Formulating competitive actions
A practical guide to the formulation of competitive actions for managers

Richard Shaw
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Cover image
An image of the Bombardier CS-100 was selected for the cover of this guide as it is a highly innovative product developed to compete in a dynamic and highly competitive segment of the aircraft industry. Its competitive rivals include the Embraer E-jet family and the Sukhoi SU-jet family. Collectively, they fill an evolving and hotly-contest segment in the passenger jet market for aircraft smaller than the Airbus A320 family and the Boeing 737 family, with around 100 seats.
HOW TO USE THE GUIDE

This guide was developed to assist managers in the formulation of competitive actions, and aims to provide them with a framework to do so. It can be used by individuals but should ideally be used in group settings, as the research has found that individuals rarely have all the skills and experience required to effectively formulate competitive actions, while groups, comprising managers with a range of experiences and different skills sets are in a much stronger position. The guide provides managers with ideas and recommendations that can be used to support the formulation of competitive actions and follows a process, described in the table below and abbreviated as SOLAR, which is based on the research that preceded the guide. The SOLAR process is summarised in the figure below.

The managers interviewed in the research regard iterating and refining competitive actions as important because it allows them to develop and test results forthwith, particularly when working closely with suppliers and customers to prototype them.

The guide is not designed to be exhaustive, in terms of covering every possible permutation in the formulation of competitive action. Rather, as the diagram below indicates, it deals with a significant number of competitive actions and seeks to help managers distill their options into a few that are the most appropriate, given the stimulus, their objectives, the environment in which they operate and the levers available to them.
The ideas and recommendations offered in the guide are based on variables, such as stimuli, the managers’ objectives, the environmental context and the parameters in which the manager is operating. For example, a manager at a company that distributes products developed and owned by a separate entity, has no control, and probably very limited influence, over product development initiatives and, therefore, the ‘product’ lever would be unavailable to them. The guide is split in two sections:

1. A short guide based on the SOLAR framework, which makes use of diagrams and tables as far as possible
2. A ‘Resources’ guide that describes a list of resources that could be used by managers to support the formulation of competitive actions.

**Resources key**

The elements listed below represent suggested inputs to the formulation of competitive actions. There are six sets of inputs their use is dependant on the stimulus, objectives and levers of the action. References are provided to the use of the various resources in the guide through the use of the appropriate icons.

**Data**
- Customer surveys
- Focus groups
- Ethnographic studies
- Informal channels

**Benchmarks**
- Competitive actions in parallel industries
- Competitive actions in other territories
- Evolution of industries in other territories

**Tools**
- Customer matrix
- Primary benefit map
- Ansoff’s growth matrix
- Porter’s 5-forces
- Core competency
- New value curve

**Team**
- Education & training
- Level of experience of managers
- Functional biases
- National & cultural backgrounds
- Relevant experiences in other territories and parallel industries

**Industry**
- Industry maturity
- Fragmentation
- Strategic groups & cognitive communities
- Degree of turbulence

**Competitors**
- Competitors’ products/services
- Competitors’ pricing model
- Intensity of rivalry
- Relative company size
- Relative profitability
- Resource based view

![Figure 1: Competitive actions formulation tool box](image)

It is intended that, based on the stimulus, managers will select a number of resources that can be used as a tool kit to support their formulation of an action.
SOLAR FRAMEWORK

**STIMULUS**
- Inferior performance compared with competitors
- Waning or stagnant sales
- Unsuitable product mix or pricing for a particular market
- Declining profitability due to increased competition
- Product or service offering not costed or priced correctly
- Brand, product or service not clearly defined in the product or brand statement
- Changes in a competitor’s product mix, pricing or marketing approach
- Customer request for specific functionality or a new product
- Introduction of new technology
- Changing or evolving customer requirements or tastes
- Change in economic conditions (e.g. interest rates, growth)
- Threat from new market entrant
- Regulatory change
- Expand geographically to improve profitability
- Use retained earnings or new capital to start a new business or develop a new product/service offering
- Diversify business geographically to reduce risk or concentration
- Extend existing product/service offering
- Review markets, product portfolio and pricing to optimise profits
- Change customer perceptions about product/service attributes or price
- Expand by moving into a new competitive set

**OBJECTIVE**
- Restore performance (RESTORE/RECOVER)
- Maintain performance (MAINTAIN)
- Increase market share (GROW)

**LEVERS**
- Price
- Product
- Place
- Business model
- Communication

**ACTION**
- Refine the action
  Why does this action work or not?
### STIMULI

<table>
<thead>
<tr>
<th>Stimulus</th>
<th>Points for consideration</th>
<th>Resources</th>
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<tbody>
<tr>
<td>Inferior sales performance or profitability when benchmarked against competitors</td>
<td>Has your competitive set changed and has your decline in sales or profitability been the result of new market entrants?</td>
<td>Have you assembled, or do you have access to, the right mix of skills and experience to properly evaluate the threat that the new entrant poses and how you can best deal with it?</td>
</tr>
<tr>
<td>Waning or stagnant sales</td>
<td>Are you aware of the possible reasons for waning or stagnant sales and has data, such as customer surveys, as well as data gathered through informal channels, been used to validate this?</td>
<td>Have competitors resource bases changed or have they developed new competencies?</td>
</tr>
<tr>
<td>Declines in profitability due to increased competition</td>
<td>Have you considered your competitors’ brands and their product or service offerings and how you and your brand and product or service offerings compare?</td>
<td>Have you considered the impact of economic change will have on your competitors and their products and services relative to your business and your products and services?</td>
</tr>
<tr>
<td>Product mix, product attributes or pricing have become, or are becoming, unsuitable for a specific market</td>
<td>Do you have sufficient data to reposition or update your product mix, product attributes or pricing structures? This data can be collected from informal channels, such as managers speaking with shop floor staff directly with customers, as well as formal channels.</td>
<td>Resource Based View (Penrose, 1959) and considered your core competencies (Prahalad and Hamel, 1990) to establish how best to compete with the relevant competitor following the implementation of their changes</td>
</tr>
<tr>
<td>Customer request for specific functionality or a new product</td>
<td>Does the new functionality, enhancement or new product or service offering have a broad enough market to justify its development?</td>
<td>Have you assembled a team with, or do you have access to, the right mix of skills and experience to properly evaluate the threat that the new entrant poses and how you can best deal with it?</td>
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<tr>
<td>Regulatory change</td>
<td>Have you considered the impact the regulatory change will have on your competitors and their products and services relative to your business and your products and services?</td>
<td>Have you looked to similar businesses to yours with similar products or services in other countries or markets that have regulatory and regulatory environments similar to those that you will have once the change has been implemented?</td>
</tr>
<tr>
<td>Introduction of new technology</td>
<td>Have you assembled, or do you have access to, the right mix of skills and experience to work out how your product or service offerings can be optimised using the new technology?</td>
<td>Have you considered the impact the regulatory change will have on your competitors and their products and services relative to your business and your products and services?</td>
</tr>
<tr>
<td>Changes in economic conditions (e.g. interest rates, growth)</td>
<td>Are you able to develop new products or services or update existing ones by pre-empting the change in economic conditions?</td>
<td>Have you considered your competitors’ brands and their product or service offerings and how you and your brand and product or service offerings compare?</td>
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<tr>
<td>Changes in a competitor's product mix, pricing or marketing approach</td>
<td>Have you considered using tools such as the Customer Matrix (Boone and Faulkner, 1994) and the Primary Benefit Map (D'Aveni, 2007) to understand how the competitor’s changes impact the positioning of your brand, product or service?</td>
<td>Have you considered the impact the regulatory change will have on your competitors and their products and services relative to your business and your products and services?</td>
</tr>
<tr>
<td>Threat from a new market entrant</td>
<td>Have you used the Resource Based View (Penrose, 1959) and considered your core competencies (Prahalad and Hamel, 1990) to establish how best to compete with the relevant competitor following the implementation of their changes?</td>
<td>Have you assembled a team with, or do you have access to, the right mix of skills and experience to properly evaluate the threat that the new entrant poses and how you can best deal with it?</td>
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<tr>
<td>Changing or evolving customer requirements or tastes</td>
<td>Do you have adequate data to understand the changes or the evolution of your customer requirements or tastes?</td>
<td>Have you assembled a team with, or do you have access to, the right mix of skills and experience to properly evaluate the threat that the new entrant poses and how you can best deal with it?</td>
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<tr>
<td>Use retained earnings or new capital to start a new business or develop a new product or service offering</td>
<td>Have you thoroughly mapped your resources and competencies to those of your competitors and considered your relative advantages?</td>
<td>Have you considered the impact the regulatory change will have on your competitors and their products and services relative to your business and your products and services?</td>
</tr>
<tr>
<td>Extend the existing product or service offering</td>
<td>Are you aware of the market requirements in relation to your existing product or service offering and how you could more accurately and comprehensively meet them?</td>
<td>Have you considered using tools such as the Customer Matrix (Boone and Faulkner, 1994) and the Primary Benefit Map (D’Aveni, 2007) to understand how the competitor’s changes impact the positioning of your brand, product or service?</td>
</tr>
<tr>
<td>Change customer perceptions about product or service attributes or prices</td>
<td>Do you have sufficient market data using surveys, focus groups and informal channels to make informed decisions regarding product or service offering extensions?</td>
<td>Have you assembled, or do you have access to, the right mix of skills and experience to properly evaluate the threat that the new entrant poses and how you can best deal with it?</td>
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<tr>
<td>Diversify geographically to reduce risk of concentration</td>
<td>Which market or markets offer the greatest diversification effect (i.e. which markets, in terms of performance and risk, are least correlated with your home market)?</td>
<td>Have you considered the impact of economic change will have on your competitors and their products and services relative to your business and your products and services?</td>
</tr>
<tr>
<td>Expand geographically to improve profitability</td>
<td>Are you certain that your products or services will be accepted in the target markets and what data has been collected to support this?</td>
<td>Have you assembled, or do you have access to, the right mix of marketing, commercial, financial and product specialists to find solutions to optimally repositioning or updating your product mix, product attributes or pricing structures?</td>
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### Objective Setting

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- Try to set objectives and decide on which levers to use based on what the market actually needs or desires, rather than what managers think the market needs or desires.
- Customer surveys are an effective way of gathering large amounts of quantitative data for objective setting.
- The Customer Matrix is a tool that could be considered for use in setting objectives.
- Ansoff’s Growth Matrix could be used to set objectives.
- Michael Porter’s 5-Forces tool could be used to set objectives as well as to decide on which of the levers to use.
- The New Value Curve could be useful in setting objectives.
- The intensity of rivalry should be properly considered before setting objectives.
- The relative company size should be properly considered before setting objectives.
- The company’s relative profitability should be properly considered before setting objectives.
- Teamwork is useful where many different skill sets and collaboration between different departments within the organization are needed.
- The teams education & training should be considered when creating teams to formulate competitive actions, preferably when the stimulus emerges.
- It is useful to assimilate the level of experience of managers, including their experiences in other territories and parallel industries, when creating teams to formulate competitive actions at the point of the stimulus.
- It is useful to assimilate the functional biases, as well as the national and cultural backgrounds, of managers when creating teams to formulate competitive actions at the point of the stimulus.
- Industry maturity and the level of fragmentation in the industry is useful to consider in objective setting and in deciding on which of the 5 levers to use.
- Understanding the strategic group and the cognitive communities that the company is part of is useful in understanding the relevant industry structure for the purposes of setting objectives, as well as deciding on which of the 5 levers to use.
- Understanding the degree of turbulence in the industry is useful in anticipating the effect turbulent environments might have on competitive actions throughout the formulation process.
- Discontinuing a product is as much a competitive action as changing its price points or product features.
- Managers might want to ask themselves and their colleagues ‘what business do we want and what don’t we want’ as part of the objective setting process.

### How to Select Levers

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- Try to set objectives and decide on which levers to use based on what the market actually needs or desires, rather than what managers think the market needs or desires.
- Michael Porter’s 5-Forces tool could be used to set objectives as well as to decide on which of the levers to use.
- The ‘Core Competency’ could be useful in deciding which of the five levers to use and in formulating competitive actions once a lever or a combination of levers have been selected.
- The relative company size should be properly considered before selecting levers to use.
- The company’s relative profitability should be properly considered before selecting levers to use.
- The ‘Resource Based View’ could be useful in deciding which of the five levers to use and in formulating competitive actions once a lever, or a combination of levers, have been selected.
- Considering competitive actions that have been applied in parallel industries and other territories could be useful in deciding which of the 5 levers to use and how to use them in formulating competitive actions.
- The evolution of industries in other territories could be useful in deciding which of the 5 levers to use and how to use them in formulating competitive actions.
- Industry maturity and the level of fragmentation in the industry is useful to consider in objective setting and in deciding on which of the 5 levers to use.
- Understanding the strategic group and the cognitive communities that the company is part of is useful in understanding the relevant industry structure for the purposes of setting objectives, as well as deciding on which of the 5 levers to use.
- Understanding the degree of turbulence in the industry is useful in anticipating the effect turbulent environments might have on competitive actions throughout the formulation process.
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<th>LEVERS</th>
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| **Price** | Price has proved to be the easiest lever to use with the most direct effect. It can also be applied in every situation, i.e. no matter what the stimulus to the action is, its objective or its contextual setting. Changes in price can also have the effect of altering consumers’ perceived value of a product or service.

Price changes can be obscured to become opaque to consumers by, for example, cross subsidising financing plans or including extended warranties with a product.

Revenue is always limited by what consumers are prepared to pay for products and services. However, not all consumers are willing to pay the same and additional revenue can often be realised by segmenting the market according to price sensitivity. Product or service attributes are often used to distinguish the different sectors from one another.

Price changes can be obscured to become opaque to consumers by, for example, cross subsidising financing plans or including extended warranties with a product.

Focus groups, interviews and ethnographic studies, as well as collecting data through informal channels, will produce richer data than customer surveys, which should allow managers to better understand the issues relevant to their competitive actions.

The Customer Matrix will assist managers in developing actions using the price and product levers.

Competitors’ pricing models should be properly considered when formulating actions using the Price lever.

**Product** | Agents, distributors as well as divisions within businesses are often unable to alter or influence the functional and technical attributes of the products they market and, therefore, cannot use the product lever, except to bundle different product together or pre-configure products for specific markets.

Product or service attributes can take time to change or update, due to R&D production and distribution routines and stock that may need to be depleted before new products can be introduced.

Competitive barriers can be raised by bundling a combination of products together than no other single competitors has.

Regulation and economic constraints may govern what is possible. Likewise, changes in regulation or economic conditions may provide opportunities for product innovation.

Product innovation can take the guise of adapting an existing product or service for another market with the same or similar consumer requirements.

By tracking evolving consumer tastes, requirements and behaviour, derivatives of existing products can be created to exploit the changes.

Maintaining a broad range of competing products may make a company’s market presence more pervasive but it is also expensive to do so and there is a trade-off with the benefits of focusing on fewer products.

The segmentation of markets and understanding different segments’ requirements and tastes enables company’s to tailor product variants to different segments. Each segments’ offering can also be mapped to competitors’ offerings to differentiate them.

New technologies can often be used to create competitive advantage. Early adopters may also benefit from first mover advantages.

Products can be bundled in combinations exclusive to the company.

Focus groups, interviews and ethnographic studies, as well as collecting data through informal channels, will produce richer data than customer surveys, which should allow managers to better understand the issues relevant to their competitive actions.

The Customer Matrix will assist managers in developing actions using the price and product levers.

The Primary Benefit map could be used to decide on which product benefits to focus on in current and future scenarios.

Competitors’ products and services should be properly considered when formulating actions using the Price lever.

**Place** | While we normally think of innovation in product terms and, to a lesser extend, in terms of business models, innovation can also apply to new territories. Specifically, new territories can be sought where the success of a product or service in a particular market can be replicated. This may mean adapting the product or service for the new market or it may be maintaining its originality in order to increase the chance of success through replication. As examples, consider products such as motor vehicles, that are usually adapted for new markets, versus a product such as Coca-Cola, where deviating from the original product will compromise the chance of success.

The company’s distribution channels often inhibit market share. Changing, updating or adding additional channels can be a cost effective and expedient way of increasing market share.

Where the marginal cost and effort of increasing market share in a particular market is high, new markets where the cost and effort of expanding is likely to be relatively lower could be considered.

Concentration of a specific offering in a single, or few, sales can be risky, particularly when the company has a large share of the market. The risks relate to the performance of the market as well as the actions of competitors and, in such a scenario, expanding into other markets could be worth considering.

Focus groups, interviews and ethnographic studies, as well as collecting data through informal channels, will produce richer data than customer surveys, which should allow managers to better understand the issues relevant to their competitive actions.

**Business model** | Business models are often moulded to suit environmental factors, such as competition and regulation. For example, many investment banking business models have been developed in response to taxes. Changes in external factors can threaten business models but can also present opportunities to adjust or rethink business models.

Applying existing products to meet new requirements, often in new markets, can develop new business models. For example, the low-cost carrier model can be applied to the private jet market to provide a cost and time effective solution to busy business travellers.

New technologies can enable changes to business models. For example, Software as a Service (SaaS), or has enabled many software and software service companies to radically change their business models.

Focus groups and interviews, as well as collecting data through informal channels, will produce richer data than customer surveys, which should allow managers to better understand the issues relevant to their competitive actions.

**Communication** | Marketing messages may be supported, and constrained, by group level marketing campaigns or policies. This applies, especially to agents and distributors.

It may be worthwhile considering what has been done elsewhere by associated companies or business unit.

Communication can be used to make a specific product or products more compelling by making consumers aware of their own peculiarities. For example, reminding certain consumers of their own health issues may give specific product or company an advantage over its competitors.

Communications can be used to properly define a brand or a product or service offering to the prospective market through a product or brand statement.

Focus groups, interviews and ethnographic studies, as well as collecting data through informal channels, will produce richer data than customer surveys, which should allow managers to better understand the issues relevant to their competitive actions.

The Customer Matrix will assist managers in developing actions using the price and product levers.
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<th>ACTIONS</th>
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<tbody>
<tr>
<td>Price</td>
<td>Segment the market and provide a range of price points for different product and service offerings to capture marginal revenue.</td>
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<tr>
<td>Product</td>
<td>Bundle sets of synergistic products in instances where competitors only have access to part of those product sets to raise competitive barriers.</td>
</tr>
<tr>
<td>Place</td>
<td>Expand into parallel industries that target the same market segments by altering existing products or introducing new ones.</td>
</tr>
<tr>
<td>Business model</td>
<td>Bundle products together to increase competitive barriers and improve their competitive position.</td>
</tr>
<tr>
<td>Communication</td>
<td>Communicate the factors that make a product or service proposition compelling to prospective customers that may not be aware of them.</td>
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