

FOURTH EDITION

Marketing Management

A RELATIONSHIP
APPROACH

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To succeed in predicting a competitor's next move, the marketing manager has to have a good feel for the rival's situation, how its managers think and what its options are. Doing the necessary research can be time consuming since the information comes in bits and pieces from many sources. But scouting competitors well enough to anticipate their next moves allows managers to prepare effective countermoves and to take rivals' probable actions into account in designing the best course of action.

In evaluating the response patterns of our competitors the following questions are important:

- Is the competitor satisfied with the current position? If yes, this competitor may allow indirect competitors to exploit new markets without being perturbed. Alternatively, if this competitor is trying to improve its current position, it may be quick in chasing market changes or be obsessed by improving its own short-term profits performance. Knowledge of a company's future goals will clearly play an important part in answering this question.
- What likely moves or strategy shifts will the competitor make? History can provide some guide as to the way that companies behave. Goals, assumptions and capabilities will also give some guidance to how the company can effectively respond to market changes. After looking at these a company may be able to judge which of its own alternative strategies is likely to result in the most favourable reaction on the part of the competitors.
- Where is the competitor vulnerable? In a competitive market, success is best achieved by concentrating strength against weakness. It is foolish for a firm to attack a market leader in areas where it is strongest.

The complacency of leaders in markets can provide major opportunities. The competitor's own feeling of invulnerability may be the weakness that could lead them to a downfall. What will provoke the greatest and most effective retaliation by the competitor?

Whereas market leaders may accept some peripheral activity, because of the low margins they perceive, or the low market volume involved, other actions are likely to provoke intense retaliation. This is often the case in price-sensitive markets, where one competitor reduces the price (e.g. reducing petrol prices) in the hope of gaining market share. Sometimes the market leader may even go to the business press and claim that every price cut would be matched; such a step may then prevent a fierce price war.

A result of Exhibit 5.2 is that most competitors fall into one of four categories:

1. The laid-back competitor: a competitor that does not react quickly or strongly to a rival's move. Reasons for a slow response vary. Laid-back competitors may feel their customers are loyal; they may be milking the business; they may be slow in noticing the move; they may lack the funds to react. Rivals must try to assess the reasons for the behaviour.
2. The selective competitor: a competitor that reacts only to certain types of attack. It might respond to price cuts, but not to advertising expenditure increases. Shell and Q8 are selective competitors, responding only to price cuts but not to promotions. Knowing what a key competitor reacts to gives its rivals a clue as to the most feasible lines of attack.
3. The tiger competitor: a competitor that reacts swiftly and strongly to any assault. Procter & Gamble does not let a new detergent come easily into the market.

Role play in CI as a predictor of competitive behaviour

At last, it's time to pull all of this together and come to something you can really use. Here are the vital sub-steps:

- Write a 'competitive novel'. If the competitor were a novel, what would be going on inside the heads of its key characters (including how they think about you)? Try this as an actual written exercise.
- Role play some possible sequels to the story so far. Given what you've learnt of the goals and assumptions that drive the competitor (and those that drive your own company), how would they respond to actions you have planned? How would you then respond? Play two or more rounds against your plans, not in an effort to absolutely predict what the competitor's actions will be, but to understand what kind of moves they would consider and to make sure that you are prepared to deal with the consequences.
- Assess results and identify new questions. Nothing is static in the competitive world. As you assess the results of your effort, new questions will arise. Given the possible response scenarios you've developed, it may now be important to know, for instance, whether they could launch their new product in 7 months, or whether it has to be 18. These critical questions become worthy of further research, analysis and monitoring.

Source: adapted from House (2000).

4. The stochastic competitor: a competitor that does not exhibit a predictable reaction pattern. There is no way of predicting the competitor's action on the basis of its economic situation, history or anything else. Many SMEs are stochastic competitors, competing on miscellaneous fronts when they can afford to.

The aim of this step is to force a company to look beyond its own moves and towards those of its competitors and, like a great player of chess, think several moves ahead. It involves a firm thinking of its moves in a broad, strategic framework rather than the incremental manner in which strategies often emerge. Otherwise, by following a series of seemingly small incremental shifts in pricing and promotion, a firm may be perceived to be making a major play in the market-place and thus incur the wrath of major players.

5.9 SIX STEPS TO COMPETITOR ANALYSIS

There is no doubt that competitive pressure will continue to intensify in all markets. The forces that are active now are unlikely to diminish in the near future. Competitor intelligence is a powerful new management tool that enhances a firm's ability to succeed in today's highly competitive global markets. It provides early warning intelligence and a framework for better understanding and countering of competitors' initiatives. Competitive activities can be monitored in-house or assigned to an outside firm. The scope for the development of the competitor analysis system could be a particular country, a business division in the company or the global perspective of the marketplace. The company should develop a system that becomes sensitive to any signal that the competitors are about to change the way they operate, so that the company can anticipate their moves with a planned response (Fong and Wong, 2012; Johns and Doren, 2010; Tseng, 2009).

The six principal steps to competitor analysis are as follows.

1 Identifying your company's competitors

The company as such may have one set of competitors (e.g. conglomerates), while the specific local markets and the company divisions may have their own specific competitors. Ideally, competitors should be identified country by country and product line by product line, at the most detailed level possible. But in reality only a few companies will be identical to your own company. As we have seen, there may be differences in the geographic markets or in the products offered to the markets. In the first round, the company should analyse a core group of competitors, but it should also keep an eye on the profiles of the customers, suppliers and distributors as useful indicators to possible new entrants into the company's market. Porter's five forces model can be useful in this connection.

2 Identifying the information required and the information sources of competitor intelligence

The company must select the quantitative and qualitative information that the company needs in order to identify the competitors' current and potential strategies. The competitor intelligence system must be designed to provide easy access to the facts about the competitors, but also, even more importantly, to help the company managers to understand what the competitors are doing and why it works. The ultimate objective of the system is to gather today's information in order to participate what the competitor will do tomorrow. In order to get hold of the necessary competitor data, the company must identify the necessary external and internal data sources. Today it is very popular (also because it is cheap) to collect (secondary) competitor data on the internet, but a competitor intelligence system will only succeed if it has numerous person contributors (providing primary data), because each person's perspective and data is unique. For example, the internal salesforce (and to some degree the distributors) can contribute with information about a customer's viewpoint on the company's product and services versus the competitor's. An important question to answer is how often the competitor profiles should be updated. In addition to formal profiles, updates concerning competitors on the 'watch list' should be circulated routinely. An efficient way to do this is to scan the internet once a week for abstracts of new articles added in the previous week, and to use an internal mail system to send the new data to the proper parties.

3 Analysing strengths and weaknesses of competitors with respect to the market requirements

The company should look at each of the functional aspects of the competitors' value chain, in light of the local markets where the competitors are operating. Each rival firm's strengths and weaknesses should be summarised. For example, in manufacturing, the process of analysing how competitors are producing products in an efficient and effective manner, and at what costs, is important. Service companies will need to evaluate how well competitors are providing what they promise. Are the competitors meeting the requirements and expectations of the customers? How innovative are competitors in the product/service development? Do competitors take advantage of economies of scale on a local, regional, or worldwide basis? Similar questions should be asked within the marketing function. Does the competitor have a strong brand image? How well are the competitors' communication messages reaching their target customers? To what degree do the competitors use social media to reach target customers?

Finally, it is also important to assess the profitability and financial soundness of each competitor in relation to the industry average.

4 Assessing the company's competitive position vis-à-vis key competitors

It is important that the company compares itself on the same value chain functions as those chosen in step 3. Sometimes it is a good idea to let customers evaluate the company's performance compared to the main competitors' performance, as indicated in the competitive benchmarking competence profile (Figure 3.3's upper-right corner model) and further specified in Figure 3.6. In other words, does the company have stronger functional value chain competences, a quicker response to competitive moves, more flexibility, or a more sustainable advantage than its competitors? Having done all this, the final step is then to focus on the implications of this strength and weaknesses analysis for the company's future strategies (see step 6).

5 Investigating the goals and long-term strategies of competitors

The first four steps have concentrated on analysing the current business of the competitors. But how can we get a look into the competitors' future strategies? The answer is of course that we should try to obtain information about competitors' long-term goals and objectives. The goals of the competitor set the stage for future actions and strategies. For example, if the competitor chooses aggressive market share objectives in a specific local market, the strategies could be more daring – such as an own subsidiary, or a joint venture with a host national firm. Or it could have strong emphasis on new product/service development, which could be region- or country specific, rather than more status quo types of strategies, such as exporting without any culture-specific modifications or more passive market-entry modes. Sometimes these indications of the competitors' long-term strategy can be revealed in the competitors' annual reports or stock exchange reports. Also the CEO's performance in mass media (e.g. on TV business programmes, such as CNBC or Bloomberg) can provide clues as to where a competitor is heading. Does the CEO look aggressive or conservative; risk-orientated or risk-averse; authoritarian or people-orientated? These clues can provide important indications about the corporate culture and values, the business philosophy and the shape of the future direction of the competitor.

6 Selecting the company strategies to compete against the competitor, locally and globally, taking into account possible competitor reactions

The final step is to translate this competitor analysis into a possible revised strategy and action plan for the company itself. If the analysis reveals that the company has a lower market performance versus the key competitors, the company should try and close these gaps by investing in new resources, training and other value chain functions where the company is weaker than the competitor in the eyes of the customers. Another strategy is to 'forget' about the weaknesses (compared to key competitors) and instead capitalise on the company's strengths versus the competitors. Sometimes a company is faced with competitors who have been in a country market for many years and have made considerable investment in adapting their strategies to fit the local market environment. In this situation, the company (as a new entrant) may be more successful with innovative responses and niche market strategies.

5.10 HOW CAN WE SET UP AN ORGANISATION FOR COMPETITOR ANALYSIS AND CI?

Within the organisation, competitive information should be acquired both at the corporate level and at the SBU level. At the corporate level, competitive intelligence is concerned with competitors' investment strengths and priorities. At the SBU level, the major interest is in marketing strategy – that is, product, pricing, distribution and promotion strategies that a competitor is likely to pursue. The true pay-off of CI comes from the SBU review with a regard to a specific geographic market.

When establishing an international CI structure, there are several ways of constructing the responsibilities based on geographic information needs, resources available and anticipated demand. When anticipated demand is low, the assignment of international responsibilities should probably fall to the initial project analyst. When anticipated demand is high or moderate, more formal structures are beneficial.

When staffing is limited, a single individual may need to be assigned to cover the entire world. A better format, though, is to divide the world's regions among the CI team. If only a single region is of interest, such as Latin America, and the CI team has two full-time analysts, then assign each one half of the region; one would have South America, while the other would focus on, say, Central America, Mexico and the Caribbean. This division allows familiarity with and understanding of the culture, people, governments and commercial structures to grow. If only specific countries are being examined, then split them equally among the analysts.

EXHIBIT 5.3

Counterintelligence done by Johnson Controls against Honeywell

As a company you should try to find out what the competitors are doing today and in the future. However, you should also be aware that you are being monitored by your competitors. Then how do you protect your secrets? That is what counterintelligence is about. The counterintelligence professional needs to know what must be protected, for how long, and from whom. Sometimes it helps for the company to create a smoke-screen. Johnson Controls (based in Milwaukee, USA) used this tactic against its main competitor, Honeywell (based in Minneapolis, USA), in 1990. The starting point for this case was a fierce competition between the two companies, especially in the US market, where both companies had around 30 per cent of the market share in building control systems. Johnson Controls wanted to hide that they (in 1990) had spent three years and \$20 million developing a new building control system, which was given the code name 'Loba' (after the Russian mathematician Nikolai Lobachevski). In order not to reveal this ambitious project to Honeywell before the actual launch, Johnson Controls

created a smokescreen in the form of developing a lower-level product, which was called 'Lobo' (Logical Option for Building Systems). Just a one-letter difference from Loba, but it made all the difference when Johnson Controls decided to confuse Honeywell about what was really happening. Some Honeywell sales people had heard rumours about a new, forthcoming system from Johnson Controls. What really happened was that Johnson Controls took the low-level Lobo product and invested a few hundred thousand dollars in some newsletters and an ad campaign, in order to promote the new Lobo product. When Honeywell recognised Lobo for the low-level product that it really was, it abandoned its interest in Johnson Controls at that time – just long enough for Johnson Controls to finish its development and beta testing of the real front-runner, Loba. With this counterintelligence and smokescreen strategy Johnson Controls gained first-to-market advantages and a significant share in the multi-billion-dollar market.

Source: adapted from Wesley (1990).

Expanded human resources/single responsibility

In the event that budget or staffing can allow for specialists in specific international regions then, based on demand, assign those responsibilities accordingly. A critical component of a single responsibility focus is the ability to maintain perspective within the scope of the organisation as a whole. The danger of confusing significant and insignificant information can be a problem when analysts are not able to maintain size and scope perspectives. Should the CI team be able to hire someone specifically for an internationally focused intelligence assignment, then background and experience in that culture may be preferable but education and international orientation are the primary objectives. Specific requirements include: active reading and listening skills to break down artificial or secondary barriers caused by translation; interest and enjoyment in working with people from other socio-economic backgrounds and cultural upbringing; and awareness of the home culture's biases, expectations and beliefs. In other words, hire someone who understands and is sensitive to these cultural elements.

5.11 SUMMARY

This chapter has explored the key issues in analysing competitors and creating competitive advantage. Firms need to understand their competitors because corporate success results from providing more value to customers than the competition (the competitive triangle). To prepare an effective marketing strategy, a company must study its competitors as well as its actual and potential customers. Competitor analysis and CI focus on competitor identification, an audit of competitor capabilities (strengths and weaknesses), their objectives and strategies and prediction of response patterns. The aim is to provide a basis for creating a competitive advantage, anticipating future actions and estimating how they will react to future actions your own company may take.

There is no doubt that competitive pressure will continue to intensify in all markets. The forces that are active now are unlikely to diminish in the near future. Increasing numbers of companies will start to collect CI from internal and external sources and the number of specialists from whom they can outsource will grow. As important as a competitive orientation is in today's global market, companies should not overdo the emphasis on competitors. Companies should manage a good balance of consumer and competitor monitoring.

In the next chapter we shall see how it might be beneficial to enter into relationships with former competitors.

CASE STUDY 5.1

Cereal Partners Worldwide (CPW): The no. 2 world player is challenging the no. 1 – Kellogg

On a lovely spring morning in 2017, while giving his kids some 'Shredded Wheat', the CEO of Cereal Partners Worldwide S.A. (CPW), Carol Smith, thinks about how CPW might expand international sales and/or capture further market shares in the saturated breakfast cereals

market. Right now, CPW is the No. 2 in the world market for breakfast cereals, but it is a tough competition, primarily with the Kellogg Company, which is the world market leader.