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STUDY NOTES

The role of competitor analysis

Level: AS, A-Level **Board:** AQA, Edexcel, OCR, IB

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Competitor Analysis is an important part of the strategic planning process. This study note outlines the main role of and steps in competitor analysis

Why bother to analyse competitors?

Some businesses think it is best to get on with their own plans and ignore the competition. Others become obsessed with tracking the actions of competitors (often using underhand or illegal methods). Many businesses are happy simply to track the competition, copying their moves and reacting to changes.

Competitor analysis has several important roles in strategic planning:

- To help management understand their competitive advantages/disadvantages relative to competitors
- To generate understanding of competitors' past, present (and most importantly) future strategies
- To provide an informed basis to develop strategies to achieve competitive advantage in the future
- To help forecast the returns that may be made from future investments (e.g. how will competitors respond to a new product or pricing strategy?)

Questions to ask

What questions should be asked when undertaking competitor analysis? The following is a useful list to bear in mind:

- Who are our competitors? (see the section on identifying competitors further below)
- What threats do they pose?
- What is the profile of our competitors?
- What are the objectives of our competitors?
- What strategies are our competitors pursuing and how successful are these strategies?
- What are the strengths and weaknesses of our competitors?
- How are our competitors likely to respond to any changes to the way we do business?

Sources of information for competitor analysis

Davidson (1997) described how the sources of competitor information can be neatly grouped into three categories:

- **Recorded data:** this is easily available in published form either internally or externally. Good examples include competitor annual reports and product brochures;
- **Observable data:** this has to be actively sought and often assembled from several sources. A good example is competitor pricing;
- **Opportunistic data:** to get hold of this kind of data requires a lot of planning and organisation. Much of it is “anecdotal”, coming from discussions with suppliers, customers and, perhaps, previous management of competitors.

The table below lists possible sources of competitor data using Davidson’s categorisation:

In his excellent book [Even More Offensive Marketing], Davidson likens the process of gathering competitive data to a jigsaw puzzle. Each individual piece of data does not have much value. The important skill is to collect as many of the pieces as possible and to assemble them into an overall picture of the competitor. This enables you to identify any missing pieces and to take the necessary steps to collect them.

What businesses need to know about their competitors

The tables below lists the kinds of competitor information that would help businesses complete some good quality competitor analysis.

You can probably think of many more pieces of information about a competitor that would be useful. However, an important challenge in competitor analysis is working out how to obtain competitor information that is reliable, up-to-date and available legally(!).

What businesses would really like to know about competitors

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