BROADENING THE COMPETITIVE ENVIRONMENT: THE CUSTOMER'S PERSPECTIVE

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EXECUTIVE SUMMARY

The boundaries that define competition are subject to environmental changes, such as technological advances or evolving consumer preferences (Day, Shocker and Srivastava 1979). As competitive boundaries fluctuate, competitors can emerge from new or unanticipated product categories. Recently, Shocker, Bayus and Kim (2004) urged additional research on the scope and circumstances under which intercategory competition takes place (i.e., competition among products from different product categories). This article responds to that call by integrating four forms of competition described in the marketing, management, economics and psychology literatures.

Competition typically is defined as among firms within an industry producing products that are substitutes for one another. Therefore, the identification and evaluation of marketplace competitors is a key element of strategic marketing and a vital element of corporate survival. Despite the relative importance of tracking and evaluating competitors, the scope and nature of competition are not well defined or operationalized. This may be because competition is characterized from a firm's perspective rather than a customer's perspective (Day and Nedungadi 1994).

Evaluating competition from a customer's perspective encourages a broader view of competition because customers are not bound by the typical single-industry definition of competition. Market-oriented firms attempting to satisfy customers' needs and wants should have an interest in understanding how their customers select products in the face of wide-ranging competition. If managers are to avoid mistakes that originate from a limited view of competition, then the alternative competitive forms must be identified and considered when developing a marketing strategy.

Our review identified four forms of competition that reflect the various ways that consumers compare products when making purchases. They include product category, attribute-based, noncomparable and time-based competition. Brands that compete on key features and benefits within well-defined markets constitute the typical product category competition. Attribute-based competition is studied in the context of consumers seeking variety due to satiation of tastes or boredom with routine purchases. Noncomparable competition arises when consumers have intangible consumption goals such as an evening of family entertainment. Finally, time-based competition takes place when consumers accelerate or delay purchases to meet budgetary or personal gratification needs. Although all four forms of competition occur under different conditions, they exist simultaneously in consumer markets.

When viewed simultaneously, the four consumer-based competition forms offer many valuable implications, which we group into two broad categories: ideas relating to (1) consumer decision making and (2) a firm's strategic planning. Foremost among the consumer decision making implications is that the four competitive forms reflect the ways that consumers can choose from the set of all known products. Because the four competition forms have not been studied simultaneously before, it is unknown when a particular form is relevant to consumers or business buyers. Other ideas and implications relate to the use of marketing tools to trigger or suppress intercategory competition.

The biggest implications of a consumer-based view of competition for strategic planning are based on environmental scanning and the definition of market boundaries. A framework for identifying less-recognized forms of competition can help marketing managers defend current markets and expand into new niches. A broader definition of competition has further strategic implications for segmentation, positioning and promotions.

Keywords: Competition, Competitive Market Structure, Strategy, Intercategory Competition, Environmental Scanning.

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Competitive positioning and competitive advantage are two central components of marketing strategy. Managers routinely assess their brand's market position relative to a well defined group of competitors and undertake actions such as evaluating competitive products' key features to gain insights. Yet, in spite of the emphasis on competitive positioning and vying for relative advantage, the scope and nature of competition are not well defined or operationalized. This may be due to the viewpoint from which competition is defined (Day and Nedungadi 1994), because competition typically is characterized from a firm's perspective instead of from a customer's perspective. The question of which perspective is more useful may depend on how a firm defines its business.

Levitt (1960) stresses the value of understanding customer needs when defining competitive environments. His classic example judged the railroad industry as myopic because it did not consider itself as being in the transportation business. Levitt argues that competitive myopia blinded railroad industry managers to both the basic function of their business and the true nature of their competition. The competitive myopia analogy continues to be used in studies of—among other examples—sales management objectives (Sarbin 2000), regional telephone companies' performance (Ryan 2000) and brand management (Davis 1995). Richard, Womack and Allaway (1992) also examine marketing myopia and recommend that marketers take a broader view of competition. Day and Nedungadi (1994) find that constraints in management perspectives limit managers' patterns of search and usage of information, and create the potential for myopia and insensitivity to competitive challenges. Focusing too narrowly can produce suboptimal decisions in competitive settings (Idson et al. 2004); therefore, marketing models for identifying and countering threats should reflect a broad and swiftly changing competitive environment. However, despite recommendations for a flexible competitive viewpoint, an integrated framework for avoiding competitive myopia does not exist.

Competition typically is defined as among firms within an industry producing products that are substitutes for one another (Kotler 2003; Porter 1980). The problem with this definition is how far does substitutability extend? How far afield should firms scan for potential competitors? When taken to an extreme, any product could be a partial substitute for anything else, because all firms compete for a consumer's limited resources to some degree (Moran 1973). However, the single industry definition of competition may represent another extreme that can lead to overlooked competitors and missed marketing opportunities.

From a consumer's viewpoint, market boundaries are even less well defined. When a consumer attempts to satisfy a need or want, a wide range of products and services may comprise the consumer's consideration set. For example, a family seeking an evening of entertainment can choose from numerous product categories, including such offerings as television shows, home video games, movies on DVD, and live theatre or sports events. Many consumer products and services lack a natural boundary that could help define the marketplace. Even products such as chocolate bars may not fit neatly into the single product category definition, because these products are susceptible to competition from alternative product categories (McAlister 1982).

In their review of product complements and substitutes, Shocker, Bayus and Kim (2004) call for an examination of the circumstances in which intercategory competition occurs (i.e., competition among products from different product categories). In response to that call, we expand the framework for identifying current and potential competitors. Although our purpose is to encourage firms to take a broader view of competition, we focus on consumers making decisions about the products they will purchase because, ultimately, how a firm defines its competition matters little to its customers. We begin by reviewing traditional definitions of competition, then describe a typical scenario in which a consumer must make a variety of decisions before making a purchase. Next, we describe four forms of consumer-based competition. Recognizing that alternative forms of competition arise from a consumer's viewpoint is our primary contribution, and considering these four competition forms simultaneously produces interesting managerial implications and directions for future research, both for firm strategy and consumer behavior.

COMPETITION THEORY AND CUSTOMER-BASED COMPETITION FORMS

Many published reviews of competition topics exist (e.g., Hum and Sim 1996; Ketchen, Snow and Hoover 2004; Klemperer 1995; McAlister and Pessemier 1985; Vickers 1995), and we draw on these reviews and other articles to characterize prior competition definitions and theory. For example, Weitz (1985) defines competition as the process by which independent sellers vie with each other for customers in a market. Hunt (2000) defines competition as a "disequilibrating ongoing process that consists of a constant struggle among firms for a comparative advantage in resources that will yield a marketplace position of competitive advantage, and thereby, superior financial performance" (p. 136). These definitions reflect traditional perceptions of business competition, which is defined from a single industry perspective that focuses on product-class competitors with similar attributes (Day and Nedungadi 1994; Shocker, Bayus and Kim 2004).

We promote an expanded view of competition to help business managers identify and respond to a broad range of potential competitors. Other attempts to expand the competitive framework have been made. For example, Porter (1980) notes that companies compete with the firms that most resemble them, but leaves open the question of how to identify and assess intercategory competitors (i.e., those from different product categories). Aaker (2000) describes three competition categories, which include very direct, less intensive direct and indirect types. Kotler (2003) categorizes competition as brand, industry, form or generic, based on price cross-elasticities and substitutability, which again defines competition from a firm's perspective. Kotler also describes a market definition of competition, which is companies that satisfy the same customer need. This latter definition moves competition toward a customer perspective.

The typical industry-based definition views competition as among producers of products with similar attributes. Yet, consumers often consider the choice of a product within a single product-class only after other decisions have been made. Take, for example, a couple who finds that after paying the month's bills, they have discretionary money available for a purchase. The couple may have many needs and wants including, among other possibilities, saving for retirement, making an extra payment on a loan or mortgage, purchasing a new car or piece of furniture, or a holiday. This scenario is familiar to many families, and places a variety of product categories in direct competition with one another.

The above scenario also illustrates competition from a consumer's viewpoint, and suggests that a broader view of competition is needed. There already are alternative forms of competition described in the marketing and economics literature. However, these competitive forms primarily are derived from studies of consumers and not firms, and they previously have not been considered simultaneously in a comprehensive competition framework. Brief reviews of the alternative forms of competition are presented next, and include product category competition, attribute-based competition, competition among noncomparable products, and time-based competition.

Product Category Competition

Product category or brand-based competition is the basis for determining market share, market position and market size. Thus, as already described, managers routinely define competition in terms of brands with similar product attributes in the same product category. Academicians also emphasize the strategic importance and value of a company's brand (Smith and Park 1992; Dacin and Smith 1994), and studies of competition typically focus on product category or brand-based competition (Weitz 1985). Branding offers firms several benefits, including opportunities for line extensions, higher price and margins via differentiation and competitive advantage, and more effective marketing campaigns (Aaker 2000). Companies invest considerable resources to position their brands and to gain a differential advantage over their competition. The cola-war between Coke and Pepsi is a well-known example of product category competition (examples of each competition form and their comparative bases are provided in Table 1).

TABLE 1
Characteristics of Competition Forms

Competition Form	Comparative Basis	Example
Product Category	Brands	Coca Cola vs. Pepsi soft drinks
Attribute-Based	Attribute Inventories	Desire for a sweet product: Hershey's chocolate bar vs. Haagen-Dazs chocolate ice cream
Noncomparable	Abstract Values	Entertainment: Family outing at a Major League Baseball game vs. a new television for the bedroom
Time-Based	Immediate or Delayed Gratification	Upgrade existing car with new tires and stereo vs. save money for the down payment on a new automobile.
	Purchase Timing	Purchase a basic PC now or an upgraded PC system later.

A related topic is the role of brand extensions and brand portfolio management within product categories. With ever increasing competition in distribution channels, the introduction of new brands is more difficult because well-known brand names increasingly are extended into new product categories. Smith and Park (1992) examine the market share gains and advertising efficiencies of brand extensions, and find that brand-extension products capture greater market share and advertising efficiencies than their stand-alone competitors. Brand extensions have produced higher returns than the introduction of new brands (Aaker 1990) and account for almost 90% of all new product introductions (Keller and Aaker 1992). Such trends encourage managers of strong brands to branch out to new product categories, to take advantage of brand equity and loyalty.

Given the practitioner and research emphasis on brands, it is unsurprising that competition typically is defined as among products within a product category. Yet, traditional product categories are becoming distorted due to ever-widening product lines, leveraging of corporate brand equity and global competition (Aaker 2000). Companies pursuing a multibrand strategy face a complex marketplace, and marketing mix decisions and competitive responses are increasingly difficult tasks (Porac and Thomas 1990). As an indication of competitive complexity, product category competitive dynamics have been modeled with nonlinear systems (Hibbert and Wilkinson 1994). Under such market conditions, managers may choose to focus solely on product category competitors to better understand their marketplace and reduce complexity.

Attribute-Based Competition

A second form of competition discussed in the marketing literature is based on product attributes; this form of competition derives from the notion of variety-seeking behavior and its effect on consumer decision processes. When consumers consider the purchase of a complex product, they categorize alternatives by key attributes (Nedungadi 1990). McAlister (1979, 1982) examines attribute satiation as a reason for product category switching and proposes a model that centers on three assumptions: (1) products are represented by the values of their constituent attributes; (2) there is a continual depletion of accumulated attributes; and (3) attribute inventories replace product inventories and, as an attribute's inventory decreases, its effect on product choice increases. Consumers are satiated after exposure to high levels of one attribute and then search for an alternative product that offers high levels of another attribute. An individual's pattern of attribute accumulation can change as his or her consumption history evolves, resulting in a preference for products with different attributes both within and across product categories.

Other researchers have studied variety-seeking and attribute-dependent choice decisions. Examples include Chintagunta (1999), who builds on the attribute satiation model to simultaneously examine choice and purchase-timing behaviors by using a model in which these two processes are interdependent. The extent of variety-seeking behavior is posited to vary with the time elapsed from purchase. Increases in task complexity arising from changes in attribute levels, number of attributes and/or correlations between attributes can significantly affect choice behavior (Swait and Adamowicz 2001). As task complexity increases, consumers initially employ more attributes in choosing, but evolve to a strategy of using less attribute information in later choices.

These and other studies suggest that there can be competition among attributes that—to some degree—is independent of competition among brands in a product category. Consumers can change attribute preferences when their desire for a specific attribute is satiated or when they experience boredom, which implies competition among attributes. For example, the satiation of a soft drink's thirst-quenching attribute may drive a consumer to seek variety by means of a sweetness attribute, both in the soft drink product class and other product classes containing the sweetness attribute (e.g., confectionary products). In this way an ice-cream bar may be a competitor to a soft drink because of a shared attribute.

Noncomparable Competition

A third form of competition described in the marketing literature is among products in different product classes. Rather than choosing from products with similar features within a product category, consumers also may compare alternatives from vastly different categories. An example is that a family may have to choose between a vacation and a down payment on a new automobile. Johnson (1988) terms this example as a choice between noncomparable alternatives, so named because they share few common attributes. He investigates the strategy behind this complex decision process, and notes that noncomparable choices may be the product of a limited choice set or the evaluation of broad categories prior to specific product choices. Johnson finds that consumers reduce the broader choice set by examining and eliminating product category choices. Thus, preferred choices from each product category remain in a final choice set comprised of noncomparable alternatives.

Johnson (1989) suggests that when faced with competitive product attributes that cannot be directly compared, customers evaluate alternatives using abstract attribute representations. Park and Smith (1989) find that the presence of a goal appears to help reduce the abstraction level of processing for consumers choosing between noncomparable products. Furthermore, consumers may be more likely to consider noncomparable products when evaluation of within-product category alternatives is abstract and complex. Bettman and Sujan (1987) examine decision criteria for novice and expert consumers, and report that novice consumers alter their decision criteria for comparable products (in a single product category), but novices and experts alike change their choice processes and criteria for noncomparable product choices.

An alternative rationale for considering noncomparable products is offered by Heath and Soll (1996), who examine the role of mental budgeting in the consumer choice process. If consumers budget for a product category such as entertainment, comparisons among entertainment and other alternatives can be prioritized by budget allocation. If consumers overspend in one category, then they maintain their mental budget by reducing the spending in a separate product category, so intercategory competition between noncomparables may arise when consumers go over budget in a given category.

The noncomparable product studies point to a different choice process and a wider competitive environment than purchases within a single product category. Although this form of competition typically is overlooked, noncomparable alternatives may play an important strategic and niche role within a company's product positioning program. For example, a company positioning some of its products in a gift-purchase market would compete with noncomparable products if buyers are influenced by prestige brand names or attractive packaging for gift purchases.

Time-Based Competition

A final form of competition discussed in the economics and marketing literature is time-based, and can be defined as the set of current versus future competitive alternatives. When observing a suboptimal population savings rate, early economists like Fisher (1910) and Marshall (1930) noted consumers' tendency to favor the present over the future with sizeable discounting. This behavior is explored by Epstein and Hynes (1983) and Loewenstein (1987), who find individual discount rates in the order of 30% or more. Loewenstein and Prelec (1992) propose a choice model that investigates tradeoffs between current and future consumption, and observe that different products generate a variety of temporal discounting effects. For example, consumers who have the option to save for future needs or increase current consumption will evaluate appliances with various long-term energy consumptions differently. Another example is saving for retirement, which directly offsets current and future consumption. Thus, factors related to temporal choices can invoke time-based competition in a range of product categories.

Prelec and Loewenstein (1998) investigate the economic view of consumer purchase decisions and purchase costs that reduce a consumer's future utility. They use a mental double-entry accounting system that implies a tradeoff between immediate consumer consumption behavior and the utility associated with consumption of a future product or service. Tversky and Shafir (1992) find that people typically defer choices between immediate and future purchases when the expectation of future changes to the product increase decision difficulty. For example, consumers may delay the purchase of a new personal computer due to the promise of a faster chip or another technological development.

DISCUSSION AND IMPLICATIONS

In this article we recognize the diverse nature of competition, as evidenced by research originating from a number of academic fields including marketing, management, psychology and economics. We explore existing competition definitions and suggest that a broader definition may be advantageous. Specifically, when competition is viewed from a customer's perspective rather than a firm's perspective, it is apparent that competitive forces can exist outside of the product class in which a product competes. Our review identifies four distinct forms of competition that are described in the literature, including product category competition, attribute-based competition, competition among noncomparable products, and time-based competition.

Because competition is a disequilibrating process (Hunt 2000), the four forms of competition deserve simultaneous evaluation. When considered simultaneously, the four competition forms imply that the typical product class-based definition of competition needs enrichment, particularly because that definition is firm-focused rather than customer-focused. Therefore, we define competition in business as a contest between the producers of the various products that satisfy a need or solve a problem within a customer's budget constraint. This view of competition should not be ignored because, as evidenced by the many examples we identify, the simultaneous consideration of all four competitive forms has important implications both for firm and consumer behaviors. We group and discuss these implications in two categories: ideas relating to (1) consumer decision making and (2) a firm's strategic planning.

Implications for Consumer Decision Making

Perhaps the most significant implications and research opportunities associated with considering the four competition forms are related to the consumer decision-making process. Specifically, the competition forms reflect the ways that consumers can choose from the set of all known products. Because the four competition forms have not been studied simultaneously before, it is unknown when a particular form is relevant to consumers or business buyers. Consumers may undertake a decision process whereby they consider a wide range of products before narrowing their consideration set by making a sequence of decisions that reflect the competition types. Stoltman et al. (1990) study a similar question when they rank order the importance of decisions regarding brand, store, store type, and shopping area. For example, there may be a hierarchy in which consumers consider the choice of attribute first, followed by the product class (noncomparables), the timing, and finally the choice within the product class. The sequence may vary across products and circumstances, i.e., another decision tree may better describe how consumers and business buyers select purchases, or an alternative model form may be more informative. Nonetheless, the four competitive forms likely are relevant for purchase decision-making in the face of competition for both consumers and industrial buyers.

Further consumer-related research questions can be derived, including a rationale for why consumers might consider products from different product-classes. Practical limits such as budget constraints nearly always are applicable, but are there patterns that predict when intercategory competition is more probable? Future research could define the circumstances under which consumers consider broader choice sets. For example, imperfect product awareness and limited choice sets may lead a consumer to intercategory competition (Ratneshwar et al. 1999). Due to various constraints and tastes, family purchase decisions may invoke intercategory competition more often than individual purchase decisions. Time constraints could pressure buyers to consider fewer intercategory product competitors. Brand extensions may encourage brand-loyal consumers to consider purchasing from new product classes, simply because a preferred brand offers the product. Marketing mix tools may be able to stimulate or suppress consumer responses to specific forms of competition. These ideas, and likely many others, originate from a consumer-based definition of competition.

We note that competition can be viewed from additional perspectives that could influence purchase decisions. For example, Mowen (2004) explores a different aspect of consumer-based competition through an individual-level competitiveness trait. Such competitiveness affects consumer behaviors such as sports interest and participation, and conspicuous consumption. Thus, it is possible that after evaluating the four competition forms we describe, a consumer could make a purchase decision only to discover that referent group members made the same purchase. Due to trait competitiveness (or interconsumer competition), the consumer subsequently may change the decision and purchase a different product, perhaps even from an alternative product class. Other dimensions of consumer-related competition may be proposed in future and affect purchase decision making.

Implications For Strategic Planning

The biggest implications of a consumer-based view of competition for firms may derive from the breadth of environmental scanning and the definition of competitive boundaries. For managers conducting strategic audits or undergoing planning functions, the idea that there are at least four forms of competition can assist in identifying a broader range of potential competitors. Moreover, viewing competition from a customer's perspective is necessary for market-oriented firms, and should help firms to avoid marketing myopia (Levitt 1960). For each of the firm's products, managers should evaluate the most likely competitors from the alternative competitive forms. Rules for assessing potential competitors will develop with experience. For example, time-based competition may be less likely for inexpensive products because consumers do not need to budget for such purchases; however, for such products there may be many more opportunities for attribute or noncomparable competition.

Environmental scanning can improve through more precise identification of threats and opportunities that might otherwise go undetected, which offers considerable potential for competitive advantage through the identification of new market trends and opportunities (Ansoff 1980; Bourgeois 1980). Competitive analysis is critical to a marketing manager attempting to respond to changing competitive forces. For everyday tactical responses, the traditional economic and marketing definitions of competition may suffice. However, describing one's market and competition relies on the planning horizon, and the longer the planning horizon, the fuzzier the market boundaries. Long range changes to market boundaries are driven by a number of factors, including the consideration of new markets, buyer reactions to environmental changes, and changes in technology, relationships or suppliers (Day, Shocker and Srivastava 1979).

It is likely that some products face a broader range of competitors than others; examples of characteristics that are expected to increase intercategory competition are the personal involvement, decision complexity and risk that buyers associate with a product. Retailers with limited shelf space may be particularly susceptible to intercategory competition because their products sit in close physical proximity (Corstjens and Doyle 1981). For industrial purchasers, complex buying processes typically require a set of products and services designed to solve a specific business problem. The rapid integration of technology-based solutions with multi-function capabilities in the business-to-business market also may encourage intercategory competition. For instance, sensors on the pipeline and software functions in remote digital control systems are replacing many stand-alone instruments designed to measure and calculate oil pipeline mass flow (Strom and Livelli 2002). The older stand-alone instrument manufacturers now compete in both the mass flow computer and digital control systems product categories.

Considering a broader competitive environment could facilitate the formation of new market strategies. Marketing managers may identify new product opportunities or innovative niche product categories that lend themselves to intercategory competition. For example, aspirin manufacturers have expanded into a new healthy-heart product category that competes with traditional heart attack prevention medicines. Computers equipped with television tuners and cell phones with video displays and high speed wireless connections compete with traditional television sets. Intercategory competition also can help generate different market segments for the same product. Granola bars, once confined to health food stores, are now targeting variety-seekers as a healthy snack alternative to confectionaries in convenience stores.

Alternative market segmentation strategies might be derived from a broader view of competition. For example, there are differences in consumer responses to intertemporal or time-based choices. Different segments may exist for consumers who readily perceive a sequence of future spending (Loewenstein and Prelec 1993) and for those who perceive limited patterns of future spending and discounts (Van Osselaer et al. 2004). Variety seekers (attribute-based competition) may use price promotions as a low-cost strategy for experiencing different brands over time (Trivedi and Morgan 2003). Variety-seeking promotions tend to flatten out consumer product responses, with lower market share brands that emphasize change of pace promotions enjoying proportionately higher sales (Feinberg et al. 1992). Furthermore, customizing promotions toward online variety-seeking customers improves the effectiveness of promotions (Zhang and Krishnamurthi 2004). These prior studies highlight the importance of segmenting select consumer markets based on alternative dimensions of competition.

Marketing promotions also can affect consumers' perceptions and classification of product types (Wansink 1994), and can change perceptions of a product category's attributes, alter the brand image or blur the product boundary (Shocker et al. 2004). Consumers categorize products based on the context or situational usage (Ratneshwar and Shocker 1991), and marketing promotions focusing on a product's use or outcome goals can shift a consumer's classification of a product category toward achieving the consumer goal. Moreover, varied consumer approaches to goal-oriented purchases (that reflect noncomparable competition) should initiate customized promotional programs directed toward differing consumer choice processing preferences. Advertising that contrasts the entertainment value of television with other leisure activities is one instance where noncomparable competition could be invoked. Book retailers that promote the entertainment value of Harry Potter books against children's television programs is a specific example of advertising driving intercategory competition. Emphasizing key product attributes in marketing promotions—particularly any characteristics that are abstract or complex—might encourage buyers to expand their consideration sets beyond a single product class. For example, up to 15% of the attendees at leisure events are variety-seeking patrons who may be susceptible to promotions of novel products (Raju 1980).

The simultaneous consideration of the four competition forms suggests many other ideas for strategy-related research; examples include the scope of comparative advantage and notions of market positioning. Despite increasing information requirements, a broader view of competition facilitates examinations of the complex competitive environment by providing a framework for environmental scanning. Research is needed to ensure that considering additional forms of competition adds value to managers' decisions. In both consumer and industrial markets, researchers need to define the conditions, types of industries, and classes of products and services that foster intercategory competition.

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