

Dealing with “Dumb” Competitors

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Often what appears as irrational competitive behavior results from a firm’s own desire to grow share at the expense of competitors. Price moves that steal share are often countered by a competitor’s price move. The result is a rapidly escalating price war! In the following article, author George E. Cressman, Jr. – Senior Pricing Strategist for Strategic Pricing Group, a member of Monitor Group, gives questions to help companies assess their competitive strategy. --Editor

Clients sometimes ask us, “How can we deal with dumb competitors?” You know, those companies who are aggressively moving prices down. Who are pricing below cost. Who will do anything to keep a piece of business. Who act as if no price is too low to win some volume.

If this sounds like the market you’re living in, then you may also believe you have irrational, dumb competitors. Why are these firms so stupid? Our experience is that often irrational firms are not nearly as dumb as they appear: they are simply responding to moves made by other firms. **If you’re facing what seems to be irrational competitive behavior, you should check your own behavior. You may be the problem!**

When confronted with competitive moves that seem “irrational” use the following questions to assess whether your own competitive strategy is the problem:

1. **Have we clearly identified target segments?** If every potential customer is in the strike zone, then it’s likely you are targeting some customers with high price sensitivity. As you price compete to win these customers, you increase customer price sensitivity and competitive intensity. Focus targeting efforts to customers where you can profitably win.
2. **Are our target segments chosen for our ability to deliver differential value at competitive advantage?** Customer targets should be selected on the basis of ability to deliver unique value at competitive advantage. If you are targeting customers where a competitor has advantage, you can expect severe retaliation. Profitably winning business depends on pricing for differential value, and delivering that value cost effectively.
3. **Have we clearly communicated to the market our target customer segments and our sources of competitive advantage?** If competitors don’t know where you are headed and how you will achieve your objectives, they can’t possibly know when to avoid attacking you. Use market communication to get the word

- out on your strategy. Make sure the market knows your sources of advantage and how you will use them.
4. **Do we use discipline in approaching our target customer segments (refraining from pursuing customers not in our target segments)?** If you've never met a customer you wouldn't compete for, you're the problem. Pursue customers you can profitably win; let other firms go after customers you can't profitably serve. Of course this means you're not going to win the entire market. But often you can't win the entire market without killing your own profit, and everybody else's profit also.
 5. **Do we avoid pricing down to grow demand in mature markets (where price sensitivity is high and demand is inelastic)?** Price cuts in mature market will not grow demand. In mature markets, price cuts may get you some volume in the short run, but that volume is won at competitors' expense. You can expect price retaliation, and the resulting price war will quickly eliminate the benefit of a short term share increase.
 6. **Do we adjust our operations based on economic conditions (avoiding trying to operate above average industry capacity utilization)?** When demand slows, you must adjust your sales volume to match demand levels. If you try to operate at capacity utilization levels above industry average, you will be stealing share from competitors. Expect competitors to respond with price (see question 5). The only way to operate at rates higher than competitors is to deliver value competitors cannot match (a good strategy no matter the economic cycle stage).
 7. **Do we deal with customer requests for lower price by reemphasizing our value delivery?** Over time, customers may forget, or more frequently, ignore your value delivery. If you don't continue to emphasize your value delivery, you make it possible for customers to price shop you against competition, even when you deliver more value.
 8. **Do we force customers to make value trade-offs in exchange for lower price?** Customers who win price concessions from you without having to give up value delivery become more price sensitive. Expect them to continue to demand price concessions. Worse, they'll take your price concessions to your competitors and insist they also price compete – sounds like the start of a price war. Your competitors will not understand why you're making irrational price deals, and be forced to price compete too. Make sure customers must always take less value in order to get lower prices.
 9. **Do we deal with competitive initiatives by taking a long term perspective and seeking to establish non-price competition?** Always think about pricing actions in the context of where your suggested move will take you 3 to 5 years out. If your future view is not attractive (e.g., it is likely to start a price war), adopt a different action. Strive to shift competition to your superior value delivery – competitors can't match that. Of course you must recognize not all customers will want your superior value delivery; target only those customers who do benefit from your superior value (see questions 1, 2, and 4).