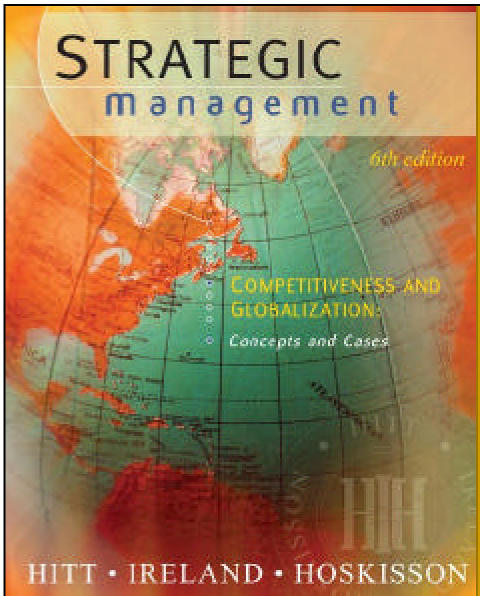
Slide 1



Chapter 5

Competitive Rivalry and Competitive Dynamics

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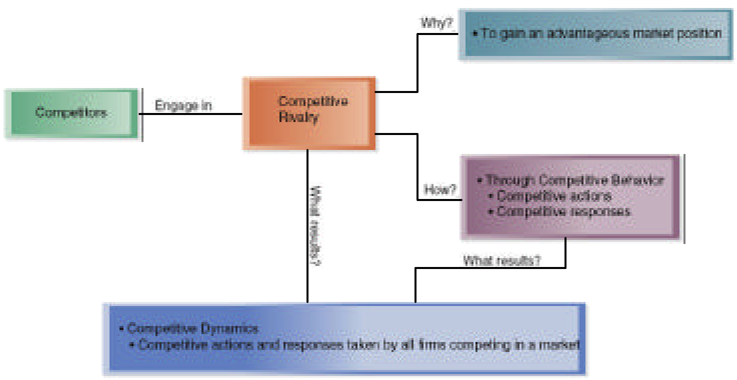
Slide 2

From Competitors to Competitive Dynamics



SOURCE: Adapted from M.-J. Chen, 1996, Competitor analysis and interfirmrivalry: Toward a theoretical integration, *Academy of Management Review,* 21: 100–134.

Figure 5.1

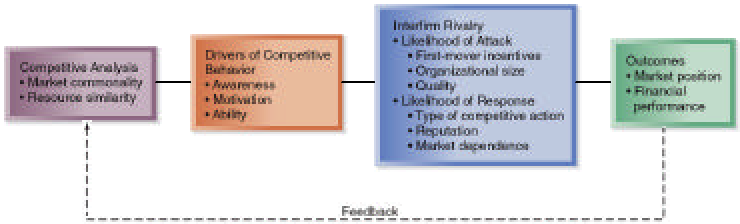
Slide 3

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**

Slide 4

A Model of Competitive Rivalry



SOURCE: Adapted from M.-J. Chen, 1996, Competitor analysis and interfirm rivalry:Toward a theoretical integration, *Academy of Management Review,* 21: 100–134.

Figure 5.2

Slide 5

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**

Slide 6

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**

Slide 7

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**

Slide 8

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**

Slide 9

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**

Slide 10

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**

Slide 11

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**

Slide 12

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**

Slide 13

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

Slide 14

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

Slide 15

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

Slide 16

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**

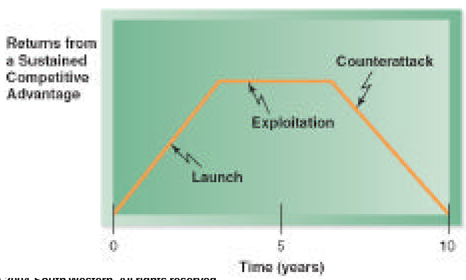


Figure 5.4

SOURCE: Adapted from I. C. MacMillan, 1988, Controlling competitive dynamics by taking strategic initiative, *Academy of Management Executive,* 11(2): 111–118.

Slide 17

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**

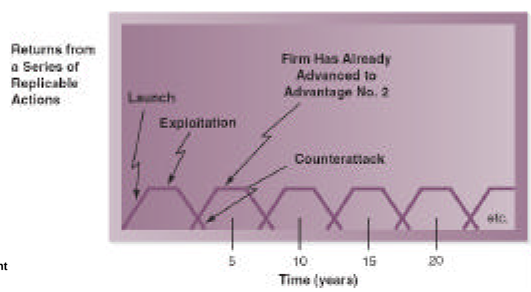


Figure 5.5

SOURCE: Adapted from I. C. MacMillan, 1988, Controlling competitive dynamics by taking strategic initiative, *Academy of Management Executive,* 11(2): 111–118.

Slide 18

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**