of the firm	*Growth*	*Maturity*	*Decline*
Leader	• Keep ahead of the field • Discourage other possible entrants • Raise entry barriers • Develop a strong selling proposition and competitive advantage • 'Lock in' distributors • Advertise extensively	• Hit back at challengers • Manage costs aggressively • Raise entry barriers further • Increase differentiation • Encourage greater usage • Search for new uses • Harass competitors • Develop new markets • Develop new products and product variations • Tighten control over distributors	• Redefine scope • Divest peripherals • Encourage departures • Squeeze distributors • Manage costs aggressively • Increase profit margins
Challenger	• Enter early • Price aggressively • Develop a strong alternative selling proposition • Search for the leader's weaknesses • Constantly challenge the leader • Identify possible new segments • Advertise aggressively • Harass the leader and followers	• Exploit the weaknesses of leaders and followers • Challenge the leader • Leapfrog technologically • Maintain high levels of advertising • Price aggressively • Use short-term promotions • Develop alternative distributors • Take over smaller companies	If the challenging strategy has not been successful, manage the withdrawal in the least costly way to you but in the most costly way to others
Follower	• Imitate at lower cost if possible • Search for joint ventures • Maintain vigilance and guard against competitive attacks • Look for unexploited opportunities	• Search for possible competitive advantages in the form of focus or differentiation • Manage costs aggressively • Look for unexploited opportunities • Monitor product and market developments	• Search for opportunities created by the withdrawal of others • Manage costs aggressively • Prepare to withdraw

Strategies for market nichers

Typically this strategy is associated with small companies. But divisions of larger companies in industries in which the competition is intense also adopt this. In these firms the costs of achieving a prominent position are disproportionately high. The advantages of niche strategy are therefore considerable since if done properly it is not only profitable but also avoids confrontation and competition. But according to Davidson, before taking such a strategy companies must consider 3 questions viz.

- Is the niche segment recognised by consumers and distributors or is it just a figment of marketing imagination?
- Is your niche product distinctive and does it appeal strongly to a particular group of consumers?
- Is your product premium-priced with above-average profit margin?

Unless the answers to all the above questions are affirmative, it is unlikely the brand is a true nicher, but instead a poor performer in a far larger market. In the light of these observations, Kotler identified the following characteristics of ideal niche:

1. It is of sufficient size and purchasing power to be profitable
2. The niche has growth potential
3. The niche is of negligible interest to major competitors
4. The firm has the required skills and resources to serve the niche effectively
5. The firm can defend itself against an attacking major competitor through the customer goodwill it has built up

The potential profitability of niching has been discussed by many experts. Two McKinsey consultants named Clifford and Cavanagh found from a study of successful mid-size companies that their success was directly attributable to the way in which they niched within a large market rather than trying to operate in whole market. Biggadike in a study of 40 firms that entered established markets found that the majority chose to concentrate upon narrower product lines and market segments than the better-established incumbents.

Specialisation is the heart of effective niche strategy. Specialisation can, however, prove dangerous if the market changes in a fundamental way either as a result of greater competition or an economic downturn, and the nicher are left exposed. So there is often an argument for multiple niching rather than single sector niching. Guidelines for how nichers operate are

- Specialising geographically
- Specialising by the type of end user
- Specialising by product or product line
- Specialising on a quality/price spectrum
- Specialising by service
- Specialising by size of customer
- Specialising by product feature
- Job-shop specialist
- Product feature specialist
- Vertical-level specialist
- Specific customer specialist
- Channel specialist

Competitive Strategy as a Game

It has long been recognized that competition between organisations can be seen in much the same way as a game, in that the outcome in terms of an organisation's performance is determined not just by its own actions but also by the actions and reactions of the other players, such as competitors, customers, governments and other stakeholders. However, as the pace of environmental change increases and the nature, sources and bases of competition alter, markets become more complex and the competitive game consequently becomes more difficult to win, something which has been illustrated by a spectrum of markets including colas, films and cameras, airlines, detergents, disposable nappies, tyres, computer hardware and software, and newspapers. In markets such as these, the ever present danger is of one company taking a step such as a price cut which then proves to be mutually destructive as everyone else responds in a desperate attempt to avoid losing customers, volume and share. From the customers' point of view, of course, moves such as these are often attractive, particularly as they can lead to a different set of expectations, which any individual firm then finds difficult to reverse. It follows from this that the need to manage competition and the competitive process, while often difficult, is essential. Although there are no hard and fast rules, it is possible to identify a number of very broad guidelines, which companies might follow. These include:

- *Never ignore new competitors* particularly those who enter at the bottom end of the market since, almost inevitably, once a firm gains a foothold it will start targeting other segments of the market. Examples of this include the early manufacturers of calculators who ignored Casio; IBM, which ignored a series of initially small players such as Apple, Dell and Compaq; the UK motorcycle manufacturers who underestimated the Japanese such as Honda, Yamaha, Kawasaki and Suzuki; and Xerox, which was hit hard by Canon.
- *Always exploit competitive advantages* and never allow them to disappear unless they are being replaced by an advantage, which, from the customer's point of view, is more powerful and meaningful.
- *Never launch a new product or take a new initiative without working out how the competition will respond* and how you will be affected by this.

Although these three guidelines are in many ways self-evident, the reality is that numerous organisations develop and implement strategies which reflect little real understanding or awareness of the competition. Others, however, do manage to develop competitive strategies in the truest sense. According to Day, there appear to be several factors, which set these companies apart, including:

- An intense focus upon competitors *throughout* the organisation
- The desire and determination to learn as much as possible about each competitor, its strategies, intentions, capabilities and limitations
- A commitment to using this information and the insights it provides in order to anticipate how they are most likely to behave.

The outcome of this sort of approach is that the companies formulate strategies by devising creative alternatives that minimise or preclude or encourage cooperative competitive responses. They adroitly use many weapons other than price, including advertising, litigation, and product innovation. They play the competitive game as though it were chess, by envisioning the long-term consequences of their moves. Their goal is long-term success, rather than settling for short run gains, or avoiding immediate losses.

However, in developing a competitive strategy, many managers appear to make the mistake of focusing upon what competitors have done in the past rather than what they are most likely to do in the future. Although, quite obviously, behaviour in the future is often influenced by what has been done previously, even smaller changes on the part of a competitor can invalidate the assumptions being made.

At the same time, much thinking about competitors and the interpretation of competitive intelligence is based on mental models, which reflect a simplification of reality. Although this simplification is understandable - and may well prove to be adequate in relatively static markets - it is unlikely to be suited to markets in which there is any real degree of competitive intensity. Because of this, competitively successful organisations appear to put a great deal of effort into learning, not just about competitors, but also into developing a detailed understanding of distributors' perceptions and expectations and the extent to which these are being met. They appear also to devote significant resources to learning from their own experiences so that future strategies can then be, built upon this understanding.

Real Life Case Scenario

Haagen-Dazs Ice Cream

In 1989, as part of their objective of building the biggest ice cream brand in the world, -Grand Met took the decision to launch Haagen-Dazs into Europe. At the time of the launch, the European market was dominated by three large multinationals: Unilever, which had a worldwide market share of 40%, Mars, and Nestle. However, despite the size, strength and undoubted marketing expertise of their competitors, Grand Met believed that it had identified a number of areas in which the three companies were vulnerable to an attack by a new entrant. The most significant of these was that no real attempt had been made to develop either a global or a Euro brand. There were several apparent reasons for this, including the way in which patterns of ice cream consumption varied significantly from one country to another as shown below.

Annual per capita consumption of ice cream (1990) (Liters)

Sweden	Norway	Finland	UK	France	Germany
13.6	11.9	11.0	7.8	6.5	5.5

The factors include taste differences (85% of ice cream in the UK was non-dairy, whilst almost everywhere else in Europe, except for Portugal and Ireland, it was dairy ice cream); and buying and eating patterns (in France, the impulse sector accounted for 28% of sales and the take home sector for 72%. By contrast, the impulse sector in Italy accounted for 41 % of sales, whilst in the UK and Germany it was 43% and 62% respectively). These differences were then compounded by the product's highly seasonal nature and by the way in which the European ice cream market had stagnated since 1985. Because of this, the sector was seen generally to be an unexciting market that offered few real opportunities for growth. The majority of consumers were children, the average life expectancy of a brand was around three years, new brands needed heavy advertising support in order to gain national distribution, and the new product failure rate was high.

Despite this, Haagen-Dazs was launched in 1989 and, with only a modest marketing budget, achieved sales in 1990 of $10 million. By September 1991, this had tripled to $30 million and, by 1992, had reached $100 million, making it the European market leader in the premium sector.

So what led to the brand's success?

In a number of ways, Haagen-Dazs illustrates Hamel and Prahalad's thinking on the need for managers to focus upon reinventing their industry and/or regenerating the strategy. At a time when the quality of ice cream was generally poor (as one commentator remarked, ice cream had deteriorated to the point at which it was just cheap, cold and sweet) and marketed very largely on the basis of a pull strategy with heavy television spending supported by trade and consumer promotions, Haagen-Dazs chose to pursue a very different three-pronged marketing push strategy designed to increase the awareness of the brand, achieve a high trial rate, and generate substantial word-of-mouth. One consequence of this was that 'it radically changed the rules of the game in the European ice cream market. The principal dimensions of this strategy involved:

- The opening of a series of ice cream parlours in large European cities

- Targeting food service accounts in expensive hotels and restaurants
- Targeting major retail accounts including supermarket chains, delicatessens, cinemas and convenience stores. In doing this, Haagen-Dazs opted for extensive sampling and retailer support packages, which included upright freezer display cabinets.

However, underpinning this were four further factors, which, for many observers, are the real keys to success:

- The product's demonstrably superior quality and taste which stems from the very high dairy (butter) fat content, the use of 100% natural ingredients and the absence of stabilisers
- A superb product delivery service
- Premium pricing (in the UK its prices were 30-40% higher than its immediate competitors, whilst in Germany it was twice as expensive as the local premium product)
- A highly distinctive and provocative advertising campaign which featured black and white photography inspired by the movie Nine and a Half Weeks, a theme of 'The Ultimate Experience in Personal Pleasure', and the ending on every piece of advertising copy, 'Haagen-Dazs - dedicated to pleasure'.

The effect of the Haagen-Dazs strategy upon the market proved to be significant. By taking their competitors by surprise and redefining both the product and the market, the competition was forced to respond. In the event, nearly all did this by launching their own premium quality and premium priced products in an almost desperate attempt to capitalise upon the new market. By the end of 1993, however, it was clear that Haagen-Dazs was the winner of what was labelled the ice cream wars. Not only had it managed to increase its market share yet further, it had maintained a significant price premium.

Source: Joachimsthaler, E. A. (1994), Haagen-Dazs Ice Cream: the making of a globalbrand (case study), International Graduate School of Management

At the heart of Hamel and Prahalad's thinking on strategy is the idea that, in order to cope with the demands of the future, managers need to make a series of fundamental changes. The starting point in this process, they suggest, involves getting off the treadmill of day-to-day activities and moving away from existing patterns of thought. A fundamental part of this involves managers in 'learning to forget'. In other words, managers need to recognize that, by adhering to the old but possibly successful formulae and to the existing cultural paradigms, failure is almost certain. It needs therefore to be an emphasis upon a series of steps, including:

- *Competing for industry foresight* by identifying how the market will or can be encouraged to develop. 'The trick', Hamel and Prahalad suggest, 'is to see the future before it arrives'.
- Having developed a picture of the future, the emphasis then shifts to *crafting the strategic architecture* or blueprint for developing the skills and structures that will be needed in order to compete in the new environment
- In turn, this leads to the *stretching and leveraging of strategy* so that the organisation's resources are focused, developed and exploited to the full.

Underpinning all of this is the need for a clear understanding of the core competences or skills that the organisation has currently, the nature of the core competences that will be needed in the future and how therefore the organisation's competences will need to be developed. A framework for thinking about this appears in following figure.

Extending the base What core competences need to be developed so that the organisation's current position is best protected and/or extended?	**Uncharted waters** What core competences need be developed in order to compete in the new and developing markets, which offer the greatest future potential?
Good housekeeping How can better use be made of the organisation's current core competences?	**Moving Into new areas** What new products or services can be developed by rethinking or reallocating the existing core competences?

Source: Hamel, G. and Prahalad, C. K. (1994), p. 227