
Chapter 8

Marketing, Strategy, and Competitive Analysis

We've all heard someone in the course of business say that "marketing is fluff and hype." However, the wisest, most savvy, and most successful businesspeople understand that marketing is far from that. Marketing is everything you do on a daily basis to sell a product or provide a service to a customer. Marketing encompasses every way in which a customer perceives a business and everything that generates enough interest from a customer and encourages customers to actually pay for the product or service. As Peter Vessenes suggests, cash may be king, "but marketing is everything."

What does it really mean to market your service or product? Often, people immediately equate marketing with advertising and see only the amount of money that advertising will cost. However, by definition, marketing is actually the process by which we offer goods or services up for sale. Forward-thinking marketing strategists suggest that marketing is not a "cost" or "expense" but rather an investment, because much of the benefit of marketing is longer-term and may take years to fully provide its benefit.

Marketing has also been referred to as a social and managerial

process by which individuals and groups obtain what they need and want through creating, offering, and exchanging products of value with others. Additionally, it is all too often equated only with the more focused function of selling. But marketing encompasses a wider range of activities that must be a fully integrated process and, indeed, will form a foundation and catalyst for making sales. Further, the key to successful sales is a consistent proactive marketing strategy.

MARKETING'S KEY COMPONENTS: CREATING VALUE FOR THE CUSTOMER

What, then, is the key to a consistent proactive marketing strategy? First and foremost it is a philosophy that dedicates resources of the firm to ensuring that the wants, needs, and demands of the customer are the firm's focus. This customer-focused mentality is the foundation of the strategy that makes up the entire marketing process.

Second, it is a plan, supported by the firm's philosophy. Once the philosophy is in place, a plan can give direction, guidance, and a structure for proactive strategies that will increase sales and improve business relationships. Often firms find themselves dedicating resources to marketing activities—from trade shows to flyers—and spending money on marketing that is not targeted to the right audience at the right time. This is reactive marketing with a shotgun, rather than a rifle. Conversely, a proactive, focused marketing plan can provide guidance for targeting the right audience at the right place and at the right time, which in turn maximizes the return on investment and increases revenues.

Third, marketing is a process of creating value for the customer. It is a set of activities to educate, communicate with, and motivate the targeted consumer about the firm's services or the company's product and services.

Traditionally, this set of activities, the "marketing mix," is represented by four parts, the well-known "4 P's of Marketing": price, product, placement, and promotion. But to create a marketing strategy and plan that touch on all areas necessary to position a product in the market to maximize sales revenues, there are multiple areas to be tackled.

An effective marketing strategy/plan is an ongoing value-creating process composed of several elements:

- ✓ Marketing segmentation.
- ✓ Marketing strategy.
- ✓ Market research.
- ✓ Pricing.
- ✓ Placement.
- ✓ Value chain.

Market Segmentation

One of the first steps in developing an overall marketing strategy is to perform a market segmentation analysis, as a way to manage the strategy development process and ensure its effectiveness and success. The concept behind market segmentation is intuitive and relatively simple. Market segmentation is simply taking a look at the overall market for your product and service and thinking of it in terms of smaller, more manageable pieces.

Think of market segmentation as what Bert and Ernie from *Sesame Street* sing about when they suggest “One of these things is not like the other . . . one of these things doesn’t belong.” In a sense, that’s what we are doing when we segment a market—we are looking at the whole and trying to determine how we can group the mass market into smaller groups that, while different from each other, within the groups are more alike.

Once we have identified these subgroupings, we can target which of these market segments are likely to be the most productive and be the best fit with our company’s strengths and competitive advantages.

A well-used example of market segmentation is the way the players in the hospitality industry look at the market for hotel/motel rooms. Rather than take a “one size fits all” approach to this market, a company like Marriott looks at the overall market and segments it into several smaller, but more focused market segments. For the “travel and leisure” segment of the overall hotel/motel market, Marriott’s Fairfield Inn is located near major tourist attractions, is budget priced, and appeals to families. For the middle-level manager who travels a lot and

wants some comforts of home while on the road, the Courtyard by Marriott is located near businesses and has a residential “feels like home” atmosphere. For CEOs and top-level executives, Marriott’s Ritz-Carlton has all the upscale amenities and top-level customer service that presidents and CEOs of business and industry are used to and expect when they travel. Note in these examples how Marriott has broken this overall mass market into more manageable, more focused segments, and, importantly, how its marketing strategy for each segment is tailored to that segment.

By applying the principles of market segmentation, marketers can make better use of their marketing budgets and more efficiently manage their overall marketing strategy.

Marketing Strategy

To build a strong and durable house, it is necessary to create blueprints. Likewise, to build a strong and profitable business, it is necessary to develop a strategy. Essentially, marketing strategy is a plan that allows a business owner to direct activities that are consistent with the goals of the business owner and organization and spend money wisely in order to create the greatest amount of return on investment.

Market Research and Competitive Intelligence

To thoroughly understand what is happening in the industry in which you operate, it is invaluable to know what the trends in the industry are as well as what the firm’s competitors are doing to make money, to improve their businesses, and to improve their own market shares. Market research is necessary to make better firmwide decisions. With marketing being a philosophy where the resources and activities of the firm or company are focused on satisfying the wants and needs of the customer, marketing research is the way a firm with a marketing philosophy determines what those wants and needs may be, and further, how to communicate the associated benefits most effectively and efficiently. Additionally, market research is used to monitor and modify, if needed, the elements of the marketing strategy. Market research includes: defining the problem and research objectives, developing a research plan, presenting the plan, implementing the plan (collecting

and analyzing data), and interpreting and reporting the findings. This is the area of marketing where we begin to see science as well as art. This chapter focuses in detail on how to research a market, how to know the competition, and how to leverage that knowledge to improve your business.

Pricing

To sell a product for a particular price, value must be created. Value is the consumer's estimate of the product's overall capacity to satisfy his/her needs. When the value placed on a product or service is high, then satisfaction is achieved. Consumers are savvy and will choose based on the level of satisfaction that corresponds with the price. If a bottle of Coca-Cola were priced at \$5 while a liter of Pepsi-Cola was priced at \$1, it is likely that the sales of Coke would decrease. If these were the only two options at the supermarket, the likelihood of Pepsi sales increasing is high. Pricing is what your customer is willing to trade in return for a product—that is, the value they place on a product or service. Generally, a “price/quality” relationship exists, where the higher the price, the higher the quality; especially in the case of personal services, consumers will expect a higher level of service if the fee associated with that service is higher relative to other providers of similar services.

Marketers may elect to skim the market with a relatively high price at first, and then, as demand wanes at this relatively high price, gradually lower the price. New, innovative products often use this pricing strategy because their newness and uniqueness may enable a higher price at first. As copycats and competitors enter the market, prices will fall to meet the market price.

Some marketers, though, may use a penetration strategy, where the product or service is offered at a very low price, in order to quickly grab market share and be considered the low price provider. Wal-Mart is an example of a company using a penetration pricing strategy.

Pricing is a powerful tool in developing a marketing strategy with a strong connection to the financial condition of the organization. Pricing too low may result in economic consequences if costs are not covered, and pricing too high may stunt demand and sales of the product or service, also resulting in adverse economic consequences.

Placement

A customer will not likely purchase a service or product unless it can be relatively easily accessed. Placement can be anything from a magazine or candy bar sitting next to the checkout counter at the supermarket—a spontaneous purchase—to gas stations situated on the right-hand corner of the exit from a highway or to the location of an orthodontics office in the same complex as a pediatrician's office. Placement helps make the purchasing process for a customer easier and more convenient. Often the term distribution is used interchangeably for the placement component of a marketing strategy and includes the decisions a company or firm must make to ensure the connection with the customer or client. Placement is how the marketer connects the products or services with the customer—the easier, more convenient, more accessible the product or service may be, the more likely the customer will purchase the product or service.

Value Chain

All of the aforementioned parts of the marketing plan cannot be carried out to the full level of effectiveness without all areas—a value chain—working together. Generally, the value chain includes the following activities:

- ✓ *Inbound logistics*—bringing raw materials into the business.
- ✓ *Operations*—management of processes to create the product or service for the customer.
- ✓ *Outbound logistics*—the means for getting the product or service to the customer (for example, distribution systems and shippers to get products into retail stores).
- ✓ *Marketing and sales*—creating value.
- ✓ *Service*—aligning customer expectations and the performance of the product or service.
- ✓ *Firm infrastructure*—the organization of the firm to maximize service to the customer.

- ✓ *Human resources management*—creating a structure for the people in the firm, which includes recruitment, training, retention, and compensation of employees.
- ✓ *Technology*—using technology to maximize service, thereby enhancing customer value.

MARKETING AS AN INVESTMENT

Successful companies that become excellent marketing organizations know themselves, their customers, and what they offer that fills the customers' needs. This requires an investment of time and money to accurately determine whether all three parts of the triangle fit together.

As an example, ABC Company is about eight years old and operates in the online professional services industry. The customer wants and needs this service. Most importantly, the customer is willing to pay for the service and ABC Company is the only company occupying this space at this time. One would imagine that ABC Company is generating a strong and regular revenue stream. Unfortunately, ABC Company's CEO does not believe in investing in consistent marketing strategies and targeted marketing initiatives. Rather, the CEO pays low wages to inexperienced salespeople who have no incentive or support to sell the service. Therefore, due to a lack of investment in marketing, the customer does not even know that ABC Company exists. The fall-out of such poor strategic thinking could be that employees often are not paid in a month, morale plummets, and company reputation lags.

BECOMING A MARKETING ORGANIZATION: BE TRUE TO YOURSELF

As set forth in the preceding sections, marketing is the process of building a strategic plan. However, without buy-in from the organization as a whole, becoming a marketing organization is more challenging.

A marketing organization is not a firm that sells marketing services. A marketing organization is a firm—regardless of industry,

function, size, or region—in which all levels of the organization adhere to the same ideals and uniform methods for attaining customers. As an example, Southwest Airlines has created a marketing organization. It has three company “policies”:

- ✓ Practice the Golden Rule. We have a choice every day and choose to make our employees our first customers and our passengers our second customers.
- ✓ Help each other out.
- ✓ Feel free to be yourself.

Integrate, Integrate, Integrate

Southwest ensures that these messages as well as any marketing message is integrated throughout every part of the organization and in every point of contact with the customer—noting that the customer is both the Southwest employee as well as the purchasing passenger. This ability on Southwest’s part to create a marketing organization—or a marketing culture—allowed it to weather economic downturns and adverse industry trends.

Becoming a marketing organization also allows the entire team to understand the value of the firm’s products to the customer and behave in a manner in which selling is a way of life. For example, a consulting firm may have strategic consultants working on projects at the client’s office. Because of this situation, the consultants are able to observe the client’s business processes at every stage, and thus have an inside view of the needs of the client. This can create an “upsell” opportunity. Upselling is the process of adding a product or service to an existing project. For all marketers, gaining more share of an existing customer is a more effective overall marketing strategy than working hard to find more customers. Customer or client loyalty is a much smarter long-term strategy, because satisfied customers become “salespeople” in attracting new customers. Additionally, satisfied customers have trust and confidence in your firm’s offerings and are more likely to buy more, buy more often, and, because of the lower marketing costs associated with existing customers, become more profitable. The most expensive customer to

acquire is a new customer; the most cost-efficient customer is an existing one.

If the employee doesn't "get it," the customer won't.

There are numerous ways that all businesses can become marketing organizations and create buy-in on all levels.

- ✓ *Communication.* A firm may ensure that decisions are communicated quickly and honestly on all levels of the company so that employee questions, fears, and rumors do not erupt.
- ✓ *Training.* Training is important to ensure that every employee knows exactly what the firm does to generate revenue and what impact that individual has on that process. Ongoing training in customer service at all levels of the organization will add greatly to the effectiveness of the company's marketing strategy.
- ✓ *Tools of the trade.* People take action when empowered with the right tools to do so; therefore, it is important to create the tools to make each employee's job easier—whether it be a technological system or a brochure to distribute to customers or the process to do his/her job with clarity.

STRATEGY

In short, strategy is a bridge that connects a firm's internal environment with its external environment, leveraging its resources to adapt to, and benefit from, changes occurring in its external environment.

Strategy is also a decision-making process that transfers a long-term vision into day-to-day tactics to effect the long-term plan. Although often thought of only as something reflected in a business plan, strategy is rather a continual process of assessment, reassessment, and analysis, which constantly provides direction to the firm. Strategy can be compared to the captain on the bridge of a ship, who is constantly scanning both the horizon and the immediate surroundings and adjusting the course, possibly taking the ship in another direction if a storm appears on the horizon or if an object appears to obstruct the path.

POSITIONING AND STRATEGY

The position the firm fills in the marketplace is an integral part of the strategic process. Positioning can also be thought of as how the firm will stake a claim in a piece of the marketplace in a manner that will differentiate it from competitors. The key to sustainable strategy and positioning is an integrated marketing system. Competitive advantage comes from the ability to identify the firm's position, make strategic plans, and engage an entire integrated marketing system. All activities of the firm should fit together and complement each other to produce a well-oiled machine, which creates differentiation in the customer's mind and competitive advantage.

Strategy involves all areas of the firm from operations to finance to human resources. Choosing the right strategy for the right people for the right goals is challenging yet provides an overarching message for the entire organization. The strategy and message must then be communicated consistently and clearly throughout the firm for its effectiveness to take effect and produce a sustainable organization.

TACTICS

While strategy is the overall direction, the long-term mile markers, and/or the guiding force of how the organization moves forward, tactics are the specific steps that are taken to implement the strategy. Strategy tends toward the longer term; tactics are the shorter-term steps taken to achieve the long-term strategy.

For example, XYZ Company is a health and fitness center. Strategically, the firm leadership has decided to develop a center targeted at the 30 to 65 year-old woman and create a comfortable environment in which she can exercise, lose weight, and learn more healthy life habits. The firm's strategic geographic positioning is to provide centers in suburban areas where the largest number of these women live. The tactics used for carrying out this strategy include developing consistent messages and advertisements reflecting the mission of the firm targeted to this market segment, hiring other women trainers so the women customers will be comfortable, and

providing health and fitness educational materials specific to the mature woman customer that will create a relationship between XYZ Company and this market segment.

PEST ANALYSIS

Although easy to remember and easily forgotten by firms in developing a long-term strategy, a “PEST analysis” is an acronym for analyzing the external environment (political, economic, sociological/demographic, and technological) and setting the stage for strategic planning. Also known as “environmental scanning,” the PEST analysis reviews the environment of a market—whether emerging or existing—and provides a snapshot of the external situation that may impact an industry or the firms within that industry.

Political Environment

Often considered more relevant when entering a foreign market, the political situation in any new or existing market is invaluable to study and understand. Existing government policies and regulations can deter new entrants into an economy, particularly in underdeveloped or developing areas of the world, or can swiftly affect incumbents in an industry with new regulations and policies that can have both positive and negative results. For example, even though the Graham-Leach-Bliley Act in the 1990s in the United States repealed the New Deal era Glass-Steagall Banking Act and allowed some financial companies to expand their services, it also impacted those firms because they were not permitted to sell both institutional and investment services. Likewise, the Sarbanes-Oxley Act of 2002 prohibited firms such as those in accounting and financial services from providing consulting and auditing services. Additionally, government policies can add extra expense to firms; for example, the HIPAA regulations of the late 1990s required health-care organizations and all related firms to protect patient information, which led to increased costs to these providers.

Economic Environment

The economic health and welfare of a state, nation, or region also impact the firm's decision-making process. If an area is healthy economically and the consumers in a region have the means or potential means for creating purchasing power, then a company may want to consider selling its product or service in that area.

Sociological/Demographic Environment

In this part of an environmental scan, we look at trends and factors of the population of our market—for instance, societal attitudes or population shifts that represent either opportunities or threats to our overall strategy. Included in this portion of the analysis is perhaps the education level of the local market, in terms of creating both a workforce and a customer base for the firm. If the levels are too low, then the cost of creating training programs for potential employees and educational marketing methods for potential customers should be taken into consideration. The aging of the baby boomer demographic has affected the strategies of many organizations; interestingly, AARP has responded recently by becoming “more hip” in its image as a way to woo boomers who, prior to their arrival into AARP age range, have parodied its existence.

Technological

Technology refers not only to technology as it is thought of today with computers and systems to manage business more effectively, but also to the infrastructure necessary to support modern systems and processes. Certainly the diffusion of Web-based technology has affected most organizations, giving even the smallest a global presence and a cost-effective way to reach millions of potential customers. Thus, the strategy of an organization may be affected by technological change, and the velocity of technological change also means this variable must be monitored constantly. Certain areas of the world—even in the United States—cannot support systems without great build-out expense and investment. A firm must look at the condition of the host country or region's communication, transportation, and power systems, as well as the cost of using those systems. If the condition and

cost are adequate, then the quality of the end product or service and the reliability of consistently providing the firm's product or service to the end user/customer must be analyzed.

THE MODEL FOR STRATEGIC THINKING: PORTER'S FIVE FORCES

In the 1970s, Harvard economist Michael Porter created the gold standard for how strategy is created and analyzed today. Referred to as Porter's Five Forces, this method analyzes the industry and competitive environment in which a firm operates. When developed correctly, the framework paints a picture of the current environment in which the firm competes, allowing the firm to see the big picture and, in turn, develop long-term strategies for the company that will lead to effective decision making and sustainability. Porter believes that an industry's potential profitability can be expressed as a function of these five forces and that one can therefore determine the potential success of a firm in that industry. Porter's Five Forces provide a model for reviewing the outside environment portion of the strategy bridge and for determining the attractiveness of a particular activity at a particular moment in time. This model can be used on any firm of any size in any location in any industry and can be utilized regularly to keep a constant eye on the market, the direction of the market, and the competitors coming and going within that market.

The essential elements of Porter's analytical framework are:

1. Barriers to entry.
2. Threats of substitute products or services.
3. Bargaining power of suppliers.
4. Bargaining power of consumers/buyers.
5. Rivalry among competitors.

Barriers to Entry

Barriers to entry refer to forces that deter companies from entering a particular market. In general terms, one will hear such references as

“The barriers to entry in the telecommunications market are extremely high” or “The barriers to entry in the ice cream industry appear to be quite low.” Barriers to entry are just as important for firms that are incumbent in an industry as well as to the newcomers because of the threat of new entrants.

The barriers generally observed by Porter include economies of scale, product differentiation, capital requirements, cost disadvantage independent of size, access to distribution channels, and government policies (regulation).

Economies of Scale. These refer to the ability of a firm to mass produce a product and therefore to sell to the customer at a lower price. A competitor that does not have the luxury or means to mass produce would thus not be able to compete on price, but rather be forced to find another way to differentiate itself from the competition to the consumer.

Product Differentiation. This is the method or tactics used by a firm to give its product a more recognized value than the competitors' products. Brand identity is a powerful tool in creating value and therefore makes it difficult for a new entrant into the market to gain customer loyalty. For example, the leaders in the toothpaste market are Colgate and Crest. Customers tend to be loyal to their toothpaste brands, and it would require heavy expenditures to draw customers away from either of those brands. In addition to brand identity, advertising, first mover advantage (being first in an industry), and differences in products also foster loyalty to products and can easily make entering a market highly expensive.

Capital Requirements. These refer to the amount of money and investment necessary to enter a market. Not only does this reference the product differentiation and brand loyalty mentioned earlier, but it is also extremely important in an industry in which the infrastructure to produce the product requires large amounts of financial resources. Both telecommunications and aviation are examples of industries that require investment in machinery, technology, and so on.

Cost Disadvantage Independent of Size. Some industries have a high learning curve, whether that is scientific, technological, or experiential. In other cases, companies in a particular industry may have access to raw materials, lower prices, advantage based on history or relationships, favorable locations, or even the benefit of government subsidies. All of these factors can affect the ability for an up-and-comer to set up business, get access to capital, and even be profitable.

Access to Distribution Channels. Incumbents in an industry have relationships that may have been functioning profitably for all parties for years. New entrants to that industry have the challenge of creating new relationships or even new and creative methods of distribution just to get their products to market and in front of the consumer. This may mean using price breaks, innovative marketing, and creative product differentiation. For a service industry, this may refer to selling relationships or even a location of the service or place in society. For example, some law firms build relationships with clients and partners that are a result of years of networking and relationships. Business between the organizations goes back generations and new law firms in the field must be creative in reaching the clients.

Government Policies (Regulations). The government has power over industries in the form of licenses, limits on access to raw materials, taxation, and even environmental regulation and standards.

Threat of Substitute Products or Services

A substitute to a product or service can be any other product or service that serves a similar function. Too often, firms underestimate the competitor by not realizing that the product the competitor sells may be a substitute for its own product or service. Many failed ventures during the dot-com bubble had the misconceived notion that “we have no competition,” when, in fact, there are always products or services that compete for a consumer or customer’s budget. The key to a substitute is that although it may not be the same product

or service and although the competing products or services don't function in the same manner, the competing products meet the same customer need. For example, sugar prices cannot go too high or sugar substitutes such as fructose or corn syrup can be used in various consumable products (beverages, etc.). Other industries also have indirect substitutes such as preventative care and the pharmaceutical industry.

Bargaining Power of Suppliers

By controlling the quality or quantity of a product or service a firm needs to conduct its business, or by affecting the price, a supplier can have power over the firm and impact its ability to enter or function in a new market. The ultimate power of a supplier comes down to the characteristics of the supplier group and the relative importance of sales. According to Porter, a supplier group is powerful—it can affect a firm and possess control over the firm—if and when:

- ✓ There are fewer suppliers than buyers.
- ✓ Its product is unique or differentiated.
- ✓ The buyer group is fairly small.
- ✓ It has created high switching costs. Switching costs are incurred when a customer switches from one supplier/product/service to another. For example, when switching from one deodorant to another, the consumer may not experience a switching cost. However, for a company to switch from one office software provider to another, the costs may involve human resources, time, training, and so on.
- ✓ The supplier can integrate forward or take on the function of its customers; for example, a tire manufacturer may open its own retail stores to sell and install its tires.

Bargaining Power of Consumers/Buyers

Just as the supplier has power in the competition and market wars, the customer has power. Customers can force down prices, demand more service or better quality, and even pit competitors against one another.

As with most situations, when buyers form groups, they become powerful and will remain powerful if and when:

- ✓ They purchase in volume. A prime example is Wal-Mart or Costco. Not only can the customer purchase in volume, but Wal-Mart can purchase in large volume from the supplier, forcing down prices for the end consumer.
- ✓ The product is undifferentiated and the alternatives for the buyer increase.
- ✓ The product that they purchase forms a component of the product they produce.
- ✓ Switching costs are low.
- ✓ They can purchase up front.
- ✓ They can integrate backward.

Rivalry among Competitors

All four of the aforementioned parts—barriers to entry, the threat of substitutes, and the bargaining power of suppliers and buyers—create rivalry among competitors. Analyzing all of these areas provides a platform for studying the competition in the firm's market space.

COMPETITION: DON'T BE JUST LIKE EVERYONE ELSE

Every company and every firm has competition. The competition may be direct or indirect, but there is competition. The health club competes with the television, McDonald's competes with cooking at home, and the design company competes with the do-it-yourselfer. The moment a firm begins to believe that it does not have competition is the exact moment it becomes vulnerable to competition.

Competitive Advantage and the Basis for Competing

Once the firm knows who the competitors are and what they do, it needs to carefully identify and document who it is. This is called

creating a competitive advantage. A competitive advantage is created through differentiation and differentiation is created through branding and imaging.

Any time a customer asks for your product by name, you have achieved differentiation. Although theoretically simple, creating differentiation through brand and image is not as simple as it sounds. It is a process of identifying the firm's strengths, weaknesses, limitations, hurdles, and faulty assumptions, followed by creating a brand that is identified by logos, tag lines, color scheme, and all those additional elements that create a visual or recognizable memory of the firm. The competitive advantage of a product or service also depends heavily on variables such as the level of sophistication of the product, prior experience with that product or service in a certain country or part of a country, and the types of distribution channels available.

Costs and Risks

Creating competitive advantage may require a high level of cost and risk to the firm. Often, a firm will create a branding strategy that "pushes the envelope" and increases risk both in time and in money. However, the brand image that is created is so strong that the customer immediately responds positively. It is imperative that the brand or image created be aligned with the firm's strategic initiatives and goals.

Creating a Perceived Value

There are two packages of cheese, both of which are produced at the same factory. One is sold at the supermarket for \$3.50 and carries a brand name. The other package of cheese is a generic brand and sells for \$2.50 before the store gives a "VIP card" (frequent shopper) discount. It is the exact same cheese with different labels. However, millions of Americans buy Kraft over the store brand because it is a brand they can trust. This is what is referred to as "perceived value." The customer has no idea that the cheese comes from the same plant, has the same ingredients, and is probably even packaged at the same location.

It is even possible that the same truck delivered both cheeses to the grocery store. The value is not in the cheese, but in the trust that the customer places in a company with which he/she can identify.

The SWOT Analysis: Identifying Firm SWOT

Once the competition and the industry have been assessed, a firm may wish to perform a SWOT analysis. SWOT stands for strengths, weaknesses, opportunities, and threats. The strengths and weaknesses are internal factors, whereas opportunities and threats are external factors. A SWOT analysis can be as high-level or detailed as necessary to understand and bring to light the challenges and next steps for the firm in creating strategic initiatives.

To fully understand the firm's competitors and the competitive environment, it is imperative that the firm compare its SWOT to its competition's SWOT. Most business leaders will want to ensure that a SWOT analysis is performed on the firm at regular intervals and that input on the SWOT is gathered from many areas of the organization, as well as from the customer.

PERFORMING A COMPETITIVE ANALYSIS: KNOWING THE COMPETITION INSIDE AND OUT

Once the firm's internal strengths and weaknesses are realized and the external opportunities and threats are identified, next it is important to turn to a similar process of evaluating the competition. Competitor evaluation not only gives more insight into the strategies and goals of the competition but it also provides a bird's-eye view of the trends and future of the industry in which the firm operates.

Step 1. Identify the Competition

To analyze the competitive landscape, it is necessary to make a list of those competitors that compete directly or indirectly with the firm's product or service by providing the same product or service to the customer. (The need that is fulfilled by a product or service is not

necessarily the obvious. For example, in the case of a beauty salon, the customer need is not necessarily a haircut, but rather the need to look good and feel happy and attractive.)

Step 2. Identify the Competitors' Strategies

Analyzing the competitors' strategies provides the firm an indication of current trends in the marketplace. This helps the firm determine how to approach the customer.

Step 3. Determine the Competitors' Objectives and Goals

This step may also be referred to as determining the competition's "internal balance." The key to properly assessing the competitor is to know where its value system lies. Because each competitor is different, it will place various levels of importance on technology, quality, cost, market share, and mission. Understanding the competition's objectives can help the firm identify those things that may differentiate it from the rest of the pack.

Step 4. Identify Competitor SWOT

In this step, it is not only important to assess the competitors' strengths and weaknesses, just as the firm performed on itself, but it is also valuable to recognize those opportunities and threats that may be present for the competition. Identifying the competition's strengths and weaknesses allows the firm to identify and assess future moves and initiatives that could affect both the industry and the firm, while identifying the opportunities and threats will give the firm an idea of the kinds of outside forces that could impact the competitor and therefore attack the firm.

Step 5. Estimate Competitors' Reaction Patterns

Some competitors react quickly to events in the marketplace, whereas other competitors take a different approach and react only to selective events in the marketplace. Others are laid-back and react slowly, while

still others don't show a pattern of reaction at all. Looking at these behaviors provides the firm a better understanding of what may occur in an industry if the firm takes certain actions or implements certain initiatives.

Step 6. Select the Competitors to Attack and Avoid

Some competitors are such large financial powerhouses that it may not be financially feasible to attack. Some merely put up the front or the image that they cannot be attacked. It is in this step that it is valuable to the firm to know the competitors for which an attack strategy would be profitable and those for which avoidance would be the best policy. Identifying the weak versus the strong competitors will allow the firm to make efficient decisions.

Step 7. Create a Positioning Map

To create a visual understanding of the entire competitive landscape, it is helpful to create a positioning map to provide a visual representation of the firm's position compared to the competition as depicted in Figure 8.1.

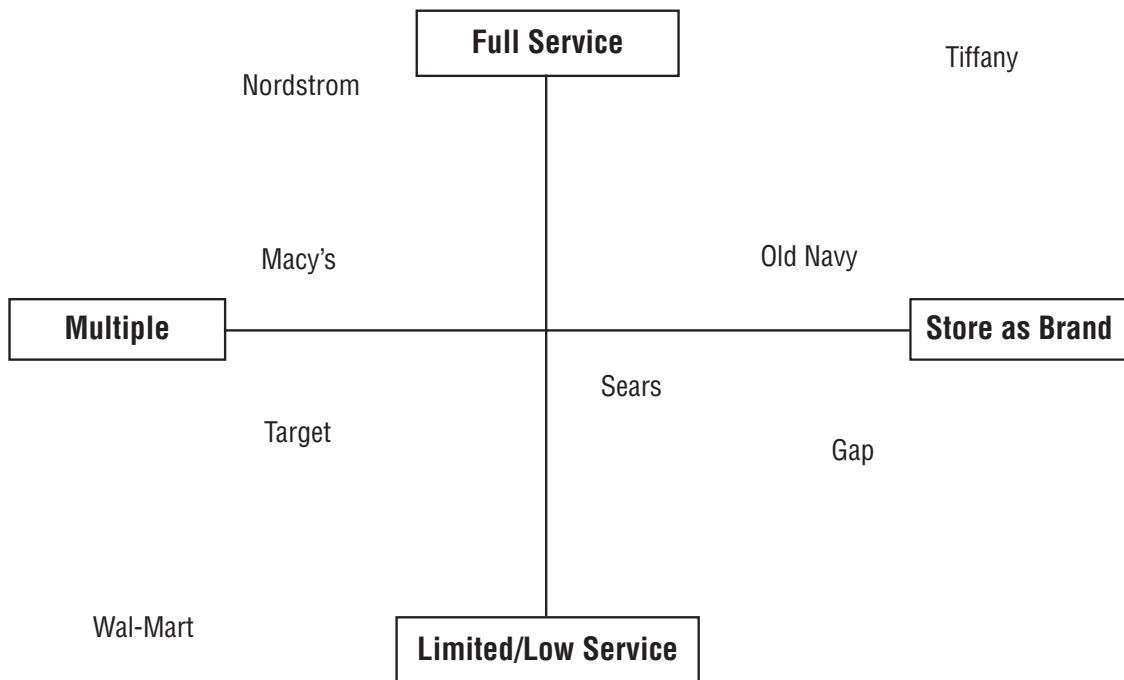


FIGURE 8.1 A Positioning Map

Competition provides the firm the opportunity to look into the future. Once all of the information is gathered, a firm can imagine the competitor's next move and either do the same if the market supports it or take a different route, cutting the competition off at the pass. For example, the home improvement stores Home Depot and Lowe's are often within minutes of each other or even right across the street. Generally, one store decides to move into an area before the other, and the other watches and sets up shop nearby. Once the competitor has found the location, the firm can take action.

Competition creates a sense of urgency and often increases sales for all the competitors who are willing to put up a fight. Once the firm's competition is known and understood, the next opportunity for the firm is to "go deeper" by implementing competitive intelligence.

COMPETITIVE INTELLIGENCE: WHAT CAN YOUR COMPETITION DO FOR YOU?

Competitive intelligence (CI), also referred to as business intelligence, is often seen as the business world's secret agent 007. Although no spy planes or pinpoint cameras are used, competitive intelligence is, according to the Society for Competitive Intelligence Professionals (SCIP), "a systematic and ethical program for gathering, analyzing, and managing external information that can affect [the firm's] plans, decisions, and operations. Specifically, [CI] is the legal collection and analysis of information regarding the capabilities, vulnerabilities, and intentions of business competitors, conducted by using information databases and other 'open sources' and through ethical inquiry." In other words, CI is the company's radar.

Companies use CI for any number of reasons: assessing a competitor's strategies, defining the competitive landscape, discovering and assessing trends in the industry, or identifying new opportunities that may not have surfaced earlier in the competitive analysis process. CI is not market research, as it is more forward looking, nor is it industrial espionage, because it is legal, but rather a systematic and timely

process for understanding the current competitive environment. When combined with internal firm analysis, CI can provide a manager with a more complete picture of the decisions that need to be made to retain the firm's competitive advantage.

CI is valuable for many reasons. It can both help decrease the possibility for risk and help the firm avoid unnecessary or additional costs. In terms of savings, it can increase revenues and save time, which translates into cost savings. CI also provides information for innovation, product development, and targeted marketing by validating trends, clarifying events, and providing discovery and insightful information.

Because any effective strategic marketing plan requires that a firm keep close track on a regular basis of the competitors' plans and actions, there are a number of ways that CI can be done. To find out information about the competition, the following are a few obvious or not-so-obvious places where information about the competition can be found:

- ✓ *Annual reports.* Annual reports of publicly held companies are an obvious and easily accessible way to learn how a competitor is revealing itself to its shareholders.
- ✓ *Press releases.* Most firms distribute press releases to generate public relations. Often, the firm will post these on its web site. It is advisable to review the press releases over a few months' time to get a big picture view of where the competitor's strategy is heading.
- ✓ *Trade magazines.* Trade magazines provide an up-to-date and in-depth analysis of the industry and where that industry appears to be headed.
- ✓ *Vendors/partners/customers.* Another source of solid competitor information is the patterns of vendors, partners, and customers.
- ✓ *Salespeople.* Salespeople are often very willing to talk about their companies and provide information that provides insight into the direction the competition is heading.

- ✓ *Networking.* In the process of creating a network for generating business for the firm, it is possible to hear about the activity of the competition merely through observing the activities or events the senior leadership attends.
- ✓ *Local news outlets.* Often local, regional, and national news sources track the activities of local private companies.
- ✓ *10-Ks and 10-Qs.* A public company's SEC filings are especially helpful when considered as an evolving story over a period of years.
- ✓ *External research or professional organizations.* Often the best place to find information about a company is an event at which representatives of the company have been asked to speak. This may be at any professional organization's monthly meetings or annual conference. In addition, there are plenty of online resources, including organizations such as Hoover's or Dun & Bradstreet, which help if time or money is a limitation.
- ✓ *Internet.* Search engines can be an invaluable source of information. For example, once the names of the competitors' senior management team are available, it is possible to plug a name into a search engine and reveal a host of information. Search engines may include sources such as www.google.com or www.boardreader.com and even www.cnet.com.

SUMMARY

A firm's strategic goals are based on both internal and external knowledge, insight, and in-depth analysis. Without a strategic plan, resources are spent on events, activities, and functions that may not generate revenue. To make the most of each dollar earned by the firm, all functions must work together to create a well-oiled machine. The marketing plan, which is based on a full understanding of the market, the firm, and the customer needs, dovetails directly with the strategic plan to provide a road map for the firm. This road map is the ultimate tool for guiding leaders toward making decisions that will provide sustainable growth to the company.

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