

WHARTON ON DYNAMIC COMPETITIVE STRATEGY

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with

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John Wiley & Sons, Inc.

New York • Chichester • Weinheim • Brisbane • Singapore • Toronto

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Library of Congress Cataloging-in-Publication Data:

Wharton on dynamic competitive strategy / edited by George S. Day and David J. Reibstein, with Robert Gunther.

p. cm.

Includes index.

ISBN 0-471-17207-3 (alk. paper)

1. Competition. 2. Industrial management. 3. Strategic planning.
4. Trade regulation—United States. 5. Industrial management—
United States—Case studies. I. Day, George S. II. Reibstein,
David J.

HD41.W494 1997

658.4'012—dc21

96-53177

Printed in the United States of America

10 9 8 7 6 5

CHAPTER 11

PREEMPTIVE STRATEGIES

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Beyond simple responses or offensive actions, preemptive strategies act against a competitor before the competitor makes its move. Effective preemption may be one of the most difficult strategies to formulate and implement, but it is also among the most powerful. This chapter describes preemption and presents a process for understanding opportunities for preemption by analyzing the potential moves of competitors. It then presents a framework for formulating preemptive strategies.

When it is possible, preemption is perhaps the most powerful form of a competitive maneuver. A reactive move tries to stop, slow, or limit the damage of a rival's action after it has been initiated. A simple offensive maneuver is designed to attack a competitor or move in a new direction. In contrast, preemption is focused on attacking the future moves of a competitor, *before* they have been made. Preemption attacks the competitor's *intention* to attack. Defensive maneuvers might be compared to firing an antimissile barrage in response to an attack. Offensive maneuvers are like launching your own attack. Preemption is tantamount to knocking out your rival's missiles while they are still on the ground. Or, to take the analogy of a chess match, preemption is seizing control of key squares on the board, thus preventing competitors from moving into those positions. It is a very powerful attack that can slow or stop competitors or pin them down before they have had a chance to act.

The author wishes to acknowledge the helpful comments of Dave Reibstein, George Day, and Robert Gunther.

PREEMPTIVE STRATEGIES

Consider a few examples:

- *Locking up capacity.* Anticipating growth in the market for 3.5-inch disks in 1984, Sony announced a fivefold increase in production capacity. It made this move before IBM had made clear its intention for the next generation of personal computers. This extensive capacity discouraged would-be rivals from setting up their own plants.
- *Locking in markets.* Gillette moved Sensor into 19 countries almost simultaneously, and P&G introduced Pampers Phases into 90 countries in less than a year. This rapid propagation of new products made it difficult for rivals to create a toehold in global markets.
- *Locking up minds.* A software company announces a product that is more than a year from reaching the market. Customers wait for this promised "vaporware," which is repeatedly postponed or never produced. Meanwhile, competitors' products that are on the shelves today are ignored as customers wait for the promised new product. The software company has preempted its rivals.
- *Blocking a competitor's intended action.* In the summer of 1990, Kellogg was planning to launch a new whole grain shredded wheat. The fortified cereal, whose packages described it as the "most nutritious shredded wheat you can buy," was due to arrive at retailers on August 6, and Kellogg had produced 7,800 cases with the claim printed on the box. On July 26, lawyers for rival Nabisco sent a letter to Kellogg accusing it of "false and misleading" claims on its packaging and threatening to sue if Kellogg did not withdraw its claims. In its letter, Nabisco revealed that it would be introducing its own spoon-size shredded wheat that would also be fortified and would invalidate Kellogg's claims. Nabisco used the launch of its own cereal to preempt Kellogg's positioning as the only fortified whole grain shredded wheat cereal.

A PROCESS FOR PREEMPTION

To develop preemptive strategies, managers need to engage in three levels of analysis:

FORMULATING DYNAMIC COMPETITIVE STRATEGIES

1. Determine where the market or competitors are moving or might move.
2. Identify potential strategies for getting there first or for blocking these moves.
3. Determine whether these strategies are feasible and consistent with the firm's current strategic goals, and whether they are likely to affect the competitor's objectives, actions, and reactions.

Although preemption can be a powerful competitive strategy, it is not always possible or recommended. Preemptive moves are complex because they require managers to decide where their markets and rivals are headed and act quickly. Preemption also is risky because companies could make a mistake about the future of competition and seize a potential market that never materializes. This can be an extremely costly mistake.

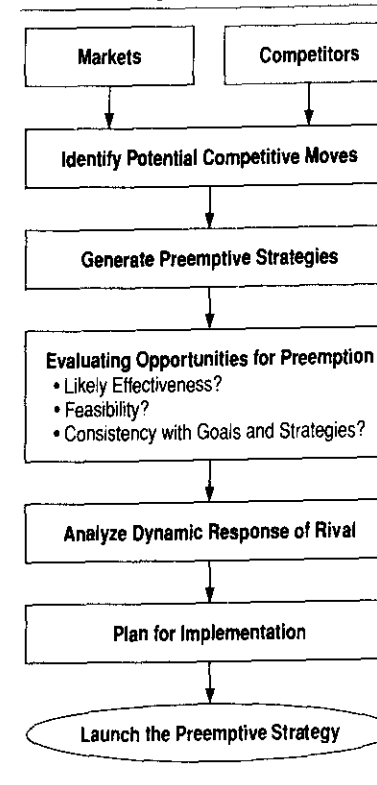
If Sony had not accurately predicted that 3.5-inch drives would be the standard in personal computing, its increase in capacity would have been a liability rather than an asset. However, by assessing where the market was heading and getting there first, it effectively blocked other competitors from building their own capacity. Gillette, which did little test marketing before its rapid global launch of Sensor, took the risk that its success in the United States and Europe might fail in other markets.

In situations in which the moves of competitors or the market can be predicted with relative assurance—for example, when rivals have signaled their intentions or the market is evolving along a certain trajectory—the risks of preemption are greatly reduced.

This chapter describes a process for identifying and analyzing potential preemptive moves, as shown in Figure 11.1. The process begins with identifying the intended or possible moves of competitors by examining the market. Managers then generate potential preemptive strategies for “getting there first.” Next, each strategy is analyzed to determine whether it is likely to achieve its objectives, and whether it is feasible and consistent with the preempting firm's own capabilities and strategic goals. Finally, the framework examines the dynamic interplay between a preemptive move and the rival's response.

PREEMPTIVE STRATEGIES

Figure 11.1
Planning for Preemption



DETERMINING WHERE THE MARKET OR RIVALS ARE HEADED

The key to preemption is to determine where competitors or the market are headed. To preempt a move, a manager must first be aware of the possibility for the move. How can this be done? Often, there are patterns of market development that lead to logical next steps. There are also signals or patterns of behavior by competitors that offer clues to their possible moves. This information can provide insights into opportunities to preempt. Understanding the evolution of markets provides the opportunity to lock in future markets. Understanding

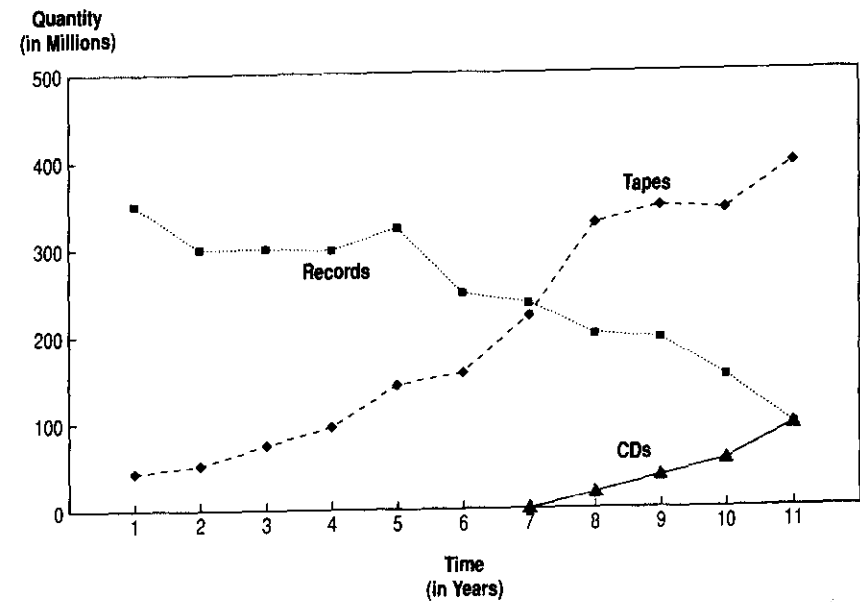
the possible moves of competitors provides the opportunity to lock them out.

Understanding the Expected Trajectory of Markets

The trajectory of markets is often quite clear. By carefully observing market changes and trends, managers can predict the next stage in the evolution of the market. They also can identify opportunities to shape the future evolution of the market—for example, through shifting the business paradigm. There are several market patterns that offer opportunities for preemption:

- *Natural line extensions.* Customer trends such as the move toward “healthier” products clearly suggest natural line extensions for large numbers of products—lower- or nonalcoholic beers, lower- or nonalcoholic wines, lower- or nontar and nicotine cigarettes, lower- or noncalorie soft drinks, and so on. Similarly, expansion of colors, flavors, sizes, type of packages, strengths, and other *varieties* are often predictable, especially when linked to demographic and sociocultural or economic trends. By determining what the next extensions of the product lines might be, companies can preempt their rivals by moving to these new extensions first. For example, if potato chips have expanded to include sour cream and onion, and barbecue flavors, a producer of tortilla chips might move before rivals to expand to these new flavors that have been accepted in the market. Or, if the current product offerings are a high-priced, luxury product and a low-priced generic product, a company might preempt by introducing a moderately priced product that offers many features of the luxury product.
- *Next-generation products.* Most products, regardless of their success are likely to be replaced sometime in the future by a new generation of products. Consider, for example, the evolution of records from the 45 to long-playing vinyl records to cassettes to CDs, or the evolution of pocket cameras from 110 to 35mm. As

Figure 11.2
Multiple Generation Diffusion Functions



Source: J. Norton & F. Bass, “The Law of Capture: Substantive Findings of an Investigation of a Model of Diffusion and Technological Substitution.”

shown in Figure 11.2, the decline of records was correlated with the rise of the next generation, tapes, and these were correlated with the rise of CDs. These patterns have been shown in many different markets. By determining what this next-generation will be, as Sony did with 3.5-inch computer disks, companies can preempt their rivals by moving first to the next-generation product. These shifts also give companies the opportunity to establish the standard for the new generation of products—as Matsushita did with VHS in videotapes.

- *Innovative products.* Innovative products significantly affect consumer behavior and change the way consumers perceive a given market. This often leads to the creation of a new dimension in consumers’ perceived assessment of the market map. Consider, for

example, the addition of voice to the traditional movie camera market (Kodak's introduction of the "talkies"), the introduction of the video camera that changed dramatically the traditional movie camera market, or the introduction of digital cameras to replace traditional chemical films. Innovative products are often driven by technology. As such, consider, for example, the enormous impact the emerging interactive industry is starting to have on consumers, with 1995 sales of over \$11 billion dollars split among video games (3.8 billion), home shopping (2.8 billion), CD-ROMs (2.5 billion), commercial online services (795 million), interactive 800 numbers (425 million), Internet (366 million), kiosks (292 million), virtual reality (116 million), and interactive TV (37 million).¹

Is it possible to identify new-to-the world technology that doesn't follow a predictable "next-generation" trajectory? The identification of the next innovative product is fraught with uncertainty. But there are two facts that make it possible:

- The technology for most of the new products that we are likely to see in the next decade have already been invented. In fact, the average time from the issue of a patent for an invention to the time a product based on that patent is introduced to the market is about 10 years, as shown in Figure 11.3. The dishwasher was invented in 1889 and introduced 23 years later in 1912. The microwave oven was invented in 1945 but brought to market a decade later. The

Figure 11.3
Mean Values for Incubation Time

Product Category	Number of Products	Mean Incubation Time	Mean Time to Peak Sales
Major Appliances	10	9.2 years	23.6 years
Housewares	11	6.1	18.2
Consumer Electronics	11	9.6	16.3
Grand Mean	32	8.3	19.6

Source: Kohli, Rajeev, Donald Lehmann, and Jae Pae, "New Product Forecasting: The Extent and Impact of Incubation Time." Paper presented at the JMR Conference on "Innovation in New Product Development: 'Best Practice' in Research, Modeling and Applications," May 1995.

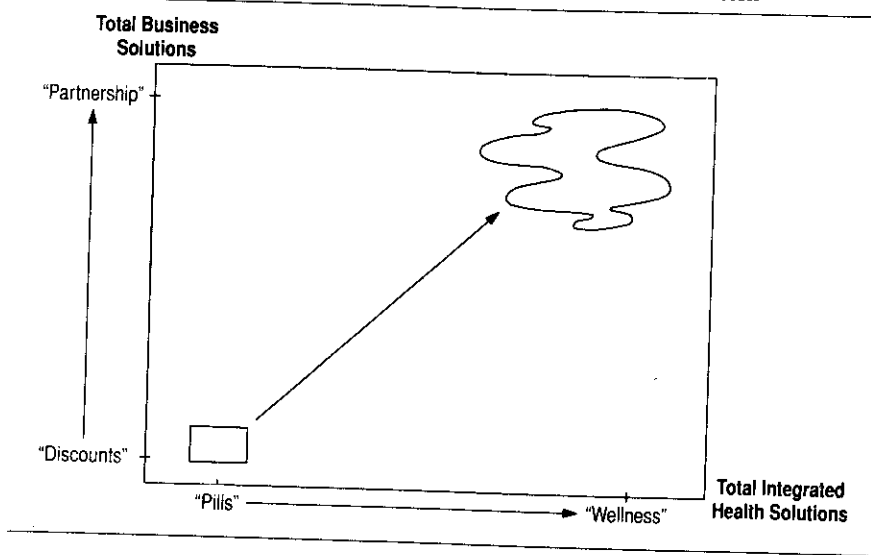
cellular phone was invented in 1970 but didn't make it to market until 1983. It is clear that there is often plenty of margin for preemption between the time an invention is created and when the resulting new product is launched.²

- Most successful innovative new products respond to or help shape the changes in consumer needs. Thus, understanding the changing market needs could help identify likely new products. Consider, for example, the trends toward value, health, exercise, environmental protection, two-career families, working at home, and the numerous products that are being created to address these trends.

This combination of understanding the technology in the laboratories and the changes in the market can offer insights into new innovations that will reshape future markets. These insights could provide opportunities to preempt by moving into these new markets ahead of rivals.

- *Customer analysis.* Understanding customers' satisfaction and dissatisfaction with the products and services of the firm and its competitors, along with changing customer needs, problems, expectations, and behavior is key to the design of any strategy.
- *Emerging new business paradigm.* Recent years have witnessed a dramatic shift in the business paradigm of an increasing number of firms in various industries. The major shift is from a focus on a product and its price (a "pill" at discount price in the case of pharmaceutical firms) to its benefit to consumers (total health care solutions such as wellness, in the case of pharmaceuticals) and the associated business solutions (not just to provide a discount but to help the client—hospitals, managed care organizations, physicians or patients—achieve their financial objectives). This can lead to value-based pricing, help in increasing the efficiency of the operation or in generating new revenues, and so on. The movement to this new paradigm for a pharmaceutical firm is illustrated in Figure 11.4. Similar paradigms, focusing on the two dimensions of industry solutions [the domain of activity of the given industry such as telecommunication solutions (for firms such as Northern Telecom and AT&T), financial solutions (for

Figure 11.4
A New Business Paradigm for a Pharmaceutical Firm



financial services), interactive integrated communication solutions] and business solutions, have been found in a number of other industries.

In each of these market trajectories, the preemptive company can focus on accurately reading the direction of the market. The company also can work to shape that direction, by forcefully introducing the next-generation product or by introducing a new market paradigm. In reading the market, the company is viewing signals that also may be apparent to attentive rivals. But in shaping the market, the company may have an even greater capacity to preempt because the future direction of the market may not be at all clear to competitors. For example, when Craig McCaw began developing his cellular network, many others underestimated the potential of the cellular market. By moving quickly and forcefully, McCaw took a huge risk, but he also was able to preempt rivals in building a national cellular system.

Understanding the Intended Trajectories of Rivals

The goal of preemption in reference to the plans of rivals is to head them off at the pass. If a rival is test marketing a certain product, a competitor could then introduce its own product quickly before the test marketer has time to bring its final product to market. The test marketer, unless it is bluffing, has signaled its intention to move into a market. This opens the opportunity for preemption. Microsoft's bid to purchase Intuit clearly showed its intent to move into financial services. Its rivals then had an opportunity to preempt. (This case illustrates that knowing *how* to preempt is not the same as having the *ability* to preempt. Few rivals were in a position to match this move. But many banks across the country accelerated their move into electronic banking to reduce the opportunity for a firm such as Microsoft to erode their relationships with customers.)

Managers also must identify potential moves of competitors. A rival may have no apparent intention to enter a specific market, but by recognizing that the rival has the opportunity to enter that market, the preemptive firm can act first to limit that opportunity. Thus it preempts the rival's strategy before the strategy is even formulated. It is not necessary for the preempted company to even know that it can move in a certain direction. It can be preempted even if it has the potential to move but is not yet aware of that potential.

How can you tell where competitors are headed or could head? The intentions of competitors are often deliberately shrouded in mystery. But sometimes their intentions are quite clear.

- *Competitive signals.* As noted, test marketing or acquisitions often provide information about competitor's intended strategies. The key is to accurately interpret the signals of competitors (which is discussed in Chapter 12). Also, a patent search can provide insights into the potential moves of competitors by showing technologies currently under development. Similarly, a competitor's hiring and firing actions and planned strategic alliances can provide useful signals for planned strategic moves.

- *Competitive analysis.* Understanding how competitors have behaved in the past and what moves they could make based on their strengths and weaknesses provides insights into possible future moves. This, at the minimum, includes a careful analysis of each competitors' objectives, strategies, historical strengths and weaknesses, and competitive actions and reactions. The analysis should also include the personality and actions of key decision makers and an analysis of their successes and failures. This analysis identifies potential moves that could be preempted.
- *Distribution channels.* A SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis of the current and emerging distribution options such as megastores, category killers, new electronic distribution, and other channels for reaching the target segments is key to understanding potential competitive moves. It also helps identify potential opportunities to seize new distribution channels.
- *Environmental analysis.* What changes in the environment create opportunities for rivals, and how can these opportunities be preempted? Fundamental in this area is an understanding of the socio, cultural, political, legal, economic, and technological forces and trends that may affect the behavior of customers and other stakeholders. A critical aspect of this analysis is the assessment of the impact of these forces on the emergence of new competitors.

GENERATING PREEMPTIVE STRATEGIES

The ability to preempt often requires companies to think creatively. In fact, creativity is often a key resource in preemption. It allows companies to see the unexpected opportunity and to rethink competition. There are a variety of approaches for generating creative ideas that can be applied to the challenge of developing preemptive strategies. These include:

- *Brainstorming sessions.* Using a selected group of experts can help introduce new perspectives. In its most common format, a brainstorming session involves a relatively small number of participants (usually under 15), who are encouraged to think of the

wildest ideas possible, generate the most number of ideas, and suspend all criticism and judgment. Brainstorming is often aided by other approaches and tasks such as constructing and reacting to future scenarios.

- *Analogies.* The analysis of analogous situations in other industries and countries can be expanded to include analogies to sports, chess, politics, military, and other domains of human behavior involving preemptive strategies.
- *War games and simulations.* By using one team of managers in the role of competitors and another team presenting the company's position, managers can gain new insights into the potential mindset and moves of rivals. Simulations also can help predict the likely moves of competitors. (A more detailed examination of simulations is presented in Chapter 17.)
- *Morphological analyses.* Given that creativity is often defined as the combining of seemingly disparate parts into a functioning and useful whole, morphological analysis seems to be of great value in the generation of new ideas. To use these approaches to generate new product ideas, for example, see things as they are, then ask why they cannot be combined, used in new ways, modified, magnified, minimized, rearranged, reversed, and so on. One process for using morphological approaches to generate new ideas is the following:

1. Identify of all "relevant" factors that could be associated with a preemptive strategy.
2. Identify as many alternative options as possible for each factor.
3. Generate new ideas by understanding all possible combinations of factors, examining these combinations and identifying the more interesting ones.

Figure 11.5 presents such a preemptive option generation grid, which can also be used to organize and summarize in one place the results of all the other approaches for generating creative options. The major advantages of this and other morphological approaches are that they are: systematic, capable of encompassing a very large number of alternative new ideas, flexible with respect

Figure 11.5
An Illustrative Preemptive Option Generation Grid

<p>Market Segments</p> <ul style="list-style-type: none"> • Our loyal customers • Our vulnerable customers • Our former customers • Prospects 	<p>Positioning</p> <ul style="list-style-type: none"> • Premium • Cost savings • Quality • Value added 	<p>Pricing</p> <ul style="list-style-type: none"> • Long-term contract • Bundled • Discount • Change pricing formula 	<p>Sources of Supply/Production</p> <ul style="list-style-type: none"> • Secure critical sources • Vertical integration with key suppliers
<p>Timing</p> <ul style="list-style-type: none"> • Immediately • Near Future • Few Months • A Year or More 	<p>Promotion</p> <ul style="list-style-type: none"> • Frequent buyer programs 	<p>Distribution/Logistics</p> <ul style="list-style-type: none"> • Exclusive arrangements • Loading the channel • Strategic alliance (M&A) 	<p>Legal Action</p> <ul style="list-style-type: none"> • Patent infringement • Trademark • Deceptive advertising
<p>Geographic Scope</p> <ul style="list-style-type: none"> • U.S. • Selected regions U.S. • Selected regions of the world • Global • The competitor's home • Country 	<p>Preannouncement</p> <ul style="list-style-type: none"> • No preannouncement • Preannouncement of new product entry • Preannouncement of price changes 	<p>Advertising/Communication</p> <ul style="list-style-type: none"> • Endorsements by clients • "Capture a positioning" • Exclusive media 	<p>Misinformation</p> <ul style="list-style-type: none"> • Send misleading signals
	<p>Product and Service Offerings</p> <ul style="list-style-type: none"> • Add new services • Expand the product line • Introduce a new generation product 		<p>Key Leverage</p> <ul style="list-style-type: none"> • "Capture the client" • Tie up distribution • Distract competition in its key country

desired magnitude and duration of impact on the competitor's ability to implement its strategies, but also the impact on other stakeholders. For example, with regard to the *customer*, the preemptive move may be focused on establishing the standard for the industry, locking in customers or to attain a first-mover advantage (be the first to capture a position in the customers' minds). Similarly, one can establish specific objectives for *distribution* (such as tie up shelf space), *suppliers* (lock in sources of materials), the *competitors* (to signal seriousness in defending the markets; to create barriers to entry), *security analysts* (to attain a first-mover innovative image or create the perception of a decisive management team), and others.

Once the specific objectives are determined for the strategies of each of your key competitors, you need to ask: How could this strategy be preempted? The grid in Figure 11.5 provides a framework for developing these strategies. For each potential move by a competitor, the grid can be used to generate specific strategies for preemption by selecting among choices in each category. For example, a company might respond to the extension of a product line by selecting a move focusing on loyal customers and acting immediately in the United States; by initiating legal action; or by undertaking a strategic alliance with another competitor. For each potential move, managers can identify a number of specific preemptive strategies.

Do You Want to Preempt? Can You?

So far, the analysis of markets and competitors has generated opportunities for preemption, but has not yet suggested a strategy. This analysis leaves two important questions unanswered:

- Does the company want to preempt? Is a given preemptive strategy consistent with the company's own competitive goals?
- Can it preempt? Does the company have the capabilities to make preemption feasible? And can the preemptive strategy achieve its intended objectives?

These questions can be analyzed using the table shown in Figure 11.6.

to the selection of relevant attributes, simple and relatively fast and inexpensive to use.³

EVALUATING OPPORTUNITIES FOR PREEMPTION

Once you have examined the potential changes in the market or moves of competitors, you should be able to identify a list of expected competitive moves or potential moves based on market changes. Each of the items on this list is then a target for potential preemption.

Using this list, you can then create specific preemption strategies for each expected or potential move by a competitor. In determining the objective(s) of preemption, it is important to determine not only the

Figure 11.6
Initial Evaluation of Preemptive Options

The Likely Competitor's Move _____	Criteria			
Preemptive Strategies	Consistency with Our Objectives and Strategy	Feasibility	Likely Effect on the Competitor	...
A				
B				
C				
D				
E				

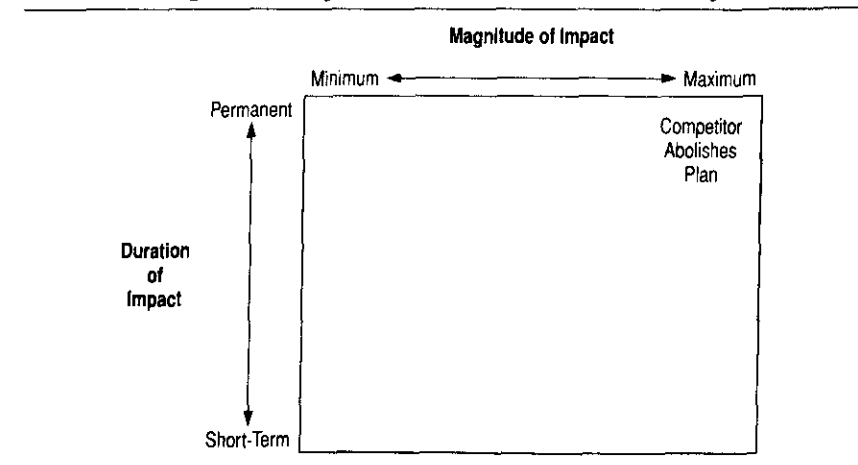
First, list each of the strategies as rows on the left-hand side and then evaluate them based on the criteria in the columns. (You can add criteria based on your own particular concerns or situation.) The first criterion considers whether the move is consistent with the firm's current objectives and strategy. If the preemptive move is not consistent with the strategy and objectives, it may still be a good move. But the key question is how far astray does it take the company? Is it an irreversible commitment or is it easy to backtrack?

If the preemption is consistent with the firm's objectives and strategy, then the next question is whether the company can preempt. It may have developed a great strategy that is not feasible. The company may not have the resources or capabilities to pull off the preemption. For example, if it is planning to preempt by introducing a next-generation product, the company might lack the R&D capabilities to do this. On the other hand, feasibility can be changed by shifting resources. The firm might be able to acquire or ally with a partner that has the

capabilities needed for the preemption. Such an alliance may be a preemption in itself. For example, when domestic U.S. carriers allied themselves with European airlines, this rapidly preempted the choice carriers for later entrants.

Finally, managers need to consider the magnitude and duration of the preemptive move on the competitor. Will it prevent the competitor from moving? Slow it down? How will the competitor react to the preemption? What options does it have? Do these reactions make the preemption more attractive or less attractive? There are variations in the magnitude and duration of the impact. Sometimes, the preemption creates a long delay; other times, just a temporary delay; sometimes, it stops the competitor cold. In evaluating the likely impact, it is important to assess both the *magnitude* and *duration* of impact. The range of preemptive strategies on these two dimensions is illustrated in Figure 11.7. Whereas the "ideal" outcome of preemption is a permanent maximum impact, other outcomes are possible and should be planned for.

Figure 11.7
The Range of Preemptive Outcomes and Associated Objectives



A DYNAMIC PROCESS

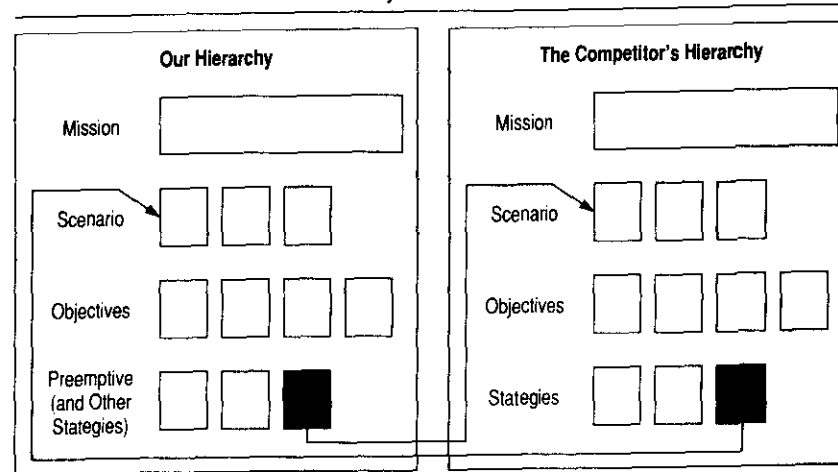
Thus the development and implementation of preemptive moves is an interactive process between the company and its competitor. The rival's potential and actual strategies create the opportunities for developing the firm's own preemptive moves. But these preemptive moves change the possible moves of the competitor and thus lead to a new set of strategies. The manager then needs to reshape the company's preemptive strategy to reflect this new set of competitive moves.

One way to think through this dynamic process is to use the Analytic Hierarchy Process (AHP).⁴ The AHP, which has been used in analyzing issues from nuclear arms agreements to new product launches, creates a structured model for the decision process. It is a system for breaking down complex decisions into a series of side-by-side comparisons. For example, the strategic decisions of our company can be represented as a set of decisions about its mission, a set of possible scenarios it perceives for the future, a set of objectives for the firm, and finally, a set of choices about specific strategies, as shown on the left-hand side of Figure 11.8. Decisions at each level affect the decisions at the level below. This hierarchy and the particular choices at each level are developed by a group of key decision makers in the organization who represent diverse functions and experiences. This group process allows the integration of "objective" market data with subjective management judgment.

This is merely a brief overview of the Analytic Hierarchy Process. The formal process of developing the AHP would involve a careful structuring of the hierarchy and the evaluation of each element on a nine-point scale. Finally, it would involve a weighing algorithm to determine the importance of a set of options based on the group's judgment. This process is facilitated by a software package called Expert Choice.⁵

To examine the dynamics of preemptive strategies, the company would develop a second hierarchy representing the decision choices and processes of its rival. This can typically be done based on analyses of the competition and by having a group familiar with the competitor *role-play* its management. This hierarchy is represented on the right-hand side of Figure 11.8.

Figure 11.8
A Dynamic AHP



Note: The firm's hierarchy and the competitor's hierarchy will most likely be different since each should reflect its unique decision process.

The next step is to link these two hierarchies, as shown by the lines in the figure. Our proposed preemptive strategy thus becomes the input for our competitor's scenarios. Its strategies in response to these moves then become the inputs for our scenarios. After several iterations of this process, the best strategies for preemption and the ultimate impact of these strategies after multiple rounds of competition will become apparent.

The AHP is just one approach for examining the interactions among competitors, and assessing the impact of preemption strategies. Part IV of the book presents several other useful ways for thinking about dynamic interactions among competitors, including conjoint analysis, scenario planning, war games, and computer simulations. In particular, the final chapter on simulations presents a more thorough examination of methods of simulating competitive interactions.

What are the characteristics of organizations that are well positioned for preemption? To successfully implement preemptive competitive strategies requires a competitive mind-set, speed, a process

for ongoing collection and analysis of relevant data, a process for generating and evaluating preemptive strategies, an implementation process, and an organizational architecture that facilitates the design and implementation of preemptive strategies.

- *A competitive mind-set.* This mind-set is critical since preemptive strategies may lead to intensified competitive battles. It is also required if one is to assure the attention and resources required to put in place a process for preemptive strategies.
- *Speed.* By its nature, preemption depends on speed. The window for preemption is often very narrow. It is the time between recognizing a potential move of a competitor and the competitor moving upon that opportunity. The organization must be able to act quickly to seize these opportunities.
- *An ongoing process for collecting and analyzing data.* The development and evaluation of preemptive strategies requires a fair amount of information and analysis. Given the dynamic nature of the business environment, one cannot rely only on a onetime analysis; rather it is critical to develop ongoing processes for data collection and analyses and the creation of *knowledge bases* for each key competitor, customers, prospects, and other stakeholders affected by the changing business environment.
- *A process for generating and evaluating options.* The design of processes such as those described for generating preemptive strategies is critical. There are numerous possible preemptive strategies, and it is desirable to spend the time and effort to identify timely, creative preemptive strategies. Having generated a large number of options, it is important that the selection of strategy for implementation be done in a systematic way. Hence, the need, as discussed, for explicit evaluation of the various options on an explicit set of criteria.
- *A process for implementation.* Having selected a strategy, an implementation plan should be developed. The plan should address explicitly how to overcome the obstacles to successful implementation. It should also address confidentiality issues. The

development of the implementation plan should receive as much attention as the development of the preemptive strategy itself.

- *Organizational architecture.* The preemptive strategy should be consistent with the firm's vision, objectives, and overall strategy, as well as the corporate culture. In addition, it should assure that the firm has in place the necessary processes, people, competencies, and resources. It is extremely important to have performance measures and associated reward and incentive systems consistent with preemptive strategies.

CONCLUSION

Preemption requires an understanding of the planned and potential moves of competitors as well as strategies for slowing or blocking those moves. The success or failure of a preemptive strategy depends upon how competitors react to it. The opportunities for preemption are not found in a single strategy, rather in the interactions between your own actions and those of your competitors. Preemption requires that you understand the payoffs, mind-sets, and potential reactions of rivals, as discussed in Part II of this book.

The approaches described in this chapter, including the dynamic AHP, have been used by two firms to design preemptive strategies. In both cases, the approaches generated preemptive strategies that were not identified in an initial brainstorming session; and in both cases, the strategy resulted in the desired objectives.

Preemption is not always advisable. As discussed, preemption has its risks. You could be walking into a land mine or off a cliff. It also could elicit an unanticipated—"wrong"—response from the target rivals or other stakeholders such as customers, suppliers, distributors, government or new entrants. You need to consider how aggressively the competitor might respond to a preemptive strike. There also are times, particularly when the total market is expanding, when you might choose to cooperate rather than to race to beat the rival to the market.

Even with these potential risks, preemption should be considered as part of planning for any competitive strategy. If there are risks of

preempting, there are also risks of *not* preempting. Passing up the chance to preempt could leave you vulnerable to preemption by a rival. It is, therefore, vital to recognize opportunities to preempt your competitors and to recognize how they might preempt you. As in a gunfight in the Old West, each company is attempting to preempt the other by being the quickest draw. And like these gunslingers, the company that misses its first shot at preemption may not get a second shot.

CHAPTER 12

SIGNALING TO COMPETITORS

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Strategic actions or public statements send signals to competitors. By understanding how these signals are generated and interpreted, managers can use them as an integral part of their competitive strategies. This chapter explores the uses of signals to influence the actions of rivals. It also explores how moves can be misinterpreted and how the signals of competitors can be decoded.

Every action and every statement of the firm sends a signal to competitors. Some of these signals are inadvertent, tipping the company's hand to rivals. Others are deliberate, serving as a warning or a challenge to rivals. They all have important strategic implications. By understanding how actions or announcements are interpreted and signals are generated, managers can become more adept at sending signals and interpreting the moves of competitors.

THE POWER AND PERIL OF SIGNALS

Signals can be highly effective in shaping the actions of competitors. For example, at the time that digital watches were being developed for introduction onto the market, Texas Instruments (TI) announced plans to offer a watch at \$19.95. Upon learning this, Gillette and several others that were working hard to develop the technology for entry