A GENERAL THEORY OF COMPETITIVE RATIONALITY

1. DIVERSITY AMONG BUYERS AND SELLERS:
   Different types of buyers and sellers; some buyers and sellers are innovators, most are followers, other laggards.

2. VARIATION IN RESPONSE RATES:
   Variations in the response rate of buyers and sellers to changes in supply and demand create opportunities that can be exploited by the motivated, alert, and hustling decision maker.
DYNAMIC PROCESS

Proposition One:

The nature and quantity of a seller's offerings are always changing. Often faster than their competitors'.

*Mature markets*: slow rate of change among suppliers

*High-growth markets*: a great deal of technological innovation; rate of change among suppliers is very high
Proposition Two:

Free markets are constantly evolving through an innovation-imitation process that accelerates, slows down to a trickle, and surges again. It assumes that **product-markets go through many cycles**, rather than a single cycle.

Marketers studied product-life cycle - intro. growth, maturity, and decline stages of a physical product form.

Competitive rationality is a **theory of endless innovation-imitation life cycles**. Sellers are constantly impacting their marketplace environment as well as being impacted.
CREATING UNCERTAINTY AND CHANGE

1. A firm faces change

2. A firm creates change for itself and competitors by its marketing actions. An innovation in production, product or marketing will create uncertainty and confusion. Whether responding to or creating change, a firm must fully anticipate the short and long-term effects of its marketing strategies.

3. Successfully managing change in the marketplace is a competitive advantage.
Why U.S. cartels in the late 19th C failed:

They first become very successful and as a result spent their more time in shaping their markets than adapting to them. Result: they fail to recognize
1) the extent to which they had alienated the distribution channels, producers and consumers they serve;

2) the accommodations they should have made with the political process;

3) the power they had given the Supreme Court to break them up via the Sherman Act.
How Supply Changes Demand:

1. Sellers' **market offerings changes demand**. Eg. Sony's transistor radio and Walkman dramatically changed lifestyles and demand for entertainment appliances.

2. Different rates of response to innovation and adoption and to a change in supply creates different submarkets - **market segments**.

3. **Market disequilibrium** caused by shifts of sellers' resources to more attractive and profitable market segments. Pioneering advantage due to early recognition of segment and strategic fit results in high profits. Late comers imitate and create increase in supply and excess supply disequilibrium. Price and non-price competition follows.
The intensification of rivalry increases the following three drives:

1. **To better serve the customers.**
   The ultimate goal is customer satisfaction. Competitive pressure leads to meeting higher levels of satisfaction by designing, manufacturing, and delivering quality performance required by target market. Constant improvement in quality of products and service a never ending cycle.
2. **Cost reduction.**
Cost-cutting innovations - new ways to reduce costs without affecting the potency of the output. Continuous effort to lower average and marginal costs results in reduced price charged or increased profits at current price level. Costs are more controllable than other marketing mix variables. Also less likely to be detected and copied by competitors.

3. **Improve decision making process and implementation.**
Creation of *cross-functional teams* helps to improve its implementation and decision-making routines. Effective implementation gains speed for firm, a potent advantage especially in new product introduction.
1. **Conditions of a free market:**
   a. Freedom of buyer and seller choice

   b. Variability in the rate of change of supply among suppliers
      Variability in the rate of change of demand among buyers

   c. The desire for more profits

Under such conditions, a market will continue to increase customer satisfaction and the efficient use of resources. Constant flux of disequilibrium moving towards equilibrium, which is upset by innovations in cost-reduction, production, product, or other marketing mix variables. Perpetual cycle.
2. **Oligopoly rivalry:** the most common situation in marketplace. Therefore, competition derives the process of improvement in product, service, new product development, and other marketing mix variables.

Theory of competitive rationality **links the marketing concept** (sales and profits by focusing on, serving, and satisfying the customer) **with the Adam Smith's view of the "invisible hand".**

The TCR view is that product and customer service improvements are **deliberate, relentless processes to gain competitive advantage in the marketplace.** They are not coincidental, or unintended.
3. **Competitive focus vs customer focus:**
   FALSE DICHOTOMY

   Rather, they are twin and parallel foci
   Competition focus - self interest - customer focus
1. **Smaller organizations:** Often lack clear, written, standard operating procedures for decision making or planning.

2. **TCR:** it is a clear competitive advantage to make informed decisions quickly. **SPEED.**

How do firms update their planned strategies and tactics?

Study: Half of major firms review and update plans. 
Best scenario: reflects stable environment, with little innovation-imitation; firms need not frequently adapt their planned market behavior
Worst scenario: firms at a mental stand-still. Refusal to keep up with changes. Lack drive to improve.
3. Q: How to effectively implement strategy and yet remain responsive to new market realities?
A: Involve key executives; Continual updating decisions, plans, and programs.
CROSS FUNCTIONAL DECISION MAKING TEAMS

1. Executive committee made up of heads of all functional areas:
   Job to prepare, approve, and oversee the implementation of all function plans, including the marketing plan. **All functional plans are integrated** into the overall business plan/divisional plan. For example, marketing plans are implicit in all major plant expansion decisions.

   Long-range marketing decisions constrain short-range marketing strategies.
2. **Removal of Layers of Gate-Keeping Middle Management:**
   Increases the informal contact between senior executives and front-line managers. Helps to better integrate marketing strategy with company production and financial strategies.

3. Marketing philosophy **more fully internalized** by managers across all functional areas. Because of competition. Also because they are more affiliated with marketing strategies, plans, and activities.
4. **Benefits** of active senior managers involvement in marketing: They *see the total picture better* because of their position. Also because of their ability to
a) scan the total business environment
b) identify significant changes in the marketplace
c) draw higher-order strategic implications from such information
d) interpret info from many different perspectives and are therefore less subject to framing biases
e) better recognize opportunities as they are more alert and more skilled problem solvers

They are not perfect problem solvers, but just better that the competition.
NEW PRODUCT DEVELOPMENT DECISION MAKING

1. New product development decision making requires a greater amount of engineering and design expertise. Therefore, a cross-functional team approach is imperative. Draws from talented younger marketers, designers, engineers, operations experts, and logistics executives.

**Concurrent engineering** - informal group meets frequently (on a as needed basis) to report on progress and new decisions that have to be made. Ultimately, senior management will have to make the "go" decision.
2. Cross-functional teams necessary for **ALL products whether new or used.** Innovations from teams which make an even established product "new".

60% of marketing plans of industrial/consumer goods firms contain new product action programs. 80% of service firm marketing plans contain new service development action programs.
Continuous decision making does not occur spontaneously. Driven by a company culture which in turn is driven by competitive drives.

1. Environment:
   Competitive pressures creates a need

2. Management orientation:
   for continuous decision making

3. Process:
   requires frequent informal and/or formal planning meetings which

4. Outcome: results in better plans, better results, better attitudes
Informal Processes:

1. Nature of informal processes: **unstructured, spontaneous, and incremental**

   Constantly **alert to changes** in the product-market
   **Adjusts action plans** to the new competitive, consumer, channel circumstances

2. No longer sequential or serial ----> **more spontaneous, concurrent and multifunctional** input and decision making

3. Needs a **champion to advocate** the cause

4. Caution: can be too responsive to the environment ---> can be too far ahead of the marketplace. Eg: Edsel (Ford), videodisc player (RCA), DAT (Phillips)?
ANNUAL MARKETING PLANNING

1. Coordinates activities
2. Updates knowledge
3. Integrates plans
4. Sets and reminds executives of priorities

Process of the Annual Planning Exercise:

1. Understand what the firm's current strategy and tactical programs are
2. Determines whether or not the firm is stuck with its plans and why it deviated from the plan
Benefits:

1. Briefs the team about the firm's current strategy which must now be adapted to the new environmental realities; All decision makers brought up-to-date

2. Deviations from what was planned identify
   a) the planned programs that were based on incorrect assumptions about the environment
   b) changes that have occurred in the environment during the last planning period that necessitated changes in strategy, or
   c) the implementation of unauthorized strategy and programs.