Competitor Analysis

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Competitor Analysis

Definition

Competitor analysis is defined as the:

'Identification and quantification of the relative strengths and weaknesses (compared with competitors or potential competitors), which could be of significance in the development of a successful competitive strategy.'

CIMA Official Terminology Guide 2005

Competitor analysis involves understanding and analysing businesses which compete directly or indirectly with your business in at least one market, product category or service. The main process involved in competitor analysis is to identify strengths and weaknesses of competitors, and the opportunities and threats for your business.

It is common for the terms 'competitor analysis' and 'competitive intelligence' to be used interchangeably. However, competitive intelligence tends to cover a broader view of the competitive environment. It includes all the factors that could affect profits, for example, new technology, changing consumer tastes and general economic trends.

The Society of Competitive Intelligence Professionals (SCIP) defines competitive intelligence as 'a systematic and ethical programme for gathering, analysing and managing external information that can affect your company's plans, decisions and operations.'

Context

In the current syllabus, CIMA students will learn and may be examined on this topic in Paper 6, Management Accounting, Business Strategy.

Related concepts

Cost planning and analysis for competitive advantage; marketing; product management; added value; brand management; strategic planning; position appraisal and analysis.

Overview

Competitor analysis is an important requirement in any business plan because it:

- reveals the firm's competitive advantage or disadvantage relative to its competitors
- provides insight into competitors' strategies – past, present and future
- assists in developing future competitive strategies to establish advantages over your competitors.

The main rationale for competitor analysis is to give key company decision makers a broader understanding of the competition. This understanding should assist management in assessing the firm's strengths and weaknesses. It should also help to ascertain threats and opportunities to the firm from its industry environment.

According to Wilson (1994), competitor analysis 'should be a central element in management planning and control, with detailed attention being paid to each competitor's objectives, resources and competitive stance, as well as to individual elements of its strategy.'

Application

The importance of competitor analysis

It can be argued that knowing your key competitors and their strategies are two of the most important factors in gaining greater market share. Once the competitors and their strategies have been identified, the following questions need to be considered:

1. In which areas are we most vulnerable to our competitors?
2. What can we do realistically to reduce this vulnerability?

Targeted intelligence is one of the most commonly used methods in undertaking competitor analysis. It focuses on what a business needs to know about its competitors. According to EMP Intelligence Service, targeted intelligence can help an organisation to:

- increase sales
- reduce competitors' sales
- obtain higher prices
- decrease own costs
- reduce competitors' profitability
- increase the costs of competitors
- improve defensive strategies
- identify joint venture or takeover opportunities.

Core competencies

Core competencies provide the foundations for developing a competitive advantage. If a company is unable to identify distinctive competencies, they may overlook attractive opportunities and pursue poor ones.

However, the idea of distinctive competence, which differentiates one business from another, is no longer enough to characterise a good business. The current business climate is driven by technological development and quick reactions to changing environments. Consequently, a competitive advantage based on a singular competence is unlikely to be sustainable for very long.

Ultimately, very few businesses enjoy a monopoly on a market. Comparable products and services are almost always offered by other organisations.

External influences

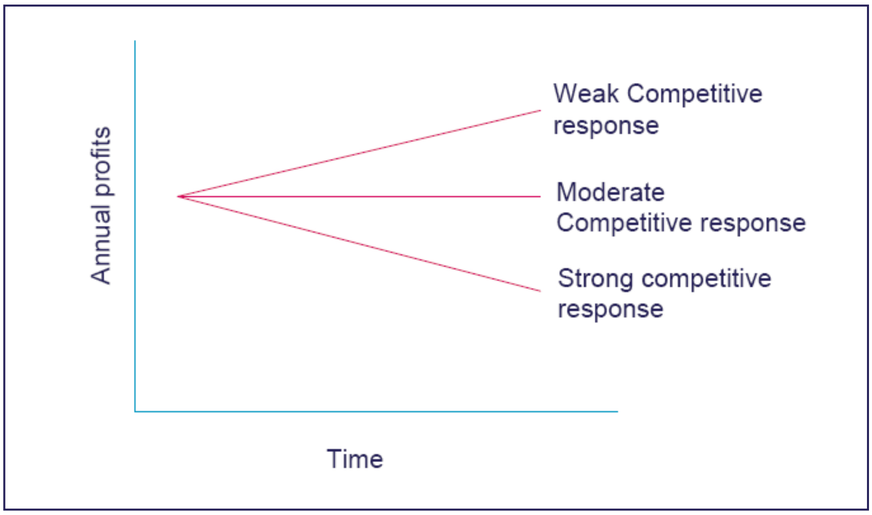
Porter (1980) identified five external influences which impact on the extent of actual and potential competition in any industry. Known as 'Porter's five forces,' in aggregate they can determine organisations' ability to earn a profit within an industry. These are:

1. Potential entrants.
2. Suppliers.
3. Substitutes.
4. Buyers.
5. industry competitors.

Figure 1 shows the impact of varying levels of competitor action on the profits of a business. Such competitor action may include:

- price cuts
- launching a rival product
- aggressive expansion of production which reduces the firm's market sales
- inclusion of costly modifications to the product which rival firms must also make.

Figure 1: Impact of competitor responses on profit



When conducting competitor analysis it is essential to consider the effect that external influences and competitor action may have on your profit.

The competitor

Essentially, business competitors can be broken down into the following four categories (Weiss, 2002).

1. Organisations offering the same product or service.
2. Organisations offering similar products or services.
3. Organisations that could offer the same or similar products or services in the future.
4. Organisations that could remove the need for a product or service

Kotler (1997) identifies four levels of competitor:

Brand competitors. Organisations which offer similar products to the same customers and which have a similar size and structure. Examples include:

- Pepsi and Coca-Cola
- Unilever and Proctor & Gamble.

Industry competitors. Suppliers who produce similar goods but who are not necessarily the same size or structure. They may compete in a more limited area or product range. Examples include:

- British Airways and Singapore Airlines
- Unilever ice cream and Mars ice creams
- Nestlé and Cadbury.

Form competitors. Competitors who compete for the same needs, although they are technically quite different. Examples include:

- speedboats and sports cars
- book publishers and software manufacturers.

Generic competitors. Competitors who compete for the same income. Examples include:

- home improvements and golf clubs
- foreign vacations and new homes.

How to carry out competitor analysis

EMP Intelligence Service identified the five P's of competitor intelligence as key requirements to undertake competitor analysis effectively.

Plan

Right competitor intelligence strategy.

People

Right people and skills.

Position

Integration, support and involvement.

Processes

1. Key intelligence requirements.
2. Right sources.
3. Right products and processes.
4. Right communication.

Performance

1. Measurement.
2. Feedback.

In addition, there may be four stages in monitoring competitors, known as the four Cs:

1. Collecting the information (with a first stage - deciding what to collect).
2. Converting information into intelligence (CIA - collate and catalogue it, integrate it with other pieces of information and analyse and interpret it).
3. Communicating the intelligence.
4. Countering any adverse competitor actions, i.e. using the intelligence.

Gathering competitor intelligence

One mistake many people make is to start by collecting information without thinking how the information will be used. They should first identify the key areas of concern for the decision makers requesting the information, and aim to satisfy these. They need to focus and plan the search, rather than collect information in a random or haphazard manner. Collected data must aim to answer the actual intelligence needs of the business (often termed key intelligence topics, or KITs).

A key indicator of a competitor's future actions, plans and strategies is the evidence it leaves in the market place. As a result, there is a vast amount of information on which competitor analysis can be based. The list below highlights a number of sources. Fleisher and Bensoussan (2002) provide a comprehensive list of information sources used in competitor analysis:

- financial data
- publications
- competitor websites
- industry websites and publications
- trade exhibitions
- press releases
- annual reviews
- professional bodies
- promotional material
- information packs
- brochures
- database searches e.g. Factiva, Lexis-Nexis, Dun and Bradstreet
- observation
- word of mouth.

From information to intelligence

Much of the data collected is likely to be irrelevant. However, each piece can help build up the complete picture and needs to be collated into a central resource. Ideally the information should be indexed and catalogued so that new information can be quickly linked to similar information.

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

Communicating the intelligence

Competitor intelligence needs to be evaluated. It is then selectively communicated to those who make decisions based on the actions or likely actions of customers, suppliers and others.

The most common way of presenting this information is to compare and contrast your business with its main competitors using a SWOT analysis. A SWOT analysis provides a bullet point summary of your business' strengths, weaknesses, opportunities and threats. Figure 2 provides an example of what a SWOT analysis might include. However, this information can also be presented in the form of matrixes, PEST (Political, Economic, Social and Technological) analysis, scenario analysis, inferential scanning and others.

Figure 2: Example of a SWOT analysis

Strengths	**Weaknesses**
• Specialist marketing expertise. • New innovative product or service. • Location of your business. • Cost advantage through proprietary know-how. • Quality process and procedures. • Strong brand or reputation.	• Lack of marketing expertise. • Undifferentiated products and services (i.e. in relation to your competitors). • Location of your business. • Competitors have superior access to distribution channels. • Poor quality goods or service. • Damaged reputation.
Opportunities	**Threats**
• Developing market (China, the internet). • Mergers, joint ventures or strategic alliances. • Moving into new attractive market segments. • A new international market. • Loosening of regulations. • Removal of international trade barriers. • A market led by a weak competitor.	• A new competitor in your home market. • Price war. • Competitor has a new, innovative substitute product or service. • New regulations. • Increased trade barriers.

Source: adapted from www.valuebasedmanagement.net

From competitor analysis to business strategy

The ultimate objective and final part of conducting a competitor analysis is to ensure that the intelligence collected is incorporated into the organisation's decision making and strategic planning process.

Failing to monitor competition

Failing to monitor your competition can take two forms. The first is failing to monitor your competition effectively in one or more of the following ways (EMP Intelligence Service, 2004):

- choosing the wrong target
- selecting the wrong sources
- collecting too much information
- not building up a network.

The second is to ignore market competition altogether.

The result of an ineffective or non-existent approach to competitor analysis is likely to lead to sub-optimal performance. It will also result in a greater exposure to aggressive and unexpected moves from competitors.

Other consequences of failing to monitor competition include:

- an increased likelihood of the enterprise being taken by surprise
- the risk of being a follower rather than a leader
- focusing only on short-term rather than fundamental long-term issues.

The case study below highlights the consequence of failing to monitor adequately the competition in the case of Nike.

Case Study

In 1983 Reebok developed a strategy to market fashionable athletic footwear to women which generated explosive growth. Reebok relied on products being image driven while Nike's focus was on performance driven products.

For five years, Nike ignored Reebok's success and viewed it as an aberration. As a result, Nike lost significant market share: by 1988 Reebok's market share was 27% as opposed to Nike's 23%.

Nike failed to pay sufficient attention to its competitors. This led to loss of market position, layoffs and a major management shake-up.

Source: Wilson and Gilligan, 1997

Other considerations

It should be noted that individual competitors are part of the much larger picture which makes up an industry. Monitoring competitor activity can result in short-term decision making, but a more holistic approach is needed to develop robust longer term strategies. The overall business environment must be covered, including the whole industry, suppliers, customers, technical advances and the economy generally.

The information required to undertake a competitor analysis is often not readily available. Information may have to be derived from consumers' preferences using market surveys, or through the behaviour of competitors. This may be more difficult, particularly if a rival does not fully understand its own behaviour.

Summary

In summary, competitor analysis is a strategic business tool that provides organisations with the knowledge to develop business strategies. These will allow them to build a sustainable advantage in the industry in which they operate.

Further information

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Websites

Competitive Intelligence for Business Success (AWARE)
AWARE provides competitor profiles and a competitor monitoring service. It helps clients improve and build their own Competitive Intelligence (CI) processes so that they become self-reliant. AWARE offers bespoke CI training courses, and a CI Audit service. The website carries CI white papers, case studies and sample reports.
Available from: www.marketing-intelligence.co.uk
[Accessed 13 November 2008]

The Society of Competitive Intelligence Professionals (SCIP)
SCIP is a global non-profit membership organisation for everyone involved in creating and managing business knowledge. It provides education and networking opportunities for business professionals working in competitive intelligence.
Available from: www.scip.org
[Accessed 13 November 2008]

www.valuebasedmmanagement.net
Management portal specifically aimed at the information needs of senior executives with an interest in value creation, managing for value and valuation. It provides learning materials explaining management methods, models and theories on strategy, performance, finance, valuation, change, corporate governance, communication, marketing, leadership and responsibility, with links to additional resources.
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