1-1-2011

Advertising Media Selection

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"Advertising Media Selection," in *Wiley International Encyclopedia of Marketing*, Vol. 4. Eds. Jagdish N Sheth, and Naresh K Malhotra. Chichester, West Sussex, U.K.: Wiley, 2011: 29-32. DOI.

WILEY INTERNATIONAL ENCYCLOPEDIA OF MARKETING

VOLUME 1

MARKETING STRATEGY

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WILEY
A John Wiley and Sons, Ltd., Publication

instruments, and hostile signals do not induce changes to product mix.

Competitors react to perceived market signals from a new product's launch decisions (broad targeting, penetration pricing, advertising intensity, and product advantage). Analysis by Hultink and Langerak (2002) on the effects of three perceived market signals on the strength and speed of competitive reaction shows that incumbents consider high advantage new products to be hostile and consequential and regard penetration pricing and intense advertising to be hostile, especially in fast-growing markets. Their results also reveal that broad targeting is not perceived to be hostile, especially not when used by entrants with an aggressive reputation and that perceived signals of hostility and commitment positively impact the strength of reaction while perceived consequence signal positively impacts the speed of reaction.

How do we analyze competitive effects of new-product introductions and deletions and proactive and reactive actions by competitor firms? Shankar (2006) analyzes actions and actions in product line, price, and distribution, which include both anticipation and reaction components of market leaders and followers. His results show that market leaders have higher product line elasticities than followers, and that unlike followers, leaders have greater reaction elasticities than anticipation elasticities. These findings are useful in predicting which competitors will react in what marketing mix instrument.

Competitive analysis involving new-product entries and competitor responses have been based primarily on their impact on sales and market share. However, it is important to analyze their effects on the profits and firm values of different competitors, including the introducing firm. What are the competitive entry strategies that ensure both sales and profit growth and firm value? What are the competitor response strategies that result in market growth, but improved market position and profitability for incumbents? We do not yet have good answers to these questions.

Other Issues in Competitive Analysis

Competitive analysis can be enriched by including three topics that are becoming increasingly important for firms in a growing competitive landscape. These topics are competitive benchmarking, convergence analysis, and coopetition.

Competitive analysis can be enhanced by including competitive benchmarking. Competitive benchmarking involves analysis of the focal brand, SBU, or firm relative to the strongest competitor(s) and is typically done for strategies such as product strategy, promotion strategy, marketing communication strategy, sales force strategy, distribution strategy, and pricing strategy. Competitive benchmarking is closely related to analysis of best practices.

Competitive analysis is complex in converging markets. Convergence is a process by which the boundaries across industries, businesses, markets, geographies, or customer experiences become blurred, creating new competitors for firms (Shankar, Ancarani, and Costabile, 2010). Convergence competition increases in an economic downturn, involving new technologies, modified customer needs, and unconventional competitors, and market rules. For example, Danone's Danacol, a cholesterol-lowering yogurt, is a convergent offering, resulting from the comingling of the food and pharmaceutical industries. Danacol's competitor set includes players from both food and pharmaceutical industries. When a firm from one industry crosses over and enters a market in another industry, it creates a convergent offering. For example, Apple entered the cell phone handset industry through its iPhone, while remaining in the computing and music player industries. The convergent firm gains competitive advantage by being present in different industries with common technologies and sometimes, customers. Convergence can also be created when firms from different industries fulfill a customer need with different types of offerings. For example, Danone from the food industry offers a cholesterol-lowering yogurt, while Pfizer from the drug industry markets a cholesterol-reducing drug, Lipitor.

Competitive analysis will not be complete without a review of *coopetition* – the term used to describe the situation where competitors in one market cooperate in some other market(s) (Brandenburger and Nalebluff, 1996). Firms engaged in coopetition cooperate in those markets or situations where they believe that such cooperation will lead to favorable outcomes such as cost reduction, quality improvement, and profit increase. For example, Toyota and Peugeot, traditional competitors in many auto markets around the world, cooperated by sharing components costs for a new car they developed for the European market in 2005. A good competitive analysis could include assessment of coopetition opportunities and potential in different markets with different competitors. Such an analysis is typically done using game theoretic models.

CONCLUSION

Competitive analysis refers to the evaluation of strategies relating to a focal brand, product, SBU, or firm relative to current and potential competitors in its market or industry. Competitive analysis is undertaken before the formulation and development of positioning strategy, value propositions, and marketing mix strategies. It is also undertaken for a new brand or product, in particular, prior to its launch in a new market. Game theoretic models are useful tools for competitive analysis. Competitive analysis in a new-product entry context involves a solid understanding of a framework that comprises the determinants of new-product entry strategy, its interrelationship with competitor response, and the drivers of competitor response. Competitive analysis can be enriched by including competitive benchmarking, convergence analysis, and coopetition analysis.

See also *competitor analysis; marketing strategy; marketing strategy models*

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competitor analysis

Venkatesh Shankar

Competitor analysis refers to the strategic evaluation of the strengths and weaknesses of current and potential competitors for a focal brand in its market(s) or for a focal strategic business unit (SBU) or firm in their industry(ies). Competitor analysis can be done at the product-market level, the SBU level, or the firm level. The main purpose of competitor analysis is to develop business and marketing strategies that are based on sustainable competitive advantage. The dimensions of strengths and weaknesses include financial resources, human resources, core capabilities and competencies, order of entry advantage or disadvantage, manufacturing expertise, research and development (R&D) expertise, brand equity, distribution clout, pricing power, promotional capability, and execution ability. Each current and potential competitor is assessed on these dimensions and a profile of each competitor is developed. An overall assessment is made on who the key competitors are and what critical strengths and weaknesses they bring to bear on the market. Such an assessment helps brands and firms anticipate future competitor actions and reactions and exploit any weaknesses or gaps in the market or the industry. Thus, competitor analysis provides a critical input to the development of a firm's competitive marketing strategy.

At the firm and SBU levels, competitor analysis involves the assessment of all relevant firms in the relevant industries. When applied at the brand level, competitor analysis is useful in formulating brand-positioning strategy. Customer perceptions of each brand's strengths and weaknesses in a given product market provide the inputs for deriving a perceptual map for that market. Using this information and data on the location and size of customer preferences, a brand can develop its positioning strategy. Competitor analysis helps brands differentiate themselves from other brands.

A good competitor analysis should include assessments of both current and potential future competitors. Future competitors include marketers of substitute products and those with alternative technologies capable of satisfying customer needs in the relevant markets or industries. Competitors are typically identified first in the core product market and then in the adjacent or peripheral product markets. The most direct or relevant competitors can be identified on the basis of an analysis of the market structure, which includes such considerations as similarity of served needs, substitutability, cross-price elasticity, switching costs, and perceptual positions. With the rapid global growth in the penetration of the Internet, the competitor sets for most brands and firms have broadened to include players from different product markets and countries. Furthermore, a firm's competitor in one market could be its collaborator in another market, in particular, in the hi-tech industry. A sound competitor analysis should incorporate the implications of such possibilities. The competitor set for any brand or business unit or firm is dynamic as new players enter its markets and existing players leave those markets. Therefore, competitor analysis is performed at intervals of a year or less.

Competitor analysis is a useful tool for deciding whether to launch a new product. By combining competitor analysis with an analysis of own strengths and weaknesses and of external opportunities and threats, firms can better decide whether to introduce a new product. Firms typically decide to launch products when their strengths relative to their competitors outweigh their relative weaknesses in markets where opportunities surmount threats.

The term, *competitor analysis*, is used interchangeably with another term, *competitive analysis*, although competitive analysis typically refers to the assessment of a business situation with a view to develop a sound business strategy or marketing strategy relative to competitors. Competitor analysis provides an important basis for the development of such a strategy. Competitor analysis is an essential element of any marketing plan. In a typical marketing plan, it is a part of situational analysis, which is followed by marketing objectives and marketing strategy.

See also *competitive analysis; marketing strategy; marketing strategy models*

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customer analysis

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Few would argue with the notion that customers hold a key to success for businesses in competitive industries. Customers are the subset of consumers who choose to interact meaningfully with a particular business entity. Businesses, therefore, are challenged to convert consumers into customers and once they have done so, to