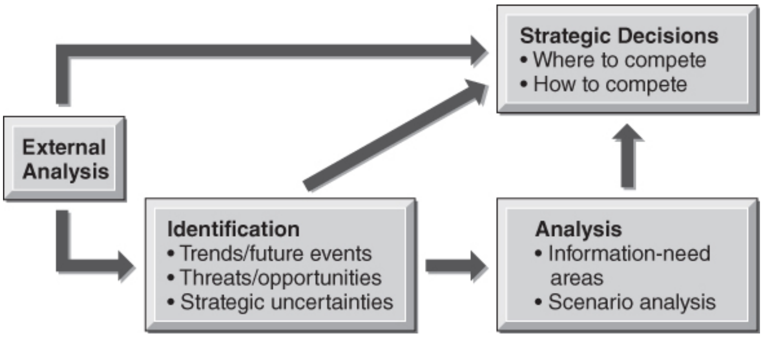
#1 CUSTOMER ANALYSIS/COMPETITOR ANALYSIS

EXTERNAL ANALYSIS

External Analysis
Successful external analyses are *directed* and *purposeful* – danger of becoming an endless process resulting in excessively descriptive report – seemingly no end to potentially relevant material.
Needs discipline and direction.



Analysis
3 ways of handling uncertainty:
1. Strategic decision can be precipitated because logic for a decision is compelling/a delay would be costly or risky
2. May be worthwhile to attempt to reduce uncertainty by information acquisition and analysis of an information-need area – effort could range from a high-priority task force to a low-key monitoring effort. The level of resources expended will depend on potential impact on strategy and its immediacy
3. Uncertainty could be modelled by a scenario analysis. Scenario analysis = alternative view of future environment that is usually prompted by an alternative possible answer to a strategic uncertainty or by prospective future event or trend.

The level of analysis – defining the market
External analyses need market boundaries to be specified – can involve industry broadly defined, narrowly defined or something that falls between.
Level of analysis depends on organization unit and strategic decisions involved.
Defining market → Specify business scope – the scope can be identified in terms of product market and in terms of competitors – the future product market and competitors are relevant as well as present ones.

Always a trade-off:
- Narrow scope specification inhibits a business from identifying trends and opportunities that may lead to attractive options/direction
- Excessively broad scope – sacrificing depth of analysis as a ore focused analysis may generate more insight

Analysis must be conducted at several levels e.g. industry level, substitute product pressures and market trends. Also may need analysis at segment level as entry, investment, and strategy decisions are often made at that level.
Key success factors could differ for different product markets within a market or industry.
Layered analysis = Primary level receives the most depth of analysis.
Multiple analyses – consecutively conducted – first analysis may stimulate opportunity that would justify a second analysis on a submarket.

Affecting strategic decisions
External analysis process is not an end in itself – should be motivated by desire to affect strategy.
External analysis can impact strategy directly
e.g.
Should existing business areas be liquidated/milked/maintained/targeted for investment?
Should new business areas be entered?
What are the value propositions? What should they be?
What assets and competencies should be created, enhanced, or maintained?
What strategies and programs should be implemented in functional areas? What should be the positioning/segmentation/distribution/brand-building/manufacturing strategies?

Additional Analysis Objectives
- Significant trends and future events
- Threats and opportunities *e.g. new technology (both a threat to established firm and opportunity to prospective competitor can signal new business arenas)*
- Strategic uncertainties that could affect strategy outcomes

Strategic uncertainties
Focus on specific unknown elements that will affect outcome of strategic decisions.

Strategic uncertainties	**Strategic decisions**
• Will a major firm enter? • Will a tofu-based dessert product be accepted? • Will a technology be replaced? • Will the dollar strengthen against an offshore currency? • Will computer-based operations be feasible with current technology? • How sensitive is the market to price?	• Investment in a product market • Investment in a tofu-based product • Investment in a technology • Commitment to offshore manufacturing • Investment in a new system • A strategy of maintaining price parity
Strategic Uncertainties	**Second-level strategic uncertainties**
What will be the future demand of an ultrasound test?	← Performance improvements? ← Competitive technological developments? ← Financial capacity of healthcare industry?

When should external analysis be conducted?
Often tendency to relegate external analysis to annual exercise.
- Annual planning cycle provides healthy stimulus to review and change strategies
- BUT there is substantial risk existing in maintaining external analysis as annual event.
- Need for strategic review & change is often continuous – info. Sensing & analysis needs to be continuous.
- External analysis deliberately commences with customer and competitor analyses as the help define relevant industries.

CUSTOMER ANALYSIS

The scope of customer analysis
First logical step is to analyse customers:
Segmentation:
Who are the biggest customers? The most profitable?
Customer motivations:
What elements of the product/service do customers value most?
Unmet needs:
Why are some customers dissatisfied? Why are some changing brands or suppliers?

Segmentation
Often the key to developing sustainable competitive advantage.
In strategic context: Segmentation = identification of customer groups that respond to competitive offerings differently from other groups.

Segmentation strategy should be judged on 3 dimensions:
1. Can a competitive offering be developed and implement that will appeal to target segment?
2. Can the appeal of offering & subsequent relationship with target segment be maintained over time despite competitive responses?
3. Is the resulting business from the target segment worthwhile, given the invest required to develop and market an offering tailored to it?

A successful segmentation strategy creates **dominant** position within a market that consumers are unwilling/unable to attack successfully.

How should segments be defined?
Too many ways to divide up the market; must use a wide range of variables.

CUSTOMER CHARACTERISTICS	
Geographic	Small Southern communities as markets for discount stores
Type of organization	Computer needs of restaurants vs. manufacturing firms vs. banks vs. retail
Size of firm	Large hospital vs. Medium vs. Small
Lifestyle	Jaguar buyers tend to be more adventurous, less conservative than buyers of Mercedes-Benz and BMW
Sex	Mothers of young children
Age	Cereals for children vs. Adults
Occupation	The paper copier needs of lawyers vs. bankers vs. dentists
PRODUCT-RELATED APPROACHES	
User type	Appliance buyer – home builder, remodeler, homeowner
Usage	Concert – season ticket holders, occasional patrons, non-users
Benefits sought	Dessert eaters – those who calorie-conscious vs. those who are more concerned with convenience Economy-sensitive Honda Civic buyer vs. the luxury Mercedes-Benz buyer
Price sensitivity	Users of competing products
Competitor	Professional users of chain saws vs. Homeowners
Application	Those committed to Heinz ketchup vs. Price buyers
Brand loyalty	

Examples of approaches to defining segments

THE MALE SHOPPER
has been long ignored – a segmentation scheme provides insights into their differences and strategies for appealing to different segments.

The metrosexual
An affluent urban sophisticate, age 20-40, who loves to buy and looks for trendy, prestigious, and high-quality products. Into men's grooming, expensive haircuts. Think Polo, Ralph Lauren, Banana Republic

The retrosexual.
Traditional male behaviour, into footy and NASCAR, rejects feminism, nostalgic for the way things were, preers below-casual clothing, not into mens moisturizers. Think Levis, nike, Old Spice, Burger King, Target.

The Modern Man. Between "metro" and "retro" – this shopper shares interests but does not go overboard. A sophisticated consumer in his 20's or 30's, he is comfortable with women but does not shop with them. Think Gap, fast casual restaurants.

The Dad. Good income. Involved in family shopping. Efficient shopper. More functional clothing. Think McDonalds, Amazon.

The Maturiteen. More savvy, responsible, pragmatic than earlier generations of teens. A technology master adept at online research and buying. Sony, Adidas, Internet sites of all types

Multiple segments vs. Focus Strategy
- Single segment (much smaller than market as a whole): e.g. Walmart concentrated on rural geographic focus strategy which was directly responsible for several significant SCAs including: efficient and responsive warehouse supply system; low-cost motivated workforce; relatively inexpensive retail space; and lead and mean, hands-on management style.
- Multiple segments: e.g. General motors targeting price-conscious buyers, high-end and well-defined segments in between as well.
- In many industries, aggressive firms are moving toward multiple-segment strategies. Developing multiple strategies is costly and often must be justified by an enhanced aggregate impact.
- Can be important synergies between segment offerings e.g. image developed by one segment strategy can be important to sales in another segment strategy.

Customer motivations

After identifying segments → Next step is to consider motivations:

What lies behind their purchase decisions?

How does this differ by segment?

Segment	Motivation
Vacationers	Price, feasible schedules
Business	Reliable service, convenient schedules, easy-to-use airports, frequent-flyer programs, comfortable service

Customer motivation grid: air travellers

Internet retailers distinct shopper segments:

- **Newbie shoppers** – need simple interface, lots of hand-holding and reassurance
- **Reluctant shoppers** – need information, reassurance, access to live customer support
- **Frugal shoppers** – need to be convinced that price is good and they don't have to search elsewhere
- **Strategic shoppers** – need access to opinions of peers or experts and choices in configuring the products they buy
- **Enthusiastic shoppers** – need community tools to share their experiences, as well as engaging tools to view the merchandise and personalised recommendations
- **Convenience shoppers** – (largest group) – efficient navigation, lot of information from customers, experts, superior customer service.

Some motivations help define strategy, others may not define strategy/differentiate a business, but represent a dimension for which parity performance must be obtained or the battle will be lost.

Determining motivations:

Identify motivations → group and structure motivation → assess motivation importance → assign strategic roles to motivations.

1. Customers can be access with group/individual interviews.
2. No. of motivations can be in hundreds → must cluster them into groups and subgroups (*affinity cards)*
3. Determine relative importance of motivations (management team's task again)
4. Identify motivations that will play role in defining value proposition of business. Selection of central motivations to strategy will depend on customer motivations & factors such as competitors' strategies that emerge in competitor analysis; how feasible and practical the resulting strategy is for business. Internal analysis will be involved in making this determination, as will an analysis of strategy's implementation.

BUYER HOT BUTTOMS

Motivations can be categorized important/unimportant but dynamics of market can be better captured by identifying current buyer hot buttons.

Hot buttons = motivations whose salience and impact on markets are significant and growing.

Changing customer priorities:

Customers evolve from needing help in selecting and installing right equipment to wanting performance to looking for cost.
e.g. coffee business – people have evolved from drinking coffee at gourmet cafes to brewing their own whole bean gourmet coffees.

The customer as active partner

Customers are becoming active partners in their relationship with firm & brand rather than passive targets of product development & advertising.

To harness, such a trend, managers should create and support customer communities.

One motivation – to hear customer experiences and opinions about a brand in such a customer than will engender unbiased, motivate thoughts – interacting with customer on internet requires skills in listening, engaging and leading – often there is information overload.

Unmet Needs

= customer need not satisfied by existing product offerings.

Can be not only a route to successful offering, but also a way to enhance a brand relationship.

They are strategically important because they represent opportunities for firms to increase market share, break into a market, or create and own new markets. They can also represent threats to established firms in that they can be a lever that enables competitors to disrupt established position.

Sometimes customers are not aware of unmet needs as they are accustomed to implicit limitations of existing equipment.

Unmet needs not obvious may be more difficult to identity but can also represent a greater opportunity for an aggressive business as there is little pressure on established firms to be responsive. The key is to stretch technology or apply new technologies in order to expose unmet needs.

Using customers to identify unmet needs

Customers are a prime source of unmet needs → undertake problem research.
Lead users are a particularly fertile ground for discovering unmet needs and new product concepts. They are users who:

- Face needs general in marketplace but face them months or years before bulk of competitors.
- Are positioned to benefit significantly by obtain solution to those needs.

Can use internet to engage customers in a dialogue.
A less direct way is to create communities of customers and let them converse.

Qualitative research:

e.g. focus groups, in-depth interviews. Customer case studies, ethnographic research.

Loyal customers – best articulate bonds firm can best articulate bonds that firm is capable of establishing.

Lost customers (defected) – good at graphically communicating problems with product/service.

New customers – can suggest new applications.

Organizational buyers using multiple vendors – have good perspective of firm relative to competition.

Internet has changed and enhanced qualitative research – no longer time & location limited.
Respondents do not have to rely on past memory. Researchers can access experiences as they happen. Respondents do not have to be from one location but global. More cost-effective than other methods.

Ethnographic research

Involves direct observation of customers – good at identifying breakthrough innovation, product improvements.

Ideal experience

Helps identify possible unmet customer needs.

COMPETITOR ANALYSIS

2 Approaches

- Degree to which they compete for a buyer's choice (customer-based approach)
- Organise competitors into strategic groups on the basis of their competitive strategy

Identifying competitors – Customer-based approaches
Look at competitors from perspective of customers.

Brand-Use associations
Association of brands with specific-use contexts.
e.g. Doritos is perceived as a snack, so its competitors would be different than if it was perceived as a party enhancer. Both customer-choice and brand-use approaches suggest conceptual basis for identifying competitors that can be employed by managers.

Indirect competitors
In most instances, primary competitors are quite visible & easily identified.
In many markets, customer priorities are changing – indirect competitors offering customers product alternatives are strategically relevant.
Understanding direct competitors can be strategically and tactically important.
e.g.

- Coke focused on Pepsi & ignored emerging submarkets in water, energy drinks
  → Missed opportunity and eventual need to pursue expensive & difficult catch-up strategy
- Banks focused on banks – markets eroded by mutual funds, insurers, brokers

Understanding the positioning and new product strategies of these indirect competitors will be strategically important to businesses.

Competitive analyses will all benefit form extending perspective beyond obvious direct competitors.
By explicitly considering indirect competitors, the strategic horizon is expanded, and analysis more realistically mirrors what customers see.
In reality, customers are never restricted to a firm's direct competitors, but instead is always poised to consider other options.

Note that multiple analyses might be necessary as there are lots of levels of analysis e.g. business unit, firm etc.

Identifying competitors – Strategic Groups
A strategic group is a set of firms that:

- Over time pursues similar competitive strategies (e.g. the use of the same distribution channel, the same type of communication strategies, or the same price/quality position)
- Has similar characteristics (e.g. size, aggressiveness)
- Has similar assets and competencies (e.g. brand associations, logistics capability, global presence, or research and development)

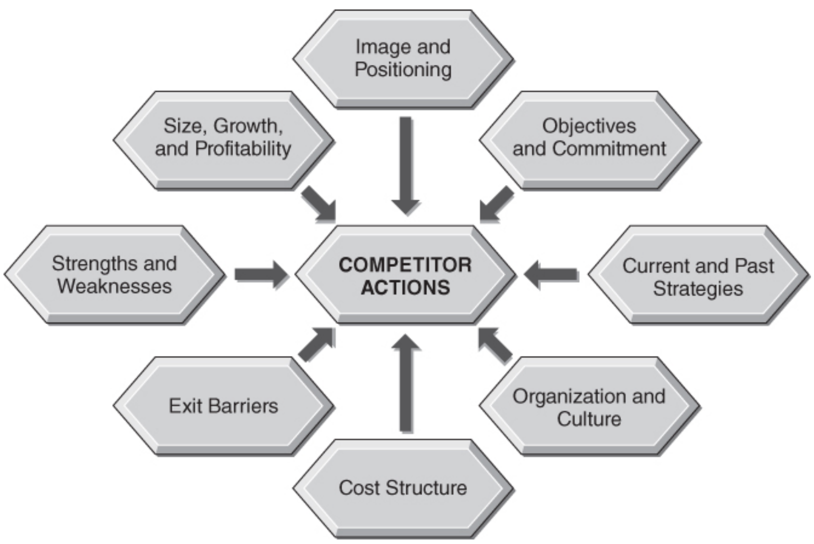
Many industries are populated by several strategic groups: premium-dominated volume entries; low-cost entries; niche groups.
Each strategic group has mobility barriers that inhibit or prevent businesses from moving from one strategic group to another.
e.g. ultra-premium group in pet food producers has brand reputation, product, and manufacturing knowledge needed for health segment, access to influential veterinarians and retailers, and a local customer base.
Private-label manufacturers have low-cost product, low overhead and close relationships with customers – they can create a branded entry, especially if markets are selected to minimize conflicts with existing customers. Barriers are real, however, and a firm competing across strategic groups is usually at a disadvantage.

Potential competitors
Must consider potential market entrants:

1. Market expansion – firms operating in other geographic regions or in other countries. A cookie company may want to keep a close eye on competing firm in an adjacent state
2. Product expansion – Specialized firms can expand to common markets
3. Backward integration – Customers can make their own products
4. Forward integration – Suppliers attracted by margins are potential competitors. Suppliers with critical ingredients to succeed may be attracted by the margins, the control and visibility that come with integrating forward e.g. Apple opened retail stores
5. Purchase of assets or competencies – small current competition with critical strategic weaknesses can turn into major entrant if purchased by firm that can reduce those weaknesses i.e. mergers

Competitor analysis – Understanding Competitors
Several benefits:

- Understanding of current strategy, strengths and weaknesses of a competitor can suggest opportunities and threats to merit a response
- Insights into future competitor strategies may allow prediction of emerging threats & opportunities
- Decision about strategic alternatives might easily hinge on ability to forecast likely reaction of key competitors
- Competitor analysis may result in identification of some strategic uncertainties worth monitoring closely over time



Size, Growth and Profitability

Size & growth provides indicators of vitality of business strategy.
Maintenance of strong market position/rapid growth reflects strong competitor and successful strategy.
Deteriorating market position signals financial/organizational strains that might affect interest and ability of business to pursue certain strategies.
Crude sales estimate of businesses = take no. of employees & multiply by average sales per employee.

Profitability – profitable business generally has access to capital for investment unless designated by parent to be milked. Business that has lost money/experienced sharp decrease in profitability may find it difficult to gain access to capital.

Image and positioning strategy

Cornerstone of a business strategy can be an association. It is useful to move beyond class-related product attributes to intangibles that span the product class e.g. quality, innovation, sensitivity to environment, brand personality.

To develop positioning alternatives – helpful to determine image associations i.e. brand personality of major competitors.
Weakenesses of competitors on relevant attributes or personality traits can represent opportunity to differentiate and develop an advantage.
Strengths of competitors may represent challenges to exceed them or outflank them. It is important to know competitive profiles.

Competitor image/positioning can be deduced by studying their products, advertising, website and actions but also customer research helps ensure accurate portrayals are obtained.
Qualitative customer research to find out what it means i.e. associations, imageries, essence.

Objectives & Commitment

Competitor objectives provides potential to predict whether or not competitors present performance is satisfactory or strategic changes are likely.
Financial objectives – with respect to market share, sales growth, profitability.
Nonfinancial – do they want to be a technological leader? Develop service? Expand distribution?

Objectives of parent company of competitor is relevant too. Deep pockets can sometimes be accompanied by short aims; just because resources exist does not mean they are available

Current and Past Strategies

Past strategies that have failed should be noted – experiences can inhibit competitor from trying similar strategies again.
Knowledge of new product/market moves can help anticipate future growth directions.

Organisation and culture

Knowledge of background/experience of competitor's top management can provide insight into future actions i.e. background of employees

Organization culture (structure, systems, peyple) have a pervasive influence on strategy.
Cost-oriented, highly structured organization that relies on tight controls to achieve objectives and motivate employees may have difficulty innovating or shifting into aggressive, market-oriented strategy.
Loose, flat organisation that emphasizes innovation and risk taking may have difficulty pursuing disciplined product-refinement and cost-reduction program.

Cost structure

Provides indication of future pricing strategy & staying program. Need following information:

- No. of employees & direct labour (variable labour costs) and overhead (fixed costs)
- Relative costs of raw materials and purchased components
- Investment in inventory, plant, equipment (fixed costs)
- Sales levels and no. of plants (allocation of fixed cost based on this)
- Outsourcing strategy

Exit barriers

Crucial to firm's ability to withdraw from business area – indicators of commitment.
Examples:

- Specialized assets e.g. plant, equipment, other assets costly to transform to another application – little salvage value
- Fixed costs e.g. labour agreements, leases, need to maintain parts for existing equipment
- Relationships to other business units in firm – image, shared facilities, distribution channels, sales force
- Government and social barriers e.g. govt. may regulate, firms feel sense of loyalty to workers
- Managerial pride/emotional attachment to business/employees that affects decisions

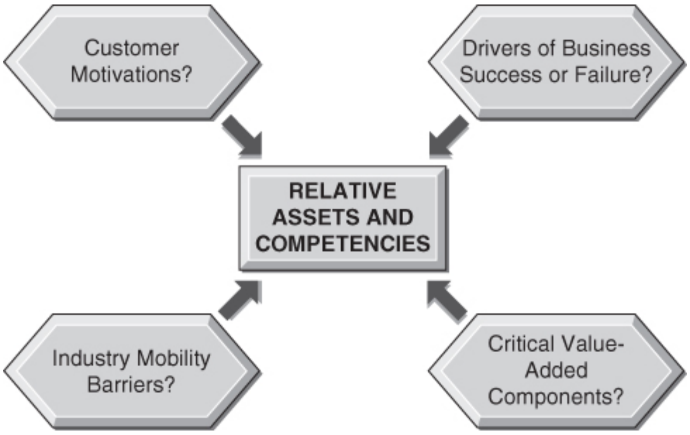
Assessing strengths and weaknesses

Provides insight to pursue various strategies & offers important input into process of identifying & selecting strategic alternatives.

- Exploit competitor weaknesses in area where firm has existing/developing strength. Desired pattern is to develop strategy that will pit "our" strength against a competitor's weakness. Another approach is to bypass/neutralize competitor's strength

Competitor strengths and weaknesses

What are the relevant assets and competencies?
Strengths & weaknesses are based on existence or absence of assets of competencies =



1. What businesses have been successful over time? What assets/competencies have contributed to their success? Etc.

Assets and competencies providing SCAs should affect performance over time. Businesses that differ in performance over time should differ in assets/competencies.

2. What are the key customer motivations? What is needed to be preferred? What is needed to be considered?

Customer motivations drive buying decisions and thus can dictate which assets/competencies potentially create meaning advantages. e.g. heavy-equipment industry, customers value service and parts backup.
There are motivations that lead to brands being excluded from consideration. An offering characteristic may not determine winners, but deficiency will eliminate it from being considered.

3. What assets and competencies represent industry mobility (entry and exit) barriers?

Strategic groups are characterized by structural stability even when one group is more profitable than others – reason is mobility barriers. Some groups have assets/competencies difficult and sometimes impossible to duplicate by those seeking to enter.
e.g. international deep-water oil-well drilling firms have technology, equipment, people that domestic, on-shore firms cannot duplicate. These assets also represent exit barriers – there are no other ways to use them.

4. What are the significant value-added components in the value-chain?

Firms that excel on critical value-added components have a sustainable advantage e.g. cost or customer benefit generation.
In value-chain, must start with suppliers and end with customer use experience and chart all components in between.

Checklist of strengths and weaknesses.

Innovation - Technical product or service superiority - New product capability - R&D - Technologies - Patents e.g. Kao Corporation skincare, soaps	**Management** - Quality of top & middle management - Knowledge of business - Culture - Strategic goals and plans - Entrepreneurial thrust - Planning/operation system - Loyalty - turnover - Quality of strategic decision making e.g. GE, Disney
Manufacturing/Operations - Cost structure - Effective and flexible operations - Efficient operations - Vertical integration - Workforce attitude and motivation - Capacity - Outsourcing e.g. Toyota, Walmart	**Marketing** - Product quality reputation - Product characteristics/differentiation - Brand name recognition - Breadth of product line - systems capability - Customer orientation - Segmentation/focus - Retailer relationship - Distribution - Advertising/promotion skills - Sales force - Customer service/product support
Finance – Access to Capital - From operations - From net short-term assets - Ability to use debt and equity financing - Parent's willingness to finance	**Customer base** - Size & loyalty - Market share - Growth of segments served

Obtaining Information on Competitors
Use competitor's website, suppliers/customers/distributors; security analysts and stockholders; govt. legislators, regulators. Monitor trade magazines, trade shows, advertising, speeches, annual reports

KEY LEARNINGS

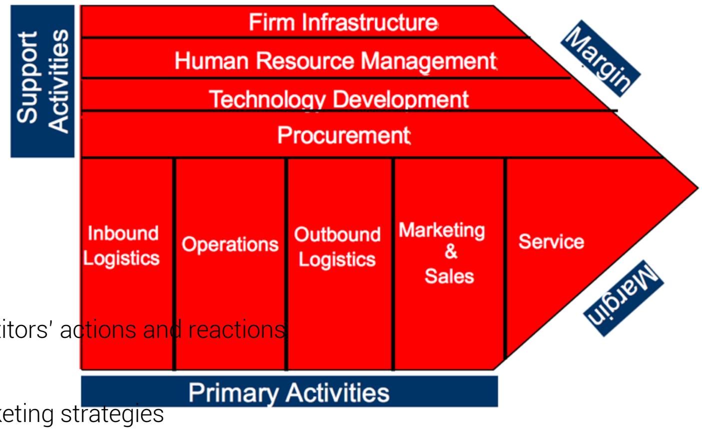
- Competitors can be identified by customer choice (set from which customers select) or by clustering into strategic groups (firms that pursue similar strategies and have similar assets, competencies and other characteristics). Competitors will vary in terms of how intense they compete.
- Competitors should be analysed along several dimensions, including their size, growth and profitability, image, objectives, business strategies, organization culture, cost structure, exist barriers, and strengths and weaknesses.
- Potential strengths and weaknesses can be identified by considering the characteristics of successful and unsuccessful businesses, key customer motivation, mobility barriers, and value-added components.
- The competitive strength grid, which arrays competitors or strategic groups on each of the relevant assets and competencies, provides a compact summary of key strategic information

Identifying relevant assets and competencies
What are the assets and competencies relevant to a particular industry?
Competitors strengths and weaknesses are based on the existence or absences of certain assets or competencies

a) Drivers of business success or failure
b) Customer motivations
c) Assets and competencies that represent industry mobility (entry and exit) barriers
d) Significant value-added components in the value chain

- The ultimate goal of any business is to provide value to its customers
- A business will be profitable if the value it creates than the cost of producing its products or services

BUT are these methods still used in today's market envir characterised by **hypercompetition?**
Where should the emphasis be?



Customer or competitor orientation
Competitor Oriented Company
A company whose moves are mainly based on competitors' actions and reactions

Customer Oriented Company
Focuses on customer developments in designing marketing strategies

Market Oriented Company
Company that pays balanced attention to both customers and competitors in designing its marketing strategies

MARKET ORIENTATION

The *market* and the *customers that form the market* should be the starting point in formulating the overall business strategy.
Market Orientation: "The organisational culture that most effectively and efficiently creates the necessary behaviours for the creation of superior value for buyers and thus, continues superior performance for the business" (Narver and Slater, 1990)

KEY LEARNINGS

- Competitors can be identified by **customer choice** (the set from which customers select) or by clustering them into a strategic group (firms that pursue similar strategies and have similar assets, competencies, and other characteristics). In either case, competitors will vary in terms of how intensely they compete
- Competitors should be analysed along several dimensions, including their **size, growth and profitability, image objectives, business strategies, organisational culture, cost structure, exit barriers, and strengths and weaknesses**
- Potential strengths and weaknesses can be identified by considering the **characteristics of successful and unsuccessful businesses, key customer motivations, mobility barriers, and value-added components.**

Segmentation

- Identification of customer groups that respond differently from other groups to competitive offerings. Thus, a successful segmentation strategy requires the conceptualization, development, and evaluation of a targeted competitive offering.
- Who are the biggest customers? The most profitable? The most attractive potential customers?

Examples of Approaches to Defining Segments:

Customer characteristics
Geographic; Sex; Occupation; Income; Education; Lifestyle

Product-Related Approaches
Usage; Benefits sought; Price sensitivity; Competitor; Application; Brand loyalty

How should customer segments be defined?

Types of Customers: Single or multiple customer segment?
Concentrated marketing; Differentiated marketing; Undifferentiated marketing

Customer Motivations

- What elements of the product/service do customers value most?
- What are the customers' objectives? What are they really buying?
- How do segments differ in their motivation priorities?
- What changes are occurring in customer motivation? In customer priorities?

Unmet Needs

- Why are some customers dissatisfied? Why are some changing brands or suppliers?
- What are the severity and incidence of consumer problems?
- What are the unmet needs that customers can identify? Are there some of which consumers are unaware?
- Do these unmet needs represent leverage points for competitors?

THE MEANING OF MARKET EMERGENCE

Effective customer needs analysis gives rise to new market opportunities and, often, definition of new markets.

To judge the worth of any emergent market, an estimate of market potential is important.

KEY LEARNINGS

- **External analysis** should influence strategy by identifying opportunities, threats, trends and strategic uncertainties. The ultimate goal is to improve strategic choices – decisions as to where and how to compete.
- **Segmentation** (identifying customer groups that can support different competitive strategies) can be based on a variety of customer characteristics, such as benefits sought, customer loyalty, and applications.
- **Customer motivation analysis** can provide insights into what assets and competencies are needed to compete, as well as indicate possible SCAs.
- **Unmet needs** that represent opportunities (or threats) can be identified by projecting technologies, by accessing lead users, by ethnographic research, and by interacting with customers.