**5. Competitive Dynamics (Business Level Strategy)**

**Introduction**

The 21st century landscape has been referred to as a competitive battle field by C.K. Prahalad. It is not a surprise to note that firms make positive strategic decisions to discontinue in such a competitive battlefield. For example, the Asian Financial Crisis in 1997 caused many US and Western European firms to move away from Asian countries. Therefore the 21st century competitive environment requires generation of new goods and services to the market more quickly than before. Firms that can do that can gain competitive advantage.

Fundamental changes in this competitive battlefield:

1. New entrants transforming industries and often use new technology.
2. Consolidation of industries in order to reach economies of scale.
3. More effective coordination across operations in multiple markets and faster decision making and competitive responses facilitate changes to take place in many industries.
4. New technology and innovation such as information technology and computer industries, have helped small and medium sized businesses to compete effectively.
5. Formation of trading or economic blocs facilitate trade growth and competition among firms.

**Competitive Dynamics**

It refers to the dynamic nature of firms’ strategies and their implementation. Actions taken by one firm may bring about responses from competitors and these in turn may result in responses from the original firm. This results in a chain reaction.

**Rivalry among firms in the same industry**

Firms in the same industry compete with each other in a number of competitive actions and responses. Rivalry among firms in the same industry arises because of competitive asymmetry i.e. firms differ from each other in terms of their resources, capabilities and core competencies and in terms of the opportunities and threats in their industry and competitive environments. They compete to attain advantageous market positions or competitive advantage.

Competitive rivalry will affect a firm’s profits. Therefore the firm with the capability to develop and implement more effective strategies will do better than others.

**How to analyse your competitors**

It begins with the examination of (i) competitor awareness and (ii) motivation to attack and respond to competition.

(i) Competitor Awareness

Competitor awareness can be found by analysing:

1. the market commonality and
2. the resource similarity

Market commonality - many firms compete in the same market e.g. food, pharmaceutical, airlines industries. Many beer producers compete in the same regional markets. The triad countries compete in the same region e.g. in Europe or Asia. In the case of Multipoint Competition, firms compete against each other in several products or several geographic markets.

Resource similarity - it is unlikely for a firm to attack another firm that has similar resources. This is because such a firm can always retaliate (fight back). It is better to attack firms that do not have the same resources or have imbalance in resources because such firms cannot respond fast enough. For example, firms with inadequate resources, whether financial, technical or important capabilities, are forced to form alliances to compete in specific markets. Many firms have moved from simple alliances to complex networks of relationships in order to remain competitive.

(ii) Motivation - refers to the incentives the firm gets to attack and respond if attacked e..tg.

for moving fast.

**Factors that determine the likelihood of competitors to attack the market**

A firm will make a competitive move (action) if it can gain a competitive advantage in a market.

*First Mover*

The first mover may gain above average returns before the competitors make any response of a counter attack. Furthermore, the first mover may be able to deter a counter attack.

First Mover Advantages:

1. Each above-average returns until competitors successfully responded.
2. Gain customer loyalty, thereby making it difficult for responding firms to capture customers.

First Mover Disadvantages:

1. Risk taken is high
2. High development cost
3. Uncertainty of the market

*Second Mover*

A firm that responds to a first mover’s competitive action, often through imitation or a move designed to counter the effect of the action.

*A Late Mover*

A firm that responds to a competitive action, but only after considerable time has elapsed after the first mover’s action and the second mover’s response.

Competitive Responses by Competitors to a Firm’s Competitive Action

1. Two types of competitive response are possible:

* Strategic action - it involves significant commitment of specific and distinctive organisational resources. It is difficult to implement and to reverse.
* Tactical action - it involves actions taken to fine-tune a strategy involving fewer and more general organisational resources and is relatively easy to implement and reverse.

1. The strategic or tactical action taken is likely to serve as a catalyst for more and faster responses from other competitors and more likely to be imitation of action of the successful competitor that is a market leader.
2. Those firms that are very dependent on a market, are very likely to make competitive response to a competitive action taken by one of the firms. E.g. McDonald’s and Burger King are both completely dependent on sales in the fast-food industry. These two firms monitor each other’s strategic and tactical actions. Therefore any competitive action taken by one firm tends to be met with a competitive response from the other firm. Both of these firms have battled over the crispest and best-tasting French fries and over 99 cents hamburgers. Now they shifted to compete in trying ot be more creative and better serve the customers.

However, if the firms do not depend highly on a market, then a competitive action taken by a firm may not result in a competitive response by other firms.

1. A competitive response to a strategic or tactical action requires organisational resources. Firms with fewer resources are more likely to respond to tactical actions than strategic actions.

**Three Basic Market Outcomes of Interfirm Rivalry**

The possible outcome of interfirm rivalry is the building of sustainable competitive advantage. One of the determinants of a firm’s sustainability is whether the firm’s product can be costly to imitate. There are three types of competitive environment for sustainable competitive advantage:

1. Slow Cycle or Sheltered Markets

Products that have certain attributes or designs that are not easily imitated are able to overcome competition. In some cases, there are laws or regulations that protect firms from competition and such firms are in a monopoly position.

1. Standard Cycle or Oligopolistic Market

The markets here allow moderate imitability. Porter’s 5 forces model of competitive strategy prevails. Firm’s strategy is to serve high volume or mass markets. To maintain their position, they need continuing capital investment, learning and innovation e.g. Coca-Cola, brewing industries, automobiles, appliances industries.

1. Fast Cycle Markets

The markets here are rapid, dynamic and innovative. A competitive advantage cannot be sustained. Firms can gain temporary competitive advantage by strategically disrupting the markets. This is done by establishing a new product at the height of the market with increased performance at a premium price or cannibalizing a previous product by reducing price. This involves a series of small steps of lunching, exploiting and counterattacking. Therefore the focus is competitive disruption to gain temporary competitive advantage. E.g. telecommunication industry.

**Competitive Dynamics and Industry Evolution Outcomes**

An industry evolves through three stages:

1. Emerging Stage - a firm attempts to establish itself in the industry through various strategies e.g. product quality, techno logical superiority or advantageous relationships with suppliers in order to gain competitive advantage. At this stage the top management develops the market opportunities. There is much entrepreneurial action being done.
2. Growth Stage - a firm is able to reach this stage of development and survive. It creates products that meet the needs of customers. However, competition still remains either within the strategic group or between firms within strategic groups. Firms earn below average returns.
3. Mature Stage - the firm emphasizes market power actions. It offers product lines that are profitable and producing those products in an efficient manner. Product innovations and entrepreneurial actions still continue but the emphasis is more on process innovations to become cost efficient and improve quality of the product. They may even seek international markets or operations and sales to extend a product’s life. All these are aimed to maintain dominance.

A Summary Model of Interfirm Rivalry

Feedback

Drivers of competitive Interfirm rivalry: Action Ability for action Outcomes of interfirm

behaviour and response & response rivalry

Awareness Likelihood of attack Relative size Competitive market

\* First mover incentives types

Motivation Speed

Likelihood of response \* Slow cycle

\* Type of competitive Innovation \* Standard cycle

action \* Fast cycle

Competitor analysis \* Actor’s reputation Quality

\* Dependence on the Competitive outcomes

Market commonality market \*Sustained competitive

\* Resource availability advantage

Resource similarity

Evolutionary outcomes

\* Entrepreneurial actions

\* Growth oriented

actions

\* Market power actions

Feedback

Assignment

1. What are the two factors that contribute to the awareness, motivation and ability in competitor analysis?
2. What are the advantages and disadvantages of being a first mover? Second mover? A late mover?
3. On what 4 factors is the likelihood of a response to a competitive action based?
4. What are the 4 factors that can influence the ability of firms for action and response? Explain how each of these factors can influence the firm’s strategic action and response.
5. What are the 3 types of markets and the nature of rivalry in each?