

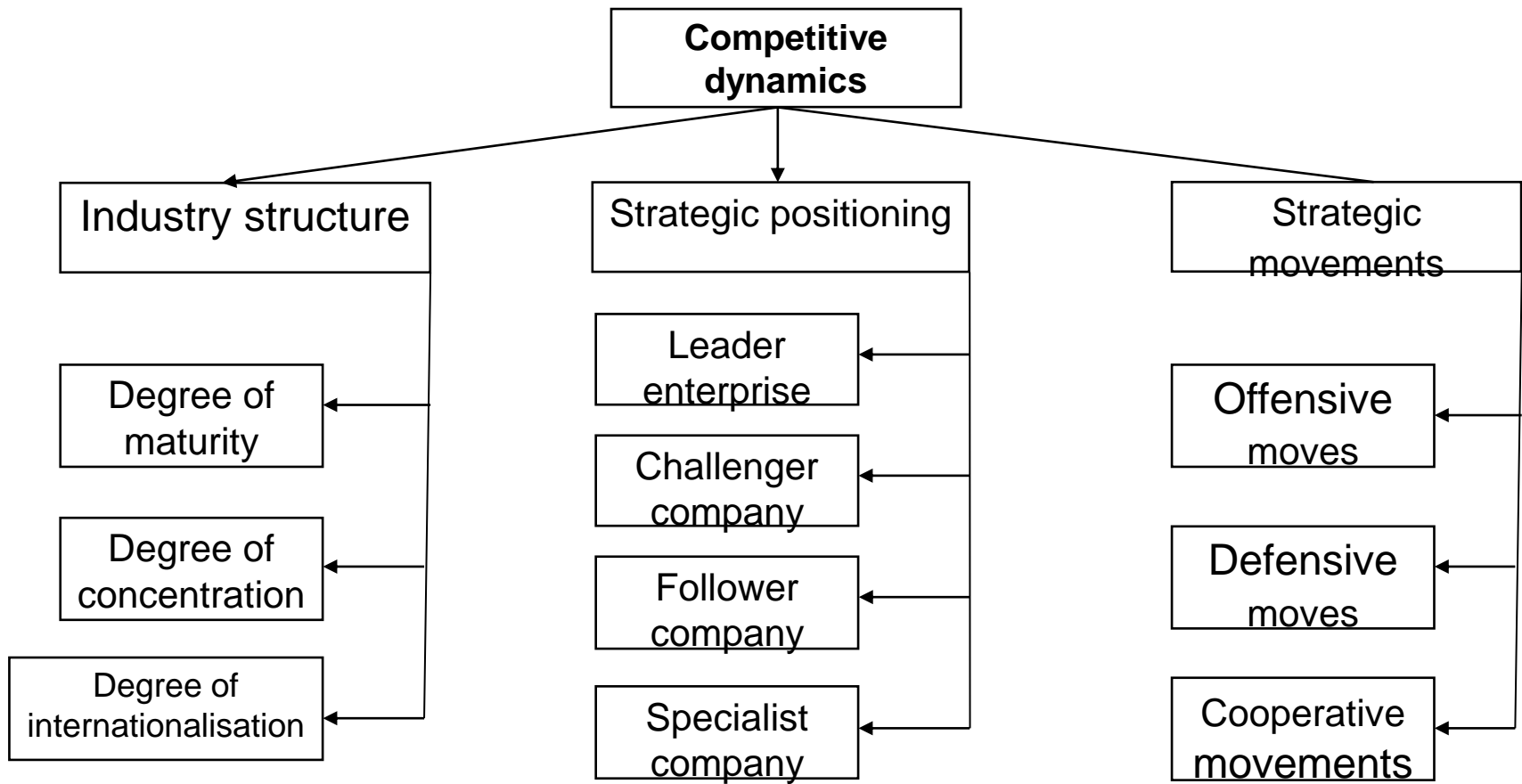
Lesson 4. Competitive dynamics

Basic references:

- Johnson, G., Whittington, R., Regner, P., Scholes, K., & Angwin, D. (2017). Exploring Strategy: Text and Cases. Pearson Education Limited.
- Thomson, A., Peteraf, M.A., Gamble, J.E., & Strickland, A.J. (2020). Crafting & Executing Strategy. Concepts and readings. McGraw-Hill Education.

Lesson 4. COMPETITIVE DYNAMICS

- 4.1. Structure of the industry for formulation of strategy
- 4.2. Strategic positioning strategies
- 4.3. Competitive dynamics and strategic movements
- 4.4. Competitive strategies and cooperative strategies



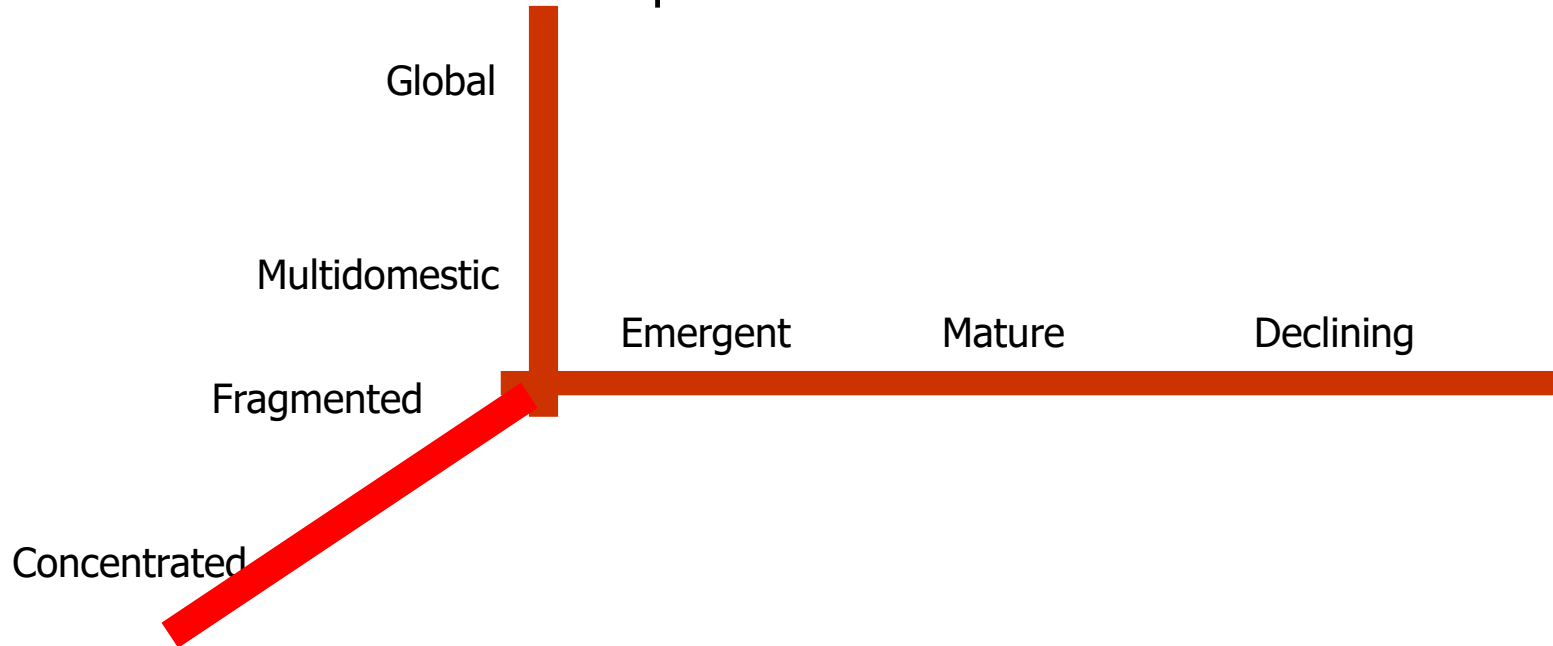
4.1. Structure of industry for strategy formulation

- ◆ Degree of maturity of the sector (sector life cycle model)
 - ◆ Emerging sectors
 - ◆ Mature sectors
 - ◆ Declining sectors
- ◆ Degree of sector concentration (characteristics of competitors)
 - ◆ Concentrated sectors
 - ◆ Fragmented sectors
 - ◆ Atomized sectors
- ◆ Degree of internationalisation (competition risk)
 - ◆ Multi-domestic sectors
 - ◆ Global sectors

4.1. Structure of industry for strategy formulation

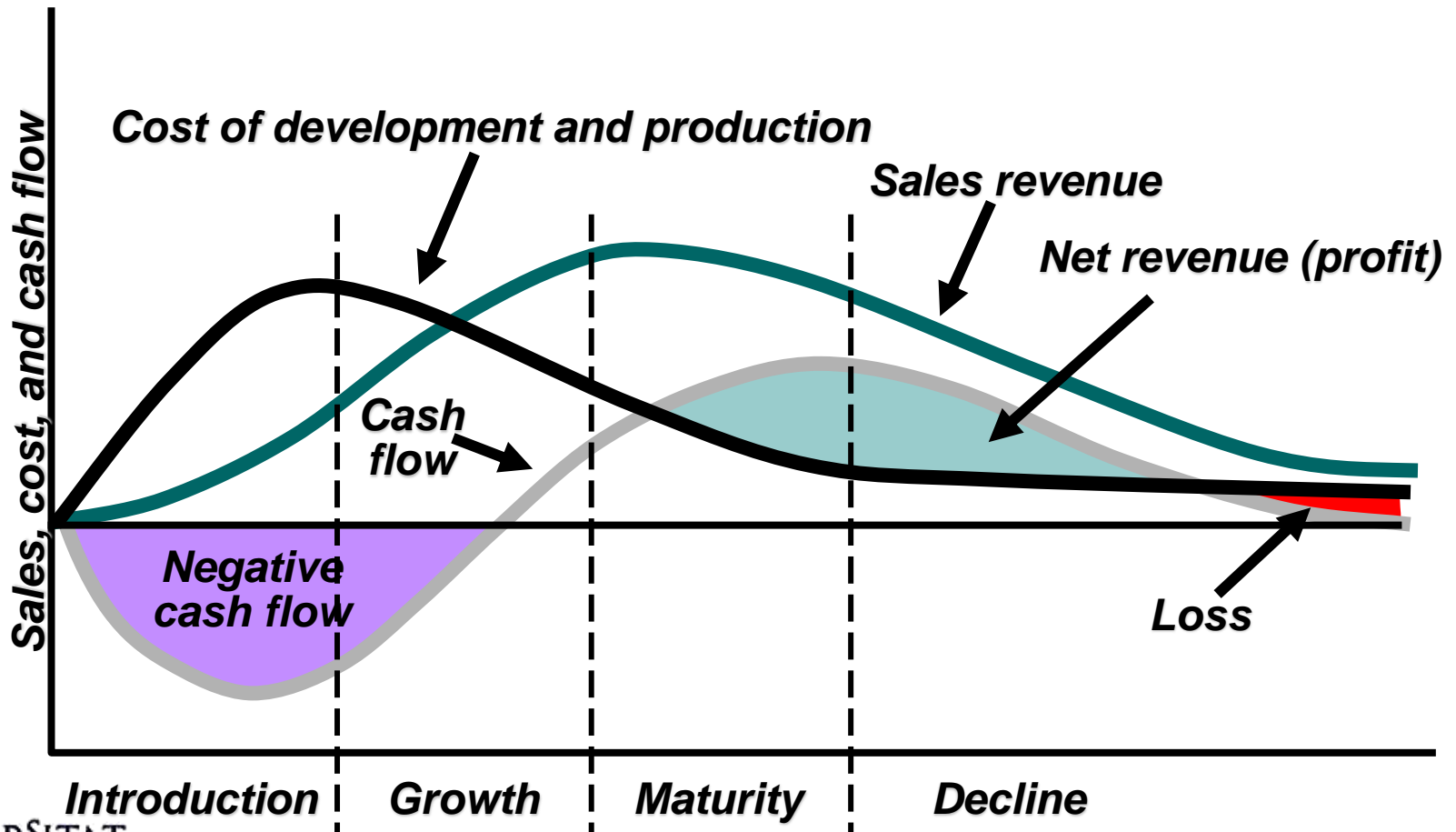
Sectoral context: strategies by type of sector

- Three types of sector (complementary)
 - Give examples of sector:



4.1. Structure of industry for strategy formulation

Sectoral context: strategies by type of sector



The objective is to propose the best strategy for the industry life cycle.

4.1. Structure of industry for strategy formulation

How to estimate where the industry is positioned?

	Emerging	Growth	Mature	Declining
Demand growth	Low	Very high	Moderate	Negative
Intensity of competition	Low	Growing	Very intense	Low
Number of competitors	Few	Growing	Many	Some
Segments	Few	Some	Many	Few
Entry barriers	Technological	Experience effect	Reaction established competitors	Over-sizing
Customers	Few/pioneers	Growing	Mass market	Few
Customer bargaining power	Low	Low	High	High
Costs	High	Progressive reduction	Low	Low

4.1. Structure of industry for strategy formulation

Emerging sectors

- ◆ Concept
 - ◆ New businesses for technological innovations
 - ◆ New businesses for strategic innovations: new business models, renewal
 - ◆ Emergence of new needs
- ◆ Characteristics:
 - ◆ Barriers to entry still low
 - ◆ Technological, strategic, and commercial uncertainty
 - ◆ High attractiveness due to the sector's growth potential
 - ◆ Short-term time horizon
 - ◆ High upfront costs but steep experience curves
- ◆ Key aspects:
 - ◆ Constant monitoring of the evolution of the sector and the dominant technologies
 - ◆ Risk management: cooperation with main clients, early warning systems, flexibility
 - ◆ Choosing time of entry

4.1. Structure of industry for strategy formulation

Mature sectors

- ◆ Concept
 - ◆ Stability of demand
 - ◆ Supply stability
 - ◆ Sales stability
- ◆ Characteristics:
 - ◆ Reduction in growth rate: gradual stagnation of sales and probable excess capacity
 - ◆ Growing intensity of competition
 - ◆ Difficulty in achieving competitive advantages in costs: diffusion of technology and appearance of localized competitors in countries with lower costs
 - ◆ Difficult differentiation of products: customers who are experts in the purchase and consumption of the product and standardisation of products offered

4.1. Structure of industry for strategy formulation

Sectors in decline

- ◆ Concept
 - ◆ Fall in demand
 - ◆ Difficulties in the offer
- ◆ Characteristics:
 - ◆ Negative growth rate in sales and profits
 - ◆ Excess production capacity
 - ◆ High average age of physical and human resources
 - ◆ Aggressive price-based competition
 - ◆ Reduction of competitors depending on exit barriers
- ◆ Key aspects:
 - ◆ The type of decline (favourable or unfavourable) depends on following factors:
 - ◆ Supply-demand adjustment:
 - ◆ Speed of decline and possibility of predicting its evolution
 - ◆ Existence/non-existence of exit barriers
 - ◆ Strategies of installed companies and survivors
 - ◆ Nature of demand:
 - ◆ Existence of unsatisfied demand exchanges
 - ◆ Difficulty differentiating products

4.1. Structure of industry for strategy formulation

Fragmented/concentrated sectors

◆ Concept

- ◆ No company has significant stake (versus absolute participation)
- ◆ No company can exert decisive influence in sector (vs. total influence)

◆ Characteristics:

- ◆ Weak or low barriers to entry
- ◆ Absence of economies of scale or existence of de-economies of scale
- ◆ Low degree of concentration and large number of companies
- ◆ Low competitive power and low negotiating power

◆ Analysis of the causes of fragmentation:

- ◆ Historical status quo: no economic reasons
- ◆ High transportation costs that limit size of plant
- ◆ High inventory costs or erratic fluctuations in sales
- ◆ Newness of sector and lack of consolidation
- ◆ Size does not provide advantages over customers and suppliers:
 - ◆ Customers demand small or bespoke batches
 - ◆ Personal service is very important
 - ◆ Great diversity of tastes that prevent competing with standardised products

4.1. Structure of industry for strategy formulation

Global sectors

- ◆ Global competition
 - ◆ Company must hold sustainable competitive positions in main world markets (Triad (USA, EU, JPN) + BRICS)
- ◆ Economies of scale / global experience
- ◆ Production mobility
- ◆ Globality effect / local adaptation (differentiation by market)
- ◆ Existence of comparative advantages (between countries):
 - ◆ Comparative advantage by sector = $(\text{exports} - \text{imports}) / \text{GDP}$

4.1. Structure of industry for strategy formulation

INTERNATIONAL DECISIONS: LOCATING PRODUCTION

Location and value chain: Comparative advantages along value chain for knitted apparel

	Raw cotton	Spun cotton yarn	Knitted fabric	Knitted apparel
US	+0.68	+0.85	+0.03	-0.89
Germany	-1.00	-0.18	+0.30	-0.18
Korea	-1.00	-0.28	+0.94	-0.34
China	-0.99	-0.54	+0.70	+0.97
Bangladesh	-0.98	-0.95	-0.96	+0.98

Note: A country's revealed comparative advantage in particular product is measured as $(\text{exports} - \text{imports}) / (\text{exports} + \text{imports})$. The scale ranges from -1 to +1.

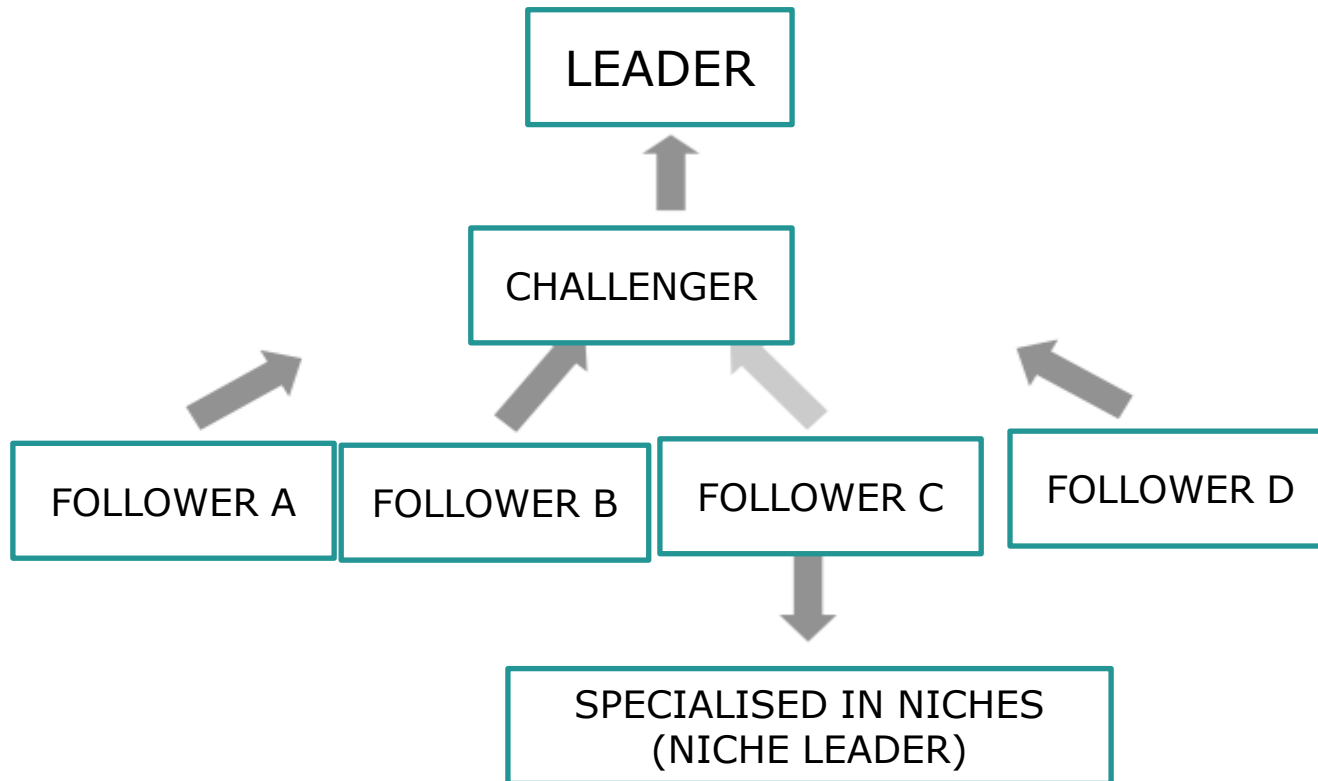
Source: International Trade Commission.

4.2. Strategic positioning strategies

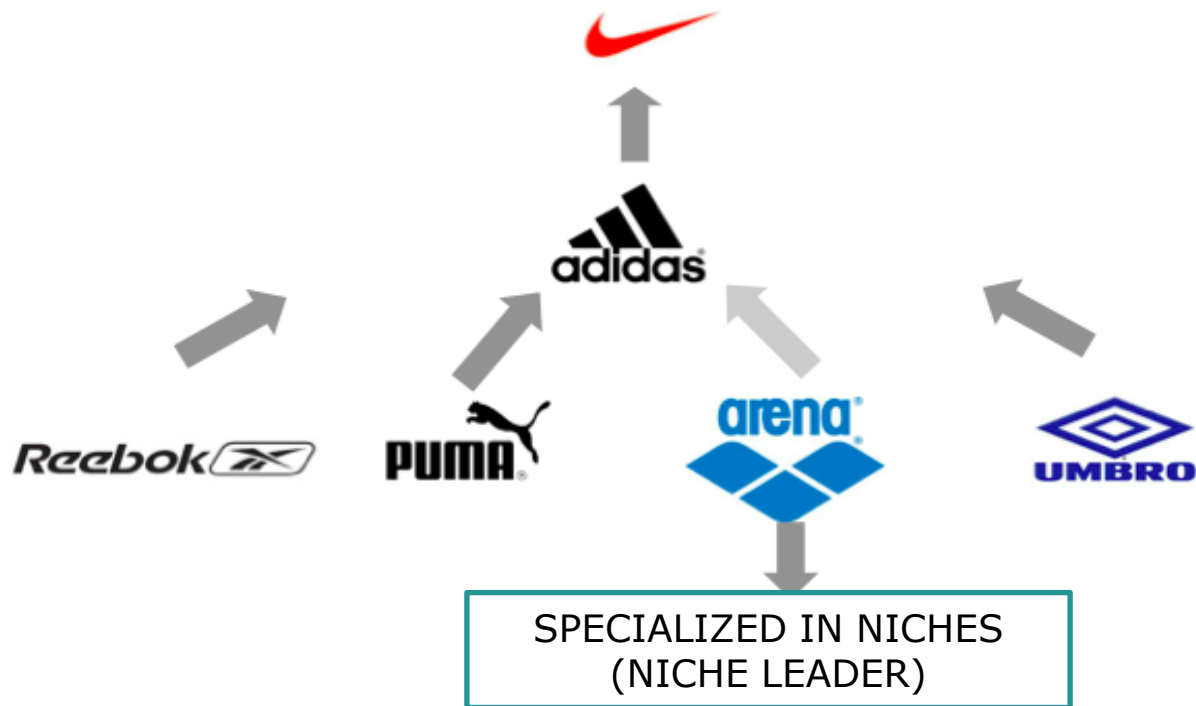
- ◆ **Positioning a product or service (Kotler & Singh, 1981)**
 - ◆ Market segmentation
 - ◆ Evaluation of the interest of each market segment
 - ◆ Selecting one or more segments as strategic objective
 - ◆ Identify positioning possibilities in each segment
 - ◆ Selection and development of concept of positioning

- ◆ **To consider:**
 - ◆ The position of a company can change depending on segment: a company can be a leader in Europe but not globally.
 - ◆ The position of a company can vary over time: you can be a leader for a quarter but perhaps not throughout the year.

4.2. Strategic positioning strategies



4.2. Strategic positioning strategies



4.2. Strategic positioning strategies

Leader's strategy

- ◆ The leader is the company that occupies the dominant position in the market and has influence over the rest of the competitors.
- ◆ **Strategies for leaders to follow:**
 - ◆ Expand global demand: new customers, product improvement and greater use of the product by the customer.
 - ◆ Protecting market share: defensive strategy.
 - ◆ Increase market share: offensive strategy.

4.2. Strategic positioning strategies

Challenger strategy

- ◆ The challenger is the company that occupies the second position in the market behind the leader.
- ◆ **Challenger strategies:**
 - ◆ Offensive or attack strategies to occupy position of leader:
 - ◆ Frontal: attack leader's strengths
 - ◆ Side: attacking leader's weaknesses
 - ◆ By rolling or enveloping: lightning attack on all fronts
 - ◆ Guerrilla or bypass: small and intermittent attacks
 - ◆ Defensive strategies: protecting yourself from followers to maintain position

4.2. Strategic positioning strategies

Follower strategy

- ◆ A follower is a company that follows the leader.
- ◆ Follower strategies:
 - ◆ **Forger**: duplicates the leader's product (black market).
 - ◆ **Clone**: reproduces the leader's product.
 - ◆ **Imitator**: copies some aspects of the leader's product but seeks to differentiate in price or marketing.
 - ◆ **Adapter**: imitates and seeks to improve leader's product. They can become challengers.

4.2. Strategic positioning strategies

Specialist strategy

- ◆ The specialist is a company that competes in a specific segment of the market to become a leader.
- ◆ **Strategies of the specialist:**
 - ◆ **Create** market segments: for private use
 - ◆ **Expanding** the market: through innovation
 - ◆ **Protecting** the market segment: with barriers to entry

4.3. Competitive dynamics and strategic movements

- **Intelligence about competitors:** constantly monitor and compare competitors.
 - Where to compete: strategy (localisation)
 - How to compete: tactics (focus)
 - When to compete: time (surprise factor)
- **Competitive movements:**
 - Offensive or attacking movements
 - Defensive moves
 - Cooperative movements (4.4.)

4.3. Competitive dynamics and strategic movements

Offensive or attack strategy

Attack strategy

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Introduction

(new sector, new segment)

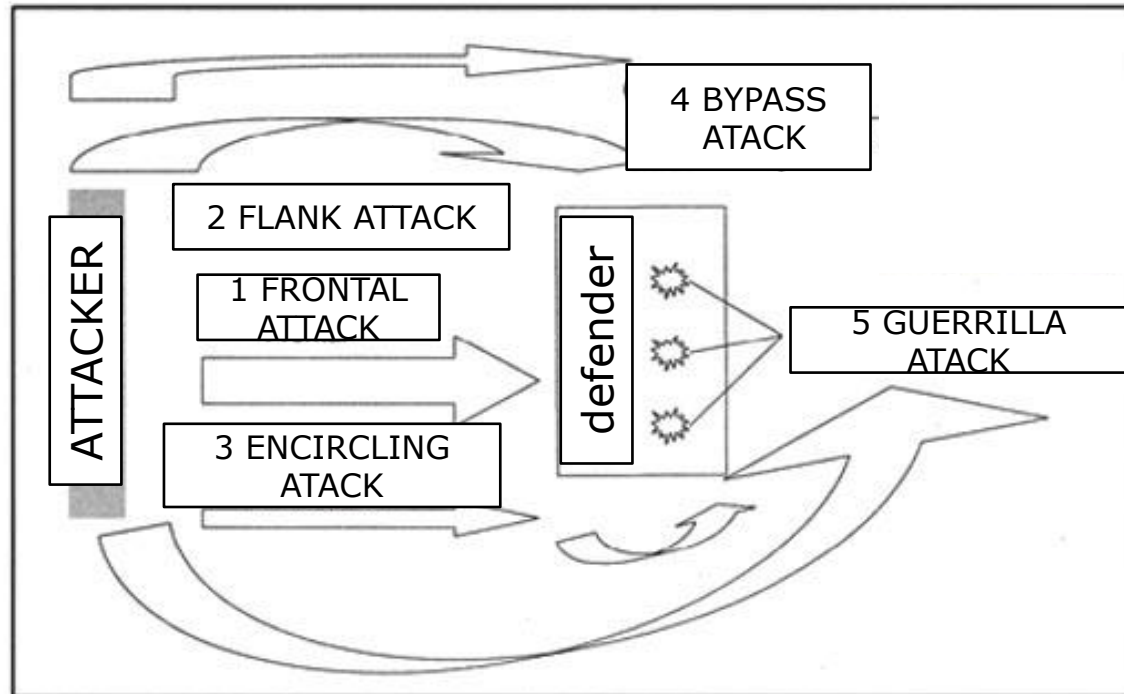
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Not provoked

(initiative of company to maintain or improve its position)

4.3. Competitive dynamics and strategic movements

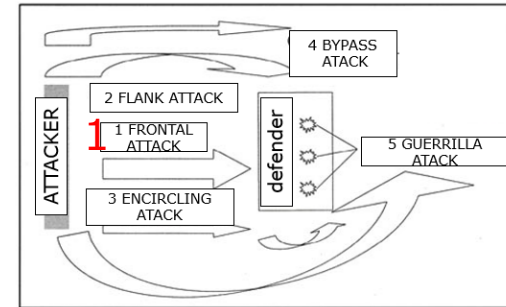
Competitive offensive moves



4.3. Competitive dynamics and strategic movements

Competitive offensive moves

1. Frontal attack:

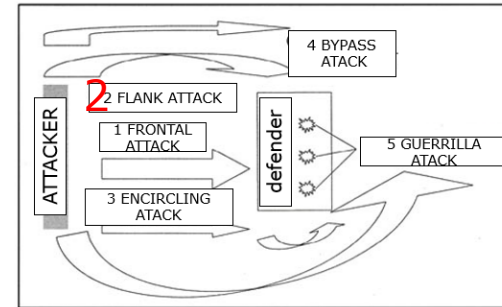


1. Entering a market segment of a competitor (leader).
2. The market segment is key for the competitor (high % of sales).
3. The competitor is strong and will retaliate.

4.3. Competitive dynamics and strategic movements

Competitive offensive moves

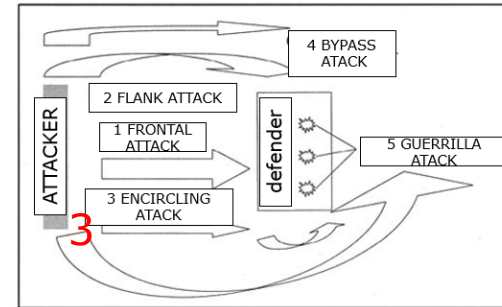
2. Flank attack:



1. Enters a market segment of a competitor (leader).
2. The market segment is not key for the competitor (low % of sales).
3. Compete with leader where it is not strong: look for weaknesses.

4.3. Competitive dynamics and strategic movements

Competitive offensive moves 3. Encirclement:

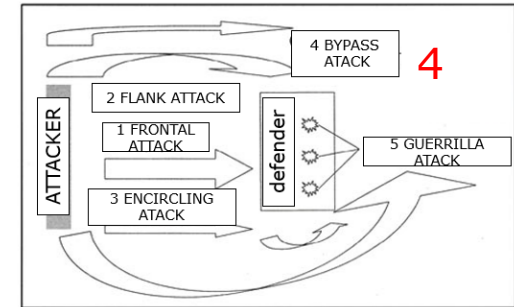


1. Entry into more than one market segment.
2. Undifferentiated encirclement: through the same product/service taking advantage of synergies.
3. Differentiated encirclement: through different product models and, therefore, synergies cannot be exploited.

4.3. Competitive dynamics and strategic movements

Competitive offensive moves

4. Detour or bypass:

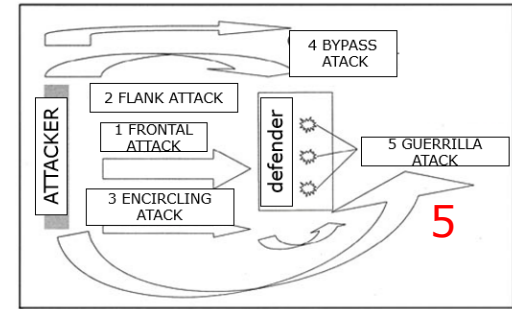


1. Entry into a market segment where there is no competition, but the product/service offered is like other segments and, therefore, poses a threat.

2. Type: products, customers, needs, and location (geographical, distribution channels, or delivery times).

4.3. Competitive dynamics and strategic movements

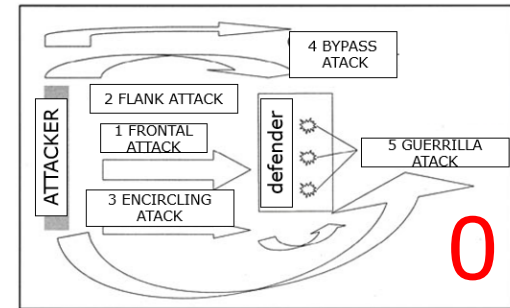
Competitive offensive moves 5: Guerrilla:



1. Entry into a market segment where leading competition is not present and ability to replace the competitor is low: company is weaker than the competitors.
2. Type of products, customers, needs and location (geographical, distribution channels, or delivery times).

4.3. Competitive dynamics and strategic movements

Defensive strategy



Strengthen the current position of the company

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Maintain the competitive advantage achieved

+

Reduce the risk of being attacked by other companies

+

Attenuate any attacks

4.3. Competitive dynamics and strategic movements

Competitive defensive moves

1. Keep the competition out:

1. Signal emission (deter competitor from entering market):
 - Expand production capacity
 - Relations with banks and suppliers
2. Creation of entry barriers (fixed and mobile):
 - Fixed: Customer loyalty, product durability, solid supplier links, low costs, intensive advertising, control distribution channels
 - Mobile: market new generations of products
3. Total service: expand range of services to avoid losing customers.

4.3. Competitive dynamics and strategic movements

Competitive defensive moves

2. Enter other segments:

4. Preventive attack: stay ahead of competitor's manoeuvres by entering new markets (products, customers, needs).
5. Blocking: when a competitor enters a segment, react by entering that segment as a protective measure.
 - Move quickly to prevent competitor developing strong position
 - Create a new brand for that segment
 - Maximize synergies between segments
6. Counterattack: enter a segment not entered by the competitor.
 - Counterattack on the original competitor segment
 - Counterattack on new segments
 - Counterattack in two different sectors of activity

4.3. Competitive dynamics and strategic movements

Competitive defensive moves

7. Firmness in position: fighting competitor in segment

- Size: cost reduction, economies of scale
- Quality of resources: differentiation
- Experience: cost reduction
- Synergies

8. Withdrawal: partial but not total withdrawal

- Removal of part of segment: maintain a niche
- Withdrawal from segment but not from sector
- Withdrawal from sector but not from market

4.3. Competitive dynamics and strategic movements

When to choose one move or another (1)

1. Defense is better than attack:

- Be first in the market or segment
- Greater knowledge of sector and experience
- Market share, size advantages
- Customer aversion to risk

2. Before starting attack:

- Requirements for implementation can be met
- There should be no threat of entry from a new competitor
- Proper use of the resources necessary for attack
- New segment should be more attractive than current ones

4.3. Competitive dynamics and strategic movements

When to choose one move or another (2)

3. Natural sequence for defense:

- 1. Keep out the competition: first three strategies.
- 2. Enter new segments: preventive, blocking, and counterattack.
- 3. Fight competitor in segment.
- 4. Withdrawal: first partial if there is no total success.

4. Natural sequence for the attack:

- Attack competitor's weaknesses more than strengths.
- Prevent competitor from reacting.
- Use minimum amount of resources.
- Sequence: guerrilla, bypass, flanking, and frontal attack.

4.3. Competitive dynamics and strategic movements

When to choose one move or another (3)

5. Act alone or through alliances with other forces:

- Save time
- Multiply strengths
- Assess possible effects of an alliance and with whom

6. Internationalisation is the most difficult form of attack:

- Novelty of the geographical area and consumers
- Smallest at time of introduction

7. Success depends on:

- When to perform each type of strategy
- How to implement it

4.4. Competitive dynamics and strategic movements

- Analysis of rivalry between competitors:
 - Conflicts of interest
 - Positions of superiority in market: competitive superiority
 - Price wars, expelling competitors from market
- Cooperative strategies:
 - Resolution of conflicts of interest
 - Cooperate in partial or specific aspects
 - Common objectives, sharing resources, mutual benefit and respect
- Cooperation versus competition (cooperatives better resist crises)

4.4. Competitive dynamics and strategic movements

Game Theory and Prisoner's Dilemma

- Game theory:
 - Interrelationships between competitive movements of a set of competitors.
 - Strategy must anticipate reaction of competitors.
- Three initial assumptions:
 - Competitor will behave rationally and will always try to win.
 - Competitor has an interdependence relationship with other competitors.
 - Competitor is aware of the interdependence and movements it can make.

4.4. Competitive dynamics and strategic movements

Game Theory and Prisoner's Dilemma (2)

- Prisoner's Dilemma (competitors make decisions simultaneously):
 - Each competitor tries to achieve the best strategic position.
 - Dominant strategy: surpasses all others regardless of what they do.
 - Dominated strategy: the one that will obtain best results when applied by a competitor.

4.4. Competitive dynamics and strategic movements

Blue ocean strategy

<https://www.blueoceanstrategy.com/what-is-blue-ocean-strategy/>

<https://www.youtube.com/watch?v=sYdaa02CS5E>

Leave destructive competition that occurs in a market (red ocean) and innovate to expand and create new markets avoiding rivalry. Emphasize value (constant innovations).

RED OCEAN STRATEGY

Compete in existing market space
Beat the competition
Exploit existing demand
Make the value-cost trade-off
Align the whole system of a firm's activities with its strategic choice of differentiation or low cost

BLUE OCEAN STRATEGY

Create uncontested market space
Make the competition irrelevant
Create and capture new demand
Break the value-cost trade-off
Align the whole system of a firm's activities in pursuit of differentiation and low cost

4.4. Competitive dynamics and strategic movements

WRONG COMPETITIVE STRATEGIES

- Price competition with Southeast Asian countries:
 - Traditional industrial sectors: textile, toys, shoes ...
 - Exception: Castellon tile sector
 - Valencian industrial policy
- Case Textils Mora (Ontinyent):
 - Restructuring in employee-owned company
 - Company recovered by employees

<https://www.textilsmora.com/en/our-commitment-to-the-environment/>