

IRSTI 06.58.45

T. Kamzabek<sup>1</sup>, B. Anarbay<sup>2</sup>

<sup>1,2</sup>Suleyman Demirel University, Kaskelen, Kazakhstan

### WHEN COMPETITORS MATTER?

**Abstract.** This review paper focuses to define broadly when the companies pay attention to their competitors from the logic of multimarket strategy theory. The theory assumes that firms usually intentionally enters to rivals market to decrease the rivalry. According to Mutual Forbearance logic, when competitors are operating in several markets simultaneously, it reduces the intensive competition, so one rival attack in one market might cause to be attacked by that firm in another market. So due to that firms usually have less motivation in hostile actions and enters each other's market by creating multimarket contact. Also, this paper emphasizes that the multimarket strategy usually causes not intentional strategies of the firms, also due to the chance of multimarket contacts (MMC). This research distinguishes the notions of naïve MMC and purposive MMC depending on competitor awareness.

**Keywords:** Multimarket strategy, multimarket contact (MMC), mutual forbearance.

\*\*\*

**Аннотация.** Этот обзорный документ посвящен широкому определению, когда компании обращают внимание на своих конкурентов с точки зрения логики теории мультимаркетинговых стратегий. Теория предполагает, что фирмы обычно намеренно выходят на конкурентный рынок, чтобы уменьшить конкуренцию. Согласно логике взаимного терпения, когда конкуренты работают одновременно на нескольких рынках, это снижает интенсивную конкуренцию, поэтому одна конкурентная атака на одном рынке может стать причиной атаки этой фирмы на другом рынке. Таким образом, из-за этого фирмы обычно имеют меньшую мотивацию к враждебным действиям и выходят на рынок друг друга, создавая многорыночные контакты. Кроме того, в этой статье подчеркивается, что мультимаркетинговая стратегия обычно приводит к неумышленным стратегиям фирм, в том числе из-за вероятности мультимаркетинговых контактов (ММК). Это исследование различает понятия наивной ММК и целевой ММК в зависимости от осведомленности конкурента.

**Ключевые слова:** мультимаркетинговая стратегия, мультимаркетинговый контакт (ММК), взаимное терпение.

\*\*\*

**Аңдатпа.** Бұл жұмыста компаниялар мультимаркет стратегиясының логикасынан өздерінің бәсекелестеріне қашалықты көңіл бөлетіндігін нықтауға бағытталған. Теория фирмалар әдетте бәсекелестікті төмендету үшін бәсекелес нарыққа әдейі кіреді деп болжайды. Өзара төзімділік логикасы бойынша, бәсекелестер бірнеше нарықта бір уақытта жұмыс істесе, бұл қарқынды бәсекелестікті азайтады, сондықтан бір нарықтағы бір бәсекелестің шабуылы басқа фирманың осы фирманың шабуылына әкелуі мүмкін. Осыған байланысты фирмалар әдетте дұшпандық әрекеттерге аз ынталандырады және мультимаркеттық байланыс жасау арқылы бір-бірінің нарығына шығады. Сондай-ақ, бұл жұмыста мультимаркет стратегиясының әдетте фирмалардың мақсатсыз стратегиялары, сонымен қатар мультимаркеттік байланыстар (ММБ) мүмкіндігіне байланысты туындайтындығы баса айтылған. Бұл зерттеу бәсекелестердің хабардарлығына байланысты мақсатсыз ММБ және мақсатты ММБ ұғымдарын ажыратады.

**Түйін сөздер:** мультимаркет стратегиясы, мультимаркеттік байланыс (ММБ), өзара төзімділік.

### *Introduction*

To be successful in the marketplace and gain superior performance vis-à-vis competitors, firms need to have an effective strategy toward achieving competitive advantage (Porter, 1980). The competitor analyses and interfirm rivalry plays a central role in strategy formulation. It can be described as information gathering and analyzing present and future competitors from the point of weaknesses, threats, and opportunities (Porter, 1980). Those ability to predict future competitors helps to define the competitive environment and build ways to achieve competitive advantage (Porter, 1980) (Chen, 1996). Organizational growth often leads companies to operate in more than one distinct industry. Moreover, already defined by firm competitors might be viewed as multimarket competitors and leads to having multimarket competition. Multimarket competition simply can be described as two firms simultaneously compete in more than one market and how they engaging with each other (Karnani & Wernerfelt, 1985). It concerns both having multimarket contact (MMC), where the firms face with each other in more than one market, and how they are engaging in the interfirm rivalry. Most of the researches tested the consequences of having MMC, defining the mutually beneficial effects on both firms' outcomes. Multimarket competition has long been researched field in Strategic Management and Industrial Organization (IO) scholars. As strategic management scholars defined the main reasons for organizations to go beyond a single market in the face of intense competition in the same market with rivals and interdependence with each other. The organizations in order to decrease the

dependence and intensity of rivalry trying to operate in several markets. Scholars empirically tested the effects and outcomes of multimarket contact, where suggested firms find contacts deliberate, intentionally attempting to create MMC in order to forbear from strong retaliation in one single market, which scholars call mutual forbearance (Korn & Baum, 1999) (Scott, Purposive diversification as a motive for merger, 1989). However, the question arises, whether always firm's behaviors and gaining Multimarket contact (MMC) explained by competitors' behavior? Scholars in Strategic Management debate in terms of antecedents of MMC, where ones argue MMC results if the competitors intentionally seek for that outcome, others argue rather it may be a result of chance interactions. After getting aware of each other's behavior in common markets, the competitors formulate mutual forbearance, where they start to behave dependent on a competitor's action and avoid rival's retaliation. This work focuses on defining how the firms' behavior in multimarket competition and competitor awareness interrelated to each other.

Research purpose

- The purpose of this work is to clarify the relationship between a multimarket competition and competitor identification.

*Literature review*

*Mutual Forbearance theory*

All competitors' actions and activities have a direct impact on the company's profitability. Most studies found that multimarket contact (MMC) positively related to firm performance and outcomes (Scott, 1991) (Barnett, Greve, & Park, 1994) (Baum & Korn, Chance, imitative, and strategic antecedents of multimarket contact., 1999) (Haveman & Nonnemaker, 2000). Basically, the ultimate purpose of having MMC is the decrease in the interdependence of rivals in one market, decrease the risk of broad retaliation, and act less aggressively to each other (Chen, 1996). The actions of rivals in one market may initiate responses not only that market but also in others where both firms operate, that's why price war in one market may be responded by the competitor in another one (Evans & Kessides, 1994) (Haveman & Nonnemaker, 2000) (Feinberg, 1984). This concept first developed by (Edwards, 1955), who suggested that firms operating in several markets may avoid fighting intensively because the prospect of gain does not worth having warfare. Thus, as the competitors operating in several markets will extend their interdependence, where expected one competitive move in one market may result in the response of the rival in another. In Industrial Organization (IO) perspective, the firm maximizes its profit by taking into account the strategy of the rivals. A recent study of (DeSarbo, Grewal, & Wind, 2006) explores the asymmetric model of competitor identification, under different contexts firm behavior may differ (e.g. Firm A may compete with Firm B, however, Firm B does not compete with Firm A). Study of (Bernheim & Whinston, 1990) analyzed the relationship between

MMC and tacit collusion, within homogenous markets and products, where are identical firms, identical markets, the constant return to scale technology, there was not a consequential relationship between MMC and mutual forbearance. Following this study, most scholars assumed that mutual forbearance mostly results in heterogeneous markets, where the firms have asymmetric markets and competitive positions (Gimeno, 2002), and the competitive advantage may differ by markets. Consequently, the firms more engaged in increasing joint profit maximization strategy through following mutual forbearance. To measure the effects of mutual forbearance, researchers examined it in several contexts. The interesting thing to emphasize here, most research findings show the various outcomes of MMC. Researchers also examined the relationship between market entry and exit with multimarket contact, where they find the negative relationship, where market entry decreases when exists MMC in one study (Baum & Korn, 1996), also inverted U-shaped relationship between them (Korn & Baum, 1999) (Haveman & Nonnemaker, 2000), yet some studies found no relationship (Korn & Baum, 1999). This evidence shows us, the firms will enter the market until the multimarket contact will be established. After establishment, the firms' entry rates decrease due to the presence of a dyadic level relationship between competitors, where they try to move strategically, depending on others. Empirical work of (Smith & Wilson, 1995) found that the incumbent frequently does not respond to the entry moves of a multimarket competitor, second frequently action which held by the incumbent is to raise the price, the third frequent action was countermove of an incumbent to the competitor. However, mutual awareness is not the only factor that deters the firm's behavior. (Greve, 2000) tested the main drives of market entry decisions, where he found that among with mutual forbearance, a density dependence, intra-organizational learning and inter-organizational imitation results in niche market moves. He found an inverted U-shaped relationship between organizational density and niche attraction, where he suggested that the organization avoids the undiscovered markets and crowded markets, moreover he found large firms are imitated by smaller ones according to the mimetic isomorphism theory. Moreover, the recent dissertation work of (Iglesias, 2010) helped to expand the multimarket theory, by contributing behavioral view into the multimarket competition. She proposed that the firm's behavior mostly depends on how the managers interpret the current environment and position of the organization. She found that under the conditions of low and moderate levels of MMC, firms look for incentives for deterrence capability. After achieving the threshold, the firms recognize the high interdependence and become more risk-averse (inverted U-shaped relationship). She also found firms tend to take a risk (deterrence) when the performance of the organization does not achieve aspiration level.

### *Competitor identification*

Currently, in most industries firms tend to not operate as a monopolist and have to survive in competitive markets. It is not sufficient to gain a benefit from the mutual forbearance without first identifying each other as multimarket competitors. Historically, competitor identification has been a streaming research area for management, marketing, IO (Industrial Organization) disciplines (Chen, 1996) (Thomas & Pollock, 1999). Also, it has been conceptualized according to market-based, product-based, and perceptual (manager-oriented) perspectives (Gur & Greckhamer, 2018). The conceptualization of competitors may differ relying on different firms (Porac & Thomas, 1990). The primary purpose of competitor analysis is competitor identification, behavior prediction and positioning vis-à-vis rivals (Porter, 1980). Previously the scholars focused on the positioning of the firm vis-a-vis competitors in a single market by structural analysis (Porter, 1980). (Chen, 1996) first integrated the concepts of competitor analysis and interfirm rivalry proposing the concepts of market commonality and resource similarity for competitor identification. More precisely, he assumed the competitor identification may rely upon which extend the firms operate in similar markets and possess similar resources. If the firms share similar markets and have similar resources, it considered as direct competitors. If the competitor operates in a similar market and has dissimilar resources, it may be perceived as an indirect competitor. And if the firms operate in different industries, however possessing high resource similarity deemed as a potential competitor. This framework helped to make a roadmap to find whether the competitors are direct or indirect for future scholars. According to the AMC theory (Awareness, Motivation, Conduct), thus firms with greater strategic similarity tend to find each other as competitors (Chen, 1996). Once they find each other as competitors, it can be assumed that they are multimarket competitors. However, it is difficult to identify the multimarket competitors who have different resources and dissimilar value chains. Because of these factors, naïve multimarket contact may be created until market commonality will be established (Korn & Rock, 2001). Moreover, he suggests that even if the market commonality emerges, they may not view each other as multimarket competitors because the market commonality was not intended outcome, and their value chain and behavior may diverge. In this context, it can be deemed as mutual forbearance, the reason for that they are not competing intensively against each other. Once the competitor identified, managers may start to analyze them and behave according to it. As a result of competitor identification, they can expand their scope of the business by coordinated entering the markets where competitors exist (thus increasing MMC).

*Competitive advantage*

(Korn & Rock, 2001) also proposed the idea of the competitor identification in multimarket strategy may differ depends on a view of the firm to competitive advantage, whether it is externally oriented (market-based) or whether the firm focuses on internal driven competitive advantage (input-based). They suggested, market-based publications, sources of information will increase the likelihood of the firm awareness of competitors. In addition to that, as they assumed only the information related factors, I argue that it also affects resource-related factors. Whether managers focus more on input related factors like the capability of R&D, employee ability, technological advance, or market-based factors, like a niche market, etc. As aforementioned above, if competitors with similar strategic similarities tend to define each other as direct competitors, further strategical moves will be explained based on competitors' move. From the work of (Greve, 2000) found, that focusing on a niche market, firms seek external competitive driven advantage, where firms more aware of competitors' behavior, and moves according to it. Besides, if the managers focus on input-based incentives like R&D, technological advances, the firm does not pay more attention to competitors moves, because it leads to thinking, that the firm owns the most advanced technology rather than competitors (it may be due to lack of information about the external market). Similar to that, among researchers of strategic management, there has been debating whether to pursue Porter's positioning view (industry-structural view), which focus on external competitive advantage, where the firms try to achieve competitive advantage by superior position in the market or RBV (Resource Based View) schools, which concentrated on internal driven competitive advantage, mostly focusing on dyadic level of competition, where firms compete on inimitability of resources.

The scholars in recent research in multimarket competition proposed that there is an effect of the intentionality of strategic moves behind the emergence of MMC (Jayachandran, Gimeno, & Varadarajan, 1999). MMC may arise from naïve (unintended) contacts among competitors which results in uncoordinated market entry strategies, as well as purposive contacts, where they intentionally seek mutual forbearance with rivals. The aggressiveness of the rivals may depend on the perception of the firm's potential for retaliation. Based on this evidence, it can be supposed the perceptions of managers and their intentionality effects on firm outcomes. The firm by expanding the scope of the business by entering the other market to achieve economies of scope, which is unrelated to mutual forbearance perspective, may ignore the potential rivals' response and risks of retaliation. Therefore it was argued that mutual forbearance may be achieved if both firms strategically look for that and induce such consequences (Korn & Baum, 1999). The work of (Gimeno, 2002) empirically showed that the firms may follow uncoordinated goals in expansion strategies as well as purposive goals to intentionally achieve mutual forbearance with rivals.

Moreover, there was no difference in performance, both have a positive relationship, whether the firm following uncoordinated and purposive strategies. Also, market-based and firm based factors have been defined as antecedents of MMC. It was found an oligopoly firm reacts immediately to competitor moves, by following “follow the leader” strategy, in order to create and maintain MMC and competitive parity (Knickerbocker, 1973). Another study finds the size effect on intentional MMC, where larger firms more tended to seek for purposive contacts, additionally, small firms may not seek for mutual forbearance (Greve, 2000). The work of (Stephan, Murmann, Boeker, & Goodstein, 2003) examined the risk preference on mutual forbearance theory, where he argued the different risk references relying on the roles CEO. As, during the oligopoly, firms tend to be interdependent to each other, and competitive move of focal firm directly focuses on external competitor behavior, in similar cases, as large firms know about large competitors, maybe due to information availability or historical clashes, where all resource focuses on competitor moves, the competitive moves based on externally driven advantage. Additionally, (Stephan, Murmann, Boeker, & Goodstein, 2003), found that longer-tenured CEOs are more sensitive to risk-taking than newer ones.

#### *Conclusion*

The idea of the competitor identification in multimarket strategy may differ depends on a view of the firm to competitive situation and advantage. According to the mutual forbearance logic, firms purposively enter each other’s market to increase the interference. So it means one rivalry attack in one market cause counterattack by a rival in another one. Also, the MMC cause due to the naïve MMC, where firms entering to each other’s markets by pursuing its interest, not taking into account the competitor’s position and that cause to have MMC with a rival. It is explained by views on market-based or whether the firm focuses on an internal driven competitive advantage (input-based). They suggested, market-based publications, sources of information will increase the likelihood of the firm awareness of competitors. If the firm is highly involved in an internal driven competitive advantage, it might cause a decrease in a competitor awareness, so increase the probability of naïve MMC.

#### **References**

- 1 Abrahamson, E., Fombrun, C.J. Macrocultures: Determinants and Consequences. *Academy of Management Review*, (1994): pp. 728-755.
- 2 Barnett, W.P., Greve, H.R., Park, D.Y. An evolutionary model of organizational performance. *Strategic Management Journal*, 15 (1994): pp.11-28.

- 3 Baum, J.A., Korn, H.J. Competitive dynamics of interfirm rivalry. *Academy of Management Journal*, 39, (1996): pp. 255-291.
- 4 Baum, J.A., Korn, H.J. Chance, imitative, and strategic antecedents of multimarket contact. *Academy of Management Journal*, 42, (1999): pp. 171-193.
- 5 Bernheim, B.D., Whinston, M.D. Multimarket contact and collusive behavior. *RAND Journal of Economics*, 21 (1990): pp. 1-26.
- 6 Chen, M.J. Competitor Analysis and Interfirm Rivalry: Toward A Theoretical Integration. *Academy of Management Review*, 21 (1), (1996): pp. 100-134.
- 7 DeSarbo, W., Grewal, R., Wind, J. Who competes with whom? A demand-based perspective for identifying and representing asymmetric competition. *Strategic Management Journal*, 27 (2006): pp. 101-129.
- 8 Edwards, C.D. Conglomerate bigness as a source of power. In Business concentration and price policy (Report on a National Bureau of Economics Research conference). Princeton, NJ: Princeton University Press, (1955): pp. 331-359.
- 9 Evans, W.N., Kessides, I.N. Living by the "Golden Rule": Multimarket contact in the U.S. airline industry. *Quarterly Journal of Economics*, 109 (1994): pp. 341-366.
- 10 Feinberg, R.M. Mutual forbearance as an extension of oligopoly theory. *Journal of Economics and Business*, 36 (1984): pp. 243-249.
- 11 Gimeno, J. The performance effects of unintended and purposive multimarket contact. *Managerial and Decision Economics*, (2002): pp. 209-224.
- 12 Greve, H.R. Market Niche Entry Decisions: Competition, Learning, and Strategy in Tokyo Banking, 1894- 1936. *The Academy of Management Journal*, 43 (5), (2000): pp. 816-836.
- 13 Gur, F.A., Greckhamer, T. Know Thy Enemy: A Review and Agenda for Research on Competitor Identification. *Journal of Management*, 45 (5), (2019): pp. 2072-2100.
- 14 Haveman, H.A., Nonnemaker, L. Competition in multiple geographic markets: The impact on growth and market entry. *Administrative Science Quarterly* 45, (2000): pp. 232-267.
- 15 Iglesias, A.E. To Forbear or not to Forbear? A Behavioral Perspective of Multimarket Competition. Dissertation work. Georgia State University, 2010. – 146 p.
- 16 Jayachandran, S., Gimeno, J., Varadarajan, P. Theory of multimarket competition: A synthesis and implications for marketing strategy. *Journal of Marketing*, 63 (1999): pp. 49-66.

- 17 Karnani, A., Wernerfelt, B. Multiple point competition. *Strategic Management Journal*, (1985): pp. 87-96.
- 18 Knickerbocker, F.T. Oligopolistic reaction and multinational enterprise. *The International Executive* 15 (2), (1973): pp.7-9.
- 19 Korn, H.J., Baum, J.A. Chance, imitative, and strategic antecedents of multimarket contact. *Academy of Management Journal*. 42 (2), (1999): pp. 171-193.
- 20 Korn, H.J., Rock, T.T. Beyond multimarket contact to mutual forbearance : pursuit of multimarket strategy. *Multinational Organization and Multimarket Strategy*, 18 (2001): pp. 53-74.
- 21 Porac, J.F., Thomas, H. Taxonomic mental models in competitor definition. *Academy of Management Review*, 15 (1990): pp. 224-240.
- 22 Porter, M.E. *Competitive strategy: Techniques for analyzing industries and competitors*. New York: Free Press, 1980. – 347 p.
- 23 Scott, J.T. Purposive diversification as a motive for merger. *International Journal of Industrial Organization*, (1989): pp. 35-47.
- 24 Scott, J.T. Multimarket Contact among Diversified Oligopolists. *International Journal of Industrial Organization*, (1991): pp. 225–238.
- 25 Smith, F.L., Wilson, R.L. The predictive validity of the Karnani & Wernerfelt model of multipoint competition. *Strategic Management Journal*, 16, (1995): pp.143-160.
- 26 Stephan, J., Murmann, J.P., Boeker, W., Goodstein, J. Bringing Managers into Theories of Multimarket Competition: CEOs and the Determinants of Market Entry. *Organization Science*, 14 (2003): pp. 403–421.
- 27 Thomas, H., Pollock, T. From I-O economics' S-C-P paradigm through strategic groups to competence based competition: Reflections on the puzzle of competitive strategy. *British Journal of Management*, 10 (1999): pp. 127-140.
- 28 Withers, M.C., Ireland, R.D., Miller, D., Harrison, J.S., Boss, D.S. Competitive Landscape Shifts: The Influence of Strategic Entrepreneurship on Shifts in Market Commonality. *Academy of Management Review*, 43 (3), (2018): pp. 349-370.