

## A Review of the Strategy of Industry Competition

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### ABSTRACT

*In this paper, we firstly discuss the competitive strategy theory based on the industry choice and competitive strategy theory based on a game theoretic approach, in these sections, we introduce the basic competitive force model, competitor theoretical analysis model, strategy group analysis model, new industrial organization theory model, strategic conflict theory model and Cooperation — competition theory model. Then, we review the competitive Strategy theory based on the analysis of behavior and process and the competitive strategy theory based on synthesis analysis framework, in these sections, we introduce the core capabilities view, overall capacity view, resource value assessment model and Matrix analysis mode. Finally, we make a brief comparison among them and make a conclusion.*

**Keywords:** competitive strategy, game theory, core competence, resource evaluation.

## **INTRODUCTION**

With the developing of the study of strategic management, more and more Scholars realize the limitations of the case analysis method. In order to establish the general pattern of strategic management, they start to use related theory to form research hypotheses and use Quantitative Methods to do empirical test.

## **COMPETITIVE STRATEGY THEORY BASED ON THE INDUSTRY CHOICE**

With a similar background to the industrial organization theory which belongs to E.S.Mason, J.S.Bain and so on, the relation between enterprise's performance and its market environment has become one of the main themes of strategic management research; industrial organization theory gradually approaches a dominant position in strategic management research.

### **Basic competitive force model**

Professor Michael E. Porter, a famous management strategist, believed that industrial structure has strong influence on setting Competition rules and Competitive Strategy that can be chosen by company, the state of competition in an industry depends on five basic forces interacting with each other, they are “threat of new entrants, threat of substitute products or services, bargaining power of customers, bargaining power of suppliers, the industry jockeying for position among current competitors”. The collective strength of these forces determines the competitive strength and the ultimate profit potential of an industry. The strongest competitive force or forces occupy a dominant position and play an important role in strategy formulation. Porter developed three competitive strategies

that can be chosen, they are overall cost leadership, differentiation and focus. However, implementing these strategies needs different sources and skills, while there are different levels of risks. Generally, it is very necessary to keep using one of the strategies as a primary goal for a company to win success.

### **Competitor Theoretical Analysis Model**

After the structural analysis of industries, Porter elaborated on another important part of competitive strategic theory in company: the competitor theoretical analysis model. It includes the following aspects: how to identify the competitors, how to analyze the competitors, how to predict and influence their market behavior.

### **Strategy Group Analysis Model**

Noting that mobile barriers (that is, get-in and get-out barriers among different strategy groups) influence the business performance, discussing the relation between Group ownership and performance of the enterprises and making strategy group as a basic analysis unit is another application of industrial organization theory to strategy management research. Then porter use the concept of mobile barriers instead of the concept of barriers to entry, apply five forces model to strategy groups study, and evolve the structural analysis method in the industry. In the earlier studies, some scholars applied various oligopoly and monopoly model to describe the strategy relation which produced because of the interdependence among enterprises in the same industry, to discuss all the competitive reaction when companies take strategic action to access better performance.

## **COMPETITIVE STRATEGY THEORY BASED ON A GAME THEORETIC APPROACH**

### **New Industrial Organization Theory Model**

J. Tirole, a famous economist from France, who was the representative of modern industrial organization theory, believed that the differences between companies existed when the companies were set and remain the same, in other words, the heterogeneity of the companies is identified and inalienable. According to this argument, the strategy aims to use the given resources for meeting the demand of product market and to apply resources to take part in complex game, while is used primarily to access the excess monopoly rents from fixed investment by sophisticated means in the game.

### **Strategic Conflict Theory Model**

The representative of strategic conflict theory is Carl Shapiro. In this theory, non-cooperative game model is applied to analyze the designing of corporate strategy under the non-perfect competition condition, by which the behavior of the competitors are affected, and the competition develops along the direction which is good for the company. The basic tool of the strategic conflict theory analysis is mathematical model, it apply the research results of game theory to strategy study, and use it to analyze the interaction among different companies. The way of interaction is mainly to take different selected modes, which include application of R&D, advertisement, capacity about forming competitive advantage and so on. The strategy behavior of company itself can also influence the behavior of the competitors through strategy signal. The timeliness of action is very important, the maxim of this theory is pre-emptive. The decision capacity of the managers is confirmed as the potential source of competitive advantage of the enterprises.

### **Strategic Conflict Theory Model**

From cooperative game's standpoint, some scholars regard business as a game which is participated together by company and its competitors, complementary, suppliers and customers. In this model, the competitive and the complementary of the dynamic game process are analyzed thoroughly, the possible reaction of the game participator to enterprise strategy is described, grasping zero-sum opportunity and win-win opportunity comprehensively and dynamically is emphasized, then the popular cooperation — competition theory has formed. But in order to avoid government regulation such as anti-monopoly, companies that compete with each other may use modern information technology to set efficient collaborative network among the companies, so expanding the scope of cooperation — competition to the level between government and business groups.

## **COMPETITIVE STRATEGY THEORY BASED ON THE ANALYSIS OF BEHAVIOR AND PROCESS**

### **Core Capabilities View**

One of competitive strategy theory based on the analysis of behavior and process is "core capabilities view", of which Hammer and C. K. Prahalad are the representative; core capabilities is the combination of obviously advantage Individual technical and production skills contained in an enterprise production and operation. In the intense and volatile market environment since the 1990s, competition between companies shows a dynamic feature and is similar to the rapidly changing television programs. It has become a "campaign war". Competition is successful or not depends on forecasting the trend of the market and the rapid response of the changing customer demand. Under these conditions, the core business strategy is not on company's products or the market

structure, but on its response capacity. The goal of the strategy is to identify and develop the organizational capacity which is difficult to imitate. In the eyes of customers, this organizational capacity is a mark to separate business with its competitors.

### **Overall Capacity View**

Another competitive Strategy theory based on the analysis of behavior and process is “overall capacity view”. This view shows how to understand identifying and nurturing their core capabilities. How to identify core competencies has become the most important prerequisite for an enterprise to accessing the competitive advantage. This viewpoint sees that nurturing core competencies does not mean that we should invest more funds into R & D than our competitors, nor does it mean to cause various utilities units to integrate vertically. In fact, core capabilities are from the collective study in business organizations, from the transmission of the experience norms and values, from the mutual exchange and the participation of organizations members.

## **COMPETITIVE STRATEGY THEORY BASED ON SYNTHESIS ANALYSIS FRAMEWORK**

### **Resource Value Assessment Model**

The theoretical departure and basis of the resource school is to emphasize the importance of the "resources" issue, in eyes of Collins and Montgomery who are its main representative, resources are the sum of assets and capabilities owned by a business. So if a company wants to make a success, it must develop a series of unique competitive of resources and allocate them to competitive strategies that are prepared. The current resource value assessment model has basically become the dominant theory school in the field of competitive strategic studies. Collins and Montgomery believed that

the assessment of the resource value cannot be made in the companies themselves, but be made after putting the company resources to face their industrial environment. They also believed that compared with the resources of its competitors, the company will determine its strengths and weaknesses. To this end, they proposed the following criteria: to assess whether resources are difficult to copy by competitors; to determine the speed of the depreciation of the value of resources; to analyze the resources creating value for whom; to forecast whether the resources that company owned can be replaced by better resources; to assess whose resources are better between their own resources and that of their competitors. So they can provide a solid and reliable basis for making and selecting the competitive strategy.

### **Matrix Analysis Mode**

On the basis of study of Collins and Montgomery, British scholars Faulkner and Baumann further develop the resource faction-oriented competitive strategy theory system and analysis mode. They not only aggregated some views about competitive strategy theory based on the industry choice and based on analysis of behavior and process, but also conducted the fruitful bold innovation in analysis technical tools, and then greatly improved the practical value of company competitive strategy theory. In order to have an objective analysis of the market competitive status of a business, Faulkner and Bowman created the first "customer matrix". It consists of perceived price variable and perceived use value variable. If a company wants to have competitive advantage, it must provide the customers with the highest perceived value at the lowest perceived price. According to this principle, there are two basic strategic choices for a company in the customer matrix, the one is to reduce prices, and the other is to increase the perceived value. Which strategy a company should choose in the end must accord to

the extent to which the company has developed and used core competence. Core competence which can bring competitive advantage to enterprises is also known as the "key competencies". In order to analyze the key capacity, Faulkner and Bowman also created a technology tool called "producer matrix". In this matrix, the vertical axis represents the effective capacity that can produce value, and the relative unit cost is recorded on the horizontal axis. Comprehensively applying the "customer matrix" and the "producer matrix", an enterprise can grasp its market competitive status accurately.

## CONCLUSIONS

According to the analysis above, the analysis logic of competitive strategy theory based on the industry choice is "industrial structure, company relative potential, the competitive advantages of company", the focus is on the external environment. In fact, it studies the impact of competitive force in industry environment on company decision. It is one of the most dynamic areas of strategic management. The negative feature of this analysis paradigm is that it pays too much attention to the external environment and stresses the role of market forces, and then overlooks the nature of the company itself. In the long run, this is not conducive to the cultivation of corporate competitive advantage.

The research of strategic group has touched on the differences of enterprise performance between the companies of the same industry to some extent. But so far, the majority study has been in the static framework. For the lack of static analysis, academics began to study the dynamic competitive behaviors of companies, that is mutual contact and mutual interaction of strategic action among competitive enterprises. But there is too strong balanced tendency for competitive strategy theories that base on game theory analysis

framework, which makes it unable to grasp the source and the process of forming competitive advantage.

Although two kinds of "capacity view" both emphasize the unique ability that is reflected by their internal practices and processes, theoretical innovation in the competitive strategy based on synthesis analysis framework is manifested in how to develop and implement the policies and proposals of competitive strategies. The ultimate goal of capability school is to make enterprises become competency-based competitors.

Future strategic management must study the predictable and unpredictable changes of enterprises adapting to the environment, then offer the measures or rules of the game under various conditions. To achieve this, we must develop many breakthroughs in methods. These breakthroughs come from the game theory as the main analytical tool and integrating effectively the other related subjects or theory, and then the macro-analysis, microscopic analysis, rational analysis and non-rational analysis are combined organically.

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