

PRINCIPLES OF MARKETING / 12B

IBMS /
University of Applied Sciences

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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

Competitive strategies / market leader

● Market leader strategies



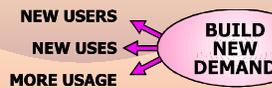
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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market leader

● Market leader strategies

- Expanding the total market



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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market leader

- **Market leader strategies**

- **Expanding the total market**

- **New users:**

The strategy focusing on attracting buyers who are still unaware of the product, or who are resisting it because of its price or its lack of certain features.

Search for new users can be conducted among 3 groups: those who might use the product but do not yet use the brand (**market-penetration strategy**), those who have never used the product (**new-market segment strategy**), and those living elsewhere (**geographical-expansion strategy**).

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market leader

- **Market leader strategies**

- **Expanding the total market**

- **New uses:**

The strategy focusing on discovering and promoting new uses for the product.

For example, cereal manufacturers promoting cereal eating on other occasions besides breakfast, perhaps as a granular bar / snack. Or **DuPont's** nylon, first being used as a fibre for parachutes, then for women's stockings, later on as a key material in shirts and blouses, and still later on in vehicle tyres, upholstery and carpeting.

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market leader

- **Market leader strategies**

- **Expanding the total market**

- **More usage:**

The strategy focusing on convincing people to use more product per use / occasion.

For example, **Gillette's** Mach-3 cartridge featuring a blue strip that slowly fades away with repeated use, indicating the user to insert a new cartridge.

Or **Michelin Tyre Company's** restaurant rating system, originally set up to encourage car owners to drive their cars more distances per year, thus leading to more tyre replacement!

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market leader

- **Market leader strategies**
 - **Expanding market share**



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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market leader

- **Market leader strategies**
 - **Expanding market share**
 - **Winning competitor's customers:**

The strategy focusing on achieving market share gain by winning competitor's customers through investment in quality, innovation and brand building.

This strategy has been conducted successfully by many automobile manufacturers, such as **Honda** (Civic IMA) and **Toyota** (Prius).

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market leader

- **Market leader strategies**
 - **Expanding market share**
 - **Winning competitors:**

The strategy focusing on achieving larger scale by acquiring businesses similar to themselves. In the recent past many companies, such as mobile phone companies, have conducted this strategy, often paying huge prices for competitors in order to gain a dominant market position market (for example: the British telecom giant **Vodafone** which took over its German competitor **Mannesmann Telecom**; within a year Vodafone suffered its worst financial loss).

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market leader

- **Market leader strategies**

- **Expanding market share**

- **Winning loyalty:**

The strategy focusing on building customer relationships based on long-run customer satisfaction.

This does not merely imply working with customer loyalty schemes such as stamps or collecting customer loyalty points that are redeemable against money or a gift. Companies achieve better loyalty through producing higher quality, giving better service and treating customers as real customers.

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market leader

- **Market leader strategies**

- **Improving productivity**

IMPROVE COSTS
IMPROVE
PRODUCT MIX
IMPROVE ADDED
VALUE

IMPROVE
PRODUC-
TIVITY

COMPETITIVE
STRATEGY



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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market leader

- **Market leader strategies**

- **Improving productivity**

- **Improving costs:**

The strategy focusing on continually reducing costs, by simplifying their activities and/or by gaining in efficiency and scale.

Cutting costs can occur by: (I)

- **reducing capital cost**, for instance by using Just-in-time systems that reduce capital costs involved in raw materials, work in progress on the shop floor, and finished goods (automobile manufacturers such as **Toyota and Honda**).

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market leader

- **Market leader strategies**
 - **Improving productivity**
 - **Cutting costs** can also occur by: (II)
 - **reducing fixed costs**, for instance by shedding personnel, such has taken place within many industries.
Also, many companies have reduced their fixed costs by **out-sourcing** activities that could no longer be considered as core activities, for instance by using the services provided by third-party logistic providers (such as **UPS, FedEx, TPG-TNT, and DHL**), instead of owning and operating their own truck fleet, warehouses, etc.

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market leader

- **Market leader strategies**
 - **Improving productivity**
 - Furthermore, **cutting costs** can occur by: (III)
 - **reducing variable costs**, for instance by applying methods of '**lean production**': a manufacturing system that results in a better, more cost-efficient product, higher productivity and a greater customer loyalty. The key factors of lean production are: **teamwork, communication and efficient use of resources**.
Especially the Japanese automobile industry has specialized in this area, resulting in far less defects, built in half the work space, using half the man-hours.

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market leader

- **Market leader strategies**
 - **Improving productivity**
 - Taking a closer look at **lean production**:
 - Lean production is usually characterized by:
 - a **minimum changeover time**
 - **Just-In-Time (JIT) production**
 - **Kanban systems**
 - a **minimum of supplies**
 - and last but not least
 - a "**zero waste**" attitude with each employee.

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market leader

- **Market leader strategies**
 - **Improving productivity**
 - Taking a closer look at **lean production**:
 - The aim of lean production is to shorten the time between the moment that the client places an order and the moment of delivery by eliminating all losses from this chain.

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market leader

- **Market leader strategies**
 - **Improving productivity**
 - Taking a closer look at **lean production**:
 - Lean production is accomplished by:
 - realization of minimal changeover times [SMED: Single Minute Exchange of Dies (≈molds)];
 - One Piece Flow implementation;
 - implementing pull production (Kanban) planning;
 - Small Group Activity improvement teams eliminating defects;
 - establishing client-supplier partnerships.

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market leader

- **Market leader strategies**
 - **Improving productivity**
 - Taking a closer look at **lean production**:
 - Accomplishable advantages of lean production, compared to 'normal' production:
 - increase of productivity by 20% within 4 months
 - reduction of the time to market by 20% within 4 weeks
 - decrease in production in progress by 57% within 10 months
 - increase of delivery reliability from 35 to 95% within 5 months
 - decrease in stock by 18% within 6 months

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market leader

- **Market leader strategies**

- **Improving productivity**

- **Changing product mix:**

The strategy focusing on moving the product mix (product or service, quality, product benefits, etc.) in order to answer demands in market areas that command **premium prices**, and to **reduce the firm's dependence** on its lower priced models.

For example: car manufacturers such as **FIAT** and **Renault** who have moved into the MPV and recreational vehicles market.

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market leader

- **Market leader strategies**

- **Improving productivity**

- **Adding value:**

The strategy focusing on maintaining a price premium by the company's brand's strength and superior quality across a broad range of products.

For instance, a car manufacturer such as **Mercedes** or **Ford**, offering long-term service contracts and leasing possibilities or other financial packages that make buying safer and easier.

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market leader

- **Market leader strategies**

- **Defending its position**



COMPETITIVE STRATEGY

DEFEND POSITION

DEFEND STATICALLY
DEFEND PROACTIVELY
DEFEND REACTIVELY

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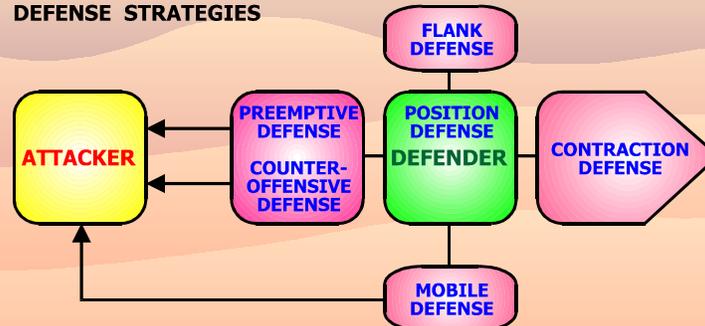
CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market leader

- **Market leader strategies**

- **Defending its position**

DEFENSE STRATEGIES



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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market leader

- **Market leader strategies**

- **Defending its position**

- **Statical defense: position defense:**

A company's strategy focusing on holding its present market position by building fortifications around its markets. This involves building superior brand power, making the brand nearly unconquerable.

For example, **Heinz** which successfully blocked several attacks from various competitors, by upholding the quality and the superiority of its brand.

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market leader

- **Market leader strategies**

- **Defending its position**

- **Statical defense: flanking defense:**

A company's strategy focusing on fortifying its weaker flanks, usually by introducing new or improved products or brands as a protection or even as an invasion base for counterattack.

For example, **Goodyear's** introduction of better grooved tires and the Extended Mobility Tire, in response to fierce competition from **Bridgestone / Firestone** and **Michelin**.

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market leader

- **Market leader strategies**

- **Defending its position**

- **Pro-active defense: pre-emptive (≈obstructive) defense:**

A company's strategy focusing on attacking before the enemy starts its offense. This can be done by conducting a **guerilla warfare** against several competitors at once, keeping them off balance, or by trying to achieve a grand market introduction, as **Seiko** has done, with > 2300 watch models distributed worldwide.

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market leader

- **Market leader strategies**

- **Defending its position**

- **Pro-active defense: mobile defense:**

A company's strategy focusing on stretching its domain over new market areas that can serve as future bases for defense and offense. This usually involves **market broadening** ('petroleum' companies that became 'energy' companies), and **market diversification** (lighter company **Zippo**, moving into other consumer products, such as knives, outdoor gear and cooking utensils).

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market leader

- **Market leader strategies**

- **Defending its position**

- **Reactive defense: counteroffensive defense:**

A company's strategy focusing on counter-attack in order to invade the attacker's main market area so that the attacker will have to pull back some of its offenses to defend its main territory.

For instance, **Northwest Airlines'** counter-attack against one of their competitors that offered lower fares on Northwest's major Minneapolis-Atlanta route. By focusing on its competitors's major Minneapolis-Chicago route, the competitor was forced to pull back.

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market leader

- **Market leader strategies**

- **Defending its position**

- **Reactive defense: contraction defense:**

A company's strategy focusing on planned contraction (=strategic withdrawal). This means giving up weaker market areas and reassigning resources to stronger areas. For instance, the strategic withdrawal of the British motorcycle company **BSA-Triumph** from the USA-market. Once one of USA's dominating motorcycle brands, BSA found itself challenged by Japanese brands, resulting in withdrawal from the USA-market in the 1970's.

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market challenger

- **Market challenger strategies**

- **Defining strategic objectives and competitors**

- Market challengers first have to define their **strategic objectives**. In most cases market challengers will try to increase their profitability by increasing their market shares. Market challengers may choose to **attack the market leader**, which can be quite risky, but worth while when the market leader is not serving the market well. To succeed, the challenger must have some **sustainable competitive advantage** over the leader, such as cost advantage, or better values at premium prices.

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market challenger

- **Market challenger strategies**

- **Defining strategic objectives and competitors**

- Market challengers may also choose to avoid the market leader, and attack similar-sized companies or smaller local and regional firms, as many of these competitors will prove to be underfinanced and not fully capable of serving their customers well. Several large beer breweries, for instance, did not start out by attacking large competitors, but took over small local or regional competitors, instead.

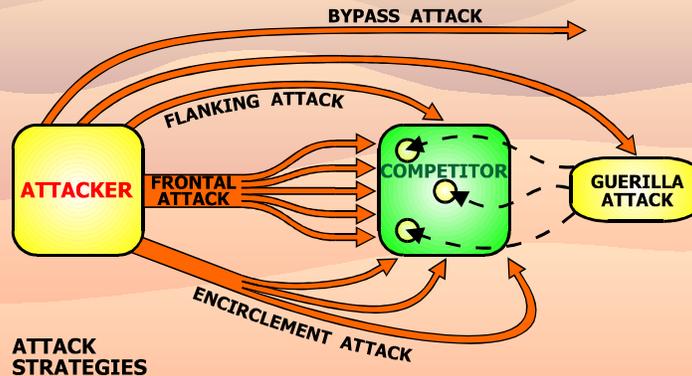
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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market challenger

- **Market challenger strategies**



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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market challenger

- **Market challenger strategies**

- **Frontal attack**

- In a **pure frontal attack**, the market challenger matches its competitor's product, advertising, price and distribution. The principle of force says that the side with the greater resource will win. In military situations, frontal attacks are considered to be potentially successful when the attacking forces have at least a 3-to-1 advantage in combat fire. Such frontal attacks have taken place between Companies as **Unilever** and **P&G**, and **Burger King** and **McDonald's**.

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market challenger

- **Market challenger strategies**

- **Flank attack**

- In a **flank attack**, as in offensive warfare, the attacker's strength is concentrated on the competitor's weaknesses. A flank attack can be directed along 2 strategic dimensions: **geographical** and **segmental**.

In a **geographical flank attack**, the challenger focuses on geographical areas where the opponent is underperforming (such as has been demonstrated by mainframe rivals **Honeywell** (challenger) and **IBM** (former market leader)).

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market challenger

- **Market challenger strategies**

- **Flank attack**

- In a **segmental flank attack**, **uncovered market needs** are served by the challenger, as Japanese car-producers did, when they developed more fuel-efficient cars, and as **Miller Brewing Co.** did, when they introduced light-beer.

Flank attacks are particularly attractive to challengers with **fewer resources** than their opponents, and are more likely to be successful than frontal attacks.

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market challenger

- **Market challenger strategies**

- **Encirclement attack**

- In an **encirclement attack** the challenger focuses on capturing a large amount of the opponent's territory through a '**blitz**' (a swift, multiple-area attack). The encirclement attack involves launching a grand offensive on several fronts at once. For example, as challenger of market leader **Microsoft**, **Sun Microsystems** licenses its **Java software** to all kinds of consumer devices, ranging from most types of smartphones to video game consoles, such as **Sony's** Playstations.

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market challenger

- **Market challenger strategies**

- **Bypass attack**

- The **bypass attack** can be considered to be the most indirect assault strategy, involving bypassing the competitor and attacking easier markets to broaden the challenger's resource base. Bypassing can occur in 3 ways:
 - through **diversification into unrelated products**
 - through **diversification into new geographical markets**
 - through **technological 'leapfrogging'**.

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market challenger

- **Market challenger strategies**

- **Bypass attack**

- The **bypass attack** through **diversification into unrelated products** has been successfully applied by **PepsiCo** when this soda-company bought juice giant **Tropicana** (having 42% share of the orange juice market) in 1998. At the time **Coca-Cola** had only 24% of the orange juice market with its own **Minute Maid**, so **PepsiCo** suddenly became world leader in this market.

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market challenger

- **Market challenger strategies**

- **Bypass attack**

- The **bypass attack** through **technological 'leapfrogging'** is a strategy commonly practiced in high-tech industries. Here the challenger patiently researches and develops the next technology, and launches an attack in the area where it has acquired its technological advantage.

For example, the competitive development between video-game giants **Sony** (PS), **Nintendo** (Wii) and **Microsoft** (X-Box).



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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market challenger

- **Market challenger strategies**

- **Guerilla attack**

- In **guerilla warfare**, the challenger makes **small, unpredictable attacks** to harass and demobilize the opponent. The guerilla challenger uses both conventional and unconventional means of attack, including selective price cuts, intense promotional blitzes, occasional legal actions and the introduction of novel products.

Virgin Atlantic started as a typical guerilla attacker on much larger competitors, such as **British Airways**.



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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market follower

- **Market follower strategies**
 - **Advantages of market followers**
 - **Market followers** can gain many advantages. The market leader often bears huge costs involved with developing new products and markets, expanding distribution channels, and informing and educating the market. The market follower can learn from the leader's experience, and copy or improve on the leader's products and marketing programs, usually at much lower investment.

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market follower

- **Market follower strategies**
 - **4 market follower strategies**
 - Market followers can follow any of 4 broad strategies:
 - **counterfeiter**: duplication of the leader's products, which are then sold on the black market ('Rolex', video's, cd's, etc.)
 - **cloner**: imitation of the leader's products, packaging, etc. with slight variations (computers, etc.)

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market follower

- **Market follower strategies**
 - **4 market follower strategies**
 - **imitator**: makes copies of some things from the leader, but maintains differentiation regarding packaging, advertising, pricing or location. Usually the leader won't mind as long as he isn't being attacked aggressively.
 - **adapter**: takes the leader's products and adapts or improves them. As has been the case with many Japanese firms, these followers often eventually become market challengers.

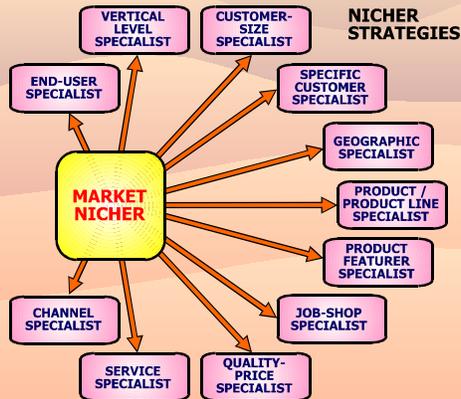
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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market nicher

- **Market nicher strategies**



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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market nicher

- **Market nicher strategies**

- **11 market nicher strategies**

- Smaller companies normally avoid competing with larger firms by targeting small markets of little or no interest to the larger firms.

Market nichers usually follow any of the following 11 strategies:

- **end-user specialist:** specializing in serving one type of end-use customer (value-added resellers -VAR's- in the computer hardware and software sector.

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market nicher

- **Market nicher strategies**

- **11 market nicher strategies**

- **vertical-level specialist:** specializing in some vertical level of the production-distribution value chain, such as a aluminum-producing firm concentrating on producing aluminum and aluminum components.
- **customer-size specialist:** specializing in serving small customers who are neglected by the major firms.
- **specific-customer specialist:** limiting its selling to only one or just a few customers, as for instance in the car-industry.

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market nicher

- **Market nicher strategies**
 - **11 market nicher strategies**
 - **geographic specialist:** only selling in a certain region or area in the world.
 - **product- or product-line specialist:** carrying or producing only one product or product-line, such as a lense producer who produces lenses for microscopes, or specific retailers carrying only one product.
 - **product-feature specialist:** specializing in producing a certain type of product or product feature (**Tesla**, the world's leader in lithium-ion car battery technology).

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market nicher

- **Market nicher strategies**
 - **11 market nicher strategies**
 - **job-shop specialist:** customizes its products for individual customers (such as some motor-bike builders or automobile-tuners).
 - **quality-price specialist:** operating at the low- or high quality ends of the market, such as **Hewlett-Packard** in the high-quality, high-price end of the hand-held calculator market.
 - **service specialist:** offering one or more services which are not available from other firms (as some financial services offer).

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CREATING COMPETITIVE ADVANTAGES

Competitive strategies / market nicher

- **Market nicher strategies**
 - **11 market nicher strategies**
 - **channel specialist:** specializing in only serving one channel of distribution, such as a softdrink company offering a specially sized softdrink available only at gas stations.
 - As niches can weaken, market-nichers must continually create new niches, and they should keep on niching, but not necessarily in the same niche. This is why **multiple niching** is preferable to **single niching**, increasing the chances for survival.

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