POTENTIAL COMPETITORS

In addition to current competitors, it is important to consider potential market entrants, such as firms that might engage in:

1. **Market expansion.** Perhaps the most obvious potential competitors are firms operating in other geographic regions or in other countries. A cookie company may want to keep a close eye on a competing firm in an adjacent state, for example.
2. **Product expansion.** The leading ski firm, Rossignol, has expanded into ski clothing, thus exploiting a common market, and has moved to tennis equipment, which takes advantage of technological and distribution overlap.
3. **Backward integration.** Customers are another potential source of competition. General Motors bought dozens of manufacturers of components during its formative years. Major can users, such as Campbell Soup, have integrated backward, making their own containers.
4. **Forward integration.** Suppliers attracted by margins are also potential competitors. Suppliers, believing they have the critical ingredients to succeed in a market, may be attracted by the margins, the control, and the visibility that come with integrating forward. Apple, Inc., for example, opened a chain of retail stores.
5. **The purchase of assets or competencies.** A current small competitor with critical strategic weaknesses can turn into a major entrant if it is purchased by a firm that can reduce or eliminate those weaknesses. Predicting such moves can be difficult, but sometimes an analysis of competitor strengths and weaknesses will suggest some possible synergistic mergers. A competitor in an above-average growth industry that does not have the financial or managerial resources for the long haul might be a particularly attractive candidate for merger.

COMPETITOR ANALYSIS—UNDERSTANDING COMPETITORS

Understanding competitors and their activities can provide several benefits. First, an understanding of the current strategy, strengths, and weaknesses of a competitor can suggest opportunities and threats that will merit a response. Second, insights into future competitor strategies may allow the prediction of emerging threats and opportunities. Third, a decision about strategic alternatives might easily hinge on the ability to forecast the likely reaction of key competitors. Finally, competitor analysis may result in the identification of some strategic uncertainties that will be worth monitoring closely over time. A strategic uncertainty might be, for example, "Will Competitor A decide to move into the western U.S. market?"

As Figure 3.2 indicates, competitor actions are influenced by eight elements. The first of these reflects financial performance, as measured by size, growth, and profitability.

Size, Growth, and Profitability

The level and growth of sales and market share provide indicators of the vitality of a business strategy. The maintenance of a strong market position or the achievement of rapid growth usually

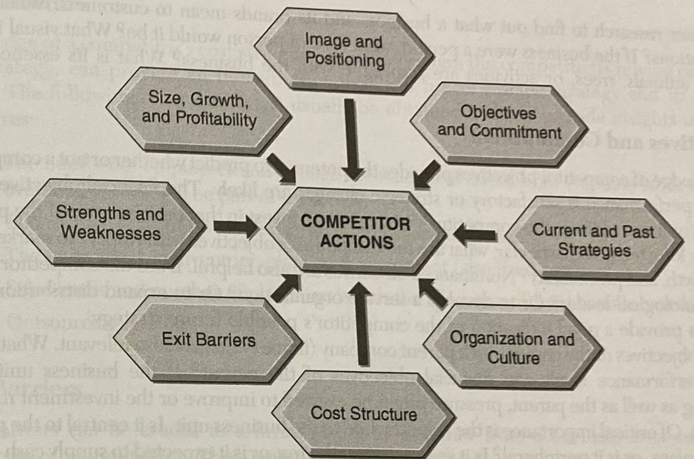

Figure 3.2 Competitor Analysis

reflects a strong competitor (or strategic group) and a successful strategy. In contrast, a deteriorating market position can signal financial or organizational strains that might affect the interest and ability of the business to pursue certain strategies. To provide a crude sales estimate for businesses that are buried in a large company, take the number of employees and multiply it by the average sales per employee in the industry. For many businesses, this method is very feasible and remarkably accurate.

After size and growth comes profitability. A profitable business will generally have access to capital for investment unless it has been designated by the parent to be milked. A business that has lost money over an extended time period or has experienced a recent sharp decrease in profitability may find it difficult to gain access to capital either externally or internally.

Image and Positioning Strategy

A cornerstone of a business strategy can be an association, such as being the strongest truck, the most durable car, the smallest consumer electronics equipment, or the most effective cleaner. More often, it is useful to move beyond class-related product attributes to intangibles that span product class, such as quality, innovation, sensitivity to the environment, or brand personality.

In order to develop positioning alternatives, it is helpful to determine the image associations, including the brand personality of the major competitors. Weaknesses of competitors on relevant attributes or personality traits can represent an opportunity to differentiate and develop an advantage. Strengths of competitors on important dimensions may represent challenges to exceed them or to outflank them. In any case, it is important to know the competitive profiles.

Competitor image and positioning information can be deduced in part by studying a firm's products, advertising, website, and actions, but often customer research is helpful to ensure that an accurate current portrayal is obtained. The conventional approach is to start with qualitative