

# Competitor Analysis in Strategic Management: Is it a Worthwhile Managerial Practice in Contemporary Times?

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## Abstract

Studying the actions and behavior of close competitors is essential. Unless a company pays attention to what competitors are doing, it ends up 'flying blind' into battle. Managers need competitive information to understand the industry and its competitors; to identify areas in which the competitors are weak and to evaluate the impact of strategic actions on competitors. The purpose of this study is to establish the relevance or otherwise of competitor analysis as a strategic management practice in modern business competition. An integrative literature review approach was adopted for the study. This involved reviews, critiques, and synthesis of representative literature on the topic in an integrated way for generating new perspectives on competitor analysis. Personal interpretations of the issues addressed were the bases upon which the authors drew their conclusions. The study revealed that identifying competitors and how they operate helps managers to tackle industry issues that are detrimental to their companies' health and also helps managers to learn from competitors. It also revealed that firms that pay attention to competitors' actions have been found to achieve better business performance.

**Keywords:** strategic management, managerial practice, competitor analysis, competition

## 1. Introduction

Competition is one of the most inevitable forces in today's business world. No matter what a firm is, big or small, it has competitors in the industry and the strategies of these competitors affect the process of formulating strategic plans. Competition is an accepted feature of corporate life for profit-driven organizations. Analyzing organization's competitors helps to discover its weaknesses as well as identify opportunities and threats from the industrial environment. While formulating an organization's strategy, managers must consider the strategies of the organization's competitors. Competitor analysis is a driver of an organization's strategy and affects how firms act or react in their industries. The organization does a competitor analysis to measure and or assess its standing amongst competitors.

Whilst competitor analysis is a bit narrower term of competitive analysis, the two strategic management terms are often used as synonyms. Zahra and Chaples (1993) define competitive analysis as "the process by which a company attempts to define and understand its industry, identify its competitors, determine the strengths and weaknesses of its rivals, and anticipate their moves". Furthermore, they state that it "embodies both competitive intelligence to collect data on rivals and the analysis and interpretation of the data for managerial decision-making". Competitive analysis aims to provide an in-depth understanding of the competitive forces that are to be found in any given organization's competitive environment. It will attempt to understand an organization's industry, its competitive position within it, the prerequisites for survival and prosperity and the nature of competition and of the market process (Oxenfeldt and Schwartz, 1981). The analysis also offers management a forum where they can discuss and evaluate their assumptions about the organization's capabilities, market position and competitors.

Further, it helps them to select viable strategies that will strengthen the organization's market position. Therefore, competitive analysis serves as the foundation for the process of strategy formulation. Competitive analysis forms part of the broader process of strategic analysis. Strategic analysis is an investigation into the external and internal environment of an organization. The organization needs to consider industry and competitive conditions, and determine its own competitive capabilities, resources, internal strengths, weaknesses and market position when formulating strategy. Competitive analysis specifically has to do with the external environment of an organization (Abraham, 2006).

According to Fleisher and Bensoussan (2003, 2007), competitor analysis is the management tool used in strategic management in an assessment of the strengths and weaknesses of current and potential competitors.

It provides both an offensive and defensive strategic context through which to identify opportunities and threats. Competitor profiling coalesces all of the relevant sources of competitor analysis into one framework in the support of efficient and effective strategy formulation, implementation, monitoring and adjustment. Given that competitor analysis is an essential component of corporate strategy, it is argued that most firms do not conduct this type of analysis systematically enough. Instead, many enterprises operate on what is called “informal impressions, conjectures, and intuition gained through the tidbits of information about competitors every manager continually receives”. As a result, traditional environmental scanning places many firms at risk of dangerous competitive blind-spots due to a lack of robust competitor analysis (Fleisher et al., 2007). Ghoshal and Westney (1991) observed that the competitor analysis is a system to discuss on environment and whole industry and focus on external atmosphere as well as internal. Gathering and analyzing competitors’ information is very important to find business position and take decision. The growing complexity of the competitive environment of many industries convinced many top managers that they did indeed need more systematic analysis of their competitors.

In examining a competitor, the analysis should delve ‘beneath the surface of a firm’s end-products, to unveil the hidden picture which constitutes its distinct competitive strength. This strategic approach views firms as trees which ‘grow’ products from the root competencies (Giget, 1988). The root system is fundamental to the firm, and thus, is more enduring and persistent than the visible ‘fruit-level’ manifestations. While outward manifestations may change in competitive environment, the root system nurtures the firm’s organizational competencies, and hence, influences its strategic intent (Hamel and Prahalad, 1989) and its ability to survive, compete and prosper (Prahalad and Hamel, 1990). By concentrating on the root system as the basis of competitiveness, the future direction of a firm might be inferred with better confidence, than simply looking at the fruit level. Even when a firm moves into new markets, generally it is to leverage a discernible advantage through existing, acquired or newly developed competencies. This observation is not surprising since the leaves and fruit of a tree are engendered by absorbing the riches from the root system.

### *1.1 Objective of the Study*

The goal of competitor analysis is to be able to predict a competitor’s probable future actions, especially those made in response to the actions of the focal business. This requires information that is both quantitative and factual (what the competitor is doing and can do) as well as that which is qualitative and intentional (what the competitor is likely to do). There are four key knowledge areas as put forward by Liam (1999): the competitor’s marketplace strategy in terms of scope, posture, and goals; the sources of competitive advantage that gives its marketplace strategy potency including resources and capabilities, organization, mind-set, and its place in the industry’s eco-system; the interpretation of the signals being sent by the competitor both by its actions and communications; and a competitive response profile which analyzes the competitor’s possible future moves.

The purpose of this study, therefore, is to establish the relevance or otherwise of competitor analysis as a strategic management practice in contemporary business competition.

## **2. Integrative Literature**

Managers need competitive information to understand the industry and its competitors and to identify areas in which the competitors are weak and to evaluate the impact of strategic action on competitors (David, 2011). Studying the actions and behavior of close competitors is essential. Unless a company pays attention to what competitors are doing, it ends up ‘flying blind’ into battle. A firm cannot outmaneuver its rivals without monitoring their actions and anticipating what moves they are likely to make next. The strategies rivals are using and the actions they are likely to take next have direct bearing on what a company’s own best strategic moves are, whether it will need to defend against rivals’ actions or whether rivals’ moves provide an opening for a new offensive thrust. To predict a competitor’s next moves, an analyst must get a good ‘feel’ for the rival’s situation, how its managers think, and what its options are. The detective work can be tedious and time-consuming since the information comes in bits and pieces from many sources. But it is a task worth doing well because the information gives managers more time to prepare countermoves and a chance to beat rivals to the punch by

moving first. Competitor analysis begins with identifying present as well as potential competitors. It portrays an essential appendage to conduct an industry analysis.

An industry analysis gives information regarding probable sources of competition (including all the possible strategic actions and reactions and effects on profitability for all the organizations competing in the industry). However, a well-thought competitor analysis permits an organization to concentrate on those organizations with which it will be in direct competition, and it is especially important when an organization faces a few powerful competitors. Identifying competitors' strategies, strategists can get a quick profile of key competitors by studying where they are in the industry; their strategic objectives (as revealed by their recent actions), and their basic competitive approaches.

An easy-to-use scheme for categorizing rivals' objectives and strategies include: *Competitive Scope*: local; regional; national; multi-country; global; *Strategic Intent*: be the dominant leader; overtake the present industry leader be among the industry leaders (top 5); *Market Share Objective*: aggressive expansion via both acquisition and internal growth; expansion via internal growth (boost market share at the expense of rival firms); expansion via acquisition; *Competitive Position/Situation*: getting stronger; on the move; well-entrenched; able to maintain its present position; stuck in the middle of the pack; going after a different market position (trying to move 'from a weaker to a stronger position); *Strategic Posture*: mostly offensive; mostly defensive; a combination of offense and defense; aggressive risk-taker; conservative follower; and *Competitive Strategy*: striving for low cost leadership; mostly focusing on a market niche; pursuing differentiation based on price, quality, service, etc. Such a summary, along with a strategic group map, usually suffices to diagnose the competitive intent of rivals. Competitor analysis is interested ultimately in developing a profile on how competitors might be expected to react in response to a company's strategic moves. Competitor analysis involves developing answers to a series of questions regarding the company's and its competitors' future objectives, current strategy, assumptions, capabilities, and response.

### 2.1 Types of Competitors

A firm's competitors are all of those firms which compete for its customers' spending power. And competitor analysis is about sizing up the competition to give a business owner a more realistic view of the market and the company's position in it. Yet not every competitor warrants the same level of attention in the strategic plan. Kotler and Armstrong (2009) suggest that there are four types of competitors: *Brand competitors*: These are the most obvious competitors. They are firms which are similar in size to the focal firm and who offer similar products to similar customers. An example of brand competitors is Dunnes Stores as a competitor of Tesco. *Industry competitors* offer similar products or services to the focal firm but differ in some important way such as organization size or the precise type of product offering or target market. Radisson Hotels and Ashford Castle Hotel are industry competitors. *Form competitors* offer products or services which fulfill the same customer needs as the focal firm even though the products or services are very different in form or technology. For example theatres, cinemas, DVD distributors, and bookstores are form competitors of each other. *Generic competitors*: All consumers have limited incomes. Therefore, every firm is a potential competitor, at least for expenditures of similar magnitude. For example, a for-profit private school must recognize that generic competition for its services comes from the alternative items (such as luxury holidays) on which an affluent family might choose to spend its money. A firm's competitors can also be classified as direct, indirect and future competitors.

Direct competitors are businesses that are offering identical or similar products or services as the focal firm. These are organizations that customers can easily buy from instead of from the firm, so these companies represent most intense competition. Direct competitors offer the same products and services, and customers often compare prices, features, and deals from these competitors as they shop. Additionally, they have some degree of first-mover advantage that you will have to confront.

Indirect competitors are businesses that are offering products and services that are close substitutes. These competitors are probably targeting the firm's markets with a same or similar value proposition, but delivering a different product. Indirect competitors offer the same or similar products or services only in a small number of areas, but their target customers seldom overlap the firm's. A classic example is a survey General Motors conducted of new Corvette car buyers. When asked what products the buyers considered instead of a

Corvette, the usual sports cars were on the list, but so was the Sea Ray, a sleek, fast boat. The Sea Ray was fulfilling the same basic need as a Corvette, a sporty vehicle that made the buyer feel young and would impress friends, especially of the opposite sex. Similarly, television and the Internet itself are Amazon.com's indirect competitors because each product competes for attention in a consumer's leisure time.

Future competitors are existing companies that are not yet in the marketplace that the firm intends to occupy, but could move there at any time. One obvious source of future competition is an indirect competitor. As soon as an indirect competitor sees the focal firm having success in its market with a different product, the indirect competitor may try to duplicate the firm's offerings and so they become a direct, perhaps formidable, competitor. Competitors represent a major determinant of corporate success, and failure of a company to analyze its competitors' strengths, weaknesses, strategies, and areas of vulnerability may lead it to suboptimal performance in business (Wilson, 1994). So, analyzing competitors is crucial for firm's strategy formulation and implementation as well as competitive preparation (Ho and Lee, 2008; Bloodgood and Bauerschmidt, 2002).

As most managers acknowledge the importance of understanding their industry and competitors, there is a growing interest to use various competitive analysis techniques to help formulate and implement strategy (Prescott and Grant, 1988). Some of these popular techniques include: SWOT analysis, Boston Consulting Group (BCG) approach, General Electric Stoplight Strategy, McKinsey's Industry Strength Matrix, Porter's Five Forces model and Value Chain Analysis, SPACE matrix, External Factor Evaluation matrix (EFE), Internal Factor Evaluation matrix (IFE), PESTEL analysis, Competitive Profile Matrix (CPM), among others (Porter, 2000; Bygrave and Zacharakis, 2011). As strategic analysis and planning tools, these conventional matrices provide valuable insight about competitive scenario to help managers plan the organization's future competitive position (Capps III and Glissmeyer, 2012).

From the above taxonomy, it appears that almost any other firm is an actual or potential competitor. We cannot (in practice) continuously monitor every other firm in existence, so some rule-of-thumb is needed to identify the most significant competitors. It has been suggested that the biggest competitive threat is likely to come from those who have some or all of the following characteristics: they sell to the same type of customers as the focal firm; they have similar or lower-cost supply and distribution channels; they have similar or superior technologies; and their target market (in geographical or other terms) significantly overlaps that of the focal firm.

## *2.2 Important Competitor Information*

Having identified our competitors, the next step is to determine what is it we need to know about them in order to facilitate our strategic success. Hoque (2006) suggests that we should try to stay continuously informed about the following matters as regards each of the significant competitors: What are the competitor's existing strategies and objectives? For example, do they aspire to increase market share at our expense and what is their strategy for doing so? What are the competitor's major strengths and weaknesses? For example, if a competitor has high operating leverage then profits will change much more than proportionately if the volume of sales changes. Thus, high operating leverage is a strength in times of expansion but a major weakness when contraction occurs (e.g., in a time of economic recession). How well is the competitor doing at present? Can we predict the competitor's future moves? For example, we may discover that a competitor has been generating high profits, has a track record of low dividend payouts, and has a strategy of investing heavily in R&D to facilitate product innovation. In this case, it is likely that the competitor may seek to expand market share (at our expense) by offering better and quite possibly cheaper products.

Further, Fleisher et al. (2003) provide an exhaustive list of the information which should be gathered about a firm's competitors. This list includes: segmentation strategies; branding and image; advertising and promotions; customer service emphasis; likely growth vectors; market research capability, among others. The focal firm needs to acknowledge the fact that not all bits of information are likely to be gathered in every situation. For instance cost-benefit considerations may discourage further exploration of some information. Notwithstanding the practical problems mentioned here, most of the information suggested by Fleisher et al. can (in practice) be collected. For example, such marketing information as: key customers; segmentation strategy; and customer service emphasis are usually either publicly known or easily inferred. Most of the information is qualitative in character. However, in general, it is difficult to collect information on competitors. Companies are reluctant to share information and to quantify the direct financial benefits of competitor analysis. Clearly,

though, smaller companies cannot afford to conduct competitor analysis. Another problem in performing competitor analysis is the tendency to be concerned only with the visible activities of competitors. Less visible attributes and capabilities such as organizational structure, culture, human resources, service features, intellectual capital, management acumen, and strategy may cause misinterpretation of a competitor's strengths or strategic intent.

Predicting competitor's next moves is the hardest yet most useful part of competitor analysis. Good clues about what moves a specific competitor may make next come from finding out how much pressure the rival is under to improve its financial performance. Aggressive rivals usually undertake some type of new strategic initiative. Content rivals are likely to continue their present strategy with only minor fine-tuning. Ailing rivals can be performing so poorly that fresh strategic moves, either offensive or defensive, are virtually certain. Since managers generally operate from assumptions about the industry's future and beliefs about their own firm's situation, strategists can gain insights into the strategic thinking of rival managers by examining their public pronouncements about where the industry is headed and what it will take to be successful, listening to what they are saying about their firm's situation, gathering information about what they are doing, and studying their past actions and leadership styles. Strategists also need to consider whether a rival is flexible enough to make major strategic changes.

The main objectives of doing competitor analysis can be summarized as: to study the market; to predict and forecast organization's demand and supply; to formulate strategy; to increase the market share; to study the market trend and pattern; to develop strategy for organizational growth; when the organization is planning for diversification and expansion; to study forthcoming trends in the industry; understanding the current strategy strengths and weaknesses of a competitor can suggest opportunities and threats that will merit a response; and insight into future competitor strategies may help in predicting upcoming threats and opportunities. Competitors should be analyzed along various dimensions such as their size, growth and profitability, reputation, objectives, culture, cost structure, strengths and weaknesses, business strategies, exit barriers, etc. Also, competitor analysis is an important requirement in any business plan because it: reveals the organization's competitive position in the 'market-space'; assists the firm to develop strategies to be competitive; and partners and other readers of the business plan will expect it.

### 2.3 The Essence of Competition

Competition is a necessary evil. It is necessary for the health of the industry as it spurs new product as well as service development. Competition being as important force needs to be feedback hence the need for a framework for competitor analysis, which is critical to the understanding of competitor's strength and weaknesses. Aside those tools, techniques, frameworks, models, matrices etc. mentioned earlier, below is a brief description of some popular ones applied in competitor analysis.

Zimmerer et al., (2008) define *Competitor Profile Matrix* (CPM) as a tool which helps companies assess themselves against their major competitors using the critical success factors for that industry. Zimmerer et al. (2008) state three steps to construct a CPM for a company. The first step is to find the Key Success Factors (KSFs) for the company and attach weight to those factors according to their relative importance. In the next step, company need to identify its major competitors and rate each competitors including company itself on each of the KSFs. KSFs include both internal and external issues and different ratings have been given from 1 to 4 considering their relative importance to the organization *where 1 stands for major weakness, 2 stands for minor weakness, 3 stands for minor strength, and 4 stands for major strength*. Same method has been applied when rating the KSFs of competitors. Lastly, company has to multiply the weight by the rating for each factor to get a weighted score and then adds up each competitor's weighted scores to get a total weighted score. In CPM, the KSFs carry different weights according to their importance to the firm and, in their industry environment. A hypothetical example of a CPM is given below:



Table 1: Competitor Profile Matrix of Company A

Key Success Factor	Weight	Competitor A		Competitor 1		Competitor 2	
		Score	Weighted Score	Score	Weighted Score	Score	Weighted Score
<b>Innovation</b>	0.25	4	1.0	4	1.0	3	0.75
<b>Advertising</b>	0.20	2	0.40	3	0.60	4	0.80
<b>Brand Name</b>	0.20	1	0.20	4	0.80	2	0.40
<b>Productivity</b>	0.15	4	0.60	2	0.30	2	0.30
<b>Customer service</b>	0.10	3	0.30	2	0.20	1	0.10
<b>Price Competitiveness</b>							
<b>Technological Competence</b>	0.05	3	0.15	3	0.15	4	0.20
	0.05	3	0.15	1	0.05	2	0.10
	<b>1.0</b>		<b>2.80</b>		<b>3.10</b>		<b>2.65</b>

Table 1 portrays the competitive scenarios of the company and its competitors in the industry. From this table, it is found that the company A scores better (strengths) in innovation and product quality, and assumes minor strength in customer service, price competitiveness, and in technological competence. Albeit, company has minor weakness in advertising and major weakness is in brand name. As a whole, its total score is 2.80 and on the other hand, its competitor 1's and competitor 2's total scores are 3.10, and 2.65 respectively. From this CPM analysis, it is revealed that competitor 1 enjoys more competitive advantages by 0.30 than the company itself while competitor 2 is lagging behind by 0.15.

One other technique used in competitor analysis is *media scanning*. Scanning competitor's ads can reveal much about what that competitor believes about marketing and their target market. Changes in a competitor's advertising message can reveal new product offering, 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.

Similar techniques can be used by observing a competitor's search engine optimization targets and practices (O'Connor, 2010). For example, by conducting keyword research, one may be able to determine a competitor's target market, keywords, or products. Other metrics allow for detection of a competitor's success. Little of this intelligence is definitive: additional information is needed before conclusions should be drawn (Wheeler, 2010).

According to Prager (2012), 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 own media plan. By knowing the competitor's media buy, media selection, frequency, reach, continuity, schedules, and flights, the manager can arrange his own media plan so that they do not coincide.

Gordon, (1989) states that one common and useful technique for conducting a competitor analysis is the construction of a *competitor array*. The steps include the following: define your industry, scope and nature of the industry; determine who your competitors are; determine who your customers are and what benefits they expect; and determine what the key success factors in your industry are. 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, after which you multiply each cell in the matrix by the factor weighting. The columns are then summed

up for a weighted assessment of the overall strength of each competitor relative to the others. This can best be displayed on a two dimensional matrix, competitors along the top and key success factors down the side. An example of a competitor array follows (Gordon, 1989).

Table 2: Competitor Array: Two Dimensional Matrix

Key Industry Success Factor	Weighting	Competitor A		Competitor B	
		Rated	Weighted	Rated	Weighted
Extensive distribution	0.4	6	2.4	3	1.2
Customer focus	0.3	4	1.2	5	1.5
Economies of scale	0.2	3	0.6	3	0.6
Production innovation	0.1	7	0.7	4	0.4
<b>Totals</b>	1.0	20	4.9	15	3.7

In the above analysis, ‘competitor A’ is rated higher than ‘competitor B’ on product innovation ability (7 out of 10, compared to 4 out of 10) and distribution networks (6 out of 10), but ‘competitor B’ is rated higher on customer focus (5 out of 10). Overall, ‘competitor A’ is rated slightly higher than ‘competitor B’ (20 out of 40 compared to 15 out of 40). When the success factors are weighted according to their importance, ‘competitor A’ gets a far better rating (4.9 compared to 3.7).

*Competitor profiling* is another useful and widely accepted technique for examining competitors’ strengths and weaknesses. The strategic rationale of competitor profiling is powerfully simple; “superior knowledge of rivals offers a legitimate source of competitive advantage”. The raw material of competitive advantage consists of offering superior customer value in the firm’s chosen market. The definitive characteristic of customer value is the adjective, ‘superior’. Customer value is defined relative to rival offerings making competitor knowledge an intrinsic component of corporate strategy. Profiling facilitates this strategic objective in three important ways (Magretta, 2014).

First, profiling can reveal strategic weaknesses in rivals that the firm may exploit. Second, the proactive stance of competitor profiling will allow the firm to anticipate the strategic response of their rivals to the firm’s planned strategies, the strategies of other competing firms, and changes in the environment. Third, this proactive knowledge will give the firms strategic agility. Offensive strategy can be implemented more quickly in order to exploit opportunities and capitalize on strengths. Similarly, Fleisher and Bensoussan (2007) noted defensive that strategies can be employed more deftly in order to counter the threats of rival firms from exploiting the firm’s own weaknesses.

Clearly, those firms practicing systematic and advanced competitor profiling have a significant advantage. As such, a comprehensive profiling capability is rapidly becoming a core competence required for successful competition. An appropriate analogy is to consider this advantage as akin to having a good idea of the next move that your opponent in a chess match will make. By staying one move ahead, checkmate is one step closer. Indeed, as in chess, a good offense is the best defense in the game of business as well (Fleisher et al., 2007). According to O’Connor (2010), 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 includes: *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 or reformulation; *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; *Promotional strategy*: distribution channels used (direct and 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 and retention rates; and *Corporate and marketing strategies*: objectives, mission statement, growth plans, acquisitions, and divestitures; marketing strategies.

### 3. Materials and Method

The study reviewed relevant related literature on competitor analysis. Data for the study were pulled together from secondary sources including journals, books, and other periodicals. An integrative literature review approach was adopted for the study. This involved reviews, critiques, and synthesis of representative literature on the topic in an integrated way for generating new perspectives on competitor analysis. Thoughts and personal interpretations of the issues addressed were the bases upon which the authors drew their conclusions on the topic.

### 4. Discussion

Competition always induces firms to revise their product portfolio as also to revisit their product market to understand changing needs, expectations and perceptions of a different market segment. It also motivates to make their product features rich and versatile. As a result, competitor analysis: enlarges a company's understanding of the multiple choices that customers have; is a source of new ideas; facilitates better predictions about the future; enforces management to evaluate any prospective course of action in the light of possible responses by competitors; focuses a specific company's product/services that need to be emphasized; and helps point out competitors' weaknesses. Competitor analysis can therefore be said to be a worthwhile contemporary managerial practice for reasons discussed below.

First, an organization engages in competitor analysis to gain a general understanding of the competitors in the product area, identify any vulnerabilities of the competitors, assess the impact of its own strategic actions against specific competitors, and identify potential moves that a competitor might make that would endanger the organization's position in the market. Analyzing competitors assists organizations in identifying a clear competitive advantage (some basis on which they are willing to compete with anyone). Competitive advantage is the means by which the organization seeks to develop cost advantage or to differentiate itself from other organizations. Organizations constantly take offensive and defensive actions in their quests for competitive advantage vis-à-vis competitors (Baum and Korn, 1996). Competitive advantage might be centered on image, high-quality services, an excellent and widely recognized staff, or efficiency and low cost, among others. Depending on the intent of the competitor analysis, an organization might use all of these attributes or just one or two. For example, in the early stages of competitor analysis, the organization may seek only general information. As the organization plans to enter new markets, offensive information may be the primary focus of the competitor analysis. In the face of strategic moves by a powerful competitor, defensive information may take precedence.

In large, complex markets, all of these information categories are appropriate and essential for positioning the organization. General competitor information is important for an organization to: avoid surprises in the marketplace; provide a forum for leaders to discuss and evaluate their assumptions about the organization's capabilities, market position, and competition; make everyone aware of significant and formidable competitors to whom the organization must respond; help the organization learn from rivals through benchmarking (specific measures comparing the organization with its competitors on a set of key variables); build consensus among executives on the organization's goals and capabilities, thus increasing their commitment to the chosen strategy; and foster strategic thinking throughout the organization.

Companies compare themselves with similar companies in the same industry to identify their strengths and weaknesses. For example, Bank of East Asia sets Hang Seng Bank as its benchmark for comparison, as both are local banks in Hong Kong. It is helpful for a company to conduct best-practice benchmarking, comparing its performance against that of the best competitor in the industry. This helps to increase company productivity growth and competitive advantage. Subsequently, the company can break through to a higher standard of performance. Offensive competitor information is helpful to: identify market niches and discontinuities; select a



viable strategy; and contribute to the successful implementation of the strategy. Defensive competitor information will aid in: anticipating competitors' moves; and shortening the time required to respond (countermoves) to a competitor's moves.

Secondly, competitor analysis is an indispensable process in marketing planning. Henderson (1983) stated that "the success of any marketing strategy depends on the strengths of the competitor analysis on which it is based". As a strategic analysis tool, Competitor Profiling Matrix (CPM) provides several benefits to the company. Capps III and Glissmeyer (2012) argue that CPM includes company's key success factors (KSFs) which help the company identify strengths and deficiencies in those significant areas. Analyzing organizations in this manner is an effective way to evaluate many competitors in one framework to support an effective strategic plan (Fleisher and Bensoussan, 2003, 2007) as cited in (Capps III and Glissmeyer, 2012). CPM enables a company to evaluate the strengths and weaknesses of its major competitors which is a prerequisite in developing an effective competitive strategy. An understanding of competitive behavior including firms' moves and counter moves is fundamental to strategic management (Chen, 1996; Porter 1980). Chen et al. (1992) found evidence that the stronger an action attack on key markets of competitors, the greater the number of counteractions by the competitors.

Competitor analysis provides both an offensive and a defensive strategic context for identifying opportunities and threats. The offensive strategy context allows firms to more quickly exploit opportunities and capitalize on strengths. Conversely, the defensive strategy context allows them to more effectively counter the threat posed by rival firms seeking to exploit the firm's own weaknesses. Business organizations have long engaged in competitor analysis, viewing it as an essential part of environmental analysis in strategic management. These companies have learned that focusing on competitor analysis aids in the identification of new business opportunities, the clarification of emerging ideas, improved ability to anticipate surprises, and the development of market penetration and market share growth strategies (Prescott and Grant, 1989). As a matter of fact, one well-documented reason Japanese automobile firms were able to penetrate the US market successfully, especially during the 1970s, was that they were much better at doing competitor analysis than US firms (Halberstam, 1986).

In addition, effective competitor analysis requires predicting how competitors plan to position themselves. Although often difficult, determining competitors' strategic intent is at the heart of competitor analysis. An effective competitor analysis should focus on what rivals can do with their resources, capabilities, and competencies; an extension of what competitors are currently doing, and include possible radical departures from existing strategies (Zahra, and Chaples, 1993). Accurate and timely information concerning competitors is extremely important in competitor analysis. Misjudging or underestimating competitors' resources, capabilities, or competencies is a serious misstep. Faulty assumptions can suggest inappropriate strategies for an organization. Poor environmental scanning perpetuates faulty assumptions.

Third, competitive analysis provides information to enable the focal firm to predict competitive actions of competitors. Porter (1980) believes that the desire to preempt competitors in deliberations on capacity expansion is one of the clearest examples of organizational decision making where competitor information can play an invaluable role. In a similar vein, Zajac and Bazerman (1991) saw a need for competitor analysis when considering capacity expansion. Rouach and Santi (2001) point to the fact that information in the contemporary era is even changing industry structures and is altering the rules of competition. To succeed in such circumstances, it is critical to establish a capability to continuously monitor and analyze the dynamics in the external environment based on information gathered. Such a capability could assist a firm to act in time upon any changes that may impact on its strategic thrust into the future. Hamel and Prahalad (1993) concur with this view when they argued that business risk recedes as a firm's knowledge about its external environment grows, and as knowledge grows, so does the firm's capacity to advance. Fleisher and Blenkhorn (2000) added that accurate and timely competitive intelligence could mean the difference between correct and incorrect global strategic decision making. Through competitor analysis, firms identify who their key competitors are, develop a profile for each of them, identify their objectives and strategies, assess their strengths and weaknesses, gauge the threat they pose, and anticipate their reaction to competitive moves. Firms that develop systematic and advanced competitor profiling have a significant competitive advantage.

Fourth, competitor analysis links with the traditional strengths, weaknesses, opportunities and threats (SWOT) analysis for handling both business opportunities and threats. This benefit comes from expanded dialogue within the development team, and with other units in the company, about what competitive data means to strategic direction. Such dialogue can open up new opportunities and options that would not otherwise have been considered. Competitors may be taking various approaches to reaching the customer base, so multiple possibilities exist. In this situation, a completely novel approach might be best, since no standard is emerging. Value-chain analysis is also helpful since it helps a company to understand where and how it adds value. It helps the company to determine its own sources of competitive advantage, and it can then dissect strategically relevant activities so as to understand the sources of competitive advantage through cost leadership or product specialization. Similarly, in an environment of rapid change, intellectual capital represents a primary value creation asset of the organization (Saint-Onge, 1996). According to Porter and Teisberg (2004), in healthy competition, ongoing improvements in processes and methods drive down costs; product/service quality improves; innovation leads to improvements which are quickly adopted; uncompetitive producers go out of business; value-adjusted prices fall; and the market expands.

Companies try to identify their competitors' strengths when choosing competition methods, either by cutting the product price to exercise cost leadership or by launching a new product or service to achieve product specialization. Companies practicing competitor analysis should also carry out competitive position monitoring. Through this they analyze competitor positions within the industry by assessing and monitoring trends in competitor sales. In addition, companies should conduct industry profitability analysis. This provides them with a gauge for the nature and intensity of competition. Competitive advantage requires different positioning strategies through strategically choosing a different mix of value chain activities in order to deliver a unique value at a competitive price (Porter, 1996).

## 5. Conclusion

Competitor analysis helps decision makers understand who competitors are and what the market structure is. It allows management to identify its competitors' making and selling strategies. This study has revealed that in competitor analysis, detailed attention is given to each competitor's apparent objectives, resources and competitive moves which lead a company to readily identify the area of strengths and weaknesses of its competitors and this can be used in the process of developing effective strategies.

By understanding who the competitors are and how they operate, managers can tackle the issue of other companies making moves that are detrimental to their companies' health. Managers can also learn from their competitors. Indeed, firms that pay adequate attention to competitors' actions have been found to achieve better business performance than those who pay less attention to their competitors. The findings from competitor analysis are likely to factor strongly into a company's strategic plan.

One of the key elements of a strategic plan is to analyze the capabilities of an organization which should include a clear identification of the key strength and weaknesses of the organization relative to its competitors. Companies study similar market experiments to those which they are planning. For example, mobile phone service companies compare plans of other mobile companies when planning a new promotion of phone services.

Another benefit of competitive analysis involves expanding the knowledge base of those working on your website or web application. The analysis offers information about content and functionality that they have probably not considered. Exploring competitor websites offers the opportunity to discover what is working well for them, as well as what is commonly being offered via the Web. For example, if all competitors are offering specific content and functionality, users will likely expect your site to offer similar content and functionality.

A major concern of many managers is the methods that are used to gather data on competitors; a process generally referred to as competitor intelligence. The managerial challenge is to ensure that all data and information related to competitors is gathered legally and ethically. This is important because many employees may feel pressured to rely on techniques that are questionable from an ethical perspective to gather information that may be valuable to their company, especially if they perceive value to their own careers from successfully obtaining such information. It seems obvious that information that is either publicly available (annual reports, regulatory filings, brochures, advertising and promotional materials) or is obtained by attending trade shows and

conventions can be used without ethical or legal implications. However, information obtained illegally (as a result of activities such as theft, blackmail, or eavesdropping) cannot, or, at least, should not, be used as its use is unethical as well as illegal.

A firm's monitoring and diagnosis of competitors should not only focus on the rival firm's existing and visible manifestations, such as end products and financial performance indicators. This is because tracking merely the visible 'fruit-level' and overlooking the 'root-level' sources of a rival firm's competitiveness may provide only a transient view of the actual strengths or weaknesses of that firm. Instead of over-relying on the analyses of markets entered and products manufactured, attention should be shifted to the less-emphasized skill base and organizational factors.

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