

Lecture Notes

Class - B. Com Hons Sem VI

Sub Code – BCH- 6.3.A

Sub – New Venture Planning

Topic – Market Planning – Competition Analysis

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Learning outcome from this lecture note

- Meaning of Competition Analysis
- Objectives of Competition Analysis
- Opening strategy for Competition Analysis
- SWOT analysis of Competitors
- Porter's Five Forces Model of Competition Analysis.

Market Planning – Competition or Competitor Analysis

Introduction

In today's increasingly competitive market, it is no longer enough to understand customers for a firm to succeed. Firms must pay close attention to their competition. They need to constantly compare their products, prices, channels and promotional efforts with their close competitors, to identify areas of competitive advantage and disadvantage.

Meaning of Competition Analysis

Business must be forward looking and identify both their current and potential competitors, gather information, and operate a market information system to monitor competitor's moves and market trends. To design successful competitive strategies, firms need to conduct Competitor Analysis on an on-going basis.

Objectives of Competition Analysis

The main objectives of doing competitor/competition analysis can be summarized as follows:

- ✓ To study the market;
- ✓ To predict and forecast organization's demand and supply;
- ✓ To formulate strategy;
- ✓ To increase the market share;
- ✓ To study the market trend and pattern;
- ✓ To develop strategy for organizational growth;
- ✓ When the organization is planning for the diversification and expansion plan;
- ✓ To study forthcoming trends in the industry;
- ✓ Understanding the current strategy strengths and weaknesses of a competitor can suggest opportunities and threats that will merit a response;
- ✓ Insight into future competitor strategies may help in predicting upcoming threats and opportunities.

Competitor Analysis Defined Competitor analysis provides both an offensive and a defensive strategic context for identifying opportunities and threats. The offensive strategy context allows firms to more quickly exploit opportunities and capitalize on strengths. Conversely, the defensive strategy context allows them to more effectively counter the threat posed by rival firms seeking to exploit the firm's own weaknesses.

Opening Strategy for Competition Analysis

Through competitor analysis, firms identify who their key competitors are, develop a profile for each of them, identify their objectives and strategies, assess their strengths and weaknesses, gauge the threat they pose, and anticipate their reaction to competitive moves. Firms that develop systematic and advanced competitor profiling have a significant competitive advantage.

Before starting competition analysis it is necessary have answer of some specific questions which are as follows:

- Who are your competitors?

- What products or services do they sell?
- What is each competitor's market share?
- What are their past strategies?
- What are their current strategies?
- What types of media are used to market their products or services?
- How many hours per week do they purchase to advertise through the media used in this market?
- What are each competitor's strengths and weaknesses?
- What potential threats do your competitors pose?
- What potential opportunities do they make available for you?

To identify their current and potential competitors, firms have to use both an industry approach as well as a market approach. The industry approach will yield insights on the structure of the industry and the products offered by all market participants. The market approach on the other hand, focuses on the customer need and the firms attempting to satisfy those needs, which will provide the firm with a wider view of current and potential competitors.

Industry-Based Analysis An “industry” is defined as a group of firms whose products and services are close substitutes of each other. Industries are primarily classified according to the number of sellers involved and the degree of product differentiation. Other factors characterizing an industry’s structure are: entry/exit barriers, cost structure, degree of vertical integration and extent of globalization.

On the basis of the degree of product substitution, for example, companies can face brand competition, industry competition, form competition and generic competition.

- **Brand Competition:** the firm considers other firms offering a similar product/service to the same customers at similar prices as its competitors. Example: Coca Cola would see Pepsi Cola as its main competitor
- **Industry Competition:** the firm uses a broader approach and sees as its competitors all firms making the same product or class of products.

Example: Coca Cola would see all other soda manufacturers as its competitors.

- **Product Competition:** the firm uses an even broader approach and sees its competitors as firms manufacturing products that supply the same service. Example: Coca Cola would see all other carbonated beverages manufacturers as its competitors.
- **Generic Competition:** the firm could use a still broader approach and see its competitors as firms that compete for the same consumer dollars. Example: Coca Cola would see all other beverages suppliers as its competitors.

Competitor Profiling

Once a firm has identified its primary competitors, it needs to assess and analyze their objectives, strategies, strengths and weaknesses as well as their competitive reactions.

--Objectives ascribed to competitors can encompass profitability, market-share growth, cash flow, technological leadership, service leadership, etc.

--Competitors' objectives are shaped by various factors, including the firm's size, history, current management, and economics.

--Competitors' strategies encompass product quality, product features and product mix, target marketing and positioning, customer service, pricing policy, distribution coverage, sales force strategy, advertising and sales promotion programs, research and development (R&D), manufacturing, purchasing, financial and marketing strategies (4Ps: Product, Price, Promotion and Place/Distribution).

-- The more one firm's strategies resemble another firm's strategy, the more the two firms compete. Strategic groups (i.e. firms focusing on the same target market with the same strategy) should be identified.

SWOT for Competition Analysis

Whether or not a competitor can carry out its objectives and strategies depends on its resources and capabilities. For this reason, the analysis of the corresponding strengths and weaknesses constitutes key information for a firm analysing its competitors. The technique typically used to conduct this analysis

is called “SWOT (Strengths, Weaknesses, Opportunities and Threats) Analysis”.

It involves specifying an objective and analysing the internal factors (strengths and weaknesses internal to the firm) and the external factors (opportunities and threats presented by the external environment) that are favourable or unfavourable to achieving the objective.

- ❖ Internal factors (Strengths and Weaknesses) encompass factors such as: personnel, firm’s culture, finance, manufacturing capabilities, the 4Ps, etc.
- ❖ External factors (Opportunities and Threats) relate to the opportunities and threats posed by the macro and micro environments. The macro-environment includes demographic, economic, technological, political, legal, social and cultural factors, etc. The microenvironment includes the customers, competitors, distributors and suppliers.

Porter’s Five Forces Model of Competition

Michael Porter designed various vital frameworks for developing an organization’s strategy. One of the most renowned among managers making strategic decisions is the five competitive forces model that determines industry structure. According to Porter, the nature of competition in any industry is personified in the following five forces:

1. Threat of new potential entrants
2. Threat of substitute product/services
3. Bargaining power of suppliers
4. Bargaining power of buyers
5. Rivalry among current competitors

The five forces mentioned above are very significant from point of view of strategy formulation. The potential of these forces differs from industry to industry. These forces jointly determine the profitability of industry because they shape the prices which can be charged, the costs which can be borne, and the investment required to compete in the industry. Before making strategic decisions, the managers should use the five forces framework to determine the competitive structure of industry.

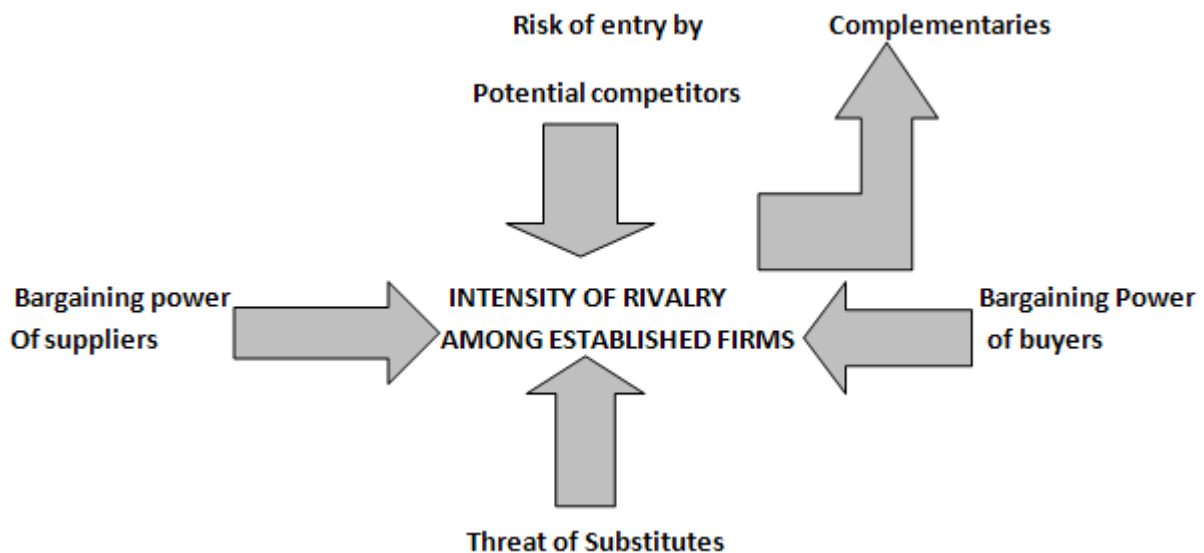


FIGURE: Porter's Five Forces model

Let's discuss the five factors of Porter's model in detail:

1. **Risk of entry by potential competitors:** Potential competitors refer to the firms which are not currently competing in the industry but have the potential to do so if given a choice. Entry of new players increases the industry capacity, begins a competition for market share and lowers the current costs. The threat of entry by potential competitors is partially a function of extent of barriers to entry. The various barriers to entry are-
 - Economies of scale
 - Brand loyalty
 - Government Regulation
 - Customer Switching Costs
 - Absolute Cost Advantage
 - Ease in distribution
 - Strong Capital base
2. **Rivalry among current competitors:** Rivalry refers to the competitive struggle for market share between firms in an industry. Extreme rivalry among established firms poses a strong threat to profitability. The strength of rivalry among established firms within an industry is a function of following factors:
 - Extent of exit barriers
 - Amount of fixed cost
 - Competitive structure of industry

- Presence of global customers
- Absence of switching costs
- Growth Rate of industry
- Demand conditions

3. **Bargaining Power of Buyers:** Buyers refer to the customers who finally consume the product or the firms who distribute the industry's product to the final consumers. Bargaining power of buyers refer to the potential of buyers to bargain down the prices charged by the firms in the industry or to increase the firms cost in the industry by demanding better quality and service of product. Strong buyers can extract profits out of an industry by lowering the prices and increasing the costs. They purchase in large quantities. They have full information about the product and the market. They emphasize upon quality products. They pose credible threat of backward integration. In this way, they are regarded as a threat.
4. **Bargaining Power of Suppliers:** Suppliers refer to the firms that provide inputs to the industry. Bargaining power of the suppliers refer to the potential of the suppliers to increase the prices of inputs(labour, raw materials, services, etc) or the costs of industry in other ways. Strong suppliers can extract profits out of an industry by increasing costs of firms in the industry. Suppliers products have a few substitutes. Strong suppliers' products are unique. They have high switching cost. Their product is an important input to buyer's product. They pose credible threat of forward integration. Buyers are not significant to strong suppliers. In this way, they are regarded as a threat.
5. **Threat of Substitute products:** Substitute products refer to the products having ability of satisfying customers' needs effectively. Substitutes pose a ceiling (upper limit) on the potential returns of an industry by putting a setting a limit on the price that firms can charge for their product in an industry. Lesser the number of close substitutes a product has, greater is the opportunity for the firms in industry to raise their product prices and earn greater profits (other things being equal).

The power of Porter's five forces varies from industry to industry. Whatever be the industry, these five forces influence the profitability as they affect the prices,

the costs, and the capital investment essential for survival and competition in industry. This five forces model also help in making strategic decisions as it is used by the managers to determine industry's competitive structure.
