

Competitive Dynamics
(Mike Peng & Klaus Meyer, International Business)

PROF. DR. NORIFUMI KAWAI, MPIA (Pittsburgh)

Special Topics in Internationalization

Università degli Studi di Bergamo

Dipartimento di Scienze Aziendali

Bergamo, ITALY

Before Starting Today's Lecture



WHAT does it mean by “competition”?
WHY is “competition” so important?
WHO can gain benefits from “competition”?

Before Starting Today's Lecture



■ WHAT Does It Mean By “Competition”?

Definition

- ‘*The activity or condition of striving to gain or win something by defeating or establishing superiority over others.*’

Examples

- ‘There is fierce competition between banks.’
- ‘The competition for university places is greater than ever this year.’

Source: <https://en.oxforddictionaries.com>

Before Starting Today's Lecture



■ WHY Is “Competition” Important?

❖ Organizational Level

- As competition pressure most industries (Bettis & Hitt, 1995), organizations need to **recognize & discover new competitive opportunities** (Hayek, 1949; Kirzner, 1973).
- Under competitive environments, **exploration activities** are **necessary** for long term success (March, 1991).
- Firms that face high levels of competitive intensity have a greater desire to **collaborate** rather than **cannibalize** due to their need to reduce competitive pressures (Ang, 2008; Ritala, 2012).
- Competitive intensity encourages companies to make a concerted effort to **understand their customers better & monitor what competitors are doing** (O’Cass & Weerawardena, 2010).

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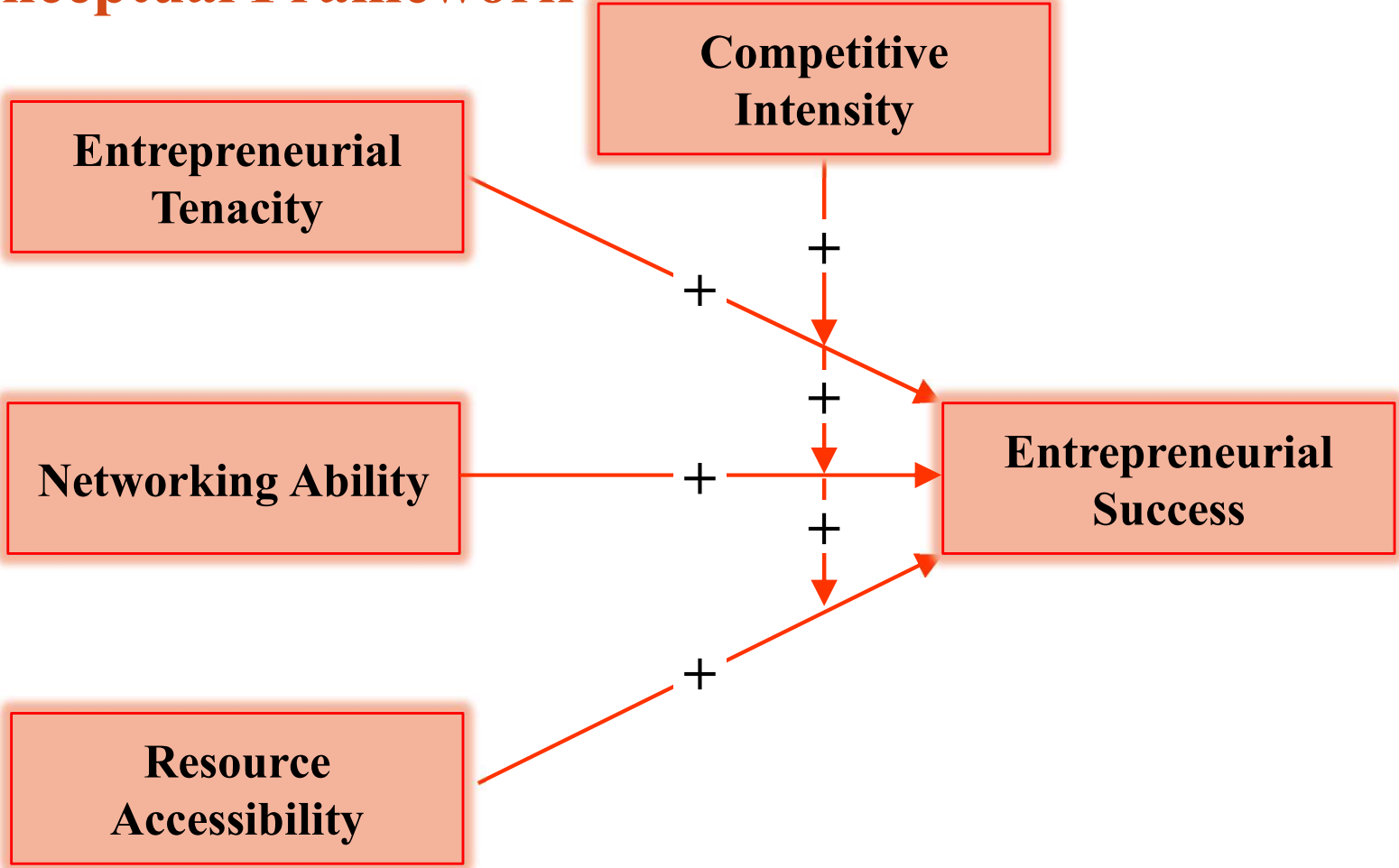


■ WHO Can Gain Benefits From “Competition”?

- ❖ **Type of data:** Primary data.
- ❖ **Timing:** Autumn 2017.
- ❖ **Sample size:** 618 Japanese entrepreneurs.
- ❖ **Research goal:** What factors are important for entrepreneurs to be successful under high levels of competitive intensity?
- ❖ **Statistical approach:** Hierarchical regression analyses.

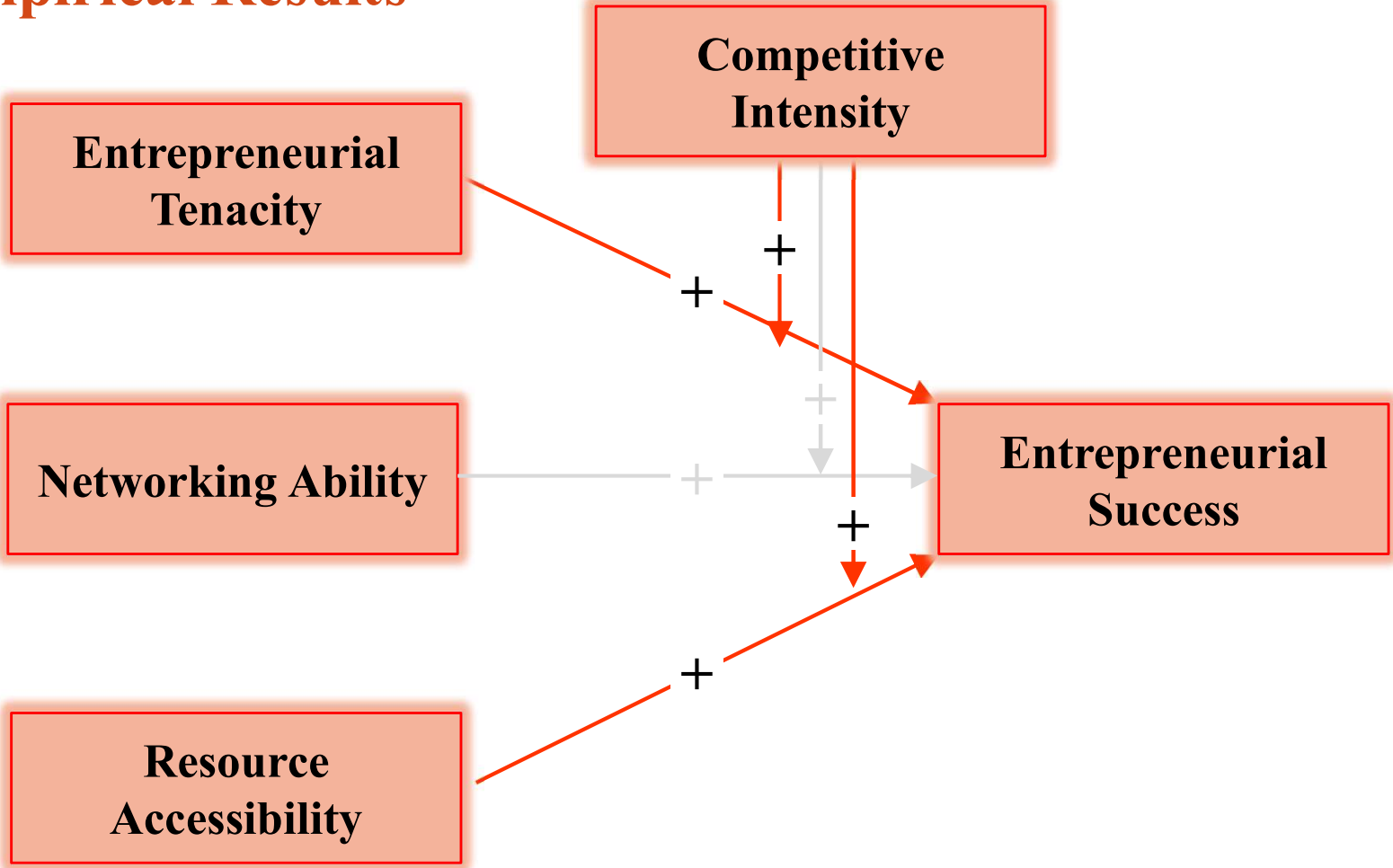
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■ Conceptual Framework



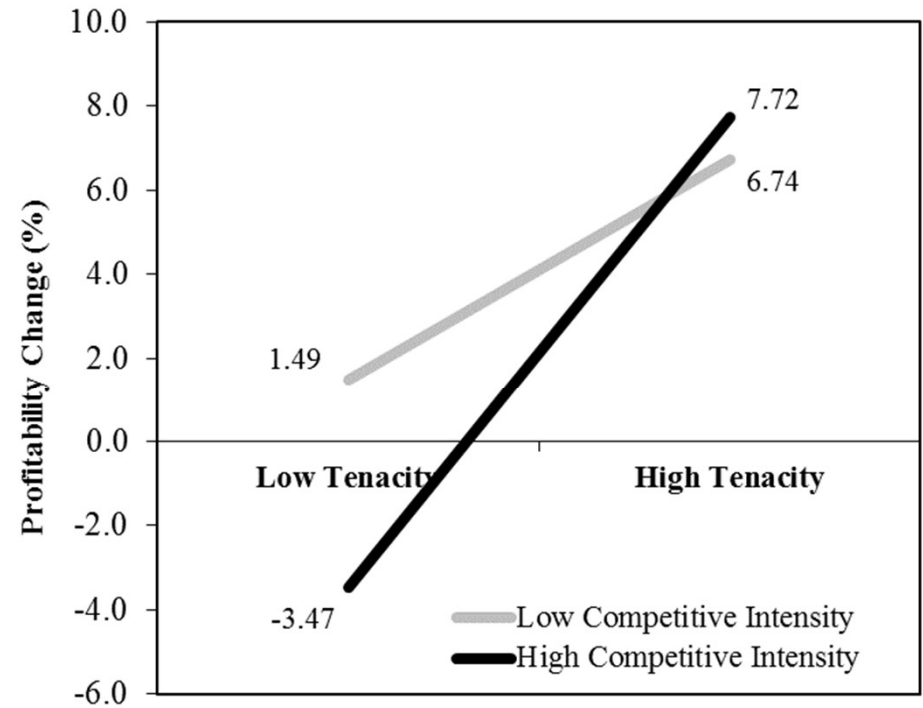
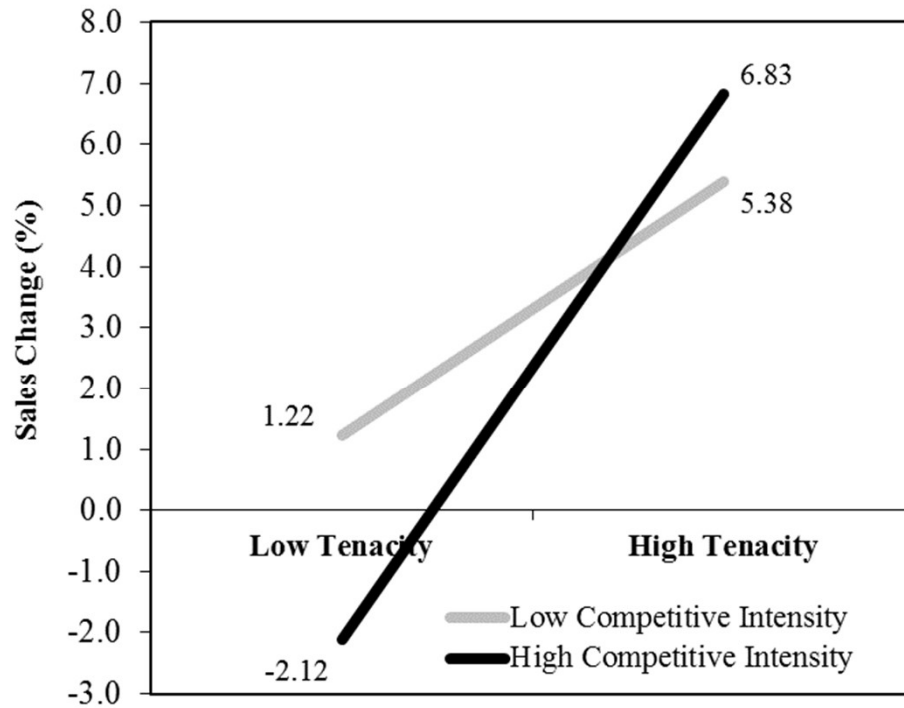
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Empirical Results



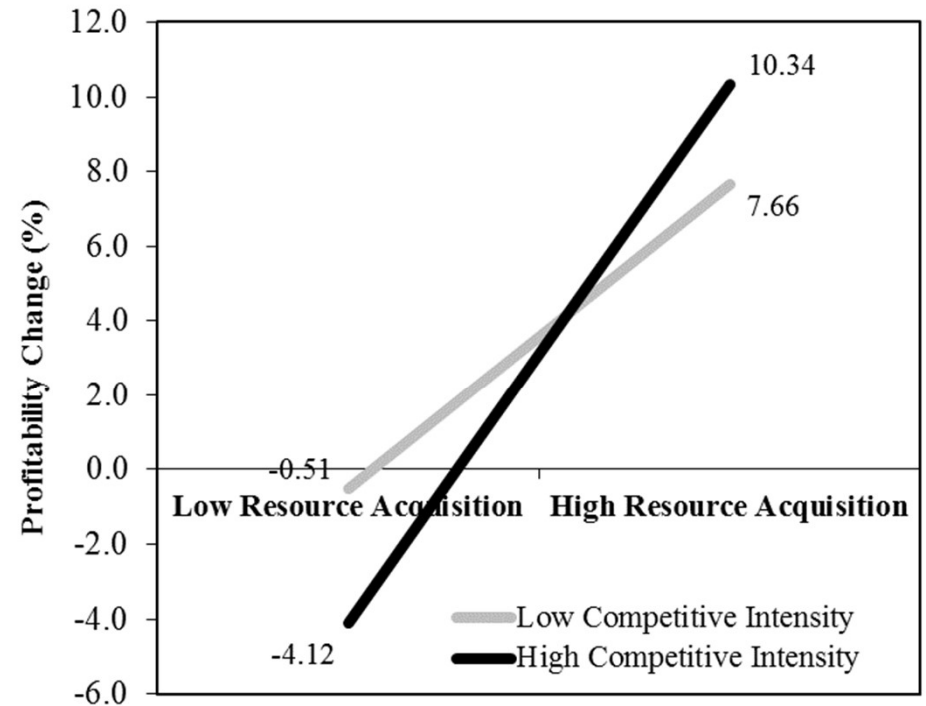
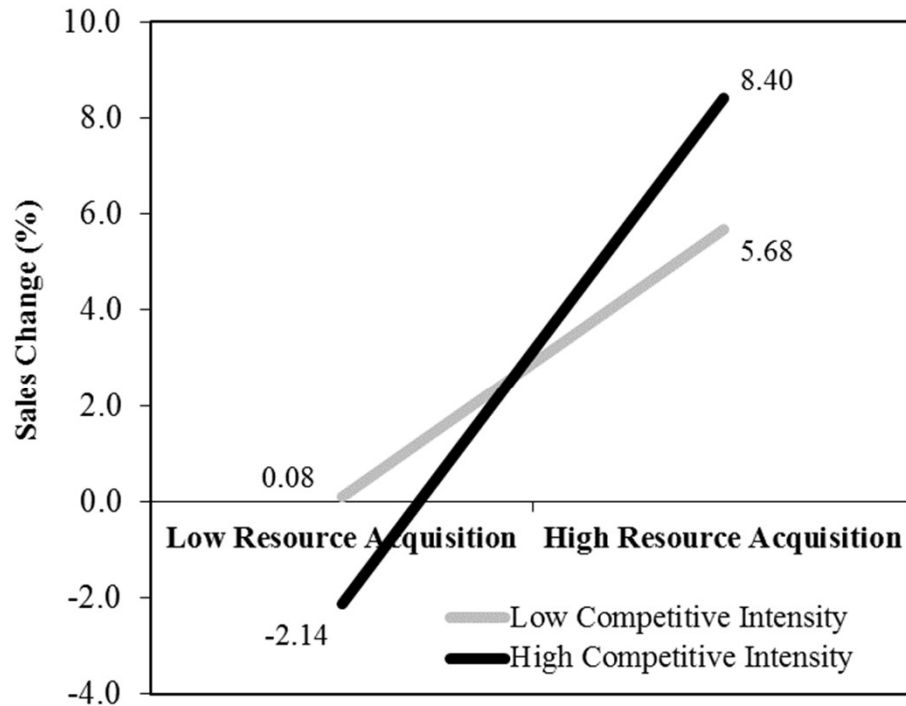
Before Starting Today's Lecture

■ Entrepreneurial Tenacity x Competitive Dynamics



Before Starting Today's Lecture

■ Resource Acquisition x Competitive Dynamics



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■ Learning Objectives

❖ After completing this lecture you should be able to:

- Explain **HOW** attacks & counter-attacks are used in dynamic competition;
- Identify **HOW** & **WHY** firms sometimes like to collude;
- Articulate **HOW** resources & capabilities influence competitive dynamics;
- Discuss **HOW** firms can compete during a major recession.

Introduction

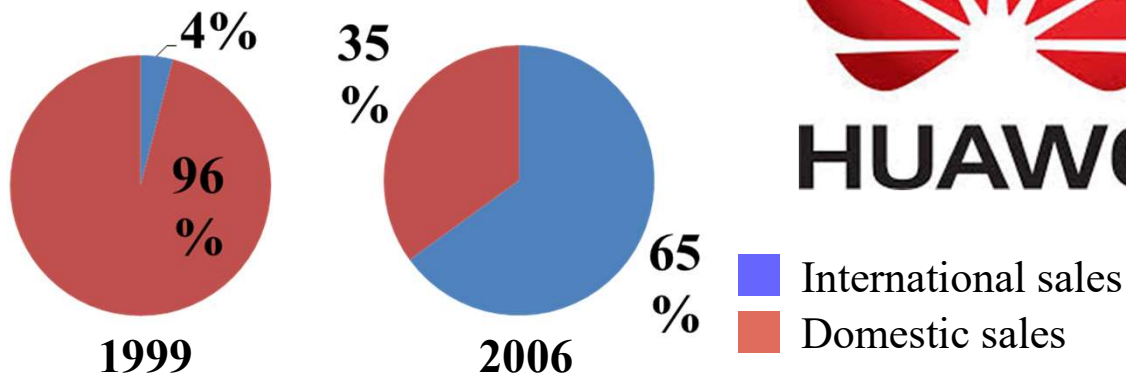


■ Case: Huawei Challenges a World Leader



Year of Foundation: 1988
Location: Shenzhen, China
Owner(s): Employee-owned corporation
Industry: Telecommunication & networking equipment
Employees: 140,000

INTERNATIONAL INTENSITY



INTERNATIONAL SALES VOLUME

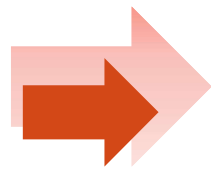




■ Case: Huawei Challenges a World Leader

❖ What is Huawei's Secret Weapon?

- Relative to offerings from competitors such as Cisco, Lucent, Nokia & Siemens, Huawei's products offer comparable performance at a 30% lower price.



Huawei **NOT ONLY** showed **high market penetration** in many emerging economies, **BUT ALSO** achieved great **breakthroughs** in developed markets such as Japan & Western Europe.

- As of 2007, Huawei served **31** of the world's top 50 telecom operators.





■ Case: Huawei Challenges a World Leader



❖ Enter to North American Market

- Huawei's participation in Supercomm **2002** (a trade show) in Atlanta
- Two guests (John Chambers, Cisco's CEO) came to visit the Huawei booth.
- Cisco's sales in the Chinese market: **80%** => **50%** (↓)
- Huawei's "**blind**" performance tests on its & Cisco's machines
 - ➔ Buyers discovered that the difference was "**PRICE**"
- In January 22nd **2003**, Cisco filed a lawsuit in Texas due to Huawei's unlawful copies & misappropriation of Cisco's software.
- **Huawei**
 - (1) always respected **IPR &** achieved high R&D intensity (**10%**)
 - (2) Hired **top American lawyers**
 - (3) **3Com's CEO** provided testimonial supporting Huawei.



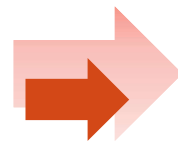
■ Case: Huawei Challenges a World Leader

❖ The Rivalry between Cisco & Huawei

- **WHY** did they take certain actions but not others?
- Once one side initiates an action, **HOW** does the other respond?
- **HOW** can they compete so fiercely?

❖ Vocabulary

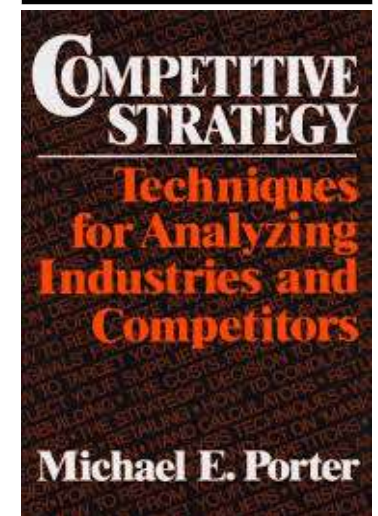
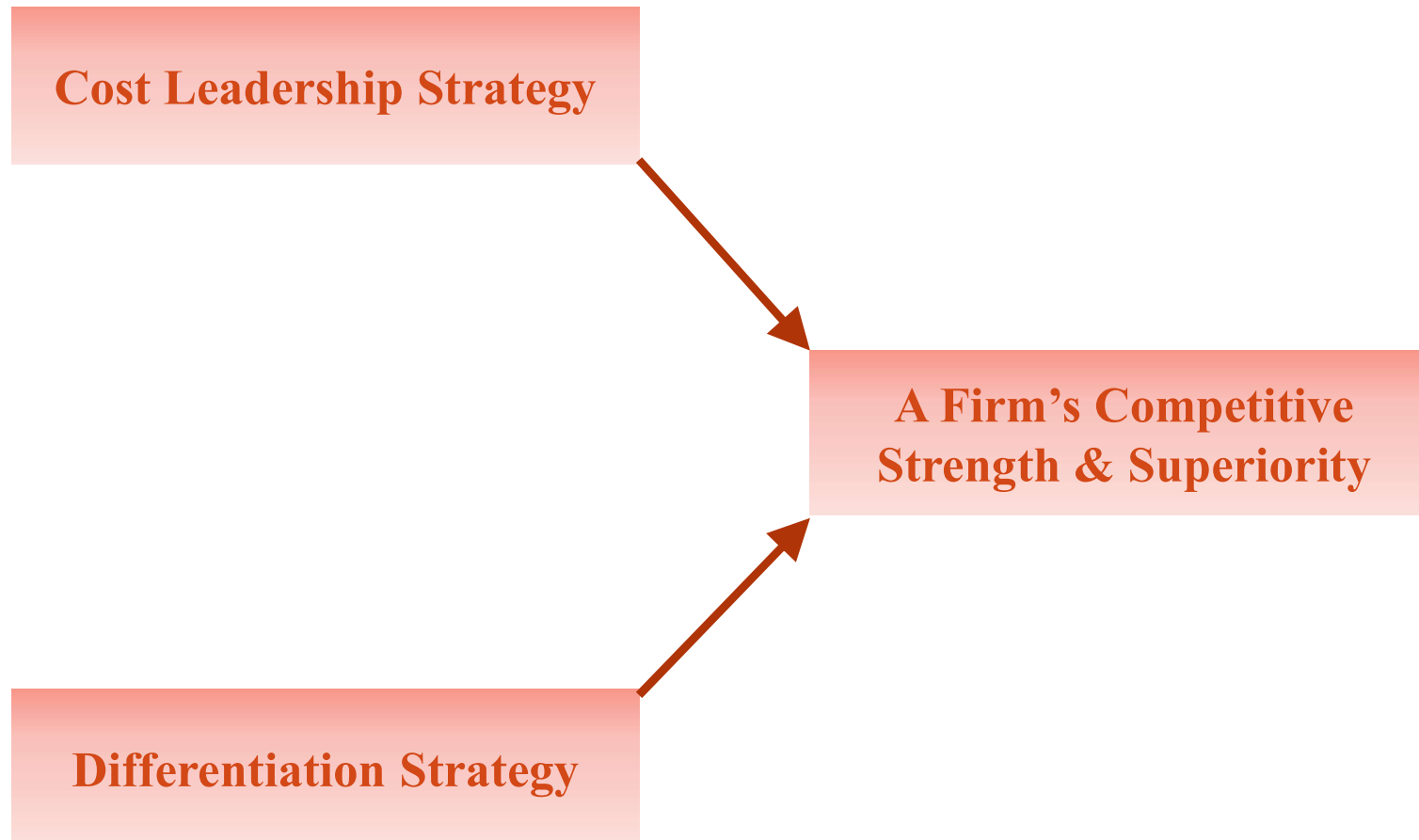
- **Oligopoly:** There are only a few companies competing an industry.
- **Competitive dynamics:** Actions & responses undertaken by competing firms
- **Competitive analysis:** The process of anticipating a rival's actions in order to both revise a firm's plan & prepare to deal with rivals' responses.



The ancient Chinese strategist: *“If you know the enemy & know yourself, your victory will not stand in doubt”.*



■ Porter's Generic Strategic Model



Dynamics of Competition



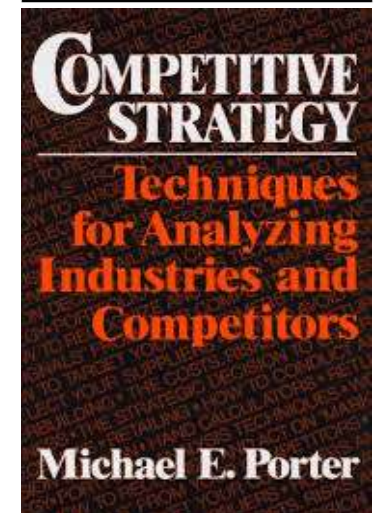
Porter's Generic Strategic Model

Cost Leadership Strategy

- ❖ The “*aggressive construction of efficient scale facilities, vigorous pursuit of cost reductions..., & cost minimization in [various] areas*” (Porter, 1980:35).
- ❖ Low cost positions lead to **above-average returns** because of a lower price.
- ❖ **WHAT** makes it possible to be successfully achieved?
 - Scale economies
 - Value chain systems
 - Inter-firm cooperation



A Firm's Competitive Strength & Superiority



Dynamics of Competition



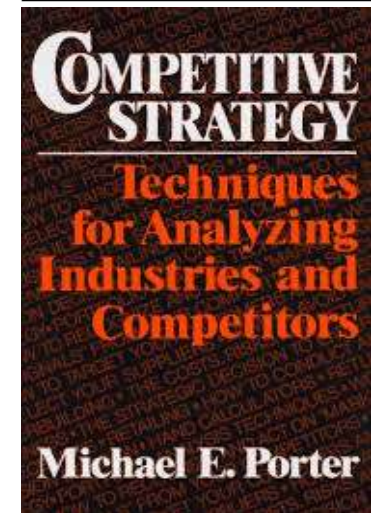
■ Porter's Generic Strategic Model

- ❖ Superior service, innovative features, strong brand names, effective promotion programs, **unique image**
- ❖ It achieves high levels of **customer loyalty & satisfaction**.
- ❖ A unique image enables the firm to attract **new customers & introduce new products**.
- ❖ **WHAT** makes it possible to be successfully achieved? (e.g., labor quality, high quality materials & components, low defect rates, efficient production methods, sophisticated production facilities)

Differentiation Strategy

- ✓ **Brand:** Harley Davidson & Mercedes Benz
- ✓ **Positioning:** Domino Pizza “30 minutes delivery”
- ✓ **Technology:** Apple Computer
- ✓ **Insurance Policy:** Hyundai

A Firm's Competitive Strength & Superiority

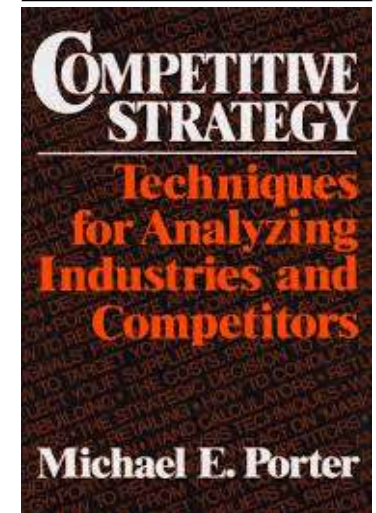




■ Porter's Generic Strategic Model

❖ Various Risks Involving Cost Leadership Strategy

- (1) **Technological changes** result in wasting previous investments & knowledge accumulation.
- (2) **Rapid changes in customer tastes** damage cost leadership positions.
- (3) Cost leadership positions may be **threatened by competitors' pursuit of scale economies by imitating your products & expanding sales capacity.**

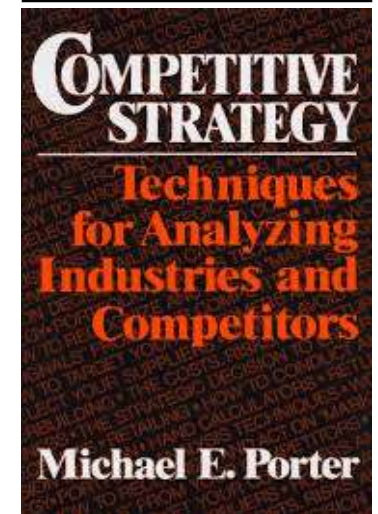




■ Porter's Generic Strategic Model

❖ Various Risks Involving Differentiation Strategy

- (1) It requires a lot of investments in R&D & advertisement campaigns, for instance.
- (2) Buyers may **stop thinking** your products as **unique** although you are trying to differentiate your products from those offered by your competitors. You may have achieved a differentiation strategy in the past, but risks may arise once you are **satisfied** with your differentiation positions **without knowing** rapid changes in market & technology conditions.
 - In order to handle this problem, your company must reinvest in consolidating your differentiation positions.



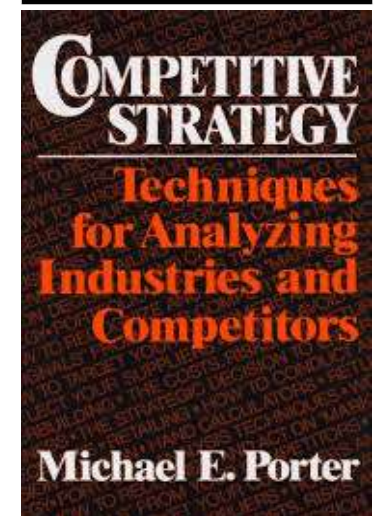
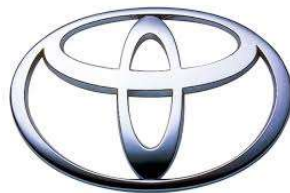
Dynamics of Competition



■ Porter's Generic Strategic Model

❖ Hybrid Strategy

- This strategy is **KEY** to success as global competition gets intensified.
- Companies that integrate the generic strategies may position themselves to **ADAPT** quickly to environmental changes & **LEARN** new skills & technologies.
- This would more effectively **LEVERAGE** core competencies across business units & product lines.
- Hybrid strategy would help produce products with **DIFFERENTIATED** elements that increase customers' value.



Dynamics of Competition



■ Competitive Advantage & Business Performance

Competitive Advantage						
Performance	Differentiation & Cost	Differentiation	Cost	Differentiatin & Focus	Cost & Focus	Stuck in the Middle
Return on investment (%)	35.5	32.9	30.2	17	23.7	17.8
Sales growth (%)	15.1	13.5	13.5	16.4	17.5	12.2
Gain in market share (%)	5.3	5.3	5.5	6.1	6.3	4.4
Sample size	123	160	100	141	86	105



■ Combination Strategies: Low Cost & Differentiation

❖ Adopting Automated & Flexible Manufacturing Systems

- Firms can produce **unique products** in **relatively small quantities** at **lower costs** (*i.e.*, **mass customization**) adopting **CAD/CAM**.

❖ Using Data Analytics

- **Analyzing data** enables **firms to better customize product & service offerings to customers** while more efficiently & fully using the resources of the firm.

❖ Exploiting the Profit Pool

- **The potential pool of profits** will be **deeper in some segments of the value chain than in others** & depths will vary within an individual segment.
- Some airlines (*e.g.*, **EasyJet, Ryan Air**, etc.) have expanded the profit pools of their market **by adding fees for a variety of services**.



■ Potential Benefits of Combination Strategies

❖ The Combination Strategy

- > A combination strategy allows firms to maintain **greater agility & flexibility in offering products** that focus either more on costs or on a specific product feature (Anand & Ward, 2004).
- > **Modern quality management approaches (TQM) help to reduce costs &**, at the same time, assure **both higher product quality & market responsiveness** (Leonard & McAdam, 2001).

Dependent variable	Cost-efficiency strategy (1)	Differentiation strategy (2)	Combination strategy (3)	Strategy changed (4)	No strategy (5)	<i>F</i> value	Significantly different groups ^a
<i>n</i>	13	34	23	15	15		
Profitability	3.25	3.39	3.94	3.69	2.96	4.41**	3 > 5, 4 > 5, 3 > 2
Employment growth	-0.25	-0.37	3.39	-0.28	-5.25	3.68**	3 > 5, 4 > 5
Turnover growth	-0.13	0.08	6.65	3.35	-6.09	5.28**	3 > 5, 4 > 5

** $p < 0.01$
^a Based on Scheffe

Sources: Leitner & Guldenberg (2010: 181).



■ Potential Pitfalls of Combination Strategies

❖ Ending Up Being in “Stuck in the Middle”

- Some firms may become **stuck in the middle** if they try to attain both cost & differentiation advantages.
- **Mainline supermarket chains find themselves stuck in the middle** as their cost structure is higher than discount retailers offering groceries & their products & services are not seen by consumers as being as valuable as those of high-end grocery chains (e.g., Whole Foods).

❖ Miscalculating Sources of “Revenue & Profit Pools”

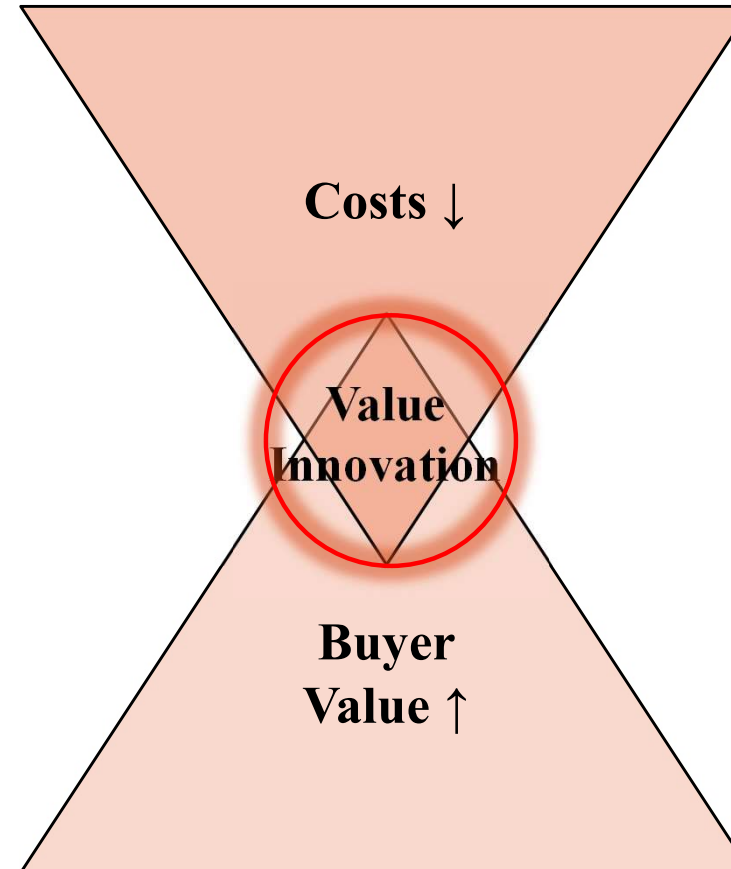
- If the manager’s background is in **engineering**, he or she might perceive that **proportionately greater revenue & margins** were being created in **manufacturing, product, & process design** than a person whose background is in a “downstream” value-chain activity (e.g., marketing).

Dynamics of Competition



■ Blue Ocean Strategy.

- (1) Create uncontested market space !
- (2) Make the competition irrelevant !
- (3) Create & capture new demand !
- (4) Break the value-cost trade-off !
- (5) Align the whole system of a company's activities in pursuit of both differentiation & cost leadership !





■ Blue Ocean Strategy

❖ Haier's Entry into the US Market

- The “**three-step strategy**” of “going out, going in & going up”
- Although **Haier** dominated its home country, China, with a broad range of products, it chose to enter the **US white goods market**.
- A low profile segment: **Compact refrigerators** for hotels & student residences.
- Incumbents (*e.g.*, **GE & Whirlpool**) dismissed this segment as **peripheral & low margin**.
- Haier builds **a factory in South Carolina** to go after more lucrative product lines.

Haier
Inspired living





■ Long-Term Strategies & Strategic Positioning

❖ Economic Forecasting

- ... is “*a technique using **econometric models** to predict the likely future value of key economic variables*”.
- This approach employs **complex econometrics models** that incorporate estimated relationships between key variables & extrapolations of trends.
- Forecast are usually **NOT** very good at **predicting when trends change**.

❖ Scenario Planning

- ... is “*a technique generating **multiple scenarios** of possible future states of the industry*”. (*e.g., **McKinsey: Possible scenarios of the world economy***)
- (1) To create a mindset aware of the **nature of uncertainty** & (2) To provide a basis for assessing the **robustness of alternative strategies**.

❖ Contingency Plans

- *e.g.,* (1) What acquisitions might be attractive on what terms?
- *e.g.,* (2) Which conditions would trigger a market exit?

Competing in a Global Recession



■ Survival Strategies

Low Cost Retail
ALDI, Lidl & ASDA

Hyundai
Risk-sharing contract

IT Solution
Energy saving
technologies (e.g., SAP)

Career Breaks
MBAs, social work

Entertainment
Stay-at-home
entertainment > travel



■ Local Firms versus Big MNEs

❖ How Local Firms may Respond to MNE Actions?

		Competitive Assets	
		Customized to home markets	Transferable abroad
Industry Pressures to Globalize	High	Cell 1 Dodger	Cell 2 Contender
	Low	Cell 3 Defender	Cell 4 Extender

KEY POINTS:

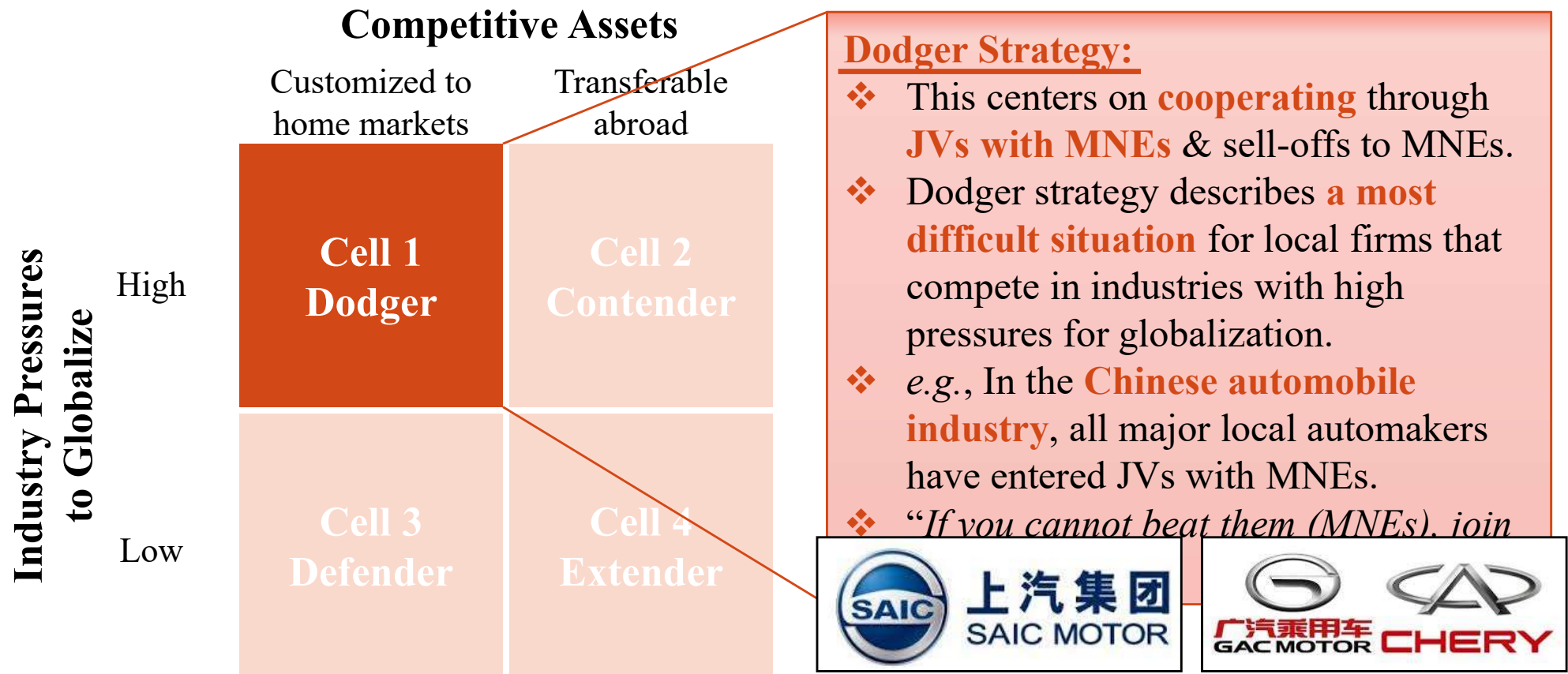
- ❖ Some firms face competitors that are much bigger than themselves, yet sometimes they win.
- ❖ How is that possible?
- ❖ They adopt **4** strategic postures depending on **two conditions**: **(1)** the nature of their firms' competitive asset & **(2)** the industry conditions.

- I. Dodger strategy
- II. Contender strategy
- III. Defender strategy
- IV. Extender strategy



Local Firms versus Big MNEs

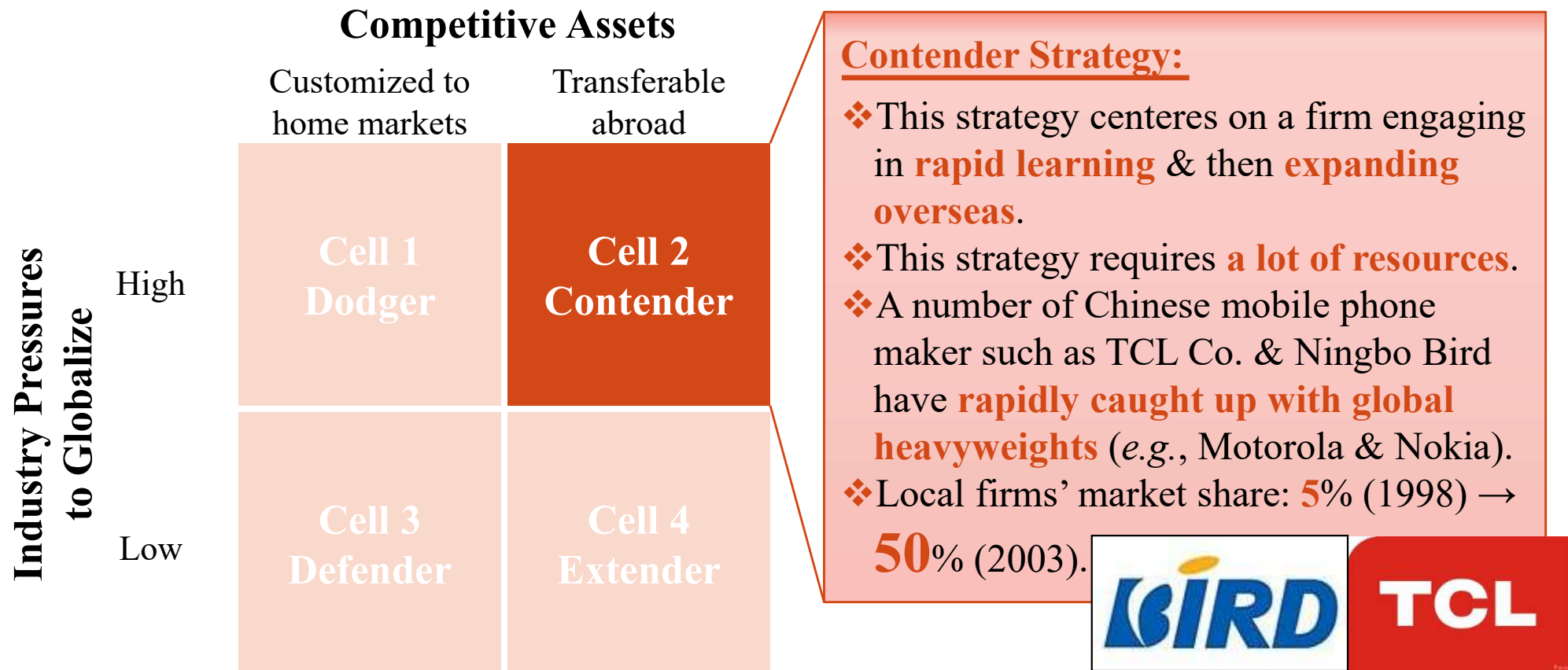
How Local Firms may Respond to MNE Actions?





■ Local Firms versus Big MNEs

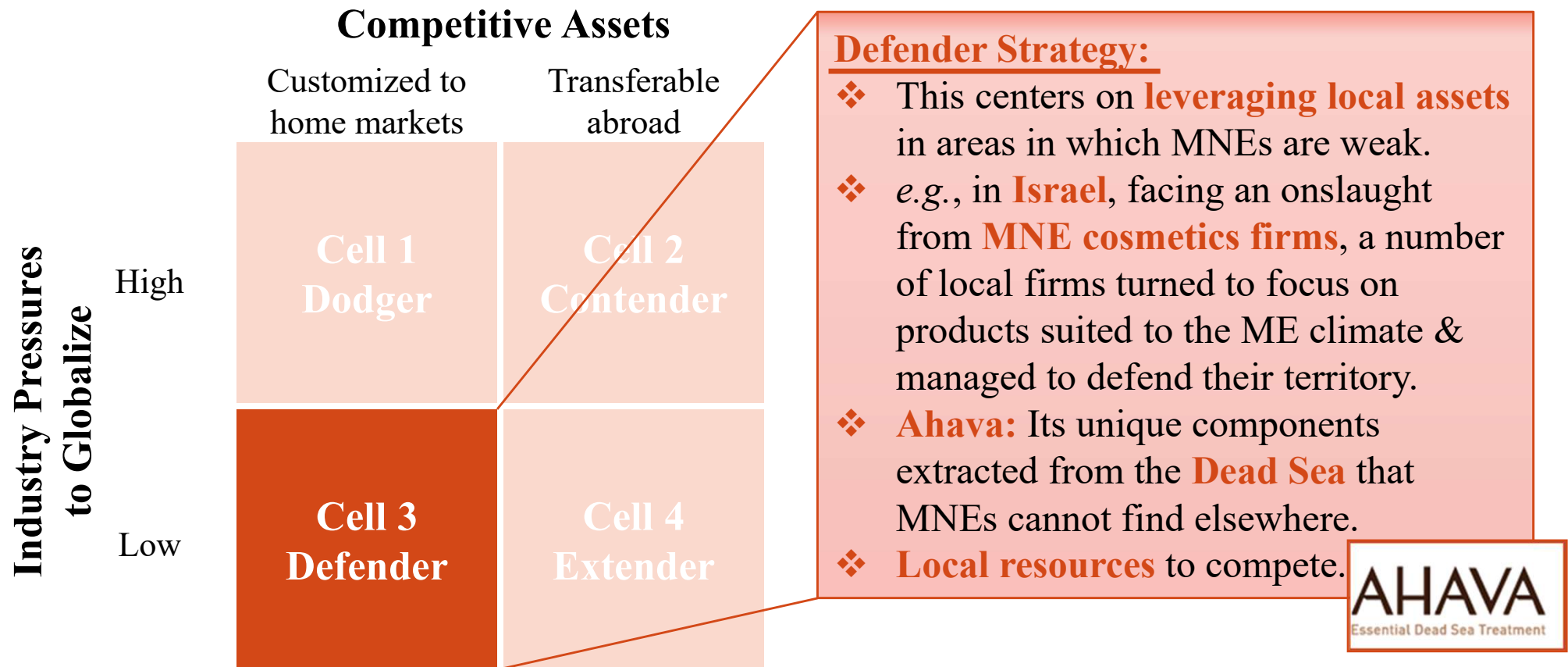
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■ Local Firms versus Big MNEs

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■ Local Firms versus Big MNEs

❖ How Local Firms may Respond to MNE Actions?

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Extender Strategy:

- ❖ This strategy focuses on **leveraging home-grown competencies abroad**.
- ❖ Given **less pressure for globalization**, local firms may possess some skills & assets that are **transferrable overseas**.
- ❖ **Asian Paints** (an Indian chemical company) controls **40%** of the house paint market.
- ❖ **AP** developed **strong capabilities** tailored to the unique environment in India.

asianpaints

What is Your Survival Plan?



■ What Skills will be in Demand? (1/2)

❖ US Certified Public Accountant (USCPA)

- Financial accounting & reporting (FAR) | Regulation (REG) | Business environment & concepts (BEC) | Auditing & attestation (A&A)

❖ Certified International Trade Logistics Specialist (CITLS)

- Air freight as a mode of shipment | Ocean freight practices | Intermodal transportation for international freight | Logistics documentation | Regulations | Insurance issues | Analysis of product import/export potential

❖ MBA (Master of Business Administrator)

- Top Business Schools in the US, Europe & Asia

❖ IT Certifications

- Certified in Risk and Information Systems Control (CRISC) | Certified Information Security Manager (CISM) | Certified Information Systems Auditor (CISA) | Cisco Certified Entry Networking Technician (CCENT)

What is Your Survival Plan?



■ What Skills will be in Demand? (2/2)

❖ Languages

- **Official languages of the United Nations:** English | French | Chinese | Arabic | Spanish | Russian
- **Common European Framework of Reference for Languages: C1** (Effective operational proficiency or advanced) or **C2** (Mastery or proficiency) level is required.
 - ✓ **English:** IELTS 8.0-9.0 / TOEIC Listening 490/495 & Reading 455/495
 - ✓ **French:** TCF C1 / DALF C1 / TCF C2 / DALF C2
 - ✓ **German:** Zentrale Oberstufenprüfung (ZOP)
 - ✓ **Spanish:** DELE C1 / DELE C2

❖ Experiences

- Multiple (**paid**) **internship/traineeship/apprenticeship** experiences in different countries

Meyer, K., & Zhu, J. (2011).
“Xiaomi Challenges Global Smartphone Leaders”.

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“Xiaomi in the Global Smartphone Market”



■ Discussions

- ❖ Clarify what **firm-specific advantages** Xiaomi enjoy to outperform global players in the smartphone market.
- ❖ Discuss why & how **Xiaomi** has been **more successful** than their key competitors (**Samsung & Apple**) in **China** from an **institutional perspective**.
- ❖ Specify what **weaknesses** would ruin Xiaomi’s competitive superiority.
- ❖ Explain what **cultural & institutional barriers** prevented Xiaomi from gaining competitive advantage in **India**.
- ❖ Discuss whether **Xiaomi** would become the **global leader** in the future. If yes, why? If no, why not?

The End of Today's Lecture



ご清聴有難う御座いました。

Thank you so much!

Merci beaucoup !

Vielen Dank für Ihre Aufmerksamkeit!

Grazie mille !

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