

Competitive Dynamics

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Special Topics in Internationalization

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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

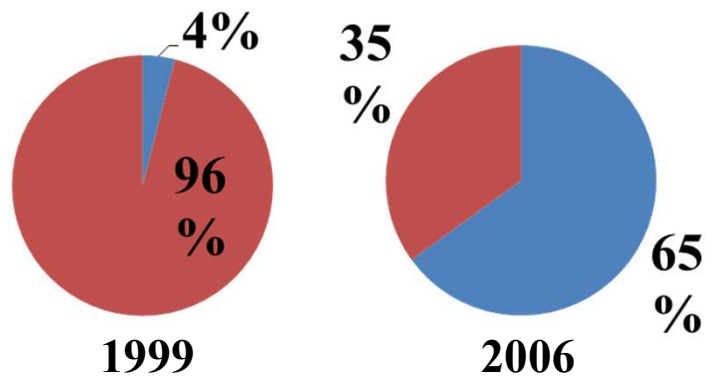
Location: Shenzhen, China

Owner(s): Employee-owned corporation

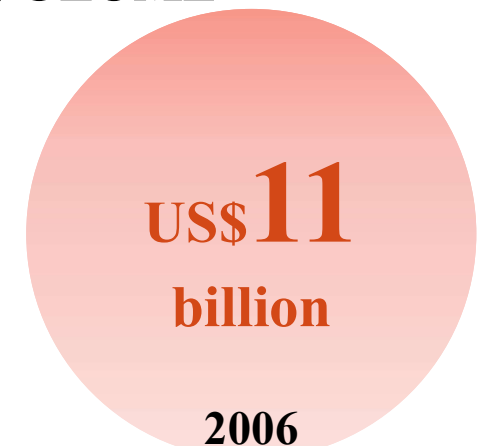
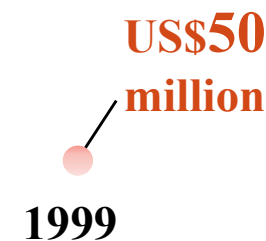
Industry: Telecommunication & networking equipment

Employees: 140,000

INTERNATIONAL INTENSITY



INTERNATIONAL SALES VOLUME

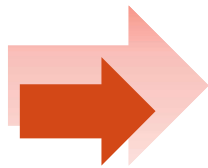




■ Case: Huawei Challenges a World Leader

❖ 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.



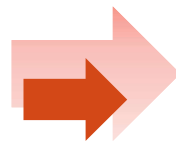
■ Case: Huawei Challenges a World Leader

❖ 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

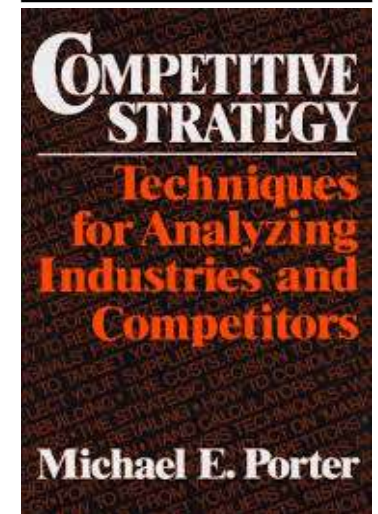
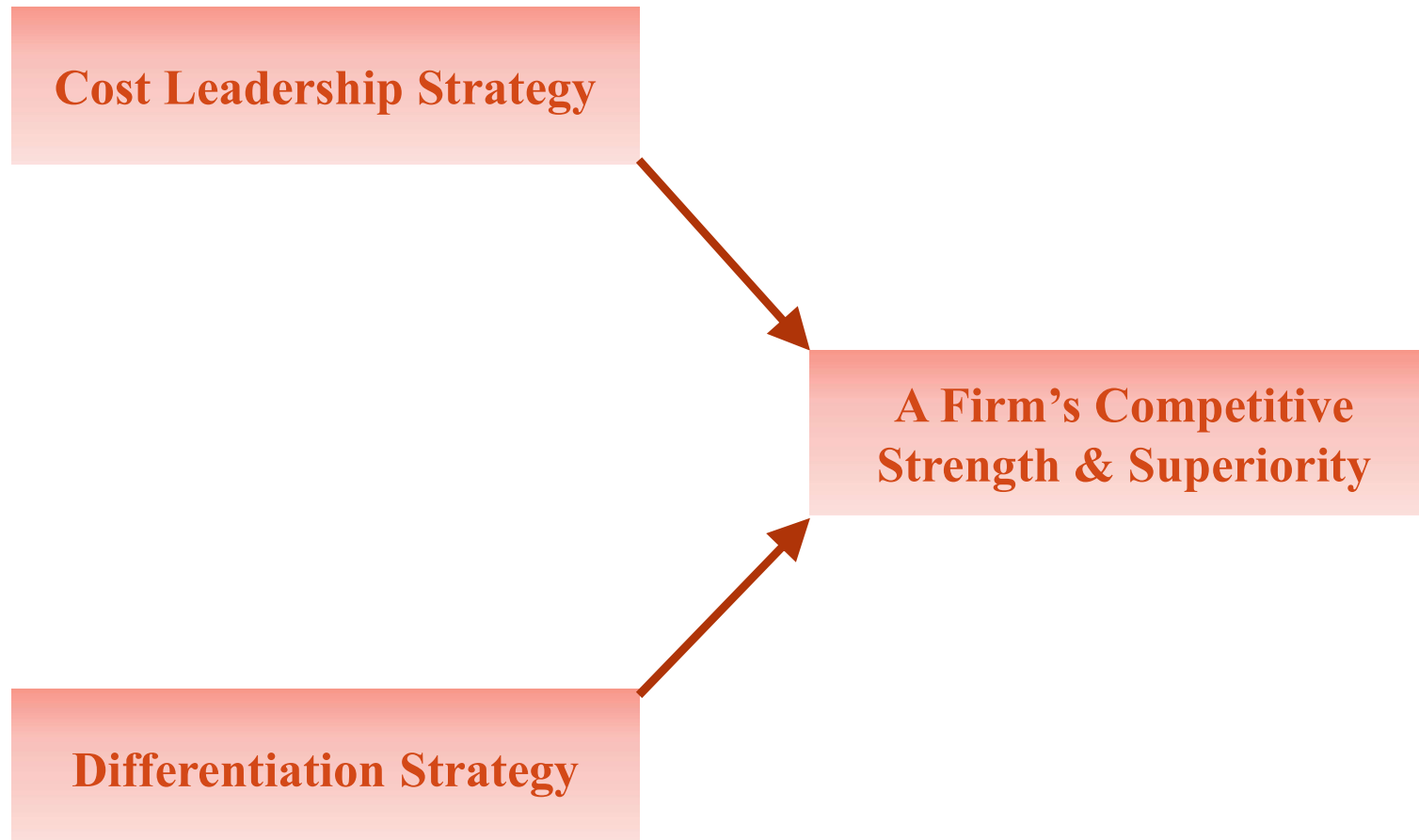
- **Oligopoly:** There are only a few companies competing an industry.
- **Competitive dynamics:** Actions & responses undertaken by competing firms
- **Competitive analysis:** The process of anticipating a rival's actions in order to both revise a firm's plan & prepare to deal with rivals' responses.



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



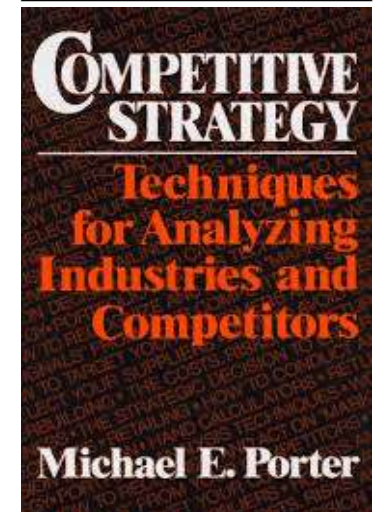
■ Porter's Generic Strategic Model

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

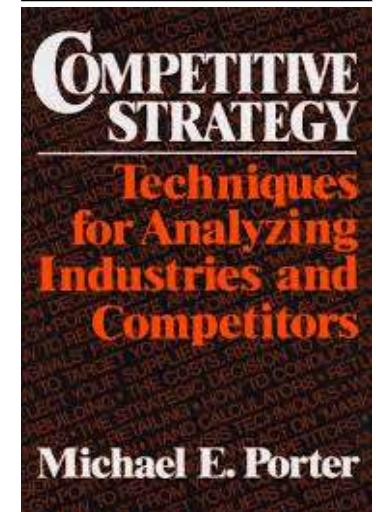


■ Porter's Generic Strategic Model

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

Differentiation Strategy

A Firm's Competitive Strength & Superiority

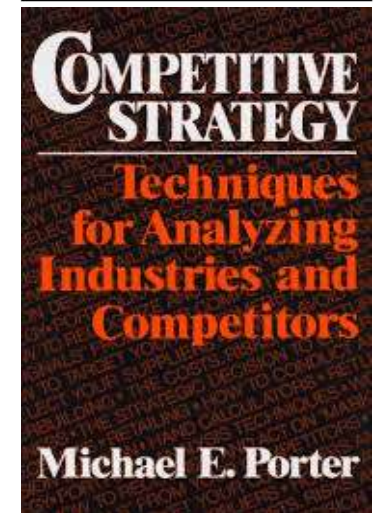
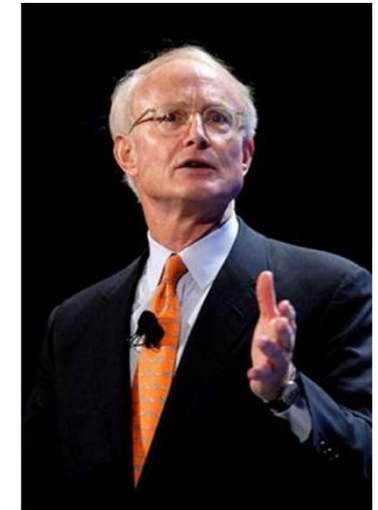




■ Porter's Generic Strategic Model

❖ 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.**

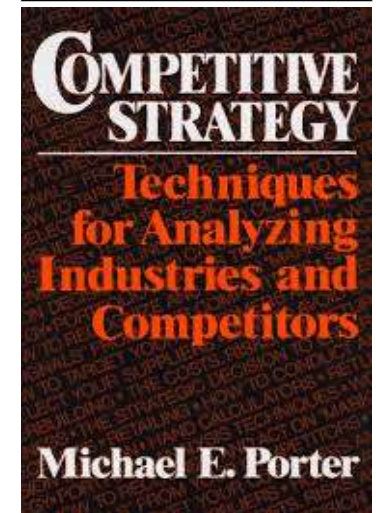




■ Porter's Generic Strategic Model

❖ 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.

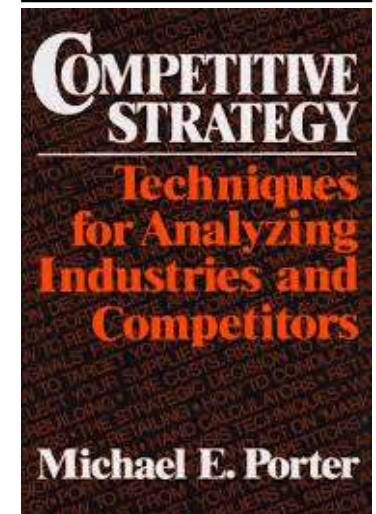
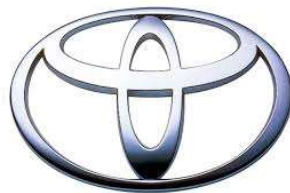




■ Porter's Generic Strategic Model

❖ 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.





■ Competitive Advantage & Business Performance

Performance	Competitive Advantage					
	Differentiation & Cost	Differentiation	Cost	Differentiation & 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)	F 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”

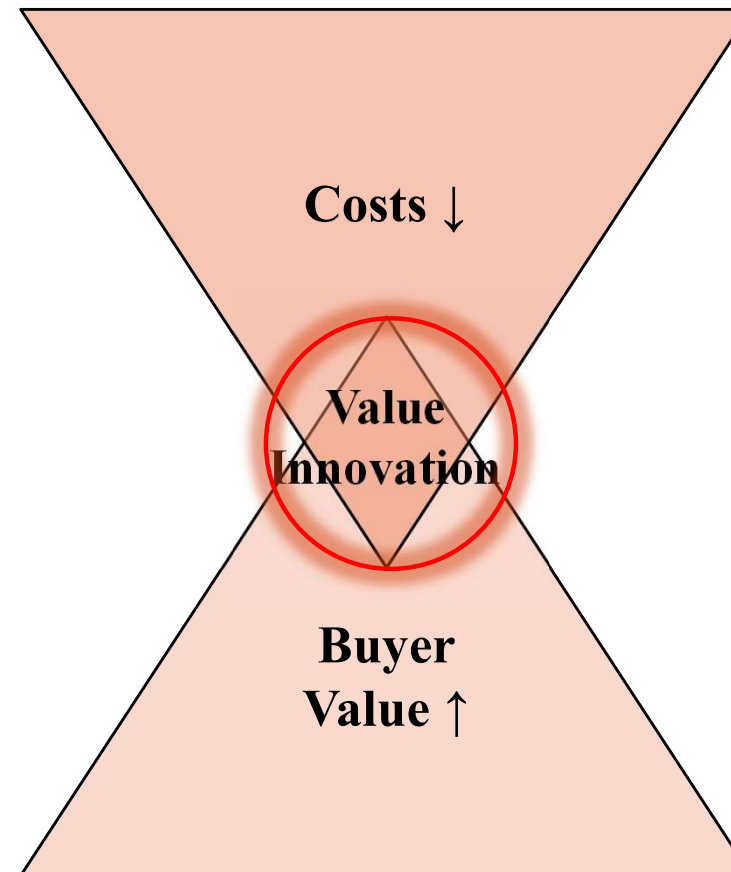
- If the manager’s background is in **engineering**, he or she might perceive that **proportionately greater revenue & margins** were being created in **manufacturing, product, & process design** than a person whose background is in a “downstream” value-chain activity (e.g., marketing).

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:

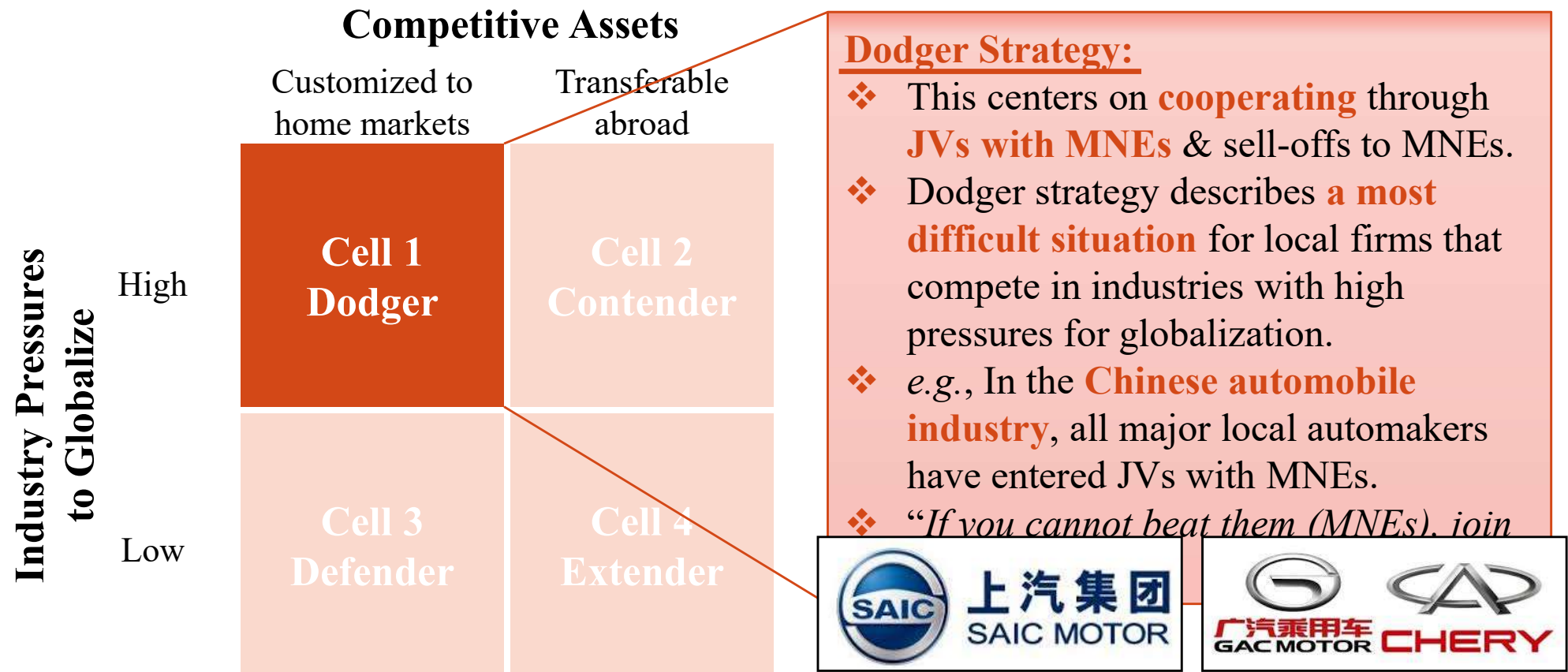
- ❖ Some firms face competitors that are much bigger than themselves, yet sometimes they win.
- ❖ How is that possible?
- ❖ They adopt **4** strategic postures depending on **two conditions**: **(1)** the nature of their firms' competitive asset & **(2)** the industry conditions.

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



■ Local Firms versus Big MNEs

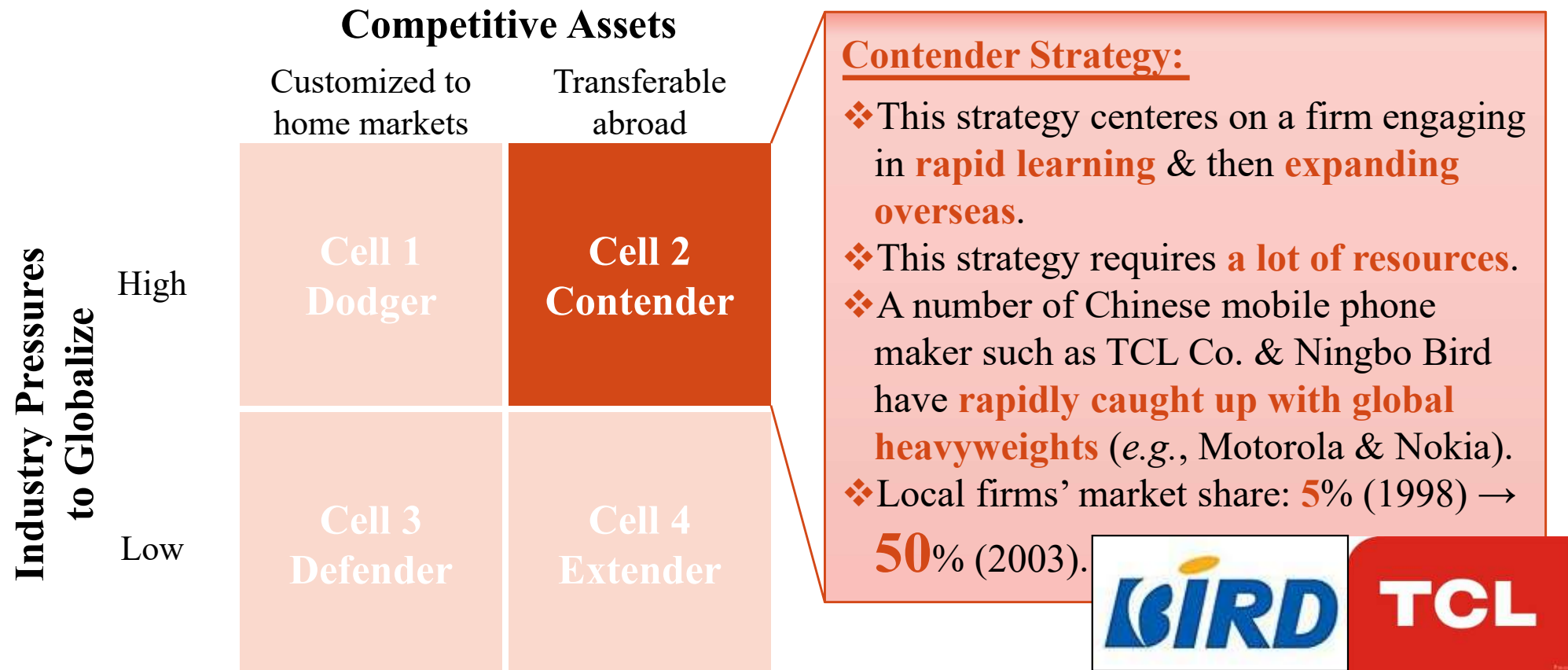
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■ Local Firms versus Big MNEs

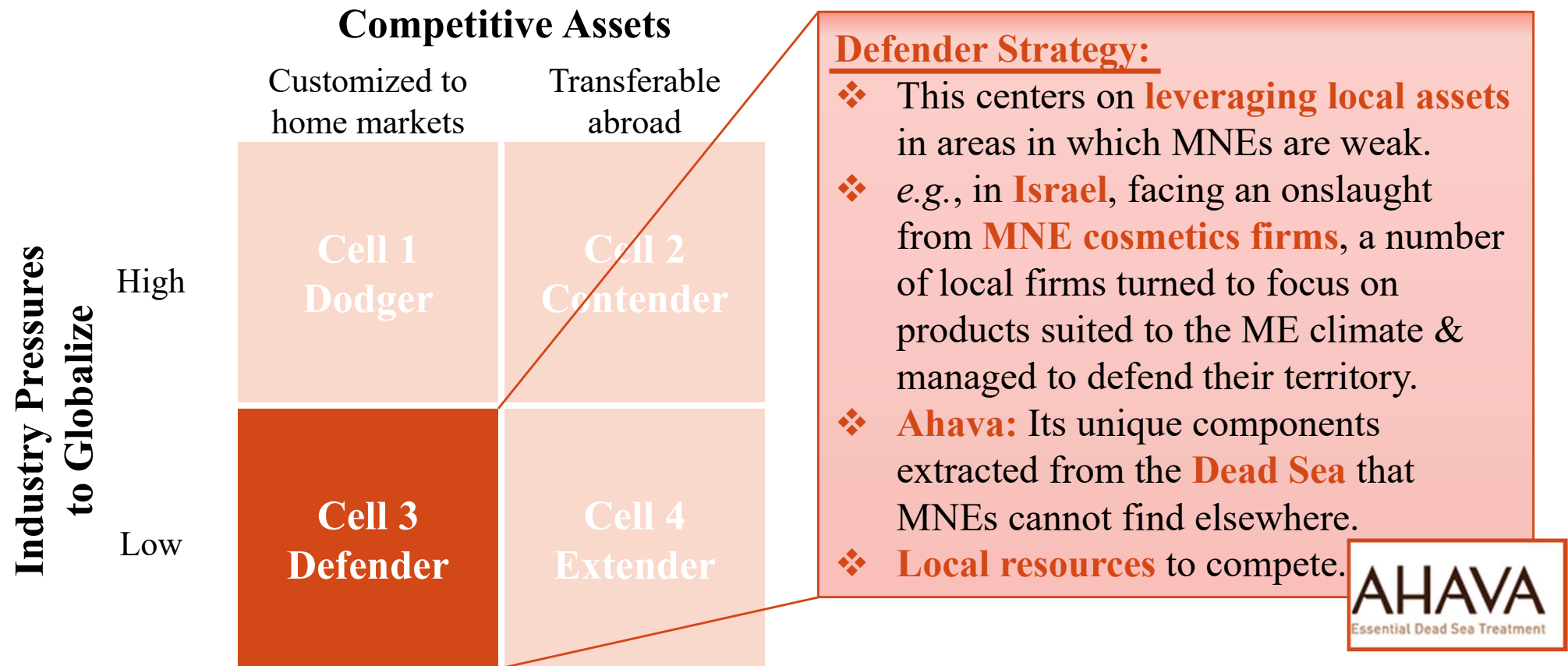
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■ Local Firms versus Big MNEs

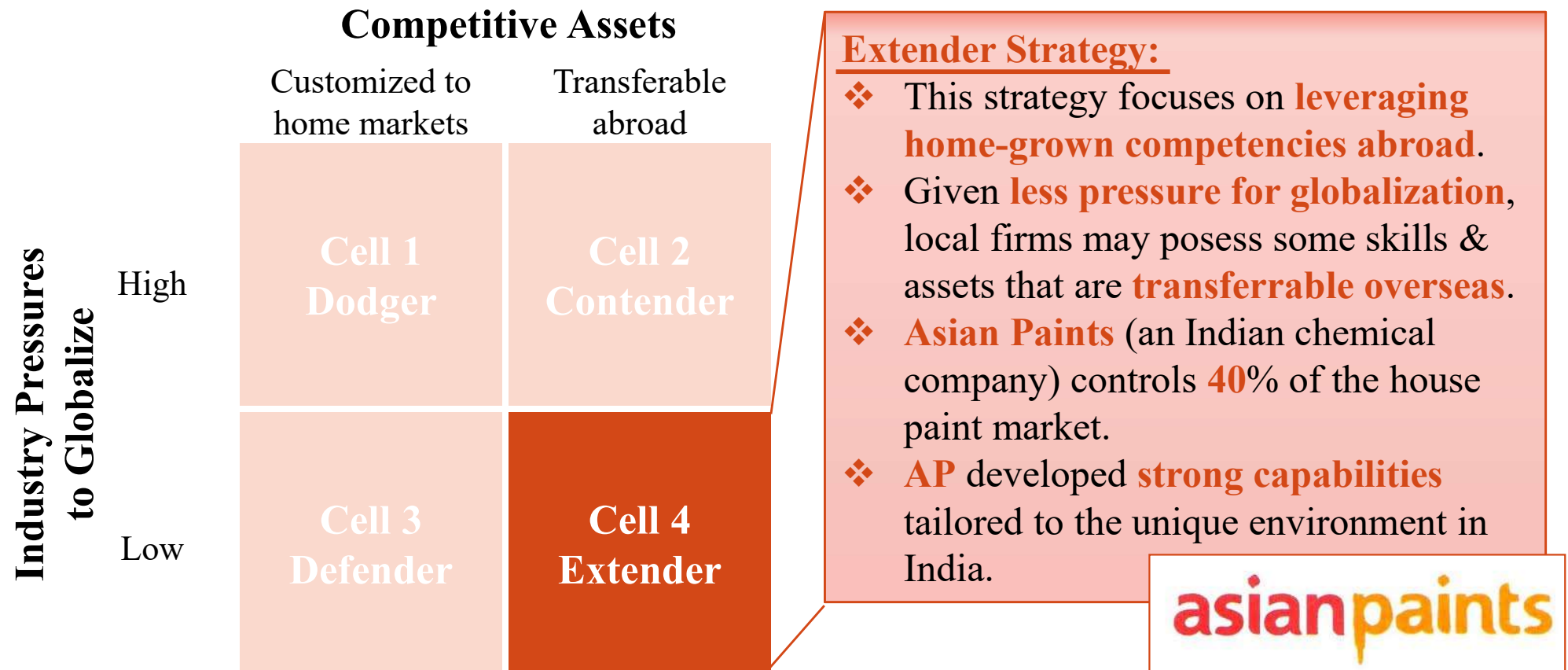
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■ Local Firms versus Big MNEs

❖ How Local Firms may Respond to MNE Actions?



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

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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