

# Formulating competitive actions



A practical guide to the formulation of competitive actions  
for managers

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## Cover image

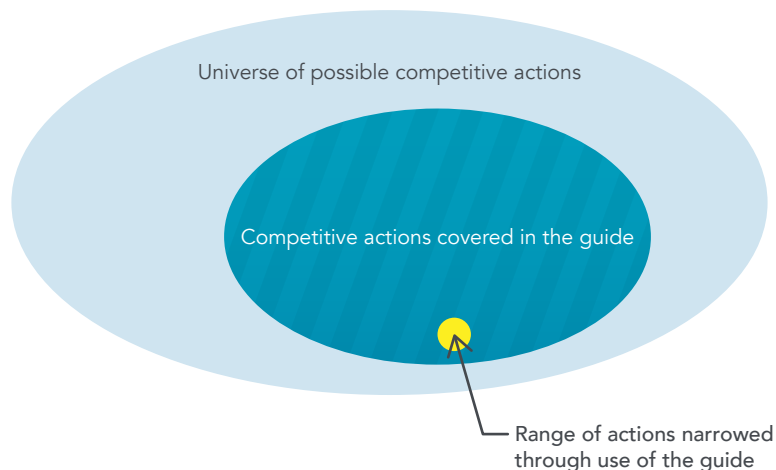
An image of the Bombardier CS-100 was selected for the cover of this guide as it is a highly innovative product developed to compete in a dynamic and highly competitive segment of the aircraft industry. Its competitive set includes the Embraer E-jet family and the Sukhoi SU-jet family. Collectively, they fill an evolving and hotly-contested 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

The guide was developed to assist managers in the formulation of competitive actions and aims to be a thought provoker that provides managers with a framework for formulating competitive actions. 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, comprised of managers with a range of experiences and different skills sets are in a much stronger position to do so. The guide provides managers with ideas and recommendations that can be used to support the formulation of competitive actions and follows a framework, abbreviated as SOLAR, which based on the process managers followed in the research that succeeded the guide. The SOLAR framework is described in the table below.

Key	Step	Description
S	Stimulus	The competitive action process is triggered by a stimulus or stimuli. These can either be external stimuli, such as the emergence of a new rival or a change in the competitive landscape, or internal stimuli, such as a long-term business plan introduced by the top management team.
O	Objectives	Before formulating appropriate actions in response to the stimuli, the research has shown that managers used the data available to them to envisage the desired outcomes to the actions and to set objectives.
L	Levers	The levers that can be used in formulating actions are explored.
A	Actions	Using the selected levers, specific competitive actions are formulated.
R	Refinement	The outcomes are fed into follow up or repeat actions, thereby refining actions on an iterative basis.

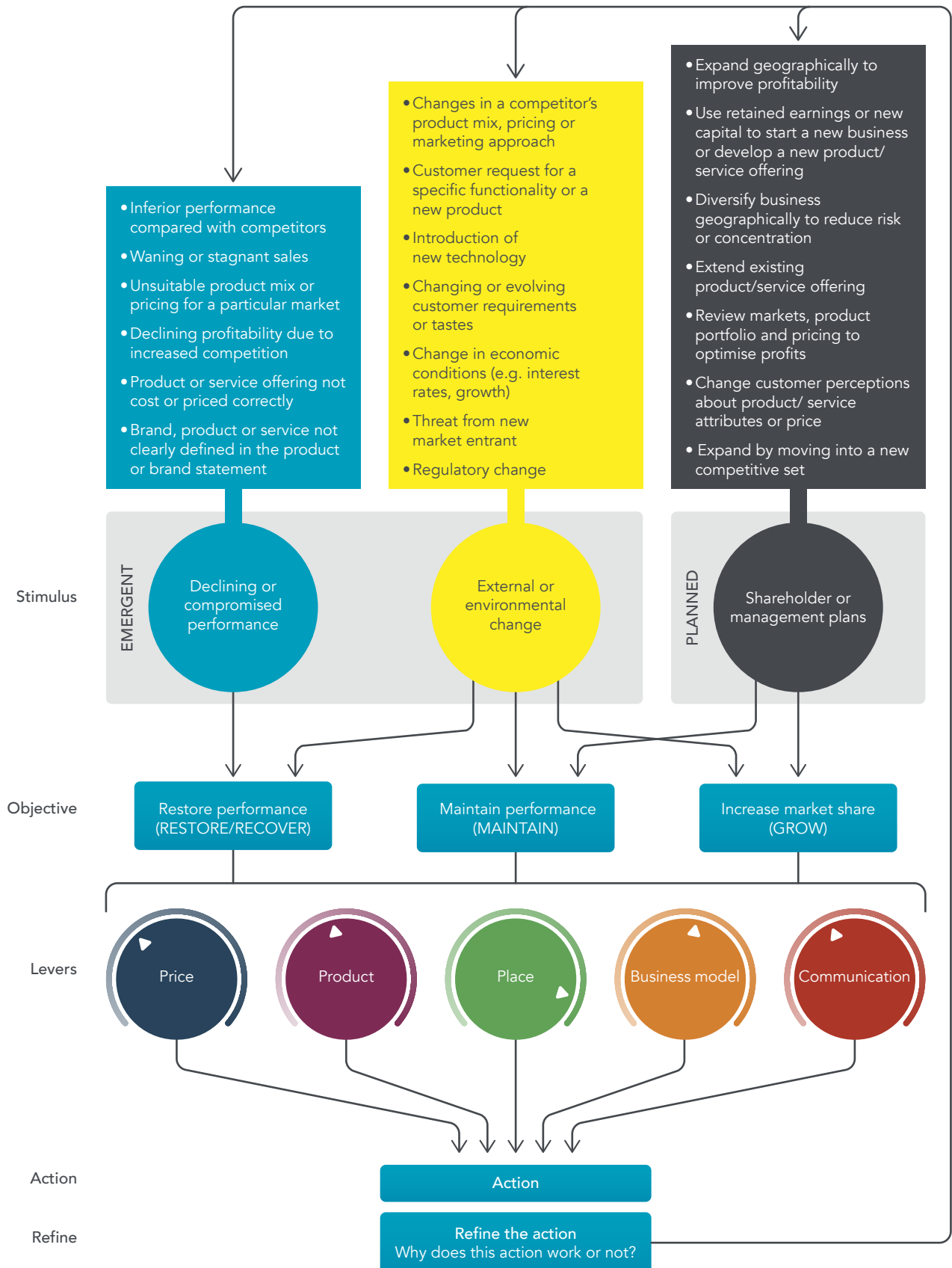
The guide is not designed to be exhaustive, in terms of covering every possible permutation in the formulation of competitive action. Rather, as the diagram below indicates, it deals with a significant number of competitive actions and seeks to help managers distill their options into a few that are the most appropriate, given the stimulus, their objectives, the environment in which they operate and the levers available to them.



































































A contingency approach was taken in developing the guide. Meaning, the ideas and recommendations offered 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, have 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.

# SOLAR FRAMEWORK



# STIMULI

	Stimulus	Points for consideration	Resources
DECLINING OR COMPROMISED PERFORMANCE	Inferior sales performance or profitability when benchmarked against competitors	Has your competitive set changed and has your decline in sales or profitability been the result of new market entrants? How have competitors' products, service or brands evolved in relation to yours? Have competitors resource bases changed or have they developed new competencies?	   
	Waning or stagnant sales	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 use to validate this? Have you considered your competitors, their brands and their product or service offerings and how you and your brand and product or service offerings compare?	     
	Declines in profitability due to increased competition	Have you considered the recent evolution of your industry and are you able to identify the stage of its life cycle? Specifically, has it matured and stabilised, resulting in lower profit margins? Instead of constantly fighting rivals through cost cutting and imitation, have you considered creating a new market space, as Kim and Mauborgne (1999) postulate in their article 'Creating New Market Space' and their book, 'Blue Ocean strategy'?	   
	Product mix, product attributes or pricing have become, or are becoming, unsuitable for a specific market	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 and directly with customers, as well as formal channels. 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?	    
EXTERNAL OR ENVIRONMENTAL CHANGE	Customer request for specific functionality or a new product	Does the new functionality, enhancement or new product or service offering have a broad enough market to justify its development? Will the functionality make the product competitive or more competitive than it already is and does the benefit outweigh the cost? What will the consequences of not developing the new functionality, enhancement or new product or service offering be?	 
	Regulatory change	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? Have you looked to similar businesses to yours with similar products or services in other countries or markets that have regulations and regulatory environments similar to those that you will have once the change has been implemented?	  
	Introduction of new technology	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? Have you considered your competitive environment, each of your competitors and the competitive advantage or advantages that the new technology could give you? Have you looked at to other countries or markets where the technology has already been deployed to see how its deployment has resulted in success or failure?	   
	Changes in economic conditions (e.g. interest rates, growth)	Are you able to develop new products or services or update existing ones by pre-empting the change in economic conditions? Have you considered the impact the economic change will have on your competitors and their products and services relative to your business and your products and services?	 
	Changes in a competitor's product mix, pricing or marketing approach	Have you considered using tools such as the Customer Matrix (Bowman 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? 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? Have you collected sufficient data to understand how customers perceive the changes and your relative market position? Have you assembled a team with, 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?	     
	Threat from a new market entrant	Do you know in detail what the new market entrant is offering as a product or service and what their unique selling points are? This data can be collected through informal channels, such as speaking with customers that have been in contact with the new market entrant. Are you aware of the dynamics of the industry and is the new market entrant able to either join or rival any of the existing strategic groups? 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?	   
	Changing or evolving customer requirements or tastes	Do you have adequate data to understand the changes or the evolution of your customer requirements or tastes? Are you using tools such as the Customer Matrix (Bowman and Faulkner, 1994) or the Primary Benefit Map (D'Aveni, 2007) to map the changing or evolving customer requirements or tastes and how they relate to yours and your competitor's product or service? Have you assembled a team with, or do you have access to, the right mix of skills and experience to properly evaluate the changes or the evolution and to effectively respond to it or them?	  
SHAREHOLDER OR MANAGEMENT PLANS	Use retained earnings or new capital to start a new business or develop a new product or service offering	Have you thoroughly mapped your resources and competencies to those of your competitors and considered your relative advantages? Have you considered how you may be able to use your existing resources, processes and intellectual property to develop a new business or product or service offering in an efficient and cost-effective manner?	     
	Extend the existing product or service offering	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? Have you gathered sufficient market data using surveys, focus groups and informal channels to make informed decisions regarding product or service offering extensions?	    
	Change customer perceptions about product or service attributes or prices	Do you have sufficient data to really know how customers perceive the respective product or service attributes of prices? Apart from data collected through formal channels, such as surveys, has data collected through informal channels, such as sales people speaking with customers and employees perceptions, been taken into account? Have the desired customer perceptions been clearly articulated and documented?	 
	Diversify geographically to reduce risk or concentration	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)? Are you certain that your products or services will be accepted in the target markets and what data has been collected to support this? Have you thoroughly considered the competitors in the target markets and have you properly evaluated the effects of possible rivalry when you launch in the new markets?	   
	Expand geographically to improve profitability	Are you certain that businesses in new markets will be more profitable than your business in your home market and, if so, have you considered multiple markets and compared them against each other? Has your product or service offering been developed to its fully potential in your home market to the point you have a 'tried and tested' solution to take to new markets? Have you properly considered your competitors in the new markets and have you properly evaluated the effects of possible rivalry when you launch in the new markets?	   

## OBEJCTIVE SETTING

		Resources			
SELECT RESOURCES BEFORE SETTING OBJECTIVES	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.		SET OBJECTIVES		
	Customer surveys are an effective way of gathering large amounts of quantitative data for objective setting				Restore performance (RECOVER)
	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				Maintain performance (MAINTAIN)
	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				Increase market share (GROW)
	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 organisation 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 actions 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.					

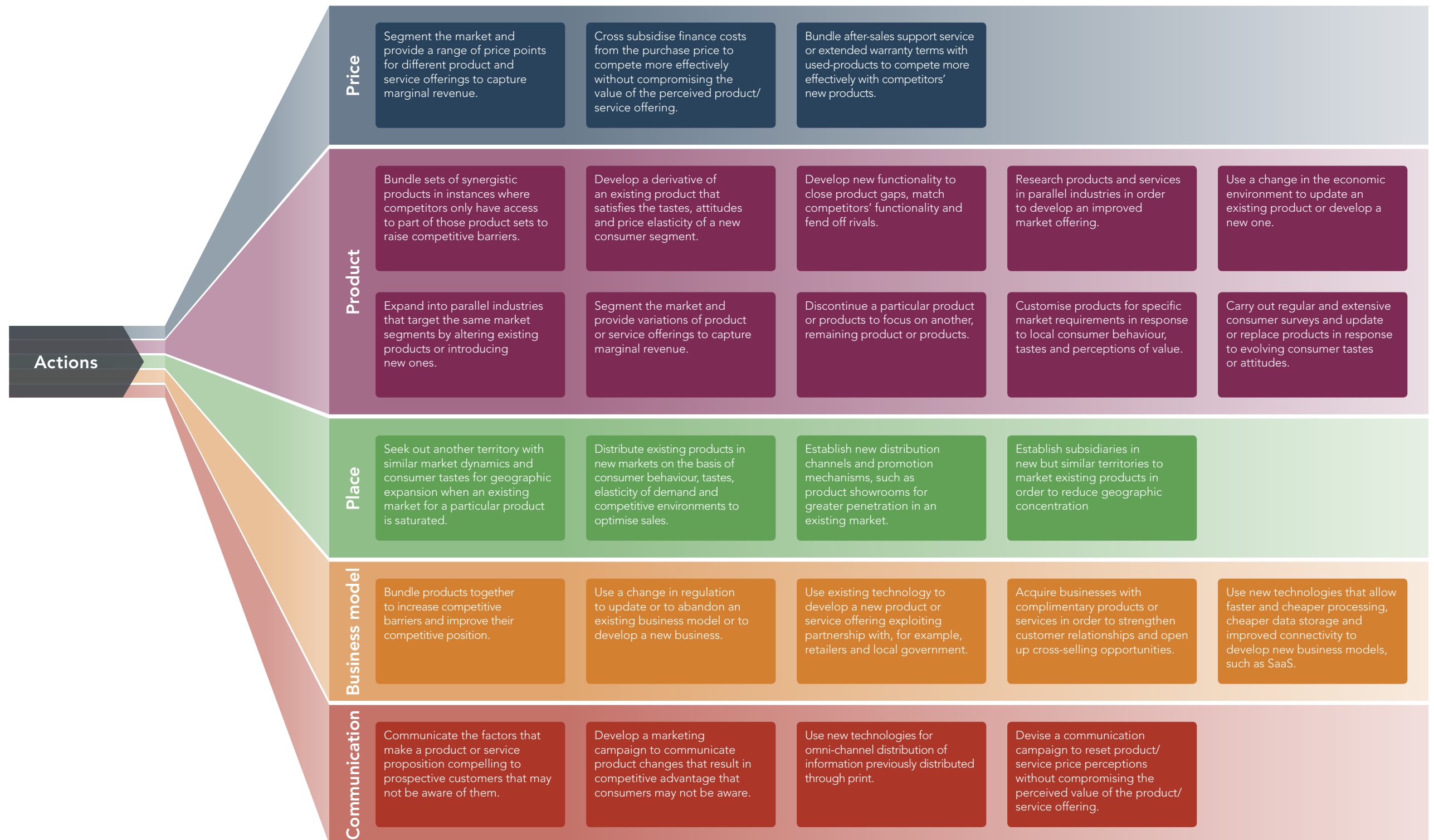
## HOW TO SELECT LEVERS

		Resources
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		
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## LEVERS

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 subsidiaries and 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.	
	Changes in consumer behaviour and tastes, as well as social issues, such as environmental impact, may present opportunities for product development.	
	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 Product 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 expeditious 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, markets 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 would 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), has allowed 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.	
	While we often think of communication purely in terms of advertising and public relations, there are a host of other means of creating marketing messages. For example, a showroom with a particular look and feel and in a specific location sends a message to customers and prospects.	
	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		

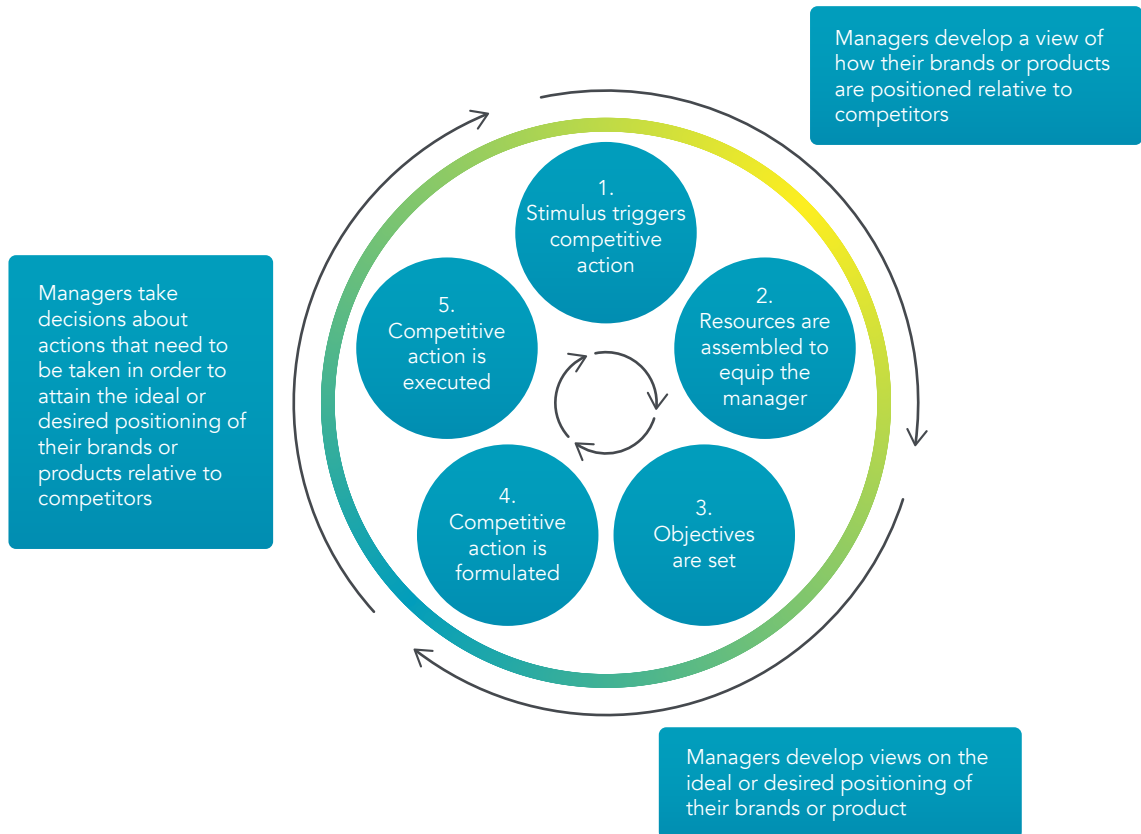
LEVERS → ACTIONS





## REFINEMENT

The research leading to the development of the guide found that competitive actions are more effective when carried out as an iterative process and when their formulation involves a range of functions across the organisation. In other words, the efficacy of the action can be improved by involving managers with different skills and experiences and by integrating the learning of past actions into new ones.



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

