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GROWTH TEAM MEMBERSHIP™

GROWTH PROCESS TOOLKIT

Competitive Strategy

Accelerating Growth through Principled and Informed Competitive Decision-Making

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Special Thanks

Frost & Sullivan's Growth Team Membership would like to thank the following individuals who generously contributed their time and insights to the development of this toolkit:

Katherine Burns
Growth Team Membership

Dan Goldenberg
Growth Team Membership

Cynthia Galvan-Cavazos
Growth Team Membership

Hendrik Malan
Africa Consulting

James Evans
Management Information Systems

Keith O'Brien
Growth Team Membership

Laurence Fourchet
Healthcare & Life Sciences

Daniel Shepherd
ICT Europe & Africa

David Frigstad
Chairman

Danny Solomon
Growth Consulting

Jannette Whippy
Growth Team Membership

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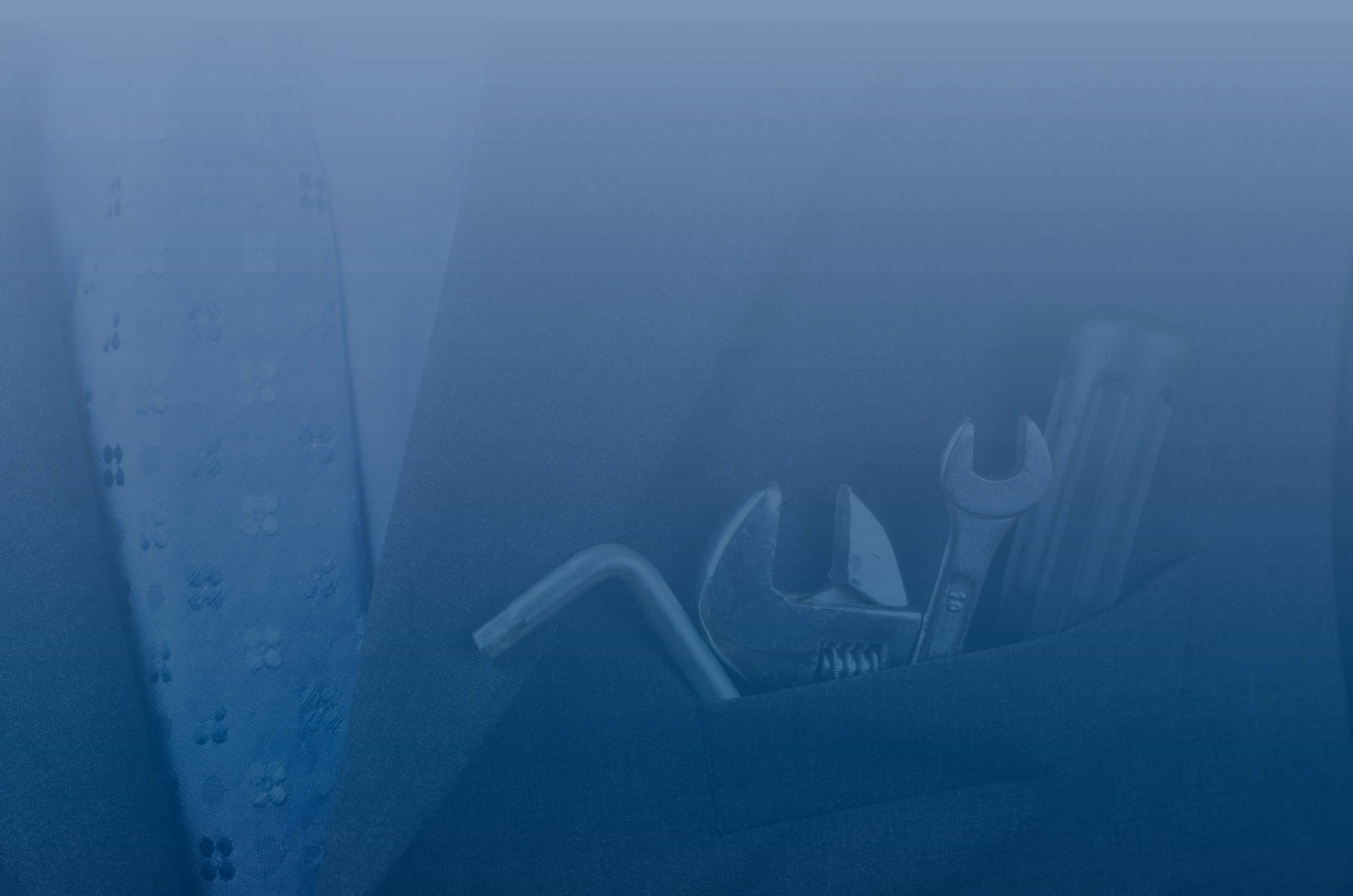
INTRODUCTION

Growth Process Toolkit

Competitive Strategy



INTRODUCTION

Growth through Competitive Strategy
A recent study of 100 of the largest U.S. corporations across 17 sectors provided near-conclusive evidence that top-line growth is vital for survival. It found that a company whose revenue increased more slowly than GDP was five times more likely to succumb, usually through acquisition, than a company that expanded more rapidly than GDP.[1] Furthermore, the study determined that many companies with strong revenue and growth and high shareholder returns compete in "favorable" growth environments. In short, to outperform competitors and succeed in the long term, companies must achieve top-line growth by competing in the right places, and at the right times.[2]

With this finding in mind, it is clear that any successful approach to achieving top-line growth must (1) take into account what your competitors are, and are not, doing, and (2) balance those insights with a detailed understanding of where promising market opportunities are to be found. Ignoring either of these activities puts top-line growth at risk. Companies must therefore invest heavily not only to keep pace with competitors, but also to render them irrelevant whenever possible, while simultaneously anticipating and preparing for the next threat or opportunity.[3]

The Risks of Competitive Strategy
In many ways, the fight to gain – and sustain – competitive advantage in business is similar to the fight required to win a football game: much energy and many resources are required, often for only marginal advances. To the winner of the fight goes anything from market dominance to improved profit margins. However, great rewards come only with commensurate risk and with it the potential for disaster, rather than the hoped-for success. Consequences of misguided competitive decisions include lost profit margin and revenue, relinquished market share, and as noted above, acquisition by a competitor.

Traditionally, strategic and competitive planning is a slow process, which puts it fundamentally at odds with the rapidly moving and shifting needs of most companies today (especially those operating in crowded, highly contested markets).[4] It is perhaps for this reason that many companies admit to including only superficial analysis of competitive strategy in strategic planning, as outlined further below.

- A recent survey found that two-thirds of strategic planners believe that companies should consider expected competitor reactions when making decisions, and yet fewer than one in 10 recalled having done so, and fewer than one in five expected to do so in the future.[5]

- In another survey, 71 percent of U.S.-based companies claimed to use competitive intelligence to guide their decision making, but most admitted using it for operational or tactical reasons rather than strategic ones (e.g., sales purposes, new product launch planning, strategic alliance formation).[6]

In sum, most companies appreciate the need for incorporating competitive information into decision making, but few are adept at treating it as an integral component of a long-term growth strategy.

Where Competitive Strategy Goes Wrong
To build a competitive strategy that can accurately direct growth strategy decisions, companies must accumulate a wealth of information and dedicate sufficient resources to analyzing and acting on that information. The path to successful execution of such objectives is fraught with numerous pitfalls, some of which are discussed below.

Pitfall #1: Assessing Your Competitive Strengths in a Vacuum[7]
At the heart of any effective competitive strategy is a firm understanding for your company's unique capabilities or resources (i.e., the things you do best). A successful strategy will play to those strengths. Many executives make two primary mistakes when articulating their companies' strengths:

- *They fail to assess them relative to competitors"*—Core competence evaluation should not be an assessment of which activity, of all activities, your company performs best. It should be a realistic assessment of what it does *better* than competitors.

- *They fail to consider their sustainability*—If a competitor could imitate or substitute your company's key strength, would you consider it less valuable or integral to your growth strategy? It is likely that in time any resource will decay in value – so the question is, how much of a head start does a key resource give you over your competitors? An honest answer to that question will help you avoid basing a competitive strategy on an unsustainable advantage.

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Where Competitive Strategy Goes Wrong (Continued)

Pitfall #2: Assuming Your Competitors Will Respond Aggressively to Your Every Move[8]
As noted previously, fewer than one in 10 companies admit to incorporating competitive responses into strategic decisions. One primary reason for this oversight is that traditional game theory – the standard framework for explaining rivals' behavior* – often does not play out in the real world, for two primary reasons:

- *Game theory does not take into account the "human element"*—The numerous qualitative considerations that enter the prediction process – personal biases and hidden agendas, for example – risk rendering results suspect and make senior management more likely to reject counterintuitive results.

- *Game theory conditions us to assume aggressive responses*—By ignoring the possibility that a rival might choose *not* to respond to a strategic movie, the strategist lowers his estimate of the expected value of his company's move. As strategists Kevin P. Coyne and John Horn recently wrote in *Harvard Business Review,* "The higher the perceived probability of counteraction by competitors, the lower the expected payoff. And with a lower expected payoff, the company is less likely to take bold action."[9]

An assumption of aggressive response can force companies to move in ways that may not be in their best interest. Successful companies understand that sometimes they are better off coexisting with competitors than attempting to drive them out of business.

The tenuous relationship between Microsoft and Google serves as an apt case-in-point. Although Microsoft has a history of moving aggressively against competitors, and both of these companies have the ability to damage the other, they understand that each is better off if they do not. Microsoft and Google tend to take defensive, as opposed to aggressive, stances against one another; fear of loss, whether of profit or of market share, is greater than their hope of gains. Key takeaway: companies should think hard before assuming an aggressive response is a foregone conclusion and rethink their strategies accordingly.[10]

Pitfall #3: Thinking "Small Picture" About the Competitive Landscape
Executives put their companies at risk when they fail to consider the competitive landscape in broad terms. Aside from direct competitors, companies should assess threats from the following sources:

- *New entrants*—As Michael Porter has written, new entrants to an industry "bring new capacity and a desire to gain market share that puts pressure on prices, costs, and the rate of investment necessary to compete."[11] The threat of entry, therefore, puts a cap on the profit potential of an industry, which in turn can jeopardize a company's long-term top-line growth potential.[12] The stakes are high: a lapse in attention can leave you vacating market space you previously controlled.

  Compounding the difficulty of identifying and dealing with new entrants is the challenge of distinguishing genuine threats from insignificant players when they first appear. Because it's hard to tell signal from noise, real disruptions are usually not taken seriously until they become obvious – when often it is too late. Successful companies are adept at identifying emerging threats' disruptiveness and preparing responses proportionate to the level of the perceived threat.[13]

- *Complementary providers*—It is rare for a firm to invest heavily in understanding its complementors (i.e., products sold to mutual customers that increase the value of each separate offering). Given the generally friendly and symbiotic nature of relationships between complementors, companies often underestimate the potential for conflict in areas such as pricing, technology, or control of the market. The more you know about potential conflicts, the better you can anticipate them, build the resources necessary to manage them effectively, and resolve disputes before they jeopardize your profit margins or market position.[14]

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* Game theory attempts to mathematically capture behavior in strategic situations, in which an individual's success in making choices depends on the choices of others. This research usually focuses on particular sets of strategies known as equilibria in games. Solutions are predicated on an expectation of rational behavior. The most famous of these is the Nash equilibrium. A set of strategies is a Nash equilibrium if each represents a best response to the other strategies. For more information on game theory, click here.

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Where Competitive Strategy Goes Wrong (Continued)

Pitfall #4: Overvaluing Market Share (and Undervaluing Profitability)[15]
Chasing revenue for growth's sake alone, at the expense of profitability, generally destroys shareholder value. Indeed, companies that place market share at the center of their growth strategies generally find themselves battling cultures and behaviors that destroy profit rather than boost it. Ultimately, pursuit of market share is often at odds with efforts to achieve sustainable top-line growth.

As an example, if a company is committed to increasing market share at any cost, executives may be willing to lower their prices to lure customers away from competitors. Such a response typically triggers a similar response from competitors, which serves only to level the playing field once again, but at lower margins for all. Further, such a response (a "price war") underscores the risk of a pitfall discussed on the previous page: namely, for a competitive strength to be genuine, it should be unique. If a competitor can easily replicate it, that strength does not deliver the sought-after advantage. The following case example illustrates how pursuit of market share, at the expense of profitability, can create an untenable competitive situation:[16,17]

Case-in-Point: When Did Frequent Flyer Programs Become a Right, Not a Privilege?
Pursuit of Market Share Gone Wrong

Situation: Facing escalating competition in the early 1980s, Braniff Airways seeks to increase its market share by building a differentiated value proposition focused on increasing customer loyalty.

Action: In 1980, Braniff Airways launches a loyalty program awarding airline miles in exchange for a passenger's air travel. Program architects Neal J. Robinson (Executive Vice President, Marketing) and Jeff Krida (Vice President, Sales) predict that the incentive to accrue miles will be so strong that customers will exclusively fly Braniff Airways.

Result: Within a year, American Airlines, United, Delta, and British Airways duplicate Braniff Airways' frequent flyer program, significantly undermining Braniff Airways' competitive advantage. Today, more than 130 airlines worldwide issue miles, and 163 million people globally collect miles of some sort. Furthermore, customers now *expect* to receive awards from frequent flyer programs even if they are not loyal customers – and will not fly with airlines that fail to offer miles (as US Airways learned in 2002 when it attempted to curtail its frequent flyer program, to widespread customer outrage).

Indeed, frequent flyer mile programs have taken on a life of their own, wholly apart from the airline industry. A 2005 study conducted by the *Economist* found that:

- The world's second-largest currency in circulation behind the U.S. dollar is the frequent flyer mile
- The total stock of unredeemed miles is worth more than all the dollar bills in circulation
- Two-thirds of travelers surveyed said they see frequent flyer miles as the next best thing to actual cash
- Almost half of travelers surveyed thought they should receive interest on their accounts

Perhaps most devastating for the airlines, however, is that more than half of all miles are earned on the ground, not in the air, since credit cards, hotels, rental cars, and other providers link to airlines' programs and translate purchases into yet more miles.

Partly due to the burden the frequent flyer mile has created on the airline industry, Braniff Airways filed for bankruptcy protection in 1989 and ceased operations fully in 1990. Other airlines, however, continue to struggle under the weight of the loyalty programs they themselves created.

Although frequent flyer loyalty programs began as an attempt to gain market share through differentiated service offerings, it became a cost of doing business in the industry. The short-term advantage gained by Braniff Airways ultimately altered the dynamics of the industry for every player – and at a less profitable threshold than existed before.

Key takeaway: Tactics to gain market share only work if those tactics do not undermine your company's potential for profitability. Programs designed to increase customer loyalty make sense only when competitors cannot easily duplicate them, which means they cannot provide the same benefits to the same degree.

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The Solution
As the airline industry's struggle with frequent flyer programs demonstrates, successful competitive strategy is dependent upon differentiation, cost effectiveness, and sustainability.

Successful companies know how to focus time and resources where areas of opportunity overlap with their own best capabilities. They follow a specific process for assessing their own strengths, assessing the competitive situation, and formulating appropriate responses. Importantly, these companies also understand that a competitive strategy is ineffective if it fails to ultimately produce top-line growth. They manage their decision making with this understanding at the center of all they do.

As a counterpoint to the airline industry's cautionary tale, Harrah's customer loyalty strategy, detailed below, helped it build a unique competitive advantage during the late 1990s and early 2000s.[18]

Case-in-Point: Harrah's Big Gamble
Competitive Advantage Gained through Differentiated and Sustainable Strategy

Situation: In the late 1990s, Las Vegas and Atlantic City experience a renaissance, thanks to relaxed State and Federal gaming laws. Casino operators spend millions of dollars opening new and extravagant properties that feature a variety of attractions (e.g., shows, spas, shopping malls) to lure customers. Harrah's, an entertainment company with significant business interests in casinos, looks to differentiate itself from competitors while delivering a unique customer experience.

Action: Rather than following its competitors' leads by investing in costly upgrades to its venues, Harrah's invests instead in a customer relationship management (CRM) program aimed at capturing more share of wallet from its customers – in spite of its more straightforward, less showy casinos and hotels. At the heart of the CRM program is a loyalty program entitled Total Rewards. This program rewards customers with "comps" in order to stimulate loyalty. The program is also aimed at gathering information about customers and using it to customize the company's marketing programs for each customer. Customers who enroll in the Total Rewards program receive an electronic card, which they insert into the machines they play inside the casino (and it becomes almost impossible to do anything in a Harrah's casino without the card). This card allows Harrah's to track customer preferences and collect data about them.

In so doing, Harrah's merges its unique internal strength (its best-in-class technology and analytical capability) with a perceived market opportunity (a high-growth segment in which it can capture increased share of wallet). This approach enables Harrah's to differentiate itself from the competition in a sustainable way. As Vice President of Marketing Richard Mriman explains, "We have an advantage in that we know who our customers are, what they're worth, and we can touch them in ways our competitors can't even think about."

Result: Harrah's decision to build its competitive strategy around a differentiated strength led to immediate and measurable results for the company. When Harrah's launched its Total Rewards program in 2000, the company was able to capture 36 percent of its customers' gaming budget. By 2002, that number had increased to 43 percent. Furthermore, the company witnessed a 13 percent jump in profits in the first year of the Total Rewards initiative. The loyalty card program had 12 million enrollments in 1997. By 2003, the enrollment had reached 26 million.

Key Takeaway: By systematically assessing your company's unique strengths, market opportunity, and competitor behavior, you can formulate a strategy that will prove profitable, differentiated, and sustainable. The more closely you follow a proven process for exploiting this information, the greater your odds of success.

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INTRODUCTION (CONTINUED)

How Should You Approach Competitive Strategy?

Frost & Sullivan structures planning for competitive strategy around the phases listed below.

THE THREE PHASES OF COMPETITIVE STRATEGY DEVELOPMENT

PHASE	DESCRIPTION
INTERNAL COMPETENCY EVALUATION	Unbiased identification of your company's unique strengths (i.e., those things your company does better than the competition)
MARKET DUE DILIGENCE	Systematic identification of high-growth opportunities within a market; intelligence-gathering on competitors' behavior and strategies
THREAT MITIGATION	Careful analysis of potential responses to competitive threats, with focus on long-term cause-and-effect scenario planning

This toolkit will focus exclusively on achieving growth through successful competitive strategy. That said, many factors determine a company's competitive advantage, such as M&A, global footprint, new product development or launch capability, and the reach and effectiveness of distribution partners, which are not covered comprehensively in this toolkit. For this reason, we provide a wealth of resources focused on these activities in companion Growth Process Toolkits, which you can access by clicking on the links below.

- *Mergers & Acquisitions: Accelerating M&A Growth through Early-Stage Planning and Evaluation*
- *Geographic Expansion: Accelerating Growth through Principled and Repeatable Entry Strategy*
- *New Product Development: Accelerating Growth through Unbiased and Rigorous Early-Stage Product Evaluation*
- *New Product Launch: Accelerating Growth through Rigorous Planning, Principled Execution, and Continuous Monitoring*
- The Growth Process Toolkit for Distribution Channel Optimization will be released in December 2009.

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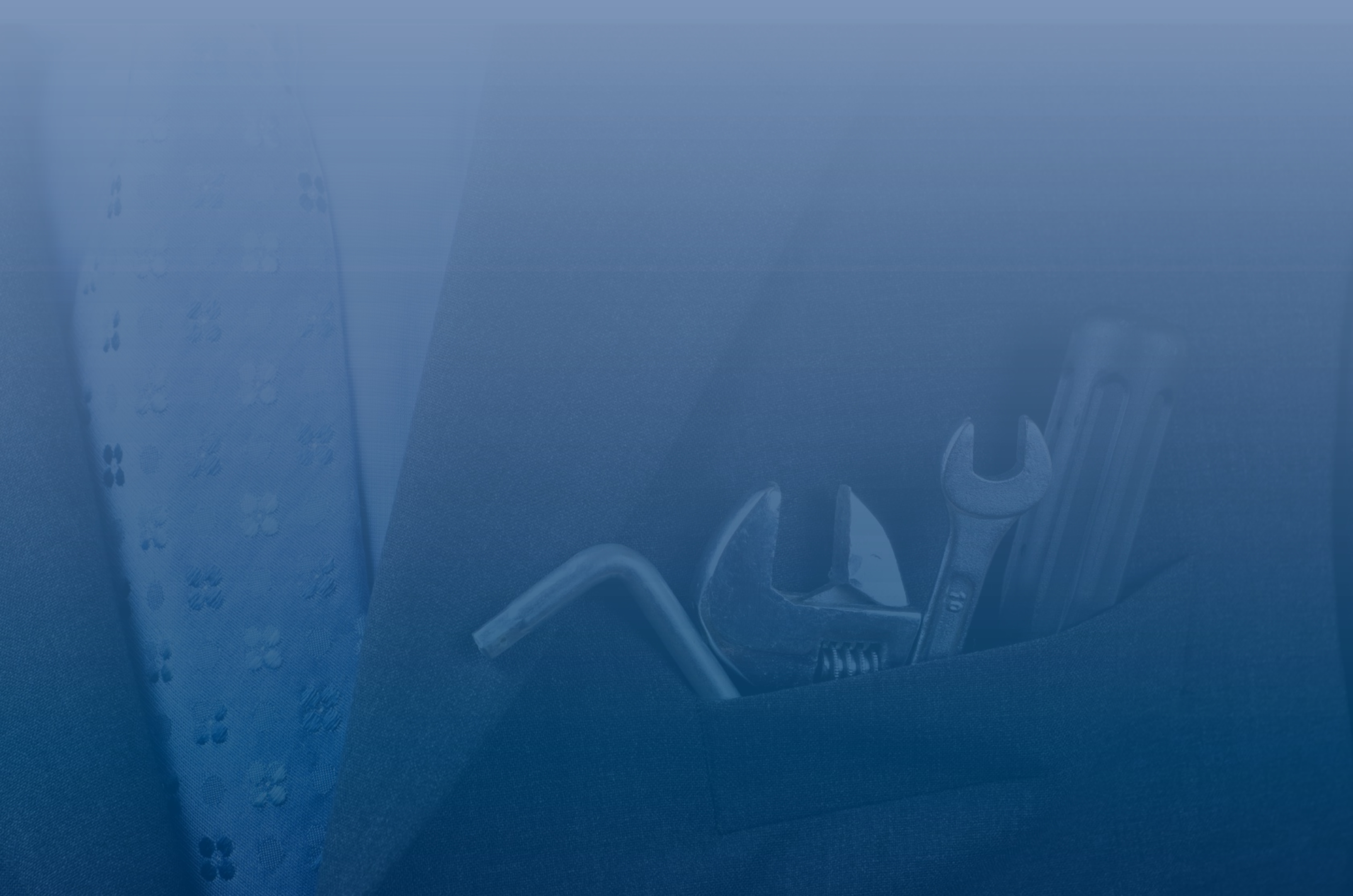
HOW TO USE THIS TOOLKIT

Growth Process Toolkit

Competitive Strategy



How to Use this Toolkit

The Growth Process Toolkit for Competitive Strategy

What it is: This toolkit will help you structure your competitive strategy around assessing your unique strengths, identifying growth opportunities, collecting competitive intelligence, and responding to competitive threats. It will show you how to support your company's top-line growth objectives by helping you develop a differentiated and sustainable competitive position.

On a more technical level, this Growth Process Toolkit presents Frost & Sullivan's best work on competitive strategy in a step-by-step implementation format. This resource gives Growth Team Membership (GTM) members proven processes, tools, and templates to help them successfully manage the risks and pitfalls encountered in this key growth process.

How it will help you: This toolkit will help you and your team cost-effectively develop a successful and enduring competitive strategy. As noted previously, we recognize that your competitive strategy will be determined by a variety of factors, such as M&A or innovation capability. These and other topics are explored in companion growth process toolkits. This toolkit focuses more specifically on issues core to competitive strategy, such as capability assessments and intelligence-gathering.

How to use it: This book is divided into three sections: Internal Competency Evaluation, Market Due Diligence, and Threat Mitigation. Within each section, we have outlined a variety of steps that you should complete. For each of those steps, you are provided with the tools, templates, scorecards, or checklists that you need to complete that activity to a Frost & Sullivan standard. You can read this toolkit cover-to-cover, or you can reference the clickable table of contents to access specific sections.

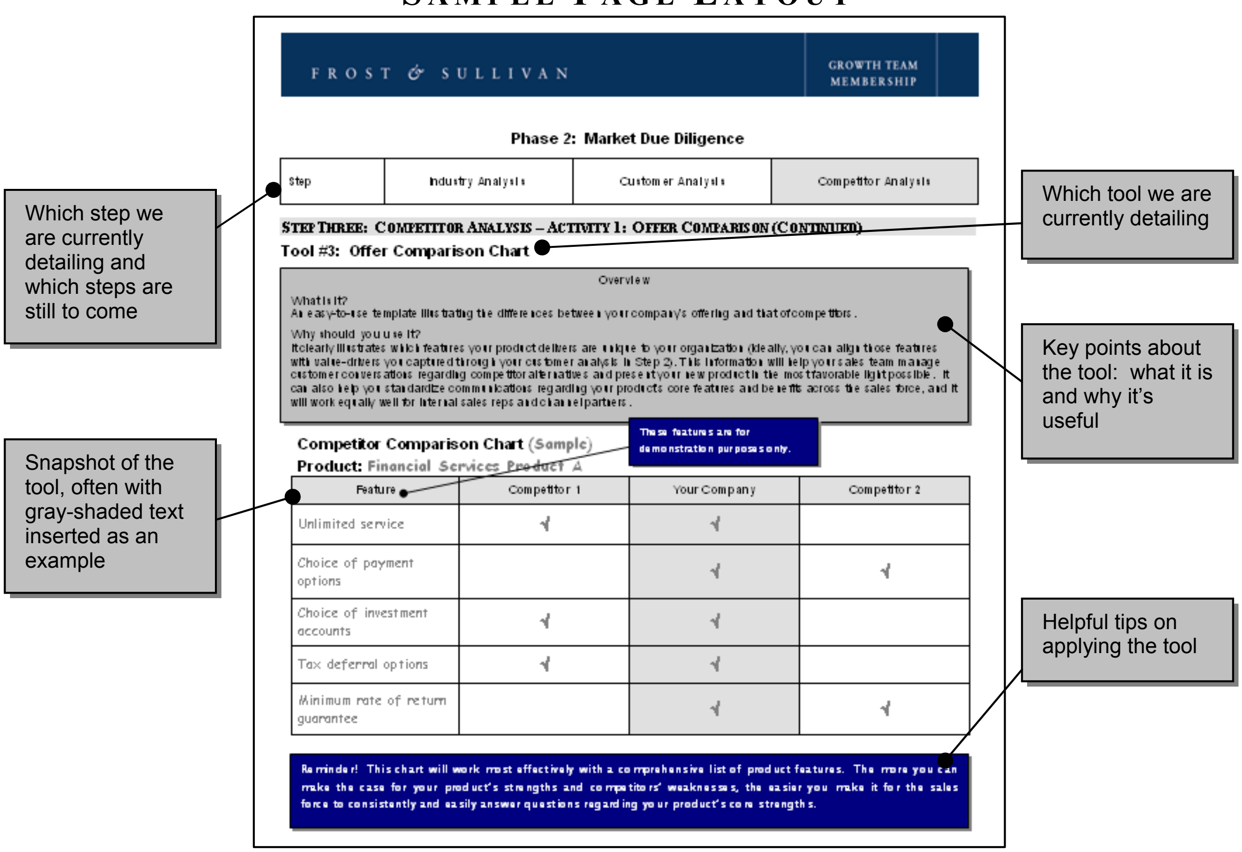
Be on the look-out for helpful reminders throughout this toolkit. We will alert you at key stages when you should involve certain stakeholders, or when it might be a good idea to use additional GTM (or other) resources to aid your implementation.

We encourage you to bookmark this toolkit, save particularly helpful tools to your desktop, and share it with your colleagues. We also encourage you to contact your Account Executive if at any point in your research you require assistance.

The Growth Process Toolkit's Organization and Layout

For ease of navigation, the majority of activities and tools featured in this toolkit adhere to the following template:

Sample Page Layout



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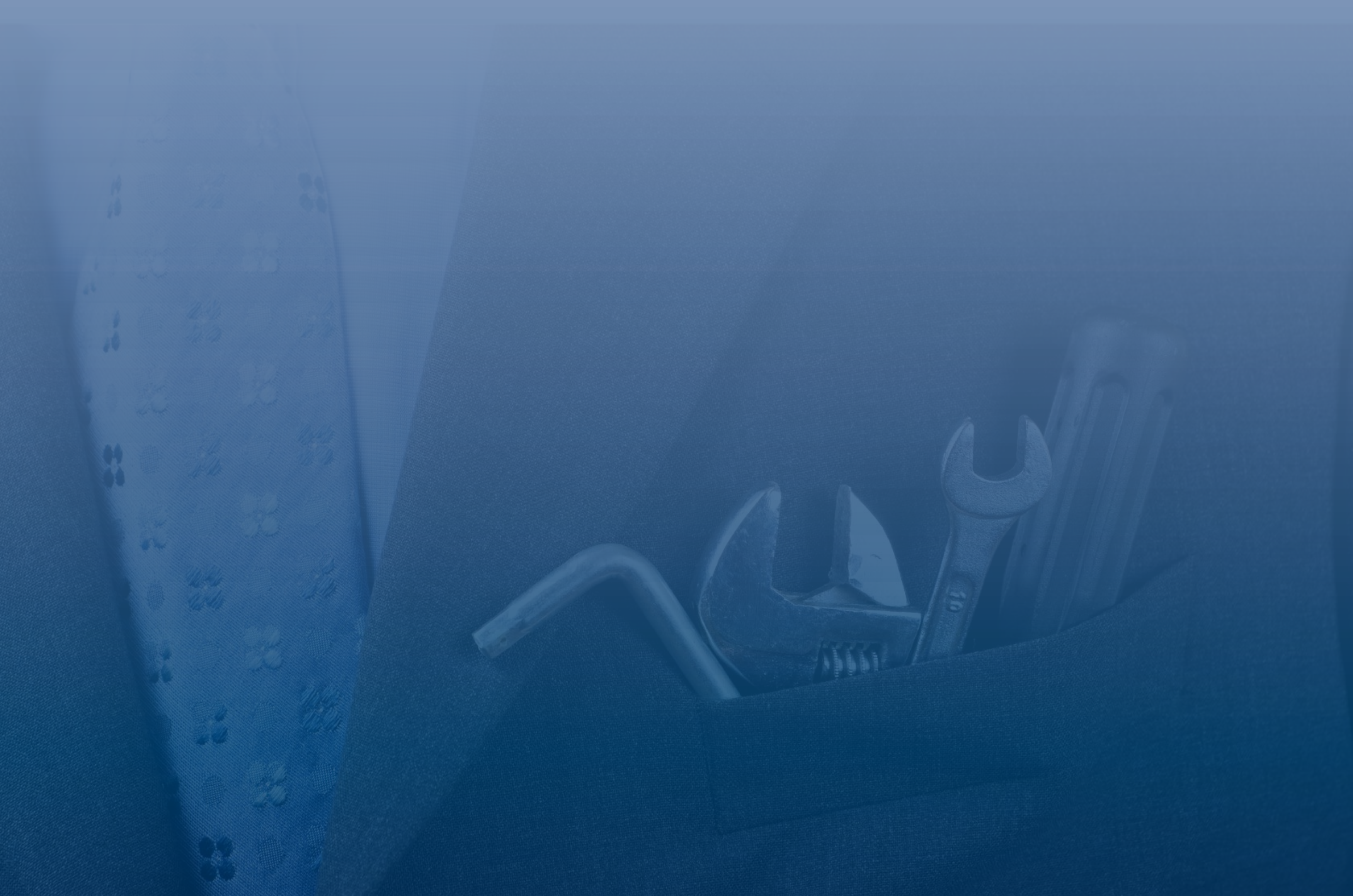

Tool #1: Goal Statement Template

Overview

What is it?
A discussion guide to help the executive team articulate its company's goals for pursuing growth through competitive strategy.

Why should you use it?
This tool will help you ensure the following:

- *Agreement among the executive team* – While you may believe your executive team to be on the same page about strategy and vision, this perception may in reality be off-base. Consensus on goals and expectations at the outset of any activity is a good idea – but even more so when navigating waters as risky and costly as competitive strategy.
- *Focus on launch activities that align with the stated purpose* – Shared commitment to the Goal Statement will help the executive team be clear about goals and the boundaries for achieving those objectives. Agreement on how to handle all strategic factors will ensure the team approaches competitive decision making with a shared clarity of purpose.

Use this as a living document – something that you can revisit whenever you need to refocus team members on shared objectives.

GOAL STATEMENT: TEMPLATE — **COMPANY NAME**

Vision: What are we trying to do?

(a) What is the goal we are trying to achieve, which our competitive strategy must support?

(b) Which groups in the organization are responsible for delivering on this objective?

(c) What are the decisions we as an executive team need to make in support of this objective?

(d) Given these specific decisions, what must this effort produce as output?

Approach: How do we want to do it?

(a) Should our behavior towards competitors be aggressive or defensive?

(b) Would we rather undermine competitors' performance or boost our own revenue and/or margins? How might these objectives be mutually exclusive?

(c) What limits must we set on our willingness to discount prices?

(d) What profit margins are we committed to protecting, in spite of competitor pricing decisions?

Industry Overview: What are the defining characteristics of our industry?

(a) What are the limits of products and/or services that comprise our industry?

(b) What is the geographic scope of competition (i.e., is competition contained within a particular region, or is this a single global industry, with global competitors)?

(c) Who are the buyers and buyer groups to monitor?

(d) Who are the suppliers and supplier groups to monitor?

(e) Who are our top competitors?

(f) What current or emerging products or services can substitute our own?

(g) Which current or emerging products or services complement our own?

(h) Do we currently perceive any threats to the status quo (positively or negatively) from new entrants to the industry?

(i) What factors control profitability in our industry, and which of those factors can we control? Which ones can our competitors control?

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Tool #1: Goal Statement Template (Continued)

GOAL STATEMENT: TEMPLATE **COMPANY NAME**

Investment: What financial return do we expect from our competitive approach?

(a) What are our minimum and maximum investment thresholds for any activities required as part of our competitive strategy (e.g., investments in IT, formal competitive intelligence function, marketing, sales)?

(b) Where would we place our investment on the risk/reward spectrum?

(c) How long do we expect it will take to achieve a positive return, in terms of boosted revenues, increased market share, and/or better margins?

Measurement: How will we determine success?

(a) Short-Term: How will we demonstrate the success of our competitive strategy to shareholders (i.e., what should be our key targets)? What metrics can we realistically influence during this time?

(b) Long-Term: What signs of success would we expect from this competitive strategy in the long term? How should we quantify these expectations?

Buy-In: Who has contributed to and/or approved this statement? Who still needs to sign off?

(a) What plans exist for ensuring executive team consensus or acceptance?

(b) How will we modify our goal statement if we receive push-back from key stakeholders? On which points are we willing to budge, and on which must we hold firm?

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PHASE 1: INTERNAL COMPETENCY EVALUATION

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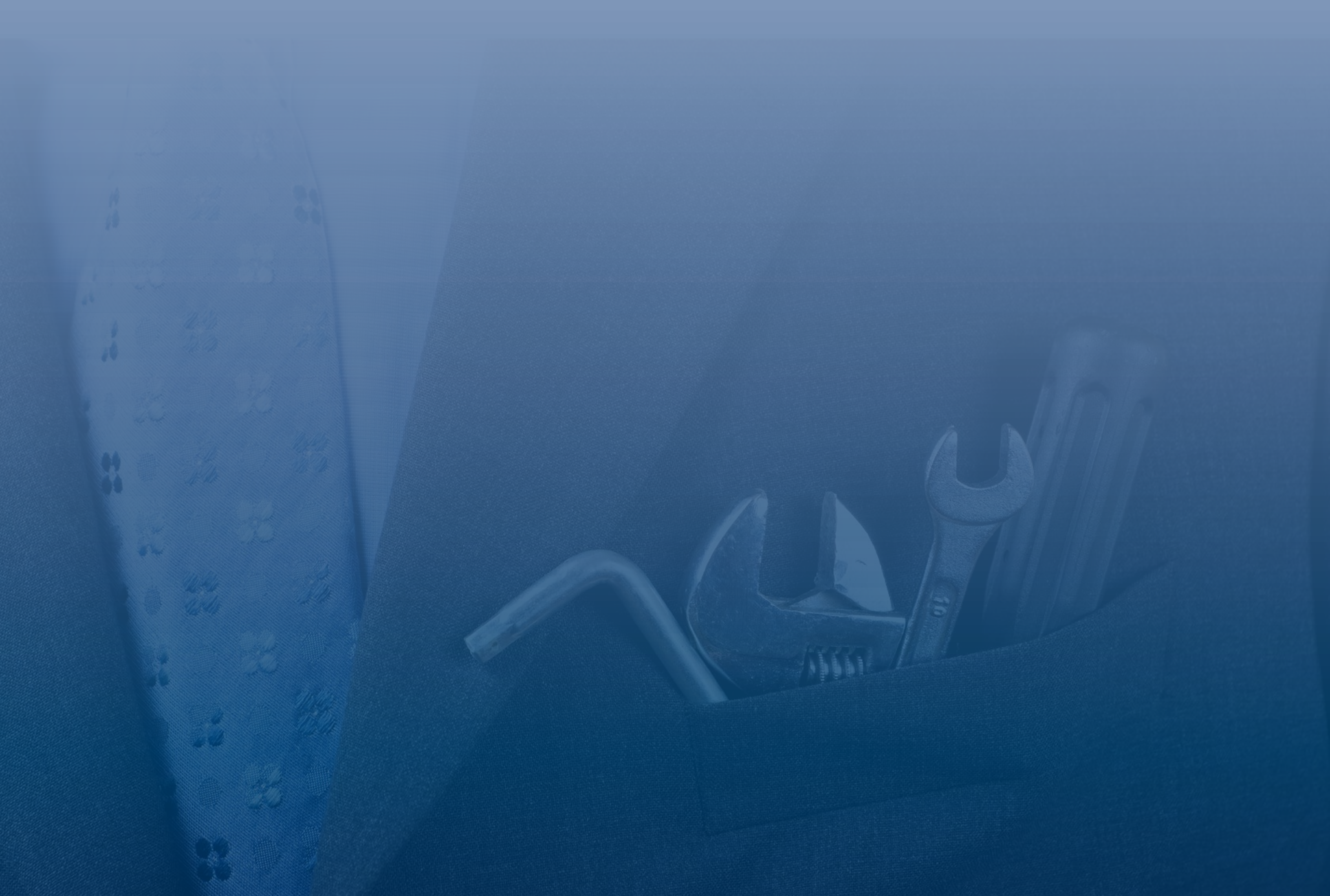

Phase 1: Internal Competency Evaluation

The table below lists the key steps and objectives featured in Phase 1. The pages that follow explore each step – and its associated tools – in greater depth. This page is also clickable, enabling you to jump to any section directly.

Internal Competency Evaluation: Key Steps and Tools

Step	Purpose	Sample Tools
Company Performance Analysis	Evaluate performance across your product portfolio and among your distributors, suppliers, sales reps, and channel partners	Product Performance Report Card Stakeholder Evaluation Guidelines
Company Resource Analysis	Identify resources that deliver a unique, sustainable value to your organization	Resource Evaluation Guidelines

Phase One: Internal Competency Evaluation

Step	Company Performance Analysis	Company Resource Analysis

Step One: Company Performance Analysis

Tool #1: Product Performance Report Card[19]

Overview

What is it?
A diagnostic tool to grade the competitive advantage your company gains with its current products, as well as the advantage it stands to gain through products still in development. You can complete this exercise on a high level, or for each product in your portfolio.

Why should you use it?
This exercise will make clear any performance gaps that could open the door for a competitor to threaten your market position. You can also use this report card as a presentation tool, since it draws attention to strengths and weaknesses in an easy-to-understand format.

You may want to tailor these standards to better reflect your company's goals.

Product Performance Report Card (Sample)

Criteria	Best-in-Class Standard	[Company] Current State	Implications for Competitive Strategy	Grade
Uniqueness	• Competitors cannot (or will not) replicate the product offering • Product retains uncontested market positioning • Product is the first of its kind (i.e., pioneered a new category or changed the dynamics of the industry)	One competitor has the resources to duplicate our product	Although the market may soon be contested, our competitor cannot replicate the value of our brand, which still sets our product apart from alternatives	B+
Scarcity	• We have exclusive relationships with parts manufacturers for our product • We have exclusive relationships with distributors who sell only our product	We do not control supplier relationships with competitors, but we do control our ordering and rarely have excess inventory	We cost effectively manufacture our product due to a growing vertical integration of our supply chain.	A-
Price Point	• The product is profitable (we earn significant margins on each sale) • Competitors cannot match our price point (we have a unique cost advantage competitors cannot duplicate) • Customers find our prices reasonable	We have recently lowered our prices (and our margins) to defend our market share from a new competitive threat	We have set a new profitability cap within the market	C-
Ownership	• Product is protected by patent • Product is not easily substituted	Product's patent is expiring	Competitors may increasingly threaten our position over time	B-

Phase One: Internal Competency Evaluation

Step	Company Performance Analysis	Company Resource Analysis

STEP ONE: COMPANY PERFORMANCE ANALYSIS (CONTINUED)

Tool #2: Stakeholder Evaluation Guidelines

Overview

What is it?
A series of questions that can guide your evaluation of key stakeholders' performance.

Why should you use it?
You need to know where your stakeholders are providing your company with a unique competitive advantage. Conversely, if you can diagnose areas of underperformance among your stakeholders, you can proactively address those weaknesses and improve your competitive positioning.

Stakeholder Evaluation Guidelines

Determine how each group's performance either contributes to, or detracts from, your company's competitive advantage.

Suppliers[20]

- Do our suppliers behave in a way that maximizes our organization's profits?
- Are our suppliers' incentives aligned with our desired outcomes (i.e., are risks, costs, and rewards of doing business distributed fairly)?
- Do we struggle with any of the following: excess inventory, incorrect forecasts, inadequate sales efforts, or poor customer service?
  - If so, what are the root causes of these areas of underperformance?
  - Can a redesigned incentive structure ameliorate some of these difficulties?
- Would we face a high switching cost if we changed suppliers? Could we garner some degree of exclusivity?
- Is there any substitute for what the supplier group provides?

Distributors

- What is our average profit margin among distributors? Is it in line with our profitability goals?
- How many different channels does it take our product to reach our target customer?
  - Can we streamline this arrangement for greater profitability?
- What kind of alignment do we see between our products, growth strategy, and distribution capability?
  - How can or should we address areas of misalignment (e.g., exclusive arrangements, better training)?
- What is the average deal size we attain with distributors and what are the standard contract terms that define our distributor relationships?
  - Do these terms give us any discernible advantage over our competitors?
- How do our competitors currently go to market? Is there an advantage or disadvantage to mirroring their distribution strategies?

Channel Partners

- Do our channel partners support our desired geographic reach?
  - Do we modify our channel partner strategy depending on the needs of local markets?
- Are our relationships with channel partners cost-effective?
- Does our communication with or support of channel partners set us apart in the marketplace?

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Phase One: Internal Competency Evaluation

Step	Company Performance Analysis	Company Resource Analysis

STEP ONE: COMPANY PERFORMANCE ANALYSIS (CONTINUED)

Tool #2: Stakeholder Evaluation Guidelines (Continued)

Stakeholder Evaluation Guidelines

Determine how each group's performance either contributes to, or detracts from, your company's competitive advantage.

Sales

- Do we support our sales teams with best-in-class collateral, tools, incentives, and other resources?
- Does our sales team maintain higher rep retention rates than competitors?
- Does our sales training and support prepare our sales reps to out-perform competitors' sales teams?
- Can our sales force consistently diagnose and reliably deliver on higher order customer needs?
- Is our sales force empowered and equipped to rapidly make competitive pricing decisions when appropriate?

Marketing

- What percentage of our customers are repeat buyers compared to competitors?
- Do we consistently isolate drivers of dissatisfaction and proactively address them?
- Can customers recall our brand or product without prompting at a rate higher than our competitors?

Research & Development

- Are we more adept than our competitors at anticipating customer needs or demand for new products?
- Can we consistently convert those needs into promising innovation concepts?
- Do we profitably and efficiently move innovation concepts through our development pipeline?
- Do we have a track record for introducing game-changing products to the market?
- Do customers trust us to deliver high-quality, ground-breaking products?
- Do we celebrate an innovation-driven, entrepreneurial culture within our organization?

Procurement[21]

- Does our procurement team take a role in product innovation (e.g., identifying suppliers with new or different capabilities, which can in turn spur initiatives for innovation)?
- Does our team control costs by innovatively managing material and packaging inventories?
- Does our procurement team help to generate revenue by anticipating demand and collaborating with sales?
- Is our team adept at shortening cycle times?
- Are we one of few buyers in our industry (i.e., do we purchase in volumes that are large relative to the size of our vendors)?

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Phase One: Internal Competency Evaluation

Step	Company Performance Analysis	Company Resource Analysis

STEP TWO: COMPANY RESOURCE ANALYSIS

Tool #1: Resource Evaluation Guidelines[22]

Overview

What is it?
A list of considerations to guide your identification and management of resources that offer your company a unique competitive advantage. Ideally, your organization's competitive strategy will take advantage of those strengths you surface through this exercise.

Why should you use it?
It will help you evaluate your strengths without bias and with reference to where your competitors are also successful. Furthermore, your Phase Two evaluation of industry growth opportunities will be informed by your perspective of where you offer a unique value to the marketplace.

Resource Evaluation and Management Guidelines

The questions listed below will help you determine the value of your company's key resources (e.g., manufacturing plant, valuable brand, talented employees).

- **Can competitors copy it?**
  - The more inimitable your resource, the more you limit the potential for competition.
  - If your resource is a desirable location, or perhaps a relationship with your customers that you have cultivated over time, it may prove more difficult for your competitors to replicate – and therefore more valuable to your organization.
- **Does the resource depreciate slowly over time?**
  - The longer-lasting a resource is, the more valuable it will be.
  - If the resource is a well-established and highly recognizable brand, for example, competitors will struggle to threaten its position without assuming significant cost and risk.
- **Does your organization control the value provided by the resource?**
  - Not all profits derived from a resource flow directly to the company that technically owns the resource.
  - In some instances, a resource is only as valuable as the employees who manage it (consider the close relationship between Steve Jobs and Apple's reputation for innovation). The more an organization controls the resource, regardless of employee turnover, the more valuable that resource becomes.
- **Can the resource be easily substituted?**
  - Even if competitors cannot easily duplicate your resource, they may still be able to marginalize it by offering an alternative that customers may ultimately prefer.
  - Phase Two competitive intelligence-gathering will help you identify potential substitutes that could undermine the value of a key resource.
- **Is your resource better than similar ones controlled by your competitors?**
  - You must not only consider which resources your company finds most valuable internally, but which compare most favorably with competitors' resources. If your best is not better than a competitor's best, that resource will be of marginal value to your competitive strategy.
  - Consider the possibility that a *combination* of resources may offer a strategic advantage that each resource viewed in isolation does not deliver.

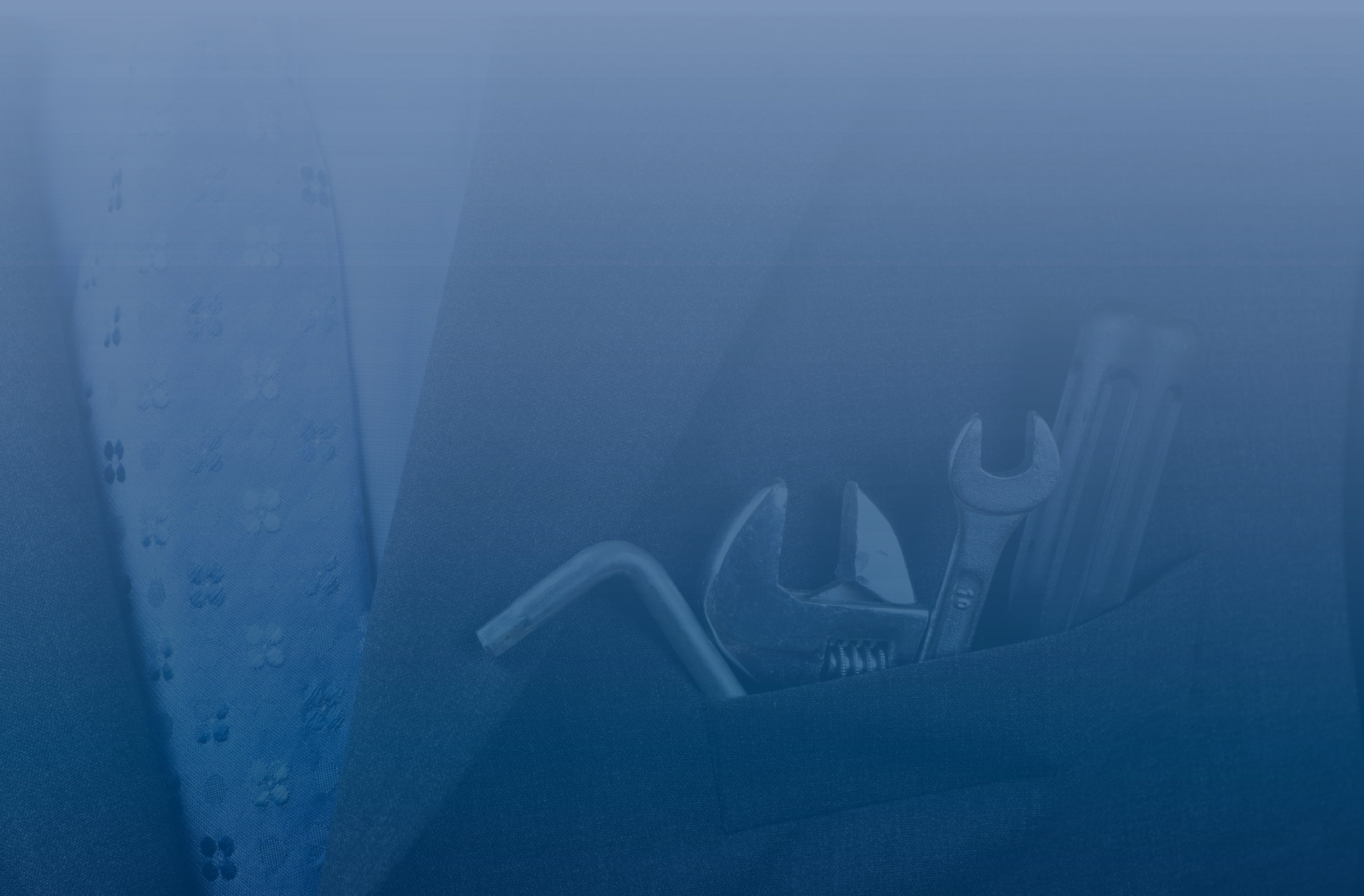
FROST & SULLIVAN

GROWTH TEAM MEMBERSHIP™

PHASE 2: MARKET DUE DILIGENCE

Growth Process Toolkit

Competitive Strategy



PHASE 2: MARKET DUE DILIGENCE

Where Are We Now?

Completion of the exercises featured in Phase 1 has enabled you to:

- Establish a shared vision among the executive team for your competitive strategy efforts
- Consider how your company's product or service portfolio delivers a unique competitive advantage
- Identify areas where stakeholder performance directly or indirectly differentiates your company's value proposition (e.g., cost, service, or profitability advantage)
- Filter your company's resources for those that deliver a value that cannot be easily copied, substituted, depreciated, or lost

At this point, you should have a well-articulated vision for your competitive strategy and a strong sense for how your company's internal resources will affect your external view of growth opportunities and competitors' behavior.

What Do I Do Next?

After you have secured the support of the executive team and considered how your company's products, stakeholders, and resources can affect performance, your next step is to turn your view outward, looking for areas of overlap between your resources and market opportunity. Phase 2 will help you consider your company's competitive advantage across three key areas: industry trends, customer needs, and competitor behavior.

Outlined below are the activities and steps you need to complete in Phase 2. The pages that follow will feature the resources you need to complete each one of these steps.

MARKET DUE DILIGENCE: KEY STEPS AND TOOLS

STEP	PURPOSE	SAMPLE TOOLS
Industry Analysis	Identify specific areas (e.g., markets, sub-industries) where your company is best-positioned to compete	Drivers and Restraints Worksheet Market Engineering Measurements Worksheet
Customer Analysis	Consider how customer preferences or needs can influence your company's competitive positioning	Customer Opportunity/Fit Matrix Customer Preferences Interview Template
Competitor Analysis	Build a comprehensive picture of competitors' offers, decisions, and threats to your business	Competing Offer Presentation Template Intelligence Collection Checklist

Phase 2: Market Due Diligence

Step	Industry Analysis	Customer Analysis	Competitor Analysis

Step One: Industry Analysis

Tool #1: Drivers and Restraints Worksheet

Overview

What is it?
A list of questions to help you consider all factors affecting growth in your industry (both positively and negatively). Your answers will help inform an assessment of which growth opportunities could form the building blocks of a competitive strategy.

Why should you use it?
You need to be aware of any factors that might alter a market's stability (for better or worse) in the long term. In turn, this perspective will help you make short-term decisions about whether to take steps to remain or become competitive in that market.

Step One: Fill out the worksheet below for the [________________ Industry].

Analysis of Sector-Specific Drivers and Restraints

1. Drivers

Question	Hint	Potential Sources
What are the specific drivers affecting the market and causing it to grow?	Regulatory changes; population growth; labor costs; availability of commodities	Frost & Sullivan research; industry-specific periodicals; trade associations
What do you predict will drive sales in two years?	New markets opening; new technologies	
What changes are you witnessing in customers' demands?	Changes to purchasing cycle; price sensitivity	
How has distribution changed over the past two or three years?	Emergence of new distribution networks	

2. Restraints

Question	Hint	Potential Sources
What is holding back sales or preventing the sector from growing?	Economic uncertainty; saturated market	Frost & Sullivan research; industry-specific periodicals; trade associations
What circumstances have prevented customers from purchasing key products or services?	Price sensitivity; changing consumer behavior; availability of capital	
What industry-wide factors are limiting growth potential?	Poor distribution network; high manufacturing costs	
Are there any company-specific inhibitors that cannot be explained by sector-wide circumstances?	Organizational barriers; talent turnover	

(Continued on the following page)

Phase 2: Market Due Diligence

Step	Industry Analysis	Customer Analysis	Competitor Analysis

STEP ONE: INDUSTRY ANALYSIS (CONTINUED)

Tool #1: Drivers and Restraints Worksheet (Continued)

Step Two: List each driver and restraint you have identified through your completion of the worksheet on the previous page. Next, estimate the potential impact that each driver and restraint might have on your industry's potential for growth over a period of time that you can forecast with reasonable accuracy (for the purposes of the sample below, we have extended the forecast over a seven-year period, but this number will vary depending on forecasting accuracy and standard projections within your own industry).

Analysis of Sector-Specific Drivers and Restraints

Sample: Airline Sector (Ranked in Order of Impact)

Rank	Driver	1-2 years	3-4 years	5-7 years
1	Emerging low-cost carriers in the Asia-Pacific region	High	High	High
2	Easing of regulations such as open-sky policies	High	Medium	Medium
3	Improvements in the Russian aviation industry	High	Medium	Medium/Low
Rank	**Restraint**	**1-2 years**	**3-4 years**	**5-7 years**
1	Rising fuel prices	High	High	High
2	Shortage of maintenance personnel	Low	Medium	High
3	Shortage of pilots	Low	Medium	Medium

A Note on High/Medium/Low Scoring

Frost & Sullivan rates drivers and restraints on a 10-point scale, with 10 representing a perfect correlation between a driver/restraint and revenue growth/loss in a given sector. The score then translates into a "high", "medium", or "low" classification, as outlined below. Group discussion will help you assign the appropriate scores to each driver or restraint.

- 8 to 10: High
- 4 to 7: Medium
- 1 to 3: Low

Reminder! You should make this exercise highly interactive and invite your peers in Sales, Marketing, Market Research, R&D, Competitive Intelligence, and Corporate Development to contribute unique insights and perspectives.

Phase 2: Market Due Diligence

Step	Industry Analysis	Customer Analysis	Competitor Analysis

STEP ONE: INDUSTRY ANALYSIS (CONTINUED)

Tool #2: Market Engineering Measurements Worksheet

Overview

What is it?
A list of indicators that can help you conduct a strategic evaluation of any market you in which you currently operate or plan to operate. It will help you consolidate all of your market information in an easy-to-use format that you can share with your peers.

Why should you use it?
You need to present your findings in a compelling, straightforward way. This Excel sheet will help you easily turn a table of data into a series of easy-to-follow charts and graphs. If you're preparing for a presentation, this tool will likely be useful.

Market Engineering Measurements Worksheet: Market Name (Sample)

Indicator	Measurement	Trend
Market Stage	High Growth	--
Revenues (Year)	$114 million	Increasing
Potential Revenues (Year)	$692.6 million	--
Base Year Revenue Growth Rate (Year)	24.4%	Decreasing
Forecast Period Unit Growth Rate (CAGR)	26.6%	--
Average Product Price	$31,420	Increasing
Price Range	$20,000 - $1,000,000	--
Customer Price Sensitivity	Medium	Increasing
Number of Competitors (active market competitors in base year)	25+	Stable
Companies entering the market (2009)	0	Increasing
Companies exiting the market (2009)	7	Increasing
Degree of Competition (e.g., new market entrants, established players, barriers to entry)	High	Stable
Degree of Technical Change	High	Stable
Customer Satisfaction	Medium	Increasing
Customer Loyalty	Medium	Increasing
Market Concentration (percent of market controlled by top 3 competitors)	59.0%	Decreasing
Average Multiple Paid for Companies in this Market	3X earnings	Increasing
Average Long-Term Debt Load	$15 million	Stable
Average Short-Term Debt Load	$7 million	Stable

Phase 2: Market Due Diligence

Step	Industry Analysis	Customer Analysis	Competitor Analysis

STEP ONE: INDUSTRY ANALYSIS (CONTINUED)

Tool #3: Technological Analysis Guidelines

Overview

What is it?
A series of activities to help you anticipate any emerging technologies that could alter the attractiveness of a particular market from a competitive standpoint.

Why should you use it?
To the greatest extent possible, you should assess a market's viability with a forward-looking perspective that accounts for how a technological shift might affect its growth potential or competitive saturation in the coming years.

Step One: Background Research Checklist

To anticipate technological change, you need to conduct comprehensive secondary and primary research. This due diligence checklist will guide your efforts.

- Secondary Research
  - Academic journals and papers
  - Conference proceedings and papers
  - Tradeshows
  - Industry-specific periodicals
- Patent Searching *(Note: this will help you determine whether any companies are establishing IP around a specific technology – which might make it less desirable for development (if innovation or NPD is a core component to your competitive strategy). Depending on the level of detail you are seeking, you may want to involve a patent attorney or patent-seeking company in this exercise – but you can also conduct much of this research on your own.)*
  - World Intellectual Property Organization
  - United States Patent and Trademark Office
  - European Patent Office
  - Micropatent
  - Derwent World Patents Index
  - PatentCafe
- Technology Transfer Websites, including national laboratories, government-backed laboratories, military laboratories, and non-profit laboratories
- University Technology Transfer Websites
- Corporate R&D Investments
  - 10K Statements (R&D budgets and strategy section in particular)
  - Other SEC filings (e.g., 10Q, 8K, Annual Report)
  - Annual reports
  - Proprietary databases (e.g., American Chemical Society, American Institute of Physics, Materials Research Society, Institute for Electrical and Electronic Engineers)
- Venture capital and funding reports
- Primary research with:
  - Individual companies
  - Universities
  - Government organizations and laboratories and non-profit laboratories
  - Venture capital firms
  - Financial, market, and technology analysts
  - Scientists, engineers, heads of R&D, project managers, business development specialists, purchasing personnel, strategic planners, CFOs, CIOs, and CEOs.
  - Key end user groups (e.g., early adopters)

(Continued on the following page)

Phase 2: Market Due Diligence

Step	Industry Analysis	Customer Analysis	Competitor Analysis

STEP ONE: INDUSTRY ANALYSIS (CONTINUED)

Tool #3: Technological Analysis Guidelines (Continued)

Step Two: Current and Future State Worksheet

Answer these questions for any industry or market which might form a part of your competitive strategy. It will help you consider how current and emerging trends in technology could alter your market's attractiveness.

- Which technologies currently dominate this sector?
- Which emerging technologies threaten current technologies?
- Which emerging technologies are likely to achieve applications in 3, 5, 10, and 20 years?
- Which are the leading near-term (perhaps niche) applications for these emerging technologies?
  - How will customers respond to or accept these technologies?
- Which are the applications with the highest potential sales volume and ROI for these emerging technologies?
- Which technologies have the potential for fastest growth and most significant adoption?
- How might these emerging technologies alter customer behavior?
  - What consequences might we expect to see as a result of that change? Does this future state alter the viability of the product currently under consideration?
- How likely is it that any of these emerging technologies would converge with one of our core capabilities (thereby creating a potential partnership opportunity)? Under what circumstances should we pursue such an opportunity if one presented itself?

Step Three: Concluding Questionnaire

Answer these questions from your company's perspective.

- How does the technological information unearthed from the sector assessment align with your company's stated objectives and needs for the present and the future?
- Based on your assessment, which new technology-based growth areas are best suited for exploitation by your company?
- Based on your assessment, what does your company need from a technological standpoint to compete effectively in these growth areas?
- How important might R&D become to your growth strategy, 3, 5, 10, 15, and 20 years from now? Why?
- Should you plan/are you planning for that evolution in your strategies today?
- What kind of specific impact could an emerging technology have on your target market?

Reminder! An industry's technological evolution or innovativeness does not necessarily make that industry attractive. You therefore need to consider how changing technology will alter the competitive dynamic: what are the implications for buyer sensitivity, switching costs, or entry barriers? It may seem counter-intuitive, but an industry could ultimately be unattractive from a competitive standpoint simply because the industry itself is suddenly more attractive – and new entrants have noticed as well.

Phase 2: Market Due Diligence

Step	Industry Analysis	Customer Analysis	Competitor Analysis

STEP ONE: INDUSTRY ANALYSIS (CONTINUED)

Tool #4: Industry Value Chain Presentation Template

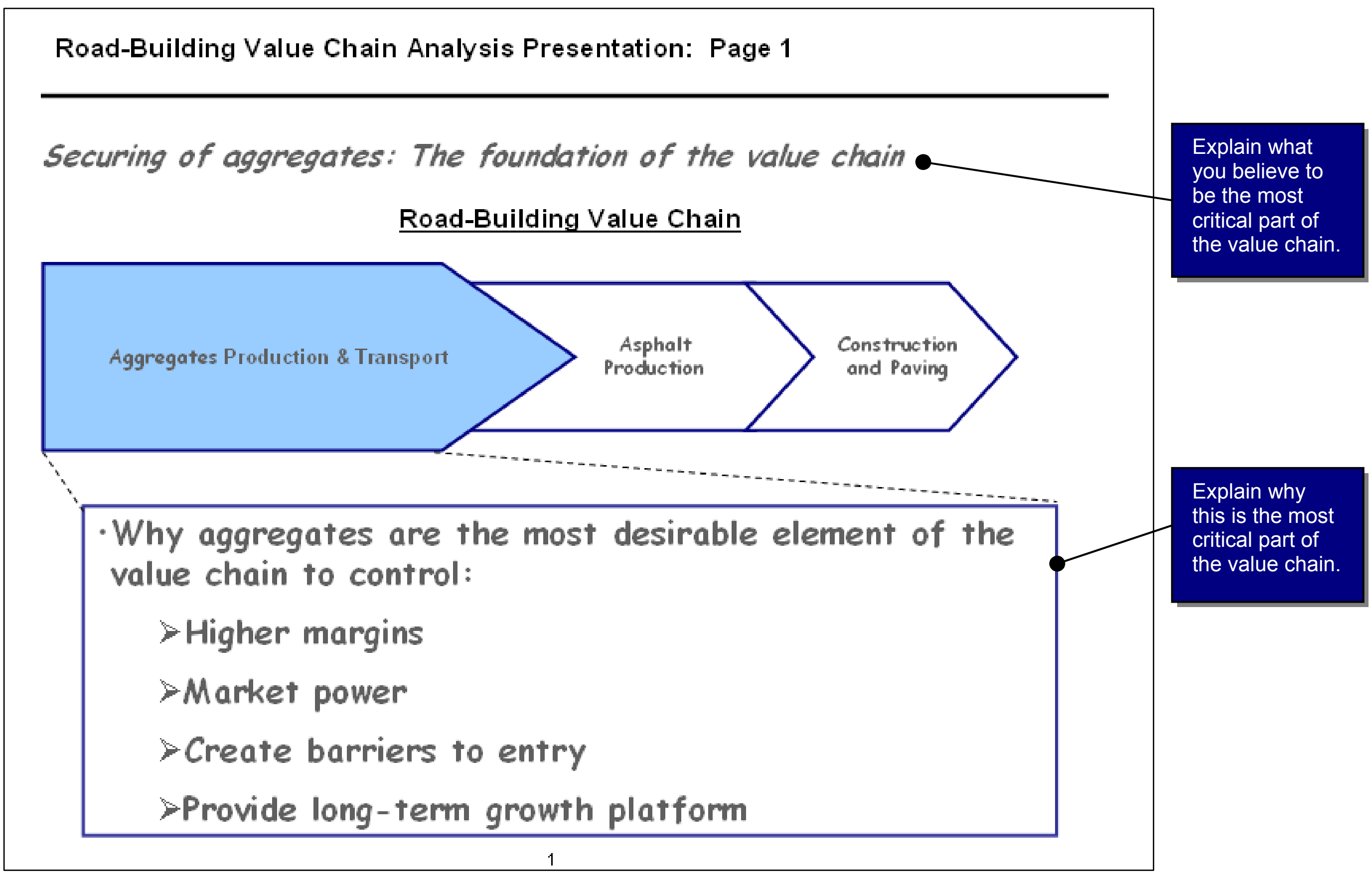
Overview

What is it?
A template that forces you to unpack your industry's value chain. The simple format will make it easy for you and your team to understand which elements of production add the most value to a product or service.

Why should you use it?
You need to consider the highest-value components of your sector's value chain, and evaluate your company's current performance and limitations in those areas. A high-value area with high involvement will suggest a unique competitive advantage, whereas a high-value area with little current involvement is a prime area to bolster through M&A or strategic partnerships.

Industry Value Chain Presentation Template (Sample)

An overview of the value chain presentation (completed as a sample) is featured below. You can click here to download the template for your own use.



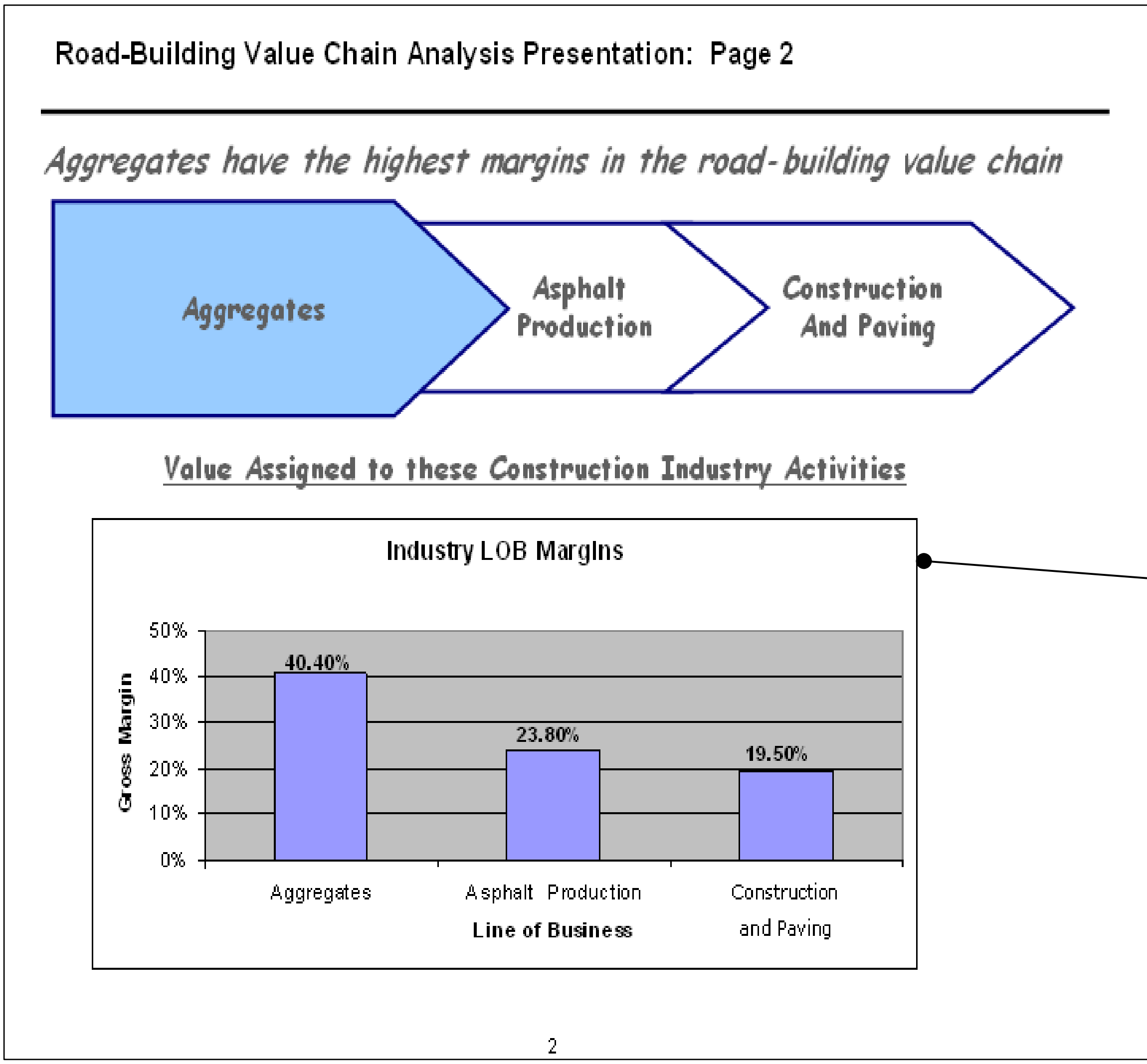
(Continued on the following page)

Phase 2: Market Due Diligence

Step	Industry Analysis	Customer Analysis	Competitor Analysis

STEP ONE: INDUSTRY ANALYSIS (CONTINUED)

Tool #4: Industry Value Chain Presentation Template (Continued)



Insert data supporting your assessment outlined on page 1.

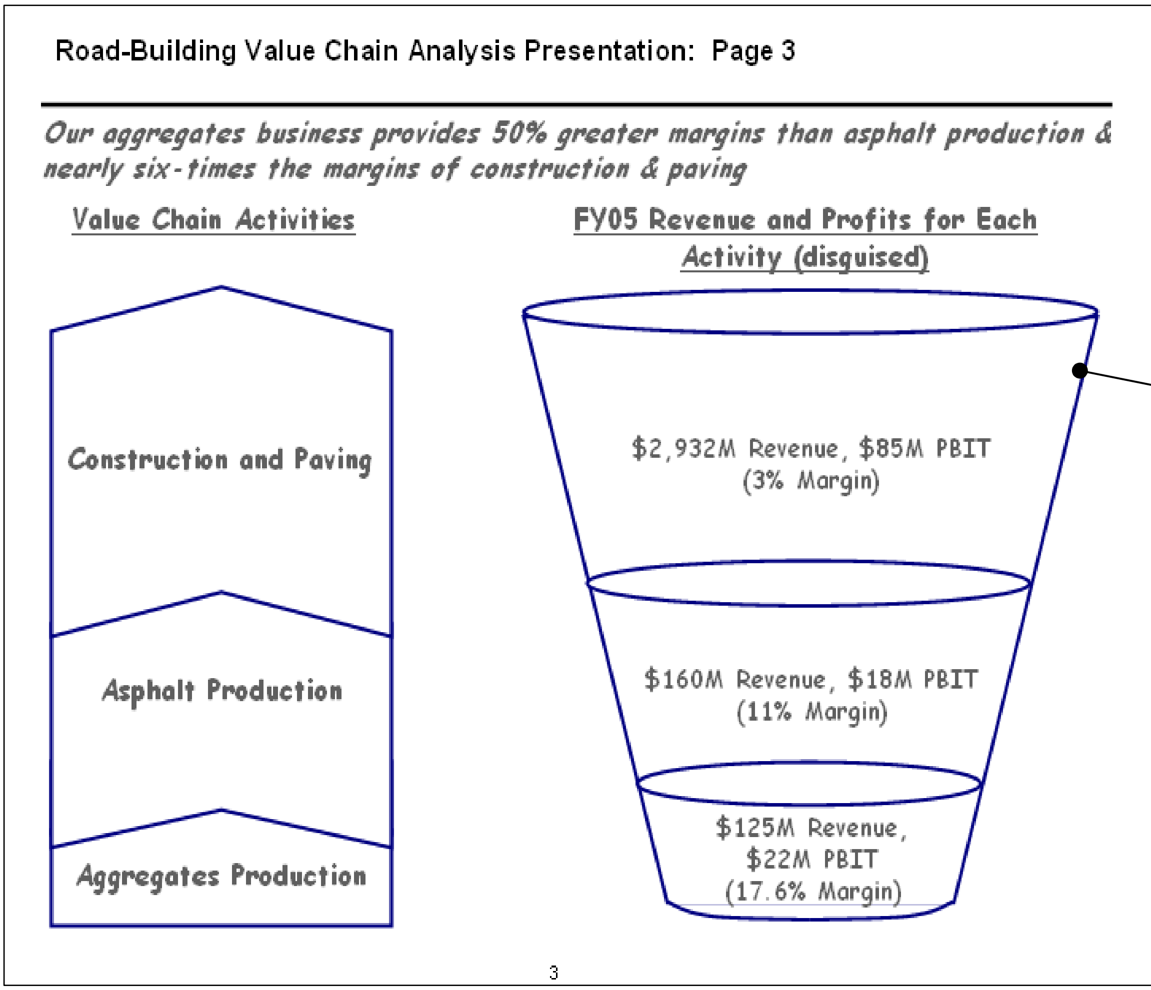
(Continued on the following page)

Phase 2: Market Due Diligence

Step	Industry Analysis	Customer Analysis	Competitor Analysis

STEP ONE: INDUSTRY ANALYSIS (CONTINUED)

Tool #4: Industry Value Chain Presentation Template (Continued)



List how your company currently performs (if at all) within this highest-value area.

(Continued on the following page)

Phase 2: Market Due Diligence

Step	Industry Analysis	Customer Analysis	Competitor Analysis

STEP ONE: INDUSTRY ANALYSIS (CONTINUED)

Tool #4: Industry Value Chain Presentation Template (Continued)

Road-Building Value Chain Analysis Presentation: Page 4

Securing aggregates positions = market power

- *Aggregates is an oligopoly business – a few players with significant influence over the market*
  - *In the geographies where we operate, there is an average of XX quarries to YY asphalt plants*
- *If you are one of those players, you derive the following advantages:*
  - *Benefit from stable & profitable market dynamics*
  - *Gain operational efficiencies in asphalt production*
  - *Avoid supplier holdup*
  - *Achieve lower cost basis for asphalt, concrete & construction bids*

4

State the opportunity.

Explain why (or why not) your company should pursue growth opportunities through this part of the value chain.

Phase 2: Market Due Diligence

Step	Industry Analysis	Customer Analysis	Competitor Analysis

STEP TWO: CUSTOMER ANALYSIS

Tool #1: Customer Opportunity/Fit Matrix

Overview

What is it?
A customer segmentation tool that helps you identify which customer groups present the greatest opportunity for growth.

Why should you use it?
By cross-referencing customers' future value with your organization's ability to meet customers' needs, you can focus your strategy on initiatives will help your company target customers with the greatest long-term value to your organization.

CUSTOMER OPPORTUNITY/FIT MATRIX

FIT*		Opportunity*: Low	Opportunity*: High
	High	**At Risk** Action here will depend on the reason for the low opportunity: is it a saturated market? An insignificantly small, albeit high-quality, percentage of the total customer base? Invest here if the opportunity may improve over time.	**Star** Good-fit, high-opportunity customers are the core of your growth strategy. They are your safety net of already-established demand. You should design communications, pricing, and positioning with this segment in mind.
	Low	**Low Priority** An investment in this low-growth, poor-fit segment will likely not contribute to your revenue or growth goals.	**Build Up** Serving this segment would require an expansion of capabilities: new product development or acquisitions might help you improve the "fit" between this high-value segment and your product or service offerings.

***A Note on Opportunity and Fit**
Frost & Sullivan defines "opportunity" as a segment's growth potential and "fit" as alignment between a segment's demands and your company's current capabilities.

(Directions listed on the following page)

Phase 2: Market Due Diligence

Step	Industry Analysis	Customer Analysis	Competitor Analysis

STEP TWO: CUSTOMER ANALYSIS (CONTINUED)

Tool #1: Customer Opportunity/Fit Matrix (Continued)

Directions

1. Plot each segment within your customer base according to responses to the questions listed below.
2. Rank each response those questions based on a High, Medium, Low scale. Take the average for each and plot on the grid accordingly.

Questions

A. Opportunity

1. What level of purchasing power do customers within this segment wield (e.g., Wal-Mart's leverage with suppliers)?
2. To what extent is this segment positioned for long-term growth (i.e., is the size of the segment increasing or decreasing)?
3. To what degree can your company differentiate itself with this segment ("high" equals lack of competition)?
4. If multiple companies already compete to serve in this segment, how easy would it be for customers to switch (and how willingly would they do it)?
    a. To what degree can factors other than price influence a switching decision?
5. How high would the average margin on a sale be within this segment? Consider the following:
    a. What is the average cost of acquiring a new customer?
    b. What is the average cost of losing a customer?
    c. How long is the sales cycle?
    d. To what degree does price sensitivity govern purchase decisions?
    e. How high is the cost-to-serve?

B. Fit

1. To what extent can we price our product or service competitively (but still profitably) for this segment?
2. To what degree does this segment already recognize a need for our product or service?
3. To what degree is our company (or our brand) viewed as offering a high-value product or service to meet demand?
4. What degree of success could we expect if we sell our existing product/service portfolio to this segment without investing in significant or costly changes?
5. What success would we have profitably building a value proposition that would cultivate customer loyalty over time?
6. To what extent do our internal competencies align with this segment's demands and buying behavior?

Phase 2: Market Due Diligence

Step	Industry Analysis	Customer Analysis	Competitor Analysis

STEP TWO: CUSTOMER ANALYSIS (CONTINUED)

Tool #2: Customer Segment Profiling Template

Overview

What is it?
A series of questions to guide profiling of each high-fit, high-opportunity segment that emerges through your completion of the Customer Opportunity/Fit Matrix.

Why should you use it?
It will help you personalize the behavior of that segment. By putting a face and a name to high-value customer groups, you make your targeting strategy more accessible to those responsible for communicating with them (thereby improving your ability to compete effectively for those customers' attention and share of wallet).

Customer Segment Profiling Template
Product: Cell Phone A

John: Affluent Professional	Jane: Chief Information Officer for large enterprise
Vision: Establish trendsetting reputation **Desired Outcomes:** Have phone project image **Challenges:** To have the best of form and function **Wishes:** To be the first to possess new technologies **Needs:** Sleek design and continuous mobile access with 3G network	**Vision:** To provide all employees with high-quality but low-cost wireless access **Desired Outcomes:** A virtual employee network that minimizes the need for travel **Challenges:** Meeting technology needs within budget limits **Wishes:** Manage all wireless communications needs through a single solutions provider **Needs:** Provide 1,000+ employees with hand-held devices with global functionality
Fred: Small Business Owner	**Lucy: Active Outdoorswoman**
Vision: Become a supplier of choice **Desired Outcomes:** Improve customer satisfaction **Challenges:** Make budget go further **Wishes:** Upgrade all communications equipment **Needs:** Provide staff with continuous mobile access to information	**Vision:** To follow a "green" lifestyle **Desired Outcomes:** Spend more time outdoors without sacrificing accessibility **Challenges:** Battery dies while outdoors with no way to recharge **Wishes:** An unbreakable phone **Needs:** Durable device with "go-anywhere" reception

Reminder! These segment profiles are for demonstration purposes only and may not align with your business model. Whether you are B2B- or B2C-focused, the core lesson would still apply: that by personalizing your segments, you can improve customer understanding and target those customers more effectively.

Phase 2: Market Due Diligence

Step	Industry Analysis	Customer Analysis	Competitor Analysis

STEP TWO: CUSTOMER ANALYSIS (CONTINUED)

Tool #3: Customer Preferences Interview Template

Overview

What is it?
A survey template that you can use to understand purchase behavior among potential customers within your highest-value segments.

Why should you use it?
It will help you articulate customers' needs, challenges, and desired outcomes. In turn, this information will help you consider how you can alter your value proposition to better resonate with these customers. Ideally, improved customer understanding will lead to improved customer targeting and greater share of wallet (taken directly from your competitors).

Customer Preferences Interview Template (Sample)

Incorporate these questions into your surveys of high-value prospective customers.

Product: Medical Device A

Customer Group: Medium-Sized Hospitals

A. Overview Questions

1. When did you first purchase [Product], whether from our company or from another provider?
2. What motivated your organization to purchase [Product]?
3. Which product (i.e., from which provider) do you currently acquire [Product]?
4. What other providers are you aware of?
5. How often do you or your team use [Product]?
6. Who controls purchase decisions at your organization?
7. How do you approve the purchase of [Product]?
8. Do you issue Requests for Proposals?
9. Do you require product demonstrations?
10. Overall, how satisfied are you with the product you currently use? (Rate on a scale of 1 to 5; 5 is "extremely satisfied")

B. Product-Specific Questions

1. What are the primary reasons you use [Product]?
2. What are the primary challenges you face when attempting to use [Product]?
3. What do you like best about [Product]?
   a. Its price
   b. Its design (intuitive, easy to use)
   c. Its service and support staff
   d. Nothing
4. How much do you currently pay for [Product]?

Page 1 of 2

(Continued on the following page)

Phase 2: Market Due Diligence

Step	Industry Analysis	Customer Analysis	Competitor Analysis

STEP TWO: CUSTOMER ANALYSIS (CONTINUED)

Tool #3: Customer Preferences Interview Template (Continued)

Customer Preferences Interview Template (Sample)

B. Product-Specific Questions (Continued)

5. What does that price include?

6. What do you acquire at additional, incremental cost?

7. What other services would you like to acquire to assist with product use?

C. Outcomes-Based Questions

1. What task, activity, or job are you trying to complete with [Product]?

2. What is the *ideal* output or outcome that you want to achieve?

3. How do you know when the outcome has been successfully achieved?

4. How do you measure success?

6. Do you consider your current product efficient or effective? Why/why not?

7. How would you alter the way you currently achieve your desired outcome, if at all?

8. How *willing* would you be to alter the way you currently achieve your desired outcome?

9. To adopt [alternative provider's product], you might have to give up the one you currently use. How do you feel about this trade-off?

   a. If you feel resistant to the trade-off: would this resistance prevent you from switching providers, even if an alternative were more effective than the one you currently use?
   b. If you do not feel resistant to the trade-off: what incentive would you need to make a voluntary switch to a new provider's product (i.e., is improved functionality sufficient, or would you make the decision entirely based off price)?

9. When you consider our organization's product relative to the one you currently use, do you think:

   a. It could fully replace your current product
   b. It could partly replace your current product
   c. It could be used in addition to your current product
   d. It could not replace your current product

Page 2 of 2

Phase 2: Market Due Diligence

Step	Industry Analysis	Customer Analysis	Competitor Analysis

STEP THREE: COMPETITOR ANALYSIS – ACTIVITY 1: OFFER COMPARISON

Tool #1: Competing Offer Presentation Template

Overview

What is it?
A presentation template that you can use to share information collected from customer interviews (which you conducted with the Customer Preferences Interview Template). It clearly presents how customers perceive your products and those of competitors.

Why should you use it?
It will help you gain an apples-to-apples comparison of your product's performance relative to competitors. It will also help you identify areas where you have an advantage over competitors that you could further exploit, as well as areas of customer dissatisfaction with your product that you may want to take steps to address.

Competing Offer Presentation Template (Sample)
Product: Medical Device A
Customer Segment: Small- to medium-sized hospitals

Product (Make and Model)	Customer Likes	Customer Dislikes	Average Satisfaction Score*
Our Product	• Ease of use • High-quality customer support	• Limited capability compared to more current models • Not programmable	4
Competitor 1	• Easy to clean • Large display screen	• Hard to reach a live person for customer support (it's all self-service) • Limited battery life	3
Competitor 2	• Separate windows for different fields • Its standard model includes features that are upgrades on other companies' models	• Hard to read the screens • User manual is confusing	5

***A Note on Customer Satisfaction Scoring**
These numbers represent the average of all responses to the question, "Overall, how satisfied are you with the product you currently use?" (see question #10, Part A, Customer Preferences Interview Template). The key is listed below.

5	Extremely satisfied
4	Satisfied
3	Somewhat satisfied
2	Unsatisfied
1	Extremely unsatisfied

Phase 2: Market Due Diligence

Step	Industry Analysis	Customer Analysis	Competitor Analysis

STEP THREE: COMPETITOR ANALYSIS – ACTIVITY 1: OFFER COMPARISON (CONTINUED)

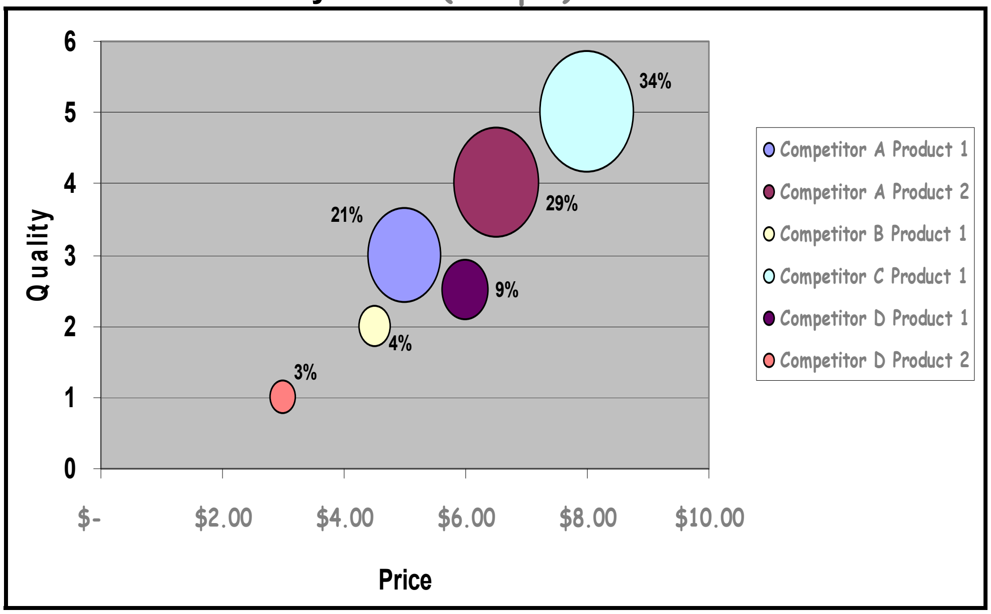
Tool #2: Competing Offer Price/Quality Matrix

Overview

What is it?
A visual guide to your product's position in the marketplace, based on its quality and price relative to competitors' products.

Why should you use it?
You need to consider your product's growth potential through the lens of competitor activity. By completing this exercise for competitors' products as well as for your own, you can separate your product from any market clusters – a critical step in differentiating your product in the eyes of customers.

Product Price/Quality Matrix (Sample)



Scoring Guide – X Axis:
Label the price of each competitor's product in the market

Scoring Guide – Y Axis:
*Score capability levels for [product]:**

5	Two-way; high accuracy
4	Two-way; low accuracy
3	Two-way; phrase-based
2	One-way; fixed phrase; high accuracy
1	One-way; fixed phrase; low accuracy

* Note: The capabilities listed above represent quality levels for language translation products and are for demonstration purposes only.

User Guide

1. Identify top competitors for your company's product.
2. Collect data for each competitor: market share, current market positioning, product or service pricing, and product or service quality.
3. Input that data into the template and the bubbles will automatically populate. The resulting image will help you identify market clusters (e.g., a concentration of high-quality products with premium pricing) that you might want to avoid pursuing through your competitive strategy.

Reminder! Be sure to insert your company's data into the chart– otherwise you won't have a frame of reference for evaluating your competitors.

Phase 2: Market Due Diligence

Step	Industry Analysis	Customer Analysis	Competitor Analysis

STEP THREE: COMPETITOR ANALYSIS – ACTIVITY 1: OFFER COMPARISON (CONTINUED)

Tool #3: Offer Comparison Chart

Overview

What is it?
An easy-to-use template illustrating the differences between your company's offering and that of competitors.

Why should you use it?
It clearly illustrates which features your product delivers are unique to your organization (ideally, you can align those features with value-drivers you captured through your customer analysis in Step 2). This information will help your sales team manage customer conversations regarding competitor alternatives and present your new product in the most favorable light possible. It can also help you standardize communications regarding your product's core features and benefits across the sales force, and it will work equally well for internal sales reps and channel partners.

Competitor Comparison Chart (Sample)
Product: Financial Services Product A

These features are for demonstration purposes only.

Feature	Competitor 1	Your Company	Competitor 2
Unlimited service	√	√	
Choice of payment options		√	√
Choice of investment accounts	√	√	
Tax deferral options	√	√	
Minimum rate of return guarantee		√	√

Reminder! This chart will work most effectively with a comprehensive list of product features. The more you can make the case for your product's strengths and competitors' weaknesses, the easier you make it for the sales force to consistently and easily answer questions regarding your product's core strengths.

Phase 2: Market Due Diligence

Step	Industry Analysis	Customer Analysis	Competitor Analysis

STEP THREE: COMPETITOR ANALYSIS – ACTIVITY 2: INTELLIGENCE COLLECTION

Tool #1: Intelligence Collection Checklist[23,24]

Overview

What is it?
A list of resources and guidelines to help structure your efforts to monitor competitors' activities.

Why should you use it?
When it comes to your competition, the more you know about what they're doing now and what they plan to do in the future, the better decisions you can make about your own strategy. This checklist will help ensure you take a "no stone unturned" approach to competitive intelligence.

Intelligence Collection Checklist

A. Key Sources of Competitive Intelligence

Source	Examples	
Open-Source (written)	• Newspapers • Specialized publications • White papers • Books	• Industry databases • Patents • Market Research/Consulting services • Web browsing
Closed (verbal)	• Suppliers and sub-contractors • Business trips • Conferences, seminars • Trade shows	• Students, interns • Job candidates • Internal network • External network
Internal	• Employees • Channel partners or distributors	• Suppliers • Customers
External	• Conferences • Seminars or industry meetings • 10K admissions to the SEC • Press releases • News web sites	• Trade shows • Annual reports • Quarterly reports • Competitors' web sites
Public True Public	• General media • Common databases • Syndicated research	• Google • SEC filings
Hidden Public	• Obscure databases • "Offline" publications	• Government filings • White papers
Industry Observers	• Journalists • Associations	• Academics • Industry analysts
Hidden	• Academics • Customers • Securities analysts • Current and former employees of targeted companies	• Partners • Suppliers • Clinical investigators
Unobtainable	• Information universally recognized as proprietary and actively protected	

(Continued on the following page)

Phase 2: Market Due Diligence

Step	Industry Analysis	Customer Analysis	Competitor Analysis

STEP THREE: COMPETITOR ANALYSIS – ACTIVITY 2: INTELLIGENCE COLLECTION (CONTINUED)

Tool #1: Intelligence Collection Checklist (Continued)

B. Competitor Monitoring Tip Sheet*

- Local newspapers may mention competitors' news: check them to learn about hiring, personnel changes, facility growth, etc.
- Web-based finance forums, such as YAHOO Finance, may provide fruitful discussions on competitor activity.
- Permit applications (e.g., building, emissions, zoning) can tip you off to competitors' plans.
- The blogosphere can provide a wealth of information, so routinely check in with credible industry bloggers.
- Patent and trademark applications can tip you off to competitors' plans to develop or launch a new product.
- Your human resources group may be able to help you pull information on competitors' organization structure and job responsibilities aggregated from recent hires coming from competitor firms..
- Competitors' home and division pages will feature public announcements and presentations, so check them regularly.
- Anticipate competitors' new product development or launch plans by tracking the activities of key suppliers.
- Identify opportunities to poach profitable customers by monitoring their satisfaction levels.
- While your view of competitors is important, so too is their view of you. Be sure to track competitors' perceptions of your organization and its decision making – these findings will give you a holistic picture of your environment.
- Google alerts can notify you of any web-based news regarding your competitors.

***Note**

While this list is by no means comprehensive, it does represent a good start to building an effective competitive intelligence program within your company. Once your program begins to demonstrate returns, you will need to distribute the information to internal stakeholders. The tools featured on the following pages will help you with this critical step.

Reminder! The best intelligence may be inside your company. It's a good idea to meet routinely to discuss competitors' activities and theorize on their future actions. Tools featured in Phase 3 will help you assess competitive threats, determine appropriate responses, and plan for the future.

Phase 2: Market Due Diligence

Step	Industry Analysis	Customer Analysis	Competitor Analysis

STEP THREE: COMPETITOR ANALYSIS – ACTIVITY 3: INTELLIGENCE DISSEMINATION

Tool #1: Communications Planning Template

Overview

What is it?
A communications plan that will help you share competitive intelligence findings with key stakeholders within your organization.

Why should you use it?
In addition to aiding the systematic dissemination of intelligence deliverables, this plan will also help you tailor those deliverables' content and frequency to the needs of various recipients. By playing to your audience, you help ensure your findings are noticed and utilized – thereby increasing the visibility of competitive intelligence within your company.

Communications Planning Template (Sample)

Deliverable	Content	Audience	Frequency	Channel
Competitive Overviews	• Company history and business strategy • Primary research findings	Headquarters and field	Annual	Digital
Competitive Environment Update	• Analysis of trends influencing the competitive environment	Board of Directors	Bi-annual	Hard copy
Industry Newsletter	• Economic trends • Industry or sector dynamics • Competitors' news	Headquarters and field	Quarterly	Digital
Competitive Activity Update	• Recent competitive activity (e.g., real estate purchases, newly-acquired or requested patents)	Headquarters and field	Monthly	Digital
Financial Summaries	• Overview of competitors' financial results and publicly-available accounts of strategies or other initiatives	Senior management		Email
Updates or Special Editions	• High-priority, time-sensitive competitive developments	Headquarters and field	As required	Digital
Intelligence Alerts	• M&A or other financial alerts • Senior management changes • Production changes	Custom		Email
Custom Research	• Key intelligence topics, threats, and opportunities	Custom	Quarterly	Email
Internal Training	• Focused on engaging stakeholders to build competitive intelligence into strategic planning	Sales, Communications, And Market Research		Online and classroom

Planning Guidelines

1. Identify critical personnel who will benefit from competitive intelligence
2. Determine which channels/technologies will help you disseminate each deliverable.
3. Survey stakeholders on deliverables' content, format, and media employed; modify as needed.
4. Rate the difficulty and urgency of completing each deliverable (a high, medium, low scoring would suffice).

Phase 2: Market Due Diligence

Step	Industry Analysis	Customer Analysis	Competitor Analysis

Step Three: Competitor Analysis – Activity 3: Intelligence Dissemination (Continued)

Tool #2: Competitive Profiling Template

Overview

What is it?
An outline that you can follow to write all competitor profiles. By standardizing information delivery, you make it easier for stakeholders to access and use competitive intelligence.

Why should you use it?
It can help you build a repository of well-organized, timely, and relevant competitive information. Furthermore, if you share these profiles through a centralized, self-service resource such as an Intranet portal, you make it easy (1) for stakeholders to access information without placing an additional burden on the competitive intelligence function, and (2) to update profiles when necessary.

Competitor Profiling Template
Competitor: ___________

1. Executive Summary
2. Company Overview
   a. History
   b. Growth strategy
3. Management Team Overview
4. Financials
   a. Quarterly Performance
   b. Stock Analysis

You can find most of this information through publicly available sources.

5. Competitive Positioning
   a. Target Markets
   b. Product Mix
   c. Price Point
   d. Sales Structure
   e. Distribution Reach
   f. Key Supplier Relationships
   g. Global Footprint

Industry Analysis tools featured in Step One of Phase Two will help you collect this information.

6. Partnership Potential
7. Threat Potential (Note: The Threat Assessment Scorecard can help you quantify the threat)

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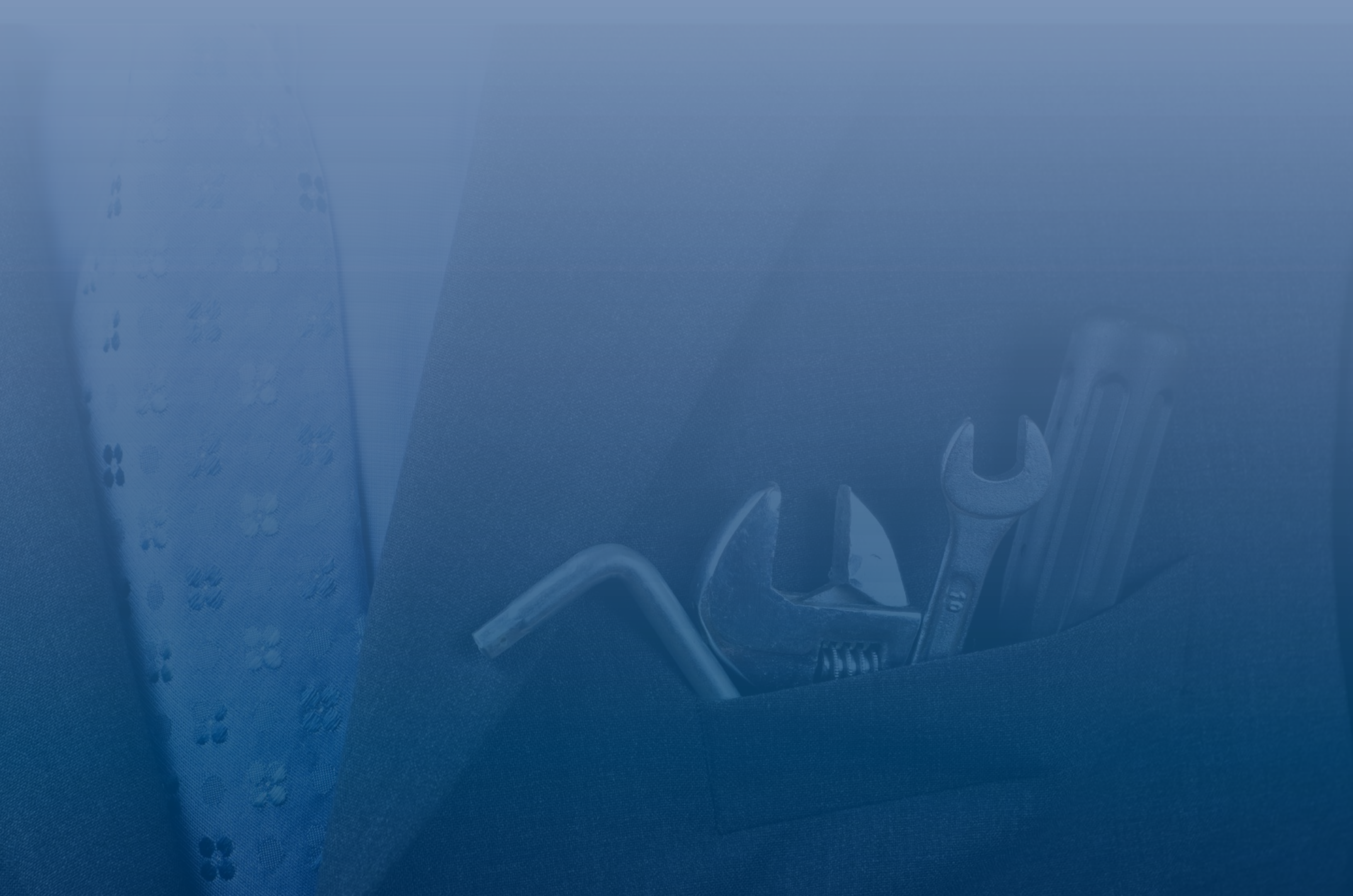
PHASE 3: THREAT MITIGATION

Growth Process Toolkit

Competitive Strategy



Phase 3: Threat Mitigation

Where Are We Now?

Completion of the exercises featured in Phase 2 has enabled you to:

- Take a granular view of your industry, unearthing specific opportunities for growth that could affect your competitive positioning
- Pinpoint customers' top value-drivers and areas of dissatisfaction
- Compare competitors' product offerings to those of your company
- Set processes for collecting competitive intelligence
- Build a plan and design for sharing competitive intelligence within your company

At this point, you should have a well-articulated sense for what your competitors are doing, where the market is opening the door for a new competitive advantage, and which customers your organization may be able to capture from other companies.

What Do I Do Next?

After you have established a strong sense for market conditions, your next step is to assess and mitigate any emerging threats to your business. Phase 3 will aid your efforts to determine the seriousness of a competitive threat, weigh your options for response, and consider how your responses will affect the competitive dynamic in the long term.

Outlined below are the activities and steps you need to complete in Phase 3. The pages that follow will feature the resources you need to complete each one of these steps.

Threat Mitigation: Key Steps and Tools

Step	Purpose	Sample Tools
Threat Response Analysis	Assess the severity of a competitive threat	Threat Assessment Scorecard
Threat Response Planning	Determine appropriate responses to competitive threats and consider potential consequences of those responses	Competitive Response Taxonomy

Phase Three: Threat Mitigation

Step	Threat Response Analysis	Threat Response Planning

STEP ONE: THREAT RESPONSE ANALYSIS

Tool #1: Threat Assessment Scorecard

Overview

What is it?
A framework for evaluating the severity of a competitive threat.

Why should you use it?
It will help you avoid knee-jerk responses to competitors' actions by forcing you to collect information on specific threats' implications for your business. It will also enable you to quantify the severity of a threat and, by applying this scorecard to each threat, enable apples-to-apples comparisons across all your competitive response decision making.

Note: Weights and scores are for demonstration purposes only.

Threat Assessment Scorecard for [Company] and [Type of Threat] (Sample)

Potential Consequences	Weight	Yes	No	Unknown	Score
Reduces our company's market share	8			X	0
Threatens our company's profit margins	10	X			10
Increases customer attrition among high-value segments	9	X			9
Reduces sales/revenue	10			X	0
Pulls valued employees away from our company	5		X		0
Reduces attention received from channel partners	5			X	0
Diminishes our company's differentiation in the market	7	X			7
Undercuts our company's value proposition	6		X		0
Encroaches on our company's brand positioning	5		X		0
Changes dynamics within a particularly profitable region	5	X			5
Gives customers greater negotiating power	9	X			9
Strengthens our position (i.e., "threat" actually plays into our hands)	9		X		0
Creates opportunity for a partnership or merger	2			X	0
Increases overall "size of the pie" (i.e., market gets bigger; more for all players)	10			X	0
Total	**100**	# YES RESPONSES: 5 #NO RESPONSES: 4 # UNKNOWN RESPONSES: 5 COMPETITOR COMPATIBILITY SCORE: 39% (out of 100 possible points)			

(Directions listed on the following page)

Phase Three: Threat Mitigation

Step	Threat Response Analysis	Threat Response Planning

STEP ONE: THREAT RESPONSE ANALYSIS (CONTINUED)

Tool #1: Threat Assessment Scorecard (Continued)

Directions

1. List out all potential consequences of a competitor's move (note that you can include positive, as well as negative, results).

2. Weight these criteria on a scale of 1 to 10, assigning points values that total 100. The higher the score, the greater the weighting.

3. Check "yes", "no", or "unknown" for each consequence (i.e., whether you and your team believe that a particular consequence is likely, given the competitor's move and its potential effect on your business).

4. In the scoring column, assign the number of weighted points for a "yes" response and 0 points for a "no" or "unknown" response (e.g., if a consequence has been assigned 5 points and you believe that consequence is likely, you would check the "yes" box and then place a 5 in the "score" column).

5. Final score equals the total value of "yes" responses.

6. Anything you score as "unknown" should be revisited (perhaps conducting further competitive intelligence) – by the time you are finished filling out this scorecard for each threat, you should have no "unknowns" left.

7. You will need to determine a minimum "threat level" percentage (e.g., anything scoring less than 75% - 75 out of 100 total possible points – may not qualify as a severe threat warranting an immediate or strong response). For any score that comes in under this amount, you can either label a threat "no action required" or conduct additional due diligence to fill in unknown areas (since an "unknown" can become a "yes", thereby increasing a total score).

Reminder! This scorecard serves dual purposes. First, listing consequences of competitive threats (without considering any single threat specifically) helps you determine at the outset what situation would pose the severest threat to your organization. Second, filling in the scorecard for any threat your company faces will help you evaluate all circumstances fairly, collect the most relevant information about each, and make informed decisions regarding each competitor.

Finally, by articulating specific consequences to your business of competitors' moves – and weighting them according to importance or severity – you force alignment between all members of the senior management team, and a shared commitment to the objectives outlined in the Goal Statement.

Phase Three: Threat Mitigation

Step	Threat Response Analysis	Threat Response Planning

STEP TWO: THREAT RESPONSE PLANNING

Tool #1: Competitive Response Taxonomy

Overview

What is it?
A list of typical competitive moves that could undermine your company's market positioning and/or strategy. For each move, we have listed potential responses your company could take, as well as potential consequences (both good and bad) for each of those options.

Why should you use it?
It will help you consider potential responses to any move deemed a legitimate threat by the Threat Assessment Scorecard. By using this taxonomy as a workshop or meeting outline, you can also help ensure team discussions around competitive threats remain structured, organized, and comprehensive.

Competitive Response Taxonomy

Competitive Threat	Potential Responses	What Could Go Right?	What Could Go Wrong?
Lowers prices	Match or go below the new price	You undercut your competitor's goal; your customers don't switch to a lower-cost provider	Competitor responds to your cut with another cut; ultimately destroys profitability for every player
	Keep your prices the same	Only your most price-sensitive customers (and therefore less profitable) customers defect to your competitor; overall profitability may even rise slightly	High-value customers respond similarly to low-value ones, viewing your and your competitor's offering equally and seeing no incentive to pay more to purchase from your company
Increases prices	Match or raise your prices	You reset the market at a higher profit level; everybody "wins"	A new market entrant provides a low-cost alternative; customers flock to that provider
	Lower your prices	You steal market share from your competitor; your revenues increase	While market share or revenue may increase, profitability may go down (perhaps lower than you can afford); you may have trouble resetting customer discussions around value
	Keep your prices the same	Your prices compare more favorably to the competition; you acquire new customers as a result	It is possible that your prices are currently too low, and that you have missed an opportunity to adjust your prices (with long-term implications for profitability)

(Continued on the following page)

Phase Three: Threat Mitigation

Step	Threat Response Analysis	Threat Response Planning

STEP TWO: THREAT RESPONSE PLANNING (CONTINUED)

Tool #1: Competitive Response Taxonomy (Continued)

Competitive Response Taxonomy

Competitive Threat	Potential Responses	What Could Go Right?	What Could Go Wrong?
Introduces new product	Rush a similar product to market	You undercut the first-mover advantage your competitor sought to gain	Your product quality, functionality, or price fail to meet competitor's offering, at great cost to your company
	Wait and see how new product performs	You minimize short-term development risk for your company; you get to learn from your competitor's mistakes	You cede first-mover advantage to your competitor; you risk customer unwillingness to embrace your alternative when you finally get one to market
	Partner with or acquire company with competing product	You undermine your competitor's advantage at minimal risk to your organization; dynamic between you and competitor stays the same or moves in your favor	Product does little to change the game; poorly integrated sales and marketing support fails to generate customer demand or put your competitor on the defensive
Targets your highest-value customer segment	Lower your prices	You undercut your competitor's attempt to steal market share from you; customers have a new incentive to stay with you	You (perhaps permanently) reduce this segment's profit potential; customers now expect more for less; you open the door for competitors to assume "high-value provider" position
	Alter your value proposition (e.g., new customer loyalty or rewards program)	You improve the value of your service offering; customers have a new incentive to stay with you	You increase your cost-to-serve without increasing your prices; profitability suffers; competitors can duplicate your program, removing your point of differentiation
	Make no adjustments to your current service approach	You benefit from high switching costs or skepticism about competitor's offering; customers prefer the status quo; your profit levels remain the same	Your competitor successfully, and with no push-back, changes the dynamics of the market in its favor; you struggle to catch up
Engages in merger or acquisition	Pursue M&A opportunities for your organization	Your company increases in size proportionately to your competitor; your acquired synergies match theirs; status quo results	The two organizations fail to integrate well; you relinquish your former agility, leaving door open for new, flexible entrant
	Make no adjustments to your current service approach	Confusion resulting from M&A will result in dissatisfied customers' switching to your company	New market dynamics create cost advantage for your competitor that makes it impossible for you to compete profitably
	Engage in strategic alliance or partnership	You expand your company's reach without assuming the same risk as your competitor; status quo results	The partnership proves unsustainable; you relinquish advantages gained through partnership in the long run, leaving you vulnerable to attack

(Continued on the following page)

Phase Three: Threat Mitigation

Step	Threat Response Analysis	Threat Response Planning

STEP TWO: THREAT RESPONSE PLANNING (CONTINUED)

Tool #1: Competitive Response Taxonomy (Continued)

Competitive Response Taxonomy

Competitive Threat	Potential Responses	What Could Go Right?	What Could Go Wrong?
Copies your company's product or key element of value proposition	Alter your value proposition (e.g., new customer loyalty or rewards program)	You improve the value and uniqueness of your offering; customers have an incentive not to switch to the alternative product	You increase your cost-to-serve without increasing your prices; profitability suffers; competitors can duplicate your program, removing your point of differentiation
	Invest in NPD to reclaim your point of differentiation	You redirect your company's revenue and growth goals onto a new, higher-profit product	Competitor will eventually duplicate your new product offering; your advantage is only short-term
	Lower your prices	Faced with comparable offerings, customers will select your lower-priced product; you successfully defend your market share	You undermine your profit potential in the market; your competitors can match your lower price, potentially instigating a price war
	Cede market position to your competitor	You recognize the limited growth potential within a given product category; you exit while profit margins are still favorable	You never regain your former point of differentiation; your competitor has successfully marginalized your company
Enters region or geography that your company currently dominates	Undertake an aggressive advertising and promotions campaign	You reinforce customer loyalty; you make it difficult for your competitor to gain traction within the region	Your competitor duplicates your advertising and promotions efforts; "noise" cancels itself out
	Purchase/lock-in key suppliers or distributors	You "own" manufacturing and distribution capability within the region; your competitor cannot match your cost structure or market reach	You risk legal action, depending on the extent of your monopoly; your competitor innovates other, lower-cost go-to-market options; this agility enables it to undermine your position in spite of your efforts to curtail competition
	Make no changes to your operations in the region	You assume minimal risk in the short-term	You assume high risk in the long term, provided the competitor can establish a foothold in the region
	Cede the region to your competitor	You avoid potentially costly competition; you redirect your resources to uncontested market opportunities	You relinquish incalculable revenue; you set a precedent for retreat that may lead this or another competitor to oust you from other regions

(Continued on the following page)

Phase Three: Threat Mitigation

Step	Threat Response Analysis	Threat Response Planning

STEP TWO: THREAT RESPONSE PLANNING (CONTINUED)

Tool #1: Competitive Response Taxonomy (Continued)

Competitive Response Taxonomy

Competitive Threat	Potential Responses	What Could Go Right?	What Could Go Wrong?
Initiates aggressive advertising campaign targeted directly at your company	Initiate campaign aimed at discrediting your competitor	You undermine the effectiveness of your competitor's campaign; you deflect attention away from you and onto your competitor's weaknesses	You encourage your competitor to hit you harder with its next campaign; "media war" becomes distracting and expensive
	Initiate campaign to defend your company's brand or product	You refocus the customer conversation on your product's strengths, rather than your weaknesses (as defined by your competitor)	You provide no direct response to your competitor's attacks, leaving your customers skeptical about whom (or what) to believe
	Make no changes to your communications strategy	You maintain consistency in your communications; customers observe and find reassuring that you are not rattled by the competitor's claims or attacks	Your lack of response creates a void in which your competitor is the only one talking – and saying things that damage your brand; you may find the damage cannot be undone
Streamlines its cost structure	Identify opportunities to cut costs (e.g., reevaluate supplier relationships)	You duplicate your competitor's cost advantage, creating a new status quo in the competitive dynamic; profitability increases, thanks to your reduced cost structure	Your competitor undercuts your efforts by reducing costs yet again (perhaps this really is a unique advantage for your competitor); you cannot keep pace without harming your profitability
	Lower your prices	You match the savings the competitor is passing on to customers, thereby undercutting the competitor's efforts to differentiate based on price or to encourage your customers to switch providers	Competitor can easily match your price reduction, creating no sustainable advantage for your organization; furthermore, because you have not made substantial changes to your cost structure, you are defending market share at a much lower profit threshold, putting your organization at risk in the long term
	Eliminate loyalty or rewards programs	You reduce your cost-to-serve, keeping your profit margins in line with those of competitors	You make yourself vulnerable to a competitor offering more value, for a comparable price, than your organization can deliver
	Make no changes to your current operating strategy	Your competitor's cuts fail to match your company's cost advantage; in spite of their efforts, your profitability and market share remain unthreatened	Your competitor achieves a cost advantage in the market that enables it pass on lower prices to customers at a high profit margin; you have left yourself vulnerable to marginalization

(Continued on the following page)

Phase Three: Threat Mitigation

Step	Threat Response Analysis	Threat Response Planning

STEP TWO: THREAT RESPONSE PLANNING (CONTINUED)

Tool #1: Competitive Response Taxonomy (Continued)

Competitive Response Taxonomy

Competitive Threat	Potential Responses	What Could Go Right?	What Could Go Wrong?
Invests in new technology capability	Duplicate technology investments at your own organization	You keep pace with new technology trends in your industry; your competitor fails to gain a technology-driven advantage	You make a substantial investment in new technology that fails to gain a foothold within your organization; resulting confusion and/or resistance render the new technology a poor fit with your organization (in all, a costly mistake)
	Invest in area your competitor is ignoring at the moment (e.g., enhancing the customer experience)	You stand to make substantial gains by making an alternative, but well-placed, bet that another value-driver will resonate more with customers than the one chosen by your competitor	Investments in technology enable your competitor to deliver a more valued customer experience that you are unable to duplicate; the advantage your competitor gains outweighs those you gain through the alternative bet that you made
Invests in corporate social responsibility initiatives (e.g., "going green")	Promote similar initiatives within your own organization	You earn goodwill for your organization while undercutting your competitor's ability to differentiate based on CSR	You fail to turn investments in CSR into revenue or market share; customers may find the act of advertising CSR disingenuous and you may lose their trust
	Make no adjustments to your current strategy	You correctly assume that customers make purchase decisions based on price and quality, not the reputation of the larger organization; competitor's activity fails to alter market dynamics	Competitor's investment in CSR not only translates into revenue, but also alters the dynamics of the market (i.e., to compete, an organization must be seen as "socially aware" or "giving back")

Reminder! This list of threats is by no means comprehensive, and you should add to this taxonomy where it makes sense for your organization. The overall format would still apply: for any threat not listed here, you can foster a team discussion around what potential responses should be, and what consequences you might expect by taking a given decision. For any vision-setting or alignment activity, be sure to involve as many members of the senior team as possible.

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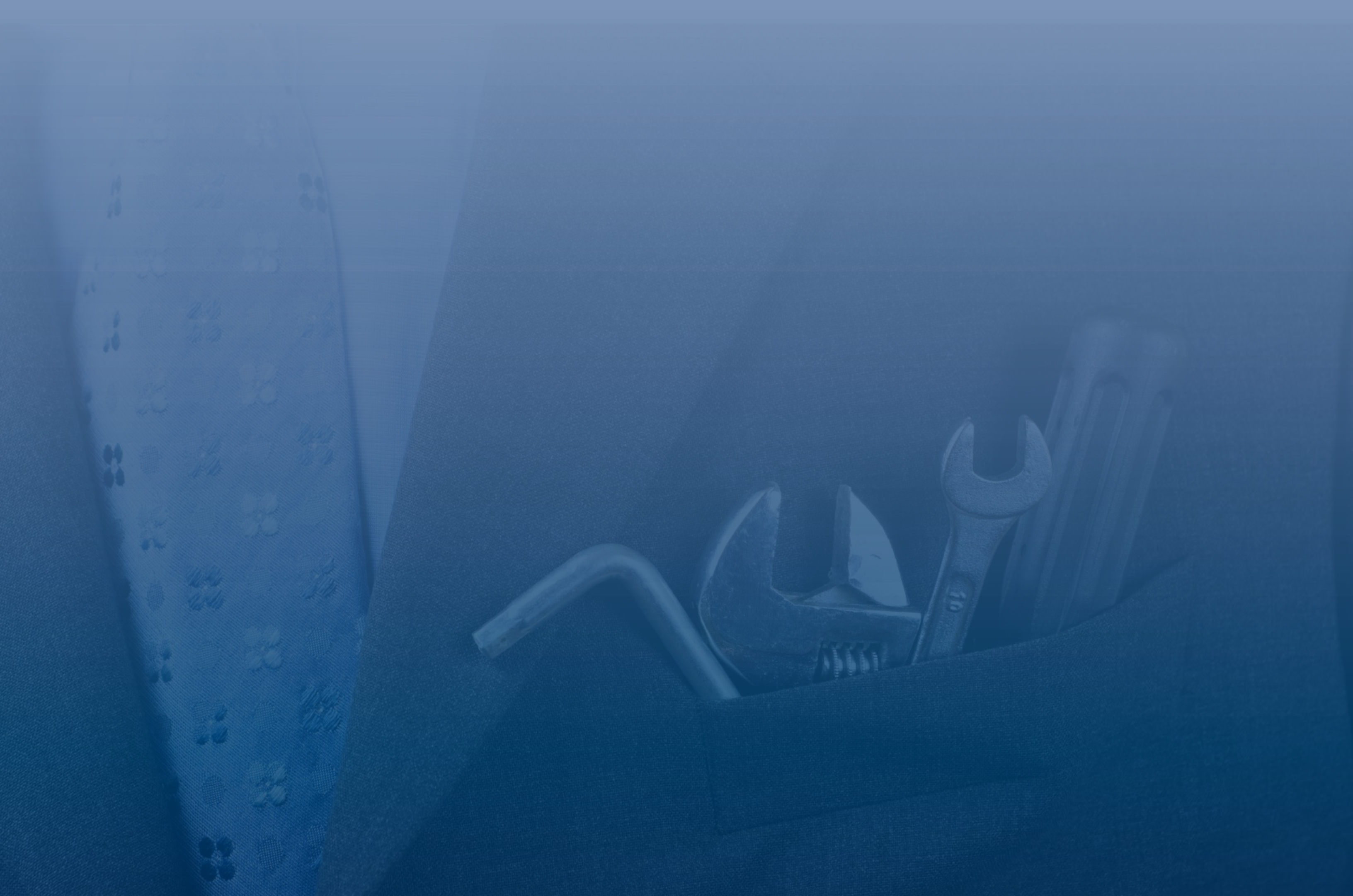
END NOTES

Growth Process Toolkit

Competitive Strategy



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