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MARKETING MODULES SERIES

Marketing Module 4: Competitor Analysis

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Foreword

A marketing strategy is something that every single food and agriculture-related business (farms, wholesalers, retailers, etc.), no matter how big or small, needs to have in place in order to succeed in the marketplace. Many business owners in the food and agriculture sector in New York State and elsewhere are hesitant to set up an actual marketing strategy because they simply do not know how to go about developing it. How to better market their products and services remains a primary concern among New York State food businesses as a result.

In response to this need, we offer this Marketing Modules Series of eight modules which constitute a comprehensive training course in marketing management. The overall goal of this series is to improve the marketing skills of food business managers and owners in New York State so that they can develop successful marketing strategies to increase business profitability. More specifically, these Marketing Modules are intended to support the efforts of extension specialists and extension educators as they develop marketing training programs for their stakeholders.

Module 1 (Marketing) offers an overview of the series and discusses the basic pillars of a marketing strategy. Modules 2, 3 and 4 (Customer, Company and Competition, often referred to as 'The 3 Cs') focus on key concepts and techniques to conduct market analysis. Modules 5, 6, 7 and 8 (Product, Price, Placement/Distribution and Promotion, or 'The 4 Ps'), hone in on the essential elements of marketing tactics.

To facilitate their use in extension-related educational activities, modules tow to eight consists of three components: 1) a summary of the fundamental concepts, 2) a real-world example relevant to the New York State food and agriculture system to illustrate these concepts, and 3) a set of teaching slides to be used in training sessions and other educational activities in which these modules can be used individually or in combination. Because Module 1 (Marketing) is an overview of the whole series it only includes components 1 and 3. Examples for each of the sections in Module 1 can be drawn from the other seven Modules.

The authors are in debt to Wen-fei Uva for initial funding and direction of the Marketing Modules project; to Nelson Bills for his extensive editorial and content suggestions; and to Michael Hawk for contributions to formatting.

The complete Marketing Modules series can also be accessed online at: http://hortmgt.gomez.dyson.cornell.edu/Marketing-Modules.html.

1. 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.

Firms 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. Ignoring or underestimating the threat posed by potential competitors and focusing only on current competitors is often referred to as "Competitor Myopia". This term was coined by Theodore Levitt to describe situations in which firms fail to recognize the full scope of their businesses. Competitor Myopia can drive firms out of business!

To design successful competitive strategies, firms need to conduct Competitor Analysis on an ongoing basis.

2. 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.

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.

3. Identifying Current and Potential Competitors

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.

Sources of potential competitors include (but are not limited to) firms which compete in a related product, use related technologies, already target the same market even if with unrelated products, operate in other geographical areas with similar products and, last but not least, new start-ups

organized by former company employees and/or managers of existing firms. Firms focusing on the same target market with the same strategy constitute a ***strategic group*** and are the closest competitors to firms intending to enter such a group.

3.1 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. Based on number of sellers and product differentiation, industries are commonly classified as a: monopoly, oligopoly, differentiated oligopoly, monopolistic competition, or pure competition. Each category is described below.

Monopoly exists when only one firm supplies a given product/service in a certain country or area. A common example is the distribution of electrical power to residential and commercial customers. Given that customers have no alternatives, an unregulated monopoly seeking to maximize profits has a demonstrable incentive to charge a higher price, do little or no advertising and offer minimal service. A regulated monopoly, on the other hand, is required to charge lower prices and provide more services in the public interest. Monopolists might be willing to make some investment in service and technology in a situation where partial substitutes for their products or services are available or when there exists imminent competition. Electric power generation and distribution are good examples of this behavior, with recent developments in alternative energy sources and technological improvements in electric power use.

Oligopoly consists of a few firms producing basically the same commodity, such as Mobil, Shell and Sunoco, in the fuel industry. It is difficult for any single company to sell fuel products above the going price unless it can differentiate its product line in some way.

Differentiated oligopoly refers to an industry in which a few firms produce partially differentiated products, such as Sony, Canon and Nikon in the digital camera industry. Differentiation is based on specific product attributes such as quality, special features, styling or services. Typically, competitors will seek to be the leader firm for a certain attribute, attract customers who value that particular attribute, and charge a premium for it.

Monopolistic competition refers to a situation where several competing firms in an industry are able to differentiate their offer in whole or in part. Such is the case of supermarket companies like Wegmans, Tops and Price Chopper in the supermarket industry in Upstate NY. In this context, competitors typically target those market segments where they can better meet the customer's needs and thereby command a price premium.

Pure competition takes place in industries in which many firms offer the same product/service. Because there is no differentiation among offers, prices are the same for all firms, such is the case of most agricultural products sold as commodities (e.g. wheat, cabbage, onions). There is no benefit to advertising and seller's profits will only be different to the extent that they can achieve lower costs of production or distribution.

3.2 Market-based Analysis

From a market perspective, rather than looking at companies making the same product as its only competitors, a firm looks for its competitors among those companies that satisfy the same customer need. To avoid falling into the Marketing Myopia trap, however, and in order to include all actual and potential competitors, this need has to be defined as broadly as possible. For example, in the coffee business, a company like Nestle envisions as its direct competitors other companies that sell coffee such as Maxwell House and Taster's Choice but should also consider its indirect competitors. These would include any manufacturer that provides coffee makers that compete with its Nespresso coffee makers such as Keurig and Mister Coffee.

The range of current and potential competitors is broad. 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.*

4. 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.

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 analyzing 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 analyzing the internal factors (strengths and weaknesses internal to the firm) and the external factors (opportunities and threats presented by the external environment) that are favorable or unfavorable 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 micro-environment includes the customers, competitors, distributors and suppliers.

The results of a SWOT Analysis are presented in the form of a matrix, as shown in the case of the Ben & Jerry's Ice Cream Example (Figure 1). A*dditional examples of SWOT Analyses are included in Supplement 1 at the end of this module.*

Figure1. SWOT Analysis for Ben & Jerry's Ice Cream.

Objective of the SWOT Analysis: to get B&J growing again

	Favorable	Unfavorable
Internal	**Strengths** • Prestigious, well-known brand name across U.S. consumers • 40% share of the US super premium ice cream market • Can complement Unilever's existing ice cream brands	**Weaknesses** • Danger that B&J's social responsibility actions may add costs, reduce focus on core business • Need for experienced managers to help growth • Flat sales and profits in recent years
External	**Opportunities** • Growing demand for quality ice cream in overseas markets • Increasing demand for frozen yogurt and other low-fat desserts • Success of many U.S. firms in extending successful brand in one product category to other categories	**Threats** • Consumer concern with fatty desserts: B&J customers are the type that read new government-ordered nutritional labels • Competes with giant Pillsbury and its Haagen-Dazs brand • International downturns increase the risks for B&J's in European and Asian markets

Source: Figure 2-9 in Kerin, Berkowitz, Hartley and Rudelius, p. 46

Firms can learn about their competitors' strengths and weaknesses through secondary data, personal experience and hearsay, but they can also acquire and interpret primary information by conducting market research. Firms should collect recent data on each competitor's sales, market share, profit margin, return on investment, cash flow, new investment, and capacity utilization. Three additional variables that every firm should monitor with respect to competitors are: share of market (competitor's sales' share in the target market), share of mind (percentage of customers who name the competitor when asked which firm first comes to mind in an industry) and share of heart (percentage of customers who name the competitor when asked from whom he/she would prefer to buy a specific product). In general, firms that exhibit increasing share of mind or share of heart, are positioned to experience an increasing market share and profitability.

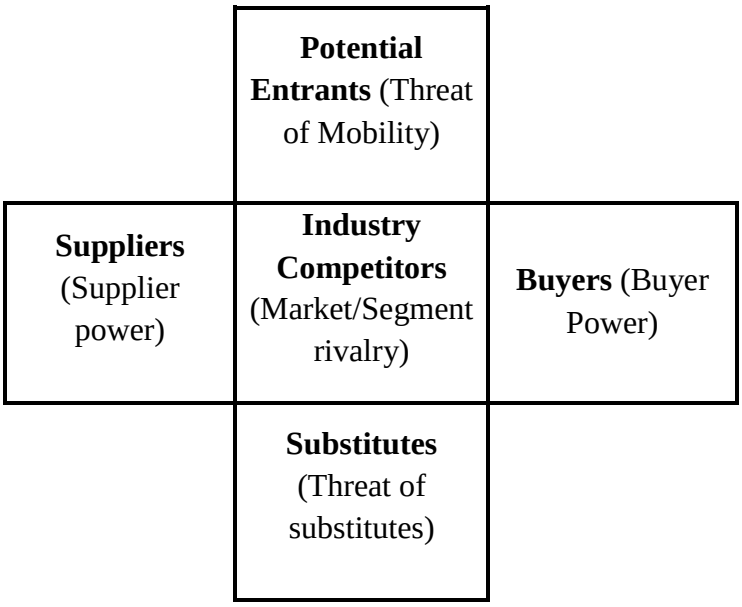
A competitor' strategies, strengths and weaknesses, to a large extent, determine its reactions to competitive moves such as price cuts, promotional step-ups, or new product introductions. Some

competitors do not react quickly or forcefully to another competitor's move; others might react only to certain types of attacks and not to others; others might react quickly and forcefully to any assault. Finally, others might not exhibit any predictable reaction pattern.

5. Assessing Market Attractiveness

Before entering a particular market (or market segment), a firm needs to assess its attractiveness. According to Michael Porter, the attractiveness of a market or market segment, is determined by the opportunities and threats posed by five key elements: industry competitors, potential market entrants, availability of product substitutes, buyers' power and suppliers' power (Figure 2.)

Figure 2. Five Forces that Determine Market Attractiveness according to Michael Porter



Source: Kotler, Phillip. A Framework for Marketing Management. 2nd Edition (2003), p. 149

- ***Industry Competitors*** *(Segment Rivalry):* the market (or market segment) is relatively unattractive if there are already a high number of strong or aggressive competitors. This unattractiveness is reinforced if the market is stable or already declining, significant production capacity is being added, fixed costs are high, or if competitors have powerful reasons to stay in the industry. Under these conditions, price wars, promotion battles and constant new product introductions are the norm, making competition very expensive. *Example: Coke and Pepsi have barely differentiated products. They are under constant pressure to gain market share. To do so they lower their prices, resulting in razor thin margins in order to gain a market share of 0.01%. Both companies reorganize and diversify in order to fund the "Cola Wars"!*

- ***Potential Entrants:*** attractiveness of a market (or market segment) varies according to the status of entry and exit barriers. With high entry and low exit barriers, fewer firms can enter the industry while under-performing firms can exit easily. Profit potential is high and, even though risk is higher if under-performing firms fight for survival, it is a very attractive option. When entry and exit barriers are both low, firms enter and exit the industry easily and profits are stable and low. The worst possible situation is when entry barriers are low and exit barriers are high, resulting in persistent over-capacity and low earnings for all. Firms should know and keep in mind that the entrance of new competitors is likely when: there are high profit margins in the industry, there is unmet demand (insufficient supply), there are no major barriers to entry, there is future growth potential, competitive rivalry is not intense and/or when gaining a competitive advantage over existing firms is feasible. *Example: INTEL has high fixed costs with plants to build chips. High break-even volume keeps competitors away. All incremental sales fall directly to the bottom line.*

- ***Product Substitutes:*** if there are many actual or potential substitutes for the product, the market (or market segment) is not attractive because substitutes limit both the price that can be charged for the product as well as the potential profits. For this reason, firms must monitor the prices of substitute products. Furthermore, if competition increases or if there are technological innovations, prices and profits are likely to go down. *Example: drugstore internet retailers sold products below wholesale cost with free shipping to inspire customer loyalty. Strategy failed as customers could easily replace the offer at the local drugstore when the prices were raised!*

- ***Buyers' Power:*** when buyers possess a strong or growing bargaining power, the market (or market segment) is unattractive. Customer's bargaining power increases when there are a few large buyers, when the product represents a significant part of the firm's costs, when the product is undifferentiated, when the cost of switching is low, when buyers are price sensitive, or when buyers can vertically integrate. To compete in this environment, firms might want to refocus and target buyers with less power, or develop offers that buyers can't refuse. *Example: WalMart has forced consumer packaged goods (CPG) companies to use up-to-date information to drive down prices for its customers. For example, Rubbermaid had the majority of their sales at WalMart. The resulting reduced margins forced their acquisition by Newell.*

- ***Suppliers' Power*****:** suppliers have increasing bargaining power when they are organized, when there are few substitutes for their product, when the product they supply is a key input, when switching suppliers is expensive or when suppliers can vertically integrate. A segment is unattractive if suppliers can raise prices or reduce the quantity of product supplied due to their bargaining power. Example: *Increased prices of coffee beans and other raw materials have led Starbucks to raise their prices to maintain their high margins. But Starbucks*

has differentiated their brand enough to create customer loyalty thus: Customers absorb the price increase!

6. Designing Competitive Strategies

The roles played by firms in an industry can be usefully classified into: market leader, market challenger, market follower or market nicher. A firm can gain further insights about its competitors and design more effective competitive strategies by identifying its role and that of its competitors.

6.1 Market Leader

It is common in many industries to have one firm with a dominant market share. This firm is the market leader in terms of: prices, new product introductions, distribution coverage, and promotional spending. Competitors typically challenge, imitate or avoid the leader. Examples of market leaders include: Procter & Gamble, Coca Cola and Mc Donald's.

Leaders want to continue being the number one firm in their industry. Their typical approach is to attempt to expand total market, protect their current market share, or grow their market share.

6.1.1 Expanding total market

Market leaders normally gain the most when the total market expands. The key strategies used to expand the market include attracting new users, identifying new uses for their product and/or inducing current customers to use more of their product

- ***To attract new users*** a firm can focus on consumers who are unaware of the product or who are resisting buying it because of the price or lack of certain features. *Example: Johnson & Johnson was able to expand the market of its baby shampoo by inducing its use by other members of the family, through advertising.*

- ***To identify new uses*** a firm uses its R&D capabilities, new technologies or feedback from consumers who use the product in different ways. *Example: DuPont's nylon was first used in parachutes, then as a fiber to make women's stockings, later as a major component or apparel and more recently in the fabrication of tires and other items in the automotive industry.*

- ***To induce current customers to use more of its product***, a firm develops strategies to convince its customers to use the product in other occasions and in greater amounts each time. *Example: In its Head & Shoulders shampoo ads, Procter & Gamble indicates its users that the shampoo effectiveness is higher if applied twice per shampoo occasion.*

6.1.2 Defending Market Share

To defend its market share, the best strategy for a leader is to continuously innovate its products, its customer service, its distribution system and its cost structure (e.g. Coke vs. Pepsi, Gillete vs. Bic, McDonalds vs. Burger King, GM vs. Ford).

6.1.3 Expanding Market Share

In many cases one market share point is worth many millions of dollars, so leaders can significantly improve their profitability by increasing their market share. However, the impact of a higher market share on profitability depends on the strategies used to obtain the additional market share because the added cost of achieving a higher market share may exceed the added revenue. Additionally, some market leaders have to be cautious about provoking antitrust actions, of investing more money than the higher market share is worth or of pursuing the wrong marketing strategies.

6.2 Market Challenger

Firms that trail the market leader can be either a market challenger or a market follower. A market challenger aggressively tries to expand its market share by attacking the leader, other similar firms, or smaller competitors. However, before embarking on an attack, market challengers need to define their objective and whom they will attack. Attacking the market leader is risky but the pay off could be excellent if the leader is not doing a good job of serving its target market. Alternatively, challengers may choose to attack underperforming firms of similar size which are not satisfying their customers appropriately, or to grow their market share by attacking/acquiring smaller firms (e.g. firms operating in local and regional markets.) The most common attack strategies used by market challengers include: frontal attack, flank attack, encirclement “blitz”, bypass, and guerrilla warfare.

- In a ***frontal attack*** the challenger matches the competitor’s marketing mix (product, price, promotion and distribution). In general, the firm with the bigger resources wins.

- In a ***flank attack*** a market challenger focuses on identifying any market gaps generated by either an underperforming opponent or by shifting market trends. Once identified, the challenger rushes in to fill the gaps and develops a set of strong market segments. Flank attacks have a higher potential of success than frontal attacks and are particularly attractive to challengers with fewer resources.

- An ***encirclement "blitz" attack*** involves attacking the opponent in several different fronts at the same time with the objective of taking away a big part of the opponent's territory. This type of attack makes sense when the challenger has significant resources and believes the strategy will break the opponent's will.

- A ***bypass attack*** involves bypassing the opponent and attacking easier markets to broaden the challenger's own base. Strategies include: diversifying into unrelated products, diversifying into new geographical areas and supplanting existing products through the use of new technologies.

- ***Guerrilla warfare attack*** implies waging small intermittent attacks to harass and demoralize the competitor and secure strong footholds. This type of attack is normally used by small firms against a larger one. However, this strategy needs to be backed by a stronger attack if the challenger is to beat the opponent.

Challengers typically use a variety of strategies to launch their attacks, including: price discounts (selling a product similar to the leader's product but at a lower price), cheaper goods (offering a product of average or lower quality at a much lower price), prestige goods (offering a product of higher quality than the leader's and charging a higher price), product proliferation (offering a larger product variety than the leader), product innovation (offering a product with an improvement over the leader's), improved services (offering new or better service), distribution innovation (developing a new distribution channel), lower manufacturing costs (through lower labor costs, more efficient technologies, etc), and intensive promotion (through higher expenditures in advertising and promotion). To be successful at increasing their market share, challengers typically have to use a combination of these strategies.

6.3 Market Follower

A market follower is a firm that decides not to attack the market leader or its competitors, usually out of fear that it stands to lose more than it might gain. Many firms prefer to be a follower than a challenger. Such behavior is very common in industries in which there is very little opportunity for product differentiation, service quality is often very much the same, price sensitivity is high and market shares are very stable. Under these circumstances, most firms present the customer with the same or very similar products, usually by copying the leader. To survive, a market follower must know how to hold on to its current customers and how to win new ones.

Market followers are often broadly classified into counterfeiters, cloners, imitators or adapters.

- ***Counterfeiters*** duplicate the leader's product and package and sell it in the black market.

- ***Cloners*** imitate the leader's products, distribution, advertising, etc.

- ***Imitators*** copy some things from the leader but maintain some differentiation in packaging, advertising, pricing etc.

- ***Adapters*** either adapt or improve the leader's products and generally sell them in different markets.

Being a market follower is usually not a rewarding strategy to pursue!

6.4 Market Nicher

Instead of being a market follower in a large market some firms choose to be the leaders in a small market, or market "niche" that doesn't attract the attention of the larger firms. The key to being a successful market nicher is specialization, which can be focused on: the end-user (specializes in serving one type of final customer), the customer size (concentrates in selling to small, medium or large customers), specific customers (limits its offer to one or a few major customers), a geographic area (sells only in a certain place, region, area), a product or product line (produces or carries only one product or product line), the quality-price ratio (operates at the low or at the high quality end of the market), the service (offers services not available from other firms), the channel (serves only one channel of distribution), etc.

Market nichers can get to know their customers well enough to meet their needs much better than competitors while making a high profit margin. However, to increase their survival prospects, market nichers need to be strong in two or more market niches.

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Supplement No. 1 – Example of a SWOT Analysis for Whole Foods[1]

Strengths

- High quality food
- Real estate in wealthy neighborhoods
- Good customer service
- Staff is passionate about promoting the products and sharing that enthusiasm
- Passionate environment allows others to learn about various nutritional ideas and supplements that are unavailable elsewhere
- No Unions
- Fair labor wages for farmers

Weaknesses:

- Pricing perception: "Whole Paycheck"
- Wide range of food available, but the depth into each category is limited
- Targets a relatively small amount of shoppers
- Customer loyalty is lacking

Opportunities:

- Expand private label
- Wide amount of areas where the stores are located allows for individual farmers to sell to store regions
- Expand prepared foods
- Class offerings that educate the new consumer about a new product. (i.e. cooking classes)
- Recent ads promoting the benefits of healthy eating push new consumers to WF trying to find the niche item
- Weak US Dollar

Threats:

- Economic downturn impacts consumer spending
- Foreign exchange rates - international stores may leave open exposure to added costs.
- Low cash on hand
- Low spend per trip due to high prices. Individuals buy the specialty item and not the essentials
- Organic and specialty labeled items are not strictly regulated by the U.S., leading to potential for contaminated food by farmers who cut corners

[1] From http://www.wikiswot.com/SWOT/2_Retail/Whole_Foods.html

Supplement No. 2 - Example of a SWOT Analysis for Mc Donald's[2]

Strengths

- Open door policy to the press
- Selective supply chain strategy
- Rigorous food safety standards
- Affordable prices and high quality products
- Nutritional information available on packaging
- Decentralized yet connected system
- Innovative excellence program
- Promoting ethical conduct
- Profitable

Weaknesses

- Inflexible to changes in market trends
- Difficult to find and retain employees
- Promote unhealthy food

Opportunities

- Attractive & flexible employment
- Positive environmental commitments
- Higher standards demanded from suppliers
- Honest & real brand image

Threats

- Fabricated stories about the quality of our chicken
- Unhealthy foods for children
- Health concerns surrounding Beef, Poultry & Fish
- Labor exploitation in China
- Contributor to global warming
- Local fast food restaurants

[2] From http://www.ukessays.com/essays/business/swot-analysis.php