

Week 5 Chapter 5: Competitive Dynamics

Competitive dynamics refers to the competitive set of actions and responses taken by all firms competing within a particular market.

Competitors are organisations competing in the same market, offering similar products and targeting similar customers:

Examples include:

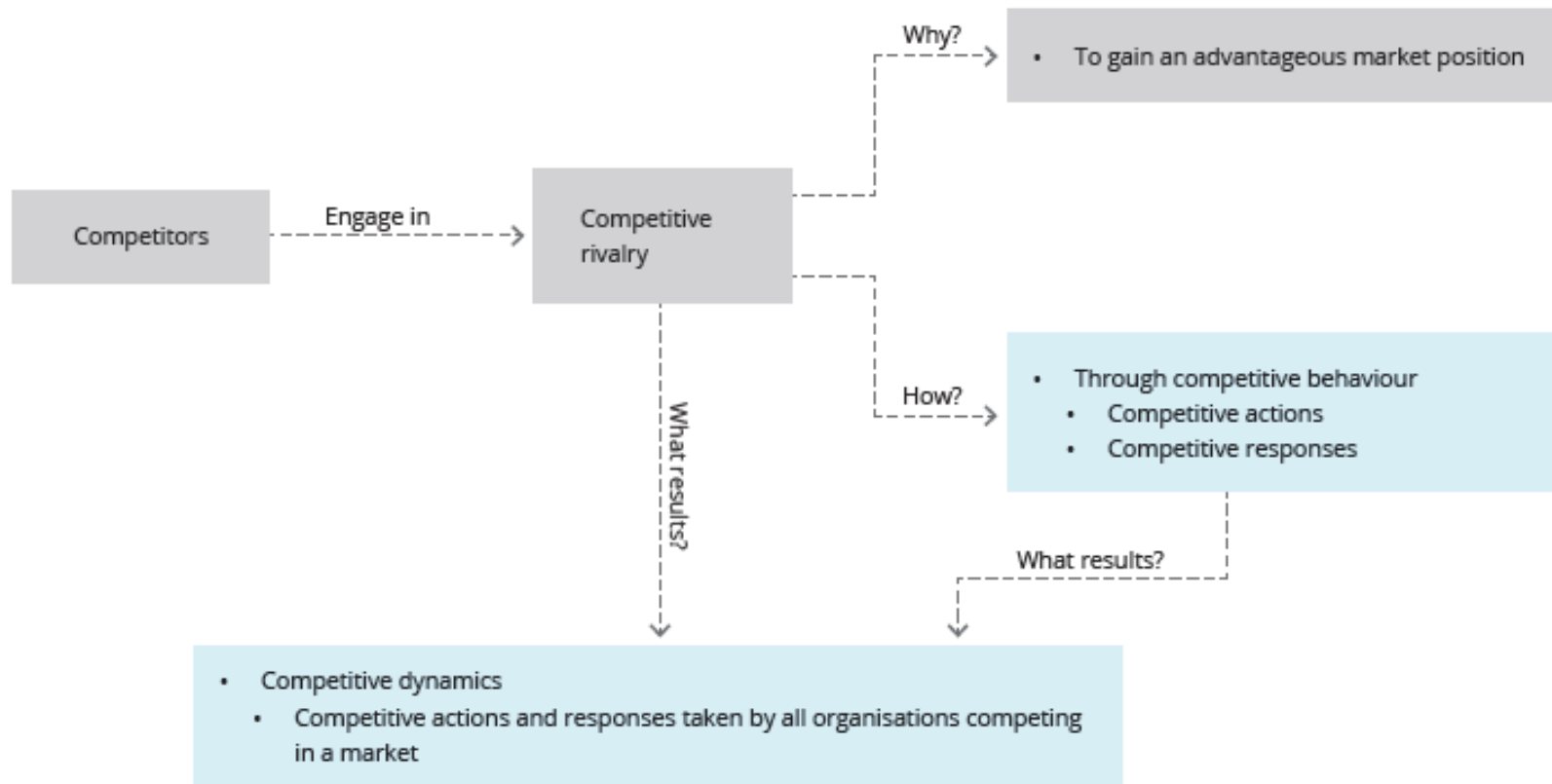
- Qantas, Virgin Australia, Jetstar
- PepsiCo and Coca-Cola Company
- Coles & Woolworths

Competitive behaviour: This is the set of competitive actions and responses a firm takes:

WHY?

- to build or defend its competitive advantages and
- to improve its market position.

Figure 5.1 From competitors to competitive dynamics



Source: Based on M.-J. Chen, 1996, Competitor analysis and interfirm rivalry: Toward a theoretical integration, *Academy of Management Review*, 21: 100-34.

COMPETITIVE DYNAMICS VERSUS RIVALRY

COMPETITIVE DYNAMICS

Ongoing competitive actions and responses
-taking place among all firms competing within a market for advantageous positions

COMPETITIVE RIVALRY

Ongoing competitive actions and responses
-taking place between an **individual firm and its competitors** for advantageous market position

Competitor analysis

- Competitor analysis is used to help a firm understand and predict its competitors' future behaviours.
- In competitor analysis a firm studies competitors':
 - Future objectives
 - Current strategies
 - Assumptions
 - Capabilities
- Competitors analysis is the first step an organisation needs to take for predicting its competitors' actions.

COMPETITOR ANALYSIS: MARKET COMMONALITY

Market commonality is concerned with:

- the number of markets with which a firm and a competitor are jointly involved
- the degree of importance of the individual markets to each competitor.

A firm with greater multimarket contact is:

- less likely to initiate an attack, but
- more likely to respond aggressively when attacked.

COMPETITOR ANALYSIS: RESOURCE SIMILARITY

- Resource similarity refers to how **comparable** a firm's tangible and intangible resources are to a competitor's **in terms of both types and amounts**
- Firms with similar types and amounts of resources are likely to:
 - have similar strengths and weaknesses and use similar strategies.
- **Assessing resource similarity can be difficult if critical resources are intangible rather than tangible.**

DRIVERS OF COMPETITIVE ACTIONS AND RESPONSES

Awareness

- **Awareness** is the extent to which competitors recognise the degree of their mutual interdependence that results from:
 - market commonality
 - resource similarity

DRIVERS OF COMPETITIVE ACTIONS AND RESPONSES

Motivation

- **Motivation:**
 - Is about the firm's incentive to take action or respond to a competitor's attack
 - relates to perceived gains and losses

DRIVERS OF COMPETITIVE ACTIONS AND RESPONSES

Ability

- **Ability** relates to:
 - each firm's resources
 - the flexibility these resources provide.
- Without available resources, a firm lacks the ability to:
 - attack a competitor
 - respond to a competitor's actions.

DRIVERS OF COMPETITIVE ACTIONS AND RESPONSES



Market Commonality

- A firm is more likely to attack a rival with which it has low market commonality than one with which it competes in multiple markets.
- Given the strong competition under market commonality, it is likely that the attacked firm will respond to its competitor's action in an effort to protect its position in one or more markets.

DRIVERS OF COMPETITIVE ACTIONS AND RESPONSES

Awareness

Motivation

Ability

Market
Commonality

Resource
Dissimilarity

LIKELIHOOD OF ATTACK

- In addition to **market commonality, resource similarity, awareness, motivation and ability** affect the likelihood that a competitor will use strategic and tactical actions to attack its competitors.
 - These factors include:
 - first-mover incentives
 - organisational size
 - quality.

LIKELIHOOD OF ATTACK

First-mover incentives

First mover: a firm that takes an initial competitive action in order to build or defend its competitive advantages or to improve its market position

- First movers allocate funds for:
 - product innovation and development
 - aggressive advertising
 - advanced research and development.
- First movers can gain:
 - the loyalty of customers who may become committed to the firm's goods or services
 - market share, which can be difficult for competitors to take during future competitive rivalry.

LIKELIHOOD OF ATTACK

First-mover incentives

- First movers:
 - often build on a strategic foundation of superior research and development skills
 - tend to be aggressive and willing to experiment with innovation
 - tend to take higher, yet reasonable, risks
 - need to have liquid resources (slack) that can be quickly allocated to support actions
 - can earn substantial benefits, but must beware of the learning curve.

LIKELIHOOD OF ATTACK

First-mover
incentives

Second-mover

- **Second movers:**
 - respond to the first mover, typically through imitation
 - are more cautious than first movers
 - tend to study customer reactions to product innovations
 - tend to learn from the mistakes of first movers, thereby reducing their risks
 - take advantage of time to develop processes and technologies that are more efficient than first movers', reducing their costs
 - can avoid both the mistakes and the huge spending of first movers
 - will not benefit from first mover advantages, lowering potential returns.

LIKELIHOOD OF ATTACK

First-mover
incentives

Second-mover

Late-mover

- **Late movers:**

- respond to a competitive action only after considerable time has elapsed since first and second movers have taken action
- will achieve success (if any) slowly, and it will be much less than that achieved by first and second movers
- take competitive action that allows only average returns and delays their understanding of how to create value for customers
- have reduced risks and returns.

LIKELIHOOD OF ATTACK

First-mover
incentives

Second-mover

Late-mover

Organisational
size – small

- **Small firms are more likely:**
 - to launch competitive actions
 - to be quicker
 - to be flexible competitors
 - to rely on speed and surprise to defend their competitive advantage

LIKELIHOOD OF ATTACK

First-mover
incentives

Second-mover

Late-mover

Organisational
size – large

- **Large firms**

- are more likely to initiate competitive actions as well as strategic actions over time
- often have greater slack resources
- tend to rely on a limited variety of competitive actions, which can ultimately reduce their competitive success.

LIKELIHOOD OF ATTACK

First-mover incentives

Second-mover

Late-mover

Organisational size

Quality (product)

- Quality exists when a firm's goods or services meet or exceed customers' expectations.
- Product quality dimensions include:
 - performance
 - features
 - flexibility
 - durability
 - conformance
 - serviceability
 - aesthetics
 - perceived quality

LIKELIHOOD OF ATTACK

First-mover incentives

Second-mover

Late-mover

Organisational size

Quality (service)

- Service quality dimensions include:
 - timeliness
 - courtesy
 - consistency
 - convenience
 - completeness
 - accuracy.

LIKELIHOOD OF RESPONSE

- In addition to market commonality, resource similarity, awareness, motivation and ability, firms evaluate the following three factors to predict **how a competitor is likely to respond** to competitive actions:
 - **type of competitive action**
 - **actor's reputation**
 - **dependence on the market.**
- A firm is likely to respond when the **action significantly strengthens or inaction weakens** the firm's competitive position.

LIKELIHOOD OF RESPONSE

Type of competitive action

The success of a firm's competitive action is affected by the likelihood that a competitor will respond to it as well as by the type (strategic or tactical) and effectiveness of that response.

- **Strategic actions receive strategic responses.**
 - Strategic actions elicit fewer total competitive responses because of the significant resources required and their irreversibility.
 - The time needed to implement and assess a strategic action delays competitor's responses.
- **Tactical responses are taken to counter the effects of tactical actions.**
 - A competitor is likely to respond quickly to a tactical action.

LIKELIHOOD OF RESPONSE

Type of competitive action

Actor's reputation

- An **actor** is the firm that is taking an action or responding.
- **Reputation** is the positive or negative attribute ascribed by one rival to another based on past competitive behaviour.
- A firm studies responses that a competitor has taken previously when attacked to predict likely responses.

LIKELIHOOD OF RESPONSE

Type of competitive action

Actor's reputation

Dependence on the market

- **Market dependence** is the extent to which a firm's revenues or profits are derived from a particular market.
- In general, firms can predict that competitors with high market dependence are likely to respond strongly to attacks threatening their market position.

COMPETITIVE DYNAMICS

- Competitive behaviours differ across market types.
- Competitive dynamics differ in slow-cycle, fast-cycle and standard-cycle markets.
- The sustainability of a firm's competitive advantages differs across the three market types.
- The degree of sustainability differs by market type and is affected by how quickly competitive advantages can be imitated and how costly it is to do so.

COMPETITIVE DYNAMICS

Slow-cycle
markets

Fast-cycle
markets

- A firm's competitive advantages are not shielded from imitation.
- Technology is non-proprietary.
- Imitation is rapid, inexpensive and enabled by reverse engineering.
- Competitive advantages are not sustainable.
- There is more market volatility than in slow-cycle or standard-cycle markets.

COMPETITIVE DYNAMICS

Slow-cycle
markets

Fast-cycle
markets

Standard-cycle
markets

- Firm's competitive advantages are moderately shielded from imitation.
- Imitation is moderately costly.
- Competitive advantages are partially sustainable if quality is continuously upgraded.
- Firms:
 - seek large market shares, as mass markets
 - develop economies of scale
 - gain customer loyalty through brand names
 - carefully control operations
 - manage a consistent experience for the customer.

COMPETITIVE DYNAMICS

| | Imitation | Competitive advantage |
|------------------------|--|---|
| Slow-cycle markets | <p>Slow and costly</p> <p>Costly-to-imitate resource/capability usually results from unique historical conditions, causal ambiguity and/or social complexity</p> | <p>Sustained competitive advantage most achievable in this market</p> |
| Fast-cycle markets | <p>Rapid and inexpensive</p> | <p>Not sustainable</p> <p>Reverse engineering</p> |
| Standard-cycle markets | <p>Faster and less costly than in slow-cycle markets; slower and more expensive than in fast-cycle markets</p> | <p>Partially sustainable</p> |

Competitive Dynamics Theory-youtube

<https://www.youtube.com/watch?v=BxPnVtKpwYY>

Experiential Exercise 2 page 155 of your text book.