

# PRINCIPLES OF MARKETING / 12A

IBMS /  
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*Based on Ph. Kotler's Principles of marketing / international edition, and miscellaneous designer's lecturing materials*



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## CREATING COMPETITIVE ADVANTAGES

### Understanding competitive advantage

- **Competitive advantage, analysis & strategy**
  - **Analyzing competition:** one of the problems that occur during competitor analysis is **over-emphasis on figures and positions**, regarding for instance the number of competitors, the market shares of the main competitors, their advertising budgets, profit margins, etc.
  - Instead, companies should be examining the **market's dynamics**, and thus focus on issues such as: who is developing less expensive production methods, or working on an improved R&D process?, or testing new, more effective ways of distribution?', etc.

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## CREATING COMPETITIVE ADVANTAGES

### Understanding competitive advantage

- **Competitive advantage, analysis & strategy**
  - **Competitive advantage**, according to Kotler: an advantage over competitors gained by offering consumers greater value, either through lower prices or by providing more benefits that justify higher prices.

Competitive advantage can be seen as the key factor that enables a company to establish a lead on its rivals in the market, as a result of a **competitive strategy**.

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## CREATING COMPETITIVE ADVANTAGES

### Understanding competitive advantage

- **Competitive advantage, analysis & strategy**
  - **Competitive analysis:** the process of identifying key competitors, assessing their **objectives**, their **strategies**, **strengths and weaknesses**, and also their **reaction patterns**, and ultimately selecting which competitors to **attack or avoid**.
  - After analyzing the competition, companies will develop **competitive strategies** that will most likely strongly position them against competitors and give them the strongest possible competitive advantage.

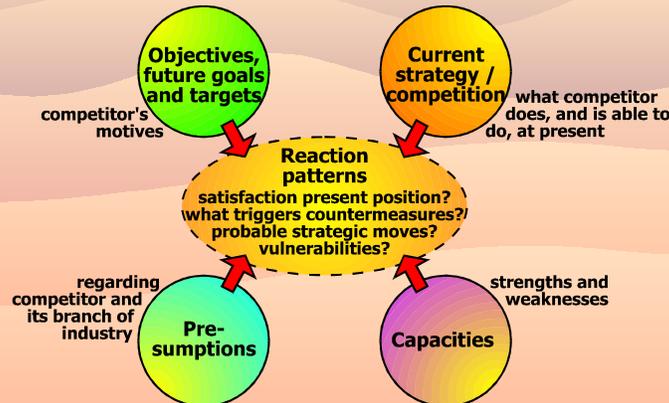
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## CREATING COMPETITIVE ADVANTAGES

### Understanding competitive advantage

- **Competitor analysis components** (Porter)



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## CREATING COMPETITIVE ADVANTAGES

### Understanding competitive advantage

- **Identifying the company's competitors**
  - Most companies know who their strongest competitors are, particularly when they are observing their **product category competition**: the level of competition concerning similar products and services to the same customers at similar prices.



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## CREATING COMPETITIVE ADVANTAGES

### Understanding competitive advantage

- **Identifying the company's competitors**
  - At the same time, however, companies can face other levels of competition.



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## CREATING COMPETITIVE ADVANTAGES

### Understanding competitive advantage

- **Identifying the company's competitors**
  - **Industry point of view:** clearly, many companies identify their competitors from the *industry point of view*, thus considering the group of firms that offer products or classes of products that are **close substitutes** for each other.

For example, if the prices of hamburgers rise, many consumers will switch to other forms of fast food, such as pizza's, burrito's, etc. This is one of the **competitive patterns** that companies should strive to understand.

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## CREATING COMPETITIVE ADVANTAGES

### Understanding competitive advantage

- **Identifying the company's competitors**
  - **Market point of view:** in addition, companies should also identify their competitors from the *market point of view*, thus considering its **task competition** amongst companies that are trying to satisfy the same customer need, or serve the same customer group.

For example, **McDonald's** sees **Burger King** as its industry competitor; from a market point of view, however, McDonald's should also include as competitors all firms offering recreational products or services for the kid's market.

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## CREATING COMPETITIVE ADVANTAGES

### Understanding competitive advantage

- **Determining competitors' objectives**
  - Having identified its main competitors, a company should examine what each competitor is looking for in the marketplace, and try to find out what drives each competitor's behavior. Evidently, **many factors** shape a competitor's objectives: size, history, management, position within a larger division or company etc.
  - Assuming competitors **strive to maximize profits is not always wise**; companies may differ in the emphasis they put on **short-term vs. long-term profits**, such as American companies in comparison to Japanese companies.

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## CREATING COMPETITIVE ADVANTAGES

### Understanding competitive advantage

- **Identifying competitors' strategies**
  - **Strategic group**: a group of firms following the same strategy in a given market.  
*The more one firm's strategy resembles another firm's strategy, the more the firms compete.*
  - It's important for companies to continuously monitor competitor's strategies.  
When U.S. car manufacturers eventually caught up in quality, Japanese car-makers shifted to sensory qualities: operating convenience, the feel of operating levers and knobs, etc., creating a new dimension in quality and competition.

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## CREATING COMPETITIVE ADVANTAGES

### Understanding competitive advantage

- **Competitors' strengths and weaknesses**
  - A company needs to gather information on each competitor's strengths and weaknesses. According to Arthur D. Little Consulting, a company will occupy one of **6 competitive positions** in a given target market:
    - **Dominant**: controlling the behavior of other competitors, having a wide choice of strategies.
    - **Strong**: can take independent actions without endangering its long-term position, maintaining this position despite competitors actions.

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## CREATING COMPETITIVE ADVANTAGES

### Understanding competitive advantage

- **Competitors' strengths and weaknesses**
  - Arthur D. Little Consulting's **6 competitive positions:** (cont'd)
    - **Favorable:** having an exploitable strength and an above-average opportunity to improve its position.
    - **Tenable** (≈defendable, sustainable): performing at a sufficiently satisfactory level to continue its business, but existing at the sufferance (≈ toleration) of the dominant company, having less-than-average opportunity to improve its position.

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## CREATING COMPETITIVE ADVANTAGES

### Understanding competitive advantage

- **Competitors' strengths and weaknesses**
  - Arthur D. Little Consulting's **6 competitive positions:** (cont'd)
    - **Weak:** having an unsatisfactory performance, although an opportunity exists for improvement, forcing the company to change or otherwise exit this market.
    - **Non-viable** (≈non-feasible): having unsatisfactory performance and virtually no opportunity for improvement.

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## CREATING COMPETITIVE ADVANTAGES

### Understanding competitive advantage

- **Competitors' strengths and weaknesses**
  - **Share of market, mind and heart:** in general, a company should also monitor **3 variables** when analyzing competitors:
    - **share of market:** the competitor's share of the target market;
    - **share of mind:** the % of customers who name the competitor in responding to the statement: 'name the first company that comes to mind in this industry';

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## CREATING COMPETITIVE ADVANTAGES

### Understanding competitive advantage

- **Competitors' strengths and weaknesses**
  - **Share of market, mind and heart:** (cont'd)
    - **Share of heart:** the % of customers who name the competitor in responding to the statement: 'name the company from which you would prefer to buy the product or service'.
  - In general, *companies that make steady gains in mind share and heart share will inevitably gain more market share and profitability.*

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## CREATING COMPETITIVE ADVANTAGES

### Understanding competitive advantage

- **Estimating competitors' reaction patterns**
  - Companies react differently to competitive assaults.  
Some companies are slow to respond, and others only respond to certain types of attacks, such as price cuts.  
How they respond depends strongly on:
    - **the companies being identical and making their living in the same way;**
    - **the number of competitors;**
    - **the relative market shares of competitors.**

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## CREATING COMPETITIVE ADVANTAGES

### Understanding competitive advantage

- **Selecting competitors to avoid or attack**
  - **Selecting blue competitors:** in this phase, management will have to decide which competitors should be competed against most vigorously.
    - **Strong or weak competitors?** Most companies will prefer to aim their efforts at their weak competitors. Although this requires fewer resources and less time, the firm may gain little. Successfully competing with strong(er) competitors often provides greater returns.

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## CREATING COMPETITIVE ADVANTAGES

### Understanding competitive advantage

- **Selecting competitors to avoid or attack**
  - **Selecting competitors:**
    - **Close or distant competitors?** As seen, most companies will compete with those competitors who resemble them the most. And in many cases this often happens in a close vicinity of the competing company. In some cases companies may want to avoid trying to eliminate a close competitor, knowing their exact moves, and not wanting to disturb the market equilibrium.

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## CREATING COMPETITIVE ADVANTAGES

### Understanding competitive advantage

- **Selecting competitors to avoid or attack**
  - **Selecting competitors:**
    - **'Well-behaved' or 'disruptive' competitors?** Companies do **need** and **benefit** from 'healthy' competition. Competitors may help increase total demand. They share the costs of market and product development, and they may contribute to technological innovations. However, a company may not view all its competitors as beneficial, as 'well-behaved' companies play by the rules of the industry, and 'disruptive' companies break these rules.

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## CREATING COMPETITIVE ADVANTAGES

### Understanding competitive advantage

- **Designing a competitive intelligence system**
  - **4 design steps:**
    - **Setting up the system**

This step involves identifying vital types of competitive information, identifying the best sources of information, and appointing a person who will manage the system and its services.

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## CREATING COMPETITIVE ADVANTAGES

### Understanding competitive advantage

- **Designing a competitive intelligence system**

- **4 design steps:**

- **Collecting the data**

This step involves collecting data on a continuous basis from the field (sales force, channels, suppliers, market research firms, trade associations, etc.), from people who do business with competitors, from observing competitors, and from published data or data through Internet and/or CD-ROM.

Although most gathering techniques are legal, some firms might use other methods (advertising nonexistent jobs, garbage-check).

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## CREATING COMPETITIVE ADVANTAGES

### Understanding competitive advantage

- **Designing a competitive intelligence system**

- **4 design steps:**

- **Evaluating and analyzing the data**

The data are to be checked for validity and reliability, interpreted, and organized.

- **Spreading out information and responding**

Key information is to be sent to relevant decision makers, and management's key questions should be answered.

Company managers should receive timely information about competitors via e-mail, by phone, bulletins, newsletters and reports.

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## CREATING COMPETITIVE ADVANTAGES

### Understanding competitive advantage

- **Dealing with competition**

- **Customer value analysis:**

- **Customer value:** often customers will choose between competitive brand offerings based on which brand delivers the most customer value:

**Customer Value =**  
**customer benefits - customer costs**

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## CREATING COMPETITIVE ADVANTAGES

### Understanding competitive advantage

- **Dealing with competition**
  - **Customer value analysis:**
    - **Customer benefits:** include **product benefits** (product offers more performance), **service benefits** (favorable parts service, maintenance), **personnel benefits** (friendly, knowledgeable staff) and **image benefits** (perceived differences between brands).

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## CREATING COMPETITIVE ADVANTAGES

### Understanding competitive advantage

- **Dealing with competition**
  - **Customer value analysis:**
    - **Customer costs:** include **purchase price**, **acquisition costs** (membership, travel, etc.), **usage costs** (electricity, materials, etc.), **ownership costs** (taxes, depreciation, etc.) and **disposal costs** (recycling taxes, etc.).

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## CREATING COMPETITIVE ADVANTAGES

### Understanding competitive advantage

- **Dealing with competition**
  - **Customer value analysis:**

	BRAND A	BRAND B	BRAND C
CUSTOMER BENEFITS (PERCEIVED VALUE)	\$ 300	\$ 280	\$ 270
PURCHASE PRICE	\$ 200	\$ 180	\$ 160
ACQUISITION COSTS	\$ 30	\$ 50	\$ 60
USAGE COSTS	\$ 8	\$ 14	\$ 20
MAINTENANCE COSTS	\$ 4	\$ 10	\$ 14
OWNERSHIP COSTS	\$ 6	\$ 6	\$ 10
DISPOSAL COSTS	\$ 12	\$ 10	\$ 16
<b>TOTAL COST</b>	<b>\$ 260</b>	<b>\$ 270</b>	<b>\$ 280</b>
<b>CUSTOMER VALUE</b>	<b>+ \$ 40</b>	<b>+ \$ 10</b>	<b>-- \$ 10</b>

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# CREATING COMPETITIVE ADVANTAGES

## Competitive strategies

- **Competitive positions**
  - **Designing competitive strategies:**
    - **No one strategy** is best for all companies, and no one strategy is best for all its business units or all its brands.
    - **Michael Porter** suggests 4 basic competitive positioning strategies ('**generic business strategies**', 1980): 3 winning strategies and 1 losing strategy (see *Strategic marketing planning / 4B*):
      - **overall cost leadership strategy**
      - **differentiation strategy**
      - **focus strategy**
      - (● **stuck in the middle strategy**)

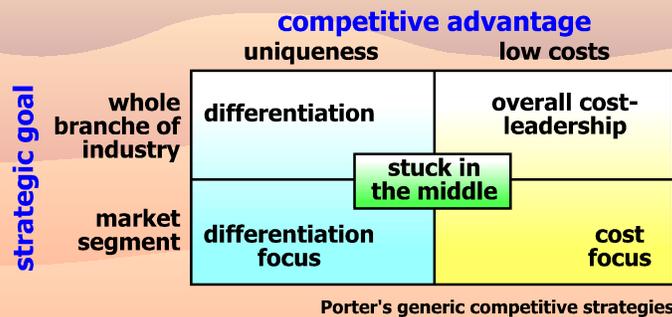
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# CREATING COMPETITIVE ADVANTAGES

## Competitive strategies

- **Competitive positions**
  - **Designing competitive strategies:**



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# CREATING COMPETITIVE ADVANTAGES

## Competitive strategies

- **Competitive positions**
  - **Designing competitive strategies:**
    - **overall cost leadership:**

Here the company tries hard to achieve the **lowest costs of production and distribution**, in order to price lower than its competitors and to win a substantial market share. Often this is a main reason to merge with other companies and obtain a larger economy of scale. However, scale can sometimes help cut costs, but it is not always a necessary or sufficient way of achieving overall cost leadership.

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## CREATING COMPETITIVE ADVANTAGES

### Competitive strategies

- **Competitive positions**
  - **Designing competitive strategies:**
    - **overall cost leadership:** (cont'd)  
Applying this strategy often requires **significant investments in capital equipment** in order to improve the production or distribution process to give these low unit costs. Furthermore, the cost leader will have to maintain **adequate quality levels**.  
**Wal-Mart's** sophisticated systems of regional warehouses and EDI with its suppliers has resulted in huge cost savings and its cost leadership.

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## CREATING COMPETITIVE ADVANTAGES

### Competitive strategies

- **Competitive positions**
  - **Designing competitive strategies:**
    - **differentiation:**  
This strategy requires **innovation and significant points of difference in product offerings, higher quality, advanced technology, and/or superior service** in a relatively broad range of market segments, resulting in the possibility of **premium pricing**.  
**Bose** follows this strategy with its high-end hi-fi speakers. **Nike**, on the other hand, uses creative differentiation by coming up with new ideas and marketing them.

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## CREATING COMPETITIVE ADVANTAGES

### Competitive strategies

- **Competitive positions**
  - **Designing competitive strategies:**
    - **cost focus:**  
This strategy involves **controlling expenses** and, in turn **lowering prices**, in a narrow range of market segments.  
Airline companies such as **RyanAir** have been very successful in offering low fares between certain airports throughout Europe.



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## CREATING COMPETITIVE ADVANTAGES

### Competitive strategies

- **Competitive positions**
  - **Designing competitive strategies:**
    - **differentiation focus:**

Applying this strategy means **utilizing significant points of difference** to one or only a few market segments.

**Volkswagen** achieved spectacular success by targeting the 'nostalgia segment' -35 to 55 year old baby-boomers- with its technology-stuffed New Beetle.



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## CREATING COMPETITIVE ADVANTAGES

### Competitive strategies

- **Competitive positions**
  - **Designing competitive strategies:**
    - **stuck-in-the-middle:**

Companies that pursue a clear strategy, such as cost leadership, differentiation or focus strategy, are likely to perform well.

Firms that do not pursue a clear strategy -the stuck-in-the-middle's- do the worst.

These firms try to be good on all strategic counts, but often end up being **not very good at anything** (as has occurred at **Philips, Olivetti** and **Marks & Spencer**).

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## CREATING COMPETITIVE ADVANTAGES

### Competitive strategies

- **Competitive positions**
  - **Designing competitive strategies:**
    - **No company** can succeed today by trying to be all things to all people.
    - Professors **Michael Treacy** en **Fred Wiersema** describe **3 generic value disciplines** (value strategies, 1996) that companies could apply in order to create added value and competitive advantage:
      - **operational excellence;**
      - **product leadership,** and
      - **customer intimacy.**
    - In practice, companies will focus on **1** of these strategies, and partially on the other two.

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## CREATING COMPETITIVE ADVANTAGES

### Competitive strategies

- **Competitive positions**
  - **Characteristics of generic value disciplines:**
    - **operational excellence:**  
involves superior operations and performance. Firms that apply this strategy usually offer reasonable quality products and services at relatively low costs and low prices. They mostly focus on **efficiency, streamlined operations, Supply Chain Management, low inventories, no-frills, and on managing volume dynamics.** Many major, international companies use this strategy, such as: **Wal-Mart, FedEx, Dell, EasyJet, Hertz, Toyota and McDonalds.**

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## CREATING COMPETITIVE ADVANTAGES

### Competitive strategies

- **Competitive positions**
  - **Characteristics of generic value disciplines:**
    - **product leadership:**  
involves excelling in product innovation and brand marketing. Firms that apply this strategy mostly focus on **product development and innovation, time-to-market, (very) high margins within short timespans involving high risks.** They try to score a few large successes to make up for many failures. Examples of companies that use this strategy: **3M, Philips, Intel, Samsung, Nike, Honda, Apple.**

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## CREATING COMPETITIVE ADVANTAGES

### Competitive strategies

- **Competitive positions**
  - **Characteristics of generic value disciplines:**
    - **customer intimacy:**  
involves excelling in customer service and customer satisfaction. Firms that apply this strategy focus on **Customer Relations Management, 1-to-1 marketing, exceeding expectations, customer retention, customer friendliness, and lifetime customer value.** Examples of companies that use this strategy: **Rolls Royce, major hotels, private banking and other customer-focused financial services firms, etc.**

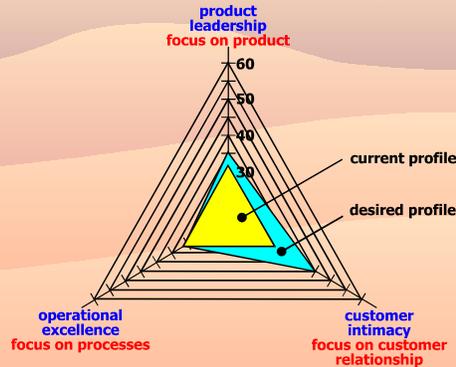
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## CREATING COMPETITIVE ADVANTAGES

### Competitive strategies

- **Competitive positions**
  - **Example of a firm's generic value disciplines:**



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## CREATING COMPETITIVE ADVANTAGES

### Competitive strategies

- **Competitive positions**
  - **Competitive moves:**
    - **Attacking or defending?:**

Companies maintain their position in the marketplace by **competitive moves** to attack competitors or defend themselves against competitive threats. These moves change with the role that companies play in the target market: **leading**, **challenging**, **following** or **niching**.

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## CREATING COMPETITIVE ADVANTAGES

### Competitive strategies

- **Competitive positions**
  - **Competitive moves:**
    - **Market leader:**

The firm in an industry with the **largest market share**, usually leading other firms in **price changes**, **new product introductions**, **distribution coverage** and **promotion spending**.

Some of the best known market leaders are: **Kodak**, **Microsoft**, **Procter & Gamble**, **Coca-Cola**, **Caterpillar**, **Gillette**, and **McDonalds**.

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## CREATING COMPETITIVE ADVANTAGES

### Competitive strategies

- **Competitive positions**
  - **Competitive moves:**
    - **Market challenger:**  
A runner-up firm in an industry that is **fighting hard to increase its market share**. Market challengers can be firms that occupy second, third, and lower ranks; they are also called **trailing firms**.

Companies such as **Ford, Colgate, Avis, and PepsiCo** are often considered to be market challengers.

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## CREATING COMPETITIVE ADVANTAGES

### Competitive strategies

- **Competitive positions**
  - **Competitive moves:**
    - **Market follower:**  
A runner-up firm in an industry that wants to **hold its share** without 'rocking the boat'. Market followers can often be found in **capital-intensive, homogeneous-product industries**, such as steel, fertilizers, and chemicals. The opportunities for product differentiation and image differentiation are low; service quality is often comparable, price sensitivity runs high.  
Examples: **Ralcorp's** corn flakes, and the numerous computer clones.

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## CREATING COMPETITIVE ADVANTAGES

### Competitive strategies

- **Competitive positions**
  - **Competitive moves:**
    - **Market nicher:**  
A runner-up firm in an industry that serves **small segments that the other firms overlook or ignore**. Smaller firms normally avoid competing with large firms by targeting small markets of little or no interest to the larger firms (for instance: **Logitech International**). Now even large firms are setting up business units or companies to serve niches (for instance specialty beers from major beer brewers: **SAB-Miller's Red Dog beer**).

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