BUSINESS COMPETITORS AND COMPETITIVE ADVANTAGE

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Abstract: *The paper presents the concept of competition, both from the perspective of the economic sector – where it is characteristic for pure monopole, oligopoly, monopole competition and pure competition, as well as from the market's point of view – where it determines the strategies, objectives, advantages and weaknesses of a company. The main point of the paper is the criticism of the pure and perfect competition theory. Concluding, the author insists on innovation, especially on the model of open innovation.*

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1.The Concept of Business Competition

What is, in fact, economic sector? An *economic sector* is a group of companies which offers the same product or a range of products easily replaced by each other. The economic sectors can be classified by the number of active companies, by the degree of product diversification, by the presence or absence of the entry barriers, mobility or exit barriers; by the structure of cost, by the degree of vertical integration and by the degree of globalization.

The number of sellers and the degree of differentiation The starting point in the description of a sector is represented by the stated number of sellers and by the degree of product differentiation – if it is homogeneous or extremely differentiated. These characteristics make the distinction between four types of structures of the sectors:

1. *Pure monopole*: a single company provides a certain product or service in a circumscribed area or region (a local gas company or cable television). An unregulated monopolist could charge bigger prices, could invest less or at all in advertising and provide a minimum of service. If partial substitutes for a product or service exists, together with some threat of competition, than maybe the monopolist would invest more in services and technology. A regulated monopolist is required to charge less and ensure a higher quality of the services as his activity is considered to be of public interest.

2. *Oligopoly***:** A few companies (usually) big ones, manufacture goods which vary between extremely differentiated and standardized. The genuine oligopoly is represented by a group of companies which basically manufacture the same product (such as petrol, steel). These kinds of companies have few variables to change except the current price. If their competitors come on the same level with the price and the quality of services, the only way to gain competitive advantage is for them to reduce the costs. The *differentiated oligopoly* is illustrated by a few companies which manufacture the same goods (automobiles, photo cameras) which differ slightly, for instance by a few characteristics such as quality, trademarks, design or complementary services. Each competitor makes attempts to become a leader for one of these major characteristics, to focus on target clients and to raise the price for this specific attribute of their goods.

3. *Monopolistic competition***:** There are many competitors able to differentiate their offers completely or partially (restaurants, beauty saloons). The competitors focus on those segments of market which permits them to provide higher quality services for their clients, allowing them to charge more.

4. *Genuine competition:* There are many competitors who offer the same product or service (stock markets, commodity markets). In the absence of any differentiating criteria between the competitors, their prices will be the same. None of the competitors uses advertising, unless it is able to produce a psychological difference (as for cigarettes or beer), in which case it would more appropriate to refer to this sector as monopolistic competition.

Barriers to entry, exit and mobility The economic sectors are very much differentiated by how easy it is for the new companies to entry the business market. It is easy to open a new restaurant, but hard to break on through the aeronautical industry. The main entry barriers are: the expensive costs; the economies of scale; the licensing agreements and patents; limited possibilities of positioning, raw matter supplying or distribution; the reputation requirements. Even after a company has managed to enter a certain sector, its *mobility* can prove difficult when it tries to enter the more attractive areas of the sector.

The companies often face *exit barriers* such as: legal or moral obligations towards their clients, creditors or employees; governmental restrictions; low possibilities to valorize their assets, due to overspecialization or to moral/physical depreciation; the lack of alternative opportunities; a high degree of vertical integration; emotional barriers. Many such companies stay in their sector of activity as long as they are able to cover their variable and fix costs completely, or, at least, the most of it, but their presence limits the profits for every one in their sector. [3]

The cost structure Every sector has a specific cost load, which generally shapes the entire strategic conduct of that sector. The companies aim to diminish their bigger costs.

The degree of vertical integration The companies consider the possibility to expand backward or forward (vertical integration) an advantage. The big petroleum manufacturers develop activities in prospecting, drilling, refining, petrochemical production and gas station administration. The vertical integration often results in lowering the costs, and the company gains a bigger quote of the added value along the offer chain. What is more, the vertically integrated companies are able to manipulate the prices and costs from different sections of their chain of value in order to make profit in the areas where the taxation is low. There are some disadvantages in this, as well, as the higher costs in some of the areas of the chain of value and a specific lack of flexibility. More and more companies are considering the issue of vertical integration. Many of them externalize more of their activities – especially the ones which can be done better and cheaper by specialized firms.

The degree of globalization Some business sectors are extremely local; others have global coverage (as the petroleum industry, the aeronautical industry, the sector of photographic cameras). The companies from the global sector must have global competitors if they want to have economy of scales and to keep up with the technological progress.

2.The Concept of Competition form the Perspective of the Market

Along with the approach from the perspective of the economic sector, the competitors can also be identified from the perspective of the market: competitors are the companies which satisfy the same needs of the customer. The marketers should overcome the stage of the “marketing myopia” and should stop defining the competition with the classical terminology of category. The concept of competition from the perspective of the market reveals a wider and more diverse ensemble of actual and potential clients.

After a company has identified its potential competitors, it needs to analyze their strategies, objectives, advantages and weaknesses.

Strategies. A group of companies which applies the same strategy on a specific target market is known as a strategic group. Let us assume that a company wants to enter the industry of big electric appliances. Which is the strategic group for this company? First of all, the level of the entry barrier is different for each group. Secondly, if this company succeeds to enter any of the groups, the former members of that group became its main competitors.

Objectives. After having indentified the main competitors and analyzed their strategies, the company has to answer the following questions: What does each of the competitors on the market attempt to obtain? What is the motor of its behavior? The factors which shape the objectives of a competitor are many, including its size, the past experience, the current management and the financial position. A valid hypothesis is that all the competitors strive to maximize their profits. On the other hand, not all of them grant the same importance to the short term profits in relation with the long term profit.

Many companies from the United States were criticized for their policy to maximize their profit in very short time, mostly because their performance is the object of shareholder’s attention, who might sell their shares if they see any threats, so that the company will be confronted with higher costs for their capital. An alternative hypothesis could be the fact that every competitor is guided by a combination of objectives: present profitability, the increase of the market quote, positive cash flow, technologic supremacy or services supremacy. Last, but not least, a company has to keep under observation the expansion plans of its competitors.

Advantages and weaknesses. A company has to gather information about the advantages and weaknesses of its competitors. Generally, it has to monitor three variables when analyzing its competitors:

1. *The market quote*. The quote the competitor has on the target market.

2. *The rational appeal*. The percentage of clients who referred to the competitors when asked: “What is the first company that comes to your mind when this sector of activity is mentioned?”

3. *The affective appeal*. The percentage of clients who referred to the competitors when asked: “What company would you choose for this product?”

The companies which constantly improve their rational and affective appeal would definitely increase their market quote and profitability.
In order to improve their market quote, many companies evaluate their best competitors comparatively as well as the global leaders in their domain. [3]

The selection of competitors. After the analysis of the client appeal and the careful research of the competition, a company is ready to focus their charge on a competitor which belongs to any of the following pair of antonymic classes: powerful versus weak competitors; close versus faraway competitors and "good" versus "bad" competitors.

Powerful competitors – weak competitors. Most of the firms direct their strikes towards their weak competitors, as this requires fewer resources for the quote they earn. Still, the company needs to measure up with powerful competitors, because it is the only way to be numbered among the best. Even the most powerful competitors have weaknesses.

Close competitors – faraway competitors. Most of the companies compete with the same type of businesses. Chevrolet competes with Ford, not with Ferrari. Still, the companies should include the faraway competitors.

"Good" competitors and "bad" competitors. Every sector of activity has "good" and "bad" competitors. A company should support the "good" competitors and direct their attacks towards the "bad" ones. The "good" competitors play by the rules; they start from realistic hypothesis in what concerns the growth potential of the sector; they determine their prices in reasonable ratio with the costs; they favor a healthy climate inside the sector; they confine their activity within a segment of their sector; motivate the other to reduce their costs or to improve the difference; accept their share of the general level of profit and quota. The "bad" competitors they to buy the quota rather than earn it by their activity; they take big risks; they make overstock investments; they disturb the equilibrium of their sector.

3.The Critique of the Theory of Pure Competition

In order to understand the reality, one must look at it from a dynamic perspective. We are wrong to use the same name for the general businessman or the producer/manufacturer – two entities who behave completely different: the routine producer, an actor of the pure and perfect competition, who only copies the process and the manufacturing techniques and the innovating producer/manufacturer, who strives to make a difference in the production process. The last one aims to have a better manufacturing process and to reach a bigger market quote, improving the performance of the manufacturing process or producing innovative or cheaper alternatives of a product. The traditional theory is questionable because it has a technological vision on the reality of production: in order to produce a certain good, there is an optimal, universal technique, available for all the manufacturers. This theory corresponds to the hypothesis of the *perfect* information. A theory which relies on the idea of universal theoretical knowledge cannot explain the real world, characterized by the fact that all that knowledge is not actually available, but it has to be figured out in the manufacturing process. The theory of pure and perfect competition is just from a formal point of view, but it is applied to a world which does not exist.

How do we define competition under these circumstances? We can talk about competition when there is freedom to enter a certain market. If this freedom existed, than the producers would attempt to compete with the existing producers, which means that hey would try to create a difference, to be better than their competitors. When there is freedom to enter a market, the highly innovative producers try to become the only ones who offer a certain good or service. Any innovator who succeeds has a 100% of market quote, being the only producer of that good or service. We could say that this type of competition compels the producers to gain a monopole position. If the freedom to enter the market exists, this exclusive position of the innovator producer is threatened by the newcomers who are imitators rather than innovators.
In the situation that a producer owns 100% of a market quota, there can be two completely divergent explanations: either this position is the result of the innovative talent of the producer, or it is the result of the interdiction to enter the market imposed to other producers.

The study of business competition leads to the analysis of one of the major problems of any economic organization, which is to determine the optimal degree of differentiation and homogenization of human activities. When the freedom to enter a market exists, the competition drives the producers to develop better products and to use more efficient production techniques and also to design better organizational schemes. [2]

4.The Competitive Advantage

The management has to anticipate the long term strategic consequences and to compare them to the short term benefits. The decisions about pricing should never be made only in order to close the next sale, but to contribute to the long term profit of the company. The pricing process is like the game of chess: those who move one piece on the spot, only trying to minimize the previous loss or to take advantage of the next opportunity will invariably loose to the ones who plan their movements beforehand.

Pricing is not a game, because the successful pricing also depends on the reaction of clients and competitors. What we know about competition we have learned from sports and at school. The general rules of success in a competition are different from the rules of a successful strategy in the pricing competition. The reason, technically speaking, is that a competition is generally an example of positive sum games, while the pricing strategy is a negative sum game.

The positive sum games are those which create benefits in the developing process of competition. Consequently, the longer and more intense the game, the bigger the rewards for players turns out. From the winner's perspective, such a game is worth playing, and even the defeated is able to gather enough experience in order to make the game desirable.

Unfortunately, the same enthusiastic attraction for the competition itself is not advisable for the negative-sum games: the non-zero sum games which turn out badly for all the players. War, the actions of labor unions and duel are negative sum games because the looser could never obtain anything from participating. The longer the conflict, the bigger the costs of the game for the players become. The price competition is usually a negative sum game, because the intensity of the competition directly undermines the value of the market which is the scene of competition. Because of that, the price competitors should forget all they learned about sporting competitions and take as models less familiar areas, such as war or duel.

The participants in a real war, who are very well aware of the real costs of such a conflict, do not make the mistake to connect the idea of success with a won battle. For marketers, the war should be the last solution, and even when they turn to war, they should carefully analyze the ratio between the potential benefits and the cost that are implied. Fortunately, there are many positive sum strategies the marketers can apply in a competition: creating new products, enhancing the communication with clients or cutting the costs down. Because they create profit instead of dissolving them, consolidating the abilities for the positive sum competitions are the basis for a durable strategy.

When more competitors apply exactly the same strategy, the competition results in a negative sum, which leads to an erosion of the efficiency for all the involved parties. There are strategies which involve an increase of the offer without raising the cost as well, or the diminution of cost without the depreciation of the offer.

These sources of profit growth are called competitive advantages because the competitors are not able to adopt them immediately without bigger costs. To make a more attractive offer to the clients for a smaller profit than that of the competitors can be a sales advantage but it is not a durable competitive advantage.

How can a company obtain competitive advantage? Often, the advantage comes from the fact that the company is the first to do something new. When a company has patents or the best locations, it has a competitive advantage hard to equal by any competitor. The only durable way to enhance the relative efficiency is to have a competitive advantage which allows one to increase the sales and the profit. The main aim of a strategic plan should be to become better than the competitors and not bigger. Such a competition, grounded on a positive sum strategy, constantly renews the efficiency of a company instead of undermine it. [4]

AOL has created a virtual community which includes instant messenger and chat rooms, a value difficult to equal by the competitors in the short run. Google has established a leading position on Internet creating an innovative search engine, a performance which requires time to be surpassed by their competitors.

Most of the time, the competitive advantages are the result of effective management of the chain of value. Michael Porter quotes three ways the companies can go to develop active operations leading to competitive advantage:

- Positioning depending on the clients' needs. It especially targets a certain segment of clients or a niche, which allows the company to adjust its operations in a manner that enables it to meet the unique requirements of that segment of clients, developing a more efficient cost strategy (focus).

- Positioning depending on access. It relies on the company's capacity to access its clients in a personalized manner. The access can be a factor related to location or to the client's typology. For instance, serving a unique geographical market, big or small, depending on the cost structure of the company, can result in the offer of personalized costs and advantages of the provided service (cost leadership).

- Positioning depending on the product or services diversity – competition in a domain, referring to the strategically planned choice of certain activities which are a part of the value chain, including coalitions with strategic partners, who coordinate or share value chains, so that the company only supports part of the costs and has the advantage of differentiation. Microsoft is an example for soft products. [5]

5. **Conclusions**

The key for a durable profitability is to lead a company to gain competitive advantage. Unfortunately, most of the companies operating on the competitive markets center their interest on maximizing the targeted income by addressing the general client instead of trying to obtain more efficient value for their costs.

Without having a competitive advantage nowadays, continuing to rely solely on costs is the equivalent of a suicide. During the Internet explosion of the 90s, thousands of retailers and investors were hoping to prove that this statement is wrong. They tolerated lower profit, even negative profit, only to reach a higher financial quote, relying on the hope that this could turn out a profitable strategy in the end. But they ignored a simple economic principle: the competition eliminates profitability, except for those who posses a competitive advantage whose origin prevents the competitors to completely adjust their costs or the value proposal. The companies who possess competitive advantages in the virtual competition (brand recognition, the economies of scales) are precisely those who obtain the advantages in the actual retail environment. Any organization, regardless of its dimensions, can adopt the model of open innovation. The advantages of this model are various, and, in the domain of high technology products, the assimilation of the principles of open innovation is a must. All the parties involved can win by participating in this process, no matter if it is knowledge, technology or financial resources.

The concept of open innovation is based on the idea that the organizations cannot lead all the research and development activities by themselves and that is why they have to valorize external knowledge that can be bought. In the same time, applying the open innovation strategy to the internal ideas and knowledge can be absorbed by the market through external channels, outside the current business carried out by the company, in order to generate supplementary value. The organization that applies open innovation carries on the internal research projects but it also has access to external projects whose findings could prove valuable or beneficial. The organization also provides, on its turn, the external business environment, composed of other organizations or institutes, with the outcome of the research and development programs.

In strategic terms, the competitive advantage of this product does not come from the infusion of technical knowledge from multiple technologies, but from the modalities of connecting and coordinating the partners companies inside the project. The innovation process is closely connected with the research and development process and, together, they contribute to the economic growth. In the same way, the new technologies contribute to overcome some of the social phenomenon as poverty, poor health, or damaging the environment. [1]

The economic crisis from 2007 had strong implications on innovation for the organizations in the European Union. The most innovative organizations are the less affected by the economic crisis and they do not intend to cut too much the level of innovation expenses. The same decision is taken by the organizations where the research and development activity is the foundation of the inner innovative process. The organizations that consider that the cost cut is a source of competitive advantage are more prone to also cut the innovation expenses.

The innovative efforts of the Romanian organizations do not remain unheard of on the market. On the market of high technology products have entered Romanian producers who offer similar products for lower prices.

The Romanian companies Televoice and Visuall Fan, who scored high in the last years by selling their brands of GPS and other IT&C products, breeched one of the newest areas of competition in the IT industry: the PC tablets and electronic card readers. Without being in direct competition with the big producers of last generation electronics for generation consumption, Televoice and Visual Fan had released on the market their own brands, EvoTab and AllDro, which meet the consumer’s technical expectations. They target the low income consumer, who does not aim to buy the high tech products like Apple or Samsung.

Evo Tab was launched in 2011, following an approximately six month-collaboration between the ten specialists from Televoice and partners from Korea and Taiwan for components and Chinese partners for assembling. This product is destined for the Romanian consumers with low income, who want to enjoy the standard applications offered by a PC tablet. [6]

An other innovative Romanian high tech producer is CS Vision from Brasov, whose interactive division, TomTouch, launched in September 2010 the multitouch tables, which cam be configured according to the user’s needs. The product can interact with the objects set on its surface, and if the users wish to watch a video clip from a phone, they only need to place the phone on the table, and are able to see the whole information directly on the table.

The Romanian organizations are more and more interested in closing deals and partnerships with producers from Europe, Asia and Americas in order to develop new products for the local market. Although they are not able to compete with the big players on the high tech market, the Romanian producers are highly interested to meet the needs of the segments of clients interested in their products.

6. References

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