This article looks at the tools and methods used to analyse the competitive landscape. We will introduce the reasoning behind the analysis as well as introducing Porter’s Five Forces framework. Understanding this is crucial to succeeding in the market. Undertaking this process will help you to identify the following:

- How concentrated is the market;
- Competitor background (traditional, foreign, new players);
- Positioning along the value chain;
- How competitors have evolved; and
- What has happened to financials.

Once these are answered, further questions might arise:

- How easy is it to grow market share?
- How easy is it to enter?
- Who are the suppliers/buyers and what is their power?
- What are the key industry trends? and
- Why is the industry in decline/growth?

This article reviews the four key theories and models which allow us to undertake this analysis.
In the 1940s, the Structure Conduct Performance (SCP) framework was invented as a standard tool for market analysis.

The SCP framework asserts that industry structure drives company behaviour and performance:

- **External Influences:**
  - Changing consumer tastes/lifestyles;
  - Technology, innovation;
  - Government policy:
    - International;
    - Domestic.

- **Structure:**
  - Economics of demand;
  - Economics of supply;
  - Business system/value chain analysis.

- **Conduct:**
  - Marketing;
  - Capacity;
  - Producer’s efficiency;
  - Relationship between industry participants.

- **Performance:**
  - Financial;
  - Innovation;
  - Technology adoption;
  - Market development.

Porter's Five Forces analysis provides a framework for the structural analysis of an industry or market. Porter assumes that competition in an industry depends upon five basic forces:
The collective strength of these forces determines the ultimate profit potential and allocation in the industry. This framework/model can be used at different levels of analysis:

- **Hypotheses generation:**
  - Can be used as a technique to understand key dynamics and trends in an industry and to initially form hypotheses regarding the critical success factors;

- **Analytical framework:**
  - The technique can be used to structure the data collection, environmental, and situation analysis for the audience;

- **Industry economics analysis:**
  - The technique can be used to structure a detailed analysis of an industry prior to developing a competitive strategy. Potential applications include:
    - Assess attractiveness on the basis of competition in an industry;
    - Highlight areas in which industry trends may pose opportunities or threats;
    - Analyse where the company stands vis-a-vis the underlying causes of each competitive force;
    - To understand/diagnose cost driver and levels of return.

It is often used strictly qualitatively; quantifying findings can broaden the scope for applications of this methodology.
The strength of each force for a particular industry is identified by considering important technical and economic characteristics:

- **Insights:**
  - assess attractiveness on the basis of competition in an industry;
  - highlight areas in which industry trends may pose opportunities or threats;
  - analyse where the company stands vis-a-vis the underlying causes of each competitive force;
  - to understand/diagnose levels of return;

- **Strengths:**
  - quite a comprehensive model;
  - good starting point to understand key drivers and trends;

- **Limitations:**
  - very often used strictly qualitatively;
  - provides only a static picture:
    - to understand the dynamic view, it is necessary to review environmental trends that are likely to impact structure.

Next we take the analysis further and introduce Industry Lifecycle analysis as a tool. This presumes that sales and profitability in an industry follow a predictable pattern.
Accepting the above assumption, the Industry Lifecycle analysis model predicts how sales will develop based on the age of a product category. The model distinguishes five stages of development, as shown in the graph below. It should be noted that the length of time in each stage varies tremendously: some products have very short cycles; others take decades or even centuries to go through the cycle. Furthermore, growth is still possible in mature categories, but typically will require greater investment or greater creativity than in less mature categories.

The model assumes that, as time progresses, markets - and hence competitive strategies - move through distinct stages, with the following characteristics:

• **Introduction:**
  o Slow sales growth;
  o Minimal market awareness;
  o Focus is on educating consumers and encouraging trial usage.

• **Growth:**
  o Significant increase in sales volume, growth and profitability;
  o Decreasing prices due to competitive pressure.

• **Maturity:**
  o Reduction in the rate of sales growth and a further reduction in unit costs;
  o Excess capacity puts downward pressure on prices, forcing out weaker competitors;
  o Customer preferences stabilise.

• **Decline:**
  o Rate of sales growth enters a steep decline and profit margins are minimised;
  o Customers switch to new or better products, private-labels take an increasing share.
Each stage has typical competitive strategies:

- **Introduction:**
  - Invest heavily in advertising and promotion to stimulate demand for the new product;
  - Monitor competitors and adjust positioning to pre-empt competitive moves.

- **Growth:**
  - Focus on building customer loyalty and repeat purchases;
  - Invest in process improvement to reduce manufacturing costs faster than prices are falling;
  - Proactively invest in capacity to maintain cost advantage and discourage additional competitive entry.

- **Maturity:**
  - Maintenance - employed when threat from competitive entry or technology innovation is minimal;
    - Maintain market position/profitability through advertising, promotion and pricing tactics.
  - Defense - employed when new or current competitors are altering the status quo by changing their marketing mix;
    - Adjust marketing mix to maintain profitability.
  - Innovation - employed to expand the market, fill customer needs and pre-empt competition.
    - Develop product innovation, eg through 'flankers' or new uses and users.

- **Decline:**
  - Use competitive advantages to exploit unserved market niches;
  - Rejuvenate the product by finding new uses, new users, or new product line extensions;
  - Alternatively, reduce marketing expenditures and 'milk' the product or business for the cash generated (i.e. cash cow).

The lifecycle stage of a market can be identified using specific metrics. The metrics required to conduct the analysis and the approach are set out below:

1) Establish the entire curve and timing for the industry:
   a) Data required:
      i) Sales figures/timeframe:
         (1) Either actual past/current sales; or
         (2) Forecasted figures.
   b) Use statistical/graphical analysis:
      i) Plot past category sales data in a spreadsheet, in such a way that a long-term pattern is easily shown.
   c) Use strategic/judgmental analysis:
      i) Use the theoretical curve to evaluate where the category stands.
   d) It is important to predict the highest level that sales will reach.

2) Establish the current stage of the cycle:
   a) The key indicators of life cycle stage are:
      i) Relative growth rate;
      ii) Market industry potential;
iii) Breadth of the product lines;
iv) Number of competitors;
v) Distribution/stability of market share among competitors;
vi) Entry barriers;

vii) Technology innovation.

3) Establish a company's performance against 'typical' strategies:
   a) The indicators allow us to map a company's performance to the relevant life cycle stage:
      i) A life cycle scorecard can be built against which the client's performance is measured;
      ii) This analysis requires some personal judgment, since it is rare that an industry will consistently fall in one stage for each descriptor.

The results of industry life cycle analysis can drive a number of strategic hypotheses. The resultant output can be summarised as follows:

- **Insights:**
  - Forecasts of industry or product sales:
    - Assuming that every industry follows a pre-determined life cycle, subsequent estimates of sales will be more realistic if the stage of the life cycle is understood.
  - Estimations of competitors' strategic moves:
    - Given their stage in the life cycle, competitors' actions should be somewhat predictable if they are rational players.
  - Identification of the appropriate pricing for a product:
    - Understanding the stage of the life cycle will provide information as to the likely requirements of the buyers of the product;
    - By analysing the characteristics of these groups, price elasticity can be estimated and prices can be set accordingly.

- **Strengths:**
  - Most useful as one of several sources of evidence.

- **Limitations:**
  - Any prediction is difficult;
  - Companies can affect the shape of the growth curve through product innovation and repositioning.

We now look at Strategic Group Analysis. Strategic groups are a cluster of competitors that follow similar strategies.

The idea behind strategic groups is that companies that share similar strategies compete more directly with each other than with other firms in the same industry. They are conceptual clusters, as they exist only for analysis purposes and it should be noted that if all firms followed the same strategy, there may be only one industry group!

Creating strategic groups appears straightforward, but is more difficult in practical application. There are three steps:
Identify the key dimensions of companies' strategies. Examples include:

- Size;
- Breadth of market served;
- Product/service quality;
- Vertical integration;
- Channel selection;
- Brand identification;
- Technological leadership;
- Cost structure;
- Service;
- Pricing.

Identify how and against which dimension each organisation competes:

- For each organisation, pick out the key features of their strategy;
- Identify the two most critical dimensions of competition to create a matrix:
  - in theory a strategic group could stretch along multiple dimensions; but usually no more than two are considered at a time (unless a third and fourth dimension can be represented by the size and colour of a 'bubble');
  - these two critical dimensions can be determined through interviews with internal and external industry experts or through a detailed critical success market analysis.

Plot all competitors in a matrix relative to key dimensions:

- Place competitors on the matrix and identify clusters;
- there are usually a small number of strategic groups that capture the strategic differences among firms in the industry:
  - in general, strategic groups with fewer competitors have a greater likelihood of earning higher profits.
Evaluating each strategic group presents different opportunities and threats:

- Additional opportunities may arise from the review of the impact of the competitive forces in each strategic group:
  - the creation of a new strategic group;
  - shifting to a more favourably positioned strategic group;
  - strengthening the structural position of an existing group.

- Competing in a specific strategic group may pose significant threats:
  - risk of other firms entering the strategic group;
  - factors that reduce the mobility barriers of a firm's strategic group;
  - decreasing power with customers or suppliers;
  - risk of faulty investments necessary to improve a firm's position.

This section looks at Critical Success Factors, which represent the criteria for success in the market or industry.

Critical Success Factors are any dimension in which excellence is crucial for competitive access, for example:

- Parts of the marketing mix;
- Research and development;
- Low-cost manufacturing.

The analysis of CSFs is crucial in studies of competitive strategies as the really important insights come from understanding what is key to success in the industry or segment. It is worth noting that they are likely to differ in each market or industry, but are usually the same for competitors in the same market.

There are five steps to conducting Critical Success Factors analysis, as follows:

1) Develop a list of potential critical success factors for each market opportunity.
   a) This list is identified by:
      i) searching for commonalities across successful competitors already in the market;
      ii) gathering insights from client personnel regarding the potential critical success factors in the industry;
      iii) conducting interviews with industry experts.

2) Evaluate Relative Competitor Strength in the CSF Index.
   a) Assign each competitor a rating of 1, 2, 3, 4, or 5 on each CSF:
      i) 1 = poor relative performance, 5 = strong relative performance;
      ii) the rating should represent the average results from a survey of industry experts and client executives;
      iii) the ratings should be assigned relative to the industry average of 3, so two competitors with equal performance on a CSF should be assigned equal strength ratings.

3) Identify the business impact of each critical success factor.
   a) Find the average strength rating across all competitors:
      i) the CSFs with the highest average strength rating should be considered to have a
'significant' business impact in the market;
ii) the assumption here is that successful competitors will focus their investments and effort on the critical success factors that have a significant business impact in the market.

4) Determine the client's relative competitive position on each CSF.
   a) Identify the sustainable competitive advantages of the client versus its competitors;
   b) Identify unique assets, patents, processes or skills of the client that might lead to a strength.

5) Plot the CSFs on a Strategic Implications Matrix.
   a) Create a matrix:
      i) vertical axis - business impact;
      ii) horizontal axis - client's relative position.
   b) Place all CSFs for a client on the matrix.

The following table illustrates the numerous techniques to developing CSFs, each with its own set of advantages and disadvantages.

<table>
<thead>
<tr>
<th>Technique</th>
<th>Sources</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental analysis (e.g. PESTLE)</td>
<td>Environmental scanning; Economic models; Socio-political consulting services.</td>
<td>Future orientation; Macro orientation - analyses goes beyond industry firm focus; Can be linked to threats/opportunity evaluation.</td>
<td>More difficult to operationalize into specific industry or firm CSFs; Results may not lend themselves to incorporate usage in current timeframe (today's CSFs).</td>
</tr>
<tr>
<td>Analysis of industry structure (e.g. Porter, Value chain)</td>
<td>A variety of industry structure frameworks. Specific focus is on industry. Frameworks allow user to understand interrelationships between industry structural components; Can force more means level focus (beyond industry boundaries).</td>
<td>Wh-e-best source for industry-wide CSFs so not useful in determining firm-specific CSFs.</td>
<td>Industry more focus</td>
</tr>
<tr>
<td>Industry/business experts</td>
<td>Industry association executives; Financial analysts specializing in industry; Outside familiar with firms in industry; Knowledgeable insiders who work in industry.</td>
<td>Means of soliciting “conventional wisdom” about industry and firms. Subjective information often not discovered with more objective, formal and analytical approaches.</td>
<td>Lack of objectivity often leads to questions in verifying/justifying.</td>
</tr>
<tr>
<td>Analysis of competition</td>
<td>Staff specialists; Line managers; Internal consultants; External consultants.</td>
<td>Nameness of focus, offers, advantage of detailed, specific data; Depth of analysis lends to better means of justification.</td>
<td>Nameness of focus — CSF development limited to competitive arena (as opposed to industry structure approach).</td>
</tr>
<tr>
<td>Analysis of dominant firm in the industry</td>
<td>Staff specialists; Line managers; Internal consultants; External consultants.</td>
<td>Dominant competitor may set industry CSFs; Understanding of No. 1 may assist in coordinating firm’s specific CSFs.</td>
<td>Narrow focus may preclude seeking alternative explorations of success; May limit individual firm’s strategic response and focus.</td>
</tr>
<tr>
<td>Company assessment (comprehensive scan – specific)</td>
<td>Internal staff line organizations (detailed analysis by organization function—checklist approach).</td>
<td>Thorough functional area screening reveals internal/external strengths and weaknesses that may assist H5 development.</td>
<td>Narrow focus of analysis precludes inputs of more macro approach; Check-list approach can be very time consuming and become data-bound.</td>
</tr>
<tr>
<td>Temporal/external factors (firm-specific)</td>
<td>Internal staff; Brainstorming; CEO/general management observation.</td>
<td>More subjective and not limited to functional analysis approach; Leads to identification of important short-run CSFs that may get compartmentalized in more formal reviews.</td>
<td>Difficulty in justifying as KSF if only of short-term; Important may be overstated, if in fact a short-lived phenomenon.</td>
</tr>
<tr>
<td>PMIS results</td>
<td>Articles on PMIS Project results.</td>
<td>Empirically based; Excellent starting point.</td>
<td>General nature; Applicability to your firm or industry; Determination of relative importance.</td>
</tr>
</tbody>
</table>

Step 5 above requires the plotting of the CSFs on a Strategic Implications Matrix. An example of such a matrix is set out below:
Critical success factor analysis can generate powerful and extremely useful insights. The resultant output can be summarised as follows:

- **Insights:**
  - Helps define the key factors that the client should focus on to be successful in a chosen market or industry;
    - Strengthen capabilities;
  - ...
- Defend capabilities
- Outsource non-critical factors.
  - Helps determine which competitors are well positioned to compete successfully, and estimate the relative performance of competitors;
  - Helps assess competitors' relative strengths and weaknesses;
  - Leads to the identification of competitive advantages or core competencies for the client;
  - Determines the potential success of an entry into a new market or market segment;
  - Leads to the prioritisation of markets for potential entry.

- **Strengths:**
  - Can be very insightful and offers a rational logic for change.

- **Limitations:**
  - The CSFs and comparative index are only as good as the business understanding and judgment used to develop them.

This concludes our article discussing the importance of and techniques used to analyse the competitive landscape.