
COMPETITOR ANALYSIS - A BRIEF GUIDE

Competitor analysis

Competitor analysis in marketing and strategic management is an assessment of the strengths and weaknesses of current and potential competitors. This analysis provides both an offensive and defensive strategic context through which to identify opportunities and threats. Competitor profiling coalesces all of the relevant sources of competitor analysis into one framework in the support of efficient and effective strategy formulation, implementation, monitoring and adjustment.

Given that competitor analysis is an essential component of corporate strategy, Porter (1980, 1998) argued that most firms do not conduct this type of analysis systematically enough. Instead, many enterprises operate on what he calls “informal impressions, conjectures, and intuition gained through the tidbits of information about competitors every manager continually receives.” As a result, traditional environmental scanning places many firms risk of dangerous competitive blind spots due to a lack of robust competitor analysis.

Competitors array

- One common and useful technique is constructing a competitor array. The steps include:
 - Define your industry - scope and nature of the industry
 - Determine who your competitors are
 - Determine who your customers are and what benefits they expect
 - Determine what the key success factors are in your industry
 - Rank the key success factors by giving each one a weighting - The sum of all the weightings must add up to one.
 - Rate each competitor on each of the key success factors
 - Multiply each cell in the matrix by the factor weighting.
 - Sum columns for a weighted assessment of the overall strength of each competitor relative to each other.

This can best be displayed on a two dimensional matrix - competitors along the top and key success factors down the side. An example of a competitor array follows:

Key Industry Success Factors	Weighting	Competitor # 1 rating	Competitor #1 weighted	Competitor #2 rating	Competitor #2 weighted
1 - Extensive distribution	.4	6	2.4	3	1.2
2 - Customer focus	.3	4	1.2	5	1.5
3 - Economies of scale	.2	3	.6	3	.6
4 - Product innovation	.1	7	.7	4	.4
Totals	1.0	20	4.9	18	3.7

Based on material presented in "Beat the Competition: How to Use Competitive Intelligence to Develop Winning Business Strategies", Ian Gordon, Basil Blackwell Publishers, Oxford, UK, 1989.

In this example competitor #1 is rated higher than competitor #2 on product innovation ability (7 out of 10, compared to 4 out of 10) and distribution networks (6 out of 10), but competitor #2 is rated higher on customer focus (5 out of 10). Overall, competitor #1 is rated slightly higher than competitor #2 (20 out of 40 compared to 18 out of 40). When the success factors are weighted according to their importance, competitor #1 gets a far better rating (4.9 compared to 3.7).

Two additional columns can be added. In one column you can rate your own company on each of the key success factors (try to be objective and

honest). In another column you can list benchmarks. They are the ideal standards of comparisons on each of the factors. They reflect the workings of a company using all the industry's best practices.

Competitor profiling:

The strategic rationale of competitor profiling is powerfully simple. Superior knowledge of rivals offers a legitimate source of competitive advantage. The raw material of competitive advantage consists of offering superior customer value in the firm's chosen market. The definitive characteristic of customer value is the adjective, superior. Customer value is defined relative to rival offerings making competitor knowledge an intrinsic component of corporate strategy. Profiling facilitates this strategic objective in three important ways. First, profiling can reveal strategic weaknesses in rivals that the firm may exploit. Second, the proactive stance of competitor profiling will allow the firm to anticipate the strategic response of their rivals to the firm's planned strategies, the strategies of other competing firms, and changes in the environment. Third, this proactive knowledge will give the firms strategic agility. Offensive strategy can be implemented more quickly in order to exploit opportunities and capitalize on strengths. Similarly, defensive strategy can be employed more deftly in order to counter the threat of rival firms from exploiting the firm's own weaknesses.

Clearly, those firms practicing systematic and advanced competitor profiling have a significant advantage. As such, a comprehensive profiling capability is rapidly becoming a core competence required for successful competition. An appropriate analogy is to consider this advantage as akin to having a good idea of the next move that your opponent in a chess match will make. By staying one move ahead, checkmate is one step closer. Indeed, as in chess, a good offense is the best defense in the game of business as well.

A common technique is to create detailed profiles on each of your major competitors. These profiles give an in-depth description of the competitor's background, finances, products, markets, facilities, personnel, and strategies. This involves:

Background

- Location of offices, plants, and online presences
- History - key personalities, dates, events, and trends

- Ownership, corporate governance, and organizational structure

Financials

- P-E ratios, dividend policy, and profitability various financial ratios, liquidity, and cash flow
- Profit growth profile; method of growth (organic or acquisitive)

Products

- Products offered, depth and breadth of product line, and product portfolio balance
- New products developed, new product success rate, and R&D strengths
- Brands, strength of brand portfolio, brand loyalty and brand awareness
- Patents and licenses
- Quality control conformance

Reverse engineering:

Marketing

Segments served, market shares, customer base, growth rate, and customer loyalty

Promotional mix, promotional budgets, advertising themes, ad agency used, sales force success rate, online promotional strategy.

Distribution channels used (direct & indirect), exclusivity agreements, alliances, and geographical coverage Pricing, discounts, and allowances.

Facilities

Plant capacity, capacity utilization rate, age of plant, plant efficiency, capital investment

Location, shipping logistics, and product mix by plant

Personnel

Number of employees, key employees, and skill sets

Strength of management, and management style

Compensation, benefits, and employee morale & retention rates

Corporate and marketing strategies

Objectives, mission statement, growth plans, acquisitions, and divestitures.

Marketing strategies

Media scanning:

Message can reveal new product offerings, new production processes, a new branding strategies a new positioning strategy a new segmentation strategy line extensions and contractions, problems with previous positions, insights from recent marketing or product research a new strategic direction a new source of sustainable competitive advantage or value migrations within the industry. It might also indicate a new pricing strategy such as penetration, price discrimination, price skimming, product building, joint product pricing, discounts, or loss leaders. It may also indicate a new promotion strategy such as push, pull, balanced, short term sales generation, long term image creation, informational, comparative, affective, reminder, new creative objectives, new unique selling proposition, new creative concepts, appeals, tone, and themes, or a new advertising agency. It might also indicate a new distribution strategy, new distribution partners, more extensive distribution, more intensive distribution, a change in geographical focus, or exclusive distribution. Little of this intelligence is definitive: additional information is needed before conclusions should be drawn.

A competitor's media strategy reveals budget allocation, segmentation and targeting strategy, and selectivity and focus. From a tactical perspective, it can also be used to help a manager implement his own media plan. By knowing the competitor's media buy, media selection, frequency, reach, continuity, schedules, and flights, the manager can arrange his own media plan so that they do not coincide.

Other sources of corporate intelligence include trade shows, patent filings, mutual customers, annual reports, and trade associations.

Some firms hire competitor intelligence professionals to obtain this information. The society of competitive intelligence professionals maintains a listing of individuals who provide these services.

New competitors

In addition to analyzing current competitors, it is necessary to estimate future competitive threats. The most common sources of new competitors are:

Companies competing in a related product/market

Companies using related technologies

Companies already targeting your prime market segment but with unrelated products

Companies from other geographical areas and with similar products

New start-up companies organized by former employees and/or managers of existing companies

Gaining a competitive advantage over existing

The entrance of new competitors is likely when:

There are high profit margins in the industry

There is unmet demand (insufficient supply) in the industry

There are no major barriers to entry

There is future growth potential

Competitive rivalry is not intense

Firms is feasible

THE BASIC PRINCIPLES OF COMPETITIVE INTELLIGENCE

Introduction

No business is an island. For success, the business will need to deal with customers, suppliers, employees, and others. In almost all cases there will also be other organizations offering similar products to similar customers. These other organizations are competitors. Moreover, their objective is the same - to grow, make money and succeed. Effectively, the businesses are at war - fighting to gain the same resource and territory: the customer. And like in war, it is necessary to understand the enemy:

How he thinks;

What his strengths are;

What his weaknesses are;

Where he is vulnerable;

Where he can be attacked;

Where the risk of attack is too great

And so on. In addition, like in war, the competitor will have secrets that can be the difference between profit and loss, expansion or bankruptcy for

the business. Identifying these secrets is thus crucial for business survival. But all this is not new.

Sun Tzu and the Art of War

Around the year 500 BC, the great Chinese military strategist, Sun Tzu wrote a treatise on the Art of War. From a 21st century perspective, many of Sun Tzu's approaches would be viewed as barbaric today. Nevertheless, his views on strategy are still relevant today - for both military commanders and business leaders looking at how to win against competitors. For instance:

If you are ignorant of both your enemy and yourself, then you are a fool and certain to be defeated in every battle if you know yourself, but not your enemy, for every battle won, you will suffer a loss. If you know your enemy and yourself, you will win every battle.

Who is a competitor in business?

Business competitors are:

- Other organizations offering the same product or service now.
- Other organizations offering similar products or services now.
- Organizations that could offer the same or similar products or services in the future.
- Organizations that could remove the need for a product or service.

Why monitor competitors?

By knowing our Competitors, we may be able to predict their next moves, exploit their weaknesses and undermine their strengths. Customers usually know the differences between companies - their good points and bad points. They know that company A is cheaper than company B and that company C has a better after-sales service. For a business to operate in a market and not know the same, and more, is tantamount to giving up the battle without even starting. As Frederick the Great said.

So what is involved?

- There are four stages in monitoring competitors - the four "C"s:
- Collecting the information (with a first stage - deciding what to collect)
- Converting information into intelligence (with three steps: CIA - Collate and catalogue it, Integrate it with other pieces of information and Analyze and interpret it)

Communicating the intelligence.

Countering any adverse competitor actions - i.e. using the intelligence one mistake many people make is to start by collecting information without thinking how the information will be used. There is no value in information that will just sit on a shelf. If it is used to inform the business's strategic or tactical decisions then the time, money, and effort spent collecting it is wasted. The business may be planning a new product - so information on what competitors are doing in the same area will help in the decision processes and plans for this new product. Alternatively, the business may be looking at how the industry will develop over the next 5 or 10 years. Or perhaps the board is looking at a potential merger, acquisition or business partnership.

The information requirements for each of these business decisions will be completely different and so the information that sought will be different. Thus before starting to search for information, the competitor analyst needs to sit back and define what they are looking for and why. They need to identify the key areas of concern for the business decision makers requesting the information, and aim to satisfy these.

Other information may be interesting, but unless it helps the decision process, it should be viewed as superfluous, and stored for use at another time or even ignored if it is unlikely have value. (As an example, it is generally not necessary to know the name of the CEO's children to understand how the CEO makes decisions.) Thus, rather than collecting information in a random or haphazard manner, the search needs to be focused and planned, and aimed at answering the various intelligence requirements of the business (often termed key intelligence topics, or KITs).

Many companies are overly secretive, protecting information that all their customers and competitors already know. Secrecy is important. It can be extremely dangerous to let a competitor know about the new product being developed. However, letting the sales force attempt to sell products without a full awareness of their products' strengths and weaknesses relative to the competition is like sending them out with one arm tied behind their back. They will be unable to answer objections and comparisons convincingly and thus are less likely to make the sale. And if the competitor product is that much better then shouldn't marketing, or product development be looking at ways of improving one's own product - rather than hiding the damaging news ostrich like?

Competitor intelligence needs to be evaluated and selectively communicated to all who need to make decisions based on what customers, suppliers, or other companies in the market are doing or are likely to do. And in today's world, that usually means everybody. The worker in the factory needs to know why production processes have changed from what was always done if he is to believe in management. The [Mushroom theory of management](#) (keep 'them in the dark!') has always had its adherents but has not usually succeeded in the long term.

Collecting competitor information

Information will come from a variety of sources, both within the organization and external to it. Sales representatives deal on a daily basis with customers - and will hear what the competitors have been doing. They are the business foot soldiers - with the ear to the ground who can forewarn management about impending enemy campaigns.

- Research & Development may come across new patents.
- Purchasing may find out that a supplier is now also supplying a competitor.
- Market research can give feedback on the customer's perspective ...but these are just examples of where information can come from.

Information can also be found on the Internet itself - most companies are now advertising their services and some specialize in offering information that can be used for competitor research. Among the best are D&B (Dun & Bradstreet) with a database of over 30 million companies' worldwide. If

you need to know about both private and quoted companies this is one of the best sources. Few other companies offer the same global scope - although some local companies will give D&B a run for its money for single country information. For public companies, there is also the D&B subsidiary, Hoovers, which holds considerable information - much of it free. Patent information can be obtained from companies such as Thomson Scientific's patent service (formerly known, as dare not Information) or from local patent offices. Moreover, global press information is available from databases made available by companies such as Dialog (also from the Thomson group), Lexis-Nexis and Factiva. There are numerous other web-sources - discussion forums, web-logs (blogs), pod casts, protest groups, customer and governmental sites and so on. We include some of the web-sources we use to search for competitor information on our CI Sources links pages. You can also find information at trade shows and conferences, and by interviewing industry experts, your competitors' customers and suppliers, ex-competitor employees - or even the competitor although there are ethical issues involved when obtaining information from some of these sources.

From information to intelligence

Having scanned the press, searched the Internet, spoken to the sales force, customers, suppliers, there should now be a large pile of data on your competitors. Unfortunately, much of this data will be repetitious, out of date, wrong or inaccurate, misleading, or incomplete. However like a jigsaw, each piece can help build up the complete picture. And even if some pieces are missing, you can often get a good idea of what the real picture actually is - even if other pieces are damaged and not all remaining pieces fit perfectly. For example, the company report can give an idea of a company's health - which will be enhanced by information from trade suppliers, trade press articles, and credit information agencies such as [D&B](#); Patents give an idea of R&D activity; Trade press gives an idea of marketing activity. And of course there are [specialist organizations such as AWARE](#) that have the techniques to dig deeper and get information that can lead to an idea of competitor strategy and future trends.

All this information needs to be collated - with any links and commonalities highlighted. The information will need to be indexed and catalogued - so that when new information comes along, it can be quickly linked to similar information that had previously been found. It may be stored in a custom-built or dedicated competitor database accessible via

the company Intranet - although it can also be stored in much less sophisticated forms.

Finally, the relevance and importance of each piece of information needs to be interpreted and analyzed - on its own and in conjunction with other information, the other pieces in the jigsaw. This is where information starts to become intelligence.

Countering Competitor actions

Having identified what competitors are doing, battle can be entered. Sometimes the battle will be vicious - especially when two competitors have been slogging it out for years. ([Pepsi](#) vs. [Coca Cola](#); [Procter & Gamble](#) vs. [Unilever](#)). Various military strategies have been used to describe different approaches to beating competitors - flanking strategies, encirclement and siege strategies, frontal attacks and even guerrilla marketing tactics. However, it is conducted [within the law](#). Although it is tempting to use underhand ways of gaining an advantage, certain activities may result in a prison sentence as well as extremely damaging publicity, loss of goodwill and loss of revenue.

Collecting Information on competitors can be likely to prospecting for gold. Nuggets are a rarity. The prospector will need to sift through a lot of soil, to find the few grains of gold, which make the task worthwhile. Occasionally, the prospector is tricked by iron pyrites - or "Fool's gold"!

Similarly, some of what is collected on competitors will turn out to be useless. Sometimes the information may be completely wrong and lead the unaware on the wrong path. However, with experience, this is less likely, as with the skilled gold prospector and "Fool's gold".