What is Competition?

For most people, the word “competition” brings to mind notions of struggles or contests with outcomes of victory or defeat. This general idea about competition applies to marketing as well. In marketing, competition can be thought of as a struggle between businesses for customers. And each time a customer decides to spend his or her money in a particular way, businesses win or lose.

Marketers’ View of Competition

From these simple ideas, we can formulate what is, for marketers, a useful view of competition. This view begins with what people actually buy when they make their purchases: People buy benefits. A person will select a product that he or she perceives will provide the best benefits to the exclusion of alternative offerings. However, if the person perceives that another offering will prove to be at least equally beneficial, then those two offerings compete for that customer. Therefore, we define competition as “any substitute means of obtaining the same benefit or benefits.”

Advantages and Disadvantages of This View

This view of competition offers some advantages to marketers. First, it keeps marketers focused on customers, which is consistent with the marketing concept. Second, it rests clearly on why customers buy – their motivations. In a competitive marketplace, a thorough understanding of customer motivations can add significantly to market share. Third, the definition assumes a very broad view of competition. The benefits people seek from their purchases can be quite complex and frequently not obvious. As we will see, similar benefits may be offered by dissimilar products, meaning that competition can arise from unexpected sources and present interesting and potentially profitable opportunities.

The third advantage of this view of competition also poses its biggest disadvantage. A broadly defined view of competition can lead marketers away from their companies’ core competencies. Devoting marketing resources pursuing opportunities far afield from the customers they know best may lead to wasting those resources. Moreover, marketers distracted from their base of operation may wind up ignoring the more obvious competitive threats.

This disadvantage and its serious implications do not suggest abandoning a broad and benefit based view of competition. Instead it serves as a cautionary note that as marketers compete in novel and creative ways, they should be mindful of those things they do best, and protect the customers most valuable to their businesses.

Competition and Product Categories

We learned on the first day of class that a market is a group of people sharing similar wants and needs and who have the
ability to satisfy those wants and needs. Now we narrow those wants and needs by defining “product market” as a group of people with wants and needs for the benefits offered by a particular product category and the ability to satisfy those wants and needs. The definition of product market brings together three ideas important to defining competition. One is product categories, which we discuss just ahead. Two is the all important concept of benefits, which is what people actually buy. And three is the constant in this class that markets are made up of people.

Product Categories

Defining a product category is a somewhat subjective decision. No “official list” exists for placing products in a particular category. This decision is made by marketers to suit a particular competitive situation. Moreover, it’s a decision that can be changed as circumstances change. Indeed, the product category decision simply provides a starting point for a series of other decisions to follow. That said, a “product category” is simply a group of products that, on some level, provide similar sets of benefits. The phrase “on some level” is key to this discussion.

Deciding on what level to group products into categories is the central issue in defining a product category. Product categories may be defined along a continuum of levels that vary by specificity. Rossiter and Percy (1997) suggest that marketers begin the process of defining a product category with what they call the “basic” category level. To them, the basic level of a product category is the level that a child ordinarily learns as he or she learns to group similar objects together. For example, typical children may learn planes, computers, or soda pop as groups.

Exhibit 1. Competition Definition within Product Categories: Taco Bell Illustration
For our purposes, however, marketers should define the basic product category level in a way consistent with how he or she believes the target market would. This may seem something of a “copout,” especially if the marketer really doesn’t know how a target market would regard the product category. If this is the case, then simply pick any reasonable means of grouping products together into a basic level.

From the basic level, product categories may be superordinated (made more abstract or general) or subordinated (made more specific). So, soda pop may be superordinated into “drinks” or it may be subordinated into colas. The notion of superordinating and subordinating product categories from a basic starting point illustrates the hierarchical and subjective nature of product categories. Of course, super- or subordination can extend more than one level in either direction.

Selecting Competition

The main reason why product category decisions are so important is that they help marketers define their competition. Before continuing this line of thinking, we should recall exactly what competition is: any substitute means of attaining the same benefit(s). By this definition, competition isn’t static or fixed, but can vary depending on what benefits customers seek. Competition occurs when two or more products attempt to win over a common group of customers who are seeking a shared set of benefits offered by both products. Defining a product category helps marketers select the products they intend to position their product against in its quest to win over that group of customers.

An important point about competition bears mentioning here. Firm A’s competitive threat. Therefore, the product category decision helps you decide who you’re going to compete against; it does not automatically decide who’s going to compete against you. Of course, just as often as not, the firms you decide to compete against decide to compete against you.

The illustration in Exhibit 1 uses Taco Bell to show how the relevant set of competitors may change depending on how a product category is defined. Depending on how Taco Bell defines itself with respect to product category, the set of relevant competitors may change drastically. For example, a product category definition of “fast-food restaurant” (a basic level description in this example) pits Taco Bell against some or all of these competitors. Indeed, that’s pretty much what Taco Bell did with its “Think Outside the Bun” campaign. It squared off against giants such as McDonalds and Burger King.

As an aside, this example provides an opportunity to emphasize the complexity of mapping the landscape of a particular product category by illustrating that more than one basic level can exist. Although product categories may be simply thought of as a single basic level mapping up and down, the truth is often more complicated than that. Therefore, when you define product categories along the lines described here, use whatever conceptualization works best for you. The methods we discuss are simply to help you think systematically as you approach what are often ill-defined marketing problems.