Competition, Competitiveness, and Global Financial Crisis

Vijay Kumar Kaul
Department of Business Economics
University of Delhi
Symposium at Saheed Bhagat Singh (Eve.) College
26th February 2009

Content

- Competition
- Competitiveness
- Disruption in Competition
- Competition Policy to safeguard Competition
- Competitiveness and Competitive advantages
- Blue ocean strategy
- Competition, Competitiveness and Global Financial Crisis

Competition

- The companies compete each others for gaining new customers, and new markets(Market Economy).
- Competition
  - represents stimulation for the companies
  - encouraging them to act at a maximum potential in order to produce goods and services at a highest quality and lowest possible price.
  - stimulates the entrepreneurship and new incoming companies on the market, rewarding those efficient companies and sanctioning those less efficient.

Competitiveness

- Under ideal market conditions, the companies react fast and flexible
  - against new entrants
  - against the changes into the market structure,
- These reaction capacities, responsiveness, of the companies represent in fact, their efficiency and competitiveness
- The competition being the determinant factor of the competitiveness.

Static and Dynamic Competitiveness

- Traditionally, the competitiveness is based only onto the relation between costs and prices.
- The static and the dynamic competitiveness
- The static competitiveness, the focus on the competition based on the price using the low cost of the labour and resources. This way, the competitiveness is achieved by maintaining or reducing the costs of production.
- The dynamic competitiveness
  - associated with the dynamic competitive environment, which is linked with not only the relation between costs and prices, but also the capacity of the companies to learn, to react rapidly to the market conditions, and to innovate.
  - the competitiveness is defined as representing the capacity of the companies to permanently modernize their technologies in order to produce goods and services capable to compete on the international market.

COMPETITIVENESS
-Firm level and National Level

- At a firm level, competitiveness refers mainly to the capacity of the companies to learn, to rapidly adapt to the market conditions, and to innovate.
- For a national level, competitiveness should be view as a way for raising the welfare under the condition of an optimal use of the limited resources.
  - Paul Krugman wrote that the companies are the only bodies who are permanently competing, and not the national states.
- Role of Public Policy:
- This is partly true- globalization and markets imperfection suggest that the public policy plays an important role, and the companies must take into consideration all the features of the market where they are operating. From this point of view, competitiveness in all of its forms, is very hard influenced by the public politics, such as tax, competition policy, public finances etc.

Domestic Competition & International Competitiveness

Michael Porter in *The Competitive Advantage of Nations* (1990) has observed that :

“Few roles of government are more important to the upgrading of an economy than ensuring vigorous domestic rivalry. Rivalry at home is not only uniquely important to fostering innovation but benefits national industry…..In fact, creating a dominant domestic competitor rarely results in international competitive advantage. Firms that do not have to compete at home rarely succeed abroad. Economies of scale are best gained through selling globally, not through dominating the home market” (page 662).

Competitiveness Survey

- In industrial competitiveness surveys of 2007-8 by IMD survey
- India was ranked 29th (out of 55)
- The criteria here was economic performance, government efficiency, business efficiency and infrastructure and it was infrastructure where India scored very low.
- In the Global Competitiveness Report by the World Economic Forum,
- India ranked number 48 (out of 131).
- This is a survey which tracks twelve economic and business parameters
- The competitiveness scorecard (UNIDO).
- India ranked 41.
- It evaluates competitiveness on the basis of industrial performance and development the ability to compete in a global market and the share of manufacturing in GDP amongst other things.

Disruption in Competition

- Generally speaking, the competition is viewed as a fight where the best or the fittest survives.
- Being confronted with a wild competition and trying to achieve a bigger profit, the actors existing on the market are often tempted to disturb the competition in order to consolidate, and then, to abuse of their market power.
- In these conditions, the intervention of the authorities is necessary for assuring the development of a healthy competitive business environment.

Disruption in Competition contd…

"The corrupt version of capitalism—when powerful corporations deliberately try to eliminate healthy competition to preserve their privileged position—generates economic inefficiencies and social injustice, thereby undermining political support for the free-market based system…."

(R. Rajan & L.Zingales, "The Road to Prosperity: Saving Capitalism from Capitalists, Transition Newsletter, 2003)

COMPETITION NEEDS TO BE *Safeguarded and Sustained*

- The 'Competitive Process' is *not automatic.*
- Competition can be distorted by public policies *and* restrictive business practices.
- Public policy often manipulated by various interest groups including private sector firms
- Entrenches anticompetitive business practices and policies
- Discourages *both* domestic and foreign investment

Competition, Cooperation, and Competitiveness

- Exemptions-Exceptions Granted Under Competition law-Policy
- R&D Cooperatives
- Standardization
- Specialization & Rationalization Agreements
- Information & Statistical Exchanges
- JVs Strategic Alliances, M&A …

Exceptions

- The innovation-involve high risks and prices. In this context, the competition policy, using the appropriate state aid instruments, may interfere by encouraging the existing companies to research and development policies, raising the adaptability degree to the market fluctuations of these companies.
- The market variations, also implies the change of the way in which the companies are organizing their production, marketing and distribution activities on national and international level. In order to adapt themselves and still remain competitive, many companies conclude cooperation with others to access new technologies or to enter production networks for gaining the so necessary know-how.

- The Mergers and acquisitions -form of cooperation inter-companies and in the same time, a mechanism which is called by the firms for being capable to face the competition with other competitors.
- Globalization, the capital market pressure and the exponential development of the technological infrastructure determined the global consolidation of a numerous range of economic sectors, such as financial and banking services, chemical and oil industry, air transports, telecommunications, auto industry etc.
- In all before mentioned sectors, the consolidation resulted in the fact that the most important three market actors cover aprox. 70-80% of the present market.
- Although a bigger market concentration does not necessarily means a lack of competition, and does not always have a negative impact on the economic performances, this development could encourage the anti-competition behaviours.

- the existence of an environment, which is encouraging the efficient companies against those inefficient, may represent an incentive for the competitiveness helped by the following instruments:
  - insurance that the allocation of the resources is made efficiently;
  - supporting the companies in organizing their activities efficiently;
  - supporting the innovation.
- Markets are open to competition, the better for the effects onto the competitiveness
- An example : telecommunication

Competitiveness and Competitive Advantages

- Competitive process
- - provide the incentives for establishing advantage
- - the means by which advantage is eroded
- Defining C A:
  - one firm possess a competitive advantage over the other when it earns a higher rate of profit, or has the potential to earn a higher rate of profit.
- COMPETITIVE ADVANTAGE exists when firm has an edge in
  - Defending against competitive forces & Securing customer
  - Convince customers firm's product/service offers SUPERIOR VALUE
  - Offer buyers a good product at a lower price
  - Use differentiation to provide a better product buyers think is worth a premium price

Emergence of competitive Advantage

External sources of change

- Examples
    - Automobiles -rise or fall in price of Oil,
    - Changes in foreign exchange parity
    - New customer tastes,
    - Regulatory change
    - Changes relative prices to raw material
    - Advances in scientific knowledge
- Effects firms -Asymmetric
    - Because firms have chosen different market segments or
    - Different production technologies, or
    - Have different capabilities to respond to changes.
- Active or passive consequences
    - determined by differences between firms' resources
        - (information, reputation with customer, and market position)
- Potential to establish competitive advantage depends o**n**
- **the extent of chang**e and the **extent of differences in firm's resource bases**

Emergence of competitive Advantage

Through responsiveness to external change

- Responsiveness: Firm's ability to respond to external change
  - identify opportunity and respond - entrepreneurship
- Responsiveness also involve anticipating
  - changes in the basis of competitive advantage over time.
- Require:
- One Key resource --Information
- One key capability- flexibility of response
  - (ability to swiftly deploy resources to meet change in external condition)
- A **fast-response capability** become an increasingly important **key success factor** across most industries, interest in time-based management and the role of time as a strategically important resource has grown

Emergence of Competitive advantage

Through innovation- identifying 'new game strategy

- Source of disturbance - may be internal and external
- Internal change is generated by innovation
- Innovation- creates CA , and provides a basis for overturning the C.A. of other firms
- Schumpeter's view of competitive process as 'a gale of creative destruction'.
- Innovation- a new approach to doing business

Sustaining Competitive Advantages

- Erosion through competition
- The speed depends- on ability of competitor to challenge
  - either by imitation or innovation
- Essence of Competition- imitation by rivals
- For CA to be sustained overtime
  - Require the existence of barriers to imitation.
- Rumelt- 'isolating mechanism'

Process of competitive imitation

- To successfully imitate -Four conditions:
  - Identification
  - Incentive
  - Diagnosis
  - Resource acquisition
- At all 4 stages the -potential for isolating mechanism arises

Red Ocean Versus Blue Ocean Strategy

Red Ocean Strategy	Blue Ocean Strategy
Compete in existing market space	Create uncontested market space
Beat the competition	Make the competition irrelevant
Differentiation or low cost	Differentiation and low cost
Competitive Advantage	Value Innovation
Segment existing customers	Attract noncustomers
Exploit existing demand	Create and capture new demand

© Kim & Mauborgne 2006

Innovation

Random	Systematic
• Entrepreneur • Entrepreneurial Risk • Trial & Error • Learning from Failures • DNA / Culture • Units for Experimentations (Spin-offs) • Risk Taking or Risk Avoiding	• Pattern • A way of Thinking • Theory • Methodologies • Analytical Frameworks • Opportunity Maximizing & Risk Minimizing
Schumpeterian School	**Value Innovation School**

© Kim & Mauborgne 2006

Conventional Logic	Value Innovation
• Strategic thinking is to stay ahead of competition	• Strategic thinking is to make their competitors irrelevant

Industry Assumptions

- **Conventional logic**

  Industry's condition are given

- **Value innovation Logic**

  Industry's condition can be shaped

Strategic Focus

- **Conventional logic**

  Company should build competitive advantages. The aim is to beat the competition

- **Value innovation Logic**

  Competition is not the benchmark. A company should pursue a quantum leap in value to dominate the market

Customers

- **Conventional logic**

  Company should retain and expand its customer base through further segmentation and customisation. It should focus on what customers value.

- **Value innovation Logic**

  Target mass of buyers and willingly lets some existing customers go. Focus on key **commonalities** what customers value

Assets and Capabilities

- **Conventional logic**

  A company should leverage its existing assets and capabilities

- **Value innovation Logic**

  A company must not be constrained by what it already has. It must ask what should we do if we starting a new?

Product and Service offerings

- **Conventional logic**

  An industry's traditional boundaries determine the products and services a company offers. The goal is to maximize the value of those offerings

- **Value innovation Logic**

  Innovator thinks in terms of the total solution customers seek, even if that takes the company beyond its industry's traditional offerings

Three Platforms for Value Innovation

- Product Platform- the physical product
- Service Platform- support such as maintenance, customer services etc
- Delivery Platform- logistics and channel used to deliver the product to customers.

The concept of

VALUE CURVE

REDUCE:

What factors should be reduced well below the industry standard

ELIMINATE:

What factors should be raised well beyond the industry standard?

NEW VALUE CURVE

CREATE:

What factors should be created that the industry has never offered ?

RAISE:

What factors should be raised well beyond the industry standards?

Competition, competitiveness and Financial Crisis

Thank You