SURPRISE AND THE COMPETITIVE ADVANTAGE

William E. Rothschild

To compete in the new global environment, companies must constantly map the terrain in which they operate, alert for signs of change. Managers must move beyond the narrow concepts of segmentation and begin to think in terms of strategic arenas in order to be successful.

Surprise can either be a powerful ally or a devastating enemy in military actions. This is also true in today's world of global competition. This article will discuss how surprise can be avoided and its impact minimized if you have a way to think about and evaluate competition, competitors, and how they may be changing. Further, surprise can be a tool to anticipate and even create competitive advantage if you can use change to develop new businesses, markets, and even extensions of those which already exist.

Let's begin with a brief review of how and why surprise occurs and then determine what might be done to capitalize on these situations.

The Dangers of Segmentation

First, surprise occurs when CEOs and general managers of companies have too narrow a view of their markets, customers, and competitors. Many companies have a narrow perception of their firm. They describe themselves in terms of specific products and geographic regions. I am in the lawn mower business; I make nuts and bolts; I am in the sporting goods retail market. Others claim only to serve a specific region of the country such as the Northeast of only the domestic United States with some opportunistic probes into Mexico or Canada. This is the essence of segmentation, and there are many consultants, academics, and authors who claim this is the key to success. This concept does have its benefits, since it enables a company to focus its limited resources and it may become the leader or winner in a small but significant part of the market. Most companies cannot afford to be in too many parts of a market and still fewer can afford to be "all things to all people." But narrow segmentation has its disadvantages, as well. Because of the narrow definition of the market, the company can become so self-satisfied that it misses a major change in the market and does not participate in the future growth or it may fail to see in advance the emergence of a new competitor or a new form of competition. This often results in surprise and missed opportunities as well as a threat to its long-term future. In order for a company to avoid this situation, it must periodically think about the whole market and not just its served segments. This requires a broad map of the entire terrain and how it is changing. Equipped with this map, a company can be in a position to examine all of the players serving the arena and anticipate what changes may occur between and among the segments of the map. I will demonstrate how it can be used to anticipate as well as prevent the severe impact of unexpected changes.

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Another aspect is the recognition that this type of competitor can impact the rules of the game and what it takes to win. This means that it is important to understand what percent of the market is led by multinational and multi-industry companies as compared with the domestic specialist. I call this "competitor demographics" and will describe how this assessment can be valuable to anticipate changes.

Surprise occurs because the competitor has changed internally or has developed a new set of objectives and strategies. These changes may go unnoticed until they dynamically change the way the company behaves, and then it may be too late. The cause for these changes may be a result of a change in the management of the firm or it may be because of a change in the company's portfolio or a result of some externally imposed changes such as government, environmental pressures, or purely a change in financial fortunes. In addition, changes may be a result of the company's reaction to another competitor or the perception of an emerging opportunity or threat. We will examine some of these factors and illustrate how they might be anticipated.

The topic of competitive analysis is more comprehensive than the coverage in this article, and several other approaches, such as winner/loser analysis, industry change analysis, and in-depth assessment of the implementation strategies and their internal consistency, will not be covered even though they can be useful tools in anticipating change.

Let's examine some of the approaches that were just outlined and describe how they work and the types of insights they may yield. I will use as many illustrations as possible to increase clarity. Each of these approaches have their assets and liabilities, and I will examine these as well.

Arena Mapping

One of the first steps I use in helping to define a business is to draw a map of the total market or arena and then focus on its parts. In order to draw an arena map, a manager or chief executive officer must describe what business the company is in in terms of the function or need being performed. What is the customer buying? This is an obvious first step, but is not easy to do and is often overlooked or ignored. Is the customer buying energy, communications, information, transportation, entertainment, food, etc.? This is the broad definition of an arena, but an important first step. Some would argue that this is too broad and only develops fuzzy, inoperative thinking. It is broad and too general to be operative, but it is only the first step and, as the thinking process unfolds, the specificity will increase and the operability will also increase. However, it is a key means of unlocking the mind and forcing management to understand what is happening in a total sense. It permits the identification of existing and potential substitute ways of providing the product or service that satisfies the customer's need. Further, it increases awareness of other players in the arena who provide other ways of satisfying the customer or who may be on the periphery and thus decide to move into your turf. Since this is too conceptual and abstract, let's move to an illustration of a map and what it might include.

The Communications and Information Arena

One can't pick up a newspaper or magazine without reading about the personal computer, the dissecting of AT&T, the success of new companies like Apple, Wang and the change occurring in IBM, as well as the targeting of the arena by the Japanese multinationals. Therefore, I will use this arena to illustrate the mapping concept and how it might be used to identify competitive moves and opportunities and threats.

There isn't one way to plot an arena; there are several and each way may yield different insights. Further, the way selected may be more suited for one analysis than another. Since the objective is to use the map to identify changes, it is plotted on one axis: equipment, subsystems, and services for providing information and communications. This is merely meant to be illustrative and how different companies appear to be playing in this arena is identified. This is not a definitive description of the companies, since this would require more analysis than is included in this article.

Let's examine the map: on the left-hand axis of Exhibit 1 there is a listing of major information products: dictation equipment, typewriters, duplicators, copiers moving up to data bases, and newspapers. In the mid-range, there is a listing of products and services that are a combination of both communications and information, such as printers, microcomputers, mainframe computers, facsimilies, electronic mail, and so on. On the right side there are traditional and advanced communications products, subsystems, and services, including those offered by the telephone and telegraph companies. The map depicts the full array of what a user of communications and information equipment and services might purchase. There isn't one right map for any one arena, but this one is good enough to identify the major players in the arena and where they might be headed. For example, if you plot the major providers of telephone and telegraph (Exhibit 2), you would plot AT&T, GTE, ITT, Western Union, Siemens, Hitachi, and Nippon Electric. Each of these companies has recognized that the arena is changing and has moved into associated products and services

EXHIBIT 1
Info/Comm Arena

	Primarily Info	Combination Info/Comm		Primary Comm
Services	Newspapers Magazines Directories Data bases	Satellite systems Viewdata/teletext Electronic mail Problem-solving services Remote computing	CATV Pay TV Broadcasting Teleconferencing	Telephone networks Telegraph networks
Subsystems	Books Audio/visual media Slides	Software Facsimile Microwave systems Films, tapes	Local area nets Simulators	PABX Cellular radio Paging systems CB radio
Equipment/Components	Copiers Duplicators Typewriters Dictation equipment	Displays/terminals Mainframe computers Minicomputers Microcomputers • Personal • Home Printers	Video players Radio Television receivers	Network controllers Mobile radios Telephone on-site equipment Satellite receivers/transmitters

and away from its traditional product mix. This is the reason that AT&T may have accepted the terms of divestiture and added a new array of offerings, moving into new services that will most likely include computers, electronic mail, and, possibly, cable and pay television. GTE has acquired Telenet and Sprint in order to increase its scope. In other words, these companies have used a mapping concept to extend their offerings and move into nontraditional markets.

If you plot the moves of the computer companies, such as IBM, you will note that they have moved into new areas as well. They have taken a stake in satellite systems, via SBS, are reoffering remote computing services, have taken an equity position in a PBX producer (Rohm), and are moving into the communications offering, without becoming one regulated company.

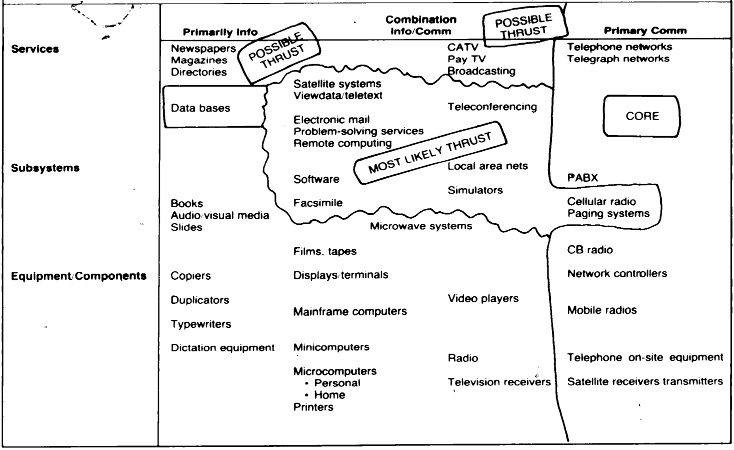
Think about the traditional print and written media companies (e.g., McGraw-Hill, N.Y. Times) that have moved into cable television, broadcasting, and even into data bases and remote computing.

Exhibit 3 provides the insight on how companies are extending the vision of their offering. If you highlight on the map the biggest markets and also distinguish between the new and older lines, you can visually portray the strategy and direction of the key companies. Further, if you consider the television and radio as information/communication products, you would realize why Sony, Matsushita, and Zenith have all added microcomputers to their offering of traditional TV receivers. The issue is what else will be added.

Companies from all directions are converging on the mid-ground into personal and other computing (Exhibit 4).

This evaluation can be extremely valuable if you are in one of these segments. If you see your segment as the target of one of the neighboring giants, you may decide that it would be better to get out before the conflict begins or you may decide to stand and fight, but if you do, then you must be prepared for the long haul and for possible long-term profit erosion. You may also note that there are some markets being omitted by the leaders, that are in the hands of the smaller players, or possibly they are very early in the life cycle. This may denote that there will be opportunities to move in and become the leader. Finally, if everyone is

EXHIBIT 2
Info/Comm Arena



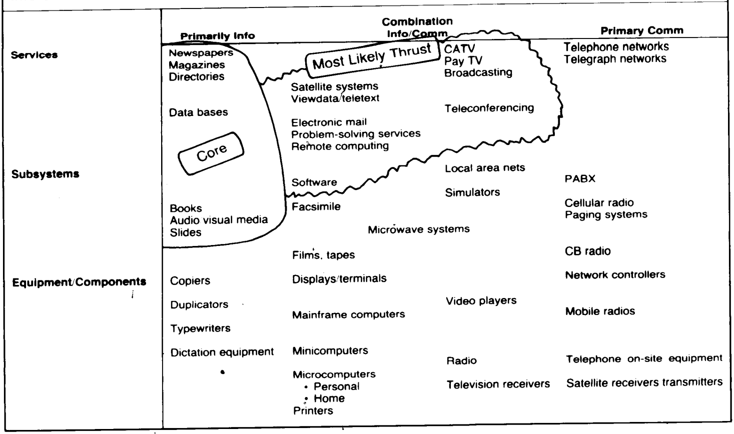
targeting the same product/service at the same time, then you will clearly see that there will be considerable "red ink" and not a good place to play.

The map provides a one-page graphic display of threats, conflicts, and emerging opportunities, like the one a military general might have for tracking his battlefield.

Suppose you are the owner of a broadcast company. By referring to the map you can see that there are a number of emerging growth opportunities in the surrounding area. There is pay televison, CATV, satellite systems, teleconferencing, and viewdata/teletext. You might decide that these are too risky and expensive to pursue as opportunities. However, if you begin to think about the type of players that are targeting these opportunities, they would include Time, Cox, N.Y. Times in the pay television, and CATV. These are all formidable and could be a threat to your company if they own properties in the immediate area. But the real giants are the telephone companies such as AT&T and GTE, as well as RCA and Western Union. They may develop services that include those provided by the traditional broadcasting station and on a national scale. Next you may probe into the actions of those in the film production and again you might determine that there are a number of new threats to you. The issue is then what your alternatives are and whether they must include a move into the new segments for defensive purposes, or is it time to sell out to one of the new entries or those developing a substitute product?

Arenas can be more specific and more focused. For example, you might have a map just on broadcasting and its neighboring segments. This would be more specific and detailed. This might be sufficient for the broadcasting company. However, it may cause you to fail to recognize that the major threat will come from those in the lower left side, namely the computer companies, which may develop other substitute products like computer discs that have entertainment, information, and communications possibilities.

EXHIBIT 3
Info/Comm Arena



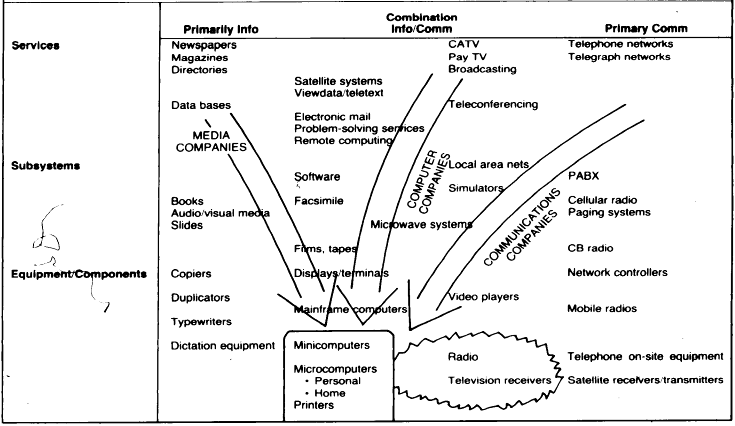
Competitive Demographics

A second source of surprise is a significant change in the type of competition. Industries dominated by single-industry, domestic specialists have different rules of play and profitability/return expectations than those that are controlled by multi-industry, multinationals. A single-industry company has few options and if attacked, it will counter with an aggressive reaction. These types of companies may be mostly concerned with cash flow and appreciation of wealth rather than having, worrying, or targeting a specific return on sales, equity, or investment. They may be truly concerned about the product and service they provide and be willing to make investments because they believe in quality and improved performance. Management will most likely have grown-up in the industry and have an intimate knowledge of the business. Managers will most likely have personal contact with the customers, having served in a variety of assignments. During normal conditions these types of companies may be rather content and not interested in making waves, but as I said, if the market contracts or there is an attempt to dislodge them or take share, then they will be tough and fight back.

The industries controlled by the opposite type of company (the multi-industry/multinational) will behave differently. They may treat the business like part of an investment portfolio and may be very dispassionate and involved in its continuance. They may have other options and if attacked, they may merely retreat, sell off, and put their resources elsewhere. Thus, they may be easy to dislodge and it may be easy to take share from them. Professional managers may be assigned and their time horizon may be shorter than the specialist's. Further, they may measure themselves in a different way and thus be more flexible in their resource allocation.

Markets controlled by combinations of these types of companies, or in which there is no clear leader, may be very different than both of the above. Therefore, it is important to know what the competitive demographics have been, are currently, and will be in the future. They will permit an anticipation of changes and the implications of these changes.

EXHIBIT 4
Info/Comm Arena



I use a one-page visual which can illustrate what has changed in the type of competitor you may meet in the marketplace. I call this the demographic profile and use it to plot the past, the present, and the most likely future make-up of the industry. This is illustrated in Exhibit 5. If it is changing, or is likely to change in the future, then I hypothesize the implications and how they may impact the future profitability.

The profile has a geographic and a degree of special-ization axis. On the vertical axis, I plot whether the company is a single-industry specialist—that is, dedi-cated to the industry or arena being evaluated—a quasi-specialist—that is, one predominately dedicated to this industry but with other businesses which are in other industries—or the true multi-industry or conglomerate. There is a difference between a multi-industry com-pany and a conglomerate. The multi-industry company is interested in the business as a market or industry and has a medium-to-long-term commitment to the success and development of the business, while the conglom-erate has a purely profitability/cash flow interest in the business and is primarily short-term interested. (See Exhibit 6.) Let's take a few examples of these various types. The single-industry company is like Maytag and Whirlpool in the appliance industry. Maytag has been even more selective and a niche player in this category, having been exclusively in the major appliance busi-ness, in fact having focused only on the home laundry segment of the market.

A quasi-industry company is General Motors which has been primarily an automobile company but has had small thrusts into other markets such as appliances, via Frigidaire, locomotives, via EMO, and into aircraft engines, via Allison Engines. On the multi-industry side, there are companies such as General Electric, Siemens, Philips, Hitachi, and on the conglomerate side there are the ITT, Litton, United Technologies, and recently Allied.

The horizontal axis differentiates the geographic focus of the competition. There are domestic, quasi-domestic, and multinational/global. Some illustrations may clarify. The domestics are companies that have the predominance of revenue in their home market. Zenith

EXHIBIT 5
Demographic Profile

	Domestic	Quasi-Domestic	Multinational/Global
Single-Industry Specialist			
Quasi-Specialist			
Multi-Industry			

has been predominately a domestic, U.S.-based, and focused company. A company with less than 50 percent of its revenues from international may be classified as quasi-domestic. These would be Chrysler and Ford. In the multinational category few American companies would qualify, but most European and Japanese companies would qualify.

Today the world is quite different. There are more global and multi-industry companies. The major competitors in the United States are still the same, but there are now major threats from Japan and Europe. In these countries the leaders are multi-industry, multinationals such as Hitachi, Toshiba, Philips, Siemens, and a few quasi-specialists such as Fujitsu. In the future, the situation is likely to become even more multi/multi and this will change the investment, profitability, and rules of winning.

Some industries have moved from multi-industry to single industry. For instance, the automobile industry was once dominated by those that were quasi-specialists and multi-industry, such as Ford, Chrysler, and General Motors. But these companies have divested themselves of their non-auto parts and have concentrated, almost exclusively, on the automobile business and to some degree on the United States rather than the world. Today even the Japanese have companies that are primarily in the automobile industry, such as Toyota and Nissan. This has changed the nature of the industry and has made it even more competitive. The winners must be successful in the automobile market since they have no other place to go.

Demographics can be helpful in the anticipation of change and the determination of what it will take to be a future winner.

Changes From Within

Thus far I have discussed the changes that occur outside the company and how they may denote opportunities or threats. But changes can also occur within the company itself. These changes may be the result of a change in management, or a disenchantment with the past results, or the reaction to outside groups including the government or pressure groups.

EXHIBIT 6
1960s Television Market

	Domestic	Quasi-Domestic	Multinational/Global
Single-Industry Specialist	Zenith 30% Admiral 5 Magnavox 15 Philco 3 Warwick 5 58%	Sony Panasonic	
Quasi-Specialist	RCA 28% GTE Sylvania 4 32%		AEG Phillips
Multi-Industry		GE Westinghouse	

New Management

There have been a number of recent examples of new management taking over the company and immediately disavowing itself of past management and thus changing the company rather drastically. For instance, Dupont has changed from a single-industry, highly innovative company to one with a large portion of the portfolio in a large commodity, natural resource industry. This is not to say that it is wrong, but it is very likely that the company will never be the same and the competitors will face a different type of competitor. The new Dupont may be less innovative and therefore more susceptible to the innovations of others or it may even be tougher than in the past, since it may be able to use the resources and cash generated from oil to invest in even more innovative products. There is also new management in most of the Fortune 500 companies and each of these younger "more entrepreneurial" management teams may decide to disavow the past and become more aggressive, more diversified companies than those of the past.

Disenchantment With the Past

A second reason for a change from the past is that the results of the past were not attractive. This may have resulted in the loss of market position and/or the loss of money. Certainly the latter was the case at Chrysler and the new management team was forced to do something very dynamic to enable the company to survive. Lee Iacocca was forced to divest several profitable businesses, including the international businesses and the credit and defense businesses, in order to fund the core business. Chrysler may be even stronger in the automobile market, but the exit of the international, selling off of the credit and defense businesses provided opportunities to those competing in these markets.

In addition to poor results, there may be disapproval of the strategy and this too may result in a change of direction. Possibly the strategy may have been too conservative and the new management or even the incumbent management may decide that they must be more aggressive to survive. This may take the form of many new ventures into unexplored markets, or it may be new acquisitions into an area previously outside the domain of the company. This was the case of Allied, when a new management decided to move more aggressively into nontraditional markets. It was the case of most conglomerates, including ITT, Textron, Litton, etc. Quite often the need to change from the past was merely a result of the experience of the past management; many of the conglomerate makers came from other conglomerates and merely repeated what they had been taught.

External Pressures

Management may overreact to the pressures of external forces, including government and pressure groups. For instance, the management of AT&T may have witnessed the merger of communications and information industries and have agreed to the divestiture of the operation of telephone companies, or they may have been frustrated by the constant attack by the government and have decided it was time for a major change. Regardless of the reason, there is no question that the company will never be the same and only time will tell whether this was an asset or liability.

Stock Market and Investors

The stock market can also be a major change agent. If the market becomes disenchanted, the market value may fall below the book value and the company may either be forced to change or it may be taken over by another company. This appears to be the reason for so many recent changes of ownership and mergers. Some companies have made strategic changes in order to avoid unwanted takeovers, even if they don't make sense and have a value added. In other cases, bargains have resulted in takeover moves that were not viable and had only a short-term benefit. This led to a later divestiture and often a destruction of a past winner.

Poor Implementation

There is also the possibility that the company may have a strategy that is not viable for a number of reasons, ranging from the lack of the resources to implement to the lack of long-term commitment or even mismanagement. As a result, the company may decide to change its direction and begin to deemphasize what was important in the past and add new and different products and services.

A change in strategy and objective can provide either opportunities or threats and should be properly evaluated and anticipated. If a company rearranges its priorities, there may be segments that are neglected and underfunded, thus providing an opportunity to attack aggressively and make the company prematurely exit or give up market position. But the change in the strategy may be at the management strategy level or as some call it the "strategic driver." A company may decide to embrace a marketing-driven strategy rather than the product/innovation strategy of the past, or it may move from a marketing to a cost/production-driven strategy. This may be well thought through and consistent with the company's resources or merely reflect the biases of the management. This change may contribute to poor implementation or even a totally confused thrust.

Conclusion

This is merely a summary of some of the tools that have been used to enable management to think about, anticipate, and be prepared for competitive changes that result in new opportunities or threats. It is not complete nor is it meant to indicate that it is magic. Its use requires thinking, dedication, and most of all commitment and top management involvement.