

Mirror, Mirror: How to Enhance the Execution Premium Process with Competitive Intelligence

By Leonard Fuld, Founder and President, and Mark Chodnowsky, Vice President, Fuld & Company

In the July–August 2008 BSR, Frigo and Barrows introduced the idea of using strategy mapping for competitor analysis. Just as your strategy map provides a high-level view of your strategy, initiatives, and operational processes, your competitor’s strategy map reveals a holistic view of its strategy and how it is organized to achieve it. Fuld and Chodnowsky, leading experts in competitive intelligence, take the concept one step further: they propose that the entire Kaplan-Norton Execution Premium Process (XPP) framework can be used to analyze any competitor’s strategy in a holistic way. Creating a “mirror image XPP” for your competitors will yield rich insights to help your organization sharpen its strategy and compete more effectively over the long term.

Although much of our firm’s competitive intelligence work focuses on operational benchmarking to help clients compare their *operational performance* to that of competitors, our findings are often predictive of the competitor’s *strategic goals and initiatives*. For instance, one benchmarking study we performed for a medical supply client revealed that several of its competitors had essentially outsourced shipping and warehousing to third-party logistics firms, allowing them to provide same-day delivery to drug-stores—a key market differentiator. Our client recognized that it could not match the competition’s performance, despite owning one of the industry’s largest distribution networks.

This kind of insight is just the tip of the competitive intelligence iceberg. The strategy map’s ability to link strategy and operations can be exploited to gain intelligence on competitors. You start by creating a competitor strategy map—a mirror of your organization’s map—and proceed through the XPP to capture a coherent picture of the drivers, goals, and activities of your competitors. (See *Figure*

1, next page.) By overlaying your plans on the competitor’s assumed plans, you can highlight the differences between the two organizations. Would you like to deduce your rival’s strategic themes and initiatives and their corresponding funding? Or how the competitor’s underlying operations and processes (e.g., marketing, R&D) differ from your organization’s?

As the late journalist Sidney J. Harris once noted, “The whole purpose of education”—we’d say “intelligence”—“is to turn mirrors into windows.”

Juxtapose the strategic planning outputs (XPP stages 1 and 2) and the operational plans (stages 3 and 4) against a competitor’s XPP, and you have a mechanism for robust competitor analysis.

The XPP framework offers four opportunities to examine competitive and market activity on both the strategic and operational levels. To illustrate, we’ll compare two very different companies apparently competing for the same market: Amazon, with its front-running Kindle, and Apple, with its recently

released iPad. Amazon wants to maintain its preeminence in electronic books. Its product has a black-and-white, paper-like screen and buttons for downloading and turning pages. Apple’s iPad, with a color screen and touch screen commands, can also download music, videos, and Internet content.

1. External Analysis at the Strategic Level: The 30,000-foot View

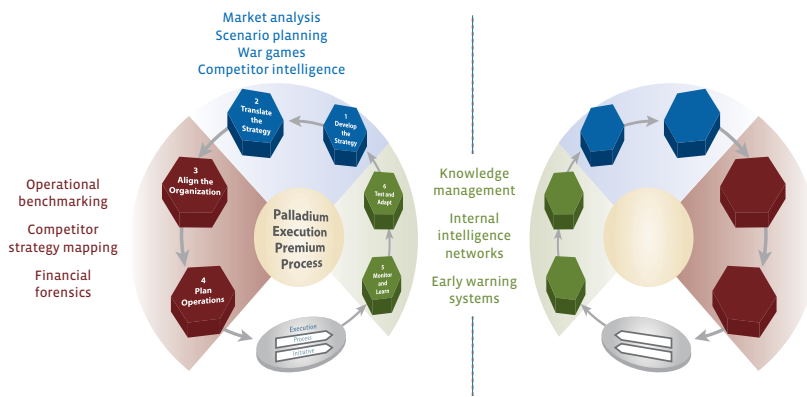
Before focusing on a competitor’s plans and activities, Amazon, like any other organization, must first conduct external analysis (XPP stage 1, strategy development) to gain vital strategic information and a more far-reaching picture of the competitive horizon. Various tools are available to help formulate and adjust the strategy, each filtering different types and levels of information about the market and the company’s place in it.

Through scenario, or PESTEL (political, economic, social, technological, environmental, and legal), analysis, you can study a market landscape five to 10 years in the future. For example, in 2000, Amazon’s PESTEL analysis might have signaled demand for a portable electronic reader that could also download books. This kind of future market picture will influence the direction your com-

petitors take today. PESTEL forces are, of course, always at work, allowing new rivals to enter your market and the more nimble ones to quickly adapt to change. Amazon’s management might ponder the publishing market altogether and how people will need or want to use information. Amazon must try to anticipate this future, as its competitors surely will.

To gauge near-term market threats (those one to two years out), Porter’s five forces model¹ provides the means to examine customer and supplier pres-

1 Five forces, developed by Michael Porter, is described in his book *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (Free Press, 1980).



■ FIGURE 1: CREATE A MIRROR IMAGE XPP

Juxtaposing your strategic planning outputs and operational plans against a competitor's XPP produces robust competitor analysis.

asures, imminent substitutes, and current rivals. At this level of analysis, Amazon needs to know which companies other than Apple have chosen to compete on its turf. Will they be suppliers or publishers? Will the Nokias of the world, seeing their handset revenue threatened, apply their core competencies to producing a Kindle-killer? To analyze and anticipate a competitor's strategic plans, a company can use such tools as war games and the four corners model.²

Building a Mirror Strategy Map

Developing external analysis of a competitor generally requires in-depth external research in specific critical areas. Amazon might examine Apple's innovations in user interfaces, or monitor how Apple's phones have begun to set certain functionality standards, in the process changing attitudes from the content or media providers that supply the "fuel" for all e-readers. Such findings would inform Amazon how a competitor such as Apple approaches the e-reader market with a different set of assumptions, motivations, and capabilities. From this information, a competitor strategy map can be developed (XPP stage 2)—a more granular analysis to refine the initial strategy analysis.

As Amazon sets out to build a strategy map for Apple, it might ask: How is Apple's strategy different from ours?

What are its financial and market goals? Does it have different assumptions about customers and trends? Does it have many funded initiatives?

An ocean of published information, from stock analysts' reports to articles, offers answers. From interviews with Steve Jobs and his lieutenants, Amazon could deduce Apple's drivers. These same information sources often publish a management's views of its company and assumptions about the market. Annual SEC 10-K filings (including the footnotes) reveal a company's infrastructure, ability to generate adequate cash flow, and plant or service capacity, among other details. Companies, Apple included, often attempt to obscure such details, but there are always data proxies, such as information on iPad shipments or advertising expenditures. Even at this high level, marked differences will emerge between the drivers, assumptions, current strategy, and capabilities of the two competitors.

A well-designed literature search should yield more than half the strategic information you seek, but we recommend interviewing market analysts, key suppliers, and customers to corroborate and update your research. You may require third-party help to gain access to sources of more sensitive information.

2. External Analysis at the Operational Benchmarking Level

At the operational level, the view can get confusing. Dozens of tools are available for learning about the operational aspects of a competitor's strategy, including value chain and supply chain benchmarking, win-loss analysis, customer acquisition tactics studies, technology scouting, and HR benchmarking. In fact, it's easy to be overwhelmed by the endless stream of available information. You must become selective in the questions you ask, narrowing them to specific targets that will reflect strategic objectives and, in the aggregate, provide a clearer picture of the competitor's strategy and supporting operations (stage 4, Plan Operations).

Underpinning the XPP framework is the Balanced Scorecard, with its associated strategic measures. Having already hypothesized your competitor's strategy map and extrapolated its strategic themes and objectives, you can now zero in on the key performance indicators (KPIs) underlying the strategic objectives. An important goal of external benchmarking is locating the critical areas that explain the differences between your company's operations and a rival's; KPIs signal those areas.

Amazon's KPI for product innovation might have been "volume of book downloads." By examining Apple's "book downloads" KPI, Amazon will discover that Apple has taken an entirely different view of its iPad-cum-iTunes platform: that multimedia advertising sales, not just e-book sales, are more critical. Imagine a simple graph with two sets of lines; one tracking Amazon's and Apple's book downloads, and the other, multimedia purchases. Apple's likely inflection point for multimedia would spike early, indicating that Apple has a very different set of objectives. For argument's sake, you can imagine that Amazon would demonstrate a growth in e-books, while Apple's iPad would show revenue growth coming

² Porter also created the four corners model, in which one examines a company's future strategy based on four factors: drivers, assumptions, current strategy, and capabilities. The authors run war games based on this model.

from music and video downloads. This benchmark assessment tells Amazon it must decide whether it should modify its strategy for Kindle somewhat—or considerably—to compete with this nimble new entrant.

By using the XPP framework to create a competitor strategy map and help focus your operational benchmarking, you can accomplish several critical intelligence goals. The strategy map identifies strategic objectives, which then help pinpoint the competitor's strategy-critical processes. These, in turn, indicate the relevant operational benchmarks to study. These KPIs can yield significant insights about your competitor's strategy. This information is more valuable than it first appears, because, as the Amazon/Apple example suggests, so-called competitors often have inherently different business models. In addition, actual values for a competitor's process KPIs may reflect—or predict—the competitor's outperformance at the customer and financial levels.

Companies analyze their operational performance data to help them monitor progress toward strategic goals (stage 5), assessing it alongside their external environmental analysis. You can apply competitors' operational benchmarking data in the same way. The data provides a feedback loop, offering insights on the competitive environment that may suggest the need to adjust your own tactics or strategy. You might then test the validity of your assessment with a war game.

Finally, operational benchmarking conducted at the department or functional level can, through the use of the competitor strategy map, offer a more detailed, more contextual view of your competitor's business processes and activities and how they interconnect.

3. Monitoring for Strategic Risks

The strategy map is designed to be a living, breathing planning tool, modified as conditions within your company

change. What about when market conditions change? Monitoring the external environment is part and parcel of the XPP, intended to give an early warning of strategic as well as operational risks. This, however, doesn't mean scanning the entire market and every competitor or new entrant; there isn't enough time for such an effort. Just as selected KPIs help focus operational benchmarking, triggers (or "trip wires") can help you monitor risks. These risk indicators, it turns out, are also your KPIs, because they identify the strategy-critical actions.

At the macro (market) level, you may have an early-warning system that tracks key drivers as identified by a scenario planning exercise (stage 6). For health-care companies wanting to expand in China, the five forces model may be an appropriate early-warning process because of the macro view it provides of the key factors affecting competition. However, in any market, in any country, the five forces are never perfectly balanced; invariably, one or two forces dominate. These become, in effect, strategic early-warning trip wires. In China, for example, nearly all questions center around the force of new entrants, because government plays a role in granting or denying market access to new entrants. Until 10 years ago, only hospitals were permitted to dispense drugs. So monitoring the opening of retail pharmacies might be an important trip wire for the healthcare market in China.

For Amazon, the strategic early-warning trip wire might be new screen technologies or new Internet media platforms. At the individual-competitor level, you can monitor a competitor's strategic initiatives and how these are manifested in, say, initiative funding levels, positioning statements, or financial or market goals. Such information may find its way into public filings or news reports on investments fed to wire services via press releases or word on the street in the venture capital or banking communities.

4. Monitoring for Operational Risks

Similarly, operational risks need to be monitored. This can be done through established key risk indicators (KRIs)—metrics that indicate a threshold where the market or competitors can put you and your product in jeopardy. A KRI for Amazon might be a new (and cheaper) screen technology that delivers greater clarity, multimedia capability, or lower cost. Another might be locking up a key screen technology partner to control the e-book market. Once these risks are identified, you can assess both your company's and your competitors' possible responses through a war game exercise to guide you in adjusting your current strategy and operational plan.

The concepts discussed here offer a practical approach to incorporating competitive and market intelligence into the XPP. In the same way that your strategy map can become the foundation for the transparent execution of strategy throughout your company, a competitor strategy map can serve as a mirror of the competitive landscape—and a mechanism for assessing a rapidly changing market. Business is all about managing change. Let the XPP help you towards this goal. ■



*Leonard Fuld founded Fuld & Company, a leading international research and consulting firm specializing in business and competitive intelligence. His latest book is *The Secret Language of Competitive Intelligence* (Crown Publishing Group, 2006).*



Mark Chodnowsky leads the Industrial and Consumer Goods practice at Fuld & Company. He has 20 years' experience in competitive intelligence and strategy consulting.

To learn more

See E. Barrows Jr., and M. Frigo, "Using the Strategy Map for Competitor Analysis," BSR July–August 2008 (Reprint #B0807E).

REPRINT #B1007B