3. Market & Competitive Dynamics

+ MDS Core Concepts

Link is http://faculty.insead.edu/midgley/mds/
Username – mds_students
Password – insidemds
Agenda

1. Market & competitive dynamics
2. Zantac
3. MDS core concepts
4. The role of the CMO
Competitive Interactions

- Outcome of all strategy changes depends on competitive reactions.
- Game theory offers a structured way to think about competitive reactions.
  - Strategic foresight
    - anticipate reactions = think forward
    - make decisions = reason backwards
  - Know yourself as well as others
    - Players, feasible strategies, payoffs, preferences
    - Put yourself in the competitor’s shoes
  - Think about impact of repeated interactions
    - Markstrat equals one decade of competitive interactions
- Build cooperation within the group
  - Weakest decision in the set has key impact in Markstrat
If you don’t think forward you predict two firms will enter and they will each make 12.25. Why?

• To deter a third entry each incumbent must spend 3.75 on advertising (entrant would then spend 2\times3.75=7.5)
• Hence each incumbent gets 16-3.75 = 12.25
• This is better than first firm deterring the second (entrant would spend 2\times8=16, incumbent would receive 20-8=12)

Example of depth-of forward thinking: sequential entry game

<table>
<thead>
<tr>
<th>Number of firms entered</th>
<th>Payoff per firm before advertising</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>20</td>
</tr>
<tr>
<td>2</td>
<td>16</td>
</tr>
<tr>
<td>3</td>
<td>7.5</td>
</tr>
<tr>
<td>4</td>
<td>0</td>
</tr>
</tbody>
</table>

**Rules**
To enter the entrant must spend twice the advertising of an incumbent

If you think forward a little
Firm 2 managers realize they must advertise 3.75 to deter the third entrant and the payoff they see is 12.25 not 16!

Hence Firm 1 can deter Firm 2 with 6.125 advertising (2\times6.125=12.25) and their payoff would then be 20-6.125=13.88

Conclusion with foresight
only one firm should enter!

Research demonstrates that most people don’t think forward very far!
Rule 2: Strategic Thinking

“Let’s take one step at the time” is the wrong approach to strategic thinking.
Portfolio Competition*

*Also called multimarket or multipoint competition
Portfolios

- Firm A

- Firm B
Portfolio Competition

• NOT: Hyper-competition to collusion
• NOT: Five Forces
• More complex!

- Firm A

- Firm B
Competitive Goals of Portfolio
(contribution after marketing $m)

PERCEPTUAL MAP
(based on MDS study)
Horizontal axis = Economy
Vertical axis = Performance

Singles
SEBU $41m
SIBU $99m

Others
SECO $141m
SIKO $40m
Rule 3: Competitive Reactions

You need to understand competitors’ ability and motivation to anticipate their reactions.

Understand their portfolio as well as yours
Portfolio extension: finding the sweet spot

• Conventional (& MARKSTRAT) wisdom is that firms should be focused
  • E.g. focus allows you to efficiently exploit existing assets
  • But segments & markets mature or become overly competitive
• And shareholders want further growth
• So all firms have to explore ways to create new business
• Key question for the CMO: how much should we diversify our product portfolio?
  • Too little and we risk stagnating
  • Too much and we risk losing our ability to manage it well
Rule 4. Portfolio Extension

Beware of ‘The Peter Principle’ when extending into other segments and markets.

(The Peter Principle: Promotion to a level of incompetence, i.e., people are promoted as long as they are successful.)
Best practice
Moderate diversification & active portfolio management

- Majority of revenues come from a small number of key segments
- Monitoring of capabilities & portfolio against technological & customer trends
- Rapidly drop failures
- Prepared to re-organize to build on successful new products
- Willingness to part with good performing products if resources (including management time) can be better spent elsewhere

Diagram:

1. Buff market
2. High-end market
3. Low-end market
+4. Vodites
Rule 5. Limited Resources

When resources are limited, the relevant cost is the opportunity loss from forgoing alternative uses.
MDS Core Concepts: the Brand Manager’s Perspective
Core concepts reinforced through MDS and MARKSTRAT

1. Market development decisions
2. Positioning decisions
3. Organization & decision-making process
4. The performance metric
1. Developing an existing market

- **Awareness**  Potential customers are not aware of the product/do not understand its benefits.

- **Lack of Benefits**  Benefits of the product are not attractive enough.

- **Ability to Use**  Potential customers are unable to use the product.

- **Affordability**  Regardless of attractiveness, potential customers are not able to afford the product.

- **Availability**  Potential customers are aware and have intentions to buy, but it is not available to them.
The hierarchy of effects

Why we can’t evaluate our situation by looking only at our market share and/or sales

<table>
<thead>
<tr>
<th></th>
<th>Scenarios</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>#1</td>
</tr>
<tr>
<td>Awareness</td>
<td>20%</td>
</tr>
<tr>
<td>Intention</td>
<td>100%</td>
</tr>
<tr>
<td>Availability</td>
<td>100%</td>
</tr>
<tr>
<td>Market share</td>
<td>20%</td>
</tr>
</tbody>
</table>
What drives each step in the hierarchy?

1. Advertising
2. Product attributes & price
3. Sales force
4. Production volume
5. Retail availability
6. Cost
7. Brand awareness
8. Intentions
9. Brand choice
10. Sales
11. Profits
12. Competitive marketing mix
13. Category & Segment volume

Flowchart:
- Advertising→Brand awareness
- Product attributes & price→Brand awareness
- Sales force→Retail availability
- Production volume→Retail availability
- Retail availability→Brand choice
- Cost→Profits
- Profits→Sales
- Sales→Brand choice
- Brand choice→Intentions
- Intentions→Brand awareness
- Competitive marketing mix→Category & Segment volume
- Category & Segment volume→Profits
# Influencing customers

<table>
<thead>
<tr>
<th>Effect</th>
<th>Main Forces</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Awareness</strong></td>
<td>• Advertising</td>
<td>• Advertising experiment</td>
</tr>
<tr>
<td></td>
<td>• Forgetting</td>
<td>• Competitive ad spending</td>
</tr>
<tr>
<td></td>
<td>• Share of voice</td>
<td></td>
</tr>
<tr>
<td><strong>Purchase Intentions</strong></td>
<td>• Customer perceptions</td>
<td>• Benefit scales</td>
</tr>
<tr>
<td></td>
<td>• Product features</td>
<td>• Semantic scales</td>
</tr>
<tr>
<td></td>
<td>• Advertising</td>
<td>• Conjoint analysis</td>
</tr>
<tr>
<td></td>
<td>• Competition</td>
<td></td>
</tr>
<tr>
<td><strong>Availability</strong></td>
<td>• Sales force</td>
<td>• Sales force experiment</td>
</tr>
<tr>
<td></td>
<td>• Competition</td>
<td>• Competitive sales forces</td>
</tr>
<tr>
<td></td>
<td>• Stock-outs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Feet-on-the-street</td>
<td></td>
</tr>
<tr>
<td><strong>Market Demand</strong></td>
<td>• Maturity of segment</td>
<td>• Market forecasts</td>
</tr>
<tr>
<td></td>
<td>• Product attractiveness</td>
<td>• Benefit/conjoint trends</td>
</tr>
</tbody>
</table>
2. Positioning on benefits

PERCEPTUAL MAP
(based on MDS study)
Horizontal axis = Economy
Vertical axis = Performance
Positioning on benefits (continued)

MARKSTRAT uses an ideal point model, one of two models generally used (the other is the vector preference model).

A consequence of the ideal point model is that, for a segment, too much is just as bad as too little.
IMPORTANT NOTE: Ideal points change over time

Influenced by consumer trends & firm offers
### Benefits or attributes?

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Attributes</th>
</tr>
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<tbody>
<tr>
<td>• Economy</td>
<td>• Weight</td>
</tr>
<tr>
<td>• Performance</td>
<td>• Design</td>
</tr>
<tr>
<td>• Convenience</td>
<td>• Volume</td>
</tr>
<tr>
<td></td>
<td>• Maximum Frequency</td>
</tr>
<tr>
<td></td>
<td>• Power</td>
</tr>
<tr>
<td></td>
<td>• Price</td>
</tr>
</tbody>
</table>

\[
\text{Benefit}_i = \sum_{j=1}^{k} (w_j \times \text{attribute}_j)
\]
Connecting benefits to attributes is important

### House of Quality for an e-Bank

<table>
<thead>
<tr>
<th>Direction of Improvement</th>
<th>Importance to the customer</th>
<th>Information reformatting</th>
<th>Taking ATMs</th>
<th>Raised-Line Checks</th>
<th>Web accessibility</th>
<th>Personalizing accounts</th>
<th>Auto-speak tool tips</th>
<th>Auxiliary aids and services</th>
<th>Tradeoffs</th>
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</thead>
<tbody>
<tr>
<td>Maximize</td>
<td>4.0</td>
<td>4.0</td>
<td>4.0</td>
<td>4.0</td>
<td>3.8</td>
<td>3.8</td>
<td>3.8</td>
<td>3.6</td>
<td>Synergy</td>
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<tr>
<td>Target</td>
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<td>3.8</td>
<td>3.8</td>
<td>3.8</td>
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<td>3.8</td>
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<td>Compromise</td>
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<tr>
<td>Minimize</td>
<td>3.2</td>
<td>3.2</td>
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<td>3.2</td>
<td>3.2</td>
<td>3.2</td>
<td>3.2</td>
<td>3.2</td>
<td></td>
</tr>
</tbody>
</table>

### Source

M. Gonzales et al, Quality Management Journal, January 2008
The role of the Chief Marketing Officer

- Information overload
- Time pressure
- Develop vision
- Think ahead, reason back
- Look at opportunity costs
- Reduce decision-making biases
- Conflicting opinions
- Limited resources
The role of the CMO
(CMO Council 2007 survey of 1500 search firm partners, board members and senior marketers)

• Top 3 responsibilities
  - Marketing plans, programs and deliverables
  - Brand ombudsman—values, consistency, culture
  - Competitive intelligence and pre-emptive strategies

• View from the boardroom
  - Highly influential and strategic throughout the organization
  - High impact on overall performance
  - [But only 41% gave their CMO an A grade]

• Weaknesses seen by other C-suite members
  - Failure to provide ROI data
  - Lack of financial management skills
  - Sometimes more tactical than strategic in mindset
CMOs need to be pro-active about competition

• Look beyond tangible assets that are typically the focus of SWOT analyses
  • Who are the competing decision makers?
  • What is the organization’s (competitive) reputation?
  • What are the pressures on their business?

• Put yourself in your competitors’ shoes
  • **Invest**: use a ‘devil’s advocate’ or put a ‘red’ team in place
  • **Scenarios**: explicitly spell out assumptions about competitors’ behavior and the uncertainty about it
Beer in China: reform scenario

Consolidation, oligopoly & multiple segments

- Reform relatively complete
- Many local players acquired or fail
- Major regional and national players
- Increasing brand awareness
- Foreign players can survive with branding & price premium (viable segment emerges)
- Local players can survive with low-cost or good brand recognition
- Industry makes reasonable profits
CMOs need to create more value: the MARKSTRAT performance metric

• Building on the idea that CMOs need to think more about financial returns
• But keeping it simple with one measure, relative increase in the value of the firm during your management
• How calculated?
  • Firms have a known share price
  • Your winning bid at the auction defines the initial capital invested (including any premium over the initial share price)
  • Successful management increases the share price & value of the firm
  • Relative increase = ending value/initial capital
• Consequence: consider the profit potential and opportunity cost of every move you make

This is an oversimplification of reality but suits the purpose
Takeaways

Chief Marketing Officers

Need to think competitively

- Think ahead two or three moves & reason back to your decision
- Put yourselves in the competitors’ shoes and understand their business through their eyes

Need to proactively develop their portfolio

- Think future as well as present
- Extend carefully, weighing opportunity costs

Brand Managers

- Use the hierarchy of effects to diagnose brand problems and allocate marketing mix resources
- Benefit (multidimensional) scaling is the better way to measure brand positions
- MARKSTRAT uses an ideal point model for segments, this accurately reflects how MARKSTRAT consumers think