PARAMETERS OF COMPETITION AND THE VARIETY OF STRATEGIC ALTERNATIVES

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ABSTRACT

This paper aims at describing, within a logical framework, the variety of strategies available to a business enterprise. The fundamental notion of the "competitive stand" of a firm is explored in terms of a set of three parameters. These are argued to correspond to the three basic questions of who the customer is, what the customer wants, and how the firm goes about satisfying that want profitably. The usefulness of the above framework is then demonstrated not only in terms of operationalizing the nebulous concept of strategy but, more importantly, in terms of logically integrating the various typologies of strategic alternatives to be found in the literature.

INTRODUCTION

In pursuing the ideal of endowing strategic management with the status of a scientific endeavor, it has become increasingly necessary to establish a broad framework within which various types of strategic circumstances can be mapped onto various types of strategies. In this vein, the identification of functional relationships between situational types and strategic alternatives has become the main thrust of the contingency school of research. The three questions that follow from the very logic of this pursuit are:

1. What is the nature of the strategic "repertoire" from which the strategist can choose an appropriate alternative?
2. What are the various types of environmental circumstances in which the strategist may find his firm?
3. Under what circumstances is which type of strategy appropriate?

This paper addresses only the first question.

In exploring the nature of strategic alternatives, different scholars/researchers have come up with various classificatory schemes. Although these typologies share certain commonalities, no general framework for logically integrating them in a coherent manner exists. The creation of such a framework would not only bring some order to the field of strategic management, it could also be of value to the practitioner desiring to visualize the entire range of his strategic options at any particular point in time. This paper proposes such a framework and "tests" it against the existing body of literature dealing with strategic typologies.

STRATEGY AND STRATEGIC TYPOLOGIES IN MANAGEMENT LITERATURE

The concepts of strategy - and the strategic typologies derived from them - found in the management literature are numerous and varied. However, they share many significant commonalities. In this section of the paper, I will discuss a prototypical concept of strategy - that by Glueck - along with the strategic typology rooted in it. I will then compare and contrast it with others found in the literature. This will lead, in the next section, to my proposed concepts of strategy and strategic alternatives, based on the parameters of competition.

The following definition of strategy, offered by Glueck (1980, P. 9) is typical of those found in the literature:

> A strategy is a unified, comprehensive, and integrated plan relating the strategic advantages of the firm to the challenges of the environment. It is designed to ensure that the basic objectives of the enterprise are achieved.

The central strategic alternatives considered by strategists are then derived (Glueck, 1980, P. 199) from the basic question: What business should we be in? The strategy is to be called:

* Stability, if the above question is answered as "We should stay in the same business(es)."
* Retrenchment, if the above question is answered either as "We should get out of this business entirely or some parts of it", or as "We should stay in the same business but do a more efficient or effective job in it."
* Growth, if the above question is answered either as "We should stay in this business either by increasing our present business or by acquiring similar businesses," or as "We should try to grow primarily in other businesses."

Combination strategies are also possible such as "We should get out of this business and grow in similar businesses." The above definition of "strategy" and the methodology for deriving from it a strategic typology are beset by several problems.

First, the above definition of "strategy" is circular. A strategy is defined as a sort of plan relating the strategic advantages of the firm to the environment. How can we use "strategic" in defining "strategy"?! Without first defining "strategy", how are we supposed to know what the strategic advantages of a firm are? This is more than just logical pedantry. For instance, would a crew of effective salesperson constitute a strategic advantage for a firm? How about superior benefits offered to employees? Or what about an effective organizational structure? Some researchers may be inclined to classify these as "internal" matters, as opposed to "external" relationships, which are often believed to form the essence of strategy.

Second, in moving from the question, "What business should we be in?" to the various possible answers discussed above, something interesting happened: We changed the question! In other words, the various strategic options mentioned above are really answers to the question, "Should we stay in the same business?" and not to "What business should we be in?" Even undergraduate students of strategic management point out this inconsistency, and regard it as a flagrant instance of conceptual confusion. This ambiguity has a cost discussed below.

Third, by reducing the original question to "Should we stay in the same business?", we are leaving out a very important player in the strategy game, namely the budding entrepreneur. This player, is not enabled by Glueck's approach to envision his range of strategic options; he is not currently in any business, therefore the question "Should I stay in the same busines?" is totally inapplicable. However, the general question of strategic types is applicable to him, for the question "What business should I be in?" is quite meaningful and relevant as applied to an entrepreneur desiring to start a business. This conceptual confusion is symptomatic of a deeper ambiguity characterizing the srategic management literature: it is not quite clear whether srategy is a descriptive or normative concept. Does strategy pertain to what is or what should be?

Fourth, and finally, there seems to be a slight confusion of ends and means in the definition/typology discussed. A strategic "option" such as growth is more an objective than a strategy. How a firm chooses to grow is more like its strategy than that it wants to grow. Take two rival firms in the same industry. Both may be growing. Would this make us conclude that they are pursuing the same strategy (namely, growth)? Certainly not, for they may be growing in the same industry in completely different ways.

The above critique, although explicitly directed at the work of only one person, is applicable to many similar attempts aimed at defining the concept of strategy, and deriving from it a reasonable and useful strategic typology. In the following section, a concept of strategy, hopefully devoid of the above shortcomings, will be proposed and based on it a logical framework for developing alternate strategies will be explored. Business strategy, like any other kind of strategy, must be conceptualized within a competitive context. Competition is at the core of the concept of strategy. Strategy, in short, is the answer to, "How do we compete?"

PARAMETERS OF COMPETITION

Two or more parties are said to be in competition if they are in conflict with one another, according to rules, relative to one or more objectives of each (Ackoff, 1978). Moreover, this conflict generally serves another objective of either the conflicting parties or another party in an efficient manner. Conceptualized thus, the competitive situation of any party can be characterized by a set of three parameters: what it competes for, who it competes against, and what it competes through. Applied to business enterprises involved in economic competition, these three parameters collectively constitute the essence of a firm's strategy. First, the answer to "What do we compete for?" must be provided in terms of the customer's disposable income (that portion earmarked for the purchase of a particular goods or service). This would require an adequate identification of the demographic and psychographic characteristics of the customer (relevant to the goods or service in question). Second, the answer to "Who do we compete against?" must be provided in terms of all those other firms which are trying to meet the same need of the customer identified via the first parameter. In other words, the question boils down to what need of the customer we are trying to fulfill. It follows from this brief analysis that two firms are in competition if they have mobilized their resources to meet the same need of the same customer group. If either the need or the customer are different, then they cannot be said to be in competition. But what determines the success of the competitive act is the third parameter: "What do we compete through?" The answer to this question requires the identification of the unique mix of the critical functional policies which can give the firm its edge in profitably competing against all the competitors. These functional policies find their ultimate expression in the four Ps of marketing: the goods/services the firm produces, the distribution channels through which it markets them, the price at which it sells them, and the manner in which it promotes them.

Let us explore these three parameters of competition in more detail. First, who the customer is. As pointed out earlier, this is to be described in terms of the demographic and psychographic characteristics of the target customer group. However, as Drucker (1974, P. 80) argues, there is always a multiplicity of customers being catered to by a business firm. By this we do not mean a multiplicity of market segments. Even within the same segment, various customers exist. This is due to the fact that the chooser, the buyer, and the user may not be one and the same person. For instance, in the toy industry, the father may be the one who decides that the toy (to be bought) ought to stimulate his child's imagination; the mother may select and buy the specific toy meeting the above criterion; and the child will be the end-user. In a real sense, all three are customers of the firm catering to this market, for the viewpoints of all three have to somehow find their expression in the firm's strategy. Moreover, the strategy of the firm ought to take into account all those intermediaries which represent key actors in the "chain of production". Perhaps this is nowhere clearer than in the soft-drink industry, where the bottler, the wholesaler, and the retailer are three important types of "customer" (in addition to the end-user) who ought to be seriously considered in selecting an ingenious strategy. Thus a vertically integrated firm has to take into account the concerns of fewer customer types than a firm which specializes in adding value at only one stage of the chain of production. Based on this analysis, the following are subparameters of the first parameter of competition:

C_1: the number of distinct market segments (identified by distinct customers' demographic/psychographic profiles) the firm is catering to.
C_2: the size (population) of each market segment identified in C_1.
C_3: the number of stages in the chain of production covered by the firm's operations (i.e., the extent of vertical integration).

Second, we ought to look at the wants/needs of the customer. This brings us to a point emphasized by Drucker (1974, P. 80) and Levitt (1960, P. 46), namely that the business strategist should always define the business in terms of the want/need (an end) being fulfilled, rather in terms of the product (merely a means) being offered to the customer. This confusion constitutes a trap into which many firms tend to fall. In mapping out the structure of needs, the concept of "abstraction ladder" (Hayakawa, 1964) turns into a useful tool. The application of this concept to business definition is summarily as follows. One would start by describing, at any level of the abstraction ladder, the general nature of the need being fulfilled by the firm's current product lines in a given industry. The abstraction ladder would then enable one to reformulate the need at both higher and lower levels of abstraction. As a rule, moving up the ladder involves dropping specifics, whereas moving down the ladder involves adding more detailes. For instance, a company which makes pens, can define its business in terms of the need for hand-held writing instruments. On higher levels of the abstraction ladder, it can redefine the need as "portable writing instruments" or even "writing instruments", which would thus open to it multitudes of product possibilities. On the other hand, on a lower level of the abstraction ladder, it can become more specific by defining the business in terms of the need for disposable hand-held writing instruments. Although the starting point on the abstraction ladder is somewhat arbitrary, the concept is valid and useful enough to help us formulate the second parameter of competition as:

N: the (relative) level of the abstraction ladder at which the firm defines the need of its customers.

A useful operationalization of the need is provided by the SIC numbering systems. Adding (dropping) a right-hand digit to a SIC number would describe the need at a lower (higher) level of the abstraction ladder. For instance, given that 284 describes toilet preparations, 28 would be descriptive of chemical products in general, whereas 2844 describes perfumes and cosmetics.

Third, what the firm competes through. As mentioned earlier, this boils down to the identification of the unique (distinctive) mix of the critical functional policies (marketing, production, finance, etc.) which constitute its competitive edge. These functional policies are, in one way or another, reflected in the following subparameters:

P_1: the product (i.e., the instrument) or the service (i.e., the means) bought by the customers to satisfy their needs and wants.

P_2: the distribution channels through which the above products/services reach their intended markets.

P_3: the prices at which the above products/services are sold.

P_4: the quality/quantity of effort aimed at competitively promoting the product/service in the eyes of the customers.

Having defined the parameters and subparameters of competition, it must now be pointed out that they form a system, rather than merely a set. That is to say, these parameters are related to one another in significant ways. More specifically, the following relationships are typical:

*the customer and the need are related, in that one partially determines the other. For instance, if the customer is the teenage girl, then a series of needs would become transparent (such as the need for sanitary napkins), while a host of other wants would become irrelevant (such as the desire to eliminate facial wrinkles).

*the customer and the competitive edge are related. For instance, C_2 (size of a market segment) and P_4 (promotion) are related in ways too obvious to need elaboration. Also C_3 (extent of vertical integration) bears a definite relationship with P_3 (price).

*the need and the competitive edge are related. The most obvious connection is to be found between the need being satisfied and P_1 (product).

Having discussed the parameters of competition, we now explore their potential for integrating various strategic typologies based on the emerging concept of strategy.

PARAMETERS OF COMPETITION AND STRATEGIC TYPOLOGIES

As was pointed out earlier, a firm's strategy is its response to "How do we compete?" This question, in turn, must be answered in terms of the three distinct (but interrelated) parameters of competition discussed above. Specifically, the concept of strategy emerging from the foregoing analysis is one in which the central question of "What business should we be in?" is answered in terms of the following general format:
We should be in the business of catering to those ... (first parameter: customers) ..., who ... (second parameter: want/need of the customer) ..., and doing so profitably by ... (third parameter: competitive edge)...

The advantage of this general format lies in the fact that it allows us to answer the question "what business should we be in?" directly, without having to reduce it to "should we stay in the same business?" specifically, it provides us with a structure within which we can formulate current strategy, which is a response to "what business <u>are</u> we in?" this latter question is a special case of our central question, "what business should we be in?"; the special case in which no aspect of our current strategy ought to be changed. however, given the environmental turbulence characteristic of business enterprises, it is rather unlikely that the exact continuation of current strategy into the future would be desirable. this brings us to the variety of changes to which the current strategy of a firm can be subjected. the paper will not explore the conditions under which change is desirable; it will only look into the variety of possible changes in current strategy.

Any change in any parameter of competition constitutes a change in current strategy. The intensity of this overall change in current strategy could span a wide spectrum: from very little change (as when only one subparameter is changed slightly, like a small increase in price) to very dramatic change (as when all subparameters are changed significantly). Let + (-) stand for an increase (decrease) in a parameter of competition. More specifically, applied to the subparameters discussed earlier, let:

C_1 + (or -) denote an increase (decrease) in the number of distinct market segments served by the firm.

C_2 + (or -) denote an increase (decrease) in the population of market segments.

C_3 + (or -) denote an increase (decrease) in the number of stages in the chain of production in which the firm adds value.

N + (or -) denote the reformulation of the need being fulfilled at a higher (lower) level of the abstraction ladder.

P_1 + (or -) denote an adding (eliminating) of new product lines, usually more sophisticated and of better quality.

P_2 + (or -) denote an increase (decrease) in the number of distribution channels through which the products of the firm reach the customer.

P_3 + (or −) denote an increase (decrease) in the general level of the firm's prices.

P_4 + (or −) denote an increase (decrease) in the general level of promotional expenditure of the firm.

In order to demonstrate the utility of the above, it is necessary to identify the strategic alternatives most commonly cited by prominent authors in the field. A literature search - the specifics of which need not be discussed here - revealed that the ten most frequently cited strategies are as follows:
(1) market development, (2) product development, (3) concentric (related) diversification, (4) conglomerate (unrelated) diversification, (5) vertical integration, (6) horizontal integration (acquisition), (7) concentration (specialization), (8) retrenchment (turnaround), (9) divestment, and (10) liquidation. In what follows, each of these will be translated into the framework proposed in this paper. However, it is important to keep in mind that each of the following changes in a (sub)parameter of competition is proposed with all the other (sub)parameters remaining unchanged, unless mentioned to the contrary. For instance, if an increase (+) in C_1 is being discussed, it is assumed that all others (C_2, C_3, N, P_1, etc.) are to remain fixed, unless stipulated otherwise. This means that the following are "pure" or "elementary" strategies. Many combinations of these are possible, of course.

(1) Market Development. This could mean
*either increasing the number of customers in the segment(s) currently served (C_2 +), which may have to be accompanied by intensified distribution (P_2 +) and promotional (P_4 +) activities;
*or increasing the number of segments themselves (C_1 +), which is typically accompanied by product modifications (P_1 +).

(2) Product Development. This means adding new product lines (P_1 +), which may be slightly or significantly different from current product lines. This may be accompanied by increasing promotion (P_4 +) in order to introduce it to the market.

(3) Concentric Diversification. This essentially means
*either staying within the same definition of customer need (if it has been defined broadly enough), but developing new product lines (P_1 +) to satisfy unfulfilled needs; such as a firm which may have defined itself as being in the feminine cosmetics industry (lipstick, mascara, etc.) diversifying into cosmetic soaps and creams;
*or enlarging the definition of customer need (N +, if it has been defined too narrowly) by switching to a higher-level need on the abstraction ladder; such as the firm in the above example moving from "feminine cosmetics" to "cosmetics", thus covering various cosmetic needs of males, such as aftershave. This typically involves the development of new product lines (P_1 +) also.

(4) Conglomerate Diversification. This means switching to a completely different need, i.e., going up the abstraction ladder so high (N + + +) that few (if any) specifics are shared with the previous need. In other words, if a firm diversifies from (say) writing instruments

into telecommunications, it would take a strong imagination (perhaps too strong!) to see the common thread as "the need for communication".

(5) Vertical Integration. This entails an increase in the number of stages of the chain of production at which the firm adds value (C_3 +). It is typically accompanied by cost efficiencies which are reflected in a lower price (P_3 -).

(6) Horizontal Integration. This strategy generally refers to the acquisition of one or more businesses operating at the same stage of the production chain. As such, it may involve expanding product lines (P_1 +) or markets (C_1 + or C_1 +), or both.

(7) Concentration. This involves focusing resources on a more limited array of activities. It may involve a reduction in product lines (P_1 -) or markets (C_1 - or C_2 -), or both.

(8) Retrenchment. This is fundamentally an operational concept since it involves the streamlining of the firm's current operations. However, its strategic implications can be reflected in any (sub)parameter of competition, usually in terms of a temporary reduction for the purpose of improvement.

(9) Divestment. This involves selling part of the business. It can therefore manifest itself in a permanent reduction in market segments (C_1 -) or need (N -) or products (P_1 -).

(10) Liquidation. This limiting case entails the reduction of all parameters of competition to zero.

It would be interesting to hypothesize the existence of additional strategic alternatives deriving from other permutations of parameters of competition. However, that exploration, being beyond the scope of this work, would call for another paper.

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