

# Focus On: Competitor Analysis— Turning Data to Insight

**Liam Fahey**

## GETTING STARTED

Competitor analysis (CA) has developed from a simple emphasis on gathering data about competitors, to a much greater in-depth analysis of customers' strategies and actions. The most competitive businesses are those that effectively transform data relating to competitors into "decision-relevant" insights. The great advantages of in-depth analysis are that it is one means of learning more about the broader competitive environment, generating insights into customers, distribution channels, suppliers, technology, and competitive dynamics. CA is also used to reflect on and learn about one's own business—its vulnerabilities, limitations, and capabilities relative to current and potential rivals.

When you are analyzing and understanding competitor's marketplace strategy, it is important to consider three central elements:

- What product-markets does the competitor compete in (or want to compete in)?
- How does it compete in those product-markets to attract, win, and retain customers?
- What does it seek to achieve in those product-markets?

This actionlist explains how a greater awareness and understanding of competitors can help you grow your business.

## FAQS

### What are the main pitfalls when thinking about competitors?

Insight is sometimes flawed or limited in many firms because too much attention is devoted to *current* large market-share competitors, while far too little is given to other types of current and potential competitors. Critical insight into change in customers' buying behaviors often emanates from analysis of smaller rivals or of functional substitute rivals. Sometimes it is especially useful to "invent" a competitor that is not yet in the marketplace. This can be used as a reference point to challenge the firm's existing strategy or potential strategy alternatives.

## What are the main sources of competition?

Professor Michael Porter of Harvard Business School has identified five forces affecting competition in an industry, and these provide an interesting lens through which to view current and potential competitors. Porter's five forces are:

- **industry rivalry**—direct competition resulting from the activities of companies in the same industry. An example of this is the Cola wars, dominated for much of the 20th century by Pepsi and Coca-Cola.
- **market entry**—new entrants to a market are another source of competition, with firms needing to understand who might enter the market, as well as how and when it will happen. Often the entire product offer provided by the new entrant—including product quality, features and price—could challenge those already in the market.
- **substitutability**—businesses with products or services that may be substituted with alternatives face competition, especially over price. For example, a train operator may face competition from airlines.
- **suppliers**—these businesses wield significant power if the item they provide is scarce or unique, or if there are only a few suppliers. Suppliers have considerable power to damage a competitive position. One response is to build close relations with important suppliers to secure delivery and to control prices.
- **customers**—the power of the customer is seen as another source of competition. This means considering how dependent the business is on individual customers, the ease with which customers can move to another supplier, the customer's knowledge of the business's competitors and the conditions (price, quality, overall offer) that are prevailing. An example of customer power is provided by the growth of the Internet as a sales channel, which has empowered customers.

## What is it about our rivals that we should analyze?

One of the first challenges we face is to decide the focus of competitor analysis. A central question confronts every business: what do we need know about our current and potential rivals? If you view competitor analysis as much more than this, though, and open it out to see it as a source of learning about both the competitive environment and our own business, you'll find that you also need to learn about:

- the competitor's *marketplace strategy*: how it tries to outmaneuver rivals in the marketplace
- the competitor's *activity/value chain*: how it organizes itself to develop and execute its marketplace strategy
- the competitor's *alliances and networks*: what other businesses it aligns with and how it manages its network of alliances
- the competitor's *assumptions*: what the competitor assumes about the marketplace and itself

- the competitor's *assets and capabilities*: what enables the competitor to compete
- the competitor's *infrastructure and culture*: the nature of the competitor's business
- 

## **MAKING IT HAPPEN**

### **Understand the factors intensifying competition**

You need to be able to spot when competition may arise or when it is gathering pace. Competition can intensify in several circumstances:

- when the market is expanding or new, as with the computer industry over the last 20 years or the telecoms industry during the last ten years
- when the stakes are high and there are major profits to be gained or losses to be suffered, notably when there are relatively few businesses in a large market as, for example, with Coca-Cola
- when the market is set to change, perhaps as a result of developments affecting patents and intellectual property rights (such as when the patent for a clinical drug expires), or as a result of political or legal developments, such as privatization
- when the market is shrinking or when there is over-capacity in the market chasing fewer customers. This is apparent in major manufacturing industries such as ship-building, steel-making, and car production

### **Increase market awareness**

Understanding your competitors will be easier if you develop a keen sense of market awareness, including a sense of how your competitors are perceived in your chosen market and why. Think about their:

- pricing policies and product offers
- brand reputation and recognition
- customers' perceptions
- product quality
- service levels
- product portfolio
- promotional campaigns, timing, nature and channels used
- customer loyalty

Maintaining an awareness of these issues can help in analyzing sources of competitive advantage and disadvantage.

## **Understand competitors' marketplace strategies**

To understand what your competitors are up to, think about:

- **their product and customers**, taking into account the range of products offered, the variety within each product line, the groups of customers reached, and differences across the groups.
- **how the competitor (or competitors) provides value to customers**, taking into account product features, functionality, service, availability, image and reputation, selling and relationships, and price.

All of these issues to take into account are commonly called “indicators.”

## **Assess competitors' marketplace strategies**

Analysis only generates real insight when it turns to assessing what change in the competitor's strategy indicates about current, emerging, and potential change in the broader competitive context. You need to work out what such change implies for both the firm's current and potential strategy and decisions.

Assessment begins by evaluating the performance of your rival's strategy. For example, is it resulting in market-share gain? Is it leading to a greater share of individual customers? Is it building greater brand name and reputation (that in turn could be the basis of further market-share gain)?

Assessment addresses how well the rival's strategy is performing compared to other rivals or to your own firm's strategy. For example, with regard to specific customer segments, or even individual customers:

- is the competitor or our own firm providing greater value along the modes of competition?
- based upon customers' judgments, who is providing superior functionality?
- who is providing more useful services?
- whose image and reputation is more appealing to customers?

It is important to note that these assessments must be based largely on the judgments of the customers themselves.

## **COMMON MISTAKES**

### **Not using data from a variety of sources**

Think about the wide variety of sources that can provide you with the information on competitors that you need. Start with your own business first—check your IT systems, and ask both your team and your customers. External sources such as analysts, journalists, competitor websites, and publications can also be especially useful. Finally, focus on the competitor and always ask, for example, what a change in a competitor's activity indicates about the potential change in a broader competitive context.

## **Failing to undertake a process of analysis**

The basic process in competitor analysis is as follows. First, identify relevant indicators from competitors' behaviors, actions, and words. Second, draw inferences as to what change along those indicators would imply for what the competitor might do in the future (for example, how it might change its strategy), or what it might suggest about developments in the broader marketplace (such as how fast specific products might come to the market or how quickly other products might penetrate particular customer segments).

Competitor analysis is always about detecting change in and around competitors and assessing what change implies for the competitor itself, for the marketplace in general, or for your own business.

## **Failing to act**

It's vital to use any information gathered to strengthen your own business. Analyzing everything you discover will help you assess and learn about your own company's vulnerabilities, capabilities, and future direction.