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Chapter 6

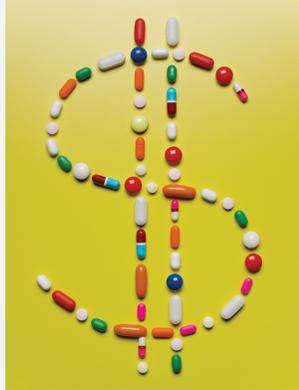
Supporting the Business-Level Strategy: Competitive and Cooperative Moves

LEARNING OBJECTIVES

After reading this chapter, you should be able to understand and articulate answers to the following questions:

1. What different competitive moves are commonly used by firms?
2. When and how do firms respond to the competitive actions taken by their rivals?
3. What moves can firms make to cooperate with other firms and create mutual benefits?

Can Merck Stay Healthy?



The financial stakes are high for Merck and its rivals in the pharmaceutical industry.

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On June 7, 2011, pharmaceutical giant Merck & Company Inc. announced the formation of a strategic alliance with Roche Holding AG, a smaller pharmaceutical firm that is known for excellence in medical testing. The firms planned to work together to create tests that could identify cancer patients who might benefit from cancer drugs that Merck had under development. Stynes, T. 2011, June 7. Merck, Roche focus on tests for cancer treatments. *Wall Street Journal*. Retrieved from online.wsj.com/article/SB10001424052702304432304576371491785709756.html?mod=googlenews_wsj

This was the second alliance formed between the companies in less than a month. On May 16, 2011, the US Food and Drug Administration approved a drug called Victrelis that Merck had developed to treat hepatitis C. Merck and Roche agreed to promote Victrelis together. This surprised industry experts because Merck and Roche had offered competing treatments for hepatitis C in the past. The Merck/Roche alliance was expected to help Victrelis compete for market share with a new treatment called Incivek that was developed by a team of two other pharmaceutical firms: Vertex and Johnson & Johnson.

Experts predicted that Victrelis's wholesale price of \$1,100 for a week's supply could create \$1 billion of annual revenue. This could be an important financial boost to Merck, although the company was already enormous. Merck's total of \$46 billion in sales in 2010 included approximately \$5.0 billion in revenues from asthma treatment Singulair, \$3.3 billion for two closely related diabetes drugs, \$2.1 billion for two closely related blood pressure drugs, and \$1.1 billion for an HIV/AIDS treatment.

Despite these impressive numbers, concerns about Merck had reduced the price of the firm's stock from nearly \$60 per share at the start of 2008 to about \$36 per share by June 2011. A big challenge for Merck is that once the patent on a drug expires, its profits related to that drug plummet because generic drugmakers can start selling the drug. The patent on Singulair is set to expire in the summer of 2012, for example, and a sharp decline in the massive revenues that Singulair brings into Merck seemed inevitable. Statistics drawn from Standard & Poor's stock report on Merck.

A major step in the growth of Merck was the 2009 acquisition of drugmaker Schering-Plough. By 2011, Merck ranked fifty-third on the *Fortune* 500 list of America's largest companies. Rivals Pfizer (thirty-first) and Johnson & Johnson (fortieth) still remained much bigger than Merck, however. Important questions also loomed large. Would the competitive and cooperative moves made by Merck's executives keep the firm healthy? Or would expiring patents, fearsome rivals, and other challenges undermine Merck's vitality?

Friedrich Jacob Merck had no idea that he was setting the stage for such immense stakes when he took the first steps toward the creation of Merck. He purchased a humble pharmacy in Darmstadt, Germany, in 1688. In 1827, the venture moved into the creation of drugs when Heinrich Emanuel Merck, a descendant of Friedrich, created a factory in Darmstadt in 1827. The modern version of Merck was incorporated in 1891. More than three hundred years after its beginnings, Merck now has approximately ninety-four thousand employees.



Merck's origins can be traced back more than three centuries to Friedrich Jacob Merck's purchase of this pharmacy in 1688.

Image courtesy of Wikimedia, http://upload.wikimedia.org/wikipedia/commons/e/eb/ENGEL_APHOTHEKE.png.

For executives leading firms such as Merck, selecting a generic strategy is a key aspect of business-level strategy, but other choices are very important too. In their ongoing battle to make their firms more successful, executives must make decisions about what competitive moves to make, how to respond to rivals' competitive moves, and what cooperative moves to make. This chapter discusses some of the more powerful and interesting options. As our opening vignette on Merck illustrates, often another company, such as Roche, will be a potential ally in some instances and a potential rival in others.

6.1 Making Competitive Moves

Figure 6.1 *Making Competitive Moves*

The study of competitive moves draws from military history, including Sun Tzu's classic book The Art of War. Like a skilled samurai, wise business strategists are familiar with a number of competitive moves that may help guide their firms to victory.

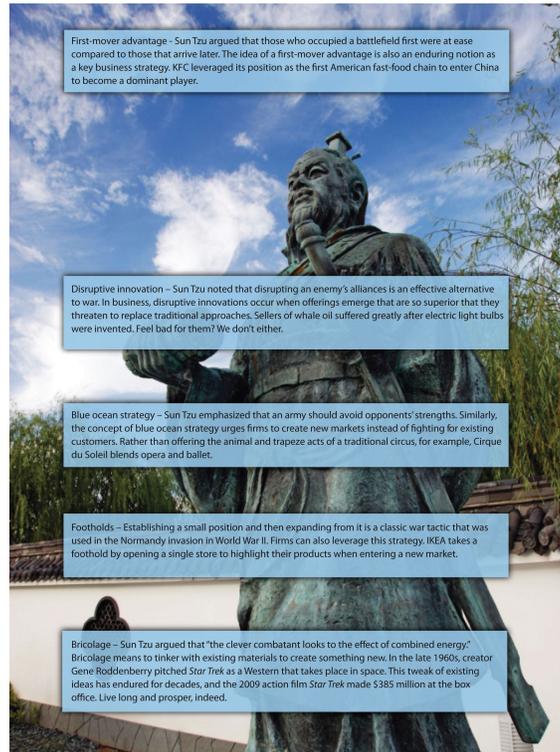


Image courtesy of 663highland, <http://en.wikipedia.org/wiki/File:Enchoen27n3200.jpg>

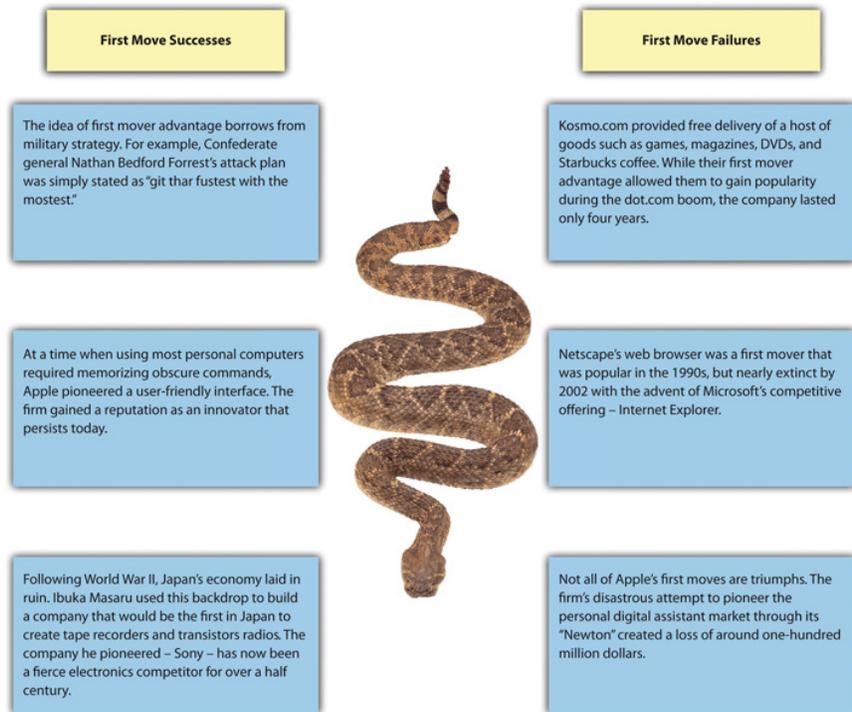
LEARNING OBJECTIVES

1. Understand the advantages and disadvantages of being a first mover.
2. Know how disruptive innovations can change industries.
3. Describe two ways that using foothold can benefit firms.
4. Explain how firms can win without fighting using a blue ocean strategy.
5. Describe the creative process of bricolage.

Being a First Mover: Advantages and Disadvantages

Figure 6.2 *First Mover Advantage*

When confronted by a poisonous snake, should you strike first or wait for the serpent to make a move? Each option has advantages and disadvantages. In business, being a first mover might allow a firm to “rattle” its rivals, but a first move might also attract the “venom” of skeptical customers. Below we offer examples of successful – and not so successful – first movers.



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A famous cliché contends that “the early bird gets the worm.” Applied to the business world, the cliché suggests that certain benefits are available to a **first mover**¹ into a market that will not be available to later entrants (Figure 6.1 “Making Competitive Moves”). A **first-mover advantage**² exists when making the initial move into a market allows a firm to establish a dominant position that other firms struggle to overcome (Figure 6.2 “First Mover Advantage”). For example, Apple’s creation of a user-friendly, small computer in the early 1980s helped fuel a reputation for creativity and innovation that persists today. Kentucky Fried Chicken (KFC) was able to develop a strong bond with Chinese officials by being the first Western restaurant chain to enter China. Today, KFC is the leading Western fast-food chain in this rapidly growing market. Genentech’s early development of biotechnology allowed it to overcome many of the pharmaceutical industry’s traditional entry barriers (such as financial capital and distribution networks) and become a profitable firm. Decisions to be first movers helped all three firms to be successful in their respective industries. This section draws from Ketchen, D. J.,

1. An initial entrant into a market.
2. When the initial move into a market allows a firm to establish a dominant position that other firms struggle to overcome.

Snow, C., & Street, V. 2004. Improving firm performance by matching strategic decision making processes to competitive dynamics. *Academy of Management Executive*, 19(4), 29–43.

On the other hand, a first mover cannot be sure that customers will embrace its offering, making a first move inherently risky. Apple's attempt to pioneer the personal digital assistant market, through its Newton, was a financial disaster. The first mover also bears the costs of developing the product and educating customers. Others may learn from the first mover's successes and failures, allowing them to cheaply copy or improve the product. In creating the Palm Pilot, for example, 3Com was able to build on Apple's earlier mistakes. Matsushita often refines consumer electronic products, such as compact disc players and projection televisions, after Sony or another first mover establishes demand. In many industries, knowledge diffusion and public-information requirements make such imitation increasingly easy.

One caution is that first movers must be willing to commit sufficient resources to follow through on their pioneering efforts. RCA and Westinghouse were the first firms to develop active-matrix LCD display technology, but their executives did not provide the resources needed to sustain the products spawned by this technology. Today, these firms are not even players in this important business segment that supplies screens for notebook computers, camcorders, medical instruments, and many other products.

To date, the evidence is mixed regarding whether being a first mover leads to success. One research study of 1,226 businesses over a fifty-five-year period found that first movers typically enjoy an advantage over rivals for about a decade, but other studies have suggested that first moving offers little or no advantages.

Perhaps the best question that executives can ask themselves when deciding whether to be a first mover is, how likely is this move to provide my firm with a sustainable competitive advantage? First moves that build on strategic resources such as patented technology are difficult for rivals to imitate and thus are likely to succeed. For example, Pfizer enjoyed a monopoly in the erectile dysfunction market for five years with its patented drug Viagra before two rival products (Cialis and Levitra) were developed by other pharmaceutical firms. Despite facing stiff competition, Viagra continues to raise about \$1.9 billion in sales for Pfizer annually. Figures from Standard & Poor's stock report on Pfizer.

In contrast, E-Trade Group's creation in 2003 of the portable mortgage seemed doomed to fail because it did not leverage strategic resources. This innovation allowed customers to keep an existing mortgage when they move to a new home.

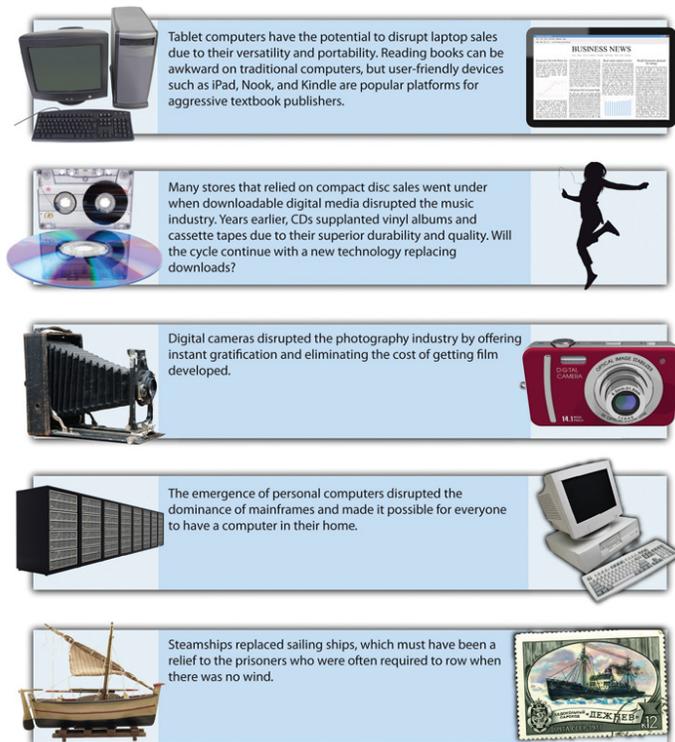
Bigger banks could easily copy the portable mortgage if it gained customer acceptance, undermining E-Trade’s ability to profit from its first move.

Disruptive Innovation

Some firms have the opportunity to shake up their industry by introducing a **disruptive innovation**³—an innovation that conflicts with, and threatens to replace, traditional approaches to competing within an industry (**Figure 6.3 "Shaking the Market with Disruptive Innovations"**). The iPad has proved to be a disruptive innovation since its introduction by Apple in 2010. Many individuals quickly abandoned clunky laptop computers in favor of the sleek tablet format offered by the iPad. And as a first mover, Apple was able to claim a large share of the market.

Figure 6.3 *Shaking the Market with Disruptive Innovations*

Disruptive innovations occur when firms introduce offerings that are so unique and superior that they threaten to replace traditional approaches. We illustrate a number of disruptive innovations below.



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3. An improvement that conflicts with, and threatens to replace, traditional approaches to competing within an industry.

The iPad story is unusual, however. Most disruptive innovations are not overnight sensations. Typically, a small group of customers embrace a disruptive innovation

as early adopters and then a critical mass of customers builds over time. An example is digital cameras. Few photographers embraced digital cameras initially because they took pictures slowly and offered poor picture quality relative to traditional film cameras. As digital cameras have improved, however, they have gradually won over almost everyone that takes pictures. Executives who are deciding whether to pursue a disruptive innovation must first make sure that their firm can sustain itself during an initial period of slow growth.

Footholds

Figure 6.4 Footholds

Footholds are useful for rock climbers looking for sure footing to ascend a difficult mountain, as well as firms hoping to gain positions in new markets. In business, a foothold is a small position that a firm intentionally establishes within a market in which it does not yet compete. Examples of the use of footholds are illustrated below.



Swedish furniture seller IKEA opens just a single store when entering a new country, such as their first store in Japan shown here. This foothold is used as a showcase to establish IKEA's brand; then more stores are opened once brand recognition is gained in the country.



Pharmaceutical giant Merck obtained a foothold by purchasing SmartCells Inc.,—a company developing a possible new diabetes treatment.



The foothold concept also applies to warfare. Many armies establish new positions in geographic territories that they have not previously occupied. The Allied Forces used Normandy, France, as their foothold to advance on German forces during World War II.

Images courtesy of OiMax, <http://www.flickr.com/photos/oimax/118738898/> (top left); National Archive USA, http://en.wikipedia.org/wiki/File:Normandy_Invasion,_June_1944.jpg (bottom right); other images © Thinkstock.

In warfare, many armies establish small positions in geographic territories that they have not occupied previously. These footholds provide value in at least two ways (Figure 6.4 "Footholds"). First, owning a foothold can dissuade other armies from attacking in the region. Second, owning a foothold gives an army a quick strike capability in a territory if the army needs to expand its reach.

Similarly, some organizations find it valuable to establish footholds in certain markets. Within the context of business, a **foothold**⁴ is a small position that a firm intentionally establishes within a market in which it does not yet compete. Upson, J., Ketchen, D. J., Connelly, B., & Ranft, A. Forthcoming. Competitor analysis and foothold moves. *Academy of Management Journal*. Swedish furniture seller IKEA is a firm that relies on footholds. When IKEA enters a new country, it opens just one store. This store is then used as a showcase to establish IKEA's brand. Once IKEA gains brand recognition in a country, more stores are established. Hambrick, D. C., & Fredrickson, J. W. 2005. Are you sure you have a strategy? *Academy of Management Executive*, 19, 51–62.

Pharmaceutical giants such as Merck often obtain footholds in emerging areas of medicine. In December 2010, for example, Merck purchased SmartCells Inc., a company that was developing a possible new treatment for diabetes. In May 2011, Merck acquired an equity stake in BeiGene Ltd., a Chinese firm that was developing novel cancer treatments and detection methods. Competitive moves such as these offer Merck relatively low-cost platforms from which it can expand if clinical studies reveal that the treatments are effective.

Blue Ocean Strategy

It is best to win without fighting.

- Sun-Tzu, The Art of War

A **blue ocean strategy**⁵ involves creating a new, untapped market rather than competing with rivals in an existing market. Kim, W. C., & Mauborgne, R. 2004, October. Blue ocean strategy. *Harvard Business Review*, 76–85. This strategy follows the approach recommended by the ancient master of strategy Sun-Tzu in the quote above. Instead of trying to outmaneuver its competition, a firm using a blue ocean strategy tries to make the competition irrelevant (**Figure 6.5 "Blue Ocean Strategy"**). Baseball legend Wee Willie Keeler offered a similar idea when asked how to become a better hitter: "Hit 'em where they ain't." In other words, hit the baseball where there are no fielders rather than trying to overwhelm the fielders with a ball hit directly at them.

4. A small position that a firm intentionally establishes within a market in which it does not yet compete.

5. Creating a new, untapped market rather than competing with rivals in an existing market.

Nintendo openly acknowledges following a blue ocean strategy in its efforts to invent new markets. In 2006, Perrin Kaplan, Nintendo's vice president of marketing and corporate affairs for Nintendo of America noted in an interview, "We're making games that are expanding our base of consumers in Japan and America. Yes, those who've always played games are still playing, but we've got people who've never played to start loving it with titles like *Nintendogs*, *Animal Crossing* and *Brain Games*."

These games are blue ocean in action.”Rosmarin, R. 2006, February 7. Nintendo’s new look. Forbes.com. Retrieved from http://www.forbes.com/2006/02/07/xbox-ps3-revolution-cx_rr_0207nintendo.html Other examples of companies creating new markets include FedEx’s invention of the fast-shipping business and eBay’s invention of online auctions.

Figure 6.5 *Blue Ocean Strategy*

It’s a big ocean out there! When pursuing a blue ocean strategy, executives try to create and exploit vast untapped markets rather than competing directly with rivals. We provide several examples of firms following a blue ocean strategy below.



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Bricolage

Bricolage⁶ is a concept that is borrowed from the arts and that, like blue ocean strategy, stresses moves that create new markets. Bricolage means using whatever materials and resources happen to be available as the inputs into a creative process. A good example is offered by one of the greatest inventions in the history of civilization: the printing press. As noted in the *Wall Street Journal*, “The printing press is a classic combinatorial innovation. Each of its key elements—the movable type, the ink, the paper and the press itself—had been developed separately well before Johannes Gutenberg printed his first Bible in the 15th century. Movable type,

6. Using whatever materials and resources happen to be available as the inputs into a creative process.

for instance, had been independently conceived by a Chinese blacksmith named Pi Sheng four centuries earlier. The press itself was adapted from a screw press that was being used in Germany for the mass production of wine.”Johnson, S. The genius of the tinkerer. *Wall Street Journal*. Retrieved from <http://online.wsj.com/article/SB10001424052748703989304575503730101860838.html> Gutenberg took materials that others had created and used them in a unique and productive way.

Executives apply the concept of bricolage when they combine ideas from existing businesses to create a new business. Think miniature golf is boring? Not when you play at one of Monster Mini Golf’s more than twenty-five locations. This company couples a miniature golf course with the thrills of a haunted house. In April 2011, Monster Mini Golf announced plans to partner with the rock band KISS to create a “custom-designed, frightfully fun course [that] will feature animated KISS and monster props lurking in all 18 fairways” in Las Vegas. KISS Mini Golf to rock Las Vegas this fall [Press release]. 2011, April 28. Monster Mini Golf website. Retrieved from <http://www.monsterminigolf.com/mmgkiss.html>



Actor Johnny Depp uses bricolage when creating a character. Captain Jack Sparrow, for example, combines aspects of Rolling Stones guitarist Keith Richards and cartoon skunk Pepé Le Pew.

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Braveheart meets heavy metal when TURISAS takes the stage.

Image courtesy of Cecil, http://en.wikipedia.org/wiki/File:Turisas_-_Jalometalli_2008_-_02.JPG.

Many an expectant mother has lamented the unflattering nature of maternity clothes and the boring stores that sell them. Coming to the rescue is Belly Couture, a boutique in Lubbock, Texas, that combines stylish fashion and maternity clothes. The store's clever slogan—"Motherhood is haute"—reflects the unique niche it fills through bricolage. A wilder example is TURISAS, a Finnish rock band that has created a niche for itself by combining heavy metal music with the imagery and costumes of Vikings. The band's website describes their effort at bricolage as "inspirational cinematic battle metal brilliance." <http://www.turisas.com/site/biography/> No one ever claimed that rock musicians are humble.

Strategy at the Movies

Love and Other Drugs

Competitive moves are chosen within executive suites, but they are implemented by frontline employees. Organizational success thus depends just as much on workers such as salespeople excelling in their roles as it does on executives' ability to master strategy. A good illustration is provided in the 2010 film *Love and Other Drugs*, which was based on the nonfiction book *Hard Sell: The Evolution of a Viagra Salesman*.

As a new sales representative for drug giant Pfizer, Jamie Randall believed that the best way to increase sales of Pfizer's antidepressant Zoloft in his territory was to convince highly respected physician Dr. Knight to prescribe Zoloft rather than the good doctor's existing preference, Ely Lilly's drug Prozac. Once Dr. Knight began prescribing Zoloft, thought Randall, many other physicians in the area would follow suit.

This straightforward plan proved more difficult to execute than Randall suspected. Sales reps from Ely Lilly and other pharmaceutical firms aggressively pushed their firm's products, such as by providing all-expenses-paid trips to Hawaii for nurses in Dr. Knight's office. Prozac salesman Trey Hannigan went so far as to beat up Randall after finding out that Randall had stolen and destroyed Prozac samples. While assault is an extreme measure to defend a sales territory, the actions of Hannigan and the other salespeople depicted in *Love and Other Drugs* reflect the challenges that frontline employees face when implementing executives' strategic decisions about competitive moves.



Image courtesy of Marco,
<http://www.flickr.com/photos/zi1217/5528068221>.

KEY TAKEAWAY

- Firms can take advantage of a number of competitive moves to shake up or otherwise get ahead in an ever-changing business environment.

EXERCISES

1. Find a key trend from the general environment and develop a blue ocean strategy that might capitalize on that trend.
2. Provide an example of a product that, if invented, would work as a disruptive innovation. How widespread would be the appeal of this product?
3. How would you propose to develop a new foothold if your goal was to compete in the fashion industry?
4. Develop a new good or service applying the concept of bricolage. In other words, select two existing businesses and describe the experience that would be created by combining those two businesses.

6.2 Responding to Competitors' Moves

Figure 6.6 Responding to Rivals' Moves

Famed military strategist Carl von Clausewitz once quipped, "The best defense is a good offense." We illustrate a number of key issues surrounding whether and how firms respond when put on the defensive by rivals.



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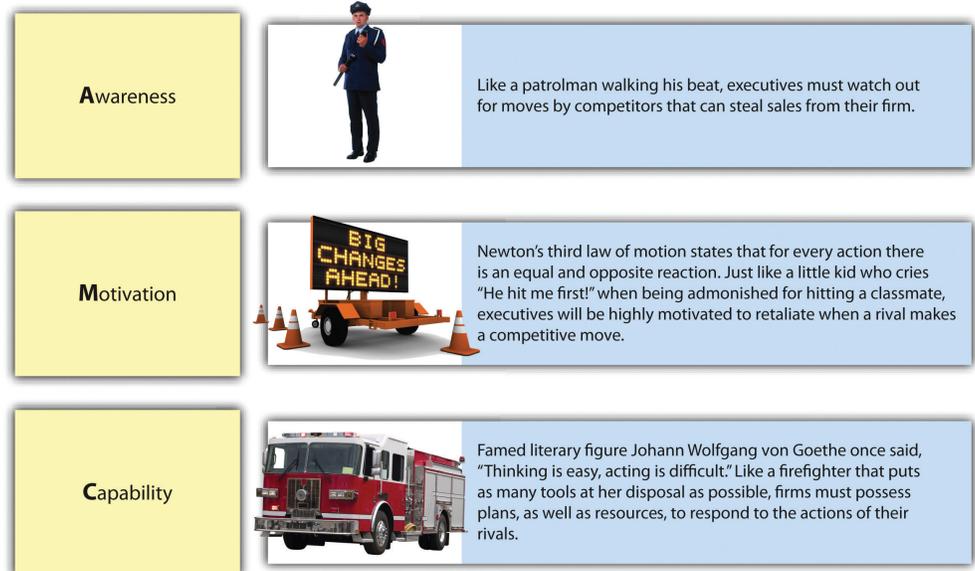
LEARNING OBJECTIVES

1. Know the three factors that determine the likelihood of a competitor response.
2. Understand the importance of speed in competitive response.
3. Describe how mutual forbearance can be beneficial for firms engaged in multipoint competition.
4. Explain two ways firms can respond to disruptive innovations.
5. Understand the importance of fighting brands as a competitive response.

In addition to choosing what moves their firm will make, executives also have to decide whether to respond to moves made by rivals (Figure 6.6 "Responding to Rivals' Moves"). Figuring out how to react, if at all, to a competitor's move ranks among the most challenging decisions that executives must make. Research indicates that three factors determine the likelihood that a firm will respond to a competitive move: awareness, motivation, and capability. These three factors together determine the level of competition tension that exists between rivals (Figure 6.7 "Competitive Tension: The A-M-C Framework").

Figure 6.7 Competitive Tension: The A-M-C Framework

Bridges and rubber bands have been known to snap under too much tension. In a similar vein, firms experience competitive tension with their competitors. Three factors help to explain the likelihood that a firm will respond aggressively to rivals' competitive actions. We explain each of these factors below.



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An analysis of the "razor wars" illustrates the roles that these factors play. Portions of this section are adapted from Ketchen, D. J., Snow, C., & Street, V. 2004. Improving firm performance by matching strategic decision making processes to competitive dynamics. *Academy of Management Executive*, 19(4) 29-43. Ibid. Consider Schick's attempt to grow in the razor-system market with its introduction of the Quattro. This move was widely publicized and supported by a \$120 million advertising budget. Therefore, its main competitor, Gillette, was well aware of the move. Gillette's motivation to respond was also high. Shaving products are a vital market for Gillette, and Schick has become an increasingly formidable competitor since its acquisition by Energizer. Finally, Gillette was very capable of responding, given its vast resources and its dominant role in the industry. Because all three

factors were high, a strong response was likely. Indeed, Gillette made a preemptive strike with the introduction of the Sensor 3 and Venus Devine a month before the Schick Quattro's projected introduction.

Although examining a firm's awareness, motivation, and capability is important, the results of a series of moves and countermoves are often difficult to predict and miscalculations can be costly. The poor response by Kmart and other retailers to Walmart's growth in the late 1970s illustrates this point. In discussing Kmart's parent corporation (Kresge), a stock analyst at that time wrote, "While we don't expect Kresge to stage any massive invasion of Walmart's existing territory, Kresge could logically act to contain Walmart's geographical expansion....Assuming some containment policy on Kresge's part, Walmart could run into serious problems in the next few years." Kmart executives also received but ignored early internal warnings about Walmart. A former member of Kmart's board of directors lamented, "I tried to advise the company's management of just what a serious threat I thought [Sam Walton, founder of Walmart] was. But it wasn't until fairly recently that they took him seriously." While the threat of Walmart growth was apparent to some observers, Kmart executives failed to respond. Competition with Walmart later drove Kmart into bankruptcy.

Speed Kills

Executives in many markets must cope with a rapid-fire barrage of attacks from rivals, such as head-to-head advertising campaigns, price cuts, and attempts to grab key customers. If a firm is going to respond to a competitor's move, doing so quickly is important. If there is a long delay between an attack and a response, this generally provides the attacker with an edge. For example, PepsiCo made the mistake of waiting fifteen months to copy Coca-Cola's May 2002 introduction of Vanilla Coke. In the interim, Vanilla Coke carved out a significant market niche; 29 percent of US households had purchased the beverage by August 2003, and 90 million cases had been sold.

In contrast, fast responses tend to prevent such an edge. Pepsi's spring 2004 announcement of a midcalorie cola introduction was quickly followed by a similar announcement by Coke, signaling that Coke would not allow this niche to be dominated by its longtime rival. Thus, as former General Electric CEO Jack Welch noted in his autobiography, success in most competitive rivalries "is less a function of grandiose predictions than it is a result of being able to respond rapidly to real changes as they occur. That's why strategy has to be dynamic and anticipatory."

So...We Meet Again

Multipoint competition adds complexity to decisions about whether to respond to a rival's moves. With **multipoint competition**⁷, a firm faces the same rival in more than one market. Cigarette makers R. J. Reynolds (RJR) and Philip Morris, for example, square off not only in the United States but also in many countries around the world. When a firm has one or more multipoint competitors, executives must realize that a competitive move in a market can have effects not only within that market but also within others. In the early 1990s, RJR started using lower-priced cigarette brands in the United States to gain customers. Philip Morris responded in two ways. The first response was cutting prices in the United States to protect its market share. This started a price war that ultimately hurt both companies. Second, Philip Morris started building market share in Eastern Europe where RJR had been establishing a strong position. This combination of moves forced RJR to protect its market share in the United States and neglect Eastern Europe.

If rivals are able to establish mutual forbearance, then multipoint competition can help them be successful. **Mutual forbearance**⁸ occurs when rivals do not act aggressively because each recognizes that the other can retaliate in multiple markets. In the late 1990s, Southwest Airlines and United Airlines competed in some but not all markets. United announced plans to form a new division that would move into some of Southwest's other routes. Southwest CEO Herb Kelleher publicly threatened to retaliate in several shared markets. United then backed down, and Southwest had no reason to attack. The result was better performance for both firms. Similarly, in hindsight, both RJR and Philip Morris probably would have been more profitable had RJR not tried to steal market share in the first place. Thus recognizing and acting on potential forbearance can lead to better performance through firms not competing away their profits, while failure to do so can be costly.

Responding to a Disruptive Innovation

When a rival introduces a disruptive innovation that conflicts with the industry's current competitive practices, such as the emergence of online stock trading in the late 1990s, executives choose from among three main responses. First, executives may believe that the innovation will not replace established offerings entirely and thus may choose to focus on their traditional modes of business while ignoring the disruption. For example, many traditional bookstores such as Barnes & Noble did not consider book sales on Amazon to be a competitive threat until Amazon began to take market share from them. Second, a firm can counter the challenge by attacking along a different dimension. For example, Apple responded to the direct sales of cheap computers by Dell and Gateway by adding power and versatility to its products. The third possible response is to simply match the competitor's move.

7. A situation in which a firm faces the same rival in more than one market.

8. A situation in which rivals do not act aggressively because each recognizes that the other can retaliate in multiple markets.

Merrill Lynch, for example, confronted online trading by forming its own Internet-based unit. Here the firm risks cannibalizing its traditional business, but executives may find that their response attracts an entirely new segment of customers.

Fighting Brands: Get Ready to Rumble

A firm's success can be undermined when a competitor tries to lure away its customers by charging lower prices for its goods or services. Such a scenario is especially scary if the quality of the competitor's offerings is reasonably comparable to the firm's. One possible response would be for the firm to lower its prices to prevent customers from abandoning it. This can be effective in the short term, but it creates a long-term problem. Specifically, the firm will have trouble increasing its prices back to their original level in the future because charging lower prices for a time will devalue the firm's brand and make customers question why they should accept price increases.

The creation of a fighting brand is a move that can prevent this problem. A **fighting brand**⁹ is a lower-end brand that a firm introduces to try to protect the firm's market share without damaging the firm's existing brands. In the late 1980s, General Motors (GM) was troubled by the extent to which the sales of small, inexpensive Japanese cars were growing in the United States. GM wanted to recapture lost sales, but it did not want to harm its existing brands, such as Chevrolet, Buick, and Cadillac, by putting their names on low-end cars. GM's solution was to sell small, inexpensive cars under a new brand: Geo.

Interestingly, several of Geo's models were produced in joint ventures between GM and the same Japanese automakers that the Geo brand was created to fight. A sedan called the Prizm was built side by side with the Toyota Corolla by the New United Motor Manufacturing Incorporated (NUMMI), a factory co-owned by GM and Toyota. The two cars were virtually identical except for minor cosmetic differences. A smaller car (the Metro) and a compact sport utility vehicle (the Tracker) were produced by a joint venture between GM and Suzuki. By 1998, the US car market revolved around higher-quality vehicles, and the low-end Geo brand was discontinued.

Some fighting brands are rather short lived. Merck's failed attempt to protect market share in Germany by creating a fighting brand is an example. Zocor, a treatment for high cholesterol, was set to lose its German patent in 2003. Merck tried to keep its high profit margin for Zocor intact until the patent expired as well as preparing for the inevitable competition with



9. A lower-end brand that a firm introduces to try to protect the firm's market share without damaging the firm's existing brands.

generic drugmakers by creating a lower-priced brand, Zocor MSD. Once the patent expired, however, the new brand was not priced low enough to keep customers from switching to generics. Merck soon abandoned the Zocor MSD brand. Ritson, M. 2009, October. Should you launch a fighter brand? *Harvard Business Review*, 65–81.

The Geo brand was known for its low price and good gas mileage, not for its styling.

Image courtesy of Bull-Doser, http://upload.wikimedia.org/wikipedia/commons/6/6a/Geo_Metro_Convertible.JPG.

Two major airlines experienced similar futility. In response to the growing success of discount airlines such as Southwest, AirTran, Jet Blue, and Frontier, both United Airlines and Delta Airlines created fighting brands. United launched Ted in 2004 and discontinued it in 2009. Delta's Song had an even shorter existence. It was started in 2003 and was ended in 2006. Southwest's acquisition of AirTran in 2011 created a large airline that may make United and Delta lament that they were not able to make their own discount brands successful.

Despite these missteps, the use of fighting brands is a time-tested competitive move. For example, very successful fighting brands were launched forty years apart by Anheuser-Busch and Intel. After Anheuser-Busch increased the prices charged by its existing brands in the mid-1950s (Budweiser and Michelob), smaller brewers started gaining market share. In response, Anheuser-Busch created a lower-priced brand: Busch. The new brand won back the market share that had been lost and remains an important part of Anheuser-Busch's brand portfolio today. In the late 1990s, silicon chipmaker Advanced Micro Devices started undercutting the prices charged by industry leader Intel. Intel responded by creating the Celeron brand of silicon chips, a brand that has preserved Intel's market share without undermining profits. Wise strategic moves such as the creation of the Celeron brand help explain why Intel ranks thirty-second on *Fortune* magazine's list of the "World's Most Admired Corporations." Meanwhile, Anheuser-Busch is the second most admired beverage firm, ranking behind Coca-Cola.

KEY TAKEAWAY

- When threatened by the competitive actions of rivals, firms possess numerous ways to respond, depending on the severity of the threat.

EXERCISES

1. Why might local restaurants not be in the position to respond to large franchises or chains? What can local restaurants do to avoid being ruined by chain restaurants?
2. If a new alternative fuel was found in the auto industry, what are two ways existing car manufacturers might respond to this disruptive innovation?
3. How might a firm such as Apple computers use a fighting brand?

6.3 Making Cooperative Moves

LEARNING OBJECTIVES

1. Know the four types of cooperative moves.
2. Understand the benefits of taking quick and decisive action.

In addition to competitive moves, firms can benefit from cooperating with one another. Cooperative moves such as forming joint ventures and strategic alliances may allow firms to enjoy successes that might not otherwise be reached ([Figure 6.8 "Making Cooperative Moves"](#)). This is because cooperation enables firms to share (rather than duplicate) resources and to learn from one another's strengths. Firms that enter cooperative relationships take on risks, however, including the loss of control over operations, possible transfer of valuable secrets to other firms, and possibly being taken advantage of by partners. Portions of this section are adapted from Ketchen, D. J., Snow, C., & Street, V. 2004. Improving firm performance by matching strategic decision making processes to competitive dynamics. *Academy of Management Executive*, 19(4), 29-43. Ibid.

Joint Ventures

A **joint venture**¹⁰ is a cooperative arrangement that involves two or more organizations each contributing to the creation of a new entity. The partners in a joint venture share decision-making authority, control of the operation, and any profits that the joint venture earns.

Sometimes two firms create a joint venture to deal with a shared opportunity. In April 2011, a joint venture was created between Merck and Sun Pharmaceutical Industries Ltd., an Indian pharmaceutical company. The purpose of the joint venture is to create and sell generic drugs in developing countries. In a press release, a top executive at Sun stressed that each side has important strengths to contribute: "This joint venture reinforces [Sun's] strategy of partnering to launch products using our highly innovative delivery technologies around the world. Merck has an unrivalled reputation as a world leading, innovative, research-driven pharmaceutical company." Merck & Co., Inc., and Sun Pharma establish joint venture to develop and commercialize novel formulations and combinations of medicines in emerging markets [Press release]. 2011, April 11. Merck website. Retrieved from <http://www.merck.com/licensing/our-partnership/sun->

10. A cooperative arrangement that involves two or more organizations, each contributing to the creation of a new entity.

[partnership.html](#) Both firms contributed executives to the new organization, reflecting the shared decision making and control involved in joint ventures.

In other cases, a joint venture is designed to counter a shared threat. In 2007, brewers SABMiller and Molson Coors Brewing Company created a joint venture called MillerCoors that combines the firms' beer operations in the United States. Miller and Coors found it useful to join their US forces to better compete against their giant rival Anheuser-Busch, but the two parent companies remain separate. The joint venture controls a wide array of brands, including Miller Lite, Coors Light, Blue Moon Belgian White, Coors Banquet, Foster's, Henry Weinhard's, Icehouse, Keystone Premium, Leinenkugel's, Killian's Irish Red, Miller Genuine Draft, Miller High Life, Milwaukee's Best, Molson Canadian, Peroni Nastro Azzurro, Pilsner Urquell, and Red Dog. This diverse portfolio makes MillerCoors a more potent adversary for Anheuser-Busch than either Miller or Coors would be alone.

Figure 6.8 Making Cooperative Moves

Franklin Roosevelt once quipped, "Competition has been shown to be useful up to a certain point and no further, but cooperation, which is the thing we must strive for today, begins where competition leaves off." We illustrate four commonly used cooperative moves used by firms below.

| | |
|--|---|
|  | <p>Joint ventures involve two or more organizations that contribute to the creation of a new entity. For example, Hong Kong Disneyland is a joint venture between the government of Hong Kong and the Walt Disney Company. While the park consists of Disney mainstays such as Main Street, U.S.A., Fantasyland, Adventureland, and Tomorrowland, the park also incorporates elements of Chinese culture such as adherence to the rules of Feng Shui – a set of aesthetic design principles believed to promote positive energy.</p> |
| <p>Strategic alliances are cooperative arrangements between two or more organizations that do not involve creating new entities. For example, a strategic alliance between Merck and PAREXEL International Corporation was recently announced with the goal of collaborating on biotechnology efforts known as biosimilars—a term used to describe subsequent versions of innovative drugs.</p> |  |
|  | <p>Colocation refers to a situation when goods and services offered under different brands are located very close to each other. Noting one common example of colocation, a comedian once joked that La Quinta was Spanish for "Next to Denny's." Both hotels and restaurants are often collocated alongside freeway exits to allow numerous choices for road-weary travelers.</p> |
| <p>Coopetition is a term that refers to the blending of competition and cooperation between two firms. Toyota and General Motors' creation of jointly owned New United Motor Manufacturing Incorporated (NUMMI) allowed for collaboration on automobile designs while Toyota and GM continued to compete for market share worldwide. The NUMMI experience also inspired the 1986 comedy <i>Gung Ho</i>.</p> |  |

Images courtesy of AsianFC, <http://www.flickr.com/photos/9753072@N03/884470146/> (first); other images © Thinkstock.

Strategic Alliances

A **strategic alliance**¹¹ is a cooperative arrangement between two or more organizations that does not involve the creation of a new entity. In June 2011, for example, Twitter announced the formation of a strategic alliance with Yahoo! Japan. The alliance involves relevant Tweets appearing within various functions offered by Yahoo! Japan. Rao, L. 2011, June 14. Twitter announces “strategic alliance” with Yahoo Japan [Blog post]. Techcrunch website. Retrieved from <http://www.techcrunch.com/2011/06/14/twitter-announces-firehose-partnership-with-yahoo-japan> The alliance simply involves the two firms collaborating as opposed to creating a new entity together.

The pharmaceutical industry is the location of many strategic alliances. In January 2011, for example, a strategic alliance between Merck and PAREXEL International Corporation was announced. Within this alliance, the two companies collaborate on biotechnology efforts known as biosimilars. This alliance could be quite important to Merck because the global market for biosimilars has been predicted to rise from \$235 million in 2010 to \$4.8 billion by 2015. Global biosimilars market to reach US\$4.8 billion by 2015, according to a new report by Global Industry Analysts, Inc. [Press release]. 2011, February 15. PRWeb website. Retrieved from http://www.prweb.com/releases/biosimilars/human_growth_hormone/prweb8131268.htm

Colocation

Colocation¹² occurs when goods and services offered under different brands are located close to one another. In many cities, for examples, theaters and art galleries are clustered together in one neighborhood. Auto malls that contain several different car dealerships are found in many areas. Restaurants and hotels are often located near on another too. By providing customers with a variety of choices, a set of colocated firms can attract a bigger set of customers collectively than the sum that could be attracted to individual locations. If a desired play is sold out, a restaurant overcrowded, or a hotel overbooked, many customers simply patronize another firm in the area.

11. A cooperative arrangement between two or more organizations that does not involve the creation of a new entity.

12. When goods and services offered under different brands are located close to one another.

Because of these benefits, savvy executives in some firms colocate their own brands. The industry that Brinker International competes within is revealed by its stock ticker symbol: EAT. This firm often sites outlets of the multiple restaurant chains it owns on the same street. Marriott’s Courtyard and Fairfield Inn often sit side by side. Yum! Brands takes this clustering strategy one step further by locating more than one of its brands—A&W, Long John Silver’s, Taco Bell, Kentucky Fried Chicken, and Pizza Hut—within a single store.

Co-opetition

Although competition and cooperation are usually viewed as separate processes, the concept of **co-opetition**¹³ highlights a complex interaction that is becoming increasingly popular in many industries. Ray Noorda, the founder of software firm Novell, coined the term to refer to a blending of competition and cooperation between two firms. As explained in this chapter's opening vignette, for example, Merck and Roche are rivals in some markets, but the firms are working together to develop tests to detect cancer and to promote a hepatitis treatment. NEC (a Japanese electronics company) has three different relationships with Hewlett-Packard Co.: customer, supplier, and competitor. Some units of each company work cooperatively with the other company, while other units are direct competitors. NEC and Hewlett-Packard could be described as "frienemies"—part friends and part enemies.

Toyota and General Motors provide a well-known example of co-opetition. In terms of cooperation, Toyota and GM vehicles were produced side by side for many years at the jointly owned New United Motor Manufacturing Incorporated (NUMMI) in Fremont, California. While Honda and Nissan used wholly owned plants to begin producing cars in the United States, NUMMI offered Toyota a lower-risk means of entering the US market. This entry mode was desirable to Toyota because its top executives were not confident that Japanese-style management would work in the United States. Meanwhile, the venture offered GM the chance to learn Japanese management and production techniques—skills that were later used in GM's facilities. NUMMI offered both companies economies of scale in manufacturing and the chance to collaborate on automobile designs. Meanwhile, Toyota and GM compete for market share around the world. In recent years, the firms have been the world's two largest automakers, and they have traded the top spot over time.

In their book titled, not surprisingly, *Co-opetition*, A. M. Brandenberger and B. J. Nalebuff suggest that cooperation is generally best suited for "creating a pie," while competition is best suited for "dividing it up." Brandenberger, A. M., & Nalebuff, B. J. 1996. *Co-opetition*. New York, NY: Doubleday. In other words, firms tend to cooperate in activities located far in the value chain from customers, while competition generally occurs close to customers. The NUMMI example illustrates this tendency—GM and Toyota worked together on design and manufacturing but worked separately on distribution, sales, and marketing. Similarly, a research study focused on Scandinavian firms found that, in the mining equipment industry, firms cooperated in material development, but they competed in product development and marketing. In the brewing industry, firms worked together on the return of used bottles but not in distribution. Bengtsson, M., & Kock, S. 2000. "Coopetition" in business networks—to cooperate and compete simultaneously. *Industrial Marketing Management*, 29(5), 411–426.

13. A blending of competition and cooperation between two firms.

Get Moving!

Figure 6.9 *Get Moving!*

The following story, based on the poem "Brief Thoughts on Maps" by Miroslav Holub, highlights the importance of taking strategic action in the face of danger.

A lieutenant once sent out a patrol into the Alps during a harsh snowstorm. After a couple of days of snow, he began to fear that he had dispatched his men to their deaths.

But, just as all hope was about to be lost, the group returned.

The lieutenant began to question his patrol. How did they make it back?

One of the men admitted that at first they panicked and began waiting to meet their fate. But then one of the soldiers found a map in his pocket, which helped to calm everyone down.

So, the patrol made their camp and lasted out the snowstorm. After the snow subsided, they used the map to get their bearings and they found their way back, as simple as that.

The lieutenant was stunned when he realized that the map was not even of the Alps. The map in the soldier's pocket was actually one of a different mountain range.

The point of this tale is that sometimes, any old map will do. In relation to the competitive and cooperative moves a business may take, it is important for executives to avoid "paralysis by analysis" and get moving. Any good competitive move provides a useful starting point that executives can learn from and then adjust their strategies as needed.

Adapted from [citation redacted per publisher request].

Joseph Addison, an eighteenth-century poet, is often credited with coining the phrase "He who hesitates is lost." This proverb is especially meaningful in today's business world. It is easy for executives to become paralyzed by the dizzying array of competitive and cooperative moves available to them. Given the fast-paced nature of most industries today, hesitation can lead to disaster. Some observers have suggested that competition in many settings has transformed into **hypercompetition**¹⁴, which involves very rapid and unpredictable moves and countermoves that can undermine competitive advantages. Under such conditions, it is often better to make a reasonable move quickly rather than hoping to uncover the perfect move through extensive and time-consuming analysis (Figure 6.9 "Get Moving!").

14. A situation that involves very rapid and unpredictable moves and countermoves that can undermine competitive advantages.

The importance of learning also contributes to the value of adopting a “get moving” mentality. This is illustrated in Miroslav Holub’s poem “Brief Thoughts on Maps.” The discovery that one soldier had a map gave the soldiers the confidence to start moving rather than continuing to hesitate and remaining lost. Once they started moving, the soldiers could rely on their skill and training to learn what would work and what would not. Similarly, success in business often depends on executives learning from a series of competitive and cooperative moves, not on selecting ideal moves.

KEY TAKEAWAY

- Cooperating with other firms is sometimes a more lucrative and beneficial approach than directly attacking competing firms.

EXERCISES

1. How could a family jewelry store use one of the cooperative moves mentioned in this section?? What type of organization might be a good cooperative partner for a family jewelry store?
2. Why is it that “any old map will do” sometimes in relation to strategic actions?

6.4 Conclusion

This chapter explains competitive and cooperative moves that executives may choose from when challenged by competitors. Executives may choose to act swiftly by being a first mover in their market, and their firms may benefit if they are offering disruptive innovations to an industry. Executives may also choose a more conservative route by establishing a foothold within an area that can serve as a launching point or by avoiding existing competitors overall by using a blue ocean strategy. When firms are on the receiving end of a competitive attack, they are likely to retaliate to the extent that they possess awareness, motivation, and capability. While responding quickly is often beneficial, mutual forbearance can also be an effective approach. When firms encounter a potentially disruptive innovation, they might ignore the threat, confront it head on, or attack along a different dimension. Executives may also react to competitive attacks by using fighting brands. Rather than engaging in a head-to-head battle with competitors, executives may also choose to engage in a cooperative strategy such as a joint venture, strategic alliance, colocation, or co-opetition. Regardless of the decision executives make, in many cases any attempt to act on a viable road map will result in progress that will get the firm moving in the right direction.

EXERCISES

1. Divide your class into four or eight groups, depending on the size of the class. Each group should select a different industry. Find examples of competitive and cooperative moves that you would recommend if hired as a consultant for a firm in that industry.
2. What types of cooperative moves could your college or university use to partner with local, national, and international businesses? What benefits and risks would be created by making these moves?