chapter five

Competitor analysis

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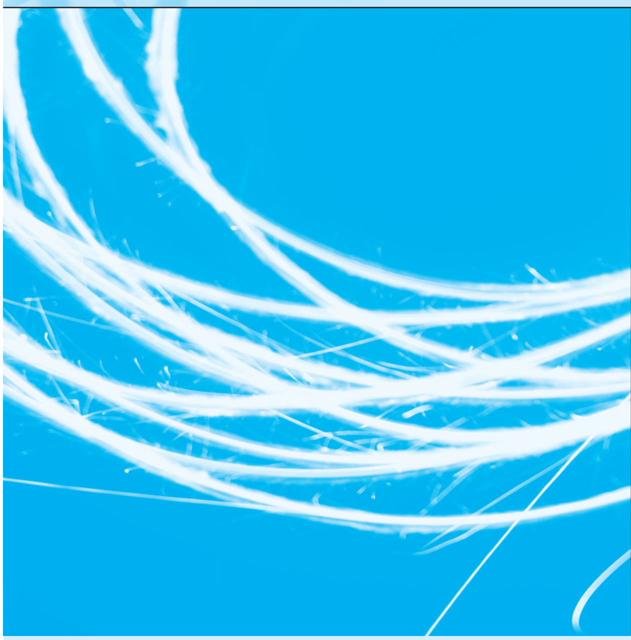


A horse never runs so fast as when he has other horses to catch up and outpace.

Ovid*, The Art of Love, *AD8

Introduction

Sun Tzu (see Clavell, 1981, for a lucid and readable translation), the great fourth-century BC Chinese general, encapsulated the importance of competitor analysis:

> *If you know your enemy as you know yourself, you need not fear the result of a hundred battles. If you know yourself but not the enemy, for every victory you gain you will suffer a defeat. If you know neither the enemy nor yourself, you will succumb in every battle.*

What was true of war in the fourth century BC is equally true of business today. However, the complexity facing the modern business is that its main competitor, customer and collaborator may be the same company! For example, Kodak and Fuji are intense rivals in the photographic film business, yet in 1996 they collaborated to bring the Advanced Photographic System to market while at the same time fighting in the Japanese courts over market protection issues. Similarly, the Efficient Consumer Response programme involves groups of competing manufacturers working together with retailers to streamline supply chains – an alliance of competitors, customers and collaborators. In the construction industry many large capital projects now require firms used to competing with each other 'tooth and nail' to collaborate for mutual benefit. The complexity and ambiguity faced by executives in many modern markets underline yet further the imperative of identifying and understanding competitors.

Without a knowledge of competitors' strengths and their likely actions it is impossible to formulate the central component of marketing strategy – finding a group of customers for whom one has a competitive advantage over the competition. Similarly, since competitive advantage is a relative concept, a company that has poor understanding of its competitors can have no real understanding of itself.

Several studies demonstrate a positive link between a clear understanding of competitor strategies and actions, and corporate performance (see, for example, Osborne *et al.*, 2001; Kapelianis *et al.*, 2005).

Japan's leading companies retain Sun Tzu's obsession with competitor analysis. Although successful Eastern and Western companies are alike in many ways (Doyle *et al.*, 1986), the commitment of Japanese companies to gathering information has been identified as a major distinguishing feature (Kotler *et al.*, 1985). As one example, Lehmann and Winer (1991) report that one Mitsubishi intelligence unit in the United States filled two entire floors of an office building in New York. Indeed, as long ago as the early 1980s *Business Week* described how Japanese companies had established surveillance posts throughout the heartland of the US computer industry in California's Silicon Valley, monitoring US technology development by hiring American software experts.

This chapter provides a framework for the essential activities of gathering, disseminating and acting on competitor intelligence. It covers four areas:

1. benchmarking against rivals;
2. the dimensions of competitor analysis;
3. the choice of 'good' competitors;
4. the origin, sources and dissemination of competitive information.

5.1 Competitive benchmarking

Competitive benchmarking is the process of measuring your company's strategies and operations against 'best-in-class' companies, both inside and outside your own industry (Swain, 1993). The purpose is to identify best practices that can be adopted or adapted to improve your own performance. Benchmarking usually involves four main steps.

5.1.1 Identifying who to benchmark against

Industry leaders are obvious firms to compare your own activities against. Central to such an analysis will be identifying the keys to their success in the market. What is it they do differently from others? What makes the difference to their operations? Why are they winners?

In non-profit organisations, such as hospitals and universities, benchmarking also takes place. Here the focus for benchmarking against will be the more successful operations on whatever criteria are considered important. For hospitals the leaders might be defined as those with the lowest mortality rates during operations, or the highest patient throughput. For universities the leaders might be identified as those with the best research reputations, or those most able to attract students to their courses.

Benchmarking may also, however, be undertaken against lesser players in the overall market. New entrants or smaller, more focused firms may have particular strengths from which the firm can learn. These strengths may be in a particular aspect of their operations rather than their operations in total. One firm may be a leader, for example, in terms of customer service, while another may be the best in the industry at cost control. In universities benchmarking against the best providers of distance learning education, or the best researchers in a particular field, might be appropriate.

Organisations also benchmark specific activities (such as procurement and purchasing) against other organisations outside their immediate sector where lessons can be transferred. When Xerox wanted to improve their order processing and warehousing they benchmarked themselves against L.L. Bean, the mail order company, which was believed to be far more 'cutting edge' than Xerox's main competitors (Swain, 1993).

5.1.2 Identifying what aspects of business to benchmark

All aspects of business across the complete value chain (see below) are candidates for benchmarking. Scarce resources and time constraints generally dictate the selection of a few key central processes for detailed benchmarking. These will initially centre on the key factors for success in the industry. Initial focus will also typically be on processes that account for significant costs, make a significant impact on customer satisfaction and show greatest room for improvement. Subsequently analyses may be further broadened in attempts to create fresh competitive advantages in new areas of operation.

5.1.3 Collecting relevant data to enable processes and operations to be compared

Data on one's own operations may be relatively easily available, but where competitors are benchmarked commercial secrecy may make access to relevant data difficult. Swain (1993) suggests three main sources of competitor information for benchmarking: published sources; data sharing; and interviews.

- **Published sources** include company reports, technical (trade) reports, industry studies and surveys commissioned by governments or industry associations. For consumer goods, for example, *Which?* reports provide useful published data comparing product performance from the consumer perspective.
- **Data sharing** may take place in industry forums such as conferences, through direct, formal contacts or more informal contacts. In most industries employees and managers of competing firms meet from time to time and swap information with each other, either consciously or subconsciously.
- **Direct interviews** with customers, distributors, industry experts, former employees of competitors, regulators, government officials, etc. may also be useful in collecting data on competitor operations for benchmarking purposes. Often competitors' customers in particular are a rich source of information on competitor processes. Questioning customers on the levels of service they received, for example, or the manner in which complaints were handled, can help to identify the processes used behind the scenes to deliver that service.

5.1.4 Comparison with own processes

The final stage in the benchmarking process is to compare and contrast the processes of the identified 'best in class' with the firm's own processes, to identify actions that need to be taken as a consequence, and the setting-up of processes to measure and monitor improvement.

Once the comparisons have been made and the areas for direct attention identified a number of options may be apparent. First, the firm may conclude that its own operations are close to best practice and will continue with them, striving to improve where possible. Second, the firm may conclude that its processes are inadequate or suboptimal and need to be overhauled. This may involve setting up new processes that mirror those of the best practices identified. Alternatively, it may involve adopting best practice processes from other industries that will enable the firm to leapfrog the competition and gain competitive advantage from process innovation.

Where new processes are proposed, or existing processes reinforced, measurable targets should be set that will enable the firm to assess its progress towards achieving better practices. These targets should be specific (e.g. 'answer 95 per cent of telephone calls by the third ring') and achievable within specified timeframes.

Beyond the benchmarking value of competitor analysis a clearer picture of competitor strategies, strengths and weaknesses also helps firms to develop more effective competitive strategies. We now go on to discuss the main processes involved in competitor analysis for the purposes of strategy formulation.

5.2 The dimensions of competitor analysis

In the medium term the focus of competitor analysis must be firms within the same strategic group as the company concerned. In the longer term, however, there is a danger in the analysis being so constrained. The industry as a whole must be scanned for indirect competitors that may have the resources or the need to overcome the entry barriers to the incumbent's strategic group. Although entry barriers may be high, if the incumbent's strategic group shows high profits or growth potential beyond the rest of the market it is likely to attract new entrants.

For a long time the European luxury car makers showed some myopia with their focus being concentrated on each other rather than on the Japanese mass manufacturers in the US market. The Japanese had been steadily building a reputation in terms of quality and technology that they are still exploiting, together with their huge resources, to compete against the Europeans there.

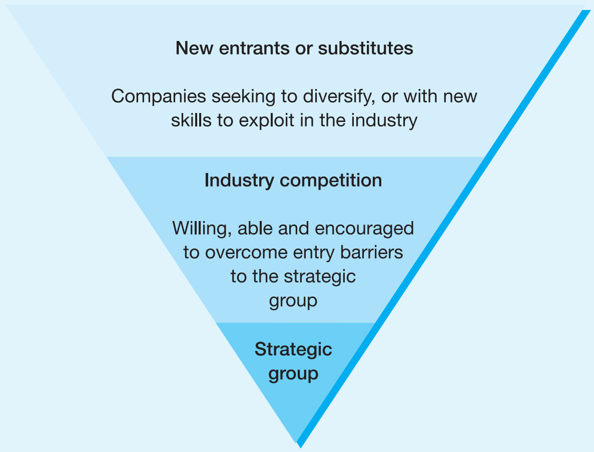
The UK financial services sector is an example of where conventional competitors have lost much business to the entry of new-style competitors, with their powerful weapons of both major sources of competitive differentiation and significant cost advantages. These include direct marketing operations such as Direct Line, based on telemarketing, Virgin Direct exploiting brand strength and product simplification in another form of direct marketing, the entry to banking by major supermarkets such as Sainsbury's and Tesco, exploiting their customer base and existing retail locations, and the piecemeal entry of diverse firms such as British Gas, British Airways and the oil companies that cherry-pick certain financial products. The probability is that turbulence will continue. In 1996 Bill Gates, head of Microsoft, was quoted as saying, 'Give me a share of the transactions business and the banks are dead!' The jury is out, but it is possible that the real competitive question for banks and other conventional players is whether there will be a separate and distinguishable financial services sector at all in the future.

It follows, then, that a second source of threat could be potential entrants into an industry, or substitutes. Part of the failing of EMI in the body scanner market was their neglect of the entrants that their hugely profitable success in the new market would be likely to attract. Rather than build defences or coalitions against the almost inevitable onslaught, the company chose to continue to exploit the market as if it was the sole supplier. Perhaps the greatest failing was its falling behind in product quality and its inability to develop a support network for its product (Kay, 1993).

In the longer term, substitutes are the major threat to an industry. These not only bring with them new processes and products with advantages that can totally undermine the incumbents' capabilities (as the scanner did for certain forms of X-ray machine), but they are also likely to bring with them new and hungry competitors that are willing to question conventional industry practices. Once IBM entered the PC market it was quite successful relative to its target competitors (Apple and Hewlett-Packard) but had great difficulty in handling the new competition (Compaq, Toshiba and Dell), which its standardised PC attracted. A more recent example is downloads that are revolutionising the music industry and precipitating the demise of pre-recorded CDs, with Apple (originally a computer company) having become the key player.

Competitor analysis, therefore, involves evaluating a series of concentric circles of adversaries: innermost are the direct competitors within the strategic group, next come companies within the industry that are driven to overcome the entry barriers to the strategic group, and then the outermost potential entrants and substitutes (Figure 5.1).

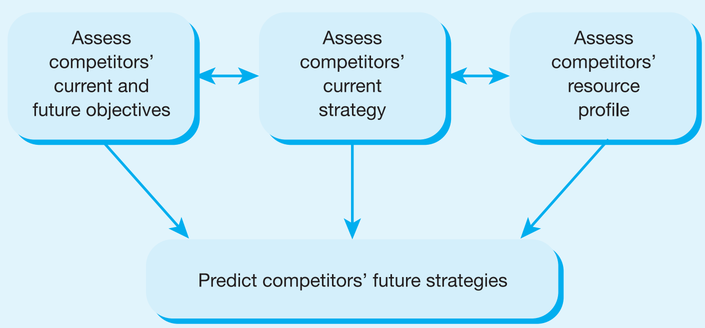
Figure 5.1 The targets of competitor analysis



Lehmann and Winer (1991) suggest four main stages in competitor analysis (Figure 5.2):

1. **Assessing competitors' current and future objectives**: Understanding what the competitor is setting out to achieve can give clues as to the direction it will take and the aggressiveness with which it will pursue that direction.
2. **Assessing the competitors' current strategies**: By understanding the strategies used by competitors in pursuit of their goals and objectives the firm can identify opportunities and threats arising from competitor actions.
3. **Assessing competitors' resources**: The asset and capability profile of competitors shows what they are currently able to do. Those resources may not be fully deployed at present but can give further clues into how the competitor will move in the future, or how the competitor will react to threats.

Figure 5.2 The components of competitor analysis



4 **Predicting competitors' future strategies**: By combining the above analyses the firm can begin to answer perhaps the most fundamental question in competitor analysis: what is the firm likely to do in the future?

Each of the above is now discussed in detail. In particular, potential sources of information are suggested, together with ways in which the analyses might be conducted. The aim of the analysis is not just to describe the competitor, but to be able to gauge the competitor's future intentions or, more importantly, what the competitor is likely to do in response to the evaluating firm's own actions.

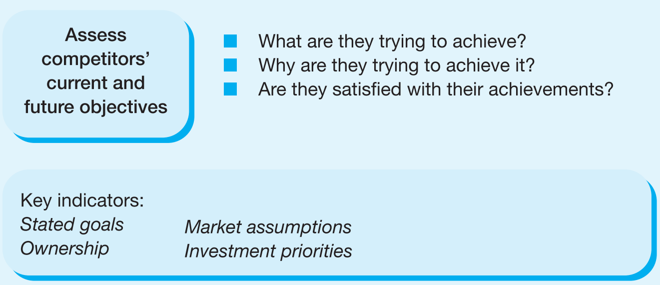
5.2.1 Assessing competitors' current and future objectives

Understanding the goals or objectives of competitors can give guidance to strategy development on three levels (see Figure 5.3). Goals can indicate where the company is intending to develop and in which markets, either by industry or internationally, major initiatives can be expected. The areas of expansion could indicate markets that are to be particularly competitive but may simultaneously signify companies not so committed.

Where the intention is profitable coexistence it is often better to compete in areas that are deemed of secondary interest to major companies rather than to compete directly. Such was the opportunity created when both General Motors and Ford declared that the small car markets in the United States and Europe were intrinsically unprofitable and therefore of little interest to them. Interestingly, both are now actively pursuing this market as its full potential has become fully apparent. Pressures on the environment from automobile pollution and road crowding are leading governments to implement measures to encourage smaller cars with more efficient engines. Ford's initial response in Europe has been the launch of the Ka, a small, fuel-efficient, commuter and family second car. This illustrates that goals change as circumstances change and competitors need to be constantly monitored for shifts in strategic direction.

Goals may also give a guide to the intensity of competitor activity and rivalry. When the likes of Procter & Gamble or General Electric declare that they are only interested in being the number 1 or the strong number 2 in markets in which

Figure 5.3 Competitor objectives



they operate it is to be anticipated that they will compete very hard for every new market they enter.

Finally, a company's goals can indicate the type of trade-off it is likely to make when faced with adversity. The obsession of many US overseas subsidiaries with the need to report back steady and slowly increasing profits has meant that they have often been willing to relinquish market share in order to achieve their short-term profit goals.

The goals can have implications across the broad portfolio of a company's activities. When competing against a diversified company ambitious goals in one sector may indicate that commitment to another is diminishing. Equally, very large and diversified companies may often not be able to take advantage of their huge financial strengths because of their unwillingness to make strategic shifts in their resources. There is also a chance that financially driven companies may be unwilling to take the risks of new ventures, preferring instead to pick the bones of those that were damaged in initially taking the risk.

Competitor goals and objectives can best be inferred from observation of the strategies they are pursuing, together with pronouncements they make through company reports, press releases, etc. For example, decisions to build additional production facilities are a clear signal of growth objectives. The recruitment of staff with particular skills (identified through observation of recruitment advertisements) can indicate new directions in which the competitor may go.

Reward structures for staff can also indicate objectives. Where sales staff, for example, are rewarded on a percentage of sales commission the practice suggests that sales volume (rather than profitability) is a key objective (Lehmann and Winer, 1991).

Also indicative of future goals can be the ownership structure of the competitor. Competitors owned by employees and/or managers may give a higher priority to providing continuity of employment than those owned by conventional shareholders. Likewise, competitors run through the public sector may set higher priorities on social goals rather than profitability. Competitors owned as part of diversified conglomerates may be managed for short-term cash rather than long-term market position objectives.

Underlying assumptions

Assumptions that a firm has about itself and the market affect the goals and objectives it sets and can be a source of opportunity or threat. Examples of flawed assumptions being made by companies and their dire consequences are many. In the 1960s, Cunard assumed that as the cost of transatlantic travel was so high people would want a leisurely crossing rather than spending a large amount of money in flying the Atlantic in a few hours. The result of this faulty logic by Cunard and other operators of passenger liners was a massive increase in the tonnage of liners being constructed in their last few years of useful life. Similarly, Dunlop's assumption that it was pre-eminent in rubber technology in tyres meant that it neglected Michelin's development of steel-braced radials. The result was a catastrophic decline in its own market share, accompanied by a decline in the total market size that occurred because of the longer life of Michelin's new development. Having assumed its pre-eminence in an established market, Dunlop's position was made intractable by its inability to develop new products.

Dunlop and Cunard were not atypical in their inability to see changing market conditions. As Foster (1986) says, there is a tendency for incumbent companies to dismiss incipient new technologies as of little significance or maybe catering for some faddish segment of the market. Such was the case of the Swiss watch industry when first faced with competition from Japanese digital alternatives. Thus the evaluation of assumptions of competitors and those made by a firm itself can be of major strategic significance to a company. Having said this, there is a clear gap between the need and the ability of firms to question their own assumptions.

Analyses of how major firms often react to technological threats show they are rarely able to change their historic orientation. O'Shaughnessy (1995) explains how incumbents often avoid the problems rather than taking evasive action. He suggests that there is a tendency for firms to force the evidence to fit preconceptions; become deaf to any evidence at odds with their beliefs; predict the most feared competitive action as a defence in case there is any future post-mortem after such action occurs; predict that competitive action will be that to which the manager's favourite strategy is an effective counter-strategy as a way of getting support for that strategy.

5.2.2 Assessing competitors' current strategies and activities

Assessing the current strategy involves asking the basic question: 'What exactly is the competitor doing at the moment?' (see Figure 5.4). This requires making as full as possible a statement of what each competitor is trying to do and how they are trying to achieve it. It is an essentially complex activity to which the components of marketing strategy outlined in Chapter 2 can give some structure.

Three main sets of issues need to be addressed with regard to understanding current competitor strategies. First, identification of the market or markets they have chosen to operate in: their selection of target markets. Second, identification of the way in which they have chosen to operate in those markets: the strategic focus they are adopting with regard to the type of competitive advantage they are trying to convey. Third, the supporting marketing mix that is being adopted to enable the positioning aimed for to be achieved. Beyond these three core elements of strategy

Figure 5.4 Competitor strategies

Assess competitors' current strategies

- What target markets are they pursuing?
- What is their strategic focus?
- What marketing mix do they use?
- How do they organise their marketing?

Key indicators:
Advertising media and messages
New product introduction rates
Recruitment advertisements
Price levels charged
Distribution channels used

it can also be helpful to assess the organisation of the marketing effort – the structures adopted – to facilitate implementation of the strategy.

Competitors' target markets

The broad markets and more specific market segments competitors choose to compete in can often be inferred from an analysis of the products and services they are offering, together with the ways in which they are pricing, promoting and distributing them. These elements of the marketing mix are generally highly visible aspects of a firm's activities and available for competitors to analyse.

The features built into products and the type and extent of service offered will be good indicators of the types of customer the competitor is seeking to serve. In the automobile industry, for example, the products made by Jaguar, a subsidiary of Ford, indicate clearly the types of customers being pursued. Skoda, now owned by Volkswagen, on the other hand, offers very different cars to the market, suggesting a completely different target market. Prices charged will also often be an indicator of the target market aimed for. In grocery retailing, for example, Aldi and Netto have consistently pursued a minimum-range, low-price strategy in attempts to attract price-sensitive, bulk grocery purchasers rather than compete directly with industry leaders such as Tesco and Sainsbury's on quality and service.

Advertisements and other promotional materials can also give clues as to the target markets aimed for. The wording of advertisements indicates the values the advertiser is attempting to convey and imbue in the product/service offered. Again in automobiles traditional Volvo advertising has clearly focused on safety, appealing to safety-conscious, middle-class families. BMW advertising concentrates on technical quality and the pleasures of driving, suggesting a younger target market. The media in which the advertisements appear, or the scheduling adopted, will also give indications of the target market aimed for. Similarly, the distribution channels the competitor chooses to use to link customers physically with offerings may give clues as to the markets aimed for.

Competitors' strategic focus

Most successful companies attempt to build their strategies on the differential advantage they have over others in the market. This is an important consideration in two ways. It is clearly necessary to base the differential advantage on customer targets and it is important to avoid basing one's competitive strategy on trying to build strengths where one is always going to be weak relative to competitors. For instance, in the jewellery trade it is possible to compete through design or distribution, but absolutely impossible to try to compete with the De Beers through securing one's own supply of uncut diamonds.

There are two main routes to creating a competitive advantage. The first is through low costs relative to competitors. The second is through providing valued uniqueness, differentiated products and services that customers will be willing to pay for.

Signals of competitors adopting a low-cost focus include their attention to overheads in the balance sheet, the vigour with which they pursue low-cost factor inputs and the tight financial controls they exert on all functions and activities. The cost leadership route is a tough one for any firm to follow successfully and requires close, relentless attention to all cost drivers. As noted above, in the UK grocery market

Aldi and Netto have adopted this rigorous approach, restricting product lines and providing 'no-frills' service.

Providing something different, but of value to customers, is a route to creating competitive advantage all players in a market can adopt. The creative aspect of this strategy is to identify those differentiating features on which the firm has, or can build, a defensible edge. Signals of differentiation will be as varied as the means of differentiation. Greater emphasis on customer service, added features to the product, special deals for volume or continued custom and loyalty schemes are all means of differentiation. All are highly visible to competitors and show the ground on which a given supplier has chosen to compete.

Competitors' supporting marketing mix

As discussed above, analysis of the marketing mix adopted by competitors can give useful clues as to the target markets at which they are aiming and the competitive advantage they are seeking to build with those targets. Analysis of the mix can also show areas where the competitor is vulnerable to attack.

Detailed analysis of competitors' products and services, particularly through the eyes of customers, can be used to highlight competitor weaknesses. It is after examining how vacuum cleaners typically lost their suction as their bags filled that James Dyson developed the bagless vacuum cleaner.

The Dyson DC 14 (Courtesy of Dyson)

Analysis of competitor pricing strategies may identify gaps in the market. For example, a firm marketing vodka in the United States noted that the leader offered products at a number of relatively high price points but had left others vacant. This enabled the firm to position its own offerings in a different market sector.

Both the message and the media being used by competitors warrant close analysis. Some competitors may be better than others at exploiting new media such as satellite or cable. Others may be adept at their use of public relations. Again, analysis will show where competitors are strong and where they are vulnerable.

Finally, understanding the distribution strengths and weaknesses of competitors can also identify opportunities. Dell, for example, decided to market its PCs direct to businesses rather than distribute through office retail stores where its established competitors were already strong.

Competitors' marketing organisation

Consideration of organisation is important because of the way that it can dictate strategy. For a long time Procter & Gamble's brand management structure was held up as a marketing ideal. This was probably the case when the US market was dominant and lessons learned there were relatively easily transferred downstream to less developed parts of the world. However, with the United States' relative economic decline compared with the rest of the world, Unilever's more flexible structure allowed them to transfer ideas across boundaries more easily and be more flexible to emerging local needs. Indeed, Procter & Gamble itself has now moved away from its product management structure.

Understanding the competitors' organisational structure can give clues as to how quickly, and in what manner, the competitor is likely to respond to environmental change or competitive actions. Competitors where responsibility for products is clearly identified are often able to respond more quickly than firms where responsibility is vague or confused. Firms organised around markets, rather than products, are most likely to spot market changes early and be in a position to lead change rather than simply react to it.

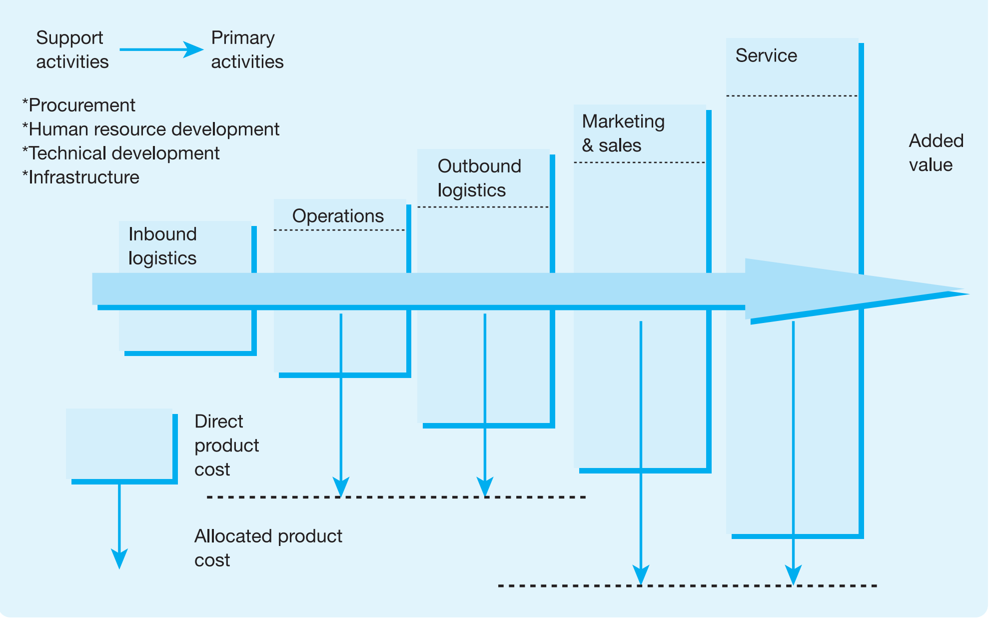
The position of marketing within the organisational structure can also provide clues to current and future strategy. In many traditional companies marketing is considered merely part of sales, responsible simply for advertising and other promotional activities. In such cases the voice of marketing may not be easily heard at the strategic decision-making level. In still other firms marketing may be seen as a guiding philosophy that will ensure a much more market-responsive set of actions. Clues to the position of marketing may lie in the background of the CEO, the visibility within the firm of senior marketing executives and, indeed, their previous career tracks. The appointment of a new marketing director from fast-moving consumer goods at Madame Tussaud's, the waxworks, signalled a far more customer-responsive and aggressive approach to the marketing of the attraction.

A useful tool for analysing current activities of competitors is the value chain.

Value-chain analysis

Porter (1985) identifies five primary activities that add value to the final output of a company (Figure 5.5).

Figure 5.5 The value chain and direct product costing



1 **Inbound logistics** involves managing the flow of products into the company. Recent attention to just-in-time manufacturing has shown how important this can be to the efficient operation of a company and how by management of its suppliers and their quality a company can add to the quality of its final products.

2 **Operations** have long been seen as the central activity of businesses. These comprise the processes whereby the inbound items are changed in form, packaged and tested for suitability for sale. Traditionally this has been seen as the area where value is added to a company's products. At this stage value can be added beyond the normal capital and manpower inputs by the maintenance of high quality, flexibility and design.

3 **Outbound logistics** carry the product from the point of manufacture to the buyer. They therefore include storage, distribution, etc. At this stage value can be added through quick and timely delivery, low damage rates and the formulation of delivery mechanisms that fit the operations of the user. Within the fertiliser industry, for instance, ICI has added value to its products by offering blends that fit the specific needs of farmers at certain times of the year and delivery modularisation which fits the farmers' own systems. Taking it a stage further, deliveries can be taken to the field rather than to the farm or go even as far as spreading being undertaken by the supplier.

4 **Marketing and sales** activities inform buyers about products and services, and provide buyers with a reason to purchase. This can concern feedback, which allows the user company to fit their operation's outbound logistics to user requirements or by helping customers understand the economic value of products that

are available. Taking the ICI example again, part of its marketing activity involves showing how some of its products can be used to equalise the workload on a farm throughout the year and therefore use the overall labour force more efficiently.

5 **Service** includes all the activities required to keep the product or service working effectively for the buyer, after it is sold and delivered. This can involve training, return of goods policies, consultation hotline and other facilities. Since customer satisfaction is central to achieving repeat sales and word-of-mouth communication from satisfied customers, after-sales service is clearly a major part of added value.

In support of the primary activities of the value chain, Porter (1985) also identified support activities. These are procurement, human resource development, technological development and infrastructure. These, of course, feed into each stage of the primary activities of the value chain.

There are several ways in which analysis of the value chain can provide an insight into competitors.

- It can reveal cost advantages that competitors may have because of their efficient manufacture, inbound or outbound logistics. It may also reveal why, with better marketing, sales and service, a company making intrinsically similar products may be achieving higher added value through their operations.
- Many conventionally oriented companies perceive operations as their primary source of added value and therefore leave opportunities for competitors that take a more extended view of the value they can add in the customer's eyes.
- Where the value added is costed effectively it can help locate economical ways of adding value to the customer. There are often numerous ways of achieving this, such as in the efficient management of single sourcing and just-in-time inbound logistics; total quality being incorporated in the operations, thus reducing the service requirements and maybe adding to the appeal of the marketing and sales activity by offering extended warranties; well-targeted marketing and sales activities which assure that maximum perceived added value is communicated to the customer while incurring lower marketing and sales activity than if blanket sales activity was attempted.

A company's assumptions about how its costs are allocated across products and elements of the value chain can provide clear competitive guidelines. For instance, many companies add most of their overheads to manufacturing operations where inputs can usually be measured. This occurs despite products having vastly different inbound logistics, outbound logistics, marketing, sales and service expenditures. The result can be that the final price of the products in the marketplace has little bearing on the overall inputs and the value chain.

Similarly, where the overheads are allocated equally across products, direct product pricing can show where some products are being forced to carry an excessive burden of overheads, so allowing a competitor to enter the market and compete effectively on price. When a company is competing in many different markets it is very likely that its allocated product costs are completely out of line with some of the markets in which it is competing. This can act as an overall constraint upon its intention to support those products or give it little commitment to them. IBM encountered this problem in its PC marketing, where the margins were incapable of carrying the allocated overheads that were borrowed from its mainframe and mini-PC business. This became particularly true in IBM's venture into the home computer market with the 'Peanut', which was launched with a totally inappropriate performance:price ratio.

5.2.3 Assessing competitors' capability profiles

The above discussion has highlighted what the competitor is seeking to achieve and what it is doing now. Also critical, of course, are the degrees of freedom open to the competitor. What might it do in future?

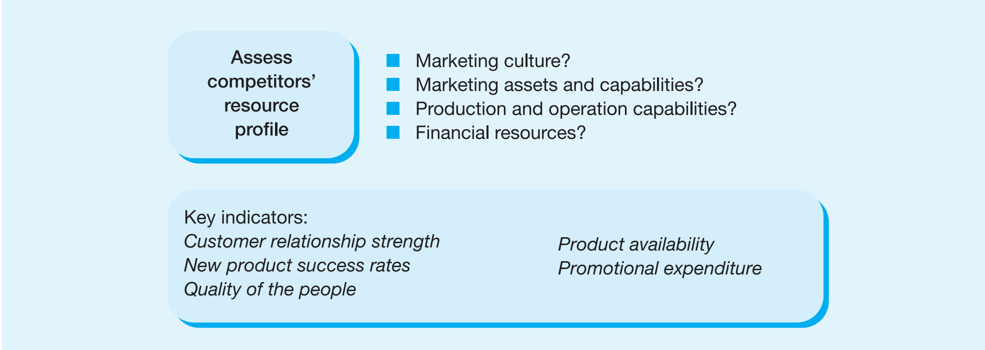
The assessment of a competitor's resources involves looking at their strengths and weaknesses. Whereas a competitor's goals, assumptions and current strategy would influence the likelihood, time, nature and intensity of a competitor's reactions, its resources, assets and capabilities will determine its ability to initiate and sustain moves in response to environmental or competitive changes (see Figure 5.6).

Competitor resource profiles (see Section 5.1 above on benchmarking) can be built in much the same way as a firm conducts an analysis of its own assets and capabilities. A useful starting point is to profile competitors against the key factors for success in the particular industry. Among these could be operational areas (such as research and engineering or financial strength) or generic skills (such as the company's ability to grow, quick response capability, ability to adapt to change, staying power or innovativeness).

Lehmann and Winer (1991) suggest concentrating the analysis under five key competitor abilities.

1 **Ability to conceive and design**: Assessing the ability of a competitor to innovate will help the firm to predict the likelihood of new products being brought to market, or of new technologies being employed to leapfrog existing products. Indications of this type of ability come from assessing technical resources (such as patents and copyrights held), human resources (the calibre of the creative and technical staff employed) and funding (both the total funds available and the proportion devoted to research and development, relative to industry average).

Figure 5.6 Competitor resources



2 **Ability to produce**: In manufacturing industries this will include production capacity and utilisation, while in service industries capacity to deliver the service will be critical. Firms with slack capacity clearly have more opportunities to respond to increased demand. Similarly, service firms that can manage their resources flexibly by, for example, calling on temporary but sufficiently skilled and motivated staff may enjoy more flexibility than those with a fixed staff with rigid skills. Ability to produce is signalled by physical resources (such as plant and equipment) together with human resources (including the skills and flexibility of the staff employed).

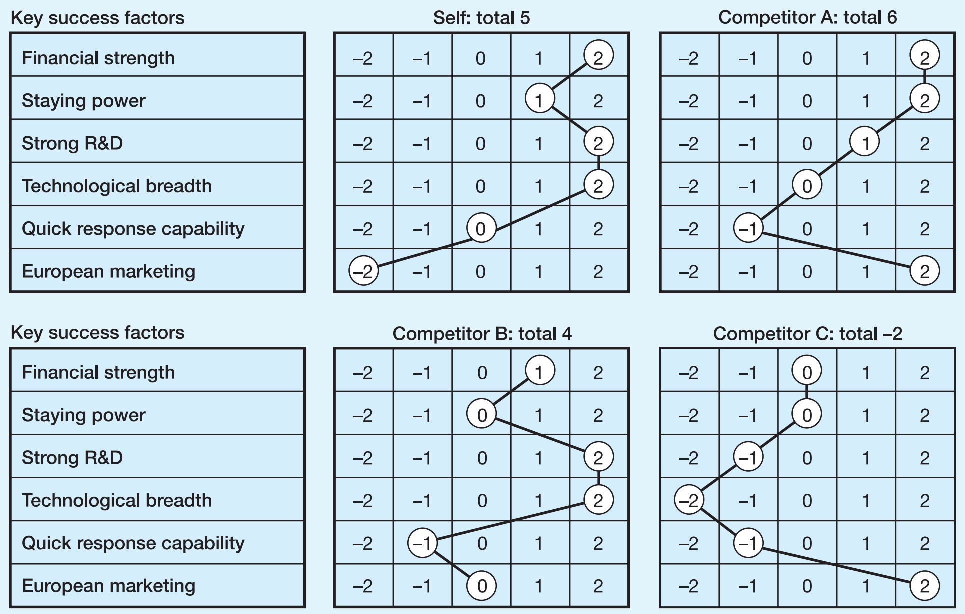
3 **Ability to market**: Despite strong innovation and production abilities a competitor may be relatively weak at marketing its products or services to customers. Assessing marketing capability is best accomplished through examining the elements of the marketing mix. Central to this analysis, however, will be the assessment of the skills of the people involved in sales, marketing, advertising, distribution, and so on. Also important will be the funds available and devoted to marketing activities. How well does the competitor understand the market? The answer to this question may lie in the extent and type of marketing research being undertaken.

4 **Ability to finance**: Financial resources act as a constraint in any organisation. In Hungary, for example, a major constraint on marketing activity for indigenous firms during the transition period of the 1990s was the limited funding available for investment. Many successful Hungarian firms overcame this problem through joint ventures with Western firms seeking entry into the market. The Hungarian firms provided the local market knowledge and contacts while the Western partners provided capital and managerial expertise. Examination of published accounts can reveal liquidity and cash flow characteristics of competitors. Again, however, such hard data should be supplemented with assessments of the qualities and skills of the human resources available within finance.

5 **Ability to manage**: The characteristics of key managers can send clear messages on strategic intentions. Indicators include the previous career paths and actions of powerful managers, the reward systems in place, the degree of autonomy allowed to individual managers, the recruitment and promotions policies of the firm.

Figure 5.7 shows a summary sheet a company has used to assess the relative capability of 'self' against three competitors: A, B and C. In this, six dimensions have been determined as critical and a company has rated itself and three competitors on each key factor using a scale ranging from –2 (very poor) to +2 (very good). The result are profiles that suggest the companies are quite similar in their overall capabilities and average scores, which clearly identify the company on a par with competitors A and B overall. However, the total score should not be allowed to cloud the differences of the main protagonists in the market, since their relative strengths clearly show that they may move in different directions given similar opportunities. For instance, Company A could build on its European strength in marketing applied technology, whereas Company B may be forced to depend on differentiation achieved through technological breadth and strength in R&D to maintain its market position. However, if the technology or market shifts in a direction that requires major expenditures,

Figure 5.7 Competitor capabilities



Company B may be weaker compared with A or 'self'. An inspection of the competitive capabilities also suggests that, although Company C looks weak overall, it could be a good acquisition by 'self'. Although weak in the financial and technological areas it has a strong European marketing presence and therefore may be capable of providing 'self' with rapid access to the European markets.

5.2.4 Predicting competitors' future strategies

The ultimate aim of competitor analysis is to determine competitors' response profiles – that is, a guide to how a competitor might behave when faced with various environmental and competitive changes. This covers such questions as the following:

- **Is the competitor satisfied with the current position?** One that is satisfied may allow indirect competitors to exploit new markets without being perturbed. Alternatively, one that is trying to improve its current position may be quick in chasing market changes or be obsessed by improving its own short-term profits performance. A knowledge of a company's future goals will clearly play an important part in answering this question.
- **What likely moves or strategy shifts will the competitor make?** History can provide some guide as to the way that companies behave. Goals, assumptions and capabilities will also give some guidance as to how the company can effectively respond to market changes. After looking at these a company may be able to

judge which of its own alternative strategies is likely to result in the most favourable reaction on the part of the competitors.

- **Where is the competitor vulnerable?** In commerce, as in war, success is best achieved by concentrating strength against weakness (Clausewitz, 1908). It takes no great insight to realise that it would be foolish for a company to take on a market leader in the areas where it is strongest, but successions of large companies (including Xerox, GE and ICL) took on IBM at its own game and lost. Much better to compete against IBM in niche markets that its size meant it could not cover effectively, i.e. in rapidly changing markets where its bureaucracy meant it could not move swiftly or in high-volume/low-margin markets where it had no understanding of distribution systems. The complacency of leaders in markets can provide major opportunities. The competitor's own feeling of invulnerability may be its own weakness, and one that could lead to a downfall. In truth, businesses, like armies, cannot defend on all flanks, from all positions, at all times. No company is ever all powerful at all places. Richard Branson at Virgin has proved particularly skilful at identifying opportunities in markets where existing competitors had key vulnerabilities: attacking financial services suppliers through branding, high value and product simplicity in his direct marketing strategy; attacking the powerful Coca-Cola and Pepsi brands on low price with Virgin Cola, knowing that those firms will never get involved in a price war.
- **What will provoke the greatest and most effective retaliation by the competitor?** Whereas market leaders may accept some peripheral activity, because of the low margins they perceive, anti-trust laws or the scale involved, other actions are likely to provoke intense retaliation. This is what Rolls-Royce learned to expect whenever it approached the US market for aero engines, what Freddie Laker found when he openly challenged the major carriers on the Atlantic route, and what the small Yorkshire-based company Dale-Pack found when its chopped meat burgers started making inroads into Unilever's market share. There is little sense in even the most powerful company's unleashing the wrath of a strong competitor when there are less sensitive routes to success available. Early in 1997, for example, Sainsbury's was reported to be considering price cuts to retrieve some of its lost market share. The next day Ian MacLaurin, then leading Tesco, said in the financial press that each and every price cut would be matched. He was believed by Sainsbury's, as Tesco has a reputation and track record of sensitivity on price that underlines its determination on this issue. No price war ensued.

Besides providing a general guideline, a competitor's response profile depends on obtaining a view of how a competitor is likely to respond, given various stimuli (see Figure 5.8). Porter (1980) suggests examining the way a competitor may respond to the feasible strategic moves by a firm and feasible environmental changes. This first involves assessing the vulnerability of a competitor to the event, the degree to which the event will provoke retaliation by the competitor and, finally, the effectiveness of the competitor's retaliation to the event.

The aim is to force a company to look beyond its own moves and towards those of its competitors and, like a great player of chess, think several moves ahead. It involves a firm thinking of its moves in a broad, strategic framework rather than the incremental manner in which strategies often emerge. Or, by following a series of

Figure 5.8 Future competitor strategies

Predict competitors' future strategies

- What might the competition do?
- What under-utilised resources do they have?
- How will they react to our actions?

Key indicators:
Past strategies
Past reactions
Recent resource acquisitions
Past successes and failures
Changes in ownership

seemingly small incremental shifts in pricing and promotion, a firm may be perceived to be making a major play in the marketplace and incur the wrath of major players. It is clearly better for A to consider the alternative moves carefully rather than make a series of moves, each one of which makes local sense, without regard to B's counter-moves and the long-term consequences of incremental action.

5.3 Choosing good competitors

When a company chooses to enter a market it also chooses its competitors. In the selection of new opportunities, therefore, it is important to realise that not all competitors are equally attractive. Just as markets can be attractive and a company's strengths can fit those markets, so competitors can be attractive or unattractive. Porter (1985) lists the characteristics that make a good competitor. In Figure 5.9 these features are organised to show how certain features of competitors can make them attractive.

Figure 5.9 Good competitors

	Balance	Strength	Weakness
Competitive maturity	■ Understand the rules ■ Realistic assumptions ■ Support industry structure	■ Credible/viable ■ Know the industry costs	■ Clear weaknesses ■ Limited strategic concept
Reconcilable goals	■ Moderate strategic stake ■ Accept current profitability ■ Desire cash generation	■ Comparable ROI targets	■ Short time horizons ■ Risk averse

The competitively mature company understands the market it is operating in and enhances, rather than destabilises, the environment of the strategic group. The good competitor can help promote the industry's stability by understanding the rules governing the market and by holding realistic assumptions about the industry and its own relative position. In this way it is unlikely to embark on strategies that are unprofitable and which result in zero-sum competition, such as precipitating price wars or unprofitable practices. Among the UK clearing banks in the late 1980s both Midland and Lloyds introduced interest-bearing current accounts. This gave them a short-term competitive edge but, once the market leaders followed, the result was everyone losing money on this major part of their business. Once locked in it was difficult for any of the banks to extricate themselves from this self-defeating position.

A good competitor can support industry structure if it invests in developing its own product and enhancing quality differentiation and market development rather than confrontational price-cutting or promotional strategies. In that way barriers to entering the industry are enhanced because the market becomes relatively fragmented and the impact of one company or new entrant is diminished. The global pharmaceutical industry tends to have this structure, where legislation and the differentiation of drugs allow a large number of medium-sized companies to survive in many of the world's leading markets.

A further advantage of a competitively mature company is that it can provide a steady pressure towards the efficient operations of those with which it is competing. It can provide respectability and standards in the way that IBM did in the PC market, and ensure that the market does not become too comfortable for the incumbents. The danger, then, as many state monopoly industries have shown, is that once the protection is removed, or competition is allowed, they find themselves too weak, fat or rigid to change. Pressure increases when the leading competitor has a thorough understanding of industry costs and therefore sets standards for cost-efficient services.

Finally, the existence of the credible and viable large company within the strategic group can act as a deterrent to other entrants. A good competitor, therefore, can provide both pressure to keep its competitors lean and an umbrella under which the industry can develop steadily.

A good competitor is a company that has a clear understanding of its own weaknesses and therefore leaves opportunities for others in the market. Within the UK banking market after the 'Big Bang' there was clearly a shortage of good competitors when, once the market was deregulated, many clearing banks acquired diverse activities and offered excessive salaries in areas they did not understand. The result was over-capacity, collapsing profits and a weakening of the UK banking industry generally. A wiser competitor would have been more aware of its strengths and weaknesses and would have avoided ventures that would not only weaken its profitability but also damage the market generally. In that sense a company with a limited strategic concept or a clear idea of the business it is in is a better competitor than one with wider or more vague statements about its intent.

A good competitor will have reconcilable goals that make it comfortable within the market it operates, less likely to make massive strategic shifts and tolerant of moderate intrusion. Where its strategic stake is moderate a good competitor may not see market dominance or the maintenance of its own market position as a principal objective. If under pressure it may be willing to retreat from the market or, when faced with greater opportunities, may choose to grow elsewhere.

Moderation in desired profitability is also an advantageous characteristic of a competitor. If driven by the need to increase the returns it is obtaining, the industry's ability is likely to be disturbed by major investments in new products, promotional activity or price cutting. A company that accepts its current profitability will be a seeker of stability rather than of new opportunities.

The desire of a competitor to maintain its cash flow can have a further impact on promoting an industry's stability. Most ventures that involve destabilising an industry depend on investing in research and development, marketing and/or construction of new cost-cutting plant. A company with strict cash requirements is therefore less likely to embark on such costly ventures.

The reconcilable goals of a good competitor can also provide a beneficial, steady pressure on the other companies within the industry. If a competitor has comparable return on investment targets to its stakeholders, it will face similar competitive pressures to the rest of the industry. In contrast, a state-owned competitor, which does not face the same profitability requirements, or one that is funded from markets with different expectations from one's own, can be unhealthy. Within the European Union the British Steel Corporation for a long time faced a regulated market against European competitors that were heavily subsidised by their respective state governments. Rather than competing with these, however, it chose to concentrate on speciality steels where the competitors were often in the private sector and therefore faced similar expectations. In a global context, many firms have found it very difficult competing with the Japanese, who have a lower cost of money from their home stock market, which is also less volatile and responsive to short-term changes than its Western counterparts.

A feature of many Western companies that made them good competitors for the Japanese has been their short time-horizon. This means that when faced with adversity the Western companies that the Japanese face have often cut back investment to maintain short-term profitability or have taken a fast route to corporate success rather than investing for internal growth. In the UK market for dried milk products Cadbury found Carnation a particularly attractive competitor, because its US owners were seeking a quick return on their investment while Cadbury, which had a longer-term commitment to the market, was willing to invest to gain market share. Risk aversion can also lead to a competitor's being more attractive. Where there is a fear of making errors there are likely to be followers within an industry, which gives more agile companies a chance to gain an advantage when the technology or market changes.

Clearly, finding a market in which the competitors are good on all fronts is unlikely, just as it is impossible to find a market that is completely attractive and consistent with a company's own strengths. But by examining competitors and looking for markets where they tend to be good rather than wayward a company is likely to face a more stable environment and one in which opportunities are there to be taken.

The diversity of competition makes it difficult to draw generic classes of companies that are likely to be good competitors. Some groups can be identified as likely to be the good or bad competitors but, in all these cases, there are likely to be many exceptions to the rule. Porter (1985) identifies smaller divisions of diversified firms as one likely group of good competitors. These may not be viewed as essential to the long-term corporate strategy and they often face tough profitability targets. In a global sense, this is particularly true of US multinationals, which have shown a remarkable willingness to retreat home when faced with adversity. They are also often given particularly tough profitability objectives with little support or understanding in the overseas market. Part of this stems from the belief that what is good enough for the home market is good enough for the overseas subsidiaries, and that all the major lessons can be learned at home (Wright *et al.*, 1990).

Another group of potentially good competitors can be old-established companies with a dynastic interest in the industry. This can be because the companies are strong and set high standards but are careful (as in the case of Sainsbury's in the United Kingdom) or because they are moderate in their expectations (as many UK textile companies have been).

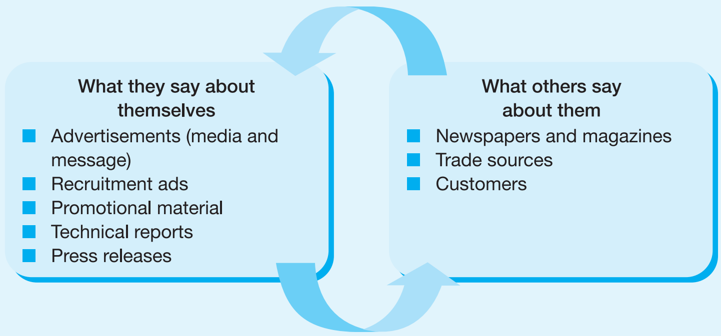
Among groups that are more difficult to compete with, and hence not 'good competitors' for the incumbent firm, could be new entrants from other industries that break the mould of established competition in the markets. They could also be new entrants in a market that have made major investments and therefore have a large stake in terms of ego and money in making a venture a success. By not understanding, or not choosing to understand, the market they may destabilise competition and be willing to forgo profits for a long time. Amazon.com was not a good firm for Barnes & Noble to compete with when it first entered the book retailing market. These can be very large companies at times, such as Unilever in the US market, which has a number 3 position in terms of household products and a desperation to grow in order to become viable; or Japanese automobile companies in Europe and the United States that have been building industrial capacity which requires their taking a huge market share in both continents. To the incumbents these are bad competitors.

Of course, the issue here is not good or bad from an ethical point of view. They are just bad competitors to compete with, although the new standards they bring to an industry and the services they provide to the consumer can do great good to the consumers and the economies concerned. Moreover they *are* good at competing, just not good to be competing against. Marc Andreessen, founder of Netscape (the Internet's first commercial browser) is reported to have said: 'Everyone should be in a business once in their lives that competes with Microsoft, just for the experience.' He added that once was enough though (*The Economist*, 9 March 2002).

5.4 Obtaining and disseminating competitive information

The inability of commanders to obtain and use military intelligence is one of the major reasons for displays of military incompetence (Dixon, 1976). The same is true of competitive intelligence. Also, given the competitive nature of both war and commerce, it is not surprising that the means of gathering information on an enemy or the competition are similar in both method and ethics. And, in both cases, the legality of methods has not been a barrier to their use. The final section of this

Figure 5.10 Sources of competitor information



chapter draws together the alternative means of gathering competitive information (see Figure 5.10). In doing so it follows a sequence of declining morality, but seeks to make no judgement about the ethics of many approaches mentioned.

At the most basic level a company can collect **published statistical information** on competitors and markets. Many companies will have such information on their records from market studies or from published sources on public companies. A problem with many of these sources is their disaggregation and the frequent inconsistency between various government statistics and those provided by a range of market research companies. Some of this is due to sampling problems, particularly in some government statistics, such as Business Monitors, where the respondents are little controlled. Although factual and quantitative, this sort of information is limited by its historic basis. Increasingly, use of the Internet can provide much background information. Search engines such as Yahoo and Hotbot allow investigators to rapidly search very wide sources to obtain up-to-date information on competitors and markets.

A company's own **publicity material** such as brochures, corporate magazines and websites can also be a source of useful background information. Sales brochures show the range of products on offer, and sometimes include price lists, while websites often give more insight into the strategies and philosophies of firms. Typically designed with customers or employees in mind, these publications need critical scrutiny but can be a mine of useful background information.

A company's own **propaganda** – in other words, its public relations activities – can add texture to background statistical information. The need to communicate to shareholders and intermediaries in markets means that frequent marketing or technological initiatives are broadcast widely. A danger here, clearly, is the credibility of the public relations involvement of the competitors. Investigative journalism can lead to more open disclosures but here again usually the press is dependent on the goodwill of a company in providing information. Nevertheless such sources can give a splendid feel for a company's senior executives. In that light it can be akin to the information that great generals try to gather on each other.

An increasingly frequent source of information on a company is **leakages** from employees that get into the hands of press, either intentionally or unintentionally. Since these often have to be newsworthy items such information is usually limited in context but, once again, can give texture to background information. Firms that are more aggressive seekers of information may take positive steps in precipitating the giving of information: for instance, grilling competitors' people at trade shows or conferences, or following plant tours and being a particularly inquisitive member of a party. Although leakages may involve one of the competitor's employees being indiscreet they do not involve the researching company in unethical activities. Many of the practices that follow hereon may be deemed as less worthy by some.

A company can gather information from **intermediaries** or by posing as an intermediary. Both customers and buyers can have regular contact with competitive companies and can often be a source of valuable information, particularly with the salespeople or buyers from a researching company with whom they have regular contact. It is also possible to pose as a potential buyer, particularly over the phone, to obtain some factual information, such as price, or to obtain performance literature.

Many industries have policies of not recruiting between major companies or, as in the United States, have regulations regarding the nature of an individual's work after he or she has moved from one company to another. However, a company would be naive if it did not thoroughly debrief **competitors' former employees** if they did join the company and, where there is a strong market leader, it is very frequent for that company's employees to be regularly recruited by smaller companies. For a long time in the United Kingdom Procter & Gamble and Unilever, for instance, have been a training ground for marketing people in many other industries. When they move they carry with them a great deal of useful information on their previous employers' products, methods and strategies. Many such large employers are very aware of this and often request that people who are leaving clear their desks and leave within minutes once their intention to move is known. Even if competitors' employees are not eventually recruited the interviewing process itself can often provide useful information, particularly since the person being interviewed may be eager to impress the potential employer.

Surveillance is widely used within counter-espionage, but is less common as a means of gathering competitive business information. Some of the methods used can be quite innocuous, such as monitoring competitors' employee advertisements or studying aerial photographs. Others are very sensible business practices, such as reverse engineering, i.e. tearing apart the competitors' products for analysis. Less acceptable, and certainly less hygienic, is the possibility of buying a competitor's garbage to sift for useful memoranda or components. Bugging is a controversial means of surveillance that is becoming more common now equipment is inexpensive, reliable and small enough to be concealed. Not only were Richard Nixon's presidential campaign organisers found using this method, but also the retailer Dixons, during their acquisition of Currys.

Dirty tricks have always been a danger of test marketing, but with the current availability of mini-test markets (Saunders *et al.*, 1987) a new dimension has emerged.

Their speed means that while a company is test marketing its products over a matter of months a competitor can buy supplies, put them through a mini-test market, find their market appeal and maybe experiment with alternative defensive strategies, before the test-marketed product is launched fully. Unilever's subsidiary Van den Bergh is reputed to have done just this when Kraft launched its Carousel margarine. Using mini-test markets it was able to find that, although the Kraft product had a high trial rate, few people adopted it in the long term and therefore it was of no great danger to Unilever's leading products.

A final means of gathering information is the use of **double agents**, either placed in a competitor's company purposely or recruited on to the payroll while still working for the competitor. One can easily imagine how invaluable such people could be over the long term. We know that such individuals are common within military espionage, although few examples have come to light in business circles. One wonders how many leading companies would be willing to admit that they have been penetrated, even if a double agent was found within them.

Disseminating competitor intelligence

Intelligence itself is an essentially valueless commodity. It becomes valuable only when it researches the right people within the organisation and is subsequently acted on. Successful dissemination requires two things. First, the destination must be clearly identified. Basically the question is: Who needs to know this? Second, the data must be presented in a manner that the recipient can understand and assimilate. Too many competitive intelligence reports, such as market research reports, are far too detailed and cumbersome for busy executives to extract and use the relevant information.

Bernhardt (1993) suggests the use of a hierarchical approach to dissemination. For senior management (including CEOs and strategy formulation groups) intelligence should be limited to that which is of high strategic value. There is little point burdening top managers with the minutiae of everyday operations. Indeed, too much operational detail in their menu of intelligence may mask the really important issues they need to act on.

Information to senior managers should include special intelligence briefings, typically one- or two-page reports identifying and summarising specific issues and showing where more detailed information can be obtained. Senior managers may also require regular (monthly or quarterly depending on the rate of change in the industry and market) intelligence briefings, which address regularly occurring issues systematically, so that trends can be identified and priorities made.

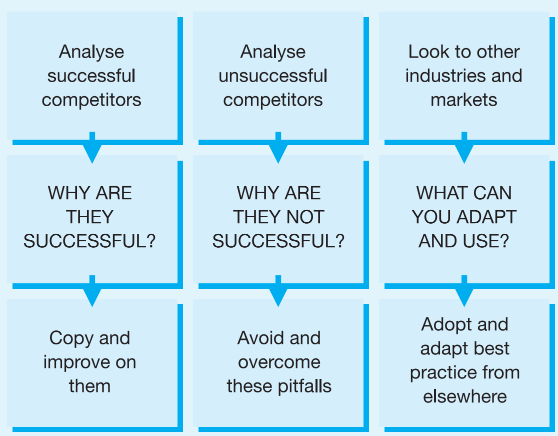
Middle and junior managers at a more operational level may require more detailed information to enable them to formulate tactical decisions. Here, more detailed profiles of competitor products and services will be required, together with detailed analysis of competitor marketing mix strategies. Increasingly, middle management (where it has survived the downsizing of the 1990s!) is becoming conversant with database manipulation, enabling managers to directly interrogate intelligence data rather than simply relying on information specialists to extract and present relevant information (see Fletcher, 1996).

Summary

Over the last few years competitive strategy has emerged as one of the major foundations of business strategy. Just as understanding markets is fundamental to business success, so is a complete understanding of competitors, their strengths, weaknesses and likely responses. This chapter suggests that the focus of competitor analysis should be on strategic groups, but should not neglect other firms within the industry with the ability to overcome entry barriers or be potential entrants to the industry. It provides some frameworks for analysing competitors and suggests the importance of thinking through their likely responses. It also suggests that when entering markets and instituting strategies firms should be looking for 'good' competitors that can stabilise markets, provide opportunities and apply downward pressure on performance. Finally, means of gathering and disseminating competitive information are presented. Ultimately the goal is to learn from competitors – their successes and their mistakes – as well as working out how to compete more effectively (Figure 5.11).

Although as important as market information, data on competitors are rarely gathered systematically or comprehensively. There is also such a multiplicity of sources which have to be assessed that there is little chance of doing so on an ad hoc basis. There is therefore good reason for incorporating a competitive information system within any marketing information system that exists, and having people responsible for ensuring its maintenance. In competitive strategy, just as in war, it is impossible to exaggerate the importance of gathering information on the adversaries a company faces. As Sun Tzu says: 'An army without spies is like a man without ears or eyes' and, because of this, 'to remain in ignorance of the adversary's condition simply because one grudges the outlay of a few hundred ounces of silver in honours and emoluments, is the height of inhumanity'.

Figure 5.11 Learning from competitors



Emap

Case study

Courtesy of Smashhits TV

In the beginning there was music television and MTV was a global brand that had musical youths jiving to its beat, whether it was pop, dance, heavy metal or rock.

Now however, a new rival claims to be challenging for the top of the UK charts. Following the launch of its fourth new music TV channel in a year, Smash Hits TV, Emap Performance says it took 50 per cent of the music TV audience in SkyDigital homes for the week commencing 13 May.

With digital cable carriage deals promised and another new channel, Magic TV, due to launch on 11 September, the message is that the company is preparing a serious assault on the TV hit parade.

'I think that most people that advertise on TV have up until now thought that MTV equalled music TV. Well we've got news for you, it doesn't any more,' claims Emap Performance chief executive Tim Schoonmaker. He expects Magic TV to add a further 0.2 percentage points to Emap Performance's audience share when it launches later this year.

MTV, which has seven channels, disputes the numbers and points to the fact that, following the first week of Smash Hits TV, Emap's share has dropped back. Most weeks, it claims, Emap performance is usually around 20 per cent behind.

It's a row that's attracting attention for two reasons. First, there's nothing like a media catfight, a couple of suits having their own Robbie-versus-Liam-style spat.

'I'm told that they've got someone full time watching our channels writing down every video that we play,' alleges Schoonmaker.

'Emap are obviously quite desperate at the moment,' hits back Michiel Bakker, MTV Networks UK and Ireland's managing director. 'It's a small piece of hype aimed at propping up the share price.'

The second, and perhaps more important reason for all the attention is that the two companies have very different philosophies as to what a music TV channel should be.

Emap's vision of music TV is 'radio with pictures' while MTV is a firm believer in the 'music is a way of life' school of thought. Emap's five stations, which also include The Box, Q TV, Kiss TV and Kerrang TV, work on the basis that viewers are offered a limited choice of music videos and can vote for the track they want to see by ringing a premium rate phone line. It does make a limited amount of original programming, but nothing that's longer than a music video.

'People do not sit and watch music TV for an hour at a time,' says Schoonmaker. 'The idea that music channels will ever be appointment to view for other than a tiny minority is crazy.'

With the exception of The Box, all Emap's channels are extensions of its other media properties. And this is what has enabled it to expand its portfolio so quickly.

'Brands mean we do not need to market [the channels] with the same kind of mouth-watering budgets as you do when it's a new proposition,' he says.

MTV rejects this approach, putting its faith in programming investment. It employs around 80 people in programming and production compared to Emap's 25 dedicated TV staffers.

'We want our channels to be part of our audience's lives,' says Bakker. 'We will continue to drive investment in programming. We will see increased investment from our side on programming to create an absolute, clear blue water between our channels and any other channels that are out there.'

He disputes Schoonmaker's argument that music TV is never appointment to view, citing the fact that *Daily Edition*, a news show that airs at 7.00 p.m. on its premier channel, MTV UK, attracts a significantly higher share than the channel's average performance.

'It's all about connection with your audience, we do that by breathing life into our channels rather than running them as brand extensions,' he says. The reason why the market can support so many music channels is that someone else is supplying the programming.

'Music TV is very cheap to make because you've got someone else doing the work for you in terms of making videos,' observes Steve Gladdis, associate director at media planning and buying agency MediaCom.

However, given the difficulty of effectively monitoring such a small audience, the numbers in themselves are not the only factor in deciding where to buy advertising time.

'I do not think we really buy these channels from a numbers viewpoint, we are buying them for the environment. It's almost like buying a magazine schedule,' he adds.

Source: Alastair Ray, 'A different tune: Emap Performance is challenging MTV's dominance in music television – aggressively and with a slimmed-down approach', *Financial Times*, 3 July 2001, p. 9.

Discussion questions

1. How does Emap's market entry strategy take into account its knowledge of MTV?
2. How is MTV likely to respond to Emap's attack and what can Emap do to ready itself for MTV's counter-moves?
3. Since 'Music TV is very cheap to make because you've got someone else doing the work for you in terms of making videos,' does Emap's lower cost structure offer it a long-term competitive advantage over MTV? With such cheap content, what are the barriers to a flood into the market if Emap is successful?