in the case of adapting to business strategy entering the strategic group or industry. That is the reason why companies try to compete with different business strategies despite the fact that all business strategies are not equally successful. If there were not any mobility barriers, it would be easy for some companies to imitate companies with successful business strategies influencing the profit equalisation.

According to Michael Porter (1979), the existence of strategic groups reduces the intensity of competition within an industry. It is a result of the cooperation and coordination of group members, which are the reason for the reduced intensity of the competition in the group, compared with competition among individual groups.

Such a situation is defined by three factors (Dess and Davis, 1984): (a) The number of groups and the distribution of their market shares; (b) the diversity of individual groups (the so-called strategic distance); and (c) the level of product buyer profile diversity.

Strategic groups have multiple advantages since they offer:

- Understanding and determination of the direct competitors of a company, which is the competitive foundation of rivalry within every strategic group;
- Identifying the similarities and differences of a company compared to existing competitors and competitors with an interest of entering the strategic group;
- The probability and possibility of a company to change a strategic group and overcome obstacles to enter a better strategic group;
- Recognising company opportunities and threats that need a timely identification since they occur at different intensity within strategic groups.

Competitors analysis from the environmental perspective

The competitor analysis has an aim of predicting the future decisions of competitors and their plausible reactions to the business strategy of a corporation as well as their initiatives and to determine the ways of influencing the competitors for the benefit of the company that initiated the analysis. Company competitors are those selling the same or similar products at same or similar prices to the same category of consumers. The existing business strategies of competitors, their assumptions on the industry and their potential should be monitored with special interest. All the stated participants are in a competitive game with companies from within the industry. Recognising them in such a way, the company can choose its competitors by classifying them into those which are important and those which are not, within the established industry boundaries. Determining the industry boundaries is important since it creates an opportunity for a corporation to identify direct and indirect competitors.

Direct competitors are a decisive factor since a lot of actions undertaken by companies are a result of an answer to the moves of the competition. Recognising and analysing the strategic group of the company located in an industry is a logical insight and a regular part of a detailed analysis of competitors.

Companies analyse the current, investigate the potential and predict the future competitors to position themselves in order to maximise the economic added value which differentiates the company from its competitors.

A constant collection of information on competitors is needed. The most common sources include the following: (1) *The competitors themselves* (e.g. reports, brochures, events, statements and similar), (2) *business partners* (e.g. suppliers, media, agencies and similar), (3) *internal sources* (e.g. analysts, acquisitionists, investigators and similar), (4) *competitor buyers* (e.g. interviews, surveys, groups and similar) and (8) *data bases* (e.g. the Internet, research, statistics and similar).

Intelligence on competition is a euphemism for economic espionage. Friedrich the Great used to say: You can be forgiven for being defeated, but you cannot be forgiven for being surprised.

Counter-intelligence consists of active actions to identify and neutralise the activity of data collection by competitors. The difference between intelligence and counter-intelligence is in the selection of posed questions.

If the following question is asked: *Why are competitors receiving benefits at the expense of our company?* You have a case of intelligence.

Counter-intelligence is featured by the following question: *What is it that our company does that provides it with the opportunity to make a profit at the expense of the competition?*

Michael Porter (1985) has established four diagnostic components (Figure 4.7) in an analysis of competitors:

1 Future goals;
2 Current strategies;
3 Assumptions;
4 Competences.

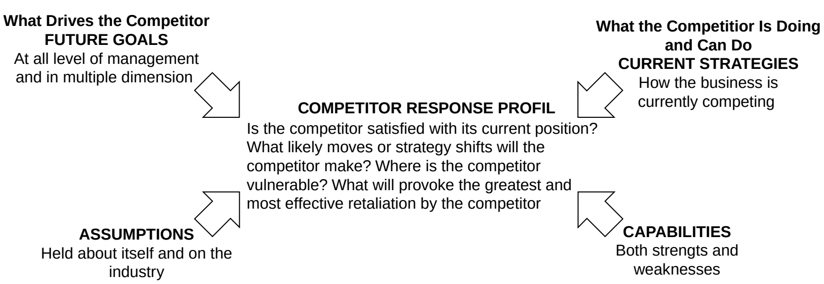

Figure 4.7 Porter's competitor analysis framework.

Source: Adapted from Porter (1985:49).

The first component of competitor analysis is future goals. Future goals enable the prediction of the level of satisfaction of competitors with their position, which offers information on the possible changes of their business strategy. The analysis needs to include the goals of the reaction of the strategic units of a company.

The second component of competitor analysis is current strategies. Forming attitudes on the current strategies reveals information on key operational policies of each individual business function and the type of connection between the business functions. The strategies can be explicit or implicit and always exist in one of these forms.

The third component of competitor analysis is assumptions. Identifying each competitor assumptions includes the assumptions of competitors on themselves and the assumptions of competitors on other competitors. Each company operates on a basis of a set of assumptions on their own situation as well as the industry and its competitors.

The fourth component of competitor analysis are capabilities. A realistic analysis of the competences of each competitor will affect the probability, definition, character and intensity of the reaction. Its strengths and weaknesses prompt its competence to either initiate or react to events taking place in the industry.

A company needs to analyse all noteworthy existing competitors which can have an active role in the market. The analysis should include current and potential competitors. The possibility for competitors to utilise their business strategies and goals greatly depends on their resources and capabilities. A company needs to gather information on each competitor. Generally speaking, a company needs to follow two variables during a competitor analysis:

1 Its share in buyer conscious – the percentage of buyers favouring a particular competitor when answering the following question: When you consider a particular industry, which company comes to your mind first?
2 Its share in buyer preferences – the percentage of buyers highlighting a competitor feature when answering the following question: Which product of a particular company does first come to your mind?

The general conclusion is that company with a big share in buyer conscious and preferences will reach a big market share and above the average profitability, too. However, companies enter and exit an industry. Although entry and exit barriers are conceptually different, there is often the possibility of their correlation. Figure 4.8 illustrates the exit barriers (which can be low or high) and entry barriers (which can be low or high).

Michael Porter (1980) argues that the most favourable position in terms of industry profitability is the one where the *entry barriers are high*, but the *exit barriers are low*. This makes entry difficult for potential competitors and creates an easier exit for existing unsuccessful competitors. There is capacity

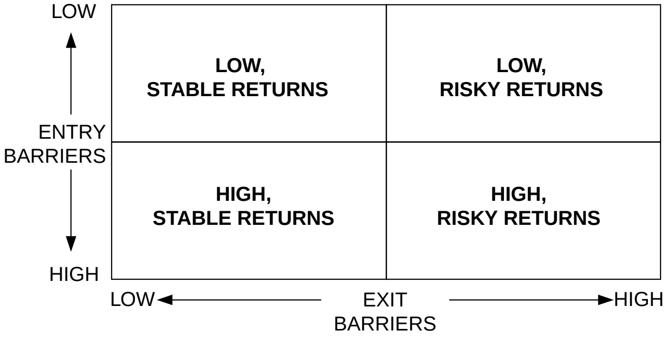

Figure 4.8 Industry barriers and profitability.

Source: Adapted from Porter (1980:22).

exploitation and high profitability in those industries. When both *entry and exit barriers are high,* the potential for profitability is high, but associated with high risk. This makes it difficult for existing unsuccessful competitors to exit. Weaker competitors do not leave and fight for a better spot in the existing industry. When both *entry and exit barriers are low*, the potential for profit is low, and associated with high risk. This makes it easier for unsuccessful competitors to exit. Weaker competitors leave the industry and fight for a better spot in a new industry. The least favourable position in terms of industry profitability is the one where *the entry barriers are low and the exit barriers are high*. This makes it easier for potential competitors to enter, and difficult for unsuccessful competitors to exit. There is unused capacity and low profitability in those industries.

Michael Porter (1995) points out some mistakes with companies trying to strategically react to the competition dynamics. *The first mistake concerns strategic thinking*. The biggest mistake is trying to apply universal business strategy. A good business strategy concerns dealing with structural characteristics of the industry economy and the unique position of a company in it. Industry leaders are the companies which do not optimise their performances, but rather redefine the industry. *The second mistake concerns the success in strategic adaptation*. A change alters the buyer's need. The continuity of business strategy and fast changes are not inconsistent. A differentiation needs to be made between business strategy and operative effectiveness in the process of operationalisation of the given position. Business strategy needs to be changed the very moment that the fundamental needs of the buyer are changed.

The development of new technology significantly influences the reshaping of industry structures. Given that context, industry participants significantly influence the creation of high barriers to reduce the newcomers, which leads to the reduction of industry competitiveness. Such a scenario creates artificial and highly unattractive industries for new participants. To what extent does such a relation favour the creation of