Review: Full, Anonymous: No

During 2007–9, the Nintendo Wii established leadership over the Sony PS3 and Microsoft Xbox360 in the market for video game consoles. Unlike Sony and Microsoft, Nintendo is completely dependent upon the video games industry for its revenues. How might Nintendo use the competitor analysis framework outlined in Figure 4.2 to predict the likely reactions of Sony and Microsoft to its market success?

Instructions: Enter or paste your written work and/or click "Attachments" to upload your files.

Title

Message

Attachments

Submit

User Review Enabled

Subject	*Submitted*	*Submission Score (100 pts)*	*Comments*

For all three purposes, the key requirement is to understand competitors in order to predict their responses to environmental changes and our own competitive moves. To understand competitors, it is important to be informed about them. Competitive intelligence is a growth field, with a flood of recent books,[42] a dedicated journal,[43] specialist consulting firms, and professional associations.[44] About one-quarter of large U.S. corporations have set up competitive intelligence units.

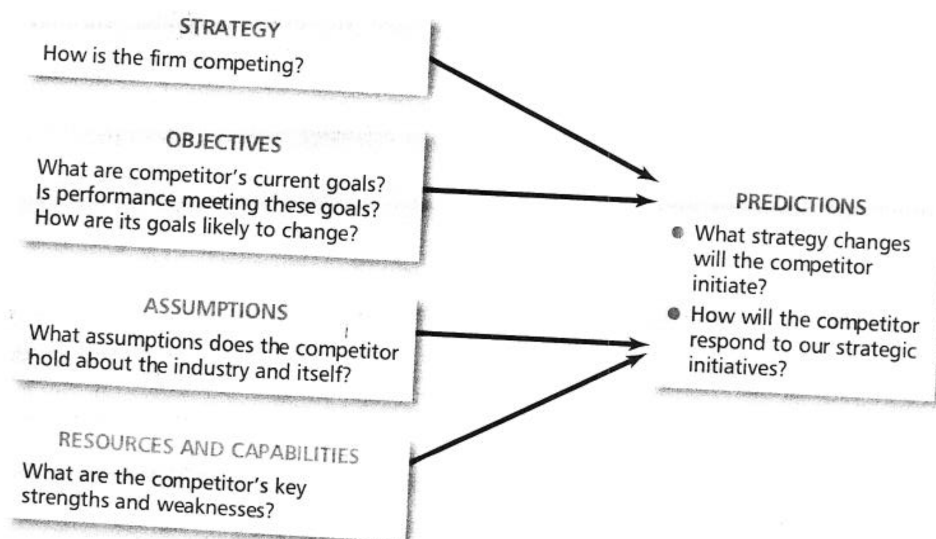
The boundary between legitimate competitive intelligence and illegal industrial espionage is not always clear. The distinction between public and private information can be uncertain. Trade secrets law does not offer clear guidance. Well publicized cases of information theft include Procter & Gamble's acquisition of documents concerning Unilever's hair care business that had been removed from Unilever dumpsters[45] and the $100 million fine levied on the McLaren-Mercedes Formula One team for possessing confidential technical information belonging to Ferrari.[46]

A Framework for Predicting Competitor Behavior

Competitive intelligence is not simply about collecting information. The problem is likely to be too much rather than too little information. The key is a systematic approach that makes it clear what information is required and for what purposes it will be used. The objective is to *understand* one's rival. A characteristic of great generals from Hannibal to Patton has been their ability to go beyond military intelligence and to "get inside the heads" of their opposing commanders. Michael Porter proposes a four-part framework for predicting competitor behavior (see Figure 4.2).

- *Competitor's current strategy*. To predict how a rival will behave in the future, we must understand how that rival is competing at present. As we noted in Chapter 1, identifying a firm's strategy requires looking at what the

FIGURE 4.2 A framework for competitor analysis



company says and what it does. (See "Identifying a Company's Strategy" in Chapter 1). The key is to link the content of top management communication (with investors, the media, and financial analysts) with the evidence of strategic actions—particularly those that involve commitment of resources. For both sources of information, company web sites are invaluable.

- *Competitor's objectives.* To forecast how a competitor might change its strategy, we must identify its goals. A key issue is whether a company is driven by financial goals or market goals. A company whose primary goal is attaining market share is likely to be much more aggressive a competitor than one that is mainly interested in profitability. The willingness of the U.S. automobile and consumer electronics producers to cede market share to Japanese competitors was partly a result of their preoccupation with short-term profitability. By comparison, companies like Procter & Gamble and Coca-Cola are obsessed with market share and tend to react aggressively when rivals step on their turf. The most difficult competitors can be those that are not subject to profit disciplines at all—state-owned enterprises in particular. The level of current performance in relation to the competitor's objectives determines the likelihood of strategy change. The more a company is satisfied with present performance, the more likely it is to continue with its present strategy. But if performance is falling well short of target, radical strategic change, possibly accompanied by a change in top management, is likely.
- *Competitor's assumptions about the industry.* A competitor's strategic decisions are conditioned by its perceptions of itself and its environment. These perceptions are guided by the beliefs that senior managers hold about their industry and the success factors within it. Evidence suggests that not only do these systems of belief tend to be stable over time, they also tend to converge among the firms within an industry: what J. C. Spender refers to as *industry recipes*."[47] Industry recipes may engender "blindspots" that limit the capacity of a firm—even an entire industry—to respond to an external threat. During the 1960s, the Big Three U.S. automobile manufacturers firmly believed that small cars were unprofitable. This belief was partly a product of their own overhead allocation procedures. The result was a willingness to yield the fastest-growing segment of the U.S. automobile market to imports. The complacency of British and U.S. motorcycle manufacturers in the face of Japanese competition reflected similar beliefs (see Strategy Capsule 4.2).
- *Competitor's resources and capabilities.* Evaluating the likelihood and seriousness of a competitor's potential challenge requires assessing the strength of that competitor's resources and capabilities. If our rival has a massive cash pile, it would be unwise for our company to unleash a price war by initiating price cuts. Conversely, if we direct our competitive initiative towards our rivals' weaknesses, it may be difficult for them to respond. Richard Branson's Virgin Group has launched a host of entrepreneurial new ventures, typically in markets dominated by a powerful incumbent—British Airways in airlines, EMI in music, Vodafone in wireless telecommunications. Branson's strategy has been to adopt innovative forms of differentiation that are difficult for established incumbents to respond to.