Defensive and Offensive Strategies for Market Success

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Abstract

In industries in which there is strategic interaction among competing firms, companies are continuously involved in defensive and offensive strategies. In this paper we discuss several defensive and offensive strategies that managers can you for market success. Defensive strategies are divided into pre-entry and post-entry stretegies. Marketing managers should attempt to discourage would be entrants before entry has occurred. They can achieve this goal by engaging in pre-entry startegies. After entry is occurred it is more difficult to persuade new entrants to exit the industry. For this reason, marketing managers should use different defensive strategies for defending their positions in pre-entry and post-entry situations.

Key words: Defensive strategies, offensive strategies, pre-entry strategies, post-entry strategies

1. Introduction

Competition forces companies to constantly engage in offensive and defensive marketing strategies. Rivalry occurs because one or more competitors either feels the pressure or sees an opportunity to enter an industry or to improve its position within an industry. In most cases, competitive moves by one firm have noticeable effects on its competitors and, thus, may invite retaliation or efforts to counter the move (Porter 1980). Companies respond to competitor challenges by counterattacking with increasing advertising expenditures, cutting prices, increasing innovation, and introducing new products, or even accommodating the entrant by doing nothing or decreasing the level of marketing effort (Karakaya and Yannopoulos, 2011; Scherer, 1980).

Firms grow by taking market share from rivals or creating new markets. Incumbents need to be prepared for attacks by existing firms seeking to expand their business and new entrants. The incumbents' objective is to defend their market share and strengthen their position by making it harder for companies to enter or for existing firms to challenge them. Incumbent firms may also attack in an attempt to enter a new market, reposition themselves, or improve their market position. Markets are dynamic arenas where firms try to expand into their industries or reposition themselves in other segments within the industry. As firms attempt to improve their position, they engage in competitive battles and adopt offensive strategies. Successful use of offensive strategies can help a firm improve its competitive position, gain market share, and increase profits. In this paper we discuss both defensive and offensive marketing strategies. We, first, discuss the pre-entry and post-entry defensive marketing strategies, and, then, a number of offensive marketing strategies.

2.0 Defensive Strategies

Because of ongoing rivalry, established firms need to engage in defensive strategies to fend off the various challengers. The primary purpose of defensive strategy is to make a possible attack unattractive and discourage potential challengers from attacking another firm. Incumbents try to shape the challenger's expectations about the industry's profitability and convince them that the return on their investment will be so low that it does not warrant making an investment in that industry. Defensive strategies work better when they take place before the challenger makes an investment in the industry, or if they enter the industry before exit barriers are raised, making it difficult for the challenger to leave the industry. For this reason, an incumbent needs to take timely action to discourage a challenger from making any substantial commitment, because once the commitment is made, it is more difficult to dissuade the challenger from following through with the attack especially if exit barriers are high. If an attack has already begun, a defending firm may attempt to lower its intensity and potential for harm, by directing the attack to areas where the firm is less vulnerable, or in areas which are less desirable to the attacker (Porter, 1985). Or they should initiate actions designed to make the entrant's life difficult after entry has occurred. This may convince the entrant that its calculations were too optimistic and its early experience in the industry is so negative that it does not warrant continuing the entry effort.

Over the years, marketing managers and business strategists have developed a number of defensive marketing strategies to defend their position and maintain their sales and profitability. There are two types of defensive marketing strategies. Pre-entry strategies are actions taken by incumbents before they are attacked by challengers. Defensive marketing strategies may also take the form of post-entry actions that are initiated after the challenger has entered the market (see Table 1).

2.1 Pre-Entry Defensive Strategies

Pre-entry defensive strategies are actions taken by firms intended to persuade potential entrants to believe that market entry would be difficult or unprofitable. Such actions include signaling, fortify and defend, covering all bases, continuous improvement, and capacity expansion.

Table 1: Defensive Strategies

Defensive Strategies	
Pre-entry strategies	**Post-entry strategies**
▪ Signaling ▪ Fortify and defend ▪ Cover all bases ▪ Continuous improvement ▪ Capacity expansion	▪ Defend position before entrant becomes established ▪ Introduce fighting brands ▪ Engage in cross-parry

2.11 Signaling

Companies often use signaling to announce their intention to take an action. Announcements can be made through interviews with the press, press releases, speeches, trade journals, newspapers, and other means. Such announcements may serve different objectives which are not necessarily mutually exclusive. They could signal commitment to the industry and therefore try to preempt or deter competitors. A defending firm can effectively keep potential entrants out of the industry by using the threat of retaliation. The higher the perceived probability of retaliation and its degree of severity, the lower the probability of attack by a challenger. Firms enhance their reputation for rigorous retaliation by the way they responded to past attacks, which signals their commitment to defend their market share. Other times, companies announce their intention to undersell their competitors. Future Shop, a large chain of consumer electronics in Canada, has publicly stated that it will not be undercut by competitors and that it will meet their prices. Announcements may be used to issue a threat that action will be taken if a competitor makes a certain move. For example, firms can announce that they will match a rival's prices, rebates, credit, or any other terms offered.

2.12 Fortify and Defend

This strategy attempts to build barriers to entry for competitors. The purpose of defensive marketing strategies is to lower the inducement to attack. Firms frequently enter an industry because existing firms earn high profits. The higher the profits earned by incumbent firms, the higher the motivation to enter. Thus, the inducement to attack can be lowered by reducing the profit expectations of the entrant. This can be achieved by raising barriers to entry for new competitors. Erecting barriers usually hinders entry by new competitors because they will have to incur costs not born by existing competitors. The most common barriers to entry include economies of scale, product differentiation, capital requirements, switching costs, experience curve cost reductions, proprietary technology or patents, access to raw materials and other inputs, access to distribution channels, and location (Yannopoulos, 2007). Industries in which there are significant barriers to entry include the automobile, aerospace, and ship-building industries. Because of high barriers, entry is notoriously difficult in these industries.

2.13 Cover All Bases

Covering all bases, also called product proliferation, entails introducing new products to ensure a full product line or to fill gaps in the market. Covering all bases may involve introducing multiple versions of a product in terms of models or product types. Many firms carry full product lines to block access to the industry by new entrants. For example, the leading ready-to-eat cereal companies compete with a full-line, making it very difficult for other companies to enter and threaten their position.

This strategy is also used by chain stores when they rush to expand rapidly and keep competitors out of the market. A firm that floods the market avoids being outflanked by competitors. It is also a way to tie up distribution channels and shelf space. For example, Procter & Gamble, a master practitioner of this strategy, dominates retail shelf space with products such as Ivory Soap, Crest, Tide, Pantene Pro-V and many others. A firm that is trying to cover all bases may face one or more of the following difficulties. First, some firms, especially the small ones, may not have the resources to offer a full product line. Second, product proliferation may cause a firm to spread its resources too thinly, violating the principle of concentration of forces at the decisive point. Covering too many markets and overextending itself, leaves a firm vulnerable to competitor attacks, as it makes for an easy target. Third, this strategy cannot fully protect a company from attacks by other competitors who wish to enter the industry. Even if a firm was able to cover the major segments, it is impossible to cover every possible niche in the market. This allows small companies to enter the market and occupy these niches. These niches, although small and unattractive at the time, often explode into large segments posing a threat to established firms.

A special case of the cover-all-bases strategy is the introduction of a blocking brand. Blocking brands are used by incumbent firms to block access to the market by potential entrants. The firm introduces a brand designed to fill a niche in the market that could be used as a point of entry by a competitor. The intent of introducing a blocking brand often is to protect an existing profitable brand by precluding competitors from entering the market and stealing market share by undercutting the price of the existing product.

2.14 Continuous Improvement

A continuous improvement strategy calls for a relentless pursuit of improvements in costs, product quality, new product development, manufacturing processes, and distribution. The choice of areas to improve depends on the value proposition of the organization. A low cost competitor continuously tries to find ways of decreasing costs through economies of scale, cutting costs and introducing new production methods. A differentiated company looks for ways to maintain its competitive advantage through innovation, quality improvements, and new features among others. The continuous improvement strategy also involves innovation and improvement in the firm’s marketing mix. Product innovation may involve offering superior features or benefits. Price innovation could include offering better sales terms and other incentives. Distribution could become more effective by looking for new channels, making existing channels more effective, and seeking strategic alliances. Promotion can become more effective by improving positioning, execution, using different media, and increasing emphasis on public relations and publicity. The sales promotion function could be examined to see if improvements could be made in the way the firm uses free samples, coupons, bonus packs, frequent buyer programs, and refunds.

Through a continuous improvement strategy, firms try to stay one step ahead of their competitors and help protect their competitive position from hostile challengers. Firms following this strategy are often required to even make their own products obsolete by replacing them with new versions. Intel is a prime example of a company that follows the continuous improvement strategy. Its strategy is to introduce new and more powerful generations of its microprocessors at regular intervals, intended to satisfy the never-ending appetite for increases in processing power for personal and corporate computer users. Each successive version of its microchip makes its existing version obsolete in the span of a few months.

2.15 Capacity Expansion

Manufacturing firms may build excess capacity as an entry deterrent strategy. When a potential entrant realizes that the industry has excess capacity and its own entry will only add to the volume of unutilized industry capacity, it will be reluctant to enter. Capacity expansion is a credible deterrent strategy if capacity costs are very high. Otherwise, if the cost of adding capacity is low or capacity can be utilized for other purposes, it would be relatively easy for rivals to enter.

DuPont used capacity expansion to increase its market share in the titanium dioxide market. In 1970, DuPont had been using ilmenite in the production of titanium dioxide. This proved advantageous since the price of rutile ore, the raw material used primarily by its competitors, sharply increased, giving DuPont a significant cost advantage over its competitors. In order to maximize this cost advantage, DuPont developed a growth strategy of rapidly expanding capacity to satisfy all of the future increases in demand and deter entry or expansion by existing competitors. At the time DuPont adopted this strategy, in 1972, its market share was 30%. By 1985, its market share was over 50% and five of its major rivals had exited the market (Cabral, 2000).

As a defensive strategy, capacity expansion is not as powerful as other entry deterrents such as barriers to entry. In general, a decision to use capacity expansion for entry deterring reasons should take into account the size of barriers to entry. If entry barriers are high, then capacity expansion should not normally be used as a deterrent. On the other hand, if entry barriers are low, incumbents should consider using capacity expansion as an entry-deterring device, taking into account the cost of additional capacity and its reversibility.

2.2 Post-Entry Defensive Strategies

Post-entry defensive strategies are actions taken by firms intended to protect their market position from companies that have already entered the market or incumbents that are threatening to take away market share. Such actions include defending position before competitors become established, introducing fighting brands, and adopting cross-parry strategies, as shown in Table 1.

2.21 Defend Position Before Entrant Becomes Established

When a company enters an existing market its objective usually is to get established first in its chosen market segment, consolidate its position, and then start expanding into other market segments. Upstarts are especially dangerous if they enter the market by breaking the rules of the game with radically new products, or innovations in pricing, distribution, delivery, service, and positioning. New entrants entering markets with radically new products usually come from markets unrelated to that which they are invading (Markides, 2000). For example, the personal computer industry was not invented by IBM but by companies such as Apple and Microsoft - unrelated to the existing mainframe or mini-computer business. Established firms need to defend their position while their newly entered opponents are small and vulnerable rather than waiting until they become strong and a serious threat. Market leaders, by consistently and swiftly meeting any moves intended to challenge their position, send out a clear message to would-be-challengers that aggressive behaviour, such as price cutting or entering core segments, will not be tolerated and that it will be met with a rigorous and painful retaliation. Therefore, such actions would not pay off and would probably make the challenger worse off. In an effort to limit losses, such counter-attacks often are not broadly based, but involve only a market segment of the defending company.

Incumbents often defend themselves by embracing and improving the intruder's technology, attacking the upstart’s reputation as a product reliable source of supply, and hiring some of the best people of the attacking firm. Some of these tactics were used by Microsoft in 1995 in fighting the challenge of Borland Delphi, a rapid development visual computer language that was by far a superior alternative to Microsoft’s Visual Basic language. When Borland International introduced its Delphi computer language, many people predicted the demise of Visual Basic, the language that had dominated the industry since it was introduced a few years earlier. Although the clear superiority of the Delphi programming environment encouraged a large number of programmers including some Visual Basic programmers to switch, this prediction never materialized. By sensing the threat coming from the intruder, Microsoft went on the counter-attack by hiring some of Borland Delphi's best programmers, and spending large resources on upgrading and improving Visual Basic, including providing a faster compiler, thus neutralizing one of Delphi’s major advantages. Microsoft also criticized Borland Delphi as a non-mainstream language and the lack of enough Delphi programmers. Visual Basic not only survived, but it increased its stranglehold on the market, forcing Borland Delphi into an also-ran status.

2.22 Introduce Fighting Brands

Fighting brands are introduced by organizations to fight a competitor’s brand that threatens one of their major brands. Competing brands are typically lower priced versions of the firm’s premium brands that claim equal quality at a much lower price. Introducing fighting brands can be an appealing strategy because they help fight off a price-cutting brand that is threatening the core brand of the firm while preserving its premium image and profit margins. Heublein used a fighting brand strategy successfully to defend its Smirnoff vodka brand. When a smaller rival attacked its Smirnoff vodka, a core brand, by offering its brand at a dollar less than Smirnoff, Heublein increased the price of Smirnoff by one dollar and introduced a new fighting brand at a price below the competitor’s brand. This enabled Heublein to fight the intruder without jeopardizing its core brand’s profitability and image. Fighting brands can also take the form of a secret weapon that exists to wreak havoc against competitors. Like other fighting brands, their strategic goal is to defend the premium brand and to prevent competitors from making inroads against it. Companies using fighter brands as secret weapons usually try to maintain their distance from them and conceal their connections to them. For this reason they often use names of defunct companies or companies that they purchase for the sole intent of producing fighting brands.

There are risks associated with fighting brands however. There is the risk of cannibalization as the fighting brand may take sales away from other company brands. Also, the cost of producing and marketing the fighting brand may be too high, making it a losing proposition. For example, British Airways after it lost about 10 percent of its market share to the discount airlines, launched its own discount carrier, Go, in an attempt to combat EasyJet and other discount carriers. Unfortunately, Go had higher operating costs than the other discount carriers because it recognized union contracts. Three years into its Go experiment, British Airways sold the discount carrier.

2.23 Engage in Cross-Parry

Many companies compete with other companies in more than one market. The degree of multimarket contact between two firms affects the intensity of rivalry and the extent of retaliation amongst these firms. Competitors interacting in multiple markets are less motivated to compete aggressively because of the possibility of retaliation across various markets (Edwards, 1955). On the contrary, competitors have an incentive to cooperate since they stand to gain if they allow their rivals to dominate certain markets in exchange for similar treatment in the markets in which they are dominant. If multimarket contact is low, firms have an incentive to enter the market segment of their rivals to gain the ability to engage in multi market retaliation, should they come under attack (Karnani and Wernerfelt, 1985). For this reason, firms prefer to stay in certain markets to maintain the threat of multi market retaliation. Also, as multi market contact increases, firms may avoid entering new markets that are already occupied to avoid provoking any multi-market retaliation and to honor any tacit agreements that they may have made with their competitors (Baum and Korn, 1996).

Cross-parry is used when a firm that is challenged by a competitor in one area chooses to challenge this competitor in another area. For example, if a company is attacked in one of its core markets or products, instead of retaliating at the point of attack, it counter-attacks in the challenger's area of strength. In a sense, the cross-parry strategy says, “If you hurt me I will hurt you where it hurts most.” By attacking the challenger in its core area, the defending firm diverts attention from its own core area and attacks the challenger where it hurts most. The objective of a cross-parry strategy is often to avoid involving the core brand in a price war. The larger firm stands to lose more than the smaller firm. In addition, such a price war not only leads to lower profit margins but it could permanently tarnish a premium brand’s image. Cross parrying may be also used to send a signal to the challenging firm that it will suffer more than the cross-parrying firm. For instance, how should a company enjoying a large market share and profit margins respond when a competitor lowers its price in an effort to take market share away from the large market share firm? The natural response would be to go on the counter-attack and attack the challenger with a similar or even greater price reduction. Such a move could be quite costly for the large share firm since it would mean lower margins on a large volume just to recover the small market share lost to the challenger. If the challenger operates in another market segment that is important to its business, but not to its competitor, a smarter move would be to attack the challenger by cutting the price in that segment.

Goodyear’s response to Michelin’s challenge illustrates the use of cross parry as a defensive strategy. Several years ago Michelin - using its strong European base - decided to increase its market share of the North American tire market by significantly lowering the price of its tires. Michelin’s managers thought that such a price move would attract mostly new customers. They also calculated that Michelin’s chief rival Goodyear would be unlikely to respond due to the significant cost such a move would imply given Goodyear’s dominant market share. Michelin’s calculations were partly correct, however, because Goodyear didn’t match Michelin’s lower price. What Michelin failed to anticipate was that Goodyear could respond with a price cut in another market. Goodyear could fight back by reducing prices in North America, or offering dealers better margins or increasing advertising spending. Such a strategy would fail because Michelin had only a small part of its worldwide business and it would lose very little by Goodyear’s retaliation. Goodyear, on the other hand, stood to lose a lot because it would cut its margins in its largest market. Goodyear’s response was to lower its prices in Michelin’s core European markets where Michelin makes large profits. Goodyear’s price reduction in Europe caused significant losses and forced Michelin to restore prices to the previous levels in North America after it incurred a significant drop in profits without raising market share appreciably. Goodyear’s move slowed the pace of Michelin’s expansion and made it rethink the cost of gaining market share in North America.

3.0 Offensive Strategies

As we explained earlier in this article, firms engage in offensive marketing strategies to improve their own competitive position by taking market share away from rivals. Offensive strategies include direct and indirect attacks or moving into new markets to avoid incumbent competitors.

If a firm possesses superior resources a direct attack may be called for. However, if a firm faces superior rivals, indirect attacks are more appropriate than direct, frontal attacks. Direct attacks invite retaliatory responses especially if they pose a serious threat to the defending firm (Porter, 1985). Indirect attacks are less likely to elicit a competitive response because that are difficult to detect, especially if they are targeted towards non-core segments or products. An extreme form of an indirect attack is to avoid competitors and undertake activities that are far removed from those of rivals. Firms may choose from a multitude of different strategies to accomplish their offensive objectives. Like defensive strategies, offensive marketing strategies take many forms from flanking attacks or bypassing the competition to all-out frontal attacks intended to defeat the competition with all available means at the attacker's disposal (See Table 2).

Table 2: Offensive Strategies

Offensive Strategies
▪ Launch a frontal attack ▪ Launch a flanking attack ▪ Launch a guerrilla attack ▪ Engage in strategic encirclement ▪ Engage in predatory strategy ▪ Seek undefended markets ▪ Engage in underdog strategy ▪ Engage in Judo strategy ▪ Engage in the pivot and the hammer strategy

3.1 Launch a Frontal Attack

Frontal attack is an offensive strategy that involves attacking a competitor head-on. Frontal attacks can be pure frontal attacks by going after the customers of the attacked firm with similar products, prices, promotion, and distribution. Such attacks are very risky, however, because victory is never assured unless the aggressor has a clear competitive advantage over the defendant. For this reason, a modified frontal attack – a limited version of the pure frontal attack – may be a more appropriate choice. Modified frontal attacks can be price-based where the attacker matches the rival's product in terms of features and quality but it offers a lower price. Modified frontal attacks may also be value- or quality-based involving challenging rivals with products that offer superior value or quality at competitive prices.

Frontal attacks succeed better when the attacker concentrates its resources on its rivals' centre of gravity or weakest point. Once the center of gravity is identified, the challenger needs to concentrate its resources, even diverting resources from other activities, at the point of attack. If such a point is not found then the attacker requires at least three times the resources of its rivals to have a better chance of winning the battle. In cases where the defending firm is well entrenched, the attacking firm needs even greater than three to one resources. Companies entrenched in their local markets are especially difficult to defeat as they hold the high ground due to years of serving their communities and having developed loyalties with their customers. For example, RCA, GE, Xerox, and Univac tried to frontally attack IBM in the past in its mainframe business and they failed because they lacked any competitive advantages or clear superiority over IBM.

Also, the frontal attack has a better chance to succeed if the incumbent is constrained in its ability to react to the attack for fear of antitrust prosecution, or for fear that a low price may damage its brand's image. An incumbent may be reluctant to reduce its price or increase advertising and promotion spending because of certain return on investment or profit expectations by shareholders or stock market analysts. Also, incumbents are usually reluctant to retaliate if they operate at full capacity. As we noted earlier, launching a frontal attack carries many risks and is not suitable for most firms. The most important risk is that if the attacking firm does not possess clearly superior resources it will invite a rigorous retaliation from those being threatened which could result in substantial losses not only for the attacking firm but for the industry as a whole.

3.2 Launch a Flanking Attack

A flanking attack is an offensive marketing strategy used to exploit an opponent's weaknesses while avoiding the risks associated with other offensive marketing strategies such as frontal attacks. Flank attacks are based on the principle of the path of least resistance, attacking competitors in areas which they are least capable of defending.

For instance, some segments are not served well by major competitors because they do not see them as important enough to warrant more attention, or they are less profitable than other segments. If competitors offer poor service or inflexible terms to their customers, flanking firms could exploit this opportunity by improving service and offering better terms. If the incumbent's product is too expensive a flanking firm could offer its product at lower prices. For example, President's Choice Financials, the financial arm of Loblaw Companies, Canada's largest food distributor, is challenging big banks in Canada where they are most vulnerable, their high service charges. By offering low mortgage rates, and a variety of insurance and banking services with no service charges, President's Choice's tactics may appear attractive to those customers who are looking at low rates or despise the higher rates service charges imposed by the big banks. Firms using the flanking attack strategy should try to escape detection by established competitors to avoid retaliation. The flanking firm should lie low and avoid showing up on the radar screen of established competitors by concealing its true intentions. It should try to appear as a specialist interested only in its niche and not in its competitors' markets.

Also it should give the impression that it is in a different line of business. The more different the entrant's product is, the better the chance of not being detected. Also, successful flank attackers differentiate their products in a way that appears to be in a different category to avoid direct confrontation with established competitors (Spulber, 1998). For example, if incumbents dominate the low end of the market, an entrant might offer a premium version of the product. A flanking strategy involves a number of risks which may jeopardize the outcome of such a strategy. Competitors being flanked may retaliate by attacking the flanking firm in its niche. The flanking firm needs to assess the odds of such a counter-attack and how it could best respond if this happens. Also, firms successfully pursuing flanking attacks eventually find themselves in direct competition with their larger rivals making a direct confrontation inevitable. As explained earlier, this happens because as the flanking firm extends its product lines, it starts to encroach on the market segments occupied by the market leaders.

3.3 Launch a Guerrilla Attack

Guerrilla attacks are used against market leaders by challengers who are small and have limited resources. Guerrilla strategy is less ambitious in scope than other offensive marketing strategies and it often aims at harassing, demoralizing, and weakening an opponent through random attacks intended to keep it off-balance and continuously guessing about where the next attack will take place. Firms employing the guerrilla attack employ hit-and–run tactics by selectively attacking rivals whenever they can exploit the situation to their advantage. A guerrilla strategy often involves many small and surprise attacks on established competitors in areas where the attacked are not strong or buyers have weak loyalty towards the rival's brand. A guerrilla strategy may be manifested in raiding competitor sources of supplies and attacking specific products or segments with sales promotion initiatives including coupons, rebates, and temporary price cuts or customer deals in selective geographical areas and then quickly retreating.

Guerilla marketers often attack competitors in areas where they are overextended and vulnerable with short-duration and random raids using tactics such as lowballing on price to steal their customers. These attacks are carried out quickly and in a limited geographic area in order to have the element of surprise and not allow the leader enough time to react decisively. Leaders very often avoid responding to a guerilla attack because their large market share would make such a response very costly. Guerrilla attacks may take the form of legal action. Such legal actions by small firms can effectively slow down the leader and thwart its growth plans. Legal action may also be used by market leaders against upstarts perceived to be a serious threat, to divert their attention from important activities such as product development or entering new markets. Guerrilla strategies are more appropriate for small firms prior to establishing a significant market position. Also they are more successful when they cause a disproportionate drain on the attacked firm's resources by forcing them to spread their resources to deal with the guerrilla attack or to commit more resources than necessary in certain markets. Companies using guerrilla strategies run the risk of provoking a swift and powerful retaliation that could have devastating consequences for the attacker. For this reason it is important to carefully assess the odds of a competitive retaliation and develop a contingency response plan should such retaliation occur.

3.4 Engage in Strategic Encirclement

Strategic encirclement entails targeting and surrounding a competitor with the purpose of completely defeating it. The strategic objective of encirclement strategies is long-term market dominance. Encirclement strategies are very similar to product proliferation strategies except that the former is an offensive strategy designed to suffocate a rival by not allowing it room to grow while the latter is a defensive strategy designed to preempt shelf-space and not allow rivals to gain entry to the market.

Encirclement essentially involves surrounding a competitor with several brands and forcing it to defend itself on many fronts at the same time. This way, the defender's attention and resources will be spread over many products and markets making it harder to defend all of them successfully at the same time. Also, by attacking the rival with many products in many markets, the attacker is capable of blocking whichever moves the attacked firm is attempting to make. A firm pursuing a strategy of encirclement requires superior financial resources and a willingness to commit them for extended periods of time. The encircling company also needs strong R&D and product development capabilities, and the power to influence channel intermediaries. It also requires continuous quality improvement, product proliferation, product line stretching and extension, and a large sales force.

Encirclement strategies are usually undertaken against smaller or weaker rivals, since to successfully encircle another company or group of companies the encircling firm requires far superior resources than its opponent. This strategy is often employed by a larger firm against a smaller firm that is perceived as a threat to the larger firm or to the industry as whole. In every industry there are instances of certain firms, called industry destroyers, who attempt to buy market share through lower prices hoping to increase prices later. The end result of such action by industry destroyers often is to weaken the industry and lower its profitability. Encirclement strategies have been used extensively by Honda which successfully encircled its Japanese rival Yamaha and its U.S. rival Harley Davidson in the motorcycle industry almost driving them into bankruptcy. Komatsu had "Encircle Caterpillar" as its slogan for many years and attempted to surround Caterpillar with a variety of products. Encirclement was the strategy that led to the demise of many major U.S. and European industries in the hands of the Japanese including the semiconductor, steel, and consumer electronics industries in the U.S. and the auto industry in the U.K.

3.5 Engage in Predatory Strategy

A predatory strategy typically entails accepting lower profits for the purpose of keeping new competitors out, or inflicting damage on existing rivals and forcing them to exit the market. This strategy often takes the form of predatory pricing - cutting prices below costs to eliminate a rival, with the expectation that prices will be raised again, after competitors have exited the industry. A predator operating in many markets may cut prices selectively in markets with intense competition, and use profits from less competitive markets to finance the price cuts. If successful, low pricing by the predator can induce the rival to exit the market. In order for predatory pricing to work, the opponent must be financially weak. Otherwise, charging low prices against financially strong competitors could elicit a rigorous response with disastrous results for both companies. It is also important that the predator has some sort of cost advantage through economies of scale, lower overhead, or lower cost of capital, and extra production capacity to accommodate the increased volume of sales. However, it may be difficult to use predatory pricing to eliminate and keep competitors out of an industry forever. Once prices are restored back to profitable levels, many companies enter the industry attracted by the higher profits. Also exiting competitors are often purchased by powerful companies that provide the predator with more competition than they previously faced.

Large companies price aggressively to drive competition out of business also run the risk of inviting government intervention. Although predatory pricing is illegal, it is extremely difficult to distinguish between anti-competitive pricing behaviour from a genuine pricing strategy based on low margins. For example, low cost companies may wish to sell at low margins as a signal of low cost, to establish a reputation of toughness, or to establish a critical mass early in the product life cycle. Also, price predation in response to entry can be interpreted as a competitive response to new competition, rather than as an attempt to drive the competitor out of business. Firms often exit the market as a result of increased competition and a reduction in the general level of prices and not necessarily because of predatory behaviour.

Also, many firms price aggressively as a signal of low cost. Lowering prices signal that the incumbent's costs are low and the entrant will have difficulty competing in the market. By pricing aggressively incumbents hope to acquire a reputation of being tough, thereby discouraging competitors from entering in the future. Predatory strategies can take other forms besides predatory pricing. Firms use various exclusionary practices to deter entry by new firms or squeeze existing firms out of the market. One non-price predatory technique is to impose contractual terms on the users of its products. Other forms of exclusionary practices include tying or bundling. Some companies may attempt to cut their rivals' lines of supplies. For example, large companies can sometimes affect the availability of supplies for the smaller competitors - as they are given priority by their suppliers. Forming alliances or obtaining contracts with parts manufacturers, suppliers, and distributors a firm may be able to stifle its competitors by denying them access to markets or materials. If this happens, the smaller firm's survival may be placed at risk.

Companies, particularly small ones with limited purchasing power and market clout that depend on a few key suppliers for vital raw materials are especially vulnerable to such actions. A firm seeking ways to cut an opponent's line of supply should look at products or businesses that are a major source of revenues or profits for the rival. For example, businesses identified as cash cows can be a rival's vulnerable point. Cash cows are high share businesses in low growth markets. Companies earn high margins on these businesses and they use them to support other businesses. Cash cows are vulnerable to challengers offering products of superior value or quality. A successful attack on a competitor's cash cow can cut off the competitor's source of cash and may hamper its efforts to finance new product development or enter new markets.

3.6 Seek Undefended Markets

Seek undefended markets entails avoiding head-on confrontations with entrenched rivals that often lead to aggressive price-cutting, advertising wars, or costly efforts to outspend or outdifferentiate their products. Its aim is to by-pass competitors altogether and be the first to move into markets that are not currently served by existing suppliers, or to develop radically new technologies to leapfrog the competition, making existing products obsolete and creating new markets. Seek undefended markets strategies are often undertaken by firms that do not have the resources needed for successfully competing against industry leaders. Or they are necessitated by the existence of highly competitive conditions that make it very difficult to compete effectively. A company that followed this strategy is Pepsi-Cola. When Roger Enrico became CEO of PepsiCo, he realized that going head-to-head with Coca-Cola in every market, especially in those markets that Coca-Cola dominates, was a self-defeating strategy. Instead, he concentrated on emerging uncontested markets. Pepsi-Cola shed restaurants and spun off bottling operations and developed a strategy that centered on the supermarket, a battleground where it had triumphed in the past.

As a result of the change in focus, soft drinks accounted for a much smaller percentage of Pepsi's market share in 2000. Frito-Lay, which controls two-fifths of the world market for salty snacks, generated more than 71% of PepsiCo's profits in the fourth quarter of 2000. The addition of Tropicana helped strengthen Pepsi-Cola's position with retailers because of that brand's huge importance. Tropicana, the nation's top-selling orange juice, surpassed Campbell soup as the third-largest grocery brand in late January of 2000, behind Coca-Cola Classic and Pepsi-Cola. During the same period, Pepsi's Aquafina was the No. 1 brand in the fast growing bottled water category, while PepsiCo's Mountain Dew edged out Diet Coke for third place in the soft drink category. The seek undefended markets strategy is not without risks. First, firms using this strategy need to make sure that they have the skills and resources needed to successfully develop new products and enter new markets. Second, by entering new product markets, a firm may in fact end up conceding part of its existing business to competitors. By concentrating its efforts on developing the new business, the firm may take its eyes off the ball and allow its competitors to strengthen their position in the firm's core business and then use that strength to attack the bypassing firm.

3.7 Engage in Underdog Strategy

An underdog strategy involves a small and, usually, young firm taking on a much larger competitor. It is, in many respects, similar to the classic battle between David and Goliath. It is often employed by an upstart company that doesn't hesitate to get into a fight with much bigger opponents in order to break their monopoly and offer the market better products, lower prices, or both. The underdog enters a market dominated by established players that are portrayed as being somewhat bureaucratic, complacent, and unresponsive to customer needs. Firms following this strategy promise to offer an attractive alternative to what customers have been buying. Southwest Airlines, in its early years, is an example of a company that became an underdog in its fight against established competitors, as it offered the traveling public highly attractive prices and superior value. Southwest was ready to begin operations in 1967 but could not do so until 1971 due to time-consuming court battles initiated by Braniff and Texas International Airlines, two established competitors that are no longer in business. These two competitors, in an attempt to keep Southwest out of their market, argued in court that there was not enough demand to support three airlines in the Texas Interstate market. Southwest won the case. After Southwest began operations, these same competitors initiated a price war against Southwest with airfares plummeting to record low levels. Southwest managed to survive these competitive wars and it acquired the image of a gutsy fighter and an underdog in the eyes of the public and its own employees (Southwest Airlines, 1993).

3.8 Engage in Judo Strategy

Judo strategy is an offensive marketing strategy suitable for small companies willing to take on larger opponents.

It is similar to the martial art of judo where the smaller opponent uses the weight and strength of the larger opponent to its advantage. Judo strategy combines elements of other offensive strategies. The principles of a successful judo strategy are attack weakness with strength, flexibility, and leverage (Yoffie and Kwak, 2001).

1. *Attack weakness with strength*. The principle of attacking weakness with strength calls for avoiding frontal attacks and attacking the competitor in markets where the challenger has an advantage or the competitor is ill-prepared to fight or most uncomfortable about defending. For example, WestJet attacked Air Canada in Western Canada with low fares using a low cost operating structure based on short-haul flights and minimum in-flight service. Air Canada had difficulty defending itself against WestJet because of its higher cost structure and as a result it experienced market share losses.
2. *Flexibility*. The principle of flexibility requires yielding when attacked by a superior competitor to avoid being crushed. Firms should never fight a war that cannot be won and should know when to engage in a tactical retreat when it is up against superior rivals. For example, a hardware store in an area where Home Depot has recently entered should not declare a price war on Home Depot but it should adapt its business and strategy to the new reality and make the necessary adjustments in the merchandise carried by the store in order not to compete directly with the market leader. A tactical retreat may also involve embracing and extending an opponent's successful moves. Sam Walton, the late founder of Wal-Mart, used this tactic by visiting rival stores such as K-Mart and copying their best ideas. Microsoft used the same method when it attacked Netscape Navigator by accepting the main features of the opponent's product and improving upon them by offering CD-quality sound and the ability to use it with Microsoft Word.
3. *Leverage*. The principle of leverage is about finding ways to turn the strength and strategy of an opponent against him. The judo strategist then must find the factors that make it hard for the larger competitor to react and use them as leverage to launch his attack. A company can implement the principle of leverage by looking for the opponent's strategic commitments and investments and turn them to its advantage by creating a situation where it would be very difficult for the larger firm to retaliate effectively. Many companies, for example, find it difficult to react to new entrants and reposition themselves because of their established image. Attacking a premium priced brand with a lower priced brand may not elicit a response, because lowering the price may harm the image of their premium priced brand. Also, commitments to distributors may prevent a company from adopting a different distribution system. For example, Hewlett-Packard and Compaq found it extremely difficult to imitate Dell's Internet business model for fear of alienating their existing dealers. This allowed Dell to gain market share at the expense of these two companies.

Having a large market share may in fact be a handicap to a company. Larger competitors frequently avoid retaliating against smaller price-cutting firms for fear of incurring significant losses due to their much larger market shares. For example, Maxwell House had difficulty matching Folgers Coffee's price cuts because of its large market share and the enormous impact on margins and profitability. Large firms may also avoid attacking a smaller firm if the latter enters a segment where margins are low. In addition, large firms avoid retaliating against smaller firms when they operate with high levels of capacity utilization.

A small firm can also use the principle of leverage to challenge larger competitors by turning the large companies' marketing strategy to its favour. Drypers, a disposable diaper maker did exactly that and was able to neutralize Procter and Gamble's aggressive couponing campaign. Specifically, Drypers issued convertor coupons that holders of P&G's Pampers coupons could use to receive $2 off on a bag of Drypers. This helped neutralize a large number of P&G's coupons and it reduced the overall effectiveness of the campaign. Another advantage of this strategy for Drypers was that retailers, mistakenly, sent the Pampers coupons to P&G for redemption instead of Drypers.

3.9 Engage in the Pivot and the Hammer Strategy

The Pivot and the Hammer strategy combines defensive and offensive strategies and it is a strategy associated with Evan Dudik, a business strategist (Dudik, 2000). According to Dudik, every business strategy should have a Pivot and a Hammer. The Pivot represents a firm's efforts to hold its market position, defend itself against competitors, and retain customers. The Pivot includes distinctive competencies – such as a strong brand name, low cost, or superior innovation skills – to defend its position. For example, a firm such as Canadian Tire may use its well-recognized name to fend off any attacks and protect its current position, or to retain customers and maintain its share of the market. Other firms may rely on their most profitable products as cash cows to finance any expansion opportunities.

Each Pivot contains one or more Bearings. A Bearing can be certain key competencies, assets, skills or people which the company relies on to perform its defensive action. A Bearing could be a highly skilled employee, a very effective purchasing manager or a very specialized asset. For example, Microsoft's Pivot may be its Windows operating system and its Bearing is, arguably, Bill Gates as it is very questionable that Microsoft would be where it is today without the hard driven and motivated Bill Gates. The Hammer is the central offensive force of the company and the cutting edge of the attack. It is where the company concentrates its offensive forces and pushes to exploit its advantages. It is where the company tries to attract new customers, attacks competitors for capturing their customers, or pushes for expansion into new markets. While the Pivot is trying to maintain the current market position and defend against competitor attacks, the Hammer is where the firm tries to grow and expand its sales and market share. Without a Hammer, a company is, in effect, pursuing a harvest strategy, which will inevitably cause the firm to decline. A firm needs a Pivot to survive, but it needs a Hammer to grow and win new business. The success of the Hammer depends on the effectiveness of the Pivot. If the Pivot is doing a good job in defending the firm's current business and profitability, more resources can be channeled into the Hammer to enable it to do its job.

Like the Bearing of the Pivot, the Hammer has a Hammerhead where the power of the Hammer is concentrated. It is the strongest part of the Hammer and it carries the entire force of the company's offensive effort. Hammerheads can be the firm's sales force, advertising prowess, financial resources, or whatever is used to accomplish the objectives of the offensive drive of the firm. A very important consideration is that a firm using its existing assets, brand names, business functions, or business units to support its expansion activities, must ensure that these expansion activities are not undertaken at the expense of existing assets. For instance, introducing a new brand using the name of a well-known existing brand should not tarnish the image of the existing brand. If a firm uses the cash flow from an existing business unit to finance the growth of a new brand, the existing business unit should receive enough investment support to maintain its viability.

4.0 Conclusion

Firms are constantly engaged in offensive and defensive marketing strategies. Established firms continuously face attacks by new entrants and incumbents trying to reposition themselves or improve their competitive position. Defensive strategies work better if they take place before the challenger commits to the industry by making investments or other types of commitments, or before exit barriers are raised, making it difficult for a challenger to exit the industry. It is easier to defend a position because it requires fewer resources than offensive strategies. Incumbents enjoy several advantages relative to new entrants including economies of scale, capital requirements, switching costs, brand loyalties, and brand recognition. Attacking firms need three times more resources than defending firms for launching a successful attack. In some circumstances, the resource requirements can be higher, if the incumbent is deeply entrenched in its market.

In this paper we discussed several pre-entry defensive strategies including signaling, fortify and defend, covering all bases, continuous improvement, and capacity expansion. Post-entry defensive strategies include defending position before entrant becomes entrenched, fighting brands, and cross-parry strategies. But markets are dynamic arenas where firms try to expand into their industries or position themselves in other segments within their industry. Consequently, firms need to engage in offensive strategies to accomplish their growth objectives. Offensive marketing strategies discussed in this paper include frontal attacks, flanking attacks, guerrilla attacks, strategic encirclement, predatory strategy, seek undefended markets, underdog strategy, judo strategy, and the Pivot and Hammer strategy. In addition to describing each strategy, we outline how to use each strategy, as well as the risks and requirements for successful implementation. Companies using defensive and offensive marketing strategies can gain by studying the strategies discussed in this paper.

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