CHAPTER THREE

Competitor Analysis

Induce your competitors not to invest in those products, markets and services where you expect to invest the most . . . that is the fundamental rule of strategy.
—Bruce Henderson, founder of BCG

There is nothing more exhilarating than to be shot at without result.
—Winston Churchill

The best and fastest way to learn a sport is to watch and imitate a champion.
—Jean-Claude Killy, skier

There are numerous well-documented reasons why the Japanese automobile firms were able to penetrate the U.S. market successfully, especially during the 1970s. One important reason, however, is that they were much better than U.S. firms at doing competitor analysis.[1]

David Halberstam, in his account of the automobile industry, graphically described the Japanese efforts at competitor analysis in the 1960s. "They came in groups. . . . They measured, they photographed, they sketched, and they tape-recorded everything they could. Their questions were precise. They were surprised how open the Americans were."[2] The Japanese similarly studied European manufacturers, especially their design approaches. In contrast, according to Halberstam, the Americans were late in even recognizing the competitive threat from Japan and never did well at analyzing Japanese firms or understanding the new strategic imperatives created by the revised competitive environment, even though the Japanese car firms were very open about their methods.

Competitor analysis is the second phase of external analysis. Again, the goal should be insights that will influence the development of successful business strategies. The analysis should focus on the identification of threats, opportunities, or strategic uncertainties created by emerging or potential competitor moves, weaknesses, or strengths.

Competitor analysis starts with identifying current and potential competitors. There are two very different ways of identifying current competitors. The first examines the

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WHO ARE THE COMPETITORS?

- Against whom do we usually compete? Who are our most intense competitors? Less intense but still serious competitors? Makers of substitute products?
- Can these competitors be grouped into strategic groups on the basis of their assets, competencies, and/or strategies?
- Who are the potential competitive entrants? What are their barriers to entry? Is there anything that can be done to discourage them?

EVALUATING THE COMPETITORS

- What are their objectives and strategies? Their level of commitment? Their exit barriers?
- What is their cost structure? Do they have a cost advantage or disadvantage?
- What is their image and positioning strategy?
- Which are the most successful/unsuccessful competitors over time? Why?
- What are the strengths and weaknesses of each competitor or strategic group?
- What leverage points (or strategic weaknesses or customer problems or unmet needs) could competitors exploit to enter the market or become more serious competitors?
- How strong or weak is each competitor with respect to their assets and competencies? Generate a competitor strength grid.

Figure 3.1 Questions to Structure Competitor Analysis

perspective of the customer who must make choices among competitors. This approach groups competitors according to the degree to which they compete for a buyer's choice. The second approach attempts to place competitors in strategic groups on the basis of their competitive strategy.

After competitors are identified, the focus shifts to attempting to understand them and their strategies. Of particular interest is an analysis of the strengths and weaknesses of each competitor or strategic group of competitors. Figure 3.1 summarizes a set of questions that can provide a structure for competitor analysis.

IDENTIFYING COMPETITORS—CUSTOMER-BASED APPROACHES

One approach to identifying competitor sets is to look at competitors from the perspective of customers—what choices are customers making? A Cisco buyer could be asked what brand would have been purchased had Cisco not made the required item. A buyer for a nursing home meal service could be asked what would be substituted for granulated potato buds if they increased in price. A sample of sports car buyers could be asked what other cars they considered and perhaps what other showrooms they actually visited.

Brand-Use Associations

Another approach that provides insights is the association of brands with specific-use contexts or applications. Perhaps twenty or thirty product users could be asked to

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identify a list of use situations or applications. For each use context they would then name all the brands that are appropriate. Then for each brand they would identify appropriate use contexts so that the list of use contexts would be more complete. Another group of respondents would then be asked to make judgments about how appropriate each brand is for each use context. Then brands would be clustered based on the similarity of their appropriate use contexts. Thus, if Doritos was perceived as a snack, its set of competitors would be different than if it was perceived as a party enhancer. The same approach will work with an industrial product that might be used in several distinct applications.

Both the customer-choice and brand-use approaches suggest a conceptual basis for identifying competitors that can be employed by managers even when marketing research is not available. The concept of alternatives from which customers choose and the concept of appropriateness to a use context can be powerful tools in helping to understand the competitive environment.

Indirect Competitors

In most instances, primary competitors are quite visible and easily identified. Coke competes with Pepsi, other cola brands, and private labels such as President's Choice. CitiBank competes with Chase, Bank of America, and other major banks. NBC competes with ABC, CBS, and Fox. Boeing competes with Airbus. The competitor analysis for this group should be done with depth and insight.

In many markets, however, customer priorities are changing, and indirect competitors offering customers product alternatives are strategically relevant. Understanding these indirect competitors can be strategically and tactically important, as the following examples demonstrate.

- Coke focused on Pepsi and ignored for many years the emerging submarkets in water, energy drinks, and fruit-based drinks. The result was a missed opportunity and the eventual need to pursue an expensive and difficult catch-up strategy.
- While the major television networks struggle against each other, independent networks have emerged. Strong cable networks, such as ESPN, Fox, HBO, and CNN, have flourished; pay-per-view, Netflix, computer games, mobile applications, and the Internet are competing for the leisure time of viewers.
- While banks focused on competing banks, their markets were eroded by mutual funds, insurers, and brokers.
- While Folgers, Maxwell House, and others competed for supermarket business using coupon promotions, other firms, such as Starbucks, succeeded in selling a very different kind of coffee in different ways. And Starbucks has more recently been threatened by gourmet coffee makers sold for home use and by alternatives offered by chains like Dunkin' Donuts and McDonald's.
- Steel minimills were ignored by the major steel firms until they gradually became a major player.

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The energy bar category, established in the mid-1980s by PowerBar, includes direct competitors such as Clif, Balance, and dozens of small, local niche firms. There are also a host of indirect competitors, many with very similar products: candy bars (Snickers was called "the energy bar" for many years), breakfast bars, meal replacement bars, diet bars, granola bars, and the cereal bar category. Understanding the positioning and new product strategies of these indirect competitors will be strategically important to businesses in the energy bar category.

Both direct and indirect competitors can be further categorized in terms of how relevant they are, as determined by similar positioning. Thus, candy bars will be more relevant to Balance than to PowerBar because of where the former has positioned itself (Balance Gold is even marketed as being "like a candy bar"). For the same reason, Clif will be a closer competitor to PowerBar than to Balance.

The competitive analysis in nearly all cases will benefit from extending the perspective beyond the obvious direct competitors. By explicitly considering indirect competitors, the strategic horizon is expanded, and the analysis more realistically mirrors what the customer sees. In the real world, the customer is never restricted to a firm's direct competitors, but instead is always poised to consider other options.

A key issue with respect to strategic analysis in general, and competitor analysis in particular, is the level at which the analysis is conducted. Is it at the level of a business unit, the firm, or some other aggregation of businesses? Because an analysis will be needed at all levels at which strategies are developed, multiple analyses might ultimately be necessary. For example, when Clif developed Luna, an energy bar designed for women, PowerBar countered with Pria. The manager of the Luna business may need a competitive analysis of energy bars for women, in which case the other energy bars might be considered indirect competitors.

IDENTIFYING COMPETITORS—STRATEGIC GROUPS

The concept of a strategic group provides a very different approach toward understanding the competitive structure of an industry. A strategic group is a group of firms that:

- Over time pursue similar competitive strategies (for example, the use of the same distribution channel, the same type of communication strategies, or the same price/quality position)
- Have similar characteristics (e.g., size, aggressiveness)
- Have similar assets and competencies (such as brand associations, logistics capability, global presence, or research and development)

For example, there have historically been three strategic groups in the pet food industry, which is the subject of an illustrative industry analysis in the appendix to this book. One strategic group consists of very large diversified, branded consumer and food product companies. All distribute through mass merchandisers and supermarkets, have strong established brands, use advertising and promotions effectively, and enjoy economies of scale. The major players include Nestlé Ralston Petcare, Del Monte, and Mars.

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A second strategic group of highly focused ultra-premium producers, such as Hill's Petfood (Science Diet and Prescription Diet) and the Iams Company, sells product through veterinary offices and specialty pet stores. They have historically used referral networks to reach pet owners concerned with health. When P&G acquired Iams and introduced it into mass merchandisers and supermarkets, the distinction between the two strategic groups blurred and new competitive dynamics were introduced. Iams became a threat to established brands in this space and the Hill's brands found their competitive context very different.

The third strategic group, private-label producers, is led by a unit of Del Monte (formerly Doanne) that supplies Wal-Mart and other major retailers.

In fact, many industries are populated by several strategic groups: premium dominated volume entries such as United in airlines or Budweiser in beer; low-cost entries such as JetBlue in airlines and Milwaukee's Best in beer; and niche groups such as timeshare planes and low alcohol and craft beers.

Each strategic group has mobility barriers that inhibit or prevent businesses from moving from one strategic group to another. An ultra-premium group in pet food producers has the brand reputation, product, and manufacturing knowledge needed for the health segment, access to influential veterinarians and retailers, and a local customer base. Private-label manufacturers have low-cost production, low overhead, and close relationships with customers. It is possible to bypass or overcome the barriers, of course. A private-label manufacturer could create a branded entry, especially if markets are selected to minimize conflicts with existing customers. The barriers are real, however, and a firm competing across strategic groups is usually at a disadvantage.

A member of a strategic group can have exit as well as entry barriers. For example, assets such as plant investment or a specialized labor force can represent a meaningful exit barrier, as can the need to protect a brand's reputation.

The mobility barrier concept is crucial because one way to develop a sustainable competitive advantage is to pursue a strategy that is protected from competition by assets and competencies that represent barriers to competitors. Consider the PC and server market. Dell and others marketed computers direct to consumers by telephone and the Internet. They developed a host of assets and competencies to support their direct channels, including an impressive product support system. Competitors such as HP—which has used indirect channels involving retailers and systems firms—have developed a very different set of assets and competencies. HP and Dell have both struggled to cross the channel barriers. Competition has largely been between the groups rather than brands. As the direct channel lost appeal while products matured and service problems emerged, HP gained in the marketplace.

Using the Strategic Group Concept

The conceptualization of strategic groups can make the process of competitor analysis more manageable. Numerous industries contain many more competitors than can be analyzed individually. Often it is simply not feasible to consider thirty competitors, to say nothing of hundreds. Reducing this set to a small number of strategic groups makes the analysis compact, feasible, and more usable. For example, in the wine

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industry, competitor analysis by a firm like Robert Mondavi might examine three strategic groups: jug wines, premium wines ($7 to $20), and super-premium wines (over $20). Little strategic content and insight will be lost in most cases because firms in a strategic group will be affected by and react to industry developments in similar ways. Thus, in projecting future strategies of competitors, the concept of strategic groups can be helpful.

Strategic groupings can refine the strategic investment decision. Instead of determining in which industries to invest, the decision can focus on what strategic group warrants investment. Thus, it will be necessary to determine the current profitability and future potential profitability of each strategic group. One strategic objective is to invest in attractive strategic groups in which assets and competencies can be employed to create strategic advantage.

The emergence of a new strategic group or subgroup is of particular importance. It can create a dynamic that will affect strategies of all competitors for a long time period. Major disruptions to an industry often start small with inferior products so analysis needs to proceed with an eye toward projecting future offerings rather than assuming they will not evolve. Chapter 12 elaborates.

POTENTIAL COMPETITORS

In addition to current competitors, it is important to consider potential market entrants, such as firms that might engage in:

1. ***Market expansion.*** Perhaps the most obvious source of potential competitors is firms operating in other geographic regions or in other countries. A cookie company may want to keep a close eye on a competing firm in an adjacent state, for example.
2. ***Product expansion.*** The leading ski firm, Rossignol, has expanded into ski clothing, thus exploiting a common market, and has moved to tennis equipment, which takes advantage of technological and distribution overlap.
3. ***Backward integration.*** Customers are another potential source of competition. General Motors bought dozens of manufacturers of components during its formative years. Major can users, such as Campbell Soup, have integrated backward, making their own containers.
4. ***Forward integration.*** Suppliers attracted by margins are also potential competitors. Apple Computer, for example, opened a chain of retail stores. Suppliers, believing they have the critical ingredients to succeed in a market, may be attracted by the margins, the control, and the visibility that come with integrating forward.
5. ***The export of assets or competencies.*** A current small competitor with critical strategic weaknesses can turn into a major entrant if it is purchased by a firm that can reduce or eliminate those weaknesses. Predicting such moves can be difficult, but sometimes an analysis of competitor strengths

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and weaknesses will suggest some possible synergistic mergers. A competitor in an above-average growth industry that does not have the financial or managerial resources for the long haul might be a particularly attractive candidate for merger.

6. ***Retaliatory or defensive strategies.*** Firms that are threatened by a potential or actual move into their market might retaliate. Thus, Microsoft has made several moves (including into the Internet space) in part to protect its dominant software position.

COMPETITOR ANALYSIS—UNDERSTANDING COMPETITORS

Understanding competitors and their activities can provide several benefits. First, an understanding of the current strategy, strengths, and weaknesses of a competitor can suggest opportunities and threats that will merit a response. Second, insights into future competitor strategies may allow the prediction of emerging threats and opportunities. Third, a decision about strategic alternatives might easily hinge on the ability to forecast the likely reaction of key competitors. Finally, competitor analysis may result in the identification of some strategic uncertainties that will be worth monitoring closely over time. A strategic uncertainty might be, for example, "Will Competitor A decide to move into the western U.S. market?"

As Figure 3.2 indicates, competitor actions are influenced by eight elements. The first of these reflects financial performance, as measured by size, growth, and profitability.

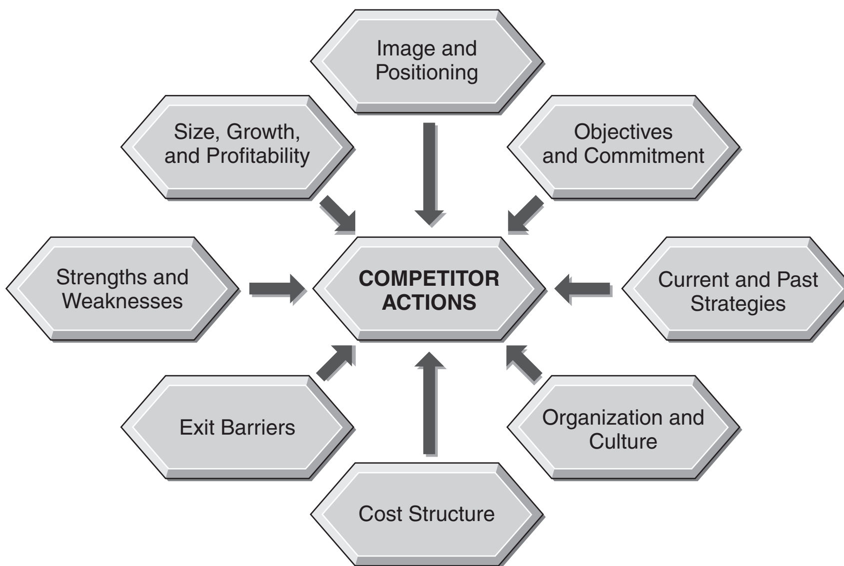

Figure 3.2 Understanding the Competitors

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Size, Growth, and Profitability

The level and growth of sales and market share provide indicators of the vitality of a business strategy. The maintenance of a strong market position or the achievement of rapid growth usually reflects a strong competitor (or strategic group) and a successful strategy. In contrast, a deteriorating market position can signal financial or organizational strains that might affect the interest and ability of the business to pursue certain strategies. To provide a crude sales estimate for businesses that are buried in a large company, take the number of employees and multiply it by the average sales per employee in the industry. For many businesses, this method is very feasible and remarkably accurate.

After size and growth comes profitability. A profitable business will generally have access to capital for investment unless it has been designated by the parent to be milked. A business that has lost money over an extended time period or has experienced a recent sharp decrease in profitability may find it difficult to gain access to capital either externally or internally.

Image and Positioning Strategy

A cornerstone of a business strategy can be an association, such as being the strongest truck, the most durable car, the smallest consumer electronics equipment, or the most effective cleaner. More often, it is useful to move beyond class-related product attributes to intangibles that span product class, such as quality, innovation, sensitivity to the environment, or brand personality.

In order to develop positioning alternatives, it is helpful to determine the image and brand personality of the major competitors. Weaknesses of competitors on relevant attributes or personality traits can represent an opportunity to differentiate and develop an advantage. Strengths of competitors on important dimensions may represent challenges to exceed them or to outflank them. In any case it is important to know the competitive profiles.

Competitor image and positioning information can be deduced in part by studying a firm's products, advertising, Web site, and actions, but often customer research is helpful to ensure that an accurate current portrayal is obtained. The conventional approach is to start with qualitative customer research to find out what a business and its brands mean to customers. What are the associations? If the business were a person, what kind of person would it be? What visual imagery, books, animals, trees, or activities are associated with the business? What is its essence?

Objectives and Commitment

A knowledge of competitor objectives provides the potential to predict whether or not a competitor's present performance is satisfactory or strategic changes are likely. The financial objectives of the business unit can indicate the competitor's willingness to invest in that business even if the payout is relatively long term. In particular, what are the competitor's objectives with respect to market share, sales growth, and profitability? Nonfinancial objectives are also helpful. Does the competitor want to be a

technological leader? Or to develop a service organization? Or to expand distribution? Such objectives provide a good indication of the competitor's possible future strategy.

The objectives of the competitor's parent company (if one exists) are also relevant. What are the current performance levels and financial objectives of the parent? If the business unit is not performing as well as the parent, pressure might be exerted to improve or the investment might be withdrawn. Of critical importance is the role attached to the business unit. Is it central to the parent's long-term plans, or is it peripheral? Is it seen as a growth area, or is it expected to supply cash to fund other areas? Does the business create synergy with other operations? Does the parent have an emotional attachment to the business unit for any reason? Deep pockets can sometimes be accompanied by short arms; just because resources exist does not mean they are available.

Current and Past Strategies

The competitor's current and past strategies should be reviewed. In particular, past strategies that have failed should be noted, because such experiences can inhibit the competitor from trying similar strategies again. Also, a knowledge of a competitor's pattern of new product or new market moves can help anticipate its future growth directions. Is the strategy based on product-line breadth, product quality, service, distribution type, or brand identification? If a low-cost strategy is employed, is it based on economies of scale, the experience curve, manufacturing facilities and equipment, or access to raw material? What is its cost structure? If a focus strategy is evident, describe the business scope.

Organization and Culture

Knowledge about the background and experience of the competitor's top management can provide insight into future actions. Are the managers drawn from marketing, engineering, or manufacturing? Are they largely from another industry or company? Clorox, for example, has a very heavy Procter & Gamble influence in its management, lingering from the years that Procter & Gamble operated Clorox before the courts ordered divestiture.

An organization's culture, supported by its structure, systems, and people, often has a pervasive influence on strategy. A cost-oriented, highly structured organization that relies on tight controls to achieve objectives and motivate employees may have difficulty innovating or shifting into an aggressive, marketing-oriented strategy. A loose, flat organization that emphasizes innovation and risk taking may similarly have difficulty pursuing a disciplined product-refinement and cost-reduction program. In general, as Chapter 15 will make clearer, organizational elements such as culture, structure, systems, and people limit the range of strategies that should be considered.

Cost Structure

Knowledge of a competitor's cost structure, especially when the competitor is relying on a low-cost strategy, can provide an indication of its likely future pricing strategy

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and its staying power. The following information can usually be obtained and can provide insights into cost structures:

- The number of employees and a rough breakdown of direct labor (variable labor cost) and overhead (which will be part of fixed cost)
- The relative costs of raw materials and purchased components
- The investment in inventory, plant, and equipment (also fixed cost)
- Sales levels and number of plants (on which the allocation of fixed costs is based)
- Outsourcing strategy

Exit Barriers

Exit barriers can be crucial to a firm's ability to withdraw from a business area, and thus are indicators of commitment. They include:[3]

- Specialized assets—plant, equipment, or other assets that are costly to transform to another application and therefore have little salvage value
- Fixed costs, such as labor agreements, leases, and a need to maintain parts for existing equipment
- Relationships to other business units in the firm resulting from the firm's image or from shared facilities, distribution channels, or sales force
- Government and social barriers—for example, governments may regulate whether a railroad can exit from a passenger service responsibility, or firms may feel a sense of loyalty to workers, thereby inhibiting strategic moves
- Managerial pride or an emotional attachment to a business or its employees that affects economic decisions

NINTENDO—SUCCESS THAT STARTED WITH COMPETITOR ANALYSIS

The story of the Nintendo business strategy and brand is nothing short of astounding and competitive analysis played an important part. BrandJapan, an annual survey of the strength of over 1,000 Japanese brands, saw a remarkable stability spanning nine years in the cast of characters occupying the top two dozen positions. Then came Nintendo. In the 2005 findings, Nintendo was ranked 135 in the survey. From that point it rose to 66 in 2006, to 5 in 2007, and finally to number one in 2008, a position it held with a value of over 93 while the next seven brands were bunched at 82 to 84, and a position it retained in 2009. During the 2004 to 2008 period, its stock price went up more than five fold and at one point its market cap was behind only Toyota in Japan. Why? What drove this performance?

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The products were clearly the drivers. Nintendo DS, released in December 2004, was a compact portable game console characterized by an innovatively intuitive touch-pen method. It was supported by the Touch! Generations series, which included game titles such as *Nintendogs*, *Animal Crossing*, and *Brain Age* aimed at a wide target market including young females and even seniors. Then came Wii, a new form of game that incorporated user movement into gaming. With a wireless controller and the Wii remote that detects movement in three dimensions, the user can dance, golf, box, play a guitar, and on and on. Opponents can be sourced in other locations and even other countries. In fact the DS and Wii with their supporting games created a new market categorized as "casual games," video games that require less skills and experience and are characterized by simple and intuitive rules. The new casual game category went from 1 percent of the market to over 20 percent by 2005.[4]

But what was behind the Nintendo innovation success? Why was it able to win facing Sony and Microsoft? One principle reason was the acceptance of a realistic and astute analysis of the two competitors: Sony (Playstation) and Microsoft (P3 players). Nintendo recognized that Sony and Microsoft had and will have equipment that had better technology—higher performance, higher resolution, and higher quality graphics that appeal to the heavy users—young males. They were focused on that objective and invested in chips, software, manufacturing, and hardware to keep delivering. As a result, Sony and Microsoft had a definitive edge with respect to the male teen and early 20s user, the hard core heavy user group. Given this reality, Nintendo took a different course, a low tech route, even though that meant that the heavy user segment might have to be ceded to the two competitors.

Nintendo decided to refocus away from the hard core young males who were into action games and high quality graphics toward a broader audience, less concerned with better and better graphics. The key for this group would be a wide array of easy-to-use games that would move beyond the action genre and include some learning vehicles. One goal is to have the mother a participant and an advocate rather than a cynic and opponent. Another is to involve the whole family so the games are not simply related to boys' retreats. The strategy went against the conventional one of focusing on the heavy user and trying to better competitor's offerings.

A strategy, no matter how good, requires implementation and that means people. Nintendo was blessed with a talented group that was extremely good at creating games. The new strategy liberated this group to be creative and fulfill its potential. Further, a new CEO, a key ingredient, was brought in, a young, energetic, entrepreneurial person. With exceptional people and organizational skills, he was able to gain acceptance, build excitement around the new strategy, and marshal the talent needed to implement it.

Assessing Strengths and Weaknesses

Knowledge of a competitor's strengths and weaknesses provides insight that is key to its ability to pursue various strategies. It also offers important input into the process of identifying and selecting strategic alternatives. One approach is to attempt to exploit a competitor's weakness in an area where the firm has an existing or developing strength. The desired pattern is to develop a strategy that will pit "our" strength

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against a competitor's weakness. Another approach is to bypass or neutralize a competitor's strength.

One firm that developed a strategy to neutralize a competitor's strength was a small software firm that lacked a retail distribution capability or the resources to engage in retail advertising. It targeted value-added software systems firms, which sell total software and sometimes hardware systems to organizations such as investment firms or hospitals. These value-added systems firms could understand and exploit the power of the product, integrate it into their systems, and use it in quantity. The competitor's superior access to a distribution channel or resources to support an advertising effort was thus neutralized.

The assessment of a competitor's strengths and weaknesses starts with an identification of relevant assets and competencies for the industry and then evaluates the competitor on the basis of those assets and competencies. We now turn to these topics.

COMPETITOR STRENGTHS AND WEAKNESSES

What Are the Relevant Assets and Competencies?

Competitor strengths and weaknesses are based on the existence or absence of assets or competencies. Thus, an asset such as a well-known name or a prime location could represent a strength, as could a competency such as the ability to develop a strong promotional program. Conversely, the absence of an asset or competency can represent a weakness.

To analyze competitor strengths and weaknesses, it is thus necessary to identify the assets and competencies that are relevant to the industry. As Figure 3.3 suggests, four sets of questions can be helpful.

1. ***What businesses have been successful over time? What assets or competencies have contributed to their success? What businesses have had chronically low performance? Why? What assets or competencies do they lack?***

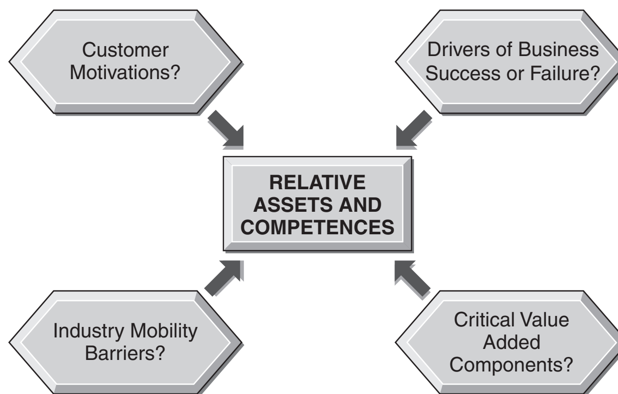

Figure 3.3 Identifying Relevant Assets and Competencies

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By definition, assets and competencies that provide SCAs should affect performance over time. Thus, businesses that differ with respect to performance over time should also differ with respect to their assets and competencies. Analysis of the causes of the performance usually suggests sets of relevant competencies and assets. Typically, the superior performers have developed and maintained key assets and competencies that have been the basis for their performance. Conversely, weakness in several assets and competencies relevant to the industry and its strategy should visibly contribute to the inferior performance of the weak competitors over time.

For example, in the CT scanner industry the best performer, General Electric, has superior product technology and R&D, scale economies, an established systems capability, a strong sales and service organization (owing, in part, to its X-ray product line), and an installed base.

2. ***What are the key customer motivations? What is needed to be preferred? What is needed to be considered?***
Customer motivations usually drive buying decisions and thus can dictate what assets or competencies potentially create meaningful advantages. In the heavy-equipment industry, customers value service and parts backup. Caterpillar's promise of "24-hour parts service anywhere in the world" has been a key asset because it is important to customers. Apple has focused on the motivation of designers for user-friendly design platforms.

    There are motivations that lead to a brand being excluded from consideration. An offering characteristic may not determine winners but a deficiency will eliminate it from being considered. Hyundai, for example, needs to be perceived as having adequate quality. A series of "best car" awards in 2009 did not necessarily vault the brand to a superior position, but for many it did get rid of the "inadequate" perception.

3. ***What assets and competencies represent industry mobility (entry and exit) barriers?***
Strategic groups are characterized by structural stability even when one group is much more profitable than the others. The reason is mobility barriers, which can be both entry barriers and exit barriers. Some groups have assets and competencies that will be difficult and sometimes impossible to duplicate by those seeking to enter. International deep water oil-well drilling firms, for example, have technology, equipment, and people that domestic, on-shore firms cannot duplicate. These assets also represent exit barriers because there is no other use to which they could be put.

4. ***What are the significant value added components in the value chain?***
A firm that can excel on a critical value added component can have a sustainable advantage. The component can be critical because of its cost such as package handling for FedEx or the call center at Dell. Or it can be critical because of the customer benefit it generates or affects such as the ordering system at Amazon or the ingredients of a P&G detergent. In examining the

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value chain, it is helpful to start with suppliers and end with the customer use experience while charting all the components in between. The components can be found throughout the organization and that of its partners. For eBay, for example, operations, customer support, auction services, plus the operations of those selling goods are all potential candidates.

A Checklist of Strengths and Weaknesses

Figure 3.4 provides an overview checklist of the areas in which a competitor can have strengths and weaknesses. The first category is innovation. One of the strengths of Kao Corporation is its ability to develop innovative products in soaps,

INNOVATION
- Technical product or service superiority
- New product capability
- R&D
- Technologies
- Patents

MANUFACTURING/OPERATIONS
- Cost structure
- Effective and flexible operations
- Efficient operations
- Vertical integration
- Workforce attitude and motivation
- Capacity
- Outsourcing

FINANCE—ACCESS TO CAPITAL
- From operations
- From net short-term assets
- Ability to use debt and equity financing
- Parent's willingness to finance

MANAGEMENT
- Quality of top and middle management
- Knowledge of business
- Culture
- Strategic goals and plans
- Entrepreneurial thrust
- Planning/operation system
- Loyalty—turnover
- Quality of strategic decision making

MARKETING
- Product quality reputation
- Product characteristics/differentiation
- Brand name recognition
- Breadth of the product line—systems capability
- Customer orientation
- Segmentation/focus
- Distribution
- Retailer relationship
- Advertising/promotion skills
- Sales force
- Customer service/product support

CUSTOMER BASE
- Size and loyalty
- Market share
- Growth of segments served

Figure 3.4 Analysis of Strengths and Weaknesses

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detergents, skin care, and even data storage disks. Its new products usually have a distinct technological advantage. In a highly technical industry the percentage spent on R&D and the emphasis along the basic/applied continuum can be indicators of the cumulative ability to innovate. The outputs of the process in terms of product characteristics and performance capabilities, new products, product modifications, and patents provide more definitive measures of the company's ability to innovate.

The second area of competitor strengths and weaknesses is manufacturing and operations. A major area of strength of Toyota, for example, based on its culture, work processes, and ability to reduce inventory and costs, has been manufacturing. Wal-Mart has developed operational capacity and efficiency, based in part by working closely with suppliers, that are significant advantages. In addition to potential cost advantages, superior processes and systems at both Toyota and Wal-Mart provide strategic and tactical flexibility.

The third area is finance, the ability to generate or acquire funds in the short as well as the long run. Companies with deep pockets (financial resources) have a decisive advantage because they can pursue strategies not available to smaller firms. This is especially true in times of stress. Firms with a strong balance sheet can seize opportunities. Operations provide one major source of funds. What is the nature of cash flow that is being generated and will be generated given the known uses for funds? Cash or other liquid assets and the deep pockets of a parent firm are important sources as well.

Management is the fourth area. Controlling and motivating a set of highly disparate business operations are strengths for GE, Disney, and other firms that have successfully diversified. The quality, depth, and loyalty (as measured by turnover) of top and middle management provide an important asset for others. Another aspect to analyze is the culture. The values and norms that permeate an organization can energize some strategies and inhibit others. In particular, some organizations, such as 3M, possess both an entrepreneurial culture that allows them to initiate new directions and the organizational skill to nurture them. The ability to set strategic goals and plans can represent significant competencies. To what extent does the business have a vision and the will and competence to pursue it?

The fifth area is marketing. Often the most important marketing strength, particularly in the high-tech field, involves the product line: its quality reputation, breadth, and the features that differentiate it from other products. Brand image and distribution have been key assets for businesses as diverse as Pizza Hut, Dell, and Bank of America. The ability to develop a true customer orientation can be an important strength. For P&G, two of its strengths are consumer understanding and brand building. Another strength can be based on the ability and willingness to advertise effectively. The success of Perdue chickens, MasterCard, and Budweiser were all due in part to an ability to generate superior advertising. Other elements of the marketing mix, such as the sales force and service operation, can also be sources of sustainable competitive advantage. One of Caterpillar's strengths is the quality of its dealer network. Still another possible strength, particularly in the high-tech field, is an ability to stay close to customers.

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The final area of interest is the customer base. How substantial is the customer base and how loyal is it? How are the competitor's offerings evaluated by its customers? What are the costs that customers will have to absorb if they switch to another supplier? Extremely loyal and happy customers are going to be difficult to dislodge. What are the size and growth potentials of the segments served by a competitor?

The Competitive Strength Grid

With the relevant assets and competencies identified, the next step is to scale your own firm and the major competitors or strategic groups of competitors on those assets and competencies. The result is termed a competitive strength grid and serves to summarize the position of the competitors with respect to assets and competencies.

A sustainable competitive advantage is almost always based on having a position superior to that of the target competitors in one or more asset or competence area that is relevant both to the industry and to the strategy employed. Thus, information about each competitor's position with respect to relevant assets and competencies is central to strategy development and evaluation.

If a superior position does not exist with respect to assets and competencies important to the strategy, it probably will have to be created or the strategy may have to be modified or abandoned. Sometimes there simply is no point of difference with respect to the firms regarded as competitors. A competency that all competitors have will not be the basis for an SCA. For example, flight safety is important among airline passengers, but if airlines are perceived to be equal with respect to pilot quality and plane maintenance, it cannot be the basis for an SCA. Of course, if some airlines can convince passengers that they are superior with respect to antiterrorist security, then an SCA could indeed emerge.

The Luxury Car Market

A competitor strength grid is illustrated in Figure 3.5 for the luxury car market. The relevant assets and competencies are listed on the left, grouped as to whether they are considered keys to success or are of secondary importance. The principal competitors are shown as column headings across the top. Each cell could be coded as to whether the brand is strong, above average, average, below average, or weak in that asset or competence category. The figure uses an above average, average, and below average scale.

The resulting figure provides a summary of the hypothetical profile of the strengths and weaknesses of ten brands. Two can be compared, such as Ford and Lexus or BMW and Audi. BMW and Lexus have enviable positions.

Analyzing Submarkets

It is often desirable to conduct an analysis for submarkets or strategic groups and perhaps for different products. A firm may not compete with all other firms in the industry but only with those engaged in similar strategies and markets. For example, a competitive strength grid may look very different for the safety submarket, with Volvo having more strength. Similarly, the handling submarket may also involve a competitive grid that will look different, with BMW having more strength.

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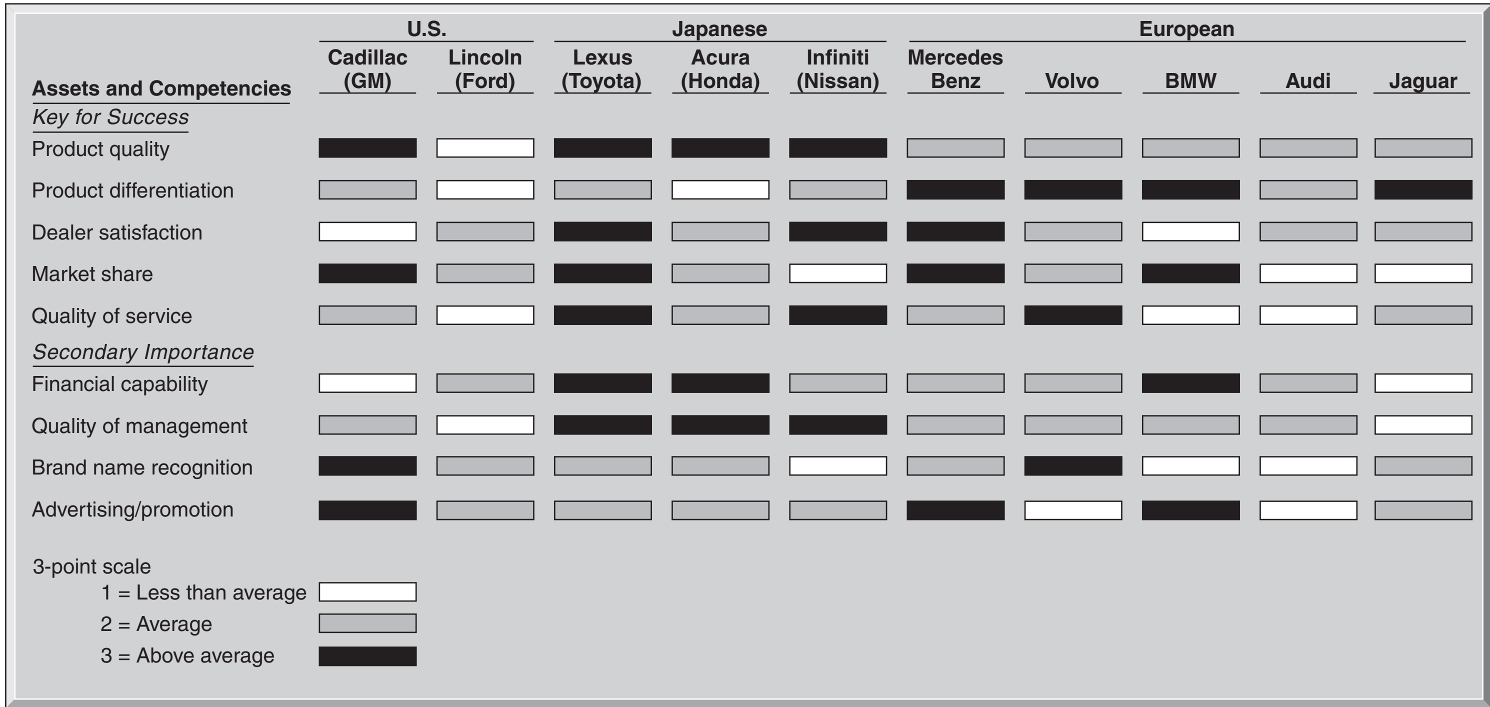

Figure 3.5 Illustrative Example of a Competitive Strength Grid for the U.S. Luxury Car Market

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The Analysis Process

The process of developing a competitive strength grid can be extremely informative and useful. One approach is to have several managers create their own grids independently. The differences can usually illuminate different assumptions and information bases. A reconciliation stage can disseminate relevant information and identify and structure strategic uncertainties. For example, different opinions about the quality reputation of a competitor may stimulate a strategic uncertainty that justifies marketing research. Another approach is to develop the grid in a group setting, perhaps supported by preliminary staff work. When possible, objective information based on laboratory tests or customer perception studies should be used. The need for such information becomes clear when disagreements arise about where competitors should be scaled on the various dimensions.

OBTAINING INFORMATION ON COMPETITORS

A competitor's Web site is usually a rich source of information and the first place to look. The strategic vision (along with a statement about values and culture) is often posted, and the portfolios of businesses are usually laid out. The way that the latter are organized can provide clues as to business priorities and strategies. When IBM emphasizes its e-servers, for example, that says something about their direction in the server business. The Web site also can provide information about such business assets as plants, global access, and brand symbols. Research on the competitor's site can be supplemented with search engines, access to articles and financial reports about the business.

Detailed information on competitors is generally available from a variety of other sources as well. Competitors usually communicate extensively with their suppliers, customers, and distributors; security analysts and stockholders; and government legislators and regulators. Contact with any of these can provide information. Monitoring of trade magazines, trade shows, advertising, speeches, annual reports, and the like can be informative. Technical meetings and journals can provide information about technical developments and activities. Thousands of databases accessible by computer now make available detailed information on most companies.

Detailed information about a competitor's standing with its customers can be obtained through market research. For example, regular telephone surveys could provide information about the successes and vulnerabilities of competitors' strategies. Respondents could be asked questions such as the following: Which store is closest to your home? Which do you shop at most often? Are you satisfied? Which has the lowest prices? Best specials? Best customer service? Cleanest stores? Best-quality meat? Best-quality produce? And so on. Those chains that were well positioned on value, on service, or on product quality could be identified, and tracking would show whether they were gaining or losing position. The loyalty of their customer base (and thus their vulnerability) could be indicated in part by satisfaction scores and the willingness of customers to patronize stores even when they were not the most convenient or the least expensive.

KEY LEARNINGS

- Competitors can be identified by customer choice (the set from which customers select) or by clustering them into strategic groups (firms that pursue similar strategies and have similar assets, competencies, and other characteristics). In either case, competitors will vary in terms of how intensely they compete.
- Competitors should be analyzed along several dimensions, including their size, growth and profitability, image, objectives, business strategies, organizational culture, cost structure, exit barriers, and strengths and weaknesses.
- Potential strengths and weaknesses can be identified by considering the characteristics of successful and unsuccessful businesses, key customer motivation, mobility barriers, and value-added components.
- The competitive strength grid, which arrays competitors or strategic groups on each of the relevant assets and competencies, provides a compact summary of key strategic information.

FOR DISCUSSION

1. Consider the news industry. Identify the competitors to CNN and organize them in terms of their intensity of competition.
2. Evaluate Figure 3.5. What surprises are there in the figure? What are the implications for Cadillac? For Audi?
3. Pick a company or brand/business on which to focus. What business is it in? Who are its direct and indirect competitors? Which in each category are the most relevant competitors?
4. Consider the automobile industry. Identify competitors to Ford SUVs and organize them in terms of their intensity of competition. Also organize them into strategic groups. What are the key success factors for the strategic groups? Do you think that will change in the next five years?
5. Consider the Nintendo case on page 50. Why was Nintendo the firm to come up with the DS and the Wii products and not SONY or Microsoft? How did they do it? What assets and competences were required?

NOTES

1. David Halberstam, *The Reckoning*, New York: William Morrow, 1986, p. 310.
2. Ibid.
3. Michael E. Porter, *Competitive Strategy*, New York: The Free Press, 1980, pp. 20–21. The concept of exit barriers will be discussed again in Chapter 14.
4. Study by Enterbrain mentioned in *Nikkei Business Daily*, July 23, 2007.