

NEWRY

Product Commercialization Strategy

Understanding Competition

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Mark McClusky, President

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Why companies need to understand their competition

Most companies have competitors, know who they are, and know something about them. They see competitors' products near theirs on retail shelves; or see their ads in industry publications and trade journals; or hear their names from customers and suppliers. They may have formally analyzed their product offerings, or spent some time reviewing their web sites.

However, their understanding of competition may not go very deep, and sometimes competitors' actions seem to come out of the blue:

- Pricing may seem “irrational” or below cost
- Product performance may have leapt suddenly ahead, or the rate of new product introduction and innovation may appear to be accelerating
- Capacity additions, acquisitions, or new relationships with key suppliers or customers may raise concerns.

Often, the meaning of competitors' actions is ambiguous and their impact is not clear.

For most companies, business change has become rapid and continuous, upping the competitive ante. Particularly in high-growth, technology-driven businesses, failure to understand the competitive environment can be fatal.

One high-tech leader, Wang Labs, went from industry standard to Chapter 11 in less than ten years, as the minicomputer platform was competitively eclipsed by the personal computer, and as Wang failed to keep pace with technical innovation in the PC environment. Companies must do more than react—they must anticipate their competitors' potential actions, and distinguish quickly between routine and strategic events in their competitive environments.

The good news: there are ways to systematically diagnose competitors' actions, understand competitive environments, and develop effective competitive strategies—ethically, in detail, and with a high level of confidence in the results.

Gaining competitive insight on multiple levels

Understanding the level at which competition takes place – corporate, business unit, or product – is important. Only narrowly focused companies truly compete as corporations per se. Most companies compete at the business unit level with discrete products at target price points, offered in specific channels and markets, and directed towards particular categories of customers. But the corporate context can dictate business unit competitiveness.

For example, IBM ultimately found that it could not compete with Dell as a personal computer manufacturer—despite being first to market and having massive R&D capability. It could not match Dell's cost position and its distribution effectiveness and discipline. From a corporate perspective, the PC business was only one among IBM's portfolio of businesses, while at Dell the personal computer business was central.

Different questions are relevant for each level of competition:

Corporate: What are corporate resources and capabilities? What is the strategic role of each business unit in the business portfolio? Where are real or potential synergies across business units? Who are potential merger/acquisition targets, and why? What does the corporation say about its strategy, and what external evidence supports it?

Business unit: What are the real or potential synergies *within* the business unit? How has the business unit been investing? What business strategy is implied by these investments? What does the business unit say about its strategy, and what external evidence supports it?

Product: What is the market position (brand power, share) of the product or product family? What is its cost position, and what cost drivers determine that position? What are actual performance differences, and what are the features and benefits that differentiate product offerings?

The most effective competitive assessment weaves together detailed analysis into an integrated picture—one that may only be known at the most senior levels of the competitor organization. This picture provides extraordinarily powerful insight, and an opportunity to develop effective competitive strategy.

Understanding competitors' costs

Understanding the competitive cost position of a business lays the foundation for business strategy—and in many respects, defines its strategy options. A low-cost competitor can generate greater profit than rival firms (at the same price level), or can drop price to gain market share (while maintaining the same profit level).

But how does a company learn its competitors' costs? With the right kind of effort, a picture of competitors' operations and (ultimately) costs can be created from multiple “puzzle pieces”:



Public information. All companies—large or small, public or private—leave a “public footprint” that can be traced. Competitors talk about themselves and their products through their websites, product literature, conference papers, patents and technical articles, local newspapers, and so on. In addition, public documents—such as required filings with the EPA, OSHA, and NLRB—may provide precise information on production processes, throughput, headcounts and so on. These sources are particularly reliable since accurate information is required by law.



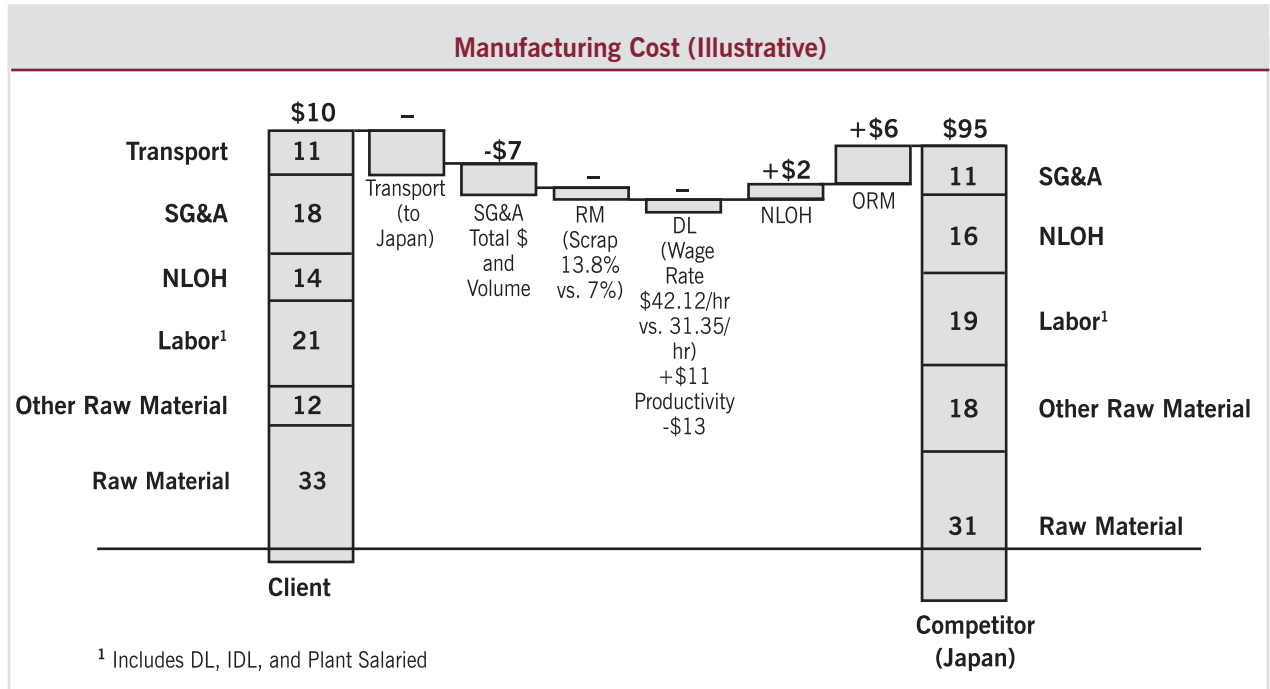
Teardowns. Reverse engineering or “teardown” of competitors' products is also revealing. Even with seemingly identical products, different companies make different design and materials choices, use different suppliers, and create or assemble the product differently. A team of operations, engineering, sourcing, and accounting people can generate substantial information about competitors' costs from teardowns. Virtual teardowns have been conducted on expensive and highly complex products such as commercial satellites.



Industry experts. Interviews with knowledgeable industry participants—suppliers, customers, industry analysts, trade associations, and others—provide new information and confirm data gathered from other sources. These industry perspectives enable analysts to identify the processes or activities that matter most, as well as to predict future industry directions. Respondents are encouraged to share appropriate knowledge that clarifies competitive issues.

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By comparing client and competitive product costs and cost drivers side by side, element by element, it is possible to calculate competitors' cost positions within 2 to 5 percent—clearly close enough for the purposes of strategic decision-making.



Understanding competitors' technology evolution

Where does technology innovation come from? How does it find its way into the marketplace? What will its commercial impact be, and what marks the difference between successful and failed innovations? These questions are difficult enough for a company to answer from within. How could we possibly understand competitors' technology evolution?

The answer is that, while challenging, it can be done with a high degree of confidence. Substantial information about technology development is readily available through published sources, and more can be obtained through public forums. Analysis of competitors' patents can provide insight into key investment areas. Government contracts for research and development may provide additional insight. Review of scientific journals, conference papers and other publications will identify R&D focus areas, as well as reveal approaches taken and solutions achieved.

Finally, interviewing knowledgeable industry participants, as well as attending trade shows and conferences, provides opportunities for focused researchers to ask questions that, given the context, will not seem too blunt or intrusive.

Understanding competitive technology evolution requires the participation of a company's scientific and engineering communities, who are most qualified to grasp the implications of external findings. Teams that can speak a common language, bridging technology and commerce, are essential to developing insight into competitive technology.

For example, an American client serving the automotive industry was concerned about its operations challenges in bringing a new technology to market. It was crucial to understand which of several potential approaches its leading Japanese competitor had taken. Extensive review of patent literature and technical papers, combined with evidence gleaned from numerous interviews, generated the technical answer.

Going further, a team made up of commercial, operations, engineering, and R&D personnel successfully “translated” this insight into actions affecting capacity and cost; these insights in turn led to decisions about price and pricing flexibility.

Identifying competitors’ strategic direction

Often, understanding competitors’ strategic direction is as straightforward as comparing what competitors say with what they do, and thinking about what that means in the competitive environment. With an “early warning” understanding of competitors’ strategic direction, companies can both seize opportunities and erect defensive barriers.

Companies announce their strategic direction in myriad ways. Public companies must disclose information with strategic value (costs, locations, investments, key customers, etc.) in required filings with the SEC and other agencies. Beyond legal obligations, companies often find it in their own interest to announce contracts, supplier relationships, technical breakthroughs, new geographic markets, joint ventures, and so forth. These have market (and marketing) value to their customers as well as to the investment community.

However, this information is never presented as a coherent whole. The challenge in understanding competitors’ strategic direction is in piecing together the fragmented elements that are publicly accessible. As with a mosaic or jigsaw puzzle, once the pieces have been assembled and properly fit together, a coherent picture will emerge. But this process requires knowledge of where to look combined with concentrated effort.

Competitors may “signal” their strategic direction. For example, in the battle for the next generation of expendable launch vehicles (EELVs), Boeing made public a surprising amount of information: its progress against schedule, its cost reduction targets and successes, its sizable investments—and its business objectives.

While this information was directed at both the investment community and potential customers (notably the U.S. government), Boeing was also signaling its rival, Lockheed Martin, of its intention to invest in the business and aggressively pursue market share. The “threat” was real. In the first block of EELV contracts, Boeing was awarded 19 of 28 missions.

Insight to inspire action

Some managers may ask, “If I had this insight, what could I do about it? I can only affect what my company does, not my competitors.” In our experience, this view is far too limited—and limiting. Armed with insight into competitors’ cost position, technology development, or strategic direction, savvy managers will make better-informed decisions. Examples from our experience include:

- A housewares manufacturer learned, to its surprise, that its 15 percent cost disadvantage against a key competitor was due to packaging costs; actual product costs were at par. The client overhauled its approach to designing and purchasing cartons and labels, eliminating the cost disadvantage—and in the process, identifying additional cost reduction opportunities, for total annual savings of \$700,000.

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- An American aerospace company wanted to “leapfrog” its two main U.S. competitors in commercial telecommunications satellites, and launched cost reduction and performance improvement initiatives to do so. Competitive analysis showed that it had bypassed one competitor but was only at parity with the other—which had undertaken its own “next generation” development. With this knowledge, the client was able to focus on improving cost and performance in the specific subsystems where gaps were identified.
- Analysis of a European competitor in the optical fiber and cable business quantified the extraordinary profit levels in its Chinese joint venture. Public documents gathered during the project showed that the joint venture contract was due to expire in eight years. This knowledge provided our client with a vital perspective on the European competitor as well as the Chinese partner—of practical benefit as it developed its own strategy for serving the Chinese market.

As these cases suggest, the insight gained from competitive analysis inspires actions that produce direct, immediate benefits. The competitive analysis process itself—because it is fact-based, analytically rigorous, and externally focused—becomes an effective catalyst for action.

Our consultants have extensive experience in field data collection, rigorous problem-solving, carefully tailored analytical tools, deep understanding of product economics and market behavior, and superior responsiveness to client needs. We come from many different backgrounds – including business, industrial, engineering, finance and economics, top-management communications, and public policy. All Newry consultants share a strong professional ethic: tenacious pursuit of information, rigorous analysis and superb strategic communication. These traits and our unshakable dedication to client service are what provide unique value to our clients. We would be happy to discuss how Newry could help your firm address their product commercialization strategy needs.

Call us at 440-808-3839 to learn more.

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