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BOOK REVIEW

Wharton on Dynamic Competitive Strategy

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This is the review of the book titled "*Wharton on Dynamic Competitive Strategy*" edited by George S. Day and David J. Reibstein with Robert E. Gunther. The book was published by John Wiley & Sons in 1997.

The book includes four parts and 17 chapters. Part one is *understanding advantages in changing competitive environment*. Part two is *anticipating competitors' actions*. Part three is *formulating dynamic competitive strategy*. The last part is *choosing among alternative competitive strategies*. Each chapter includes at least one author from the Wharton school, University of Pennsylvania.

A reason why I choose this book to review even though it is fifteen years after the book was launched is on the word "dynamic". Contents in the book are not obsolete because authors emphasized the dynamism of the analysis which is always fresh regardless of time.

In chapter one, George S. Day wrote about the assessing who your competitors are. This is at the very beginning of competition. Unless a firm knows the numbers of competitors, the firm does not know in what kind of market it is. Then it is impossible to analyze further on the appropriate strategies to counter the competitors. George S. Day continued chapter two with the focus on dynamic competitive environments. As the world keeps evolved, competitive environments are not steady. A firm must study the changing environment and adapt to it cleverly.

Elizabeth E. Bailey integrated policy trends into dynamic advantage in chapter three. Economists mainly forecast demand but may rarely forecast policies. They may view the policy as a given exogenous variable in their model. They may be right to do so. However, policies change more often than they may think. Sometime, it does not follow the trend. For example, the policy of the daily wage to pay THB300 per day for workers in Thailand shocks industrialists. However, when economists link the daily wage policy to the populism policy of the coming government, this may not be so surprised.

In chapter four, Eric K. Clemons mentioned the significance of the technological-driven environmental shifts that may decrease the competitiveness of previously dominant companies. When innovation is a key success factor for businesses, industrialists in Thailand may be the net importers of the technology. Instead of producing the innovation, the purchasing of innovation may be another successful strategy for developing countries. This issue should be investigated more elaborately.

The book begins part two with chapter five on game theory and competitive strategy written by Teck Hua Ho and Keith Weight. They beautifully extract four principles of using game theory on competitive strategy. The first principle is "*use strategic foresight*" with examples on credible and non-credible signals, and sequential market entry. The second principle is "*know yourself as well as others*" which follows the principle of perfect information. The third principle is "*differentiate between one-time and repeated interactions*" with a good example on reputation. The last principle is "*managers must unify minds to promote cooperation*". Upon the issue of cooperation, Prof. Songsak Sriboonchitta always says that competition does not ensure Pareto optimality, but cooperation does.

I skip to chapter eight which is on anticipating reactions or factors that shape competitor responses written by S. Venkataraman, Ming-Jer Chen and Ian C. MacMillan. They presented their research results on what factors attract competitor reactions. They concluded that action type especially on pricing strategy, sizes of actor and responders and the performances of actor and responders are significant to the reactions. They also mentioned that one action might affect numerous rivals and attract several reactions. Therefore, a firm should be careful on launching the competitive strategy. The best way is to gain benefits without suffering from competitor reactions.

Chapter nine is on the understanding competitive relationships. Jagmohan S. Raju and Abhik Roy clarified that there are three types of relationships; independent, leader-follower and collusive. Different relationships induce different competitive strategies of the firms. To determine the type of relationship, the authors suggested three methods which were Granger causality, conjectural variations (CV) and non-nested model comparisons (NNMC). The first method relates the actions of a firm in this period with the actions of another firm in the previous periods. It requires data on pricing and advertising. The latter two methods require more data which are sales and profits. CV estimates the marketing decisions of one firm to the decisions of its competitors. NNMC examines the equilibrium sales and prices outcomes. It compares and matches the patterns which really happen in the market with the theoretical equilibriums. Then it specifies which kind of relationship that bound the firms. The authors also suggested that the type of relationships may change over time. These topics and techniques are interesting such that economists may use quantitative methods to reinvestigate the relationships over time.

Part three of the book presents the creative strategies for responding to competitive actions in chapter ten. The chapter was written by Hubert Gatignon and David Reibstein. An interesting issue in this chapter is the weapon to respond to competitors. The authors included the price, awareness advertising, image advertising, distribution, salesforce, promotions, repositioning of existing products and introduction of new products. Economists may find a research opportunity to compare the efficiency of these weapons. Moreover, the authors mentioned about choices over the competitive stance which are ignore the move, accommodation, abandonment and retaliation. These are also another possible research topic to investigate which competitive stance should be applied in different situations. It may require game theory to examine the equilibrium.

Chapter 11 introduces the preemptive strategies which are the acts against competitors before their moves. This is to determine where the rivals will move to. It requires the predictions on customer trends of existing products, next-generation products, innovative products, customer satisfaction and behavior and emerging new business paradigm. The authors ended the chapter by a very interesting question "*Do you want to preempt? Can you*?".

Oliver P. Heil, George S. Day and David J. Reibstein wrote in chapter 12 on signaling to competitors. The issue is interesting such that most of research papers are on signaling of individuals. This is different because it focuses on the signaling of firms. There are two types of signaling; actions and announcements. Purposes of signaling may include discouraging attack, blocking entry, disciplining an errant competitor, influencing codes of conduct, dividing up the market, sending up trial balloons, and bluffing. Attributes of signals and signalers should consist of clarity, aggressiveness, commitment, consistency and similarity of sender and receiver.

I skip to part four and chapter 15. The chapter presents the conjoint analysis to view competitive interaction through the consumer's eyes. The authors are Paul E. Green and Abba M. Krieger. The chapter begins with the fundamentals of conjoint analysis explain the key concepts and types of conjoint data collection. Then it introduces a dynamic approach to conjoint analysis which includes the SIMOPT (Simulation and optimization) and SIMDYN (Simulation via dynamic modeling) models. The authors included a case study of the cellular phone. One of the most interesting point is the answer to a question *how conjoint analysis of two or more competitors can be brought together into a model of competitive interactions.* The authors replied that the answer is Nash equilibrium. Firms will select strategies on attributes of products to respond to the competitors.

I will end this book review at chapter 17, using simulation to analyze and develop competitive strategies. David Reibstein and Mark J. Chussil called it as *putting the lesson before the test*. Simulation helps strategists and economists to foresee the future. It answers what would happen if the assumed conditions were to occur in reality. It is beneficial when a firm faces complex situations, unfamiliar problems or high cost of errors. The technique is indeed necessary for the research in industries whose rules of the game are changing due to shifting technology or regulations such as telecommunications. The process of simulation includes specifying the domain, indentifying the relevant data, specifying the market-response model, putting the data into the model, deciding how to handle uncertainty, developing strategy options to test, analyzing simulated outcomes and tracking real outcomes.

I believe that the issues and techniques that readers can learn from this book will strengthen their research works. I insist again that the issue is timeless. Each chapter can induce many research projects. I hope that I could write up to ten research papers following the ideas from this book in the next three years. I also wish the success for my colleagues and for all the readers to achieve their academic papers in this field of dynamic competitive strategy. By the advancement of database and data collection through this 15 years after the book was launched, I think that we can do the research in this field easier and faster than the founders. Enormous numbers of literatures regarding to the issues must be there. I encourage all of you to use this book as the ground theory and study the literatures, then produce the new ones. The next wave must be bigger than the previous wave to drive the world forward.

REFERENCES

Day, George S. and David J. Reibstein with Robert E. Gunther (eds.). 1997. **Wharton on Dynamic Competitive Strategy**. New Jersey: John Wiley & Sons.