Making Competitors Intelligent: The Element of Surprise

Mark Chussil — Founder and CEO

Ken Paillé — Vice President

Advanced Competitive Strategies, Inc.

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Would you rather have smart or stupid competitors?

Most managers look startled when we ask that question. They start to say “stupid” (obviously referring to their competitors, not the question). Then they pause. They recognize that smart competitors won’t take action that would, for instance, trash the market. They conclude they want competitors smart enough to behave rationally, yet not so smart that they scoop them with a brilliant move.

To make your competitors smart, would you share your data or plans with them?

Most managers we’ve met want to keep their competitors in the dark, particularly regarding their strategic and tactical plans. (You’re probably saying to yourself, “of course!”) They believe or assume that revealing their plans would invite disaster, and that surprise will bring success.

Hold that thought for a moment.

Showing your battle plans

The Wall Street Journal printed a front-page article (“New Battle Theory Would Be Tested In an Iraq Invasion.” November 27, 2002) about battle plans for Iraq. The article detailed which weapons would be deployed, the effects of those weapons, how they would be delivered, and so on. About the only thing missing was the serial numbers on the helicopter-fired Hellfire missiles and 2,000-pound satellite-guided bombs.

Why would the military reveal so much? We don’t really know. We suspect, though, that one reason is that they would prefer that their opponent be smart rather than stupid. In this case, that would be an Iraq that can visualize so clearly the inevitable devastation awaiting them that they would choose to avoid war. Even if one signal doesn't work, it can establish credibility that raises the odds that the next signal will work.

The benefit of smart competitors

In the business arena, Shell Oil created a strategy to revolutionize the delivery of gasoline and greatly improve convenience for customers. Their strategy, based on extensive research, was to roll out many unstaffed service stations.

However, strategy simulations showed that the strategy would backfire because competitors would have been forced to respond in kind. "Shell decided to back off on the initiative, although currently it is poised to respond quickly if a competitor launches a 'pump war.'"[1]

Why would Shell reveal its rejection of a strategy? Why wouldn't they want competitors to adopt a bad strategy? Why share the results of a strategy analysis for which they paid good money? Why publicly mention their intention to respond if competitors make a move that Shell itself didn't want to make? Because Shell calculated that they would bear huge costs — over $130 million — no matter who adopted the strategy. (Like nuclear war, it doesn't matter much who fires first.) In other words, they knew the benefit of smart competitors.

The value of strategy simulation

We suggest that competitive intelligence is not only about what you can discover about your competitors. It is also about what you want your competitors to know.

The *Wall Street Journal* article mentioned that the military uses simulation to see whether their new strategies will work as intended. That's what we and our colleagues do, with corporate

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[1] "Putting the Lesson Before the Test", David J. Reibstein and Mark J. Chussil, chapter 17 of *Wharton on Dynamic Competitive Strategies*, reprinted by *Competitive Intelligence Review* and *Marketing Research.* You can get a reprint of the chapter at ACS's web site, www.competing.com.

strategists and marketers. We have conducted scores of business war games and other forms of strategy simulation for corporations around the world, including that analysis for Shell.

In another case we worked on, strategists wanted to simplify pricing, making life easier for consumers and less costly for the businesses in the market. When we simulated the new plan in a business war game, they found that their own managers, role-playing their competitors, misunderstood the plan. They took it to be a price cut, "retaliated" with a price cut, and triggered a price war. The strategists found their plan wouldn't work without smart competitors. They concluded that because they could not clearly communicate the benefits of the pricing plan to competitors as well as to customers, the plan was too risky. They shelved it.

Now that you've thought about it, you're probably realizing the benefits of competitors who are smart (when you want them to be smart). So, why would strategists ever assume they're better off with stupid competitors? Fundamentally, it's because they don't realize how much it may cost them to keep their competitors in the dark.

- ***Are you sitting passively when you don't know what your competitors are doing?*** Probably not. However, many people assume a competitor that's uninformed is ineffective, or even inactive. Worse, many implicitly assume that a competitor that's getting clobbered won't fight back.

- ***Common strategy-development tools and processes ignore competitive response.*** Some even ignore competitors altogether. When's the last time you saw a spreadsheet that shows your competitors' future P&Ls alongside yours?

- ***It takes powerful technology to connect your competitors' possible future actions to your future bottom line.*** Without that look at your future — which is what strategy simulation and business war games are about — it's difficult to appreciate their ability to affect your results.

Preparing for competitors' reactions

We run many what-if simulations in our business war games. We report the results that the client's business would get from following difference strategies under different conditions. We also report the impact that their strategies will have on competitors' results. We include the latter so strategists can see whether some options might incite a negative reaction. With that knowledge, they can prepare for competitors' reactions, or they can select a different, less-provocative strategy.

Simulation lets you test your new business theory before you commit to it in real life. That would make you a smart competitor, and give you the opportunity to assess how smart you want your competitors to be. It lets you answer these questions:

- ***Does your strategy truly demand surprise?*** If so, keep competitors in the dark (if you can). However, don't just assume surprise is good. Like a cornered animal, a surprised competitor — who's under just as much pressure to report good results as you are — can turn desperate or "irrational."
- ***Does your strategy require intelligent moves by your competitors?*** If so, help them be intelligent. It will probably cost little and may pay off big.

How can you know whether to share information or conceal it? Here are some simple guidelines to get you started:

- Share information to propose a win-win. Companies do this when they announce upcoming moves and implicitly tell competitors what to do. "We're going to raise prices on April 1" suggests that if competitors are smart, they'll do the same thing.
- Share information to warn about (and therefore prevent) a lose-lose. The Shell case is an example.
- Share information to make your actions seem less threatening and to let competitors see that fighting back is not in their best interests.

- Share information if you find that conventional wisdom or standard industry practice would lead to a lose-lose outcome. Making your competitors smart could break old habits that previously (and erroneously) looked beneficial.
- Surprise your competitors if your interests and theirs are at odds. If there's room for just one winner, if there's value to acting first, or if competitors can neutralize your strategy, you don't want competitors to be too smart. However, be very wary. Almost all strategists make those assumptions almost all the time, and, as our simulations and business war games show, those strategists almost always sacrifice many millions of dollars.

By looking at your results (and theirs) under a variety of scenarios, you can determine when to hold your tongue and when to show your hand.

If you think it's always best to keep competitors in the dark, you are missing an opportunity to manage your competitors and to raise the odds of your success. And, as you collect your own CI, consider the possibility that your competitors may want you to be smart too.

About the authors

Mark Chussil is lead creator of the award-winning ValueWar® strategy simulator. He and his colleagues at ACS have implemented business war games for dozens of companies, in many industries, around the world. He has spoken at numerous conferences, has published extensively, and has been quoted in Fast Company, The Wall Street Journal, and other publications. Prior to founding ACS, Mark worked at The Strategic Planning Institute (The PIMS Program) and Sequent Computer Systems. He earned his B.A. from Yale and his M.B.A. from Harvard.

Ken Paillé is a Vice President with Advanced Competitive Strategies, Inc. Previously, he was responsible for market research and strategic planning at L.L.Bean, was Editor of the Sloan Management Review, the nation's second-largest general management journal, and worked at The Strategic Planning Institute (The PIMS Program). Ken earned his M.S. from the Sloan School of Management at M.I.T. He also holds an M.S. from the University of Illinois and a B.A. from Bates College, both in Economics.

info@whatifyourstrategy.com 503.243.2586 (USA)

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