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# Topic 9 ▶ Managing Competition

## LEARNING OUTCOMES

By the end of this topic, you should be able to:

1. Explain how real competitors of the company are identified;
2. Examine the importance of competitors' strategies, objectives, strengths and weaknesses as well as their reaction pattern;
3. Discuss how competition intelligence system is built;
4. Describe leader, challengers, followers and nichers and their strategies; and
5. List the balance of consumer and competitor orientation.

## ▶ INTRODUCTION

In the new millennium, competitions faced by most organisations are getting tougher. The situation is aggravated by the increasing number of competitors in the market. Competitions are not only made up of local competitors but also foreign competitors. The market has become broader and the boundary is now indistinct.

In the old days, the consumers mostly focus on the local market but technology development has contributed to expand the market for the consumer. Various approaches to attract the consumers have been done by marketers because the knowledge of the consumers' needs and wants alone is not enough for marketers. Now, marketers have to always investigate the development and the movement of their competitors in order to survive in the market.

## 9.1 IDENTIFYING THE COMPETITORS

Generally, the company feels that it is easy to identify its competitors but in real life, especially in the new millennium, with various approach practiced by the companies, the real and potential competitors are far greater in number. Competition now does not only consist of existing competitors but also new competitors or new technologies from the existing competitors.

Identifying competitors can be done through two approaches, which are:

- (a) Analysing competition from the market concept; or
- (b) Analysing competition from the industrial concept.

### 9.1.1 Analysing Competition from Market Concept

Competition from the aspect of market concept identifies the competitors as the companies that also satisfy the needs of the same set of target consumers. It may be something as narrow as products; for example cars, or something broader such as product class, for instance private vehicles which consist of many form of transportation that are used for personal use such as cars, motorcycles, bicycles and others.

### 9.1.2 Analysing Competition from Industrial Concept

Analysing competition from the industrial concept is more concentrated on how an industry can be classified. Industry refers to a group of firms that offer products or product class with close alternatives to each other. Industry can be classified into:

- The number of sellers and the degree of product difference;
- The existence or non-existence of obstacles for entry and mobility as well as withdrawal from the industry;
- Cost structure;
- Vertical integration level; and
- Globalisation level.

Explanations are given as follows:

(a) **Number of Sellers and Degree of Product Difference**

The characteristic of the number of seller and the degree product difference classification refers to four market structures, which are:

(i) **True Monopoly**

True monopoly refers to the only company that markets a product or service in a country or an area. It consists of controlled monopoly by the authority or others.

(ii) **Oligopoly**

Oligopoly refers to a small number of sellers, usually in large size, which market various products from the standard ones to the common ones.

(iii) **Monopolistic Competition**

Monopolistic on the other hand refers to a number of competitors selling products that can be differentiated.

(iv) **Perfect Competition**

Perfect competition refers to many competitors and products that are quite difficult to be differentiated.

(b) **Existence or Non-existence of Obstacles for Entry and Mobility as well as Withdrawal from the Industry**

Every industry is different from one another in the aspect of encouragement or obstacles for the purpose of new competitors' entry in to the industry, the company mobility to enter other industrial segment as well as the withdrawal from the industry. For example, for high technology industries, the degree of entrance obstacles for new competitors is very high compared to the industry that does not really emphasise on high technology, for instance the food industry.

Other than high technology, the need for licenses and patents, resources and limited locations as well as reputation are the obstacles of entry to the industry. Similarly for withdrawal from an industry, sometimes the regulations by the government or the industrial interest of the country or the difficulty to sell obsolete machines of the company to other companies can cause the company to continue operating just to survive in the industry.

**(c) Cost Structure**

The cost structure for every industry is also different. For heavy industries such as steel fabrication, the production and raw material costs are very high. There are also other industries which their focal cost is on distribution cost instead of production cost.

**(d) Vertical Integration Level**

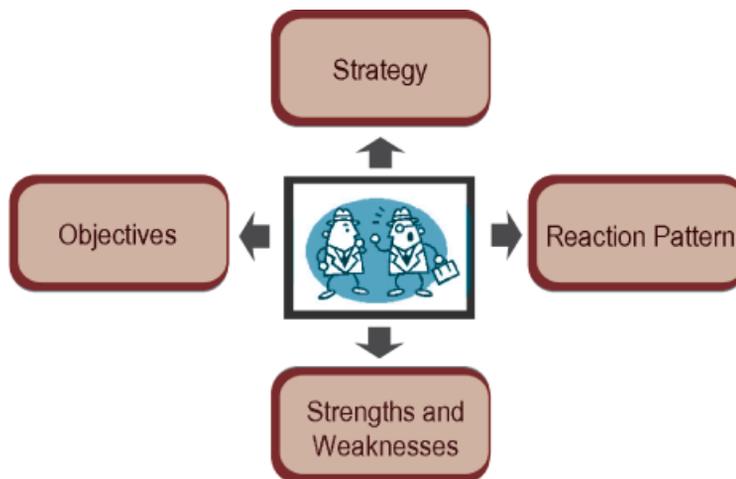
There are a few industries which conduct vertical integration, either forward or backward integration. If the integration level is high, then the companies will have a high control in terms of costs and production operation and the distribution of their products.

**(e) Globalisation Level**

The globalisation rate refers to companies that conduct their operations at the international level. In relation to that, they will have to compete in a global level with the support of new technology to achieve the economy of scale for their operations.

## 9.2 ANALYSING COMPETITORS

When a company manages to identify its main competitors, the company then needs to obtain important information on its competitors. The important information includes strategies, objectives, strengths and weaknesses as well as the competitors' reaction pattern (refer to Figure 9.1). The information is required in order to conduct the competitors analysis. The information may also be in the form of written documents.



**Figure 9.1:** Elements needed when analysing the competitors

## 9.2.1 Strategy

Analysis on strategy refers to the strategy that becomes the company's main attention and identifying other companies that practice the same strategy. Generally, strategy is mostly related with the quality level offered to consumers. If the company sets a high level of quality for its products, then the competitors are the companies which have the strategy of offering the same high-quality products to the consumers.

## 9.2.2 Objectives

After learning the closest competitor's strategy, the following analysis is on the objectives of the competitor's company. What are the aims of the competitor for the market from its strategy? In general, objectives consist of current profit, market section growth, cash flow, leadership in technology or services. The objectives of a company are influenced by many factors including size, background, current management, financial situation and other factors. Other than objectives, the company must also monitor the competitors' development plan.

## 9.2.3 Strengths and Weaknesses

The effort to learn the competitor's strategy and goals depends on the company's resources and ability. In relation to that, it is all about the strengths and weaknesses of a company. The information on the strengths and weaknesses of the competitors should be obtained by the company in order to assist the analysis process.

## 9.2.4 Reaction Pattern

Next, we move on to the competitors' reaction pattern. In general, the reaction patterns are: slow reaction against the competition; selective reaction, which only reacted back to the competition of decreasing prices but not on promotion; fast and stronger reaction against the competition action; as well as multiple reaction that depends on the situation or the company's ability to react.

## 9.3 DESIGNING COMPETITION INTELLIGENCE SYSTEM

There are four steps to be followed in designing a competition intelligence system:

- (a) Starting the system;
- (b) Collecting data;
- (c) Evaluate and analyse the data; and
- (d) Distributing and reacting against the information.

Output from the information system may help the marketing managers to arrange the strategy in choosing the competitors which should be attacked and avoided.

Starting the system involves identification of the types of competitors' information to be gathered and the individuals responsible to execute the action. Depending on the company's financial ability, the individuals involved may carry the responsibility, full-time or part-time. Part-timers can constantly monitor the competitors' company's movement and eventually the individual or the officer will be an expert on any reference that the management needed.

The next step is to gather the identified type of data. Generally, the information needed to be collected is scattered. The information may be in the form of written documents or the result of an interview or indirect discussion with the middle-person, customer, public parties and the Internet.

The collected information is then evaluated for its authenticity and value before it is elaborated and organised. The analysed information will then be distributed to the decision maker regularly or when there is any need to assist decision making.



### EXERCISE 9.1

1. Who are the company's competitors?
2. How can competitors be identified?
3. How do you design a competition intelligence system?

## 9.4 DESIGNING COMPETITION STRATEGY

In a product or service market, the companies that offer the products or services actually have a market share of the market. The companies that strive to offer products and services are classified into one of these groups, the market leader, market challenger, market follower and market nicher. The groups to which they belong depends on the market percentage that they control.

Generally, the market leader controls about 40% from the overall market. Meanwhile market challenger controls 30%, market followers at 20% and the market nicher at 10% of the market share.

### 9.4.1 Market Leader Strategy

As a market leader, a company controls about 40% of the market share. Most of the time too, the market leaders lead the price changes, new products introduction, distribution coverage and promotion intensity. To maintain the status, the company needs to expand the market demand in total, protecting the current market through defensive and offensive actions and work to increase market section.

To expand the market demand in total can be done by acquiring new customers, improve usage of current product and increasing the usage rate. New usage such as baby shampoo is encouraged to the families because of its softness. An example of new usage is bicarbonate soda which is used for baking cakes, can also be kept in refrigerators to absorb unpleasant odours in the fridge. Meanwhile, an example of increasing usage of product would be shampoo. Here, the users are encouraged to wash their hair twice in order to get the best result of clean hair.

Other than the effort to expand demand, market leaders also need to protect the current market either by enforcing their current status, side attacks defense, pre-emptive defense, counter-attack defense, moving defense and withdrawal. Enforcing their current status can be done by continuous improvement of product quality or decreasing production cost. Side attacks defense is to keep monitoring competitors who offer close alternative products. While, pre-emptive defense refers to the action taken before the competitors make any attack.

Counter-attack defense refers to rapid counter-attack when being attacked by the competitors. The company will not sit still without making any counter-attack. Moving defense on the other hand, refers to market opportunities action and market variation to protect the market from competitors' attack. Meanwhile, withdrawal may only be executed if the company feels that it is not able to

protect the market anymore. However, this withdrawal is a withdrawal that has been considered for the pros and contras of the execution by the company. Withdrawing from market that has a slow growth rate is better than maintaining its position in the market.

## 9.4.2 Market Challenger Strategy

Based on the objective strategy evaluation, market challenger should be making decision of which competitors to attack. Market challenger has a choice either to attack the market leaders or competitors' company of the same size but are less advantageous in terms of financial resources for small competing companies.

Among the attack approaches that can be used are frontal assault, side assault, surround assault, by-pass assault or guerrilla assault.

### (a) Frontal Assault

The market challenger 's will launch direct assault with its competitor 's products. The challenger will challenge its competitor on the front without protection. This usually occurs if the position and strength of both challenger and the competitor are quite close. Frontal assault is executed with the hope that the challenger may replace its close competitor.

### (b) Side Assault

Side assault is an attack to a product criteria or the position of the competitor 's market. The assault is launched on the product criteria that were not given as much thought by the competitors. If the challenger guards only its main product and pays less attention to other products, then the company may launch assault to the side products.

### (c) Surround Assault

Surround assault refers to attack on all types of products manufactured by the competitors.

### (d) By-pass Assault

By launching an attack by-passing any of the competitors' intended action.



### ACTIVITY 9.1

Identify the strategy implemented by a market challenger in any television advertisements that you have watched recently.

(e) **Guerrilla Assault**

Irregular attacks launched by the challenger towards the competitors. Examples are price-reducing attack at one point, while at another time, the company will produce a product with additional criteria at the same price.

### 9.4.3 Market Follower Strategy

Market followers implement their strategies according to the market leaders or the market challengers. For example, the market leader will introduce a new product after investing a huge amount of money in market research to produce the new product. Soon after that however, a product almost similar to it will come out in the market but with a different brand and at a much cheaper price. This is known as the market followers' strategy.

The general strategy commonly used by the market followers are cloning, forging, imitating and modification. Cloning involves copying all the original product traits with minor changes and are sold at a lower price. Forging copies the original product without any changes to its traits and is illegally sold in the market. Imitation on the other hand is original products copying and selling after minor modification. Modification changes the original products with the characteristics that is deemed suitable for the consumer and marketed as a new version product to the market.

### 9.4.4 Market Nicher Strategy

This strategy focuses on smaller or specific needs markets. It is a strategy suitable for small companies that do not wish to compete directly with the market leaders, challengers or the followers. Generally, niche markets are less considered by the giant competitors because of the market small size and specific needs. For example, the restaurants. Most of the restaurants provide food that caters to many people's demand. However, a niche restaurant is one that caters for vegetarians and does not share meat dishes.

The niche market to be ventured should have sufficient demand in order to be sustainable. If the focused market has a possibility to shrink, it may present a threat to the company that wishes to venture in the focused market.

The most important key of focused market is specialisation. The following are the roles that can be played by the niche marketers, which are as individual consumer experts, market by geography experts, product traits experts, highly priced products experts, service experts and distribution channels experts.

## 9.5 BALANCING COMPETITION AND CONSUMER ORIENTATION

The company actually has an option whether to use the competition or the customer orientation in its strategy. It is not wrong for a company to use only one strategy but it is better if the company can balance both orientations in the formation or modification of its strategy. This is because the market consists of both competitors and customers. You would require monitoring in order to gain competitive advantages for the company.



### EXERCISE 9.2

1. The real competitors of a company consist of companies in the same country only.
  - A. True
  - B. False
2. Analysing competitors refers to collecting information about strategies, objectives, strengths and weaknesses and the reaction patterns of the competitors' company.
  - A. True
  - B. False
3. Information on the competitors is usually collective information and easy to obtain.
  - A. True
  - B. False
4. Information from the Internet is also an information source for the purpose of collecting information about the competitors.
  - A. True
  - B. False
5. Market challenger always challenges the position of market leaders and other market followers.
  - A. True
  - B. False

## SUMMARY

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- In this topic, we learn the meaning of competitors by identifying them using two approaches, which are the approach from the market or industry concept.
- Industry concept analyses the competitors according to how an industry can be classified.
- After identifying the company's competitors, marketers may obtain important information regarding the competitors; such as their strategies, objectives, strengths and weaknesses as well as the competitors' reaction patterns in order to allow the company to learn more about their competitors.
- In relation to that, we are brought to the competition intelligence system, where information type and quantity needed are identified.
- The system may be implemented full time, through departments or units, or part-time as when the information is required.
- A market actually consists of the market leaders, market challengers, market followers and niche marketers. Each type has its own strategy suitable to the companies' market positions.
- Generally, market leaders are leaders in terms of market sectors and strategy in the market.
- Meanwhile, the challengers are companies with almost similar abilities with the market leader and frequently challenge the position of the market leader.
- Market followers are the companies which prefer to take advantage of the market situation created by the market leaders and market challengers.
- Niche marketers on the other hand focus their effort according to their position or limited resources.
- Even though competition strategies are the main focus of this topic, a balance between the approaches of either consumer or competition orientation must be achieved in order to gain competitive advantages in the market. This is because a market consists of both the consumers and the competitors.
- The actions and changes in the consumers and the competitors should be monitored.

## KEY TERMS

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Competition

Competition strategy

Competitors

Consumer orientation

Industrial concept

Market challenger strategy

Market concept

Market follower strategy

Market leader strategy

Market nicher strategy