The Influence of Competition on Marketing

Magdalena Krzyżanowska, PhD
Assistant Professor
Warsaw School of Economics
Al. Niepodległości 162
Warsaw, Poland
Tel./fax +48 22 564 86 89
e-mail: magdalena.krzyzanowska@sgh.waw.pl

The Influence of Competition on Marketing

Abstract

The research devoted to the competitive impact upon marketing has multiplied since the seminal works of Alderson (1937) who argued for differential advantage a company should try to achieve. These were structured mainly around two problems: market orientation and its impact on organizational performance and the design of marketing-mix within the context of rivals' activities. Two questions remain under-explored: that of the alternative to marketing ways of market behaviour within the competitive context, and that of the influence of managerial perception of competition on the design of marketing-mix. In relation to the first topic, this article proposes embracing the development of market orientation within a broader context of competitive advantage. The premise of marketing always playing a key role in the achievement of competitive advantage within the context of high intensity of competition is undermined. With regard to the second topic, the paper develops an integrative framework of the managerial perception of the competition and its influence on marketing-mix. It is demonstrated that not only the structure of competitive environment and their participants' behaviour influence the design of a firm's marketing-mix but also how the processes are interpreted by managers. The paper is of a conceptual character. On the basis of current literature it integrates the construct of market orientation with competitive advantage, marketing-mix and managerial representations of competition into one research model. It is concluded with a discussion of managerial and future research implications.

Key words: market orientation, competitive advantage, marketing-mix, managerial representations of competition

1. Introduction and objectives

Marketing is considered to be a key factor in achieving a firm's goals as it enhances the management of relations with market agents (among which buyers are the central entities). It is also believed that the meaning of marketing rises, if the competition is fierce. This view has been supported by a great deal of research but there has been limited theoretical work on competitive influence on marketing explaining how companies adjust to the real environment. Over the last decades research on many sophisticated research problems have been conducted while some basic ones still need to be explored. One of them is the abovementioned relation of the competitive environment and marketing decisions. Within this field, various scholars have discovered different regularities and built models, yet in practice there is no one framework integrating such elementary constructs as competitive advantage, market orientation and marketing-mix.

My attempt to develop such a framework is in part motivated by the fact that knowledge of such interaction can be very important for assessing the effectiveness of marketing efforts. (For example the net effect of marketing budget cut will depend in part whether or not competitors react in kind.) Thus to understand the regularities we need a broad framework. Despite this, a lot of previous research in marketing has focused on a notion that competition is objective, i.e. all its participants perceive it in the same way, ignoring the fact the decisions within firms are made by human beings who have their own subjective interpretation of reality. Consequently, a broad-based general understanding of competitive interaction influence on marketing instruments becomes extremely important for managers and researchers alike.

The framework seeks to explain the nature and extent of the competition impact on companies and their marketing. I adopt a classical definition of marketing according to which it is a purposeful way of a company's market behaviour which is based on market orientation and an integrated set of instruments and activities (Garbarski et al. 2001). It means that I distinguish between implementing marketing and instruments of marketing. In the first case the instruments used by a firm are adjusted to each other, in the second one instruments are applied separately without taking into account any interdependencies that may exist among them.

The basic premise here is that a model of the competition impact on marketing must do more than simply reflect the company's dependency on the competitive environment. A primary purpose of it is to obtain a fundamental understanding of the competition influence on the companies behaviour; how they react to rivals' actions. Companies decide how to influence buyers with marketing-mix, but their discretion depends on the intensity of competition. Companies operate within certain market structures that determine forms and types of competition that in turn are more or less conducive to marketing efficiency. One cannot seek to explain competition influence upon marketing without taking into account that market environment is perceived in different ways by market agents. Historically, most early analyses of competition environment have studied its impact with the assumption that all the participants understand the market situation in the same way. A proper analysis of such relations must be able to represent the subjectivity of market perception. That is why, on the basis of my review of literature, I have developed a framework of competitive environment impact on a firm's marketing. It is based on following major concepts: the competitive advantage, the market orientation, the marketing-mix, and the competition representations that managers have.

It is also my assumption that due to the fact that markets are dynamic and evolving rather than static, the competitive environment changes, so there is a need for a model that can embody the inherent dynamics.

I argue that the competitive context does not necessarily lead to marketing implementation, and on the other hand, the managers' perception of the competitors causes that a company is involved in a cyclical process of adjustment to its rivals.

The aim of this conceptual paper is to review the current literature on marketing regarding competition, and reflect on the role of competition in modelling marketing actions of a firm. From this, I propose a framework which allows further understanding of the relationship between competitive advantage, market orientation and marketing.

The remainder of the paper is organized as follows. Section 2 reviews the literature on major concepts that have been used to develop the model. Based upon the introduced constructs, Section 3 describes in detail the competitive impact upon marketing. Section 4 presents main conclusions and limitations of the paper. I conclude with a discussion of further research and managerial implications in Section 5 and 6 respectively.

2. Literature review

Competitive advantage and marketing

The central premise of marketing theory is that a firm can only be successful in the marketplace if it has a competitive advantage over its rivals. The concept of competitive advantage has grown over the past three decades. It takes its roots in the works of Alderson (1937) who was arguing that a company should try to create unique characteristic (thanks to decreasing prices, advertising, upgrading product or innovations) which would allow to achieve so called differential advantage. Since then the research in the field has developed substantially and focused on a number of different issues, for instance: on the sources of competitive advantage, its characteristics and sustainability. Consequently, the wide spread in use of the construct, not only within marketing but also in a broader context of management

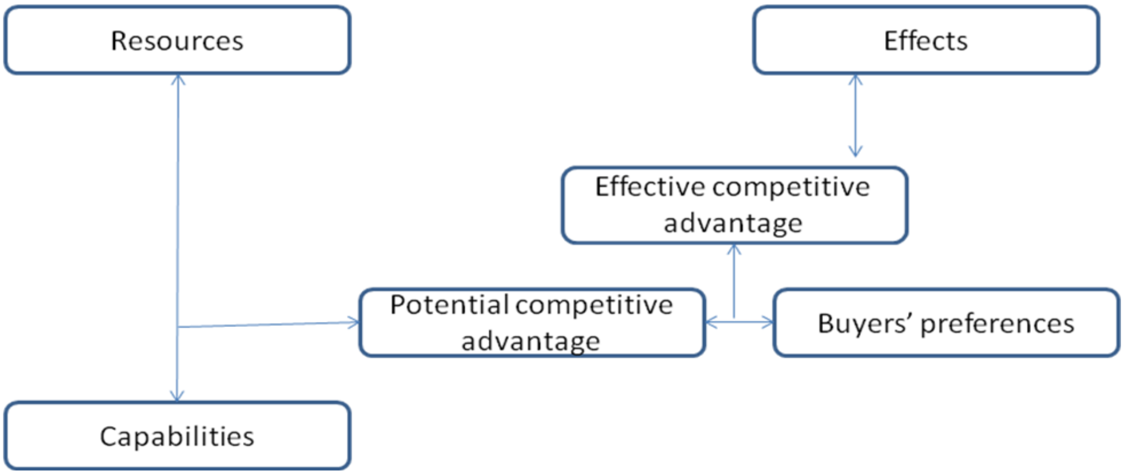
studies and economics, has led to an ambiguous meaning, which makes it almost an unbounded in its range of interpretations. However, it is possible to track two main streams of research on the concept of competitive advantage: industrial organization and resource-based view. Although different in their notions, both approaches to competitive advantage are based on the same premise that marketing possesses potential to help achieve competitive advantage. Hence, competitive advantage is considered as a desired state of a company that can be achieved through marketing due to market research, which allows to identify buyers' preferences, and marketing-mix, which serves as a mean to influence buyers' behaviour.
Within the industrial organization view competitive advantage is interpreted in the context of the environment and its influence on a firm (Hall 1980, Henderson 1983, Day and Wensley 1988, Christensen 2001). The environment is treated as given and competitive advantage is seen as a result of monopolisation of certain phenomena, e.g. economy of scope or economy of scale, or cost leadership or differentiation, as it was defined by Porter (1985).

The second main stream of research, which is a resource-based view, also tries to answer the question concerning the sources of competitive advantage and more precisely what configuration of resources and capabilities allows to achieve and sustain it (Dierickx and Cool 1989, Prahalad and Hamel 1990, Barney 1991, Peteraf 1993, Hall 1993, Oliver 1997, D'Aveni and Gunther 1994, Amit and Schoemaker 1993).

It has to be noted here that researchers for a long time paid their attention mainly to the likely sources of competitive advantage and were not trying to explain its essence. Thus, a clear definition of the concept is needed. Competitive advantage is understood here as a firm's state which allows it to gain a better relation of the outcomes to the costs of market operation the company had to cover, as compared to competitors' state. The competitive advantage is created on the basis of resources and capabilities the company possesses. The construct of competitive advantage is of a complex character and can be disaggregated into a potential competitive advantage and an effective competitive advantage (see Figure 1).

The potential competitive advantage becomes an effective one only if the buyers verify positively the company's offer. That is to say, it is not enough to have more resources and capabilities to achieve the competitive advantage. The buyers have to favour them over other offers available on the market.

Figure 1. Potential and effective competitive advantage



Source: W. Wrzosek, *Funkcjonowanie rynku*, PWE, Warszawa 2002, p. 360

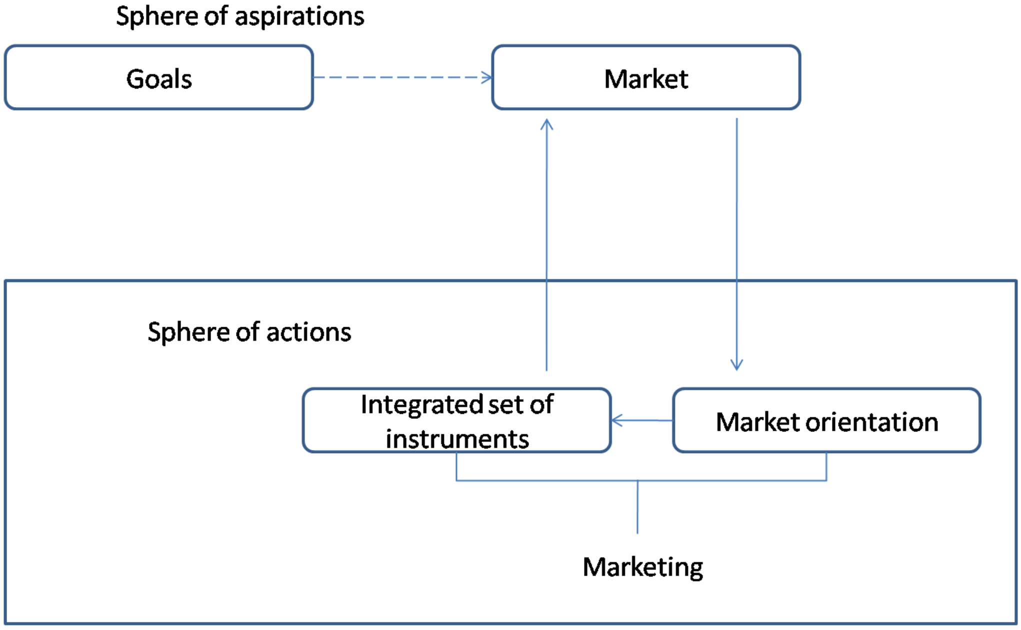
Market orientation

Market orientation has been a subject of much research in contemporary marketing. As a term it has grown within the context of marketing concept and it is treated here as its element. An agreed upon its definition has yet to emerge in the literature, however there is a group of seminal works that scheduled the discussion for years. The major players taking part in it, i.e. Kohli and Jaworski and Narver and Slater have proposed different explanations for market orientation, however both pairs tried to explain how the organizational climate shapes market orientation. Kohli and Jaworski (1990) and Jaworski and Kohli (1993) introduced a conceptual framework of organizational antecedents and consequences of a market orientation and also developed a first market orientation scale (Kohli, Jaworski, Kumar 1993). They proposed a three-element construct. The first was market intelligence gathering, the second – intelligence dissemination within a firm, and the third was the firm's responsiveness to market intelligence, which included marketing-mix design adjusted to the market characteristic.

According to Narver and Slater (1990), market orientation also consists of three components but these are in turn: customer orientation, competitor orientation, and interfunctional coordination. The basic notion underlying this interpretation is that customer-related activities are the manifestation of organizational beliefs and culture. From the time the two mentioned-above concepts were introduced, the behavioural versus cultural perspective have been established in the literature. There have been efforts to develop and also integrate the perspectives into one concept (Mavondo et al. 2005).

Within this paper market orientation is treated as a part of the marketing concept and as a construct that refers to the firm's attention which is focused on the strongest market limitations (Krzyżanowska 2005). It encompasses two of Narver and Slater (1990) subdimensions, i.e. customer orientation and competitor orientation, which are here termed as suborientations. According to this view market orientation is a part of the process of goals attaining (see Figure 2.).

Figure 2. Market orientation within the context of market, goals and marketing-mix

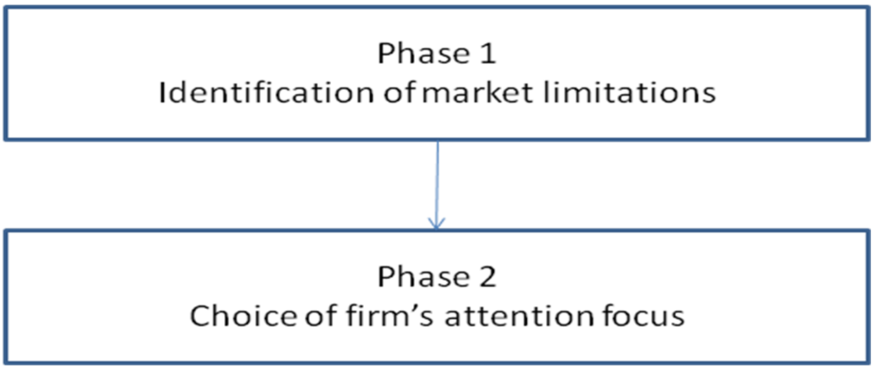


Source: own

The goals are not fulfilled by means of the market orientation but thanks to the set of marketing instruments. First, market information is gathered and analyzed (see Figure 3) and then marketing-mix is designed and implemented.

Thus by giving directions to the marketing-mix market orientation serves as a basis for the selection of an effective way in influencing the market. Implementing marketing requires that market orientation has been developed and marketing-mix has been designed on the basis of it.

Figure 3. The development of market orientation



Source: own

Marketing-mix

Marketing theorists have long studied the relationship between the competitive environment and separate marketing instruments. The research traces its origins in the economic analysis of advertising begun by Marshall and then continued by Chamberlin (Bagwell, 2005). In fact the interdependencies between competition, advertising and prices have drawn a lot researchers' attention. There are two main views of the relations depending on how the function of advertising is understood. The first one treats advertising function as persuasive. According to it advertising makes demand more inelastic which results in higher prices. The second view is that advertising is informative. Thanks to it buyers are informed better what results in fostering competition and may lead to the decrease of prices. These classical streams of research are focused on the mechanism of advertising influence on price elasticity of demand (Huber et al. 1986). In fact they try to answer when competitive context causes growth/drop of price elasticity of demand. This kind of research is continued by attempts to explain the influence of: the existence of substitutes on demand elasticity (Parker 1992a, Parker 1992b), the order of market entrance on price and advertising elasticity of demand (Parker and Gatignon 1996), capital structure on advertising competition (Grullon et al. 2006). Another stream of research on the relation between competition and marketing touches on the problems of market position and its influence on price (Roy et al. 1994), on product assortment (Shankar 2006) and also a new entrant impact on pioneers' marketing-mix response (Shankar 1997) within the context of multimarket contact (Shankar 1999). There is also research on the impact of buyers' ability to value the quality of competitive offers on the effectiveness of a marketing-mix composition (Parker 1995). Additionally, researchers tried to explain the relation between the product life cycle within the competitive context and changes of the marketing-mix effectiveness.

Only recently a new research attempt to change focus from the description of current competitive situation to its prediction has appeared (Ailwadi et al. 2001, 2005). On the basis of the literature review it may be stated that there are noteworthy consequences of interdependencies of marketing-mix instruments. However, recent conceptual and empirical analyses suggest that there is a substantial number of veins of research and approaches that need an integration within one general framework to help further our marketing knowledge on the relation between the competitive environment and marketing.

Competition representations

The topic of managers' perception of competition has received a lot of researchers' attention. It has its roots in psychological research on cognitive processes. In management studies they have been adopted in the inquiry of how decision makers frame competitive environments and understand the nature of competitive threats (Porac and Thomas 1990). The focus of the research was primarily on the structure of the mental models and then on the process of competitive identification. The basic notion behind this was that discovering how managers perceive competition will allow to predict their decisions. An important part of the research was constituted by the problem who is treated as a competitor and only then how they are analysed. In general, there are three major trends discernible within the literature. First is focused on the nature of the perception and shows that by grouping competitors into few categories managers simplify their competitive environment and feel better able to predict the likely activities of rivals (Chernatony et al. 1993). The second trend is focused on the differentiation of perception and divides into two streams (Hodgkinson 2002):

- inter-organizational level of analysis - arguing that through different social processes mannagers' mental representations of competition become highly unified;
- intra and inter-organizational level of analysis – stating that differences in individual mental representations lead to significant consequences on the level of strategy formulation and implementation.

The third trend tries to trace the consequences of different ways of competitive environment scanning but has not received as much researchers' attention as previous ones.

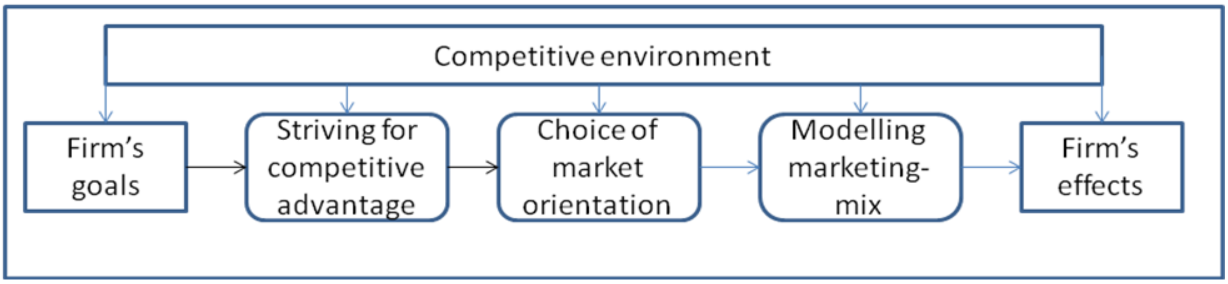
Among consequences two important phenomena have been explored: different perceptions of competition and their influence on competitive advantage identification (Reger and Palmer 1996) and similarities between managers' and buyers' perception of competition (Chernatony et al. 1993).

Drawing on the research into the perception of competition, I argue that to-date-approaches have not explored the impact the differences in managers' mental models of the competitive environment have on marketing, and therefore it is necessary to include this phenomenon into the framework.

3. A framework of the competition influence on marketing

On the basis of my review of literature, I have developed a framework of competitive environment impact on a firm's marketing. It is based on following major concepts: the competitive advantage, the market orientation, the marketing-mix, the competition representations that managers have. I also introduce my own interpretation of competitive environment and its components. In Figure 4 the competitive context of marketing decisions of a firm is presented.

Figure 4. Competitive context of marketing decisions of a firm



Source: own

A firm striving after its goals and having no exclusive control over a market (i.e. one operating in a non-monopolistic market) faces **competitive environment** that impacts upon the firm's market behaviour decisions. The decisions within a firm are made on the basis of the **managers' perception of the competition**. Having evaluated the relative strength of competitors, the firm starts to strive for the **competitive advantage**. The competitive advantage is reached by means of orientation that the firm develops. If **market orientation** is developed, it is followed by implementation of marketing instruments. The levels of **marketing-mix** variables are set, so that the effects required by the firm could be achieved at the highest level of efficiency, i.e. the ratio of marketing outcomes to marketing costs is the highest. If the firm achieves the competitive advantage, it tries to sustain it. If the firm is unsuccessful in achieving the competitive advantage, it starts to look for other ways of market behaviour that can help succeed.

The **competitive environment** constitutes a secondary (while buyers a primary) point of reference for a firm operating in a marketplace. The conflict between the firm and its rivals is a source of competition and it constrains the competitors to consider a set of competitive strategies available to each of them. The choice is not an independent variable but determined by several factors that are out of the firm's control. They can be divided into two categories: *persistent limitations* and *liable limitations*. The first kind of limitations are of relatively stable character, i.e. change (if ever) in a long term. They derive in the first place from market structure which shapes the form of competition (polipolistic, monopolistic, oligopolistic) (Wrzosek 2002), i.e. the rivalry characteristics coming from the number of market players and their relative market positions. The limitations define the degree to which the firm is able to control the market and to what extent it is influenced by its rivals. Therefore the limitations, amongst other factors, delineate the firm's motivation to implement marketing. The more control a company has the more motivated to apply marketing it is since it may initiate effective market actions.

The *liable limitations* appear as a result of behavioural factors that embrace firms' *competitive force*. *Competitive force* is a firm's capability of attracting buyers and their demand for products at the expense of competitors[1]. It is based on the firm's skill of effective influence on rivals' way of market behaviour and resistance to their actions. The liable limitations may change in a short term as they are less connected with the market structure as compared to persistent ones.

To achieve its goals a company has to select a way of market behaviour that allows to attain the required results. Clearly, a rationally managed firm strives not only for achievement of the goals but also for the best ratio of the outcomes to the costs. It means that the choice of market behaviour is made with reference to efficiency. Consequently, the firm's anxiety to competitive advantage appears within the context of goals and market opportunities (see Figure 5).

[1] It is worth to be noted that creating new demand is not recognized as a result of competitive force here.

Figure 5. The context of competitive advantage

Source: own

The fundamental reason for the competitive advantage aspiration is the competitors' impact upon effects gained by the firm. If the rivals are effective in using existing opportunities, they neutralize the firm's actions and this results in smaller effects for the firm in comparison with the situation of a firm which is not attacked by its rivals. To secure the growth of results the firm faces an alternative of increasing its outlays or striving for the competitive advantage. This allows the company to achieve extra benefits which are not available to competitors, and due to it the company accomplishes a higher level of efficiency. In other words, a company wants to achieve a competitive advantage because it helps gain a higher level of efficiency.

As mentioned above, creating a competitive advantage is a process determined by the market structure. It is mainly conditioned by the size of **demand** and its growth rate. Taking into account stability of the size and the degree of demand differentiation we can identify two separate kinds of market structure: a *stable demand* and *unstable demand*. If the demand is stable it allows the firm acquainting itself with the needs of buyers and adjusting its strategies (which may lead to the competitive advantage). If the demand is, or becomes unstable, a firm is forced to implement constantly new strategies, what may worsen the relation between outcomes and outlays and therefore impede the competitive advantage.

A secondary important factor in creating a competitive advantage is a **competitive force** possessed by a firm in relation to its rivals. It is composed of three factors: *a market position of the firm*, *resources* the company has, and *competitive capabilities*. First of all it is related to the market share a firm enjoys. If it the share is substantial the company is more powerful in market relations[2]. Next, it is necessary to have resources that are valuable, rare, difficult to imitate and effectively used (Barney 1991), so that a company can create competitive advantage. The competitive capabilities embrace: skills of identification and

[2] E.g. economy of scale and economy of scope.

choice of effective instruments to influence the buyers, ability to anticipate rival's actions and to disguise them and elasticity of reaction to competitors.

The firm is able to create a competitive advantage if it has a bigger competitive force at its disposal. In other words, it is not enough for a company to have a big competitive force, it has to surmount the rivals' one. Since no matter how big competitive forces are (in absolute numbers), if they are equalized, no company is able to dominate others (i.e. be effective in its competitive actions or reactions). Only asymmetry of competitive forces renders the competitive advantage possible. If it is achieved, the intensity of competition, which shows firms' interdependence of decisions and actions, lowers due to the fact that a firm enjoying the position of competitive advantage frees itself from the effects of competitors existence (at least in the short run).

Symmetry of big competitive forces in the marketplace results in high level of the intensity of competition, as e.g. in oligopoly. It means that competing companies are eager and able to operate in the marketplace with relative ease, but on the other hand, they are subjects to the competitors having the same strength. A natural trend towards augmentation of the competitive force possessed by a firm appears. It may be achieved in two ways. The first one is of a structural character and consists in consolidation or mergers of firms or joining together in cartels thanks to which participating companies enjoy synergies which are not attainable separately. The structural changes of market may take shape of horizontal or vertical integration that are fostered by a firm striving for competitive advantage.

The second way of competitive force enlargement refers to instrumental aspects of market operation and lies in the changes of instruments that are used to influence market agents (buyers and competitors) which means it is connected with marketing.

The two above-mentioned ways may be complementary but not necessarily have to be used together. For some companies one of the ways may be enough to augment its competitive force. It means that in certain market circumstances marketing may be substituted by other market behaviours.

A company's motivation to develop **market orientation** and implement **marketing** is a result of three factors: initiating, directing, and maintaining one. The *initiating factor* consists in the identification of barriers that do not allow a company to achieve its goals without systematic market research and without the use of integrated set of instruments. The *directing factor* lies in the character of market limitations. If demand limitations dominate, a company is led towards customer suborientation, if competitors are strong, the company is guided toward competitive suborientation. Supposing both kinds of limitations are strong, the company is motivated to develop a full market orientation. The *maintaining factor* is connected with the evaluation of marketing's contribution to the firm's efficiency. If marketing is appraised positively, the motivation is preserved. If the evaluation is negative, the motivation to develop marketing weakens.

Marketing is a combination of market orientation and a set of integrated instruments that peculiarly configures resources and capabilities of a firm. It is particularly attractive for companies possessing a competitive force larger than its rivals. For companies that have small competitive power implementing marketing may entail expenses that not only will not bring required results but also deepen the weaknesses sourcing from their competitive situation.

The view adopted here is that marketing is not without alternatives. That is to say, companies striving for competitive advantage do not necessarily have to apply marketing because it does not always ensure the highest level of efficiency (as e.g. in the case of companies possessing small competitive force). Some companies may mature to start implementing marketing after they use other way of attaining competitive advantage, others may quit marketing, if it is found inefficient.

Numerous marketing studies state that marketing-mix is a set of instruments including: product, price, place and promotion. Modelling the structure of this set is conditioned by three factors: goals of the company, market environment (within which competition plays a crucial role) and the resources the company possesses (Wrzosek 2005). The choice of the marketing-mix requires that types of instruments are selected and the degree of the intensity of their involvement is assigned. A rational company allocates its resources across marketing-mix instruments so that the highest possible level of efficiency is achieved.

The main circumstance of the marketing-mix application is the effect of synergy which can be achieved thanks to the integrated use of the instruments as compared to the use of single instruments. A company intending to implement marketing faces alternative compositions of marketing-mix. A primary point of reference taken into account when marketing-mix is designed is a behaviour of buyers and their required reaction which is measured by the elasticity of demand. The elasticity of demand affects whether a given marketing-mix composition will succeed. If the demand is highly elastic, it is likely that the composition will lead to the desired outcome. Next, if the demand is inelastic, the company has to allocate substantial resources on marketing-mix or the performance is not significant.

A basic premise of marketing-mix composition is that there are three kinds of phenomena that tie the instruments. The first one concerns the mutual impact of the instruments that can take a shape of (Logman and Pauwels, 1998):

- marketing-mix interaction effects - the firm's decision level for one marketing- mix instrument affects sensitivity of buyers to changes of the firm's decision level for another instrument (e.g. the impact of promotion expenditures on demand to price changes),
- marketing-mix interdependencies – there is a causal or non-causal relationship between a firm's decision levels for different marketing-mix instruments (e.g. promotion expenditures affect the price charged by the firm).

The second phenomenon is the degree of a mutual substitutability of the instruments. To some extent marketing instruments are substitutes for each other (as e.g sponsoring may replace public relations) but some of them are only complements (as e.g product and place).

The third phenomenon is the extent of obligation to use them when implementing marketing. There are obligatory instruments (product, price and place) without which a company cannot place its offer on the market, and one non-obligatory instrument (promotion).

Above-mentioned relations amongst instruments illustrate that designing their composition is a complex process mainly oriented towards potential buyers who verify the attractiveness of the offer. Because the buyers also meet competitive offers, the verification is made against the background of these alternative ways of satisfying the needs. Therefore it is likely that companies adjust their marketing-mix not only to buyers but also to their competitors. Taking this fact into account leads to the conclusion that a company may (but not necessarily has to) align its marketing-mix precisely with the competitive environment. It is my argument that the competitors' influence on the firm is a two-phase process of:

- perception of the competitive environment,
- verification of actions taken against competitors.

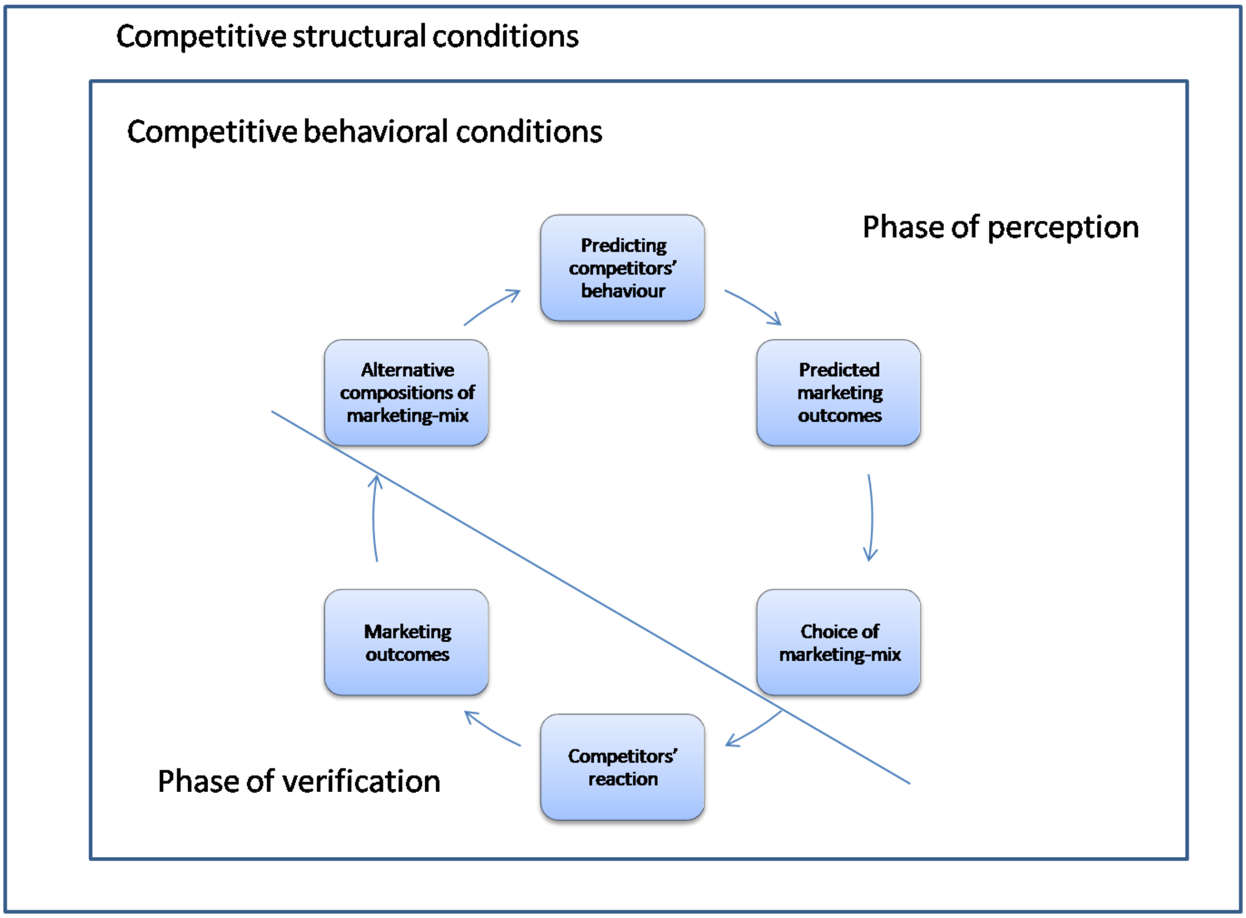
Figure 6 identifies the phases in detail.

The first phase embraces the firm's perception of the competitive environment and its influence on the design of marketing-mix. It is mainly revealed in the allocation of marketing-mix resources which are made on the basis of the anticipation of competitors activity.

The second phase comprehends all the phenomena that result from the competitors reaction to the firm's actions among which the firm's adjustment is the most important one. In this phase the competitors' influence is reflected mainly in the firm's performance, since competitors reactions to the firm's marketing-mix may weaken its force.

The process of marketing-mix design begins from an analysis of alternative compositions of the instruments with the primary regard buyers. The utility of each composition is measured by its effectiveness in the process of goals' fulfilment and its efficiency.

Figure 6. Competitive conditions of marketing-mix



Source: own

I have already argued that competitors are the secondary point of reference for a firm when the marketing-mix allocation decisions are made but the issue that now must be addressed is that companies may take into account the competitive environment to a different degree. It can take at least three forms (Montgomery et a. 2005). First, in some companies managers study their competitors in a manner that results in a description of the current situation (e.g. competitors' prices and promotion activities). Second, managers explore deeply rivals' actions in the past. Third, managers try to foresee competitive response in the future, i.e. how competitors will react. The company's involvement in the prediction of competitive response depends on several factors among which managers' perception of competition and competitive conduct play the most important role.

Managers use mental models of markets to simplify and impose order on complex competitive environments (Day and Nedungadi, 1994). The response of the firms depends fundamentally on how the managers perceive the environment. Since that managerial perception may vary considerably between firms operating within the same environment, the effectiveness of marketing can depend crucially on these managerial perceptions. Some of them may be more realistic and help firms achieve their goals, some other misleading the company. That is to say, managerial decision making is seen as largely subjective, being dependent on the mental models.

With reference to game theory the competitive interaction may be classified as taking three forms (Putsis and Dhar 1998):

- independent behaviour – when each company takes its rival action as given and acts to maximize its own profits,
- leader-follower behaviour – when one firm acts as the leader, who does not react to its rivals actions, while its rival follows changes in market behaviour introduced by the leader,
- collusive behaviour – when firms act to maximize joint profits.

If a company is a leader, the managerial perception of competition within this organization does not bring any consequences for marketing-mix design since the presumed influence of competitors is ignored. In two other situations the competitive environment may have its impact on marketing because companies tend to adjust to the rivals. In extreme form it may lead to collusion which means that competition becomes replaced by cooperation.

Predicting competitive response based on the (more or less relevant) managerial perception of the environment and the competitive conduct provides a background for setting the goals. The key element of this calculation is the presumed reaction of competitors as a factor decreasing firm's effectiveness due to demand becoming inelastic.

Once managers perceived the competitive environment they move on to the selection and implementation of the marketing-mix. The company confronts with the reality when the instruments are applied. They may bring either no reaction from the rivals or a response. Conceptually, the competitors may respond in two ways: decrease or increase their marketing activities (and clearly expenditures connected with them).

It has to be noted that regardless the direction of changes in competitors' behaviour, they may be consistent with the anticipation made before or not. If a company was mistaken in its calculations, next time it is likely to modify its behaviour in a different way, provided the rivals' reaction badly affected the company's results. In other words, the competitors reactions matter as long as they are accepted by buyers who change their behaviour under this influence.

4. Conclusions and limitations

The paper provides a summary of the development of key constructs within the domain of marketing-competition relationship, i.e. competitive advantage and market orientation. It also reports the main streams of empirical research of the competitive impact upon marketing mix and managerial representations of competition. Such a scope of the phenomena in question provides a broader view of the competitive context of marketing implementation. The arguments here contradict previous notions of marketing as having no alternatives in the process of competitive advantage creation. Until recently, it was generally believed that competitive environment always fosters the use of marketing by all the players. Clearly it is not the case. If there is a strong asymmetry of competitive forces of the market players, the ones that are weaker may try to reinforce themselves by means of integration which does not necessarily have to do with any marketing aspects. Marketing appears to play a significant role when market structure does not prevent the firm from competitive advantage or/and secures a substantial influence on the market. Further, an investigation of prior research into marketing-mix determinants and managerial representations of competition reveals that the existent works provide little explanation of how the subjectivity of managers' perception of competition influences the design of marketing-mix.

This paper extends prior research attempts to demonstrate the influence of the competitive environment on marketing by consolidating competitive advantage and market orientation within one framework. Apart from the broader context of market orientation development, it also introduces the problem of the limited cognition capabilities of managers within the process of decision making. By doing so, I try to incorporate the arguments of bounded rationality theories. In addition, I introduce my own interpretation of a competitive force treated here as one of the sources of the competitive advantage. This allows to identify market situations which do not foster marketing activities of market players. Furthermore, I differentiated the phase of perception from the phase of verification within the process of marketing-mix design. It may serve as a basis of explanation why competing companies react differently to rivals' moves.

However, the presented framework has several limitations that are common to other works aiming at integration of different constructs and streams of research. First, I could not include all the aspects of the involved constructs and their determinants, which inevitably led to a simplification of the relations. One of them is the impact of other environmental factors, as e.g. the state of economy and legal regulations having key role in shaping the state of competition. Second, I could not refer to all interpretations of the constructs used within the framework which can be found in the marketing literature. Therefore my framework is only an initial step to frame the discussion. Third, the discussion of alternative to marketing ways of operation have been limited mostly to integration activities which do not reflect all the possibilities companies have. Regardless, the framework may serve as a basis for reflection for managers attempting to understand their rival's behaviour and their own market situation. It can also encourage researchers to explore the under-researched problems.

5. Research implications

Due to integration of various constructs within one framework, this paper has opened up a new research field. However, there are still some phenomena and relationships which have not been integrated, thus suggesting directions for further research.

First, the framework presented here has been focused on the impact of the competitive environment on marketing but not on the factors moderating competition. Thus, further research should at least include the legal climate and the general economic situation as key factors influencing competition. Examining the modifying competition role of business cycles might help further understand the processes that mediate the competition-marketing relation.

Second, the product life cycle is associated with changes in the competitive situation, thus impacting the marketing decisions of the market players. Therefore, the product life cycle represents an important subject for further research within the proposed framework.

Third, researchers must identify how factors of competitive force interact and to what extent they can substitute each other in the process of competitive advantage attainment. Thus, the extent of marketing activity (being a part of competitive capabilities) to which it is a sufficient substitute of the share of market as a competitive force component seems to be a fruitful area of further research.

Fourth, the arguments presented in the discussion of the alternative to marketing ways of market conduct pointed mainly to integration activities. To provide further insights into this area, an empirical study of the alternatives to marketing and the sequence of their implementation would be useful.

6. Managerial implications

Managers are constantly trying to answer three questions concerning the competitive context of marketing decisions. First, what is their company's competitive position and how it should influence their marketing decisions? Second, how can they achieve the competitive advantage? Third, how to design an effective marketing-mix composition? The framework presented in the paper provides insights into each topic.

The framework underlines the importance of the size of the competitive force a company possesses compared to its rivals, when striving for a competitive advantage. In particular, it draws attention to the fact that motivation to implement marketing may change depending on the size of competitive force the company has. That is, managers do not necessarily have to allocate more resources on marketing activities when their competitive force is smaller because they need activities which will augment their competitive force more substantially, as e.g. vertical integration can ensure. This contradicts a common opinion that fierce competition always requires more marketing activities.

Overall, the framework demonstrates that marketing decisions are made by managers who subjectively perceive the environment in which they operate. Though this is not an original observation, the framework helps managers realize that the representations of competition may vary from one market player to another and therefore it is crucial to discover rivals' perception to anticipate their marketing moves, and thus create an effective composition of marketing-mix. (On the other hand, by realizing the necessity of the anticipation of competitors' actions, managers may understand the importance of signalling aimed at rivals.) This is noteworthy because a normative literature, in which managers are mostly interested, stresses the need to identify the competitive conditions but does not draw attention to the fact that managers have a tendency to simplify what they perceive. A deeper understanding of the perception mechanism may prevent managers from making mistakes.

Bibliography

Ailawadi K. L., P. K. Kopalle, S. A. Neslin, Predicting competitive response to a major policy change: combining game-theoretic and empirical analyses, “Marketing Science”, No. 1, 2005, p. 12-24

Alderson W., A Marketing View of Competition, “Journal of Marketing”, January 1937, nr 1, p. 189-190

Amit R., Schoemaker P.J.H., Strategic Assets and Organizational Rent, “Strategic Management Journal”, 1993, t. 14, nr 1, pp. 33-46.

Bagwell K., The economic analysis of advertising, August 2005, working paper

Barney J., Firm Resources and Sustained Competitive Advantage, “Journal of Management”, 1991, t. 17, nr 1, pp. 99-120.

Bowman D., H. Gatignon, The impact of competitive context on the allocation of marketing mix resources, June 1998, working paper

Christensen C.M., The Past and Future of Competitive Advantage, “MIT Sloan Management Review”, Winter, 2001

D’Aveni R.A., Gunther R., Hypercompetition. Managing the dynamics of strategic maneuvering, 1994, The Free Press, New York

Day G.S., Wensley R., Assessing Advantage: A Framework for Diagnosing Competitive Superiority, “Journal of Marketing”, Vol. 52, April 1988

Dierickx I., Cool K., Asset Stock Accumulation and Sustainability of Competitive Advantage, “Management Science”, Dec. 1989, pp. 1504-1511.

Efektywność marketingu, ed. W. Wrzosek, PWE, Warszawa 2002

Garbarski L., I. Rutkowski, W. Wrzosek, Marketing. Punkt zwrotny nowoczesnej firmy, PWE, Warszawa 2000

Gatignon H., Competition as a moderator of the effect of advertising on sales, “Journal of Marketing Research”, November 1984, pp. 387-398

Gruca T. S., D. Sudharshan, K.R. Kumar, Marketing mix response to entry in segmented markets, “ International Journal of Research in Marketing”, No. 18, 2001, pp. 53-66

Grullon G., G. Kanatas, P. Kumar, The impact of capital structure on advertising competition; an empirical study, “Journal of Business”, No. 6, 2006, pp. 3101-3124

Hall R., A Framework Linking Intangible Resources and Capabilities to Sustainable Competitive Advantage, “Strategic Management Journal”, 1993, t. 14, pp. 607-618.

Hall W.K., Survival strategies in a hostile environment, “Harvard Business Review”, September-October 1980, pp. 75-85.

Hodgkinson G.P., Johnson, G., Exploring the Mental Models of Competitive Strategists: The Case for a Processual Approach, “Journal of Management Studies”, 1994, Vol. 31, No. 4, pp. 525-551.

Huber J., M.B. Holbrook, B. Kahn, Effects of competitive context and of additional information on price sensitivity, “Journal of Marketing Research”, August 1986, pp. 250-260

K. L. Ailawadi, D. R. Lehmann, S. A. Neslin, Market response to a major policy change in the marketing mix: learning from Procter & Gamble’s Value Pricing Strategy, “Journal of Marketing”, January 2001, pp. 44-61

Kohli A.K., B.J. Jaworski, A. Kumar, MARKOR: A Measure of Market Orientation, „Journal of Market Orientation", November 1993, Vol. XXX, , pp. 467-477.
Kohli A.K., B.J. Jaworski, Market Orientation: The Construct, Research Propositions, and Managerial Implications, „Journal of Marketing", April 1990, Vol. 54, pp. 1-18.
Krzyżanowska, M., Marketing a inne sposoby budowania przewagi konkurencyjnej, „Marketing i Rynek", No. 1, 2009, pp. 2-8
Lado N., A. Maydaeu-Olivares, J. Rivera, Measuring market orientations in several populations, „European Journal of Marketing" , 1998, Vol. 32, No. 9/10, pp. 884-903.
Logman M., W. Pauwels, Analysis of marketing mix interaction effects and interdependencies: a normative approach, "Managerial and Decision Economics", Vol.19, 1998, pp. 343-353
Manchanda P., P.E. Rossi, P. K. Chintagunta, Response modelling with non-random marketing-mix variables, "Journal of Marketing Research", November 2004, pp. 467-478.
Maule, A.J., Hodgkinson, G.P., Re-appraising Managers' Perceptual Errors: A Behavioural Decision-Making Perspective, "British Journal of Management", 2003, Vol. 14, pp. 33-37;
Mavondo, F.T., Chimhanzi, J., Stewart, J. Learning orientation and market orientation: Relationship with innovation, human resource practices and performance. "European Journal of Marketing", 2005, Vol. 39, pp.1235-1266
Mitchell, R.K., Busenitz, L., Lant, T., McDougall, P.P., Morse, E.A., Smith, J.B., The Distinctive and Inclusive Domain of Entrepreneurial Cognition Research, "Entrepreneurship Theory and Practice", Winter 2004, pp. 505-518;
Moorthy K.S., Using Game Theory to Model Competition, "Journal of Marketing Research", August 1985, pp. 262-282
Narver J. C., S. F. Slater, The Effect of a Market Orientation on Business Profitability, „Journal of Marketing", October 1990, Vol. 54, No. 4, pp. 20-35.
Oliver Ch., Sustainable Competitive Advantage: Combining Institutional and Resource-Based Views, "Strategic Management Journal", 1997, t. 13, nr 9, pp. 697-713.
Parker Ph. M., Pricing strategies in markets with dynamic elasticities, "Marketing Letters", No. 3, 1992a, pp. 227-237
Parker Ph. M., "Sweet lemons":illusory quality, self-deceivers, advertising, and price, "Journal of Marketing Research", August 1995, pp. 291-307
Parker Ph. M., H. Gatignon Order of entry, trial diffusion, and elasticity dynamics: an empirical case, "Marketing Letters", No. 1, 1996, pp. 95-109
Parker Ph. M., Price elasticity dynamics over the adoption life cycle, "Journal of Marketing Research", August 1992b, pp. 358-367;
Parker Ph. M., Price elasticity dynamics over the product life cycle: a study of consumer durables, "Marketing Letters", No. 2, 1997, pp. 205-216.
Peteraf M.A., The Cornerstones of Competitive Advantage: A Resource-Based View, Strategic Management Journal, 1993, t. 14, pp. 179-191.
Porac J.F., Thomas, H., Taxonomic Mental Models in Competitor Definition, "Academy of Management Review", 1990, Vol. 15, No. 2, pp. 224-240;
Porter M.E, Competitive Advantage, The Free Press, New York 1985
Prahalad C.K., Hamel G., The core competence of the corporation, "Harvard Business

Review", May-June 1990, pp. 79-91.
Putsis W. P., Jr, R. Dhar, The many faces of competition, „Marketing Letters", No. 3, 1998, pp. 269-284
Reger R.K., Palmer, T.B., Managerial Categorization of Competitors: Using Old Maps to Navigate New Environments, "Organization Science", January-February 1996, Vol. 7, No. 1, pp. 22-39.
Roy A., D. M. Hanssens, J. S. Raju, Competitive pricing by a price leader, "Management Science", No 7, 1994, pp. 809-823
Shankar V., Pioneers' marketing mix reactions to entry in different competitive game structures: theoretical analysis and empirical illustration, "Marketing Science", No. 3, 1997, pp. 271-293
Shankar V., New product introduction and incumbent response strategies: their interrelationship and the role of multimarket contact, "Journal of Marketing Research", August 1999, pp. 327-344
Shankar V., Proactive and reactive product line strategies: asymmetries between market leaders and followers, "Management Science", No 2, 2006, pp. 276-292
Shankar V., R. N. Bolton, An empirical analysis of determinants of retailer pricing strategy, "Marketing Science", No. 1, 2004, pp. 28-49
Siguaw J. A., A. Diamantopoulos, Measuring market orientation: some evidence on Narver and Slater's three-component scale, „Journal of Strategic Marketing", 1995, Vol. 3, pp. 77-88.
Wrzosek W., Funkcjonowanie rynku, PWE, Warszawa 2002