being "like a candy bar"). For the same reason, Clif will be a closer competitor to PowerBar than to Balance.

The competitive analysis in nearly all cases will benefit from extending the perspective beyond the obvious direct competitors. By explicitly considering indirect competitors, the strategic horizon is expanded, and the analysis more realistically mirrors what the customer sees. In the real world, the customer is never restricted to a firm's direct competitors, but instead is always poised to consider other options.

A key issue with respect to strategic analysis in general, and competitor analysis in particular, is the level at which the analysis is conducted. Is it at the level of a business unit, the firm, or some other aggregation of businesses? Because an analysis will be needed at all levels at which strategies are developed, multiple analyses might ultimately be necessary. For example, when Clif developed Luna, an energy bar designed for women, PowerBar countered with Pria. The manager of the Luna business may need a competitive analysis of energy bars for women, in which case the other energy bars might be considered indirect competitors.

IDENTIFYING COMPETITORS—STRATEGIC GROUPS

The concept of a strategic group provides a very different approach toward understanding the competitive structure of an industry. A strategic group is a set of firms that:

- Over time pursues similar competitive strategies (e.g., the use of the same distribution channel, the same type of communication strategies, or the same price/quality position)
- Has similar characteristics (e.g., size, aggressiveness)
- Has similar assets and competencies (such as brand associations, logistics capability, global presence, or research and development)

For example, there historically have been three strategic groups in the pet food industry, which is the subject of an illustrative industry analysis in the appendix to this book. One strategic group consists of very large diversified, branded consumer and food product companies. All distribute through mass merchandisers and supermarkets, have strong established brands, use advertising and promotions effectively, and enjoy economies of scale. The major players include Nestlé Purina Petcare and Big Heart Pet Brands (owned by Smuckers).

A second strategic group of highly focused ultra-premium producers, such as Hill's Petfood (Science Diet and Prescription Diet) and the Iams Company, sells product through veterinary offices and specialty pet stores. They have historically used referral networks to reach pet owners concerned with health. When P&G acquired Iams in 1999 and introduced it into mass merchandisers and supermarkets, the distinction between the two strategic groups blurred and new competitive dynamics were introduced. Iams became a threat to established brands in this space, and the Hill's brands found their competitive context very different. Now owned by Mars, these two companies are still competing for premium consumers.

The third strategic group, private-label, is producers that supply Walmart and other major retailers.

In fact, many industries are populated by several strategic groups: premium-dominated volume entries such as United in airlines or Budweiser in beer, low-cost entries such as JetBlue in airlines and Milwaukee's Best in beer, and niche groups such as timeshare planes and low alcohol and craft beers.

Each strategic group has mobility barriers that inhibit or prevent businesses from moving from one strategic group to another. An ultra-premium group in pet food producers has the brand reputation, product, and manufacturing knowledge needed for the health segment, access to influential veterinarians and retailers, and a local customer base. Private-label manufacturers have low-cost production, low overhead, and close relationships with customers. It is possible to bypass or overcome the barriers, of course. A private-label manufacturer could create a branded entry, especially if markets are selected to minimize conflicts with existing customers. The barriers are real, however, and a firm competing across strategic groups is usually at a disadvantage.

A member of a strategic group can have exit as well as entry barriers. For example, assets such as plant investment or a specialized labor force can represent a meaningful exit barrier, as can the need to protect a brand's reputation.

The mobility barrier concept is crucial because one way to develop a sustainable competitive advantage is to pursue a strategy that is protected by assets and competencies that represent barriers to competitors. Consider the PC and server market. Dell and others marketed computers direct to consumers by telephone and the Internet. They developed a host of assets and competencies to support their direct channels, including an impressive product support system. Competitors such as HP—which has used indirect channels involving retailers and systems firms—have developed a very different set of assets and competencies. HP and Dell have both struggled to cross the channel barriers. Competition has largely been between the groups rather than brands. As the direct channel lost appeal while products matured and service problems emerged, HP gained in the marketplace.

Using the Strategic Group Concept

The conceptualization of strategic groups can make the process of competitor analysis more manageable. Numerous industries contain many more competitors than can be analyzed individually. Often it is simply not feasible to consider thirty competitors, to say nothing of hundreds. Reducing this set to a small number of strategic groups makes the analysis compact, feasible, and more usable. For example, in the wine industry, competitor analysis by a firm like Robert Mondavi might examine three strategic groups: jug wines, premium wines ($10–$20), and super-premium wines (over $20). Little strategic content and insight will be lost in most cases because firms in a strategic group will be affected by and react to industry developments in similar ways. Thus, in projecting future strategies of competitors, the concept of strategic groups can be helpful.

Strategic groupings can refine the strategic investment decision. Instead of determining in which industries to invest, the decision can focus on what strategic group warrants investment. Thus, it will be necessary to determine the current profitability and future potential profitability of each strategic group. One strategic objective is to invest in attractive strategic groups in which assets and competencies can be employed to create strategic advantage.

The emergence of a new strategic group or subgroup is of particular importance. It can create a dynamic that will affect strategies of all competitors for a long time. Major disruptions to an industry often start small with inferior products, so analysis needs to proceed with an eye toward projecting future offerings rather than assuming they will not evolve. Chapter 13 elaborate on this point.