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Author Talks: How cognitive empathy can help you predict the competition's next steps

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John Horn breaks down the difficulties companies have in assessing competitors, the future of competitive insights, and their relevance in today's world.

In this edition of *Author Talks*, McKinsey Global Publishing's David Schwartz chats with John Horn about his new book, *Inside the Competitor's Mindset* (MIT Press, April 2023). Horn discusses the importance of looking at the world from a competitor's vantage point and the ways in which competitive insights can be used to influence decision making. An edited version of the conversation follows.

Why did you write this book?

Video

I wrote this book because I have been working on competitive-insight issues since I started at McKinsey almost 20 years ago. When I started, I took over from two people who did game theory workshops with clients. I asked them if they had ever played war games with their clients. They responded, "no."

I don't remember where I first heard about war games or why they came to mind. I asked other teams at McKinsey, synthesized the best learnings, and started executing. One of the things that stood out to me in the first war games that I played with clients was that they said, "Our competitors are irrational, and they don't make sense."

At first, I thought clients were referring to behavioral economics and the concept of irrationality that behavioral economics focuses on. Instead, I realized that clients believed that competitors were making irrational decisions (wrong decisions, bad decisions, and decisions that don't make sense).

As we continued to play war games, it became clear that what the competitors were doing *was* rational. Their decisions were helping them succeed. The more I played war games and worked with clients on competitive issues, the same concept would arise: "The competitors are irrational. We can't understand them."

The more I worked with clients, the more I realized that could explain why the competitor made certain decisions. I wasn't explaining what the competitor was doing. Instead, the client explained those decisions to me, and those decisions made sense.

As I've worked on these topics over the last couple of decades, it's stuck out that people think their competitors are irrational when they're not. We just aren't understanding the world from their point of view. When you look at the world from their situation and context, those choices begin to make a lot of sense and aren't irrational.

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There are tons of books about competitive insight and competitive intelligence that are helpful. The difference I want to point out is that many of those books still take an objective perspective. Instead, I want people to sit inside and try to put themselves in the viewpoint of their competitors and look at the world from their vantage points.

Why is it so hard for companies to understand their competitors?

Video

There are many reasons. A simple reason is that they're competitors, so I don't want to like them, and I don't want to focus on them.

As business leaders, we're taught to control things we can control. We can control internal operations, we can control marketing plans, and we can control the things we do as a company, but we can't control competitors. It is scary for business leaders to think about something that's out of their control or influence. Those are the basic reasons why it is so hard to think about competitors.

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and we can control the things we do as a company, but we can't control competitors. It is scary for business leaders to think about something that's out of their control or influence."

I think that the big reason it is hard for companies to understand competitors is because of a lack of cognitive empathy. Human beings struggle to understand why someone feels a certain way. Empathy is experiencing the feelings of others, and cognitive empathy is understanding why someone feels a certain way. It's saying, "I don't feel the same way, but I understand why you're experiencing those things."

In the book, I cite a new empathy theory that states that we have neurons in our brains that fire to create empathic feelings. It was found that the more senior you become, the less these neurons would fire. As we get more power and status, we have difficulties naturally empathizing with others. There are many psychological reasons for this, but the bottom line is that cognitive empathy is not natural for business leaders.

When people become more senior in business, they'll need to think about competitors directly. We're not naturally inclined to start being empathetic and understanding of how other people feel and why they feel the way that they feel.

This is the biggest reason why it's hard to understand competitors. You could say, "They're a leader in business in the same industry, just like us." I always go back to the idea that business leaders are taught to always find differentiation. Strategically, try something different. Find a niche market or find another supply chain setup. Find another way to distribute your products or services, or find another product or service.

We are guided to do things differently from our competitors, and our competitors do things differently from us. The core of what it comes down to is that as business leaders, it's hard to put ourselves in competitors' shoes, because they're who we're competing against.

Why is competition still important in today's world of platforms and ecosystems?

Video

Today, everything focuses on platforms and ecosystems. Companies have partnerships with suppliers, distributors, etcetera. This is how most industries are moving and how a lot of business leaders are thinking.

Thinking like a competitor is important for two reasons. One is that, depending on the country, laws can prevent you from talking directly to your competitor about what they will do. I can't ask my competitor, "What prices are you going to charge, what products are you going to introduce, or where will you focus your marketing campaigns?"

But I can ask my partners in an ecosystem. I can ask the supply chain partner, "What are you doing to upgrade your system?" Or I can ask my distributors, "Where are you going to focus on terms of online, and how are you going to upgrade?" I can ask them anything.

Within those discussions, you would be naïve to believe 100 percent of what they tell you. They have their agendas. They are running their own companies even though they're in a partnership and ecosystem with you.

The second reason thinking like a competitor is important is because of the concepts of value creation and value capture. Ecosystems and platforms are designed to create value. Working together as a system creates more economic value and more value for the combined entity. Within the combined entity, there is still a competition about who gets what. How do you capture value? Your partners aren't going to say, "Oh, you get all of it because it was your brilliant idea or because you own the platform."

They are trying to capture value from you, and you are trying to capture value from them. In that sense, it's still competition. You are not going to cooperate and say, "Let's just split it 50/50." They are going to try to get 55 percent. I still feel like even in today's world of larger ecosystems and partnerships, there's still competition for value capture.

What's wrong with the term 'competitive intelligence'?

Video

Competitive intelligence is the standard term for how we think about competitors. Several times in the book, I point out that this was not my invention. This came about by talking to the head of competitive insights for a financial institution years ago.

This person said, "We call it competitive insight because competitive intelligence is just capturing data. It's getting knowledge about the competitor. What matters is turning it into something that is actionable. Something that we can make a choice about and gives us insight into what they're doing."

I like that distinction because competitive intelligence says, "I know what my competitor did, I know what their prices are, I know what their product portfolio is, and I know where they're selling things. I have all this data. I've got a dashboard that collects all their reviews from online sources."

One of the challenges I’ve seen with competitive insights, even before the big data era we’re in, is that big data would be on paper. Competitive-intelligence functions would gather analyst reports, annual reports, and media articles and have massive stacks of information about competitors.

When a business leader would contact them and say, “What do you know about this competitor? We’re going against them in a contract bid, or they just entered our market,” the business leader would get the file, which would say, “Here’s what we know about them.”

The business leader would then reply, “I don’t have time to sift through this. I wanted you to tell me.” That’s the difference. Competitive intelligence is information. You then need the research to say, “What does that information tell us?”

That’s where competitive insight comes in. I think of competitive insight as forcing you to say, “OK, I have all this knowledge, but how does it help me understand what the competitor will do?” There’s another study I cite in the book, where the researchers asked business leaders to remember a past decision they had made, whether it was an innovation or pricing a past innovation. They asked, “Did you think about your capabilities, market trends, and what consumers and suppliers were thinking? Did you think about who your competitors were and what they were doing?”

Between 50 and 80 percent of respondents said yes. Then the researchers asked them, “Did you think about future competitor behavior and competitor responses?” The number of survey respondents that said yes dropped to between 2 and 18 percent. Everyone looks at the historical view (what has happened and what is happening), but when the focus is on the future, that number drops to near zero.

Competitive insights are not just taking what we know about a competitor. It is about collecting as much historical data as possible.

What do you see for the future of competitive insight in the next five to ten years?

Video

We can leverage artificial intelligence, machine learning, and big data in the next five to ten years. There is a lot of data collection and data analysis on what has happened.

I haven't seen a dashboard with competitive-intelligence or a competitive-insight software support tool that uses a predictive factor. You could possibly use that data to look across various industries and learn what has been the response when prices were raised? What was the response when someone introduced a new product? What was the response when someone entered a new market?

That's thinking about the likely behavior your competitors will have. Then, is there some context about if the largest player moved, or the smallest? That kind of data mining for outcome prediction is not something I see a lot. What I see regarding dashboards and data collection is around your immediate, direct competitors, not around the broader ecosystem of business behavior.

The second way dashboards and technology can help is with historical-data storage. Historical data can include trends and collect various types of information, such as how many patent applications have been submitted, how many patents have been granted (and how has this number changed?), what's your market share (has it gone up or down?), etcetera. You can collect all that information, but I always return to the phrase, "Past performance doesn't represent future outcomes." That's the real challenge with competitive prediction.

There's a case study that I used with students to prepare them for interviews. There are three competitors in the case study. The first competitor's market share remained flat—this was the client. The second competitor's market share increased, and the third competitor's market share decreased. My question was always, "Who should you be worried about?" The answer was usually the competitor whose market share increased. I would say, "What if they hit the market share level that they want to get and they realize that just throwing more money at it will create incrementally smaller market share gains, so it's not worth it?"

What if the competitor that lost market share was in the middle of turmoil and is now turning back and realizing that its market share is gone? Then it aggressively tries to regain it and capture it from you instead of the company that took it in the first place.

It's about understanding trends of market share. If market share has increased, maybe a competitor realizes that the market isn't good and wants to get out, or they may want to stabilize market share or continue to increase it.

Maybe the competitor whose market share decreased wants to get out of that industry for whatever reason. Just knowing past trends doesn't help you understand future objectives. That's why there is this concept of how competitors view the world and their objectives. What are they trying to do in the future?

It is hard to get that information from looking at past historical data. There are some things that companies tend to do over and over, but when there are big changes, you tend to think a company is acting irrationally.

They are changing because something is different in their world view, ecosystem, construct, and context in which they are doing business. It's not helpful to say their market share has decreased, so it will continue to decrease, or say that market share has increased and will continue to increase. You must understand what applies for what they will do next.

What else surprised you while researching this book?

Video

There were two new pieces that I focused on for this book, and they were surprising.

The first is how often people think their competitors are irrational. When I first proposed and pitched the book, the agents and publisher said, "No one cares about irrationality. It's behavioral economics. It's too overblown. Don't focus on that part."

When I referenced the book, some reviewers said, "No one thinks their competitors are irrational. That's not true. It doesn't happen." Am I the only unlucky person that had clients and talked to companies that have used that phrase, or is it more widespread?

I surveyed about 500 director-level and above individuals. I expected 10 or 15 percent of them would say that competitors act irrationally about 10 or 15 percent of the time.

I asked, "How often are competitors irrational?" I also offered 13 types of strategic choices. Are they irrational in terms of pricing, or talent development, or supply chain?

The percentage range I allowed was: 1 to 24 percent, 24 to 50 percent, etcetera. The median answer across those 500 individuals was 26 to 50 percent. This means half of the respondents felt that their competitors were irrational more than a quarter of the time. There were one or two people who said their competition was never irrational and one person who said their competition was always irrational.

There was variation across those 13 strategic choices, so I believe that respondents were carefully thinking about the question and answering truthfully. If you flip the data around, about 30 to 40 percent of the respondents said their competitors are irrational more than 50 percent of the time.

That is a huge number! Competitors are trying to do things differently from you, and they should. But for you to believe that your competitors are really acting irrationally more than 50 percent of the time, and yet they are successful enough that you focus on them, those two thoughts do not connect to me.

It's surprising that at some level, we don't step back and say, "Wait, if they're that irrational, how did they get to be so successful that we have to worry about them?" Again, that is one of the big disconnects. There was a lot more irrational belief than I ever thought.

I found the second thing that surprised me when I interviewed archaeologists, paleontologists, NICU nurses, and a homicide detective. This idea came from a McKinsey colleague who said, "We should talk to homicide detectives because they can't ask the dead body who killed them, just like you can't ask your competitor what they're going to do."

I extrapolated to paleontologists, archaeologists, and NICU nurses because, again, you can't experiment on dinosaurs, you can't ask ancient civilizations why they did what they did, and a NICU baby can't give you much response that's helpful in terms of pain scales.

What was interesting about those interviews was learning about the mindset and how people approach problems in cases where they can't ask the subject questions. I hoped that those interviews would give me mindset insights.

Ten lessons that apply to competitive-business and competitive-insight leaders came from those interviews. It was surprising how consistent the answers were across the various interview participants. It wasn't 26 different answers. There was a lot of consistency across these individuals.

These experts' mindsets are consistent. They have the same challenge of not being able to question their subjects. This stood out to me: I asked the question, "How do you not get locked into one way of viewing the world?" It's this idea of thinking we know how the competitor will act. How do you really keep your mind open to possibilities?

"How do you really keep your mind open to possibilities? The answer across the board was diversity of teammates. You need people with diverse backgrounds, diverse experiences, and who come from diverse perspectives. This keeps you honest."

The answer across the board was diversity of teammates. You need people with diverse backgrounds, diverse experiences, and who come from diverse perspectives. This keeps you honest. That was surprising and refreshing to me. I did not set out to have that as an objective.

Diversity was such a strong response that it became what I led with as the first lesson from these interviews—you need a diverse team. You need different perspectives to ensure that you're looking at the world from these different viewpoints, or else you're going to get locked into looking at the world through your own lens.

Watch the full interview

Video

John Horn on how cognitive empathy can help you predict the competition's next steps

ABOUT THE AUTHOR(S)

John Horn is a competitive and empathetic strategist, behavioralist, and analogist and the author of *Inside the Competitor's Mindset*. **David Schwartz** is an executive editor of McKinsey Global Publishing and is based in the Tel Aviv office.

Comments and opinions expressed by interviewees are their own and do not represent or reflect the opinions, policies, or positions of McKinsey & Company or have its endorsement.