## 2.3. Competition

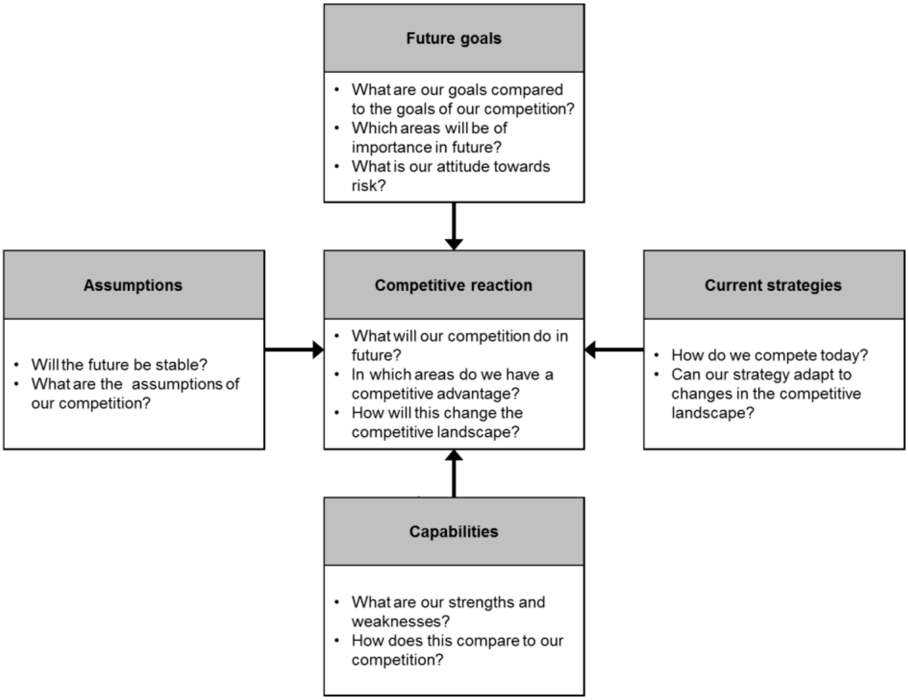
### 2.3.1. Competitive Analysis

From a strategic point of view, each company wants to be competitive in the marketplace by creating and maintaining a competitive advantage. As a competitive advantage is always relative to the competition, a solid analysis of the competitive environment is the basis for creating and maintaining a competitive advantage.

The key questions are:

- Which competitors do exist?
- Which competitor focuses on which market (segment)?
- What are the competitors’ product portfolios?
- Which strengths and weaknesses do the competitors have?

A competitive analysis should include the following key elements:




Implementing a competitive analysis can be broken down into the major steps 1) identification of competitors and 2) analysis of competitors.

### 1) Identification of competitors

In this first step, current and potential future competitors are identified. In order to increase transparency and clarity, the competitors are usually grouped. Criteria for the grouping of competitors can be products, product portfolios, distribution channels, technologies, competitive strategy, pricing strategy, market segments, target groups, etc. Especially customer-focused criteria proved to be useful to identify those competitors who satisfy customer requirements with potentially different products.

For analyzing potential future competitors, market entry barriers should be considered as well. Those barriers help to understand which competitors could potentially enter the market. Typical market entry barriers are:

- High capital requirements (e.g. because of high initial investments into production capacity, research & development, marketing efforts)
- High switching costs (e.g. high initial costs for customers switching between products, high efforts for knowledge acquisition, network effects)
- Limited access to distribution channels (e.g. exclusive contracts with distribution networks)
- Cost disadvantages (e.g. lack of knowhow for efficient production, small size without economies of scale or scope, limited access to raw materials)

### 2) Analysis of competitors

In the second step, the identified competitors' strengths and weaknesses are compared in relation to the organization's own strengths and weaknesses. Typical criteria for comparing the strengths and weaknesses include both hard facts and soft facts.

**Hard facts**

- Revenue
- Profitability
- Market share
- Geographical presence
- Ownership structure
- Number of employees
- Organizational structure
- Product and service portfolio

**Soft facts**

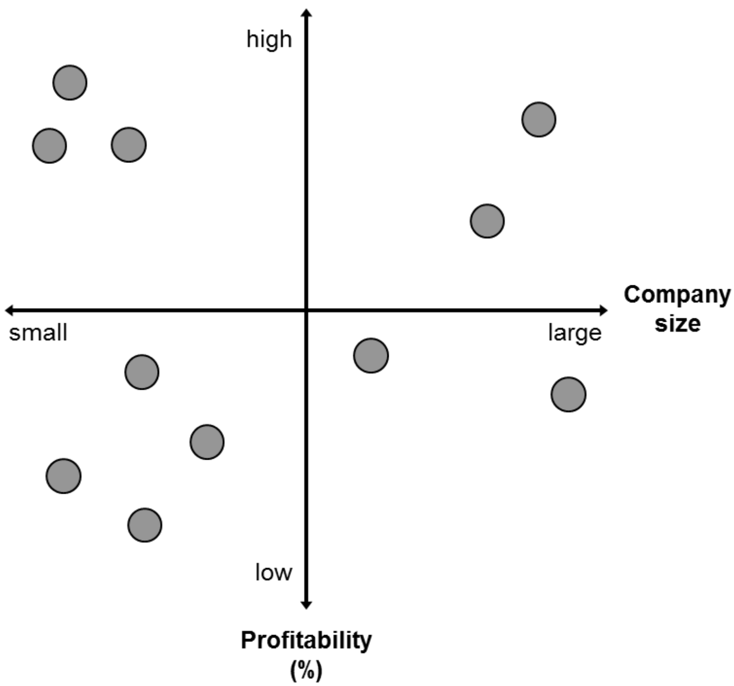
- Competitive strategy
- Management quality
- Employee structure
- Values and beliefs
- Incentive systems
- Image
- Brand portfolio
- Quality
- Service and maintenance capabilities
- Marketing mix
- Key customers
- Patents
- Cooperation agreements
- Licenses

As the competitive landscape is not static but changing over time, a competitive analysis should not only be a snapshot of a specific point in time, but also considering trends and changes over time.

For a graphical representation of the competitive landscape, a two-dimensional scheme proved to be useful. Typical dimensions are

- Company size
- Profitability
- Market share
- Time since entering the market
- Geographical proximity
- Brand value
- Image
- Degree of international presence

A chart comparing competitors on such a two-dimensional scheme could look like the following picture, each circle representing one specific competitor.

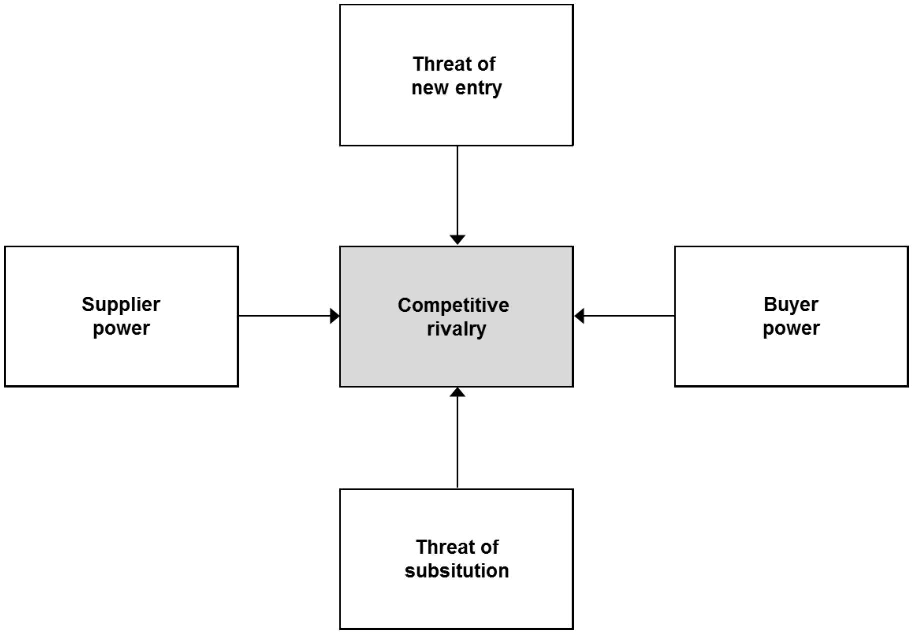



Instead of mapping competitor dimensions, also product dimensions can be mapped. This representation can also help to identify market gaps if no competitive products fulfill a relevant customer requirement.

### 2.3.2. Porter's 5 Forces

Porter’s 5 forces is the most well-known tool for analyzing industry attractiveness and therefore competitive rivalry. According to Porter, 5 forces shape the attractiveness of an industry:

- Threat of new entry
- Buyer power
- Threat of substitution
- Supplier power
- Competitive rivalry




**Threat of new entry**

New competitors entering a market can lead to price reductions and additional costs for existing players in the market. In most cases the entry of a new player reduces the profitability of existing players in the market.

With the threat of new entry, the probability of new competitors entering the market is evaluated. For this, the barriers for entering a market need to be analyzed. Typical entry barriers are:

- High capital requirements (e.g. because of high initial investments into production capacity, research & development, marketing efforts)
- High switching costs (e.g. high initial costs for customers switching between products, high efforts for knowledge acquisition, network effects)
- Limited access to distribution channels (e.g. exclusive contracts with distribution networks)
- Cost disadvantages (e.g. lack of knowhow for efficient production, small size without economies of scale or scope, limited access to raw materials)

**Buyer power**

The focus of the buyer power analysis is evaluating the customers' negotiating power.

Key factors for evaluating buyer power are

- Number of customers
- Size of customers
- Lot size of orders
- Differentiation of products
- Transparency of available products
- Price sensitivity
- Ability to substitute
- Switching costs
- Possibility of backward vertical integration

To reduce the negotiating power of customers, the following strategies can be used:

- Increasing product differentiation which makes it more difficult for new competitors to enter the market, as the products are not perfectly and easily interchangeable
- Increasing switching costs to deliberately make it more difficult for customers to switch to alternative products

**Threat of substitution**

A substitute product is a product which can replace an existing product. Key criteria for evaluating the potential for substitution is not comparing the similarity of products to each other but analyzing which products can satisfy the customers' needs and requirements in a similar way.

Key factors for evaluating the threat of substitution are

- Performance and properties of substitute products
- Pricing of substitute products
- Trends and developments leading to new products
- Switching costs

To reduce the threat of substitution, a product can be further differentiated so that it fulfills customer requirements better than substitute products. In addition, a company can try to actively limit the substitute products potential in the market place (e.g. by making differences between the products transparent, use of legal measures where appropriate).

**Supplier power**

Suppliers also have a significant impact on the industry by setting the prices of their offerings. Increasing supplier prices will lead to lower profitability for a company if it cannot pass on the price increase to its customers (e.g. due to low negotiation power).

Key factors for evaluating supplier power are

- Number of suppliers
- Size of supplier
- Lot size of orders
- Uniqueness of service
- Ability to substitute
- Switching costs
- Possibility of forward vertical integration

To reduce the negotiating power of suppliers, a company can try to increase switching costs for the supplier (e.g. if the supplier has to make investments to supply a specific product) and changing the product in a way that more generic components can be used.

**Competitive rivalry**

The central force of Porter's concept is the competitive rivalry. The competitive rivalry refers to both the current as well as the future rivalry.

Key factors for evaluating the competitive rivalry are

- Number of competitors
- Industry growth
- Quality differences
- Other differences
- Fixed costs
- Switching costs

- Customer loyalty

To implement the concept of Porter’s 5 forces, the following three steps are involved.

1) **Analysis of industry structure**

In this step the 5 forces are analyzed. As a result, the potential threat of each of the forces becomes transparent. After performing the analysis, the results are usually mapped in a matrix showing the single elements of the five forces on one axis and the assessment on the other axis.

2) **Identification of industry rules and deriving opportunities and threats**

In the second step, the results of the first step are converted into the most important rules of how the industry is working. Here it should be kept in mind that not only large enterprises can change industry rules, but due to the massive advancement of technology also small players can have a significant impact.

Once the most important rules are identified, the according opportunities and threats for the own organization need to be derived.

3) **Defining and implementing concrete measures**

Based on the previous steps, concrete measures must be defined and implemented. Those measures should be either integrated into how the industry is working or should aim to change the industry given enough power.

### 2.3.3. Benchmarking

The main idea of benchmarking is to have an external comparison of the organization's performance in order to learn from these external benchmarks and to improve the own organization's performance ("best practice"). Benchmarking cannot only be done on products and services, but also on processes (e.g. production, marketing and sales, etc.) and on other key success factors like human resource capabilities, organizational structures, etc.

The following three points are characteristic for benchmarking:

- The comparison for the benchmarking is made with the best performing companies, not with an industry average
- Benchmarking is not limited to the own industry but can be also done across different industries
- The key success factors of other companies are transferred to the own organization

The benchmarking itself can be done internally (the comparison is made within the company) and externally (the comparison is made with an external company). The external benchmark can be further divided into three types of benchmarking:

- **Competitive benchmarking**: the benchmarking is focused on direct competition and is made with the strongest competitor
- **Functional benchmarking**: the benchmarking is focused on specific functions and the comparison is not made only with the competition in the same industry, but with those companies which have similar functions
- **Generic benchmarking**: the benchmarking is focused on non-competitors which are outside the own industry

To implement a benchmarking, the following steps are involved.

### 1) Defining the benchmarking object

In the first step is must be defined what specifically should be benchmarked. For example, a benchmarking can be done for

- Products
- Services
- Processes
- Human resources
- Organizational structures
- Etc.

### 2) Defining the companies for comparison

Once it is defined what specifically should be benchmarked, the companies for the benchmarking need to be identified, which is often dependent on the benchmarking object.

A common issue for defining the benchmarking companies is that the best comparable companies are often direct competitors who are not inclined to share any information of their competitive advantages. At the same time the best companies should be identified, regardless of their geographical location and their industry, often leading to costly benchmarking. For this, sometimes a "blind" benchmarking can be done, which involves an independent clearing entity which collects and anonymizes data, which can subsequently be shared with the participating companies. Such clearing entities can be benchmarking institutes, consulting firms, industry unions, scientific institutes, etc.

### 3) Information research

Once the benchmarking object and companies are identified, the information research is to start. As the information research can also incur significant costs, usually the following sequence of sources is used:

- Internal information (e.g. databases, implicit knowledge of employees, publications)
- Publicly available secondary information sources (e.g. industry unions, industry magazines, statistical databases, websites)
- Performing primary research (e.g. customer surveys, supplier surveys, consulting firms)

### 4) Analyzing the gap

In this step, the actual gap between the best company and the own organization is analyzed. Even if this step sounds like a simple task, a common issue when comparing data is a different interpretation (and/or calculation method) of a performance figure, as well as looking at a different timeframe. In addition, the reliability of data sources needs to be often verified to ensure correct benchmarking results.

In practice, superior performance of a competitor is usually not based on one single factor which can be easily identified and compared, but on a complex combination of different factors which are often not transparent to outsiders. Therefore, benchmarking results often trigger a need for further analysis to better understand a complex set of factors contributing to superior performance.

### 5) Predicting the potential for increasing performance

After having analyzed the gap, the organization's potential to increase its performance needs to be predicted. The prediction should not be based on a snapshot of the other organization's performance at a specific point in time, but also considering the performance development of the other organization to correctly predict the potential for the own organization.

### 6) Developing and implementing measures to improve performance

Finally, the results of the benchmarking study must be implemented in the organization to improve the performance. Therefore, concrete measures need to be developed to make use of the benchmarking results. For this step, a possible resistance of employees to adapt to new procedures should be considered, especially if those procedures have its origin somewhere else ("not invented here syndrome").