From Competitors to Competitive Dynamics

**Competitive Rivalry’s Effect on Strategy**

- **Success of a strategy is determined by:**
  - The firm’s initial competitive actions
  - How well it anticipates competitors’ responses to them
  - How well the firm anticipates and responds to its competitors’ initial actions

- **Competitive rivalry:**
  - Affects all types of strategies
  - Has the strongest influence on the firm’s business-level strategy or strategies
A Model of Competitive Rivalry

Competitor Analysis

- Competitor analysis is used to help a firm understand its competitors
- The firm studies competitors’ future objectives, current strategies, assumptions, and capabilities
- With the analysis, a firm is better able to predict competitors’ behaviors when forming its competitive actions and responses

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
- Firms competing against one another in several or many markets engage in multimarket competition
  - A firm with greater multimarket contact is less likely to initiate an attack, but more likely to more respond aggressively when attacked
Resource Similarity

- Resource Similarity
  - How comparable the 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
  - Use similar strategies
- Assessing resource similarity can be difficult if critical resources are intangible rather than tangible

Drivers of Competitive Behavior (1 of 2)

- Awareness is
  - the extent competitors recognize the degree of their mutual interdependence that results from:
    - Market commonality
    - Resource similarity
- Motivation concerns
  - the firm’s incentive to take action
  - or to respond to a competitor’s attack
  - and relates to perceived gains and losses
- Ability relates to
  - each firm’s resources and the flexibility these resources provide
    - Capable firms attack and respond

Drivers of Competitive Behavior (2 of 2)

- Market commonality
  - Low market commonality….high probability of attack
  - High market commonality…more vigorous the response
- Resource dissimilarity
  - Higher the resource imbalance…the longer the delay in response
  - If attacked by firms w/ more resources or better mkt. position…must respond to challenge
Strategic and Tactical Actions

• Strategic action or a strategic response
  ➢ A market-based move that involves a significant commitment of organizational resources and is difficult to implement and reverse

• Tactical action or a tactical response
  ➢ A market-based move that is taken to fine-tune a strategy:
    ◦ Usually involves fewer resources
    ◦ Is relatively easy to implement and reverse

Factors Affecting Likelihood of Attack (1 of 2)

• First Mover
  ➢ Invests in product innovation, R&D, and advertising
  ➢ Hopes to gain...customer loyalty and mkt. share

• Second Mover
  ➢ Typically imitates first mover
    ◦ Studies customer reactions and products...avoid mistakes
    ◦ May develop more efficient processes and avoid investment

• Late Mover
  ➢ Slow to respond and earns only average profits
  ➢ May not have full understanding of customers

Factors Affecting Likelihood of Attack (2 of 2)

“Think and act big and we’ll get smaller. Think and act small and we’ll get bigger.”
  Herb Kelleher Former CEO, Southwest Airlines

• Organizational Size
  ➢ Small firms
    ◦ More likely to be nimble and quick in response
    ◦ May be likely to compete on speed
  ➢ Large firms
    ◦ More likely to initiate competitive actions
    ◦ Often have more resources to launch more competitive actions

• Quality
  ➢ Product and service
Factors Affecting Likelihood of Response

- **Type of competitive action**
  - Strategic actions receive strategic responses
  - Elicit fewer total competitive responses
  - The time needed to implement ... delays competitor’s responses
  - Tactical actions...tactical responses
  - Competitor likely will respond quickly to a tactical actions

- **Reputation**
  - Study past responses when attacked to predict likely responses

- **Market dependence**
  - Extent revenues/profits tied to specific market
  - high dependence yields strong responses

Competitive Dynamics versus Rivalry

- **Competitive Dynamics**
  - Ongoing actions and responses taking place between all firms competing within a market for advantageous positions

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

Competitive Dynamics Versus Rivalry (cont’d)

- **Competitive Dynamics (All firms)**
  - Market speed (slow-cycle, fast-cycle, and standard-cycle)
  - Effects of market speed on actions and responses of all competitors in the market

- **Competitive Rivalry (Individual firms)**
  - Market commonality and resource similarity
  - Awareness, motivation and ability
  - First mover incentives, size and quality
Competitive Dynamics (1 of 3)

- **Slow-cycle markets**
  - Shielded from imitation and able to maintain advantages for longer
  - Focus on maintaining and extending proprietary advantages

![Figure 5.4](source)


Competitive Dynamics (2 of 3)

- **Fast-cycle markets**
  - Imitation happens quickly and somewhat inexpensively
  - Competitive advantages aren’t sustainable
    - reverse engineering to quickly imitate or improve on products
  - Non-proprietary technology is diffused rapidly

![Figure 5.5](source)


Competitive Dynamics (3 of 3)

- **Standard-cycle markets**
  - Moderate cost of imitation may shield competitive advantages.
  - Competitive advantages are partially sustainable if their quality is continuously upgraded
  - Firms
    - Seek large market shares
    - Gain customer loyalty through brand names
    - Carefully control operations