UNIT 5 COMPETITIVE ANALYSIS AND STRATEGIES

Structure

5.0 OBJECTIVES

After reading this Unit you should be able to:

- understand the meaning of competition,
- identify the parameters on which the competitiveness of a market can be analysed, and
- identify the various strategic options to meet the competitive challenges.

5.1 INTRODUCTION

Competition is something inherent in any marketing or selling situation when there are two or more suppliers of the product. The competition goes on in all the markets. For example in the tourist generating markets there is competition among nations to get a larger share. Airlines compete for better market share and the situation of hotels is no different though the conditions may differ from Metropolitan cities to small destination areas. Similarly if you are an entrepreneur or a manager your business form or firm may be having competition with others. For example in the air carriers for travel and tourism a number of private airlines and ATOs (Air Taxi Operators) have come in during the last few years. These private airlines and ATOs took away a substantial market share of Indian Airlines which earlier had a monopoly. Indian Airlines was thus compelled to consider developing strategies to face competition. Similarly, a number of international hotel chains have already started operating and others are trying to collaborate with Indian counterparts, to enter in the Indian market.

As far as any destination is concerned, no doubt it is unique and it can't be duplicated elsewhere but the tourist may select going to another destination. This is yet another dimension of competition for tourist industry. In fact in tourism:

- nations compete with nations,
- destinations compete with destinations,
- tourism service providers compete with each other and so on.

In this Unit an attempt has been made to help you understand the dimensions on which the competition can be analysed and how strategies can be evolved to not only retain the market share but also to increase it. Mostly such aspects are taught at Master's level but we believe that competition effects every one and every one must possess knowledge in this regard. Whether you own a small business, or a big one, you ought to know what competition you have and how would you counter it.

5.2 COMPETITIVE ANALYSIS

It is appropriate to identify competitors for an organisation in some detail. For example, East-West Airways is well aware that Jet Airways is its major competitor and they ply on almost the same routes. But there are others also which can give competition. For example, Indian Railways 'Shatabdi' or 'Rajdhani' trains, which are faster and give good service to a traveller, might give competition to the airlines for certain routes. It is therefore suggested that competition may be understood with a wider perspective rather than having a narrow view about it.

For obvious reasons competition is one of the most significant component influencing your planning, as nothing can initiate a change in plans more effectively as a competitive threat can do to a company's market position. Therefore, it is important to analyse and understand your competitive situation. You can analyse your competitive situation against three sets of variables. These variables are:

- Direct versus Indirect Competition,
- Monopolistic or Oligopolistic Competition,
- Quantitative and Qualitative Analysis,

5.3 DIRECT VERSUS INDIRECT COMPETITION

Normally the competition implies that other companies are offering the same or similar products or services to the market as yours. Such companies represent direct competition from within one's own industry. For example, there are six five star hotels at a destination and they compete to get the maximum share from among the tourists visiting the destination. However, there may be indirect competition from other industries competing with substitute products or services and representing alternate attractions for consumer's rupee. For example an airline competes not only with other airlines but also with other forms of transportation like Railways or road transporters offering luxury buses.

5.4 MONOPOLISTIC OR OLIGOPOLISTIC COMPETITION

Monopoly refers to sole control of a company in a market over a commodity or service.

Oligopoly refers to a situation where few companies have substantial control over particular industry or market.

Typical situations of either monopoly or perfect competition are difficult to exist in an open economy. Therefore it is the monopolistic or oligopolistic situations which practically exist, explaining the competitive conditions.

In order to obtain clarification on these terminologies, you may note that oligopoly exists in an industry when a few companies have a substantial combined share of the industry. On the other hand monopolistic competition exists when there are many companies in an industry but none has a dominant position. The term monopolistic indicates that each company maintains virtually a monopoly on a small geographic or otherwise market segment due to product-service differentiation. For example, from tourism point of view each destination is unique but in a monopolistic situation Agra with the Taj Mahal is a unique destination and can't be duplicated elsewhere.

In oligopolistic industry the leading firms are stronger than the competitors to protect their market share. In such situations the undercuttings or increased promotional efforts normally serve specialised segments. Hence, the industry leaders don't consider it worth competing. Take for example Jet Airways and Archana Airways which are not competing with each other as these two airlines ply on altogether different routes. Therefore, each one of them need not to exercise any tactical plan to attract others' passengers because it may not result in generating any additional traffic.

In a monopolistic industry all companies are relatively free to make any move to adjust the marketing mix (you will read about marketing mix in Block 3) elements. Therefore, each company needs to identify ways and means to develop appropriate strategies using the various elements of the marketing mix.

As shown in the table 1, each competing company must analyse their competitive classifications vis-a-vis the industry and develop strategies accordingly.

Table 1: Market structures and their features

Features	Pure Competition	Monopolistic Competition	Oligopoly	Pure Monopoly
Number of sellers	Very large numbers	Substantial number	Few	One
Product	Undifferentiated perfect substitutes	Differentiated products with close substitutes*		No close substitute for unique good
Price	No control over price-seller must accept market price	Administered Prices Some price competition can prevail. Price control depends much on degree of differentiation.	Pricing in concert is strong tendency. Firms mutually interdependent.	Much control over price - but can sell only what market will take of his price.
Entry of new firms	Easy	Somewhat easy - but depends on technology and size of firms	Usually difficult because of size of firms and high consts	No entry as resources access is blocked
Marketing effort	None	Very large amount of non price competition with heavy emphasis on brands and product differentiation. Wide use of advertising and any marketing activity to build market share.		Little, but can enjoy benefits if less product elasticity is created

Source: Robert J. Holloway and Robert S. Hancock, Marketing in a Changing Environment 2nd edition. Wiley, New York, 1973. p. 107.

Check Your Progress-1

1) Explain the following:

Indirect Competition

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Oligopolistic Competition

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2) Do you think that analysing the Competitive Situation in market is important?

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5.5 QUANTITATIVE AND QUALITATIVE ANALYSIS

When analysing competition information may be gathered, analysed and understood under following headings:

- Number of competitors
- Ranking of direct competitors by name in terms of size and market share,
- Your own company's position,
- What are likely trends in the competitive position? Is there any which is growing faster than the rest to influence the competitive positions of each of the players,
- Relative strengths (and weaknesses) of each in comparison to your organisation, and
- Indirect competitors and their competitive strengths.

If your organisation is the leader in your type of industry, it becomes more important to find out whether your competitors are gaining and if yes why. If you are not the leader, then compare your strengths and weaknesses with the leader and the others who are ahead of you. This analysis would help you to identify opportunities and requirements on what should be done so as to challenge them.

The leading brand or organisation in industry occupies that position, being pioneers and thus getting certain advantages. Such companies easily establish their brand name, market share, distribution and sales network. However, early leadership does not provide assurance of continued success. Such situation is possible at both macro as well as micro levels. For example, at the macro level, airline D was doing very well a few years back, had established its brand name, had a significant market share and established a good sales network. However, within three years its leadership has been challenged and the market share has started declining because of competition. Similarly at a micro level, Restaurant G was doing very well but with the opening of new restaurants in the vicinity, its market share declined in spite of the efforts made by the management to add new attractions.

In fact, while posing such competition, the would be challenges attempt to find out how solid is the position of historical leader and what 'investment' of time, money and effort is required to overtake it.

It is therefore suggested that quantitative and qualitative analysis of competitors would definitely help you in developing appropriate strategies to face your competition effectively and successfully.

Check Your Progress-2

Explain the importance of Quantitative and Qualitative analysis for the promotion of business.

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5.6 STRATEGIC OPTIONS

It is just not possible for any organisation to ignore its competitors. At times it becomes important to counter it, otherwise your survival becomes uncertain. So one must be clear on

There are three basic approaches suggested from which an organisation can decide which one to choose. These three approaches are:

i) **Legal approach**
ii) **Cooperation with competitors**
iii) **Competition with competitors**

5.6.1 Legal Approach

An organisation can move to the court of law to protect its market on the ground that the competitor's action was illegal.

There are a number of examples from the manufacturing sector that one can cite. For example when 'Nirmaboy', a lookalike of 'Lifebuoy' was introduced with the same colour scheme on the wraper, same looks and small, similar legend and lower price, the Hindustan Lever Ltd. (HLL) got a legal notice served to Nirma charging the company with infringement on Lifebuoy's trademark. Obviously, HLL has no choice but to beat the competitors taking a legal approach as the stakes for HLL were very high for their largest selling soap in the world.

Nirma was compelled to change the brand name to 'Nirmabath' and also change the colour scheme of the wraper. Similar is the story about Promise tooth-paste versus Colgate toothpaste. Even in travel and tourism industry similar situations arise and an organisation can take the help of legislations covering the development of monopolies and prohibitions of certain type of price discrimination of "Unfair" competition. For example, if an "Approved" hotel exercises undercutting, and it is proved to the Department of Tourism, it is quite likely that the name of such hotel may get dropped from the list of "Approved Hotels".

However, the legal approach has its own set of limitations and one should resort to it as a last choice as any legal proceeding takes considerable time.

5.6.2 Cooperation with Competitors

No company is in existance to face defeat or failure or closure. It is therefore observed that at times even the rivals decide to live in harmony and cooperate with each other to stay in business. It has been noted that if there are fewer number of competing companies and they are similar to each other in terms of size, market segment and resources there will be more common interests among them and therefore a desire for cooperation.

Cooperation in competitive situation can be defined as a voluntary self-restraint to resolve conflict. Various departmental stores in the 'West" cooperate in going into regional shopping centres on the ground that the clients they would collectively generate is definitely much more the business they may take from each other. Similar, is the example of tie-up between Indian Airlines and NEPC Airways that to the passengers of Indian Airlines trunk routes the NEPC would provide connecting flights on the feeder routes. Such non-competition is based on integrative agreements with a hope that both would benefit as the agreement between two or more players would help in increasing the size of the cake.

In tourism industry this strategy could be of great use. Assume that at a tourist destination the traffic is low and every single player is trying to entice the few tourists by offering discounts, augmented services and better deals. Even if someone succeeds to gain a few customers, it won't help them much as the rates (price) agreed are too low and services promised are an augmented one.

On the contrary, all the players can join hands together and make efforts to promote the destination to build traffic. Once the traffic gets built up, all of them are beneficiaries – the hotels, the carriers, the facilitator (i.e., The travel agents), shopping establishment. entertainment houses, etc. It is therefore suggestive to jointly undertake cooperative advertising, promotional tours for the travel agents and tour operators, increase the number of tourist information officers in the places of tourist origin, provide literature etc. We see this in actual practise when the Department of Tourism, all airlines, hotels, tour operators, travel agents etc. join hands to promote India as a destination (see also Unit-22 of TS-2).

5.6.3 Competition with Competitors

Competition means taking actions to win some prize and the others are deprived of it. In business gaining market share is the prize, or atleast to retain the market share, so that your competitors don't gain the prize. From the point of view of an individual company in the market, the extent to which a market is competitive depends to a great extent on the difficulty of expanding or retaining the existing market share.

The market share protection assumes a defensive or deterrent position while market share advancement takes an offensive posture. Michael Porter suggested that any competitive strategy is to achieve a sustainable advantage and the customers must continue to view the advantage as of the value to them. In doing so it is important to consider two things:

- First, your goals,and
- Secondly the strategic options.

Irrespective of the strategy you take your goals, protection or advancement, should be sustainable to your business. If you are concerned with protection of the market share then you can always take a **reactive view** of the competitors. For example, you need not be innovating changes in your product-market scope. You can always be a follower by imitating the changes which your competitors have introduced.

For example, as a tour operator you start packaging theme dinners as was being done by some other operators. The market share percentages therefore, would not change for each of the tour operators. But if your objective is to increase the market share then a **proactive approach** is required which could be being first with new products or other innovations.

5.7 STRATEGIC OPTIONS AND COMPETITORS

The other thing you should be clear about is the strategic option viz-a-viz your competitors i.e. would you like to move:

- ahead of your competitors,
- with your competitors, or
- away from your competitors.

If we take goals on one side and strategic options on another we find a matrix, as shown in the following Figure:

		Move before competition	Move with competition	Move away competition
Goals	Market Share Protection	Option 1	Option 2	Option 3
	Market Share Advancement	Option 4	Option 5	Option 6

Figure 1: Strategic Options.

Let us discuss each of the six choices in some detail :

Strategic Option 1: Market Share Protection and Moving Before Competition:

Under such a strategy you have two choices. Either you should go for **adjusting the marketing mix** or move by taking some deterrent action. The mix adjustment implies that any of the six elements are adjusted to move before the competition. For example, if a hotel offers instant reservation it can be a competitive edge. A competitive edge can be achieved by quality service also or by the quick time response of the service depending on the nature of your business.

The other option, as indicated earlier is taking a **deterrent action**, which could even be contesting in the court of law.

Strategic Option 2 : Market Share Protection by Moving With Competitors :

In this case you can **imitate** the competition by making the same offer. For example, when one airline started offering gift packs on board the others followed soon. They imitated the offer to move with their competitor.

The other option under this category is to offer some compensating benefit. For example, a hotel might provide a complementary welcome breakfast to every guest, the other leave "Fruits and Flower" basket as complements from the management. Both these offers compensate for the added value each of the hotel wants to provide to their guests.

Strategic Option 3 : Market Share Protection by Moving Away From Competitors :

In such situation the choices are between mergers, acquisitions or collusions. Mergers can become a way of building a broader base to provide the advantages of larger size.

When competition between industries increases, firms within an industry often come together for mutual support. Such intimacy provides a climate for formal agreements.

Strategic Option 4 : Market Share Advancement by Moving Before Competitors :

A firm may advance its market share by adopting new geographical areas, new segments, new channels, or new (penetration) pricing.

A move into new areas assumes that enough people in the new geographical areas have a latent or passive want for the product and that current competitors are not in a better position to serve the areas.

A move into new segments is a frequent strategy as a market matures. Opening up new and additional channels or penetration process are another way of enhancing market share.

Strategic Option 5 : Market Share Advancement by Moving With Competitors :

If market share is advanced by moving with competition, the firm may capitalize on the efforts of competition or it may leapfrog ahead.

For example, other airlines capitalised on the Frequent Flyers Programme (FFP) of Indian Airlines and Air India, which was very heavily advertised. The other airlines drew up a selective mailing list and mailed brochures on their (FFP) package and capitalised on the initial interest generated by the IA and AIs programme. A leapfrog strategy is common in gaining entry to a mature market. A leapfrog strategy may or may not involve a major breakthrough. In fact, the danger of breakthroughs is that the products may be ahead of their time and fail – for example, the Comet or Concord airplane.

Strategic Option 6 : Market Share Advancement by Moving Away With Competitors :

When a firm elects to advance market share by moving away from competition, it may introduce a new offering that does not directly compete with those currently on the market.

The final strategy of reciprocal agreements is an application of the saying, "You scratch my back and I'll scratch yours".

Check your Progress-3

1) Out of the three approaches suggested here to face competition, which one you prefer and why ?

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2) In the light of different strategic options given here you give your comments on any one of them.

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5.8 LET US SUM UP

Competition is a part of business and it has a significant contribution in the growth of business if competition is analysed scientifically and objectively. In this Unit you have been introduced to various forms of competitions, their merits and demerits and the process of analysing competition. To meet this competition you have to evolve appropriate strategy and the various strategic options discussed here would definitely help you in devising the strategy for your organisation. Keeping in view the opportunities, objectives and strengths a business firm has a series of strategic options and you have to decide a combination of these to face the growing competition. Among the steps to be followed before deciding on the strategic option you must:

- identify your competitor,
- find out the market image of their products,
- analyse the strengths and weaknesses of their products, and
- assess your own resources.

Whether you have your own small business or you work for a company, the various aspects dealt with in this Unit will be relevant for you as tourism professionals.

5.9 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check your Progress-1

1) See Secs. 5.3 and 5.4.

2) You have to write that how analysis of competition provides information and the informations helps in the policy formulation of the organisation. See Secs. 5.2, 5.3 and 5.4.

Check your Progress-2

Quantitative and Qualitative analysis provide information about the market in relation to your own business. This information then can be used as per your requirement. For details, see Sec. 5.5

Check your Progress-3

1) Read Sec. 5.6 and then you give your views on any one of the approaches.

2) Answer to this question depends on your experience in the area of tourism industry and for information read Sec. 5.7.