Merlin Stone

is an independent consultant specialising in direct and digital marketing strategy, and insight into customers, markets and competitors. He is a Visiting Professor at Portsmouth and Oxford Brookes Business Schools and an associate at Customer Essential, The Customer Framework and Customer Attuned. He is an Honorary Life Fellow of the IDM and teaches regularly on its Diploma courses. He recently received the Professor Derek Holder Lifetime Achievement Award at the DataIQ Talent Awards.

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Teaching competitive intelligence

Japan Inc v USA Inc

Merlin Stone
1 Broadmead Close, Hampton,
Middlesex, TW12 3RT, UK.
E-mail: merlin@merlin-stone.com

Opinion Piece

Competitive marketing intelligence in a digital, data-based world

Merlin Stone

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Abstract

This article explores the applicability of some ideas from the world of competitive information and strategy to direct and digital marketing. It is based on the writer's experience of working in both areas, particularly in customer insight. It first explores some of the key ideas of competitive strategy, including those derived from learning about national challenges (the case of Japan Inc. v USA Inc.) and warfare, and then considers how the resulting ideas might be applied to the winning of new customers and defence of existing customers in the digital marketing world.

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Introduction

In this article, I explore the relationship between two worlds — competitive intelligence and digital and direct marketing. Since I started work in competitive intelligence, the world has become much more transparent. Marketing has shifted radically towards the web, where we can see much more of what our competitors are doing and what is working for them. Paradoxically, we can see so much that we run the risk of not being able to see the wood for the trees. However, we do not teach digital and direct marketers much about competitive information and strategy or, in particular, the use of customer and market information to help us know what is going on, whether our competitive strategies are working, or whether our competitors are succeeding in what they are trying to do to us.

Background

In the early 1980s, I was involved in a commercial war between Japan Inc. and USA Inc. I worked in a department called 'competitive information and strategy' at the company then called Rank Xerox. My work involved analysing Japanese product design, manufacturing and marketing strategies. I wrote up my experiences in an article,¹ including analysis of how the (then) successful Japanese companies rode and even created waves of technological innovation in product and manufacturing technologies. It built on my economics doctorate for which I studied

Lanchester and Taoka

various economic theories of innovation to determine whether they applied to new product policy. This was published as a book.²

My conclusion was that the success of the Japanese was because of a totally different way of conceiving competition in business, a different culture and set of capabilities, a different model, if you like. It extended right through to how they attacked competitors via distributors. They used ideas based on the work of the British engineer Frederick W. Lanchester (1868–1946) on the power relationship between opposing military forces, originally applied to aerial combat in the First World War.³ This is the same Lanchester who designed cars. The Japanese formed Lanchester clubs in which they discussed how to attack Western markets and firms. They were led by the Japanese consultant Dr Nobuo Taoka (1927–1984), who set up a marketing consultancy, Lanchester Systems, and wrote books on marketing strategy.⁴

Principles of competition

The central principle of Lanchester was concentration of forces. This was translated into a highly focused approach to market penetration, one segment after another, usually starting with the Western companies' weakest point, which was often at the 'bottom of the market', as demonstrated in the famous case of the Japanese motorcycle industry. Lanchester was not the first to articulate such principles. Sun Tzu's 'The Art of War'⁵ had, more than 2,000 years before in China, described many of the same principles, including the importance of planning and intelligence, of concentrating attacks, of exploiting enemy weaknesses, and of being flexible when circumstances changed.

Machiavelli and Clausewitz

Niccolò di Bernardo dei Machiavelli (1469–1527), in his book 'The Art of War',⁶ drew on his earlier political writings to extract some principles of success relating to discipline and planning. He was often cited later by generals, partly because he was thought to articulate well the practices followed by the Romans. But perhaps the most famous military thinker to which management writers refer is Carl Philipp Gottfried von Clausewitz (1780–1831), whose unfinished work 'On War'⁷ is famous for its focus on intelligence and simultaneous doubt about the accuracy — and hence value — of tactical, operational intelligence in the 'fog of war', while stressing the need for top-quality strategic and political intelligence. His work is controversial for its focus on military genius, as today we would argue that commanders who consider themselves geniuses, because of their ability to appraise a situation quickly and make rapid decisions, are often the very opposite and may destroy their armies or even their own nations.

Canon enters the United Kingdom

This is not the place to review the development of military theory, so let us return to Taoka, who established Lanchester Clubs in Tokyo and Osaka. Canon, the leading Japanese photocopier manufacturer, applied Lanchester's ideas as translated by Taoka to attacking Rank Xerox in Scotland and the West of England, offering smaller copiers than Rank Xerox and using dealers (a channel not then used by Rank Xerox) focused on small businesses. Xerox's market research sampling frame at the time did not include businesses with fewer than 10 employees, while its smaller copiers were not competitive with Canon's and were designed to be serviced by skilled engineers, rather than the simple module replacement of Canon's copiers, which was highly suited to a dealer service force.

Applying the principles

Management denial

My learning from all this was that competitive intelligence by itself is not enough. As an attacker or a defender, you need to focus your use of intelligence, though you must also continue horizon-scanning activities to identify unexpected threats and opportunities. I also learned the power of senior management denial. The work of our department (of which I was just a junior member) at Rank Xerox was dismissed by the senior management of our parent company, Xerox. This was despite evidence not just of intentions but facts on import volumes and market penetration.

Creative destruction

In later years, I found it amusing, on a visit to Japan, to see senior managers in the Japanese electronics industry quaking in their boots at the threat from Samsung and then, later, to see the same companies overtake Samsung as it came under attack from a number of Chinese brands. The cyclical nature of competition and the constant pressure of ‘creative destruction’, first identified by the economist Joseph Alois Schumpeter (1883–1950) in 1942,⁸ is now at the heart of much thinking about the battle for the domination of the internet. What was a strength often becomes a weakness. Companies that dominate in one phase of market development may fail in the next. Think of the IBM PC.

Lack of realism

Soon after my time at Rank Xerox, I examined competitive interaction and its relationship with segment targeting in a book and article on the marketing of computer systems.⁹ The fierce competition between giant electronics firms as they competed for market share with the first generation of serious PCs for business was reminiscent of the battle a few years earlier for photocopier market share between Xerox and leading Japanese companies such as Canon and Ricoh. The lack of realism and poor targeting was amazing. All 20 or so of them seemed to think that they could all bludgeon their way to 10 per cent market share in a couple of years, irrespective of their strengths and weaknesses (product, price, channel, etc) relative to competition. It was similar to some of the behaviour seen in business during the internet boom.

Tesco and Leahy

A central lesson from these examples is the risk of senior management denial, seen in 2010 in the board of Tesco and its almost-deified then chief executive, Terry Leahy, in the face of strong evidence of competition, not just from Aldi and Lidl (who are very successful, but small in market share in each country in which they operate because of their narrow product ranges), but also from Waitrose and other retailers,¹⁰ and by the boards of scheduled airlines in the face of competition by low-cost airlines. An interesting characteristic of leaders in denial, also exhibited by Leahy, is their accusation of failure by subsequent leaders, even though the responsibility for the failure lies squarely with them — in the case of Tesco, through Leahy’s adventures abroad and over-expansion in the United Kingdom.

Common faults of senior managers

Incompetence and management

In rejecting the content of good intelligence, senior managers are merely repeating the faults of military leaders, as identified by Dixon in his work on the psychology of military incompetence.¹¹ He defines incompetence as

the chronic inability to do a particular job or activity successfully. This may be because of a lack of adequate training, skill, aptitude or experience. The characteristics of military incompetence identified by Dixon that are most relevant to this article are:

1. Fundamental conservatism, clinging to outworn tradition
2. Inability to profit from past experience
3. Searching for scapegoats
4. Indecisiveness
5. Lack of intellectual ability
6. Abdication of leadership
7. Devaluing initiatives
8. Too much respect for hierarchy, including hostility towards juniors who initiate positive achievements without permission
9. A love of regularity and regimentation (for which read structured planning processes)
10. Over-estimating one's own side
11. Rejection, suppression or ignoring information that is unpalatable or conflicts with pre-conceptions
12. Under-estimating the enemy
13. Suppressing news about setbacks
14. Crushing individual thoughts

Royal Bank of Scotland

The first nine of these relate to personality characteristics, the last five to how information is treated. But they are closely related to each other. For example, devaluing the initiatives of other people is similar to being contemptuous about the information they provide. Note that most of the above can apply to individuals or be characteristics of a corporate culture. One of the best recent examples is the culture of the Royal Bank of Scotland under the unlamented Fred Goodwin.¹²

The evolution of competitive marketing

Direct marketing

One of the trends I observed over the nearly 40 years during which these events took place was that an increased focus on customer marketing or customer relationship management sometimes led to a reduced focus on competitive marketing. The battle to win and keep customers seemed to become more and more focused on developing customer databases and ways to use them (often in the form of offers), and less and less on competitive propositions (for which read strength of brands, products and/or prices) and the channel(s) through which they were delivered. Indeed, one of the mantras of direct marketing (targeting, timing, offer, creative) was often applied by companies in the absence of competitive analysis (who are competitors targeting, what offers are they making, when and with what creative). In the age of the web this has changed, with competitive propositions, targeting, timing and creative open for all to see.

A new focus

One approach to using competitive intelligence is the identification of exceptions and oddities (anomalies) that may indicate new trends before they emerge. In many cases, these anomalies are 'weak signals', ones that

have to be listened to very carefully and interpreted creatively. An anomaly may be the harbinger of a black swan, as defined by Taleb.¹³ These are statistical outliers (highly improbable events) that may be unexpected, like the 9/11 terrorist attacks, or expected, but with some uncertain attributes, for example, precise location, timing or force, as with Californian earthquakes. They may indicate that a competitor is ‘nibbling’ at your market, testing to see whether an opportunity really exists, whether your antennae are good enough to pick up the signals that they are attacking you, or whether you are able and/or willing to respond. If you wait until these new trends are all over the market, you may be too late.

Sentiment and opinion mining

In the age of the web, weak signals can be picked up much more easily. But the volume of information is so much greater that it is hard to identify important signals against a background of millions of possible relevant facts and rumours. However, just as information technology has created the problem, so it is creating the solution. For example, data mining techniques (eg sentiment mining to find out what is being said positively or negatively about a company, or opinion mining to find out more generally what people are saying) can detect early signs of customers turning against a company. Even simple searching helps. Recently, on a project for a life insurer, I wanted to find out whether any competitors were focusing resources on those financial advisors who produced more business, rather than spreading resources across all advisors. It took me 5 minutes of browsing to find examples of advisors complaining of ‘unfair’ treatment by a certain competitor that had told them they had poor productivity and thus merited fewer resources.

Normal and anomalous

Anomalies are exceptions to normal patterns, but there may not be consensus as to what is normal. The board may have one picture, other managers another. Therefore, senior marketing managers need to determine what is the normal view and where anomalies might indicate a serious challenge to well-laid plans. Information about anomalies may arise from any source: newspapers, rumours, overheard gossip at trade shows, sales force feedback, government reports, headhunter contacts, university research theses, new patents — the list is endless.

Unconventional competitors

A dangerous form of competition is at other levels of your own value chain or from within your ecosystem, as well as from companies outside what is conventionally defined as your industry. Xerox’s most serious competitors — Canon, Ricoh and Minolta — were strong in cameras, rather than business equipment. Nokia arrived in the mobile phone industry as a challenger to Motorola from the paper industry. Sharp arrived in business equipment from the pencil industry (it made sharp pencils). The best example of competition from other parts of the value chain is the impact of Google on Microsoft’s business. Adobe is now, through many acquisitions, a competitor of many of the companies to which it was and still is a supplier. Understanding that your suppliers or customers may become your competitors is central to competitive analysis.

Intuition and inference

Nor do facts stand for themselves. They must be collated, analysed, cross-referenced, triangulated and their importance assessed. This can be done incorrectly, or the facts even dismissed out of hand as false or deliberate attempts to mislead. Using judgement or intuition and building

confidence in intelligence are important activities. Usually, the conclusion is not a logical consequence, but an inference from patterns, trends and clusters, even from facts that you consider should be there, but are missing, or from unexpected changes in levels of variables or in the behaviours of players. Inferences can always be cast into doubt. Furthermore, a new piece of evidence is just the first sign. The next step is to ask serious questions about who produced the fact or rumour, whether they had a motive for doing so, and then whether the activities or people described are genuine, what the people are doing, where, when, how and why. It is also important to ask whether any other explanations could account for the facts or rumours, such as who else could be doing it, where else it might be going on, how else it could be done.

Confirmation bias

Senior marketers must decide when there is enough evidence to allow the inference that something is highly likely and when increased volumes of evidence only increase the certainty that something will occur. The latter may not be productive, for this increased volume of evidence may lead to over-confidence, when seeking counter-evidence or disconfirmation might be the appropriate strategy. Another fault in the interpretation of evidence is bias in favour of recent evidence. We may not even have a language to describe what it is we have found, as a new business or marketing model may be emerging with characteristics that we cannot describe. Finally, making quick decisions based on rapid creation and absorption of intelligence may be the worst thing a leader can do. As Kahneman has shown,¹⁴ thinking fast can easily lead to wrong conclusions, based on the simplest misconceptions about what is going on.

Changes in competitive intelligence

Applying these ideas to digital marketing intelligence

How might these techniques be employed in competitive digital marketing intelligence today? The uses vary from identifying the early birth signs of new products or services through to helping the business decide whether and how to change its own proposition and on to determining how to handle a challenge from new players. Many things have changed since my Xerox days, including:

- An explosion in the volume and variety of information available to buyers, sellers and distributors because of the web
- The ability of customers to find their way quickly and precisely to better products and services using the web, so that a new product or service can emerge almost without warning and succeed globally in a very short time
- The consequent ability of new suppliers to establish themselves in markets very quickly
- The ability of companies to target precisely the customers they want to attract (and win from their competitors), using a combination of digital and database techniques.

Customer value data

These do not all apply equally in all markets. However, in some markets, good data exists on customers, while customer value makes it

worth companies identifying particular customers or groups of customers as worth acquiring because of their value. This applies in particular to:

- Telecommunications and satellite/cable media
- Power utilities (in deregulated markets where customers have a choice of supplier)
- Financial services (particularly general/property and casualty insurance, credit cards, investment, banking)
- Many business-to-business markets.

Customer benchmarking

All these are markets where customers make regular payments and where there are relatively few (ie an oligopoly) or perhaps only two (ie a duopoly) competitors in each sector or sub-sector, so that it makes sense for a company to target specifically the customers of one or more competitors. However, this can also apply to some parts of the travel and leisure market, and even the automotive market. One of the distinguishing features of some of these markets is that a consumer may only have one supplier at a time.¹⁵ In this situation, customers' behaviour is to review prices and service experience regularly to benchmark their existing supplier, though, of course, for service experience they only have word of mouth and competitive promises to go on for competitive suppliers.

Retention strategies

In these circumstances, competitive attacks to win away one's best customers are normal. Thus, most companies in these markets have general defensive strategies, eg, customer retention programmes. These aim to reinforce customer loyalty, often through incentives or service benefits, to ensure that a customer that has been approached by a competitor knows where to go to solicit a better offer from the existing supplier if the competitor's proposition proves attractive and, in some cases, to lock customers in by giving them incentives to commit to staying with the incumbent supplier. These programmes can be expensive. The retained customer's profitability may be lower, unless the incentive to stay is low cost, for example, involving use of spare capacity.

False positives

Proactive retention work can be undertaken, involving communicating better with customers deemed most likely to be at risk, but this may also be expensive, particularly if 'false positives' are targeted (ie customers are deemed likely to leave, even if they have no intention of doing so). However, if this proactive approach works, it can be very profitable. One reason for this is that motivations for switching are known and therefore vulnerable customers can sometimes be identified before they switch. For example, indicators of likely switching in the broadband market include connectivity issues (picked up using line testing), direct debit cancellation, abnormally high bill amounts, accounts falling into collections or low/falling usage. Examples of treatments include:

- Sending out an engineer/new router and ensuring hardware set-up is correct
- Setting up direct debits where cancelled

- Ensuring customers are on the correct package to mitigate higher bills
- Downgrading packages where customers are unable to afford payments
- Ensuring customers are aware of and can use all of the features of their package

Competitor targeting

If vulnerable customers are subject to a focused attack, retention is harder and becomes more difficult if customers are offered a much better proposition. A competitor also has many choices as to which of your customers to target. Companies should use generalised defences but also try, using competitive intelligence, to identify specific customers or customer types that are targeted by competitors.

Competitor data sources

Using competitive analysis

Specific threats can be identified in advance using competitive analysis, for example, of the following:

- How different competitors feature in searches
- The reasons for customers leaving and the antecedents
- Individual posts and patterns (reasons, geography, etc) on social media by customers who are suffering from any of the likely reasons for churn and subsequent analysis
- Blogs by commentators and customers
- Ratings on own and third-party websites
- Competitors' postings for analysts (usually on the corporate pages of websites)
- Analyst comments
- Job advertisements for marketing and other staff
- Past practices, focusing particularly on issues of culture and capabilities
- Presentations and other public statements by the marketing services and data suppliers of these companies.

Avoiding traps

A competitor might be clever enough to bluff, hoping to mislead competitors as to where they should place their defences. This trap can only be avoided by defenders who consciously search for attempts at deception. This requires an open-minded approach to information search and interpretation, avoiding conventional wisdom, as well as a strong framework of data-gathering and analysis, covering the kinds of data above, allowing them to identify early signs of a challenge and separate them from any other trends or developments for individual customers, segments or markets.

Capabilities and innovation

Key questions to ask about competitors' digital marketing

This could be a very long list, and therefore instead of detailing the questions, this section focuses on the digital capabilities that competitors are using, their digital strategies, rather than detailed tactics, and how

these might affect your own success or failure. Here are some sample questions:

- What is the state of their customer database? Can they integrate offline and online data in real time to use it for targeting and customer contact management? Do they have a data management platform?
- How do they manage insight? How well do they integrate insight from different sources and deliver it to where it is needed? Do they use insight to segment the market by value, by behaviour and in other ways, and does this result in more successful targeting?
- Are they using innovative approaches, for example, storytelling?
- Are they using programmatic marketing and, if so, with what success?
- How good is their insight, analytics and targeting capability, and to what extent do they rely on external help?
- How do they understand/manage digital journeys of their customers? Do they do it well and with good effect?
- To whom do they target their campaigns for acquisition and customer value development?
- What display networks and exchanges are they using and with what success?
- Do they use retargeting and with what success?
- What is their mobile strategy? How well do their apps perform relative to their websites? What other digital channels are they using and with what success?
- Do they use contextual information (from current contacts)? How well do they integrate it with other (past) information? Do they use locational data and, if so, how well?
- Do they use sentiment analysis and opinion mining? What is it showing and how do they use it?
- What approach do they use to attribution and what are they learning from it?
- How successful have they been with their campaigns for acquisition, customer development and retention?
- Overall, how effective is their digital marketing relative to yours? Is your senior management aware of whatever difference there is — on either side — and its impact, or are they in denial?

Organising for competitor awareness

Should competitive awareness and indeed competitiveness be a characteristic of every aspect of digital marketing, or do you need competitive specialists (if only part-time)? My view is that there should be a competitive aspect to all relevant jobs, but that it is the special responsibility of the insight function to provide competitive intelligence, to feed it in where needed and use it to challenge marketing decision making.

Conclusion

Asking simple questions

It is hard to do justice to the idea of deploying a strategic approach to competitive strategy and tactics in a short article. The approach taken here has been to try to stimulate thinking, rather than carry out a complex

technical analysis of how competitive information and strategy should be run in direct and digital marketing. That is for another day, possibly. Just as with many ideas in marketing, the most important conclusion is that marketing managers should ask themselves these (or similar) simple questions:

1. Do any of these ideas provide insight into how marketing strategy and/or tactics could be improved?
2. If they do, are the resulting strategic and tactical approaches that might be triggered by these ideas feasible in practice?
3. Can the ideas be tested for their value by some kind of pilot?

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