

# Turning Competitor Data into Competitive Advantage

By BNET Editorial

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Competitor analysis (CA) has developed from simply gathering data about competitors to in-depth analysis of competitors' strategies and actions. CA can help you learn more about the overall competitive environment and any vulnerabilities in your own business. The most successful businesses are those that effectively transform competitor data into insights that lead to good decisions. CA is always about detecting change in and around competitors, and then assessing what that change implies for the competitor itself, for the marketplace in general, or for your own business.

## What You Need to Know

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### What are the main pitfalls in analyzing competitors?

Businesses often pay too much attention to current major competitors and too little attention to less obvious competitors or competition on the horizon. You can learn a great deal by analyzing what and how customers purchase from smaller rivals and from other businesses that you may not have thought of as competitors. You may want to imagine that a completely new competitor has appeared on the scene, in order to challenge your current strategic thinking.

### Where does competition come from?

Professor Michael Porter of Harvard Business School has identified five forces affecting competition:

- *Industry rivalry.* Direct competition resulting from the activities of companies in the same industry. An example is the cola wars, dominated by Pepsi and Coca-Cola.
- *Market entry.* New entrants to a market that offer something better in product quality, features, and/or price.
- *Substitutability.* Businesses with products or services that may be substituted for your business's offerings, especially if these alternatives are less costly.
- *Suppliers.* These businesses can damage your competitive position if the item they provide is scarce or unique, or if there are only a few suppliers. One response is to build close relations with important suppliers to secure delivery and to control prices.
- *Customers.* How dependent the business is on individual customers, the ease with which customers can move to another supplier, and the customer's knowledge of the business's competitors. The Internet makes it easy for customers to find alternate sources of products.

## What should we analyze about a competitor business?

The most critical characteristics of competitors for your analysis should include:

- *Marketplace strategy.* How it tries to outmaneuver rivals in the marketplace.
- *Activity/value chain.* How it organizes itself to develop and execute its marketplace strategy.
- *Alliances and networks.* What other businesses it aligns with and how it manages its network of alliances.
- *Assumptions.* What the competitor assumes about the marketplace and itself.
- *Assets and capabilities.* What enables the competitor to compete.
- *Infrastructure and culture.* The nature of the competitor's business.

## What to Do

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### Understand the Factors That Can Intensify Competition

You're likely to face particularly intense competition when your market:

- is expanding or new, as with the computer industry since introduction of the PC or the telecom industry since the break-up of the Bell System.
- involves high stakes because there are major profits to be gained or losses to be suffered—notably, when there are relatively few businesses in a large market as, for example, with Coca-Cola.
- is set to change, perhaps as a result of developments affecting patents and intellectual property rights—such as when the patent for a clinical drug expires—or as a result of political or legal developments, such as privatization.
- is shrinking, or when there is overcapacity, such that competitors are chasing fewer customers, as has happened in ship-building, steel-making, and auto production.

### Increase Market Awareness

Understanding your competitors will be easier if you develop a keen sense of market awareness, including knowing how your competitors are perceived in your chosen market and why. Think about these factors and how they may give your competitors an advantage or disadvantage:

- pricing policies and product offers
- brand reputation and recognition

- customers' perceptions
- product quality
- service levels
- product portfolio
- customer loyalty
- promotional campaigns, timing, nature and channels used.

## Understand Competitors' Marketplace Strategies

To understand what your competitors are up to, think about:

- *their products and customers*—taking into account the range of products offered, the variety within each product line, the groups of customers reached, and differences across the groups.
- *how they provide value to customers*—taking into account product features, functionality, service, availability, image and reputation, selling and relationships, and price.

## Assess Competitors' Marketplace Strategies

Assessment begins by evaluating the success of your rival's strategy. For example, is it resulting in market-share gain? Or to a greater share of individual customers? Or building greater brand recognition and reputation (that in turn could be the basis of further market-share gain)?

Assessment addresses how well the rival's strategy has succeeded compared to yours and that of other rivals. For example, with regard to specific customer segments, or even individual customers, is it you or a competitor that is providing:

- greater value?
- superior functionality?
- more useful services?
- A more appealing image and reputation?

Assessment includes being aware of any changes in your rival's strategy, determining what those changes say about conditions in your marketplace, and deciding how your business will respond effectively.

## What to Avoid

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### **You Use Data from Too Few Sources**

Think about the wide variety of sources that can provide you with information on competitors. Start with your own business, including your employees, your customers, and your internal databases. External sources such as analysts, journalists, competitor Web sites, and publications can be especially useful.

### **You Don't Analyze Effectively**

The basic process in competitor analysis is:

- identify relevant indicators from competitors' behaviors, actions, and words.
- use those indicators to figure out what they say about what the competitor might do in the future (for example, how it might change its strategy), or about developments in the broader marketplace (such as how fast specific products might come to the market or how quickly other products might penetrate particular customer segments).

### **You Don't Act**

It's vital to use any information gathered to strengthen your own business. Analyzing everything you discover will help you assess your own company's vulnerabilities and capabilities and help you take effective action.

## Where to Learn More

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### **Books:**

Christensen, Clayton M., Erik A. Roth, Scott D. Anthony. *Seeing What's Next: Using Theories of Innovation to Predict Industry Change*. Harvard Business School Press, 2003.

Kim, W. Chan and Renée Mauborgne. *Blue Ocean Strategy: How to Create Uncontested Market Space and Make Competition Irrelevant*. Harvard Business School Press, 2005.

Porter, Michael E. *Competitive Strategy*. Free Press, 2004.

## **Web Site:**

Marketresearch.com: [www.marketresearch.com](http://www.marketresearch.com)

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