

COMPETITOR ANALYSIS

Key Points

- Competitor analysis is one of the most important analysis areas within the field of competitive strategy.
- A good competitor analysis complements insights gained from studying the general and industry environments but is more focused on each specific organization against which a firm directly competes—either currently or in the future.
- Can be accomplished by understanding a competitor's current strategy, resources and capabilities, critical vulnerabilities and likely competitive moves.

Main Thoughts

It should come as no surprise that one of the most important analysis areas within the field of competitive strategy is that of competitors. While changes in the macro environment can buffet a firm, the most direct threat to a business typically stems from competitors. The intensity of competitive rivalry varies from industry to industry but within most environments competition only intensifies over time. As such, gaining a thorough understanding of competitors is not only essential to effective strategy formulation, it is critical to survival. To effectively analyze competitors, strategists and strategic planners should understand four specific competitor dimensions: current strategy, resources and capabilities, critical vulnerabilities and likely competitive moves.

Current Strategy - Every organization—whether deliberately or not—is executing a business strategy. Most business strategies can be uncovered by answering the following five questions:

1. What is the current economic model?
2. What is the value proposition?
3. How is the value delivery system organized?
4. What are the key workforce skills and capabilities?
5. What major initiatives are being pursued?

Answering these five questions completely should paint a good picture of a current business strategy. Using a tool like the strategy map or success map can help depict a strategy in additional detail.

Resources and Capabilities - The resourced-based view (RBV) of a firm depicts an organization as the composite of its individual resources and the capabilities that are derived from those resources. Resources are typically both tangible (e.g. physical goods, financial resources) and intangible (e.g. intellectual property) in nature. When resources are linked together inside

information enabled routines they form capabilities that are essentially those activities a firm performs to create value for customers. Some organizations have an extensive range of capabilities while others do not. Understanding a competitor’s unique assets and its specialized capabilities provides insights into how a firm competes.

Critical Vulnerabilities - Every organization has weaknesses. Some may be readily apparent while others may be well disguised. Nevertheless, a byproduct of a detailed profiling of resources and capabilities coupled with a careful examination of strategy should yield insights regarding where a competitors’ weaknesses lie. These weaknesses should be explained in detail so that the sources of the weaknesses can be understood and then ideally exploited during the strategy development stage. Outmaneuvering competitors is heavily dependent upon avoiding strengths or surfaces and attacking gaps or weaknesses.

Likely Competitive Moves - With the profiling essentially complete, likely move of competitors can be forecasted. Often competitors will respond to challenges in predictable ways given historical patterns of behavior. This information should be modeled or ‘war gamed’ as part of the strategy making process. As an organization develops their strategy, forethought should be given to how key competitors will likely respond.

All of the above data collected from a thorough analysis of each of the four areas mentioned is compiled and assembled into a profile for each main competitor. These profiles should be kept up to date through regular review and changed as major events and moves unfold within the industry space.

For Example:

The following analysis was created from professional services firm that provides specialized consulting assistance. It is a summary of a more comprehensive analysis. While the example is real, specific details have been altered to maintain the confidentiality of the client.

Competitive Analysis of Professional Services Firm

<p style="text-align: center;">Current Strategy</p> <ul style="list-style-type: none"> • The firm is executing a client intimacy strategy where it consistently earns a premium on fees from exceptional service. • The firm is organized into a geographic-based platform that provides services to clients through the local office structure. • The workforce is highly sales driven and the hiring model supports aggressive, customer-focus professional staff. 	<p style="text-align: center;">Resources & Capabilities</p> <ul style="list-style-type: none"> • The firm has an exceptionally strong brand developed through 20 years of service and a marquis client list. • The firm leverages its ownership status in competitive bidding situations. • The firm’s uniquely organized pool of candidates enables them to respond to staffing requests in a matter of hours. • The firm has deep client relationships it leverages to create long-term value.
<p style="text-align: center;">Critical Vulnerabilities</p> <ul style="list-style-type: none"> • The management team lacks depth in key 	<p style="text-align: center;">Likely Competitive Moves</p> <ul style="list-style-type: none"> • The firm will continue to expand

<p>positions.</p> <ul style="list-style-type: none"> • The firm has recently experienced high turnover due to changes in employment policies. • The firm commits only limited financial resources and attention to future investments and strategic issues. • The firm is a late responder and does not have a mechanism to sense direct threats. 	<p>organically within the market it's currently serving.</p> <ul style="list-style-type: none"> • The firm will likely expand into other regional offices. • The firm will seek to gain access to more large national clients through its unique ownership and relationships.
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Of all the analysis completed in strategy formulation, none is as critical as the competitor analysis. Sadly, most organizations dedicate very little time and attention to the systematic study of competitors. As prominent strategist Michael Porter noted, "Dangerous assumptions can creep into managerial thinking about competitors: 'Competitors cannot be systematically analyzed,' 'We know all about our competitors because we compete with them every day.' Neither assumption is generally true (Porter, 1980: 47-48)." In essence, very few organizations are willing to put forth the effort that a successful competitor analysis requires mainly because it is time consuming work and requires as much creative thinking regarding what competitors might do next as it does analytical thinking to understand what they are doing currently. But the rewards are great for those organizations that diligently analyze competitors since it's out of these studies that great strategies emerge. In short, Porter's argument suggesting the necessity of sophisticated competitor analysis and the difficulty preparing it implies that those firms who successfully create competitor analysis can gain a legitimate advantage over those who do not.

For More Information

Books

Hitt, M., Ireland, R., & Hoskisson, R. (2008). Strategic Management (8th ed.). Mason, OH: South-Western Cengage Learning.

Porter, Michael E. (1980). Competitive Strategy: Techniques for Analyzing Industries and Competitors. New York: Free Press.

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