



Resources manual for competitive actions

Author: Richard Shaw
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DATA

Customer surveys

Useful in objective setting and formulating actions

Customer surveys are an effective way to gather large amounts of quantitative data as the starting point to formulating a competitive action. However, the data is not rich, insofar as it is usually limited to a relatively small set of questions and answers, and fails to capture the emergent issues, or the opinions of respondents that lie outside the scope of the questions. The data may also be biased by the profile of the respondents.

The advantages of customer surveys, and the data that is gathered is that, provided the sample set is large enough, the data is generalisable and can be used for quantitative analysis. Customer surveys can also be used to raise awareness of a product or brand amongst the respondents and, in the research for this guide, one of the companies involved had surveyed one million respondents to both gather data to guide them in the development of a new, replacement product and to promote the brand and its associated products.

Focus Groups and interviews

Useful in formulating actions related to 'price', 'product', 'business model' and 'place'

Focus groups will produce richer data than customer surveys, which should allow managers to better understand the issues relevant to their competitive actions, as well as emergent issues, and should allow them to further interrogate issues and opinions that emerge during the course of the focus group or the interview.

The disadvantage of focus groups and interviews is that the sample sets are normally too small for the results to be generalisable and, therefore, they cannot be used for quantitative analysis. Based on the research, focus groups and interviews are generally used further into the competitive action formulation process than customer surveys and are more effective after some data has already been gathered through a method such as customer surveys, and the manager or interviewer, therefore, has a foundation from which to ask questions and interrogate issues and opinions.

Ethnographic studies

Useful in objective setting and in formulating actions related to 'price', 'product' and 'place'

Ethnography is a research method based on observing consumer behaviour. As the name implies, it has its roots in observing and understanding the behaviour of different ethnic groups. In the context of formulating competitive actions, an ethnographic study would involve spending time, possibly days or even weeks, with consumers, observing, recording and analysing their behaviour.

For example, an airline wishing to improve its customer service may assign a manager to check-in, wait for, board and take flights with paying customers right up to the point they collect their baggage on arrival at their destinations and leave the terminal buildings. The manager would observe the comments, their actions and, particularly, what they like and dislike, what they appreciate and what frustrates them. This data could then be analysed to affirm what the airline is doing well and could be used as a competitive advantage and what could be improved on and how this could be achieved in a ways that will best respond to customers' dislikes and frustrations.

A good example of ethnography is the success a vacuum cleaner manufacturer experienced when they discovered the various attachments that came with their machines, including nozzles, would invariably get lost. They discovered this by spending time with their consumers in their homes and learnt that the loss of the attachments caused them great frustration. They responded by attaching clasps for the various attachments to their vacuum cleaners. One of the retailers that participated in my research spent over a month in the store observing customer interactions and customer comments while formulating his set of competitive actions.

Managers interested in using ethnographic studies to collect data and understand the behaviour of their consumers could read an article by Richard Elliott & Nick Jankel-Elliott published by the Quantitative Market Research journal (2003: 6, 4, pg. 215) called Using ethnography in strategic consumer research.

Informal channels

Useful in formulating actions related to 'price', 'product', 'business model' and 'place'

Informal channels were widely used amongst the managers interviewed and the quality and relevance of the data was often underrated. These informal channels include, inter alia:

1. Discussions with customer-facing employees, such as the sales staff and call centre operators, about the feedback they receive from customers. This feedback ranged from how customers perceived the prices of products and the relative perceived value to how well garments fitted them and what they thought made products special and distinguished them from competitors' products or services.
2. A discussion with employees that had previously worked for competitors and were able to share information regarding competitors pricing strategies, product research and development plans and processes, distribution networks etc.
3. Discussions with customers, either through telephone or email communication, or at the point of sale, such as on the shop floor, about issues and opinions relevant to the competitive action.
4. Discussions with partner organisations that understand the external environment, particularly the requirements, policies and actions of competitors and customers alike.

In every instance, the data gathered through informal channels was valuable, as it was rich and pertinent to the issues customers were confronted with and that were important to them. In cases where data was gathered from staff, it was often the same staff that executed the actions and being part of their research and formulation made them feel they were part of the end-to-end process and served to motivate them to ensure its success.

Examples include the re-pricing of credit default swaps by a financial trading house that underwrites them. The manager that formulated and executed the action noted, "during this period we monitored what our competitors were doing and we found they were re-pricing their products. We did this by hiring from competitors, being friendly with competitors to the point we could talk with them about their pricing strategies, as well as talking to the banks, which were our common clients, about how our competitors were pricing their products". One of the luxury car distributors that participated in my research relied heavily on the feedback they received from customers and employees while formulating their competitive actions.

Another good example is a software company based in London. After hearing about a new competitor providing a system to automate a particular function, they spoke with a few of their existing clients about the functionality and were told "we are currently performing these functions manually and would like to automate them but it wouldn't be worth the trouble of doing so on our own". Given this feedback, they started discussions with a law firm that advised clients regarding this function and, the manager interviewed noted, "this led to us forming a partnership with them and we started specifying the functionality for a product to compete with the new market entrants". They then, "mocked up a few web pages to show what the new functionality would look like and our clients were enthusiastic", which led them to develop the product and piloted it with two clients before launching it. This is a good example of how data can be gathered through dialogues with partners and customers. This example also shows how competitive intelligence can be integrated with the competitive action formulation and execution process.



TOOLS

Customer matrix

Useful in objective setting and in using the product and price levers to formulate competitive actions

The Customer Matrix was developed by Bowman and Faulkner and is described in their 1994 article titled 'Measuring Product Advantage Using Competitive Benchmarking and Customer Perceptions' published in the Long Range Planning journal (Vol. 27, No. 1, p 110-132). The matrix measures product advantage, which is premised on the notion that "competition is acted out through the purchasing behaviour of individual customers" and, therefore, the basic unit of analysis should be the individual customer and not the firm, the market or the industry.

The matrix comprises 'Perceived Use Value' along the one axis and 'Perceived Price' along the other. The most desirable quadrant is the one with the highest perceived use value and the lowest perceived price, while the least desirable is the one with the highest perceived price and the lowest perceived use value. The matrix was designed to help managers better understand a product or brand positions in relation to their competitors through the lens of the individual customer. Constructing the matrix is an iterative process that starts with the application of hard information that is then supplemented by experience and perceptions and refined further as more data is gathered.

The authors have also applied their matrix to the producer view and the relationship between 'innovation' and 'cost', which allows producers to marry their internal dynamics with their customers' perceptions regarding price and use value.

Primary benefit map

Useful in using the product lever to formulate a competitive action

The Primary benefit map was developed by Richard D'Aveni and is proposed to predict future competitive environments by focusing on how customers determine the value of perceived benefits. This involves using a technique to pre-empt rivals' competitive actions through the use of price-benefit maps that are extrapolated to predict competitors' strategic intent. Regression analysis is used to examine the relationship between a dependent variable (price in this case) and several independent variables (product benefits) and to create a price-benefit model.

Primary benefits can be defined as either the relative market position of a particular product or a specific functional or technical attribute of the product. The Primary benefit map was published in D'Aveni's article, "Mapping Your Competitive Position", in the Harvard Business Review in November 2007 (p 110-120)

Ansoff's growth matrix

Useful in objective setting

Ansoff's growth matrix was designed to provide managers with a tool to assist in making marketing related decisions for future growth. It was published in Igor Ansoff's article 'Strategies for Diversification' in the Harvard Business Review (Vol. 35 Issue 5, Sep-Oct 1957, pp. 113-124).

The matrix provides a "joint statement of a product line and the corresponding set of missions which products are designed to fulfil" and describes four different growth alternatives, including:

- Market penetration, in which the company aims to grow using existing product or service offerings in existing markets. This entails increasing market share within existing market segments.
- Market development, in which the company aims to expand into new markets using existing product or service offerings.
- Product development, in which the company aims to create new products or services targeting existing markets to achieve growth.

- Diversification, in which the company aims to grow its market share by launching new product or service offerings in new markets. This is the riskiest approach as both product and market development is required.

Porter's 5-forces

Useful in objective setting and determining which of the 5 levers to use in formulating competitive actions

The Five forces model published by Michael Porter in his 1980 book 'Competitive Strategy: Techniques for Analysing Industries and Competitors', provides a framework for analysing the level of competition within industries. In the book, Michael Porter asserts that firms will have unique strengths and weaknesses in dealing with industry structure and industry structure shifts over time and, therefore, understanding industry structure must be the starting point for strategic analysis. The 'Five Forces' is a model for assessing a number of important economic and technical characteristics of an industrial organisation and Porter suggests that, once the industry structure has been analysed, offensive or defensive actions can be taken to reposition the brand or product to compete optimally.

Because the model is aimed at understanding the dynamics of the industrial organisation, and precludes factors pertinent to the formulation of competitive actions, such as relative product or service attributes, consumer trends and attitudes and the experiences and skill sets of the managers formulating the actions, it has limited applicability in this context. Its real value, in this context, lies in analysing competitive forces as inputs to the formulation of the action and, therefore, in setting objectives for the action and in deciding which of the five levers referred to in this guide to use, possibly in combination with each other.

In addition to the Five forces model, a 2 x 2 model for predicting the rate and stability of returns in an industry based on entry and exit barriers is also provided in the book, as is a 2 x 2 model for deciding on the adoption of one of three generic strategies based on the uniqueness perceived by customers of the product offering and the firms cost position.

Core competency

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

Prahalad and Hamel described competencies as the root of competitiveness in their 1990 article 'The core competence of the corporation' published in the *Harvard Business Review* (v. 68, no. 3, p 79-91). They postulate that a core competency results from a specific set of skills or production techniques that deliver additional value to the customer. These lead to the development of core products that can be used to build many products for end users, which enables the company to access a wide variety of markets.

Core competencies are developed through the process of continuous improvements over the period of time rather than a single large change. The article is particularly useful in helping managers analyse their companies competencies when deciding on which new markets to enter, how to update or enhance existing products or business models or which new products to develop to ensure optimal success.

New value curve

Useful in objective setting

The new value curve provides a fresh approach to competitive positioning that is premised on establishing what Kim and Mauborgne (1999) refer to as 'new value curves' in their article 'Creating New Market Space' published in the *Harvard Business Review*. They promote a 'systematic approach to value innovation' as a way of avoiding head-to-head competition, which they state "can be cutthroat, especially when markets are flat or growing slowly". The pretext of their research is that most companies focus on matching and beating their rivals and, as a result, their actions tend to converge along the same basic dimensions of competition.

Kim and Mauborgne contend that firms can position their products or brands in new market spaces by employing different patterns of strategic thinking. This approach to competitive positioning is premised primarily on considering substitute industries to establish new value curves. The key to discovering a new value curve lies in four basic questions:

1. What factors should be reduced well below the industry standard?
2. What factors should be eliminated that the industry has taken for granted?
3. What factors should be created that the industry has never been offered before?
4. What factors should be raised well beyond the industry standard?

New value curves attempt to transform enormous latent demand into real demand. Strategic groups can generally be ranked in a rough hierarchical order built on two dimensions; price and performance. The key to creating new market space across existing strategic groups is to understand what factors determine buyers' decisions to trade up or down from one group to another. This requires that companies challenge the functional-emotional orientation of their industries.



COMPETITORS

Competitors' products and services

Useful in formulating actions related to the 'Product' lever

In conjunction with some of the use of tools described above, including the Customer matrix, the Primary benefit map, Ansoff's growth matrix and the Core competence model, information about competitors products and services would be needed to formulate actions related to the 'product' lever. This information would be used as inputs to the tools listed above and would typically include details of competitive product's functional and technical features, particularly those features that are unique to that product or services. Information about how the product or service in question has evolved in the past and how it is likely to evolve, would also be useful, particularly for use in conjunction with the Primary benefit map. This information can be obtained from a number of sources, including:

- Publicly available marketing material, such as advertisements, brochures and other sales collateral
- Employees that used to work for competitors and have good knowledge of their products or services
- Managers or employees of either customers or suppliers that are common to the company and its competitors
- Marketing agencies, consultants and market research agencies, such as the agency GfK, that either gather industry data or work with competitors

Competitors' pricing models

Useful in formulating actions related to the 'Price' lever

As with the 'Competitors' products and services', information about competitors' pricing models will be needed if some of the tools described above are to be used, particularly the Customer matrix and the Primary benefit map. This information would be used as inputs to these tools and would typically include existing pricing models for competitors' product or services, as well as information about how these models are likely to be updated in response to changes in their competitors pricing models, or in response to any other form of increased rivalry for that matter. This information can be obtained from a number of sources, including:

- Publicly available marketing material, such as advertisements, brochures and other sales collateral
- Employees that used to work for competitors and have good knowledge of their products or services
- Managers or employees of either customers or suppliers that are common to the company and its competitors
- Marketing agencies, consultants and market research agencies, such as the agency GfK, that either gather industry data or work with competitors

Intensity of rivalry

Useful in objective setting

The intensity of rivalry within an industry and between competitors should serve to inform the objective or objectives set for an action and, as a consequence, the actions themselves. For example, where rivalry is intense, managers may consider innovating by developing a new product or a new business model in order to avoid further competitive pressure, as proposed by Kim and Mauborgne in their article 'Creating new market space'. Where rivalry is less intense and the industry may still be growing and enjoying abnormal profits, managers would probably feel less compelled to devote capital expenditure to the research and development of a new product or service and would rather pursue an action such as launching a communications campaign to make consumers more aware of existing products or service with the objective of increasing market share.

This is affirmed by Giaglis and Fouska's (2011) study published in their article 'The impact of managerial perceptions on competitive response variety'. The study explores the relationship between management perceptions of their competitive environments and their responses to rivalry. It finds that management perceptions of the intensity of competition; threats of substitution and increased buyer power are correlated with broader and more innovative competitive reactions.

It should also be pointed out that managers' often avoid deviating from the conventions set by strategic groups for fear of rivalry from other firms in the grouping. This is particularly applicable to oligopolies. For example, managers of an airline or a bank may be reluctant to decrease their pricing below that of their competitors because of the rivalry it may trigger.

Relative company size

Useful in objective setting and in deciding on which of the 5 levers to use

In analysing competitors and in trying to anticipate rivalry following a competitive action, it is worthwhile mapping the relative sizes of the various competitors, the markets they serve and the customer requirements they fulfil. Once this is understood, the effects of the competitive action can be better anticipated.

For example, if it is known that there is a much larger competitor, with the advantage of greater economies of scale and, therefore, lower production costs, already fulfils a particular customer requirement it would not make sense to try to satisfy that same requirement, even in an indirect manner, as this would probably mean ending up in the 'gap in the middle', as described by Michael Porter (1980).

Smaller companies operating within an industry or a strategic group would be better off considering niche markets for expansion or profit preservation and developing products and services that meet specific customer requirements, rather than broad ones.

It was observed in the research leading to the development of this guide that managers at large companies make a mental assumption that their companies should be able to compete more effectively than their smaller competitors because of their more comprehensive and more developed resource bases. For example, the manager at a large IT company stated that by combining their resources, including both internal resources and those made available to them by partners at preferential rates because of their size, they would have a competitive advantage over smaller competitors in price and in the functional breadth of their solution offerings. A manager at another large IT company was surprised that a small competitor could enter their competitive set because he thought they would not be able to fulfil their customers rigorous procurement requirements.

It is also worth noting that, based on the research, larger companies tend to formulate and execute competitive actions in order to fend off competitive threats from smaller competitors or as a reaction to shrinking sales figures or market share, while smaller companies that tend to formulate and execute competitive actions with the objective of growing their businesses.

Relative profitability

Useful in objective setting and in deciding on which of the 5 levers to use

Better profitability usually translates into more retained earnings and, therefore, a larger war chest to use to defend a market position, increase market share or innovate new products, services or business models. This war chest could, however, also be funded through a rights issue or debt or, in the case of one of the companies used in the research, the investment of a new shareholder. In this instance, the war chest was used to acquire companies that own complimentary services that could be bundled with the acquirer's existing products and services to create new and unique solutions and to cross sell products and services between the collective companies customer bases.

Although this practice it is now perceived as anti-competitive behaviour in most jurisdictions, more profitable businesses have often used their financial positions to suppress or drive rivals out of their markets. A good example of this was British Airways and American Airlines ganging up on Laker Airways and, more recently, on Virgin Atlantic to drive them out of the trans-Atlantic airline market. In the case of Laker Airways, they forced the airline into bankruptcy by colluding to cut their prices to point where Laker could only compete on a loss-making basis. They continued to do so until Laker Airways was forced out of business and then raised their prices again. Partly due to the intervention of the regulator, British Airways and American Airlines weren't as successful with Virgin Atlantic.

Higher profits need not necessarily be used to defend market positions or increase market share as blatantly as in the example above. They could, for instances, be used to innovate by either updating existing or developing new products, services or business models, placing less profitable companies, that are unable to do so, at a disadvantage. It's important for managers to be aware of the ramifications of their profit positions relative to their competitors when they set objectives and when they decide which of the five levers to use, and how to use them, in the formulation of their competitive actions.

Resource based view

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

Collis and Montgomery (1995) provide a framework that companies can use to differentiate themselves from rivals in their article 'Competing on Resources,' which is premised on the Resource Based View (RBV) concept described by Edith Penrose in her 1959 article 'The theory of the growth of the firm'. Collis and Montgomery assert that resources cannot be evaluated in isolation because their collective value is determined in the interplay with market forces. In other words, a resource that is valuable in a particular industry or at a particular time might fail to have the same value in a different industry or chronological context.

The framework combines the internal analysis of phenomena within the company and the external analysis of the industry and the competitive environment. Specifically, the framework suggests companies should focus on defining their valuable resources that enable them to perform activities better or more cheaply than their rivals.



BENCHMARKS

Competitive actions in parallel industries and other territories

Useful in deciding which of the 5 levers to use and how to use them in formulating competitive actions
Replicating or learning from competitive actions in other territories or parallel industries can be applied to any of the five leavers. For example, the business model of ride-hailing service Uber has been used in of a number of other business applications, including food delivery services, corporate jet rentals and home appliance rentals. In the research I also came across competitors pricing policies and communication campaigns being copied and competitors' product features being adapted for application in another market or to provide a competitive advantage.

Using the competitive actions from other territories or parallel industries can be used in conjunction with a tool such as the Customer matrix or the Primary benefit map, both of which are covered in the 'Tools' section of this guide. The 'new' perceived product value, product features or the price of the product following can be mapped against competitive offerings to try to ascertain the efficacy of the action before implementing it.

Evolution of industries in other territories

Useful in deciding which of the 5 levers to use and how to use them in formulating competitive actions
In carrying out research for this guide, a manager of a telco¹ in a developing economy stated that most of their competitive actions are copied from telco's in developed countries. A media group said they looked to other markets to see what had been done and they could use in formulating their competitive actions. The media group saw similar companies in other territories acquiring related media businesses and bundling the newly acquired businesses products with their own. They followed suit and started developing new solutions based on bundled media products and services.

The same or similar industries in different territories often follow the same evolutionary patterns but at a staggered pace. It may be a good idea to identify territories that are evolutionary front-runners and study them for ideas and input in deciding which of the 5 levers to use and how to use them in formulating competitive actions.

¹ Telecommunications corporation

TEAM

Teamwork

Useful where many different skill sets and collaboration between different departments within the organisation are needed

Where co-operation or collaboration between different departments or units in an organisation is required for the effective execution of a competitive action, it may be a good idea to involve the relevant managers and other personnel in its formulation as early on as possible. This involvement could take the form of cross-departmental workshops and communications regarding the competitive action.

A good example is a bank that used their anticipation of a downward shift in interest rates to develop a new mortgage product. The product's principal feature was a reduced rate on the mortgage loan for the first two years - they initially thought of setting this at 5.5% (from 8%) but ended up setting it at 4.5% deciding this would make the impact they needed, based on interactions with the marketing department and, ultimately, with customers.

In this example the communication channels between customer-facing staff, the marketing department, the Strategy & planning department, the banks' economists and the Asset & Liability committee (ALCO) were open and fluid. The different inputs, including macro-economic analysis, customer surveys, market analysis, ALCO committee discussions used to develop the new product were tight and, for example, the marketing department and the economists knew of the ALCO's objective of growing the mortgage book, the Strategy & planning department and the ALCO were informed by the economists of the anticipated decrease in interest rates and the marketing department worked with the Strategy & Planning department and the customer-facing departments of the bank to ensure the successful roll-out of the new product.

Education & training

Useful in creating teams to formulate competitive actions at the point of the stimulus

Based on the research, the dichotomy between competitive actions carried out by managers with relevant and formal graduate and post-graduate business or marketing qualifications and those without, primarily entrepreneurs, is clear.

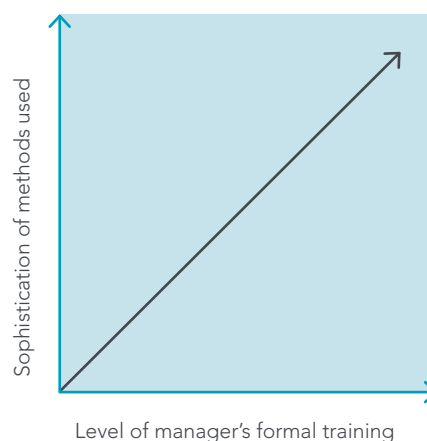


Figure 1: Managers' training and level of sophistication of methods used

While the methods used by managers without relevant graduate and post-graduate business or marketing qualifications are somewhat divergent, it is clear that there is a relationship between the level of training of the manager and the sophistication of the methods they use in developing their competitive actions. Particularly, it is clear that managers with more extensive relevant graduate and post-graduate training used more sophisticated methods.

Regarding causality, it could be argued that larger companies tend to use more sophisticated methods and also place greater emphasis on formal qualifications when employing managers and, therefore, the sophistication of methods employed is a function of the size of the company and their recruitment policies, rather than being a direct result of the level of training of the manager.

When team members are selected to formulate and execute competitive actions, managers should be aware that, if the tasks leading up to the action require a thorough and deliberate approach, they would probably be better served using staff with formal educational qualifications in business or marketing disciplines. Should the formulation of the action require a more entrepreneurial approach, for example combining products in new and innovative ways where no data is available to predict how the market would respond or in addressing sagging sales due to evolving customer tastes, a more experienced manager should probably be sought and less emphasis could be placed on his or her education and formal training.

Other skills and training backgrounds could also be considered, depending on the type of action. For example, if the action involves trying to understand how consumer behaviour is changing or tastes are evolving and responding to these changes, the skills of an anthropologist or industrial psychologist could prove to be useful.

Level of experience of managers

Useful in creating teams to formulate competitive actions at the point of the stimulus

My research showed that younger managers, particularly when they have had extensive formal training in business and marketing disciplines but, due to their age, less experience, tended to be relatively methodical in their approaches to formulating and executing competitive actions and relied on frames of reference developed through training. Older and more experienced managers who had accumulated substantial tacit knowledge over many years but had no relevant formal training, relied more on dialogues with other managers, employees and customers, as well as their own knowledge, to formulate and execute competitive actions. Younger managers also tend to have fresh ideas and mental maps based on past experiences tend to be less deeply ingrained.

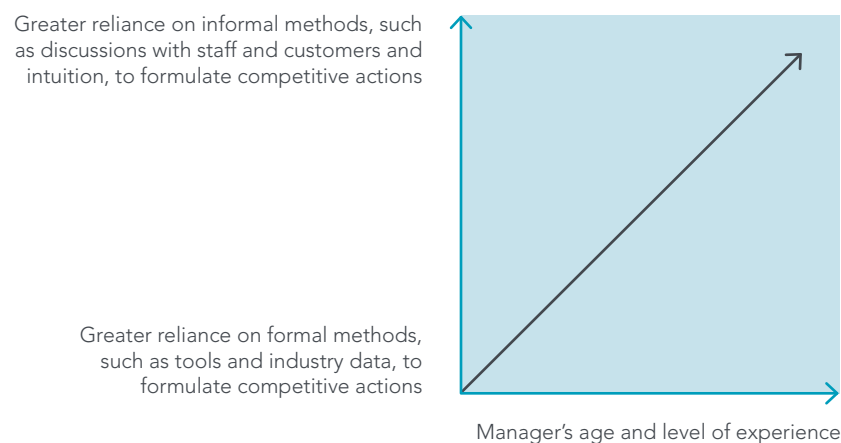


Figure 2: Managers' training and level of sophistication of methods used

Both approaches are valuable in the formulation of competitive actions and companies would often be well served by creating teams that comprise both younger but well educated managers with older and more experienced ones, provided possible conflicts and clashes between the different approaches can be managed.

Functional biases

Useful in creating teams to formulate competitive actions at the point of the stimulus

Bowman's and Daniels (1995) study on the influence of functional experience on perceptions of strategic priorities concludes that when managers are asked to reflect on their own company's situations there is evidence of functional bias in the perceptions of priorities derived from generic competitive strategies. Career backgrounds influence managers' frames of reference (Whitley, 1987). Hodgkinson and Johnson (1994) argue that the diversity of managers' frames of reference influences their perceptions of competition and how their brands or products are positioned in the market.

Hofstede (1980) suggests that managers' frames of reference influence their perceived control of the environment and strategic behaviour. There are, of course, also factors within the organisation that influence managers' mental models. At the level of functional groups, for example, there are functionally specific belief systems and perceptions of issues (Dearborn and Simon, 1958; Handy, 1985). Whitley (1987) argued that managers' views of the world are shaped, at least in part, by their career backgrounds. There is a continual interplay between the individual, the context in which he or she operates, the frames of reference related to these contexts, and the political and social processes at work (Hodgkinson and Johnson, 1994).

When assembling teams to formulate and execute competitive actions, it may be a good idea to list the skill sets and the experiences that are ideally required. Thereafter, you could shortlist the staff that could possibly participate in formulating and executing the specific action and, lastly, map the skills and experiences of the shortlisted staff to those required for the action. A mix of staff with different functional backgrounds and biases could prove to be very valuable in covering all bases when formulating competitive actions.

National & cultural backgrounds

Useful in creating teams to formulate competitive actions at the point of the stimulus

Managers formulating and executing competitive actions in their home markets have an advantage over those operating in foreign markets insofar as they have a better understanding of the local culture and national peculiarities. Managers formulating and executing competitive actions in foreign markets have an advantage insofar as they bring the learned experiences of competitive actions successfully executed in their home markets with them and were able to apply learning's and tacit knowledge gained in their home markets to the new ones. However, in every instance of managers from foreign markets successfully formulating and executing competitive actions, they did so with the support of local managers. It's noteworthy that when a local manager was also involved in the formulation and execution of competitive actions led by foreign managers in my research, the competitive action appeared to have been executed with relatively positive results.

Managers draw on a series of frames of reference to make sense of their worlds. Hodgkinson and Johnson (1994) found that managers' frames of reference are influenced by their experiences and that national culture is a strong influencer. As a result, their frames of reference are broader than organisational or industry level frames. It also suggests that the diversity of frames of reference goes still wider than the organisation or industry level and that there is increasing evidence that national culture affects managers' interpretations and responses to strategic issues.

My research showed that a mix of different national and cultural backgrounds could be advantageous in the formulation of competitive actions, particularly when the frames of reference of a manager that has successfully responded to a particular stimulus in a foreign territory is combined with those of a local

manager who understands local national and cultural nuances. It's worth considering the national and cultural backgrounds of staff that will be, or could be, employed in the formulation of competitive actions in relation to the external environment at the point the team is assembled.

A good example of the combination of local and foreign managers for the purpose of formulating competitive actions is a car distributor in an emerging market. Foreign managers, who had experience in building the brand and marketing their products in other parts of the world, worked with the local General Manager, who had been working in his market for over 20 years, had lived in the country his entire life and whose frames of reference had been developed through his life and work experiences. A set of actions were formulated to pre-launch the automobile brand in this market and tasks, such as designing and developing marketing material and then deciding on which advertising channels to use, were successfully completed with the input of both sets of managers.

Relevant experience in other territories and parallel industries

Useful in creating teams to formulate competitive actions at the point of the stimulus

Experiences gained in other territories or parallel industries can often be used with great success in the formulation and execution of competitive actions. In my research we came across many instances of managers looking at other industries in their own territories or the same industries elsewhere, either for inspiration in formulating their competitive actions or to find specific opportunities they could exploit. In two cases, products that were successful in one market were produced or exported to another where there was less competitive pressure and, therefore, higher profit margins.

It may be useful to take stock of the experiences that staff that could be employed in the formulation and execution of the requisite competitive action have had in other territories or industries to ascertain possible relevance.



INDUSTRY

Industry maturity

Useful in objective setting and in deciding on which of the 5 levers to use

The structure of the industry in any specific market tends to be related to its maturity. In mature industries, such as the automotive or the FMCG² (soft drinks, fabric softener, confectioneries and under-arm deodorants) industries, managers are very aware of whom their competitors are and their relative positions in the market. As a result, they act very deliberately when gathering market intelligence and when formulating and executing competitive actions. Managers operating in emerging or growing industries, whose industrial structures are therefore still evolving, tend not to have their competitors defined that clearly. They are also less deliberate in their approaches to gathering market intelligence and formulating and executing competitive actions than managers operating in mature industries.

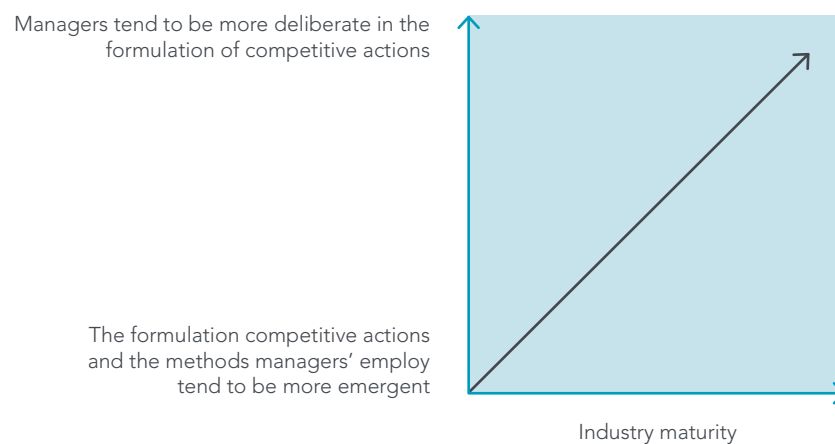


Figure 3: The formulation of competitive actions and industry maturity

Based on my research, the competitive set tended to be fragmented and opaque to managers operating in nascent industries, while in mature industries the competitive set tended to be well established and managers' frames of reference tended to be more aware of who their competitors were and what their competitors were doing in the context of competitive actions. The managers who were interviewed at IT companies, whose industrial structures were still evolving and, therefore, their competitive sets were not as clearly defined as those of the automotive or FMCG industries, were less deliberate in their approaches to gathering market intelligence and formulating and executing competitive actions. They viewed their competitive environments less clearly than those in the automotive and FMCG industries and were less aware of how competitors might react to their competitive actions. They were also less formulaic in how they gathered data and made decisions related to competitive actions.

A fruit juice manufacturer had very precise sales data for his brands and those of his competitors and was able to estimate the income and expenses associated with producing and marketing his brands, as well as those of his competitors'. The approach to formulating competitive actions was also very precise, surveys were used to gauge market acceptance and a tool was used to estimate sales volumes related to new products being considered and how much would need to be spent on marketing to achieve these volumes.

One of the managers interviewed at a company that produces smart cards, was aware that if all they did was produce and market them, their competition would be intense and their margins would be low. The manager also took a resource based view of the business and, taking into account their size and the relatively high skills sets and the corresponding cost of their personnel, decided to use the smart cards

² Fast Moving Consumer Goods

they produced as a mechanism to deliver services that fulfilled very specific needs. In doing so, they were able to achieve much higher margins than they could otherwise. The manager wasn't aware of what the alternatives to the solutions they provided were. Neither was she aware of their competitors. As the business was highly innovative and the markets they entered or created were nascent, the industry was unstructured and the players in the industry were highly fragmented. Therefore, there wasn't really a need to be all that aware of their rivals or to use sophisticated methods for gathering market intelligence and for formulating competitive actions.

It is useful to be aware of how mature the industry you operate in is, and how well developed it's structures are. This has an impact on the data that is available to you and your competitors and it's sources, as well as the rivalry you are likely to experience, which in turn affects the objectives you can set for yourself and the type of actions that are likely to be successful. It is also worth reading the section that follow, particularly those about 'Fragmentation' and 'Strategic groups & cognitive communities'.

In mature industries Competitors' data (sales data etc.) should be available through formal channels, such as marketing agencies, to use in formulating competitive actions. You could try to augment this data with data obtained through informal sources, such as employees that used to work for competitors and shared customers that are prepared to talk about your competitors to gain a more well-rounded view of your competitors' plans and actions. In nascent industries competitors' data (sales data etc.) won't be readily available so you will need to use informal sources, such as employees that used to work for competitors and shared customers that are prepared to talk about your competitors.

Fragmentation

Useful for understanding industry structures, particularly in objective setting and in deciding on which of the 5 levers to use

The fragmentation of competitors in an industrial structure is more likely to be evidenced in a nascent or growing industry than a mature one, where industrial structures have been established over many years.

In my research, I analysed the way in which a smart card producer that uses the cards as mechanisms to develop and launch products that fill specific market needs, views and relates to competitors and potential competitors. The company sought to avoid competing with other smart card producers' head on by finding customer needs that haven't been satisfied and that they could respond to with solutions that used the smart card as a delivery mechanism. These customer needs were synonymous with nascent and fragmented markets and their focus was on satisfying customer needs with little or no consideration for the competitive environment. This is a function of the maturity of the industry they operate in and its relatively unorganised structure.

Fragmented industries can present great opportunities and the smart card producer is a very good example of how companies can avoid head-to-head competition by seeking out unsatisfied customer requirements in parallel industries that are nascent and fragmented. This is the approach advocated by Kim and Mauborgne in their 1999 article 'Creating New Market Space' published in the Harvard Business Review. They describe the approach as seeking 'new value curves'.

If you are operating in a nascent or growing industry, it is worth asking yourself if you are aware of possible new market entrants? In many organisations, the links between the market intelligence gathering function and the sales, marketing and planning functions are weak. With these functions integrated, the organisation will be in a better position to anticipate and deal with threats from new market entrants as early on as possible, which is particularly pertinent to fragmented industries whose structures are still evolving.

If you've identified a threat from a new market entrant, you should be able to clearly describe their product or service offerings and identify the market segments or niches they're targeting. As an integrated organisation, it would be worth scanning the market periodically to identify threats from possible new entrants as early on as possible. Once identified, you should gather intelligence on their product or service offerings and identify the market segments or niches they are targeting.

Strategic groups & cognitive communities

Useful for understanding industry structures, particularly in objective setting and in deciding on which of the 5 levers to use

Strategic groups are part of the way strategists organise and make sense of their competitive environments (Reger & Huff, 1993). Specifically, managers simplify their competitive environments by focusing upon a subset of firms competing within an industry (Daniels, Johnson and de Chernatony, 2002; Easton et al. 1993; Gripsrud and Gronhaug 1985; Hodgkinson and Johnson 1994; Lant and Baum 1995). They simplify their competitive environments further by categorising their competitors (Porac, Thomas and Baden-Fuller, 1989; Porac and Thomas 1990, 1994; Reger and Huff 1993). They define their own business in terms of the label they use to define the cognitive category in which their business is placed (Porac, Thomas and Baden-Fuller 1989) and hence consider their company to be competing most closely with other companies in that category (Porac and Thomas 1994). Porac, Thomas and Baden-Fuller (1989) use the term 'cognitive oligopolies' to refer to the tendency of managers, even in fragmented environments, to select a few, very similar organisations as competitive referents. They propose two criteria to distinguish competitors from non-competitors:

1. The first distinction is made on the basis of technology and companies are competitors when they share similar technological attributes.
2. The second distinction is made on the basis of product substitutability and companies are deemed to be competitors when they produce products that can be substitutes for one another in the satisfaction of a customer requirement.

The construction of cognitive groups allows managers to estimate the effects of environmental changes on sets of organisations within an industry, instead of having to estimate the effects on all firms individually (Porac, Thomas and Baden-Fuller, 1989). Firms that produce similar products or provide similar services are often similarly affected by the conditions to which they are exposed (Tallman et al., 2004). Prevailing wage rates, raw material availability and shifting customer demands are examples of environmental conditions that similarly impact organisations within a cognitive group. These conditions can possess both limiting and enabling characteristics that can affect the direction of change for the organisation (Bloodgood and Morrow, 2003). Managers are attuned to how firms within their cognitive group compete with one another and are likely to use competitive analysis to help them better understand and predict these organisations' actions (Porter, 1980).

Though essentially an individual-level concept, cognitive frameworks are influenced by the interactions individuals have with others (Bogner and Barr, 2000). As interactions occur among a number of different individuals within a given social grouping, the commonly shared ideas begin to take on an existence of their own, independent of the individuals that created them, and frameworks that exist at supra-individual levels begin to emerge (Wiley, 1988). These "shared belief systems" make coordinated activity possible by providing a common framework for observing and interpreting new stimuli and for coordinating appropriate action (Kelly, 1955).

Individuals in an industry interact with each other. They go to the same conferences and exhibitions, they read the same industry literature and they recruit staff from the same labour pool (Reger and Huff, 1993). They share the same suppliers in their value chain activities and observe what competitors do through benchmarking (Porac et al., 1989). As a result, shared beliefs about competitive challenges and opportunities are created through the cross-fertilisation of such interaction. Potentially, this may lead to the adoption of similar ideas and practices and thus may hinder differentiation.

Over time, individuals within the firm share experiences and knowledge with one another, and a base of common knowledge and 'views of the world' begin to form (Bogner and Barr, 2000). Interactions among firms within an industry create a similarity in beliefs and actions that has led others to suggest the existence of industry-level frameworks. It would also appear that individuals might hold somewhat different construct systems yet share common category structures at the level of the industry. Furthermore, it appears that there is divergence between the mental models of senior managers, which results from the task environment and their objectives of differentiating their products and brands through competitive actions, yet cognitive convergence exists at the functional management level, where managers are influenced by the institutional environment and motivated by conformity with industry standards and processes.

It is also evident from my research that oligopolies act in a coordinated fashion in the context of competitive actions. Kelly (1995) noted "Shared belief systems enable coordinated activity by providing a common framework". These structures are associated with industry maturity. In other words, as an industry matures so the structures become more and more engrained. The research leading to the development of this guide confirms this insofar as managers in the mature industries, including the automotive, financial services, FMCG and fashion industries, were far more aware of their competitors and, therefore, the structures of their industries, than the managers operating in nascent (emerging and growth) industries, including the information technology, smart cards and new media industries. Wiley (1988) asserts that supra-individual level frameworks emerge as interactions take place among different individuals within a given social grouping and the commonly shared ideas begin to take on an existence of their own, independent of the individuals that created them.

Managers operating within defined strategic groups may consider deviating from industry norms, in the context of product development, communication campaigns and the reconfiguration of product or service offerings or the way in which they are packaged, in an attempt to increase their profit levels above their industry norms. Managers may also prefer to take comfort in not deviating from industry norms for fear of possibly compromising their profits.

Degree of turbulence

Useful in understanding the effect turbulent environments might have on competitive actions throughout the formulation process

Conventional cognitive frameworks employed to make sense of industrial competitive environments may not work in turbulent industries. Bogner and Barr (2000) describe the cognitive frameworks employed in hypercompetitive industries as "adaptive sense-making" and suggest that in hypercompetition those processes continue indefinitely as members of the industry continually seek to disrupt it. Further, they argue that these processes can become institutionalised as standard operating procedures within firms and as shared recipes within industries, which in turn perpetuates hyper-turbulent conditions. Thus, hypercompetition becomes a relatively permanent situation, though it may be punctuated by brief periods of stability.

Schneider and Shiffrin (1977) observed two qualitatively distinct processing modes in their study, being 'Automatic' and 'Controlled'. Automatic processing was described as unintentional, involuntary, effortless, autonomous and occurring outside of awareness. In contrast, controlled processing was described as flexible, within an individual's intentional control, effortful, active, constrained by short-term attentional resources and motivated or strategic. Uleman (1989) formulated an expanding continuum of multiple, fuzzy and overlapping cognitive processing modes that form a progression from absolutely automatic to unconditionally controlled.

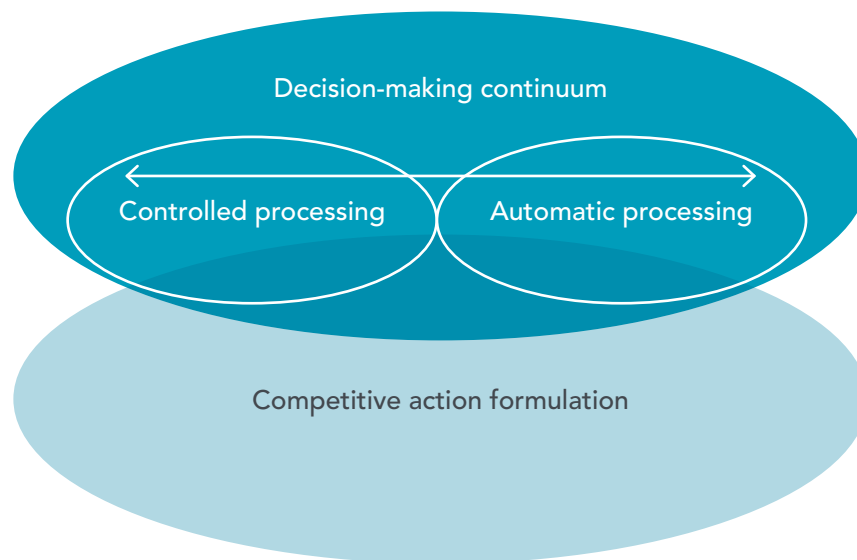


Figure 4: Controlled vs. automatic decision making in the context of competitive action formulation

Reger & Palmer (1996) found that as situational uniqueness increases, accurate interpretation becomes more difficult and, in unfamiliar environments, automatic category assignments based on out-dated maps are likely to result in erroneous action, as automatic judgments are made without reflection. They concluded that managers' cognitive maps, on a collective basis, became less consensual as the environment became more turbulent. However, the mean number of constructs per individual increased only slightly and not significantly.

Reger and Palmer (1996) stated that many strategic decisions are made under stress and time pressure and, despite sophisticated planning and decision support systems aimed at coercing executives into controlled processing, automatic cognitive processing may be the dominant mode in strategic issue diagnosis.

When environments are relatively stable for long periods of time, reinforcement of well-learned, ready-made categories occur (Reger and Palmer 1996, Dutton 1993). This results in a strong convergence between automatic and controlled schemas. Automatic and controlled mental models are expected to remain similar until the environment changes substantially enough to render them obsolete (Reger and Palmer 1996).

Consistent with Schumpeter's (1942) and the Austrian school of economics theory of innovation and abnormal profits, Wiggins & Ruefli (2005) assert that no one except the innovator makes a genuine 'profit' and that the innovator's profit is always quite short-lived. Their research finds that:

- Periods of persistent superior economic performance have decreased in duration over time
- Hypercompetition is not limited to high-technology industries, but occurs throughout most industries, but that superior economic performance decreases in duration over time in both 'high-tech' and 'low-tech' industries but at a slower rate in 'low-tech' industries

Over time, companies increasingly have sought to sustain competitive advantage by concatenating a series of short-term competitive advantages. Schumpeter and Wiggins & Ruefli contend that the only way to sustain superior economic performance or abnormal profits is to constantly innovate.

The research leading to the development of this guide found that the intensity of competition is also a function of cultural and national norms, as well as regulation. For example, the anti-corruption laws introduced in Mainland China caused considerable competitive upheaval in the fashion industry and the procurement regulations imposed on state-owned entities in Kazakhstan guided the way in which other state-owned entities marketed and sold their products and services. D'Aveni (1994) noted that the airline,

banking, and telecom industries in the United States had been hypercompetitive for some time but yet in Japan, and to a lesser extent continental Europe, social and cultural norms imposed constraints on adapting such rapid and discontinuous change frameworks.

Managers that find themselves operating in competitive environments that are turbulent, or are becoming ever more turbulent, should be aware of the impact the situational uniqueness is likely to have on their environmental interpretations and their mode of processing. Regarding how to effectively deal with increasing turbulence, managers could consider one of two approaches, depending on the core competencies of their companies. These include:

1. Innovate in order to sustain superior economic performance. This innovation could apply to products, pricing policies, communication campaigns, sales and distribution structures and practices or business models.
2. Look to apply your core competencies to other products or services or in other industries or territories where 'new value curves', as advocated by Kim and Mauborgne in their article 'Creating New Market Space' published in the Harvard Business Review in 1999.

In either instance, it would be worthwhile reading the article by Prahalad and Hamel (1990) titled 'The core competence of the corporation' and the article by Collis and Montgomery (1995) 'Competing on Resources', which both provide frameworks that companies can use to differentiate themselves from rivals. These are premised on the Resource Based View (RBV) concept described by Edith Penrose in her 1959 article 'The theory of the growth of the firm'.

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