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COMPETITIVE ADVANTAGE OF MULTIPRODUCT LINE STRATEGY AND SELF COMPETITION

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Abstract

Multiproduct line strategy is one of the various competitive advantage opportunities some modern organizations are leveraging on. The dynamics of global business operations have widened consumers' choice beyond substitute product brands produced by different companies, occasioned by competition. Interestingly, modern business technology has moved competition from the level of "between organizations" to "within organizations". This paper prompts corporate competitive strategy planners to a serious rethink about how brand or product line, portfolio stretch, extension, diversification, etc., might lead into multiple substitute offerings making an organization engage in "self-competition" or competing "within organization" more than competing with core industry mates or "between organizations". The conceptual argument is that an organization that offers multiple product with similarity and substitute effects, compete against itself, since essentially, competition is on the basis of product-by-product or brand-by-brand. The challenge, which follows this experience, is how each brand (line) in a multiproduct (range) can achieve an effective SBU status as projected by BCG matrix, without one killing the other/s in a multiproduct strategy, relative to market share and profitability? Additionally, what impression

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does it leave the consumer with if the suggestion is not that one brand is inferior to the other? Does this experience not put both the producer and the consumer on quality quagmire?

Keywords: Self-competition, Within organization, Between organizations, Multiproduct line, Generic products, Quality quagmire, Competitive threat

INTRODUCTION

Numerous strategies exist for use by organizations in different industries. Multiproduct line strategy is one of the various competitive advantage opportunities some modern organizations are leveraging on. However, across industries (Morgan, Slotegraaf and Vorhies, 2009), competitive advantage is appreciably a business tool world over that has received recognition and smoothen the cognitive learning of academics and professionals. Thus, the turnaround in competition among corporate enterprises and products is secreted in this phenomenon. The dynamics of global business operations have widened consumers' choice beyond substitute product brands produced by different companies, occasioned by competition. Interestingly, modern business technology has moved competition from the level of "between organizations" to "within organization". When competition traditionally made it possible for consumers to make the decision to switch brand among similar, generic products produced by different companies, the competitive experience was "between organizations". This strategic trend is now a different ballgame altogether with rapid changes in modern world competitive pursuit, which encourages high innovation (Khin, Ahmad and Ramayah, 2010) and differentiation in which one organization can offer a wide spectra of brands within a generic product compound, thereby competing "within organizations". Contemporarily, many organizations have taken to product line and range stretch, guising for differentiation to enjoy competitive advantage. Designing this strategy presupposes that the organization is headlong competing with equals in the industry or set to challenge a market leader in some ways. The benefits of this effort could be tremendous. What is nonetheless astonishing is whether corporate competitive strategy planners do little realize or not even realize, how brand or product portfolio stretch, extension, diversification, whatever it is called, might lead into multiple substitute offerings making the organization engage in "self-competition" or competing "within organization" more than competing with core industry mates or "between organizations"? This is fundamentally the conceptual thrust of this paper.

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Objectives of the Study

i. To explore discussions on how organizations with multiple product offering compete against self.

ii. Interrogate the extent to which products with generic features offered by an organization do substitute and compete against themselves.

iii. Advocate for the discontinuance of multiple products with high similarities, which compete against themselves within an organization's product portfolios.

iv. Reawaken corporate planners to the fact of intra-organizational competition with multiple similar product offerings.

Statement of the Problem

Many contemporarily organizations have taken to product line and range stretch, guising for differentiation to enjoy competitive advantage. However, it is astonishing to note that corporate competitive strategy planners do little realize or not even realize, how brand or product portfolio stretch, extension, diversification, whatever it is called, might lead into multiple substitute offerings making the organization engage in "self-competition" or competing "within organization" more than competing with core industry mates or "between organizations"? This is fundamentally the conceptual thrust of this paper.

CONCEPTUAL THEORETICAL UNDERPININGS

Competitive Advantages

Seeking competitive advantage depends on what an organization wants to accomplish. Essentially, CA is about enjoying superior business position over industry players in terms of profit, market share, growth, leadership, etc. The goal lies in consumer demand in quality, quantity, price, time, and service delivery.

Competitive advantage has made it possible for consumers to have access to a wide range of brands of any particular product (Lieberman & Asaba, 2006). To gain more competitive advantage, organizations are rapidly extending their product lines and markets (Hill & Jones, 2009; Boone & Kurtz, 1979; Hartzel, 2006; Sturdivant, 1977). Competitive advantage is used for acquiring superior position in industry and any marketplace (Ghasemi, Abdi, Yaghmaei, and Nemati, 2015) through superior quality, superior pricing, superior differentiation (Kotler 2003), superior packing and presentation (packaging), superior distribution etc. CA strategy is considered as valuable as an economic performance factor (Porter, 1985; Barney, 1995).

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Contemporarily, the extension of business as CA through product line, range or brand portfolios has become a major strategy adopted by organizations in order to gain higher share of the market. Extending business portfolios has been on the increase due to the perceived significance in enhancing a company's competitive position in the marketplace. Product line extension is an important competitive advantage and growth strategy for most organizations around the global market that want to increase revenue or market share. Portfolio extension can take a number of forms, including new versions of an existing product, upgrades of existing products, completely new products or acquisition of competitors which enables companies to take advantage of the opportunities in the industry in order to become market leaders (Ball & Wendell, 2005).

Being competitive indicates the capabilities of an organization to create more profit in comparison with its rivalries in the market, more wealth, more value, more revenue through its ability (Shurchuluu, 2002; Guenzi & Troilo, 2006; Tan & Sousa, 2015). Sargent (2008) opines CA as the capability of competitors to gain more profits by giving more services and benefits to customers. Halawi, McCarthy, and Aronson (2006) argue that, the competition of industries can be based on five forces: new products, giving more services, replacing products or services, and trickery works through competitors. Implication from the foregoing competitive strategies is competitors 'trickery works', which unarguably appears to be misleading competitive strategy planners into paying so much attention to differentiation features among many brand offerings with the tendency to forgetting that the generic compound or active ingredient of a product constitutes its functional and efficacy value, and links it with competition and not primarily, other aesthetic characteristics. For examples: beers are generically made of barley and flavored with hops; primarily common pain relief medications are 'paracetamol' formula $C_8H_9NO_2$ based; sodium fluoride appears central to toothpastes. Nonetheless, many companies, in their differentiation efforts still use the same core or active generic ingredients in formulating and presenting different brands, which are similarly, substitutable and provide consumers the same functional benefits.

However, Porter (1980) encourages players to seek advantage in the market, choosing a product differentiation or lower cost, allowing them to get a higher profit on the market. Special attention is paid to the formation of strategic competitive advantages. Friedman (1998), Liučvaitienė, Peleckis, Slavinskaitė and Limba, (2013) corroborate that the business entity in free market is not opponent for another business entity (especially if the products are homogeneous), i.e., none of the participants can dictate the terms which others should follow, or set a maximum comparative advantage with market participants. Arguably, homogeneity of products, gets an organization into the temptation of "self-competition"

(competing against itself) by offering too many similar or substitute brands each of which in that coincidence, competes directly or indirectly with the other, in the guise of high differentiation. Thus, as an organization introduces a new product or brand that is similar to, and capable of substituting for, existing one(s) it is putting the old brand to a competitive threat. Again, it can be said that the price of the new product is competitively advantageous for its penetration into existing consumer circle, thereby creating a backlash on the demand for the old brand.

Self-Competition

Self-competition or competing "within organization", is relatively, a new concept in the business literature. This is predicated on the probability that corporate strategy planners seldom or at best downplayed on its implication in designing competitive advantage plans. The urge for high product differentiation, market dominance and profitability has unfortunately overwhelmed corporate managers bringing about the danger of offering substitute products, which compete against existing brands. This fact can be explained in spite of paucity of literature in this area, by Porter's five forces and the Boston Consulting Group (BCG) portfolio models.

Michael Porter's Five Forces

Porter (1980) cited by Holt (2005), Cole (2003), Hill and Jones (2009), projected the five forces model by which organizations, can carry out their competitive analysis. The five forces model has been known for its effectiveness for conducting strategic competitive advantage analysis. The model identifies five key threat elements that could affect the competitive advantage of an organization, namely, threat of new entrants, bargaining power of buyers, bargaining power of suppliers, threat of substitute products, and rivalry among existing competitors. The model tacitly theorizes that organizations that are operating in the same industry remain in intense competition among themselves. The Thesis is that profitability is a function of competition thus, organizations and managers must continuously engage in the analysis of the business environment to determine their strengths and weaknesses and the forces or factors that could affect or influence the various strategic business units (SBUs) or products. The essence of this exercise is to help managers take proactive actions to counteract competitive threats. The model is figured as follows:

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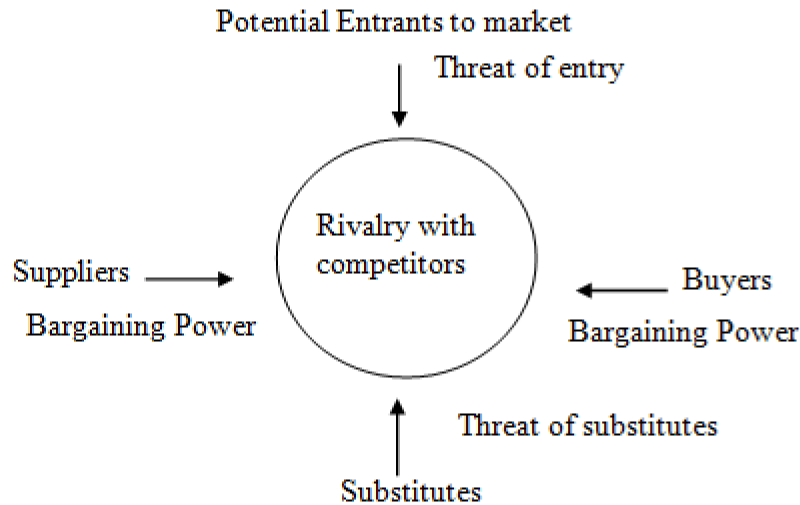

Figure 1 Michael Porter's Five Forces Model

Source: Cole, G. A. (2003) Management: Theory and Practice, 6th ed. London: ELBS and DP Publications Limited.

The model is further simplified in the following manner:

RC = competitors (entities seeking business advantage over others)

SB = suppliers bargaining power (producer/manufacturer)

BB = buyers bargaining power (consumers/channel members)

TE = threat of new entry (new or potential brands/products)

TS = threat of substitutes (existing products/brands)

Threat of new Entrants

A new entrant is in the original sense in which Porter (1980) depicts it, a firm just starting a business in an existing industry (Cole, 2003). New entrants become threats to existing organizations in the industry in many respects depending on the nature of industry and the industry sub sector. Applying to competition in the sense here, it can be said that industry or "between organizations" competition is macro in nature because of the involvement of different organizations seeking to win market share and profitability over the others, detrimentally. An organization may engage in the production of an entire product line as a powerful tool to deter others from entry and to escape from too much intense competition (Schmalensee, 1978). Trying to undo competitors from entry, ends up undoing self by most organizations with multiproduct line. Hence, micro or the "within organization" view, describes the sense in which an organization comes up with a new product that incidentally substitutes and favorably

competes against an existing product in the line and range. This strategic action unfortunately, poses threat to a brand that supposed to have been enjoying stable household.

Bargaining Power of Suppliers

The supply chain management process consists of suppliers of inputs to an organization's operations and the organizations buying from suppliers as well as all of those involved in the process, until the product reaches the final consumer. Suppliers are those whose inputs determine the quality and quantity of output, that is, the final products, which a firm offers to its consumers or customers. Suppliers' input quality to a business can be measured in terms of price/costs, physical nature of goods supplied, presentation, delivery period/time, etc

Bargaining Power of Buyers

Buyers in this context are essentially the users or customers of an organization's product whether at intermediary or final stage. In a real sense the buyer group constitutes both opportunities and threats to the organization. Parts of the opportunities they offer are regular patronage, words of mouth advertisement/promotions, club membership, personality association/identification with the firm, and product loyalty. The threat elements of buyers to an existing organization include requests for price cut, credit facility, special personal service, etc. and of course, when an organization offers multiple substituting products, consumers and buyers become aware and sensitive to price deals, and without much haggling, producers/manufacturers taking to multiple differentiation strategy themselves become prey to price offers such that the price of the new product is almost if not the same as the existing product at retail point. The tendency is for buyers/consumers to switch from the old to new substitute brand. This has been the experience for most products, dying prematurely from the market.

Threat of Substitute Products

Substitute products are goods and services with common generic functions and value, of which, one can be used in place of the other. A substituted product does not mean an inferior or outdated product, however, a brand that has been in long existence, popular and almost in regular use by consumers enjoys household. When such product is getting expensive or not much in circulation due to poor distribution network by the manufacturer or production challenges, buyers may switch brand. Perhaps, one sense in the misled of choice for multiple differentiation by most organization is the advantage of logistics and physical distribution. Thus, when a new brand becomes a substitute to an existing one, it competes against the old one.

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Rivalry among Existing Competitors

Competition and profitability are the pivotal of Michael Porter's 5 Forces Model. Existing firms within the same industry compete intensely among themselves, over superiority, market/industry leadership, with profitability as the bottom line. In same vein, competition "within organization" with multiple product or brand offers by way of differentiation, demonstrates struggle among such products for consumer attraction and patronage, over superiority, market leadership and profitability, hence, the sense for usage of the SBU approach to various arms of business. The fallout is that once a brand is profitability incapacitated, it loses its competitive relevance and culminates in wasteful investment, which is dangerous for an organization.

The BCG Portfolio Model

Portfolio theory is known to managers and companies, particularly the manufacturing concerns, for determining growth and market share position in the industry in which they operate (Peter & Donnelly, 2006). Ensuring long-term value creation, means organizations have to carry portfolio of products that contain both high-growth products in need of cash inputs and low-growth products that generate a lot of cash. The portfolio sense, describes a set of business or product units that can compete for sustainable market share and profit. Hence, each can be called a strategic business unit (SBU). There are two dimensions to this: (i) market share and (ii) market/industry growth. The basic idea behind it is that the bigger the market share a product has and/or the faster the market grows, the better it is for an organization. This is explained with the BCG four categories of portfolio – Strategic Business Units:

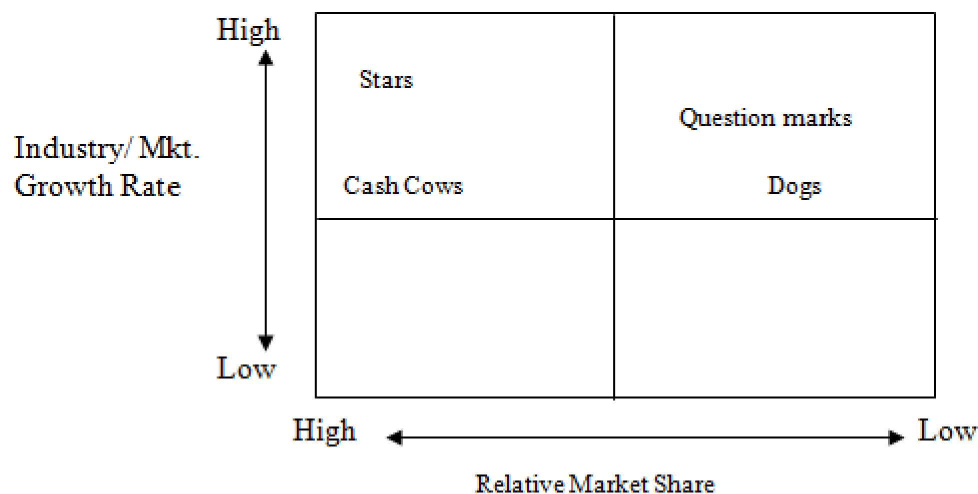

Figure 2 BCG Portfolio Model

Source: Kachru, U. (2005) Strategic Management: Concepts and Cases, New Delhi: Excel Books.

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(a) Question marks – SBUs operating in potential high-growth rate market/industry, with a relative low market share. They require a substantial net injection of cash to build share of the market.

(b) Stars – SBUs with long-term growth opportunities; potential high market share in high-growth industry; require large amounts of cash to generate large amounts of profit, as a leader in the business.

(c) Cash Cows – Have high market share in low-growth market/industry. They generate more cash than needed to maintain share (Day, 1977; Kachru, 2005).

(d) Dogs –SBUs with low market share potential in low-growth industry; weak and cash flow lazy. They may be retained for strategic reasons or divested.

The assumption is that profitability and cash flow will be closely related to sales volume. Again, this strategic discernment would cut cost for increased ROI - return on investment (Peter & Donnelly, 2006). Thus, organizations seeking increased profit and cost reduction largely rely on both learning and experience curves (Nerkar & Roberts, 2004; Danzon, Nicholson, & Pereira, 2005). The numerical strength of learning curves (DeVany,2004), expresses the idea that the number of labor hours it takes to produce one unit of product declines in a predictable manner as the number of units produced increases. Hence, an accurate estimation of how long it takes to produce the 100th unit is possible if the production time for the 1st and 10th units is known (Hill & Jones, 2001, Peter & Donnelly, 2006; Kotler, 2003). Thus, experience can be linked to cost, to price, to market share or return on investment (Peter & Donnelly, 2006).

Strategic Implications of BCG Model

The guiding objectives in the decision to adopt the portfolio approach to pursue the diversification of a business and/or an organization for sustainable growth are strategically Dimensional, considering the following four implicit objectives:

i) *Build Share:* This objective sacrifices immediate earnings to improve market share. It is appropriate for promising question marks whose shares have to grow if they are ever to become stars.

ii) *Hold Share:* This objective seeks to preserve the SBUs market share. It is very appropriate for strong cash cows to ensure that they can continue to yield a large cash flow.

iii) *Harvest:* This objective seeks to increase the SBU's short-term cash flow without concern for the long-run impact. It allows market share to decline in order to maximize earnings and cash flow. It is an appropriate objective for weak cash cows, weak question marks, and dogs.

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iv) *Divest:* This strategic objective involves selling the SBUs because better investment opportunities exist elsewhere. It is very appropriate for dogs and those question marks the organization cannot afford to finance for growth.

Critical Views of BCG Model

Despite the popularity of the BCG portfolio model the following critical viewpoints of weaknesses and strengths have been observed among others:

(i) It could be misleading to holistically accept that SBUs with low market share in high-growth industry is all the times discouraging to invest in. Sometimes, that could mean a source of strength to such SBUs like question marks and dogs, as different market segments niche could be pursued, by differentiating the SBUs (Kachru, 2005).

(ii) BCG's cost savings argument resulting from learning/experience curves based on economies of scale may not all the times be correct. Some small companies in some industries with strong sales force and using a low share technology may be doing relatively better (Kachru, 2005). Example, small firms producing sachet water in the Nigerian market in comparison to bigger organizations producing on large-scale basis enjoy relative higher daily turnover.

(iii) The capital requirements to maintain a cash cow can be that huge compared to that of dog. Thus, an organization may decide to harvest its investment at a point (Holt, 2005; Kachru, 2005).

(iv) Without the presence of question marks and dogs in the portfolio arrangement firms would not have had the divestment option with any ease.

(v) Dogs and question marks could be used by organizations in certain industry to cause distraction to competitors.

It is important to note, however, that while these criticisms are to a large extent true, managers especially of large firms across all industries, particularly in multi-product business, continue to find the BCG matrix useful in assessing the strategic position of SBUs, more importantly, when planning for product line and range extension or differentiation and future sustainability. The truth however, still remains, that multiproduct offers by an organization with similarity and substitute effects, compete against themselves, since essentially, competition is on the basis of product-by-product or brand-by-brand. The challenge, again, which this experience leaves for organizations and managers, is how each brand (line) in a multiproduct (range) can achieve an effective SBU status as projected by BCG without one killing the other/s in a multiproduct strategy, relative to market share and profitability? Additionally, what impression does it leave

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the consumer with if the suggestion is not that one brand is inferior to the other? Does this experience not put both the producer and the consumer on quality quagmire? Hence, (Biglaiser and Hagiu, 2015) posit that in many industries, multi-product firms do not have full flexibility to choose different quality tiers for different product categories (lines).

METHODOLOGY

The paper is conceptual and draws from industry experience and observations among competing fast moving consumer goods (FMCGs) and over the counter (OTC) products, with common generic features.

SUMMARY / CONCLUSION

Self-competition or competing "within organization", is relatively, a new concept in the business literature. This is argued against the probability that corporate strategy planners seldom or at best downplayed on its implication in designing competitive advantage plans. The urge for high product differentiation, market dominance and profitability has unfortunately overwhelmed corporate managers bringing about the danger of offering substitute products, which compete against existing brands. Once a brand is profitability incapacitated, it loses its competitive relevance and culminates in wasteful investment, which is dangerous for an organization. Profitability is a function of competition thus, organizations and managers must continuously engage in the analysis of the business environment to determine their strengths and weaknesses and the forces or factors that could affect or influence the various strategic business units (SBUs) or products. The essence of this exercise is to help managers take proactive actions to counteract competitive threats. Homogeneity of products, gets an organization into the temptation of "self-competition", (competing against itself) by offering too many similar or substitute brands each of which in that coincidence, competes directly or indirectly with the other, in the guise of high differentiation. Thus as an organization introduces a new product or brand that is similar to, and capable of substituting for, existing one(s) it is putting the old brand to competitive threat. Again, it can be said that the price of the new product is competitively advantageous for its penetration into existing consumer circle the danger in it is that it creates a backlash on the demand for the old brand. To help corporate planners and business managers avert the trap of producing multiple similar or generic products that compete against themselves, thereby experiencing the "self-competition" milieu; and demeaning the Boston Consulting Group's (BCG's) strategic business units (SBUs) model's value and strength, the paper recommends that managers should continuously engage in the analysis of the business environment to determine their strengths and weaknesses and the

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forces or factors that could affect or influence the various (SBUs) or products, before introducing new products. Thus, the puzzle for further inquiry is the extent to which generic products produced by the same organization can individually survive and growth as a portfolio without leaning on other product lines.

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