UNIT 7  ANALYSING THE COMPETITIVE SITUATION

**Structure**

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**7.0 OBJECTIVES**

After studying this unit, you should be able to:

- get a clear view of the competitors who are posing competition in the market;
- comprehend the strengths and weaknesses of the competitors;
- understand the market strategies a businessman is required to develop;
- know about the SWOT expand analysis; and
- understand the special features of the product which makes it attractive.

**7.1 INTRODUCTION**

You will note that in today's world, every individual is running a race to achieve a certain goal. All of us are in a hurry - either in search of a goal or to reach a goal before anybody else reaches there. In this process, every one has a desire to excel and be at the top. In this era of technological advances and higher levels of mass communication, followers have no place. Respect, prestige and power are only with the leader.

The child who is awarded the prize is the one who gets first rank in the class. The students who get admissions in prestigious colleges are those who find place in the merit list. The same is the case with a businessman too. They are also busy running a race. Some may have won and reached the top whereas there are others who are trying to reach the coveted place. But, what is that coveted place, the destination. It is the hearts of their customers.
It is only when a businessman satisfies his customers and makes them happy and loyal he will slowly and gradually achieve the maximum share of his target market. And the day may come when he will be Rank 1 holder, being adjudged as "market leader".

But, do you think, in this process of capturing the market share, other followers (i.e. Rank 2, Rank 3, Rank 4 and so on) will keep quiet? No! They will not sit back and see another capturing the market. They will think of various strategies to beat the Rank 1 who has been adjudged as "market leader". But the game will not stop at this stage. Now, the Rank 1 will make his counter moves to retain his position in the market. Thus there will be moves and counter moves and the players in the market (i.e. various businessmen) will always think of new strategies to defend themselves or confront competition.

### 7.2 COMPETITORS PRESENT IN THE MARKET

Every industry – whether it is automobiles, textiles, iron and steel, pharmaceuticals, chemicals, or food processing industry - is composed of many firms dealing in the same product. Usually competition prevails within one industry and each firm has to face stiff competition from the others. They compete with each other to gain the top slot, by achieving maximum share of the market as:

1. **Market Leader**

   A market leader is the one, who has reached the place where others want to reach. In a way he has gained maximum share in the relevant product market. It leads the other firms in price changes, new product introduction, distribution coverage etc. For example, there are 4 firms in a particular industry with the following market share:

<table>
<thead>
<tr>
<th>Firm</th>
<th>Market Share</th>
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<tbody>
<tr>
<td>A</td>
<td>60%</td>
</tr>
<tr>
<td>B</td>
<td>25%</td>
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<tr>
<td>C</td>
<td>10%</td>
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<td>D</td>
<td>5%</td>
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   Here, Firm A is the market leader with 60% share in the market.

   For other businessmen, the market leader acts as a competitor because his strategies and moves will have a direct impact on the turnover and profits of the other firms. Though competition will not be very severe because it will be quite difficult for other firms to confront and attack the market leader by taking advantage of his weakness, if any.
2. Market Challenger

The firm that occupies a place next to the market leader in an industry is known as market challenger or runner-up. There may be one such market challenger or more than one. These firms are also very large but smaller than market leader.

Market challengers are a threat to both the market leader and the other competitors. They would try to grab further market share by directly attacking the leader or by attacking other competitors, if not the market leader. For example, there are 4 firms in a particular industry with the following market share:

<table>
<thead>
<tr>
<th>Firm</th>
<th>Market Share</th>
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<tbody>
<tr>
<td>A</td>
<td>40%</td>
</tr>
<tr>
<td>B</td>
<td>35%</td>
</tr>
<tr>
<td>C</td>
<td>15%</td>
</tr>
<tr>
<td>D</td>
<td>10%</td>
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</table>

In the above case Firm B is the market challenger. It can easily become a market leader by grabbing only five or six percent of the share from the market followers or 3% from the leader. Market challenger tries to discover the weaknesses of small firms and of the market leader and then builds up its own strategy.

3. Market Followers

Market followers are usually small sized firms. They have lower market share than the leader and the challenger. They are actively trying to expand their share through highly aggressive tactics. All the firms who fall in this category act as rivals to one another. They face a threat from the market challenger who is always keen to gobble up some of their share. They have somehow to hold on to their current customers. All the firms coming in this category occupy almost similar position in the market. They may also have similar resources and similar output. For example, there are 4 firms in a particular industry with the following market share:

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<td>D</td>
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</table>

In the above case Firms C and D are the market followers. Both the firms are acting as rivals to one another to retain the existing share. Both have a threat from the side of market challenger i.e. Firm B who is always keen to gobble up part of their share to become market leader. Even market leader may also try to gobble up party some more of the market to make its position more secure against the market challenger.

4. New Entrants

A new entrant is one who has just stepped into that industry. This business unit acts as a source of direct competition to the firms which are already in the business. The new entrant can be a resourceful business unit which has entered a new industry because of its expansion and diversification policies. This new entrant may be a leader in his own field.

5. Very Small Firms

These firms are very small in size. They cannot attack the larger firms. They earn profits from customers, geographic area, or service.
6. **Powerful Suppliers**

When the businessman acts as buyer in the market he must understand the market power of the different suppliers. There may be powerful suppliers in the market. They are so large and powerful that they are in a position to dictate the price and the terms of supply. The power of the suppliers is high when there are very few suppliers in the market. And therefore the businessman has limited option for source of supplies. He will compete with other similar purchasers and will have to put efforts to acquire the supplies at a reasonable price and as per his requirements - quality, time, and quantity etc.

7. **Powerful Buyers**

Similar to powerful suppliers there may be powerful buyers in the market if it is a 'buyers market”. Since these buyers are big and powerful they will dictate their prices, terms of purchase, their preferences for packaging, product quality, and delivery terms.

8. **Substitute Products Made Available by Other Competitors**

The product supplied by the businessman is to be considered in the light of uniqueness. He has to see whether his product is unique or there exists any substitute for the same. It may also happen that at a later stage a substitute may arise. In case the substitute is or arises later the businessman will have to see how he is to protect his market and customers.

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**Check Your Progress Exercise 1**

**Note:**

a) Use the space below for your answer.

b) Compare your answers with those given at the end of the unit.

1. Who is market leader?

2. Which kind of competitor is usually called a runner-up?

3. Following is the hypothetical market share of the various firms:

   A) 50%;      B) 14%;      C) 15%;      D) 8%;
   E) 7%;       F) 3%;       G) 2%;       H) 1%

   Fill in the blanks after analysing the following pie diagram which depicts the market share of above firms:
MARKETING STRATEGIES VIS-À-VIS COMPETITORS

The businessman has to develop his marketing strategies on the basis of the activities of his competitors. Following are the areas/activities in which the businessman can develop his marketing strategies:

i) **Innovations**

To beat the competitors the businessman can decide to launch a new product. He can also think of innovative ideas related to customer service, means of distribution etc.

ii) **Prices**

The businessman can keep the prices of his products reasonable in comparison to the price structure maintained by his competitors. At times, the businessman may reduce the prices as well. However, a fear of price war is always associated with this kind of strategy.
iii) **Promotional Strategies**

The businessman can adopt promotional strategies by offering discounts, organizing contests, providing free gifts etc. to the customers. But this will also mean sizeable promotional expenditure.

iv) **Quality Strategies**

Continuous efforts can be made to improve the quality of the product. At times, we find a slogan ‘New and Improved’ printed on the package of the product. This is nothing but to beat the competitor that firm’s product is now improved as compared to that of the competitor. The firms, now-a-days spend a lot on research and development (R & D) activities. The expenditure is incurred with a view to improving the quality of the product.

v) **Product Size**

The businessman can make additions in the size and form of his product. In other words he can bring a product in several sizes and forms, which his competitors may not be having. For example, a ketchup manufacturer may plan to bring his product in many innovation or quality and bottle sizes.

vi) **New Brand**

A businessman may launch a new brand of the same product. Each of the brands can be positioned differently in the minds of the consumers.

vii) **Heavy Advertisement**

The businessman can undertake heavy advertisement campaign. This will help him to create strong consumer awareness and preferences.

viii) **Competent Sales Force**

Manpower is an asset for any firm. A good and confident sales force maintained by a businessman may fetch him reputation, good business, loyalty of the customers etc.

ix) **Manufacturing Efficiency**

This is another way of facing the competitor. The businessman tries to keep the cost of production low by efficient purchase of material, low labour cost, using modern equipments, etc.

x) **Efficient and Extensive Dealership System**

A large number of independent dealers can be maintained in the industry. The dealers can be located all over the country and even outside the country also, if the demand arises. An exclusive dealer may focus all of their attention on his product.

xi) **Credit Policy**

In order to increase his turnover in comparison to his competitors the businessman may offer his product on credit terms - instalments, repayment period etc.

xii) **Better After-sales Services**

The businessman may offer better and efficient after-sales service to his customers. A satisfied customer will not only be loyal to him but may bring in more customers through his contacts. Thus, the businessman may expect that the potential customers will not go to his competitors.
Check Your Progress Exercise 2

Note: a) Use the space below for your answer.
   b) Compare your answers with those given at the end of the unit.

1. What can be the marketing strategy of a businessman in respect to the size of the product?

2. Mention any four ways by which a businessman can counter-act the activities of his competitors.

7.4 HOW TO UNDERSTAND THE STRENGTHS AND WEAKNESSES OF BUSINESS

Several functions are carried out in a business enterprise. These are linked with production, research and development, personnel, finance, marketing, etc. The businessman can understand his strength by splitting each function into sub factors. Through this exercise specific factors are identified. Then he tries to zero in on the specific factors, which he can point out and say “Hey, this is my strength”.

Business firms have to spot their competitive strengths and nurture them. By studying the competitive strength with respect to the firm’s overall strength or weakness in the given area, the firm has to find out - what its distinctive advantages are. For this purpose, internal scanning is to be done. It may relate to -

- Which are the functions the firm does well compared with his competitors.
- Does the firm really excel in them?
- Which are the functions where the firm is weak?
- To what extent does the weakness matter in overall performance?
- Can the weaknesses be made up?

To have a better understanding, the business firm should conduct SWOT Analysis.

SWOT Analysis

Just as a doctor needs thermometer or a stethoscope to diagnose an illness, in the same way a businessman needs to do a SWOT analysis to assess the competition he faces in the market. SWOT analysis is an analysis of:
Setting up an Enterprise

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<th>S</th>
<th>W</th>
<th>O</th>
<th>T</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>Paped goes well with almost every Indian food.</td>
<td>1. Seasonality of raw material.</td>
<td>1. Presence of a large number of competitors in the market.</td>
<td></td>
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<tr>
<td>2</td>
<td>Low Investment required for manufacturing papad.</td>
<td>2. Seasonality and availability of labour.</td>
<td>2. Tastes of the customers may get changed.</td>
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It is a process through which the strengths, weaknesses etc. of a competitor can be assessed. In fact SWOT analysis can be used for any purpose i.e. to evaluate a project; any market opportunity etc.

**Strengths:** Strengths refers to the strong points a businessman possesses. His strength may lie in the quality of his product or his strategic location or his huge capital base and so on. He should have a firm faith in his internal resources and he should utilise them to their fullest capacity. His strength in a particular area may be the weakness of his competitor.

**Weaknesses:** The businessman should also always recognise his weak points. He should endeavour to convert his weaknesses into strengths. The weaknesses can be rectified only when they are identified.

**Opportunities:** There is no dearth of opportunities. The businessman should keep his mind open and make a list of various opportunities, which may be available for him to explore.

**Threats:** The businessman should be aware of the threats he faces as well. His competitors in the market always pose a threat to him. They may try to divert his customers by offering better product. He should keep on trying to convert the possible threats into opportunities.

In the following way a businessman who is dealing in manufacturing of mango-chutney may conduct SWOT analysis:

Keep the points mentioned in the above box (and many more which can be perceived) the businessman has to make continuous efforts to convert his weaknesses into strengths and threats into opportunities to the maximum extent. This way he can thwart competition.

**Check Your Progress Exercise 3**

**Note:**

a) Use the space below for your answer.

b) Compare your answers with those given at the end of the unit.

1. Write the full form of SWOT.
Just as an individual has certain strengths and weaknesses, in the same way a business firm possesses certain qualities, which are its strengths and also a few points which are its weaknesses. Big firms generally take the benefit of their size and small firms have the benefit of flexibility and speed of functioning.

The strength of the competitors can emerge in any of the many functions they perform. These functions may be associated with marketing, production, research and development, corporate resources. In the following paragraphs an attempt is made to discuss these factors. The presence of these factors may act as strength whereas the absence of these factors may mean weakness.

**Product Mix**

To gain an edge over others, the competitor can shape his product strategy around the technical superiority of his product. The product can be a special product supported by the best technology and its superior quality. He may also be providing attention to quality control and quality assurance. The competitor can be stronger if he has a wide product line. He may also provide maximum possible variety in every product line.

The competitor may also be keeping in mind the tastes and preferences of the customers based on demographic, geographic and psychological factors.

**Packaging**

The packaging of a product may also serve as a potent strength in the competition. Good packaging adds to the value of the product. An attractive package may lead to an increase in turnover. A package contains lot of information as well. It acts as a silent salesman. A good package, therefore, if developed by a competitor may act as a strong point. A new package design, colour, size of the package, material used etc. can all serve as strengths.

**Distribution**

Some competitors may have a distinctive competence in distribution. They may have a distribution network reaching the remotest rural areas of the country. They may also have a vast chain of showrooms in all metropolitan cities and other big cities of the country. They may have a computerized physical distribution method as well. The other advantage, which the competitors may have, is to have a chain of big stockists who get the supplies directly from the producers. They may also adopt progressive distribution policy, attractive incentives and best margins for dealers.

**Service**

Providing efficient service to the customers would also be a strength. For example, M/s. A.B. & Co. may assure its customers to provide after-sales service within 24 hours of the receipt of call.
Personnel

A pool of highly talented engineers, technicians and managers and other personnel would be highly motivated and dedicated because of handsome salaries and other perquisites.

Production

A competitor's strength may lie in the production function. He may come out with large quantity of production within a very short period of time. For example, M/s. Ruchika & Co. may have a high capacity of manufacturing biscuits and other bakery items. Expertise in production planning and scheduling will provide an edge over other businessmen particularly if it matches with the market requirements.

Research and Development

This is another area where a competitor may have an edge over the other businessmen. A competitor may possess a competence for making unique products. He may have strong in-house R&D facilities for consistent product augmentation and improvement.

Corporate and Finance Factor

A competitor may have a reputation in the market. Owing to the goodwill built by him, he is in a position to raise large equity in the capital market. A competitor's strength may also lie in the huge reserves built by his firm. With the help of these reserves he will not face resource crunch when there is depression in the market and it becomes difficult to obtain funds from external sources.

Marketing

A competitor may be well-versed with marketing techniques. His sales forecasting may be very accurate or he may be possessing a highly computerized and high quality Management Information System (MIS). A competitor may be in a position to incur heavy expenditure on advertisement and publicity as well. The price strategy followed by the competitor may be such that it attracts abundance of business.

Check Your Progress Exercise 4

Note: a) Use the space below for your answer.
    b) Compare your answers with those given at the end of the unit.

1. How can an attractive package lead to increase in turnover of a competitor?

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2. "A competitor’s strength lies in his production function.” Justify.

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7.2 SPECIAL FEATURES OF THE PRODUCT TO ATTRACT CUSTOMERS

Quality of the product is one major factor on which a businessman can count.

Features of the Product

i) Value for Money

A businessman should develop his product in such a manner that the customer utilizing it should get value for the money spent by him in purchasing the product. For example, if a customer purchases Britannia Cake, it should give him the value, which he thought he will get if he had spent the same money on some other product.

ii) Tangible Attributes

- **Size**: The product should be of such size that it can easily be handled.
- **Colour**: The product should be of attractive colour so that it appeals to the customer at the first look.
- **Weight**: A product should not be too heavy to lift. It may be packed in such a way that the customer is in a position to carry it easily. Usually oils are packed in one Kg./one litre packs.
- **Durability**: Most of the products are not meant for one time use. A customer will prefer a product, which can be used for a reasonable period. In other words the product should contain proper preservatives.
- **Packaging**: The product should be packed in such a manner that it remains safe from pests, moisture, rain etc. A good packaging should help in increasing sales and the packed product can be stored easily.
- **Shape**: The shape of the product should be appealing. It may be round, square, rectangle or any other shape. Liquids will of course eatables they can take the shape of their containers.
- **Branding**: The brand name of the product should be such that the customers will find it easier to pronounce and remember. The customer should easily identify the product with its brand name. It should give the customers the assurance of quality.

iii) Augmented Attributes

Some additional features can also be added to the product, like:

- Providing after-sales service;
- Providing various finance options like purchasing goods on instalment basis, purchasing goods on zero interest rate etc.
- Providing delivery arrangement like free home delivery;
- Offering warranties.

iv) Product Variety

The businessman should try to offer a number of variants in the product. For example a product can come in various flavours.
Check Your Progress Exercise 5

Note: a) Use the space below for your answer.
     b) Compare your answers with those given at the end of the unit.

1. List any four tangible attributes of a product.

2. Mahesh is a businessman who manufactures mango pickles. Mention any two quality features which he should try to bring in his product so as to make it preferable to those of his competitors.

7.7 LET US SUM UP

Every individual, be it a businessman or any other person is running a race to achieve the No. 1 position. In case of a businessman, however, it is only when he satisfies his customers and makes them happy and loyal he will slowly and gradually achieve the maximum share of his target market. Market comprises a number of competitors. There may be market leader, market challengers, market followers, new entrants, small firms etc. Powerful buyers, powerful suppliers and substitute products are capable of posing competition. As regards marketing strategies to be adopted by a businessman, they are to be adopted based on the activities of the competitors. To understand the strengths and weaknesses of the business, the businessman is required to carry out SWOT Analysis. He has to try his level best to convert weaknesses into strengths and threats into opportunities. A competitor will pose competition to the businessmen due to the presence of certain strengths. The strength of the competitors lies in the level of their functions (like marketing, production, research and development, corporate resources). To thwart competitors, a businessman has to provide quality products to his customers. There are so many features associated with any product that he has to provide a product which gives value to the purchaser for the money spent in purchasing it. The product should have certain tangible attributes. The businessman may also add a few additional features to the product to make it more attractive than that of his competitors.

7.8 KEY WORDS

**Market Leader** : A business firm possessing largest market share.

**Market Challenger** : A business firm posing threat to the market leader.

**Tangible Attributes** : Features of a product perceptible to the senses - sight, smell and mostly taste.
7.9 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress Exercise 1

1. **Hint:** Market leader is the organisation which has gained maximum share in the relevant product market.

2. **Hint:** The firm that occupies a place next to the market leader in an industry is known as runner-up.

3. i) *Firm A* is the market leader.
   
   ii) *Firms B and C* are the market challengers.
   
   iii) *Firms D and E* are the market followers.
   
   iv) *Firms F, G and H* are the small firms.

Check Your Progress Exercise 2

1. **Hint:** The businessman can make additions in the size and form of his product.

2. **Hint:** Innovations; Price; Product size; New Brand

Check Your Progress Exercise 3

1. Strength, Weakness, Opportunity, Threat

2. **Hint:** By analysing his Strength, Weakness, Opportunity, and Threat.

Check Your Progress Exercise 4

1. **Hint:** Good packaging adds to the value of the product and thereby an attractive package may lead to increase in turnover of a competitor.

2. **Hint:** A competitor may come out with large quantity of production within a very short period of time.

Check Your Progress Exercise 5

1. Size; Colour; Durability; Branding

2. i) Increased durability of the product.

   ii) Attractive packing.

7.10 SOME USEFUL REFERENCES


7.11 ASSIGNMENTS

1. Mention any five points relating to the strengths and weaknesses of the competitors.

2. Read the following situation:
   i) Firm I deals in fertilizers.
   ii) Firm G deals in textiles.
   iii) Firm N deals in cosmetics
   iv) Firm O deals in agro-based products
   v) Firm U is a new entrant desiring to manufacture mushroom soup.

   Based on the above, identify the competitor for Firm U. Give reasons in support of your answer.
   (Hint: Firm O)

3. Radha Food Limited manufactures ‘ready-to-eat’ products. They want to conduct SWOT Analysis in order to guard against the various competitors some of whom are new entrants. They have appointed you as a new market researcher. On the basis of following jumbled up points you are required to group them in the given Table:
   i) 14 year old established company.
   ii) Low average perception among consumers.
   iii) Entry of MNCs on a large scale.
   iv) High competition.
   v) Both husband and wife form a working couple.
   vi) Status symbol.
   vii) Use of latest technology by the company.
   viii) Low product range.
   ix) Huge Capital and dedicated staff.

   (Hint: i) S; ii) W; iii) T; iv) T; v) O; vi) O; vii) S; viii) W; ix) S)
4. Explain the roles of market leader and market challenger in a competitive market.

5. "The strengths of the competitors emerge from the functions they perform" Do you agree? Give reasons.

6. To what matters would "internal scanning" relate?

7. Following is the hypothetical market share of various firms operating in a particular industry:

<table>
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<tr>
<td>Firm C</td>
<td>5%</td>
</tr>
<tr>
<td>Firm D</td>
<td>5%</td>
</tr>
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</table>

You are required to answer the following questions:

   i) Can Firm D act as a threat to Firm B?
   ii) Can Firm B act as a threat to Firm A?
   iii) Can Firm B act as a threat to Firm C?
   iv) Can Firm C act as a threat to Firm A?
   v) Can Firm D act as a threat to Firm C?
   vi) Can Firm C act as a threat to Firm D?

(Hint: i) No; ii) Yes; iii) Yes; iv) No; v) Yes; vi) Yes)