Professional Competitor Analysis

Processes, Methods, Strategies

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To develop robust business strategies and build sustainable competitive advantage, companies have to analyze 7 key influencing factors (comp. fig.1): The market/customers, competitors, their own company as well as the relevant political/legal, economic, social and technological trends impacting their business.

Fig. 1, Influencing factors in strategy development
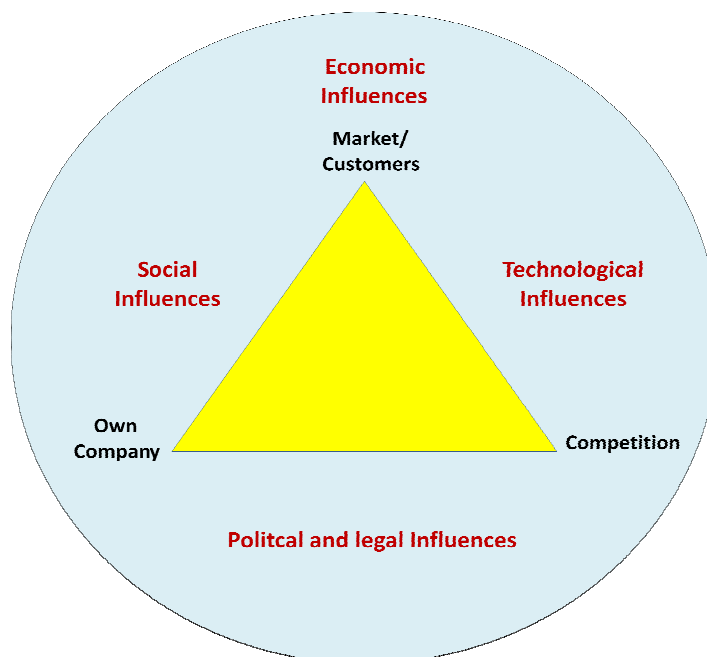
It becomes apparent that the competition is one of several influencing factors. Therefore, it should not be the only point of reference in a company´s strategy and decision-making process. Only a thorough analysis of all factors leads to robust results.

A systematic competitor analysis includes 8 steps:
1. Requirements Analysis
2. Project Planning
3. Defining the Competition
4. Data Collection
5. Archiving and Processing
6. Analysis and Interpretation
7. Reporting
8. Developing Strategies and Actions

1. Requirements Analysis

In the first step, it has to be defined who the ´customer´ for the competitive analysis is, which questions he wants to be answered and what his expectations are. Is the customer a direct superior who needs the analysis for his boss? Is the analysis aimed at top management or the supervisory board? Different ´customers´ generally have quite different expectations concerning the scope, content, and level of detail required.

In this context, the following questions have to be answered:

- What type of analysis is required: A technical, strategic or financial analysis?

- At what level should the analysis be situated: The whole company, division or strategic business unit, a product portfolio or individual product?

- How are the results to be used: As an input for strategic decisions, to develop a value proposition for the sales force, within the framework of a business or marketing plan?

- How are the results to be presented: Word document, slides, verbally or in writing?

2. Project Planning

In the second step, depending on the scope of the task, it has to be decided whether the analysis can be carried out as part of the daily business or whether a separate project has to be established, including budgets, milestones, responsibilities and success control.

Additional questions:

- Which sources of information are to be used: Company-internal sources, external sources, primary and secondary sources?

- Which methods are most suitable for the analysis: E.g. benchmarking, scenario analysis, patent analysis?

- Should third parties be involved: E.g. external market research providers, the company´s sales force or international subsidiaries?

3. Defining the Competition

The question ´Who is our competition´ may, initially, seem trivial, but it is of utmost importance. The answer depends on how a company defines its business purpose and its target market. Who, e.g., are Lufthansa´s competitors? With intercontinental flights, it is Air France, British Airways and American Airlines. Within Europe it is low-cost airlines like, e.g., Ryan Air und Air Berlin. Within Germany, e.g. on the München–Hamburg route, it is the railway (ICE train) and other airlines which cover that route as well.

We recommend to start taking a wide view of the competition and to systematically narrow it down to the key players in the subsequent steps.

The analysis should not only focus on a company´s specific industry, but also include neighbouring branches as it is there that the danger is highest: The success story of Apple´s I-Phone shows how a computer manufacturer stirred up the adjacent mobile phone industry within a short period of time!

4. Data Collection

When collecting the data, a difference has to be made between external and internal data sources on the one hand and between primary and secondary data sources on the other hand. With secondary sources, the information is already available either within the company or externally. External information includes, e.g., competitor studies provided by market research providers, statistics published by trade associations, articles in the specialized press etc. Most questions can be answered with the help of these sources. However, the disadvantage is that they are often not specific enough and based on unreliable sources.

Secondary data sources are amongst others:

- Competitor websites
- Trade fairs
- Competitor brochures
- Offers from the competition
- Multi-media publications by the competition
- Press publications
- Purchasing guides and supplier listings
- Specialized press and newspapers
- Trade associations, public authorities and other organizations
- Address sellers (Schober, Hoppenstedt)
- Online data bases:
  - **Elektronischer Bundesanzeiger** https://www.ebundesanzeiger.de/ebanzwww/wexsservlet
  - **ZDE Elektrotechnik, Elektronik und Informationstechnik (ZDEE)** http://www.wti-frankfurt.de/index.php/datenbanken/elektrotechnik
  - **Genios** http://www.genios.de/
  - **Questel** http://www.questel.com/
  - **STN international** http://www.stn-international.de/index.php?id=123
  - **Creditreform** http://www.creditreform.de/Deutsch/Creditreform/index.jsp
  - **Dun and Bradstreet** http://www.dnbgermany.de/datenbank/start.html
  - **FAZ-Archiv** http://fazarchiv.faz.net/FAZ.ein
  - **Patentdatenbank des Europäischen Patentamtes**
    http://www.epo.org/service-support/useful-links/databases_de.html

If the information required cannot be obtained from secondary sources, a primary research project has to be set up. Generally, primary research is quite expensive and requires special know-how.

The approach to be taken with a primary research project has to be defined in a detailed research plan. In this context, the following questions have to be answered:

- How should the data be collected (often, a special questionnaire needs to be developed)?
- Who should be asked and how many people (composition of the sample)?
- How should the survey be carried out (by telephone, online, verbally, in writing)?

The quality of a primary research project strongly depends on how professionally the research plan has been developed. If, e.g., too few respondents or the wrong respondents are asked, the project is doomed to fail - and very probably a lot of money will be wasted!

5. Archiving and Processing

To archive the collected data, a range of electronic data bases is available. Or, perhaps, a simple hanging file will do!

In the processing phase, the data are checked for compatibility and consistency. Gaps can be closed, e.g., by applying one of the following methods:

- Interpolation = Adding a missing step within a series. Example: An unknown processing step is constructed based on knowledge about the products entering the process and the finished product.

- Deductive reasoning = Deriving a specific insight from a general one. Example: Determining a competitor´s prices based on his overall positioning.

- Inductive reasoning = Logical conclusion from the general to the specific. Example: A company watches a competitor establishing a sales subsidiary and hiring people and concludes that a new product launch is imminent.

6. Analysis and Interpretation

A variety of methods is available for analyzing and interpreting the collected data – ranging from the well-known SWOT Analysis to highly complex, software-based simulations. In this paper, three methods will be illustrated by way of example.

- Benchmarking
- Competitor ranking by intention and potential
- Competitor strategy analysis

Benchmarking

Objective: Comparison of a company´s performance in defined areas with industry standards or specific competitors.

Process:

1. Select the areas to be analyzed (processes, products, etc.)
2. Define the parameters to be used
3. Select the benchmarks: Industry standards and/or specific competitors
4. Collect the data
5. Analyze the data and identify areas for improvement

Competitor ranking by intention and potential (comp.fig.2)

Objective: Identification of ´critical´ competitors which the company should focus on.

Process:

1. Determine competitors´ intention and potential to impede the company´s strategy implementation.
2. Present the results in a 2-dimensional matrix.
3. Prioritize competitors based on their threat potential.
4. Analyze the competitor with the highest threat potential in detail and develop scenarios to react.

Fig. 2, Competitor analysis based on ´intention´ and ´potential´
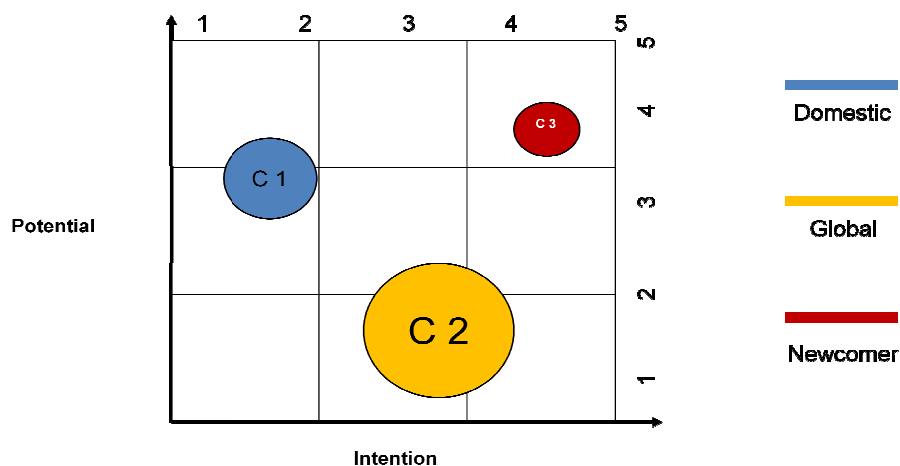
The matrix shows that the competitor C3 (Newcomer) has the highest potential and intention to threaten the company. Therefore, it requires particular attention.

Competitor stratey analysis
Objective: Develop scenarios for likely competitor reactions to guard against surprises and to deve-lop counter strategies.

Process
1. Classify competitors based on their potential and intention to threaten the company; select the competitor with the highest threat potential (comp. fig 2, page 7)
2. Identify the competitor´s current strategy
3. Identify the competitor´s capabilities (strengths/weaknesses)
4. Identify the competitor´s strategic assumptions
5. Identify the competitor´s objectives
6. Develop scenarios for likely competitor reactions and develop counter strategies.

7. Reporting

Like the whole competitor analysis, the reporting of results should be strictly orientated at the customers´ (direct superior, top management, sales organization, etc.) requirements. The general rule is that the higher the customer´s hierarchical position, the more the information should be compressed and the stronger should be the focus on economic (instead of technical) aspects. Fig. 3 provides an overview of the different reporting levels in a company.

Fig 3, Reporting Pyramid
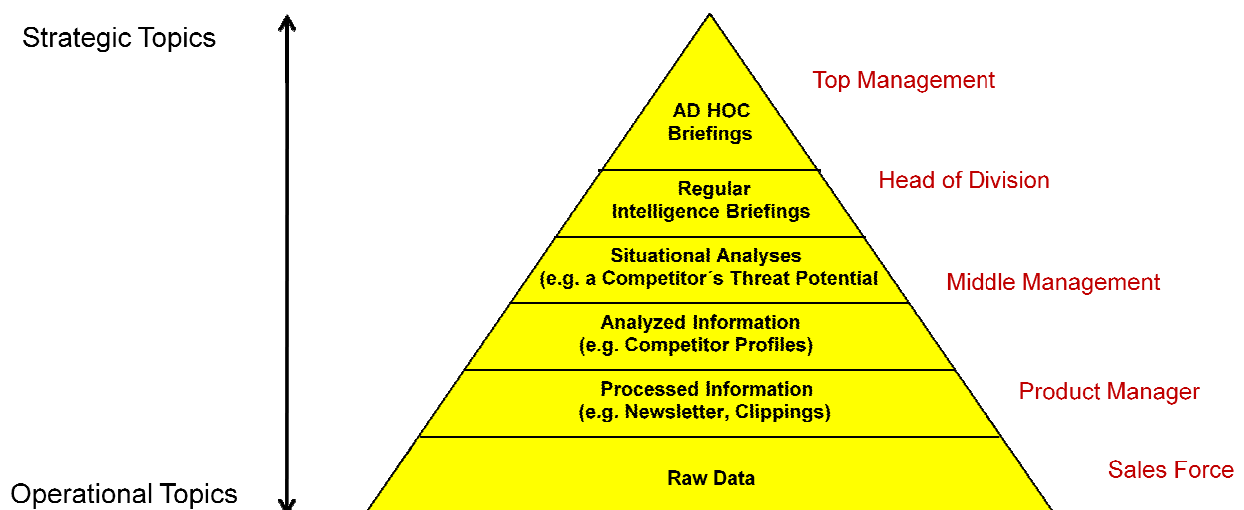
The visualization of the results should also be strictly tailored to the audience´s requirements. The presenter always has to ask himself which visual means he should employ to communicate his message in the most convincing way.

Commonly used visualization methods include (examples in parentheses)

- <u>Circle diagram</u> (market shares)
- <u>Curve diagram</u> (price development over time)
- <u>Spider web diagram</u> (company performance in different areas in the context of a customer satisfaction survey)
- <u>Column diagram</u> (frequency distributions)
- <u>Portfolio matrix</u> (classification of competitors by potential and intention)
- <u>Table</u> (profitability calculation)

8. Developing Strategies and Actions

In the last step, strategies and actions are to be developed based on the results of the preceding analysis. The type of competitive strategy a company chooses depends on its current or future market position. Generally, companies can assume one of 4 strategic positions: Market leader, challenger, follower and niche player.

Each position offers several strategic options (Example in parentheses):

- <u>Strategies for Market Leaders</u>
    - Expand the total market (gain new users)
    - Defend your market share (intensify brand building)
    - Expand your market share (step up advertising)

- <u>Strategies for Challengers</u>
    - Frontal attack (better price/quality ratio)
    - Flank attack (enter segment neglected by the competition)
    - Bypass attack (leapfrog competitors with a superior technology)

- <u>Strategies for Followers</u>
    - Product adaptation and improvement (smart phone producers which copy and improve Apple´s I-Phone)
    - Imitation (private label brands which imitate manufacturer brands)

- <u>Strategies for Challengers</u>:
  - Focus on particular customer groups (pharmaceuticals for children)
  - Focus on particular applications (pharmaceuticals for eye diseases)
  - Focus on particular distribution channels (products which are only available in specialized shops)

Summary

A professional competitor analysis includes the following steps: Requirements analysis, project planning, defining the competition, data collection, archiving and processing, analysis and interpretation, reporting, developing strategies and actions.

As with every project, a careful cost-benefit analysis should be carried out on an ongoing basis to evaluate whether the investment is justified with respect to the expected results.

Even the best competitor analysis doesn´t include all the information a company would ideally like to have – it is always a compromise between what is possible and what is desirable. A good competitor analysis reduces the entrepreneurial risk, but it cannot eliminate it totally!