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Southern Africa

**Marketing**

**Second SA edition**  
Charles W. Lamb, Jr.  
Joseph F. Hair, Jr.  
Carl McDaniel  
Christo Boshoff  
Nic S. Terblanche

**Chapter 4:  
Competitive Analysis**

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**Introduction**

- **Importance**
  - identify threats in good time
  - probably the most important threat for all firms
  - determines the firms entire business strategy
- **The industry concept of competition**
- **Industries are classified according to:**
  - number of sellers, barriers, cost structure, degree of vertical integration, degree of globalisation
- **Gives rise to four industry structures**

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**The Economics of Competition**

- **The four basic industry structures are:**
  - Monopoly
  - Monopolistic competition
  - Oligopoly
  - Pure competition

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**Types of Competition**

Type	Description
Monopoly	One Seller, Unique Product, No Competitors or Close Substitutes
Monopolistic Competition	Large Number of Sellers, Products Distinguishable, Sellers believe they have competition - including substitutes
Oligopoly	Few Sellers, High Barriers to Entry, Inelastic Demand, Seek Non-price Advantage
Pure Competition	Many Buyers and Sellers, Identical Products, Full knowledge, Easy entry, Elastic Demand, Focus on Lower Costs

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**Identifying Competitors**

- **Consider both:**
  - current competitors; and
  - potential new competitors
- **Two ways**
  - from a consumer's perspective: what are the consumers' options/choices?
    - » who competes for a buyer's choice - they are our competitors
  - from a firm-level perspective: what competitive strategies are used by similar firms?
    - » result in groups of "similar" firms or strategic groups

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**Consumer-based Approaches to Identify Competitors**

- **Primary competitors easy to identify**
  - but competition is changing
  - new forms of competition are emerging
    - » customer choices
    - » product-use associations

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**The Strategic Group Approaches to Identify Competitors**

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- Strategic groups are firms who:
  - use similar strategies
  - have similar assets
  - have similar competencies
  - have similar mobility barriers that prevent firms from moving from one group to another
- Competing against a group more manageable than individual firms

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**Understanding Potential Competitors**

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- Market expansion
- Product expansion
- Integration
  - forward, backward, vertical
- Export of assets or competencies
- Retaliatory or defensive strategies
- Entry barriers

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**Understanding Current Competitors**

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- Must understand current competitors' strengths and weaknesses
- Identify emerging threats and opportunities
- Try to predict their actions
- Identify strategic uncertainties
- Competitor actions influenced by eight factors – next slide

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**Market Attractiveness**

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- Attractive market promises returns above the cost of capital
- Two questions
  - what factors account for the current level of profitability?
  - are the prospects better or worse in the future?
- Answer depends on five factors
  - (1) current direct rivalry (2) bargaining power of suppliers (3) bargaining power of customers (4) threat of substitutes (5) potential threat of other new competitors fm related industries

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**Competitors' Strengths and Weaknesses**

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- Six competing positions to occupy in a market:
  - dominant
  - strong
  - favourable
  - tenable
  - weak
  - nonviable

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**Competitive Reaction Patterns**

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- Not all firms respond to competition the same. There are:
  - the laid-back competitor
  - the selective competitor
  - the tiger competitor
  - the stochastic competitor

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**Direct Rivalry**

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- **Competitive equilibrium is:**
  - unstable when competitors are almost identical
  - unstable when a single factor is likely to determine success or failure
  - fairly stable if success is determined by a variety of factors and different firms can excel in different areas
    - » the fewer the number of critical factors the fewer the number of firms that can co-exist
  - stable when one firm dominates and is not challenged
  - stable when customer switching cost is high

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**Selecting Competitors to Attack/Avoid**

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- **Attacking weak competitors is cheaper**
  - but not much to be gained
- **Benchmarking and competing with strong competitors may enhance the firm's capabilities and skills**
- **Good and bad competition**

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**Finding Attractive Segments**

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- **Not all parts of a market are equally attractive**
- **Attractive segments must be:**
  - sufficiently distinctive
  - substantial enough
  - measurable
  - durable
  - identifiable

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**Competitive Strategies in SA Retail Market**

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- **House brands**
- **No frills shopping**
- **Extended services**
- **Credit facilities**
- **Loyalty cards**
- **Clubs for account-holders**
- **Use of technology**
- **Smart cards**

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