

Manufacturing and service sector hypercompetitive rivalries



**ASSIGN
BUSTER**

Hypercompetition has long been recognized as a significant problem in almost all manufacturing related industries. Service sectors are also experiencing the same problems. It is essential for competing companies to understand and take advantage of the dynamic motion and flux of current trends in global markets and technological breakthroughs. This paper aims to describe the movement toward hypercompetition and its implications to manufacturing and service based companies among ASEAN countries. Actions taken by companies in these two sectors provide new insights into what manufacturing and service based companies might expect to occur and how they could respond to such threat. This research finds that technological change, globalization, and increased competition are the most important environmental challenges facing manufacturing and service sectors today. Technology, in particular, seems to be acting as one of the principal accelerator toward hypercompetitive rivalries in manufacturing and service sectors.

Keyword(s): Competitive strategy; Technology; Manufacturing; Product; Service; Globalization

Introduction

Since the financial and economic crises hit most regions around the globe in the late 1990s, policymakers worldwide have been talking about how to “re-balance” their national economies. Putting back the balance in their economies involves reassessing the mix between the services and the manufacturing sectors. The services sector represents about 70 percent of the American economy, while that of the manufacturing makes up just 11 percent (Foroohar, 2010). The same trend is happening among European

<https://assignbuster.com/manufacturing-and-service-sector-hypercompetitive-rivalries/>

countries especially in the U. K., France and Germany. It is totally in the opposite scenario, however, for most developing countries including Malaysia, Thailand, Indonesia and Vietnam (Hilman, 2006).

The intensity of rivalries in the manufacturing sector started in the 1980s when many big companies from the United States, Europe, and Japan moved their business operations particularly their manufacturing plants to foreign countries. Among the most popular destination is the South East Asia region or ASEAN (Association of Southeast Asian Nations). The Foreign Direct Investment (FDI) flows to ASEAN increased by 18% in 2007 from US\$44billions to US\$61 billions. Nearly all ASEAN countries received higher inflows and Singapore, Thailand, Malaysia, Indonesia and Vietnam, were the largest FDI recipients that comprised more than 90% of the flows (Karimi, Yusop and Law, 2010). Favourable regional economic growth, an improved investment environment, higher intraregional investments, and strengthened regional integration were key contributory factors and all these have turned ASEAN as a hypercompetitive market (World Investment Report, 2008).

Understanding hypercompetitive markets

D'Áveni (1995) described hypercompetition as a market condition typified by rapidly escalating competitive activities such as increasing price-quality positioning, developing new know-how and the products utilizing that know-how, establishing first-mover advantage, protecting or invading established product or geographic markets, and creating deep-pocketed alliances. Harari (2007) depicted secrets, proprietary information, and closed-door management systems don't have the competitive edge they used to because new technologies have the capabilities to create total transparency. It is <https://assignbuster.com/manufacturing-and-service-sector-hypercompetitive-rivalries/>

important for local companies, multinational corporations (MNCs) and multinational enterprises (MNEs) in ASEAN to always alert and react accordingly on changes or development occur in market or industry.

Understanding hypercompetitiveness is primarily important for businesses since the undermining of such can greatly result in the decline of the financial performance for businesses. Hypercompetition is highly associated with disruptive, uncertainty, intense, and rapidly changing environment where companies can only expect intermittent, temporary, and unsustainable advantages (D'Aveni, 1995). Those who can focus equally important on what not to do and what to stop doing, use technology to accelerate a transformation but not perceive it as cause of transformation, paid scant attention to staff development, and seek for revolutionary result and not revolutionary process should have better chance to champion market or industry (Collins, 2001).

Drivers of hypercompetition

There are several theories on what drives hypercompetition and how such conditions develop. Sengupta (2002) on the one hand, proposed several forces: globalization, knowledge capital resulting from superior information technology, demand-side economies of scale, and new strategic assets. Collins (2001) on the second hand, described that good and competitive companies should have highly capable individuals, contributing team members, competent managers, effective leaders who build enduring greatness through a paradoxical blend of personal humility and professional will. Thomas (1996) on the third hand, suggests that the dynamic resourcefulness of innovating companies was the primary driver. Overall the <https://assignbuster.com/manufacturing-and-service-sector-hypercompetitive-rivalries/>

literature reflects mix drivers that accelerate hypercompetition (Hanssen-Bauer and Snow, 1996).

In the case of manufacturing based companies in the ASEAN block, globalization seems to be the dominant driver for them while technological innovation becomes secondary. This slightly differs from the service sector companies which are impacted primarily by technological innovation, specifically information technology and secondarily by globalization. Most ASEAN based companies use information technology more than merely utilize new methods to improve efficiencies and productivity but use the technologies to create a fundamental change in how the services are delivered. New information technologies are truly “ disruptive” and result in significant changes by creating new markets and reshaping existing markets (Christensen, Roth and Anthony, 2004).

Thus, there is no doubt that new technological innovations create both positive and negative implications. Information technology and new forms of communication allow organizations to reach underserved markets, while creating more direct competition. As a result, competitive battles that ensue necessitated leaders to make strategic choices (Christensen et al., 2004). Consequently, most companies based in ASEAN countries not only offer services in the home markets but markets around the globe. The development creates undeniable probability that traditional product or services might be challenged for its very existence virtual based products or services.

Hypercompetition in the Manufacturing and Service Sectors

While much of the research on hypercompetition has focused on manufacturing, the same logic can be applied to the service sector. In fact, it might have been predictable that the intensity of rivalries in the service sector would be as intense as that of the manufacturing sector in the coming decade. There had always been competition in the service sector, although it was segmented and somewhat dampened by many reasons due to variations in the context and scope of competing companies and market segments.

In the case of the manufacturing sector based in ASEAN countries, the intensity of competition is based on size and market reach of competing companies. For example, multinational corporations (MNCs) were competing on the basis of prestige, reputations and industry champion; while regional based companies were competing for location-bound which was on the basis of convenience and timing. For nationally known companies, they were focusing on maintaining or increasing the market shares of products or services.

Some of the companies can be further classified as competing for reputation and are largely limited to few market segments and companies only. For those few companies, market position served as something between an emblem and a brand. The mailings and web sites are proclaimed important or relatively play small role in their market positioning. For most of the other thousands of companies in the ASEAN region, market share was a non-issue because they were facing localize competitive pressure which were centred more on cost and accessibility than reputation. As a result, high-quality and <https://assignbuster.com/manufacturing-and-service-sector-hypercompetitive-rivalries/>

highly localized products or services were developed in response to local market demands.

Apart from those mentioned above, the intensity of the hypercompetitiveness of the environment in the region drove companies to hunt for more customers and better ways to reach existing customers than a decade ago. This situation required companies to assess their business environment carefully. Issues like customer focus, competitive intelligence, knowledge and competency base, innovativeness, technological advancements, and new products, services or market need are among important factors that needed to be addressed strategically to date.

Information technology is well received by companies as an important tool to accelerate their products or services reach greater market coverage. The intensity of rivalries in the region is centred on price, marketing, and new product development which leads to major competitors moved into one another's' home markets. The intention was to improve one's own financial performance while weakening their competitors' by making them defensive in their home markets. The findings show most of ASEAN based companies offered similar products or services to a fixed number of customers with substantial price decreased but little or no increase in unit sales volume. The competition can be summarized as cut throat which finally led to a few companies to go better, while the most to go worse. The following subtopics discuss strategy options which were widely used by those companies.

Strategy Option 1: Differentiation

Most of companies competing in ASEAN countries face problems like inability to meet sales and financial objectives. In lieu to that, most of them expanded their products or services offerings. Some of them made new offerings, while other made modifications of existing one. In either case, markets became flooded. This proliferation of more varieties of products or services was good for consumers, but further weakened business performance. Thus, the other movement toward hypercompetition can be described as the expansion of offerings from suppliers without any increase in customer demand. What was initially viewed dynamism of ASEAN market as the creation of differentiated lines was in reality product or service line fragmentation.

Most companies in the region were not content to offer traditional products or services in new markets but now sought to create new products or services. These new products or services appeared to be successful until management realized that they were, in some cases, merely cannibalizing existing one. The finding shows these new products or services grew but the number or revenue in the “ regular” products or services are declined. This means, existing services were now experiencing competition from inside their own company as well as outside. In ASEAN markets where there had previously been only two or three products or services, now some of the market segments have four times more. As was the case with business, both revenue and customer retention suffered.

Another strategic issue needs to address carefully is about growing demand among customers for better accessibility and convenience which has

changed the environment of manufacturing and service sectors. Support by <https://assignbuster.com/manufacturing-and-service-sector-hypercompetitive-rivalries/>

advancement in digital communications, traditional companies responded by changing structures and products or services provided (Rosenoer, Armstrong and Gates, 1999). Most MNCs and MNEs in ASEAN countries use current products or services to produce “ new” by offering them in radically different ways. Those products or services are touted as the “ same” but delivered with a different technology. It is seen as a “ new product or service” in the market and this certainly increase the intensity of rivalry among competing companies.

Some of the companies in this study created new products or services besides forged alliances with other organizations. Such inclination was developed in response to the opportunities created by a growing global market. There are companies deliver traditional product or services, but in a different location or with a different methodology (extended traditional companies and technology-based companies). Both are organized and designed to serve non-residential participants. This approach enables them to deliver existing products or services to audiences in different locations.

Rosenoer et al., (1999) described online based transactions are organized around a technology to minimize the consequences of the physical separation between client and companies. The field of online business has grown rapidly and many of ASEAN based companies offer products or services via the web. While some experience a boom, majority encountered slow growth in online business. Overall most virtually promoted products or services are doing well and become strong competitors of traditional products. Such possibility to access to products or services enables buyers to

shop at any time and at any place at their convenience. This certainly creates opportunities for noncustomers (Christensen et al., 2004).

Strategy Option 2: Low Cost Leadership

When the market expansion and product development strategies does not favour companies overall performance, the corporate response was to reduce costs. Major producers hunted for ways to reduce costs as a means of increasing gross margins, net profits, and earnings per share. This was the era of downsizing the blue-collar workforce; cutting back in corporate staff and middle management; give backs of employee benefits; and hiring of part-time or temporary employees who receive no benefits or who may not even be employees of the firm (Hilman, 2006).

Some of the companies in this study standardized and automated their manufacturing and production operations; reduce number of staff; and planning to locate production abroad or to a new area with even low labour costs. The desired results were to increase financial performance and the ability to price-compete for market share. Interestingly most of them aware such actions create negative impact to them in the long run.

Service sector based companies in the region also experienced identical implications. Cost reduction initiative leads to reduction of employment levels on number of full-time employees, reduced fringe benefits, made staffing decisions similar to those of business by moving to greater levels of temporary and part-time employment, and eliminated services that were not revenue positive. The findings show most of the companies aware that such actions negatively affect the quality of the service provided because a

service based company involves more than factual product as it includes the skill and attitudinal development that comes with company and client interaction.

Like manufacturing based sector, service based companies competing within ASEAN countries also faces cost-based competition from both local and foreign companies. In one sense the competition stems from the changes in the way companies see themselves. This is particularly true for numbers of subsectors in service sector. The quality of the services has a direct impact on how business community perceive the entire company. However, most of the cost-based competition in the region comes from the many smaller companies that have unknown standard of quality on services offered. In other words, some of the companies in both sectors (manufacturing and service) were trying to gain competitive advantage through low cost leadership or focus on cost strategies.

Strategy Option 3: Focus

The final stage of hypercompetitive market development is the birth of technologically competent, niche competitors that target only specialized, high profit market-segments with single purpose product. Some of the companies in the region exercise focus differentiation strategy. Products for this strategy are produced by talented engineers who design high-performance products, high-profit margin products and no consideration to become full-line suppliers. However, most of the companies exercise focus strategy opted for focus on cost instead by offering full line products with low-margin. of focus on differentiation.

The same type of niche competitors exists in service sector. Some of the sample companies were focusing on a particular segment of the market in the attempt to isolate themselves from other competitors and to appeal to a particular group of high-value customers. They are able to provide value or brand identification that makes them extremely attractive. These providers will offer a specialized service. Most of them who opted for this strategy have no desire to offer a full range of business like manufacturing based companies. The reason for them not to offer full range of services were mainly due to do not want to use their revenues from a high-demand service to subsidize the lower-demand ones therefore they must cut marginal services.

Conclusions, implications and strategies for hypercompetitive markets

To face hypercompetition, ASEAN based companies must develop and produce specialized products or services faster than the competition. New or differentiated products or services provide customers with new, improved, or additional features; unfortunately hypercompetition means that products or services have shorter life cycles, which is the unintended consequence of competing with one's own products or services. In fact, for many companies competing in the region, their competitive strategy is to replace their own product or services before the competition does. This is often called “ eating one's own babies”.

Their strong tendency to increased product or service differentiation caused greater customer expectations and increasingly diverse applications, which in turn results in an explosion of demand for increasingly specialized

<https://assignbuster.com/manufacturing-and-service-sector-hypercompetitive-rivalries/>

products or services. More product or service differentiation leads to increase competition and creates a broader consumer market. It also leads to the development of small, overlapping sub-markets and price points.

This review of hypercompetition of businesses among ASEAN based companies gives significant inputs for managers in particular and competing companies in general about the most recent state-of-the art strategies in doing business in the region. There is no doubt that companies must always prepare to deal with hypercompetitive environment and give special attention to environmental challenges such as technological change, globalization, and increased competition. To ensure that the region remains competitive in bringing FDIs and local investors to invest, it is an imperative requirement for ASEAN countries to work collectively and closely. Failure to do so may dampen their chances to record significant growth on gross domestic products (GDP).