CHAPTER - II

DYNAMICS OF COMPETITIVE STRATEGY:
A CONCEPTUAL PERSPECTIVE
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2.1 Introduction to Competitive Dynamics:

Competitive rivalry concerns the ongoing actions and responses between a firm and its competitors for an advantageous market position, competitive dynamics concerns the ongoing actions and responses taking place among all firms competing within a market for an advantageous position. In any market, actions by one firm tend to induce other firms to respond for defending their own competitive positions, a phenomenon known as competitive dynamics. An integral factor for managing competitive dynamics is competitive intelligence. Competitive intelligence refers to the techniques for systematically discovering, monitoring and analysing both behaviours of competing firms and structure of market places where the firms compete. Competitive intelligence allows the firms to develop smart strategies to minimise and delay the risks of competitive attacks on added value. A well designed competitive intelligence system establishes the types and sources of competitive information, continuously collects, validates, interprets, organises and distributes information, and is responsive to queries and feedback. It allows a firm to take into account not just the expected strategies of the competitive firms, but also their anticipated counter strategies i.e., how competitors are likely to act in response to its own strategy.

2.2 Competitive Speed – Its Impact on Competitive Dynamics:

Competitive dynamics is influenced by the effects of varying rates of competitive speed in different markets (slow cycle, fast cycle and standard cycle) on the behaviour (actions and responses) of all competitors within a given market. Competitive behaviours as well as the reasons or logic for taking them are similar
within each market type but differ across market type. Thus competitive dynamics differ in slow cycle, fast cycle and standard cycle markets.

2.2.1 Slow Cycle Markets:

Slow cycle markets are markets in which the firm’s competitive advantages are shielded from imitation for what are commonly long periods of time and where imitation is costly. Competitive advantages are sustainable in slow cycle markets. Building a one of a kind competitive advantage that is proprietary leads to competitive success in a slow cycle market. Copyrights, patents and ownership of an information resource are examples of what leads to one of a kind advantage. The competitive dynamics in slow cycle markets involve all firms concentrating on competitive actions and responses that enable them to protect, maintain and extend their proprietary competitive advantage.

2.2.2 Fast Cycle Markets:

Fast cycle markets are markets in which the firm’s competitive advantages are not shielded from imitation and where imitation happens quickly and somewhat inexpensively. Competitive advantages are not sustainable in fast cycle markets. Thus, firms competing in fast cycle markets recognise the importance of speed, meaning that these companies appreciate that “time is as precious a business resource as money or head count and that the cost of hesitation or delay are just as steep as going over budget or missing a financial forecast. Reverse engineering and the rate of technology diffusion in fast cycle markets facilitate rapid imitation. A competitor uses reverse engineering to quickly gain the knowledge required to imitate or improve the firm's products, usually in only a few months. Technology is rapidly diffused in fast cycle markets making it available to competitors in a short period. The pace of competition in fast cycle markets is almost frenzied, as companies rely on ideas and
the innovations resulting from them as the engines of their growth. Since prices fall quickly in these markets, companies need to profit quickly from their product innovations.

The characteristics of fast cycle markets make it virtually impossible for companies in this type of markets to develop sustainable competitive advantages. Recognising this, firms avoid "loyalty" to any of their products, preferring to cannibalise their own before competitors learn how to do so through successful imitation. This emphasis creates competitive dynamics that differ substantially from those found in slow cycle markets. Instead of concentrating on protecting, maintaining and extending competitive advantages, as in the case for firms in slow cycle markets, companies competing in fast cycle markets focus on learning how to rapidly and continuously gain new competitive advantages that are superior to those they replace. Competitive dynamics in this market type find firms taking actions and responses in the course of competitive rivalry that are oriented to rapid and continuous product introductions and the use of a stream of ever changing competitive advantages. The firm launches as a competitive action and then exploits the advantage associated with it for as long as possible. However, the firm also tries to move to another temporary competitive advantage before competitors can respond to the first one. The competitive dynamics in fast cycle markets in which all firms seek to achieve new competitive advantages before competitors learn how to effectively respond to current ones, often result in rapid product upgrades as well as quick product introductions.

2.2.3 Standard Cycle Markets:

Standard cycle markets are markets in which the firm's competitive advantages are moderately shielded from imitation and where imitation is moderately
costly. Competitive advantages are partially sustainable in standard cycle markets, but only when the firm is able to continuously upgrade the quality of its competitive advantages. The competitive actions and responses that form a standard cycle market’s competitive dynamics find firms seeking large market shares, trying to gain customer loyalty through brand names and carefully controlling their operations to consistently provide the same usage experience for customers without surprise.

2.3 Competitive Advantages:

Winning business strategies are grounded in sustainable competitive advantage. A company has competitive advantage whenever it has an edge over rivals in attracting customers and defending against competitive forces. There are many routes to competitive advantage, but the most basic is to provide buyers with what they perceive as superior value – a good product at a low price, a superior product that is worth paying more for, or a best value offering that represents an attractive combination of price, features, quality, service and other attributes buyers find attractive. Delivering superior value – whatever form it takes – nearly always requires performing value chain activities differently than rivals and building competencies and resource capabilities that are not readily matched.

2.4 Competitive Strategies – The Basis of Competitive Advantage:

Competitive advantage is a theory that seeks to address some of the criticisms of comparative advantage. Michael Porter proposed the theory in 1985. Competitive advantage theory suggests that states and businesses should pursue policies that create high-quality goods to sell at high prices in the market.

Porter emphasises productivity growth as the focus of national strategies. Competitive advantage rests on the notion that cheap labor is ubiquitous and natural resources are not necessary for a good economy. The other theory, comparative
advantage can lead countries to specialise in exporting primary goods and raw materials that trap countries in low-wage economies due to terms of trade. Competitive advantage attempts to correct for this issue by stressing maximising scale economies in goods and services that garner premium prices (Hunt, Shelby and Robert M. Morgan, 1999).

Competitive advantage occurs when an organisation acquires or develops an attribute or combination of attributes that allows it to outperform its competitors. These attributes can include access to natural resources, such as high grade ores or inexpensive power, or access to highly trained and skilled personnel human resources. New technologies such as robotics and information technology either to be included as a part of the product, or to assist making it.

The term competitive advantage is the ability gained through attributes and resources to perform at a higher level than others in the same industry or market. (Christensen and Fahey 1984, Kay 1994, Porter 1980 cited by Chacarbaghi and Lynch 1999, p.45).

The study of such advantage has attracted profound research interest due to contemporary issues regarding superior performance levels of firms in the present competitive market conditions. “A firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential player” (Barney 1991 cited by Clulow et al.2003).

Successfully implemented strategies will lift a firm to superior performance by facilitating the firm with competitive advantage to outperform current or potential players (Cockburn, Iain M. Rebecca., Rebecca M. Hendersen, 2001).

To gain competitive advantage a business strategy of a firm manipulates the various resources over which it has direct control and these resources have the ability
to generate competitive advantage (Reed and Fillippi 1990 cited by Rijamampianina 2003).

Superior performance outcomes and superiority in production resources reflects competitive advantage (Day and Wesley 1988 cited by Lau 2002).

The above writings signify competitive advantage as the ability to stay ahead of present or potential competition, thus superior performance reached through competitive advantage will ensure market leadership. Also it provides the understanding that resources held by a firm and the business strategy will have a profound impact on generating competitive advantage.

Powell (2001) views business strategy as the tool that manipulates the resources and create competitive advantage, hence, viable business strategy may not be adequate unless it possesses control over unique resources that has the ability to create such a unique advantage. Summarising the view points, competitive advantage is a key determinant of superior performance and it will ensure survival and prominent placing in the market. Superior performance being the ultimate desired goal of a firm, competitive advantage becomes the foundation highlighting the significant importance to develop the same.

In the event competitive advantage is gained by a firm would not it be necessary to sustain such value creating advantage for desired periods of time in order to gain maximised superior outcomes? As Ma states (2003) winning is a habit not a one time event. With the same view point Chaharbaghi and Lynch (1999) writes “sustainable competitive advantage is a journey not a destination- it is like tomorrow which is inescapable but never arrives” stressing the idea that once reached, all attempts should be made to sustain competitive advantage.
Competitive strategy is the basis on which a business unit might achieve competitive advantage in its market. Competitive strategy has a narrower scope than business strategy. Competitive strategy deals exclusively with management's action plan for competing successfully and providing superior value to customers. Business strategy concerns not only how to compete but also how management intends to address all the other strategic issues confronting the business.

The competitive aim is to do a significantly better job of providing what buyers are looking for and thereby enabling the company to gain a competitive advantage and out-compete other rivals in the market place. The core of a company's competitive strategy consists of its internal initiatives to deliver superior value to customers. It also includes offensive and defensive moves to counter the maneuvering of rivals, actions to shift resources around to improve the firm's long term competitive capabilities and market position and tactical efforts to respond to whatever market conditions prevail at the moment.

Companies the world over, are imaginative in conceiving strategies to win customer favour, out compete rivals, and secure a market edge. Because a company's strategic initiatives and market maneuvers are usually tailor made to fit its specific situation and industry environment, there are countless variations in the competitive strategies that companies employ.

2.5 The Five Generic Competitive Strategies:

A company's competitive strategy according to Porter (1980) consists of the business approaches and initiatives it undertakes to attract customers and fulfill their expectations, to withstand competitive pressures and strengthen its market position. Competitive advantage is based on excelling in providing one or more of the forms of customer value. Customers want goods and services that are (i) better (ii) cheaper and
(iii) faster. There are as many competitive strategies as there are competitors. However, when one strips away the details to get at the real substance, the biggest and most important differences among competitive strategies boils down to (1) whether a company's market target is broad or narrow and (2) whether it is pursuing a competitive advantage linked to low cost or product differentiation. Five distinctive competitive strategies stand out:

2.5.1 Low Cost Provider Strategy:

This involves appealing to a broad spectrum of customers based on being the overall low cost provider of a product or service. Cost advantages are measured as the direct costs of the firm, expressed in percentage terms, relative to the estimated average of its leading competitors. The classic cost leadership strategy often involves offering a no frills product aimed at the most typical customer in a large target market. Because costs usually fall as a product becomes more standardised, low cost service firms offer uniform packages. By targeting broadly defined markets with standard products, firms can use mass production techniques to enjoy the greatest possible benefits from economies of scale and learning curve effects. A low cost strategy is associated with low end 'plain vanilla' goods or services. This is often the case but not always. Customers care about more than just cost. Customers willingness to pay for added features suggest that to properly appreciate the range of options for pursuit of a low cost provider strategy, companies need to move beyond considering cost alone, to considering value as well. Because customers balance benefits against costs in judging value, producers can pursue a cost leadership strategy in virtually every market segment. Cost leadership is a relative term; it refers to costs relative to benefits as well as costs relative to those of the competition. Regardless of what market segment a firm chooses, success with a strategy based on cost leadership usually
requires a broad based attack on costs. It is insufficient to focus only on one or two costs, because overall cost leadership is required.

2.5.2 Broad Differentiation Strategy:

It seeks to differentiate the company’s product offering from rivals in ways that will appeal to a broad spectrum of buyers. Differentiation refers to the extent to which a customer finds a firm’s products and services unique in some way that makes them more attractive and therefore worth a premium price. It is measured as any non-price attribute identified by customer’s evaluation of competing goods and/or services. In a competitive world, differentiating a brand can be a daunting task. At times, marketers think in limited terms and do not think about the “total brand experience” which includes all the places the consumer touches or experiences the brand from beginning to end. Looking through the customer’s eyes to identify their needs and then incorporating the brand experience can help optimise the consumer’s experience.

In the case of competitive advantage based on differentiation, firms attempt to create unique bundles of products and/or services that will be highly valued by customers. Following are some attributes that can differentiate products:

1. **Product Features:** A product’s physical characteristics or capabilities may be an important form of differentiation.

2. **After sales service:** Convenience and quality of service may be a critical factor in deciding among alternative products. Customers prefer organisations that provide an efficient nationwide network of service outlets.

3. **Technological innovation:** Technology provides the basis of competitive advantage for a broad range of firms. Firms focusing on this attribute need to
be continuously reinventing themselves to be in the forefront of leading technical changes.

4. Reputation: A distinguished reputation built on the bedrock of a strong brand image can be an important driver of customer preference and revenues.

Firms can differentiate products or services in many ways. Any attribute, feature or capability that customers value and that a particular firm is uniquely able to offer can provide a competitive advantage based on differentiation. In fact, quality is defined broadly to include anything that allows a firm to favourably differentiate its products as evidenced by an ability to bolster the price it charges for the goods or service. If the firm is successful in creating some unique and desirable attribute in its goods or services, it builds brand loyalty in customers, decreases the number of alternative products the customers are willing to consider, and reduces buyers’ sensitivity to prices. These results produce higher profit margins without the necessity of lowering costs. Managers who pursue this strategy must often accept lower market shares, because mass marketing is usually incompatible with exclusive image associated with the products. High differentiation also limits the firm’s ability to compete on cost or price, because extra research and development, better quality of inputs and more advertising often create the differentiation. In essence, successful differentiation strategies require manager to, (i) understand what customers value (ii) be uniquely able to provide that value and (iii) be able to extract a premium price for it. This focus on improving profitability through premium pricing is very different from the focus of firms that pursue cost leadership advantages.
2.5.3 Best Cost Provider Strategy:

It involves giving customers more value for their money by incorporating good to excellent product attributes at a lower cost than rivals; the target is to have the lowest (best) costs and prices compared to rivals offering products with comparable upscale attributes. Adding value to a product consists of any activity that increases the product’s worth to the customer such as features, added benefits (riders), etc., The success of the strategy depends on the ability both to understand and to deliver enhanced value in terms of customer needs, whilst also having a cost base that permits low prices and is sufficient to maintain and develop bases for differentiation. This strategy could be advantageous in the following situations:

(i) If much greater volumes than the competition can be achieved and margins still kept attractive because of a low cost base.

(ii) If it is possible to be clear about the core competencies on which differentiation can be built and then reduce costs on other activities. Firms recognise that they can achieve a high standard of production at a low cost whilst concentrating on building differentiation on the basis of their marketing, range and customer benefits.

(iii) If there is a market segment with particular needs which also facilitates a low price approach.

(iv) As an entry strategy in a market with established competitors. This involves searching for the ‘loose brick’ in a competitors’ portfolio of businesses – perhaps a poorly run operation in a geographical area of the world – then enter that market with a superior product or service and, if necessary at a lower price. The aim is to take share, divert the attention of the competitor and establish a foothold from which they could move further. However in following such a
strategy it is important to ensure that (a) the overall cost base is such that low margins can be sustained and (b) a clear follow-through strategy has been considered for when entry has been achieved.

2.5.4 Focused (or market niche) Strategy Based on Differentiation:

It involves concentration on a narrow buyer segment and out-competing rivals by offering niche members customised attributes that meet their tastes and requirements better than rival products. Firms following this strategy seek to provide a high perceived value justifying a substantial price premium, usually to a selected market segment. Customer value creation is moving into a new arena – one that encompasses goods and service quality, but is a broader concept. The customers’ total experience directly affects perceptions of value, word of mouth endorsement, and re-patronage intentions. The value created in the minds of customers translates to favourable brand performance when competitors provide no significant threat, when channel members and other intermediaries provide strong support and when a sizeable number of profitable customers are attracted to the brand. The choice may have to be made between broad differentiation across a market or a more focused strategy. This may take on global proportions, as managers have to decide between a broad approach in increasingly global markets or more selective focus strategies. Because an organisation choosing to follow a focus strategy is likely to be targeting a particular market segment it important to realise that, within that segment itself, the strategy clock is just as relevant so managers face further choices.

2.5.5 Focused (or market niche) Strategy Based on Lower Cost:

It refers to concentrating on a narrow buyer segment and out-competing rivals by serving niche members at a lower cost than rivals. It is important to be clear about which market segment or segments is being targeted, defined in terms of a coherent
set of customer needs; and this needs to be translated into action which satisfies those customers. This may be difficult to do, if the organisation is attempting to compete in different market segments, with different needs. The advantage of this approach is to be carefully monitored because the market situation may change. Differences between segments may be eroded, leaving the organisation open to much wider competition.

2.5.6 Speed – The Emerging Competitive Strategy:

Over the last decade, another form of competitive advantage has emerged and that is the ability to recognise, adapt to and respond to changing customer needs faster than the competitors. This form of competitive advantage is known as quick response. During the 1980's managers in firms attempting to improve value for customers focused much attention on the competitive advantages of cost leadership and differentiation. Firms became so successful at finding ways to combine these two forms of competitive advantage that the Japanese began referring to the situation as atarimae hinshitsu which means 'value is taken for granted'. When value from differentiation and costs is so widespread that customers take it for granted, firms must find new forms of competitive advantage if they hope to sustain above normal levels of profitability.

During the 1990s many firms discovered the potential for regaining a competitive advantage by shifting focus to response time. This form of competitive superiority seeks to provide the quality and cost customers want faster than the competition does. The shift from emphasis on differentiation and cost towards competition on quick responses is obvious to researchers and managers alike. A researcher has described this development by concluding, "In today's economy the company that survives will be the one that can develop, produce and deliver products
and services to customers faster than its competitors”. Andrew S. Grove, CEO of Intel said, “Ultimately speed is the only weapon we have”.

Quick responses are more than just another aspect of differentiation, although the two are obviously complementary. Quick response refers to the speed with which a new product, product improvement, or even a managerial decision that affects the customer, can be made, rather than the firm’s relative level of differentiation or low cost. Just as high costs or unattractive features can diminish a product’s or service’s desirability, slow responses to customers’ needs may force them to choose alternatives. Quick response is really a way of looking at a firm’s flexibility. Although quick response is emerging as a source of competitive advantage in its own right, it does not require that firms ignore the competitive advantage of high differentiation or low cost. In fact, speed can actually improve performance on other competitive dimensions.

With regard to the relationship between competitive advantage and firm’s financial performance, data suggests that firms with more than one competitive advantage are in a fairly strong position. A business that does not excel in any of the sources of competitive advantage does not offer customers a superior option along any of the three dimensions of value, and it will consequently fare poorly in a competitive market. In the long run, such businesses are probably destined to earn no more than what economists call ‘normal profits’. Normal profits allow investors to earn an average return equal to what they would expect to receive from any other similarly risky investment, and they do not meet the goal of creating economic value. Performance that yields only normal profits is not particularly noteworthy because normal profits are only average. For profit businesses strive to create economic value
by achieving performance above the normal level of profits; consequently the pursuit of competitive advantage has become the central theme of strategic management.

2.6 Competitive Strategies – The Different Dimensions:

Organisations achieve competitive advantage by providing their customers with what they want or need, better or more effectively than competitors; and in ways in which their competitors find difficult to imitate. Since products or services of different businesses are more or less equally available and there are no supply side constraints, customers may choose to purchase from one source rather than another because either (a) the price of the product or service is lower than competitors or (b) the product or service is perceived by the customer to provide better ‘added value’ or benefits than that available elsewhere. The following are some of the strategies that can be pursued to achieve competitive advantage:

2.6.1 Price based strategies:

It is the ‘no frills’ strategy that combines a low price, low perceived added value and a focus on a price sensitive market segment. It can be viable because there may well exist a segment of the market which, whilst recognising that the quality of the product or service is low, cannot or chooses not to afford to buy better quality goods. Businesses may choose to achieve market share by using this strategy to build volume before moving on to other strategies. The strategy may also be a viable means of competing in an industry in which major firms are following other different strategies. The low price strategy seeks to achieve a lower price than competitors whilst trying to maintain similar value of product or service to that offered by competitors. If a business unit aims to achieve competitive advantage through a low price strategy it has two basic choices in trying to achieve sustainability. The first is to identify and focus on a market segment which is unattractive to competitors and in a
way to avoid competitive pressures to erode price below certain levels in order to achieve acceptable returns. A more challenging situation is where there is competition on the basis of price.

2.6.2 Added value or differentiation strategies:

A broad differentiation strategy is one which seeks to provide products or services unique or different from those of competitors in terms of dimensions widely valued by buyers. The aim is to achieve higher market share than competitors (which in turn could yield cost benefits) by offering better products or services at the same price; or enhanced margins by pricing slightly higher. This strategy can be achieved through the following:

1. Uniqueness or improvements in products, for example, by investment in R&D, design expertise or building on the innovatory capabilities in the organisation. This is often the basis upon which companies seek to compete by investing in technology or design to achieve greater reliability, product life or performance. However, it should be noted that such improvements are often not durable; competitors are able to catch up.

2. Marketing based approaches – in effect, demonstrating better than the competition how the product or service can meet customer needs. Here, the strategy is likely to be built on the power of the brand or by powerful promotional approaches.

3. Competence based approach is one in which an organisation tries to build differentiation on the basis of its competencies. If these really are competencies which are peculiar to the organisation then it may well be difficult for competitors to imitate them. However, identifying core competencies as a basis for building a differentiation strategy is a challenging task.
2.6.3 The Hybrid Strategy:

A hybrid strategy seeks simultaneously to achieve differentiation and a price lower than that of competitors. The success of the strategy depends on the ability both to understand and to deliver enhanced value in terms of customer needs, whilst also having a cost base that permits low prices and is sufficient for reinvestment to maintain and develop bases for differentiation. The hybrid strategies could be advantageous if much greater volumes than the competition can be achieved, and margins still kept attractive because of a low cost base, if it is possible to be clear about the core competencies on which differentiation can be built, and then reduce costs on other activities, if there is a market segment with particular needs which also facilitates a low price approach, as an entry strategy in a market with established competitors.

2.6.4 Focused Differentiation Route:

A focused differentiation route seeks to provide high perceived value justifying a substantial price premium, usually to a select market segment. The choice may have to be made between broad differentiation across a market or a more focused strategy. Since an organisation which chooses to follow a focus strategy is likely to target a particular market segment, it is important to realise that, within the segment itself, the strategy clock is just as relevant so managers face further choices. It is important to be clear about which market segment is targeted, defined in terms of coherent set of customer needs; and this needs to be translated into actions which satisfies those customers. This may be difficult to do, if the organisation is attempting to compete in different market segments, with different needs. The advantages of the focused approach have to be carefully monitored because the market situation may
change. Differences between segments may be eroded, leaving the organisation open to much wider competition.

2.7 Competitive Strategies to Overcome Traditional Bases of Competitive Advantage:

The financial services markets, especially insurance are not stable any longer because the forces at work in the environment are rapidly changing. New entrants, products, technologies etc are reshaping industries and organisations are busily trying to disrupt the status quo rather than preserve it. Organisations will therefore try to build barriers to preserve advantage in different ways and the following are some of the measures that can be taken:

2.7.1 Advantage based on price differentiation:

Since cost based and differentiation based competitive advantages can be eroded organisations will seek other bases of advantage. There may be other market facing options such as greater focus or they may make other strategic moves by trying to build barriers against competition.

2.7.2 Seeking advantage through market based strategic moves:

A firm may try to achieve advantage by being the first mover to make a strategic move in a market: perhaps by launching a product first. It may take time for competitors to catch up; allow the first mover to gain benefits of economies of scale and experience curve effects; and build customer loyalty and therefore switching costs. However in a hyper competitive environment it is more difficult to sustain first mover advantage. The time available to gain advantage from the first mover is reduced and technological changes may encourage rapid response and innovation. Competitors realise the importance of not allowing a first mover to establish a dominant product or design before they make the first move. Instead of launching an
imitation product, a competitor may launch a product with enhanced features, seeking
to further differentiate and thus leapfrog or outflank the first mover. They could attack
a particular segment, eroding the market power of the first mover, or perhaps choose a
no frills strategy to capture a down-market segment with a cheaper product before
moving into the main market of the first mover. Firms also often seek to achieve
advantage by developing new products or entering new markets.

2.7.3 Seeking advantage by building barriers:

Firms also try to sustain advantage by building barriers to prevent competitors
entering their domains against them. Firms may try to build competitive advantage
through the robustness of their resources and competencies. In other words, they seek
to build resource based advantage. This is not easy especially in markets where
technological advance is rapid, or where advantage is based on technical know how, it
may be unwise to rely on the continued benefits of existing or past resource based
advantage.

Another way of trying to hold on to competitive advantage is to build
strongholds. A firm may try to dominate particular areas – e.g., a geographic area or
market segment. By doing so, they seek to achieve much market power in that area.
However, such strongholds may be undermined. The benefits of economies of scale
built up in one area can be undermined by another competitor in a different area.
Domination of strongholds may also have built switching costs for buyers. However,
these can be overcome too. Entrants into such strongholds may be prepared to buy
their way in, either by low price, or by sampling their products for a period of time.
Firms have also often tried to build strongholds by tying up distribution channels.
Entrants may be able to get around this too by using alternate distribution channels.
The advantage of ‘deep pockets’ or substantial surplus resources, is that a competitor can withstand in intensive competitive war. Such deep pockets may take different forms: most obviously financial, but also conceivably in terms of talent or perhaps global reach which gives an organisation the opportunity to give competitive knowledge worldwide and also move resources wherever they are necessary either to preserve their own interests or tackle competition. Smaller firms may instead focus on market niches. Smaller firms may find ways of providing more specialised services rather than the more commodity type of approach of large firms. Deep pockets may be linked to the ‘scale of operations’. Firms may seek to build the scale of operations in order to cut costs and target a wider range of customers.

2.8 Escalating Bases of Competition:

In hypercompetitive conditions cycles of competitions will speed up. As this happens, bases of competition are likely to escalate as firms seek to make different market moves and build different barriers.

A firm may develop a product or service and seek to achieve advantage by its distinctiveness, or differentiation, in its market. However this will be imitated, and in hyper competitive conditions, this may happen rapidly. The firm may try to build barriers, perhaps based on the greater exploitation of its resource base or competencies. The next move may be trying to stretch competencies and resources to find new markets, but if this is successful competitors will follow. There may be an attempt to drive down costs to achieve a low price differentiation based advantage or perhaps the firm will try to focus on building barriers to competition in stronghold areas. But competitors can also drive down their costs; and strongholds may be difficult to preserve in fast changing market conditions. It may be at this stage that the firm tries to build scale. The ultimate outcome of such escalation may be a few
dominant firms in the market with very little competitive advantage between them and consequently little upon which to build the creation of rents.

2.8.1 Successful Hypercompetitive Strategies

Whatever the bases of competitive advantage – differentiation, moving first, building and protecting strongholds or having ‘deep pockets’, competitors can find ways around them. Together with the development of new ways of doing business, the result is increasing hyper competitive market conditions. In such circumstances, the argument is that firms need to rethink their approach to competitive strategies. It is no longer possible to plan for sustainable positions of competitive advantage. Planning for long term sustainability will destroy competitive advantage because it will slow down response. With regard to competitive strategies, the new emerging realities are:

Every advantage is temporary and will be eroded. However, long term advantage may be sustained through a series of temporary advantages. Disruption of the status quo is strategic behaviour, not mischief. The ability to constantly ‘break the mould’ could be a core competence.

Sustaining old advantages can be a distraction from developing new advantages. In order to gain advantages, firms must be prepared to destroy the bases of their own competitive advantage. Instead of trying to protect competitive advantage, the firm has to be prepared to pre-empt imitation by others, by identifying niches which can be exploited, or developing and launching new products and services. In all of this, choosing to compete on other than the normal bases of competition can be useful.

Predictability is dangerous. Surprise is important. So unpredictability and apparent irrationality may be logical. If competitors come to see a pattern in the
behaviour of another competitor, then they can predict the next moves to be taken and can quickly learn how to imitate or outflank. Managers must learn ways to at least, appearing to be unpredictable or even irrational to the external world whilst, internally, thinking through this carefully.

Companies should beware of attacking competitor's weaknesses. If a competitor gets used to being attacked in the same sort of way, that competitor can learn about the strengths of the firm and how they will compete.

Competing is necessary but makes winning more difficult. Whilst it is absolutely necessary to compete in the hypercompetitive environment, doing so simply accelerates the speed of hyper competition and makes winning more difficult. However, there is no alternative. Managers just have to learn to be better at doing it and faster than competitors.

Rather than trying to identify and implement a 'grand plan' in the form of a one-off change in strategy, smaller strategy initiatives which develop into a longer term shift in overall strategy have their advantages. The longer term direction is not as easily discernible by competitors and they allow flexibility in the management of strategy.

Signalling or more usefully misleading signaling, of strategic intentions may also be useful. In this the strategist may take the help of game theory to signal moves which competitors may expect but which are not the surprises that actually occur.

Industries such as insurance which operate in hyper competitive environments should recognise that the essence of hyper competitive strategies is speed, innovation, timing, flexibility and risk taking. The more the business environment demands such flexibility and speed, the more it will be the organisations that build such cultures of speed and flexibility that will win. These organisations are unlikely to be traditional
hierarchies with heavy top down planning and control. They are more likely to involve devolution of responsibility for sensing of buyer expectations and competitive moves. Active debate across a non hierarchial network; encouragement of variety and diversity of views and ideas, acceptance of responsibility for action at levels in the organisation well below top management; latitude to trying things out and tolerance of things going wrong would become distinct features. The basis of an effective competitive strategy becomes one of organisational culture and design for flexibility, innovation and speed rather than about analysis, positioning and sustainability.

2.9. Competitive Strategies Adopted By Insurance Companies

With the intensifying of competitive pressures, the range and diversity of competitive strategies adopted by insurance companies has undergone a paradigm shift. Companies are intent on identifying competitive advantages that would enable them to sustain and grow in the market place. There is also a growing realization that traditional sources of advantage may no longer be relevant since they become industry standards in course of time and discovering new sources of advantage has to be an ongoing process. The following are some of the competitive strategies formulated and implemented in the life insurance sector.

(i) Product diversity to cater to wide ranging needs: The liberalisation of the Indian insurance industry has led to paradigm shifts in the entire gamut of its functioning. Concomitant with the dramatic transformation in various parameters of the insurance sector, there has been a virtual explosion in terms of the number of products, types of products, benefits offered, segments targeted etc., Riders, a term which was not heard before, has become an integral part of many policies. Companies have been working overtime to introduce new products at regular intervals to cater to the ever expanding needs of the population and to get a larger slice of the insurance
market. Companies are creating and nurturing top-notch processes for maintaining a comprehensive product portfolio that is continuously ‘fresh’ with attractive product features. This approach is expected to engender sustained sales growth together with strong renewal persistency, leading to above-normal revenue growth and profitability.

(ii) **Widening of distribution channels:** As the market undergoes more structural changes and insurance becomes commodity-like with the consumer audience fragmenting and regulatory changes occurring, companies which are able to better manage their distribution network would gain a strong competitive advantage. Prior to the liberalisation of the sector, the insurance companies mainly focused on the direct agency model. Though there were corporate agents, their share of business was quite small. With the liberalisation of the sector and growing intensity of competition, insurers have greatly widened their distribution network in order to effectively tap customers wherever and whenever they are available. Distribution channels today include the Direct agency model, Corporate agents, Bancassurance, Malassurance, SHG’s, NGO’s, RRB’s, rural branches of banks, co-operative societies, credit societies and panchayats., etc.,

(iii) **Focus on customer service:** Customer service which left much to be desired during the monopoly era has undergone a sea change with insurers focusing on delighting customers at every point of interaction. Customer service has become a key result area and a source of competitive advantage. Insurance companies have in place a slew of operating methodologies and processes primed to give customers the attention benchmarked to international ‘best service standards’. Companies strive to implement service standard modules that set time frames for every customer interaction activity. Immediate phone pick-up, prompt return of calls and written communication with similar guidelines for policy issuance and complaints redressal,
well networked customer care centres with state of the art IT systems, toll-free number to answer all queries, accessibility from anywhere in the country, a strong tele-marketing and Direct marketing team, 24 hours Helpline, SMS and web enabled service platform for customer guidance, claim forms, processes, Do’s and Don’ts, FAQ’s, minimal documentation, pan India network, quality screened partners etc, make sure that customers get the best possible service at all times.

(iv) **Quicker claim settlement:** Claim settlement is the corner stone of a healthy relationship between the insured and the insurer. Realising this, insurance companies have made their claims settlement process transparent and speedier. Companies make a virtue of their prompt claims paying capacity. Despite the large number of transactions, insurers are committed to making prompt claims payments.

(v) **Leveraging IT to improve efficiencies across the value chain:** The insurance industry is in an increasingly dynamic environment - both within the enterprise, where business strategies shift, and outside the enterprise, where unanticipated opportunities and threats are constantly emerging. Leveraging IT, insurers have been at the forefront of building continuous excellence in their operations. Some of the companies have gone in for complete digitisation of administrative files and records for existing as well as new customers. Digitisation would help them in faster service delivery to customers, as customers’ records will be available on-line 24x7. Also, it will eliminate risks of loss of records/damage due to natural disasters and accidents, as the records will be archived in digital form. To remain competitive, companies have reduced IT complexity, enabling straight-through business processes that give people the ability to unlock the agility of the insurance enterprise. Insurers have implemented global and industry standards-based solutions that ease IT complexity and connect all facets of the insurance process,
including channel sales and service, claims processing, underwriting, core policy systems, product development, and reinsurance. These solutions help them become more agile while reducing overall technology costs. They also enable a people-ready business: one that builds customer connections and strengthens profitable customer relationships.

(vi) **Product and process innovations:** Product innovation may offer a temporary advantage, but it would not be sustainable, since it can be easily copied. However, a company that develops an effective process to be a ‘fast follower’ can achieve a sustainable competitive advantage. This involves continuously monitoring the market environment, the tastes and needs of customers and the product designs of competitors to identify ‘winners.’ Once the opportunity is identified, it needs to be followed up with ‘speed to market.’ i.e., the company needs to have a smooth engine to crank out and file contract forms, generate premium scales, create marketing materials, train agents and update administration systems to accommodate the new sales.

(vii) **Building Customer Trust:** Since companies can build customer trust only by delivering what they promise, insurers are backing their performance with their promises. Processes are being streamlined in order to being there when customers need them, and to handle every customer interaction with integrity. Besides meeting contractual obligations, protecting customer privacy, and complying with legislation, this also means that sales practices and marketing materials must be in no way misleading.

(viii) **Brand Building:** Brand development is a powerful tool to achieve a competitive advantage and the insurance sector is leveraging emotion based promotions and marketing to try and build a bond with consumers. Generally,
companies promote their brand in the mass media as well as go in for sponsorships, Public relation exercises, cause related marketing activities as well as sales promotion activities in order to strengthen brand equity and improve brand loyalty.

(ix) **Usage of CRM for Better Integration of Customer Facing Functions:** Insurers are implementing CRM solutions to help them share real-time customer information across different customer-facing departments across locations. This has helped departments track customer details and respond to queries at short notice. It has also facilitated quick analysis of sales and marketing initiatives, which has, in turn, helped the company modify its products and services before offering them to customers. This has helped it win more customers and retain existing ones by offering them products and services that fit their needs. It also aids in developing multi-step marketing campaigns. Based on the type of response at each stage of an advertising campaign, appropriate processes can be triggered automatically in the e-CRM suite. Companies are also using analytical CRM to sell multiple products to existing customers and to acquire new customers. Analytical CRM is being utilised to obtain granular details about their customers, design better products, improve service levels and reduce operational costs.

(x) **Usage of Internet as an Important Marketing Channel:** The internet is being used as an increasingly important communication channel between the insurance companies and its target audience. A significant number of insurance purchases in the urban areas are 'Web Influenced'. Search engines like Google and Yahoo! have become critical channels for insurers undertaking massive consumer marketing campaigns to drive shoppers directly to their sites, and more insurers are embracing search engine optimisation to help capture these shoppers. The role of the
internet has become crucial because marketing and communication initiatives have metamorphasised to become more specific and one-to-one rather than on a mass level.

Since the insurance sector is functioning in a highly dynamic and competitive environment, the strategies followed by insurance companies to remain competitive and to gain competitive advantage cannot remain static. Companies need to be ahead of the curve in order to sustain in the market. They should not remain contented in following best practices because they would soon become industry standards. They should instead focus on innovating next practices which would help them gain competitive advantage in a fast paced business environment. Since the next practices would evolve to become best practices and become common practices with the efflux of time, the process of innovating new competitive strategies would remain a continuous process with the aim of winning at the market place.

References (Chapter - II)