Chapter 3

Competitive Analysis

In this chapter we address the second element of what marketing managers must understand: competition (see Figure 3.1). After analyzing the needs of consumers or organizational buyers in specific market segments, the next step in the marketing analysis process is to analyze competition for each of the specific market segments. For new products that represent innovation, this analysis may be limited to potential competition rather than identifiable competitors. In most cases, however, an established market with clearly identified competitors must be evaluated for its strategies, strengths, and weaknesses.

This chapter presents the concepts and tools needed to analyze competition for existing markets. Especially useful is the marketing mix audit form, which permits evaluation of a competitor on all the basic strategy elements.

Societal marketing orientation

↓

Understanding
Customers (market segments): Chapter 2
Competition: Chapter 3
Financial implications: Chapter 4

↓

Planning

↓

Implementing

↓

Connecting with customers

FIGURE 3.1. The Effective Marketing Management Process

PURPOSE OF COMPETITIVE ANALYSIS

One fundamental question must be asked when undertaking competitive analysis: Which competitors are going after which market segments with what marketing strategies? The focus is on specific market segments that have been isolated through consumer analysis. At this point, managers should already know the size (potential) and the characteristics of each segment. The analysis begins to deal with competition on a segment-by-segment basis. Managers must uncover segments that are not currently being served, or segments that are not being served well by competition. In markets where competitors do not have clearly identifiable strategies and each seems to be using a strategy similar to the others, there are usually several segments that can be better served through strategies aimed directly at their needs. For example, the hair shampoo market was once characterized by only two broad categories of shampoo—dandruff and nondandruff. However, recognition of the different hair and scalp conditions of consumers led to the development of shampoos for dry, oily, and normal hair. This was an attempt to meet the needs of consumers more precisely than with what was previously marketed. The introduction of a shampoo specially designed for small children would represent an attempt to go after another market segment with different types of consumers and competitors.

IMPORTANCE OF UNDERSTANDING COMPETITION

Consider the example of a manufacturer of heart pacemakers that came up with a new line of products whose technology was better than anything else on the market. However, sales did not improve; in fact, in some territories they got worse. The company was puzzled, so it asked its sales representatives to investigate the tactics being used against them. Salespersons learned that competitors were plying physicians with cars, boats, and lavish junkets. The company claimed to be surprised to find that such promotions could sway cardiologists. They found that sales were deteriorating most where its competitors' giveaways were most aggressive. So, the company increased its educational support for doctors, began fielding many more service representatives, and actually matched some of the giveaways—not boats, but equipment related to pacemakers and their use. The effort helped make sales soar.[1]

Many companies fail to see available opportunities due to lack of attention to immediate zones and areas of interest. But some companies do a very good job. A famous example of this is when Gillette noticed that Bic, which had previously been a formidable competitor in the disposable lighter market, and pioneered disposable razors in Europe in 1975, then introduced the disposable razor in Canada. Thus, it became clear to Gillette that a major potential competitor was closing in on the U.S. market. Gillette responded by racing its Good News disposable razor into production and onto the national market that same year, which paved the way for its dominance of this market. By paying attention to its immediate zone and area of interest, Gillette capitalized on an opportunity it would have lost had it only focused on the U.S. market.[2]

Businesses have made increasing use of the Freedom of Information Act (FOIA) as an intelligence source. The experience of one company illustrates both the threats and opportunities provided by this act. When Air Cruisers Co. received Federal Aviation Administration (FAA) approval of its forty-two-person inflatable life raft designed for commercial aircraft it was the largest raft ever to gain FAA approval, and provided a substantial competitive advantage to the firm. Six months later, however, it learned that the FAA was about to release an eighteen-inch stack of confidential technical documents to a competitor, which had submitted an FOIA request. The list included results of performance tests and construction designs, which would enable the competitor to compress costly design, testing, and certification procedures. Although Air Cruisers was able to block the FAA from releasing all of the data, some documents were provided. This information helped the competitor design its own large raft with which it defeated Air Cruisers in a contest for an important European contract.[3]

A study by The Conference Board found that companies have beefed up their intelligence activities not only to identify major rivals but also to gain a competitive edge over them. Among executives surveyed in 315 companies covering a wide variety of industries, 59 percent of top management consider competitive monitoring to be "very important," while an even higher percentage (68 percent) of middle managers think it is "very important." A large majority (67 percent) of the executives surveyed believe competitive intelligence will grow even more in their companies in the future as they give greater attention and support to tracking and predicting competitive movements.

Unfortunately, many companies do not rate their current intelligence systems as being well developed. Only 3 percent characterized theirs as "fully developed," while over 33 percent said "fairly well developed"; but about 50 percent said only "loosely developed." Moreover, the programs are not perceived by respondents as achieving maximum effectiveness (only 9 percent rated theirs as "very effective" and 71 percent described them as "fairly effective").[4,5]

Competitive analysis in global markets can lead to new opportunities for companies. For example, the Cadillac Seville is a global vehicle from General Motors Corporation that has been called the best American car ever built. By making significant improvements to interior design, transmission, and systems, Seville has competed with the Mercedes-Benz E Class, BMW 5 Series, Nissan Infiniti Q45, and Lexus LS430.[6]

THE NATURE OF COMPETITION

To be complete, an analysis of competition must consider existing and potential competition. Trying to anticipate the moves of competitors can become the basis of choosing to go after a given segment and what strategy to use if the effort is made. This section begins with a discussion of the nature of competition and then develops basic tools for analyzing competitors.

Types of Competition

Marketers must understand some types of competitive conditions that they may face: pure competition, monopolistic competition, oligopolistic competition, and monopoly. Each of these situations calls for different marketing strategy decisions.

Pure Competition

One of the earliest types of competition identified by economists is called pure competition. Although all the characteristics of this type of competition are seldom found in the marketplace, it sometimes occurs in some market environments and serves as a useful concept in analysis. An industry or a local market which could be described as pure competition usually has the following characteristics: (1) a large number of relatively small competitors, (2) little or no differences between strategies, and (3) ease of entry by new competitors. The large number of small competitors means the actions of one competitor may be unnoticed by the others. Differences among strategies may be small, and good location may be of prime importance in attracting customers. The ease of entry may mean new competitors continually coming into the market or old ones leaving. Unless a well-financed competitor enters the market and alters the competitive environment, the market tends to be unorganized, even fragmented, with the number of customers and competitors within the geographic bounds of the firm determining both sales and strategies. Similarities in prices, products or services offered, distribution, and promotion are common.

Monopolistic Competition

In the market characterized by monopolistic competition, the individual images of the various firms begin to emerge in terms of more clearly differentiated strategies. Although there may still be many competitors and relative ease of entry, each firm has attempted to differentiate itself in some way from its competitors. It may be a market with much diversity of price, distribution, products and services, and promotional activities, or it can also be characterized by similarities among two or three variables in the marketing mix and variety in the other promotion, for example. In this competitive environment each competitor has more control over the marketing mix variables, and therefore a diversity of strategies is possible.

Oligopolistic Competition

In an oligopolistic, competitive environment, the number of competitors and ease of entry are both decreased. In this market, there are a few relatively large competitors, and perhaps a few smaller ones. The actions of one competitor are clearly recognized in both nature and impact by other competitors, and retaliation to competitive moves is anticipated. There is still a diversity of strategies in this type of environment, but it is most likely of the nonprice variety; price competition is not easily copied and must be responded to if customers readily substitute one firm's products for another. Price leadership may develop as one firm is allowed to set the pace for others.

Monopoly

A monopoly is a market environment characterized by one seller. There are usually legal restrictions to entry if it is considered a natural monopoly (e.g., electric utility company). Natural monopolies are regulated by government in terms of prices and distribution, and nonnatural monopolies, if successful, usually attract other competitors who are willing to overcome barriers to entry because of a potentially large return. Therefore, nonnatural monopolies are usually short-lived.

In global markets, competitors may be government-owned and operated, as in the oil industry. A government may support a company or group of companies' activity as a monopoly to compete in foreign markets. Japan has been especially successful in this approach to global competitors.

Levels of Competition

Competition must be understood at the level at which it is analyzed. At the manufacturing level, there may be only a few large producers (oligopoly) but many retailers reselling the products in highly competitive markets (monopolistic or purely competitive). Therefore, the planner must analyze the market in terms of where his or her own firm faces competition. If the marketing plan is being developed for a retail firm, the retail market is of prime consideration, whereas a manufacturer may be more concerned about competition at the manufacturing level.

In some instances it may be appropriate to look at competition vertically, with one channel system competing against another channel system, rather than only horizontally. This would be especially true where vertical integration is involved.

Table 3.1 provides a summary of the variation of several factors depending on the type of competitive environment. Instead of trying to define what is meant by "many" in the case of number of firms, and "ease of entry" in the case of how easy it is to enter a market, attention

TABLE 3.1. Effects of Competitive Environment

Factor	Competitive Environment			
	Pure competition	Monopolistic competition	Oligopolistic competition	Monopoly
Number of firms	Many	Many	Few	One
Entry and exit	Easy	Easy	Difficult	May be legally banned
Service	Undifferentiated	Differentiated	Differentiated	N/A
Fees	Undifferentiated	Undifferentiated if nonprice competition is emphasized	Undifferentiated if nonprice competition is emphasized	N/A
Access	Undifferentiated	Differentiated if nonprice competition is used by some competitors; undifferentiated if price competition is emphasized	Differentiated if nonprice competition is used by some competitors; undifferentiated if price competition is emphasized	N/A
Promotion	Undifferentiated	Differentiated if nonprice competition is used by some competitors; undifferentiated if price competition is used by some competitors	Differentiated if nonprice competition is used by some competitors; undifferentiated if price competition is used by some competitors	N/A
Competitive reaction	Little	Some, depending on type of action	A lot, especially related to prices	N/A

N/A = Not applicable

should be focused on the overall nature of the market as collectively described by the factors. Most economic reality lies somewhere between pure competition and monopoly. Identifying the nature of competition helps in understanding not only how firms compete in a market but also whether or not retaliatory actions can be expected.

Competitive Advantages

To understand the concept of competitive advantage and why it plays such a central role in marketing strategy, one must understand how marketers view competition. The most successful marketers do not wish to "beat the competition"; they wish to make competitors totally irrelevant to their customers. That is, marketers want to establish such a close, satisfying, long-term relationship with their customers that those customers have no interest in considering alternatives. The strength of the relationship makes movement to a competitor so inconvenient, risky, and unnecessary that the customer exercises a "willful suspension of choice" and continues to give the company his or her business. In a sense, marketers are trying to satisfy the customers so completely that the barriers to exit from the relationship are too high in their minds to justify seeking alternative means of addressing their needs. A marketer successful in establishing such a relationship with a customer has made competition irrelevant. Accomplishing this goal requires the identification and exploitation of a significant competitive advantage.

Effective competitive analysis will take into consideration the search for, and need for, competitive advantages. Competitive advantages are those factors in which a particular organization excels over competitors or has the potential to excel over them. Some strategic planners actually insist that the strategic planning process must identify some competitive advantage for the organization. This insistence is based upon the belief that until there is an answer to the question "Why would someone buy from us instead of someone else?" a strategy does not exist. Moreover, it is not enough for the firm's management to claim a competitive advantage exists. A competitive advantage is a wish instead of reality until the market acknowledges its existence. Several conditions must be met before a competitive advantage can be exploited. The advantage must be

- *real.* It must actually exist and not be just a wish.
- *substantial.* It must be great enough to make a difference in the market.
- *important.* It must translate into a benefit that the customer seeks and values.
- *specific.* It must explain "what" and "why" to avoid being perceived simply as puffery.
- *promotable.* It must be able to be communicated frequently enough in relevant language which is understandable and motivating to the customer.
- *sustainable.* It must be able to be maintained as changes occur in various facets of the environment.

Some examples of areas where competitive advantages may be found include the following:

Production: A superior ability to turn out a product is a critical competitive advantage that many companies have capitalized upon. The advantage may also be in a firm's ability to maintain superior production quality over competitors.

Technology: Initial innovative research and development, as well as properly managed scientific application, can establish and preserve competitive advantages.

Natural resources: Quite often, valuable or scarce resources are appropriate assets on which to base a strategy. Tremendous advantage can be given to organizations, cartels, and nations that control natural resources or that are located in favorable proximity to them.

Marketing: Market advantage usually refers to the advantage one firm has over another because it is more positively positioned in the minds of customers. Those firms having greater awareness, higher preference, or stronger loyalty have a distinct marketing advantage over their competitors.

Management: Management advantage comes in the form of positive personnel relations, effective planning and information systems, and overall managerial competence.

INDUSTRY ANALYSIS

Part of the competitive analysis process is to discover differential competitive advantages that will enhance the strategy of the firm. To discover these advantages one must understand how the particular industry functions. Four key questions are helpful in conducting an industry analysis:

How is the industry structured?
What is the industry's direction?
What are the industry economics?
What are the strategic issues within the industry?

Industry Structure

Analysis of an industry's structure involves ascertaining the number of competitors and each one's size relative to the total market, characterizing market leaders, analyzing distribution patterns, developing buyer profiles, and evaluating ease of entry and exit as well as other characteristics. One of the best approaches to this process is the guide to industry analysis suggested by Michael E. Porter.[7,8] Taken together, these elements are the key to forecasting a company's earning power.

The forces of competition greatly influence an organization's strategy formation and market opportunity decisions. Although each industry has its own unique characteristics, competitive pressures come from five main sources that represent the actual driving mechanisms of any given industry (see Figure 3.2).

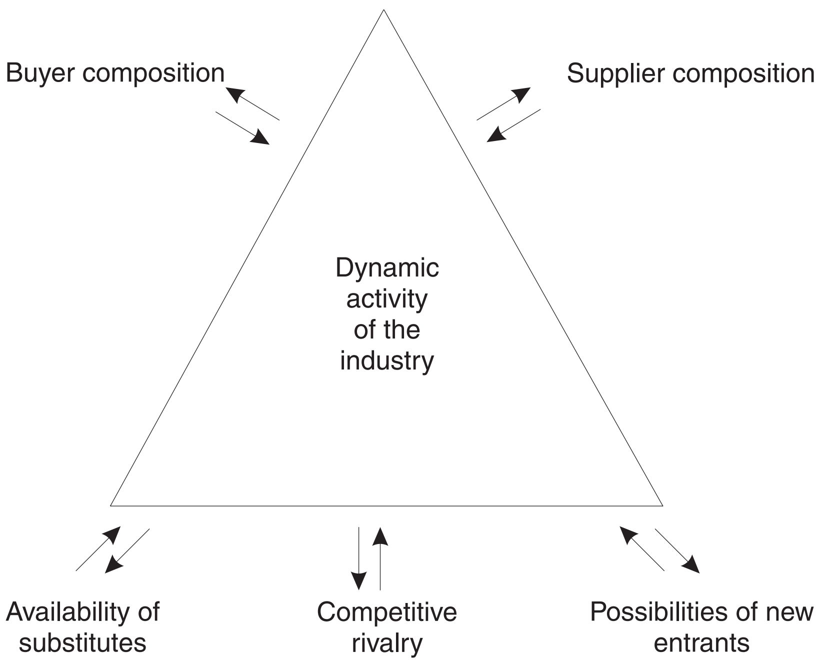

FIGURE 3.2. Competitive Forces (*Source:* Adapted from Michael E. Porter, "How Competitive Forces Shape Strategy," *Harvard Business Review,* 57(2), 1979, p. 141.)

Rivalry Among Existing Competitors

The rivalry among companies within an industry is constantly involved in dynamic interplay in an attempt to build a successful competitive edge over one another. The success of one organization's strategy in accomplishing this is based in large measure on the strategies of the other members. Constant monitoring of these interdependent strategic maneuvers is required to make the adjustments necessary to improve competitive position and achieve market success.

Sears, for example, has initiated a price strategy aimed at gaining back market share lost to rivals such as K-Mart and Wal-Mart. Competitive pricing can mean market share gains and can decrease the pressure on advertising to bring customers into the store. It can also mean retaliation from competitors who respond to such actions.

Consumer/Buyer Composition

Consumer/buyer composition can range from a few large-volume purchasers to a large number of low-volume purchasers. In the first instance, losing a few customers can be the difference between success and failure, the other extreme, losing that same number of customers has virtually no impact. Most firms try to minimize the number of customers that can exert an adverse effect on their business.

Supplier Composition

The supplier composition also has an important influence on the competing position of individual organizations. The relative importance of the goods and services they supply will determine the strength of their competitive influence over firms in the industry. They can have a positive or negative impact on profit margins, inventory levels, product quality, and prices.

Possibility of New Entrants

The possibility of new entrants into the market constantly threatens to alter market share, production capacity, and supply distribution within an industry. This threat can be minimal when there are strong barriers to entry, such as strong customer loyalty, large capital requirements, difficulty in establishing distribution channels, and strong response of existing firms. When entry barriers are weak or the expected response of existing firms is weak, then the possibility of entry is stronger. Hyundai Motor Company of Korea, for example, launched a new four-door sedan that was aimed at the midsized car market. The front-wheel drive Sonata was designed to sell for about $2,000 less than comparable cars made by Toyota or Honda.

Availability of Good Product Substitutes

The fifth force in this model is the availability of good product substitutes. A major threat to existing firms occurs when high-quality substitutes exist in ample quantity at competitive or comparable prices. Artificial sweeteners and sugar are examples of substitutable products.

Competitive strategy should take offensive or defensive action to strengthen a company's position in relation to the five competitive forces. The tasks of structural analysis, in the long run, are examining each competitive force, forecasting the magnitude of each underlying cause, and constructing a composite picture of the likely profit potential of the industry. Structural analysis is also useful in setting diversification strategy, since it provides a framework for answering the extremely difficult questions in diversification decisions.

Industry Direction

Once an industry's framework is understood the analysis turns toward determining the industry direction. Most industries go through an industry life cycle consisting of the development stage, the growth stage, the maturity stage, and the decline stage. However, this model of understanding and predicting industry direction is not always accurate. Some industries go through several cycles. Table 3.2 contains many of the variables that should be understood by the planner. Although only a summary of the range of possible factors, it highlights the key variables. Further in-depth research would be required to answer the question of where the industry is going and what is driving it that way.

Many other driving forces are not listed. Various industries will have different forces determining their direction, and the forces will have different magnitudes of importance from one industry to another.

TABLE 3.2. Industry Direction Checklist

Variable	Current trend		
Growth	□ Slow	□ Medium	□ Fast
Customers	□ Growing	□ Declining	□ No change
Technology	□ Low	□ Medium	□ High
Product change	□ Slow	□ Medium	□ Fast
Danger of obsolescence	□ Low	□ Medium	□ High
Ease of entry	□ Low	□ Medium	□ High
Quality of suppliers	□ Low	□ Medium	□ High
Possibility of regulatory changes	□ Low	□ Medium	□ High
Availability of raw materials/resources	□ Low	□ Medium	□ High
Amount of capital required	□ Low	□ Medium	□ High

Industry Economics

The third key question in accomplishing a competitive analysis is, "What are the underlying economics of the industry?" The answers to this question are capital investment requirements, break-even levels, cost structures, pricing structures, and other economic considerations. The key factors related to the economic characteristics are discussed in Chapter 4. However, the key success factors vary from industry to industry. An understanding of the economics of industry is necessary to take advantage of these factors. Whether it is transportation, distribution, promotion, technology, raw materials, location, or some other key element, an understanding of the underlying economic considerations increases the likelihood of selecting the key factors for success.

Strategic Issues

The fourth key question deals with identification of the strategic issues and problems facing the industry. These issues and problems vary from time to time and industry to industry. The following is a list of the most common issues and problems within an industry:

Does the industry have the ability to

- meet future needs?
- estimate changes in the demographic characteristics of consumers?
- deal with emerging opportunities and threats?
- trace the overall economy and estimate its impact on the industry?
- anticipate changes in government policies and regulatory controls?
- predict and respond to changes in supply, cost, competition, technology, growth, etc?

COMPETITOR ANALYSIS

Once a good understanding is established of how an industry functions, a specific competitor analysis should be done. Most firms in a given industry do not follow the same strategic approach regardless of the similarity of their understanding of the dynamics of the industry. Evaluating competitors' strategies allows a business entity to increase or reinforce its understanding of buyer behavior and identify the type of targeted customer. It is also useful in identifying strengths and weaknesses and, consequently, potential market opportunity. The analysis may assist the firm in evaluating whether to position itself as a *leader* competing head on with other competitors, as a *follower* with a "me too" strategy, or as a *niche* performer with a unique strategy tailored for specific strengths and weaknesses and specific market segments. Each major competitor should be studied separately. If this is not possible then the strategy of the closest competitors should be evaluated.

In evaluating different competitive approaches the following tasks need to be performed:

- Review current strategy.
- Review current performance.
- Determine strengths and weaknesses.
- Forecast future strategic possibilities.

Analyzing current competitor strategy involves determining how the competitor defines the industry in terms of market segments, product features, marketing mix, manufacturing policy, research and development commitment, growth policy, distribution, and promotion. This analysis can take several forms, but perhaps the most useful is the competitive marketing mix audit.

Who Are Our Competitors?

Major competitors are often easy to identify but some may be overlooked. One way of identifying competitors is to consider the product/market situation. All existing competitors should be identified based on the product/market they are satisfying. For example, a soft drink producer must specify all of the different choice options within the market under which his or her brand will be considered. This would comprise the bulk of the relevant set of competitors and indicates to the marketer that a variety of levels of competition may exist for a company. The most immediate level is *brand* and *item* competition. For example, the Palm IIIxe and the Handspring Visor Deluxe compete directly against each other in features and price points within the personal digital assistant (PDA) product category. At the next level—*industry* competition—a company competes with all other companies producing the same type of product. For example, Palm considers Brother, Casio, Compaq, Cybiko, Franklin, Handspring, IBM, Psion, Sharp, SONIC Blue, Sony, and Xircom as PDA industry competitors. At the *generic* level of competition are companies providing products serving the same basic need. For example, other computer companies (e.g., eMachines) could be considered to be PDA competitors since their products satisfy the same generic functions of data storage and processing, as would companies selling calculators and paper notebooks.

Another example of the threat of generic competition occurs with video games, movies, and television. The U.S. video game industry makes as much money as the U.S. film industry makes at the box office, and it steals viewers directly from the domestic television industry.[9] Yet these three industries would not generally perceive themselves as competitors.

We must also consider *new* and *existing* competition. For instance, if no consideration is given to new product possibilities, serving new markets, promoting in different ways, delivering by different channels with different prices, the marketer may fail to account for an important component in a changing competitive landscape.

Techniques to Identify Competition

Chapter 2 discussed market segmentation as a way to group buyers for purposes of developing a marketing plan or strategy. Market segmentation, then, defines characteristics of various segments in the marketplace and allocates marketing resources for those chosen segments. A product's *position* describes the place it occupies relative to competitors in a given market as perceived by the relevant group of target customers. Segmentation and positioning are tandem concepts. Positioning involves determining how markets perceive the company's product or service and then planning and implementing marketing strategies to achieve the desired market position. Companies may seek a specific position on the basis of such strategies as: product features, benefits to buyers, product usage, situation, user type, or competitors.

If the market for a product could be viewed as a multidimensional plane, all attributes of a product together make up its position. For simplicity, however, one or two key dimensions are usually chosen for analysis. For example, bath soaps might be positioned on the basis of moisturizing ability and deodorant protection—the primary attributes people consider when evaluating a soap brand. Because products can be perceived on many dimensions (such as price, quality, durability, safety, etc.), marketers analyze the most critical attributes to develop an understanding of how consumers distinguish between competing brands. Information is gathered by having consumers complete scaling questionnaires to indicate their perceptions of the various characteristics and similarities of competing brands. Perceptual "maps" are plotted displaying consumers' brand perceptions. An example of this idea is shown in Figure 3.3 using fictitious data on how consumers might perceive the automotive sport utility vehicle (SUV) market.

The *evoked set* concept also works well to identify competitive brands. Asking consumers what brands they would consider using may uncover the most immediate competition. Consumers will usually name a few select brands that they would potentially consider for purchase and consumption. *Inert* brand sets are those the consumer

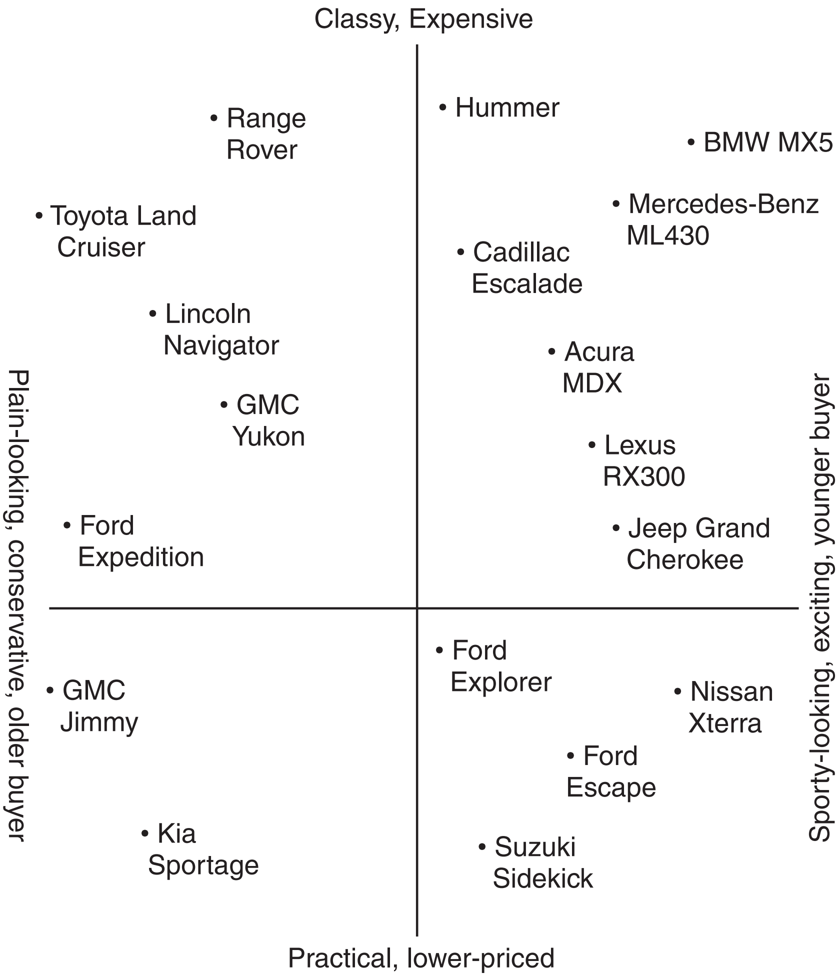

FIGURE 3.3. Speculative Perceptual Map of SUV Brands

fails to perceive any advantage in buying; that is, they are evaluated neither positively nor negatively. These brand sets have potential to change their position and become more relevant competitors.

Each of these competitive aspects should be tracked to uncover any shifts or trends in the market. Often, companies will measure the following factors to indicate their strongest competitors:

Market share: measure of the percentage of total market sales accounted for by each competitor.
Mind share: measure of the percentage of customers who cite each competitor when asked to name the first company to come to mind when they think of (product type).
Heart share: measure of the percentage of customers who name each competitor as the one from whom they would prefer to buy (product type).

What Are Competitors' Strategies?

Another way to understand competitors and their strategies is to identify strategic groups in an industry. A *strategic group* consists of firms who have like characteristics and are pursuing a similar strategy, and thus are in close competition with one another. Strategic groups may be identified using dimensions including price, product, quality, distribution channels and level of integration, service, geographical coverage, technology, and so forth. Similar circumstances would be grouped together.

The strategic group concept provides insights into competition by specifying the most important competitive dimensions for each industry group. It helps us understand who our main competitors are and what may be necessary to outperform them. In addition, the group's strategy similarity simplifies planning competitive reactions to future developments.

What Are Competitors' Objectives?

Understanding what our competitors' objectives are will enable us to predict their strategy direction. We must seek to learn what they are striving to accomplish in the market, and what motivates them. For example, it would be useful to know what competitors' short- and long-run financial objectives are, including profitability (maximum versus satisfactory), market share, sales, and cash flow. Analysis of these areas will help us to understand companies' directions and their potential reactions to our competitive strategy. Nonfinancial objectives are also important. For instance, competitors' plans for achieving technological or service superiority, market growth, or low-price aggression would help us plan our own programs.

What Are Competitors' Strengths and Weaknesses?

In order to evaluate whether competitors will be able to achieve their objectives through the strategies we have identified, we must understand their strengths and weaknesses. Knowing competitors' weaknesses allows us to focus on them with our strengths; similarly, we may avoid confronting their strengths or determine some way to counteract them.

Most of the information on competitors' strengths and weaknesses can be obtained from published data and personal reports. All will be helpful in interpreting the situation. The main areas for analysis of competitor strengths and weaknesses would include innovation, manufacturing, finance, management, marketing, and customer base.[10]

THE COMPETITIVE MARKETING AUDIT

The word *audit,* regardless of the business context in which it is used, refers to an unbiased appraisal of what is being done and how it is being done. Thus an accounting audit refers to an analysis of everything that is being done in the accounting area of a firm. In the same manner, a competitive marketing mix audit is one of the best ways of evaluating the marketing performance of a company and its competitors. An audit of this nature should be comprehensive, independent, and periodic. The audit should be based on specific objectives. Once the objectives and scope of the audit are established, a data-gathering effort should be initiated. This data collection effort can be accomplished by an objective outside consultant or by an in-house staff or task force. The results of the audit should be a clear comparison of the company and its competitors that shows relative strengths and weaknesses as well as opportunities and threats. Other possible outcomes include the detection of inappropriate objectives, obsolete strategy, ill-advised use of resources, and other needs for revising the direction of the company relative to competition.

The form shown in Figure 3.4 is a useful tool for performing such an audit for a retail company. Other audit forms with different comparison characteristics should be used for other industry categories. The audit involves the marketer in an appraisal of every aspect of a

	Our rank in comparison to:*		
	Comp. A – ? 0 +	Comp. B – ? 0 +	Comp. C – ? 0 +
Product or service			
1. Customer acceptance			
2. Customer satisfaction in use			
3. Product quality level(s)/innovations			
4. Adequacy of assortments			
5. Services provided			
Place			
1. Customer accessibility			
2. Suitability of site			
3. Customer traffic flow			
4. Appearance of facility			
5. Selling areas			
6. Parking facilities			
7. Drawing power of neighboring firms			
8. Customer image of facilities			
9. Store layout			
Price			
1. Comparative price level(s)			
2. Consumers' images of store's prices			
3. Number of price lines			
4. Consistency of price policies			
5. Credit policies and practices			
Promotion			
1. Promotional ability			
2. Amount and quality of promotional efforts			
3. Ethical standards			
4. Consistency of efforts			

*A minus sign (–) indicates that the business being evaluated ranks below the competitor on the specific factor; a question mark (?) indicates that the relative standing is unknown; a zero (0) indicates equal competitive standing; a plus sign (+) indicates that the business being evaluated ranks above the competition on the specific factor.

FIGURE 3.4. Competitive Marketing Mix Audit Form

firm's marketing mix (compared to that of its major competitors). Several steps are involved in using this form.

First, the form should reflect the nature of the marketing mix activities for the type of firms being analyzed. For example, if retail firms are being analyzed, the form must reflect the components important in retailing. Specifically, place would be analyzed in terms of appearance, layout, and traffic flows throughout the stores. This analysis would not be appropriate for a manufacturer since customers will not usually see the physical facility or move through it.

Second, the major competitors must be identified by name so that a realistic comparison can be made. This requirement forces the marketer to identify the specific competitors going after a market segment and permits the collection of data on those specific firms.

Third, sources of data must be identified to complete the audit. Some of the data may already be available from previous analyses or research and merely need updating. Or, data may have to be collected to complete the audit. For some types of comparisons, judgment must be used if research or other objective data are not available. Avoid the "halo effect" (being favorably biased toward one's own company) when comparing your company to competitors. One way to avoid bias is to use the judgment of several people rather than relying on that of one person.

Finally, some system must be developed to "grade" your own company's effort and your competitors' efforts on each aspect of the audit. For new firms anticipating entry into a market, competitors are compared with one another. The ranking system just described is one possibility. In this system, each competitor is assigned a ranking of "higher," "lower," "equal to," or "don't know" on each part of the audit. Or, you may prefer to rank competitors in order using 1 to indicate the best, 2 the second best, and so on.

Rather than a more general analysis of price levels, this audit would need to be completed for *each segment* analyzed. The planner is not particularly interested in the generalities here but rather the details about specific groups or segments in the market. Thoroughness is important in this type of analysis. Lack of digging into the details may even be misleading.

In a consumer study done for a restaurant, respondents were asked whether they thought their friends would eat at that particular restaurant. If the answer was no, they were then asked why. The most common response was that prices were "too high." Yet the competitive analysis shown in Table 3.3 tells a completely different story. The prices charged by the Holiday Restaurant were about the same as the other competitors for comparable menu items, which means respondents *thought* the prices were too high. This problem leads to a completely different type of strategy or tactics than if prices were in fact higher than those of competitors.

COMPETITIVE STRATEGIES AND RESOURCES

Several other factors should be analyzed for a more complete evaluation of competitors in a market. They include competitors' strategic tendencies and resources: marketing, financial, and production. These relate to long-run actions as opposed to short-run.

TABLE 3.3. Competitive Pricing—Restaurants

Restaurant	**8-oz. rib eye $**	**Hamburger w/fries $**	**Breakfast $**	**Buffet $**	**Banquet $**
Southern Inn	11.69	5.65	3.15	6.35	10.49
King's Inn	9.99	4.99	N/A	N/A	N/A
Charlie's Place	12.99	N/A	N/A	N/A	N/A
Tony's	10.99	5.29	2.89	N/A	8.49
Sandpiper	10.99	4.99	3.89	N/A	9.99
The Castle	12.75	5.75	4.99	N/A	On request
Ramble Inn	9.95	4.89	2.99	N/A	12.79
The Rib Joint	11.00	4.10	3.50	N/A	10.99-12.00
The Ice Box	11.50	5.45	N/A	N/A	10.45
Uncle Joe's	12.99	3.69	N/A	N/A	10.99
Captain Bill's	12.79	4.79	N/A	N/A	N/A
John's Diner	11.99	4.59	N/A	7.99	10.75
Holiday Restaurant	11.99	4.45	3.50	6.50-7.99	10.50

Source: Artificial data
N/A: not applicable, no similar offering

The first factor is concerned with competitors' willingness to change or react to competitive moves; the second deals with their ability to make strategic moves.

Assessing strategic tendencies involves deciding whether competitors' actions tend to be reactive or proactive. *Reactive* strategies are those which follow the lead of other firms in the market or simply settle into a niche. *Proactive* strategies involve market leadership or challenge to the market leaders. If market leaders and challengers can be identified, they are the competitors whose actions must be anticipated. The marketing mix audit of these firms helps identify the exact nature of their strategies in a short approach.

As discussed earlier in this chapter, an approach used by many firms in recent years is called *product positioning*—the placement of a product in terms of consumers' perceptions of it relative to other products. It is the answer to the question, "How do we want consumers to perceive our product relative to other products on the market?" The marketing mix is altered in an attempt to put that product in that position in the minds of consumers.

Assessing competitors' resources involves determining whether specific competitors have the marketing expertise to respond successfully to events in the marketplace, the productive capacity to respond in terms of both levels of demand and technology, and finally, the financial resources to respond to problems and opportunities that occur. Moreover, since most firms attempt to build on their strengths and nullify their weaknesses, analysis can help them forecast the type of response they are most likely to make. A firm that is strong financially with unused productive capacity but weaker in marketing skills is most likely to meet a challenge with lower prices or an increase in promotional expenditures than a firm with an opposite set of strengths and weaknesses.

As a market moves toward oligopolistic competition, the necessity of this type of analysis becomes more significant. Failure to expect and anticipate competitive reactions is to ignore the realities of market dynamics.

After completing the competitive analysis by market segment, it is important to develop summary statements about each segment with respect to competition.

EXPLOITING THE COMPANY'S COMPETITIVE ADVANTAGE

As each competitive firm's strategy, strengths, and weaknesses are analyzed for each market segment, the market analyst should look for those segments not being served or not being served well by existing competition. Successful entry and exploitation of a marketing opportunity is much easier if a firm builds upon its competitive advantage in the market. When this approach is used the analyst begins interpreting "holes in the market." Thus opportunities and abilities are matched.

Strategies by Market Position

Once you have adequately analyzed and assessed the competition, it is time to formulate the strategy, given a company's position in the market, based on the competitive analysis. Most companies will be either a market leader, a market challenger, a market follower, or a market nicher (see Table 3.4).[11]

Market leaders are the recognized leaders who have the largest market share of the relevant market. Although their position of dominance may be widely recognized, their success may be constantly challenged by other firms. The strategies used by market leaders focus on expanding their own control of the market while warding off or countering the activities of aggressive competitors. The leader's strategy becomes the pivot point around which other competitors adjust their own strategies.

Market challengers are the firms which are constantly trying to increase their market share in "head-on" competition with the leader, attacking the leader at its weak points or merging with smaller competitors. Market challengers are usually large firms in terms of revenues and profits, and may be even more profitable than the leader. The challenger usually tries to identify weaknesses in the leader's strategy and either confronts or goes around the leader or concentrates its efforts on taking over smaller firms. Pepsi's challenge to Coke's leadership position clearly demonstrates how the challenger's strategy can affect the strategies of other competitors. New Coke, which was closer in taste to that of Pepsi than Classic Coke, was clearly a competitive strategy response.

TABLE 3.4. Competitive Marketing Strategies

Market position	Possible strategies
Market leader (This is the firm acknowledged as the leader, and it has the largest market share and innovative marketing tactics.)	1. Expand total market: Develop new uses, new users, or more usage by existing customers. 2. Protect market share: Use the relevant market to retaliate against challengers.
Market challenger (This is the second, third, or fourth firm in market share; it may be quite large but smaller than the market leader.)	1. Direct attack strategy: Meet leader head-on with aggressive promotion and/or prices. 2. Backdoor strategy: Go around leader options through innovative strategy. 3. Guppy strategy: Increase market share by going after smaller firms.
Market follower (This is a firm which chooses not to challenge the leader but is content with imitation.)	1. Copy leader: Match as closely as possible leader's strategy without directly challenging. 2. Coping strategy: Adjust to strategies of both leader and challenger without direct confrontation.
Market nicher (Smaller firms that operate in a geographic or client niche without directly clashing with competitors. Specialization is unique key to their success.)	1. Geographic specialization: Specialize by offering quick response to customers. 2. Product specialization: Offer products which are unique to customers served.

Source: Adapted from Philip Kotler, *Marketing Management: Analysis, Planning, Implementation, and Control,* Eleventh Edition (Upper Saddle River, NJ: Prentice-Hall, Inc., 2003), pp. 254-272.

Market followers and *market nichers* adjust to the strategies of the market dominators without making challenges. Nichers usually try to specialize geographically or by products offered and basically avoid direct confrontation with other competitors. The followers simply copy the leader's strategy or adjust their strategy to cope with both the leader and the challenger's strategies, again without calling attention to their own activities. Rent-A-Wreck car rental service is an attempt to target the niche created by higher rental fees charged by most rental companies.

Successful strategizing, therefore, begins with an understanding of a company's market position in the competitive market as well as broad-based knowledge of its strengths, weaknesses, and capabilities. This allows the company to stake out a strategy that will lead to long-term growth. Often this will require making product innovations, creating positive relationships with key suppliers and customers, establishing consumer awareness, and developing internal efficiencies and competence.

How May Competitors React?

Competitors' reactions need to be systematically anticipated before taking initial proactive steps. In vigorous markets something is almost certain to happen in the competitive arena. Many firms simply wait to react to a rival's action; proactive innovators aim initially at serving markets excellently. A company must then count on reaction, which may possibly be strong.

If a company is making proactive strategic actions, it needs to anticipate the strength of market reactions. Thus, the marketing strategist needs to ask several questions to determine the likelihood of strong competitive reactions:

- *Is this product central to the competitor's business strategy?* If we challenge the very core of a business, they will likely respond very aggressively.
- *Should we rock the boat?* We may be content to "live and let live," feeling that any significant move to achieve an advantage could be matched or wiped out by rivals. It could also make us vulnerable in our own core areas.
- *Are we in the cross fire?* If our brand is between two other leaders, we may be brought into the fray because of their competitive actions (e.g., aggressive couponing, advertising, pricing).
- *What is the competitor's fighting tradition?* Some firms scrupulously avoid proactive moves, waiting instead to study innovators' mistakes and then hit with a counterpunch.[12]

Various actions may be necessary to answer those questions:

- *Obtain competitive intelligence.* All firms should review and improve their intelligence procedures. This subject will be discussed later in this chapter.
- *Play war games.* Play internal war games, with staff members playing the roles of rival managers.
- *Develop competitive response models.* Make an empirical analysis of competitive responses to develop models that may yield insights.
- *Be subtle.* Some firms that make advances do so quietly in order to lessen the chance of retaliation. Be aware that conspicuous success on a powerful rival's "sacred turf" will be countered, regardless of the rival's profit, or even loss.
- *Get ready for the next stage.* If you win round one, remember round two, in which massive and effective reaction on another front may be forthcoming.
- *Change time horizons.* Long-term competitive advantage may be impossible; instead, make good short-run gains and then get out quickly as the powerful competition pours in.[13]

GATHERING COMPETITOR INTELLIGENCE

Competitor intelligence (CI) techniques are being used with increasing frequency to gain and hold market share. A number of factors contribute to the growing interest in CI. The speed of business is increasing all the time. This faster pace requires frequently updated knowledge of competitors. The rapid rate of technology change also can bring about quick and drastic changes in the competitive landscape. Political and legal changes can alter the competitive makeup. Consider the federal government's attempt to break up Microsoft and decisions on deregulation in the electric utility industry, as examples of significant changes in the competitive situation. Increased global competition as well as more aggressive domestic competition can also contribute to a greater need for CI.

Several advantages result from collecting and analyzing CI. Clearly, there should be fewer surprises from competitors when a company has a well-developed "early warning system." Having enough of the right type of competitive information at an early point in time also allows a company to more effectively react to threats and opportunities. Effective CI is a valuable foundation for strategic and tactical planning efforts. Without a clear view of the competitive situation a company will be unable to chart a course to accomplish its goals.

In spite of an obvious need, according to the Society of Competitive Intelligence Professionals (SCIP), only 7 percent of large U.S. companies and about 5 percent of small companies have a full-scale, formalized, competitive intelligence system.[14] Why are so few companies committed to the function of CI? First, many businesspeople believe they already know about everything that is going on in their industry. (Besides, if it is not happening in their company, industry, or country it is not important.) Second, CI may be perceived as too expensive and a cost rather than profit center. Third, businesspeople typically have not been trained in CI and therefore do not know how to perform it. Finally, CI may be perceived as "spying" and "unethical."[15]

Building a competitive intelligence system involves more than simply gathering information. CI system development should include the following steps:

1. Designate a CI director and give the position organizational clout.
2. Determine who needs what type of CI for which decisions.
3. Conduct a CI audit to determine what data exist, where they are held, and in what format.
4. Design an information infrastructure to share CI within the company.
5. Develop ethical and legal guidelines for CI.[16]

Where does CI come from? Ninety percent of it can be obtained by talking to colleagues, accessing annual reports, press releases, newsletters, speeches, government filings, and commercial databases. The remaining 10 percent can be obtained through sound deductive reasoning. Respondents to one survey thought that the most valuable competitive information dealt with pricing, strategy, and sales. The survey also reported that organizations rate their own sales forces as the most important agents in gathering intelligence, with customers ranked second, followed by trade and industry periodicals.[17,18]

CI gathering has sometimes been abused by those who are unscrupulous and believe it is okay to hack into computer systems, steal trade secrets, or sift through competitors' garbage. Thus, a company should establish guidelines that encourage ethical practice and advise employees not to do anything illegal or that would embarrass or endanger the company.

Managers of small- and medium-sized organizations frequently believe that their limited financial resources prevent them from developing a CI program. In fact, some CI activities cost nothing; some require only very modest expenditure, and some others cannot be done at any price.

When gathering CI companies can take the following simple but important steps at a minimal cost:

- Buy competitors' products, tear them down, and evaluate them.
- Require field sales personnel to provide feedback on customers, suppliers, distributors, and competitors.
- Assign key officers to spend several days a year talking to customers.
- Study internal security to ensure that competitors cannot gain access to company secrets.
- Stay abreast of what foreign competitors are doing.
- Be familiar with competitive information available under the Freedom of Information Act—trade secrets and IRS submissions are protected. (All states have their own version of the FOIA.)
- Cultivate relationships with securities analysts and stockbrokers who keep tabs on competitors.
- Play or have a subordinate play customer to find out how competitors market their products.
- Use a small market research firm to provide continuous data on a competitor for an annual fee.
- Use computerized information services or databases.
- Subscribe to a clipping service that scans newspapers, financial journals, and business publications for articles on competitors (often these publishers are not on any database).
- Purchase shares of a competitor's common stock.
- Check industry associations for information.
- Search U.S. and international patent databases, as well as databases containing information about patent court cases involving infringement.[19,20]

Difficulties arise when the competition is privately held. Some financial information may be obtained from state offices, but most information is impossible to obtain ethically. CI programs in small or moderate-sized companies are usually best directed by the president or vice president of marketing.

A CUSTOMER OR COMPETITOR ORIENTATION?[21]

For almost four decades marketers have stressed a customer orientation as their guiding philosophy. Satisfying customer needs was viewed as the best way to achieve a company's objectives of growth and profit. Although marketers have preached a customer orientation for many years, they have not always practiced it. Most companies probably know much less than they should about customer needs and ways of satisfying buyers.

Typically, given even less weight is a competitor orientation in which competitive conditions are factored carefully into marketing plans. Those taking a competitive orientation argue that sales, profit, and growth goals must usually be reached at rivals' expense and that customer satisfaction is merely one way of reaching them.

Differences in the two orientations are best understood in the context of a situation analysis to discover marketing problems and opportunities. A *competitor orientation* would lead a company to focus on conditions in individual (local) markets, because of widely differing competitive conditions. A *customer orientation* would lead a company to treat its entire geographic market as a unit.

The application of a customer orientation requires answers to the following kinds of questions:

- Who are our main customers? What strategies are we using that they like? How satisfied are they? What strategies turn away other segments?
- In what segments are we growing fastest; where are we losing the most customers; and what accounts for these changes? Are dissatisfied segments likely to switch?
- What are the most important benefits our buyers are seeking? What problems or complaints do they have? How best can we design our offerings to match these needs? What are potential buyers willing to pay for those benefits?

In contrast, the application of a competitor orientation would address the following kinds of questions:

- Which rivals are vulnerable and what are their weaknesses? Can we capitalize on them to gain market segments?
- What are our vulnerabilities and how can we correct or minimize them? Can we defend our market segments sufficiently?
- From which rivals are we gaining the most customers? How can we continue this trend? To which are we losing the most customers? How can we minimize this problem?

Because different questions are asked, different conclusions will typically be reached about a firm's marketing problems and opportunities, leading to different marketing action programs. Competitor-oriented firms look for vulnerabilities or weaknesses in rivals, such as those related to the following:

- Customers (complaints about quality, price, etc.)
- Resellers (dissatisfaction about margins, price protection, deliveries, etc.)
- Employees and management (morale, turnover, absenteeism, etc.)
- Fiscal affairs (cash flow, interest expense, etc.)
- Suppliers (service, stocks, etc.)
- Costs (labor, materials, technology, etc.)

Both a customer orientation and a competitor orientation are necessary in order for the marketer to focus appropriately on the marketing challenge.

SUMMARY

At this point in the analysis, the marketer should begin to see several clear-cut problems and opportunities. Not only have general and specific characteristics of the market been analyzed but also the responses of competitive firms that are pursuing these markets.

For new firms in a market, the competitive analysis has another advantage. Because other firms have already adjusted to market conditions with their own strategies, their own approaches to the market are suggestive of successful and unsuccessful ways to enter and compete in it. Their trials and errors should become a guide to avoiding mistakes already made and activities already proven unsuccessful either by their nature or by the way they were carried out by existing firms.