

IFF: FRIEND OR FOE?

What's that blip?

"IFF" - *Identification Friend or Foe* is a term fighter pilots use when they see an unexpected blip on the radar screen.

Is it hostile?

Should I attack?

Is evasive action required?

These might quite well be some of the questions going through the mind of the pilot. But exactly the same questions should be going through the minds of business managers when they are looking at an unexpected blip on their radar screens.

The question that I would like to put to you in this briefing is "how good is your radar – can you detect at a long range unfriendly developments in the competitive environment?"

This is the issue raised in the November issue of *Harvard Business Review* in an article by George Day and Paul Schoemaker titled *Scanning the Periphery*. The main point made in this article is that the real dangers to companies are the ones that managers don't see coming – their radars just aren't good enough.

There is little doubt that the competitive environment is more volatile than it has ever been and there are examples across industry settings of companies whose business models have been threatened by external forces. Take the video rental chain Blockbuster. Its established high street based strategy is now threatened by new movie capable broadband. Coca Cola is facing changing consumer tastes and of course the Financial Services sector has felt the impact of regulation. The message is that companies now need to be better than ever at scanning the external environment for potential changes that might impact their business models.

Day and Schoemaker's article contains some interesting statistics. Research cited in the article tells us that:

- (a) 81% of managers felt that the future need for environmental scanning exceeded their company's current capacity and interestingly
- (b) 97% of companies in a research study didn't have a system to warn them of changes in the competitive environment.

The importance of scenario vision

What this means is that we have to ensure that we possess "scenario vision" in our companies. By "scenario vision" I mean the capability to monitor the competitive environment and to project forward the impact of any changes or blips on the radar screen into real potential issues for the company's business model.

To build the capability for scenario vision we have to understand the forces that can reshape industries, how to select the forces most likely change the competitive playing field and when to scan the competitive environment.

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I will therefore devote the rest of this briefing to examining the following questions:

- § *What are the forces that shape the competitive environment?*
- § *Which forces should we focus on?*
- § *How frequently should I scan the environment?*

What are the forces that shape the competitive environment?

When helping companies build the capability to scan the competitive environment, I start by explaining that external forces exist in two inter-acting layers outside the organisation – the “macro layer” and the “industry layer”.

The macro layer contains forces that reshape strategies and business models across all sectors including profit and not for profit. These forces, together with some examples of their influences, are:

- § *Political.* Changes in government, foreign policy shifts, social welfare.
- § *Economic.* Threat of recession, inflation, interest rates.
- § *Socio-cultural forces.* Income distribution, demographics, social mobility, attitudes to work, leisure and the use of technology.
- § *Technology:* Research spending, projected implementation of new technologies, speed of take up, rates of obsolescence.
- § *Environmental Issues:* Weather trends, global warming, attitudes to environmentalism.
- § *Legal:* Competition laws, regulation, product safety laws.

This framework gives a company a good starting point to identify the forces for change. But I mentioned earlier that there is a second inner or “industry layer” that we have to pay attention to.

The industry layer contains those forces that shape the characteristics of an industry marketplace. Here, we must consider:

- § *The buyer.* The end customer. How will forces in the outer macro layer change the power of buyers? How will the demand for products and services change? How will distribution and consumption of products and services change?
- § *The supplier.* How will the power of suppliers change? Will they be able to supply us in the future? Will our relationship change? Are pricing shifts foreseeable?
- § *Substitutes.* Will our product become obsolete? Will there be another, cheaper, way of meeting the demands of our customers? Will our product go out of fashion?
- § *New players.* Will forces in the external world open up channels for new competitors to attack our customers with a different business model? It was of course deregulation in the European airline sector that allowed easyJet to enter with its revolutionary approach to pricing and customer segmentation.
- § *Distributors.* Will changes cause our distribution channels to die? Or will distributors become more powerful?

The trick is to consider how changes in the outer “macro layer” will filter through and stimulate change at the industry layer.

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Which forces should we focus on?

I could simply say "all of them". This would be technically correct but not too helpful.

Answering the following questions will give us some clues:

1. *What has happened in the past in our industry?* Look back over the last ten to fifteen years – how has the shape of the industry changed? Looking at the macro layer – what were the real driving causes?
2. *What took us by surprise?* Look at the history of your own company. Were there any unpleasant surprises? Try to map these back again to macro layer issues.
3. *What's happening in other industries?* Look at industries that serve your company's customers. How are they changing? What are the macro level drivers?

Answering these questions should enable you to identify "hot spot" forces to watch. From my perspective, technology and socio-cultural are two hot spots that I'm particularly interested in.

How frequently should I scan the environment?

A few years ago I might well have replied – "once as year as part of your annual corporate planning process."

Now things are moving more quickly. Develop a list of hot spot areas to monitor. Make your management team aware of the hot spots and build a discussion session at least as a quarterly event. Better still, incorporate hot spot shifts into your performance management system to create company-wide awareness and discussion. Incentivise and reward those that spot, communicate and project material changes that they see appearing on their radar screens.

Reference

Day G S and Schoemaker, P J H (2005) Scanning the Periphery *Harvard Business Review* November: 135-148

Finally

I hope that you have enjoyed this Critical Update. You can find more on the website or e-mail me using the link below. I enjoy personally helping businesses - some of the work I undertake includes:

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| § Market research to identify the product performance and service needs of B2B customers | § Training: Strategic Thinking, Performance Measurement and Strategic Change Workshops. |
| § Facilitating board level strategic reviews, with a particular emphasis upon the definition of tomorrow's competitive environment | § Product portfolio assessment. Helping the business to define the optimal product portfolio – balancing future competitive conditions with the probability of achieving future planned performance |
| § Design and implementation of Balanced Scorecard performance measurement systems | § Communication programmes |
| § Research to help identify what potential capital providers will look for in your business plan | § Organisational audits – assessing the innovative capability of your organisation |

Best regards,

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