


Business Policy & Strategy
Dr. Richard C. Insinga, April 2011

Lecture #3



**Competitive moves can be
either offensive moves to
improve position or defensive
moves to deter competitors.**

Porter, p. 89.

Plan for Lecture #3

- Key points from Lecture #2
- Topics for tonight
 - Porter's Chapter 3 – A Framework for Competitor Analysis
 - Porter's Chapter 5 – Competitive Moves
 - Book – Schelling's *The Strategy of Conflict*
 - Book – Sun Tzu's *The Art of War*
 - Supplement – Sources of Competitive Advantage

Key Points from Lecture #2

- Tools and their place in strategic analysis
- The three generic strategies
 - Low cost leadership
 - Differentiation
 - Focus or Niche
- Using the GE/McKinsey and BCG matrices
- The organic model of competition
- Metaphors of organizations
- The importance of analysis and competitive advantage in formulating strategy

A Framework for Competitor Analysis

Chapter 3 of Porter's book

A Framework for Competitor Analysis

- Competitive strategy involves positioning a business to maximize the value of the capabilities that distinguish it from its competitors.
- The objective of a competitor analysis is to develop a profile of
 - The likely strategy changes each competitor might make,
 - Each competitor's probable response to the range of feasible strategic moves other firms could initiate, and
 - Each competitor's probable reaction to the array of industry changes and environmental shift that might occur.

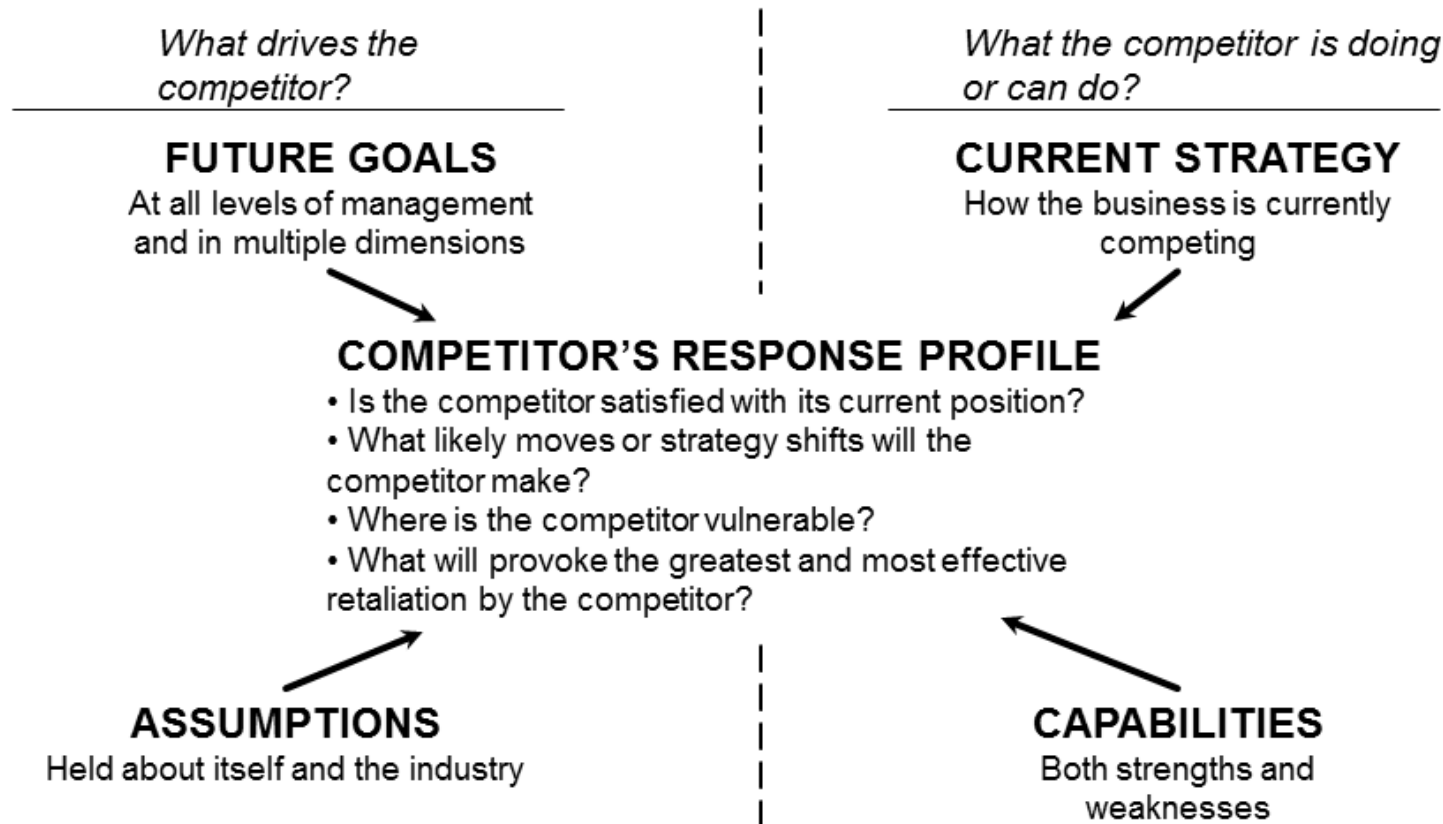
A Framework for Competitor Analysis (cont'd)

- Despite the clear need for sophisticated competitor analysis in strategy formulation, such analysis is sometimes not done explicitly or comprehensively in practice.
- Dangerous assumptions can creep into managerial thinking about competitors.
 - Assumptions that lead to unexpected responses and surprises.

A Framework for Competitor Analysis (cont'd)

- There are four diagnostic components to a competitor analysis:
 - Future goals
 - Current strategy
 - Assumptions
 - Capabilities
- Most companies develop at least an intuitive sense for their competitors' current strategies and their competitors' strengths and weaknesses.
- But much less attention is usually directed at understanding what is really driving the behavior of a competitor:
 - Its future goals and the assumptions it holds about its own situation and the nature of the industry.

The Components of Competitor Analysis



The Components of Competitor Analysis (cont'd)

- Before discussing each component of competitor analysis, it is important to define which competitors should be examined.
- Clearly all significant *existing competitors* must be analyzed.
- However, it also may be important to analyze the *potential competitors*.

Future Goals

- The diagnosis of a competitor's goals (and how they measure themselves against these goals) is important for a variety of reasons.
 - A knowledge of goals will allow predictions of whether or not the competitor is satisfied with its present position and financial results
 - And thereby how likely that competitor is to change strategy and the vigor with which it will react to events.
 - One needs to consider both the business unit goals and the parent corporation's goals.
- Knowing a competitor's goals also will aid in predicting its reactions to your company's strategic changes.
 - Some strategic changes will threaten a competitor more than others.
 - This degree of threat will affect the probability of retaliation.

Assumptions

- It is important to identify each competitor's assumptions; these fall into two categories:
 - The competitor's assumptions about *itself*
 - The competitor's assumptions about *the industry and the other companies in it*.
- For example, a competitor may see itself as a socially conscious firm, as the industry leader, as the low-cost producer, as having the best sales force, and so on.
 - But its assumptions may not be accurate

Assumptions (cont'd)

- Where the competitor's assumptions are not correct, your company has been provided with an intriguing strategic lever.
 - For example, if a competitor believes it has the greatest customer loyalty in the market, but it does not, a provocative price cut may be a good way to gain position.
 - The competitor may well refuse to match the price cut, believing that it will have little impact on its market share, only to find that it loses significant market position before it recognizes the error of its assumptions.
- Often, one of the most powerful indicators of a competitor's goals and assumptions is its history in the business.

Current Strategy

- A competitor's strategy is most usefully thought of as its key operating policies in each functional area of the business and how it seeks to interrelate the functions.
- This strategy may be either explicit or implicit – one always exists in one form or another.

Capabilities

- A realistic appraisal of each competitor's capabilities is the final diagnostic step in competitor analysis.
- Its goals, assumptions, and current strategy will influence the *likelihood, timing, nature,* and *intensity* of a competitor's reactions.
- Its strengths and weaknesses will determine its *ability* to initiate or react to strategic moves to deal with environmental or industry events that occur.

Capabilities (cont'd)

Areas of Competitor Strengths and Weaknesses

Products	Organization
Dealers/Distribution	General managerial ability
Marketing and selling	Corporate portfolio
Operations	Other, e.g., special government treatment
Research and engineering	Quick response capability
Overall costs	Ability to adapt to change
Financial strength	Staying power