

Student Version

**PART 2**

**STRATEGIC  
ACTIONS:  
STRATEGY  
FORMULATION**

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**CHAPTER 5**

*Competitive Rivalry and  
Competitive Dynamics*

**Strategic Management**

*Competitiveness and Globalization:  
Concepts and Cases*

Seventh edition

Michael A. Hitt • R. Duane Ireland • Robert E. Hoskisson

# Definitions

- **Competitors**

- Firms operating in the same market, offering similar products and targeting similar customers.

- **Competitive Rivalry**

- The ongoing set of competitive actions and responses occurring between competitors.
- Competitive rivalry influences an individual firm's ability to gain and sustain competitive advantages.

# Definitions

- **Competitive Behavior**
  - The set of competitive actions and competitive responses the firm takes to build or defend its competitive advantages and to improve its market position.
- **Multimarket Competition**
  - Firms competing against each other in several product or geographic markets.
- **Competitive Dynamics**
  - The total set of actions and responses taken by all firms competing within a market.

# Competitive Rivalry's Effect on Strategy

- Success of a strategy is determined by:
  - The firm's initial competitive actions.
  - How well it anticipates competitors' responses to them.
  - How well the firm anticipates and responds to its competitors' initial actions.
- Competitive rivalry:
  - Affects all types of strategies.
  - Has the strongest influence on the firm's business-level strategy or strategies.

# A Model of Competitive Rivalry

- Firms are mutually interdependent
  - A firm's competitive actions have noticeable effects on its competitors.
  - A firm's competitive actions elicit competitive responses from its competitors.
  - Competitors feel each other's actions and responses.
- Marketplace success is a function of both individual strategies and the consequences of their use.

# Competitor Analysis

- Competitor analysis is used to help a firm understand its competitors.
- The firm studies competitors' future objectives, current strategies, assumptions, and capabilities.
- With the analysis, a firm is better able to predict competitors' behaviors when forming its competitive actions and responses.

# Strategic and Tactical Actions

- Strategic Action (or Response)
  - A market-based move that involves a significant commitment of organizational resources and is difficult to implement and reverse.
- Tactical Action (or Response)
  - A market-based move that is taken to fine-tune a strategy:
    - Usually involves fewer resources.
    - Is relatively easy to implement and reverse.

# Factors Affecting Likelihood of Attack

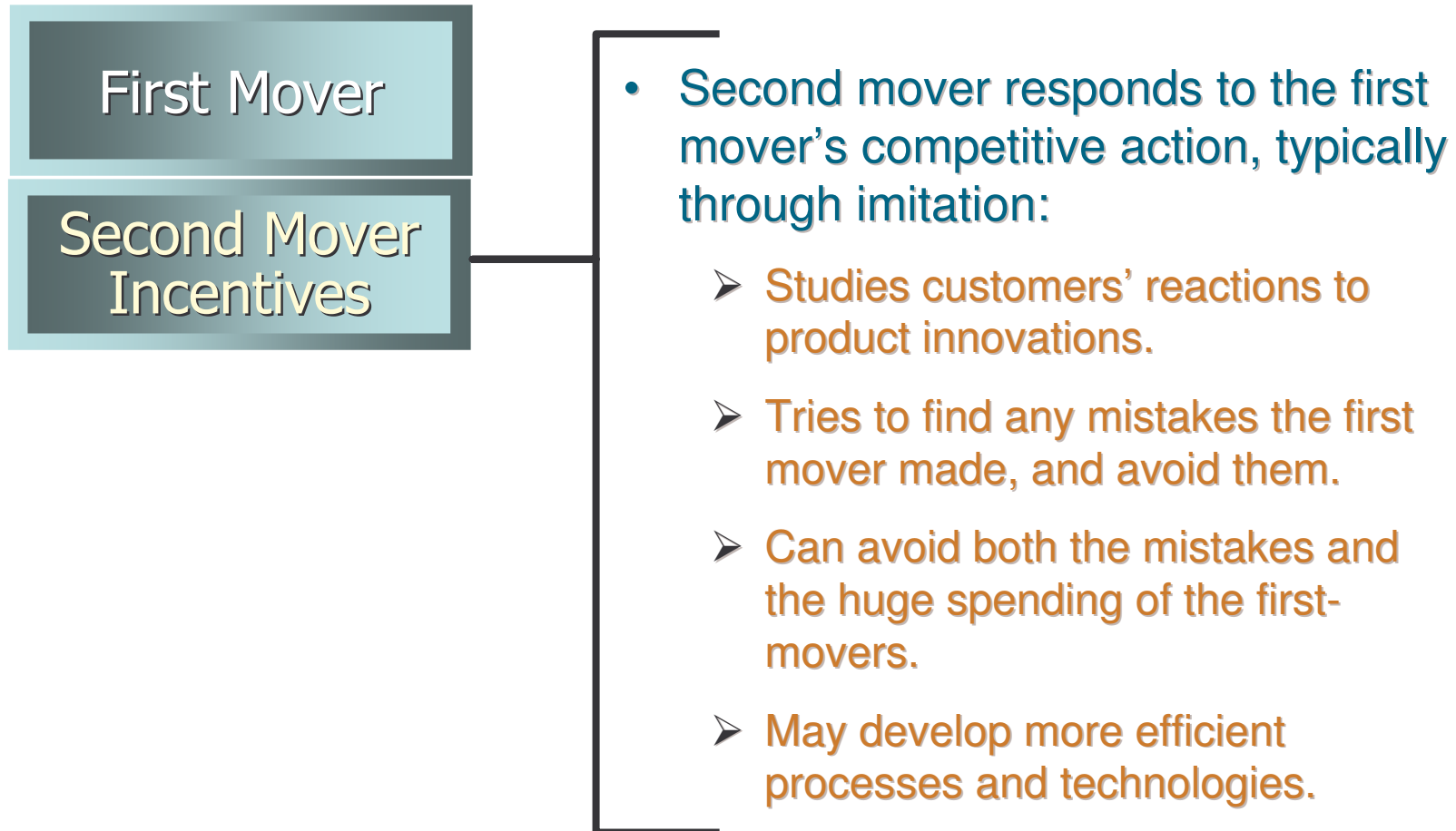
## First-Mover Incentives

### **First Mover**

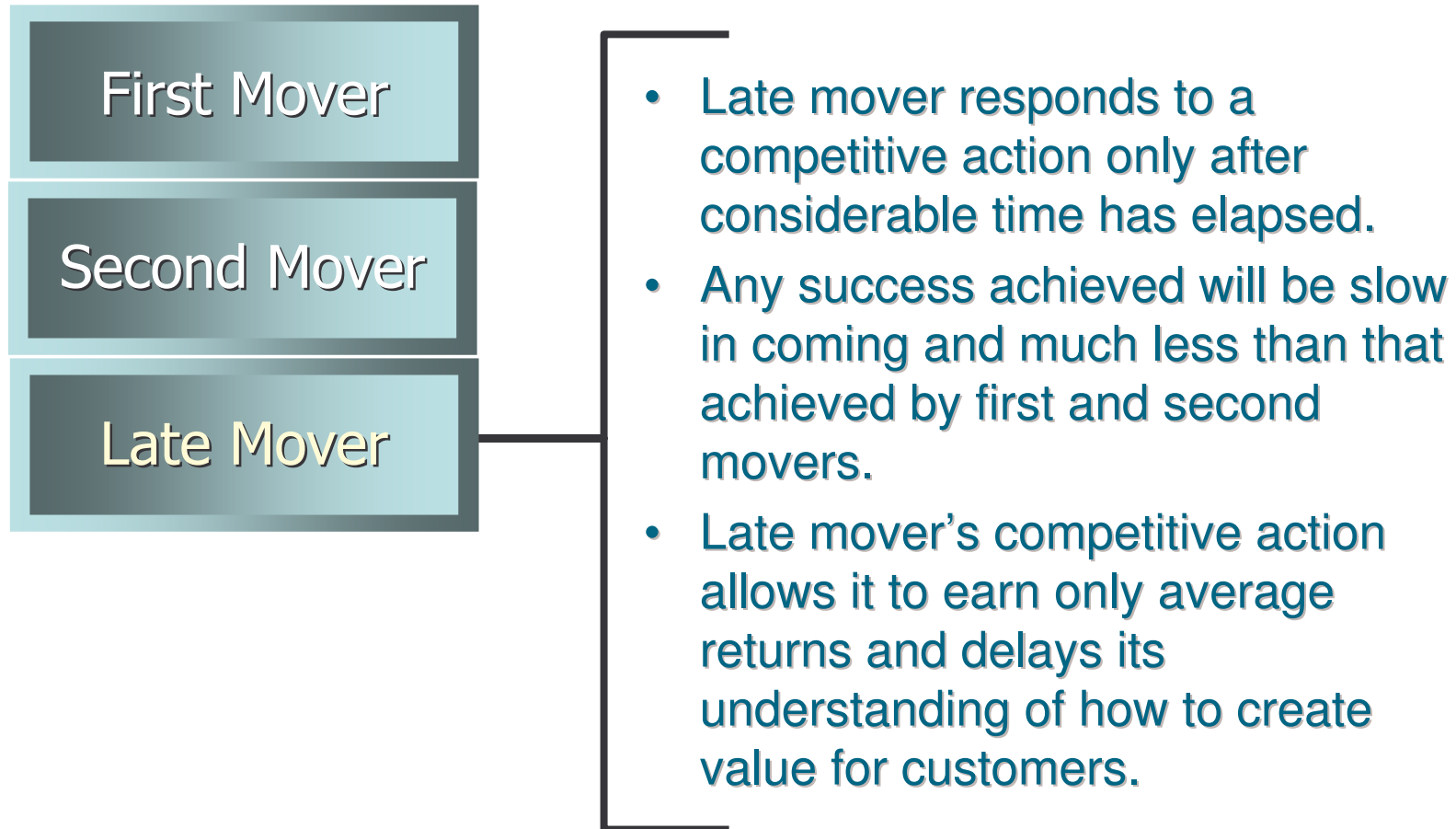
*A firm that takes an initial competitive action in order to build or defend its competitive advantages or to improve its market position.*

- First movers allocate funds for:
  - Product innovation and development
  - Aggressive advertising
  - Advanced research and development
- First movers can gain:
  - The loyalty of customers who may become committed to the firm's goods or services.
  - Market share that can be difficult for competitors to take during future competitive rivalry.

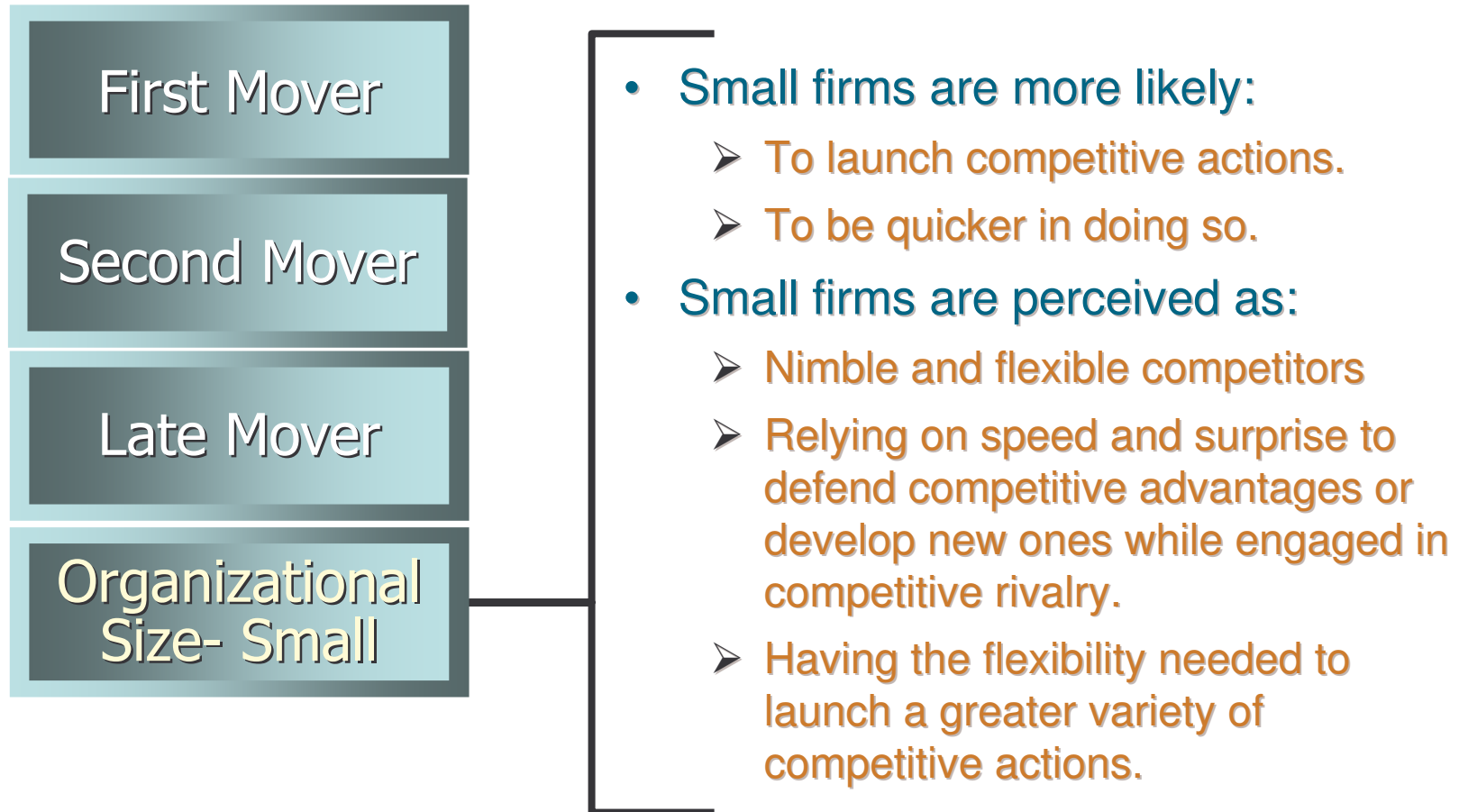
# Factors Affecting Likelihood of Attack (cont'd)



## Factors Affecting Likelihood of Attack (cont'd)



## Factors Affecting Likelihood of Attack (cont'd)



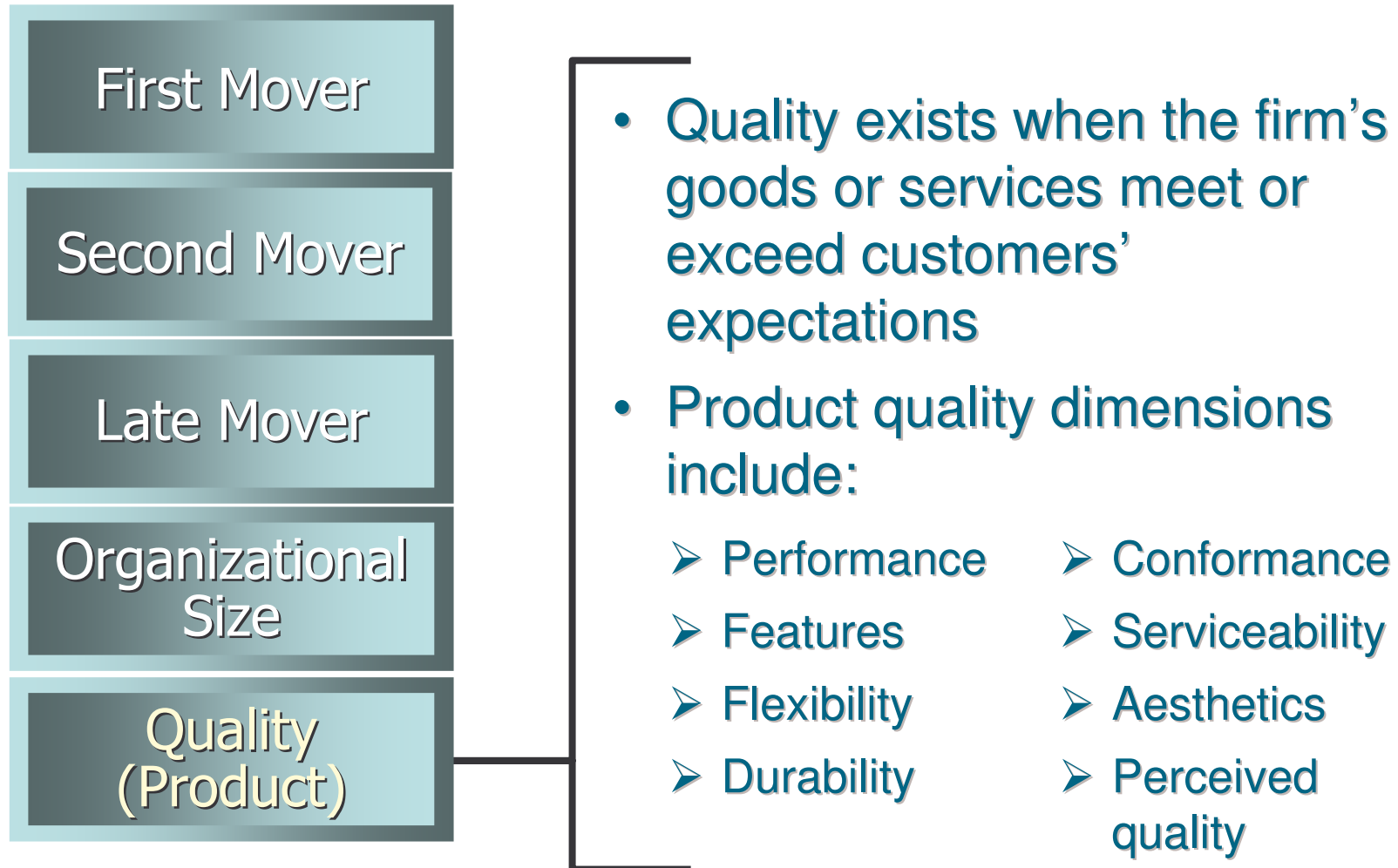
# Factors Affecting Likelihood of Attack (cont'd)



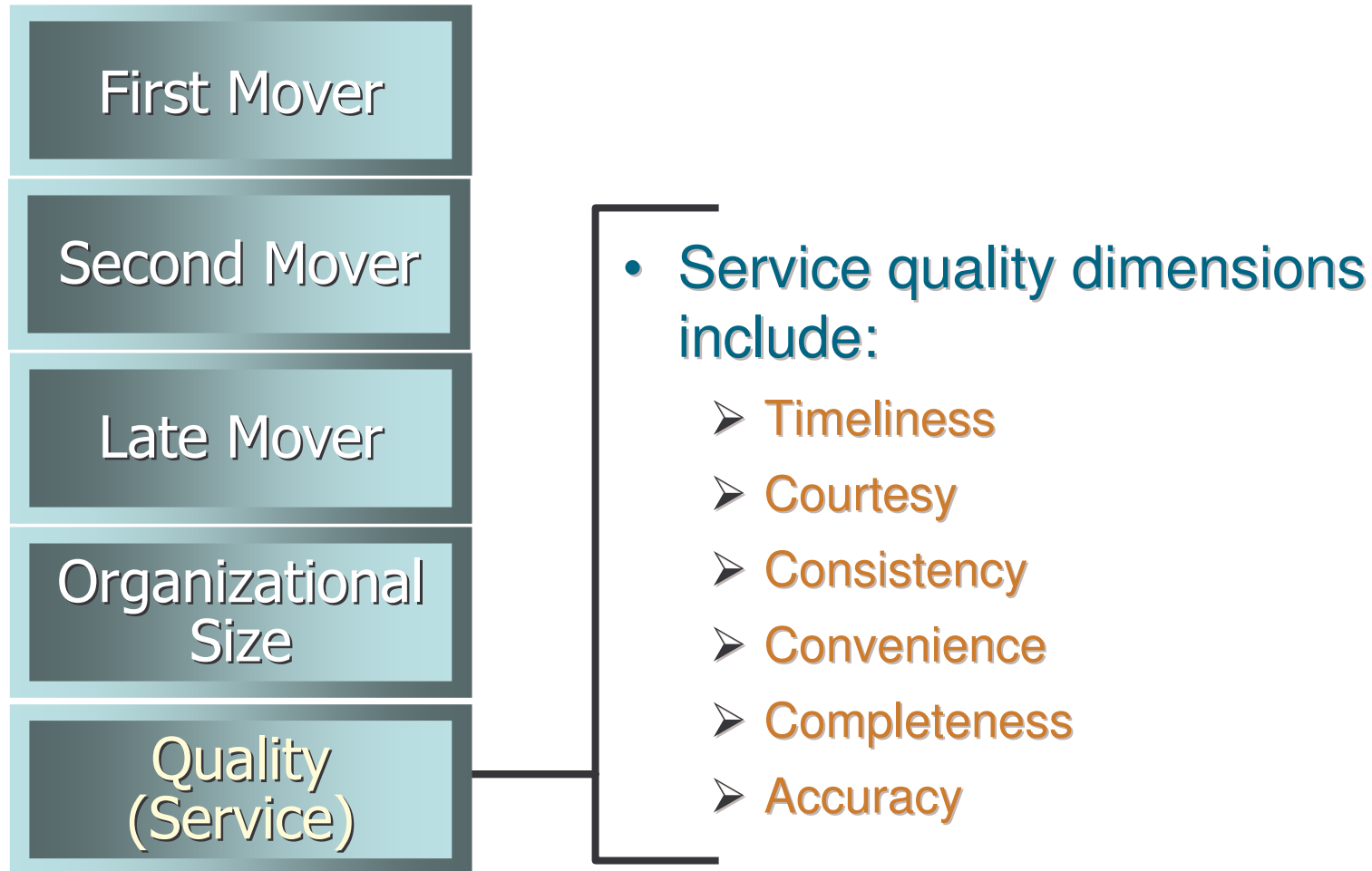
- Large firms are likely to initiate more competitive actions as well as strategic actions during a given time period
- Large organizations commonly have the slack resources required to launch a larger number of total competitive actions
- *Think and act big and we'll get smaller. Think and act small and we'll get bigger.*

Herb Kelleher  
Former CEO, Southwest Airlines

# Factors Affecting Likelihood of Attack (cont'd)



# Factors Affecting Likelihood of Attack (cont'd)

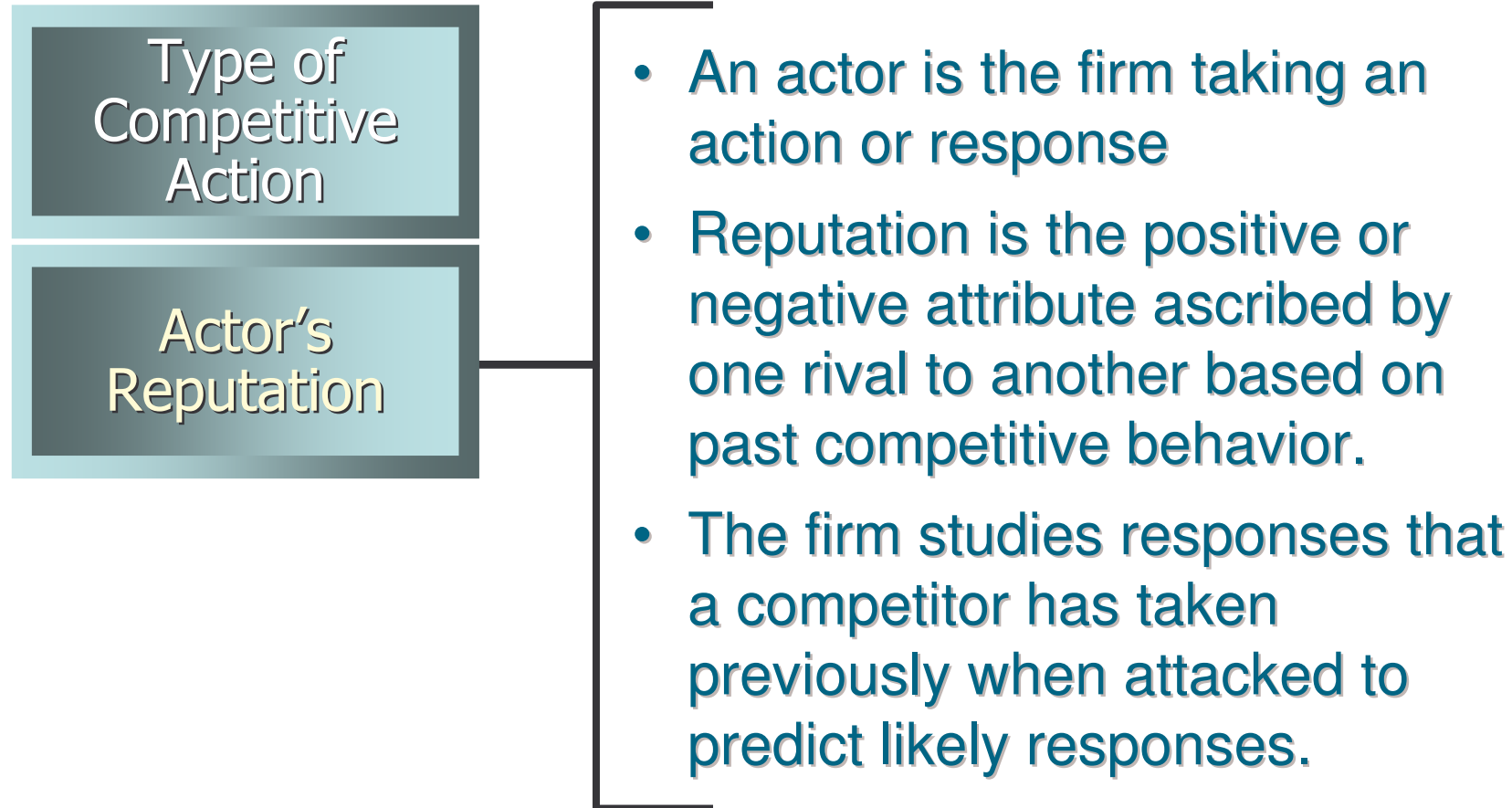


# Factors Affecting Strategic Response

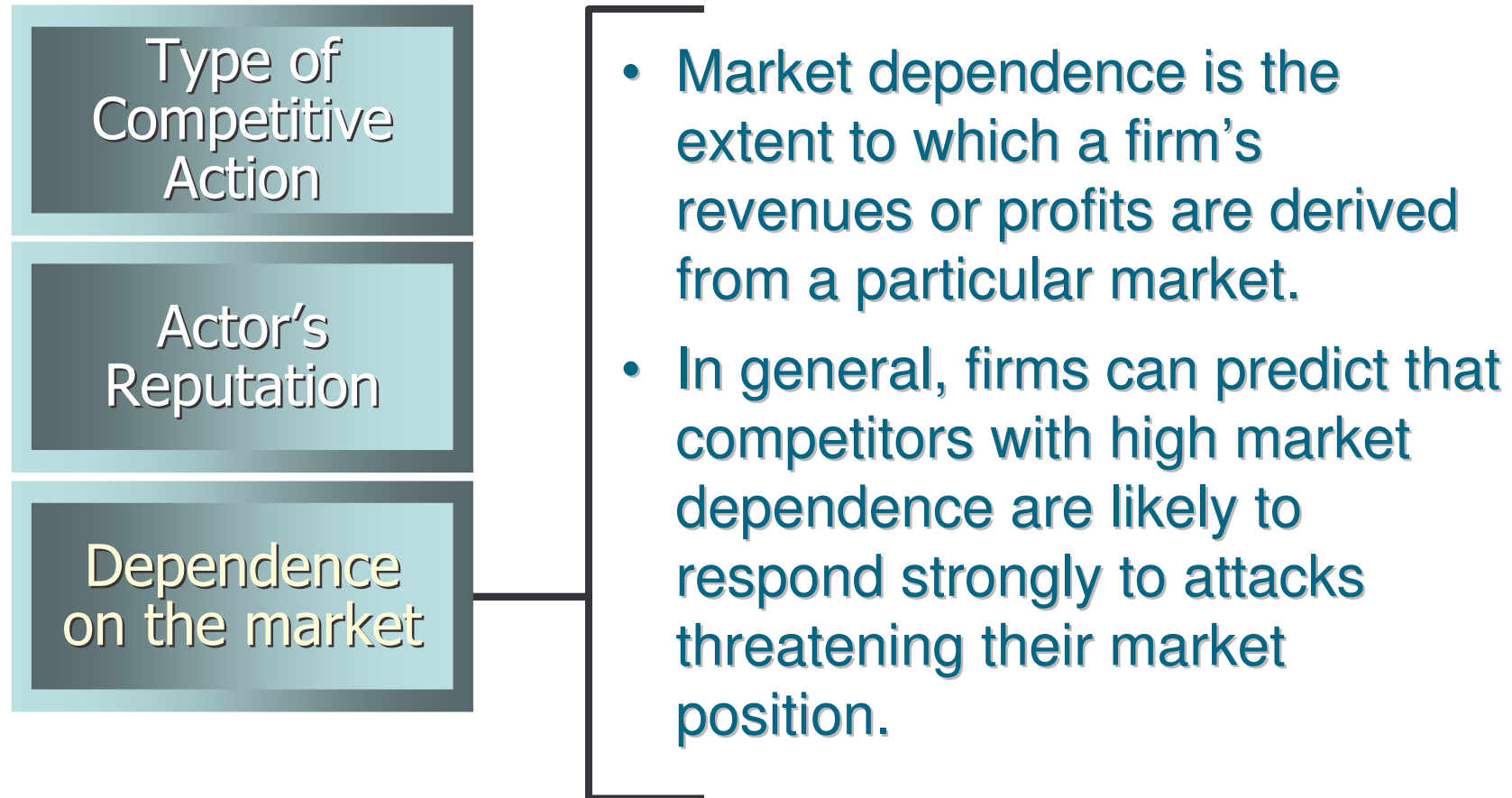
## Type of Competitive Action

- Strategic actions receive strategic responses
  - Strategic actions elicit fewer total competitive responses.
  - The time needed to implement and assess a strategic action delays competitor's responses.
- Tactical responses are taken to counter the effects of tactical actions
  - A competitor likely will respond quickly to a tactical actions

# Factors Affecting Strategic Response (cont'd)



# Factors Affecting Strategic Response (cont'd)



# Competitive Dynamics

## Slow-Cycle Markets

- Competitive advantages are shielded from imitation for long periods of time and imitation is costly.
- Competitive advantages are sustainable in slow-cycle markets.
- All firms concentrate on competitive actions and responses to protect, maintain and extend proprietary competitive advantage.

# Competitive Dynamics (cont'd)

Slow-Cycle  
Markets

Fast-Cycle  
Markets

- The firm's competitive advantages aren't shielded from imitation.
- Imitation happens quickly and somewhat expensively
- Competitive advantages aren't sustainable.
  - Competitors use reverse engineering to quickly imitate or improve on the firm's products
- Non-proprietary technology is diffused rapidly

# Competitive Dynamics (cont'd)

