Competitive Analysis

Knowing more about your industry and your potential customers than your competition can be a highly leverageable strength and provide you with a decided advantage in the marketplace.

Competitive strengths (and of course weaknesses) can be assessed in several different areas: strength in industry sales (ie: market share), intellectual property strengths (ie: proprietary processes or patents, trademarks) or financial strengths. Information regarding each competitors’ performance in each of these areas can be obtained online at a variety of KU library electronic data bases or at publicly available sources (ie: Yahoo finance: input your primary publicly traded competitor, then click on competition and a competitive comparison of sales, share and financial achievement is readily available. You may have to factor the results for competition in your geographic area or product offering if you expect to compete locally or with an abbreviated product/service offering).

You will want to identify all of the primary competitors who are currently selling their products/ services in your industry (as defined above). And you’ll want to research:

• Approximate size of each competitive brand in terms of sales or market share (if possible, this may be difficult to obtain)

• Features (what the product offers) and benefits (what the consumer gets by using that product) of each competitive entry.

• The way in which the product/service reaches the customer (ie: the channel of distribution). For example: Is the product/service just sold at retail or via online as well? How does the product reach the retail outlet, directly from the manufacturer or through a wholesaler?

• Retail price of the competitive brand (what the consumer pays) and the wholesale price of the competitive brand (if there is a retailer involved, this is the price the retailer pays to the manufacturer).

You will want to be able to demonstrate how your product/service compares to key competition as well as the opinions and perceptions of potential customers. To achieve these insights, two approaches can and should be used in the formation of your business plan.

1. Competitive Analysis: The Competitive Grid

Illustrated immediately below is a Competitive Grid which provides a means of evaluating your new venture’s offering vs. that of key competition in the industry in which you will be competing.

This Competitive Grid should be included in the Industry/Competitive Analysis section of your business plan.

|  |  |
| --- | --- |
| Your Offering/Key Competitors | Primary Reasons for Customers to Purchase Products/Services in this Industry |
| Reputation | Variety | Location | Uniqueness | Customer Service | Totals |
| Your New Venture |  |  |  |  |  |  |
| Competitor A |  |  |  |  |  |  |
| Competitor B |  |  |  |  |  |  |
| Competitor C |  |  |  |  |  |  |
| Competitor D |  |  |  |  |  |  |
| Totals |  |  |  |  |  |  |

Directions to completing the competitive grid are below.

1. Determine who your competitors are. They will be firms offering similar products/services or if you believe that no competitor offers a similar product/service, you should include as competitors those companies whose products/services are used by your target customers to satisfy the same problem that your product/service addresses.
2. Determine the primary reasons target customers purchase products/services in this industry. There may be many reasons but typically there are 4-5 primary needs/wants which figure prominently in the customers’ selection of the product/service they will purchase to satisfy that need/want. In the example above, the primary reasons cited are those which might be prominent in a customer’s selection of a place to eat. These reasons may or may not be representative of the primary reasons to purchase in your industry – select the ones which you believe are the primary drivers of customer purchase behavior in the industry in which you compete.
3. Complete the chart by assessing, on a 1-5 point rating scale (5 is highest), how well each competitor and your offering delivers against each primary reason for purchase. Ideally this assessment is based on actual potential customer feedback, as you would obtain in a potential customer survey by asking how well each competitor delivers against each key reason for purchase based on their experience. Since the potential customers will not have had an opportunity to experience your new product/service you can obtain their projected reaction by exposing them to your product/service concept in the survey research identified above.
4. Having potential customers provide their assessment of the competitive offering and your new product/service’s conceptual offering is the most accurate approach. However, if you are unable to conduct this survey you can insert your own assessment of each competitor’s performance for each reason for purchase, again on a 1-5 point rating scale. If you pursue this approach you must be brutally honest in your appraisal of each competitor and most importantly how your offering will perform against each competitor for the purchase reason.
5. When completed, add up all of the totals. The vertical totals will tell you how important each reason for purchase in this category is relative to the other reasons for purchase and therefore identify those areas in which you must focus your product/service’s ability to deliver, that is performing well against the highest rated reason for purchase will produce more overall customer appeal and ultimately sales than performing well in a purchase reason of lesser overall importance. The horizontal totals will tell you how well your offering is projected to perform against each of the competitors. With these vertical total results you should: work to improve your products/services’ projected performance in the deficit areas and/or reflect the inferior performance in a lower price than the better performing competitor in order to balance performance vs. price , the key value equation used by most customers when making the purchase selection. Before you opt for lowering your price, however, remember that a primary purpose of your business is to be profitable and lowering the price to make up for a performance deficit is antithetical to that mission.
6. Competitive Analysis: Perceptual Map

Another approach to identifying the relative strengths and weaknesses of competitors in your industry utilizes a perceptual map. In this approach, customers are asked to position each competitor along an axis according to how well the customer believes that competitor performs. The axes can be the same ones used in the Competitive Grid tool, above, simplified to use only two of the primary reasons for purchase (two axis producing a four quadrant chart) or including as many reasons for purchase as are relevant to purchases in this industry (the radar chart format). Both formats are illustrated as:

Two Axis Chart Format:

Using the Two Axis Format, one is able visualize how each competitor is perceived as performing on the selected variables of Reputation and Variety. In this example, the circle Competitor is perceived by customers from survey results to be both positive and superior to its circle X competition for both reasons for purchase but inferior to the star competitor for Reputation.

If you were the circle competitor, you might consider stressing variety in your marketing messaging, and de-emphasizing reputation in order to better compete.

 Reputation (+)

Variety (-) Variety (+)

 Reputation (-)

Radar Chart Format:

The radar chart is slightly more complex but then it shows more useful information regarding perceived competitive strengths/weaknesses and which of the primary reasons to emphasize in its marketing messaging. In this example, your service is perceived superior at variety and location so those attributes should be emphasized while competitor A is perceived via customer surveys to be better at customer service. You would want to improve your perceived customer service capabilities o improve your overall performance and gain increased customer attention and sales.

The information populating both chart displays is obtained using the same methodology as described earlier in assembling the Competitive Grid: use either customer surveys (the optimal approach) or your own best honest guess at both your expected performance on each reason for purchase as well as that of each of your competitors. Both chart formats are relatively simple to construct using an Excel spreadsheet to record and translate the data to the desired format.

The perceptual map is very useful for identify the optimal positioning of your new product/service offering vs. that of key competitors. By mapping each competitors strengths and weaknesses you can select the optimal positioning for your service (ie: where no competitor is currently positioned) and make sure to emphasize that positioning in your marketing messaging. As a result, the perceptual map is a good addition to your marketing plan section of the business plan to substantiate the selected positioning of your new product/service.