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# A CONCEPTUAL FRAMEWORK FOR INTENSITY OF RIVALRY

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**ABSTRACT:** *Firms competing in an industry are vital to determine the profitability of a business. The more intense the rivalry among these competing firms, the more threat it will create to profitability likewise lesser the intense of rivalry lesser the threat will be. Many factors influence the intensity of rivalry among firms in an industry. In general the number and size of the rival firms, demand growth of industry product or service, amount of fixed costs and exit barriers are the forces behind the intensity of rivalry in an industry. The objective of this study is to develop a framework based on these influential factors that will be able to determine the level of intensity of rivalry in an industry. This will enable the firm to pin point the scale of threat from the rivals and thus will help to prepare aptly for the strategic battle.*

**KEYWORDS:** Competition, Rivalry, Rival Intensity, Industry Analysis, Rivalry Framework

## INTRODUCTION

Rivalry that a firm faces form the competitors in its industry is an important aspect for the success of a firm. Competing firms in most industries are mutually dependent. A competitive move by one firm has a noticeable impact on its competing firms. In an industry with intense rivalry among competing firms, rivals utilize various strategies to boost their profit and thus hampering the profitability of others. Generally firms employ strategies based on price, product design, advertising and promotional spending, personal selling, after sale service, etc. These strategies diminishes the profitability of firms losing market share or even the profitability of the whole industry as these strategies often increase the cost of operation or reduce the price of products or services. Consequently, the intensity of rivalry among firms in an industry is an important factor for determining whether or not the industry condition is in a favorable shape for doing business and/or further investment. In consequence, identifying the level of intensity of rivalry is an important factor for a firm's strategic decision making.

## LITERATURE REVIEW

The state of competition in an industry depends on five basic competitive forces, which are: potential entrants, suppliers, Buyers, substitutes and rivalry among existing firms (Porter, 1980). Among the five forces the most important force is the firms those are directly competing with the firm. The strongest of the five competitive forces is nearly always the market maneuvering and jockeying for buyer patronage that goes on among rival sellers of a product or service (Thompson, Strickland and Gamble, 2005). Rivalry refers to the competitive struggle between companies within an industry in order to gain market share from each other. Intense rivalry implies lower prices or more spending on non–price-competitive strategies, or both. The intensity of rivalry among established companies within an industry is largely a function of four factors: industry competitive structure, demand conditions, cost conditions, and the height of exit barriers in the industry (Hill and Jones, 2012).



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The **competitive structure** of an industry refers to the number and size distribution of companies in it. In general, the competitive structure can be of two forms. A fragmented industry consists of a large number of small or medium-sized firms, none of which is in a position to determine industry price. Furthermore, Commodity-type products and diversity of rivals in action make this type of industry vulnerable to high level of rival intensity. A consolidated industry is dominated by a small number of large firms (an oligopoly) or, in extreme cases, by just one firm (a monopoly), and firms often are in a position to determine industry prices. A fragmented industry structure, then, represents a threat rather than an opportunity. Firms might try to espouse strategies that transform the basic structure of fragmented industries and change it to a consolidated industry structure in which the level of industry profitability is better.

The level of **industry demand** is the second determinant of the intensity of rivalry among established companies. Increasing demand from new customers or further purchases by existing customers is likely to moderate competition by providing better scope for firms to compete for customers. Growing demand is likely to reduce rivalry because all firms can sell more without taking market share away from other firms. Declining demand results in increased rivalry as firms battle to maintain market share and revenues. Demand declines when customers do not purchase anymore, or when customers purchase less. When this is the case, a firm can only increase their sales by taking market share away from other rival firms.

**Exit barriers** are economic, strategic, and emotional factors that create obstacle for firms from leaving an industry. If exit barriers are high, firms are unable to exit an unprofitable industry where overall demand is stagnant or declining. The consequence is often excess productive capacity, results in even more intense rivalry and price competition as firms cut prices in an effort to obtain the orders needed to use their excess capacity and cover their fixed costs.

The **cost structure** of firms in an industry is a third determinant of rivalry. In industries where fixed costs are high, profitability tends to be highly influenced by the sales volume, and the need to grow volume can spark intense rivalry. In industries where the fixed costs of production are high, firms cannot cover their fixed costs and will not be profitable if sales volume is low. Thus they have an incentive to cut their prices and/or increase promotional spending to drive up sales volume in order to cover fixed costs.

These four determining factors of intensity of rivalry can be used to develop a framework that will be able to determine the level of intensity of rivalry exists in the industry. A framework or model is defined as representation or abstraction of an actual object or situation. It shows the relation and interrelation of action and reaction in terms of cause and effect (Kapor, 1999). The model to be developed here will be of descriptive model in nature as it will simply describe the aspects of a situation, in this case the intensity of rivalry, based on data developed by researchers,

## FRAMEWORK FOR INTENSITY OF RIVALRY AMONG ESTABLISHED FIRMS

The intensity of rivalry among firms in an industry can be determined by a framework. The framework as shown in figure 1 explains the intensity of rivalry among firms competing in a same industry.


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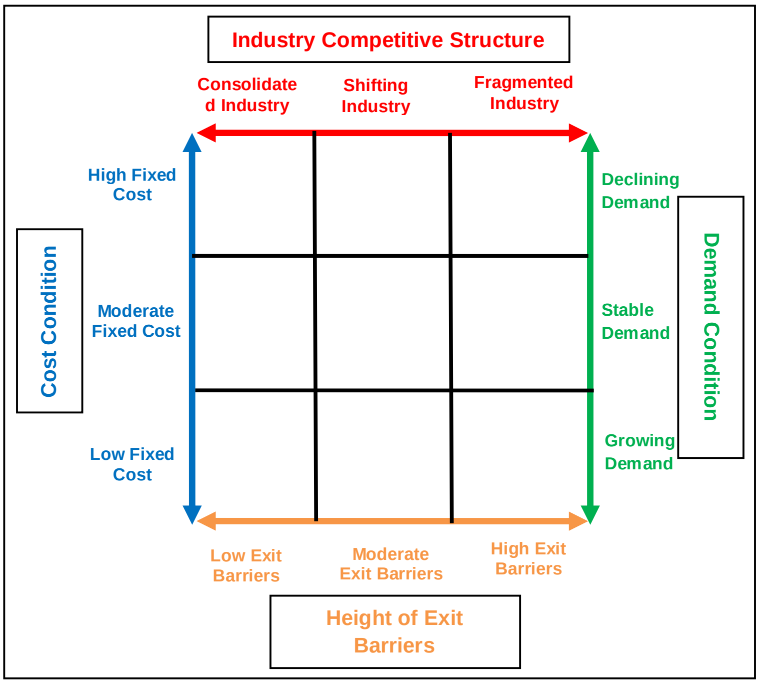


**Figure1: Framework for analyzing rivalry among firms in an industry**

The framework considers only four factors: Industry competitive structure, Demand conditions, Cost conditions, and the height of exit barriers in the industry. Each of the four factors is shown in four separate dimensions with three possible conditions and Thus, constituting a matrix-like framework. This framework, with four dimensions representing the four factors and each factor having three possible conditions, generates nine possible outcomes. Each of the nine smaller squares within the matrix represents these nine outcomes.

## DETERMINING FACTORS AND CONDITIONS

In the following section, the elaboration of each factors and their possible conditions are given:

- The first dimension (colored in red) indicates the first determining factor of intensity of rivalry: **Industry Competitive Structure.**

  The extreme right side of the line indicates a fragmented industry structure; situation in which the intensity of rivalry among firms is tremendously high. As the line moves to left it indicates the shifting of the industry structure to consolidated industry. Thus, middle portion of the dimension indicate shifting period of industry competitive structure. The extreme left side of the dimension indicates the consolidated industry; the situation in which the intensity of rivalry is tremendously low.

- The second dimension (colored in green) indicates the second determining factor of intensity of rivalry: **Demand Condition.** The extreme lower side indicates the higher growth rate for industry product. It means the demand is growing rapidly. In this condition, the firms in an industry enjoy minimal rivalry. Middle of portion of the dimension line indicates a stable industry demand as the product or the service matured. As the line moves to upper side of the dimension indicates that the demand for product



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produced by the industry is declining rapidly; situation in which the industry rivalry intensifies furiously.

- The third dimension (colored in Orange) indicates the third determining factor of intensity of rivalry: **Height of Exit Barriers.**

  High barriers for exiting the industry create an intense rivalry situation. In the line the extreme right side of the dimension indicates a situation of high exit barriers. As the line moves to the left, exit barriers shrink and relax the intensity of rivalry.

- The fourth dimension (colored in blue) indicates the fourth determining factor of intensity of rivalry: **Cost Condition.**

  In an industry with high fixed cost rivalry among existing firms can be intensive as rivals have to cover up the fixed costs by selling more. In the fourth line the upper side of the dimension indicates high fixed cost involved. As the line moves down, the amount of fixed cost decreases.

## INTENSITY OF RIVALRY

The framework with four dimensions each with three different conditions forms a matrix of nine possible circumstances as shown in figure 2. These circumstances can be categories into six identical situations that reveal the varying intensity level of rivalry among firms in an industry. These six identical situations are explained as below:

**High Intensity**: the upper right side corner of the square indicates a high intensity of rivalry among existing firms in an industry as all the factors creates threat to firms. In this portion the condition in four factors are in favor of intense rivalry as-

- The competitive structure is fragmented
- Demand is declining
- Firms face high exit barriers
- High fixed cost involved


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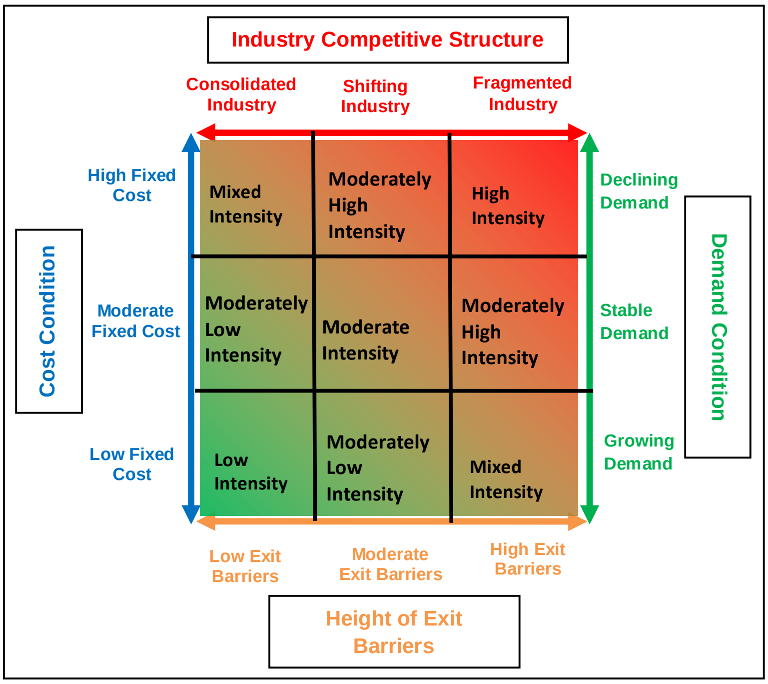


**Figure 2: Categories of rival intensity among firms in an industry**

**Low Intensity**: On the other hand, in the lower left corner of the figure indicates minimum intensity among rival firms as-

- The competitive structure is consolidated
- Demand is growing
- Minimum exit barriers for firms
- Low fixed cost

the lower left side corner of the square indicates a low intensity of rivalry among existing firms in an industry as all the factors creates opportunity to firms. It is just the corresponding corner of the high intensity point.

**Mixed Intensity**: Although the situation is different in other two corners of the square as they indicate a mixed situation. In the upper left corner, the condition is in adverse regarding to two factors since at this point the fixed cost is high and demand is declining. On the other side, the condition is in favor related to other two factors as consolidated industry prevails and lower exit barriers. In case of the lower right corner, the situation is opposite, here the industry enjoys growing demand and lower fixed cost but have to face challenges as the industry structure is fragmented and exit barriers are high. The upper left side corner and the corresponding corner indicates mixed intensity as in both case two factors indicate high intensity and the other two indicate low intensity.

**Moderate Intensity:** In the matrix the middle square area indicate moderate intensity of rivalry among the firm in an industry as-


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- The competitive structure is shifting toward either from fragmented to consolidated structure or from consolidated to fragmented structure. In this transition period the rivalry tends to be stable.
- Demand condition is also stable as demand doesn't grow nor fall rather remains stagnant.
- Exit barriers is also moderate as well as the requirement of fixed cost is moderate too.

**Moderately High Intensity**: In the matrix there are two square areas between high intensity and mixed intensities that indicate moderately high intensity. In one of these two square, one that situated in the upper middle area has moderately high intensity. It is because, the demand is declining and the requirement of high fixed cost instigates intense rivalry, but as the industry structure is shifting and exit barriers are moderate the somehow holdback the high intensity.

In case of the other square situated in the right middle area of the matrix, the high exit barrier and fragmented industry structure creates intensity in rivalry. On the other hand, moderate demand growth and requirement of modest amount of fixed cost trim down the high intensity.

**Moderately Low Intensity**: Likewise, in the matrix there are two square areas between low intensity and mixed intensities that indicate moderately low intensity. In one of these two square, one that situated in the lower middle area has moderately low intensity. It is because, the demand is rapidly growing and the requirement of low fixed cost keep intensity of rivalry minimal, but as the industry structure is shifting and exit barriers are moderate the somehow instigate a moderate intensity.

In case of the other square situated in the left middle area of the matrix, the low exit barrier and consolidated industry structure lessen the intensity in rivalry. On the other hand, moderate demand growth and requirement of modest amount of fixed cost instigate somewhat high intensity.

## DETERMINING THE INTENSITY OF RIVALRY

Now, the question is how to identify the intensity? To answer that question at first, we have to find out the conditions of the industry in four dimensions. Suppose the conditions of a specific Industry are given in figure 3 as point A, B, C, and D respectively for industry competitive structure, Demand condition, height of exit barriers and cost condition.


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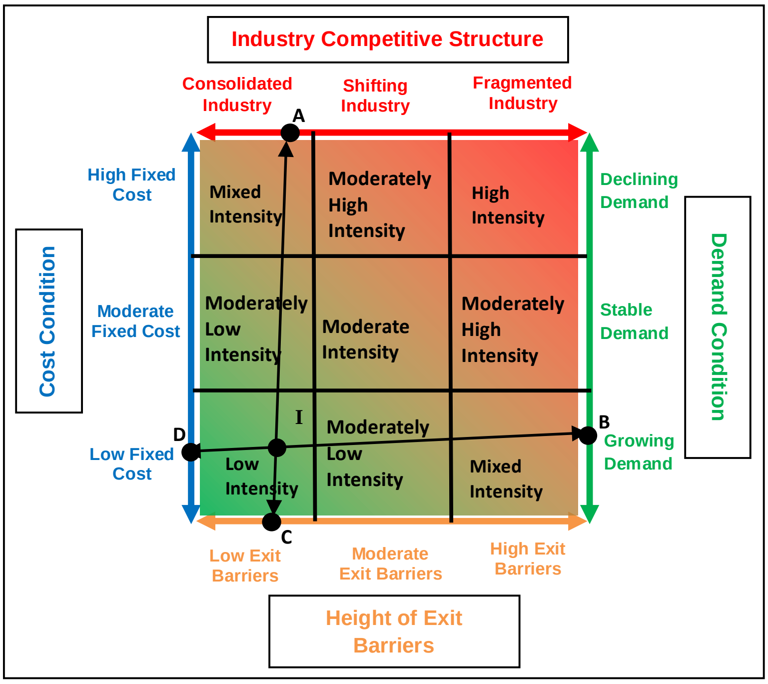
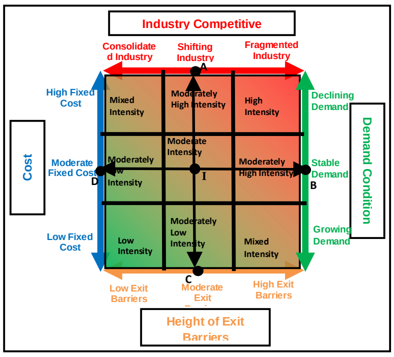


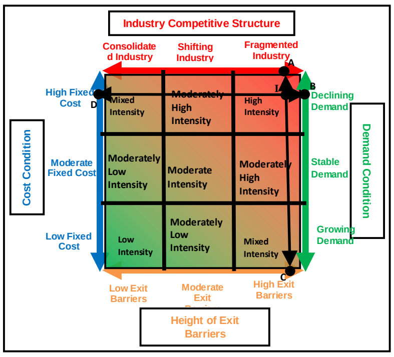

**Figure 3: Determining intensity of rivalry among firms in an industry**

Then, draw lines by connecting the corresponding two conditions. These two new lines will intersect in a point. This point will indicate the intensity of the rivalry among firms. As can be seen in figure 3, point A and C are connected by a line AC as well as point D and B is also connected by a separate line BC. These two lines intersect in point 'I'. The position of the point 'I' on the square area explains the intensity of rivalry among exiting firms in the industry. As we see, the intensity of rivalry will be low.

Figure 4 given above shows four possible intensity of rivalry among firms as example. In first the example the intensity of rivalry is moderate as the intersecting point resides in the middle square where all the factors possess moderate conditions. In second example, the intersecting point is in extreme upper-right square indicating high intensity of rivalry. In the next example, the intersecting point is in extreme lower-right square indicating a mixed intensity. In the last example, the intensity is low as the intersecting point is in extreme lower-left square.



Moderate Intensity



High Intensity



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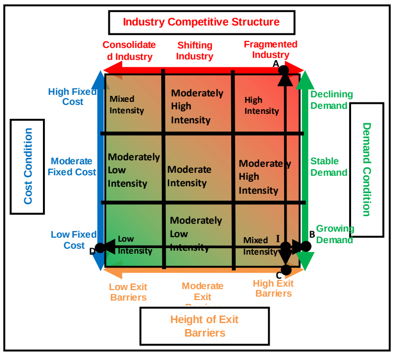


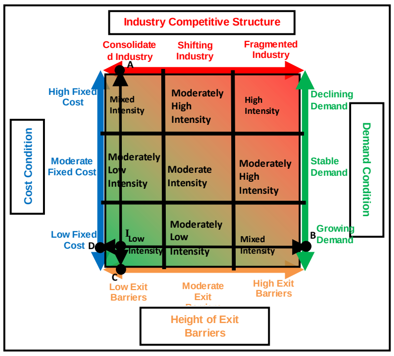


Mixed Intensity Low Intensity

**Figure 4: some possible examples intensity of rivalry among firms**

## CONCLUSION

The framework will be useful tool to identify the intensity of rivalry among competitors in an industry. Any given industry will make place with any of these six circumstances that will reveal the level of intensity of the rivalry. If the intensity level is low or moderately low intensity then firm can take it rivalry conditions as opportunity. In contrast, if the intensity level is high or moderately high then the firm should consider the rivalry as a threat to its profitability and should be careful in tackling the intense rivalry. In case of moderate and mixed intensity, the circumstances are stable and unpredictable; therefore in such cases the firm should be cautious about the changes in the dimensions of rivalry. Thus, the framework will enable managers to identify the level of intensity of rivalry so that appropriate strategic means can be deployed for properly managing the relevant level of rival intensity.

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