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by David Stauffer

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# What Has Your Competition Done for You Lately?

*Maybe more than you think. Yes, the contest for customers and dollars is intense, but new research shows that competitors may help you in surprising ways.*

BY DAVID STAUFFER

COMPETITION keeps you hungry. It forces you to continually find new and more cost-effective solutions to business problems. Although there's nothing new in this insight, recent research suggests some often overlooked ways in which competitors can be useful.

Counterintuitive as it may sound, competitors can help grow the market for your products and services, thereby boosting your sales at a time when, with the U.S. slowdown entering its third year, new revenue is exceedingly hard to find. Moreover, the presence of a competitor can also influence customers in ways that help you win more sales, and do it more efficiently, over time.

Richard E. Beville should know. The chief operating officer of Lamont Digital Systems, a Greenwich, Conn., provider of digital telecommunications services, Beville started his career in the Bell system, back in the days before the AT&T monopoly was broken up. With firsthand experience both in a world of no competition and in one of intense competition, he is decidedly in favor of the latter.

A strong, innovative competitor "makes you more efficient in operations and more creative in seeking [competitive] differentiators," he says. "With no rival nipping at your heels, you aren't forced to focus on your higher-margin areas," or even, perhaps, to identify those areas. Nor are customers distinguished from one another. "Who are your best customers? What does 'best' mean?" Without competitors, those questions don't just go unanswered—they're often unasked.

Randall L. Tobias echoes Beville's sentiments. Before he became chairman and CEO of Eli Lilly, Tobias was a vice chairman at AT&T as it was being broken up.

"In the regulated days, Bell system employees—myself included—genuinely believed they were doing the best they could and acting in the best interests of customers," he says. "But when we got out there [in a competitive environment], we began to discover that our skills weren't necessarily honed to respond precisely to customer demand, our technologies weren't all they should be, and our manufacturing wasn't as efficient as we'd thought."

In his soon-to-be-published book of career reflections, *Put the Moose on the Table,* Tobias attributes such shortcomings to a prevailing "sense of entitlement" that's fostered in part by the absence of competitors.

"You could make a good case that the very promise of job security is the first step in destroying it," he writes. Better, ultimately, for companies and their employees is "a competitive world, in which you come to work every day just a little bit scared."

## Making the pie bigger

If you're an independent operator and an industry giant like Wal-Mart or Barnes & Noble enters your market, chances are that you'll be more than just a little scared: Lacking their economies of scale, you worry that you won't be able to compete. Surprisingly, however, that's not always the case—and the exceptions can be instructive.

In the specialty-coffee business, for example, Starbucks is viewed by independent coffeehouses as the Evil Empire. But industry surveys show that most indies going head-to-head with the Seattle-based giant don't just survive, they do better than ever.

"Starbucks forces [independents] to stay on their toes, get creative, exploit their advantage of being more nimble," says consultant Bruce Milletto, president of Bellissimo Coffee Infogroup of Eugene, Ore. "Starbucks provides a safe place to have your first latte," he says, explaining that specialty coffee is still a young industry with plenty of room to win new converts. When those latte novices are comfortable with their specialty brews, many will try, and perhaps prefer, the nearby independent.

"There's a delicate balance between the synergies [two combatants] can generate on one hand and too much competition on the other," says Joan E. Primo, a principal of real estate and retail consultants The Strategic Edge (Southfield, Mich.). "You have to ask yourself whether there's enough pie for everyone."

In other words, it makes sense to welcome battles for market share that make the pie bigger for everyone; but battling for a bigger slice of a pie that's not growing is a zero-sum game.

That's why Starbucks has done its rivals a favor, says David J. Reibstein, a professor of marketing at the Wharton School (Philadelphia). By building primary demand—demand for a category of offerings, in addition to demand for a particular brand—Starbucks has given the entire sector a shot in the arm.

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When you build primary demand, you create niches that enable others to come into the market. And the existence of niches can boost your business—provided that you don't try to be all things to all people. The fiercely competitive retail shopping center market of northern New Jersey serves as an example.

"We may realize we can't dominate in general apparel, but we may be able to identify a couple of categories—high-quality jewelry and high-end kids' apparel—that we can lock up," says Anthony W. Deering, chairman of the board and CEO of The Rouse Company (Columbia, Md.), a leading U.S. developer and manager of retail centers, commercial properties, and planned communities. So as the Rouse shopping center becomes the place of choice for consumers primarily interested in good jewelry or children's clothes, the competing shopping center nearby responds by trying to become the No. 1 choice of consumers in different categories.

This can lead to a certain amount of head-to-head competition between the two neighboring shopping centers; but, for the most part, their overall business increases as they siphon away customers from more remote shopping centers that aren't as assiduously trying to ratchet up their appeal.

## A basis for comparison

When stores of strong retail competitors, such as Best Buy and Circuit City, are located side by side, "it's easier for customers to comparison-shop," says Strategic Edge's Primo. But that's not necessarily a bad thing. In fact, if one of those stores were to disappear, the other wouldn't necessarily do better. The reason is that shoppers often go out of their way to give themselves greater choice; indeed, they're less likely to buy when they have just one choice.

As a result, comparison can be good for every company whose offerings are being compared. The existence of a choice helps trigger consumer purchases, and any company whose unique mix of product or service features is competitive can win sales often enough to succeed in the market.

Simply put, competitors can do a lot for you. But you'll benefit even more from the competitive relationship when you take the following proactive steps:

**Find your competitive comfort zone.** Your obligation to maximize shareholder value over time means that it's your job to determine whether the company's smartest approach to competitors should be "take no prisoners," "live and let live," or something in between.

If the course you choose is closer to "take no prisoners," says Richard A. D'Aveni, professor of strategic management at Dartmouth's Tuck School of Business (Hanover, N.H.), be sure your competitive position is closer to that of a leading-edge, perpetually paranoid warhorse like Microsoft or Wal-Mart than to a depthless upstart like Netscape or a resting-on-its-laurels Kmart.

> ***By defining the rules of the competition, a smaller firm can often take advantage of the dominant player's first-mover momentum.***

D'Aveni advocates a systematic "mapping" of competitive pressures to help discern the best competitive stance. "Smart competitors, in effect, find ways to stake out positions on each other's turf without creating conflagration," he says. "They do this much like a boxer feeling out an opponent, with thrusts and jabs into the other's territory, and watching the response."

**Let them lead while you learn.** When you identify new offerings or markets where your assessment of initial risk versus potential returns suggests caution, a competitor may do you the favor of venturing onto thin ice first. Yes, there's also risk in conceding first-mover advantage, but as the bursting of the dot-com bubble has shown, that supposed edge isn't all that it's cracked up to be.

The case for letting a competitor move first into a new market can be stronger when you play David to a rival's Goliath, says Primo. In retail location siting, she notes, dominant players—for example, McDonald's in fast food—have the resources that allow them to exhaustively study locations and build at only the most sure-fire of them. Other fast-food outlets and retailers seeking roughly the same customers may then cluster at the favored locations. Nonetheless, says Primo, "You want to add something to the mix that makes you different."

David B. Yoffie, Max & Doris Starr Professor of International Business Administration at Harvard Business School, agrees. The smaller player is often well advised to "take advantage of all the momentum [the dominant player] has created—and then do things they can't," he says. For example, Cisco essentially created the market for Internet routers that help enterprise customers "link together different types of computers," writes Yoffie in his book *Judo Strategy.*

But when Sunnyvale, Calif.–based Juniper Networks "sliced off the high end"—the backbone market, in which giant carriers and Internet service providers like UUNET and AT&T work to connect a billion people or more—Cisco, "stuck in the position of trying to be all things for all customers all of the time," had difficulty responding. By defining the rules and boundaries of the competition, Juniper was able to capitalize on Cisco's first-mover momentum.

**Lick 'em by joining 'em.** When the owner of an independent coffeehouse in Oakland, Calif., saw a Starbucks going up directly across the street, she

was "extremely proactive," says coffee consultant Milletto. "When Starbucks bought huge newspaper ads announcing its new line of organic coffees, she had a quick-print shop produce a storefront banner that said, 'Serving 5 organic coffees.'" With such a "Push When Pulled" tactic, writes Yoffie, "you move to weaken your opponent's position by using his momentum to your advantage." Wal-Mart successfully used this strategy against the then much larger Kmart in the 1980s, Yoffie writes. "They posted Kmart's weekly circular at the front of their stores and promised that Wal-Mart would match or beat any of the advertised deals."

> ***Don't just study your competitors' triumphs and failures: Imagine the next move a competitor might make against you—and then do it yourself.***

**Welcome the mouse when you're the lion.** If you happen to be a dominant player, you, too, can gain from competitors. Most prominently, the little guys can keep you off the radar screen of government antitrust enforcers. "But there are less obvious ways to gain from them," Yoffie says, "such as research suggesting that having small competitors can help you hone your competitive instincts and push you to be better."

For example, many years ago, when Pizza Hut executives tried to find out why the company did so poorly in Chicago, they discovered that their current products were uncompetitive with local deep-dish pizza. Deep-dish pizza subsequently became a key impetus behind Pizza Hut's explosive growth.

Recalling his postderegulation years with Bell Atlantic, Beville says smaller competitors—which tended to take greater risks—provided the ammunition he sometimes needed "to do some new things. It can be tough to get a huge company to move into anything that looks risky. But if a competitor was already doing it, the risk appeared lessened and the competitive urgency was greater."

Few big guys in any industry are bigger than General Motors, yet that company is benefiting from its competitors in marketing its OnStar navigation and communication system.

"Why would GM license OnStar to competitors?" Wharton's Reibstein asks. "Because GM could use a growing category. Because it gives GM a better shot at establishing OnStar as the industry standard. And because GM extends its OnStar distribution to market segments they may not otherwise reach with their auto brands."

**Invent the competitor who kills you.** Learning from your competitors' triumphs and flops is critical but, in a sense, limited, says consultant Liam Fahey, cofounder and partner of Leadership Forum (Hillsborough, N.C.). In essence, it means you're always looking at the past or present but never to the future.

Fahey addresses this problem with an exercise called "invent your competitor," which typically proceeds through five steps: How the competitor might come to be, what its strategy might be, how it might execute its strategy, why it might succeed or fail, and the strategy implications for one's own company. "Finally," he says, "I ask my clients to answer the question 'Why wouldn't our company want to be that competitor?'"

Fahey goes on to describe the experience of a firm that invented a competitor whose business model was based on a top-to-bottom "ideal invented e-solution." Overcoming a reflexive it'll-never-work reaction, the invention team realized "how the firm's current strategy could be easily outmaneuvered and outperformed by a competitor that was not yet in the market."

That provided the impetus for the firm to pursue the integrated e-business strategy itself, "so that value as perceived and experienced by customers was radically different from anything delivered historically by any firm."

Competitors "keep you on your toes," concludes Rouse's Deering, "and they increase your awareness of the need to always excel. But that doesn't change the fact that you'd like to annihilate them." Instead of staying up at night stewing about them, why not channel your competitive urge into thinking like them? Identify the next strategic move a competitor would make against you—and then do it yourself. ❖

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*Red Lodge, Mont.–based writer **David Stauffer** can be reached at MUOpinion@hbsp.harvard.edu*

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