



Understanding Your Competition from the Inside Out

Understanding your business competition is fundamental to defining a winning business strategy. For only when a company truly knows its competitors and how they may act and react to decisions they make can a company position their products and services to win.

***“If you are ignorant of both your enemy and yourself,
then you are a fool and certain to be defeated in every battle.***

***If you know yourself, but not your enemy,
for every battle won, you will suffer a loss.***

If you know your enemy and yourself, you will win every battle.”

Sun Tzu (Military Strategist 500 B.C.)

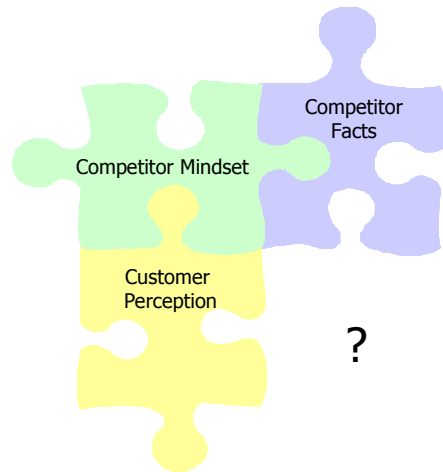
Traditional competitor analysis focuses on the competitor’s previous, current and stated future strategies. This approach is limiting if used on its own because:

1. It does not provide a company with the insights necessary to understand how the competitor will react to positions that they take in the industry and the likelihood of the competition deciding on a course of action and following it through.

It often focuses on the juristic and legal entity as the competitor. Behind the veil of every one of a company’s competitors are the hearts and minds of a management team.

Through our experience in competitor analysis we have developed a successful approach that analyzes and understands the competition from the inside out through a blend of psychology and business based frameworks. The question is how can a company impact the “*Competitor Puzzle*” to provide themselves with a competitive advantage in the market?

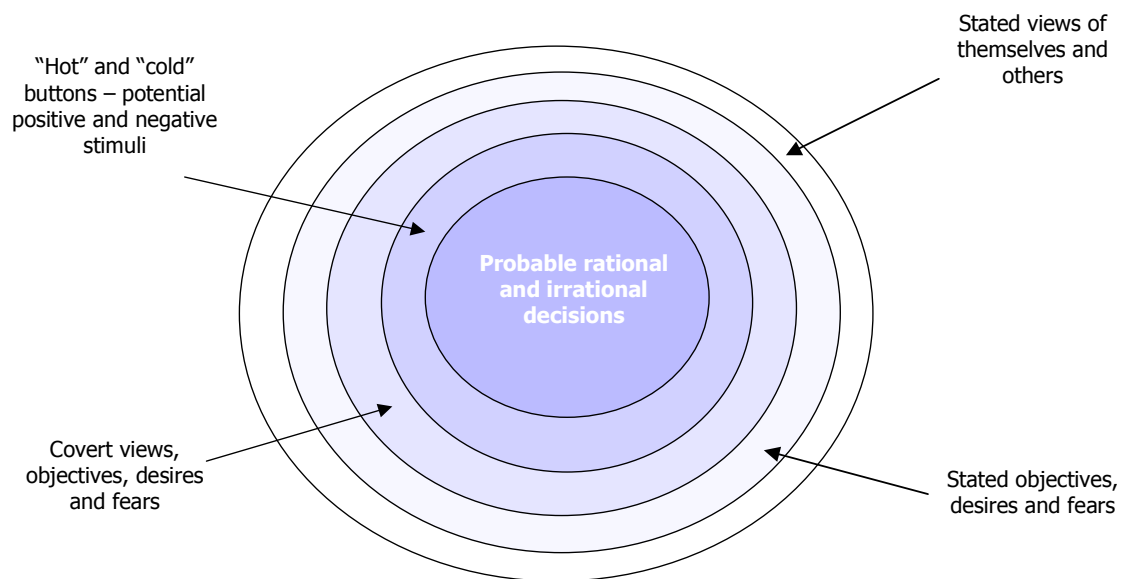
The Competitor Puzzle



Competitor Mindset

This first piece of the puzzle refers to a need to “get inside the competitor’s head” and gain a thorough and psychological based understanding of – who they are, what are their stated objectives and how this differs from their implicit objectives, what drives them, what do they fear, what will stimulate an irrational response and how they will react to decisions and actions that a business takes in the industry and how aggressive/defensive will that reaction be. Through our client work we have developed a framework called “The Competitor Mindset” which describes the methodology to achieve this.

The Competitor’s Mindset



Stated views of themselves and others

This involves reviewing the competitor's public information and gaining a detailed understanding of their views about their own strengths and weaknesses and that of their competition. This leverages information in the public domain to gain a superficial understanding of the competitor's public image and how they perceive themselves and the competition (or at least want the public or various stakeholders to perceive them and their competition).

Stated objectives, desires and fears

This is the next step in the superficial but necessary information gathering phase. This also leverages public information such as press releases, financial statements and interviews with key stakeholders and management etc. It is important to do these exercises thoroughly and to be very clear about what information will be useful in order to draw conclusions and make comparisons for later steps in the competitor analysis process. So often companies collect tremendous amounts of competitor data but this data is not transformed into information, let alone insights required for decision making.

Covert views, objectives, desires and fears

It is at this stage that a company begins to get a more complete picture of their competitor's mindset. This type of information is deduced from analyzing the experience and previous behaviors of the key management. Useful information can be gathered from public sources if a company knows what information they are looking for and are able to piece the information together. In addition good sources of information are ex-employees of the competitor. Other useful information sources are outside suppliers to the competitor and various other stakeholders. The key to success is knowing which questions to ask to provide the company with the most useful information.

Their "hot and cold" buttons: Potential positive and negative stimuli

Now the company can begin to assess the stimuli that would cause their competitor to act and how effective that action or response might be. The stimuli could be industry changes, actions by other competitors in the industry, regulatory changes or actions that the company decides to take. A competitor perceives your actions or changes in the industry to be positive or negative and acts accordingly. In order to define these potential stimuli, it is necessary to review their previous reactions to different stimuli, combined with a psychological based analysis of their covert views, objectives, desires and fears.

Probable rational and irrational decisions

How will those positive and negative stimuli translate into a response and will that response be rational or irrational. A competitor may act irrationally if the "hot button" or stimuli elicits an emotional response that is out of proportion to the stimuli. This may be based on fears, beliefs, previous negative experiences that the competitor management team has had. It is critical to understand how these potential responses may play out before deciding on a specific course of action. For example would a reduction in price lead the competitor to reduce price and what is the potential for a price war to develop? *Only when a company truly knows and understands what drives their competition can a winning strategy be created.*

Competitor Facts

Of all the pieces of the puzzle this is the piece where companies spend most of their time and often do a reasonable job of collecting good data. This type of data should investigate each aspect of the competitor's business including strengths and weakness across the competitor's value chain, current and future capacity and utilization rates, current and potential market strategies. The competitor's strategies include amongst other aspects, the competitor's marketing approach, sales channels, distribution, human resources, production (if applicable) and finance and control. The competitor information must also be analyzed at a tactical level, if relevant to senior management, to provide valuable color and insight of the competitor's strategic imperatives.

There are many ways to collect this type of data. Some of it is available through public sources while other information is obtained through interviews with ex employees of the competitor, suppliers and experts in the field. There is an art to being able to connect the dots of public information to the additional pieces of information to understand what is valuable and how it fits into the broader puzzle. When collecting basic competitor information through interviews, do not underestimate:

- The value of networking:
 - » Use referrals wherever possible
 - » End every interview with: Can you recommend other people that I should call?
 - » Track down sources found in public literature
- The value of honing your interview skills:
 - » Use a formal interview guide but be flexible
 - » Think about the curved ball
 - » Place sensitive questions at the end of interview
 - » Continuous practice

Despite the collection of this data we have found that most organizations do not leverage it properly as the data stands alone as a single piece of the puzzle and is not used to create a picture of the competitor. The *Competitor Fact* data only becomes truly valuable information and insight when pieced together with the *Competitor Mindset* and *Customer Perception* pieces of the puzzle.

Customer Perception

The customer's perception of the competitor has a significant impact on a company and their competitor's reality. It is for this reason that a true understanding of the competitor(s) cannot be gained without a deep and meaningful analysis of what customers think about the competitor. Customer analysis is a complex topic as can be seen from our other position papers on those related topics but the focus here is on the most important aspect related to competitor analysis.

This involves three main areas The customer's perception of: 1) what key purchase decision factors are most important when purchasing a product and/or selecting a supplier 2) how the competitor(s) performs on those purchase decision factors 3) how the company performs

relative to the competition. This information will provide useful insights of how the customer perceives the competitor(s) strengths and weaknesses and what causes the customer to either purchase from the company or its competition. The source of this information is one on one interviews with customers or carefully designed focus groups. (See illustrative example on page 5 as a brief descriptor of how customer perception data can be used). Often existing company data from focus groups they have conducted can begin to inform this aspect of the competitor puzzle.

In addition to understanding what drives the customer's perceptions it is also valuable to understand the customer's psychology relative to the competition. This involves analyzing each of the important dimensions that the customer values, understanding the cognitive and emotional processes that cause the customer to perceive the competition in the manner and to the extent that they do.

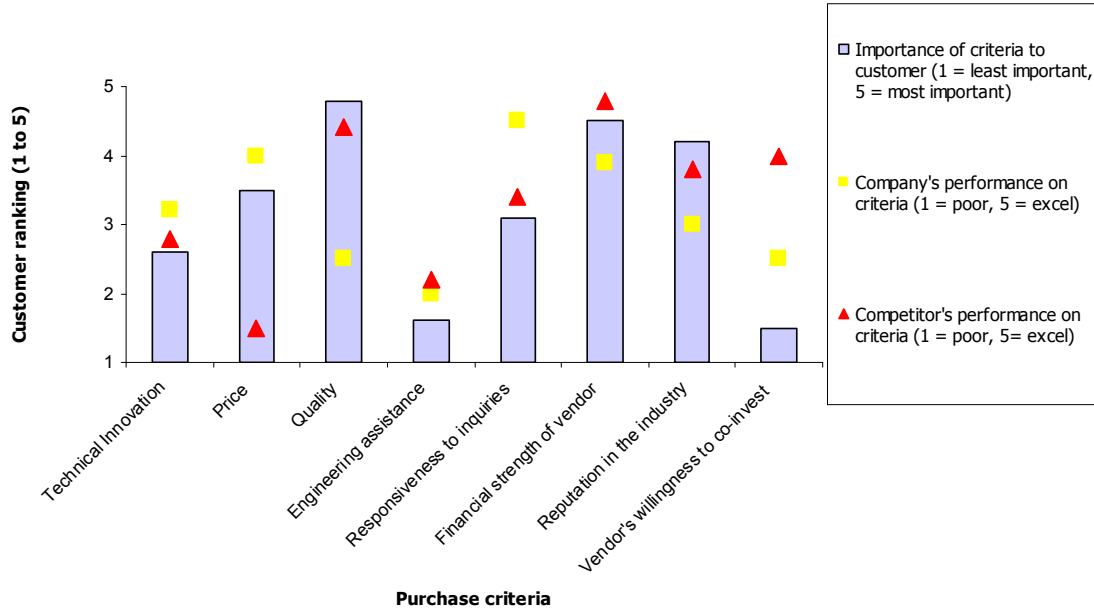
Conclusion

Traditional competitor analysis approaches often fail to provide company's with the tools necessary to make informed decisions. In order to win, it is necessary to obtain a holistic view of the competition from the inside out to understand the competitor's decisions and their likely responses. By focusing on the three pieces of the puzzle (the Competitor Mindset, the Competitor Facts and the Customer's Perception) a company is able to gain a comprehensive view of their competition and gain a significant advantage in the marketplace.



Case Study from a Manufacturing Engineering Environment
Illustrative example of how Customer Perception data can be used

(Customer ranking of purchase criteria when selecting a supplier and performance of the competitor and the company on those criteria)



The data in this example indicates that the most important attributes that the customer (i.e. a specific customer segment) values is quality of product, financial strength of vendor and reputation in the industry when selecting a supplier. The data indicates that the customer's perception is that the competitor is performing particularly poorly on the important price dimension and significantly over-performing on willingness to co-invest. On the dimensions of quality, financial strength and reputation in the industry (the most important customer criteria), the competitor was performing reasonably. The next step is to contrast this analysis against the customer segment's perception of client company performance and to assess where the company falls short or outperforms the competition in the customer's mind – not dealt with in this position paper.

How would this Customer Perception data be used with the Competitor Mindset and Competitor Facts data?

This skewed allocation of competitor resources in this example contributes to the competitor's poor price performance based on an analysis of the competitor facts. In addition the competitor's mindset analysis reveals that their willingness to co-invest is based on another division's business model which forms a significant part of the culture of the competitor and on which the management team run their other product lines – the management team is emotionally committed to this approach as they believe strongly that it works! It would also be very difficult for the competitor to change this given their marketing and finance agreements with their parent company. In fact they believed strongly that it was contributing to their bottom line. In addition the company prided itself on not being a cheap but a quality product – the competitor perceives their higher price in the market to be supportive of that. An analysis of their cost structure (the competitor facts) indicates that their higher price is less linked to the quality of their product and more linked to their financing and other unrelated overhead costs. The competitor believes that their product quality had to come at a more expensive price and this was impeding their decision making and rationalization of unnecessary costs unrelated to product quality. They are unaware of how this is affecting them in the industry. The company would then use this data combined with the other findings from the Competitor Mindset, Competitor Fact and Customer Perception data to decide on a course of action to use against the competition.