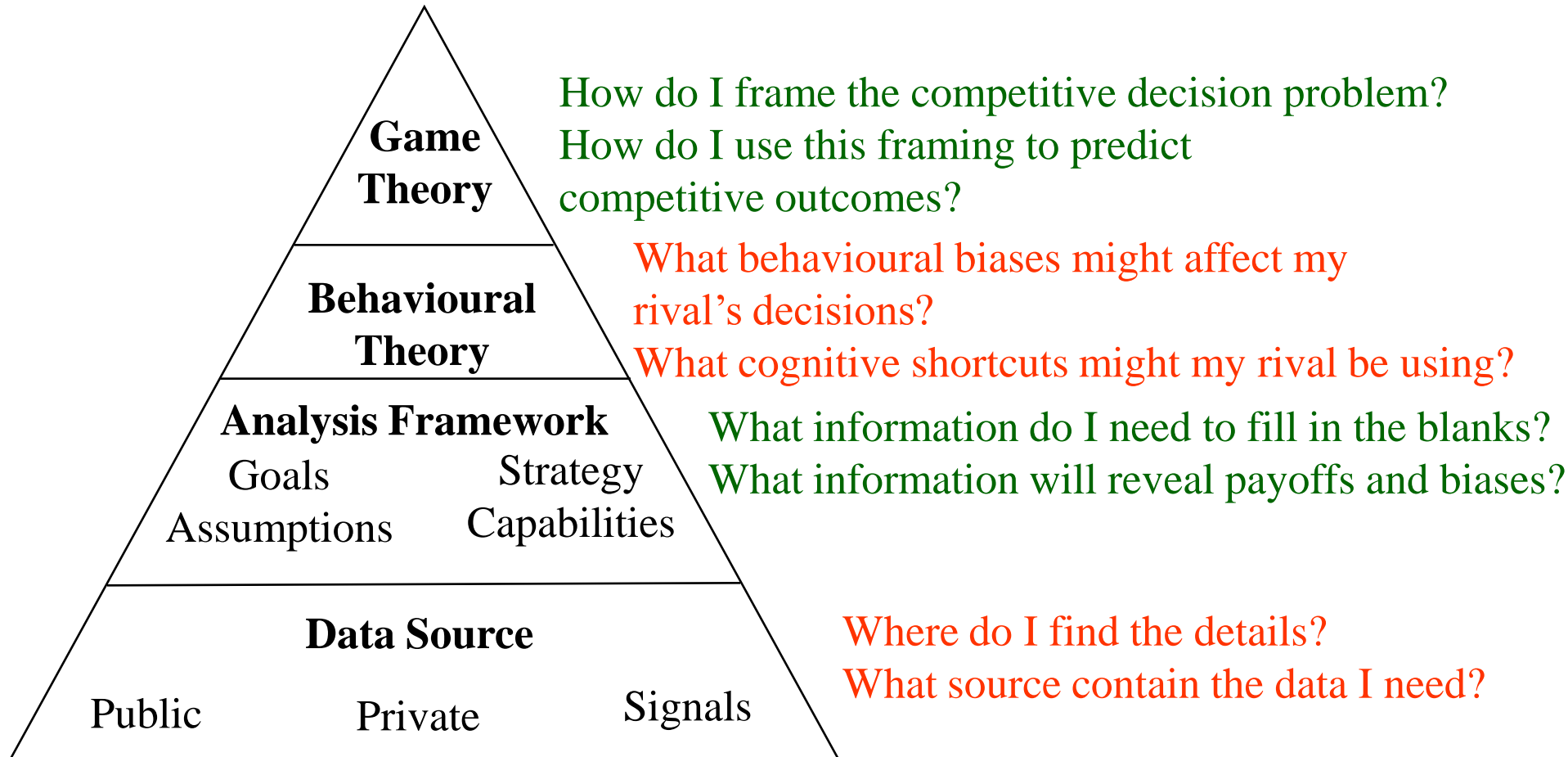


Objective of Competitor Analysis

- Answer to the following questions
 - Who should we pick a fight with, and with what sequential moves?
 - What is the meaning of that competitor's strategic move and how seriously should we take it?
 - What areas should we avoid because the competitor's response will be emotional or desperate? ►

Elements of Competitor Analysis



- Special branch of mathematics which has been developed for studying decision-making in complex circumstances.
- Tries to predict outcomes based on interactive models in which the decisions of each party affect the decisions of the other parties.
- "Game" here is: a move by one player will result in moves by others. The idea historically dates back to the Talmud and Sun Tzu's writings.
- John von Neumann and Oskar Morgenstern - Theory of Games and Economic Behavior in 1944.
- Early 1950s, *John Nash* generalized their results and provided the basis of the modern field of Game Theory.
- First academic magazine devoted to the field by Oskar Morgenstern in 1972.

Conventional economics

- Takes the structure of markets as fixed.
- People are thought of as simple stimulus-response machines.
- Sellers and buyers assume that products and prices are fixed, and they optimize production and consumption accordingly.
- Conventional economics has its place in describing the operation of established, mature markets,
- But it doesn't capture people's creativity in finding new ways of interacting with one another. ►

But ...

- Game theory is a different way of looking at the world.
- In game theory, nothing is fixed.
- The economy is dynamic and evolving.
- The players create new markets and take on multiple roles.
- They innovate .
- No one takes products or prices as given.
- If this sounds like the free-form and rapidly transforming marketplace , that's why game theory may be the kernel of a new economics for the new economy. ►

The PARTS of the Business Game

- Players: customers, suppliers, rivals, allies; Change any, including yourself.
- Added Values: what each player adds to the game (taking the player out would subtract their added value). Ways to raise yours, or lower theirs.
- Rules: give structure to the game; in business — no universal set of rules from law, custom, practicality, or contracts Can revise exiting rules, or devise new ones
- Tactics: moves to shape the way: — players perceive the game, and hence — how they play. Tactics to reduce misperception, or to create or maintain misperception.
- Scope: the bounds of the game: expand or shrink. ►

Framing the Decision

South Korean Entry Game

| | | VLM | |
|-----|-------------|-------|-------------|
| | | Enter | Don't Enter |
| WCC | Enter | | |
| | Don't Enter | | |

South Korean Entry Game

Both WCC & VLM with identical cost structure

Fig. in 000' \$

| | | VLM | |
|-----|-------------|----------|-------------|
| | | Enter | Don't Enter |
| WCC | Enter | 250, 250 | 3000, 0 |
| | Don't Enter | 0, 3000 | 0, 0 |

- Enter the market irrespective of the action the other player chooses
- Equilibrium (Nash Equilibrium) – Outcomes in which neither player has any incentive to unilaterally deviate from his or her chosen action ►

Entry – Different Cost Scenarios

Low cost Scenario

VLM unit cost = \$20

Price under dual entry = \$40

VLM

Enter Don't Enter

WCC

Enter

(500), 1000

3000, 0

Don't Enter

0, 5000

0,0

Dominant Strategy WCC – NO
VLM - Enter

VLM Entering & WCC not entering

High cost Scenario

VLM unit cost = \$40

Price under dual entry = \$50

VLM

Enter Don't Enter

WCC

Enter

1000, (500)

3000, 0

Don't Enter

0, 1000

0,0

Dominant Strategy WCC – Enter
VLM - NO

WCC Entering & VLM not entering

Equilibrium

France Entry Game

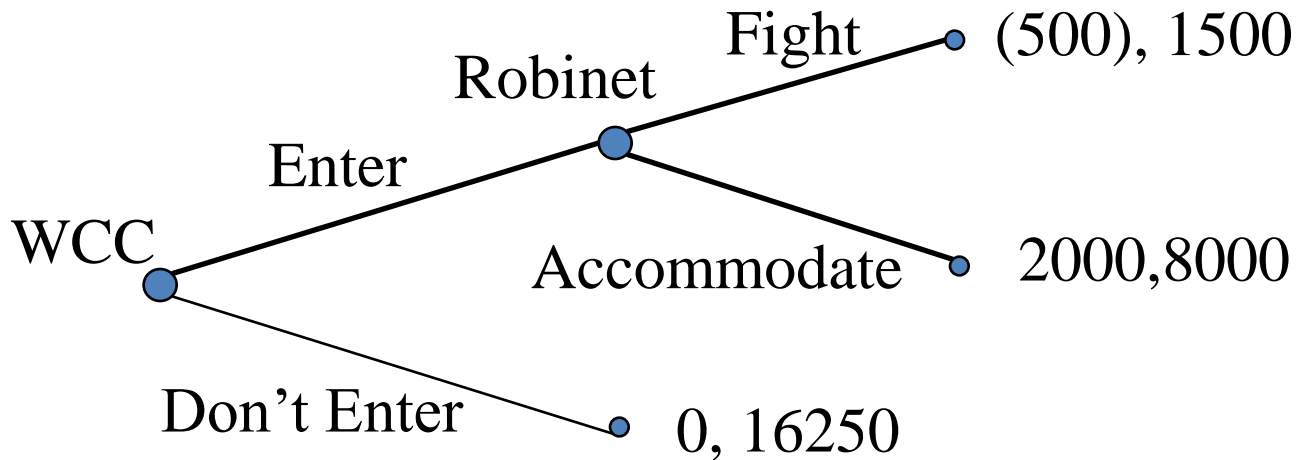
Fig. in 000' \$

WCC

| | | Robinet | |
|-------|-------------|-------------------|--------------------|
| | | Fight | Accommodate |
| Enter | Enter | (500), 1500 | 2000,8000 E |
| | Don't Enter | 0, 16250 E | 0,16250 |

Equilibrium (E)

Game Tree for France Entry Sequential Move Game



France Entry Decision

Look Forward & Reason Backward

- A decision by Robinet to fight after WCC was in market would be a bitter pill to swallow
- But once market entry has been made, it is actually very difficult to commit to fight
- Therefore, the probability that Robinet will accommodate after WCC's entry is high
- Thus it will be optimal for the firm to enter the France market, expecting the enter/ accommodate equilibrium outcome to prevail ►

- Bounded rationality or information processing limitation
 - WCC and/ or its potential rival might not have the necessary information, time, willingness, or ability to conduct a detailed and precise analysis, instead, use heuristics or rule of thumb
- The above results in “Representativeness Bias”
 - Competitor analysis of VLM and Robinet should entail a detailed review of each company’s history in similar competitive situations ►

- Managerial tendency towards overconfidence
 - Possible bias in VLM, like ability to lower cost and penetrate South Korean market.
- Confirmation Bias
 - Robinet succumbing to initial desire to fight WCC entry, with some evidence of success in the past
- Endowment effect
 - Robinet which was faced with losing market share in France, might behave more aggressively than VLM ►

- Justify past actions
 - If Robinet had recently used investment in marketing, capacity or distribution to gain market share, it would make still more investment there to fight WCC's entry
- Non-rational escalation of commitment
 - Any price competition with either VLM or Robinet could escalate to a point where neither firm is making profit

In competitor decision making, firms often display cognitive frailties such as antagonism and emotions that are associated with individual behaviour ►

What drives
The Competitor

FUTURE GOALS

At all levels of management
And in multiple dimensions

What the Competitor
Is doing and can do

CURRENT STRATEGY

How the business is
Currently competing

Competitor Response Profile

Is the competitor satisfied
With the current position?

What likely move or strategy shift
Will the competitor make

What will provoke the greatest and
Most effective retaliation
by the competitor

Assumptions

Held about itself
And industry

Capabilities

Both strengths
& weaknesses

Which Competitors?

- Firms not in the industry, who could overcome entry barriers, particularly cheaply
- Firms for whom there is obvious synergy from being in the industry
- Firms for whom competing in the industry is an obvious extension of the corporate strategy.
- Customers or suppliers who may integrate backward or forward. ►

- Look for position, not threatening competitors
- Defend through distinctive competence
- WCC-VLM
 - WCC discovered that VLM's parent corporation held aspiration to bring a number of its businesses into the South Korean market
 - VLM it self perceived the South Korean entry as a part of a longer effort to expand throughout Southeast Asia ►

Assumptions Can Identify biases or Blind Spot

- Believe in relative position – cost, quality, technology, etc.
- Historical/ emotional identification with product
- Cultural, regional, national differences
- Organizational values or Canons
- Believe about future demand
- Believe about goals & capabilities of competitor
- Believe in Industry Conventional wisdom
- Assumptions reflected in current strategy

Robinet was over confident in its customers' loyalty, so Larsen's believe that WCC entry less of a threat and Robinet is less likely to respond aggressively ►

- Key operating policies in each functional area.
- VLM – Cost reduction, influencing WCC's assessment of it's relative cost position upon entry in the South Korean market ►

- Core capabilities
- Ability to grow
- Quick response capability
- Ability to adapt to change
- Staying power
- WCC
 - Robinet - relatively weak marketing and selling capabilities; cost position higher than WCC
 - Therefore, aggressive response to entry would be particularly unattractive ►

Data Sources Competitor Intelligence System

- Public
- Private
- Signals

- Creating Competitive Advantage
- Reading: Creating Competitive Advantage