Competitor analysis

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Competitor analysis in marketing and strategic management is an assessment of the strengths and weaknesses of current and potential competitors.

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Competitor 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 - this can best be displayed on a two dimensional matrix - competitors along the top and key success factors down the side.
- 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.

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

Another 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

We can learn a lot about the competitive environment by scanning our competitors' ads. Changes in a competitor's advertising message can reveal new product offerings, new production processes, a new branding strategy, 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 bundling, 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/her own media plan. By knowing the competitor's media buy, media selection, frequency, reach, continuity, schedules, and flights, the manager can arrange his/her 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.

New competitors

In addition to analysing 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 organised by former employees and/or managers of existing companies

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
- Gaining a competitive advantage over existing firms is feasible

See also

- marketing
- industry or market research
- marketing management
- marketing plan

References

- Ian Gordon: *Beat the Competition. How to Use Competitive Intelligence to Develop Winning Business Strategies.* Basil Blackwell Publishers, Oxford/UK 1989
- Michael E. Porter: *Competitive Strategy: Techniques for Analyzing Industries and Competitors* 1998.

External links

- Competitor Analysis - A brief guide (http://www.marketing-intelligence.co.uk/resources/competitor-analysis.htm)

- Sources of information for competitor analysis (http://www.tutor2u.net/business/strategy/competitor_analysis.htm)

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