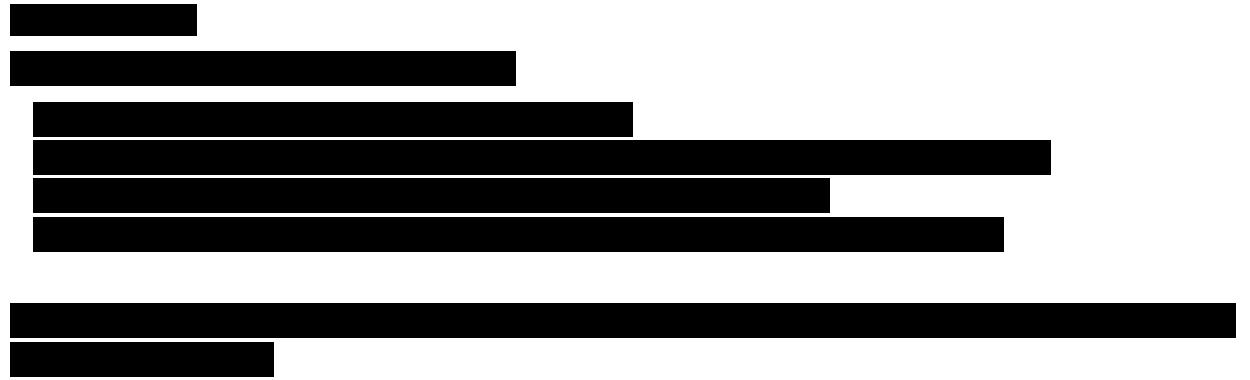




### 5.3 Competitive Analysis



## Competitive Analysis

A competitive analysis should provide the entrepreneur with information about how competitors market their business and ways to penetrate the market by entry through product or service gaps in areas that your competitors do not serve or do not serve well. More importantly, competitive analysis helps the entrepreneur develop a competitive edge that will help create a sustainable revenue stream. For example, a big company like Walmart primarily competes on price. Small companies typically cannot compete on price, since the internal efficiencies and volume sales available to large corporations like Walmart are not available to small companies, but they may be able to compete successfully against Walmart on some other important variable such as better service, better-quality products, or unique buying experiences.

When preparing the competitive analysis, be sure to identify your competitors by product line or service segment. For an entrepreneur, this activity can be difficult when the industry does not yet exist. In the case of Bee Love, Palms Barber didn't have direct competitors, but she did have related competitors of traditional skin care products. Her unique idea of all-natural, honey-based skin care products created a new market. The competitive analysis might need to focus on substitute products rather than direct competitors. There are two main tools used in analysis of competitors: a competitive analysis grid and the "three circles" approach.

### Competitive Analysis Grid

The competitive analysis grid should identify your competitors and include an assessment of the key characteristics of the competitive landscape in your industry, including competitive strengths and weaknesses and key success factors.

[Table 5.2](#) provides an example of what a competitive analysis might look like for a bicycle shop in a tourist locale.

**Competitive Analysis Grid for Sid's Cycle Shop in Branson, Missouri**

Key Characteristics		Sid's Cycle	City Cycle	SpokeMasters	Target
Strengths		Product knowledge, Repair service	Repair service	High quality, Top brands	Price, hours (open seven days per week and online)
Weaknesses		Limited selection	Poor customer service	Pricing, no entry-level products	Low-end quality, no repair facilities
Product Quality Level		Low-middle	Middle-high	High-end	Entry-level
Price Point		Middle	Middle-high	High price	Lowest price
Location of the business		Suburban strip-mall on busy highway	Outskirts of town on route 280	Downtown side street	Branson Mall
Promotion		Weekly ad in local newspaper, some radio and Internet/social media	Advertising in local paper during season, Internet/social media	Sponsors major bike race in area, Internet, social media	Advertises online and in Sunday newspaper (seasonally), Internet

**Table 5.2** This competitive analysis grid captures some of the main aspects of competitors within a given market.

As you complete an analysis for your venture’s competitors, identify what contributes to the competitor’s success. In other words, why do people purchase from the company? Some possible reasons include no nearby competitors, lower prices than competitors, a wider variety of products, offering services not offered elsewhere, or branding and marketing that appeals to the target market. Your analysis should inform you of a combination of key success factors within the industry (what it takes to be successful in the industry) and of what your competitors are not offering that is valued by your target market.

Another frequently used tool is a **SWOT analysis** (strengths, weaknesses, opportunities, and threats), which focuses on analyzing your venture’s potential and builds on the knowledge gained from the competitive analysis grid and the three circles. You will need to identify the strengths your venture will need to support the competitive advantage identified through the competitive analysis tools. The weaknesses can be identified based on your current and foreseeable expectations. For a new venture, the opportunities and threats sections are based on current factors in the external environment that come from your research. In this context, opportunities are facts, changes, or situations within the external environment that could be favorably leveraged for the venture’s success.

## WORK IT OUT

### Using SWOT Analysis to Evaluate Entrepreneurial Opportunity



**Figure 5.9** A SWOT analysis can be used to identify the strengths, weaknesses, opportunities, and threats of a potential entrepreneurial opportunity. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

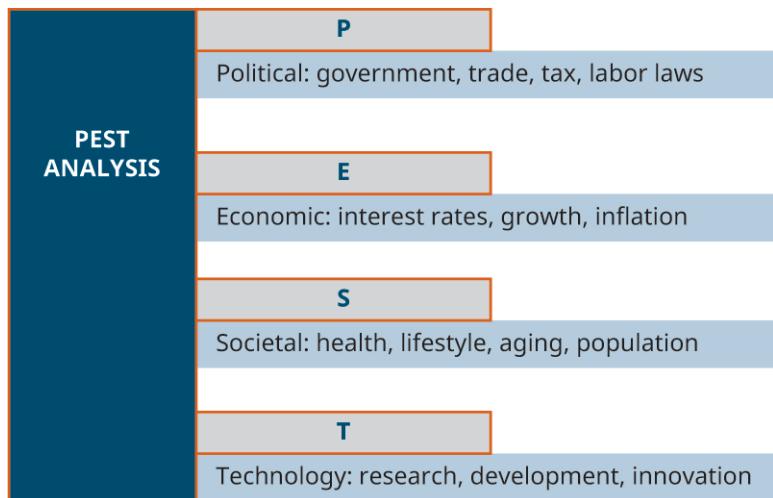
One way to evaluate a business idea is to prepare a SWOT analysis (Figure 5.9). Note that strengths and weaknesses are internal to the entrepreneur, while opportunities and threats are external factors. Strengths are capabilities and advantages of the entrepreneur, including education, experience, and personal or professional contacts. Weaknesses are disadvantages of the entrepreneur, which could include lack of knowledge or experience. Opportunities are positive events that the entrepreneur can develop to his or her benefit. This could include development of new technologies, changes in consumer tastes and preferences, market growth, and new laws and regulations. Threats can be anything that could potentially harm the business or prevent the business from becoming successful such as competition, negative changes in economic conditions, and new laws or regulations.

- If you were starting a new business venture, what strengths would you be able to leverage to help your business be successful?
- Provide some examples of personal or professional weaknesses an entrepreneur might face when

starting a new business.

- Discuss three occurring events such as new laws and regulations, changes in consumer tastes and preferences, or developing new technologies that could provide business opportunity for a new business venture.

Another tool that can be used to analyze opportunities and threats section is called PEST analysis (political, economic, societal, technology). In this analysis, we identify issues in each of these categories. [Figure 5.10](#) shows an example of the topics that could be placed in a PEST analysis. The chapter on [Fundamentals of Resource Planning](#) discusses this tool as it relates to resource procurement.



**Figure 5.10** A PEST analysis can help identify opportunities and threats that can be used in a SWOT analysis.  
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Each of these categories should be completed with relevant facts related to your entrepreneurial opportunity. After completing this analysis, you then determine if these facts, or factors, would be placed in the opportunity section or the threat section of the SWOT.

