

SEIZING COMPETITIVE INITIATIVE

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To be successful, a company has to capture the initiative in an industry from its competitors. The author offers a detailed prescription for getting and keeping the strategic initiative in the face of countermoves by your opponent.

The purpose of this article is to explore the concept of strategic initiative—the ability of a company or strategic business unit to capture control of strategic behavior in the industries in which it competes. To the extent that strategists can capture and maintain the initiative, their competitors are obliged to respond, thus being forced to take a reactive role rather than a proactive role.

The company with the initiative is better able to dominate the competitive game and, ultimately, to maintain control of its own destiny. This much is self-evident—the fundamental strategic problem lies in how to actually capture the initiative and, once having secured it, how to retain it in the face of competitive countermoves.

To obtain and retain strategic initiative appears to require a number of critical conceptual skills. These are a thorough understanding and anticipation of the following: response barriers; intelligence systems; preemption potentials; infrastructure requirements; calculated sacrifices; general management challenges; and what can only be called “punch and counterpunch” planning. Each will be discussed in turn.

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Understanding Response Barriers

Porter [8] has perhaps done more than anyone else to draw the attention of strategists to the need to analyze mobility barriers, particularly entry barriers. Harrigan [4] and MacMillan and McCaffery [6] have in more detail discussed the concepts of exit barriers and inertia barriers (see *Corporate Strategy* column in this issue). Entry barriers (see examples in Exhibit 1) are characteristics of the industry or business that prevent or seriously inhibit the movement of competitors into a product/market position, perhaps already selected by the company with strategic initiative.

Exit barriers, on the other hand, inhibit or prevent the movement of competitors from a position they have already occupied, while inertia barriers are characteristics of the competitors themselves which seriously slow down their responses to moves made by others.

It is axiomatic that the strategist who elects to secure and maintain the strategic initiative needs to know and understand such barriers intimately. In particular, the conceptual challenge lies in the ability to anticipate the emergence of future barriers.

This is important for several reasons: Anticipation of emerging entry barriers allows a strategic aggressor to take the initiative by positioning itself

EXHIBIT 1

Some Common Response Barriers*

1. Entry Barriers (identified by Porter [8] and others):

- *Economies of scale.* High investment is needed to be cost-competitive.
- *Differentiated product.* Customers identify and are loyal to a specific product or brand.
- *Capital requirements.* Large amounts of capital required to provide credit, leased equipment or build image by advertising.
- *Switching costs.* Customers would have to pay a lot to switch brands.
- *Distribution channels.* Access to channels are blocked.
- *Components and raw materials.* Access to supplies are blocked.
- *Prime locations occupied.*
- *Preferential treatment from governments.*
- *Experience benefits.* Know-how and experience benefits kept from competition.
- *High expected retaliation.* If competitor will retaliate violently.
- *Price cutting.*
- *Lack of opportunities to share costs.* Among many other products and markets.
- *Specialized skills.* Access to critical skills blocked.
- *Interest group.* Threat of, or actual, government, union, etc., objections to move by competitors.
- *Patents.*

2. Exit Barriers (identified by Porter [8], Harrigan [4], and others):

- *Effect of large investment write-offs.*
- *Damage to prestige/image of company.*
- *Damage to ego of management.*
- *Government proscription.* Government prevents exit.
- *Large clean-up costs.* To leave sites in original condition.
- *Union agreements.* Prevent exit.
- *Shared costs.* Which would have to be borne by other products/markets.
- *Suppliers, customers, distributors.* Prevent exit.

3. Inertia Barriers (identified by MacMillan and McCaffery [6]).

- *Strategic choice.* To match the move would be counterstrategic.
- *Strategic challenge.* Move regarded as nonthreatening.
- *Distraction.* Competitor distracted by major problems or opportunities.
- *Visibility.* The move is not visible to competitor.
- *Portfolio position.* Division affected has low priority in company.
- *Structural.* No specific division responsible or motivated to respond.
- *Procedures.* Correct response calls for major policy revisions or costly revisions of procedures.
- *Bureaucratic politics.* Response creates jurisdictional disputes and bureaucratic disruptions.

* A specific industry could well have unique response barriers. In fact the greater part of the creative challenge lies in identification of the barriers unique to the industry.

to enter the segment ahead of the barriers and even use its "first occupancy" position to create/erect the barriers for competitors, who then have to surmount the entry barriers. Texas Instruments has consistently used experience curve effects to create cost barriers for other entrants.

Anticipation of emerging exit barriers allows the aggressor to time exit ahead of the actual formation of such barriers, thus increasing flexibility of movement from undesirable positions while the competitors are held back by the exit barriers. For instance, several "first exits" from increasingly reg-

ulated businesses received less public interference than subsequent exits. It is also possible that the aggressor can exit and then help shape exit barriers to prevent others from exiting. This has happened frequently in exits from foreign countries, where the departure of the first major competitor had precipitated government action to prevent/hinder others from leaving. Exit barriers can also present a problem by preventing competitors from exiting a segment which is overserved. If these competitors were free to leave this segment, the remaining business might be attractive.

In many cases, actual entry barriers may be rather low, in which case anticipation of emerging inertia barriers of the competitors allows the strategic aggressor to improve judgments as to what is the most appropriate timing of the contemplated strategic move, as well as to improve judgments as to the likely response lag before competitors start responding in sufficient numbers to erode the advantage of the initiative. This has been a characteristic of many of Citibank's new products introductions in the 1960s and 1970s.

A thorough analysis and understanding of such barriers lays the groundwork for determining future opportunities for capturing the initiative. In effect, it is the equivalent of careful analysis of the competitive terrain. The next challenge lies in analysis and determination of how the terrain will be, and is being, used. This requires the development of appropriate intelligence systems.

Setting Up Intelligence Systems

Without appropriate intelligence it is impossible to retain strategic initiative. In the first place, intelligence provides a basis for anticipating changes in product/market/competitor positions in the industry. In the second place, it provides the only basis for anticipating the countermoves by competitors, suppliers, and customers.

It is clear that there are three major areas to which resources must be deployed for intelligence to be effective.

- Product intelligence is the information relating to the nature of the product and its production, delivery, service requirements, and substitutability by other products.
- Market intelligence is information concerning the current and emerging needs to be served by the product, and concerning the values and relative power of major distributor and customer groups.

- Competitive intelligence is information concerning the current and emerging positions of existing and potential competitors. In particular, it is important to be able to anticipate responses of competition to moves initiated by the strategists.

An important conceptual challenge for the strategist¹ is the decision as to which of the major intelligence activities deserves most emphasis. This judgment can be considerably aided by considering product life cycle implications.

Product intelligence can have high importance in the early stages of the product life cycle, when the desired nature of the product, its desired characteristics, production methods, delivery methods, and service requirements are still being articulated by the developing market. Market intelligence can be particularly important in the mature stage when the emergence of new needs or changes in old needs signal opportunities for segmentation. Competitive intelligence is always important, but emphasis switches from direct competition in the early stages of the life cycle to substitute competition as the product matures.

What appears to be vital to effective intelligence activities is that the emphasis be focused on anticipating expected behavior by key competitors, suppliers, customers, or distributors. Several firms have successfully institutionalized this emphasis on anticipating behavior or responses by key players by assigning to line managers the role of a "shadow" competitor, supplier, etc., as part of their line responsibility. (Much in the same way as the British opposition party has a "shadow" cabinet minister whose role it is to keep fully up to date on the important issues in the real minister's area of responsibility.) In strategy meetings, it is expected of these "shadow" executives that they be able to present their best judgment as to how their particular "shadow" will respond to the strategic moves being considered. Note that this activity can take place at both corporate and SBU levels in the organization.

This has had several salutary effects: First, people in the company soon become aware of the fact that there is such a shadow position and start to forward information that would otherwise lie around in "stagnant pools" in the organization. Thus the shadow competitor becomes an information sink.

¹ In the discussion below, "strategist" refers to the general managers responsible for the design and execution of the strategy, not the planning staff.

Second, with some assistance the shadow executive soon develops a fairly sophisticated mental model of the opponent, which includes its philosophy, strategy, long-run resources, commitments, bureaucracy, and power position in relation to its own stakeholders. These insights are vital for anticipating the response of opposing organizations.

Third, the inclusion of the shadow role as a formal responsibility helps ensure that specific line attention is given to the difficult intellectual problem of second-guessing the opponent.

Fourth, the mental model of the opponent provides the basis for testing new data about the opponent for consistency. Formally, if the data do not "fit" the model, it is required that such data be checked and accuracy confirmed. This assures that incorrect data tend not to be accepted, but at the same time the checking of "maverick" data, rather than automatic rejection of it, ensures that if the opponent's organization is undergoing change, the shadow executive discovers this. This second phenomenon helps prevent self-delusive assumptions that the opponent will continue to act forever in the way that it has in the past.

Finally, the shadow executive system tends to be less costly and more effective than the enormously complex and highly bureaucratic formal information systems that appear to be the popular alternative. As a somewhat more expansive alternative, modest vertical integration can provide important intelligence information.

The three types of intelligence described above, together with the analysis of response barriers, provide the backdrop for the formulation of the actual strategy. With this background, it is possible first to identify preemption potential.

What Is the Preemption Potential?

Key to capturing and retaining initiative is an intimate understanding of what potential preemption options are possible—moves where once one competitor has taken the initiative, others find it extremely difficult to follow. Porter discusses preemption explicitly in connection with capacity expansion. In a mature industry, the first competitor to expand capacity may discourage others from expanding, thus preempting market share. However, the rich potential for preemptive moves is also apparent in many of Porter's entry barrier discussions.

It is critical to understand the importance, for preemption, of marginality. Take key accounts, for

instance. It is a common phenomenon that a relatively small proportion of key accounts account for a disproportionately large proportion of total revenues and/or profits in an industry, or for a company. The phenomenon also applies to distribution channels, market segments, customer types, geographic locations, and so on.

So by moving rapidly to occupy the highly concentrated, first few positions and consolidating its position in these, the strategic aggressor may be able to preempt the competition and thus gain the initiative. This has a double advantage: (1) The slower competitors must now compete for the remaining positions with successively decreasing marginal return on effort; (2) in competing for these smaller positions, the strategic aggressor already has a large base of revenues over which to cover fixed costs. This base is denied to its competitors—thus creating significant cost barriers for the late entrants.

Market intelligence can be particularly important in the mature stage when the emergence of new needs signals opportunities for segmentation.

Thus an important component of developing strategic initiative lies in being able to visualize which preemptive potentials exist, or are emerging, as the industry evolves. This can be a two-edged sword, in that the preempted positions of the past could create exit barriers for the future: For example, many organizations which achieved dominance of a "traditional" distribution system found themselves unable to switch to a new, emergent distribution system for fear of retaliation by existing distributors which carried a very large proportion of their sales. This is why emphasis is placed on preemption potential—potential for both the company and its competitors to preempt emerging customers, markets, channels, supply sources, geographic locations, or key accounts.

A second major class of preemption opportunities lies in the areas of technology application. At different stages of the life cycle, technology can be applied to secure initiative by exploiting the advantages of patents, new applications, new features, process improvements, new distribution systems, enhanced reliability, or better service. For instance,

Sears, with its huge consumer data base may use the emergent self-diagnostic systems on appliances to preempt a substantial number of appliance purchases by offering "one stop" appliance servicing for all Sears' appliances with each service call.

A thorough understanding of preemption potential requires thorough assessment of emerging infrastructure requirements. These will be discussed next.

Looking At Infrastructure Requirements

As with nations, each industry is constrained by its own infrastructure; and as with nations, the infrastructure requirements change as the industry develops and evolves.

By infrastructure we mean the set of organizations and institutions which provide the means for the products to be produced for, delivered to, and serviced in the market. Without the correct configurations of suppliers, distributors, and support service organizations, industry growth is severely constrained; without the correct configuration of skills in the industry or industry chain, the ability to compete is severely constrained.

Strategic initiative calls for an ability to assess and anticipate infrastructure requirements for two reasons. First, lack of awareness of the constraints caused by infrastructure shortcomings causes companies to undertake inappropriate moves (like attempting to sell technologically complex equipment in underdeveloped countries), and subsequent difficulties of coping with this inappropriate move push the company into a reactive mode so it loses the initiative. Second, early identification of emerging infrastructural requirements creates the opportunity for gaining initiative by securing (or even developing) the critical parts of the infrastructure themselves. Thus, IBM was able to secure substantial market position by a huge investment in programming education and so satisfied a major need for infrastructural skills long before such educational activity became part of school curricula, and Citibank has positioned electronic teller machines as part of its major investment in electronic distribution systems, rather than invest in the more traditional branch distribution systems which may soon be obsolete.

The pragmatic problem of the above arguments is that, despite all the analyses, there is likely to still be a great deal of uncertainty concerning the outcome. Moves to secure initiative generally de-

mand some level of calculated risk taking, for there comes a stage when action must be taken, and taken knowing that major sacrifices are being made (or may have to be made, once the real world responses of the competitors become known).

Making Calculated Sacrifices

The challenge lies in addressing sacrifices a priori: to identify what type of sacrifices must be contemplated, to recognize their implications, and to ensure that they are appropriate to the circumstances. For instance, when IBM invested \$5 billion in the development of their system 360 series, a number of sacrifices in terms of alternative new products (like superlarge computers and/or microprocessors and minicomputers) had to be made. At the same time, the company had to sacrifice the ability to expand more rapidly internationally. But these sacrifices were explicitly recognized and were highly appropriate for the stage of development of the industry and the status of the competition—what was called for in the face of a threat of an increasing domestic challenge was a product line which would maintain the initiative in the traditional customer base. This 360 series was that product line.

The recognition that the capturing or retention of strategic initiative may require substantial sacrifices gives rise to a problem of morale. This is but one of several general management challenges which are associated with pursuit of strategic initiative.

Meeting the General Management Challenges

General management must be keenly aware of several key challenges that they face as the leadership of the businesses which seek strategic initiative. The first is a clear definition of the "strategic role" the business will play. This is particularly important if the business happens to be part of a larger organization and the business has a definite strategic role to play in the larger portfolio.

In recent years, it has become increasingly apparent that the prescriptions of the more simplistic portfolio approaches are not justified. However, it is clear that some vehicles for allocating resources among different SBUs provide a useful start for planning a corporate strategy. What is more important is for management of individual businesses

to be clear as to what their strategic role is in the company. The definition of an appropriate strategic role is a major general management challenge.

Strategic Roles

Regardless of what particular portfolio approach has been selected, it is possible to identify a number of major strategic roles which could be played by an SBU [2, 9]. Such strategic roles also need to be defined for independent businesses.

These are specified and discussed below:

□ **Build aggressively.** The business is in a strong position in a highly attractive, fast-growing industry and management wants to build share as rapidly as possible. This role is usually assigned to an SBU early in the life cycle, especially where there is little risk that this rapid growth will be sustained.

□ **Build gradually.** The business is in a strong position in a very attractive, moderate growth industry and management wants to build share, or where there is rapid growth but some doubt as to whether this rapid growth will be sustained.

□ **Build selectively.** The business has some good positions in a highly attractive industry and wants to build share where it feels it has strength, or can develop strength, to do so.

□ **Maintain aggressively.** The business is in a strong position in a currently attractive industry and management is determined to aggressively maintain that position.

□ **Maintain selectively.** Either the business is in a strong position in an industry that is getting less attractive, or the business is in a moderate position in a highly attractive industry. Management wishes to exploit the situation by maximizing the profitability benefits of selectively serving where it best can do so, but with the minimum additional resource deployments.

□ **Prove viability.** The business is in a less than satisfactory position in a less attractive industry. If the business can provide resources for use elsewhere, management may decide to retain it, but without additional resource support. The onus is on the business to justify retention.

□ **Divest/Liquidate.** Neither the business nor the industry has any redeeming features. Barring major exit barriers the business should be divested.

□ **Competitive harasser.** This is a business with a poor position in either an attractive or highly attractive industry and where competitors with a good position in the industry also compete with the company in other industries. The role of competi-

tive harasser is to sporadically or continuously attack the competitor's position, not necessarily with the intention of long-run success. The object is to distract the competition from other areas, deny them revenue for other businesses, or use the business to cross-parry [8] when the competition attacks an important sister business of the strategic aggressor. Such competitive harassers are popular in the chemical industry.

Clearly each of these strategic roles poses specific leadership challenges to general management. As one progresses down the list of roles there is an increasing need to maintain morale in the business, and the last three roles pose a serious challenge as far as maintenance of morale is concerned.

Conversely, as one goes up the list there is increased need for building "autonomous self-discipline," namely, a challenge to put in place systems which will not constrain the exercise of initiative by business managers but at the same time will ensure that resources are not squandered as a result of excess enthusiasm.

Finally, if initiative is to be captured and retained, there is a key general management challenge required in anticipating what the basis of industry leadership will be for the next round of strategic plays. Management must be able to decide, out of an analysis of the emerging response barriers, preemption potentials, and infrastructure requirements, what will be the basis of industry leadership and what will be needed to deliver this, for a given strategic role.

More specific management challenges will be discussed for each strategic role below, but for every role the general management challenges are: definition of the appropriate role, maintenance of morale, development of self-disciplining systems, and determination of the basis of industry leadership.

Punch and Counterpunch Planning

The final conceptual skill required for securing and retaining strategic initiative is an ability to clearly identify the prime targets of the strategic move and to generate countermoves to competitors' responses that will throw them off balance.

□ **Clear identification of prime targets.** A strategic move generally has a differential impact on different competitors. To the extent that the strategist clearly identifies this and specifically identifies which competitors are to be attacked by the move, it is possible to better judge what the most likely

counterresponse will be, and where it will come from. Thus it is important to know whether the target of the attack is the leading competitor or one or more smaller ones, or whether the apparent target is the leader but the impact is really on the smaller ones (as happened with Avis' "We try harder" campaign). To the extent that the strategic move is visualized in a generalized way, with no detailed thinking going into the specific impacts on different competitors, the strategist will be unable to identify counterresponses and will end up reacting to unanticipated countermoves, thus losing the initiative. Thus it is important for the strategist to be clear who is on the "hit list" when the move is made.

□ *Counterpunch planning.* Equally important for retention of the initiative is the planning of the series of moves which will be undertaken to recapture the initiative, if competitors attempt to gain the initiative: preplanned actions aimed at throwing the competitors off balance. This can consist of programs for attacking the competitors' major accounts, the development and maintenance of fighting brands [8], programs for invading territories of competitors, or attempts at taking away key distributors. As mentioned above, the main purpose of such moves is not necessarily to succeed in capturing the positions attacked but rather to seriously threaten and endanger the competitors' position if the competition does not respond to the attack. So the strategic aggressor is able to put the competitor back on the defensive and regain the initiative. In the discussion below, the set of programs held in reserve for counterpunching will be called the "counterpunch" list.

With the development of a "hit list" and a "counterpunch list" all the key concepts are in place for the development of a discussion of strategies for gaining initiative for specific strategic roles. Each will be discussed in turn. Some suggestions will be made as to when each role may be strategically appropriate. This is not to say that the role is totally inappropriate under other conditions, only that it may be more difficult to accomplish.

Developing Strategic Initiatives

The Aggressive Build Role

The aggressive build role is strategically appropriate to the rapid growth stage of a product or service [9]. Under conditions of rapid growth, the competitive situation can be likened to the colonial land rush

by the European powers in the fourteenth to seventeenth centuries. There is an immense pressure to occupy territory as quickly as possible even though the territory being occupied is unfamiliar. If at any stage one stops to engage an enemy power, precious time and resources are lost, which could be deployed to occupying and consolidating in other territory. But if one does not engage the enemy where encountered, but instead bypasses them, one may be creating a highly strategic sore spot into which the opponent can firmly entrench (e.g., as the British did in Gibraltar).

An important element of strategic initiative is the ability to generate countermoves to competitors' responses that will throw them off balance.

Clearly the major conceptual challenge here is to be able to judge the conditions under which to engage the competition and when to bypass or ignore competition, leaving the segment for "mopping up" later. This requires a good assessment of the major entry barriers for that segment. In order to make this assessment, strategic intelligence is needed. It would seem that the prime demand at this stage is for product intelligence, followed by market intelligence. Retention of the initiative involves being able to identify ahead of competition the largest and most rapidly developing uses and applications of the product and service. Thus the early identification of the "spare-parts delivery" market was critical to the success of Federal Express. It is incumbent on the strategist to identify, as rapidly as they become available, the real needs that the product serves and develop the production, delivery, and service systems to support these needs.

The second challenge is that having identified the key product characteristics required, the strategist move as rapidly as possible to incorporate in the product those characteristics which are expected to be most in demand. The purpose is to take control of what Abernathy and Utterback [1] call the "dominant design"—the configuration of product characteristics and specifications that become the reference base for the industry and around which the industry eventually competes. To the extent that the company product is the dominant design product, the company has the initiative. This is the

most important preemptive move that can be accomplished.

Clearly, the third challenge is that once a particular segment has been occupied, the strategist should start seeking to build entry barriers as rapidly as possible. Thus the strategist should focus on preemptive moves such as cornering the largest accounts, raising the capital requirements for entry, securing key distributors, occupying prime locations, building up switching costs, and so on. The creative skill lies in identifying which entry barriers are relevant to the specific industry.

The fourth challenge lies in being able to develop the infrastructure to support rapid growth. A major problem faced by rapidly developing industries is a shortfall in the logistical capabilities of suppliers, distributors, and service deliveries [8]. Critical skills are in short supply throughout the industry chain. In order to support the "land rush" conditions discussed above, the strategist may find that resources need to be deployed to nurture, develop, and support critical infrastructure organizations. This needs also to be done with minimum resources, since there is great pressure to use resources for growth. The identification and development of key infrastructure components also create opportunities for preemption. By creating and consolidating positions with key suppliers, distributors, or support services, the strategist can also create response barriers. Irrespective of whether infrastructure demands create entry barrier opportunities, the rapid building of a suitable infrastructure is critical to long-run initiative, for it is where there are shortcomings in the infrastructure that competitors can wrest away the initiative.

A fifth challenge is the recognition that in the early stages, when the desired product characteristics are still being articulated in the marketplace, it may be necessary to invest substantial sums in "sacrificial products"—namely, products which are developed and tested in the market and become obsolete precisely because the business then learns more about the real product need. In other words, often the only way to determine what the market really wants is to put the product on the market and learn, with the market, what the real product requirements are. This could take several generations of product but may be the only way to gather product intelligence, particularly if the product is complex. If management requires that each generation of product be profitable, instead of regarding the early models as sacrifices, the rate of intelligence gathering could be seriously impaired.

The final challenge is a general management

challenge—how to conceptualize what the long-run markets and competitors will really be at the early stage of the game: Often the whole shape of the industry changes once the dominant design emerges and enough volume of sales is being generated to warrant the serious attention of major competitors. (This could well be the case in the word-processing industry.) The entry barriers which the strategist erects should address the long-run competition as well as the more immediate competition.

To summarize, it appears that the initiative in aggressive build situations, where the market growth is rapid, is attained by rapid occupation of the largest, fastest-growing segments—filling key market spaces as quickly as possible and throwing up entry barriers as quickly as possible. The basic dilemma is whether to engage the competition while doing this or to bypass them and postpone engagement with them until the company moves over to a gradual build role, which is discussed next.

The Gradual Build Role

The gradual build role is strategically appropriate when the industry starts to emerge from the frenetic pace of the rapid growth stage but is still growing well [9]. To justify pursuing this strategy, the firm should at this stage have a generally strong position and be determined to steadily improve this position.

By now, the desired product characteristics are likely to be fairly clearly identified. The nature of competition will tend to move more to expanding applications, expanding territory (particularly overseas), enhancing services, and reducing costs. So market intelligence and competitive intelligence start to take precedence over product intelligence at this stage. Product intelligence activities have to do with one of the major sources of preemptive potential—the dominant next-generation product. The challenge lies in identifying, from market and competitive intelligence, what the "compelling" characteristics of each next-generation product line will be and introducing the successive generations of such products in such a way as to continuously preempt the competition (recall the IBM System 360 example).

Critical to maintaining the initiative is a thorough understanding of the response barriers—both of the competition (in order to judge the best timing of each product introduction) and of the business itself (in order to minimize the response lag to initiative-seeking moves by the competition). Competitive intelligence should also provide information

for anticipation of the competitions' major moves: For instance, once the product requirements have been articulated in the marketplace, there arises the opportunity to preempt foreign markets by rapid movement into the richest of these markets with marginally modified, current-generation products. Competition may elect to do this, in the process creating substantial entry barriers by exploiting a "first occupancy" position. So the strategic aggressor needs to be alert to the first indications of such moves, so that they can be matched or defused.

In the gradual build role—particularly as market growth eases off and the customers become aware of, and knowledgeable about, the full potentials of the product, the type of infrastructure demanded may start shifting to an increased need for applications engineering or equivalent support services. If dominance can be built in this area, it creates some additional potential for preemption.

Another major preemption potential is the development or securing of distribution systems and service systems which provide low-cost access to large numbers of smaller secondary markets, territories, and accounts, thus profitably denying such accounts to the competition. Since these "second stage" segments can be very diverse, an important preemptive option is the ability to customize, via some modular approach, a relatively standardized product. (Examples are the use of basic hardware with specific software in data processing and word processing or basic insurance policies with multiple options.) In the event that this is not possible, the strategic aggressor could well face the dilemma of having to cope with competitors who decide to attack by building customized products for selected segments.

If this occurs, a well-conceived sacrifice may become necessary. The dominant producer can ill afford to match every specialization or segmentation move adopted by each of its competitors, if it wishes to retain strategic initiative. Thus, a conscious sacrificial decision may have to be made not to provide full coverage for all markets but to yield certain markets to these competitors. Ideally these should be markets in which the entry barriers are low and are expected to remain so or markets in which entry barriers are expected to reduce substantially in the future (for instance, via learning curve benefits to reduce entry costs). Then, if the competitors get too powerful, they can be more easily attacked, either for the "hit list" purposes (to completely defuse them) or for counterpunch purposes (to throw them off balance if they try to move out of their "reservations"—namely, those markets

which have been strategically yielded to the competition).

The fundamental management challenges at this stage are twofold. First is the conceptual ability to recognize when the point of negative marginal returns on effort has been reached for each segment, territory, or distribution system. Inability to make this hard-nosed assessment causes management to squander valuable talent, ingenuity, and resources trying to scrape the bottom of each market barrel. The second challenge is, once having recognized these turn points, to anticipate the appropriate basis of industry leadership for the coming slower growth phase: At different times, in different industries, the initiative goes to those few competitors who correctly anticipate, and prepare for, the leadership capabilities which drive the market—be it quality, cost, value, marketing skills, service coverage, distribution skills, or combinations of these [9]. Since the time to develop dominance in these strategic capabilities is long, and the capacity to dominate in more than a few capabilities is limited, it is truly important for management to anticipate which capabilities will be needed in the next stage, rather than find itself without the time to develop the required dominance.

In summary, strategic initiative for a gradual build role calls for control of next-generation product introductions, anticipation of competitive moves, preemption of second-stage segments and key international segments, identification of emerging bases of industry leadership, sacrifice of full coverage, and ability to clearly identify when points of negative marginal return on endeavor are reached in each position.

The major alternative to a gradual build role is a selective build role. This is discussed next.

The Selective Build Role

The selective build role is strategically appropriate either when there are insufficient resources for a gradual build role or when the business has a moderate position in an industry where growth is still solid but has started to slow down. The role calls for focus on growth in selected segments, territories, or market positions rather than across all fronts. Clearly the main thrust of this role comes from the careful assessment of the strengths and vulnerabilities of the key competitors as well as the business itself. Strategic initiative is retained by being able to focus on emerging rich market segments. Thus, the strategic intelligence requirements call for a

focus on competition and markets. Market intelligence is necessary for the identification of general opportunities, but this is not sufficient: Competitive intelligence provides the basis for identifying those specific opportunities that the business, but few of its competitors, can follow. Thus what is sought is the capacity to carve out niches in the market that the competitors either cannot follow (because of some entry barrier) or will not follow (because of some response barrier), and exploit the niche for the duration of the time that the competitors do not follow. Thus competitive intelligence is needed for identification of existing and emerging entry and response barriers so that defensible niches can be identified. (In the 1960s and 1970s, Digital Equipment's focus on mini- and microprocessing markets was a conscious strategy to serve a segment that IBM could have attacked but would not.)

The strategist must decide whether the real attack is aimed at gobbling up one or more smaller competitors or taking a bite out of one of the larger competitors.

Critical to the success of such a role is the clear identification of which of the competitors are on the "hit list." The essence of the strategic role is to choose time, place, and conditions of attack and to attack under conditions that suit the business rather than the competitors. MacMillan [5] suggests several such conditions: These include concentrating effort on a limited number of segments at a time rather than on all fronts; attacking areas where the competition has overextended itself (usually manifest by customers complaining about quality, support service, or delivery); avoiding prolonged wars of attrition by choosing segments where a strong position can be achieved quickly; developing and paying detailed attention to the logistics required to support the move; developing loyalty with specific key decisionmakers in carefully targeted accounts; and ensuring that the management and firing line employees (like salespeople) have a high degree of autonomy as well as commitment to the strategic move.

Of additional importance is a realistic and pragmatic assessment of the business' own current and emerging vulnerabilities, because it is where the

business is vulnerable that competitive counter-punches can do the most damage.

In many cases, the defensibility of a niche depends on a clear understanding of what is valued by the customer. In the high, but decelerating, growth stages, the market is in a better position to assess value (quality, reliability, support service vs. lifetime cost of the product) than in the early very high-growth stage. What constitutes value tends to differ from segment to segment, and thus the prime areas for preemptive potential will tend to lie in the identification of emerging value—segments that fit the particular skills available in, or achievable by, the business. This was characteristic of the entry of the Japanese into the photocopying business. There existed a feasible and unserved market for simple, inexpensive copiers whose copy quality was not excellent but whose value, in terms of lifetime cost to the customer, was high. The manufacturing skills were in place in Japanese industry to produce such a copier, and the Japanese were able to preempt this business segment with a low-cost strategy, which was counterstrategic to the dominant U.S. competition.

A further valuable preemptive potential lies in positioning. If one does not intend to dominate, one can clearly preempt and exploit a lesser position, particularly if that position can be supported by a "cause"—a slogan which one can use to rally customers, distributors, suppliers, and/or employees and which the competition finds hard to deny. A famous example is Avis Corporation's "We're number two, so we try harder." But was it clear in the Avis case, that the major impact of the positioning strategy would be on the shares of the smaller competitors, rather than on Hertz? The need for accurate "hit listing" is repeated: It is critical for the strategist to decide whether the real attack is aimed at gobbling up one or more smaller competitors or taking a bite out of one of the larger competitors, for their responses must be anticipated if the business is to retain initiative. There may even be a real need to develop signals to the marketplace [8] to obviate the panic responses from non-targeted competitors who are not the target of the attack.

The major sacrifice called for in the selected growth role is the obvious one: the recognition that full coverage of large markets (with concomitant economies of scale) is foregone. In the long run, this could lead to severe cost disadvantages, when the market slows down and becomes more competitive. Therefore a key general management challenge lies in somehow delivering high value to

the customer while at the same time continuously reducing costs. It is too easy to get enticed into a high-service, high-margin segment and end up being a high-quality but high-cost and unwanted participant as the industry moves into maturity.

In summary, the selective build role appears to call more than anything else, for creativity in choosing the time and conditions of competing and thus in pragmatic assessment of the key emerging vulnerabilities and strengths both of the competition and of the business itself in an increasingly value-driven market.

The Aggressive Maintain Role

This role is strategically appropriate when the business has a strong position in a mature market. This type of business can deliver steady profits for long periods, and resource commitments must be committed to maintenance of the strong position achieved. However, if there is limited potential for strong growth, resource commitments should be limited only to such maintenance of position.

In these slower growth conditions, competitors are likely to be much more directly competitive, so the need for competitive intelligence is very high. Market intelligence becomes less important as a need for product intelligence reemerges, particularly in terms of maintaining and developing more efficient supply, delivery, production, and service. Further, there emerges a need to monitor for the less obvious threat of competition via substitutes. In fact, a conceptual challenge for management is to avoid developing a "conventional wisdom" about the industry [8] which denies or decries the threat of substitutes. The point is that by this stage the market has fully articulated the needs to be satisfied by the product or service, and now that the need is fully specified, it becomes easier to find other ways of satisfying the need. At this stage, the desired characteristics of the product are well known to the customers, who should by now be buying on the basis of value to them; so cost, quality, and reliability are likely to become prime considerations in the purchase decision. So strategic attention also needs to be given to how to build entry barriers for substitutes, and these barriers tend often to revolve around pricing, cost reductions, and economies of scale.

Hence, key infrastructure requirements will tend to revolve around continuously improving the efficiency in the entire infrastructure (production, distribution, supply, and service systems) [1] and

not allowing slack [3] to develop. In fact, it is another serious challenge for management to avoid the erosion of the infrastructure, which happens if they tolerate a slow but inexorable reduction of efficiency, discipline, and competitiveness. By so doing, the business eventually creates massive internal response barriers to invasive moves by aggressive (often new) competitors [7].

A second challenge for the management is the anticipation of what the basis of industry leadership will be for each successive round of strategic plays (discussed above in the gradual build role, in which anticipation of the first-round basis of leadership was called for). Since there are not the resources to achieve dominance in cost, quality, distribution, marketing, sales, service, and so on, the initiative tends to go to the businesses which have achieved dominance in the strategic capability critical for the current period. Then while competitors are matching this capability, the strategic aggressor can build dominance in the capabilities critical for the next round of competition.

It is in light of a need to be able to move from one dominant capability to the next that some of the principles of aggressive defense become important. Maintenance of flexibility is essential to strategic initiative, and so the aggressive maintainer must start paying attention to anticipating exit barriers [4] so that it does not find itself locked into situations that were appropriate for the past strategic round but not for future rounds. (For instance, the dilemma of finding oneself locked into a powerful group of independent distributors at a time when the consumers have moved their purchasing behavior to supermarket chains). Equally important is the need to reduce response barriers of the business itself, so that it can move rapidly to recover the initiative from aspiring usurpers. Since the business is likely to find itself the target of attacks by competitors aspiring to its strong position, it has the choice of waiting for, and responding directly to, each initiative by its competitors (in which case it will surely find itself on the defensive and lose the initiative), or it can anticipate and prepare powerful, highly aggressive counterpunch options targeted at strategically sensitive areas of the competitors, to be used to knock the competitors back in line if the competitors do attempt to gain the initiative. A well-prepared counterpunch list is fundamentally important in maintaining the initiative.

At this stage of the game, a major source of preemption potential is in the area of preempting capacity: either of suppliers, production facilities,

distribution systems, or support service organizations. The anticipation and first introduction of major features/support services for a basically standard product are another area with preemptive potential. So ability to modularize becomes an even more important skill than in the gradual build role. Finally, in the international arena, key skills may be required in the area of government relations, to preempt (or block preemption by competitors of) positions in the international chess-board.

For the aggressive maintainer, the major sacrifice involves the trade-off between maintenance of position and profitability. It is imperative that the strong position that has been built be maintained. This may require substantial investment in replacement of old facilities to remain competitive in costs. This investment may not appear as attractive as high-growth alternatives, yet to maintain the strong stable position some of these more attractive, more exciting (but riskier) alternatives may have to be sacrificed. To do this, fully depreciated plant (capable of high accounting profits) may have to be scrapped in order to install modern, more efficient plants which will give low accounting profits. In recent decades, several industries slowly became uncompetitive because they could not make that sacrifice.

The major general management challenge appears to be in the capability of building and sustaining a degree of autonomy that allows lower management to aggressively respond to competitive moves. At the same time, these aggressive responses should not disrupt the business, which needs a high level of balance and coordination to capture the efficiencies needed to keep costs down. Critical to resolving this dilemma is the ability for senior management to explicate the simplest, shortest set of guidelines, which define the "ideology" of the business and by which lower-level management can assess the suitability of their "parochial" responses to the business as a whole. Some chief executives have taken the trouble to do a lot of soul searching and then to develop a set of "ten commandments" for their businesses which are the absolute minimum set of rules by which to assess the suitability of alternative courses of action. The idea of this minimal set of broad rules was approached as follows: The chief executives were asked to generate a set of rules that would be issued under the assumption that they would be stranded on a desert island for two years. On their return, they should be able to review all the decisions made by subordinates and feel satisfied that even if it

were not the exact decision they would have made, they would still feel that it was a feasible and acceptable decision. To test the rules as they evolved, the chief executives were then asked to review all the important decisions made in the past two years and decide whether the rules would have led to essentially similar decisions had they been absent. These rules were given to middle management, who were then given autonomy to select any alternative they desired as long as it kept within the confines of these rules. This has had salutary effects in increasing the morale, as well as the flexibility, of middle-management responses to competitive moves. If such autonomy is not developed, the aggressive maintainer runs a serious risk of becoming mired in its own bureaucracy.

In summary, the aggressive maintenance role calls for sustained attention to cost reduction in the entire infrastructure; avoidance of the erosion of this infrastructure (and hence competitive position); a clear set of counterpunch plans to protect initiative; the development of a clear, simple ideology which will enhance flexibility of responses to competitive moves; and a strong sensitivity to the threat of substitutes.

The Selective Maintenance and Competitive Harasser Roles

These roles are strategically appropriate when the business has a subordinate position or a poor position in a very high growth market. The first alternative is to carefully select and occupy only favorable positions which will assure profitability with minimal commitment of resources, while less favorable positions are conceded to the competition. The clear alternative to conceding the unfavorable positions is to use the weaker position to harass those competitors in the industry.

Selective Maintenance

In the event that a selective maintenance role is chosen for the business, there are major inertia barrier problems to be overcome. First is to select segments where some entry barriers or response barriers either exist or can be built. This can usually be done by careful segmentation. Second is the dismantling of exit barriers (or avoidance of emerging exit barriers) for those segments that will be conceded. A great deal of creativity may be needed to find inexpensive ways of bypassing or

overcoming the objections of committed distributors, customers, labor unions, government agencies, and other such interest groups that may object to the exit [4]. In addition, plant and equipment or property may have to be creatively disposed of to avoid enormous write-offs and/or costly programs for restoration of sites.

Some CEOs have developed a set of ten commandments, the absolute minimum set of rules by which to assess the suitability of alternative courses of action.

A concomitant set of general management challenges exists. First, the concession of segments to the competition needs to be done under conditions of strategic withdrawal, and not of complete abandonment. Withdrawal encourages competition to attack, and this may precipitate a wide-scale competitive assault on the entire market [7]. So competitors need to be prevented from assuming that the entire market is being hastily abandoned and thus being encouraged to try to invade those segments that the business intends to hold. There is a particular need to maintain "counterpunch" lists. Use of these counterpunches whenever competitors attempt to penetrate a selected-to-hold segment helps the strategist signal determination to maintain the selected positions.

On the positive side, there lies a challenge similar to that of the selective growth role: to identify those conditions of competing that suit the business rather than the competition. Even more than in the selective growth role, creative attention must be focused on the careful selection of niches and the formulation of strategies for entering and developing entry barriers to these niches without having much resources to do so.

The successful development of such niches provides a key for resolving the most crucial general management challenges for the selective maintenance role, which is in effect a retreat. Retreats are generally bad for morale. Building of morale is critical to the success of this role, and the way that morale is built and maintained is for management to focus subordinates' attention on the modest, achievable, successes in the niches selected. Warren [10] has stressed the need, in building morale, to focus on achievable success rather than on potential failure or on grandiose targets.

In the process of selection of such niches, the major sacrifice that has to be made is the fundamental trade-off between value of the customer and value to the customer. Management cannot afford to continue to satisfy the demands of the customer unless the customer in turn has real value to the business, measured in terms of profits. Management may have to face up to the tough decision to refuse uneconomical demands of substantial high-value customers, thus incurring the risk of losing these customers entirely unless they can find ways of incrementally extricating from dependence on these customers. Unless such risks are taken, the business will find itself being drawn via creeping commitment into competing under terms that are dictated by customers rather than by the business itself. Ultimately, initiative is lost to the customer.

The major intelligence requirements for this role call for identification of segments where specific strengths existing in, or inexpensively generatable by, the business can be used. To the extent that these strengths also create entry barriers for other competitors, these segments may be preempted by concentrating on these segments and entering rapidly in order to take full advantage of any response lags created by response barriers of the competitors.

Competitive Harassment

If the business is to be used primarily for harassment of competition, it is a foregone conclusion that the prime focus of intelligence activity is competitive. In particular, the extent to which the business maps onto the competitor's product/market portfolio is important in determining the nature of the harassment role. For instance, if the business occupies the weaker position in a highly attractive growth industry, the harasser can be used as a distractor, diverting attention from the second industry. If the business occupies a weaker position in an attractive industry in which the competition enjoys strong profits from a stable moderately growing condition, the harasser can be used to drive down prices and thus deny revenues to the competition. If the competitor appears to be attempting to enter an industry in which the parent company enjoys a good position, the harasser can be used to cross-parry by attacking the competitor's product and forcing it to turn its attention back to "home base." The feasibility of these alternatives clearly depends on a good assessment of the relative positions the various SBUs occupy in the competitor's

portfolio, hence the need for good competitive intelligence.

As far as infrastructure is concerned, there is a real need for the competitive harasser to find ways of keeping costs to a minimum, particularly fixed costs. Thus the management should seek ways of subcontracting as much of the business as possible in order to maintain a very low, but permanent, presence in the market which does not detract resources from other businesses. But at the same time there is a need to be able to mobilize substantial increases in activity and, if the need arises, to carry out a harassment ploy.

The business must be able to exit when the usefulness of the business as a harasser has expired. There is a danger that it may find itself locked into an unsatisfactory market once its usefulness is over.

Certain entry and response barriers preclude effective harassment—for instance, high customer loyalty, strong distributor loyalty, or high switching costs make it difficult for the market to respond to harassment moves. Thus a good assessment of all inertia barriers, of competitors and of the business itself, is important.

The great management challenge lies in morale. It is important for management to develop success criteria which focus on competitive impact rather than on the volume of business accomplished, since this will vary according to the need for harassment. It is likely that only a few people will derive motivational challenge from the strategic role, but these people will find the harassment role a particularly challenging one.

The Prove Viability and Divest Roles

These roles are strategically appropriate when the business occupies an unsatisfactory position in an unsatisfactory industry. Unless the business can clearly demonstrate some future potential, there is little value in devoting further time, management talent, or scarce resources to maintaining its existence.

Prove Viability Role

Here, more than any other role, management must find ways of deriving profitability by strategic moves chosen so that, ideally, the probability of success is maximum, and the amount of resources used to pursue the move is a minimum. Here, more than

any other role, it is essential for the business to choose the time, place, and conditions for competing, so that it competes under conditions that suit the business, not its competitors. Here, more than any other role, it is necessary for the business to develop counterpunch plans that allow it to demonstrate intense commitment to those markets that it chooses to fight for and to retaliate violently if its key markets are attacked.

This creates a challenge to management to very carefully consider several factors. First, management must get to grips with what the minimum justifiable scope of the business shall be—in other words, what level of business must there be to justify the effort of sustaining the business in the long run. Next, it must decide whether there is sufficient market potential to achieve this scope, without requiring resources. In so doing, it has to take into account whether there are compelling economics for keeping the business, not only from the point of view of the business itself but also its customers, its suppliers, and its distributors, perhaps even unions and government agencies. Unless there is justifiable potential from the point of view of all these stakeholders, it is unlikely that the business will receive the environmental support it needs to prove long-run viability.

The greatest challenge in developing a viable strategy will be to find ways of getting other stakeholders to commit resources to support of the business. Since it will receive few company resources, the business must identify which stakeholders have a vested interest in the survival of the organization and pinpoint what the bases for such vested interests are. Having identified these, the strategist is in a position to decide how to enlist aid, support, and resources from those parties that do have a vested interest. This conserves the limited resources of the strategist for those truly important moves which take advantage of every available inertia barrier to secure and establish market niches. With the prove viability role, it is imperative that focus, concentration, and precision be used in selecting conditions of competition. The role generally requires substantial retrenchment from the existing positions, particularly in capacity. Real creativity, discipline, and sacrifice are called for to squeeze every form of slack [3] from the business and to convert these slack resources to those resources which are deployable to the task of demonstrating viability.

In the event that viability cannot be proved, the final sacrifice of closing down or divesting the business needs to be considered.

Divest / Liquidate Role

Here the essence of the strategic initiative lies in the dismantling of exit barriers, for unless the exit barriers can be scaled, the company can be locked for years into a totally unrewarding situation [4]. To the extent that allies can be found to reduce the burden of removing these exit barriers, such help must be enlisted. (Several companies have been able to persuade their employees or the employee union to take over the ailing business, thus bypassing enormous exit barriers created by union and pension agreements.)

A major consideration is the decision as to how to exit. Once again the position of the business in the competitor's portfolios of business is relevant. At the one extreme, by combining the business with a competitor's business, it may be possible for a high salvage value to be obtained [4], in which case the greatest cooperation is called for with competitors. At the other extreme, if there are competitors who are competing fiercely with the company in other industries, it may be possible to precipitate tactics that will cost the company little but be highly disruptive to competitors, thus detracting from their capacity to compete in those other industries. In this case, minimal cooperation with competitors is indicated.

An analysis of stakeholders' vested interest can also give some indication of which, if any, of the stakeholders may be interested in the purchase or support of the business. This may create some opportunity to leverage a better price for the business.

Finally, the key preemptive challenge may lie in being able to anticipate whether other competitors will also exit. As Harrigan [4] points out, if enough competitors depart, the industry may become "comfortable" again. If not enough exit, then the best price and conditions may go to the company that

preempts the first exit. Thus competitive intelligence focused on the competitors' exit intentions becomes vital to the timing and pricing of the exit.

In both the divest/liquidate and the prove viability roles, the challenge of morale maintenance must be addressed. Once again, what becomes important is how success is defined to the subordinates, how skillful management is in setting challenging but achievable targets for them, and how adept they are at reinforcing the successes achieved. The skill of great military leaders at accomplishing this in adverse circumstances bears testimony to the need to focus on success, however modest, when building morale.

Conclusions

We have attempted to show how general principles evolved in the first part of the article could be applied more specifically to each strategic role in the second part of the article. We have not discussed an alternative approach, which looks at the application of strategic initiative concepts to different industry structures (fragmented vs. concentrated, regional vs. national vs. global), primarily because the focus has been on the strategy of the strategic business unit or its independent equivalent. The idea of strategic initiative can be used to bring together concepts of corporate strategy (which define a strategic role for the portfolio of SBUs) with the concepts of business strategy formulation (which address the problem of how to compete in a specific SBU).

The approach of looking at strategic initiative takes the policy field a step closer to the study of strategy as a dynamic problem, in which competitive countermoves are a fact of life in strategy formulation, rather than a static, unilateral process.

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