Business Development From Start to Scale
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Week - 04
Market and Competitor Analysis
Lecture - 20
Competitor Analysis

Hi friends, welcome to the NPTEL course Business Development from Start to Scale. We are in week 4 with the theme of Market and Competitor Analysis. In this lecture 20th in the series, we discuss Competitor Analysis.

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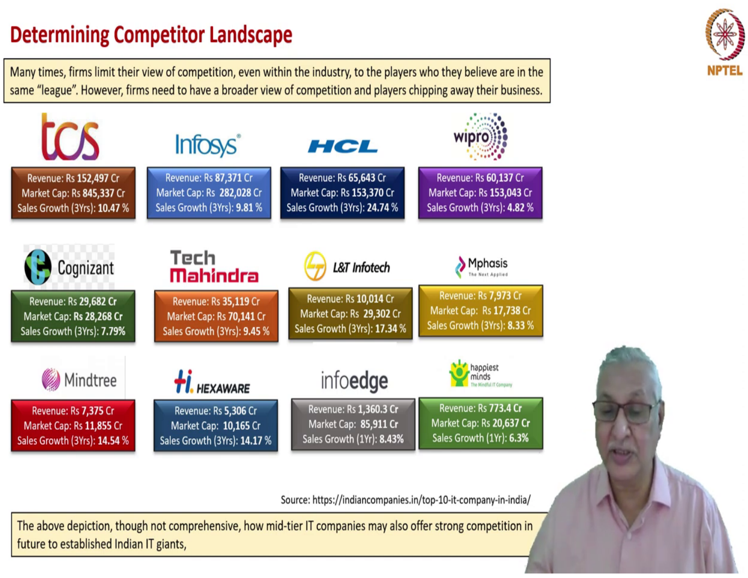

If you will recall I have discussed competitor analysis in a different context and that context was in terms of understanding the factors by which we can judge the competitors performance as well as our own company's performance. In this lecture I will talk about competitor landscape and looking at competitor from a different perspective.

Many times, firms limit their view of competition even within the industry to the players who they believe are in the same league. Some other companies think that the role models of the industry are the competitors neither view is wholly correct. Firms need to have a broader view of competition and players that could chip away their business.

Here is the summary of certain top run, mid run and small-scale IT companies in India. So, we have TCS which has got a revenue of rupees 152497 crores and a market cap which is more than 7 times that and a sales growth of 10.47 percent. Next in the line is Infosys followed by HCL and then Wipro, Cognizant is another leading company with a revenue of 30000 crores approximately, Tech Mahindra in 35119 crore L and T InfoTech at 10014 crore.

But if Mindtree is combined with that as per the latest amalgamation or acquisition it will be 17000 plus crore. Mphasis has 8000 crore revenues, Hexaware at 5300, Info Edge at 1360 and happiest mindset 773 represents the smaller companies. So, you can see three types of companies; one the industry leader, second emerging industry leaders and third mid tier companies which are there and having their own niches.

The above description and depiction do not comprehensive it also indicates how any industry can be multi tiered, but the point to note is that any company in any tier can offer competition to the companies in the other tiers that is the essence of understanding the competitor landscape.

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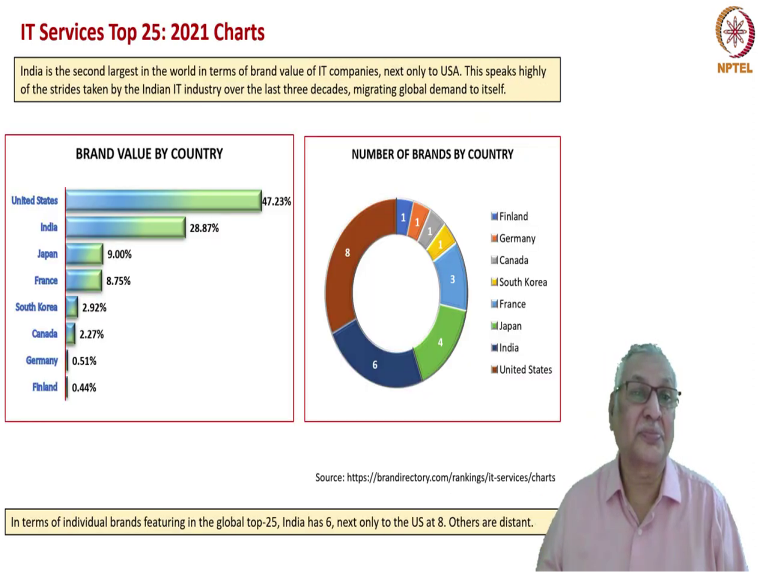

When you look at the IT services top 25 in 2021 it is heartening that India is the second largest in the world in terms of the brand value of IT companies and it is next only to USA. This speaks highly of the strides taken by the Indian IT industry over the last three decades migrating global demand to itself. So, the brand value by country is the graphic on the left side.

United States has brand value of 47 percent whereas; India has a brand value of 29 percent. In a distant third we have Japan at 9 percent and France at 9 percent again. And the number of brands by country has been quite interesting in respect of United States and India, United States has 8 leading brands India has as many as 6 leading brands. In terms of individual brands featuring in the global top 25 therefore, India is well positioned both by value as well as by the number.

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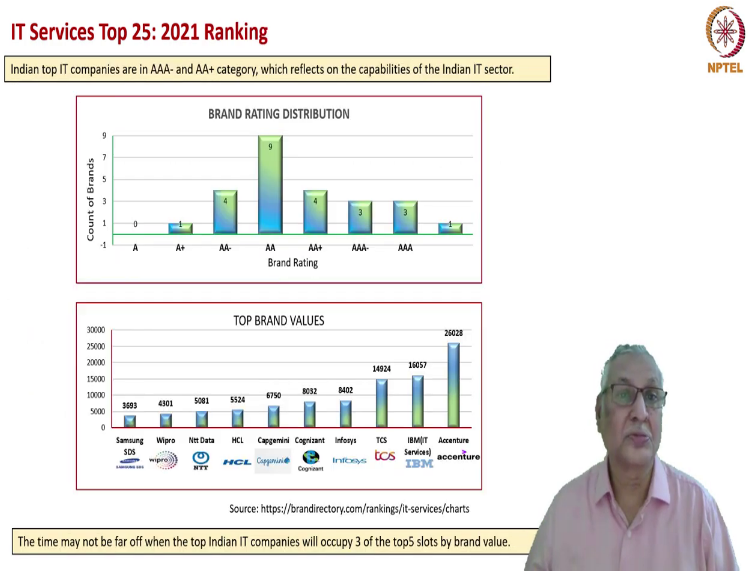

Similarly, in respect of brand rating Indian companies are in AAA minus or AA plus category which reflects positively on the capabilities of the Indian IT sector and the brand values also compare favorably with those of established international chains. I would believe that the time is not far off when the top Indian IT companies will occupy 3 of the top 5 slots by brand value.

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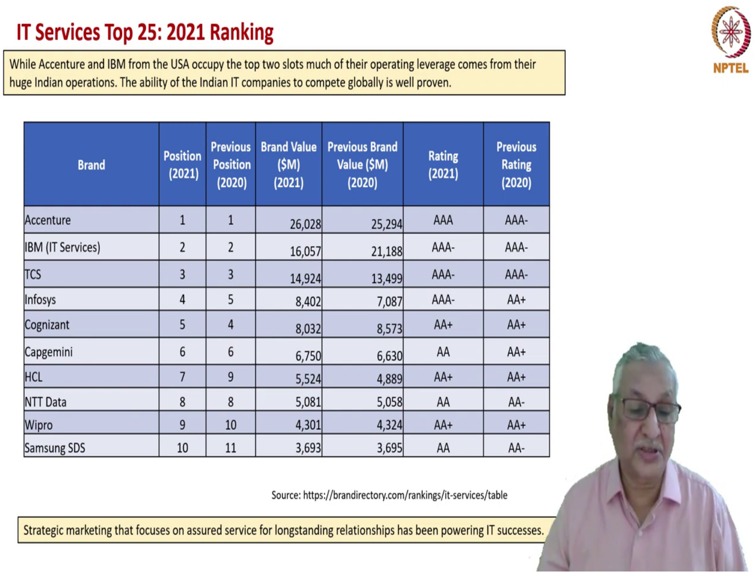

Brand	Position (2021)	Previous Position (2020)	Brand Value ($M) (2021)	Previous Brand Value ($M) (2020)	Rating (2021)	Previous Rating (2020)
Accenture	1	1	26,028	25,294	AAA	AAA-
IBM (IT Services)	2	2	16,057	21,188	AAA-	AAA-
TCS	3	3	14,924	13,499	AAA-	AAA-
Infosys	4	5	8,402	7,087	AAA-	AA+
Cognizant	5	4	8,032	8,573	AA+	AA+
Capgemini	6	6	6,750	6,630	AA	AA+
HCL	7	9	5,524	4,889	AA+	AA+
NTT Data	8	8	5,081	5,058	AA	AA-
Wipro	9	10	4,301	4,324	AA+	AA+
Samsung SDS	10	11	3,693	3,695	AA	AA-

In terms of IT services top 25 Accenture and IBM from USA occupy the top two slots, but much of their operating leverage comes from their huge Indian operations. The ability of the Indian IT companies to compete globally is well proven. So, let us look at the position that has been given as per the table Accenture is in number 1, position previous position was also number 1 in 2020.

The brand value is 26000 crores previous brand value was 25000 crores and it is rated triple A. IBM is rated triple A minus with a brand value of 16000 crores in 2021. Infosys is at 8400, but it is considered the bellwether of the Indian IT industry, TCS is much larger in terms of brand value and also in terms of sales value as we have seen earlier and it is in triple A minus category.

So, Infosys, TCS are in triple A minus category whereas, HCL is in AA plus category Wipro is also in AA plus category comparing very favorably with the other competitors. How does this happen? This happens when strategic management of the companies is focused on establishing, strong client relationships, which enhances repeat orders which provides big deals and ensures brand visibility in the global IT services space.

Underlying the business development approach in such companies is the service as the lever for long standing relationships to power IT successes.

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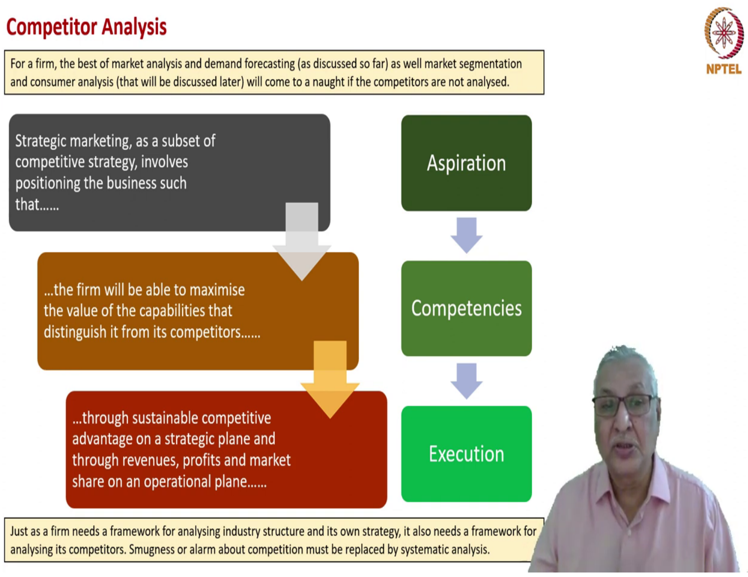

So, in this background we need to look at competitor analysis in a different light we have seen that for the firm the best of market analysis and demand forecasting as discussed so far as well as market segmentation and consumer analysis that will be discussed later, we will come to a naught if the competitors are not analysed properly.

There are two three themes here; one strategic marketing or business development, constitute a subset of competitive strategy. It involves positioning of the business in the minds of the marketplace customers. So, that the value of the capabilities that the firm has or distinguished from its competitors then only the competitive advantage accrues.

Sustainable competitive advantage is achieved on a strategic plane; it is a way a firm positions itself offering superior products services and features relative to competition. The tactical and operational metrics are in terms of revenues profits and market share. So, for every company there must be an aspiration which is supported by competencies and leading to execution.

Just as a firm needs a framework for analyzing industry structure and its own strategy it also needs a framework for analyzing its competitors this is the point I have made in the previous lecture. Please judge yourself as the company by the same standards as well as the same factors of analysis as you judge the competitor with. So, smugglers or alarm about competition must be replaced by systematic analysis.

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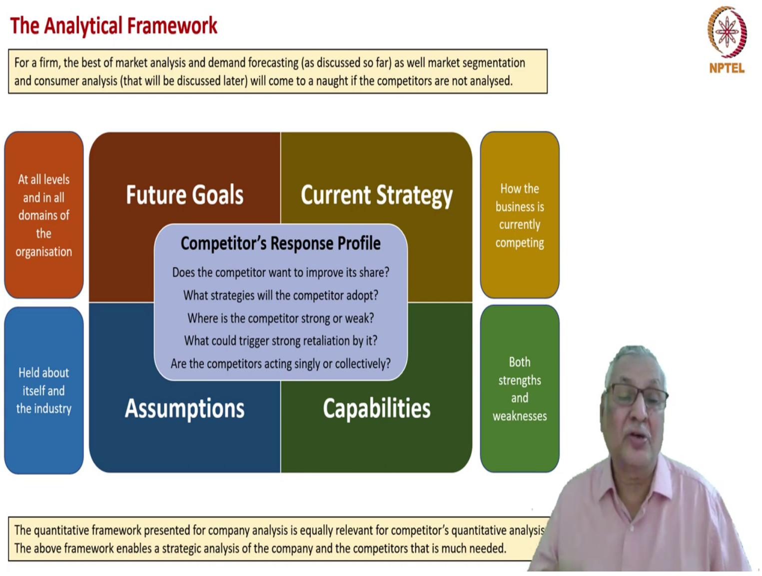

What is the analytical framework that we must have to analyse the competitor repeating the same thought the market analysis and demand forecasting are helpful, but they are not the ultimate determinants. Market segmentation and consumer analysis will also be helpful, but they are also not the final determinants.

Competitors have to be analysed to understand if the demand that is being forecast can be actually realized by the company. So, a company must look at the competitors in terms of four aspects what are the future goals what is the current strategy what are the capabilities and what are the assumptions.

The competitors response profile comprises questions such as this does the competitor want to improve its share, what strategies will the competitor adopt, where is the competitor strong or weak, what could trigger strong retaliation by the competitor are the competitors acting singly or collectively in an industry where about 10 companies are there.

And with different kinds of ownership that is indigenous ownership as well as overseas ownership the response profiles of the competitors are likely to be different which means that the company has to really act on multiple fronts to be able to be competitive against each and every company.

On the other hand, if all the competitors are of homogeneous type in terms of the ownership, capabilities and strategy it is a singular strategy of the entire competitor block that needs to be attacked by the company. So, the future goals of a company occur at all levels and in all domains of the organisation.

The strategy of the company is seen in terms of the evolution of the current business the capabilities are seen in terms of the strengths and weaknesses and the assumptions the competition has about itself at the industry. Typically, whenever a company introduces a new truck, the competitor comes up with several trucks to say that I have got a much wider range and I am going to be in this business in a more competitive fashion.

And these kinds of activities indicate the kind of assumptions the company is making about its competition whether it thinks of itself as a long standing and dominant player for the future or it is just looking at a one-to-one relationship with the competition. The quantitative framework that is presented for company analysis that is the analysis of your company will be equally relevant for competitor's quantitative analysis as well. This framework enables a strategic analysis of the company and the competitor's that is much needed.

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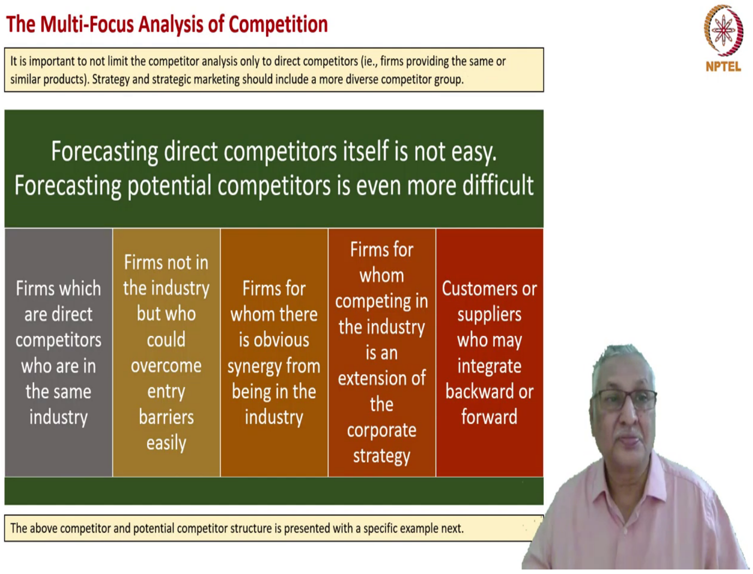

Analysis of competition has got several foresight, we should not limit competitor analysis only to direct competitors that is firms providing the same or similar products. It is quite possible we have seen it in the earlier lectures that competitors could seek strategic adjacencies therefore, although they are not direct competitors sooner than later, they could come into the area where you are operating.

Paytm may not have seen reliance financial services arm as a competitor and would have seen it as a financial support arm for the reliance products particularly the retail products as well as the telecom products; however, the spinoff of Reliance Financial Service Arm is going to place the company in direct competition with Paytm and that has already impacted Paytm in terms of its business positioning as well as stock price.

Therefore, trying to say that these competitors are my direct competitors, these competitors are my indirect competitors and these are my distant competitors and the fourth category of companies are completely non-competitors is probably not so easy as we may imagine.

So, the problem is that we should have very wide expanse of our vision in terms of looking at the competitors. Over and above that forecasting who could be the potential competitors in future is even more difficult. So, let us look at the categories of competitors. The first which is easily understood classification is that of firms which are direct competitors and who are in the same industry.

The second type of classification relates to firms which are not in the industry, but who could overcome entry barriers easily that is for a two wheeler company someone in the four wheeler could probably overcome the entry barriers and come in. For Eicher which has been in the tractor industry it has been possible to overcome the entry barriers and enter the commercial vehicle industry thus becoming a competitor for the another commercial vehicle firms.

Third category relates to the firms for whom there is obvious synergy from being in the industry. If you are already in one segment of the industry which is helpful for the other segment of the industry it makes sense for it to get into that industry and become a competitor suppose you are a company making oncology products therefore, you have lot of sterile injectable capability.

For you as that company it makes sense to leverage that sterile engineering capability to be in other sterile injectables place although oncology drugs and those sterile injectable drugs are not the same industrial segment or same business segment; however, the synergy has driven the company to move into the next competitive position.

The fourth category of competitors relate to firms for whom competing in the industry is an extension of the corporate strategy the corporate strategy of the firm says that the co-business is saturated you need to move to another industry or another business. The fifth category of competitors relate to the customers or suppliers who may integrate backward or forward.

So, far they have not been your competitors, but after the strategic direction changed, they become competitors Bharat Forge was never a competitor for defense undertakings; however, it chose to become forward integrated into defense products including artillery and other armaments and that made Bharat Forge a competitor to other companies in the defense services and defense products field. Let us look at the competitors and the potential competitor structure with some specific examples.

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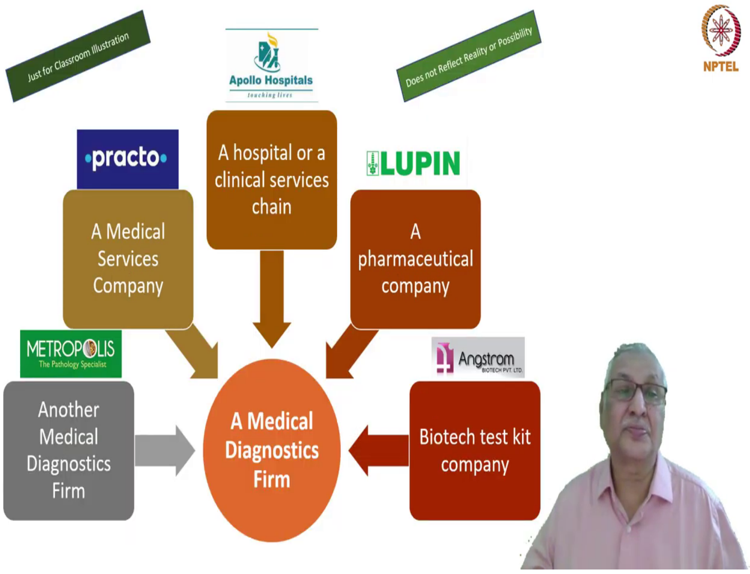

We have Apollo hospitals and we have a Lupin, we have Practo we have metropolis we have angstrom. So, if you are a medical diagnostics company, you can have competition from all these companies it is this is a just classroom illustration and does not reflect reality or possibility.

So, you as the medical diagnostics firm has direct competition from metropolis which is another medical diagnostics firm which relates to the first category I have talked about. You also have competition from Practo which is a medical services company; they could pose direct competition to you.

You could have competition from Apollo hospitals which is an end to end healthcare system and it is a hospital, it is a clinical services chain everything combined together and you that could pose a problem to you in terms of the medical diagnostics business. Lupin is a pharmaceutic company it never thought about medical diagnostics, but it decided to venture into that area. So, suddenly a pharmaceutical company has become your competitor.

Angstrom biotech is a biotech test kit company and therefore, it has the ability to create test kits for home testing it can create even a lab on the chip with those kinds of development you will find that your medical diagnostics capabilities are challenged by a different types of technology substrate, which is that company is offering. So, this is a telling example that competition for any company could arise from more than one direct competition it could come from strategic existence being pursued any changes in the strategy and so on.

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What are the goals of the competitors? The competitors and the company will have a hierarchy of goals related to the corporate and business structures; there will be physical and financial growths production, sale, capacity utilization, breakeven point, growth rate these are the physical parameters.

In terms of the financial goals there will be revenue, profit, return on investment, earnings per share, debt equity ratio, interest cover cash flow and market cap. In terms of the strategic goals the company may pursue one of the three generic strategies could have one particular type of portfolio, can pursue specialisation, diversification, integration, outsourcing, offshoring all of these as their strategic approaches.

It could also pursue globalisation intellectual property generation, strategic direction, technological innovation as their strategic goals. Other companies may pursue governance goals as well compliance, ethics, values, corporate governance, risk management, environment health and safety, social responsibility and business continuity these come up as governance goals.

In terms of the structural goals that is how the organisation is structured there would be very specific indicators of the competitors value systems as well as the objectives the board of directors, how it is constituted, the number of committees of the board and their purpose, the CEO and leadership team the managerial team these are all structure related goals.

Corporate structure, business structure and organisation structure emerge as the structural aspects of goals from a overall organisational perspective. There will be people related goals should I have a CEO of this kind of pedigree, should I have a CXO of this kind of pedigree or the questions that leaders in the company get and they solve these things by having certain goals.

Some companies believe that I will make extraordinary people out of ordinary persons and that is the way they define their goal whereas, some other companies feel that they must get people from the best possible pedigree to deliver the kind of expectations they have.

So, people goals could be in terms of CEO profile and background CXO profiles organisational alignment rewards long-term investment incentive plans, non-financial recognitions and so on there would also be national goals for competitors some companies try to align themselves more strongly with national goals.

So, out of the whole set of companies operating in an industry only a few may align themselves with government moves such as semiconductor development or production incentive plans for the tough aspects of product development and so on. So, alignment with national goals, ranking in terms of national industrial canvas, self reliance initiatives are all goals which prompt companies to align themselves.

Similarly, support to startups, support to macros small and medium enterprises, privatisation and making India programs or other methods by which the national goals are met by the individual companies. Every competitor as well as the company will have a hierarchy of goals related to the corporate and business structures as I have discussed here.

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So, how once we know these kinds of goals how do we analyse the competitor's goals. The first way is to understand how the competitor's goals compare and contrast with the company's goals the second step is to understand how competitor's performance measures compare with the company's performance measures.

How sustainable are the competitors goals relative to the companies and how sustainable are the competitor's achievements relative to the companies? So, it has 3 step process identification of goals and achievements, gap analysis of goals and achievements and therefore, determination of sustainable competitive advantage.

If the gap between goals and achievements of the competitors is very wide compared to the narrow gap that you have then it means that you have superior competitive advantage relative to the competition. So, every analysis of the competitor and your firm should lead to identification of gaps and actions for sustainable competitive advantage for the firm.

You can see how the new company introduces its products mean time between product introductions how is it different in respect of your company and the competitors. There could be several insightful measures that can be used to understand the gaps between goals and accomplishments.

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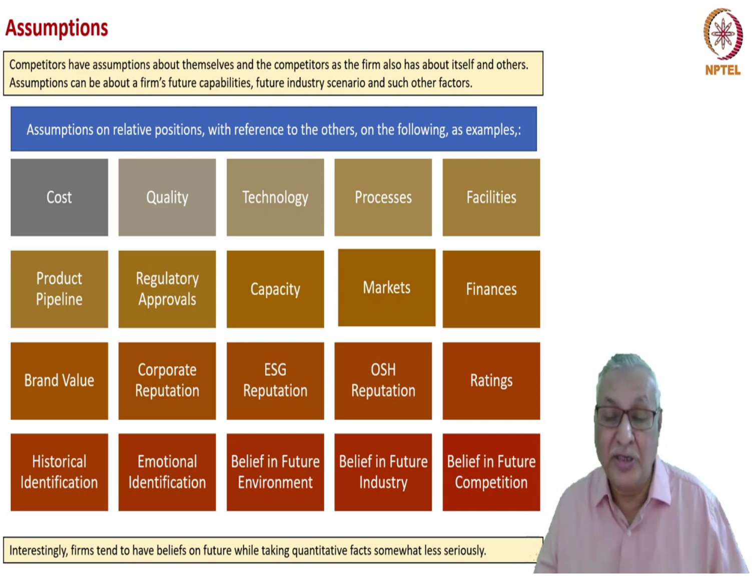

Competitors have assumptions about themselves as also about the competitors similarly the firm which is trying to analyse the competitors has assumptions about itself and others. And these assumptions can be about a firm's future capabilities, future industry scenario and such other factors and the variations of these assumptions with reference to the competition and also the likely evolution of the actual parameters determines how strong or how weak the competition is going to be.

So, what is important is the relative position with reference to the other parameters. Some examples of the parameters on which you can have these relative assumptions are cost, quality, technology, processes and facilities this is the technical set how good you are in terms of your cost engineering, how good you are in terms of your quality assurance, what is the level of technology that you have and the manufacturing process controls that you are able to incorporate.

And the state-of-the-art facilities that you have relative to your competitors this is the technical set as an example then you have the pipeline that is how well endowed are you to launch products not only tomorrow, but years later. So, for that you need to understand the product pipeline regulatory approval status of yourself as well as the competitor the capacity profiles markets finances.

Generally, a company which has got higher capacity is likely to be better positioned to meet any uptick in the demand. Therefore, this is the set of factors that determine the future capability of the firm. Then we have reputation parameters, the brand value the corporate reputation, the ESG reputation occupational safety and health reputation and the ratings by various credit rating agencies that is the brand value related factors.

Next you have the fourth tier which is the identification that the company evokes or the competitor evokes with the stakeholders and that could be historical identification if a company has been in a nation for 100 years it has a different historical identification compared to a company which has just started its business 1 year ago.

Then there is the emotional identification when Tata group of companies or Tata Son’s had destabilizing influences a few decades ago. It is the emotional identification of the population at large or the society at large and select segments of the government that has led the Tata group's position to be strengthened and that emotional identification is necessary for a company to make its mark on the overall industrial scene.

The third is the belief in future environment companies get known as companies, which will go for the futuristic development. So, when group such as Tata wants to enter the semiconductor industry or when it takes over air India such a behemoth which the government could not manage with profitability because of the belief in the future environment the stakeholders believe that the company can deliver.

Then there is also belief in the future of the industry, where the company is operating that leads to strong positive assumption on the competitive capability of the company. And also there are beliefs related to the future competition whether the future competition would be high or would be low. Interestingly firm's tend to have beliefs on future while taking quantitative facts somewhat less seriously that is there is in some companies higher level of preoccupation with future parameters than with current realities on ground that is not good.

Similarly, getting fully occupied with the current realities, but not talking about or thinking about the future evolutions is also not correct. So, again it has to be a balanced way of looking at yourself as well as the competition in terms of the assumptions.

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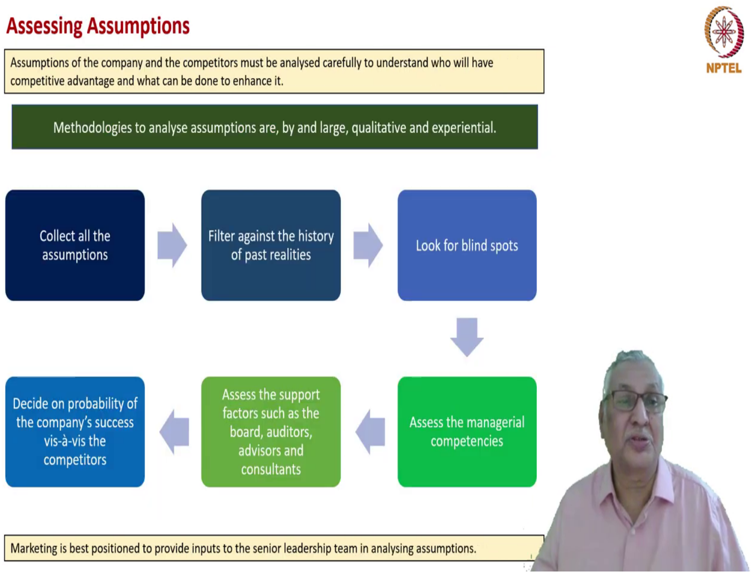

So, how do we assess the assumptions? We can make assumptions all the while, but how do we know that the assumptions are fair and proper. So, we have to do this analysis carefully to understand who will have competitive advantage and what can be done to enhance it there are many methodologies to analyse assumptions, but these are by and large qualitative and experiential.

First you need to collect all the assumptions that are made by the company and the competitors filter against the history of past realities does the competitor have the habit of making pompous announcements and not turning out real performance. Do I have myself the history of making pompous announcements, but not fulfilling those announcements in doing so, you will find out the blind spots of yourself as well as the competitors.

Then you assess the managerial competencies of both the companies. Assess the support factors such as the board the auditors, advisors and consultants that is the company you are keeping as a firm. Then decide on the probability of the company's success vis-a-vis the competitors.

Again, some divisions such as marketing and business development which are customer focused and customer connected or better positioned to provide inputs to the senior leadership team in analysing these assumptions.

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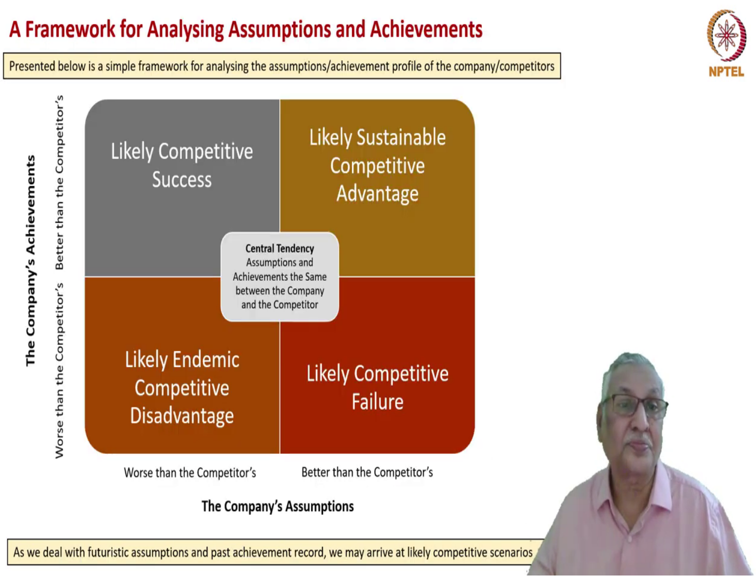

So, what is the framework for analysing assumptions and achievements? We have company's assumptions and these assumptions could be worse than the competitors or better than the competitors then there would be company's achievements which could be worse than the competitors or better than the competitors.

So, as a company I make assumptions about myself vis–a-vis the competition. As a company I make achievements vis-a-vis the competition better or worse in either case. So, what happens in such a situation? If your assumptions are worse than the competitors that is you are on a lower pedestal even on an assumption basis and your actual achievement is worse than the competitors then you have a endemic competitive disadvantage which is an innate which is an innate inherent competitive disadvantage.

Suppose your assumptions are better than the competitors, but your performance is worse than the competitors you are likely to ending you are likely to end up in competitive failure. Let us say that your company's assumptions are worse than the competitors, but your performance in fact, has been better than the competitors then you are end up with likely competitive success.

But let us assume that you have consistently better ranking assumptions than the competitors and your performance is better than the competitors then you will have likely sustainable competitive advantage. This analytical framework again is a original framework that I am presenting to you as part of this course.

So, the central tendency would be that the assumptions and achievements are the same between the company and the competitor; that means, that the entire industry is in an equilibrium state. As we deal with futuristic assumptions and past achievement record we may arrive at likely competitive scenarios as well.

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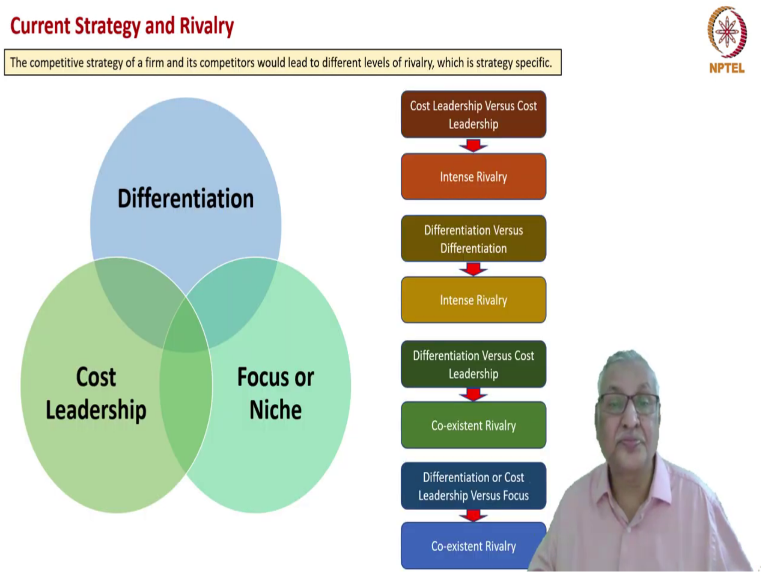

This is as far as the structure and strategy are concerned, but we need to delve deeper into the competitive strategies that are being adopted by the competitors. So, three generic strategies as we have considered earlier differentiation, cost leadership and focus or niche. Now, let us see how it works out.

Let us say you are a company wedded to cost leadership and the competitor is also wedded to cost leadership what would happen there would be intense rivalry because you are similarly positioned and you are similarly capable in terms of the cost parameter. Let us say you are differentiated and the competitor is also differentiated then again you will have intense rivalry because you are equally pitched in terms of your capabilities and accomplishments in the marketplace.

Let us say you are differentiated, but the competitor is having cost leadership then what happens? The rivalry is co existent the competitor performs at one level and you perform at another level. So, both the companies coexist. Let us say you have differentiation or cost leadership as your strategy and competitor has focus or niche again you are operating in different place and therefore, you will be coexisting as rivals.

So, if the same generic strategy is adopted by both the firms the intensity of competition will be much higher than when you have different strategies to work on and that is why you try to choose competitive strategies, which are somewhat unique to your position.

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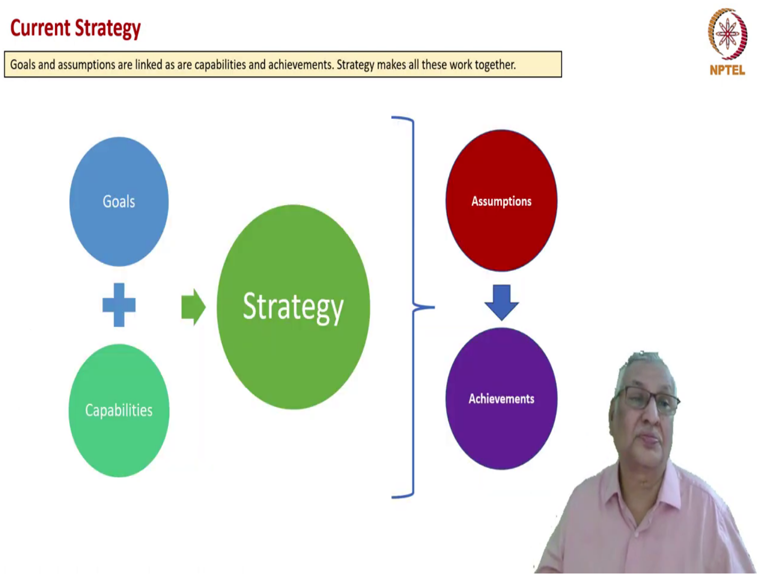

Let us look at the current strategy current strategy nothing but a is a combination of the goals that you set for yourself and the capabilities that you have built for yourself together these become the strategy of the company. And these are set based on certain assumptions with the objective of achieving certain things in the business space. And the goals, capabilities, assumptions and achievements are tied together by what we call the corporate strategy or the business strategy.

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When you look at competitors you will find that all the time, they make statements and those statements can be bold and provocative they also tend to be powerful enough to preempt competition, but all the firms in an industry may not make the announcements or take the announcements in the same way. There could be adjustments amongst the competitors.

But at the same time there could be multiple new collaboration opportunities in the broader industry. Classic case is of Adani Group. Adani Group has been a pioneer in renewable energy Adani Group has agreed to invest as much as 30 billion US dollars across the entire energy sector with thrust on renewables and clean fuels such as hydrogen.

Mukesh Ambani's Reliance Industries which has focused until now on petrochemicals decided to participate in the renewable energy or what it calls as the new energy initiatives in a big way. So, the company said that it would invest 20 billion dollars including giga factories and partnerships there is a subtle difference in the strategy between Adani Group as well as Ambani Group.

But the ultimate strategy is to lead to production of renewable energy and having dominant position we have Ola electric which announced that it is investing in an electric scooter plant of 10 million units per annum capacity. Sudarshan Venu of TVS motor announced plans to invest just 1000 crore in a 2 wheeler plant of 100000 per annum capacity both are operating in the electric vehicle industry.

But they have decided to choose different investment levels and different capacity levels whereas, Adani and Ambani have chosen to operate in the same kind of investment and capacity scale. Now when Gautam Adani says that he is buying cement companies it is a signal that the infrastructure play is going to be much stronger for the company in future.

As the company says it is committed to become the biggest infras-developer in terms of its ports and roads. It is a signal that the infrastructure space will be dominated by the company when it makes a statement that it would invest in petrochemical complex which may be seen as a kind of retrograde decision one may also feel that there is a plan behind that.

Similarly, when Adani Group says that it is going to compete for 5G auctions, but only for private networks it looks like a humble initiative, but there could be something more than what is visible in such a step. So, competitive statements cannot always be taken at face value they have to be judged for the import they bring to the business strategy and corporate strategy. So, competitive statements have to be looked at in their totality and at times reading between the lines.

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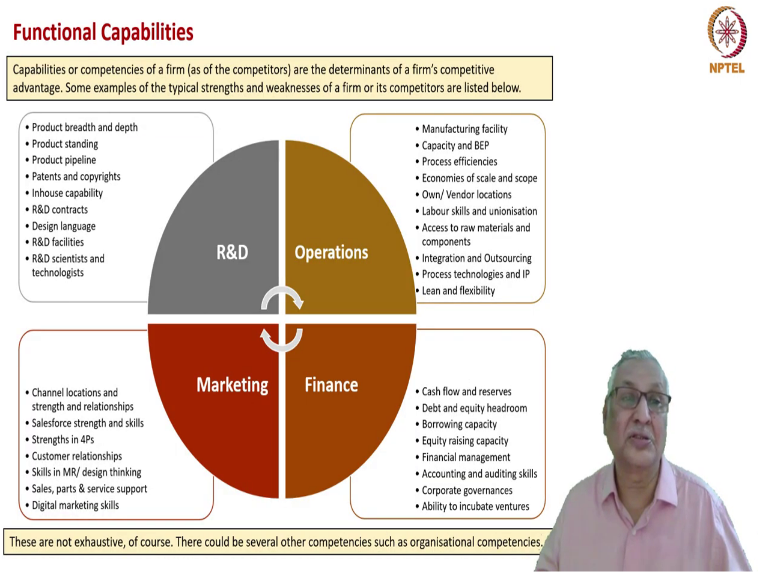

So, to judge these capabilities is the next task because vision statements objectives missions are all statements of purpose, but the companies should have functional capabilities to be able to fulfill those mission statements. These are the determinants of a firm's competitive advantage in the ultimate analysis some of the examples of typical strengths and weaknesses of a firm or its competitors are listed below.

In respect of R and D the product depth as well as the product breadth, the product standing, the product pipeline, the patents and copyrights, in-house capability, R and D contracts, design language, R and D facilities and the number of R and D scientists and technologists are a few of the R and D capabilities this is the functional capability of the R and D system.

When you look at the operations the manufacturing facility network, the capacity, the breakeven point, the lower the breakeven point, the better will be its competitive advantage process efficiency the least loss operation is the most profitable operation. Economies of scale as well as scope when you say about economies of scale the higher unit volume that you have.

When you talk about economies of scope the ability to manufacture a range of products with some modularity using the same facilities. So, that is the economies of scale and scope concept own vendor locations, labour skills and unionization, access to raw materials and components integration levels and outsourcing levels, process technologies and intellectual property lean and flexibility in manufacture these are all the considerations in operations.

When you look at marketing the channel relationships that you have the channel locations exclusivity, non-exclusivity and the extent of legacy relationships as well as forward looking relationships these all matter. Sales force strength and skills, strengths in 4 Ps, customer relationships, skills in MR and design thinking that is skills in market research and design thinking.

Sales parts and service support, digital marketing skills or the marketing attributes they reflect well on the functional capabilities as a marketing. In terms of finance, you have cash flow and reserves, debt and equity headroom, borrowing capacity, equity raising capacity, financial management, accounting and auditing skills, corporate governance, ability to incubate ventures.

These are all financial capabilities this list is not exhaustive there could be several other competencies such as organisational competencies, the ecosystem competencies, the cultural competencies these are also important. A company which is scoring very high on cultural integrity is likely to be a better performer than a company which does not subscribe to good cultural anchors.

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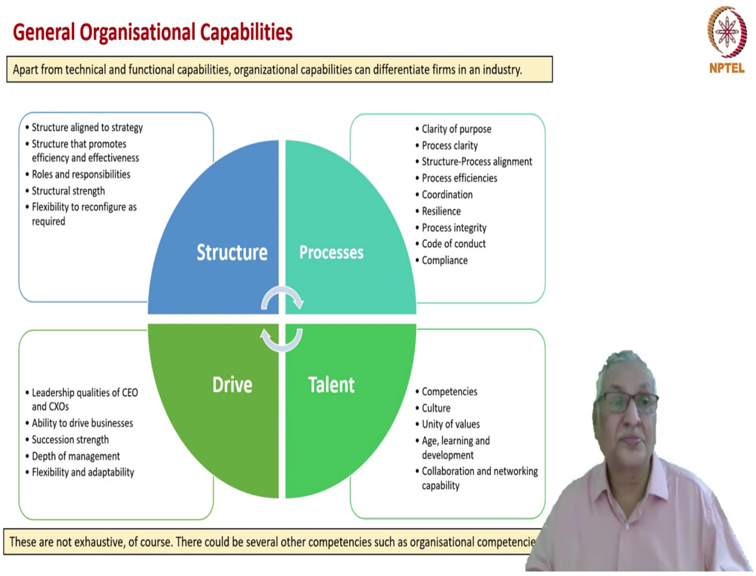

This is about functional capabilities then there would be general organisational capabilities how the organisation plans and conducts its business. These are apart from technical and functional capabilities and these organisational capabilities distinguish firms in a very substantive manner in respect of structure is the structure aligned to the strategy is the structure promoting efficiency and effectiveness.

If you have a large company which has business verticals and with business within business verticals product verticals one may say that the company is get for specialization as well as growth. Roles and responsibilities how well they are defined does one person look after many tasks or he is specialized enough with appropriate collaborative network within the organisation.

The structural strength of an organisation structure the flexibility to reconfigure as required these are all important and as far as the processes are concerned the clarity of purpose that prevails within the organisation. The activity clarity what I should do in terms of the sequence and in terms of the parallel activities.

The structure process alignment, the process efficiencies, coordination, resilience, integrity of the process, code of conduct of managers and executives and the compliance standards these are some of the ramifications of process capability. Then you have leadership capabilities.

Leadership qualities of CEO and CXOs, ability to drive business, succession strength, depth of management, flexibility and adaptability these are all the factors which provide extra drive and pep to an organisation. Then you have talent related capabilities the skill set or the competency set, the cultural moorings, the unity of values or purpose, age of the organisation, learning and development capabilities, collaboration and networking capability and so on.

Again, these are not exhaustive we can look at several other organisational competencies when you sit to analyse in greater detail.

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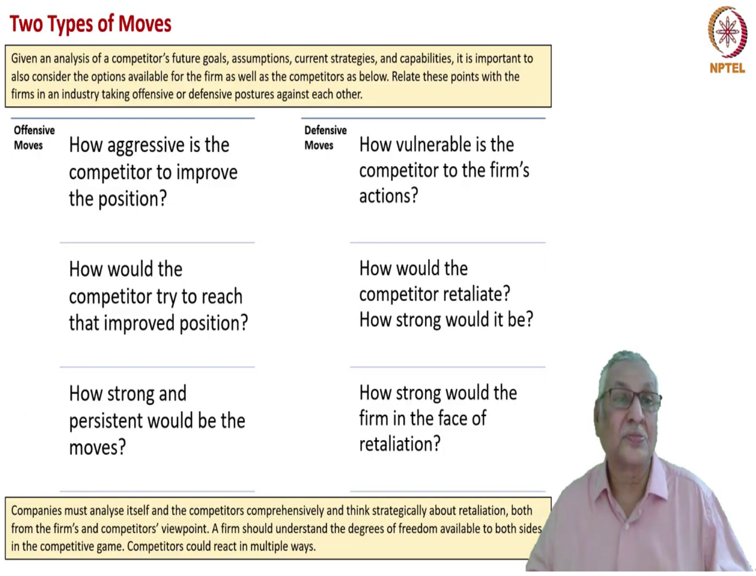

So, when a company is faced with competition how does the company respond or how does the competitor respond. If both companies are in a neutral state that is nobody response against the other one may assume that they have become happy in retaining the current state they do not want to disturb the equilibrium it is a kind of live and let live situation.

But it is hardly the case in real life each company tries to get the better of the competition. And to be able to do that after all the analysis that we have laid out so far you may decide to make either competitive moves that are offensive in purpose or defensive in purpose. So, what are the offensive moves? How aggressive is the competitor to improve the position?

Is he going to do something to disturb the equilibrium and how would the competitor try to reach the improved position and how strong and persistent would be the moves? Your assumptions on the offensive moves of the competitor would determine how you are going to make your moves.

On the other hand, you will look at the defensive moves as well how vulnerable is the competitor to the firm's actions and the firm I take certain actions is the competitor capable of defending itself or its going to buckle. If I make a move how would the competitor retaliate how strong would it be.

So, you are being circumspect you are going to make your moves in a defensive manner thinking of the competitors retaliation possibilities and in case the competitor reacts how strong would be the firm in the face of retaliation. So, you are having two sets of thought process and that helps you to craft either an offensive move or a defensive move.

Companies must analyse themselves and the competitors comprehensively and they must think strategically about retaliation both from the firm's viewpoint as well as from the competitor's viewpoint. For every action there will be a consequence similarly for every competitive move there will be a counter competitive move.

So, we should be able to focus those moves and move accordingly every firm should understand the degrees of freedom available to both sides in the competitive game; there is no point in your trying to lower the pressure when you know that you are not the least cost producer. And evens more if the other company is a lower cost producer.

So, it is just not going to be a good competitive action to proceed in that direction. On the other hand, if you have the ability to differentiate yourself and the other company is a cost leader you may build upon your strengths and make offensive moves in terms of differentiation. Therefore, the key to good competition is to understand the degrees of freedom that is available to both the sides in the competitive game and that is because competitors could react in multiple ways.

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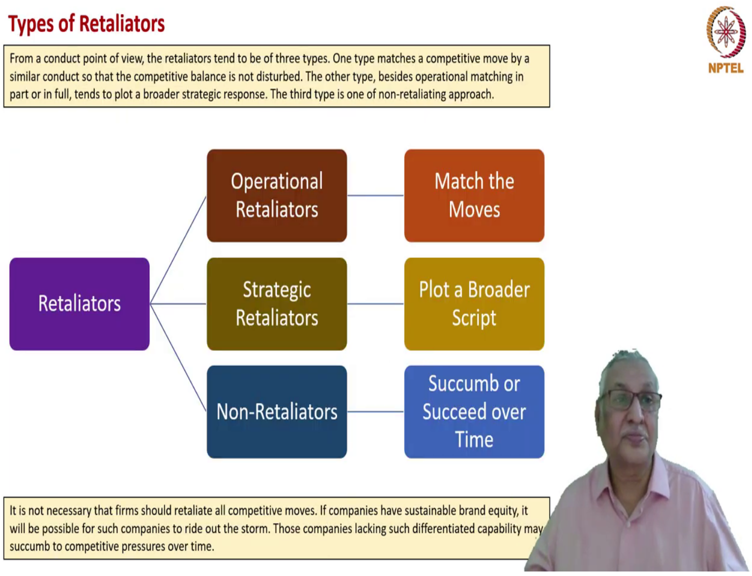

In terms of retaliation by the competition there could be three types of retaliation one type matches a competitive move by similar conduct you reduce the price the other competitor also reduces the price. So, that the competitive balance is not disturbed. The other type is that apart from matching in the operations in part or in full there would be plotting of a broader strategic response.

And the third way is to have simply non-retailing approach thinking that this competition will be a transient phase seeing that the firm is not responding the competitor would roll back. So, there are three ways operational retaliators who match the moves strategic retaliators who plot a broader script and non-retaliators who succumb or succeed over time.

It is not necessary that a firm should retaliate every competitive move it may be wholly unnecessary, if companies have sustainable brand equity it will be possible for such companies to write out this storm. Only those companies which lack such differentiate capability must look at doing certain things to provide that defensive capability.

And if those companies do not have the defensive capability and are not able to conjure up any particular strategic retaliation, they are likely to succumb to competitive pressures over time.

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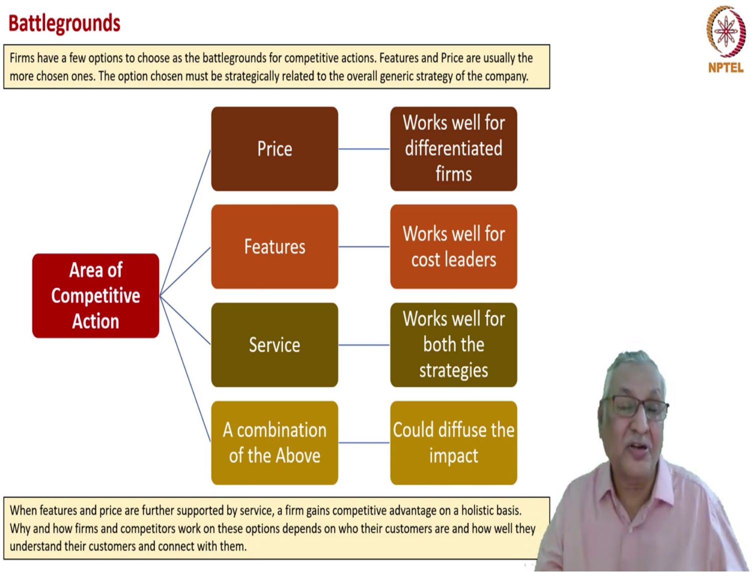

So, what are the battlegrounds for competition? Many firms have several options to choose as battlegrounds for competitive actions, features and price are usually the more chosen competitive arenas whatever be the option that is chosen it must have a linkage with the overall generic strategy of the company.

As I alluded to earlier a company should not try to differentiate itself as a competitive move when it does not have the R and D capability to differentiate itself beyond one or two features. So, you have to choose your battleground appropriately. So, when you look at the area of competitive action by a firm it could be just price it could be features it could be service or it could be a combination of the above.

Price based competition works well for differentiated firms because you are already differentiated and if you are able to offer the differentiation at a more competitive price you are likely to have a winner. Suppose, you have features that are now added as competitive action that will work well if you are already a cost leader.

When you are a cost leader you are seen as a generic company or a commodity company, but when you add features then you will be seen as a differentiated company it therefore, works well for cost leaders. Suppose, you have decided to use service as your competitive weapon that is you establish a network of service stations you train your service mechanics to be at service in a very great manner and you make available the spare parts in a surplus manner.

Then you are seen as a service provider of the highest standard it is a competitive move and that works well for both the strategies which I have described earlier. Suppose you use a combination of the above you could diffuse the impact because you are there everywhere and the customer is unable to judge you similarly the competitor is also unable to judge you where you are positioning yourself.

And any abrupt action or random action or knee jerk action by the competitor could take away the (Refer Time: 47:32) from the combination that you have thought about. When features and price are further supported by service, certainly a firm gains competitive advantage on a holistic basis.

Why and how firms and competitors work on these options depends on who the customers are and how well they understand the customers and how well they connect with the customers. So, competitive actions have to be carefully chosen and the battlegrounds also must be carefully chosen. With this we come to the end of this lecture. I hope to see you in the next week's lectures.