

Strategic and Natural Competition

Strategic competition leads to time compression. Competitive shifts as a result of strategy can take place in a few short years. The same evolution by natural competition might require generations.

Strategic competition is a relatively new phenomenon in business. It may well have the same impact upon business productivity that the industrial revolution had upon individual productivity. The basic elements of strategic competition are :

- The ability to understand competitive interaction as a complete dynamic system which includes the interaction of competitors, customers, money, people and resources.
- The ability to use this understanding to predict the consequences of a given intervention in that system and how that intervention will result in new patterns of stable dynamic equilibrium.
- The availability of uncommitted resources that can be dedicated to different uses and purposes in the present even though the dedication is permanent and the benefits will be deferred.
- The ability to predict the risk and return with sufficient accuracy and confidence to justify the commitment of such resources.
- The willingness to deliberately act to make the commitment.

This description of strategy sounds like the basic requirements for making any ordinary investment. It is that. But it is far more. Strategy is all encompassing in its commitment. Strategy by definition involves the commitment and dedication of the whole firm. Failure of any competitor to react and then deploy and commit his own resources against the strategic competition of another competitor can result in a complete inversion

of the competitive relationships and a major shift in the equilibrium between them. That is why strategic competition leads to time compression. Natural competition has none of these characteristics.

Natural competition is wildly expedient in its moment to moment interaction. However, it is inherently extremely conservative in its change in characteristic behavior. By contrast strategic competition is deliberate, carefully considered and tightly reasoned in its commitments, but the consequences may well be radical change in a relatively short time.

Natural competition is evolutionary.

Strategic competition is revolutionary.

Natural competition is really low risk incremental and error. Small changes that seem to be beneficial are gradually adopted and maintained. Other small changes are tried and added. It is learning by trial and error without the need for either commitment or foresight. It is the adaptation now to the way that things are now. It is the basic pattern of evolution. It is Darwinian natural selection. It functions even if controlled by pure chance or pure expediency. For these very reasons it is inevitably very conservative, gradual and produces nearly imperceptible change near term regardless of the ultimate consequences long term.

Strategic competition by its very commitments seeks to make a very large change in competitive relationships. Its revolutionary character is moderated only by two fundamental inhibitions. Strategic failure can be as sweeping in its consequences as strategic success. And characteristically an alert defense has a major competitive advantage over the attacker. Strategic success usually depends upon the culture, perceptions, attitudes and characteristic behavior of competitors and their mutual awareness of each other.

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This is why in geopolitics and in military strategy as well as in business strategy the pattern of competition contains long periods of natural competition punctuated by relatively sudden and major shifts in relationships as a result of strategy. It is the age old pattern of war and peace even though competition continues during peace.

Currently normal modern business behavior seems to fall between the extremes of these two modes. However, a shift towards strategic competition seems to be the secular trend. The successful use of strategic competition by the most aggressive direct competitor can make the same foresight and dedication of resources the prerequisite for survival of others. Eventually the mastery of strategic competition will be a requirement for adapting to that kind of environment in which most of the change is the result of strategic commitments.

Natural competition should be respected. It is the process that produced the infinite and exquisite complexity, variety and interaction of all the forms of life on planet Earth. This was accomplished by pure chance with no plan, foresight or objectives. The starting point was the equivalent of sterile chemical soup. However, it took millions of years of nearly infinitesimal changes and adaptations.

Natural competition must be completely understood. It is the foundation. It is the system and pattern of interaction upon which any form of strategic competition must build and modify. Understanding of natural competition is required in order to predict the effect on those relationships as the result of intervention in the feedback loops of that system.

Differences between competitors is the prerequisite for survival in natural competition. Those dif-

ferences may not be obvious. But competitors who make their living in exactly the same way in the same place at the same time are highly unlikely to remain in a stable equilibrium. However, any differences may give one competitor or the other an advantage over all others in some part of the common competitive environment. The value of that difference becomes a measure of the survival prospects as well as the future prosperity of that competitor.

There is nearly an infinite number of combinations of competitive factors in an environment which has a large number of variables. It should not be surprising that the world is filled with a vast variety of competitors, all different, which seem to exist in a moving but stable equilibrium. The range of size, behavior and characteristics is not accidental; it is inevitable. It is also stable even though ever changing in detail. Those differences are the a priori requirement for the survival of each and every one of them in their particular subsection of the environment. That is natural competition as it always has been.

Strategic competition is not new. The elements of it have been recognized and used in warfare since the human race became able to combine intelligence, imagination, accumulated resources and deliberately coordinated behavior. The distilled wisdom of many centuries has been expressed in many maxims such as "concentrate strength against weakness."

But most military strategy has been focused on the battle itself or the war rather than on the equilibrium of the relationship that continued through both peace and war. Geopolitics is this larger perspective of the continued competition of this dynamic equilibrium over time. Yet there is still a very limited general theory about geopolitical dynamic equilibrium.

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The general theory of business competition is almost certainly in its infancy. But the elements of a general theory that integrates all of the elements seem to be developing. The integration itself is the critical development.

The classic economic theories of business competition seem to be so simplistic and sterile that they are obstacles to progress and understanding rather than contributions. They seem to be based on views of competition as a static equilibrium in a static economy rather than a dynamic equilibrium. They are based on theoretical concepts of cost behavior that have never been observed in reality and which directly contradict observable and quantifiable evidence. They make assumptions about competitive behavior which are neither observable nor useful in predicting competitive behavior. The frame of reference of "perfect competition" is a theoretical concept that has never existed and probably could not exist. Unfortunately they have been used to develop public policy which is equally unrealistic.

Development of the general theory of business competition will permit the prediction of the consequences of any kind of business competition. It can be the base of both strategic competition and constructive public policy. The general public would benefit on both counts. The development of a general theory of business competition will require the testing and revision of many interlocking hypotheses.

We would now hypothesize that :

- Effective competition will result in a range of sizes of competitors from very large to very small. This spectrum of size will be stable over time.
- Competitors who survive and prosper will have unique advantages over any and all

other competitors in specific combinations of time, place, products and customers.

- For any given competitor, there will be different competitors who will provide the constraints for almost every combination of relevant factors. Therefore the frontiers or boundaries of competitive parity will be constantly changing as any one of the competitors changes, adapts, grows or redeploys.
- Perpetual conflict will exist along those frontiers where competitive ability is at parity.
- Very little conflict will exist where there is clear superiority which is visible. The military analogy of the battle front is useful in visualizing this.
- Business competition is inherently multiple front with a different competitor on each front.
- Any redeployment of resources will change the balance of competitive parity on at least two fronts. If one is strengthened, others will be weakened.
- Whenever a front or zone of competitive parity becomes stable or static, then "bourgeois" competition will develop. Such "bourgeois" competition exists when the defense always acts as a hawk and the offense always acts as a dove. This is a mutual recognition of mutually predictable behavior.
- The fewer the number of competitive variables that are critical, then the fewer will be the number of competitors. If only one factor is critical, then no more than two or three competitors are likely to coexist. Only one will survive if the available market shrinks. This is the "rule of three and four."
- The more variables which can be important, the larger the number of competitors which will coexist, but the smaller will be their absolute size.
- The more variable the environment, then the fewer the number of surviving competitors. In this case, the ability to cope with the greater

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change in environment becomes the overriding and controlling factor.

- The new entry or the development of a new competitor depends upon the ability of that competitor to develop and identify a clear superiority compared to all other existing competitors in some subsection of the total market. Sequence of entry is important.

These and other hypotheses are direct derivatives from the observable facts and generally accepted theories of evolution in the biological and ecological sense. They are the pattern of natural competition.

The earlier work of The Boston Consulting Group attempted to develop a general theory of competition based on :

- Observable patterns of cost behavior ;
- Considerations of the dynamics of sustainable growth and capital use ;
- The role of the capital markets in permitting these effects to be leveraged or discounted ;
- The relationship between these in a system of competition.

We recognized early the inappropriateness of accounting theories developed for other purposes

as a model of economic behavior. We then developed the concepts that can be summarized as “cash in and out is all that counts.”

From this start, the concepts of the experience curve, the growth share tradeoff and the product portfolio were developed. This was further extended by analysis of shared experience, business risk vs. financial risk tradeoffs, the cost of proliferation, and cultural and behavioral extrapolation for competitors.

Many of these ideas are now commonly accepted assumptions and part of the business language.

This conceptual framework of business competition is far from complete. The knowledge and insight into competitive systems is expanding at an exponential rate. It is paralleling the expansion of our knowledge and insight into the physical sciences in the last century.

We believe that insight into strategic competition has the promise of a quantum increase in our productivity and our ability to both control and expand the potential of our own future.

Bruce D. Henderson

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