

Hypercompetition

P.V. (Sundar) Balakrishnan

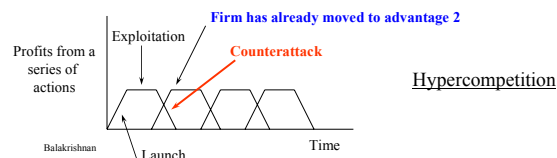
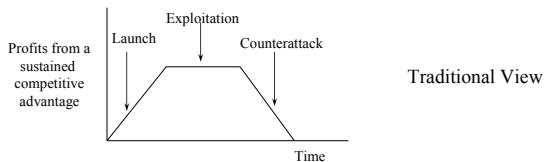
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Background

- Most analyses of competition focus on aspects such as 5-forces analysis, competitive benchmarking or competitive intelligence
- A key limitation of Porter-based strategies:
 - it ignores the dynamics of competition in the marketplace.
- Focus on a framework that is interested in studying:
 - How Competition Evolves in the market place.
 - A Tool for anticipating where the market may move in the future.

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Strategic Competitive Advantage



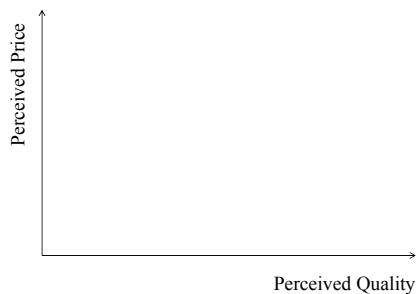
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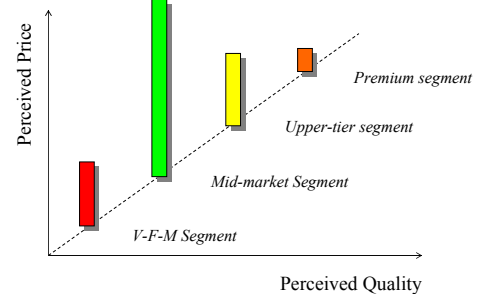
- Four arenas of competition
 - Cost & Quality
 - Timing and know-how
 - Strongholds
 - Deep pockets
- Escalation towards hypercompetition
 - Within arena
 - Across arenas
 - Disruption of SCAs

Value Map

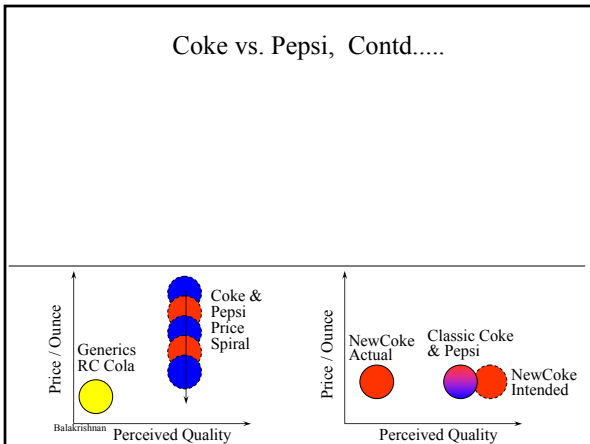
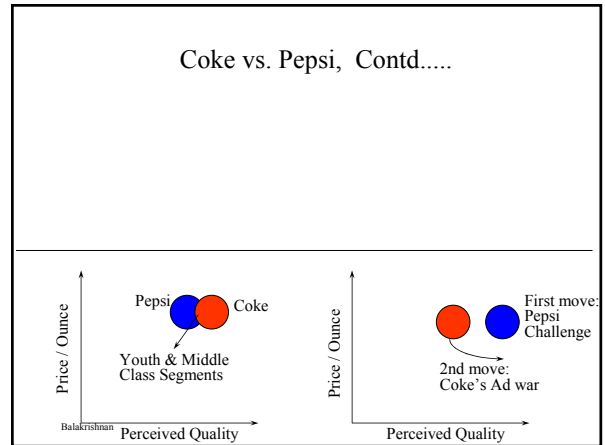
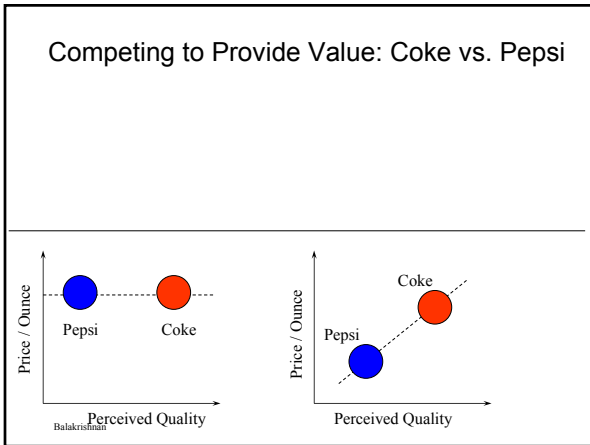
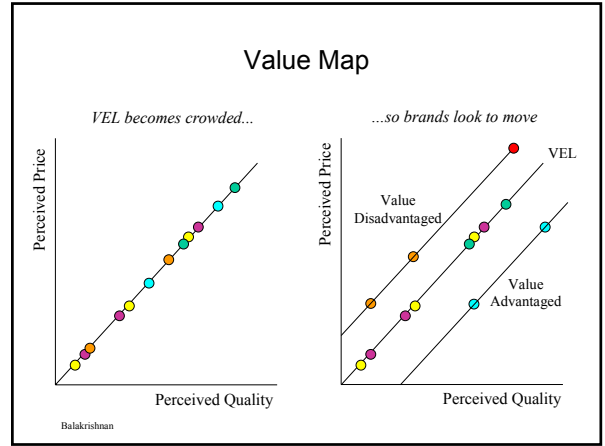
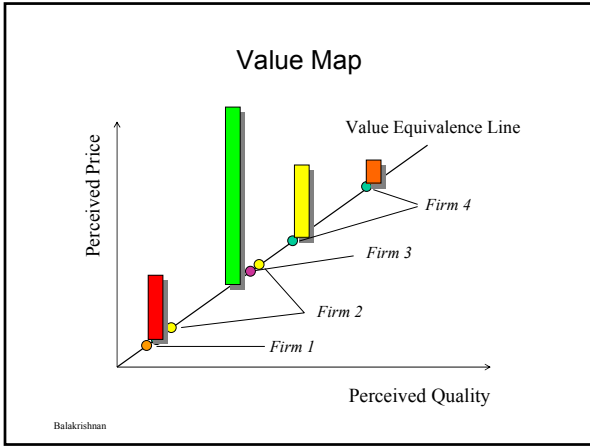


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Value Map



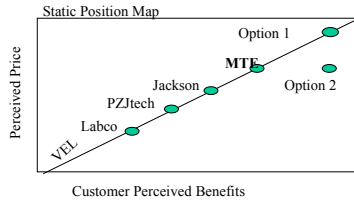
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- ### MTE
- Company
 - Manufactures high-quality medical diagnostic equipment. The premium supplier in the market for blood diagnostic equipment, with the highest prices and benefits. Considered the most innovative firm.
 - Customer
 - Competition
 - Three other competitors
 - Jackson produces a machine with the second highest price and benefits.
 - PZJtech produces a machine with the third highest price and benefits.
 - Labco produces a machine with the lowest price and lowest benefits
 - The Market is stable, with all firms located on the VEL.
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MTE

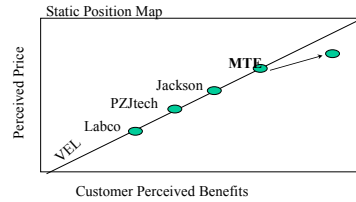
Action: Introduce new model with significantly higher benefits.
Dilemma: Increase price by 10% and keep market share, or hold price constant and increase market share.



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MTE

Decision: Introduce the new product with a compromise price increase of 5%.



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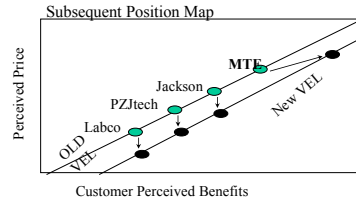
MTE

- **Initial result**
 - The consumers recognized the great increase in benefits and the small increase in price meant that the new machine was an even better value than the old machine. Sales were strong and MTE's market share increased.
- **Competitor response**
 - Since the increase in market share for MTE came at the expense of its competitors, they retaliated by lowering their prices by 5%.

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MTE

- Result:**
- The market wide price cut reset the old VEL to a another VEL, 5% lower than the first.
 - Market shares returned to their former levels, but margins were greatly reduced. Profits suffered accordingly.



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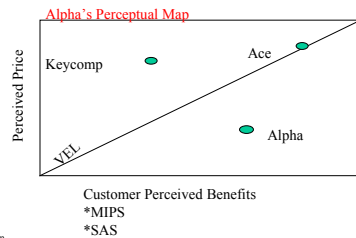
Alpha Computer Company

- **Company**
 - Manufacturer of minicomputers used for network servers. Prides itself on engineering skills and ability to provide high performance at a reasonable price.
- **Customer**
 - Choice of minicomputers based on MIPS (millions of instructions per second), SAS (secondary access speed from disk drives, etc.), and price.
- **Competition**
 - Two competitors: Ace and Keycomp
 - Ace manufactures a computer with the highest MIPS and SAS, and highest price.
 - Keycomp manufactures a computer with medium performance and a somewhat high price.

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Alpha Computer Company

Action: Introduce a computer with better performance than Keycomp at a much lower price.



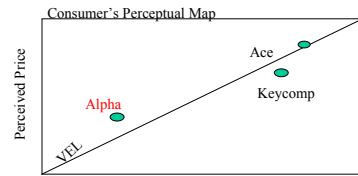
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Alpha Computer Company

- **Expectation:** Massive increase in market share at the expense of Keycomp.
- **Result:** Market share actually declined
- **Response:** Market research to confirm hypothesis about the importance of MIPS and SAS. Sixty buyers were questioned about the relative importance of several attributes.
- **Findings:** Processor speed and secondary access speed were ranked only fourth and sixth in importance. Software / hardware compatibility, reliability, and quality of technical support all ranked above MIPS, and quality of documentation ranked above and SAS.
- **Other findings:** While Alpha was rated higher on MIPS and SAS, Keycomp was rated higher on the other attributes, which customers considered more important.

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Alpha Computer Company



Customer Perceived Benefits

- *Compatibility
- *Reliability
- *Tech support
- *MIPS
- *Documentation
- *SAS

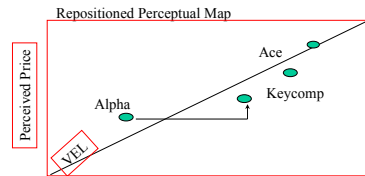
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Alpha Computer Company

- **Response to Research Findings**
 - Rewrite operating system and redesign hardware configuration to improve compatibility
 - Introduce a marketing campaign to demonstrate improved reliability.
 - Increase number of service representatives and toll-free access lines
 - Redraft user documents

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Alpha Computer Company



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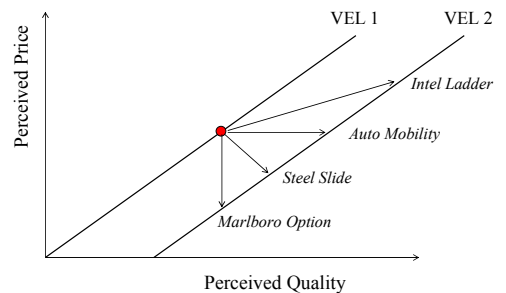
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Alpha Computer Company

- **Results of repositioning**
 - Able to increase price by 8%
 - Gained market share
 - Increase in price and volume doubled operating profits
- **Important Considerations**
 - The consumer's perception of attributes and the relative importance they place on them drive the purchase decision.
 - Non-technical attributes, such as perceived reliability and technical support, are often more important than technical features.

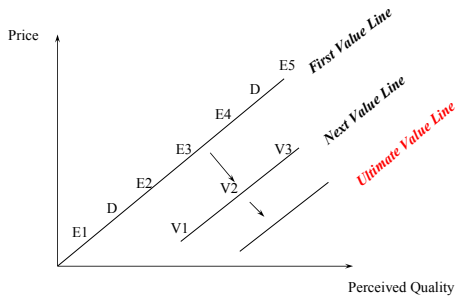
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Value Map



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The Move Towards Offering Ultimate Value

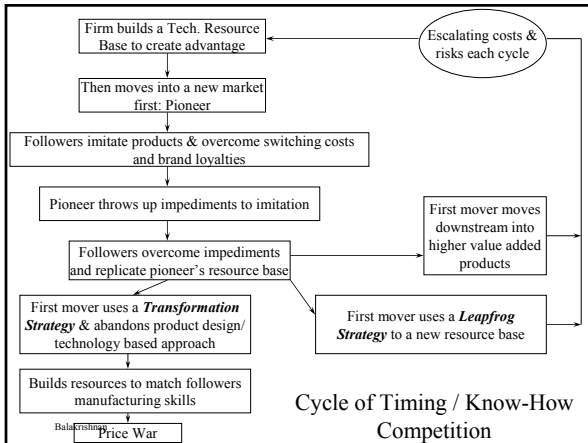


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Hypercompetition

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Shifting know-how in pharmaceutical industry

Skill	Effect	Firms
Direct selling to physicians, 1950s	Allowed for the effective marketing to gatekeepers in economic transactions	Pfizer / Lederle; Created effective differentiation of products among gatekeepers
"Blockbuster" marketing, early-mid 80s	Single product focus of entire detail force and promotion; effective with narrow product line	Glaxo; created a new way to sell; through selling, gave blockbuster potential to a chemically indifferent drug
Specialized selling	Specialized salesforce for different therapeutic classes / medical specialties; more focus with broad product line	Merck; Specially trained and focused units in cardio, hospital, etc.
Handling regulatory requirements	Speeds drug to market, expanding time available to patent for economic profits	Merck; Marion: Of limited value without competence in acquiring new drugs

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Management Challenges

- Do you base your strongholds on geographic areas (Folgers) or product markets (FedEx)? How do competitors define strongholds?
- Where are your strongholds vulnerable to attack?
- What barriers do you use to protect your strongholds? What barriers are used by your competitors?
- How can you respond to an attack from outside?
- How will you make the move into another player's stronghold? What competitive response do you anticipate?
- Who and what are setting the pace of escalation down the strongholds ladder in your industry? Why?

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Strongholds and Entry Barriers

- Maxwell house was dominant in the East Coast market and Folgers was strong in the West Coast.
- After being acquired by P&G, Folgers entered the Cleveland market to increase its eastern penetration.
- Maxwell countered by attacking Folgers' stronghold; lowering prices and increasing ad expenditures in Kansas city. Maxwell also introduced a "fighting brand" called Horizon which was similar to Folgers in taste and in packaging.
- Folgers then escalated by entering Pittsburgh.
- Maxwell responded by entering Dallas with reduced prices.
- The battle continued until the market was no longer two coastal segments but one national battleground

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