customer research to find out what a business and its brands mean to customers. What are the associations? If the business were a person, what kind of person would it be? What visual imagery, books, animals, trees, or activities are associated with the business? What is its essence?

Objectives and Commitment

A knowledge of competitor objectives provides the potential to predict whether or not a competitor's present performance is satisfactory or strategic changes are likely. The financial objectives of the business unit can indicate the competitor's willingness to invest in that business even if the payout is relatively long term. In particular, what are the competitor's objectives with respect to market share, sales growth, and profitability? Nonfinancial objectives are also helpful. Does the competitor want to be a technological leader? Or to develop a service organization? Or to expand distribution? Such objectives provide a good indication of the competitor's possible future strategy.

The objectives of the competitor's parent company (if one exists) are also relevant. What are the current performance levels and financial objectives of the parent? If the business unit is not performing as well as the parent, pressure might be exerted to improve or the investment might be withdrawn. Of critical importance is the role attached to the business unit. Is it central to the parent's long-term plans, or is it peripheral? Is it seen as a growth area, or is it expected to supply cash to fund other areas? Does the business create synergy with other operations? Does the parent have an emotional attachment to the business unit for any reason? Deep pockets can sometimes be accompanied by short arms; just because resources exist does not mean they are available.

Current and Past Strategies

The competitor's current and past strategies should be reviewed. In particular, past strategies that have failed should be noted because such experiences can inhibit the competitor from trying similar strategies again. Also, a knowledge of a competitor pattern of new product or new market moves can help anticipate its future growth directions. Is the strategy based on product-line breadth, product quality, service, distribution type, or brand identification? If a low-cost strategy is employed, is it based on economies of scale, the experience curve, manufacturing facilities and equipment, or access to raw material? What is its cost structure? If a focus strategy is evident, describe the business scope.

Organization and Culture

Knowledge about the background and experience of the competitor's top management can provide insight into future actions. Are the managers drawn from marketing, engineering, or manufacturing? Are they largely from another industry or company? Clorox, for example, has a very heavy Procter & Gamble influence in its management, lingering from the years that Procter & Gamble operated Clorox as a subsidiary before the courts ordered divestiture following an antitrust suit.

An organization's culture, supported by its structure, systems, and people, often has a pervasive influence on strategy. A cost-oriented, highly structured organization that relies on tight controls to achieve objectives and motivate employees may have difficulty innovating or shifting into an aggressive, marketing-oriented strategy. A loose, flat organization that emphasizes innovation and risk taking may similarly have difficulty pursuing a disciplined product-refinement and cost-reduction program. In general, as Chapter 16 will make clearer, organizational elements such as culture, structure, competencies, incentives, and people limit the range of strategies that should be considered.

Cost Structure

Knowledge of a competitor's cost structure, especially when the competitor is relying on a low-cost strategy, can provide an indication of its likely future pricing strategy and its staying power. The following information can usually be obtained and can provide insights into cost structures:

- The number of employees and a rough breakdown of direct labor (variable labor cost) and overhead (which will be part of fixed cost)
- The relative costs of raw materials and purchased components
- The investment in inventory, plant, and equipment (also fixed cost)
- Sales levels and number of plants (on which the allocation of fixed costs is based)
- Outsourcing strategy

Exit Barriers

Exit barriers can be crucial to a firm's ability to withdraw from a business area and thus are indicators of commitment. They include the following:[3]

- Specialized assets—plant, equipment, or other assets that are costly to transform to another application and therefore have little salvage value
- Fixed costs, such as labor agreements, leases, and a need to maintain parts for existing equipment
- Relationships to other business units in the firm resulting from the firm's image or from shared facilities, distribution channels, or sales force
- Government and social barriers—for example, governments may regulate whether a railroad can exit from a passenger service responsibility, or firms may feel a sense of loyalty to workers, thereby inhibiting strategic moves
- Managerial pride or an emotional attachment to a business or its employees that affects economic decisions

NINTENDO—SUCCESS THAT STARTED WITH COMPETITOR ANALYSIS

The story of the Nintendo business strategy and brand is nothing short of astounding, and competitive analysis played an important part. BrandJapan, an annual survey of the strength of over 1,000 Japanese brands, saw a remarkable stability spanning nine years in the cast of characters occupying the top two dozen positions. Then came Nintendo. In the 2005 findings, Nintendo was ranked 135 in the survey. From that point it rose to 66 in 2006, to 5 in 2007, and finally to number one in 2008, a position it held with a value of over 93 while the next seven brands were bunched at 82 to 84, and a position it retained in 2009. During the 2004 to 2008 period, its stock price went up more than fivefold, and at one point its market cap was behind only Toyota in Japan. Why? What drove this performance?

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