

MARKETING MANAGEMENT AND STRATEGY

WEEK 4 COMPETITOR ANALYSIS

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WEEK 4

COMPETITOR ANALYSIS

4.1 Introduction

Welcome to week 4 lecture! It is my joy to have in the class. We have now started get deep into the course and last week we examine the process of developing a marketing plan. Developing of a marketing plan require the market to be aware of competitive environment in which they are conducting business. In this lecture we turn our attention to market competition by defining, explore competitive forces and evaluate strategies adopted by firms to beat competition.

4.2 Intended Learning Outcomes

At the end of this lecture, you will be able to:

1. Define market competition and describe five competitive forces that determine segment structural attractiveness.
2. Explain approaches to competitor identification and various ways of analyzing competitors
3. Examine major competitive strategies available to marketers.

4.3 What is market competition?

We begin this lecture by examining various quotes on competition

1. “Competition is always a good thing. It forces us to do our best. A monopoly renders people complacent and satisfied with mediocrity.” – Nancy Percy
2. “A horse never runs so fast as when he has other horses to catch up and outpace.” – Ovid
3. “World trade means competition from anywhere; advancing technology encourages cross-industry competition. Consequently, strategic planning must consider who our future competitors will be, not only who is here today.” – Eric Allison
4. “Competition is the fuel that ignites innovation.” – Simon Sinek, *Start With Why: How Great Leaders Inspire Everyone to Take Action* (2009)
5. “Poor firms ignore their competitors; average firms copy their competitors; winning firms lead their competitors” (Kotler and Keller, 2006).

Market Competition is a Contest between individuals, groups, or Organizations for territory, a niche, or a location of resources. It arises whenever at least two parties strive for a goal which cannot be shared (Sharma 2008). Product market competition refers to the level of rivalry among companies within the same industry (Yuni et al 2023). Product market competition refers to the rivalry among firms in the same industry for market share and customers, impacting firm value and the relationship between promoter ownership and firm value (Sethiya, 2022). Overall we can conclude that market competition refers to the rivalry between businesses operating within a particular industry or market for the purpose of attracting customers and achieving higher sales. This competition typically involves efforts to differentiate products or services, improve quality, lower prices, and innovate in order to gain a competitive edge over rivals. In a competitive market,

multiple firms vie for market share, and the forces of supply and demand dictate prices and quantities exchanged. Competition is often seen as beneficial for consumers as it can lead to lower prices, increased choice, and improved product quality.

4.4 Importance of competition to a business

- Competition is the basis of a market economy.
- When businesses vie for customers, prices fall and economic output increases.
- As unproductive firms are replaced by innovative firms, the economy becomes more efficient.
- Competition allows the market economy to allocate resources efficiently.
- Without competition, there can be distortions that reduce overall welfare, as concentrated interests benefit at the expense of the broader public.
- Competition is an economic process of interaction, interconnection and struggle between the enterprises acting on the market in order to provide better sales opportunities for their products, meet the needs of customers and obtain the greatest profit.
- Modern competition is an integral attribute of the global market.

Advantages and disadvantages of market competition

Advantages of market competition

- **Innovation and Efficiency:** Competition drives firms to innovate and find more efficient ways of producing goods and services to gain a competitive edge.
- **Lower Prices:** Competition often leads to lower prices for consumers as firms strive to attract customers by offering better deals and value.
- **Greater Variety and Quality:** Competition encourages firms to diversify their offerings and improve product quality to meet consumer demands.
- **Consumer Empowerment:** With multiple firms vying for market share, consumers have more choices and bargaining power.
- **Dynamic Market:** Competition fosters a dynamic market environment, where firms must continuously adapt to changing consumer preferences and market conditions.

Disadvantages of Market Competition:

- **Market Saturation:** Intense competition can lead to oversaturation in the market, making it difficult for firms to sustain profitability.
- **Price Wars:** Fierce competition may trigger price wars, resulting in decreased profits and financial instability for firms.
- **Quality Compromise:** Some firms might compromise on product quality or cut corners to lower costs and compete on price, potentially leading to consumer dissatisfaction.
- **Barrier to Entry:** High levels of competition can create significant barriers to entry for new firms, limiting market access and perpetuating monopolistic tendencies.

- **Social Costs:** Competition may prioritize short-term gains over long-term societal welfare, leading to negative externalities such as environmental degradation or labor exploitation.

4.5 Types of market competition

1. *Perfect competition:* occurs when there is a very large number of buyers and sellers and all of them are engaged in selling and buying products without any invented restrictions and having a quite good knowledge of markets. It's characterized by large number of buyers and seller, no exit or entry barriers, identical products offered in the marketplace, absence of artificial restrictions, maximization of profits, perfect knowledge of market conditions and absence of transport and marketing costs (chand, 2020).
2. *Monopolistic competition:* is a market structure characterized by many sellers offering similar but differentiated products. In monopolistic competition, firms have some control over the price they charge because their products are perceived as unique due to branding, packaging, location, or other factors. However, there are also close substitutes available from competitors. it is characterized by; many sellers, product differentiation: some control over price, easy entry and exit, limited consumer knowledge, selling cost incurred and non-price competition (chand, 2020).
3. *Monopoly:* this market structure occurs when a single seller or producer controls the entire supply of a particular product or service, giving them significant market power and the ability to influence prices. In a monopoly, there are no close substitutes for the product or service being offered, and entry by potential competitors is either restricted or impossible due to barriers such as patents, government regulations, or economies of scale. Different types of monopoly include Pure monopoly market is a market with only one seller (supplier) of a particular product; natural monopoly market structure is caused by natural advantages such as a unique location and state monopolies which occurs when the state itself has the full ownership of some industry, and it's the only producer of some commodity. Monopoly markets are characterized by single seller, no close substitutes, price maker, high barriers to entry and profit maximization (Boyce, 2020).
4. *Oligopoly:* Oligopolistic market competition refers to a market structure where a small number of large firms dominate the industry. In oligopolies, the actions of each firm have a significant impact on the market, and there is a high degree of interdependence among competitors. This interdependence arises because the decisions made by one firm regarding pricing, production, or marketing strategies can directly influence the strategies and behavior of other firms in the industry. This market structure is characterized by few large firms, mutual interdependence of the firms, barriers to entry product differentiation and non-price competition and collusive behavior (Chand, 2020).

4.6 Competitive forces

Kotler and Kelly (2016) note that Michael Porter has identified five forces that determine segment structural attractiveness (long run profitability). They include:

- (i) Threat of intense segment rivalry: A segment is unattractive if it contains numerous, strong, or aggressive competitors. It is even more unattractive if the following other conditions exist it is stable and declining, if fixed costs are high, if exit barriers are high. and if competitors have high stakes in staying in the segment. These conditions will lead to frequent price wars, advertisement battles and new product introductions. This will make it expensive to compete.
- (ii) Threat of new entrants: Market attractiveness varies with the height of its entry and exit barriers. The most attractive market segment is one that has high entry barriers and low exit barriers. This implies that only few firms can enter the industry and poor performing firms can easily exit.
- (iii) Threat of substitute products: A segment is unattractive when there are many actual or potential substitutes for the product. Substitutes limit the prices and profits the firm can charge and earn respectively. The firm must closely monitor the prices of substitute products. As substitute products increase, the price of the product will fall.
- (iv) Threat of buyer's growing bargaining power: A segment is unattractive if the buyers possess strong or growing bargaining power. Buyer's bargaining power increases or grows when: They become more organized; When the product represents a significant fraction of the buyer's costs; When the product is undifferentiated; When the buyers switching costs are low and When buyers are sensitive because of low profits. The sellers can protect themselves in the following ways: - Selecting those buyers who have least power to negotiate and by developing superior offers that strong buyers cannot refuse.
- (v) Threat of suppliers growing bargaining power: A segment is unattractive if the suppliers can raise prices or reduce the quantity supplied. Suppliers tend to be powerful when: They are concentrated and organized, there are a few substitutes, supplied products are an important input and Costs of suppliers are high. The best defenses for the marketer are: Build win relations and use multiple supply sources.

4.7 Analyzing competitors.

Competitor analysis is one of the key requirements for marketing managers. The marketer must identify the real competitors through a market approach. The market approach in competitor analysis involves examining the strategies, actions, strengths, weaknesses, and performance of competitors operating within the same industry or market. Competitors are viewed as firms that satisfy the same needs (Kotler and Kelly 2016). This approach focuses on gathering information about competitors' products, pricing strategies, distribution channels, marketing tactics, and overall market positioning to gain insights into their competitive advantage and identify areas of opportunity or threat.

By examining the competitor strategies, the firm can know the kind of strategies to adopt which ought to be competitor oriented. Similarly, the firm should also identify what each competitor is seeking in the marketplace. A company could be seeking profitability, market share growth, cash

flow, technological leadership, service leadership and so on. A company must also monitor competitors' expansion plans. For example, a company targeting final consumers could start targeting commercial and industrial consumers. A company also needs to gather information on each competitor's strengths and weaknesses. This can help the company to decide which competitors to attack and which to avoid. It also helps the company to decide which aspects of the competitor to avoid and which attack. For instance, the company can attack weaknesses and avoid strengths. In general, a company should monitor three variables when analyzing competitors:

- Share of the market (the competitor's share of the target market).
- Share of mind (the percentage of customers who named the competitor in responding to the statement "Name the company that comes to your mind in this industry").
- Share of heart (The percentage of customers who named the competitor in responding to the statement "Name the company from which you would prefer to buy the product").

4.8 Process of analyzing competitors

Effective analysis of competitors requires the marketer to develop a competitive intelligence system. There are four main steps in designing a competitive intelligence system (Bartus, 2023 and Kotler & Kelly, 2016):

- Setting up the system.
 - Collecting the data.
 - Evaluating and analyzing the data.
 - Disseminating information and responding to queries.
- (i) Setting up the system: This step is concerned with identifying important types of competitive information, identifying the best sources of this information, and assigning an employee who will manage the system and its services. In short, it involves establishing a formal competitive intelligence office (function). For small firms which cannot be able to establish such formal offices, those duties can be allocated to specific managers. For example, each manager can be assigned the duty of monitoring specific competitors. Thus, specific managers can serve as in-house expert(s) on specific competitors. Anyone requiring information about such competitors can consult the concerned manager.
- (ii) Collecting the data: Companies can collect the data on competitors from the following sources: sales force, channel members (e.g., wholesalers, retailers, agents etc.), suppliers, marketing research firms, trade associations, people who do business with competitors., observing competitors, published data- financial statements, internet from company website, press releases and collecting /buying competitors refuse etc. The competitor information should be collected on a continuous basis.
- (iii)Evaluating and analyzing the data: The data are checked for validity and reliability, interpreted, and organized.
- (iv)Disseminating information and responding: Key information should be sent to relevant decision makers. Manager's inquiries should be answered. In a well-designed system, managers receive timely information about competitors through emails, phone calls,

bulletins, newsletters, and reports. Managers can also contact market intelligence department or colleagues when they want help on. Understanding competitors' weaknesses and strengths helps on interpreting a competitor's sudden moves, Likely response to a contemplated company moves. With good competitive intelligence, managers will find it easier to devise competitive strategies.

4.9 Classes of competitors

The following are classes of competitors (Kotler, 2000):

- a) Strong versus weak: Most companies attack weak companies because it requires few resources per share gained. However, it is important to recognize that in attacking weak competitors little will be achieved in the way of improved capabilities. The firm should also compete with strong competitors to keep up with the best. Every strong competitor has some weaknesses. The firm can attack these weaknesses.
- b) Close versus distant: Most companies compete with competitors who resemble them the most. However, companies should also recognize distant competitors. For instance, Coca-Cola states that its number one competitor is tap water not Pepsi. At the same time the company should avoid trying to destroy the closest competitor. It can lead to counterproductive victory.
- c) Good versus Bad: Every industry contains good and bad competitors. A company should support its good competitors and attack its bad competitors. Good competitors play by the industry rules, they make realistic assumptions about the industry's growth potential; they set prices in reasonable relation to costs, they favor a healthy industry, they limit themselves to a portion or segment of the industry; they motivate others to lower costs or improve differentiation; and they accept the general level of their share and profits. Bad competitors try to buy share rather than earn it. They take large risks; they invest in over capacity and upset industry equilibrium.

4.10 Designing Competitive Strategies

Firms can be classified by the roles they play in the target market (Kotler, 2000). These roles include: -market leader, market challenger, market follower and market nicher. We will summarize the suggested strategies for managing competition by various firms

- a) **Market leader:** This is the firm that has the largest market share and, by virtue of its pricing, advertising intensity, distribution coverage, technological advance, and rate of new product introductions, it determines the nature, pace and bases of competition. It is this dominance that typically provides the benchmark for other companies in the industry. However, it needs to be emphasized that market leadership, although often associated with size, is in reality a more complex concept and should instead be seen in terms of an organization's ability to determine the nature and bases of competition within the market. A distinction can therefore be made between market leadership that is based primarily upon size, and what might be termed 'thought leadership' that is based not so much upon size, but upon

innovation and different patterns of thinking. The market leader will focus on three main strategic areas: The firm must find ways to expand total market demand, the firm must protect its current market share through defensive and offensive actions and the firm can increase the market share even if market size remains constant. The suggested strategies are presented in table 4.1.

Table 4.1 Market leader strategies

Strategy	Explanation
<i>a) Ways of expanding the total market demand</i>	
New users	(i) Those that might use it but do not (market penetration strategy) (ii) Those who have never used it (New market-segment strategy). (iii) Those who leave elsewhere (geographical-expansion strategy).
New uses	The firm can also expand its market through discovering and promoting new uses of the product
More usage	This involves convincing consumers to use more of product.
<i>b) Defending/protect market share</i>	
Position defense	Involves building superior brand power, making the brand almost impregnable (powerful and impossible to beat or penetrate/unconquerable).
Flank defense	Involves erecting outposts to protect a weak front or possibly serve as an invasion base for counterattack. e.g. by introducing other brands to compete against competitor's brand
Preemptive defense	This is attacking before the enemy starts its offensive e.g. by introducing so many models/variants (products
Counter offensive defensive	When attacked, most market leaders will respond with a counterattack e.g. by subsidizing lower prices for the vulnerable product with revenue from its more profitable products.
Mobile defense	The market leader stretches its domain over to new territories that can serve as future centers for defense and offense. It spreads through market broadening and market diversification.
Contraction defense	The companies arrange planned contraction (also called strategic withdrawal). It means giving up weaker territories and reassigning resources to stronger territories.
<i>c) Expanding market share</i>	
Increase market share	Developing and adding new products, increasing market expenditures faster than the rate of market growth and by increase product quality relative to competitors.

Source: adopted from Kotler and Kelly (2016)

- b) **Market challenger strategies:** A market challenger is a company that aggressively seeks to gain market share and challenge the dominance of the market leader. They are firms that

attack the leader and other competitors in an aggressive bid for further market share. Challengers employ various strategies such as innovative product offerings, aggressive pricing, and extensive marketing efforts to compete effectively. They may target specific segments where the leader is weak or seek to differentiate themselves through superior quality or service. Market challengers aim to disrupt the status quo and potentially become the new market leader themselves. A market challenger can attack the market leader, firms its own size that are not doing the job and are underfinanced, small local and regional firms as well as attacking the status quo. Table 4.2 summarizes strategies employed by market challenger.

Table 4.2 Market challenger strategies

Strategy	Explanation
Frontal attack	In pure frontal attack, the attacker matches its opponent's product, advertising, price, and distribution.
Flank attack	The major principle of offensive warfare is concentration of strength against weaknesses. The enemy's weak spots are natural targets. A flank attack can be directed along two areas-geographical and segmental.
Encirclement	This is an attempt to capture a wide slice of the enemy territory through a "blitz" (massive attack). It involves launching a grand offensive on several fronts.
Bypass	It means bypassing the enemy and attacking easier markets to broaden one's resource base through: Diversifying into unrelated products or geographical markets or by Leapfrogging into new technologies to supplant existing products.
Guerilla warfare	Consist of waging small, intermittent attacks to harass and demoralize the opponent and eventually secure permanent footholds. The guerilla challenger uses both conventional and unconventional means of attack. These include selective price cuts, intense promotional blitzes, and occasional legal actions.

Source: adopted from Kotler and Kelly (2016)

- c) **Market follower strategies:** A market follower is a company that adopts a strategy of monitoring and imitating the actions of the market leader or other key competitors rather than attempting to challenge them directly. They are firms that imitate, copy, and improve products of market leaders. They achieve high profits because they do not bear the costs of innovation unlike the market leader. Many firms prefer to follow rather than challenge the market leader i.e., imitate, copy, or improve the best features of the market leader. Market followers often seek to capitalize on the successes of others by offering similar products or services with slight modifications or entering markets after they have been established by the leader. This strategy allows followers to benefit from reduced risk and lower upfront investment, but they may struggle to differentiate themselves and capture significant market share. Strategies adopted by market followers are summarized in Table 4.3

Table 4.3 Market follower strategies

Strategy	Explanation
Counterfeiter	Duplicates the leader's product and package and sells it to the black market or disreputable dealers. Counterfeiting is a major marketing activity in the Far East
Cloner	Emulates the leader's products, name, and packaging with slight variations. These products are sold at a lower price than market leaders. In computer business, clones are a fact of life.
Imitator	Copies some things from market leader but maintains differentiation in terms of packaging, ads, pricing, or location. The leader does not mind the imitator if he does not attack aggressively.
Adapter	Takes leader's products and adapts or improves them. Adapter may sell to different markets, but often the adapter grows into the future challenger.

Source: adopted from Kotler and Kelly (2016)

- d) *Market nicher strategies*: A market nicher is a company that focuses on serving a specific niche or segment of the market rather than trying to compete broadly across the entire market. Niche markets are often characterized by unique needs or preferences that are not adequately addressed by larger competitors. Market nicher typically tailor their products or services to meet the specialized needs of their target customers, allowing them to command premium prices and build strong customer loyalty. By concentrating on a smaller segment, market nichers can often achieve higher profit margins and face less direct competition. Firms with low market shares can be highly profitable through smart niching. Niching is profitable because the market nicher ends up knowing the target customers so well that it meets their needs better than other firms selling to this niche casually. A nicher can charge a high price over costs. The market nicher achieves high margin whereas the mass marketer achieves high volume. Nichers have three tasks: Creating niches. Expanding niches and Protecting niches. Table 4. 4 summarizes strategies adopted by nichers.

Table 4.4 Market nicher strategies

Strategy	Explanation
Differentiation	differentiate their products by focusing on specific features or attributes that are highly valued by their target market. This differentiation allows them to stand out and attract customers who are seeking specialized solutions.
Focus on Customer Service	Nichers prioritize providing exceptional customer service tailored to the needs of their niche market. By offering personalized support, quick response times, and customized solutions, they can build strong relationships with their customers and foster loyalty.
Innovation	Nichers continually innovate to address the evolving needs of their niche market. They may develop unique products or services that solve specific problems or offer new features that competitors do not provide.

Vertical Integration:	Some nichers vertically integrate their operations to gain more control over the value chain and improve efficiency. By owning key stages of production, distribution, or retailing, they can streamline processes, reduce costs, and ensure consistent quality.
Strategic Alliances	Nichers may form strategic alliances or partnerships with other companies to enhance their competitive position. These alliances could involve co-branding agreements, joint marketing campaigns, or collaborations on product development. By pooling resources and expertise, nichers can increase their market reach and competitiveness.
Brand Building	Nichers invest in building strong, recognizable brands within their niche market. A well-established brand can differentiate them from competitors, instill trust and credibility with customers, and command premium prices.

Source: Author

4. 11 Review Questions

1. How do the quotes presented at the beginning of this lecture reflect differing perspectives on competition, and how might these perspectives influence strategic decision-making in business? Provide examples to support your analysis.
2. Discuss the role of market competition in driving innovation, efficiency, and consumer welfare within an economy. How do the advantages and disadvantages of competition outlined in the lecture notes impact overall market dynamics and business performance?
3. Analyze the characteristics and strategic implications of different types of market competition, such as perfect competition, monopolistic competition, monopoly, and oligopoly. How do firms operate in these market structures approach pricing, product differentiation, and market entry strategies?
4. Evaluate the competitive forces identified by Michael Porter and their significance in shaping industry attractiveness and long-term profitability. How can businesses use Porter's Five Forces framework to assess competitive dynamics and develop effective competitive strategies?
5. Critically examine the strategies outlined for market leaders, challengers, followers, and nichers in the lecture notes. How do these strategies align with the respective roles of firms within the market, and what factors should businesses consider when choosing and implementing competitive strategies in their industry?

Self-test

1. What is market competition?
 - a) A cooperative effort among businesses to maximize profits
 - b) A contest between individuals, groups, or organizations for resources
 - c) An agreement between competitors to fix prices
 - d) A regulatory framework imposed by governments

2. Which of the following is NOT considered an advantage of market competition?
- a) Innovation and Efficiency
 - b) Higher Prices
 - c) Greater Variety and Quality
 - d) Consumer Empowerment
3. Which market structure is characterized by a very large number of buyers and sellers with identical products offered in the marketplace?
- a) Monopoly
 - b) Oligopoly
 - c) Perfect Competition
 - d) Monopolistic Competition
4. What is the primary objective of a market leader?
- a) To imitate competitors' strategies
 - b) To maintain a dominant market share
 - c) To avoid market competition
 - d) To focus on niche markets exclusively
5. Which competitive strategy involves a company focusing on serving a specific niche or segment of the market?
- a) Market Leader
 - b) Market Challenger
 - c) Market Follower
 - d) Market Nicher
6. According to Michael Porter, which of the following is NOT one of the five competitive forces that determine segment structural attractiveness?
- a) Threat of intense segment rivalry
 - b) Threat of new entrants
 - c) Threat of substitute products
 - d) Threat of buyer's satisfaction
7. What is the primary goal of a market follower?
- a) To challenge the market leader aggressively
 - b) To imitate and monitor the actions of competitors
 - c) To dominate the market through innovation
 - d) To form strategic alliances with other companies
8. Which competitive strategy involves attacking the market leader head-on with a product, advertising, price, and distribution similar to theirs?
- a) Frontal attack
 - b) Flank attack
 - c) Encirclement
 - d) Bypass

9. What is the main advantage of vertical integration for market nichers?

- a) Lowering product prices
- b) Increasing market share
- c) Streamlining processes and reducing costs
- d) Forming strategic alliances with competitors

10. What is the first step in designing a competitive intelligence system?

- a) Setting up the system
- b) Collecting the data
- c) Evaluating and analyzing the data
- d) Disseminating information and responding to queries

Marketing Management Project

Part 3

In the last lecture we developed the marketing plan of the business we identified. In this week we want to do competitor analysis of the business. I expect you to determine the role of the business in the market (leader, challenger, follower or nicher) and suggest appropriate competition strategies the firm can adopt. You must justify your suggestions.

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Answers to self-test assessment

1. A contest between individuals, groups, or organizations for resources
2. Higher Prices
3. Perfect Competition
4. To maintain a dominant market share
5. Market Nicher
6. Threat of buyer's satisfaction
7. To imitate and monitor the actions of competitors
8. Frontal attack
9. Streamlining processes and reducing costs
10. Setting up the system