UNIT 9:
MARKETING AND COMPETITIVE STRATEGIES

1. CONCEPT OF COMPETITIVE ADVANTAGE

Competitive advantage is the superiority a firm achieves over its rivals, providing higher customer value, either through lower prices or by offering greater benefits and services that justify higher prices.

A competitive advantage is:

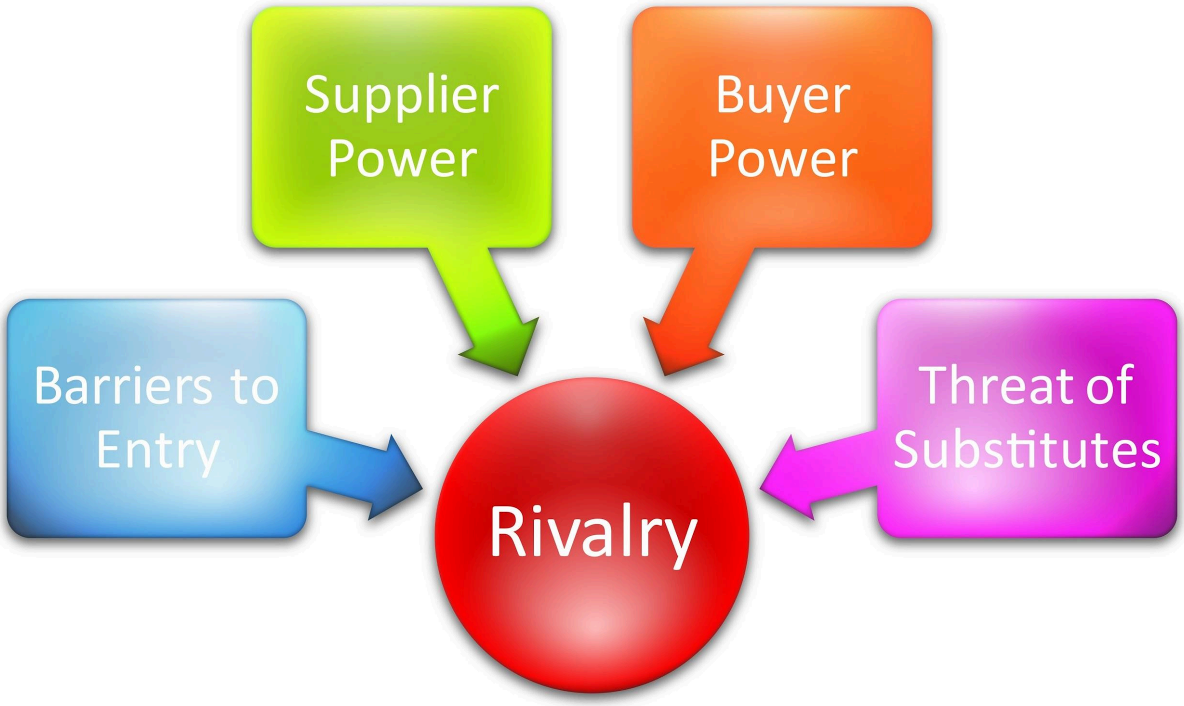
- **Customer-focused:** Based on what the customer values.
- **Sustainable:** Difficult for competitors to imitate or neutralise.
- **Measurable:** Must lead to superior performance (profitability, market share).

A company can achieve competitive advantage through:

1. **Cost Advantage:** Achieving lower costs than rivals.
2. **Differentiation Advantage:** Providing a product or service that is perceived as unique and valuable.

2. PORTER'S FIVE FORCES MODEL

Michael Porter's Five Forces Model is a framework for analyzing the industry structure and determining the level of competition and long-term profitability within an industry. The five forces determine the overall attractiveness (profit potential) of the industry.



2.1 Barriers to Entry/Threat of New Entrants

This force determines how easily (or difficultly) new competitors can enter the market. High barriers protect existing firms and increase industry profitability.

- **High Barriers Include:** Large capital requirements, strong brand loyalty, difficulty accessing distribution channels, governmental/legal policies, and established experience/scale economies.

2.2 Intensity of Rivalry among Firms

Rivalry describes the extent to which firms within the industry compete with one another. High rivalry drives down prices and profitability.

- **Rivalry is High When:** There are many competitors of similar size, industry growth is slow, products are undifferentiated, exit barriers are high (e.g., specialised assets), and capacity must be expanded in large increments.

2.3 Threat of Substitutes

Substitutes are products or services from different industries that can satisfy the same customer need (e.g., email vs. postal service, train vs. airline travel). The greater the threat of substitutes, the less control firms have over pricing.

- **Threat is High When:** Substitutes offer an attractive price-performance trade-off or when the buyer's cost of switching to the substitute is low.

2.4 Bargaining Power of Buyers

Buyers' power refers to the pressure customers can exert on businesses to lower prices, improve quality, or offer more services.

- **Power is High When:** Buyers are few but large, the product is undifferentiated and standard, buyers face low switching costs, or buyers can credibly threaten backward integration (producing the product themselves).

2.5 Bargaining Power of Suppliers

Suppliers' power refers to the ability of suppliers to raise input prices or reduce the quality of goods and services they supply to the industry.

- **Power is High When:** The supply industry is dominated by a few large companies, the inputs are critical to the buyer's success, the supplier's product is highly differentiated, or the firm faces high switching costs when changing suppliers.

3. ANALYSIS OF COMPETITORS

Competitor analysis involves identifying key competitors, assessing their objectives, strategies, strengths, and weaknesses, and anticipating their reaction patterns.

3.1 Classes of Competitors

Competitors can be classified based on the level of substitutability in the customer's decision-making process:

3.1.1 Generic Competition

Rivalry between products/services that compete for the same **disposable income** of the customer.

- *Example:* A family choosing between buying a new car, taking a luxury vacation, or remodelling the kitchen.

3.1.2 Form Competition

Rivalry between products/services that satisfy the **same basic customer need** but in different forms.

- *Example:* Public transport, private cars, or bicycles all address the need for transportation.

3.1.3 Industry Competition

Rivalry between all companies that offer the **same product class** or type of service.

- *Example:* All automobile manufacturers (Ford, Toyota, BMW, etc.) are in industry competition.

3.1.4 Brand Competition

Rivalry between companies offering **similar products and services to the same target market** at similar price points. This is the most direct form of competition.

- *Example:* Coca-Cola vs. Pepsi-Cola, or McDonald's vs. Burger King.

3.2 Identifying Competition

A company can define its competitors based on:

1. **Industry Perspective:** Competitors are firms that are making the same product or class of products (e.g., all smartphone makers).

2. **Market Perspective:** Competitors are firms that satisfy the same customer need (e.g., a music streaming service and a concert venue both satisfy the need for entertainment).

3.3 Analyzing Competition

Once identified, the key aspects of a competitor to analyse include:

3.3.1 Strategies

What is the competitor's current strategy? This includes target market, product quality, pricing policy, distribution channels, promotion strategy, and level of vertical integration. The firm should group competitors into **strategic groups**—groups of firms following the same strategy in a given target market.

3.3.2 Objectives

What is the competitor seeking in the marketplace? Objectives can include maximizing profits, increasing market share, achieving technological leadership, or simply surviving. Knowing their weightage (e.g., is growth prioritized over current profit?) helps anticipate future moves.

3.3.3 Strengths and Weaknesses

Firms should assess the competitor's resources and capabilities across all functional areas:

- **Strengths:** Strong financial resources, high brand recognition, efficient manufacturing, superior R&D, or effective distribution.
- **Weaknesses:** Aging facilities, poor brand reputation, weak distribution network, or lack of management talent.

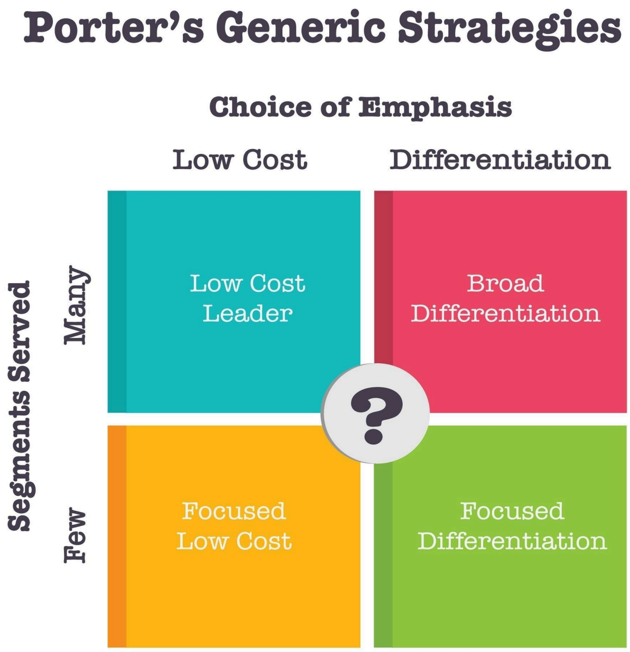
3.4 Reaction Patterns

Competitors do not all react the same way to an attack. Understanding their typical reaction pattern helps in strategy design:

- **The Relaxed Competitor:** Does not react quickly or strongly to a given change. May feel secure or be complacent.
- **The Selective Competitor:** Reacts only to certain types of attacks (e.g., a competitor only attacks price reductions, but ignores advertising increases).
- **The Tiger Competitor (Fierce Competitor):** Reacts swiftly and strongly to any attack on its turf, indicating a willingness to fight and discourage future attacks.
- **The Stochastic/Unpredictable Competitor:** Does not exhibit a predictable reaction pattern, often due to high uncertainty, poor management, or irrational objectives.

4. PORTER'S GENERIC COMPETITIVE STRATEGIES

These strategies outline how a company can achieve competitive advantage in its chosen scope (broad or narrow target market).



4.1 Cost Leadership Strategy

The company works to achieve the lowest production and distribution costs. The aim is to price its products lower than competitors and win a large market share.

- *Requires:* High efficiency, tight cost control, strong economies of scale, and process innovation.

4.2 Differentiation Strategy

The company focuses on creating a highly differentiated product line and marketing program to become the class leader. Customers prefer the differentiated product and are often willing to pay a premium.

- *Requires:* Strong R&D, product engineering, creative talent, high-quality inputs, and effective sales/marketing.

4.3 Focus Strategy

The company focuses its efforts on serving one or a few narrow market segments (niches) rather than the entire market. This can take two forms:

1. **Cost Focus:** Achieving the lowest cost within the target segment.
2. **Differentiation Focus:** Offering the most differentiated product within the target segment.

4.4 Generic Strategy Mix

Companies that fail to pursue either cost leadership or differentiation (or a focused version of either) risk being "Stuck in the Middle." They lack the market share or economies of scale to be a low-cost leader and lack the distinctiveness to be a differentiator.

However, a **Hybrid Strategy** (sometimes called "Integrated Low Cost/Differentiation") involves seeking both lower costs and significant differentiation, typically using advanced technology or lean production methods to deliver high value at a reasonable price.

5. DESIGNING COMPETITIVE STRATEGIES (ROLE-BASED)

Firms operating in a target market can be classified into four roles: Market Leader, Market Challenger, Market Follower, or Market Nicher.

5.1 Market Leader Strategies

The firm with the largest market share (often 40% or more).

1. **Expand Total Market:** Find new users, new uses for the product, or encourage more usage of the product.
2. **Protect Market Share:** Employ defensive marketing (e.g., position defence, flanking defence, pre-emptive defence, counteroffensive defence, mobile defence, or contraction).
3. **Expand Market Share:** Increase profitability by gaining market share, provided the cost of gaining the share is less than the expected long-run returns.

5.2 Market Challenger Strategies

The second-largest firm, capable of aggressively challenging the leader and other competitors.

1. **Frontal Attack:** Matching the competitor’s product, advertising, price, and distribution. (Costly and risky).
2. **Flank Attack:** Attacking the competitor’s weaknesses, gaps in the market, or underserved segments. (Often more successful).
3. **Encirclement Attack:** Launching a grand offensive on several fronts (product, price, distribution) to capture a large slice of the enemy’s territory.
4. **Bypass Attack:** Attacking easier markets, diversifying into unrelated products, or developing new technologies to leapfrog the leader.
5. **Guerrilla Warfare:** Launching small, intermittent, conventional, or unconventional attacks (e.g., selective price cuts, intense promotion) to harass the opponent and secure footholds.

5.3 Market Followers Strategies

Firms that choose not to rock the boat, often imitating or adapting the leader's products, maintaining profits without the expense of innovation or conflict.

1. **Cloner:** Emulates the leader's products, name, and packaging, with slight variations (e.g., using a similar bottle shape).
2. **Imitator:** Copies some things from the leader but maintains some differentiation in packaging, advertising, pricing, or location.
3. **Adapter:** Takes the leader's products, improves them, and offers them in different markets. This often leads to the adapter becoming a challenger eventually.

6. COMPETITIVE INTELLIGENCE SYSTEM

A Competitive Intelligence (CI) system is a set of procedures and people designed to systematically gather, analyse, and distribute timely and relevant information about the industry, competitors, and the market environment.

6.1 Setting up the System

This involves defining the scope (what intelligence is needed), the sources, and the staffing for the CI unit. Key information to track includes competitor sales, market share, profit margins, capacity utilization, cash flow, and key personnel changes.

6.2 Data Collection

CI gathers data from various sources:

- **Primary Sources:** Competitors' employees, suppliers, distributors, or customers.
- **Secondary Sources:** Government publications, annual reports, business press, patents, trade association data, and online databases.

6.3 Analysis and Evaluation of Data

The collected raw data is validated, interpreted, and organized into meaningful insights about competitors' intentions and capabilities. Analysts use models (like Porter's Five Forces) to evaluate the data's implications for the firm's strategy.

6.4 Information Communication and Response

Key findings must be disseminated in a timely manner to relevant decision-makers (marketing, R&D, strategy teams). The system must allow for rapid and appropriate strategic and tactical responses to competitive moves.

7. TOTAL QUALITY MANAGEMENT (TQM)

Total Quality Management (TQM) is an organizational-wide approach to continuously improving the quality of all the organization's processes, products, and services. It is based on the premise that quality is the responsibility of everyone in the organization.

Relevance to Competitive Strategy:

- **Cost Advantage:** Reducing defects, waste, and rework leads to lower operational costs, supporting a Cost Leadership strategy.
- **Differentiation:** Higher product and service quality provides a key differentiator that customers value, supporting a Differentiation strategy.
- **Customer Satisfaction and Loyalty:** TQM's focus on meeting or exceeding customer expectations is fundamental to building long-term loyalty and sustainable competitive advantage.
- **Culture:** It creates a culture of continuous improvement (**Kaizen**), enabling the company to constantly adapt and stay ahead of rivals.