11 Dealing with Competition

Marketing Management:

An Asian Perspective
(5th edition)

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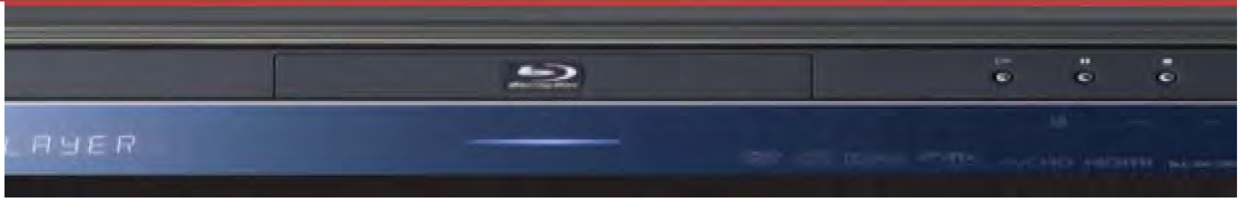
11

Dealing with Competition

Building strong brands requires a keen understanding of competition, and competition grows more intense every year. New competition is coming from all directions—from global competitors eager to grow sales in new markets; from online competitors seeking cost-efficient ways to expand distribution; from private label and store brands designed to provide low-price alternatives; and from brand extensions from strong mega-brands leveraging their strengths to move into new categories. Consider how competition has intensified in the personal computer market.



Learning Objectives:

- Understand how marketers identify primary competitors
- Understand how we should analyze competitors' strategies, objectives, strengths, and weaknesses
- Understand how market leaders can expand the total market and defend market share
- Understand how market challengers should attack market leaders
- Understand how market followers or nichers can compete effectively

The essence of Chapter Eleven:

Building strong brands requires a keen understanding of competition, and competition grows more intense every year.

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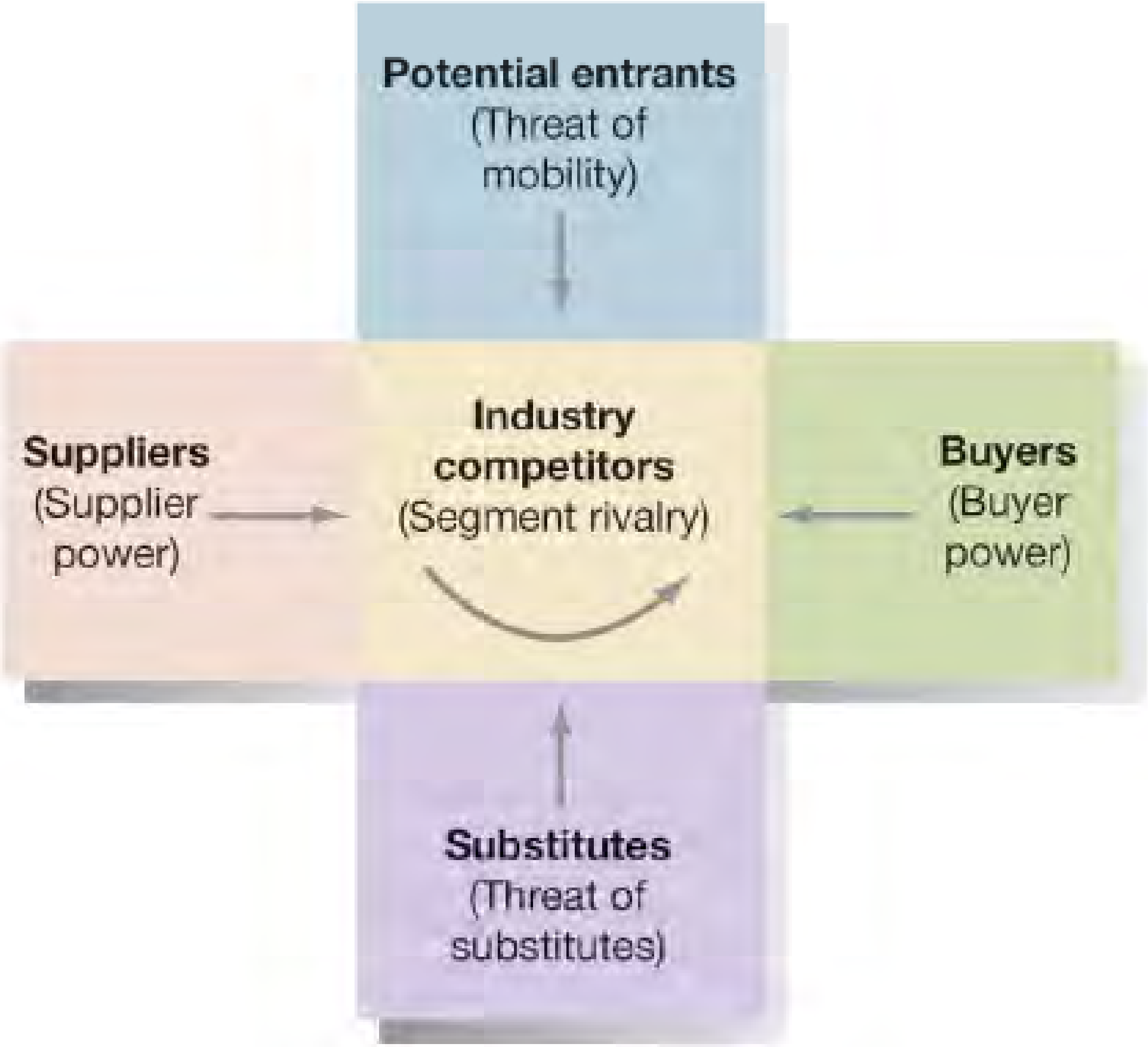
One good way to start to deal with competition is through creatively designed and well-executed marketing programs. To effectively, devise and implement the best possible brand positioning strategies, companies must pay keen attention to their competitors. Markets have become too competitive to focus on the consumer alone.

Competitive Forces

- Michael Porter has identified five forces that determine the intrinsic long-run attractiveness of a market or market segment: industry competitors, potential entrants, substitutes, buyers, and suppliers. The threats that these forces pose are as follows:
  - **Threats of intense segment rivalry.**
  - **Threat of new entrants.**
  - **Threat of substitute products.**
  - **Threats of buyers’ growing bargaining power.**
  - **Threat of suppliers’ growing bargaining power.**

Figure 11.1 Five Forces Determining Segment Structural Attractiveness



Identifying Competitors

- The range of a company's actual and potential competitors can be very broad.
- There can be new emerging players in an industry
- Defining the industry: An industry is a group of firms that offer a product or class of products that are close substitutes for one another.
-

Industry Classifications:

1. Number of sellers
2. Degree of product differentiation
3. Presence or absence of entry
4. Mobility
5. Exit barriers
6. Cost structure
7. Degree of vertical integration
8. Degree of globalization

Defining the Competition:

- Competitors are companies that satisfy the same customer need.
- The marketing concept of competition is a broader set of actual and potential competitors than just defined in product category terms.

MARKETING INSIGHT • HIGH GROWTH THROUGH VALUE INNOVATION

Kim and Mauborgne propose four crucial questions for marketers to ask themselves in guiding blue-ocean thinking and creating value innovation:

1. Which of the factors that our industry takes for granted should we eliminate?
2. Which factors should we reduce well *below* the industry's standard?
3. Which factors should we raise well *above* the industry's standard?
4. Which factors should we create that the industry has never offered?

They maintain that the most successful blue-ocean thinkers took advantage of all three platforms on which value innovation can take place: *physical product*; *service* including maintenance, customer service, warranties and training for distributors and retailers; and *delivery*, meaning channels and logistics. Figure 11.3 summarizes key principles driving the successful formulation and execution of blue-ocean strategy.

FORMULATION PRINCIPLES

a. Reconstruct market boundaries

- Look across alternative industries
- Look across strategic groups within industries
- Look across chain of buyers
- Look across complementary product and service offerings
- Look across functional or emotional appeal to buyers
- Look across time

b. Focus on the big picture not the numbers

c. Reach beyond existing demand

d. Get the strategic sequence right

- Is there buyer utility?
- Is the price acceptable?
- Can we attain target cost?
- What are the adoption challenges?

EXECUTION PRINCIPLES

a. Overcome key organizational hurdles

- Cognitive hurdle
- Resource hurdle
- Motivational hurdle
- Political hurdle

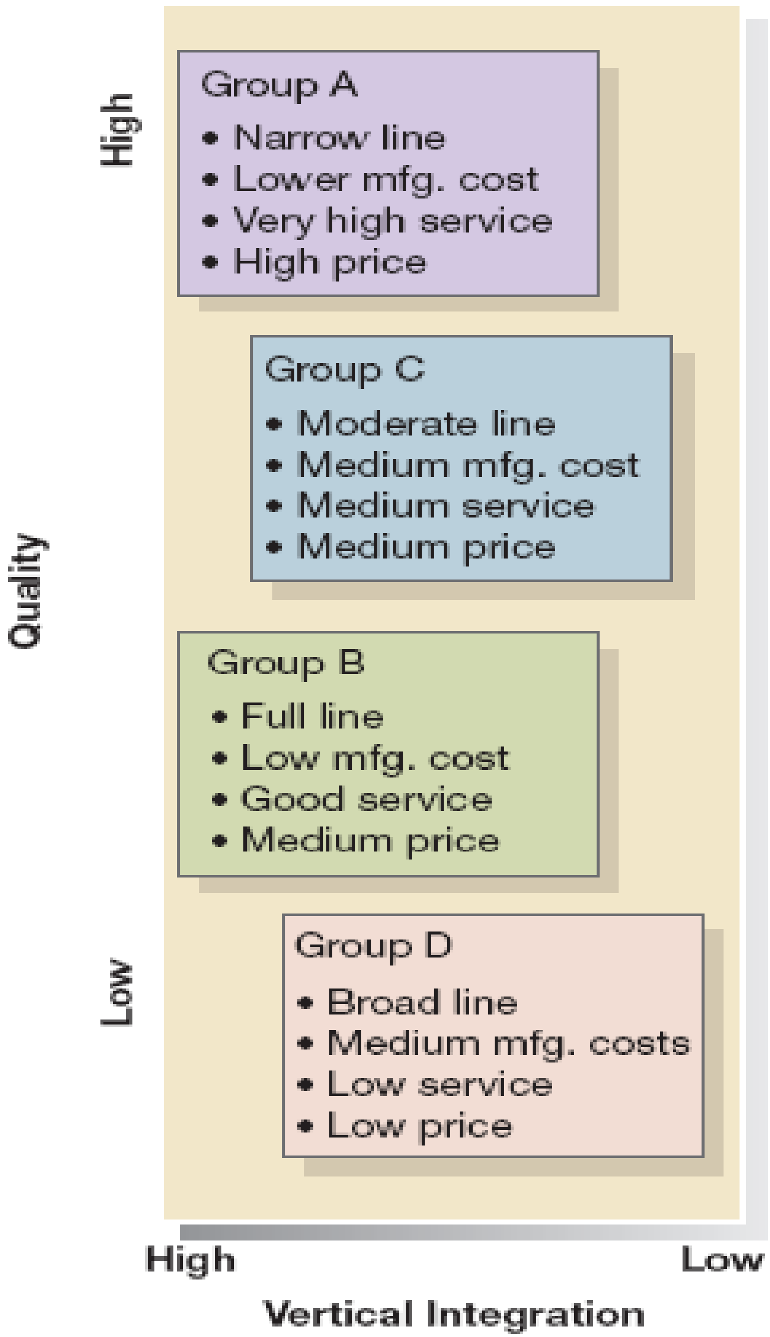
b. Build execution into strategy

Figure 11.3 Key Principles of Blue-Ocean Strategy

Analyzing Competitors

- Once a company identifies its primary competitors, it must ascertain their strategies, objectives, strengths, and weaknesses.
- Strategies
  - A group of firms following the same strategy in a given target market is called a strategic group.

Figure 11.2: Strategic Groups the Major Appliance Industry



Objectives:

- Once a company has identified its main competitors and their strategies, it must ask what each competitor is seeking in the marketplace.

  What drives each competitor's behavior?
- One useful initial assumption is that competitors strive to maximize profits.
- A company must monitor competitors' expansion plans.

Figure 11.4 A Competitor's Expansion Plans

Strengths and Weaknesses:

- A company needs to **gather information** on each competitor's strengths and weaknesses.
- In general, a company should monitor three variables when analyzing competitors:
  - **Share of market.**
  - **Share of mind.**
  - **Share of heart.**
- Companies that make steady gains in mind share and heart share will inevitably make gains in market share and profitability.

Table 11.1 Customers' Ratings of Competitors on Key Success Factors

	Customer Awareness	Product Quality	Product Availability	Technical Assistance	Sales Force
Competitor A	E	E	P	P	G
Competitor B	G	G	E	G	E
Competitor C	F	P	G	F	F

Note: E = excellent, G = good, F = fair, P = poor.

Table 11.2

Market Share, Mind Share & Heart Share

	Market Share (%)			Mind Share (%)			Heart Share (%)		
	2006	2007	2008	2006	2007	2008	2006	2007	2008
Competitor A	50%	47%	44%	60%	58%	54%	45%	42%	39%
Competitor B	30%	34%	37%	30%	31%	35%	44%	47%	53%
Competitor C	20%	19%	19%	10%	11%	11%	11%	11%	8%

Benchmarking to Improve Competitive Performance

Benchmarking involves **7** steps:

1. Determine functions to benchmark
2. Identify key performance variables
3. Identify best-in-class companies
4. Measure their performance
5. Measure own performance
6. Specify programs & actions to close gap
7. Implement & monitor results

Selecting Competitors

- After the company has conducted value analysis and examined competitors carefully, it can focus its attack on one of the following classes of competitors:
- **Strong versus weak**
- **Close versus distant**
- **“Good” versus “Bad”**

Selecting Customers

- As part of its competitive analysis, firms must evaluate its customer base and think about which customers it is willing to lose and which it wants to retain.
- One way to divide up the customer base is in terms of whether a customer is valuable and vulnerable.

Table 11.3 Customer Selection Grid

	Vulnerable	Not Vulnerable
Valuable	These customers are profitable but not completely happy with the company. Find out and address their sources of vulnerability to **retain them**.	These customers are loyal and profitable. Don't take them for granted but **maintain margins** and reap the benefits of their satisfaction.
Not Valuable	These customers are likely to defect. Let them go or even **encourage their departure**.	These unprofitable customers are happy. Try to **make them valuable or vulnerable**.

Source: John H. Roberts, "Defensive Marketing: How a Strong Incumbent Can Protect Its Position." *Harvard Business Review*, November 2005, p. 156.

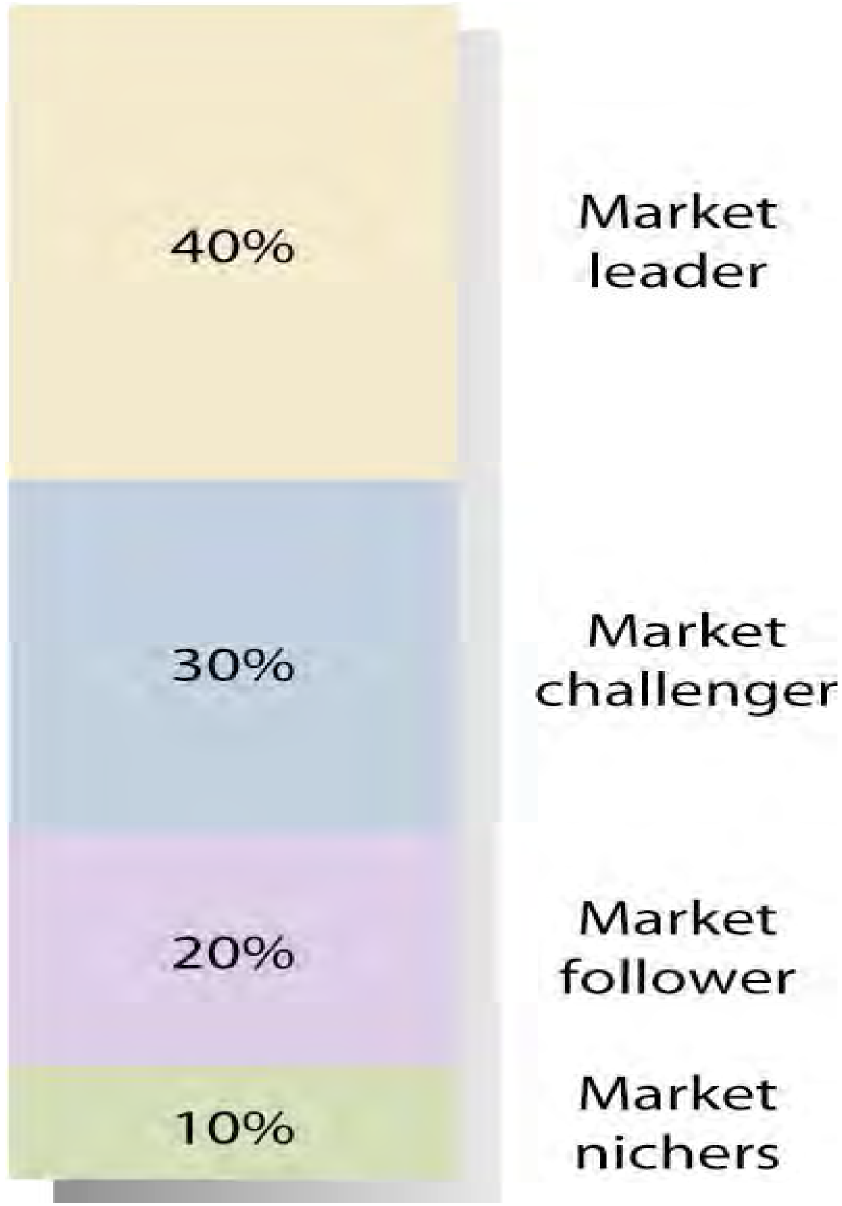
Competitive Strategies:

Classify firms by the roles they play in the target market:

- **Leader.**
- **Challenger.**
- **Follower.**
- **Nicher.**

Figure 11.5

Hypothetical Market Structure



Marketing Insight: When your competitor delivers more for less

- Companies offering the powerful combination of low prices and high quality are capturing the wallets of consumers world-wide.
- To compete, mainstream companies, must reconsider the perennial routes to business success and concentrate on differentiation and execution.

Competitive Strategies for Market Leaders

- **To remain market leader:**
  1. **Expand total market demand**
  2. **Protect current market share**
  3. **Increase market share, even if market size is constant**

Expanding the Total Market

- Dominant firms gains most when the total market expands

1. **Look for new customers** OR
2. **More usage from existing customers**

- **NEW CUSTOMERS** are buyers who are unaware about product or resisting it

New Customers

- Every product class has the potential of attracting buyers who are unaware of the product or who are resisting it because of price or lack of certain features.
- A company can search for new users among three groups:
  - Those who might use it but do not (market-penetration strategy).
  - Those who have never used it (new-market segment strategy).
  - Those who live elsewhere (geographical-expansion strategy).

Starbucks introduced a new line of premium tea produced by Tazo Tea Company, a Starbucks subsidary, to attract new customers.

Starbucks—Starbucks purchases and roasts high-quality whole bean coffees and sells them along with fresh, rich-brewed, Italian style espresso beverages, a variety of pastries and confections, and coffee-related accessories and equipment—primarily through its company-operated retail stores. In addition, Starbucks sells whole bean coffees through a specialty sales group and supermarkets. Additionally, Starbucks produces and sells bottled Frappuccino® coffee drink and a line of premium ice creams through its joint venture partnerships and offers a line of innovative premium teas produced by its wholly owned subsidiary, Tazo Tea Company. The company's objective is to establish Starbucks as the most recognized and respected brand in the world. To achieve this goal, the company plans to grow its specialty sales and other operations, and selectively pursue opportunities to leverage the Starbucks brand through the introduction of new products and the development of new distribution channels.

More Usage:

- Usage can be increased by increasing the level of quantity of consumption or increasing the frequency of consumption.
  1. Increasing the amount of consumption can sometimes be done through packaging or product design.
  2. Increasing frequency of use involves identifying additional opportunities to use the brand in the same basic way or identifying completely new and different ways to use the brand.

More Usage:

- To generate additional usage opportunities, a marketing program can communicate the appropriateness and advantages of using the brand more frequently in new or existing situations and /or remind consumers to actually use the brand as close as possible to those situations.
- Another potential opportunity to increase frequency of use is when consumers' perceptions of their usage differ from the reality of their usage.
- The second approach is to identify completely new and different applications.
- Product development can spur new uses.

Defending Market Share

- While trying to expand total market size, the dominant firm must continuously defend its current business.
- *What can a market leader do to defend its terrain?*
- By continuous innovation—developing new product and customer services, distribution effectiveness, and cost cutting—it keeps its competitive strength and value to customers.

Responsive, Anticipative and Creative Marketing

1. A responsive marketer finds stated need and fills it.
2. An anticipative marketer looks ahead into what needs customers may have in the near future.
3. A creative-marketer is a market-driving firm

Competitive Strategies for Market Leaders
– Defending Market Share

Akio Morita with an early version of the Walkman

Refused to drop **portable cassette player** idea & said:

Sony doesn't serve markets, **Sony** creates markets

He was right: Walkman's 20th year, **Sony** sold **>** 250 million units

Strategies by Dominant Firm:

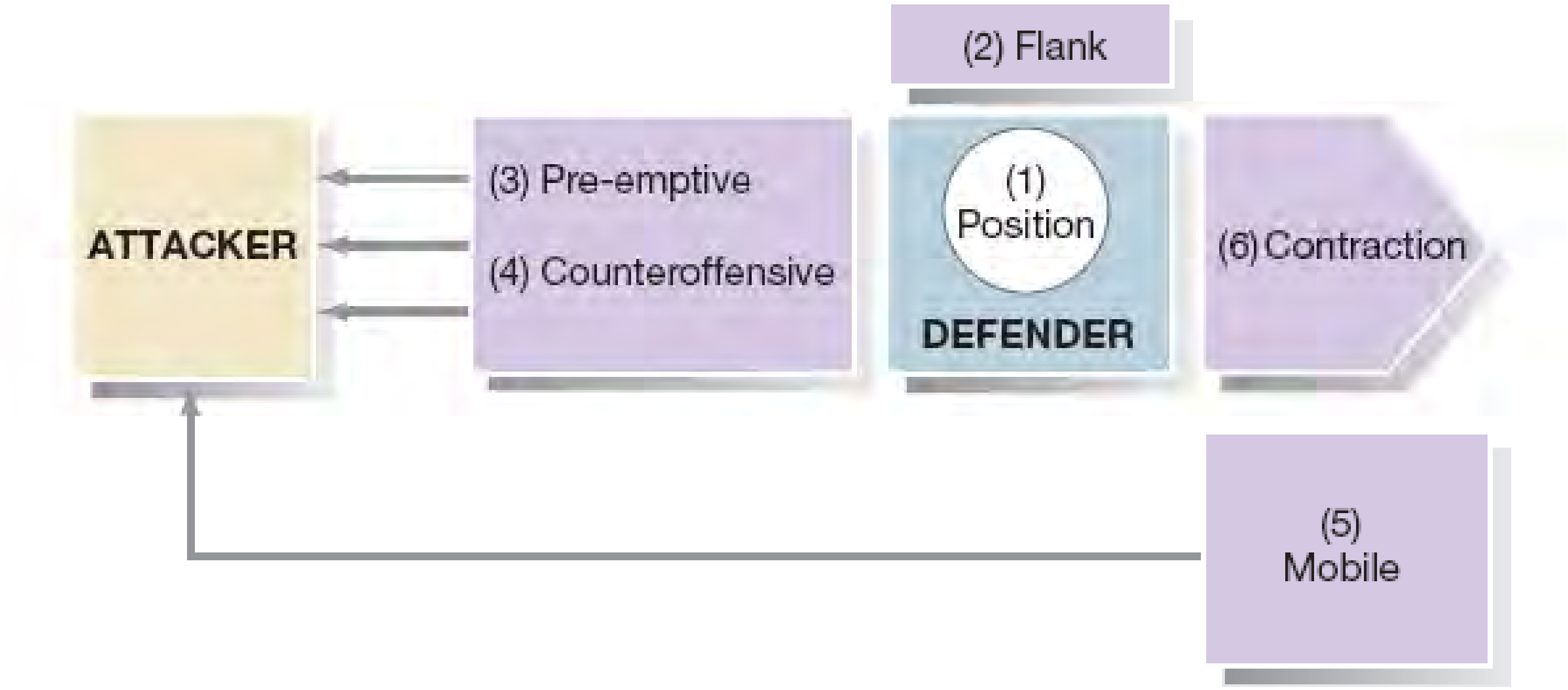
- Position defense
- Flank defense
- Preemptive defense
- Counteroffensive defense
- Mobile defense
  - Market broadening
  - Market diversification
- Contraction Defense
  - Strategic withdrawal

Expanding Market Share

- In many markets, one share point in market share is worth tens of millions of dollars.

- However, gaining increased market share in the served market does not automatically produce higher profits.

Figure 11.6 Six Types of Defense Strategies



Competitive Strategies for Market Leaders – *Defending Market Share*

1. **POSITION DEFENSE** - most desirable market space in consumer's mind
2. **FLANK DEFENSE** - market leader to erect outposts in order to:
   - Protect weak front or
   - As invasion base for counterattack

Competitive Strategies for Market Leaders – *Defending Market Share*

3. PREEMPTIVE DEFENSE

- To attack *before* enemy starts offense
  - Wage guerrilla action across market
  - Achieve a grand market envelopment

Competitive Strategies for Market Leaders – *Defending Market Share*

4. COUNTEROFFENSIVE DEFENSE

- Leader meet attacker frontally <u>or</u>
- Hit its flank <u>or</u>
- Launch a pincer movement
- Exercise of economic/political clout

Competitive Strategies for Market Leaders – *Defending Market Share*

5. MOBILE DEFENSE

- Leader stretches domain over new territories - future centers for defense & offense through:
  - ***Market broadening*** - shift focus from current product to generic need
  - ***Market diversification*** - shift into unrelated industries

Competitive Strategies for Market Leaders – *Defending Market Share*

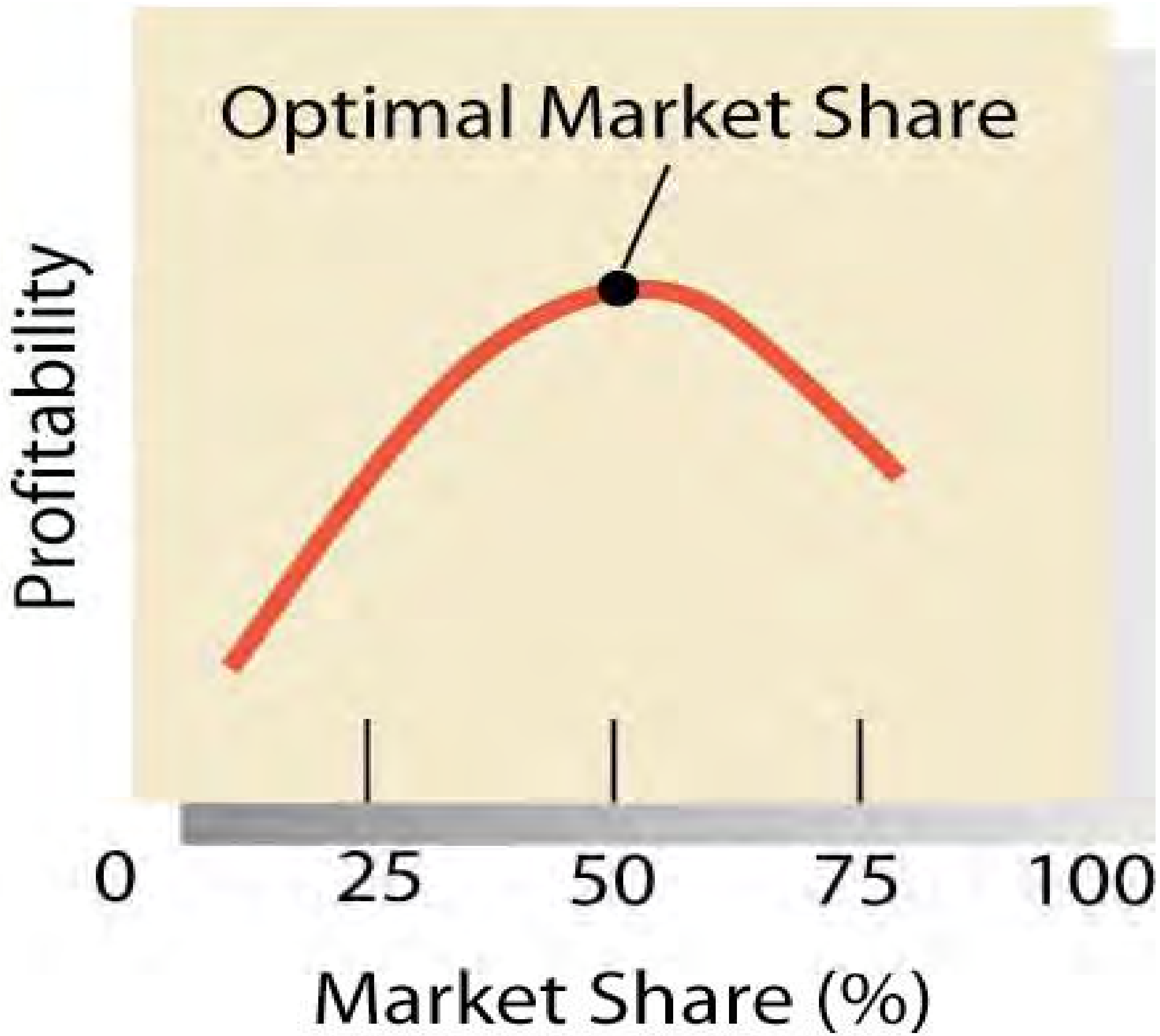
6. CONTRACTION DEFENSE

- Planned contraction - strategic withdrawal:
  - Large companies give up weaker territories
  - Re-assign resources to stronger territories

Expanding Market Share

- A company should consider four factors before pursuing increased market share:
  1. The possibility of provoking antitrust action.
  2. Economic cost (see Figure 11.7)
  3. Pursuing the wrong marketing-mix strategy.
  4. The effect of increased market share on actual and perceived quality.

Figure 11.7
The Concept of Optimal Market Share



Other Competitive Strategies

- Firms that occupy second, third, and lower ranks in an industry are often called runner-up, or trailing firms.
- These firms can adopt one of two postures.
  - Each can attack the leader and others in an aggressive bid for further market share (market challengers),
  - or they can play ball and not "rock the boat" (market followers).

Market Challenger Strategies

DEFINING STRATEGIC OBJECTIVE & OPPONENT

- Market challenger needs to define strategic objective - increase market share

But, **WHO should they attack**?

WHO to Attack??

1. The market leader
2. Firms of its own size
   - Not doing their job
   - Underfinanced
3. Small, local & regional firms

Five General Attack Strategies

1. Frontal
2. Flank
3. Encirclement
4. Bypass
5. Guerrilla Warfare
   - Diversifying into unrelated products.
   - Diversifying into new geographical markets.
   - Technological leapfrogging into new technologies

Market Challenger Strategies

1. Frontal Attack:

- Pure frontal attack, attacker matches opponent's product, advertising, price & distribution

Market Challenger Strategies

2. Flank Attack:

- Enemy's weak spots - natural target
  - Segmental attack - serve uncovered market needs
  - Geographic attack - area opponent underperforms

Market Challenger Strategies

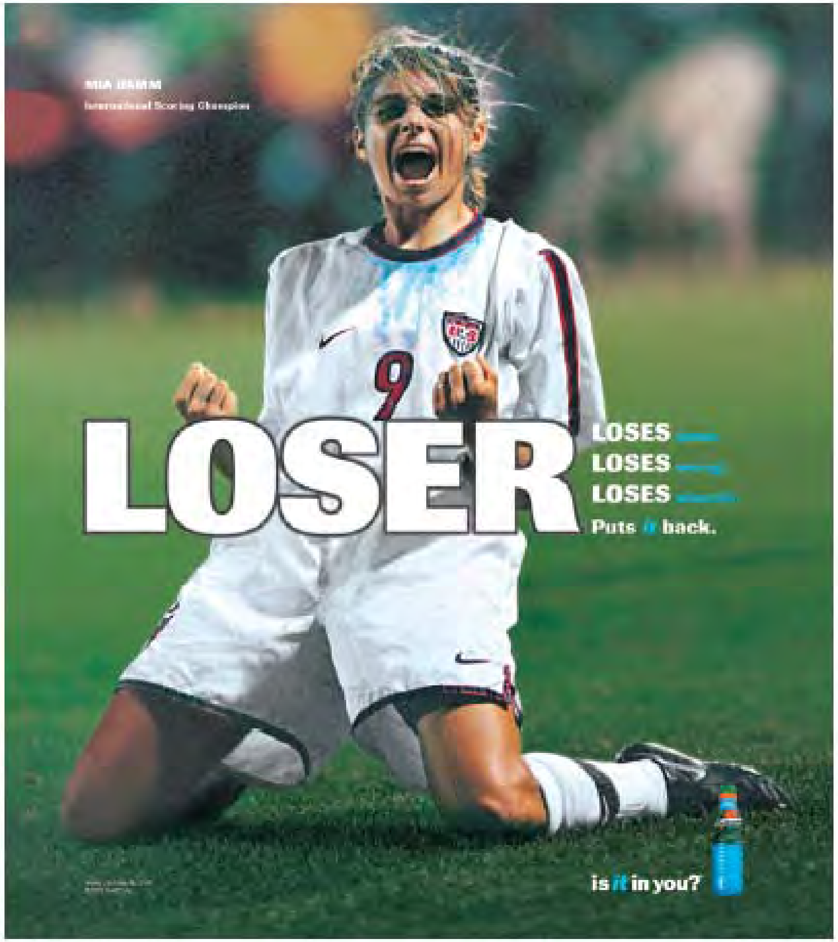
3. Bypass Attack

- Most indirect assault strategy
- Bypass enemy & attack easier markets to broaden resource base
  1. Diversify - unrelated products
  2. Diversify - new geographical markets
  3. Leapfrog - new technologies - supplant current products

By-pass attack strategy

A Gatorade ad with the soccer star Mia Hamm.

In a bypass strategy against Coca-Cola, Pepsi bought the Quaker Oats Company, owner of Gatorade Thirst Quenchers, which has a much larger share of the sports drink market than Coca-Cola's Powerade.



Market Challenger Strategies

4. Encirclement Attack

- Capture wide slice of enemy's territory through a "blitz"

5. Guerrilla Warfare

- Wage small, intermittent attacks to harass & demoralize opponent & before securing permanent footholds

Choosing a specific attack strategy

- The challenger must go beyond the five broad strategies and develop more specific strategies.
- Any aspect of the marketing program can serve as the basis for attack, such as lower-priced or disconnected products, new or improved products and services, a wider variety of offerings, and innovative distribution strategies
- A challenger's success depends upon combining several strategies to improve its position over time.

Challenger strategies by Samsung

Samsung—Samsung has used many challenger strategies to take on Japanese manufacturers and outsell them across a wide range of products. Like many other Asian companies, Samsung used to stress volume and market domination rather than profitability. Yet during the Asian financial crisis of the late 1990s, when other Korean *chaebol* collapsed beneath a mountain of debt, Samsung took a different tack. It cut costs and placed new emphasis on manufacturing flexibility, which allows its consumer electronics goods to go from project phase to store shelves within six months. It also began a serious focus on innovation, using technological leapfrogging to produce state-of-the-art cell phone handsets that are big sellers not only across Asia but also in Europe and the U.S.[48]

Other Competitive Strategies

- Market-Challenger Strategies

CHOOSING A SPECIFIC ATTACK STRATEGY:

- Price discount
- Lower priced goods
- Value-priced goods & services
- Prestige goods
- Product proliferation
- Product innovation
- Improved services
- Distribution innovation
- Manufacturing-cost reduction
- Intensive advertising promotion

MARKETING MEMO • MAKING SMALLER BETTER

Morgan offers eight suggestions of how small brands can better compete:

1. ***Break with your immediate past*** — Don't be afraid to ask "dumb" questions to challenge convention and view your brand differently.
2. ***Build a "lighthouse identity"*** — Establish values and communicate who and why you are (e.g., Apple).
3. ***Assume thought leadership of the category*** — Break convention in terms of representation (what you say about yourself), where you say it (medium), and experience (what you do beyond talk).
4. ***Create symbols of re-evaluation*** — A rocket uses half of its fuel in the first mile to break loose from the gravitational pull—you may need to polarize people.
5. ***Sacrifice*** — Focus your target, message, reach and frequency, distribution, and line extensions and recognize that less can be more.
6. ***Overcommit*** — Although you may do fewer things, do "big" things when you do them.
7. ***Use publicity and advertising to enter popular culture*** — Unconventional communications can get people talking.
8. ***Be idea-centered, not consumer centered*** — Sustain challenger momentum by not losing sight of what the brand is about and can be, and redefine marketing support and the center of the company to reflect this vision.

Source: Adam Morgan, *Eating the Big Fish: How Challenger Brands Can Compete Against Brand Leaders,* (New York: John Wiley, 1999).

Market **Follower** Strategies

- Product imitation might be as profitable as product innovation.
- **Many companies prefer to follow rather than challenge the market leader.**
- "Conscious parallelism"
- A market follower must know how to hold current customers and win a fair share of new customers.
- Each follower tries to bring distinctive advantages to its target market—location, services, and/or financing.

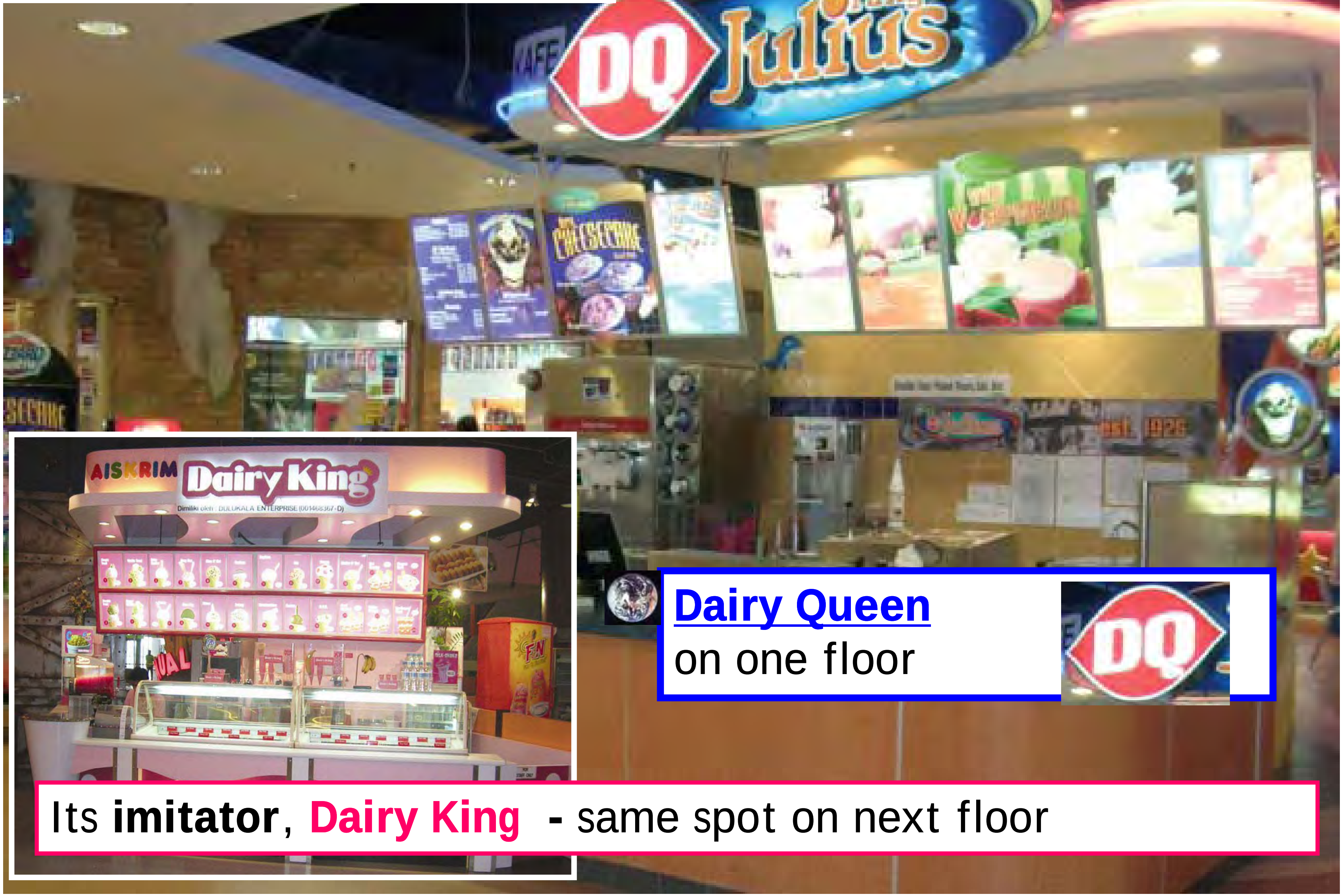
Market-Follower Strategies

4 broad strategies distinguished:

- **Counterfeiter** - duplicates product
- **Cloner** - slight variations
  - *Eg Tsingtao beer in Tsingitao & Tsingsuntao*
- **Imitator** - differentiation in packaging, advertising, pricing, location
- **Adapter** - adapts or improves product

Other Competitive Strategies
- Market-Follower Strategies

Berjaya Times Square, Malaysia:



Dairy Queen
on one floor

Its **imitator**, **Dairy King** **-** same spot on next floor

Market-Nicher Strategies

- Small firms target small markets that are of little/no interest to large firms
- Create, expand & protect niches
- Offer high value, premium price, low production costs & a strong vision
- Multiple niches increases chance of survival

Why is Niching Profitable?

- The main reason is that the market nicher ends up knowing the target customers so well that it meets their needs better than other firms selling to this niche.
- The nicher achieves high margin, whereas, the mass marketer achieves higher volume.

Three tasks of the Nicher:

1. **Creating niches**
2. **Expanding niches**
3. **Protecting niches**

MARKETING MEMO • NICHE SPECIALIST ROLES

The key idea in successful nichemanship is specialization. Here are some possible niche roles:

- ***End-user specialist*** — The firm specializes in serving one type of end-use customer. For example, a *value-added reseller (VAR)* customizes the computer hardware and software for specific customer segments and earns a price premium in the process.
- ***Vertical-level specialist*** — The firm specializes at some vertical level of the production-distribution value chain. A copper firm may concentrate on producing raw copper, copper components, or finished copper products.
- ***Customer-size specialist*** — The firm concentrates on selling to either small, medium-sized, or large customers. Many nichers specialize in serving small customers who are neglected by the majors.
- ***Specific-customer specialist*** — The firm limits its selling to one or a few customers. *Kieretsu* suppliers may sell their entire output to a single company, such as Matsushita.
- ***Geographic specialist*** — The firm sells only in a certain locality, region, or area of the world.
- ***Product or product-line specialist*** — The firm carries or produces only one product line or product. Hanjaya Mandala Sampoerna produces *kretek*, a clove-scented cigarette favored by most Indonesian smokers. Its main brand, Dji Sam Soe (a Chinese dialect for "Two, Three, Four"), is hand-rolled by thousands of employees in East Java. The company also offers machine-rolled and low-tar brands such as A Mild. In 2005, Sampoerna was acquired by Philip Morris International, the international operating company of the Altria Group.
- ***Product-feature specialist*** — The firm specializes in producing a certain type of product or product feature.
- ***Job-shop specialist*** — The firm customizes its products for individual customers.
- ***Quality-price specialist*** — The firm operates at the low- or high-quality ends of the market. Hewlett-Packard specializes in the high-quality, high-price end of the hand-calculator market.
- ***Service specialist*** — The firm offers one or more services not available from other firms. An example would be a bank that takes loan requests over the phone and hand-delivers the money to the customer.
- ***Channel specialist*** — The firm specializes in serving only one channel of distribution. For example, a soft-drink company decides to make a very large-sized soft drink available only at gas stations.

MARKETING MEMO — STRATEGIES FOR ENTERING MARKETS HELD BY INCUMBENT FIRMS

Carpenter and Nakamoto examined strategies for launching a new product into a market dominated by one brand, such as Kleenex or FedEx. (These brands, which include many market pioneers, are particularly difficult to attack because many are the standard against which others are judged.) They identified four strategies that have good profit potential in this situation:

1. ***Differentiation*** — Positioning away from the dominant brand with a comparable or premium price and heavy advertising spending to establish the new brand as a credible alternative. Example: Honda's motorcycle challenges Harley-Davidson.
2. ***Challenger*** — Positioning close to the dominant brand with heavy advertising spending and comparable or premium price to challenge the dominant brand as the category standard. Example: Pepsi competing against Coke.
3. ***Niche*** — Positioning away from the dominant brand with a high price and a low advertising budget to exploit a profitable niche. Example: Brands of toothpaste for smokers and those with sensitive gums competing against Crest.
4. ***Premium*** — Positioning near the dominant brand with little advertising spending but a premium price to move "up market" relative to the dominant brand. Examples: Godiva chocolate and Häagen-Dazs ice cream competing against standard brands.

Sources: Gregory S. Carpenter and Kent Nakamoto, "Competitive Strategies for Late Entry into a Market with a Dominant Brand." *Management Science*, October 1990, pp. 1268–1278; Gregory S. Carpenter and Kent Nakamoto, "The Impact of Consumer Preference Formation on Marketing Objectives and Competitive Second Mover Strategies." *Journal of Consumer Psychology*, 1996, 5 (4), pp. 325-358; Venkatesh Shankar, Gregory Carpenter, and Lakshman Krishnamurthi, "Late Mover Advantage: How Innovative Late Entrants Outsell Pioneers." *Journal of Marketing Research*, February 1998, 35, pp. 54–70.

Balancing Customer & Competitor Orientations – *Competitor-Centered Companies*

Competitor-Centered

- PLUS: Develop into a fighter
  - Constant alert- weakness -competitors' & its own
- MINUS: Become too reactive
  - No consistent, customer-oriented strategy
  - Moves based on competitors' moves

Balancing Customer & Competitor Orientations – *Customer-Centered* *Companies*

Customer-Centered Companies

- Better position to identify new opportunities
- Set a course - deliver long-run profits
- Monitor customer needs
  - Decide which groups & emerging needs are important

Customer-Centered Companies

- *Eg: Founder of* ***Amazon.com****:*
- *"… obsess over our customer & not our competitors.*
- *… watch our competitors, learn from them,*
- *… never going to obsess over them"*

Final Discussion:

Marketing Debate – How Do You Attack a Category Leader?

Attacking a leader is always difficult. Some strategists recommend attacking a leader “head-on” by targeting its strengths. Other strategists disagree & recommend flanking & attempting to avoid the leader’s strengths.

Take a position: The best way to challenge a leader is to attack its strengths *versus* the best way to attack a leader is to avoid a head-on assault & to adopt a flanking

Final Discussion:

Marketing Discussion

Pick an industry. Classify firms according to the four different roles they might play: leader, challenger, follower, and nicher.

How would you characterize the nature of the competition? Do the firms follow the principles described in the chapter?