Strategic Management – The Competitive Edge
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Lecture 14
Industry structure, Competitor Analysis

In the last session, we were looking at the impact matrix. We were looking at the possible trends, which you may have with respect to an organization. Suppose you denote those trends by T1, T2, T3, T4. What is important to know is the probability of occurrence of these trends. For example, suppose you think that you have an economy which is going to be a boost in the next year, that is, you will have an upsurge in economic growth in the country, how it is going to impact the company.

So, what is the probability of occurrence of this upsurge in economy? Suppose, you give that probability as 0.8, then how this is going to impact your strategies. So, as a strategist you should always keep more than one strategy. Suppose, something happens as per plan that one strategy goes into action. Suppose, it does not work, you should have alternate strategy.

So, normally organizations keep up to four strategies S1, S2, S3, S4. So, what is the impact of this trend T1 on S1, on S2, S3 and S4; they try to measure or assess. So, depending on the intensity of the impact, they will pick up that strategy which is going to be beneficial to the organization. So, this is the impact scale given at the bottom.

So, you have a 0 which means no impact, you have a minus 1 which is moderately unfavorable, minus 2 which is extremely unfavorable and then going to plus 1 moderately favorable and plus 2 extremely favorable. So, this is called a Likert scale. Likert scale is a five-point scale and generally made use of in these types of matrices to assess the impact on organizations. So, in this particular case looking at the impact of the trends on strategies.

Now, you look at an organization from the competitive analysis angle. So, this is what we have to look at in the present day context. Why should you study competition? This is the first question you have to answer. In order to study this or answer this question, you have to answer two sub questions, what is driving competition in the specific industry.

So, you may be thinking that there are so many players in the industry. So, all of them need to make a mark in the marketplace. If they do not make a mark in the marketplace, they will get eliminated, etc. Then what actions competitors are likely to take in the wake of increased competition. Suppose, you take for example, the city of Bangalore, well known for number of restaurants.

And giving you very tasty dishes, you find almost on a regular basis. Some new restaurant opening up in so many roads in Bangalore. Also, you see on a regular basis many of these restaurants getting closed also. But some of them though they are small they have withstood this onslaught by these bigger players in the marketplace for a number of decades.

So, one good name that you can think of which has withstood this having very limited menu is Vidyarthi Bhavan in Gandhi Bazaar, started before independence, survived for nearly 80 years in spite of heavy competition; his main item is the masala dosa; though there was so much of pressure on the owners of this restaurant to open branches they have held on to Gandhi Bazaar only in Bangalore.

Now, what is the characteristic of this restaurant which is making it successful for so many decades? The simple answer is the taste of the dosa he serves. So, the culinary expertise with respect to this item. Similarly, one more restaurant is the MTR, in spite of so many restaurants coming in and around that place, only MTR is sought after by people in Bangalore and also from outside.

What is the reason for that? Again, the taste, the cleanliness, the hygienic atmosphere. Though a small place compared to the bigger restaurants it provides a good culinary taste and it also gives a good menu spread unlike Vidyarthi Bhavan which has got very limited menu; MTR has got more items.

So, this is what really characterizes competition. I took this very simple example of a restaurant because this is what is happening in and around us which you can see. And this comes or this drives you to find out what is the industry structure which makes this competition going. The industry structure which makes competition going can be put under four heads one is perfect competition, second is monopolistic competition, third is oligopoly, fourth is monopoly.

We look at the factors which characterize each one of these competition. Now, take for example, perfect competition. The number of factors which characterize perfect competition are many. I will illustrate with an example; when you have too many players with respect to your product, the product differentiation between players becomes less and less, that is if there are 10 players, you tend to think that all the 10 players are good.

They are coming up with good products not much to choose between A, B, C, D, etc. Then the entry or exit in such a type of competition is open. That is anyone can enter and anyone can leave in this type of competition. What could be a good example -Take, in the city of Bangalore one of these well-known items with respect to grocery that is rice.

So, one of the well-known rice brand which are sold by so many stores in Bangalore is what is called the Bangara Sanna. This rice is sought after by a large number of people in Bangalore. Now, they are also purchasing Sona Masuri, but Bangara Sanna still holds sway.

Now, if you take this brand of rice from Shop A and Shop B you find that both Shop A and Shop B are giving you an identical product- that is not much to choose from, there is not much of a differentiation. So, this is the type of scenario which you usually have in perfect competition.

Then the second one is what is called the monopolistic competition; here, you may be able to differentiate between A and B. So, one of the players might not be giving that fine variety of rice, which we expected Bangara Sanna to be.

So, there is a product differentiation which is taking place. So, these are happening with respect to so many of the other dal items also. They say this brand of toor dal, normally Ganesh brand of toor dal in Bangalore is sought after. So, what is happening in the present-day market? Many players are selling their product in this name of Ganesh Toor Dal, which may not be the correct thing to do.It may be fake-not cooking well.So, here also in monopolistic competition, you can enter or exit the market.

In oligopoly where the number of factors to differentiate between product A, product B, are available between players. Entry or exit is somewhat restricted, once you enter, you cannot just exit the market.

So, take the example of the fan market, you have so many fans coming in like Bajaj, Orient, Crompton Greaves,etc all claiming that they are all very good fans. In addition you have local players depending on the city where you are in, coming up with their own fans. You find that there are not too many players in the market, but there are a few players. But suppose a new player wants to upset this market. What does he do? He can come into this market and try to give a vigorous jolt in terms of price, price is the best yardstick.

Suppose you are getting a product at X. And the new player comes and says I am prepared to give it to you at 0.5X or 0.6X in the marketplace compared to the other players, then the Indian market is very susceptible to price, that is the Indian consumer is very susceptible to price. Suppose one fan let us say is priced at rupees 1000. And the new player comes and says I sell at 600 rupees with the same features; he may not be able to sustain that price for a long time, but he has jolted the established players in the marketplace. This is what characterizes oligopoly.

Given that type of a scenario, in order to exit this type of oligopolistic market, it is not so open as that of perfect competition or monopolistic competition. So, some restrictions are placed by the market itself or by the government saying that you cannot exit the market on your whims and fancies.

Suppose you are in a monopoly market. So, there is only one product which is coming out that is your product. Now, product differentiation, we do not really know about other comparable products. Now, when yours is the only product in the marketplace, you cannot exit that market, it is blocked. So, till a few decades back the Indian Skies was dominated by Indian Airlines and Air India; it was almost in a monopoly market.

So, about more than one and a half decades back, so, many new players entered this market. Now, so, many new players have made their mark in the market and Air India itself is taken over by Tatas right now. It came from the house of Tatas and has gone back to the house of Tatas.

But in the present-day context still, if you look at the transportation sector, the Indian railways is a monopoly. And many times, the Indian railways keeps on claiming that its services have improved- Whether with respect to cleanliness, the food, which is served during journey has also seen a marked improvement; stations are clean, but it is in a monopoly market.

So, these are characteristics of these different markets, perfect competition, monopolistic competition, oligopoly or monopoly.

Now, depending on the type of competition you are in you have to do a competitive analysis. What is this competitive analysis? Suppose, you are either in the monopolistic market or the oligopolistic market or in the perfect competition you have to look at the competitor what is his strategy, what is his performance, what is his strengths and weaknesses.

Suppose, you make one move, what is the type of move competitor may be making in the marketplace. So, this is where I told you the term strategy is not something very new in the Indian context. It was tried during the Mahabharat war only. So, in the modern day, as we said, we came across this term strategy in 1965, then in 1974 in the Indian context, then it has now in fact enmeshed itself as an important component of almost every industry.

So, the routes to competitive advantage. How can you in this type of a scenario strike competitive advantage in the marketplace? It could be intensifying function differentiation, these are called key factors of success. Suppose you are coming out with an automobile let us say, how do I check your automobile with the competitor’s automobile depending on the features that you give.

So, in the present-day context, when the fuel cost is really hitting the roof, if you are able to give a product which can mitigate to a large extent this blow given by rising fuel costs then it is an important key factor of success in the marketplace. So, what are the players trying to do in the present day context? They are coming out with hybrid vehicles.

What is this hybrid vehicles? The latest to hit this hybrid markets vehicles market is the Honda City Hybrid. What it claims? It claims that it has a tank capacity of 40 liters and if you fill that tank you can expect to run at least 1000 kilometers, that is for 1000 kilometers you do not have to fill fuel; that means to say he is claiming at least 25 kilometers per litre. You may just wonder how it is possible to claim 25 Kms per litre by this manufacturer.

The reason he claims this high mileage is hybrid, this vehicle drives on both electric charge as well as fuel. So, till you are going up to a certain speed limit generally 40 to 45 kilometers this vehicle that is in the city goes only on electric charge and how does this electric charge gets going in the vehicle, it is due to braking. So, you apply the brakes, immediately these electric charging starts working.

So, your fuel consumption is not through what do you call the usual route of petrol, but through this route of electric charging, which takes in. So, automatically the battery gets charged and this goes as a electric vehicle in the city. So, the result is you have increased mileage or the company claims 28 kilometers. The critics say you can expect about 25 kilometers per litre and if you fill that tank with 40 litres, you can expect it to go up to 1000 kilometers with one filling. Then exploit competitor’s weakness; this is relative superiority.

So, the market still in spite of the higher price prefers the well-known brands; this is happening right now.

Then ask the question 'why and why' that is aggressive initiatives, some of the players in the present-day banking industry are highly aggressive, especially the private players-somehow they want to sell their products to as many number of customers as possible. Agressive marketing carries risks.

You have to look at what really maximizes the benefit for the user. So, these are the types of routes to competitive advantage. So, these aggressive initiatives which you are seeing ask these questions: why and whys; this is also in marketing terminology called the guerrilla warfare. So, this happened in Bangalore only.

Deccan Herald, published from Bangalore, is a well-known household name in Bangalore. So, in the late 70s and early 80s many players wanted to conquer this particular newsprint brand from Bangalore by publishing from Bangalore. So, one of the other leading newspapers started publishing from Bangalore. When it started publishing from Bangalore, this established brand took this new entrant to the court. So, there was a protracted court battle, this established brand from Bangalore trying to prevent this brand publishing from Bangalore. But after hearing the parties the court said yes, you can publish from Bangalore also, to the new entrant.

And so many were waiting in the wings to know about the judgment of this particular newsprint battle. As soon as it went in favor of this new entrant, many new entrants came into publishing from Bangalore- this is the present-day scenario i.e. new entrants also wanted to have a slice of the market.

Now, we have what is called the generic strategies. What are these generic strategies? These generic strategies are given by Porter as I said; suppose, you draw this type of a simple diagram shown. You have differentiation, overall cost leadership and focus. On the vertical axis it can be industry wide or particular segment only. So, on the horizontal you have the strategic advantage on the vertical you have the strategic target.

So, you can target a particular segment or you can target the entire industry. How does this really work- if you really see, it is the uniqueness perceived by customer on the left-hand side. So, differentiation if you claim, you may claim so many features differentiating your product from the competitor's product. If customer is able to perceive this uniqueness, it will work to your advantage.

So, look at this vehicle Nexon, totally manufactured by an Indian player and a very good vehicle comparable to any other vehicle in the international marketplace. So, whether it is running on fuel or electric charge, you find that this Nexon is a wonderful vehicle to come out from the Indian manufacturers table. Similarly, at the end of this other side, when you are looking at overall cost leadership, you are looking at low cost position versus the other positions.

So, when you are looking at the right extreme, you are looking at low cost position. So, maybe a smaller vehicle, which can fit in a smaller family, you are able to provide it at a very low cost. So, it was happening to this vehicle like Tata Nano, though not very successful in the market place, Nano was considered to be a affordable vehicle for a small Indian family.

So, from the marketing warfare point of view,it is defensive warfare for market leaders. Because you hold on to your market share. Offensive warfare for number two-attack the leader’s weak point. Many times, you may be successful/not successful, but you may be just below the leader, supose a compan wants to become the leader, then it can adopt this. Then flanking warfare for firms with limited resources. Suppose you are not having the resources to take on the leader. So, some brands like this- there was a brand of toothpaste called Promise, good brand with clove oil, it was the differentiating feature.

Now, you have so, many toothpaste offering you this differentiating feature, the result is in fact they did not take on promise head to head but they flanked promise. Now, the market share of promise has come down drastically. So, this is the way it happens in the marketplace. This is called flanking warfare.

So, we will stop here. We will continue in the next class. Thank you.