CHAPTER 8: COMPETITIVE DYNAMICS

Firms can be classified by the roles they play in the target market:

Leader – 40% of the market

Challenger – 30% of the market

Follower – 20% of the market

Niche – 10% of the market

Competitive strategies for market leaders

To stay number one the firm must

1) Expand the total market demand
2) Protect the current market share
3) Increase the market share even if market size remains constant

1) Expand the total market demand

- New customers – Attract those who are unaware of the product and those resisting it because of price or lack of certain features
  - a) Market penetration strategy
  - b) New-market segment strategy
  - c) Geographical expansion strategy
- More usage – To increase the amount , level or frequency of consumption
  - a) Additional opportunities to use the brand.
  - b) Replacement rate
  - c) New product uses

2) Protect the current market share

Continuous innovation. The front-runner should lead the industry in developing new products, customer services, distribution effectiveness and cost reduction.

Proactive marketing

A company needs two proactive skills

- Creative anticipation
- Responsive anticipation

Proactive firms are

- Ready to take risks and make mistakes
- Have a vision of the future and of investing in it
- Have the capabilities to innovate
- Are flexible and non-bureaucratic
- Have managers who think proactively

Defensive marketing strategies

Position defense – Occupying the most desirable image in consumers' minds, making the brand almost impregnable.

Flank defense - Market leader in addition to position defense but also puts up an outpost to defend the weak front or to act as a counter invasion base.

Preemptive defense - A more aggressive maneuver is to attack before enemy starts its offense. Hitting one competitor here, another there and keep every one off balance. Detect potential attacks and attack the enemies first.

Counteroffensive defense - Responding to competitor's attack by identifying the attacker's weakness and then launch a counter attack so that competitor will pull back to defend itself.

Mobile defense – By market broadening or/and market diversification

Contraction defense - Withdraw from the most vulnerable segments and redirect resources to those that are more defendable by planned contraction or strategic withdrawal

<u>3) Increasing the market share</u>

- The possibility of attracting legal action for violating the competition Act or Antitrust law
- Economic cost
- The danger of pursuing the wrong marketing activities
- The effect of increased market share on actual and perceived quality

Market challenger strategies

The market challengers' strategic objective is to gain market share and to become the leader eventually

- By attacking the market leader

- By attacking other firms of the same size

- By attacking smaller firms

Choosing a general attack strategy

Frontal attack: In a pure frontal attack, the attacker matches its opponent's product, advertising, price, and distribution. A modified frontal attack, such as cutting price can work if the market leader does not retaliate.

Flank attack: Attack the enemy at its weak points or blind spots. Ideal for challenger who does not have sufficient resources. An enemy's weak spots are natural targets. A flank attack can be directed along two strategic dimensions- geographic and segmental.

Encirclement attack: Attack the enemy at many fronts at the same time. Ideal for challenger having superior resources

Bypass attack: By diversifying into unrelated products or markets neglected by the leader. Can help overtake the leader by using new technologies. The most indirect assault strategy is the bypass. It means bypassing enemy and attacking easer markets to broaden one's resource base. This strategy offers three lines approach: diversifying into unrelated product, entering new geographic markets, leapfrogging into new technologies to supplant existing products.

Guerrilla attack: By launching small, intermittent hit-and-run attacks to harass and destabilize the leader. These include selective price cuts, promotional blitzes, and occasional legal action, etc.

Market-follower strategies

1) Counterfeiter – Duplication of the leader's products and packages and sells it on black market or through disreputable dealers.
2) Cloner – Emulates the leader’s products, name and packaging with slight variations
3) Imitator – Copying some things from the leader but differentiates packaging, advertising, pricing or location
4) Adapter – The adapter takes the leader’s products and adapts or improves them.

Market-Nicher strategies

- Avoid directly competing with larger firms by targeting small markets of little or no interest to larger firms.
- Sometimes large profitable firms can also venture into niche market which can be a threat for smaller niche firms
- Return on investments for businesses in smaller markets exceeds that in larger markets on an average
- Nicher receives higher margins, mass marketer achieves high volume. The company is then
- Three main tasks of nichers: creating niches, expanding niches and protecting niches.
- Multiple niching over single niching

Product Life Cycles

Product Life Cycle is the sequence of stages that a product progresses through until it reaches the stage where it is finally abandoned or discontinued from the market.

To say a product has a life cycle is to assert four things

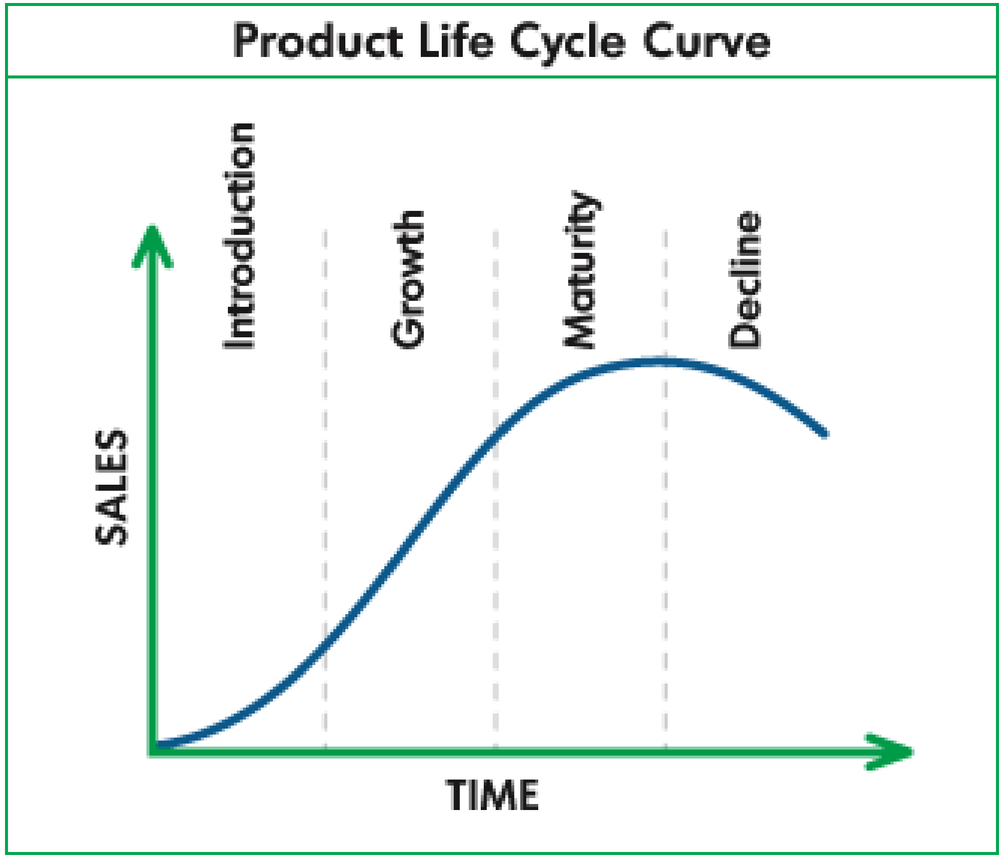
1) Products have a limited life
2) Product sales pass through distinct stages, each posing different challenges, opportunities and problems to the seller
3) Profits rise and fall at different stages of product life cycle
4) Products require different kind of strategies in during different stages

Introduction – Product is introduced to the market

Growth – A period of rapid market acceptance and substantial profit improvement

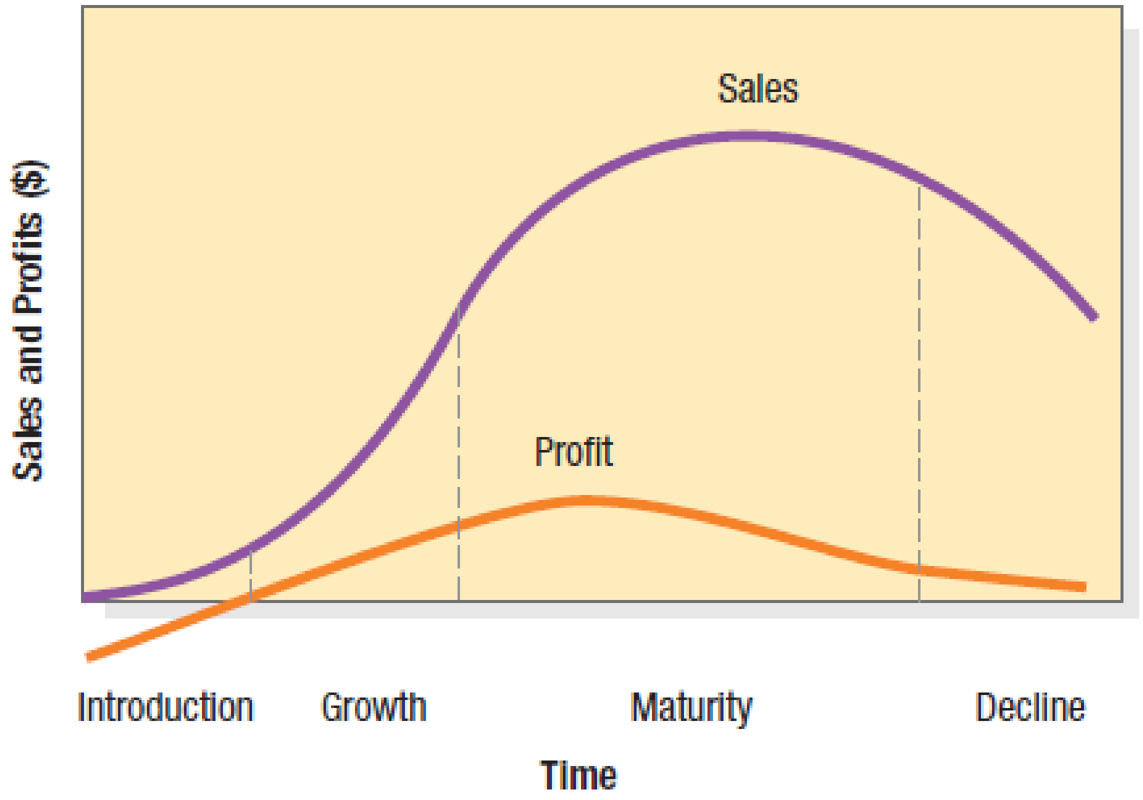
Maturity - Reaches to the peak and beginning of slight decline at the later part of this stage

Decline – Downward drift of sales



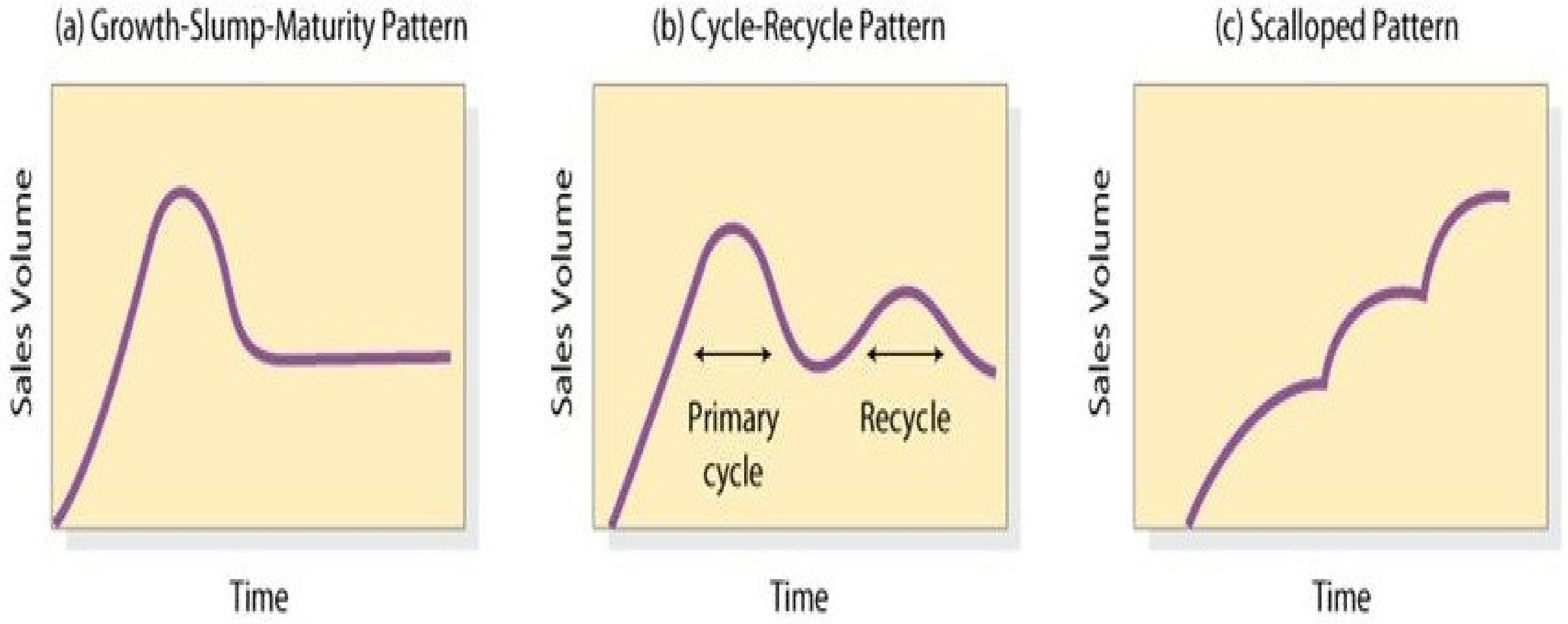
	Introduction	Growth	Maturity	Decline
Characteristics				
Sales	Low sales	Rapid rising sales	Peak sales	Declining sales
Costs	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
Profits	Negative	Rising profits	High profits	Declining profits
Customers	Innovators	Early adopters	Middle majority	Laggards
Competitors	Few	Growing number	Stable number beginning to decline	Declining number
Marketing objectives	Create product awareness and trial	Maximize market share	Maximize profit while defending market share	Reduce expenditure and milk the brand

Sales and Profit Life Cycles

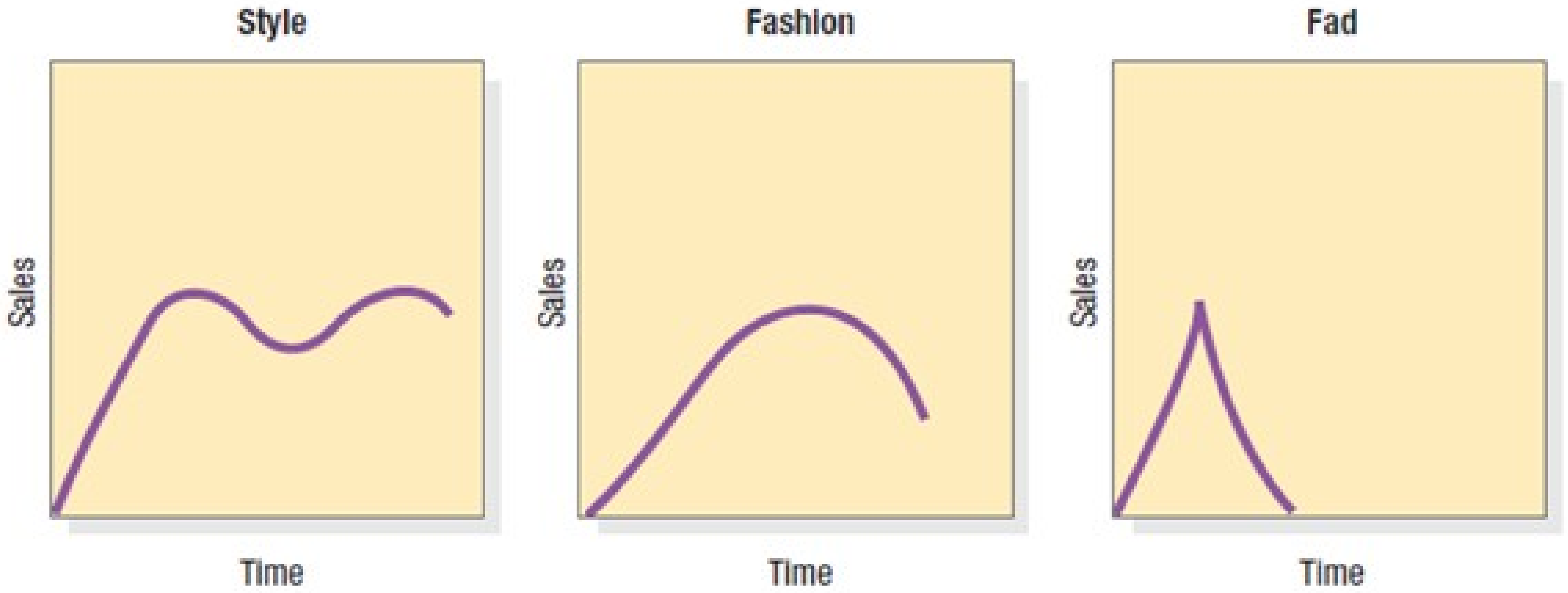


	Introduction	Growth	Maturity	Decline
Strategies				
Product	Offer a basic product	Offer product extensions, service, warranty	Product modification, diversify brands and items models	Phase out weak products
Price	Charge cost-plus	Price to penetrate market	Price to match or best competitors	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build intensive distribution	Go selective: phase out unprofitable outlets
Communications	Build product awareness and trial among early adopters and dealers	Build awareness and interest in the mass market	Stress brand differences and benefits and encourage brand switching	Reduce to minimal level needed to retain hard-core loyals

Exceptional alternate patterns



Style, Fashion and Fad lifecycles



Criticism of Product Life Cycles

1) Shape of the curve need not be the same always
2) Differences in the length of the stages
3) Patterns may not apply to all global markets
4) Competitor reaction is not always predictable
5) Impact of other external forces
6) Stages always need not follow the same pattern
7) Difficulty in prediction

Thank you