

Principles of Marketing

**Creating Competitive
Advantage**

Learning Objectives

After studying this chapter, you should be able to:

1. Discuss the need to understand competitors as well as customers through competitor analysis
2. Explain the fundamentals of competitive marketing strategies based on creating value for customers
3. Illustrate the need for balancing customer and competitor orientations in becoming a truly market-centered organization

Chapter Outline

1. **Competitor Analysis**
2. **Competitive Strategies**
3. **Balancing Customer and Competitor Orientations**

Competitor Analysis

Identifying Competitors

Competitors can include:

- All firms making the same product or class of products
- All firms making products that supply the same service
- All firms competing for the same consumer dollars

Competitor Analysis

Identifying Competitors

Competitor myopia refers to a firm focusing on what it considers to be its direct competition and not being aware of indirect or new competitors

Competitor Analysis

Identifying Competitors

Industry point of view refers to competitors within the same industry

Market point of view refers to competitors trying to satisfy the same customer need or build relationships with the same customer group

Competitor Analysis

Identifying Competitors

Market point of view is considered to provide a broader set of actual and potential competitors, and a **competitor map** illustrates the steps buyers take in obtaining the product

Competitor Analysis

Identifying Competitors

Competitor map highlights both competitive opportunities and challenges facing the firm

- Center is the list of consumer activities
- First outer ring lists main competitors
- Second outer ring lists indirect competitors

Competitor Analysis

Assessing Competitors

- Competitor's objectives
- Competitor's strategies
- Competitor's strengths and weaknesses
- Competitor's actions and reactions

Competitor Analysis

Determining Competitor's Objectives

Competitor's objectives include:

- Profitability
- Market share growth
- Cash flow
- Technological leadership
- Service leadership

Competitor Analysis

Identifying Competitor's Strategies

- A **strategic group** is a group of firms in an industry following the same or similar strategy in a given target market
- Competition is most intense within a strategic group
 - Competition among strategic groups is due to overlapping customers and lack of perceived differentiation and expansion of one strategic group into new segments

Competitor Analysis

Identifying Competitor's Strategies

Companies need to understand the competitor's ability to deliver value to its customers

- Product quality
- Product features
- Customer service
- Pricing policy
- Distribution coverage
- Sales force strategy
- Promotion programs
- Financial strategies
- R&D

Competitor Analysis

Assessing Competitor's Strengths and Weaknesses

- Primary data
- Secondary data
- Personal experience
- Word of mouth
- Benchmarking is the comparison of the company's products or services to competitors or leaders in other industries to find ways to improve quality and performance

Competitor Analysis

Estimating Competitor's Reactions

Marketing managers need to develop an understanding of a given competitor's mentality, culture, values, and way of doing business to anticipate how the competitor will react to the company's marketing strategies

Competitor Analysis

Selecting Competitors to Attack and Avoid

Customer value analysis determines the benefits that target customers value and how customers rate the relative value of various competitor's offers.

- Identification of major attributes that customers value and the importance of these values
- Assessment of the company's and competitors' performance on the valued attributes

Competitor Analysis

Close or Distant Competitors

Close competitors resemble the company the most

Competitor Analysis

Good or Bad Competitors

Good competitors:

- Increase total demand
- Share costs of market and product development
- Legitimize new technologies
- Serve less attractive market segments
- Provide more product differentiation
- Lower the anti-trust risk
- Improve bargaining power versus legislators and regulators

Competitor Analysis

Good or Bad Competitors

Bad competitors:

- Try to share rather than earn in the market
- Take large risks
- Create disruption

Competitor Analysis

Designing a Competitive Intelligence System

- Identifies competitive information and the best sources of this information
- Continually collects information
- Checks information for validity and reliability
- Interprets information
- Organizes information
- Sends key information to relevant decision makers
- Responds to inquiries about competitors

Competitive Strategies

Approaches to Marketing Strategy

Stages of approaches to marketing strategy include:

- Entrepreneurial marketing
- Formulated marketing
- Intreprenurial marketing

Competitive Strategies

Approaches to Marketing Strategy

Entrepreneurial marketing involves visualizing an opportunity and constructing and implementing flexible strategies

Formulated marketing involves developing formal marketing strategies and following them closely

Intreneurial marketing involves the attempt to reestablish an internal entrepreneurial spirit and refresh marketing strategies and approaches

Competitive Strategies

Basic Competitive Strategies

Michael Porter's four basic competitive positioning strategies

- Overall cost leadership
- Differentiation
- Focus
- Middle-of-the-roaders

Competitive Strategies

Basic Competitive Strategies

Overall cost leadership strategy is when a company achieves the lowest production and distribution costs and allow it to lower its prices and gain market share

Competitive Strategies

Basic Competitive Strategies

Differentiation strategy is when a company concentrates on creating a highly differentiated product line and marketing program so it comes across as an industry class leader

Competitive Strategies

Basic Competitive Strategies

Focus strategy is when a company focuses its effort on serving few market segments well rather than going after the whole market

Competitive Strategies

Basic Competitive Strategies

Porter believed that companies that pursued a clear strategy would achieve superior performance and that companies without a clear strategy would not succeed

Porter considered them to be
“middle-of-the-roaders”

Competitive Strategies

Basic Competitive Strategies

Michael Treacy and Fred Wiersema suggest companies can gain leadership positions by delivering superior value to their customers in three strategies or “value disciplines”

- Operational excellence
- Customer intimacy
- Product leadership

Competitive Strategies

Basic Competitive Strategies

Operational excellence refers to a company providing value by leading its industry in price and convenience by reducing costs and creating a lean and efficient value delivery system

Competitive Strategies

Basic Competitive Strategies

Customer intimacy refers to a company providing superior value by segmenting markets and tailoring products or services to match the needs of the targeted customers

Competitive Strategies

Basic Competitive Strategies

Product leadership refers to a company providing superior value by offering a continuous stream of leading-edge products or services. Product leaders are open to new ideas and solutions and bring them quickly to the market.

Competitive Strategies

Basic Competitive Strategies

Product leadership refers to a company providing superior value by offering a continuous stream of leading edge products or services. Product leaders are open to new ideas and solutions and bring them quickly to the market.

Competitive Strategies

Competitive Positions

- Market leader strategy
- Market challenger strategy
- Market follower strategy
- Market nicher strategy

Competitive Strategies

Competitive Positions

Market leader is the firm with the largest market share and leads the market price changes, product innovations, distribution coverage, and promotion spending

Market challengers are firms fighting to increase market share

Market followers are firms that want to hold onto their market share

Market nichers are firms that serve small market segments not being pursued by other firms

Competitive Strategies

Market Leader Strategies

- Expand total demand
- Protect their current market
- Expand market share

Competitive Strategies

Market Leader Strategies *Expanding Total Demand*

Expand total demand by developing:

- New users
- New uses
- More usage of its products

Competitive Strategies

Market Leader Strategies

Protecting Market Share

Protect current market by:

- Fixing or preventing weaknesses that provide opportunities to competitors
- Maintaining consistent prices that provide value
- Keeping strong customer relationships
- Continuous innovation

Competitive Strategies

Market Leader Strategies *Expanding Market Share*

Expand market share by:

- Increasing market share in served markets, thus increasing profitability
- Producing high-quality products
- Creating good service experiences
- Building close customer relationships

Competitive Strategies

Market Challenger Strategies

Challenge the leader with an aggressive bid for more market share

Play along with competitors and not rock the boat

Competitive Strategies

Market Challenger Strategies

Second mover advantage occurs when a market follower observes what has made the leader successful and improves on it

Challenges firms its own size or smaller

Competitive Strategies

Market Nicher Strategies

Ideal market niche is big enough to be profitable with high growth potential and has little interest from competitors

Key to market niching is specialization

- Market
- Customer
- Product
- Marketing mix

Balancing Customer and Competitor Orientations

Companies need to continuously adapt strategies to changes in the competitive environment

- Competitor-centered company
- Customer-centered company
- Market-centered company

Balancing Customer and Competitor Orientations

Competitor-centered company spends most of its time tracking competitor's moves and market shares and trying to find ways to counter them

- Advantage is that the company is a fighter
- Disadvantage is that the company is reactive

Balancing Customer and Competitor Orientations

Customer-centered company spends most of its time focusing on customer developments in designing strategies

Provides a better position than competitor-centered company to identify opportunities and build customer relationships

Balancing Customer and Competitor Orientations

Market-centered company spends most of its time focusing on both competitor and customer developments in designing strategies



The End