Chapter 6

Approaches to competitor analysis
6.1 Learning objectives

When you have read this chapter you should be able to understand:

(a) the importance of competitor analysis;
(b) how firms can best identify against whom they are competing;
(c) how to evaluate competitive relationships;
(d) how to identify competitors’ likely response profiles;
(e) the components of the competitive information system and how the information generated feeds into the process of formulating strategy.

6.2 Introduction

We suggested in Chapter 5 that the last 10 years have seen the emergence of a new type of consumer who is characterized by a very different type of value system and far higher expectations. At the same time, a new type of competitor appears to have emerged along with a different type of competitive environment. This new environment is characterized by:

- Generally higher levels and an increasing intensity of competition
- New and more aggressive competitors who are emerging with ever greater frequency
- Changing bases of competition as organizations search ever harder for a competitive edge
- The wider geographic sources of competition
- More frequent niche attacks
- More frequent and more strategic alliances are necessary
- A quickening of the pace of innovation
- The need for stronger relationships and alliances with customers and distributors
- An emphasis upon value-added strategies
- Ever more aggressive price competition
- The difficulties of achieving long-term differentiation, with the result that a greater number of enterprises are finding themselves stuck in the marketing wilderness with no obvious competitive advantage
- The emergence of a greater number of ‘bad’ competitors (i.e. those not adhering to the traditional and unspoken rules of competitive behaviour within their industries).

The implications of these changes, both individually and collectively, are significant and demand far more from an enterprise if it is to survive and grow. Most obviously, there is a need for a much more detailed understanding of who it is that the enterprise is competing against and their capabilities. However, in coming to terms with this, the
marketing planner needs to focus not just upon the ‘hard’ factors (e.g. their size, financial resources, manufacturing capability), but also upon the ‘softer’ elements (such as their managerial cultures, their priorities, their commitment to particular markets and market offerings, the assumptions they hold about themselves and their markets, and their objectives). Without this, it is almost inevitable that the marketing planner will fail to come to terms with any competitive threats. Given the nature of these comments, the need for, and advantages of, detailed competitive analysis should be apparent and can be summarized in terms of how it is capable of:

- Providing an understanding of your competitive advantage/disadvantage relative to your competitors’ positions
- Helping in generating insights into competitors’ strategies – past, present and potential
- Giving an informed basis for developing future strategies to sustain/establish advantages over your competitors.

Although the vast majority of marketing planners and strategists acknowledge the importance of competitive analysis, it has long been recognized that less effort is typically put into detailed and formal analysis of competitors than, for example, of customers and their buying patterns. In many cases this is seemingly because marketing managers feel that they know enough about their competitors simply as the result of competing against them on a day-by-day basis. In other cases there is almost a sense of resignation, with managers believing that it is rarely possible to understand competitors in detail and that, as long as the company’s performance is acceptable, there is little reason to spend time collecting information (see Figure 6.1). In yet others, there is only a general understanding of who it is that the company is competing against. The reality, however, is that competitors represent a major determinant of corporate success, and any failure to take detailed account of their strengths, weaknesses, strategies and areas of vulnerability is likely to lead not just to a sub-optimal performance, but also to an unnecessarily greater exposure to aggressive and unexpected competitive moves. Other probable consequences of failing to monitor competition include an increased likelihood of the enterprise being taken by surprise, its relegation to being a follower rather than a leader, and to a focus on short-term rather than more fundamental long-term issues.

Figure 6.1 Attitudinal barriers to undertaking competitor analysis
There are numerous examples of organizations having been taken by surprise by new competitors who introduce and then play by very different rules of the game (think, for example, of the way in which BA and the other major European flag carriers have been hit by new entrants such as easyJet and Ryanair; how Hoover and Electrolux were hit by Dyson; and how the major clearing banks were seemingly taken by surprise by the telephone and Internet bankers). It is apparent from these sorts of examples and the points made above that competitor analysis is not a luxury but a necessity in order to:

- Survive
- Handle slow growth
- Cope with change
- Exploit opportunities
- Uncover key factors
- Reinforce intuition
- Improve the quality of decisions
- Stay competitive
- Avoid surprises.

(See Kelly, 1987, pp. 10–14.)

It follows from this that competitive analysis should be a central element of the marketing planning process, with detailed attention being paid to each competitor’s apparent objectives, resources, capabilities, perceptions and competitive stance, as well as to their marketing plans and the individual elements of the marketing mix. In this way, areas of competitive strength and weakness can more readily be identified, and the results fed into the process of developing an effective marketing strategy. Better and more precise attacks can then be aimed at competitors and more effective defences erected to fight off competitors’ moves. An additional benefit of competitor analysis, in certain circumstances at least, is that it can help in the process of understanding buying behaviour by identifying the particular groups or classes of customer to whom each competitor’s strategy is designed to appeal. This can then be used as the basis for determining the most effective probable positioning strategy for the organization.

Recognition of these points leaves the strategist needing to answer five questions:

1. Against whom are we competing?
2. What strengths and weaknesses do they possess?
3. What are their objectives?
4. What strategies are they pursuing and how successful are they?
5. How are they likely to behave and, in particular, how are they likely to react to offensive moves?

Taken together, the answers to these five questions should provide the marketing strategist with a clear understanding of the competitive environment and, in particular, against whom the company is competing and how they compete. An example of this appears in Figure 6.2.
### Figure 6.2: The competitive environment for selected Eastman Kodak products in the late 1970s (adapted from Business Week, 20 June 1977)

<table>
<thead>
<tr>
<th>Kodak's products</th>
<th>Principal competitor(s)</th>
<th>Kodak’s market position</th>
<th>Intensity and bases of competition</th>
<th>Likelihood of new entrants</th>
<th>Kodak’s core strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instant cameras and instant film</td>
<td>Polaroid</td>
<td>Challenger to a well-established leader</td>
<td>High and increasing with greater emphasis being placed on innovation</td>
<td>High</td>
<td>Penetration pricing to sell cameras as fast as possible to build a base for the sales of film</td>
</tr>
<tr>
<td>Photographic paper</td>
<td>Fuji Photo Film Co</td>
<td>Leader but being threatened by Fuji and other Japanese companies</td>
<td>High – the attack is based on lower prices and statements of quality</td>
<td>Medium</td>
<td>Share maintenance by emphasizing the quality of Kodak paper and making consumers aware that some processors do not use Kodak paper</td>
</tr>
<tr>
<td>Office copiers</td>
<td>Xerox, IBM, 3M</td>
<td>Late entrant to a highly competitive market in which Xerox held a 75 per cent share</td>
<td>Very high with ever greater emphasis being given to innovation, cost and service</td>
<td>Very high (particularly from Japanese firms)</td>
<td>The establishment of a separate sales and service network utilizing the firm’s image and marketing capabilities in the microfilm equipment area</td>
</tr>
</tbody>
</table>
It is then against the background of the picture that emerges from this sort of analysis that the marketing strategist can begin to formulate strategy. In the example cited in Figure 6.2, for example, the central issue for Kodak revolved around the costs, risks, and possible long-term returns from penetrating new markets in instant cameras and office copiers, as opposed to sustaining and defending the company’s position as the market leader in the photographic paper market. The principal environmental inputs to the company’s strategic planning process at this time were therefore competitive forces and new technology.

Having developed a picture of the market in this way, the analysis can then be taken a step further by a compilation of each competitor’s likely response profile; the various inputs needed for this are illustrated in Figures 6.3–6.5.

The analysis in Figure 6.3, in turn, provides the basis for completing the framework that appears in Figure 6.4. Here, each competitor’s particular strengths and weaknesses can be shown and their competitive profiles developed.

This information is then used to develop a competitive response profile for each competitor: the framework for this is illustrated in Figure 6.5.

In using this model, the strategist begins by focusing upon the competitor’s current strategy, and then moves successively through an examination of competitive strengths and weaknesses; the assumptions that the competitor appears to hold about the industry and itself; and then, finally and very importantly, the competitor’s probable future goals and the factors that drive it. It is an understanding of these four dimensions which then allows the marketing strategist to begin compiling the detail of the response profile and to answer four principal questions:

1. Is the competitor satisfied with its current position?
2. What future moves is the competitor likely to make?

<table>
<thead>
<tr>
<th>The strength of the competitors’ positioning</th>
<th>What market share does each competitor have?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>How strong is each competitor’s image</td>
</tr>
<tr>
<td></td>
<td>What is their position within the trade?</td>
</tr>
<tr>
<td></td>
<td>Is there a particular focus in certain markets?</td>
</tr>
<tr>
<td>The strength of the competitive offerings</td>
<td>In relative terms, how good is each element of each competitor’s marketing mix?</td>
</tr>
<tr>
<td></td>
<td>How satisfied is each competitor’s customer base?</td>
</tr>
<tr>
<td></td>
<td>What levels of customer loyalty exist?</td>
</tr>
<tr>
<td></td>
<td>How satisfied are each competitor’s distributors?</td>
</tr>
<tr>
<td>The strength of the competitors’ resources</td>
<td>How profitable is each competitor?</td>
</tr>
<tr>
<td></td>
<td>What is the size of each firm’s resource base?</td>
</tr>
<tr>
<td></td>
<td>How big and efficient is the production base?</td>
</tr>
<tr>
<td></td>
<td>How fast and effective are the product development processes?</td>
</tr>
<tr>
<td>Understanding the competitors’ strategies</td>
<td>What is each competitor’s strategic intent?</td>
</tr>
<tr>
<td></td>
<td>What are their actions and probable reactions?</td>
</tr>
</tbody>
</table>

Figure 6.3  Competitor analysis: step 1 – developing a general picture of the competition
3 In which segments or areas of technology is the competitor most vulnerable?
4 What move on our part is likely to provoke the strongest retaliation by the competitor?

Against the background of the answers to those questions, the marketing strategist needs then to consider two further issues: where are we most vulnerable to any move on the part of each competitor, and what can we realistically do in order to reduce this vulnerability?

**Porter’s approach to competitive structure analysis**

Undoubtedly one of the major contributions in recent years to our understanding of the ways in which the competitive environment influences strategy has been provided by Porter (1980, Chapter 1). Porter’s work, which is discussed in greater detail in Chapter 10, is based on the idea that ‘competition in an industry is rooted in its underlying economics, and competitive forces that go well beyond the established combatants in a particular industry’ (Porter, 1979, p. 138). He has also emphasized that the first determinant of a firm’s profitability is the attractiveness of the industry in which it operates. The second determinant is competition:

‘The second central question in competitive strategy is a firm’s relative position within its industry. Positioning determines whether a firm’s profitability is above or below the industry average . . . The fundamental basis of above average performance in the long run is sustainable competitive advantage.’
Coming to terms with the probable response pattern

- What evidence is there to suggest that the competitor is satisfied or dissatisfied with its current position and performance?
- How aggressive/expansionist has the competitor proven to be previously?
- How has it responded to competitor's moves in the past? (and with what level of success?)
- Is there any evidence of new thinking within the competitor's management team?
- Are there any parts of the competitor's market which are showing signs of decline that might lead to a change in its strategy?
- At what point is the competitor likely to respond if challenged, and with what level of commitment and market insight?
- What likely moves or strategy shifts will the competitor make in the short term and the long term?
- Where is the competitor most vulnerable in the short and the long term?
- What will provoke the greatest and most effective retaliation by the competitor?
- Are there areas in which the competitor is unlikely to retaliate?

Figure 6.5 Developing a competitor's response profile
This leads Porter to suggest that the nature and intensity of competition within any industry is determined by the interaction of five key forces:

1. The threat of new entrants
2. The power of buyers
3. The threat of substitutes
4. The extent of competitive rivalry
5. The power of suppliers.

This work is, as we commented above, examined in Chapter 10 and the reader may therefore find it of value to turn to the first part of that chapter before going any further and attempting to answer the five questions referred to on p. 225.

6.3 Against whom are we competing?

Identifying present competitors and new entrants

Although the answer to the question of who it is that a company is competing against might appear straightforward, the range of actual and potential competitors faced by a company is often far broader than appears to be the case at first sight. The strategist should therefore avoid competitive myopia both by adopting a broad perspective and recognizing that, in general, companies tend to overestimate the capabilities of large competitors and either underestimate or ignore those of smaller ones. In the 1970s, for example, the large manufacturers of computers were preoccupied with competing against one another and failed for some time to recognize the emergence and growing threat in the PC market posed by what were at the time small companies such as Apple. More recently, we have seen companies such as BA being taken by surprise by much smaller organizations such as easyJet. Equally, book retailers have been forced to rethink their strategies, often in a radical way, as the result of Amazon.com having changed the competitive dynamics of book selling.

In a more general sense, business history is full of examples of companies that have seemingly been taken by surprise by organizations they had failed to identify as competitors, or whose competitive capability they drastically underestimated. In Chapter 4, for example, we discussed the experiences of the Swiss watch industry, which was brought to its knees in the late 1960s and early 1970s by new manufacturers of inexpensive watches that incorporated digital technology, a technology that, ironically, the Swiss themselves had developed. Equally, in the reprographic market, companies such as Gestetner suddenly and unexpectedly found themselves in the 1970s having to fight aggressive new entrants to the market such as Xerox. Xerox entered this market with a new, faster, cleaner and infinitely more convenient product to which Gestetner, together with a number of other companies in the market at the time, experienced difficulties in responding. Similarly, the British and US television and motorcycle manufacturers either failed to recognize the Japanese threat or underestimated their expansionist
objectives. The result today is that neither country has a domestic manufacturing industry of any size in either of these sectors. Less drastic, but in many ways equally fundamental, problems have been experienced in the car industry.

It is because of examples such as these that astute strategists have long acknowledged the difficulties of defining the boundaries of an industry, and have recognized that companies are more likely to be taken by surprise and hit hard by latent competitors than by current competitors whose patterns of marketing behaviour are largely predictable. It is therefore possible to see competition operating at four levels:

1. Competition consists only of those companies offering a similar product or service to the target market, utilizing a similar technology, and exhibiting similar degrees of vertical integration. Thus, Nestlé (which makes Nescafé) sees General Foods, with its Maxwell House brand, as a similar competitor in the instant coffee market, while Penguin sees its direct competitors in the chocolate snack bar market to be Kit-Kat’s six pack, Twix and Club.

2. Competition consists of all companies operating in the same product or service category. Penguin’s indirect competitors, for example, consist of crisps and ice-creams.

3. Competition consists of all companies manufacturing or supplying products that deliver the same service. Thus, long-distance coach operators compete not just against each other, but also against railways, cars, planes and motorcycles.

4. Competition consists of all companies competing for the same spending power. An example of this is the American motorcycle manufacturer, Harley Davidson, which does not necessarily see itself as competing directly with other motorcycle manufacturers. Instead, for many buyers it is a choice between a Harley Davidson motorcycle and a major consumer durable such as a conservatory or a boat: this is discussed in greater detail in Illustration 6.1.

Illustration 6.1 Harley Davidson and its perception of competition

Harley Davidson, the last remaining American motorcycle, is seen by many as one of the icons of the design world. As a symbol of freedom and adventure, the socio-economic profile of Harley Davidson owners differs significantly from that of virtually all other motorcycle riders. The late Malcolm Forbes, for example, rode Harleys with his ‘gang’ called the Capitalist Tools and did much to promote the bike among clean-cut executives known as Rich Urban Bikers (RUBs). This image has been reinforced by the bike’s appearance in numerous commercials, including a Levi’s advertisement in which a monstrous Harley is ridden on to a Wall Street dealing-room floor.

Although it is acknowledged that the bikes are technically antiquated, few current or aspiring owners see this as a drawback. Most Harley owners do not actually ride them a
It should be apparent from this that the marketing strategist needs not only to identify those competitors who reflect the same general approach to the market, but also to consider those who ‘intersect’ the company in each market, who possibly approach it from a different perspective, and who ultimately might pose either a direct or an indirect threat. As part of this, the strategist needs also to identify potential new entrants to the market and, where it appears necessary, develop contingency plans to neutralize their competitive effect. Newcomers to a market can, as Abell and Hammond (1979, p. 52) have pointed out, enter from any one of several starting points:

- They already sell to your customers, but expand their participation to include new customer functions which you currently satisfy (e.g. they initially sell a component of a computer system and expand into other system components that you supply)
- They already satisfy customer functions that you satisfy but expand their participation into your customer market from activities in other customer markets (e.g. they initially sell pumps for oil exploration only and then expand into the marine pump business, where you are active)
- They already operate in an ‘upstream’ or ‘downstream’ business (e.g. Texas Instruments entered calculators from its position as a semiconductor manufacturer, while some calculator manufacturers have integrated backwards into the manufacture of semiconductors)
- They enter as a result of ‘unrelated’ diversification.

Taken together, these comments lead to two distinct viewpoints of competition: the *industry point of view* and the *market point of view*.

**The industry perspective of competition**

The industry perception of competition is implicit in the majority of discussions of marketing strategy. Here, an industry is seen to consist of firms offering a product or class of products or services that are close substitutes for one another; a close substitute in these circumstances is seen to be a product for which there is a high cross-elasticity of demand. An example of this would be a dairy product such as butter, where if the price rises a proportion of consumers will switch to margarine. A logical starting point for competitor analysis therefore involves understanding the industry’s competitive

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It is great deal. They are, as one commentator has observed, social statements rather than forms of transport. One consequence of this is that Harley Davidson, at least in the UK, competes only very indirectly with other motorcycle manufacturers. Instead, as Steve Dennis of Harley Street, a dealership specializing in used and customized bikes, puts it: ‘We’re competing against conservatories and swimming pools, not other bikes.’

pattern, since it is this that determines the underlying competitive dynamics. A model of this process appears in Figure 6.6.

From this it can be seen that competitive dynamics are influenced initially by conditions of supply and demand. These in turn determine the industry structure, which then influences industry conduct and, subsequently, industry performance.

Arguably the most significant single element in this model is the structure of the industry itself, and in particular the number of sellers, their relative market shares, and the degree of differentiation that exists between the competing companies and products; this is illustrated in Figure 6.7.

The interrelated issue of the number of sellers and their relative market shares has long been the focus of analysis by economists, who have typically categorized an industry in terms of five types:

1 An absolute monopoly, in which, because of patents, licences, scale economics or some other factor, only one firm provides the product or service
A differentiated oligopoly, where a few firms produce products that are partially differentiated

A pure oligopoly, in which a few firms produce broadly the same commodity

Monopolistic competition, in which the industry has many firms offering a differentiated product or service

Pure competition, in which numerous firms offer broadly the same product or service.

Although industries can at any given time be categorized in these terms, competitive structures do of course change. The rail industry, for example, faced significant competition initially from bus companies such as National Express coaches, and then subsequently from Stagecoach and First Group after deregulation within the industry in 1980, and was forced into making a series of changes to its marketing strategy, which have continued following the privatized break-up of BR. Equally, patterns of competition in many other industries, such as cars, consumer electronics and white goods, have changed dramatically in a relatively short period as the result of the growth of import penetration. In the case of white goods such as refrigerators, washing machines, tumble dryers and freezers, for example, the domestically-based manufacturers such as Hoover and Hotpoint found themselves in the 1970s facing new, aggressive and often price-based competition from, among others, Zanussi, Indesit, Electrolux and Candy. The issue that then needs to be faced is how best the challenged company can respond.

Although a substantial increase in levels of import penetration are in many ways the most conspicuous causes of a change in competitive structures, a series of other factors exist that can have equally dramatic implications for the nature and bases of competition. These include:

- Changes within the distribution channels – the emergence of very powerful retail chains such as Tesco and Sainsbury with groceries, B&Q in the DIY (do-it-yourself) sector, PC World with computers, and Toys ‘R’ Us with toys – has led to a significant shift in the balance of power between manufacturers and retailers, with the retailers

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**Figure 6.7** Five industry structure types

<table>
<thead>
<tr>
<th>Number of sellers</th>
<th>Differentiated product</th>
<th>Undifferentiated product</th>
</tr>
</thead>
<tbody>
<tr>
<td>One</td>
<td>1 Pure monopoly</td>
<td></td>
</tr>
<tr>
<td>Few</td>
<td>2 Differentiated oligopoly</td>
<td>3 Pure oligopoly</td>
</tr>
<tr>
<td>Many</td>
<td>4 Monopolistic competition</td>
<td>5 Pure competition</td>
</tr>
</tbody>
</table>
adopting an ever more proactive stance regarding product acceptance, new product
development, price points, promotional activity and advertising support

- Changes in the supplier base
- Legislation
- The emergence of new technology.

The market perspective of competition

As an alternative to the industry perspective of competition, which takes as its starting
point companies making the same product or offering the same service, we can focus on
companies that try to satisfy the same customer needs or that serve the same customer
groups. Theodore Levitt has long been a strong advocate of this perspective and it was this
which was at the heart of his classic article ‘Marketing Myopia’. In this article, Levitt
(1960), pointed to a series of examples of organizations that had failed to recognize how
actual and potential customers viewed the product or service being offered. Thus, in the
case of railways, the railway companies concentrated on competing with one another and
in doing this failed to recognize that, because customers were looking for transport, they
compared the railways with planes, buses and cars. The essence of the market perspective
of competition therefore involves giving full recognition to the broader range of products
or services that are capable of satisfying customers’ needs. This should, in turn, lead to the
marketing strategist identifying a broader set of actual and potential competitors, and
adopting a more effective approach to long-run market planning (see Illustration 6.2).

Illustration 6.2 Substitutes for aluminium

The need to have a clear understanding of who exactly your competitors are and the
nature of their strengths and weaknesses is illustrated below. In this we list some of the
alternatives to aluminium. Although not all of the materials listed in the left-hand column
are alternatives in each and every situation in which aluminium is used, the table goes
some way towards illustrating how an overly narrow competitive perspective could well
lead to an organization being taken by surprise as customers switch to the alternatives.

<table>
<thead>
<tr>
<th>Material</th>
<th>Advantages</th>
<th>Drawbacks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mild steel</td>
<td>Very cheap</td>
<td>Weight</td>
</tr>
<tr>
<td></td>
<td>Widely available</td>
<td>Rust easily</td>
</tr>
<tr>
<td>Low-chrome ferritic stainless steel</td>
<td>Similar price</td>
<td>Weight</td>
</tr>
<tr>
<td></td>
<td>Widely available</td>
<td>Rusts in sea water</td>
</tr>
<tr>
<td>Titanium</td>
<td>Strength (especially at temperature)</td>
<td>Cost</td>
</tr>
<tr>
<td></td>
<td>Corrosion resistance</td>
<td>Processing (not easily extrudable)</td>
</tr>
</tbody>
</table>
6.4 Identifying and evaluating competitors’ strengths and weaknesses

By this stage it should be apparent that the identification and evaluation of competitors’ strengths, weaknesses and capabilities is at the very heart of a well-developed competitive strategy. The marketing planner should, as a first step, therefore concentrate upon collecting information under a number of headings as a prelude to a full comparative assessment. These include:

- Sales
- Market share
- Cost and profit levels, and how they appear to be changing over time
- Cash flows
- Return on investment
- Investment patterns
- Production processes
- Levels of capacity utilization
- Organizational culture
- Products and the product portfolio
- Product quality
- The size and pattern of the customer base
- The levels of brand loyalty
- Dealers and distribution channels
The signs of competitive strength in a company’s position are likely to be:

- Important core competences
- Strong market share (or a leading market share)
- A pace-setting or distinctive strategy
- Growing customer base and customer loyalty
- Above-average market visibility
- Being in a favourably situated strategic group
- Concentrating on fastest-growing market segments
- Strongly differentiated products
- Cost advantages
- Above-average profit margins
- Above-average technological and innovational capability
- A creative, entrepreneurially alert management
- In a position to capitalize on opportunities.

Obtaining this sort of information typically proves to be more difficult in some instances than in others. Industrial markets, for example, rarely have the same wealth of published data that is commonly available in consumer markets. This, however, should not be used as an excuse for not collecting the information, but rather emphasizes the need for a clearly developed competitive information system that channels information under a wide variety of headings to a central point. This information needs to be analysed and disseminated as a prelude to being fed into the strategy process.

The sources of this information will obviously vary from industry to industry, but will include most frequently the sales force, trade shows, industry experts, the trade press, distributors, suppliers and, perhaps most importantly, customers. Customer information can be gained in several ways, although periodically a firm may find it of value to conduct primary research among customers, suppliers and distributors to arrive at a profile of competitors within the market. An example of this appears in Figure 6.8, where current and potential buyers have been asked to rate the organization and its four major competitors on a series of attributes. A similar exercise can then be conducted among suppliers and distributors in order to build up a more detailed picture.
A variation on this approach is shown in Figures 6.9 and 6.10. In the first of these, a list of characteristics that can be associated with success in the sector in question has been identified and each main competitor (including ourselves – ABC Co) has been evaluated on each of the characteristics. From the total scores it appears that

### Significant buying factors

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Our company</th>
<th>Competitors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Products</td>
<td>Good</td>
<td>Exc</td>
</tr>
<tr>
<td>Product design</td>
<td>Good</td>
<td>Exc</td>
</tr>
<tr>
<td>Product quality</td>
<td>Good</td>
<td>Good</td>
</tr>
<tr>
<td>Product performance</td>
<td>Fair</td>
<td>Fair</td>
</tr>
<tr>
<td>Breadth of product line</td>
<td>Fair</td>
<td>Fair</td>
</tr>
<tr>
<td>Depth of product line</td>
<td>Fair</td>
<td>Fair</td>
</tr>
<tr>
<td>Reliability</td>
<td>Good</td>
<td>Exc</td>
</tr>
<tr>
<td>Running costs</td>
<td>Fair</td>
<td>Good</td>
</tr>
<tr>
<td><strong>Promotion and pricing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advertising/sales promotion</td>
<td>Fair</td>
<td>Exc</td>
</tr>
<tr>
<td>Image and reputation</td>
<td>Fair</td>
<td>Exc</td>
</tr>
<tr>
<td>Product literature</td>
<td>Poor</td>
<td>Exc</td>
</tr>
<tr>
<td>Price</td>
<td>Equal</td>
<td>Fair</td>
</tr>
<tr>
<td><strong>Selling and distribution</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales force calibre</td>
<td>Fair</td>
<td>Good</td>
</tr>
<tr>
<td>Sales force experience/knowledge</td>
<td>Good</td>
<td>Good</td>
</tr>
<tr>
<td>Geographical coverage</td>
<td>Fair</td>
<td>Exc</td>
</tr>
<tr>
<td>Service</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer service levels</td>
<td>Fair</td>
<td>Exc</td>
</tr>
<tr>
<td>Performance against promise</td>
<td>Fair</td>
<td>Exc</td>
</tr>
</tbody>
</table>

The classification of factors from excellent (Exc) to poor should be determined by marketing intelligence, including studies of the perceptions of current and potential buyers, as well as those of suppliers and distributors.

**Figure 6.8** The comparative assessment of competitors

A variation on this approach is shown in Figures 6.9 and 6.10. In the first of these, a list of characteristics that can be associated with success in the sector in question has been identified and each main competitor (including ourselves – ABC Co) has been evaluated on each of the characteristics. From the total scores it appears that

### Key success factor/strength measure

<table>
<thead>
<tr>
<th>Key success factor/strength measure</th>
<th>ABC Co</th>
<th>Rival 1</th>
<th>Rival 2</th>
<th>Rival 3</th>
<th>Rival 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality/product performance</td>
<td>8</td>
<td>5</td>
<td>10</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Reputation/image</td>
<td>8</td>
<td>7</td>
<td>10</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Raw material access/cost</td>
<td>2</td>
<td>10</td>
<td>4</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Technological skills</td>
<td>10</td>
<td>1</td>
<td>7</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Advertising effectiveness</td>
<td>9</td>
<td>4</td>
<td>10</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Distribution</td>
<td>9</td>
<td>4</td>
<td>10</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Financial strength</td>
<td>5</td>
<td>10</td>
<td>7</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Relative cost position</td>
<td>5</td>
<td>10</td>
<td>3</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Ability to compete on price</td>
<td>5</td>
<td>7</td>
<td>10</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Unweighted overall strength rating</td>
<td>61</td>
<td>58</td>
<td>71</td>
<td>25</td>
<td>32</td>
</tr>
</tbody>
</table>

Rating scale: 1 = Very weak; 10 = Very strong

**Figure 6.9** Unweighted competitive strength assessment
Rival 2 is the strongest competitor, with Rival 1 being only marginally weaker than ABC Co. However, while the relative strengths of each competing enterprise are clearly visible in Figure 6.9, there is no indication of the relative importance of each of the key success factors. For example, it may be that relative cost position and ability to compete on price are the most important factors for competitive success within this sector, with technological skills, advertising effectiveness and distribution being relatively unimportant. These priorities can be indicated by weights, as in Figure 6.10. From this it is now evident that Rival 1 is the market leader, followed by Rival 2, which is ahead of ABC Co. These profiles indicate quite clearly the relative importance of key success factors and the relative strength of each competitor on each of those factors.

**Competitive product portfolios**

In many cases, one of the most useful methods of gaining an insight into a competitor’s strengths, weaknesses and general level of capability is by means of portfolio analysis. The techniques of portfolios analysis, which include the Boston Consulting Group matrix, are by now well developed and are discussed in detail in Chapter 9. It might therefore be of value at this stage to turn to pp. 367–70 in order to understand more fully the comments below.

Having plotted each major competitor’s portfolio, the marketing strategist needs to consider a series of questions:

1 What degree of internal balance exists within each portfolio? Which competitors, for example, appear to have few, if any, ‘cash cows’ but a surfeit of ‘question marks’ or
‘dogs’? Which of the competitors appears to have one or more promising ‘stars’ that might in the future pose a threat?

2 What are the likely cash flow implications for each competitor’s portfolio? Does it appear likely, for example, that they will be vulnerable in the near future because of the cash demands of a disproportionate number of ‘question marks’ and ‘stars’?

3 What trends are apparent in each portfolio? A tentative answer to this question can be arrived at by plotting the equivalent growth-share display for a period three to five years earlier, and superimposing on this the current chart. A third display that reflects the likely development of the portfolio over the next few years, assuming present policies are maintained, can in turn be superimposed on this to show the direction and rate of travel of each product or strategic business unit (SBU).

4 Which competitors’ products look suited for growth and which for harvesting? What are the implications for us and in what ways might we possibly pre-empt any competitive actions?

5 Which competitor appears to be the most vulnerable to an attack? Which competitor looks likely to pose the greatest threat in the future?

In plotting a competitor’s portfolio the marketing strategist is quite obviously searching for areas of weakness that subsequently can be exploited. A number of the factors that contribute to vulnerability are identified in Illustration 6.3.

Illustration 6.3 What makes a competitor vulnerable?

A knowledge of a competitor’s weaknesses can often be used to great effect by an astute marketing strategist. Amongst the factors that make a competitor vulnerable are:

Financial factors
- Cash flow problems
- Under funding
- Low margins
- High-cost operations and/or distribution.

Market and performance-related factors
- Slow/poor growth
- An overdependence on one market
- An overdependence on one or a small number of customers

Product-related factors
- Strength in declining market sectors
- Little presence in growing and high margin markets
- Low market share
- Distribution weaknesses
- Weak segmentation of the market
- Poor/confused and/or unsustainable positioning
- A weak reputation and/or poorly defined image.
- Outdated products and a failure to innovate
- Product weaknesses
- Weak or non-existent selling propositions.
At this point it is perhaps worth uttering a word of caution. The marketing strategist should not of course limit competitive analysis just to a series of marketing factors, but should also focus upon other areas, including financial and production measures. In this way it is possible to identify far more clearly which competitors within the industry are relatively weak and might therefore be vulnerable to a price attack or a takeover. Equally, it can identify which competitors within the industry should, by virtue of their financial strength or production flexibility, be avoided.

6.5 Evaluating competitive relationships and analysing how organizations compete

In essence, five types of relationship can develop between an organization and its competitors:

1 Conflict, where the firm sets out to destroy, damage or force the competitor out of the market.
2 Competition, where two or more firms are trying to achieve the same goals and penetrate the same markets with broadly similar product offers.
3 Coexistence, where the various players act largely independently of others in the market. This may in turn be due to the marketing planner being unaware of the competition; recognizing them but choosing to ignore them; or behaving on the basis that each firm has certain territorial rights that, tacitly, each player agrees not to infringe.
4 Cooperation, where one or more firms work together to achieve interdependent goals. Typically, this is done on the basis of exchanging information, licensing arrangements, joint ventures and through trade associations.
5 Collusion, which, although typically illegal, has as its purpose that of damaging another organization or, more frequently, ensuring that profit margins and the status quo are maintained.

Given this, any analysis of how firms compete falls into four parts:

1 What is each competitor’s current strategy?
2 How are competitors performing?
3 What are their strengths and weaknesses?
4 What can we expect from each competitor in the future?

However, before moving on to the detail of these four areas, the strategist should spend time identifying what is already known about each competitor. There are numerous examples of companies that have collected information on competitors only to find out at a later stage that this knowledge already existed within the organization but that, for one reason or another, it had not been analysed or disseminated. In commenting on this, Davidson (1987a, p. 133) has suggested that:

“Recorded data tends not to be analysed over time, and often fails to cross functional barriers. Observable data is typically recorded on a haphazard basis, with little evaluation. Opportunistic data is not always actively sought or disseminated.”

This failure to collect, disseminate or make full use of competitive information is, for the majority of organizations, a perennial problem and often leads to the same information being collected more than once. It is, however, an issue that we discuss in greater detail at a later stage, and at this point we will therefore do no more than draw attention to it.

In attempting to arrive at a detailed understanding of competitive relationships, it is essential that each competitor is analysed separately, since any general analysis provides the strategist with only a partial understanding of competitors, and tells little either about potential threats that might emerge or opportunities that can be exploited. It is worth remembering, however, that what competitors have done in the past can often provide a strong indication of what they will do in the future. This is particularly the case when previous strategies have been conspicuously successful. Companies such as Mars, for example, have traditionally pursued an objective of market leadership, while the Japanese are often willing to accept long payback periods. Recognition of points such as these should then be used to guide the ways in which strategy is developed.

Other factors that need to be borne in mind include:

- Patterns of investment in plant
- Links with other competitors
- Patterns of advertising expenditure
- Relative cost positions
- Major changes in the senior management structure, but particularly the appointment of a new chief executive who might act as an agent for change.

**Identifying strategic groups**

In the majority of industries competitors can be categorized, at least initially, on the basis of the similarities and differences that exist in the strategies being pursued. The strategist can then begin to construct a picture of the market showing the strategic groups that exist; for our purposes here, a strategic group can be seen to consist of those
firms within the market that are following a broadly similar strategy. An example of how strategic groupings can be identified is illustrated in Figure 6.11.

Having identified strategic groups in this way, the strategist then needs to identify the relative position and strength of each competitor. This can be done in one of several ways, including the categorizing of firms on the basis of whether their position within the market overall and within the strategic group is dominant, strong, favourable, tenable, weak or non-viable. Having done this, the strategist needs to consider the bases of any competitive advantages that exist; this is illustrated in Figure 6.12.

The experiences of many companies suggest that the easiest starting point from which to improve an organization’s competitive position is Level 3, since this can often be achieved by good management. One example of a company that did this with considerable success was Beecham with its Lucozade brand, which it repositioned over a number of years in order to take advantage of a growing market for energy drinks.

There are several points that emerge from identifying strategic groups in this way. The first is that the height of the barriers to entry and exit can vary significantly from one group to another. The second is that the choice of a strategic group determines which companies are to be the firm’s principal competitors. Recognizing this, a new entrant would then have to develop a series of competitive advantages to overcome, or at least to neutralize, the competitive advantages of others in the group.

There is, of course, competition not just within strategic groups but also between them, since not only will target markets develop or contract over time and hence prove to be either more or less attractive to other firms, but customers might not fully recognize major differences in the offers of each group. One consequence of this is that there

**Figure 6.11** Strategic groups in the construction industry
is likely to be a degree of comparison buying across groups, something which again argues the case for the marketing strategist to adopt a market, rather than an industry, perspective of competition.

Although in Figure 6.11 we have made use of just two dimensions in plotting strategic groupings, a variety of other factors can typically be expected to be used to differentiate between companies and to help in the process of identifying group membership. A summary of these characteristics appears in Figure 6.13.

The particular relevance to any given industry of these characteristics is in practice influenced by several factors, the most significant of which are the history and development of the industry, the types of environmental forces at work, the nature

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**Figure 6.12** The five types of competitive status and the implications for competitive advantage (adapted from Davidson, 1987a)

<table>
<thead>
<tr>
<th>Level</th>
<th>Competitive status</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>One or more sizeable advantages</td>
<td>Honda, Sony, Seiko, Coca-Cola and Microsoft</td>
</tr>
<tr>
<td>2</td>
<td>A series of small advantages that combine to form one large advantage</td>
<td>McDonald’s</td>
</tr>
<tr>
<td>3</td>
<td>Advantages exist but these are either not recognized or not exploited fully</td>
<td>Petrol retailers, estate agents and high street banks</td>
</tr>
<tr>
<td>4</td>
<td>No obvious or sustainable competitive advantages</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Competitive disadvantages because of the organization’s limited size, inflexibility, inefficient manufacturing practices, distribution networks, cost structures, culture, lack of skills, or poor image</td>
<td>Eastern European car manufacturers before the expansion of the E.U.</td>
</tr>
</tbody>
</table>

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**Figure 6.13** Some characteristics for identifying strategic groups (adapted from Johnson and Scholes, 1988)
of the competitive activities of the various firms, and so on. It should be evident from this that each company does therefore have a different strategic make-up that needs to be profiled separately. Often, however, a strategy proves difficult to describe since it encompasses so many different dimensions, but Abell and Hammond (1979, p. 53) have outlined a useful framework for thinking about the strategic decision process:

- How does the competitor define the business in terms of customer groups, customer functions and technologies, and how vertically integrated is this competitor? And at a lower level of aggregation, how is the competitor segmenting the market and which segments are being pursued?
- What mission does this business have in its overall portfolio of businesses? Is it being managed for sales growth, market share, net profit, ROI or cash? What goals does it appear to have for each major segment of the business?
- What is the competitor’s marketing mix, manufacturing policy, R&D policy, purchasing policy, physical distribution policy, etc.?
- What size are its budgets and how are they allocated?

In so far as it is possible to generalize, it is the third of these areas in which marketing managers find it most easy to collect information. This should not, however, be seen as a reason for ignoring the other three areas, since it is here that insights into what really drives the competition can best be gained.

This leads us to a position in which we are able to begin to construct a detailed list of the areas in which we need to collect competitive information. In the case of each competitor’s current performance, this list includes sales, growth rates and patterns, market share, profit, profitability (return on investment), margins, net income, investment patterns and cash flow. Other areas to which attention needs to be paid include the identification of the importance of each market sector in which the competitor is operating, since this allows the marketing strategist to probe the areas of weakness or least concern at the minimum of risk.

The character of competition

The final area that we need to consider when examining how firms compete is what can loosely be termed ‘the character of competition’. Because competition within a market is influenced to a very high degree by the nature of customer behaviour, the character of competition not only takes many forms, but is also likely to change over time. One fairly common way of examining the character of competition is therefore by means of an analysis of the changes taking place in the composition of *value added* by different firms. (The term ‘value added’ is used to describe the amount by which selling prices are greater than the cost of providing the bought out goods or services embodied in market offerings.) An analysis of changes in the value-added component can therefore give the strategist an understanding of the relative importance of such factors as
product and process development, selling, after-sales service, price, and so on, as the product moves through the life cycle. See Figure 6.14 for an example of this for a hypothetical product.

The marketing planner can also arrive at a measure of the character of competition by considering the extent to which each competitor develops new total industry demand (primary demand) or quite simply competes with others for a share of existing demand (selective demand). When a competitor’s objective is the stimulation of primary demand, it is likely that efforts will focus upon identifying and developing new market segments. Conversely, when a competitor concentrates upon stimulating selective demand, the focus shifts to an attempt to satisfy existing customers more effectively than other companies. The obvious consequence of this is that the intensity of competition on a day-to-day basis is likely to increase significantly.

6.6 Identifying competitors’ objectives

Having identified the organization’s principal competitors and their strategies, we need then to focus upon each competitor’s objectives. In other words, what drives each competitor’s behaviour? A starting point in arriving at an answer to this is to assume that

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**Figure 6.14** A comparison of the value-added components across the product life cycle (adapted from Abell and Hammond, 1979)
each competitor will aim for profit maximization either in the short term or the long term. In practice, of course, maximization is an unrealistic objective, which for a wide variety of reasons many companies are willing to sacrifice. A further assumption can be made – that each competitor has a variety of objectives, each of which has a different weight. These objectives might typically include cash flow, technological leadership, market share growth, service leadership or overall market leadership. Gaining an insight into this mix of objectives allows the strategist to arrive at tentative conclusions regarding how a competitor will respond to a competitive thrust. A firm pursuing market share growth is likely to react far more quickly and aggressively to a price cut or to a substantial increase in advertising than a firm that is aiming for, say, technological leadership.

In a general sense, however, company objectives (as pointed out in Chapter 7) are influenced by a wide variety of factors, but particularly the organization’s size, history, culture and the breadth of the operating base. Where, for example, a company is part of a larger organization, a competitive thrust always runs the risk of leading to retaliation by the parent company on what might appear to be a disproportionate scale. Conversely, the parent company may see an attack on one of its divisions as being a nuisance but little more, and not bother to respond in anything other than a cursory fashion. This has been discussed in some detail by Rothschild (1989), who argues that the potentially most dangerous competitive move involves attacking a global company for which this is the only business.

It follows that the marketing strategist should give explicit consideration to the relative importance of each market to a competitor in order to understand the probable level of commitment that exists. By doing this, it is possible to estimate the level of effort that each competitor would then logically make in order to defend its position. Several factors are likely to influence this level of commitment, the five most important of which are likely to be:

1. The proportion of company profits that this market sector generates
2. The managerial perceptions of the market’s growth opportunities
3. The levels of profitability that exist currently and that are expected to exist in the future
4. Any interrelationships between this and any other product or market sector in which the organization operates
5. Managerial cultures – in some companies, for example, any threat will be responded to aggressively almost irrespective of whether it is cost-effective.

As a general rule of thumb, therefore, competitive retaliation will be strong whenever the company feels its core business is being attacked. Recognizing this, the marketing planner should concentrate on avoiding areas that are likely to lead to this sort of response, unless of course the target has a strong strategic rationale. This sort of issue is discussed in detail in Chapter 11.
6.7 Identifying competitors’ likely response profiles

Although a knowledge of a competitor’s size, objectives and capability (strengths and weaknesses) can provide the strategist with a reasonable understanding of possible responses to company moves such as price cuts, the launch of new products and so on, other factors need to be examined. One of the most important of these is the organization’s culture, since it is this that ultimately determines how the firm will do business and hence how it will act in the future.

The issue of how a competitor is likely to behave in the future has two components. Firstly, how is a competitor likely to respond to the general changes taking place in the external environment and, in particular, in the marketplace? Secondly, how is that competitor likely to respond to specific competitive moves that we, or indeed any other company, might make? For some companies at least, there is also a third question that needs to be considered: how likely is it that the competitor will initiate an aggressive move, and what form might this move be most likely to take? In posing questions such as these we are trying to determine where each competitive company is the most vulnerable, where it is the strongest, where the most appropriate battleground is likely to be and how, if at all, it will respond. In doing this, a potential starting point involves identifying each competitor’s most probable reaction profile, the four most common of which are:

1 *The relaxed competitor*, who either fails to react or reacts only slowly to competitive moves. There are several possible reasons for this, the most common of which are that the management team believes that their customers are deeply loyal and are therefore unlikely to respond to a (better) competitive offer; they may fail to see the competitor’s move or underestimate its significance; they may not have the resources to respond; the market might be of little real importance; or the focus may be upon harvesting the business. However, whatever the reason, the marketing strategies must try to understand why the competitor is taking such a relaxed approach.

2 *The tiger competitor*, who responds quickly and aggressively almost regardless of the nature and significance of any competitive move. Over time, firms such as this develop a reputation for their aggression and in this way create Fear, Uncertainty and Despair (FUD marketing) amongst other players in the market.

3 *The selective competitor*, who chooses carefully – and often very strategically – how, where and with what level of aggression they will respond to any competitive move. Such an approach is generally based not just on a clear understanding of the relative value of the organization’s markets, but also on the costs of responding and the likelihood of the response proving to be cost-effective.

4 *The unpredictable competitor*, for whom it proves difficult or impossible to identify in advance how – or, indeed, if – they will respond to any particular move. The unpredictability of competitors such as this comes from the way in which in the past they may have responded aggressively on one occasion, but not at all on another when faced with what appears to be a broadly similar attack.
This general theme has, in turn, been developed by Bruce Henderson (1982) of the Boston Consulting Group who, in discussing competition, argues that much depends on the competitive equilibrium. Henderson’s comments on this have been summarized by Kotler (1997, pp. 239–40) in the following way:

1. If competitors are nearly identical and make their living in the same way, then their competitive equilibrium is unstable.

2. If a single major factor is the critical factor, then competitive equilibrium is unstable. This would describe industries where cost differentiation opportunities exist through economies of scale, advanced technology, experience curve learning, etc. In such industries, any company that achieves a cost breakthrough can cut its price and win market share at the expense of other firms that can only defend their market shares at great cost. Price wars frequently break out in these industries as a function of cost breakthroughs.

3. If multiple factors may be critical factors, then it is possible for each competitor to have some advantage and be differentially attractive to some customers. The more the multiple factors that may provide an advantage, the more the number of competitors who can coexist. Each competitor has its competitive segment defined by the preference for the factor trade-offs that it offers. This would describe industries where many opportunities exist for differentiating quality, service, convenience and so on. If customers also place different values on these factors, then many firms can coexist through niching.

4. The fewer the number of competitive variables that are critical, the fewer the number of competitors. If only one factor is critical, then no more than two or three competitors are likely to coexist. Conversely, the larger the number of competitive variables, the larger the number of competitors, but each is likely to be smaller in its absolute size.

5. A ratio of 2:1 in market share between any two competitors seems to be the equilibrium point at which it is neither practical nor advantageous for either competitor to increase or decrease share.

The significance of costs

In attempting to come to terms with the structure of competition, the marketing planner should also take account of cost structures and cost behaviour. Cost structure is usually defined as the ratio of variable to fixed costs and is typically capable of exerting a significant influence upon competitive behaviour. In businesses where, for example, the fixed costs are high, profits are sensitive to volume. Companies are therefore forced to behave in such a way that plants operate as near to full capacity as possible. An example of this would be aluminium smelting. Where demand is price sensitive, the industry is likely to be characterized by periodic bouts of aggressive price wars. Where, however, it is the case that variable costs are high, profits are influenced far more directly by changes in margins. Recognizing this, the marketing strategist needs to
focus upon differentiating the product in such a way that prices and hence margins can be increased.

The second cost dimension is that of its behaviour over time and, in particular, how the organization can make use of learning and experience effects, as well as scale effects.

The influence of the product life cycle

Competitive behaviour is typically affected in several ways by the stage reached on the product life cycle (PLC). Although the PLC (see Chapter 11) is seen principally as a model of product and market evolution, it can also be used as a framework for examining probable competitive behaviour. Used in this way, it can help the strategist to anticipate changes in the character of competition. In the early stages of the life cycle, for example, advertising and promotion are generally high, and prices and margins are able to support this. The natural growth of the market allows firms to avoid competing in an overtly direct way. As maturity approaches and the rate of growth slows, firms are forced into more direct forms of competition, a situation that is in turn exacerbated by the often generally greater number of companies operating within the market. This greater intensity of competition manifests itself in several ways, but most commonly in a series of price reductions. The role of advertising changes as greater emphasis is placed upon the search for differentiation. In the final stages, some firms opt to leave the market, while others engage in perhaps even greater price competition as they fight for a share of a declining sales curve. It follows from this that the PLC is yet one more of the myriad of factors that the marketing strategist needs to consider in coming to terms with competitors.

6.8 Competitor analysis and the development of strategy

Given the nature of our comments so far, how then does the analysis of competitors feed in to the development of a strategy? Only rarely can marketing strategy be based just on the idea of winning and holding customers. The marketing strategist also needs to understand how to win the competitive battle. As the first step in this, as we have argued throughout this chapter, the planner must understand in detail the nature and bases of competition, and what this means for the organization. In the absence of this, any plan or strategy will be built upon very weak foundations. This involves:

- Knowing the strength of each competitor’s position
- Knowing the strength of each competitor’s offering
- Knowing the strength of each competitor’s resources
- Understanding each competitor’s strategy.

Against this background, the planner needs then to think about how this information can best be used. In discussing this, Ohmae (1983) argues for a focus upon four areas; these are illustrated in Figure 6.15.
It can be seen from this that it is through understanding the nature of the market’s key success factors and issues of relative strength and weakness that the planner can start to move towards the development of the sorts of marketing initiatives and degrees of freedom that will underpin the strategy.

6.9 The competitive intelligence system

It should be apparent from everything that has been said in this chapter that the need for an effective competitive intelligence system (CIS) is paramount. In establishing such a system, there are five principal steps:

1. Setting up the system, deciding what information is needed and, very importantly, who will use the outputs from the system and how
2. Collecting the data
3. Analysing and evaluating the data
4. Disseminating the conclusions
5. Incorporating these conclusions into the subsequent strategy and plan, and feeding back the results so that the information system can be developed further.

A framework for developing a CIS is given in Figure 6.16.

The mechanics of an effective CIS are in many ways straightforward and involve:

- Selecting the key competitors to evaluate. However, in deciding who these competitors should be, the planner should never lose sight of the point that we make about the way in which, in many markets, the real competitive threat comes not from the established players but from new and often very unexpected players who operate with different rules.
- Being absolutely clear about what information is needed, how it will be used and by whom.
- Selecting and briefing those responsible for collecting the information.
- Allocating the appropriate level of resource to the collection and evaluation processes.
- Publishing regular tactical and strategic reports on competition.
- Ensuring that the outputs from the process are an integral part of the planning and strategy development processes rather than a series of reports that are rarely used.

The sources of data are, as we observed at an earlier stage, likely to vary significantly from one industry to another. However, a useful framework for data collection involves categorizing information on the basis of whether it is recorded, observed or opportunistic. The major sources of data under each of these headings are shown in Figure 6.17.

With regard to the question of precisely what information is needed, this will of course vary from one industry to another and from one company to another. It is, nevertheless, possible to identify with relative ease the sorts of headings under which information should be gathered; these are identified in Figure 6.18.
Deciding who to attack: coming to terms with ‘good’ and ‘bad’ competitors

Given the sort of information that we refer to above, the strategist should be able to determine far more precisely which competitors are operating in the same strategic group. From here, he or she can then go on to decide far more readily which competitors to attack and when, and the basis on which this should be done. Equally, he or she is also able to decide which competitors are to be avoided. Although these issues are discussed in detail in Chapter 11, there are several points that can usefully be made at this stage.

Assuming that the company is to go on the offensive, the strategist needs to begin by deciding which competitors to attack. In essence, this represents a choice between strong and weak competitors, close and distant competitors, and good and bad competitors.

Although weak competitors are by their very nature the most vulnerable, the potential pay-off needs to be examined carefully. It may be the case, for example, that the share gained, while useful, is of little long-term strategic value, since it takes the company into segments of the market offering little scope for growth. Equally, these segments may require substantial long-term investment. By contrast, competing against strong competitors requires the firm to be far leaner, fitter and more aggressive, a point that has been argued in some considerable detail for more than two decades by Porter, and which was developed further in his book The Competitive Advantage of Nations (Porter, 1990).

The second decision involves deciding between close and distant competitors. We have already commented that the majority of companies compete against those within the strategic group they most resemble. Thus, as we observed earlier, Nestlé’s Nescafé

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**Figure 6.17** The major sources of competitive data (adapted from Davidson, 1987b)

<table>
<thead>
<tr>
<th>Recorded data</th>
<th>Observable data</th>
<th>Opportunistic data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market research</td>
<td>Competitors’ pricing</td>
<td>Raw material suppliers</td>
</tr>
<tr>
<td>Secondary data sources, e.g. Mintel</td>
<td>Promotions</td>
<td>Equipment suppliers</td>
</tr>
<tr>
<td>Business press</td>
<td>Patent applications</td>
<td>Trade shows</td>
</tr>
<tr>
<td>Trade press</td>
<td>Competitive advertising</td>
<td>Customers</td>
</tr>
<tr>
<td>Technical journals</td>
<td>Planning applications</td>
<td>Packaging suppliers</td>
</tr>
<tr>
<td>BRAD (British Rate &amp; Data)</td>
<td>Sales force feedback</td>
<td>Distributors</td>
</tr>
<tr>
<td>Government sector reports, e.g. Monopolies</td>
<td>Competitors’ products and taking them apart to determine costs of production and manufacturing methods</td>
<td>Sub-contractors</td>
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<td>Commission</td>
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<td>Internal newsletters</td>
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<td>Stockbrokers’ reports</td>
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<td>Disgruntled employees</td>
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<tr>
<td>Credit reports</td>
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<td>Poaching competitors’ employees</td>
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<td>Annual reports</td>
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<td>Conferences</td>
</tr>
<tr>
<td>Public documents</td>
<td></td>
<td>Placing advertisements and holding interviews for jobs that do not exist in order to entice competitors’ employees to spill the beans</td>
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<td>Private investigators</td>
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is in direct competition with General Foods’ Maxwell House. The strategist needs, in certain circumstances at least, to beware of destroying these close competitors, since the whole competitive base may then change. In commenting on this, Porter (1985a, pp. 226–7) cites some examples:

- Bausch & Lomb in the late 1970s moved aggressively against other soft lens manufacturers with great success. However, this led one competitor after another to sell
out to larger firms such as Revlon, Johnson & Johnson and Schering-Plough, with the result that Bausch & Lomb now faced much larger competitors.

- A speciality rubber manufacturer attacked another speciality rubber manufacturer as its mortal enemy and took away market share. The damage to the other company allowed the speciality divisions of the large tyre companies to move quickly into speciality rubber markets, using them as a dumping ground for excess capacity.

Porter expands upon this line of argument by distinguishing between ‘good’ and ‘bad’ competitors. A good competitor, he suggests, is one that adheres to the rules, avoids aggressive price moves, favours a healthy industry, makes realistic assumptions about the industry growth prospects, and accepts the general status quo. Bad competitors, by contrast, violate the unspoken and unwritten rules. They engage in unnecessarily aggressive and often foolhardy moves, expand capacity in large steps, slash margins and take significant risks.

The implication of this is that good competitors should work hard to develop an industry that consists only of good companies. Amongst the ways in which this can be done are coalitions, selective retaliation and careful licensing. The pay-off will then be that:

- Competitors will not seek to destroy each other by behaving irrationally
- They will follow the rules of the industry
- Each player will be differentiated in some way
- Companies will try to earn share increases rather than buying them.

It follows from this that a company can benefit in a variety of ways from competitors, since they often generate higher levels of total market demand, increase the degree of differentiation, help spread the costs of market development, and may well serve less attractive segments.

6.10 The development of a competitive stance: the potential for ethical conflict

A key element of any marketing strategy involves the development of a clear, meaningful and sustainable competitive stance that is capable of providing the organization with an edge over its competitors. In doing this, organizations have responded in a variety of ways, ranging from, at one extreme, a series of actions that are both legally and ethically questionable through to, at the other extreme, an approach that discourages or prohibits doing business with particular customer groups. In the case of the Co-operative Bank, for example, their highly publicized competitive stance has been based on an ethical platform that led the bank to stop dealing with customers deemed to be involved in ‘unethical’ activities. This policy, which was formulated in 1992, led in the first year to the bank severing its ties with twelve corporate customers, including two
fox-hunting associations, a peat miner, a company that tested its products on animals, and others where it took the view that the customer was causing unreasonable environmental damage. The bank has also taken a stand against factory farming.

An ethical dimension – albeit one with an element of self-interest – was also at the heart of a strategy developed by British Alcan in 1989 to recycle used beverage cans. With the industry suffering in the late 1980s from problems of overcapacity, the price of aluminium on the world markets had dropped significantly and Alcan, in common with other aluminium producers, began searching for ways in which costs might be reduced. The aluminium recycling process offers a number of advantages, since not only are the capital costs of investing in a recycling operation as little as one-tenth of investing in primary capacity, but recycled aluminium also requires only one-twentieth of the energy costs. An additional benefit is that, unlike steel recycling, the recovery process does not lead to a deterioration in the metal. At the same time, however, the company was acutely aware of a series of environmental pressures and concerns and, in particular, the greater emphasis that was being given both by governments and society at large to the issue of finite world resources and to the question of recycling.

Faced with this, Alcan developed a highly proactive stance that involved the development of an infrastructure that was capable of collecting and recycling aluminium beverage cans. The success of the campaign was subsequently reflected by the way in which, between 1989 and 1994, the UK's recycling rate of aluminium cans, largely as the result of the Alcan initiative, increased from less than 2 per cent to more than 30 per cent.

However, for many other organizations the implications of an increasingly demanding and apparently competitively malevolent environment has led to the search for a competitive stance and a competitive edge almost irrespective of the cost. In doing this, the problem that can then be faced concerns the stage at which the need for managers to deliver seemingly ever higher levels of performance leads to actions that subsequently are deemed to be unacceptable, something which the senior management of British Airways was faced with in the early 1990s (see Illustration 6.4).

**Illustration 6.4 British Airways versus Virgin Atlantic**

At the beginning of the 1990s, British Airways was heavily criticized for its supposed 'dirty tricks' campaign against its far smaller competitor, Virgin Atlantic. Virgin, which had been set up by Richard Branson several years previously, had achieved a number of publicity coups, including no-frills, low-cost flights to the United States and then, spectacularly and under the gaze of the world's media, flying out of Baghdad a planeload of British hostages at the outbreak of hostilities between the western world and Iraq.

Perhaps because of Virgin's small size (it had just eight planes at the time, compared with BA's 250) and Richard Branson's apparently relaxed management style, British Airways had seemingly underestimated the company.
and the threat that it was capable of posing. However, these became apparent when, in 1991, the Civil Aviation Authority recommended that Heathrow Airport be opened up to a larger number of airlines than had previously been the case. For Virgin, which had been flying from Gatwick, the implications were significant and led Branson to suggest not only that he would be able to cut his already low prices by 15 per cent, but that by 1995 he hoped to capture 30 per cent of the transatlantic market.

Faced with this challenge, BA went on to the offensive with a strategy that involved their Helpline team gathering intelligence on Virgin, pursuing a highly proactive public relations campaign that highlighted Virgin’s apparent failings, targeting specific routes and, according to Gregory (*Sunday Times*, 13 March 1994, p. 10), obtaining information on Virgin ‘by extracting it from BA’s own computer reservation system, known as BABS, which it shares with other airlines’. This information was seemingly then used for several purposes, including switch-selling, whereby passengers already booked on to a Virgin flight would be approached and encouraged to switch to BA. The ethical significance of using the reservation system in this way was highlighted by Gregory:

> The confidentiality of the information in that system is vital – so much so that it was enshrined in commitments the company had given to the House of Commons transport committee when the system was set up. As it set about using BABS to capture data about

Virgin, BA knew that it was straying into the twilight zone of sharp practice and anti-competitive behaviour.

As the details of the British Airways approach gradually became public, the company was forced on to the defensive as a series of increasingly unsympathetic and revealing articles appeared in the press. This then came to a head when, in 1993, British Airways was forced into making a humiliating apology in open court to Richard Branson and his company, Virgin Atlantic. Included within this were the words ‘. . . they wish to apologize for having attacked the good faith and integrity of Richard Branson’, that ‘hostile and discreditable stories’ had been placed in the press, and that BA’s approach gave ‘grounds for serious concern about the activities of a number of BA employees . . . and their potential effect on the business interests and reputation of Virgin Atlantic and Richard Branson’ (*Sunday Times*, 27 March 1994, p. 7).

The British Airways/Virgin Atlantic story is an interesting one for several reasons, not least because of the way in which it highlights the position that managers can find themselves in when faced with real or imaginary competition. Whilst an aggressive competitive response in these circumstances is both realistic and to be expected, the danger is that of one or more managers resorting to an approach that subsequently becomes difficult to justify either ethically or legally.

A far more detailed treatment of the British Airways/Virgin Atlantic conflict can be found in Gregory (1994).

**Ethics and market intelligence: the growth of corporate espionage**

With many markets having grown enormously in their complexity in recent years, so the demand for increasingly detailed and effective market intelligence systems has escalated. Although many of the inputs to a market intelligence system can be obtained
through relatively straightforward and conventional market research routines, the much more strategically useful – and indeed more necessary – information on competitors’ intentions, capabilities and strategies can, as we saw in the British Airways example, often only be obtained by radically different approaches. Although the legality of many of these approaches has been called into question, the law, both in Europe and the USA, has in many instances failed to keep pace with the developments that have taken place in information technology and electronic data distribution.

The implication of this is that whilst the techniques used to gain the more confidential forms of competitive information may not in the strictly legal sense be wrong, the ethics of the approach are arguably rather more questionable. The net effect of this is that in many companies the search for a competitive edge has led managers to enter what has been referred to as ‘the twilight zone of corporate intelligence’, in which the traditional boundaries of legal and ethical behaviour are blurred; this is illustrated in Figure 6.19, which represents a continuum of the types of competitive intelligence that are available, their sources and the difficulties of gaining access to them.

For many organizations, much of the market research effort over the past two decades, particularly in Europe, has been concentrated towards the upper part of the continuum. However, as competitive pressures grow, so the need for more and more confidential competitive intelligence increases. One consequence of this in the USA, and now increasingly in Europe, has been a growth in the number of agencies that specialize in obtaining the sorts of competitive information that, whilst increasingly being seen to be necessary, can only be obtained through what might loosely be termed as unconventional methods. Amongst the more extreme of these is what is referred to in the USA as ‘doing trash’, something which involves sifting through competitors’ rubbish bins, using hidden cameras and listening devices, intercepting fax lines, bugging offices and planting misinformation. Although the leading competitive intelligence agencies have been quick to condemn this sort of approach – and indeed several agencies now publish codes of ethics – the ever greater pressures upon managers, particularly in international markets, demand ever more detailed competitive information, little of which may be obtained by adhering to traditional legal and ethical principles.

Because of this, managers are faced with what is possibly a dilemma, since whilst competitive pressures demand the information, traditional and ethical patterns of behaviour argue against the actions that will provide it. In these circumstances managers can respond in one of several ways, ranging from an adherence to truly ethical behaviour (and then living with the competitive consequences) through to a pragmatically straightforward belief that the ends justify the means and that without the information the organization will be at a competitive disadvantage.

**Intelligence gathering and corporate culture**

The work practices of competitive intelligence agencies have highlighted a series of differences between managerial cultures in Europe and the USA, with the general approach of European managers having proved to be far less aggressive and proactive
than that of their American counterparts. A Conference Board report in 1988, for example, suggested that only 50 per cent of British managers view the monitoring of competitors’ activities as ‘very important’. This has, in turn, led to the suggestion by Button (1994, pp. 3–4):

Figure 6.19 Managerial needs for competitive intelligence (adapted from Button, 1994)
that there are two major differences between US and European companies. The culture is different, obviously. But also there is a greater degree of loyalty to the corporation in Europe than in the US. One consequence of this, together with the greater frequency of job-moving in the States, is that the incidence of security leaks is greater and US companies are more vulnerable to the corporate spy.

The differences and implications of the two cultures have also been highlighted by McGonagle and Vella (1993), who have suggested that the ethics of senior UK managers make them reluctant to engage in ‘shady practices or covert operations’. By contrast, corporate intelligence agencies and their clients in the USA, whilst often stressing the ethical and legal standards to which they adhere, are rarely willing to discuss in detail the techniques they adopt (Button, 1994, p. 9):

Although ‘data detectives’ don’t necessarily lie, they tend not to tell the whole truth either. On the telephone, they regularly identify themselves as industry researchers, without disclosing their affiliation to a specific client. By focusing their introduction on the type of information they need rather than who they are and why they need it, plus an upfront statement that they are not interested in anything confidential or proprietary, interviewees are lulled into a false sense of security. Industry jargon is used with care so as not to appear overly knowledgeable and questions are carefully phrased to avoid suspicion. Ask an interviewee about their employer’s weaknesses and they are liable to clam up. But when the victim is protected by their visual anonymity and physical distance from the caller, a question such as ‘If you had a magic wand, which three things would you change about your manufacturing/distribution/pricing policy?’ often produces the same information, without raising the alarm.

The significance of industrial espionage and the possible scale of the problem has been highlighted by a series of studies, one of the most useful being that of Johnson and Pound (1992), who found that 40 per cent of large US and Canadian firms had uncovered some form of espionage costing some $20 billion annually. The problems proved to be at their most acute in the high-technology industries, where the commercial returns between the leaders and the followers are potentially considerable. Hitachi, for example, pleaded guilty to obtaining confidential documents from IBM dealing with one of its computer systems. However, Berkowitz et al. (1994, p. 97) also cite the example of espionage occurring in other less esoteric industries, including the American cookie market, with Procter & Gamble claiming that ‘competitors photographed its plants and production lines, stole a sample of its cookie dough, and infiltrated a confidential sales presentation to learn about its technology, recipe and marketing plan’. Procter & Gamble took action against the competitor and won $120 million in damages.

In an attempt to overcome the criticisms that have been made of industry practices, a number of competitive intelligence (CI) agencies have published ethics statements that emphasize that they will not lie, bribe or steal in the information gathering process. However, with levels of competition increasing at an ever greater rate, the pressures upon managers, and hence the CI agencies they employ, will invariably become greater.
These problems have in turn been highlighted by a series of newspaper revelations concerning the ways in which a number of governmental security services have been involved in commercial espionage for many years. In the case of the old Iron Curtain countries, for example, many of the security agencies, having lost much of their previous role, have now turned their attention to the commercial sector.

A high profile – and highly embarrassing – example of corporate espionage came to light in 2000 when Harry Ellison, the chief executive of Oracle, was found to have hired a private detective agency to spy on corporate supporters of Microsoft. Amongst the approaches used by the agency was the bribing of cleaning staff at one of the target organizations, something that some corporate detectives suggest is an unnecessary expense – in many cases employees further down the corporate ladder can be coerced into parting with secrets simply because they do not understand the value of the information.

Sifting through a rival’s rubbish bins has been used by numerous firms and is helped by the way in which, in Britain at least, information is not regarded as property under UK theft law. Although the law may change, under the current system, if a person can prove they will return the discarded paper to the local council – the legal owner of the rubbish – they cannot be charged.

For many firms, however, there is a more fundamental problem that has been highlighted by the Risk Advisory Group, a London-based specialist investigation agency. Their research suggests that some 80 per cent of all leaked company secrets can be traced to senior management, who are either aggrieved because they may have been overlooked for promotion, are preparing to set up on their own, or have found someone prepared to pay a large sum for the information. This is more likely in industries such as construction and oil and gas, where large contracts are at stake and where a relatively small piece of intelligence can boost a company’s chances of winning a multi-million pound tender.

6.11 Summary

Within this chapter we have emphasized the need for constant competitor analysis and for the information generated to be fed into the strategic marketing planning process.

Although the need for competitor analysis has long been acknowledged, a substantial number of organizations still seemingly fail to allocate to the process the resources that are needed, relying instead upon a far less detailed understanding of competitive capabilities and priorities. It does therefore need to be recognized that, if an effective system of competitive monitoring is to be developed, and the results used in the way intended, it is essential that there is top management commitment to the process.

In developing a structured approach to competitive analysis, the strategist needs to give explicit consideration to five questions:

1. Against whom are we competing?
2. What are their objectives?
3 What strategies are they pursuing and how successful are they?
4 What strengths and weaknesses do they possess?
5 How are they likely to behave and, in particular, how are they likely to react to offensive moves?

Taken together, the answers to these five questions can be used to develop a detailed response profile for each competitive organization, and the probable implications for competitive behaviour fed into the planning process.

Several methods of categorizing competitors have been discussed, including Porter’s notion of strategic groups. We then examined the ways in which these ideas can be taken a step further by focusing upon the character of competition and how this is likely to change over the course of the product life cycle.

Particular emphasis was given to the need for the strategist to take account of each competitor’s probable objectives, its competitive stance, and the relative importance of each market sector. Again, a variety of frameworks that can help in this process of understanding have been discussed, including portfolio analysis.

Against this background, we discussed the ways in which an effective competitive intelligence system (CIS) might be developed and the nature of the inputs that are required. Much of the information needed for such a system is often readily available, and emphasis therefore needs to be placed upon developing a framework which will ensure that this information is channelled, analysed and disseminated in the strategically most useful way.
Introduction

Stage One
Where are we now?
Strategic and marketing analysis
- Marketing auditing and the analysis of capability
- Segmental, productivity and ratio analysis
- Market and environmental analysis
- Approaches to customer analysis
- Approaches to competitor analysis

Stage Two
Where do we want to be?
Strategic direction and strategic formulation
- Missions and objectives
- Market segmentation, targeting and positioning
- The formulation of strategy - 1
- The formulation of strategy - 2
- The formulation of strategy - 3

Stage Three
How might we get there?
Strategic choice
- The strategic management of the marketing mix
- Criteria of choice
- Modelling approaches - 1
- Modelling approaches - 2

Stage Four
Which way is best?
Strategic evaluation
- Problems to overcome
- Management control - 1
- Management control - 2
Stage Two: Where do we want to be? Strategic direction and strategy formulation

Within this stage we focus on where the organization wants to go. In doing this we take as our foundation the material of Stage One, in which we examined where the organization is currently, the characteristics of its markets and the nature of its marketing capability.

We begin by considering the organizational mission and the nature of marketing objectives (Chapter 7). We then turn to an examination of the approaches that might be adopted when segmenting the market (Chapter 8). In Chapter 9 we examine a number of the models that have been developed to help in the process of strategy formulation, as a prelude – in Chapter 10 – to a discussion of the factors that influence the nature of the strategy to be pursued.

Mission statements have been the subject of considerable discussion in recent years, with the majority of commentators pointing to their potential for providing employees with a clear understanding of core corporate values. Although many organizations still lack a mission statement, while others have statements that reflect a degree of wishful thinking rather than reality, the guidelines for developing a meaningful corporate mission are now well developed. The significance of the mission statement can be further highlighted by recognizing that it is against the background of the mission statement that the strategist should set objectives at both the corporate and functional levels (in the case of marketing, these objectives revolve around two major dimensions: products and markets). It follows from this that a poorly developed mission statement is likely to have consequences for the nature and appropriateness of any subsequent objectives.

Following on from the discussion of mission statements, we turn our attention to the idea of vision and how the vision or picture of how the organization should look in three to five years’ time helps to drive objectives and the marketing planning process.

As well as being influenced by the corporate mission, organizational objectives are typically influenced by a wide variety of other factors, including the nature and demands of the environment. The marketing strategist typically analyses the environment within the PEST (Political, Economic, Social and Technological) framework, the individual elements of which are – in the majority of markets – undergoing a series of significant and often unprecedented changes, each of which needs to be taken into account both when setting objectives and formulating strategies. It might therefore be of value to return to Chapter 4, to the discussion of some of the key changes that are taking place within the marketing environment, before proceeding.

The changing environment also has consequences for methods of segmentation. Effective segmentation is at the heart of a well-developed marketing strategy, and has implications for virtually everything else that follows in the strategy-making process. It is therefore a source of concern that work by a variety of writers (e.g. Saunders, 1987) has highlighted the fact that senior managers in many British organizations seemingly fail to recognize this, and pay little or no attention either to the need for segmentation or to the ways in which it can be carried out most effectively.
The strategic significance of segmentation is reinforced by the way in which decisions on how the organization’s markets are to be segmented subsequently has implications for targeting and market positioning. The failure to segment effectively is therefore likely to weaken much of the marketing process.

In Chapters 9–11 we focus upon approaches to the formulation of marketing strategy. In the first of these chapters we consider some of the developments that have taken place over the past 30 years in techniques of portfolio analysis. The portfolio approach to management emerged largely as a result of the turbulence of the early 1970s and is based on the idea that an organization’s businesses should be viewed and managed in a similar way to an investment portfolio, with a strategic perspective being adopted in the management of each major element.

Although a wide variety of portfolio techniques have been developed and have contributed to a greater understanding on the part of management of what is meant by strategy, research findings are beginning to emerge which suggest that usage levels of even the best-known methods are low. Several explanations for this have been proposed, including unrealistic expectations on the part of managers, difficulties with the data inputs, and an overzealous adherence to the strategic guidelines that typically accompany the models. Nevertheless, models of portfolio analysis need to be seen as one of the major developments in strategic thinking over the past 30 years and, if used wisely, are capable of contributing greatly to a structured approach to marketing management.

The type of marketing strategy pursued by an organization is often the result of the interaction of a series of factors, including past performance, managerial expectations and culture, competitive behaviour, the stage reached on the product life cycle, and the firm’s relative market position. Porter (1980) has attempted to provide a structure for examining the strategic alternatives open to an organization and suggests that, in order to compete successfully, the strategist needs to select a generic strategy and pursue it consistently. The three generic strategies that he identifies are:

1. Cost leadership
2. Differentiation
3. Focus.

Dangers arise, Porter suggests, when the firm fails to pursue one of these and instead is forced or drifts into a ‘middle-of-the-road’ position, where the message to the market is confused and the likelihood of a successful competitive attack is increased.

A considerable amount of work has been done in recent years in drawing parallels between military warfare and marketing strategy, with a view to identifying any lessons that the marketing strategist might learn. A number of general lessons have emerged from this, and guidelines on how best either to defend a market position or attack other organizations are now well developed. Within Chapter 11 we have attempted to draw upon the experiences of successful organizations and to highlight particular dangers. Included within these is the danger of adhering to a particular
strategy for too long a period, labelled ‘strategic wear-out’. There is an obvious attraction in sticking to a well-proven strategy, although evidence exists to suggest that even the best formulated strategy has a limited life. The marketing strategist should therefore closely monitor the effectiveness of any given strategy, and be willing to change it in order to reflect the environment, different managerial expectations, and the progression through the product and market life cycles.