Reading Competitive Tea Leaves as Drivers for Growth

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Abstract

Identifying, monitoring and assessing competition is an expected task of any vibrant business organization (perhaps except for utilities and monopolistic companies). The manner this function takes place varies in scope and quality. This task is often deficient in assessing or understanding the competitive environment and what it means, or what implications can be drawn for recommending future growth activities. This paper will discuss current practices and some new ways for assessing competition and what can be learned from this analysis.

Introduction

Reading tea leaves evolved in the seventeenth century after Dutch merchants introduced tea to Europe by trade routes from China. Tea leaves provided patterns or ways for fortune tellers to predict the future. However, the accuracy of those predictions was questionable. I am not recommending marketers or others to use tea leaves to predict or see the future. However, I am suggesting we consider new approaches to identify future competitors and their implications.

Many global companies currently track perceived competition in a multitude of ways. These include:

- Collecting published news articles, press releases and pubic company reports or updates required by the SEC (Securities & Exchange Commission) or similar body.
- Routine information collected from the company's sales organization(s)
- Hearsay from various vendors, sub-contractors or industry suppliers
- Sub-contract "competitive intelligence" from third party firms.
- Wall Street or other analyst reports (banks, brokerage houses, other financial)

It is worthwhile to describe how people or organizations classify competition. Some of the categories used in the past to describe competitors include:

-Aggressive	-Industrial
-Direct/indirect	-Mature
-Domestic/International	-New/old
-Dominant	-Small/large
-Emerging	-Strong/weak
-Extreme	-Tough

I add to this list "invisible" competition from a presentation I made to the Society of Competitive Intelligence Professionals (SCIP) in Orlando, Florida, USA April 2006. I will cover this term later in the presentation.

Historically, competition has been described as competitors in the same product or service category:

*Coca-Cola vs Pepsi
*Fiat vs Volkswagen
*Bank of America vs Wells Fargo
*New York Yankees versus the Boston Red Sox
*Dell versus Compaq

However, new competitors and new industries are surfacing from unusual places. I suggest this requires a paradigm shift in how we identify, assess and use competitive information. To review:

A paradigm is a set of rules and regulations that:

1. establishes or defines boundaries
2. tells how to behave within these boundaries

A paradigm, in a sense, tells you that there is a game, what the game is, and how to play it successfully.

A paradigm shift," then, is a change to a new game, a new set of rules:

As Gary Hamel, a Harvard University professor, says in his book <u>Leading the Revolution:</u>

"Know this: whoever you think your competitors are they aren't."

Tunnel Vision

Too often companies conduct SWOT (Strengths Weaknesses Opportunities and Threats) analyses with a very internal or narrow focus. They often include middle managers only. Do not get me wrong, these analyses are often very valuable and generate input from cross functional teams otherwise not available. However, as one U.S. strategist puts it:

"*For the senior team, SWOT can be a trap. It tends to pull executives down into operational issues, distracting them from the much bigger forces around the globe that can take the company by surprise if they are not prepared.*"

He adds "forget about the competitor down the street. Is there a company on the other side of the globe that's going to put you out of business?"

How to add to this global perspective is a challenge and opportunity. Therefore one should monitor companies outside of one's industry, to look for new growth opportunities. Let's take a look at one example: Listerine PocketPaks.

Listerine was a product developed by a U.S. company Warner Lambert. Their consumer products division, which included Listerine, was sold to Pfizer in 20001 and later to Johnson & Johnson in 2007. Listerine had been a strong mouthwash brand sold in a liquid form, in multiple flavors. Listerine's major competitor in the U.S. was Scope, produced by Proctor & Gamble. However, mouthwash sales in the U.S. were slowing and Pfizer wanted to expand the Listerine franchise in other ways. Warner Lambert in someway, had discovered a Japanese confectionary company: Hayashibara Biochemical Labs in Okayama, Japan. The Japanese company owned a proprietary technology to impregnate flavors in their candy or confectionary products. Warner-Lambert worked with this company to deliver Listerine mouthwash in a dry, edible form, rice paper. From this collaboration, (U.S. and Japan) Listerine Pocket Paks became a very successful product. It revitalized the 120 year old Listerine brand franchise, and generated year one U.S. sales of $175 million. It also created a new category: Portable Mouthwash. It was also a big surprise to P&G.

Looking for new technologies in not so obvious places was worthwhile for Warner Lambert and will be for other companies as well. Listerine Pocket Paks was a great example of what I classify as "invisible competition.' My definition of invisible competition is:

" When two seemingly disparate companies or organizations, often representing different industries or product categories, form an alliance or joint venture to create a new and different type of product or service offering."

Middle and other managers need to get out of their offices and look for innovations even in other industries that may trigger a thought or idea to explore for their company. Additionally, if that company lacks a technology they may want to partner or form an alliance with a company with a proven, especially proprietary technology in another industry,

Unexpected Competition

Globally, competition comes in many forms. It can be combined with unfavorable government regulations, cultural aspects, consumer or customer expectations or just strong competitors. Reviewing some global failures or surprises may be helpful to learn lessons about under estimating competition, or other competitive factors:

<u>Wal-Mart</u>

1. <u>Germany</u>
   -Entered the market in 1998, using the Wal-Mart name and similar U.S. concept
   -They never established comfortable ties with the German labor unions
   -Had to stop Wal-Mart morning sales chants and smiling at customers (who thought female sales clerks were flirting with customers)
   -Struggled against strong local competitors: Aldi and Lidl
   -Sold 85 stores to rival chain Metro, and pulled out of the market in July 2006
   -Took $1 billion dollar write-off.

2. South Korea
   -Wal-Mart entered in 1998 and opened 16 stores
   -Shoppers were disappointed in selections-selling shrink wrapped fish they thought were dead, instead of typically buying live fish from a market fish tank
   -U.S. style shelving too tall or high for average female shopper
   -Failed to attract enough new customers, closed 16 stores in 2006

Best Buy (a U.S. based electronics retail store chain)

China-Best Buy opened eleven stores in major cities Shanghai and Beijing using the U.S. concept of salaried sales people selling all brands offered. Chinese shoppers were used to getting lower prices in smaller and cluttered Dome and Suning stores where each major manufacturer (Toshiba, Lenovo, HP, LG, etc.) had a kiosk staffed by a company employee. Best Buy closed eleven stores in February 2011. Best Buy unsuccessfully tried to change the shopping behavior of Chinese electronics buyers.

TESCO

USA-Tesco (from the UK) opened a healthy convenience store concept in three west coast states (California, Nevada and Arizona) called Fresh & Easy. Some of the products were private label and although offered fresh produce (fruits and vegetables) the stores were not successful, TESCO did prior market research and testing for one year before opening their first store. However, too many variables worked against their concept. Some of the reasons for failure, besides the economic recession taking place, included some awkward store locations on the wrong side of street from traffic, U.S. citizens not being familiar with the TESCO name and not enough added value offered versus strong retail competition.

There are many other examples of retailers pulling out of international markets because of a combination of reasons, including under estimating competition, and sometimes not understanding the local market. These include; Home Depot closing 12 stores and exiting from China (2012), and Carrefour pulling out of Russia (2009) and Thailand (2010). Revlon recently announced (December 2013) they are pulling out of China. I believe too many companies typically under estimate local competition. These companies think they know their competition. Wal-Mart's original area manager for South Korea was an American. Hiring local staff who know not only competition but the culture and the ways business is done in that country has proven to be invaluable

Other unexpected U.S. competition that put others out of business or what I call "leaving them in the dust" include:

New competitor: Netflix
Left in the dust: Blockbuster

New competitor: Best Buy (with their Geek Squad)
Left in the dust (closed): Circuit City

New Competitor: Apple
Left in the dust: Palm, RIM (Research in Motion), Nokia

New Competitor: LG
Left in the dust: Panasonic

New Competitor: Google
Left in the dust: Yellow Pages

Market Entry Strategies that Seem to Work

Some global companies may admit they do not know how to compete with new competition or adapt readily to cultural issues (i.e., ways of doing business) have found success in acquisitions or strategic alliances. Some examples include:

1. Lenovo (China) acquired IBM's personal computer business in May 2005. This action offered Lenovo, not only a strong brand in the U.S. at the time, but also a credible market entry, with IBM's Think Pad and other computer products.
2. Acer (Taiwan) acquired Gateway in August 2007 to forge a market entry into the U.S., along with a knowledgeable local sales organization.
3. Sanofi (France) acquires U.S. pharmaceutical company Aventis in 2004 and became a global force in not only drug discovery but marketing branded products.
4. Aldi (Germany) acquires U.S. Trader Joe's in 1979, a specialty health oriented food retailer that, like Aldi, has many private label or store name brands.

Starbucks is almost everywhere but India does not allow national or large retailers to enter its market. The Indian government wants to protect the many small family owned retailers and shops. Companies like Wal-Mart, Carrefour and IKEA are waiting for the Indian government to change these regulations. However, in January 2001 Starbuck's had a new idea. It formed a partnership with the Tata Group, the largest conglomerate in India. The Tata Group's owns many companies including: Tetley Tea, Eight O'clock coffee and tea and coffee plantations. They also owns the ultra luxury Taj Hotel chain. Starbuck's has opened coffee shops in some of the Taj Hotels in India and is working with Tata on other new ventures to market wholesale coffee. This alliance may prove to be more fruitful than originally thought, given Starbuck's recent new U.S. ventures, such as opening Tazo Tea Houses and upscale Evolution Fresh juice bars and drinks.

Successful market entry strategies have also been demonstrated by McDonald's in India, where no beef is offered in their restaurants. YUM Brands (USA) has also been successful in China by adapting to that country's consumer tastes with their KFC brand, and offering a family style restaurant for Pizza Hut in China, which is quite different from their presence in the U.S.

Changing the Way to Look for Competitors

Companies need to take a broader view of the business landscape to assess potential competitors and identify growth opportunities. Business growth and not only defensive measures should be the tasks at hand when assessing competition. Yes, companies need to defend their brands and franchises, but growth strategies represent new strategic platforms (ala Listerine) that can leapfrog competition. New growth opportunities can be identified by looking at competition in new ways. General Electric (GE) sets up small conference rooms where a cross functional team meets regularly to discuss competition and brainstorm how or if the company should react to it. I imagine this GE conference room for this purpose has on the wall: competitive charts, advertisements, pictures of competitor packaging and other data collected on a competitor.

Some tips on how to "actively monitor" global competition and identify growth opportunities:

- Identify notable marketing success stories outside your industry
- Track interesting mergers and acquisitions
- Identify companies with proprietary new technologies
- Search international news and databases for the above

Working as Director of Business Ventures for a company, I noticed in the late 1980's that Nestle and Baxter Healthcare formed a joint venture. I asked why would Nestle, a chocolate company (in my mind) join with a medical device manufacturer like Baxter? After further investigation I discovered that Nestle sold liquid vitamin supplements and Baxter sold IV (intravenous) lines to deliver blood, medications and other liquids into the bloodstream. So Nestle could gain referrals and sales from the Baxter sales forces covering hospitals and clinics globally. Understanding this helped justify the alliance.

A key to broadening the scope of who is looking at competitors is to involve more people in the organization. As George Day from Wharton's School of Business (University of Pennsylvania) puts it:

"The strategy making process also should incorporate diverse inputs, including insights about and from customers, competitive information, views or outside experts and fresh thinking about new technologies that might disrupt the business."

My hypothesis is better structuring the competitive assessment activity can generate new ideas for not only defending against competitive threats but leap-fogging competition with new ideas or products.

Action Plans and Implications

So what does all this mean?

1. Look at competition differently, not only for defensive tactics but for offensive business building strategies.

2. Include more senior people, outside opinions and use cross-functional teams to help identify, assess and strategize about new competitive entries and action strategies to implement.

3. Broaden the scope of assessing the competitive landscape, Look beyond one's industry or traditional borders, or silos.

4. Be proactive in searching globally for successful product or service launches and learn about them and the companies behind it

5. Strategic alliances, joint ventures and acquisitions can facilitate entering a new market, geographically or otherwise.

6. Non traditional competitors will continue to surface from unexpected places—companies or countries.

7. Identify new, ideally, proprietary opportunities to leap frog instead of meeting competition head on. Classic examples include Apple Computer's products, Zip Car, GroupOn, Toyota's Prius, Nissan's Leaf and 3M's Post-Its.

8. Global competition is as much about culture as it is about product features and benefits. Oreo's did not initially sell well in China because it was perceived too sweet and too expensive. Once reformulated, repackaged and re-priced along with advertising and public relations teaching children and others how to enjoy the cookie (dip in milk, separate and lick the crème inside wafers), it sold well and became a great success.

As we learned above, those companies which correctly read the tea leaves found ways to not only defend their franchises but increase their business overall. The success of Listerine Pocket Paks from aligning with a company outside that industry provided its owner with a new strategic platform for growth, as well as revitalizing an old brand. Starbucks aligned with an unlikely partner in order to enter India. Lenovo and Acer made gutsy acquisitions instead of competing head on with the competitive U.S. electronics market. An expanded vision and new perspective can help read the competitive tea leaves in new ways, yielding unexpected opportunities.

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