STRATEGIC GROUPS

- **A strategic group** is a group of firms in an industry following the same or a similar strategy along the strategic dimensions." (Porter M E, 1980, p.129).
- The strategic dimensions are key strategic decision variables which best distinguish the business strategies and competitive positioning of the firms in an industry (similar concept to segmentation variables).
- Unlike segmentation analysis which is centred on characteristics of product markets as a basis for dividing industries, strategic group analysis uses firm characteristics as a basis for industry division.
- Strategic groups are not the same as market segments or segmentation strategies, but are viewed from the perspective of strategic positioning.
- Firms in a strategic group resemble each other in different ways:
  - they pursue similar broad strategies.
  - they tend to have similar characteristics (e.g. size, skills).
  - they tend to have similar market shares.
  - they tend to respond to external events or competitive manoeuvres in similar ways.
- On the extremes, an industry may be made up of one strategic group if all industry players pursue similar strategies; or each firm may be considered a “strategic group” if each industry player pursues unique strategies.
- A strategic group map is normally used as an analytical tool of strategic groups (see handout).

**Strategic Groups And Implications For Strategy**

- The strategic group concept has a number of implications for structural analysis of industries and the identification of opportunities and threats.
- The following are some of the implications for strategy:
  - the firm is faced by a choice as to which strategic group to compete in.
  - normally a firm’s close competitors are those in its strategic group.
  - different strategic groups have different structural attractiveness basing on Porter’s five forces framework of competition.
  - the following may be sources of opportunities to a firm in a strategic group:
    - creating a new strategic group.
    - shifting to a more favourably situated strategic group.
    - strengthening the structural position of the existing strategic group or the firm’s position in the group.
    - moving to a new group and improving the group’s structural positioning.
  - the following may be sources of risks faced by a firm in a particular strategic group:
    - risks of other firms entering its strategic group.
    - risks of factors worsening the firm’s strategic group, e.g. threats from substitutes, high supplier power, etc.
    - risks associated with moving to another strategic group.
- The strategic map analysis may be used to identify and chart directions of the firms’ strategic movements industry wide.
• If the above analysis shows a moving apart among industry strategic groups, this may stabilise industry competition, while a convergence may mean volatility (strong competition).

**COMPETITOR ANALYSIS**

• Analysis of competition is meant to achieve three main purposes (Grant R M, 1995, p.101):
  ■ to forecast competitors’ future strategies and decisions.
  ■ to predict competitor’s likely reactions to a firm’s strategy and competitive initiatives.
  ■ to determine how competitive behaviour can be influenced to the benefit of the initiating firm.

The competitor analysis process entails answering the following questions:
  ■ Who are our competitors?
  ■ What are the competitors’ objectives?
  ■ What are the competitors’ strategies?
  ■ What are the competitors’ assumptions?
  ■ What are the competitors’ strengths and weaknesses?
  ■ What are the competitors’ likely response profiles?

**Identifying Competitors**

• Competition to a firm comes in different ways.
• It may be through substitute products or direct competition from existing competing brands.
• Kotler (1997) identifies four levels of competition based on the degree of product substitution:

  **Brand competition** - that is competition from similar brands to the firm’s directly positioned against the firm’s brand, e.g. Toyota Corolla Vs Nissan Sunny, Mercedes Vs BMW.

  **Industry Competition** - Competition broadly defined as composed of all other firms in the industry producing the same product class e.g. FMCG Industry.

  **Form Competition** - An even broader definition of competition viewed as all those firms producing products fulfilling the same need. e.g. passenger transport - competition between ETs, buses, planes etc.

  **Generic Competition** - Defined from the broadest possible view i.e. competing against all the firms fighting for the same dollar of the consumer.

**Identifying Competitors’ Objectives**

• The main objective is profit maximisation.
• However, there is an array of others which are weighted differently:
  ■ cash flow
  ■ technological leadership
  ■ market share growth/expansion
  ■ service leadership
  ■ overall market leadership /domination
  ■ survival
• The emphasis/weight given to objectives can differ sharply between firms as is the case between Western firms and Japanese ones.

**Identifying Competitors’ Strategies**
• Competitor strategies may be identified by what the competitor say (intended strategies) and does (realised strategies).
• Competitor’s annual reports and the accompanying chairman’s statement to shareholders may be good sources of information on realised and intended strategies.
• The following may reveal the firms realised and intended strategies:
  ■ capital investment undertaken.
  ■ any hiring of employees taking place.
  ■ new products planned.
  ■ rumoured / undertaken acquisitions and alliances.
  ■ planned new advertising and promotional campaigns.

**Identifying Competitors’ Assumptions**

• It is important to find out what each competitor’s assumptions are about itself, the industry and other companies.
• Assumptions may be built around the following:
  ■ the competitor’s belief about its relative position in terms of quality, technological sophistication, cost, etc.
  ■ organisational values.
  ■ assumptions about future demand.
  ■ the competitor’s belief about strengths and weaknesses of other competitors.
• However, the competitors’ assumptions may be accurate or inaccurate.

**Identifying And Evaluating Competitor Strengths And Weaknesses**

• This is important as it will reveal the extent to which the competitor is a threat to firm.
• Benchmarking can be a good way of trying to identify a firms strengths and weaknesses compared to competitors’.
• What makes a competitor Vulnerable (Weakness):
  ■ a lack of cash
  ■ low margins
  ■ poor growth
  ■ over-dependence on one market
  ■ over-dependence on one account
  ■ strength in falling families
  ■ short-term orientation
  ■ people problems
  ■ taking their eyes off the ball
  ■ predictability
  ■ product/service obsolescence/weakness
  ■ high market share??
  ■ Low market share
  ■ premium price positioning
  ■ slow moving/bureaucratic structures.

• Strengths and weaknesses analysis should not just be limited to one functional area only, but should look at the whole organisation e.g. production, financial etc..

**Identifying Competitors’ Likely Response Profiles**
• We will be trying to answer two main questions:
  ■ how is the firm (competitor) going to react to general environmental changes, in particular, changes in the market place?
  ■ how is the firm going to react to specific competitor moves?

• In answering the above questions we are trying to determine:
  • which competitor is most vulnerable?
  • Where is it strongest?
  • what is the battle ground going to be?
  • how, if at all, will it respond / react?

*Four Common Reaction Profiles*

  **Laid Back Competitor** - Competitors who do not respond quickly to competitor moves. This might be due to a lack of resources, failure to notice the competitive moves or may be due to high customer loyalty. It is important to establish the reasons behind the competitor’s laid back behaviour.

  **Selective Competitor** - a competitor who reacts to certain attacks and not all. Knowing the competitor’s area of reaction would help the firm isolate areas of attack.

  **Tiger Competitor** - the firm reacts to any form of attack. It is advisable to avoid engaging in a competitive warfare with such a competitor.

  **Stochastic competitor** - an unpredictable competitor. May or may not retaliate to competitive attacks.

*Competitor Information System*

• For an effective competitor analysis, there is need for an intelligence system through which the firm can collect information on competitors.

• The following are some of the techniques utilised in collecting information on competitors:
  ■ formal marketing research
  ■ secondary data sources (e.g.press, annual reports,)
  ■ channel members (distributors, retailers, etc.)
  ■ suppliers
  ■ reverse engineering
  ■ “false” interviews
  ■ “poaching” competitors' employees

*Further Reading:*

