1 Competition

Competing is as natural as breathing and although the competitive process is not always enjoyable, winning is one of the most pleasurable human sensations. The desire to be a winner, to gain the prize or to succeed makes the effort or the pain of competing worthwhile. Competition pervades every aspect of personal, institutional and corporate activity. As individuals we spend our lives competing for success in school, in sport, for jobs, for partners and for recognition. Political parties compete for voters, government departments compete for funds, societies compete for members, charities compete for donations, tourist attractions compete for visitors and companies compete for customers. There are those for whom competition is a major reason for living; they are said to 'thrive on competition'. There are others who, in the interest of a quiet life, would prefer to get what they want without competing for it but, in the real world, they invariably find that it is impossible to avoid confrontation and competition completely. Companies would prefer not to compete, since doing so absorbs resources and reduces margins, but they recognise that competition is almost inevitable and, whether explicit or implicit, methods of dealing with competitors are an integral part of their business strategies.

The only way that companies can avoid competing completely is to be a monopoly but the opportunities to achieve this status are (now) extremely limited. Legislators and the economists that advise them have an unfortunate, though understandable, belief that monopolies are bad for customers. This is because historical evidence suggests that monopolists have a natural tendency to abuse their position by restricting supply below the level of demand and raising prices. In contrast, economists have defined 'free competition' as highly beneficial for customers, since it maximises supply and reduces prices to

the level at which it is just worthwhile for suppliers to remain in the business. Although Adam Smith was describing a world which was considerably less complex than that existing at the beginning of the twenty-first century, his summation of the difference between monopoly and competition is timeless:

> A monopoly granted either to an individual or to a trading company has the same effect as a secret in trade or manufactures. The monopolists, by keeping the market under-stocked, by never fully supplying the effectual demand, sell their commodities above the natural price, and raise their emoluments, whether they consist in wages or profit, greatly above their natural rate.
>
> The price of monopoly is, upon every occasion, the highest that can be got. The natural price, or the price of free competition, on the contrary, is the lowest that can be taken, not upon every occasion indeed, but for any considerable time together. The one is upon every occasion the highest which can be squeezed out of the buyers, or which it is supposed, they will consent to give; the other is the lowest which the sellers can commonly afford to take, and at the same time continue their business.[1]

Although once common, it is hard to conceive that a true monopoly would be sustainable in today's global economies. Apart from competition laws aimed at preventing companies gaining a position from which they can dominate markets, global communications and fast, low-cost transport has permitted larger numbers of suppliers to seek access to all markets. Where once local shops supplied vegetables grown in the neighbouring fields, today's supermarkets display vegetables from all parts of the globe and, apart from price variations, the notion of seasonal vegetables has all but disappeared. Various European state monopolies in telecommunications, postal services, transport, tobacco, drinks and minerals survived until the 1980s and 1990s but almost all of them died on the altars of privatisation and deregulation. Apart from the fact that governments no longer saw owning or running commercial enterprises as part of their mandate and had alternative uses for the funds that privatisation released, they had also realised that running businesses was not one of their strengths. One of the main arguments against monopolies – particularly state monopolies – was less to do with the fact that they charged high prices and more to do with the poor service they provided to their customers. Bureaucrats have always displayed a surprising insensitivity to the needs of those they are charged with administering, which, when transposed into a commercial environment, resulted in

the antitheses of the customer care strategies that normal businesses were forced to embrace in the final quarter of the twentieth century.

By way of example, compare the prices for air travel on transatlantic routes with those that apply between major European cities. The cost of budget fares per transatlantic mile is in the order of 7 pence whereas between European destinations it can be fourteen times higher. There are a number of reasons why this is so but one of the most significant is the fact there is an abundant supply of seats on transatlantic routes whereas in Europe agreements between governments restrict seat supply. In other words, limited monopolistic practices are permitted in Europe, with a predictable effect on prices. Of course, the opposite of monopoly is not necessarily competition. In some markets a failure to control competition may result in a lack of supply because suppliers are unwilling to make the investments required to develop products or services which then fail to make an adequate return. The supply of pharmaceuticals, for which development costs are astronomic, is highly controlled for a period of time by patents and by the system of government approvals. This ensures that developers of new pharmaceutical products have sufficient time to recoup their development costs, and more, before they are exposed to the full force of competition.

Virtual Monopolies

The advantages of being a monopolist and the disadvantages of having to compete are sufficiently powerful to induce those that can to seek to create a quasi monopolistic situation for themselves. The main mechanism by which suppliers can avoid head-on conflict with competitors is a process well-known to marketers as product or service differentiation. This concept is closely related to the 'Unique Selling Proposition', first expounded by Rosser Reeves of Ted Bates as a key ingredient for successful advertising campaigns.[2]

Most suppliers accept that competition is inevitable but would prefer a situation in which it was unnecessary. Considerable research, design, development and creative resources are therefore devoted to efforts which will result in products or services which are clearly differentiated from those of competitors and may be perceived by customers to be unique – in other words, to create a form of monopoly. Unique products and services can result from or be complemented by a unique operational environment that clearly distinguishes the supplier from other companies active in the business.

Uniqueness can be real, in that a product has features or attributes not provided by competitive products, or it can be perceptual. The need to create perceived differences between products arises most strongly when real differences are difficult, if not impossible to develop and demonstrate. McDonald's does not have a monopoly of the hamburger market but it is widely perceived as a unique player within that market. This has happened because of its history as the first to develop a global burger business, its culture, its value proposition and its intensive promotional activity.

Differentiation can be sought in any aspect of a company's operations. Traditionally in the marketing process companies have sought to differentiate themselves from their competitors by:

- Production technologies
- Product features
- The raw materials used
- Price levels
- Discounts and rebates
- Distribution channels
- Delivery methods
- Delivery speed and reliability
- Promotional methods
- The perceptions they create for their brand
- Service offers
- Their location
- The company culture
- The staff they employ

Many of these are visible and therefore obvious to the competition; others are the invisible drivers of an end result, which is itself visible. For example, unique production technology or a unique source of raw materials can result in production cost advantages that translate into competitive prices.

However achieved, uniqueness is usually transitory in competitive markets. Unique product and service features can eventually be copied and even intangible advantages can be eroded over time by consistent promotion and publicity. The only long-term defence of unique positions is to innovate and create new forms of uniqueness.

Definition of Competition

A company's competitors are those organisations that can have an adverse effect on sales through their own success in winning business.

The most common definition of competitors is the narrow one of direct competition, which includes only those companies offering comparable products and services into the same target markets. In these situations the competition is head on and customers make a choice between suppliers that are all perceived as being capable of meeting their requirements in broadly similar ways.

However, competition also exists indirectly between suppliers that offer alternative and sometimes very different solutions to the same problem. In the traditional telecommunications market (often referred to as POTS – Plain Old Telephone Service) BT, AT&T, France Telecom, Deutsche Telecom and their other national equivalents were once monopoly suppliers. After privatisation, deregulation and the break-up of the monopolies competitors from very different backgrounds (cable TV and the utilities) emerged as direct competitors, as well as a host of new specialist telecommunications companies. Names such as Sprint, MCI, NTL, Telewest and Energis and a host of smaller companies offering low cost calls via calling cards or access numbers carved niches for themselves in the market, but the service was essentially the same.

However, the analysis of the competitive situation would be seriously flawed if it considered only the fixed line operators. The mobile communications market now accounts for a significant proportion of the total communications business and is competed for by a different set of suppliers in addition to the traditional carriers. The analysis would be further flawed if it excluded e-mail and text messaging, both of which are displacing voice communications, and, looking forward, effective voice communications over the Internet could cause a significant reduction in long-distance connections. The broadband technology that services the voice and data communications market also enables the transmission of pictures. This permits telephone companies to compete with terrestrial television transmissions and even the airline business, if video conference calling ever succeeded in reducing the amount of business travel.

Where Do Companies Compete?

There is a widespread and wholly understandable impression that the primary form of competition is that which takes place between companies *for customers*, in other words, that the main competitive battlefield is the marketplace. However, in the context of competitive intelligence it is important to recognise that this is very far from the

case. Companies compete across the full spectrum of their activities and whilst the marketplace is extremely important, it is by no means the only competitive arena. Some of the key areas in which competitive action can have a profound effect on a company's performance are:

- Strategic – competition for acquisitions
- Technology – competition for patentable products and processes or for licences
- People – competition for the best staff
- Finance – competition for investors and funds
- Locations – competition for manufacturing, warehousing and office sites
- Suppliers – competition for raw materials or components
- Distribution – competition for shelf space
- Markets – competition for customers

In all these areas competition is significant only when there is an actual or impending shortage of whatever resource companies are seeking. In the battle for acquisitions the shortage is acute because at any one time there is normally only a few companies available to be acquired and a number of potential suitors. Competition for financial resources is rarely significant since the supply of funds that are available for good investments is not constrained to the point that companies need to fight for a share. In times of full employment competition for people can be acute, but at the bottom of the economic cycle supply can far outstrip demand. Similarly the supply of raw materials can oscillate from abundance to shortages.

Even in markets shortages of customers are not necessarily the case. There is rarely a shortage of demand for a real bargain. In such situations customers will soak up whatever supply is available, if only to stockpile. Demand is driven by a host of factors that include price and performance but also customers' anticipation of the future supply situation. Threatened shortages of essential products, such as food or petrol, will result in buying sprees that quickly deplete stocks. In such situations competition is irrelevant; customers will buy from whomever at whatever price they care to charge.

Marketing and Competitive Strategies

The principles of marketing were developed and codified in the postwar period when demand was growing rapidly and competitive pressure was relatively low. In many markets manufacturers could sell

all they could produce and although they risked being left behind as superior products were developed, competition was not at the top of their list of worries. Marketing focused entirely on customers and was defined as a process for winning by offering products that met customer needs at prices they were prepared to pay. In his seminal work, *Innovation in Marketing*, written in 1962, Theodore Levitt barely mentions competition.[3] He concentrated on what was then deemed to be important, namely, customer retention, the evolution of markets and product development. Although outfoxing the competition was an inevitable part of this process, the emphasis was on the product and service stratagems that would be deployed, rather than direct competitive action. In a key chapter entitled 'Management Myopia',[4] Levitt attributes low growth to a management failure to spot developments that would make current markets obsolete. Targeted competitive action was relevant only for suppliers that were seeking exceptional growth and therefore needed to make gains in market share. The sequential recessions of the early 1970s, 1980s and 1990s resulted in an slowdown in overall economic growth and an overall trading climate in which even modest rates of growth required an increase in market share, unless companies were operating in specific high-growth niches.

At the same time the pressure on companies to compete more strongly has intensified.

This is a result of a number of clearly defined forces, which include:

- *Higher financial performance demands* placed on suppliers. Increasing financial demands of owners and shareholders have resulted in an injection of the killer instinct. The management of companies are required to meet ever more ambitious targets and certainly cannot afford to fail. They therefore defend their existing positions in their markets vigorously and are also driven to seek expansion
- *Diversification*. The need to protect and enhance the future growth of the business will often be interpreted as a need to diversify into new markets. If the markets they target are themselves new, competition may not intensify, as may also happen if the diversification is made by the acquisition of an existing participant. However, if a company enters an existing business as a new player then competition is automatically intensified
- *Globalisation* or geographical diversification. By reaching out into new countries global players intensify the competitive environment
- *Technology*. Developments in technology, and particularly the convergence of technologies, are enabling companies to challenge

incumbents in new markets and radically alter the competitive environment
- *Outsourcing*. The trend towards outsourcing of key processes to those organised to carry them out more effectively and at lower cost can improve competitiveness by permitting companies to focus on the operations that they do best. The growth of 'virtual companies', which outsource all functions other than product design and overall management, is the ultimate expression of the outsourcing process. Providing the supplier of outsourced services performs well, outsourcing reduces the number of functions that companies need to control and manage and therefore the scope to create problems for themselves. By eliminating the need for investment in fully serviced companies, outsourcing reduces the cost of entry into markets and therefore encourages the formation of new competitors
- *Improved information flow*. The economist's definition of perfect competition includes the requirement for customers to have perfect knowledge of the products that are available and the prices for which they can be acquired. In the real world perfect knowledge rarely exists or is confined to small geographical areas (such as a street market). Suppliers have therefore been able to operate in markets that have been partially protected by ignorance. Long-term improvements in communications have gradually eroded such protection but the advent of the Internet has created a forum in which perfect information on product availability on a global scale is a real prospect

As a result of these changes, defending an existing market position from attack or growing market share became serious marketing objectives and share gains are difficult to achieve without engaging in an outright battle with competitors.

Marketing has therefore evolved to embrace two separate streams of strategy:

- The customer facing strategy, which is concerned with satisfying the needs of customers
- The competitor strategy, which is designed to win customers but by ensuring that the company and its products and services beat, outmanoeuvre or outflank the opposition

For maximum effect, customer and competitive strategies work hand in hand, complementing each other in the common objective of winning business. However excellent, a competitive strategy will not compensate for serious deficiencies in a customer strategy for any

length of time, though it may provide breathing space whilst defects in the product or service offer are rectified. Similarly, however superb, customer strategies will eventually be unravelled and undermined by competitors.

The Competitive Environment

Writing in the 1980s,[5] Bruce Henderson described two extremes of competitive activity, *natural competition* and *strategic competition*. He described natural competition as an evolutionary process in which competitive activity progressed incrementally by trial and error. In a natural competitive state competitors adapt slowly to each other and to changes in the market environments in which they are operating. In contrast, strategic competition is revolutionary and 'seeks to make a very large change in competitive relationships'. Strategic competition can be initiated by suppliers who, for whatever reason, feel they can gain market share by engaging in an extreme bout of competitive activity. It increases the normal level of business risk and tends to be short-lived. However, a successful period of strategic competition will tend to encourage the perpetrator to repeat the exercise. If a competitor initiates a programme of strategic competition, retaliation is essential for survival. Those that are attacked will be required to defend their market positions or lose share. A successful defence may severely disadvantage the attacker and discourage further incursions.

Bouts of strategic competition are evident in many industries but particularly in retailing. In 1999 the major British supermarket chains, which had coexisted more or less peacefully for some years, were struck by a series of events that initiated a burst of strategic competition. Asda, the up-and-coming contender in the market, was acquired by Walmart, a major discount retailer in the USA. This more or less coincided with a period in which:

- Tesco, the market leader, had been gently flexing its muscles
- The British media were making increasingly loud protests about the differences between British and foreign prices for food and other consumer goods
- Three other rivals, Sainsbury's, Safeway and Marks & Spencer, had all been experiencing problems stemming from a failure to keep pace with developments in the marketplace

Asda and Tesco immediately embarked on a price war, which was heavily promoted as being in the consumers' interest. The

weakened competitors were forced to follow suit or lose part of their constituency, the last thing they needed when trying to regroup and reorganise.

Mechanisms By Which Companies Compete

Competitive strategy is often likened to warfare. Marketing warfare has been written about extensively and most of the analogies are perfectly valid at a strategic level. However, there is one major difference between armed struggle and competing for customers, which means that the nature of the battle is radically different. In warfare the opposing forces fight over terrain. The primary measure of success is territorial gain and the subsequent domination or subjugation of those who live on it. In business competition is for customers and resources; they are, in effect, the terrain that is fought over. Unlike the landscape, customers and resources are active participants in the competitive process. It is their choices that determine the outcome of the battle. The landscape cannot reject its conquerors but customers can certainly refuse to be won, distributors can refuse to allocate enough shelf space and staff can refuse to be recruited. Force is not an option to overcome such resistance and must be replaced by persuasion which is effective only when it maximises the attractiveness of the offer, uses appropriate communication channels and maximises the financial benefit to the target. In a market environment this would be called marketing – persuading the target to do what you want them to do (that is, buy from you) by meeting their requirements more effectively than anyone else.

Scale

The perception of competition tends to vary according to the seniority and role of the staff member considering it. The perception stretches from a highly strategic view to short-term tactical issues. To the chief executive competition is defined as organisations and processes that can threaten the future viability of the company. At the level of the sales representative the competition that matters is any company or action that threatens a sale. At the intermediate level of departmental heads, interest in competition spans the short and medium term. Although concerned with losses of sales due to competitive action they are also concerned with performance in the budget period for which they are responsible.

Strategic competitive objectives

Clearly a competitive strategy is an integral part of any marketing strategy which needs to be shaped to take account of what competitors are doing. Where competitors exist the key role of the competitive strategy is to:

- Undermine competitors' offers so that the attractiveness of the suppliers' own offer is maximised
- Position the company so that any head-on conflict with competitors likely to drive down prices and margins is avoided
- Avoid activities in which the most likely outcome is a blood bath
- Anticipate competitors' actions so that their effectiveness can be neutralised

Tactical competition

Competitive intelligence has just as big a role to play in tactical situations as it does in the formulation of strategy. Indeed, many companies will recognise the tactical advantages that can be gained from intelligence more readily than any strategic benefits. Tactical activities are short-term responses to day-to-day situations that arise. They are 'cut and thrust' rather than broad sweeping developments.

Tactical competition revolves around the need to respond:

- When competitors implement unanticipated changes in their activities – this can include product launches, withdrawal from the business, changes in selling activity, new promotional programmes, changes in personnel
- When a change incurs within the customer base or in the supply chain
- When economic conditions change

Notes

1. Adam Smith, *The Wealth of Nations* (1776) Chapter VII.
2. Rosser Reeves, *Reality in Advertising* (New York, Alfred A. Knopf, 1961).
3. Theodore Levitt, *Innovation in Marketing* (New York, McGraw-Hill, 1962).
4. Originally published, and better known, as 'Marketing Myopia', *Harvard Business Review*, July–August 1960.
5. The Boston Consulting Group, *Perspectives on Strategy* (New York, John Wiley, 1998).

2 Intelligence

Competitive intelligence is the process by which companies inform themselves about every aspect of their rivals' activities and performance. It is an essential ingredient when planning not only marketing campaigns but also production programmes, human resources, finance and all other corporate activities that competitors can influence directly or indirectly. No battle can be fought without intelligence on the opposing forces. Just as card games are easier to win when players have either seen or deduced their opponents' hands and exams are easier to pass when the questions are known or guessed in advance, competition is easier to engage in when the current and future activities of the competitors are known or anticipated. In all competitive situations the accuracy and timeliness of the intelligence that is held may have a determining influence on the outcome of the engagement.

In battle where lives are at stake it is essential to know the terrain over which the battle will be fought, who the enemy are, their mentality and the resources at their disposition. It is preferable to know their intentions and it is extremely useful to know how they intend to achieve them and when and where they are likely to launch an attack. In fact the more information military commanders have at their disposal the greater their chance of winning. No student of military history can be in any doubt about the value of military intelligence and the major efforts that have been made to obtain it. The same level of criticality cannot be applied to a game of cards or even success in examinations, but in business, where the financial penalties for losing can be severe, the case for acquiring competitive intelligence can be indisputable.

The Applications for Intelligence

Intelligence on the marketplace within which competitive battles are fought, commonly called market or business intelligence, provides the essential background to all strategic and tactical decisions. It indicates the likely severity of the battle and the length of time over which it is likely to take place. It also indicates the marketing and promotional tools that competitors can use successfully to fight their battles and the messages to customers that are likely to produce the most positive outcome. But, more important than any of these, it provides a forward view of technology, customers and customer requirements that forewarns of significant change, thereby providing a basis for a strategy that differentiates companies from their competitors and permits some radical outflanking manoeuvres. The relationship between business or market intelligence and market research is extremely close. Only those who define market research narrowly as being concerned exclusively with customer surveys and focus groups will fail to see the connection.

Intelligence on competitors is used in three situations:

- Curiosity
- Emulation
- Anticipation

The most common, and least useful, is to satisfy an inevitable curiosity about other companies active in the same business. The level of curiosity may be tempered by an arrogant belief that competitors are irrelevant and is rarely deemed to be worth satisfying at a price. Curiosity is usually satisfied by information that is gathered through trade gossip, from staff that have previously worked in competitive companies, from published media and from informal contacts. No attempts are made to verify the information collected and such companies often live in a false competitive environment fed by inaccurate impressions and rumours in which it is impossible to defend themselves from surprise attack or even launch credible offensives.

Emulation is a more worthy application for competitive intelligence. It recognises that all companies have something to learn from their competitors – even if it is only that they have nothing to learn. The learning process can cover the full gamut of competitors' operations and its usefulness is recognised most readily:

- When a company has encountered a problem that it is having difficulty resolving with its own resources (so how do the competitors do it?)
- When existing or new competitors have launched an initiative that appears to be successful
- When competitors appear to be using superior technologies, achieving higher levels of productivity or performing better financially

Companies that use competitive intelligence only as a source of inspiration tend to be followers rather than leaders, content with the fact that they will be second to market with innovations and lagging in the performance race, but they are nevertheless benefiting from the knowledge gained by their competitors and leveraging their own skills and resources.

The most advanced application for competitive intelligence is that which enables companies to recognise current and future competitive threats and to devise stratagems that will neutralise their effectiveness and gain some form of competitive advantage. Advanced users of competitive intelligence tend to be:

- Companies that are active in businesses in which the competitive landscape is evolving rapidly and subject to major change
- Companies active in businesses that require heavy investments and long-term development programmes in order to remain credible players
- Aggressive players seeking rapid gains in market share
- Dominant players with major positions to defend
- Players that have recognised that they are seriously vulnerable to attack

Not surprisingly, the major users of competitive intelligence tend to be in information technology, healthcare (especially pharmaceuticals), financial services and e-commerce.

Companies to Watch

When determining the competitors that need to be studied it is wise to adopt the broadest possible definition of competition. Although the current threats may be obvious it is essential to consider potential future threats, and these can arise from well outside the current boundaries that delimit the business. As already described, competition is conventionally defined as comprising direct and indirect

competitors. It can also be defined as current competition and potential future competition. The most worrying group in any market are the potential future competitors: those companies that have no current connection with the business, have not declared their hand but can have a devastating effect if ever they decide to enter.[1] Figure 1 illustrates the competitive structure that can exist in any market.

Most competitive intelligence is aimed at direct competitors – companies that sell identical products or services at similar prices to an identical customer base. These are the companies that are faced head to head in the marketplace on a daily basis and constitute the most immediate threat. Direct competitors are usually well-known. Only in new, rapidly evolving or highly fragmented businesses is it likely that companies are competing against suppliers of whose existence they are unaware and even then the competitive process usually ensures that their presence becomes known relatively quickly.

Indirect competitors are those that sell products or services that are not identical but compete for the same category of customers' expenditure. In the personal transport market cars in the same price and performance categories are in direct competition whereas manufacturers of motorcycles and providers of public transport services are indirect competitors. Indirect competitors need to be watched not

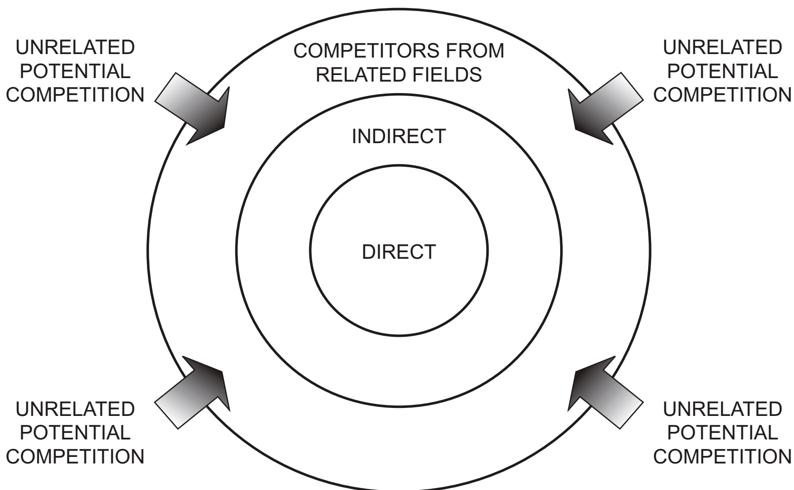

Figure 1 *Competitors to watch*

only because of the effect they can have on a market but also because they may broaden their product range and compete directly.

Outside the ring of direct and indirect competitors lies a further group of companies that are active in related businesses and have the skills and resources to diversify if conditions suggest that it would be profitable for them to do so. When diversifying such companies seek to maximise the use of the assets they have developed in their core or original businesses and in doing so may alter competitive conditions in the new markets. The emergence of garage forecourts as 24/7 grocery retailers is due to the fact that they attract a continuous mobile customer base, have parking space available and are already bearing the cost of long opening hours for their primary business. The entry of the supermarkets into financial services markets creates additional income earning opportunities from their customer base, uses the equity they have built in their brands and places them one step closer to being one-stop shops.

Further out still lie companies that have no current connection with a market but could at some stage decide to enter it. Radical diversifications are extremely difficult to predict since they are normally founded on interpretations of a skill base that are invisible to the outside world. When Virgin was launched as a record retailer only a brave observer would have predicted that at some future date the company would enter the airline and then the railway businesses. Now, having observed the power of the Virgin brand and its ability to carry the company into diverse markets it would be very easy (though not necessarily accurate) to suggest that ferry companies and cruise lines should consider them potential competitors.

Although new entrants from radically different businesses are difficult to anticipate they are also becoming more common. This in itself provides more evidence on which to base predictions. The realignment of IBM from a company supplying hardware to one offering a mix of hardware and consultancy services means that it is less surprising that a company like Hewlett Packard should make a bid for the consulting arm of PricewaterhouseCoopers.

One group that is often overlooked as a potential competitor is the customers. Despite the trend to outsourcing there is always a risk that customers will decide to make components for themselves or establish service departments that cut out external suppliers. The risk is greatest when customers' satisfaction with external sources deteriorates to low levels because quality is inadequate, supply is inconsistent, service levels are poor or prices are too high. Items that are deemed to be strategically important are more at risk than others.[2]

Narrowing the Field

Adopting a broad definition of competition has one major disadvantage – it can throw up large numbers of companies to watch. Studying hundreds of companies is clearly impractical, at least on any regular basis, and there therefore needs to be some mechanism by which competitors are placed in priority order. Obviously the companies that it is imperative to observe are those that can do the most damage to sales and profits in the short term. Within the ranks of direct and indirect competitors this can usually be determined by reference to:

- Size – large competitors generally have the resources and the power to do more damage than small competitors
- Management – superior management teams with proven records of success require closer watching than those with a reputation for mediocrity
- Aggression – competitors that have a record of being aggressive in the marketplace are likely to be more dangerous regardless of whether they are successful or not. Periods of aggression initiated by one supplier can cause turmoil in the market, to which participants have to respond
- Technology – competitors that are using significantly better technology have the capability to disturb the competitive balance, particularly if it can be converted into a product, performance or price advantage
- Product – competitors with identical or similar products require closer monitoring since they can be used as substitutes more easily and their actions can have an immediate impact on performance
- Customer base – competitors that service the same accounts or similar types of customers are inherently more dangerous than those that operate in more remote segments of the market
- Geographical proximity – this can arise when raw materials are shared, when the market is concentrated in a particular region or when one company is a breakaway from another. Competitors operating out of nearby locations are often close in many other senses; a high proportion of staff may have worked (or are being tempted to work) for the competitors and other resources may be shared, thus blurring distinctiveness in the minds of the customers
- Success – companies experiencing a run of success in the market need to be watched closely
- Profits – companies that are earning above-average profits may be establishing a resource base from which to broaden their competitive challenge

- Profile – high-profile suppliers, particularly those appearing frequently in the media, may be preparing the way for a major assault on the market
- Recruits – the recruitment of new management may also herald a change in pace in competitive activity

In the longer term it is necessary to consider the potential new entrants as well as those already active on the competitive scene. Since new competitors can emerge from many alternative sources and give few clues as to their intent, the problem of deciding which companies to watch is magnified many times. It can only be done effectively by carrying out a constant scan that seeks clues that suggest a possible interest in the market. The clues can be reasonably definitive or simply straws in the wind. The former will suggest that a company should be placed under close scrutiny; the latter that it should be examined from time to time to see whether more positive evidence is available. The clues that may be picked up in a scan are likely to include:

- Management statements that suggest that a diversification into a new market is being considered either for growth or as a replacement for poor earnings in current businesses
- The recruitment of new management known to have an interest in the market
- The development of a new technology that would facilitate entry into the market
- The establishment of partnerships that suggest a growing interest in new businesses and a mechanism for making an effective entry
- The purchase of a licence that could be used to enter the business
- Patented product developments

Alternative Applications for Intelligence-Gathering Techniques

The term 'competitive intelligence' implies that the techniques are valid exclusively for examining competitors and the competitive environment. Although the competitive intelligence community has indeed built its business around the analysis of competitors, the techniques are equally valid for other purposes. These include the analysis of companies that are being considered or targeted as:

- Acquisition candidates (which may also be competitors)
- Investment prospects

- Joint venture partners
- Suppliers
- Distributors
- Customers

Acquisition candidates

The acquisition process includes volumes of due diligence which normally concentrates heavily on the financial performance and prospects of the target company. The market and competitive environment are not usually ignored but it is rare for them to get more than a cursory examination by the teams of bankers, accountants and lawyers that comprise the typical acquisition team. Competitive intelligence techniques, which study the company covertly, can inject valuable insight into acquisition decisions on those aspects of the company that are unlikely to be revealed either by the figures or often the target company itself.

The main inputs are analyses of:

- The identity of current and potential competitors to the acquisition target
- The competitive positioning of the company within the markets it services
- Its strengths and weaknesses relative to significant competitors
- The types and levels of competitive pressures it is facing
- The sustainability of its market share and its ability to grow sales

A more refined use of competitive intelligence in an acquisition situation is to obtain insight into the internal structures, resources and cultures with a view to determining the degree of fit with the acquiring company. Cisco Systems, a voracious acquirer that made 70 acquisitions between 1994 and 2000, uses its competitive intelligence resources as an integral part of its acquisition team. A high proportion of Cisco's acquisitions are young companies just out of the early rounds of financing. With such companies it is essential to hold on to the key staff and for this to happen the company has to fit with the Cisco culture. Advance study of acquisition candidates considers their cultures and their leadership style and practices. This is used to identify those that stand a reasonable chance of being integrated without heavy staff losses. The success of this process can be measured by the fact that Cisco retains 70 per cent of the CEOs that it acquires.[3]

Investment prospects

Investments in companies by venture capitalists or trade investors are invariably preceded by a programme of due diligence to test the assumptions being put forward by the prospect. Data supplied by the company itself should rightly be treated with caution and verified independently. Whilst this is commonly accepted for the assumptions supplied about the market environment in which the company is operating it is rare to test the statements that the company makes about its organisation, internal workings and strengths. Competitive intelligence can be used to bridge this gap.

Joint venture partners, suppliers and distributors

The performance track record of all companies with which a potential relationship is being considered should be tested, particularly if the relationship is critical to future performance. It is essential to know whether a business partner is capable of living up to the promises they make, and researching their true capabilities and their reputation with other partners is more accurate than taking trade references and less expensive than finding out by trial and error.

Many of the so-called joint ventures between companies in the former east European countries and western partners were predicated on the assumption that the western partners would supply the financial resources that the eastern companies could use to expand their businesses. In a high proportion of cases the eastern companies lacked the management skills to use the finance with which they were provided and it soon became clear that without a major injection of management skills as well as finance, the joint ventures would fail. What was thought at its inception to be a joint venture soon became a full acquisition, which was not what the negotiators of the deals expected.

Customers

When pitching to business customers an in-depth and independent assessment of their activities, needs and satisfaction with current sources of supply can provide a basis for a winning bid. Suppliers that show an awareness of their customers' requirements are generally viewed more favourably than those that are ignorant and a bid that

touches on real problems encountered by the customer in the past will add spice to the offer. It is even more helpful to know that specific accounts are dissatisfied with their current sources of supply and are open to competitive offers.

Alternative Routes to Intelligence

Any company seeking competitive intelligence has a number of alternative sources to turn to. In addition to those professionals that specialise in competitive intelligence using the techniques described in this book, they can consider:

- Companies that offer intelligence databases
- Market research companies
- Private detectives
- Companies that specialise in the investigation of corporate fraud
- Companies and individuals that carry out industrial espionage

Intelligence databases

Companies that have built databases of news and information on companies and markets have been quick to spot their usefulness for competitive intelligence and have repackaged their services accordingly. There is no doubt that a good database and clever search facilities are a major asset to analysts since they can save considerable time, speed up the search process and probably increase the amount of intelligence that is obtained.

Market research

The market research route to competitive intelligence has been in existence for many years. It has been part of the standard offer of research agencies that study industrial markets since the 1960s and the agencies that study consumer markets also have a long track record in providing basic sales and market share data for competitors. The use of market research for competitive intelligence is discussed further in Chapter 9 but it has to be appreciated that research agencies work on the fringes of competitive intelligence and not within its mainstream.