

Gaining a competitive advantage within your market

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(PhysOrg.com) -- Surely most people have at least heard the saying, "Put yourself in the other person's shoes." Research by a Smeal professor has taken an interesting look at this old adage within the context of performing a competitive analysis. The study suggests that firms' analysis of their rivals, as well as the analysis of their rivals' competitors, will be more effective if they try to put themselves in the other companies' shoes.

Wenpin Tsai, professor of business administration at the Penn State Smeal College of Business, and coauthors Kuo-Hsien Su of the National Taiwan University and Ming-Jer Chen of the University of Virginia, examine how firms view their competitors and their competitors' competitors and how this could help them gain a competitive advantage within the market.

"We focus on priority in terms of competition and find that if a firm knows its competitor's most important concerns, then it has a better chance of undermining this competitor and gaining more market share," said Tsai. He adds that when firms know their competitor's competitors, it gives them a better sense of how to allocate their resources.

In their paper "Seeing Through the Eyes of a Rival: Competitor Acumen Based on Rival-Centric Perceptions," forthcoming in the [Academy of Management Journal](#), Tsai and his coauthors asked top management teams at major airline companies to rank their competitors and how they thought their competitors would rank their rivals. The companies that

were the most accurate tended to have a better advantage in the market.

The researchers chose to study the airline industry because of its small number of players. "In some industries, this could be a very vague task," said Tsai. "In this industry, there are only a few players and top managers have a good sense of their competitors."

Competitor Acumen

He and his coauthors advance the research on competitive analysis by studying a new concept called competitor acumen, or simply, trying to understand how your rivals perceive their competitors. Tsai understands the challenging nature of studying perceptions, but he stresses the need for firms to make an educated guess by putting themselves in their competitor's shoes.

Firms can go about this in one of two ways: They can have either a direct connection to their competitors or an indirect connection to their competitors by interacting with companies who are in contact with their competitors.

For the focal firm, direct interaction with their competitor gives them a better chance in predicting their rival's behavior. They are able to develop a good idea of their competitor's strengths, weaknesses, and fears from conducting business in the same market.

In situations where firms have direct contact with their competitors, "the focal firm develops a sound assessment of a given rival through their firsthand market interactions with the rival due to a common presence in shared markets," the researchers write.

On the other hand, an indirect connection, or "interacting with the same competitors as a rival does in multiple markets, is likely to prompt the

firm to employ a strategic perspective that allows it to actively simulate the rival's considerations," write the researchers, who add that the focal firm will also be able to understand their competitors' fears and use that against them to gain more market share.

Attack Without Being Counterattacked

If the focal firm is aware of their competitor's top concerns, then they will be able to effectively attack their competitor without being fearful of a counterattack. By choosing a market with competitors their rival fears, the focal firm has the opportunity to lower prices and gain market share.

"Armed with a high level of [competitor](#) acumen, the focal firm knows their rival's primary competitors and potential vulnerabilities and can therefore, initiate proper competitive actions to undermine their rival," Tsai and his coauthors write.

Taking the research one step further to consider each rival's perception of its key competitors as the foundation for a focal firm's strategy is something that has not been examined before.

Provided by Pennsylvania State University

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