Company strategy and product decisions

Product management course content

Lecture 1

Basic market forms

- **Perfect competition**, in which the market consists of a very large number of firms producing a homogeneous product.
- **Monopolistic competition**, also called competitive market, where there are a large number of independent firms which have a very small proportion of the market share.
- **Oligopoly**, in which a market is dominated by a small number of firms which own more than 40% of the market share.
- **Oligopsony**, a market dominated by many sellers and a few buyers.
- **Monopoly**, where there is only one provider of a product or service.
- **Natural monopoly**, a monopoly in which economies of scale cause efficiency to increase continuously with the size of the firm.
- **Monopsony**, when there is only one buyer in a market.

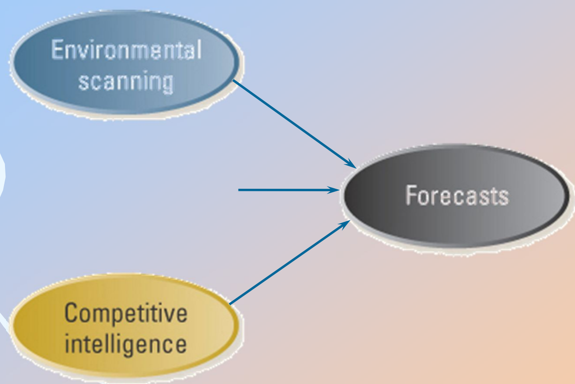
Quick Reference to Basic Market Structures

Market Structure	Seller Entry Barriers	Seller Number	Buyer Entry Barriers	Buyer Number
Perfect Competition	No	Many	No	Many
Monopolistic competition	No	Many	No	Many
Oligopoly	Yes	Few	No	Many
Oligopsony	No	Many	Yes	Few
Monopoly	Yes	One	No	Many
Monopsony	No	Many	Yes	One

Market concentration measures

- are used to classify how competitive an industry is.
- Concentration measures help us to understand how much market share is concentrated in the hands of a small number of firms.
- An industry characterized by low concentration will have a large number of firms with small market shares. An industry characterized by high concentration will have a small number of firms with relatively high market shares.
- Industries with high concentrations are more likely to have market power, i.e. the ability to set price.

Creating the Environmentally Aware Organization

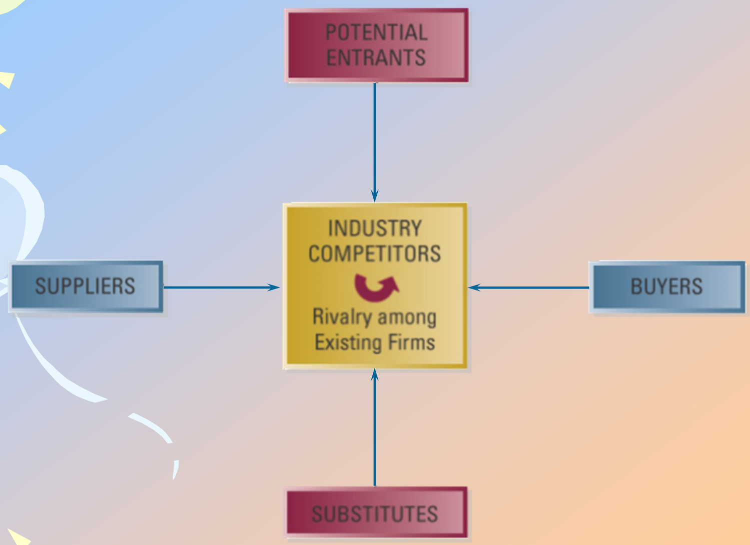


Adapted from Exhibit 2.1 Inputs to Forecasting

Competitive Intelligence

- Define and understand a firm's industry
- Identify rivals' strengths and weaknesses
  - Intelligence gathering (data)
  - Interpretation of intelligence data
- Helps a firm avoid surprises

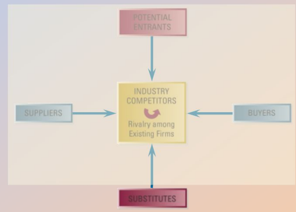
Porter's Five Forces Model of Industry Competition



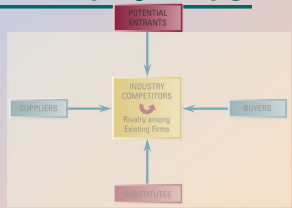
Adapted from Exhibit 2.2 Porter's Five Forces Model of Industry Competition

The Threat of Substitute Products and Services

- Substitutes limit the potential returns of an industry
  - Ceiling on the prices that firms in that industry can profitably charge
  - Price/performance ratio

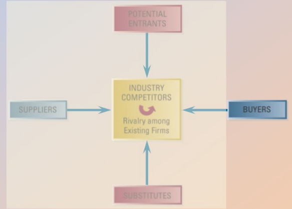


The Threat of New Entrants



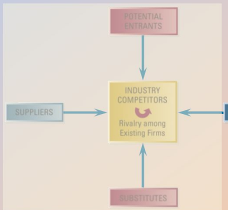
- Profits of established firms in the industry may be eroded by new competitors
- High entry barriers lead to low threat of new entries
  - Economies of scale
  - Product differentiation
  - Capital requirements
  - Switching costs
  - Access to distribution channels
  - Cost disadvantages independent of scale

The Bargaining Power of Buyers



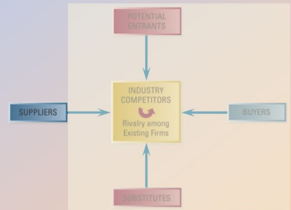
- Buyers threaten an industry
  - Force down prices
  - Bargain for higher quality or more services
  - Play competitors against each other

The Bargaining Power of Buyers



- A buyer group is powerful when
  - It is concentrated or purchases large volumes relative to seller sales
  - The products it purchases from the industry are standard or undifferentiated
  - The buyer faces few switching costs
  - It earns low profits
  - The buyers pose a credible threat of backward integration
  - The industry's product is unimportant to the quality of the buyer's products or services

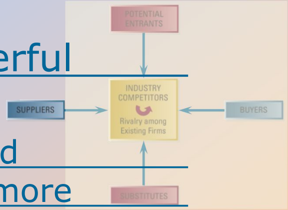
The Bargaining Power of Suppliers



- Suppliers can exert power by threatening to raise prices or reduce the quality of purchased goods and services

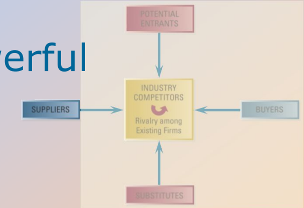
The Bargaining Power of Suppliers

- A supplier group will be powerful when
  - The supplier group is dominated by a few companies and is more concentrated than the industry it sells to
  - The supplier group is not obliged to contend with substitute products for sale to the industry
  - The industry is not an important customer of the supplier group



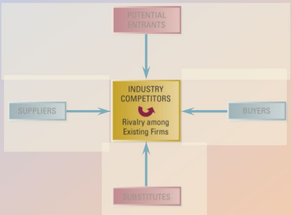
The Bargaining Power of Suppliers

- A supplier group will be powerful when
  - The supplier's product is an important input to the buyer's business
  - The supplier group's products are differentiated or it has built up switching costs for the buyer
  - The supplier group poses a credible threat of forward integration



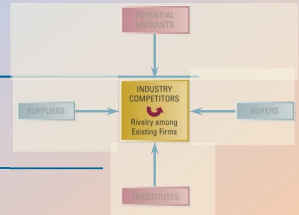
The Intensity of Rivalry among Competitors in an Industry

- Jockeying for position
- Price competition
- Advertising battles
- Product introductions
- Increased customer service or warranties



The Intensity of Rivalry among Competitors in an Industry

- Interacting factors lead to intense rivalry
  - Numerous or equally balanced competitors
  - Slow industry growth
  - High fixed or storage costs
  - Lack of differentiation or switching costs
  - Capacity augmented in large increments
  - High exit barriers



PLAYER ROLES

- ***Customers*** give us money for our product output.
- ***Suppliers*** give us input resources for our money.
- ***Competitors*** are players whose product sales decrease the value of our products to customers.

PLAYER ROLES

- ***Complementors*** are players whose product sales increase the value of our products to customers.
- ***Competitors*** also are players whose input purchases decrease our attractiveness to suppliers.
- ***Complementors*** also are players whose input purchases increase our attractiveness to suppliers.
- *Many players are in more than one role, so sometimes firm competes and sometimes firm cooperates with the same player.*

Cooperative Strategies

- Cooperative Strategy – strategy in which firms work together to achieve a shared objective
- Co-opetition – condition created when firms that have formed cooperative strategies also compete against one another in the marketplace

Reasons for Cooperative Strategies

- Most firms lack the full set of resources and capabilities needed to reach their objectives
- Cooperative behavior allows partners to create value that they couldn't develop by acting independently
- Aligning stakeholder interests (both inside and outside of the organization) can reduce environmental uncertainty
- Alliances can provide a new source of revenue

Reasons for Cooperative Strategies

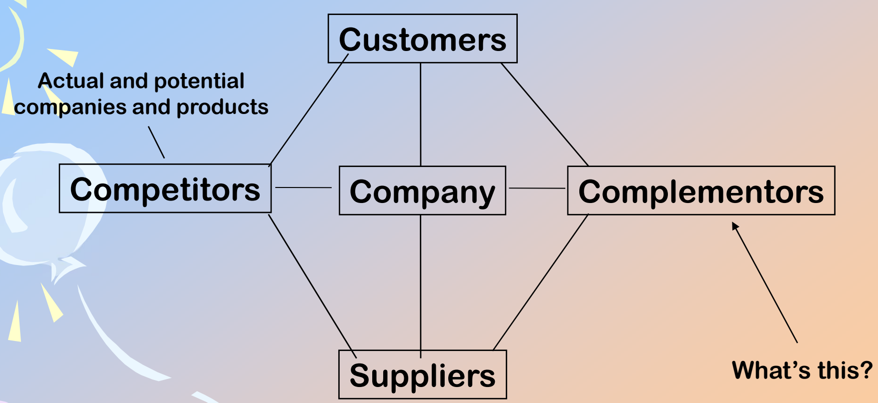
- Cooperation can be a vehicle for firm growth
- cooperation can enhance the speed of responding to market opportunities, technological changes, and global conditions
- Alliances allow firms to gain new knowledge and experiences to increase competitiveness
- Reasons for using cooperative strategies vary across market type

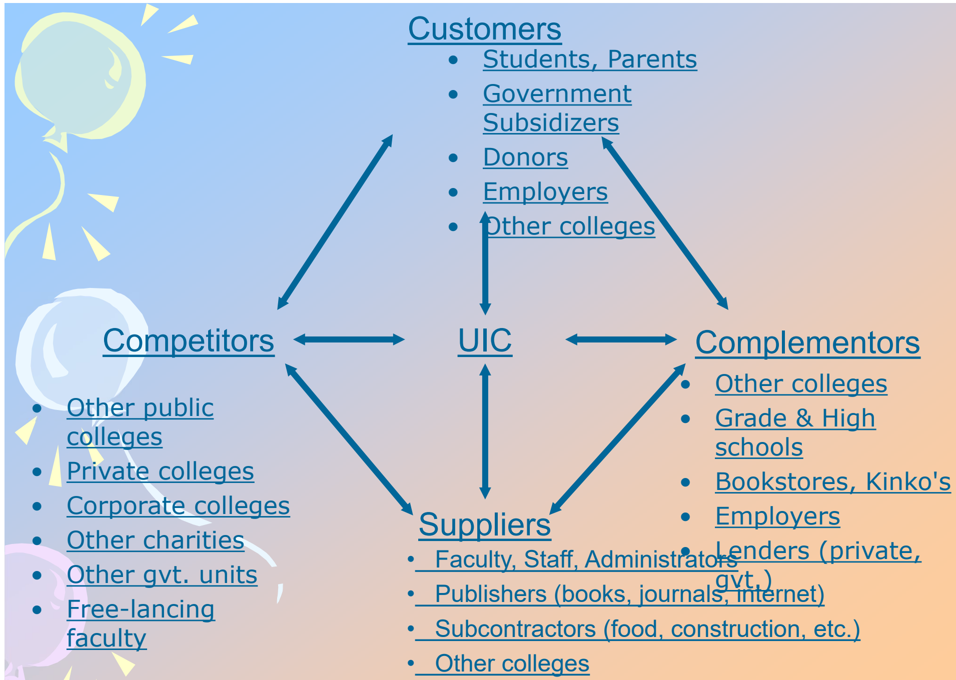
Defining Coopetition

- **Three properties of coopetition include:**
- **Cooperation and competition coexist between the same global rivals**
- **Cooperation and competition exist during one period**
- **Coopetition may occur at corporate-, division-, or subsidiary-levels, depending on a firm's strategic intent and organizational needs**

Brandenberger and Nalebuff

Value Net





Co-opetition and complements

- Customers value entire system
  - Hardware+software, DVD player+disks
- Sometimes you compete, sometimes you co-operate
  - Think of Intel and Microsoft, IBM and Oracle
  - Not a zero sum game!
- Complementors can be critical to your business, particularly in technology

COMPANIES ARE

- COMPLEMENTORS IN MAKING MARKETS
- COMPETITORS IN DIVIDING UP MARKETS

Dynamic nature of coopetition

- **The cooperative and competitive mix does not necessarily remain constant over time**
- **Whenever market conditions and internal needs change, the desired level of cooperation or competition will change**
- **Coopetition is a loosely coupled relationship in which players maintain certain interdependence without losing organizational separateness**
- **Coopetition is affected by dynamic conditions happening outside of the relationship: there are many other competitors in the global market**

When does cooperation increase?

- **When coopetiting players face increasingly competitive threats from other players who challenge their joint positions**
- **When global consumers become increasingly sophisticated by demanding new technology, better functionality, and additional services**
- **When coopetiting players encounter increasing pressure for global value chain integration. This pressure may stem from the increasing importance of economies of scale, cost-cutting pressure, and new capability development**

When does cooperation increase?

- When global rivals confront increasing hazards from institutional environments, especially regulatory hindrances, whether originating at home or in foreign countries. It is difficult for individual players to mitigate these hazards without uniting. Collective power and a harmonious group voice help all members in the group
- When coopetiting players have generated greater interorganizational attachment over time. As attachment rises, they will be committed to continuously investing in their relation-specific routines (e.g., Toyota with GM, SAAB, and Suzuki)

When does competition increase?

- When global rivals' competitive goals increasingly converge or overlap. This may occur if:
  - The rivals use the same competitive strategies
  - Market fields for competing firms expand, wherein two players both envision the common market as strategically paramount to their global operations, or
  - Product and business portfolio similarity increases
- When industry competition solidifies
- When competitive symmetry increases. If A is B's primary competitor, it does not necessarily follow that B is A's primary competitor (e.g., GE perceives Haier as a competitor only in the low-end to mid-end markets)
- When resource interdependence between global rivals decreases