Competitive analysis: Thinking beyond stage one

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Abstract

Strategic planning requires give and take of ideas and information. No person sees the total picture at first; what to communicate and why, is ambiguous; mindsets of various individuals have to be adjusted. But this iterative process cannot continue indefinitely. There must be conclusions and decisions, so that detailed planning and action can proceed. Competitive analysis focuses on understanding the environment the firm competes within by developing strategies which allows the firm to build up a sustainable advantage in that industry. This paper focuses on the analytical and structural framework for competitive analysis, including the formulation of mission, objectives and strategic decisions. We also discuss the strategic importance of resources and competencies within the firm.

Introduction

According to Professor Michael Porter (Harvard University) the basic unit of analysis is the competitive forces within the industry. In this model, industry structure determines the firm's behaviour, which in turn decides the firm's performance. If industry structure completely decided firm conduct, there could be no difference between the conduct of the firms in the same industry. For example, if industry structure determines a firm's pricing strategy, all firms in the industry should in essence follow the same pricing strategy. Alternatively if all firms in the industry have the same unit cost profitability differences between firms in the same industry would be ascribed to random events. In the real world however, firms are clearly not alike. In fact they differ in substance, structure and dimension. Such dimensions include: marketing practices, financial condition, operating conditions and breadth of operating techniques. Such differences may be due to differences in market intelligence. For example, firm ABC may decide to advertise a high quality brand product and firm XYZ to peruse a high-volume line because they do not have access to the same information and are thus committed to a strategy.

Most firms think they know who their major competitors are, and most operating managers would advocate that they know quite a lot about them. Knowing your key competitors and their strategies is absolutely fundamental to gaining market share. Environmental scanning and environmental forecasting are key inputs in competitor analysis. The purpose of undertaking competitive analysis is to give the management of a firm a comprehensive understanding of its competitive environment. This understanding should enable management to further assess its strengths and weaknesses and partially ascertain threats and opportunities to the firm from its industry environment. The literature for undertaking competitive analysis is rich in approaches and techniques. For example, Ghoshal and Westney[3] identify six distinct functions served by competitor analysis in firms:

1. Sensitisation; in order to shake up the troops by challenging the firm's existing assumptions about particular competitors, including in some cases changing the definition of the most significant competitor or of the most crucial dimensions of competition.
2. Benchmarking; provides a set of specific measures comparing the

firm with its competitors.
3. Legitimisation; which means to justify certain proposals and to persuade members of the firm of the feasibility and desirability of a chosen course of action.
4. Inspiration; which gives people new ideas about how to solve problems in this process by identifying what other firms had done in similar circumstances.
5. Planning; namely the use of competitor analysis to assist the formal planning process, interestingly enough much more dependent on information from the formal (competitor analysis) function than any of the other uses.
6. Decision-making; meaning contribution to operational and tactical decision-making by managers, which provide the second largest number of examples cited (after planning).

Other writers advocate the use of checklist questions. Key areas examined include: future goals, current strategy, capabilities and assumptions. With respect to formal structure, market position, financial structure, research and development capabilities, past objectives and strategies. Typical questions to ask include:

- Is the competitor satisfied with its current position?
- What likely moves or strategy shifts will the competitor make?
- Where is the competitor vulnerable?
- What will provoke the greatest and most effective retaliation by the competitor?

Information on competitors can be obtained from many different sources Table 1 (see page 12) gives some useful sources of competitive information.

The competitive environment

Firms can waste precious resources responding to other firms in the same industry, with whom they are not really competing. To be a true competitor, the firm has to be selling to the same set of customers or market segment and serving some of the same functions. For example, if the firm is selling to a totally different segment, their actions may not affect one's sales, share or profit. The answer to whom to respond to must also be coupled with the question of whether it is necessary to respond at all. Some competitors' actions may not affect one's own market, even when they are selling into the same customer set.

Further, some industries learn how to coexist peacefully. This is generally neither black nor white, but lies along some continuum. Some industries will appear attractive, depending on the level of competitive intensity. Whether to resound to competition depends on whether the competitive action has an impact in the marketplace affecting the firm's performance, either short term or in the long run. Whether to initiate an action, and how, depends in part, on your competitors' ability to respond by negating the impact of the firms actions. One clearly needs to assess the competitive advantages and how sustainable they are before deciding how to respond. The next step is an assessment of the competitor's strategies and intentions.

Can we learn from some of their actions or commitments (capacity, annual report proclamations, available resources, etc) about their capabilities? One must also be cautious of who else might be entering the market, or the likelihood of new competitors. All of this is intended to give us a better ability to anticipate our competitors' actions or reactions[4].

Formulating the strategic mission, objectives and structure

mission

It is said that inertia is the enemy of progress. Past insights ossify into clichés, processes lapse into routines, and commitments become ties that bind companies to the same course of action. Perhaps the most vital and fulfilling element of a strategist's job are to prevent burdens of the past. A manager's role is not to toil long and hard to make the inevitable happen. His or her job is to make happen what otherwise would not happen.

Although somewhat a cliché but still highly relevant is the axiom: if you don't know where you are going, any road will take you there[5]. A strategy, in a comparable sense, is just a means to achieve an objective or goal. Therefore, before a strategy can be proposed or implemented, the firm must develop a clear idea of where it is going, and more importantly why. Management or leader values and expectations play a significant part in strategy formulation. In some respects, strategy can be thought of as a reflection of the attitudes and beliefs of those leaders in the firm.

An expression used to describe attitudes and expectations is mission. The notion that a firm needs a guiding mission is strong in the literature on strategic management. For example, both Selznick[6] and McManus[7] suggested that the key function of leadership is to identify the distinctive competencies of the firm, and to build on them: leadership goes beyond efficiency when it sets the basic mission of the firm and when it creates a social organism capable of fulfilling that mission. A well instituted mission statement defines the fundamental, unique purpose (or raison d'être) that sets a business apart from other competing firms and identifies the scope of the corporation's operations in terms of products and services offered and markets served.

Research undertaken by Pearce and David[8] found that 68 per cent of all North American corporations have formal, written mission statements. In his book McManus describes the essential role that mission plays in strategic leadership. To gain the support of stakeholders, managers need a challenging vision that translates what is essentially an act of imagination into terms that describe possible future courses of action for the firm. The concept of mission implies that throughout a corporation's many activities there should be a shared theme and that those corporations with such a common theme are better able to direct and administer their activities.

The basic unit of analysis is the competitive force within the industry

For example, when Jack Welch became CEO of General Electric his mission was to make GE number one or number two in their respective markets. IBM has for the last 50 years been one of America's most successful corporations. It is known for its outstanding development of strategy, structure, systems, style, skill, and staff, and the fit among them, and for its equally advanced development of shared values.

Developing a mission statement should create an emotional bond and sense of mission between the firm and its employees. Commitments to a company's mission and intellectual understanding on the strategies to be pursued do not necessarily translate into an ardent bond; hence strategies that have been formulated may not be implemented. Campbell and Yeung[9] stress that an emotional bond comes when an individual personally

Advertising Agencies	IRS financial summaries (USA)
Firm Accounts	Legal Institutions
Companies House	Lloyds of London (UK)
Confederation of British Industry (UK)	Management and Business Periodicals
Employees	Monopolies and Mergers (UK)
ERISA filings (USA)	News Papers (eg UK Financial Times)
Freedom Information Act (USA)	Suppliers to the industry
Government agencies	Stock Markets (USA, UK and Japan etc ;)
Government Reports	Trade Unions
Industry Analysts	Trade Journals
Investment Banks	Uniform commercial code filings (USA)

Table 1: Sources of competitive information

identifies with the underlying values and conduct of a firm, thus turning intellectual agreement and commitment to strategy into a sense of mission. Campbell and Yeung also differentiate between terms vision and mission, saying vision is a possible and desirable future state of a firm that includes specific goals, whereas mission is more associated with behaviour and with the present.

Objectives

Managers and employees throughout the firm should participate early and directly in setting strategic objectives and decision making. Strategic objectives (and decisions) deal with the mission of the firm and its relationship with the outside world. A strategic objective will influence the firm's performance for a long period of time. In setting strategic objectives many models focus on factors peculiar to the individual strategist. The dominant approach is to set objectives within a rational decision framework. A decision is rational when it effectively and efficiently assures the achievement of aims for which the means are selected. More appropriate is that rational decisions maximise net value achievement, where the sacrifice in one value necessitated by a decision more than offset by an increase in achievement of another value. For strategic decisions some of the objectives that have been used to define rational decisions are return on capital employed, high net worth ratios and profit growth in addition to profit maximisation. Some of the other areas in which firms may set objectives are higher stock prices, increased market share, lower tax liability and technological leadership.

It could be argued that objectives are not strategic unless they can be measured (eg in quality, quantity, cost and time) and achieved that is unless they are closed. Johnson and Scholes, however, do not share this view. They argue that open statements may in fact be just as helpful as closed statements. They state: there may be some objectives which are important but are difficult to quantify or express in measurable terms. They go on to say: An objective such as to be a 'leader in technology' may be highly relevant in today's technological environment but may become absurd if it has to be expressed in some measurable way (pp 135-36).

Objectives are needed at corporate, business and functional levels in the firm. They should be deep-rooted measures of managerial performance. Hamel, Doz, and Prahalad[10] stress the need for firms to develop a competitor focus at all corporate, business and functional levels by gathering and widely distributing competitive intelligence; every employee should be able to benchmark their efforts against best-of-breed competitors so that the challenge becomes personal. This is a challenge for many managers of the firm. Firms should provide training for all employees to guarantee they have and maintain the skills necessary to be world class competitors.

Many Researchers, CEO and professional managers attribute a significant part of the recent competitive decline in the US to the lack of long term objective strategy orientation. Many present and former top CEOs (Jack Welch (GE), Michael Elsner (Disney) and Bill Gates (Microsoft), argue that bonuses, share options and merit increases need to be based on the firm's strategic and long term objectives. Why pay bonuses to those who don't deliver?

Structure

Structure is usually understood to imply a permanent arrangement of tasks and activities. Within this general definition, organisation structure has been defined to include two dimensions. One dimension of structure is the formal configuration of roles and procedures, which is the framework of the organisation. The framework aspect of organisation structure includes rules, prescriptions of authority, division of labour and hierarchy of authority. The concept of formal structure was influenced by the ideas of Max Weber in 1949 and by subsequent work on the formal, impersonal aspects of bureaucracy[11].

According to Daft and Macintosh[12] additional elements of the organisational structure include the subsystems that allocate resources and reinforce central control. In addition to the corporate body of rule books, procedures and policies, these systems include budgets, management information systems, technical training systems, and operational controls and reports that provide for resource allocation and vertical control.

One metaphor of organisation structure is the organisation as a stage play. Actors play assigned parts in a script written by management. From this view senior managers implement strategic decisions by changing the rules, revising the organisational blueprint, or rewriting the script[13]. In order to translate a decision into action, managers may redefine duties and roles, reallocate budget resources, enact new operational performance criteria, or change the division of labour and task specialisation. Senior managers change the formal structure to implement the new behaviours appropriate to a new strategy.

During the adolescent years, firms tend to have a centralised functional organisational structure that is well suited to their producing and selling a limited range of products or services. As they add new products and services, purchase their own sources of supply, and generate their own distribution networks, they become too complex for highly centralised structures. In order to remain successful, this type of organisation needs to shift to a decentralised structure with several semiautonomous divisions (also known as the divisional structure) This type of structure is also called the M-form (for multidivisional structure) by the noted economist Williamson[14].

Both Botten and McManus[15] have stressed that structure is not the only organisational variable that is important in strategic analysis. Structure and structuring a broader term that covers the organisational structure issue and how it blends with the overall management process are nevertheless still of great importance. Structure and structuring are particularly important as firms grow and they become of crucial strategic concern when firms compete on international grounds.

Changes in strategy often require shifts in the way an organisation is structured. Structure largely directs how objectives and policies will be established. For example, the format for objectives and policies established under a business unit structure is couched in business unit terms. Objectives and policies are stated largely in terms of products in an organisation whose structure is based on product groups. The structural format for developing objectives and policies can significantly impact all other strategy activities.

Research undertaken by Davison and Haspselagh's[16] showed that the most common structure was the global product structure followed by the international divisional structure. There is however, no one correct organisation design or structure for a given strategy or type of organisation. What is right for one organisation may not be appropriate for a similar

firm, although successful firms in a given industry do tend to organise themselves in a similar way. Take for example, consumer goods companies - these companies tend to emulate the divisional structure by product form organisation. Small firms tend to be functionally structured.

Medium-sized firms tend to be divisionally structured (ie decentralised). Large firms tend to use a strategic business unit or matrix structure. As organisations grow, their structures generally change from simple to complex as a result of linking together several basic strategies.

Whilst not absolute the more complex the organisation structure, the more the simple structures may become hidden and forgotten. The original components or experience may become lost because of employee changes, because of aversion to the topic, or because the direct relationships have become unclear. More complex structures allow more diverse information to be recognised and processed. On the other hand, a simple structure may cause strategists to ignore many environmental signals and to reject them because they are not recognised.

The term experience refers to an organisation's contact with the environment which forms the basis for knowledge structures. The notion of complexity is based on the assumption that as a firm gains more experience and learns from it, it will become more expert at what (see learning curve) it is doing. As it becomes more expert, the knowledge structure builds on the base established by past experiences. As the knowledge structure becomes more complex, it is able to encompass a greater number of new institutions and problems.

Strategic resources

All firms have at least four types of resources at their disposal. They are: people, financial, physical, and technological resources. Strategic management allows these resources to be allocated according to priorities established by the objectives of the firm. Resource analysis should single out the particular resources which may become limiting factors in the firm's strategic activities. Such factors might include limited capital for investment, access to cheap or highly skilled labour, and technological know-how.

Various methods of analysis are used to assess resources and plan their allocation. Because resources have functional significance in a firms activities, strategists tend to analyse resource requirements under the commonly accepted functional headings of finance, marketing, operations, human resources, and information technology. Managers who have responsibility for resource allocation should be aware of the contributions each functional area can make to the organisations overall performance. Resources will include both the knowledge of analytical concepts and procedural techniques common to each area and the ability of the people in each area to utilise them effectively.

It is widely acknowledged that allocating resources to particular divisions or department, does not mean that strategies will be successfully implemented. A number of factors tend to prevent effective resource allocation, including an over-protection of resources, too great an emphasis on short term objectives, organisational politics, vague strategy objectives, a reluctance to take risks, and a lack of sufficient knowledge. Beneath the corporate level, there often exists a deficiency of methodical thinking about resources allocated and strategies of the firm. This point is debated by Yavitz and Newman[17] who point out that 'managers normally have many more tasks than they can cope with'. For example, the CEO wants a good financial report for third quarter, but sales are low, and there are resource issues within the department. Strategy formulation and implementation activities often get deferred. Today's problems soak up available energies and resources. Scrambled accounts and budgets fail to reveal the shift in allocation away from strategic needs to currently squeaking wheels.

Resource allocation and competencies

Resource allocation

Any firm's resources are not confined to those which it owns. Strategic capability is strongly influenced by resources outside the organisation which are an integral part of the chain between the product or service design, through production and marketing to the use of the product or service consumers. The most successful organisations have a consistent resource theme running through the value chain.

For example, if an organisation chooses to compete largely through cost leadership - this should be found in many aspects from procurement, to targeting markets and customer support. Importantly, this cost competition will also be sustained by the special linkages which are developed within the value chain or with suppliers, channels or customers. A full understanding of a firm's use of resources also requires an analysis of the effectiveness with which resources have been used. The effectiveness of an organisation can be critically influenced by the ability to get all parts of the value chain working in harmony - including those key activities which are within the value chains of suppliers, channels or customers. This is a key task of management and is largely concerned with developing and sustaining common attitudes and values amongst all of those in the value chain so that people see the purpose of the product/services in similar ways and agree on which activities are critical to success.

The ultimate and most influential way in which the centre can manipulate strategy is through the allocation of resources. By supporting one investment project rather than another, the centre can affect the whole shape of the portfolio. All firms exert influence of this type, although in different ways. Some firm's link resource allocation closely to long-term business plans; others adopt a more project-by-project approach. Some firms give considerable freedom to division managers; others wish to sanction even the smallest expenditures.

Some largely react to divisional proposals; others take the lead in sponsoring changes in the portfolio, including acquisitions and divestments. The way the centre allocates resources is, therefore, a critical part of the influence process. The real value of any resource allocation programme lies in the resulting accomplishment of an organisation's objectives. Effective resource allocation does not guarantee successful strategy implementation because programmes, personnel, controls, and commitment must breathe life into the resources provided. Strategic management itself is sometimes referred to as a strategic resource allocation process (Figure 1).

Competencies

The notion of competencies, particularly technological competencies has long been part of strategic thinking. As long ago as 1957 Selznick used the term distinctive competence to denote what a particular business was uniquely good at by comparison with its close competitors. Selznick suggested how distinctive competencies and what he called 'organisational character' - what we would now call culture - could be combined to fulfil an organisation's basic mission - at least analogous to strategic intent.

The idea of distinctive competence pinpointed the competitive element which differentiates one business from another. Such differentiation is no longer enough because the current speed of technological development means that competitive advantage based on singular competence is unlikely to be sustainable for long.

The inability of a firm to clearly identify its core competencies correctly will result in the firm overlooking attractive opportunities and pursuing poor ones. Core competencies are the basis for producing a competitive advantage. The achievement of a transformational strategic intent will almost inevitably demand competencies which may at first appear far beyond the capacity of the relevant firm. Competencies have therefore to be leveraged. The acquisition and nurturing of competencies which are 'not core' is wasteful use of resources and effort and only serves to dissipate concentration on the core. It is therefore preferable to buy in non-core competencies and focus all internal efforts on the acquisition and development of core competencies (Quinn[18]). Core competencies which are lacking can be developed internally through focused investment and research and development or acquired externally through various forms of collaborative arrangements. It should be noted however, that internal research and development is becoming increasingly expensive and beyond the means of many except the multinational corporations. Moreover, in an era where dissemination of technology is rapid, the resultant competitive advantage may be short-lived for many firms.

Figure 1: Strategic resource allocation process

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