Competitive analysis: a tool to enhance the process of strategy formulation

by

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Declaration

I, the undersigned, hereby declare that the work contained in this assignment is my own original work and that I have not previously in its entirety or in part submitted it at any university for a degree.

Signature:…………………………………………….   Date:………………………………

Abstract

It is well understood that the modern business environment has become a very complex and uncertain arena. The only way that the modern organization can survive under these circumstances, is by "crafting" a strategy that will differentiate itself from its competitors. The process of strategy formulation has been the victim of widespread criticism, from practitioners and academics, alike. Competitive analysis has been identified as a tool that can assist and facilitate strategy formulation.

The objective of this assignment was to investigate the dynamic relationship that exists between competitive analysis and strategy formulation and to determine how competitive analysis can assist practitioners during the process of strategy formulation.

The first part of the assignment consisted of a literature review that focused on the many facets of strategy and strategy formulation. This involved identifying and defining all the pertinent concepts. In order to understand the process of strategy formulation better, an analysis on the concepts of strategy, strategic planning, strategic management and competitive analysis was done. To enhance understanding of the process further, an analysis was done of the business environment that the organization is active in and that could influence strategy formulation.

The assignment also focused on the different objectives of competitive analysis and an analysis was made of the different techniques that are available, because it could influence the technique chosen for the process of competitive analysis. Certain pitfalls and blind spots were also identified that could affect the process negatively and that have to be kept in mind when conducting a competitive analysis

Finally, certain recommendations are proposed in order to enhance the understanding of competitive analysis and the process of strategy formulation, as it is applied in the modern business environment.

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Opsomming

Dit is ‘n wel erkende feit dat die hedendaagse besigheidsomgewing ‘n baie ingewikkelde en onsekere arena geword het. Die enigste manier waarop moderne organisasies in hierdie omstandighede kan oorleef, is om die kuns te bemeester waarmee hulle ‘n gedifferensieërde strategie kan ontwikkel, om sodoende die mededingers te uitoorlê. Die proses waardeur strategie ontwikkel word, het egter onder kwaai kritiek van beide praktisyns en akademici deurgeloop. Dit is hier waar die proses van mededingende analise geïdentifiseer is om as ‘n werktuig te dien wat die proses kan ondersteun en fasiliteer.

Dit was die doelwit van hierdie werkstuk om die dinamiese verhouding wat tussen mededingende analise en die proses van strategie-ontwikkeling bestaan, te ondersoek en om vas te stel hoe praktisyns kan baat vind by die proses, gedurende die ontwikkeling van ‘n strategie.

Die eerste gedeelte van die werkstuk bestaan uit ‘n literatuuroorsig, wat daarop gemik is om op al die fasette van strategie en strategie-ontwikkeling te fokus. Dit het die identifisering en definiëring van al die pertinente konsepte behels. Om die proses beter te verstaan, is die konsepte van strategie, strategiese beplanning, strategiese bestuur en mededingende analise ondersoek. Daar is toe gepoog om die besigheidsomgewing waarin die organisasie aktief is, en wat die proses kan beïnvloed, ook te ondersoek, om sodoende verdere begrip vir die proses te ontwikkel.

Die werkstuk het ook gefokus op die verskillende doelwitte van mededingende analise en ‘n ontleding is gedoen van die verskillende tegnieke wat beskikbaar is, omdat dit ‘n invloed kan uitoefen op die keuse van die tegniek vir die proses van mededingende analise. Sekere probleemareas en slaggate, wat die proses negatief kan beïnvloed, is ook geïdentifiseer en aangespreek.

Ten laaste word sekere aanbevelings gemaak ten einde ‘n beter begrip van mededingende analise en die proses van strategie-ontwikkeling te bevorder, soos dit toegepas word in die moderne besigheidsomgewing.

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Toewyding

Hierdie werkstuk word aan my ouers, Koos en Bettie Mostert, opgedra. Julle het my lewe die basis gegee, wat my aanspoor tot groter hoogtes.

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Chapter 1:

Introduction:

1.1 Background to the study:

Games, sport and war. Winning is in all three unthinkable without a strategy. Modern managers have something in common with players, sportsmen and generals. They are all in need of a strategy to compete effectively on their respective "fields of combat" (Daems, 1989). Strategy is the "game plan" that management has for positioning the company in its chosen market arena, competing successfully, keeping customers happy and achieving good business results (Thompson, Strickland & Gamble, 2004: 3).

Managers need to devise strategy for two reasons: firstly, a strategy is needed to proactively shape how an organization's business will be conducted. It is management's responsibility to ensure that business is conducted in a responsible manner, by building customer loyalty and establishing a competitive advantage over its rivals. Secondly, a strategy is needed to mould the independent decisions and actions that are made across an organization into a coordinated, company-wide game plan. This enables managers to unite inter-departmental operations into a team effort (Thompson & Strickland, 2003: 4).

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Henry Mintzberg has likened the process of formulating strategy to the concept of an elephant. The process is such a vast "beast" that managers struggle to cope with the complete process, and in an effort to cope, they grab hold of some part or other. This gives them such a narrow perspective of the whole picture that the lines get blurred and the importance of the process fades into insignificance (Mintzberg & Lampel, 1999: 21) Managers have to keep in mind that there are different types of strategies (Thompson, 2001: 17); there are different perspectives or definitions of strategy (Mintzberg, 1987b:11; Thompson, 2001: 23) and there are different ways or "schools" of strategy formation (Mintzberg & Lampel, 1999: 22). Keeping control of all of these factors is an extremely intricate process and it all adds up to an extreme case of "sensory overload".

Any given organization conducts its business within a certain environment and this environment is shaped by factors which are external and internal to the organization. Organizations are primarily in competition with other organizations that are to be found in its external environment. Understanding this external environment is of the utmost importance if the organization wants to ensure a sustainable competitive advantage. Michael Porter has said that "the environment has more influence on shaping firms' strategies than the other way around; a company should place most emphasis on adapting the company to its environment" (De Wit, 1997: 7).

The challenge to managers is to fully understand their external environment, but this is a very challenging task. The question thus arises what a manager can do to aid and assist this "process of understanding". The answer lies in analysis and the secret to this process is the way in which managers conduct the process of competitive analysis.

There is a vast array of extant literature on the topics of strategy, strategic planning and strategic management. However, managers are always looking for the trophies when they tackle the "beast", while academics are happy to tackle the "beast" from a safe distance and within the safe protection of a safari vehicle (Mintzberg & Lampel, 1999: 22). The synergy between theory and "best practice" gets lost at some point and it is at this stage that managers have to re-evaluate their own mental models of strategy formulation and redesign their toolkit.

1.2 Problem statement:

This assignment pursues an in-depth study of competitive analysis as part of a competitive business strategy that can set an organization apart from the rest. Different authors have contributed a number of models and tools related to the application of competitive analysis, but in the process a certain amount of vagueness and a considerable degree of difference in the approaches to these concepts, have arisen. Consequently, there is very little consensus on the contribution of competitive analysis as a strategic management tool that enables an organization to benefit from the information and explicit knowledge that exist outside an organization. This knowledge could lead to a better understanding of the organizations' competitive environment and enhance its strategy formulation process.

1.3 Objectives of the study:

The overall objective is to contribute an improved understanding of the concept of competitive analysis, especially with regard to the role that it can play in an organization as a tool for strategy formulation. The research objectives are to define and discuss related terminology, describe the basic concepts and interpretations of competitive analysis, strategy, strategic planning as well as strategic management. This will be followed by an analysis of the significance and the objectives of the process, the various types of analysis that can be done, the various techniques that are available to conduct the process and a discussion on the various pitfalls associated with the process. When I have completed my literature study, I will assess the history of the process by making conclusions about its current status and I will make recommendations on where I think the process should be going in the future.

1.4 Research design and methodology:

Due to the nature of the research problem the research design has a pure non-empirical process attached to it. A non-empirical study will be done by conducting a critical review of current literature to identify all relevant texts published on the topic of competitive analysis. For this purpose an extensive literature survey was conducted of recently printed material, which includes books, articles, other research works and information sources on the Internet. This process will enable me to assimilate and evaluate the existing body of literature that exists in both academic and popular sources of information.

This will provide me with a good understanding of the issues and debates that I will encounter in the subject area; inform me of the current theoretical thinking about the problem and relate previous studies and their results to me. I will use the identified literature to develop and create a theoretical framework through which I can critically evaluate the status quo. In the very nature of this type of study lies the first negative aspect of objectivity.

Issues of selectivity, bias to suit one's own viewpoint, unfair treatment of the relevant texts and misunderstanding the authors will need to be addressed to ensure a high level of objectivity. The second negative aspect of a literature review is that one can only summarize and organize the current literature to make sense to oneself, but one cannot produce new empirical insights.

1.5 Summary:

From the background information presented in this chapter, it is clear that competitive analysis has the potential to add great value to the process of strategy formulation. It might not be a very new concept, but it does involve a very complicated process and, thus, it is very important to fully understand the available concepts and methods. A logical approach to achieve this would be to explore and analyze the existing body of literature critically.

Chapter 2:

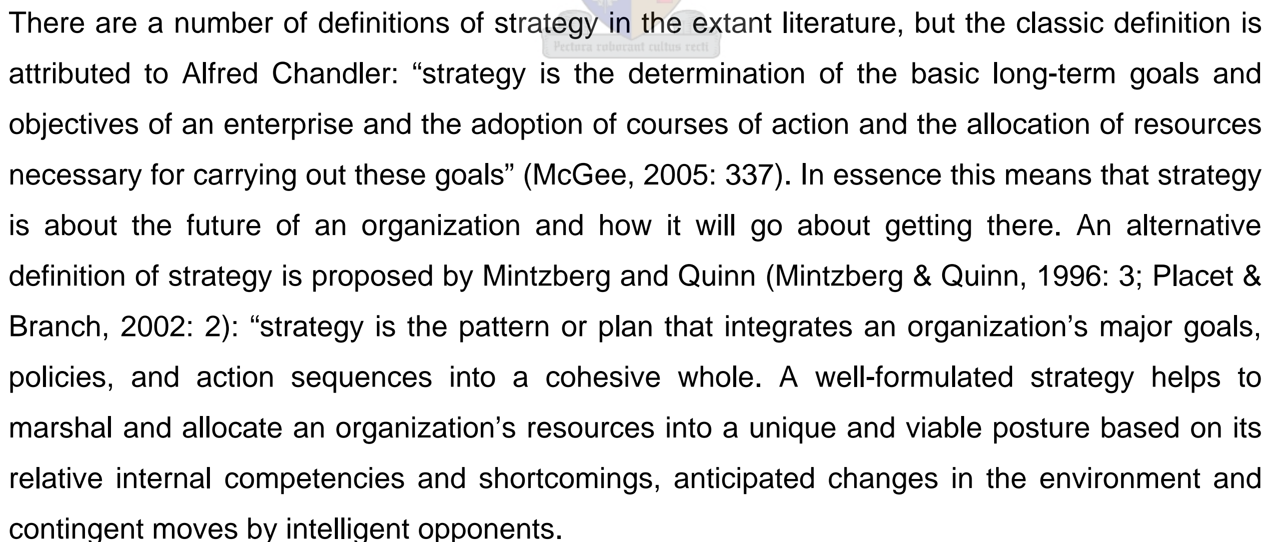
Identification and discussion of related concepts:

2.1 Introduction:

To completely understand the interrelationship between competitive analysis and strategic management, all the related concepts must be identified and discussed in an effort to grasp the scope of the process. This involves a discussion on the concepts of strategy, strategic planning, strategic management, competitive analysis and the relationship between all the pertinent concepts.

2.2 Strategy:

2.2.1 What is strategy?



There are a number of definitions of strategy in the extant literature, but the classic definition is attributed to Alfred Chandler: “strategy is the determination of the basic long-term goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals” (McGee, 2005: 337). In essence this means that strategy is about the future of an organization and how it will go about getting there. An alternative definition of strategy is proposed by Mintzberg and Quinn (Mintzberg & Quinn, 1996: 3; Placet & Branch, 2002: 2): “strategy is the pattern or plan that integrates an organization’s major goals, policies, and action sequences into a cohesive whole. A well-formulated strategy helps to marshal and allocate an organization’s resources into a unique and viable posture based on its relative internal competencies and shortcomings, anticipated changes in the environment and contingent moves by intelligent opponents.

From the above-mentioned definitions, one can deduct that strategy has an orientation with the future. Having an orientation with the future mean that there is a fundamental connection to the element of uncertainty. The day of tomorrow is uncertain, because we don’t know what is going

to happen. If we knew what was going to happen tomorrow, then we wouldn't have to plan and life would be a case of simply "pitching up" and going through the same thing day after day. But we don't know what is going to happen tomorrow and therefore it is prudent to plan for any eventualities that might arise. This means that strategy is essentially about taking risk. We are making preparations today, because of something that we believe will happen tomorrow, but we don't know for sure that it will materialize.

Decisions about strategy are typically complex, because they arise from complex situations. They are the making of interactions that take place in turbulent environments and intricate situations. Typically, the plans and preparations that are envisaged are not guaranteed to work and therefore they require extensive research and development to ensure an optimal chance for success. Because of this development process, strategies tend to take time to bring to fruition and are in most cases irreversible, once implemented. Strategy usually entails the investment of assets may that be financial or human resources, and once the process has begun it is difficult to deconstruct them back to the original starting point (McGee, 2005: 336-7).

This has the implication of an internal logic that is attached to the process. Strategy usually requires the organization and coordination of large numbers of people within any given organization. Human activities and behaviour need to be adapted to fit the requirements of the process and this puts a great deal of strain on the corporate culture of the organization. Adapting to an uncertain future does imply that a certain amount of unpleasantness can be expected, although this should be limited if the strategy process was done correctly.

Looking at the complete picture of what strategy is, then one can deduct that the whole process has significant scale and importance. Strategy usually concerns the expenditure of large amounts of money in relation to the total amount of financial resources. However, these resources are intended to create a major difference and should be seen in this light. No matter how well the planning process was done, there are always risks involved and they should not deter an organization from taking a bold step forward. Michael Porter emphasizes this fact when he states that "the essence of strategy is choosing to perform activities differently than rivals do" (Placet & Branch, 2003: 2) It means that strategy rests on unique activities and that the whole process is about being different. Organizations' will subsequently, deliberately choose a different set of activities to deliver a "unique mix of value" (Porter, 1996: 64).

2.2.2 Different perspectives of strategy:

Henry Mintzberg is one of the fiercest critics of the process of strategic planning and strategic management. To him there is more to strategy than just merely being a "plan" and he proposes the "Five P's for Strategy". According to him strategy can be defined as "plan, ploy, pattern, position and perspective (Mintzberg, 1987b: 11-17; Placet & Branch, 2002: 2; Thompson, 2001: 23):

2.2.2.1 *Strategy as Plan:*

If one spoke to academics and practitioners alike, they would all agree that strategy is a plan – "some sort of consciously intended course of action, a guideline to deal with a situation". Inherent in this statement are two characteristics of strategy: (1) they are made in advance to the conditions to which they apply and (2) they are developed consciously and purposefully. As such, strategies may be general or very specific in their design.

2.2.2.2 *Strategy as Ploy:*

Added to the concepts of strategy as a plan, strategy may also be used as a ploy. Here, strategy is developed to act as a deterrent or a threat and not as a deliberate action. For instance, an organization may threaten to expand its current production capacity by expanding its own plant in an effort to discourage a competitor from building its new plant first.

2.2.2.3 *Strategy as Pattern:*

If strategy is developed as a plan or as a ploy, it leads to a resulting behaviour. This behaviour, in turn, leads to the creation of a pattern of actions and this pattern leads to a certain consistency in behaviour. In other words, strategy is developed and used as an answer to any problems that might confront an organization and this leads to a consistent stream of actions. The organization has developed a standard set of reactions to any problems that might confront it. If this consistent stream of actions is followed over a period of time, then a distinctive pattern will emerge. This pattern might be intended, and if so it will lead to intended strategies, or if it was unintended, then it will lead to emergent strategies.

2.2.2.4 *Strategy as Position:*

If strategy is a position, then it acts as a means of locating an organization within an "environment". This environment, generally speaking, is the place in which an organization conducts its business, i.e. a "niche" or a "market-place". This strategy acts as a mediating force between an organization and its environment, or more specifically between its internal and external context. Michael Porter and his "Five Forces Model" was one of the earliest exponents of this mindset. He proposed that strategy should be developed in such a manner that it differentiates itself completely from the surrounding competitive environment and places the organization within a very specific niche market, where it is able to avoid competition.

2.2.2.5 *Strategy as Perspective:*

This view of strategy looks inside the organization and specifically inside the heads of the creators of strategy. Here strategy is not just seen as a position, but also as a way of perceiving the world. Some organizations are aggressive pacesetters and they are constantly creating new technologies and exploiting new markets. Consequently, their strategies reflect this pro-active mindset, whereas others perceive the world as set and stable and so they sit back in long established markets and entrench themselves within this "niche". In this respect, strategy is what personality is to the individual. Thus, strategies exist only in the minds of those who are interested in them and are seen as the figment of someone's imagination.

At some level these perspectives are in competition with one another, but perhaps at a more important level they complement each other: (1) as plan, strategy deals with how practitioners try to establish direction within their organizations, to set them on predetermined courses of action; (2) as ploy, strategy enters the realm of competition, where threats, feints and various other maneuvers are used to unsettle the competition. This places the process of strategy formulation in it most dynamic environment, but ironically, strategy itself is rooted in stability and not in constant change; (3) as pattern, strategy focuses on action and the underlying concept of behaviour. Through our behaviour we create certain actions and these actions lead to certain patterns in our behaviour, which can be deliberate or emergent in nature; (4) as position, strategy encourages organizations to look at themselves in terms of their external environment.

How they found their positions and how they are going to protect it from competitors; and finally (5) as perspective, strategy enables an organization to look at it self in terms of its own collective mindset and how it perceives itself. Strategies exist only in the minds of the strategists and their ideas are reflected in the process of strategy formulation.

2.2.3 Different types of strategy:

By surveying the extant literature I have identified four different types or levels of strategy (Carroll & Hall, 1987: 134; Miller, 1998: 154; Thompson, 1995: 3; Thompson & Strickland, 2003: 49). These types are determined by the level at which they are implemented within the organization and generally they form a hierarchy of strategies. Firstly, there is a corporate strategy for the organization and all of its businesses as a whole. Secondly, there is a business strategy for each separate business unit that the organization has created. Thirdly, there is a functional strategy for every functional unit within every business unit, i.e. production strategy, marketing strategy, financial strategy, etc. Finally, there is an operating strategy for each of the basic operating units within the different functional areas.

2.2.3.1 *Corporate strategy:*

This type of strategy is concerned with the organization as a whole and extends to all the business units, acting as an umbrella. It is concerned with how the organization intends to establish business positions within all of its different industries and how it intends to improve its relevant business performance within these industries. This entails finding ways to capture cross-business strategic advantages and to turn them into competitive advantage. This means establishing investment priorities and steering corporate resources into the most attractive business units.

2.2.3.2 *Business strategy:*

This type of strategy is concerned with the actions and approaches of management to produce successful performance in one specific line of business or industry. The main aim of business strategy is how to build and strengthen the organization's long-term competitive position. Consequently, its main focuses are (1) to form responses to any changes that happen in the industry, the economy at large and any other relevant areas; (2) to craft competitive moves and

market approaches that will ensure a sustainable competitive advantage; (3) to build valuable competitive capabilities and competences; (4) to unite the strategic initiatives of all the functional departments; and (5) to address any specific strategic issues that may face the organization.

2.2.3.3 *Functional strategy:*

This type of strategy is concerned with the way that management will run a major functional activity or process within its business. For example, the marketing strategy of an organization reflects the way that management will run the marketing side of its business or the new product development strategy represents the way that management intends to keep its product line-up fresh and innovative. Each business unit or functional area needs a functional strategy, because this adds detail to the overall business game plan. It will help to strengthen the organization's different market competences and it will act as a managerial road-map for achieving the objectives of the functional areas.

2.2.3.4 *Operating strategy:*

This type of strategy is even narrower in scope than a functional strategy and is concerned with how the organization manages its front-line units. It entails organizing daily operating tasks, such as materials purchasing, inventory control, maintenance and shipping or transport. Operating strategies are limited in scope, but they add further detail and completeness to the different functional strategies. Operating strategy may be at the bottom of the strategy pile, but it is of fundamental importance. It inevitably supports higher-level strategies and acts as a reference checkpoint to how well these higher strategies are executed and maintained.

2.2.4 Different approaches to strategy formation:

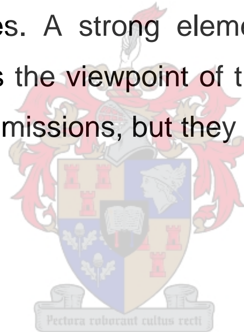
The extant literature on the process of strategy formulation is vast and academics are constantly developing and adding to this "collection" of literature. It is beyond the scope of this project to undertake a detailed discussion of this literature, but it has identified a select amount of approaches based on the role that practitioners play in the process and I would like to highlight them as part of my background to strategy. Barbuto (2002: 64) and Hart (1992:327) identified five approaches to understanding the process better and I will use these as the starting point for my discussion:

2.2.4.1 *Autocratic approach:*

This approach features a leader who defines the organizational goals and strategies by maintaining full control of the decision-making process in his organization. Strategy making under this approach is highly centralized and the views and aspirations of the leader becomes the goals and missions of the organization. He is the dictator of organizational direction and the organizational function and design are solely there to accomplish his personal goals. He designs the strategy and employees are there to receive orders and execute the specifics of the plans.

2.2.4.2 *Transformational approach:*

This approach features a leader who creates a compelling vision and inspirational articulation of the organizations' goals and missions. His focus is to get employees to transcend their own self-interests so that they can pursue the goals of the organization. He will try to bring employees together and to create shared values. A strong element in this process is the creation of enthusiasm, so that everybody shares the viewpoint of the leader. Employees might not play a very active role in developing goals or missions, but they are involved in the process to get these implemented and attained.



2.2.4.3 *Rational approach:*

The approach focuses on the use of analysis and the evaluation of all courses of action. Leaders act as information processors and formal, structured analyses are used to identify opportunities and threats to the organization. The result of such a process is a highly detailed plan of action with multiple courses of action. Techniques such as environmental scanning, portfolio analysis and industry analysis are used to identify these factors. The classic SWOT (strengths, weaknesses, opportunities, threats) analysis is usually also part of this approach. In this approach, managers own the chief task of assessment, while the inputs of employees may or may not be used in the process.

2.2.4.4 *Learning approach:*

This approach to strategy making involves a process of continual learning and interaction, with a heavy reliance on flexibility and adaptation, rather than a predefined plan of action. Strategy

formulation requires ongoing dialogue between the organization and its key stakeholders – shareholders, customers, employees, suppliers and regulators. Leaders are concerned with continuous communication and they are continually trying to understand the needs and demands of stakeholders. They try to foster employee involvement, customer focus, organizational learning and continuous improvement. This means that there is a strong emphasis on participatory management.

2.2.4.5 *Political approach:*

This approach to strategy making relies on the independent behaviour of organizational members. Strategy is made when new product ideas merge upward and employee initiatives shape the strategic direction of the organization. Organizational decision-making is the result of political coalitions within the organization and strategy is selected according to the political interplay among the various coalitions. Members of the organization who can get support for their ideas from colleagues or top management will usually get their proposals accepted, whereas politically unsupported ideas will fall by the wayside.

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2.3 Strategic planning:

2.3.1 What is strategic planning?

“A decision-making process in which decisions are made about establishing organizational purposes/mission, determining objectives, selecting strategies and setting policies” (Power, 2004).

“Strategic planning is a way to identify and move toward desired future states. It is the process of developing and implementing plans to reach goals and objectives. Strategic planning is applied primarily in military affairs (where it is called military strategy), and in business activities. Within business it is used to provide overall direction to a company (called strategic management), in financial strategies, in human resource/organizational development strategies and information technology strategies” (Strategic planning, 2005).

"*Strategic planning* is a *disciplined* effort to produce *fundamental* decisions and actions that shape and guide what an organization is, what it does, and why it does it, with a focus on the future"(Alliance for Nonprofit Management, 2003).

A word-by-word dissection of this definition will lead to a greater understanding of the key fundamentals:

The process is *strategic* because it involves the way in which the organization will respond to the circumstances within its environment. Being strategic means being clear about the organization's objectives, being aware of the organization's resources, and incorporating both in a proactive response to the business environment.

The process is about *planning*, because it involves setting goals and developing an approach to achieving those goals. The ultimate objective is choosing a desired future and deciding how the organization is going to get there.

The process is *disciplined*, because it calls for a certain order and pattern to keep it focused and productive. The process involves asking questions that enable practitioners to test assumptions about the process and anticipate the future environment of the organization.

Finally, the process is about *decisions and actions*, because choices must be made to answer the questions mentioned above. Ultimately, the plan is about what to do, why to do it and how to do it. Strategic planning implies the setting of priorities, because certain decisions are more important than others. The crux of planning lies in the making of tough decisions about what is important to the organization and about achieving organizational success.

It is very important to make the distinction between strategic planning and long-range planning. The literature on both concepts tends to be fuzzy and definitions of the concepts are very often interchanged. Long range planning is the precursor of strategic planning, in terms of the evolution of strategy formulation. Decisions are made with a longer time-span in mind, and with the assumption of a stable business environment at the core. Strategic planning acknowledges the fact that an organization must be more responsive to its environment and decisions tend to be of a more robust nature. This enables the organization to respond more quickly to any changes in its environment.

2.3.2 The process of strategic planning:

The process of strategic planning involves asking four fundamental questions (Fox, 1987: 561-7; Williamson et al, 2004: 1): (1) Where is the organization now?; (2) Where does the organization want to go?; (3) What is the best way to get there?; and finally, (4) How can this be achieved"

2.3.2.1 Where is the organization now?

An assessment of the organization's present situation serves as the point of departure for the planning process. The organization's current skills and resources are determined, as well as an evaluation of whether there is a clear understanding of the broad objectives for the future. Then the current business environment is analyzed thoroughly, by concentrating on the industries in which the organization is currently competing and those in which it might apply its skills and resources. The environmental analysis should concentrate on any current or strategic issues that will impact on the organization's ability to pursue its objectives.

2.3.2.2 Where does the organization want to go?

From the environmental analysis the organization would have been able to identify any competitive opportunities and now they must decide whether they are going to reinforce its current competitive position within its industry or are they going to pursue new markets and try to create a new competitive position (Thompson, 2004:383) These decisions constitute the organization's future corporate direction and have far-reaching consequences.

2.3.2.3 What is the best way to get there?

Once the organization has decided which path it will pursue, it has to break its strategy down into policy decisions, resource development plans and functional operating procedures. These actions will determine how the organization goes about doing what it has decided to do, whether that is staying in its current market or entering a new market place. Part of this entails allocating the necessary physical and financial resources to facilitate the process and with this action comes the opportunity for the organization to determine whether it really can afford to implement the proposed changes. A different strategy will have to be developed if the organization can't supply the necessary resources and their plans will have to be rethought.

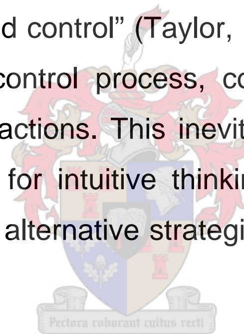
2.3.2.4 How can this be achieved?

Once the desired course of action has been determined and the wheels have been set in motion, then it is very important to have the right people in place. People make things happen - not fancy techniques, loads of money or expensive equipment, but a well-motivated, and organized workforce. Coordination needs to be secure, but employees need to be well-informed, they must share a common objective and they must understand the total operation

2.3.3 Styles of strategic planning:

2.3.3.1 The central control system:

This style of strategic planning is aimed at giving practitioners more control over all the relevant resources at their disposal. Early thinkers on the management process associated it with "planning, command, co-ordination and control" (Taylor, 1987: 22). Strategic planning was seen as a rational decision-making and control process, consisting of specific objectives, action programs and tight monitoring of all actions. This inevitably led to problems such as extreme number crunching, a total disregard for intuitive thinking and an overemphasis of extended planning. There was a distinct lack of alternative strategies and this led to planning becoming a dull and boring exercise.



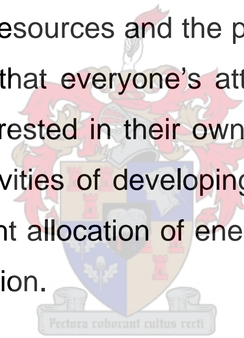
2.3.3.2 A framework for innovation:

This style of planning is centered around the idea that planning should provide a framework for product innovation and entry into new markets and business opportunities. This style received a lot of attention in large, diverse operations and was used to establish direction and coordination within the organization. At the opposite end of the scale it was also aimed at stimulating creativity and innovation at the local level, to prevent stifling centralization and bureaucracy (Taylor, 1987: 25). The secret of the process is the concept of entrepreneurship and the process of self-renewal. In rapidly changing environments it is of paramount importance to reinvest in staff training, market development, new products and state-of-the-art equipment. This minimizes the risk of being overtaken by the competition and allows strategic planning to become a form of organized entrepreneurship.

2.3.3.3 The political process:

This style of strategic planning sees planning as a process to resolve conflict between interest groups and entities, both inside and outside, the organization. The process is not associated with logic, control, innovation, or learning, but with power (Taylor, 1987: 29). Planning is after all a process to allocate resources and these allocations affects people's lives. Strategic planning determines where investments are to be made or where they are to be stopped; where jobs will be created and where employees are to be made redundant; which projects are to go forward and which are to be terminated. These activities happen inside the organization, but outside the organization there is also a continual battle. Organizations are always competing for support from the public, from politicians and from a variety of other decision-makers. Life, in general, is a struggle for survival and this extends to the business world.

Business units within any given organization are continually competing with one another to gain a greater share of the organization's resources and the power that goes with this allocation. The major threat of this kind of battle is that everyone's attention is diverted from the process of creating wealth. Everybody is so interested in their own little world that they forget about their business world and their primary activities of developing new products, increasing productivity and expanding market share. The right allocation of energies is of paramount importance if this process is not to destroy the organization.



2.3.3.4 Futures research:

This style of planning has at its core the concept of planning and creating the future. There is a common belief that the future can not be forecast, but then practitioners should consciously assess the uncertainties and develop and work toward a vision of the future. The concept of an uncertain business environment lies at the heart of the matter and practitioners are constantly trying to keep up with "discontinuities" (Taylor, 1987: 31) These discontinuities are created by a lack of information and practitioners are forced to make decisions with very little to support their actions. Their planning is thus done without solid information and this forces them to think creatively about the future.

The most common way of doing this is by using forecasting techniques, such as scenario planning, cross-impact studies and trend impact studies. These techniques are used to create a

hypothetical representation of the future as determined by a pre-selected variety of impacted factors. This is where the creativity of practitioners comes into play, because they can't use existing information to extrapolate the future. Now they have to create a "qualitative description" of the future. This type of planning allows practitioners to be (1) acutely aware of risk; (2) very concerned with flexibility; and (3) forced to develop robust plans for the future (Taylor, 1987: 32).

2.4 Strategic management:

2.4.1 What is strategic management?

Thompson & Strickland (2003: 6) refer to strategic management as the "managerial process of forming a strategic vision, setting objectives, crafting a strategy, implementing and executing the strategy, and then over time initiating whatever corrective adjustments in the vision, objectives, strategy and execution are deemed appropriate".

David (2001: 5) defines strategic management as "the art and science of formulating, implementing and evaluating cross-functional decisions that enable an organization to achieve its objectives."

Thompson (1995: 2) defines strategic management as the "process by which organizations determine their purpose, objectives and desired levels of attainment; decide upon actions for achieving these objectives in an appropriate timescale and in a frequently changing environment; and assess results and progress."

The above-mentioned definitions are but three to be found in the vast extant literature on the subject of strategic management, but they do highlight the three essential elements of the process properly:

1 **awareness** – there must be an understanding of the strategic situation and how strong or weak the organization and its strategies are, and how circumstances are changing.
2 **formulation** – new strategies must be created, but they must be suitable to the circumstances in which the organization finds itself.

3 **implementation** – there is a strong emphasis on making the chosen strategies happen and this means the process must be properly managed, monitored and controlled (Thompson, 1995: 2-3).

From these elements, one can deduct that the process of strategic management is ongoing, happens on a continual time-scale and should be proactive by design. There is never an “end” to the process, but always a “beginning”.

2.4.2 Stages of the strategic management process:

2.4.2.1 Developing a strategic vision:

Very early in the strategy formulation process, practitioners within the organization should pose questions concerning the long-term direction of the company (Thompson & Strickland, 2003: 6). The answers to these questions constitute the strategic vision that practitioners have for the organization. A strategic vision reflects the aspirations practitioners have for the organization and its business, and provides specifics about its future business plans. It acts as a technique for setting direction and looking beyond today and thinking strategically about the future. It helps to identify changes in both the internal and external environments of the organization and this act as a beacon for management, in guiding their resource allocation during the process of strategy formulation.

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2.4.2.2 Setting objectives:

The purpose of setting objectives is to convert the strategic vision that practitioners have of the organization, into specific performance targets. Setting targets and then measuring them, helps practitioners to track and assess the progress of the organization. Setting bold targets requires effort and discipline from the organization, but it does have the advantage of adding more focus and intention to the resulting actions. The secret to the concept lies in the creation of concrete, measurable performance targets. Each business unit must have them and by making employees accountable for them, it creates a results-orientated climate in the organization. This makes each unit acutely aware of its’ own business and provides physical goals they can strive for (Thompson & Strickland, 2003: 9).

2.4.2.3 Crafting a strategy:

Strategy making brings into play the managerial issues of how to achieve the targeted results as determined by the vision. Objectives are the "ends" and strategy is the "means" of achieving them. The "hows" of an organizations strategy are typically a blend of (1) deliberate and purposeful actions, (2) as-needed reactions to unanticipated developments in market decisions and (3) the collective learning of the organization over time (Thompson & Strickland, 2003: 10). The organization will set itself certain targets or objectives and it will create a deliberate set of actions to achieve these, but it is only logical that it will make provisions for any unforeseen changes in these actions. These alternative actions should be based on the experiences gained by the organization within its own marketplace and from its own successes and failures.

Strategy formulation thus starts as an intended course of action, but as changes appear this course of action will change into an emerging strategy, one which will appear over time. Strategy concerns "how" an organization will grow its business how it will satisfy customers, how it will outperform rivals and how it will respond to changes in its environment. A part of strategy is based on certainty, but a large part is based on uncertainty and this involves a strong element of entrepreneurship in formulating strategy. The proverbial "thinking on one's feet" springs to mind and does illustrate the proactive nature of strategy formulation perfectly. If practitioners then "translate" the vision and objectives of the organization into a strategy, they will create a strategic plan according to which the organization can conduct its business. This plan gives them the measures to cope with the industry and with the competitive conditions associated with it.

2.4.2.4 Implementing and executing the strategy:

The task of implementing and executing the chosen strategy involves determining what must be done to put the strategy in place, carry it out proficiently and produce good results. This part of the process is primarily a hands-on task that involves the following aspects (Thompson & Strickland, 2003: 19):

1 Building an organization, that is capable of carrying out the strategy successfully.
2 Allocating company resources so that all the relevant business units have enough resources to do their work properly.

3. Establishing policies and procedures, which are strategy supportive.
4. Motivating employees so that they will pursue target objectives with enthusiasm.
5. Tying reward structures to the achievement of good business results.
6. Creating a corporate culture that is conducive to successful strategy implementation and execution.
7. Instituting programs for continual improvement and organizational learning.
8. Exerting the internal leadership to drive the implementation process forward and to improve the process of strategy execution.

The whole process of implementation is driven by effective execution. Practitioners must effectively "fit" the internal environment of the organization to the conditions required for the strategy to succeed. This is certainly the most difficult part of the strategic management and is a very time consuming process, but if done effectively it will take the organization to a whole new level of operational effectiveness.

2.4.2.5 Evaluating performance and initiating corrective adjustments:

This is the last step in the strategic management process, but it does have a very important role to play. Practitioners need to stay on top of the organization's situation and performance levels. They need to evaluate organizational performance and if need be, institute corrective actions, make adjustments to the organization's direction or strategy or rethink the strategic vision of the organization. The improper evaluation of an implemented strategy could have far-reaching consequences and may even lead to a selected strategic course being abandoned due to a lack of control (Thompson & Strickland, 2003: 19).

2.4.3 Importance of strategic management:

Having determined what strategic management is and how it should be performed, it is of equal importance to determine the value or advantages associated with the process. In terms of strategic management as a general management tool, it is important for the process to add value to a management practitioner and his organization.

Strategic management allows an organization to adopt a more proactive stance towards its own future and gives it the opportunity to initiate and influence activities, thus actively influencing its

own destiny. Historically, the main benefit of strategic management has been to help organizations formulate better strategies through the use of a more systematic, logical and rational approach to strategic decision-making (David, 2001: 14). Research, however, has shown that it is the process rather than the decisions or documents that make the more important contribution to the process.

The manner in which strategic management is carried out is of the utmost importance. A major aim of the process is to gain understanding and commitment from all employees, because if employees understand what the organization is doing and why, they immediately feel part of the process and become a lot more committed to its cause. It is a great opportunity to empower employees and it acts as a mechanism to strengthen their effectiveness. Being involved in the process gives all employees a sense of "ownership" of the strategy and this will help to execute the strategy more effectively.

Greenley (David, 2001: 16) identified a number of additional benefits of the process:

1 It allows for the identification, prioritization and exploitation of business opportunities.
2 It provides an objective view of management problems.
3 It represents a framework for improved coordination and control of management activities.
4 It minimizes the effects of adverse conditions and changes.
5 It allows major decisions to better support existing objectives.
6 It allows for the more effective allocation of organizational resources to identified opportunities.
7 It allows for less time and resources to be devoted to the correction of mistakes.
8 It creates a framework for internal communication between employees.
9 It helps to integrate the efforts of all employees into a cohesive effort.
10 It provides a basis for clarifying individual responsibilities.
11 It encourages forward thinking and a entrepreneurial frame of mind.
12 It provides a cooperative and integrated approach for problem solving.
13 It encourages a favourable attitude to change.
14 It gives a certain degree of discipline and formality to the management of a business.

2.5 Competitive analysis:

2.5.1 Introduction:

This section will provide a background to what competitive analysis is and what the process involves. The importance, rationale or objectives, types or styles, techniques and pitfalls associated with performing competitive analysis will be discussed in greater detail in the following chapters of this project.

2.5.2 What is competitive analysis?

Zahra and Chaples (1993: 8) define competitive analysis as “the process by which a company attempts to define and understand its industry, identify its competitors, determine the strengths and weaknesses of its rivals, and anticipate their moves.” Furthermore they state that it “embodies both competitive intelligence to collect data on rivals and the analysis and interpretation of the data for managerial decision making” The analysis also offers management a forum where they can discuss and evaluate their assumptions about the organization’s capabilities, market position and competitors. It also helps them to select viable strategies that will strengthen the organization’s market position. Therefore, competitive analysis serves as the foundation for the process of strategy formulation in the organization.

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Competitive analysis forms part of the broader process of strategic analysis (Figure 2.1). Strategic analysis is an investigation into the external and internal environment of an organization. The organization needs to consider industry and competitive conditions, and determine its own competitive capabilities, resources, internal strengths, weaknesses and market position when formulating a strategy. Competitive analysis has specifically to do with the external environment of an organization (Abraham, 2006: 55)

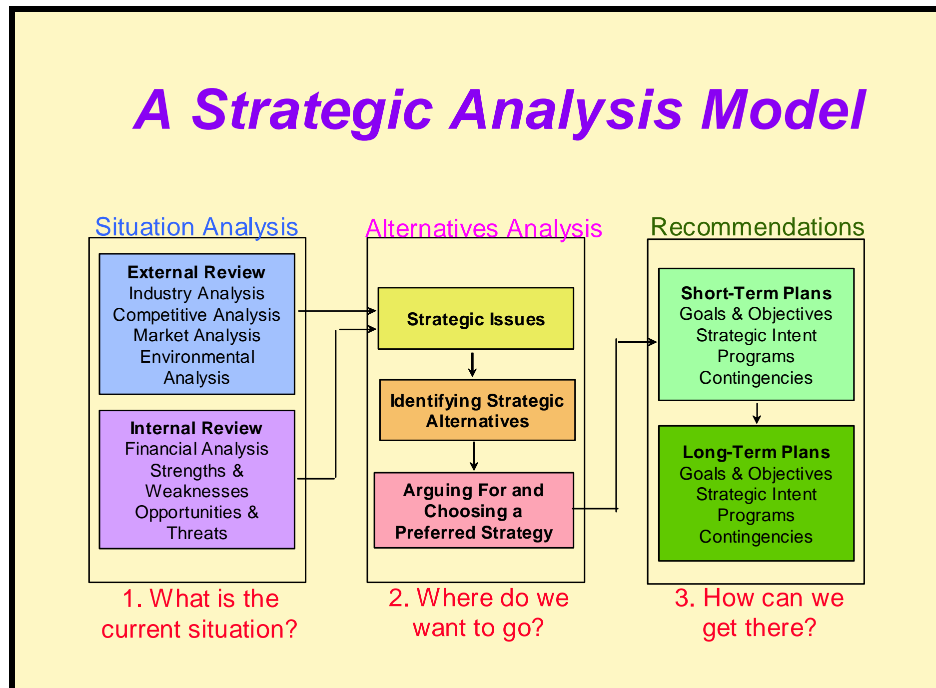

Figure 2.1

The external environment is shaped by five forces: (1) economic forces; (2) social, cultural, demographic and environmental forces; (3) political, governmental and legal forces; (4) technological forces and (5) competitive forces (David, 2001; Hill & Jones, 1995; Pearce & Robinson, 2000). Competitive analysis aims to provide an in-depth understanding of the competitive forces that are to be found within any given organization's competitive environment. It will attempt to understand an organization's industry, its competitive position within it, the prerequisites for survival and prosperity and the nature of competition and of the market process (Oxenfeldt & Schwartz, 1981) Understanding one's competitive environment is very important, because "the very essence of formulating competitive strategy is relating a company to its environment" (Porter, 1980).

2.5.3 A framework for competitive analysis:

This section is aimed at giving an oversight of the framework associated with competitive analysis (Prescott, 1987: 223-4):

2.5.3.1 Setting objectives:

This is the first phase in the process and is aimed at setting the scene. This phase will influence all the other phases and should be well-defined. The primary purpose is to create a clear understanding about the type and scope of the analysis that is to be conducted. An important part of this understanding relates to the possible constraints that might be encountered during the process.

2.5.3.2 Data collection:

There is a wealth of information available about the business environment and numerous techniques have been developed to acquire the relevant information. The modern trend is for organizations to develop their own specialized skills in information collection, ranging from database systems to interviews to physical observations. The key to this stage is to fit the right collection techniques to the objectives of the analysis.

2.5.3.3 Data interpretation:

Once the relevant data has been collected it needs to be analyzed and interpreted before the results can be used or implemented. There are numerous techniques available to use when seeking answers to all the questions. It is therefore very important to fit the right technique to the right situation.

2.5.3.4 Implementation of the findings:

This is a neglected area of competitive analysis and many practitioners are still guilty today of ignoring good intelligence and making decisions by trusting their instincts. Communicating the results of the analysis process to the key decision-maker is very important. Unless the results are incorporated in the decision-making process, there was no reason to undertake the analysis in the first place.

2.5.3.5 Updating and maintaining the system:

Certain analyses are done on an individual basis, while others are done on a continual basis. These individual assignments do not need any updating or maintenance, while the others do require it. Where continual assignments are concerned, there must be a strong degree of formality and frequency of when updating must be done. The initial objectives of the analysis process must play a primary role in this decision.

2.6 Relationship between the pertinent concepts:

The origin of strategy formulation, as we know it today, is accredited to Henry Fayol, when he attempted to formalize the manner in which organizations deal with the future, in 1916 (Makridakis & Héau, 1987: 4). Then followed a period of some thirty-odd years where nothing really happened from both an academic and business perspective. It was only during the 1950's that strategy regained its popularity when organizations were necessitated to rethink their approach to the future, due to expanding business opportunities.

This rethinking took the form of long-range planning, where the process was mainly concerned with defining the organizations' goals or objectives, then to establish some plans in order to reach these goals and to allocate the necessary resources to accomplish this. This process lost its popularity when it became evident that it was not possible to accurately predict the future by forecasting existing trends into the future. There were just too many gaps in the planning process and these were exploited by the volatile markets, resource constraints and over-capacity of the market place of the 1970's (Makridakis & Héau, 1987: 4)

The process of long-range planning was replaced by strategic planning. Authors such as Kenneth Andrews and Igor Ansoff contributed largely to the popularity of strategic planning with the creation of their different planning models (O'Shannassy, 2003: 53) Strategic planning was more concerned with market competition, identifying changes in business trends and insuring market growth. Where long-range planning was essentially concerned with detailed sequences of events, strategic planning was concerned with "what if". It acknowledged that long-range planning was too rigid and number-driven.

However, both processes shared the same key assumptions: (1) it was assumed that mere environmental forecasting was sufficient to predict the future; (2) in both cases strategy formulation was thought of as a process where objectives could be formulated in a hierarchical order and where alternatives could be neatly identified and implemented when required; and (3) factors such as politics, self-serving interests and psychological traits could be readily ignored. Subsequently, the process came under attack from both academics and practitioners. Henry Mintzberg, in particular, is one of the fiercest critics of strategic planning as a linear process (Heracleous, 1998: 481; O'Shannassy, 2003: 53).

Issues such as product life cycles, organizational politics, personal ambitions, cognitive biases and judgmental limitations came to the fore. Practitioners felt that strategic planning lacked relevance and it became an empty ritual. Strategic plans got buried, formal planning processes were abandoned, and the purpose, usefulness and applicability of strategic planning reached an all-time low.

From the midst of this crisis rose a greater awareness of environmental uncertainty and into the picture, comes the process of strategic management. Strategic management recognizes that there is more to planning than just extrapolating the future from the past. The process needs to be more pro-active and techniques, such as, scenario planning, industry analysis and contingency management made its appearance. The key to strategic management is that it recognizes the need for a more creative, entrepreneurial, innovative and leadership-driven process (David, 2001: 14; King & Cleland, 1987: ix). Strategic planning, as we know it, is just not robust enough. The domain of strategic management is broader than that of strategic planning and its mission is larger and more important. Yet, ironically, it relies on strategic planning to be employed to good effect to ensure the success of the process.

The process of strategic management relies heavily on the concept of strategic thinking, but here the first problems start to appear. Neither academics nor practitioners can decide on a clear and precise definition of the concept, and neither can they decide what the proper place for strategic thinking is within the process of strategy formulation. Strategic thinking gained popularity because it was thought that it would assist practitioners in formulating strategy during times of great environmental turbulence. It would enable practitioners to be creative, inventive and "think outside the box", but there are academics who believe that strategic thinking should be an analytical process and that the process should be done according to a prescribed

framework. This really doesn't make any sense, because if strategic thinking is done as a process, then we are back at "square one" and the linear process of strategic planning starts all over again.

Authors such as Henry Mintzberg and Kenichi Ohmae support thinking as a "divergent thought process", while Liedtka, Porter, Wilson and Raimond support thinking as a "convergent thought process" (Heracleous, 1998:482 & O'Shannassy, 2003: 54). Keeping the above statement in mind, O' Shannassy (2003: 55) proposes to define strategic thinking as "a particular way to solve strategic problems at the individual and institutional level, combining rational and generative thought processes. …thought and action can be intertwined or linear or something in between depending on the strategy context confronting the organization." I concur with this definition, because there should be no one formula for strategic thinking and this is evident in the evolution of the process of strategy formulation.

If practitioners then should spend more time thinking, the question arises "what should they be thinking about more?" The answer is "their environment" (Fleisher & Bensoussan, 2003: 6). The main reason why strategic planning failed as a management tool was the massive changes in the competitive environment of modern-day organizations. Even strategic management is finding it difficult to keep up with all the changes that are happening in the surroundings of any given business and practitioners are constantly under pressure to keep producing good strategies. For managers to think about their business environment, they need to identify all the relevant aspects that constitute that environment. This is done through the process of analysis and by using the technique of strategic analysis.

Stanley Abraham (2006: 13) developed a very good model (Figure 2.2) with which he illustrates the interactive relationship between strategic planning, strategic management, strategic thinking and strategic analysis. According to him, strategic thinking drives the process of strategic planning and strategic analysis informs the process of strategic planning. Strategic management is the process by which the whole process of strategic planning is administered and controlled.

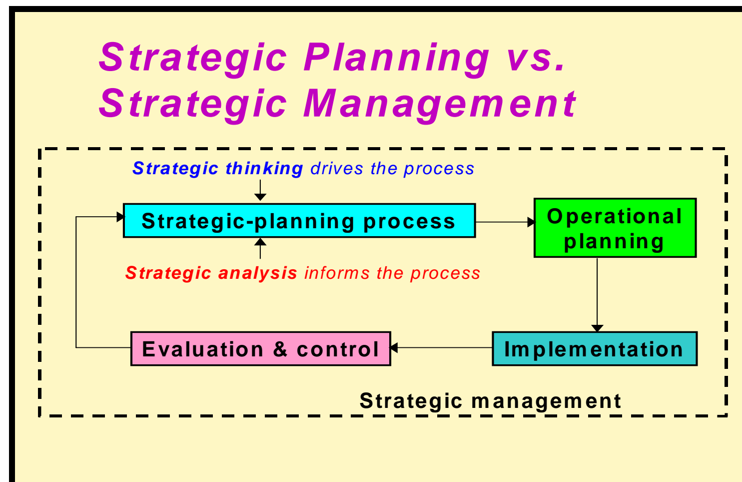

Figure 2.2

This brings us to the point where I think the evolution of strategic management is today. Organizations are active in a very competitive environment and practitioners are constantly under pressure to produce a good competitive strategy. Due to the turbulent nature of the business environment, the process of strategy formulation also tends to be turbulent. It is under conditions such as these that the process of strategy formulation needs to be driven by informed decision-making and this is done with the help of a robust analysis process.

Competitive analysis is part of the strategic analysis process, but it specifically covers the competitive environment and conditions that an organization are active in. In times of great uncertainty, practitioners need to be well informed about "what is going on out there" and, subsequently, the process of competitive analysis has the ability to contribute significantly to the ultimate strategic success of the organization.

2.7 Summary:

The concepts discussed in this chapter indicate that the relationship between competitive analysis and the process of strategy formulation constitutes a very complex subject. The discussion highlights the dynamic inter-relationship between analysis and strategy, in general, and how the former influences the latter during strategy formulation. Considering the variety of related concepts, such as strategy, strategic planning, strategic management, strategic analysis and competitive analysis, it is clear that a thorough understanding of the technique is needed if it is to be successfully applied as a strategic management tool.

Chapter 3:

A discussion on the dynamic relationship between competitive analysis and strategic management:

3.1 Introduction:

Having ascertained and discussed all the different concepts associated with strategic management in the previous chapter, the next step is to investigate the “place” for competitive analysis within the strategic management process. This will involve a discussion on the relationship between competitive analysis and strategic management by identifying the different actors at work in the relationship.

We determined in the previous chapter that any organization is active in a “business environment” and this environment consists of an external and internal orientation. From the definition of competitive analysis we can determine that the process has to do with identifying all the competitive forces, which might influence the organization. From this we can deduct that competitive analysis has to do with the external environment of the organization. The question, “what constitutes the external environment of the organization?” thus arises.

From the extant literature (Bowman & Asch, 1996: 27; Byars, Rue & Zahra, 1996: 35; David, 2001: 76; Fleisher & Bensoussan, 2003: 271; Hill & Jones, 1995: 79; Hussey, 1998: 83; Miller, 1998: 73; Narayanan & Fahey, 2001: 192; Pearce & Robinson, 1995: 71 and Thompson, 2001: 247), I have been able to identify TWO levels in the external environment: (1) the broader or macro environment and (2) the narrower or competitive environment. This environment is also referred to as the “microenvironment”. The macro environment is influenced by social, technological, economic, ecological and political forces, where as the microenvironment is influenced by industry and competitive forces.

Although competitive analysis is often focused on analysis of the microenvironment, the macro environment has such a significant influence on the whole business environment that it is very difficult to discuss the one without having to elaborate on the other. For the purpose of this

discussion, I will first investigate the macro environment and all of its influences, and then I will investigate the microenvironment and all of its influences. In this way, I will be able to determine, in some depth, what the exact influence of the macro environment is upon the microenvironment.

This type of analysis is commonly known as a "macro environmental analysis" (Narayanan & Fahey, 2001: 191), but it is often referred to as a STEEP analysis (Fleisher & Bensoussan, 2003: 272), or a PEST or PESTEL analysis (Thompson, 2001: 247). This type of analysis can be done to serve as a backdrop to the process of strategic analysis or it could be done as a complete, functional analysis on its own, like a start-up organization would do if it wanted to determine its competitive arena. It is, however, important to notice that all the macro environmental influences have a cross bearing on each other and that it is sometimes very difficult to determine where one begins and where it ends. The interaction between social and environmental influences and economic and political influences are a case in point. It is also important to remember that the forces influencing both the macro and microenvironment are robust, dynamic and ever changing. The change is pervasive and felt throughout the whole competitive environment.

3.2 Forces influencing the macro environment:

3.2.1 Social forces:

The social component of the macro environment describes the societal context in which the organization exists. These forces include factors that relate to the beliefs, values, attitudes, education, customs, life styles, and demographic characteristics of the social environment (Fahey & Narayanan, 1986: 90; Narayanan & Fahey, 2001: 193)

Social values can be broken down into the following values (Narayanan & Fahey, 2001: 194):

- *Political values:* these are reflected in how people vote; how they feel about major political and social issues such as support for military action, health issues and environmental conservation.

- *Health values:* these are reflected in attitudes toward work, leisure, acceptance of other groups and acceptance of social habits, such as smoking.
- *Technological values:* these are reflected in society's acceptance of new technologies and the choice between economic costs and their benefits.
- *Economic values:* these are reflected in society's pursuit of economic wealth, growth and the trade-offs between the subsequent progress and its social costs.

Lifestyle values can also be broken down into the following values (Narayanan & Fahey, 2001: 194):

- *Households:* these reflect the composition, type, size and rate of change of households.
- *Work:* this is reflected by whether people work, what type of work they do, where they work, how they feel about their work and how long they expect to work.
- *Education:* this is reflected by the type and level of education that the society has.
- *Consumption:* this is reflected by what the people purchase and consume, or by what they don't purchase or consume.
- *Leisure:* this is reflected by how people spend their non working or spare time and how they want to be entertained or kept busy.

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Demographics can be segmented into several elements (Narayanan & Fahey, 2001: 194; Pearce, 2000: 73):

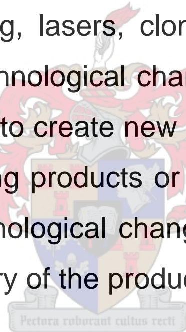
- *Population size:* this reflects the total number of people in a given geographic area.
- *Age structure:* this reflects the number of people within different age bands such as 0-10 years or 11-20 years.
- *Geographic distribution:* this reflects the growth rates and population shifts across geographic regions.
- *Ethnic mix:* this reflects the size, mix and growth rates of ethnic groups within a geographic area.
- *Income levels:* this reflects the amount and growth rates of income across demographic and lifestyle groups such as family types, age levels and geographic regions.

As social attitudes change, so to does the demand for various types of books, clothing, leisure activities, and so on. Social forces are generally attributed to the customers of the organization, and although these changes may be slow at times, they tend to be profound and long lasting.

What was considered an ethical norm in the 1950's is now considered as part of society's legal system, if we think of the issue of environmental pollution. It is therefore very important for practitioners to monitor and evaluate these trends, so that they can play a proactive role in shaping a strategy that builds the organization's reputation among its key stakeholders (Fleisher & Bensoussan, 2003: 272).

3.2.2 Technological forces:

Technological forces have been one of the areas where we have seen the most profound change in the competitive landscape. Digital communication, biotechnology, chemicals, superconductivity, computer engineering, lasers, cloning and medicine are but a few of the areas where change has occurred. Technological change has the ability to involve the creation of completely new products or services; to create new uses for existing products or services and to create new ways of producing existing products or services (Byars, Rue & Zahra, 1996: 37; Hussey, 1998: 89). The effects of technological change can be felt from the acquisition of the raw products right through to the recovery of the product after its use by customers.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The technological environment can be briefly segmented into the following areas:

- *Research:* this involves fundamental or basic research into the principles and relationships that underlie knowledge, often termed invention.
- *Development:* this transforms knowledge into some prototype form, often termed innovation.
- *Operations:* this involves putting the knowledge to use in a form that can be adopted by others, often termed diffusion (Narayanan & Fahey, 2001: 195).

A new technological breakthrough could have a profound influence on the organization's competitive environment. If the organization developed the new technology, it could mean a new competitive advantage for itself. The onus is then on the competition to play catch-up, but if the competition developed the new technology, then the organization has to play catch-up.

Practitioners must therefore do an effective analysis of its macro environment to identify and monitor the pace of technological change within its own industry. Aspects such as product and process innovation, marketing methods, human resource attraction and developments in R&D are all telltale signs of incumbent technological changes in the environment.

3.2.3 Economic forces:

These factors concern the nature and direction of the economy in which an organization operates. It has as its basis the distribution and consumption of resources within an entire society and must be analyzed on a local, national and global scale, depending on the focus of the organization. On the local level, factors such as employment rates, credit availability, spending patterns and levels of disposable income are of importance. On the national level factors such as growth rates, inflation rates, interest rates and taxation reflects the ability of the economy to produce and consume goods and services. On the global level exchange rates and fiscal and monetary policies can influence the attractiveness of an industry.

There are various types of change that can influence economic conditions, but Narayanan & Fahey (2001: 194) propose two types that are worthy of emphasis:

- *Structural change:* this type refers to the change within and across sectors of the economy such as the movement in economic activity from one type of industry to another, e.g. a decline in the steel industry and growth in the electronics industry; and the movement in the relationship between certain key variables, e.g. the levels of imports and exports as a percentage of the gross national product (GNP).
- *Cyclical change:* this type of change refers to upswings and downswings in the general economic activity such as interest rates, inflation rates, consumer prices and levels of industrial investment.

All these factors are interrelated and they should be considered as one, if the organization wants to keep control of the whole situation. Changes in macroeconomic variables often have a broad impact and it has the ability to influence different economic sectors in different ways. Practitioners thus have to be vigilant and monitor macro- and microeconomic changes, so that they may be able to adjust their decisions accordingly.

3.2.4 Ecological forces:

These factors are also commonly referred to as “environmental factors” (David, 2001: 80 & Thompson, 2001: 247), but they both refer to the biological and physical worlds that organizations interact in. In recent times there has been a major change in the level of importance that has been attached to the importance of the environment. This has happened because of a greater understanding of the balance of nature and how human activity influences this balance; and there has been a marked change in social attitudes, which has led to a higher public awareness of all ecological factors. Issues such as global warming and the “green house effect”, sustainable development, recycling and pollution have all become “buzz words” in our modern society. There is a much bigger societal awareness of these issues and society is keeping organizations aware of their own social responsibilities. Practitioners need to ensure that the reputation of their organization is secure at all times and that the capital consequences of all ecological issues are properly considered.

3.2.5 Political forces:

Political forces describe those factors that define the legal and regulatory parameters within which an organization must operate. These factors tend to be restrictive in their nature and therefore the organization need to be well aware of them. Some of these forces are, however, aimed at protecting the organization, and they include patent laws, antitrust legislation, government subsidies and research grants. They can be divided into to two segments: (1) formal forces which consist of the electoral processes, institutions of government and the various regulatory agencies; (2) informal forces which consist of arenas outside government in which political activity occurs, such as the local community and the media (Narayanan & Fahey, 2001: 195).

These forces can thus be a threat or an opportunity to the organization, especially if the organization is active in the global market place (David, 2001: 85). Political forecasting thus becomes a very important tool to the multinational organization, which is reliant on foreign countries for natural resources, production facilities, distribution of products, or customers. The modern practitioner needs to be more skilled in legalistic and political matters than his predecessor who was more directed to economic and technical affairs. Increased global competition emphasizes the need for accurate political forecasts, so that practitioners can be

aware of the political and decision-making processes in the countries where they aim to conduct their business (David, 2001: 86).

3.3 Forces influencing the microenvironment:

3.3.1 The industry environment:

In the previous section I identified and discussed the different forces that impacted upon the broader, macro environment. Now it is time to look a "little bit closer to home", and that is to identify forces within the organization's industry environment that will impact upon its business. Pearce & Robinson (2000: 92) and Byars, Rue & Zahra (1996: 55) identified three questions that practitioners need to ask, and the answers will provide them with a better understanding of their industry:

3.3.1.1 What are the boundaries of the industry?

An industry is a collection of organizations that offer similar products or services that customers perceive to be substitutable for one another. Identifying the boundaries is important for four reasons: (1) it helps practitioners to determine the arena in which the organization is competing; (2) it focuses attention on the organization's competitors and enables the organization to identify producers of substitute products; (3) it enables practitioners to identify the key success factors needed to be successful in the industry and (4) it gives them an additional basis on which to evaluate the goals of the organization.

However, defining industry boundaries is a very difficult task because industry evolution creates new threats and opportunities, the same process of evolution creates industries within industries and industries are definitively becoming global in scope. Subsequently, the process of defining industry boundaries requires both caution and imagination. Caution is needed because there are no precise rules for doing this and poor definition will lead to poor planning. Imagination is needed because industries are dynamic and important changes are happening continuously.

3.3.1.2 What is the structure of the industry?

The structural attributes of any given industry are the enduring characteristics that give an industry its distinctive character. Understanding these characteristics requires examining four key variables, but it is important to note that these variables have the penchant to overlap considerably:

- *Barriers to entry:* these variables are obstacles that an organization must overcome if it wants to enter an industry. These may be tangible or intangible in nature: tangible barriers refer to capital investments, technological skills, production resources and legal requirements. Intangible barriers include the reputation of existing organizations, customer loyalty and the tacit knowledge required to run a successful business in the industry.
- *Concentration:* this variable refers to the extent that industry sales are dominated by only a few select organizations. High concentration serves as a barrier to entry because it enables organizations, which has a large market share, to achieve significant economies of scale. If they perceive any new entrants they simply lower their prices and make the industry an unattractive proposition.
- *Economies of scale:* as an industry becomes more concentrated, fewer and fewer organizations dominate industry sales and the only way to differentiate themselves is by lowering costs through higher production volumes. It simply means they produce more of a given product at a lower cost, meaning they can sell it at a cheaper price to their customers.
- *Product differentiation:* this variable refers to the extent that customers perceive products or services offered by organizations in the industry as different. Real differentiation is like comparing a Mercedes Benz to Hyundai, because we know which brand is the luxury car and which one is not. Perceived differentiation is different, because it is dependent on the way that organizations position their products or services and how they persuade their customers that their products are the better option. Marketing plays a very important role in achieving this, as we would find with competitors in the entry-level motor vehicle industry.

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Analysis of concentration, economies of scale, product differentiation and barriers to entry enables an organization to understand the forces at work in its industry and sets the stage for identifying their competitors.

3.3.1.3 Which firms are our competitors?

Practitioners need to consider several important variables when they try to identify their organizations' current and potential competitors:

- *How do other organizations define the scope of their market?* The more similar the definitions, the more likely it is that organizations will view each other as competitors.
- *How similar are the benefits that customers derive from the products and services that other organizations offer?* The more similar the benefits, the higher the levels of substitutability between them. High levels of substitutability force organizations to compete fiercely for customers.
- *How committed are the other organizations to the industry?* Their level of commitment sheds light on their long-term intentions and goals. If they are serious about staying in the industry, then they will pursue a fierce competitive strategy and this gives the organization the opportunity to adapt its own strategy to these actions.

When in the process of identifying competitors, practitioners need to be aware of the following pitfalls:

- Overemphasizing current and known competitors, while ignoring potential entrants.
- Overemphasizing large competitors and ignoring small ones.
- Overlooking potential international competitors.
- Assuming that competitors will continue to behave in the same way as they have done in the past.
- Assuming that all the organizations in the industry are subject to the same constraints and are open to the same opportunities.
- Misreading signals from competitors that may indicate a shift in their focus

3.3.2 The competitive environment:

The competitive environment, also called the operating environment, involves factors in the competitive situation that affect the organization's ability to acquire the necessary resources to profitably produce, market and sell their products and services. Among these factors are (1) the organization's competitive position; (2) the composition of its customers; (3) its reputation among suppliers and creditors and, (4) its ability to attract capable employees.

3.3.2.1 Competitive position:

By assessing its competitive position the organization is improving the design of its strategies, so that it may take advantage of any opportunities in its external environment. The organization needs to determine its market share, breadth of products, price competitiveness, financial position, location and technological position, amongst other things, to determine its relative position in the market place.

3.3.2.2 Customer profiles:

It is very important to develop a profile of the current and prospective customers of the organization. This will enable practitioners to anticipate changes in its market size, re-allocate resources and to support shifts in demand patterns. The secret lies in identifying target segments and these segments need continuous assessment, because organizations lose market share due to incorrect assumptions about them. It is also very dangerous to base consumer behaviour on the success of previous products and past data and trends.

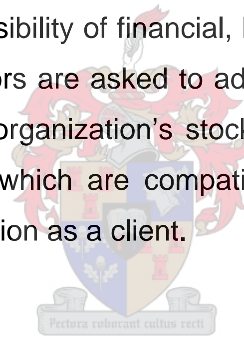
It is very important to define the geographic area from which customers will come. Most products or services have some unique qualities that make them variably attractive to buyers from different locations. It is also important to identify psychographic factors, such as personality and lifestyle variables, to enhance customer profiles. The so-called "branding" of a specific product illustrates this, i.e. surfers wearing Billabong, tennis players wearing Nike and sports people drinking energy drinks, such as Energade and Powerade.

3.3.2.3 Suppliers and creditors:

A dependable relationship between an organization and its suppliers is essential to its long-term survival and growth. Suppliers are a source of financial support, services, materials and equipment, and occasionally they are asked to make speedy deliveries or extend liberal credit terms. It is in times like these that organizations need an ongoing relationship with its suppliers.

Additional factors that need to be considered are whether the supplier's prices are competitive, are they reputable within the industry and are they mutually reliant on the organization for business. A strong reciprocal relationship between the organization and the supplier is of additional benefit to the organization, for it means that the supplier will value the relationship highly.

A dependable relationship between the organization and its creditors are of equal importance. The quantity, quality, price and accessibility of financial, human and material resources are very rarely ideal and in most cases creditors are asked to address the situation. Therefore creditors need to (1) be willing to accept the organization's stock as collateral; (2) be willing to extend lines of credit; (3) have loan terms which are compatible with the organization's profitability objectives and, (4) value the organization as a client.



3.3.2.4 Human resources:

The ability of an organization to attract and retain capable employees is essential to its success and is influenced by the operating environment within the organization. The organization needs to have a reputation as a permanent fixture within the industry, be competitive in its compensation packages, be a concerned social employer and be respected for its products and services. It may happen that the organization is in need of such specialized skills that it needs to look beyond its immediate geographic borders. In cases such as this it is very important that the organization has a very good reputation within the industry, because it will affect the willingness of potential employees to relocate themselves.

3.4 The importance of competitive analysis:

There are numerous reasons why competitive analysis has gained importance in recent times. It has always been a part of planning and strategic management processes, but of late there has been a new urgency associated with this activity. It is beyond the scope of this chapter to investigate all the motivations that have been identified in the extant literature, but I have been able to identify a select few who are deemed vital by academics and practitioners alike. Authors such as Bourgeois, Duhaime & Stimpert (1999: 4-10); Fleisher & Bensoussan (2003: 7-10); Stoffels (1994: 11-12) and Thompson (2001: 242-3) have investigated widely and written concisely on this topic:

3.4.1 Increased levels of competition:

Globalization has increased the levels of competition present in most marketplaces and industries. Geographic, physical and sociopolitical boundaries were able to keep competitors at bay and out of many markets. Most of these barriers have fallen or are falling due to progress made in the fields of communication, technology, transportation and trade law. Now multinational businesses have grown in strength and significance and they are a real competitive factor.

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These new competitors have learned to compete very differently from existing competitors and they bring a whole new mental model of how to conduct business to the marketplace. Increasing levels of change also strengthen the levels of competition. Societies have become fragmented, consumer demographics have changed and the changing nature of products and services and technology are but a few of the factors affecting change. Marketplaces seem to be in a constant state of disequilibrium due to these factors and practitioners need to be vigilant and aware of what is happening around them. This has the effect that the traditional boundaries around markets are being redrawn.

3.4.2 The global economy is a knowledge economy:

The new global economy is increasingly characterized as a knowledge economy. There has been a shift away from tangible or “fixed” assets to intangible or “human” assets and they are playing an increasingly important role in the new economy. Organizations amass data and

information, but they do not recognize that information and knowledge is not the same thing. Information is in over supply, but knowledge is something completely different. Knowledge exists in people and this places a new emphasis on human resources management and on the aspects of recruitment, training, motivation and retention of this capital. This capital is responsible for developing, producing and providing existing products and services as well as any new products or services. The protection of this capital is thus of the utmost importance.

3.4.3 Evolution in planning methodology:

Existing planning methodologies have been criticized for their lack of timeliness and effectiveness and this is even more evident if the above-mentioned influences are taken into account. The process has been preoccupied with precision, structure and definition. Subsequently the process has undergone fundamental changes and it has been freed from its preoccupation with form. Planners can now focus on the information that they need and in a complex and rapidly changing environment, this information is primarily about the future. The proper inputs into the planning process come from signals from the future environment and not from the past environment. The aim of environmental analysis is to provide practitioners with this information. The process will help practitioners to reduce any sudden surprises and to lessen their impact upon the organization.

Environment analysis, both on the macro- and micro-level, will help practitioners to develop a strategic course that reflect the aspiration of practitioners for the organization and its business. The analyses are important because the chances of strategic success obviously improve if the chosen strategic options are consistent with changes in the environment (Fahey & Narayanan, 1986: 203). Analyses should answer the questions as to what changes are taking place in the environment and how they will affect the organization and its activities. If the organization wants to achieve its goals it has to exploit the emerging opportunities in the environment and concurrently strive to minimize the effects of damaging threats. Environmental analyses provide the time to anticipate the opportunities and carefully develop responses to change. It is important to note that the continuous performance of these analyses is very important because it gives the process maximum opportunity to succeed.

3.5 Summary:

This chapter has dealt with the external environment associated with competitive analysis. The way that the environment has been described may give the false impression that it is easily identified, mutually exclusive and readily applied in all situations. This is not necessarily true, because the environment is very dynamic, interactive and change happens very fast. Practitioners are constantly frustrated in their attempts to identify these changing variables, because different variables will affect different strategies at different times and with varying influences. This has led to practitioners ignoring and disregarding planning as a strategic function, but they do this at their own peril, for giving up planning is to give up your ability to pro-actively shape your future.

Chapter 4:

A discussion on the objectives of competitive analysis:

4.1 Introduction:

In this section I will investigate and discuss the objectives of the process of competitive analysis. Competitive analysis is a process and should have certain outcomes to indicate its strategic value to the organization. Thompson and Strickland (2003:77-109) propose a framework, which will aid the analyst in achieving these objectives. They state that "competitive analysis uses a toolkit of concepts and techniques to get a clear fix on key industry traits, the intensity of competition, the drivers of industry change, the market positions and strategies of rival companies, the keys to competitive success, and the industry's future outlook" (Thompson & Strickland, 2003: 76).

This process will examine a company's business in a much wider environmental context and will aim to find insightful answers to seven key questions. These questions cover the macro- and microenvironment and it treats the external environment as one complete entity. The answers to these questions will not lead to a complete understanding of the external environment, but it will assist practitioners to be more aware of what is happening in their competitive surroundings. The external environment is continuously changing and ever evolving. Subsequently the process that is used to investigate it must in itself be vibrant and dynamic.

Question 1: What are the industry's dominant economic features?

Industries differ significantly from one another in their character and structure, but their economic features are fairly standard. Factors such as market size, scope of competitive rivalry, market growth rate, number of rivals and their relative sizes, number of buyers and their relative sizes, the pace of technological change within the industry, whether products and/or services are differentiated or identical in nature, and whether industry profitability is above or below par need to be investigated. The economic features of an industry are important because they have implications for strategy (Thompson & Strickland, 2003: 77).

Take the airline industry as an example: any given commercial airline has a number of multimillion-dollar aircraft on its books and these machines are required to generate income. The more flights these planes can fit in, the more passengers are carried, the more income is generated. Airline companies have thus shortened ground time at airports to get more flights per day from the same plane, and they have offered multi-level price discounts to fill otherwise empty seats on each flight (Thompson & Strickland, 2003: 78). These actions are fairly common in the airline industry and they are employed by virtually everybody, but they have specific implications for strategy, and if practitioners are not aware of them, then they can not be prepared for them.

Question 2: What competitive forces are at work in the industry and how strong are they?

An important part of competitive analysis is to delve into the industry's competitive process to discover the main sources of competitive pressure and how strong each force is. This step is essential, because managers cannot devise a successful strategy without understanding the industry's competitive character. Porter's "five-forces" model of competition (Figure 4.1) is a powerful tool for diagnosing the competitive pressures in the industry (Bowman & Asch, 1996: 18-23; Miller, 1998: 77; Porter, 1980: 4; Thompson & Strickland, 2003: 80).

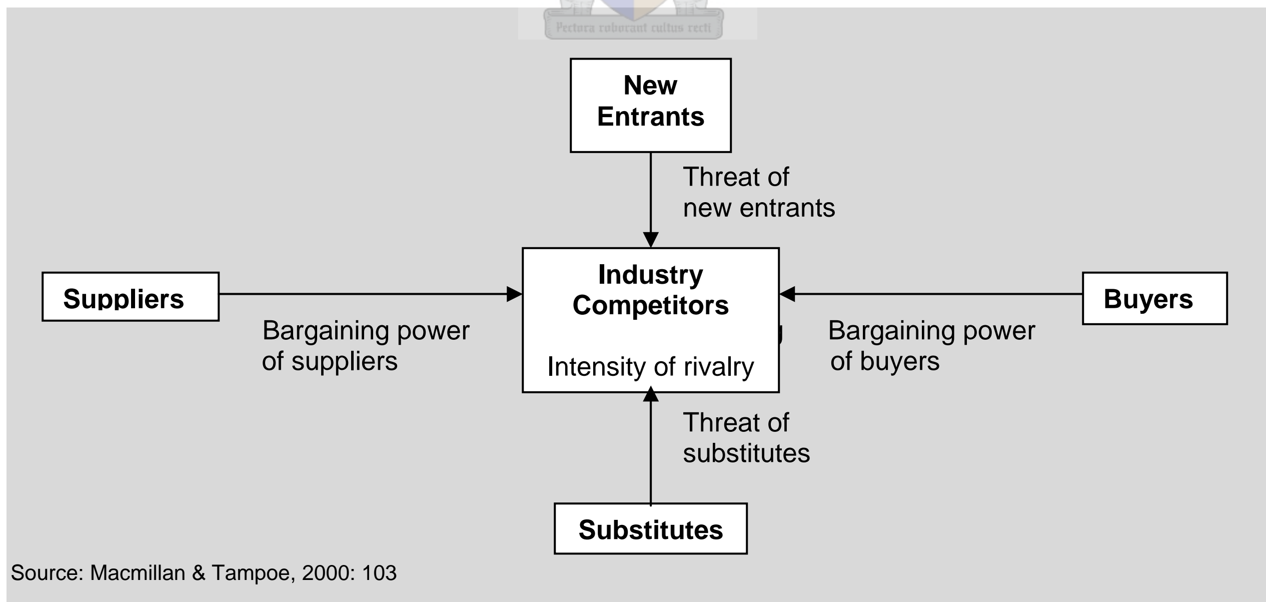


Figure 4.1

The model was devised by Prof. Michael Porter, from the Harvard Business School, and has convincingly demonstrated that the state of competition within an industry is a composite of five competitive forces: (1) the rivalry among competing sellers in the industry; (2) the market attempts of companies in other industries to win customers over to their own brand of products; (3) the potential entry of new competitors; (4) the bargaining power and leverage suppliers of inputs can exercise; (5) the bargaining power and leverage buyers of the product can exercise (Thompson & Strickland, 2003: 80).

2.1 The rivalry among competing sellers in the industry:

The "jockeying" for position and buyer favour by rival sellers of a product or service are usually the strongest of the five forces. In some industries this is centered on price competition, where the organization with the best (lowest) prices has the advantage. In other industries, price competition is minimal or moderate and rivalry is centered a round offering attractive product combinations, being first with innovative products, providing superior after-sales service or creating a strong brand image (Thompson & Strickland, 2003: 82). Rivalry can heat up when a competitor sees an opportunity to better please customers or when it is under pressure to improve its market share or profitability. Every organization is thus challenged to craft a successful strategy for competing, ideally one that provides a competitive edge over the competition and strengthens its position with buyers.

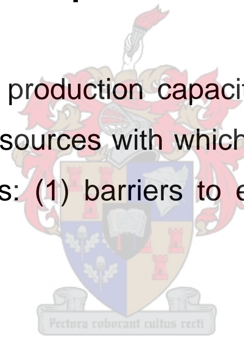
Porter (1980: 17-21) identified several common factors that influence the tempo of rivalry:

- Rivalry intensifies as the number of competitors increased and as competitors become more equal in size and capability.
- Rivalry is usually stronger when the demand for a product is growing slowly or has slowed down.
- Rivalry is more intense when competitors are tempted to use price cuts or other competitive weapons to boost sales volumes due to negative industry conditions.
- Rivalry is stronger when it is easy for customers to switch brands.
- Rivalry is strong when competitors are dissatisfied with their market position and they launch moves to bolster their standing at the expense of their rivals.
- Rivalry increases in proportion to the size of the payoff from a successful strategic move.

- Rivalry tends to be more vigorous when it costs more to get out of a business than to stay and compete in the market.
- Rivalry becomes more volatile and unpredictable if competitors are more diverse in terms of their visions, objectives, strategies and resources.
- Rivalry increases when strong organizations outside the industry buy a weaker organization and then launch aggressive well-funded moves to transform its new acquisition into a market contender.

There are two facets of rivalry that need to be underscored: (1) a successful competitive strategy employed by a rival greatly intensifies the competitive pressures within the industry and (2) the frequency and rigor with which a rival use any or all of its competitive weapons will determine whether these pressures are experienced as strong or weak (Thompson & Strickland, 2003: 84).

2.2 The potential entry of new competitors:



New entrants to a market bring new production capacity, the desire to secure a place in the market, and sometimes substantial resources with which to compete. The threat of new market entrants is determined by two factors: (1) barriers to entry and (2) the expected reaction of competitors to the new entrant.

2.2.1 Barriers to entry:

- *Economies of scale:* this type of economy deters new entrants because they are forced to enter the market on a large scale or they are forced to accept a cost disadvantage and enter the market at a lower profitability.
- *Cost and resource disadvantages independent of size:* organizations that are already in the market may have cost and resource advantages that a new entrant won't have. These advantages include relationships with the best and cheapest suppliers, possession of patents and technologies, existing production plants and favourable geographical locations (Thompson, Strickland & Gamble, 2004: 57).
- *Inability to match technologies and specialized knowledge of organizations already in the industry:* successful entry into a new market may require specialized technological abilities, key patents or technically skilled personnel. All of which are hard to come by because existing firms guard these skills very well.

- *Brand preference and loyalty:* buyers are often attached to established brands and a high brand loyalty means that new entrants will have to build there own network of distributors and dealers, spend lots of money on advertising and sales promotions and build its own customer loyalty. Only then will it be able to attract buyers of existing brands, provided that it is easy and cheap for buyers to switch brands (Thompson & Strickland, 2003: 85).
- *Capital requirements:* The more money that is required to enter a market, the more limited the pool of potential entrants, are. The most obvious capital requirements are associated with building manufacturing plants, buying equipment, supplying working capital to finance inventories and marketing campaigns, and cash reserves to cover any losses (Thompson, Strickland & Gamble, 2004: 57).
- *Access to distribution channels:* in the case of consumer goods, a new entrant will be faced with the challenge of gaining adequate access to consumers. Wholesale distributors will be reluctant to supply a product that lacks buyer recognition and a new network of buyers will have to be created. Otherwise new entrants have to "buy" distribution access from wholesalers by offering better price margins or other promotional incentives.
- *Regulatory policies:* government agencies can limit or bar entry by requiring licenses and permits, i.e. radio and television broadcasting or liquor retailing. This kind of practice is also seen in international markets where governments try to protect their own organizations from large-scale multi-nationals, who are trying to gain entry into a new market. Governments may also try to cramp new entrants by imposing tariffs and trade restrictions to raise entry barriers (Thompson & Strickland, 2003: 86).

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2.2.2 Expected retaliation:

The new entrant's expectations about the reactions of existing organizations in the industry will also have an impact on its entry. If existing competitors are expected to respond forcefully and make the new entrant's stay an unpleasant one, then entry might well be deterred (Porter, 1980: 14). Conditions that signal the likelihood of strong retaliation to entry are the following:

- A history of vigorous retaliation to new entrants.
- The presence of established firms with substantial resources to fight back.
- The presence of established firms with a strong commitment to the industry and their customers.

- Slow industry growth, which limits the ability of the industry to absorb a new entrant without depressing sales and profitability.

2.3 Competitive pressures from substitute products:

Organizations in one industry are often in close competition with organizations in another industry, because their respective products are good substitutes. In this way the producers of eyeglasses compete with the makers of contact lenses, the sugar industry competes with organizations that produce artificial sweeteners, and cotton and wool producers are in competition with the makers of polyester fabrics. The strength of substitute products depend on three factors: (1) whether the available substitutes are attractively priced; (2) whether buyers view the substitutes as equal in terms of quality, performance and other relevant attributes; and (3) whether it is easy to switch products (Thompson & Strickland, 2003: 87).

The presence of another product creates competitive pressure by placing a ceiling on the price that industry can charge, before buyers decide to switch products. If the substitute product happens to be cheaper than the “original”, then there is heavy competitive pressure to reduce prices and to find ways to absorb the price cuts. The availability of substitutes will inevitably lead to consumers comparing quality, features, performance, ease of use, price and any other features. If this happens, organizations will try to impress upon their buyers that their products have attributes that are superior to those of their competitors.

Another determinant of the strength of substitutes is the level of difficulty or cost associated with switching products. If switching costs are difficult and high, then the sellers of substitutes will have to offer some other kind of incentive to entice new customers to buy their product. If switching costs are low, then it is easy to convince buyers to change to the new product. As a general rule then, the lower the price of the substitute, the better their quality and performance and the lower the switching costs are, the more intense the competitive pressures from substitute products will be (Thompson, Strickland & Gamble, 2004: 59).

2.4 Competitive pressures stemming from supplier bargaining power and supplier-seller collaboration:

The relationship between suppliers and sellers could be a strong or weak competitive force depending on (1) suppliers ability to exercise enough bargaining power to influence the conditions of supply in their favour, and (2) the extent of supplier-seller collaboration in the industry.

2.4.1 How supplier bargaining power can create competitive pressures:

Suppliers have little or no bargaining power over rivals if the items that they provide are available on the open market from numerous suppliers with ample capabilities to fill orders. In such cases, it is relatively simple for rivals to obtain what they need from several suppliers, even dividing their orders among suppliers to promote lively competition for these orders. Suppliers are also in a weak position if there are good substitutes available for their products and buyers find it cheap and easy to switch products. Suppliers also tend to have less bargaining power if their customer is a major one at that. The well being of the supplier is closely linked to the well being of the major buyer (Thompson & Strickland, 2003: 88).

On the other hand, organizations may have little bargaining with their major suppliers. If the supplier is responsible for delivering a sizable portion of an item to the organization, then the supplier is in a position of power. Suppliers are in an even stronger position if they can supply a component or item at a cheaper rate than what the industry members can make it for them selves. This bargaining position of suppliers is strong until the volume of parts or components needed by a buyer becomes large enough for the buyer to start self-manufacture of the required parts. If this happens, then the balance of power shifts from suppliers to buyers.

2.4.2 How collaborative partnerships between sellers and suppliers can create competitive pressures:

More and more sellers are electing to form long-term partnerships and close working relationships with preferred suppliers to (1) improve supply logistics and reduce inventory costs; (2) promote the availability of next-generation components; (3) enhance the quality of components or parts and reduce defect rates and, (4) reduce the supplier's costs and to pave

the way for lower prices (Thompson, Strickland & Gamble, 2004: 63). This means that sellers who manage their supply chain the best and who form effective collaborative relationships with suppliers will have a distinct competitive advantage.

2.5 Competitive pressures stemming from buyer bargaining power and seller-buyer collaboration:

The relationship between buyers and sellers could be strong or weak depending on (1) whether buyers have enough bargaining power to influence the conditions of sale in their favour and (2) the extent and importance of the seller-buyer relationship.

2.5.1 How buyer bargaining power can create competitive pressures:

Buyers have a substantial bargaining position if they are large and purchase a sizable percentage of the seller's product. Usually buying in large quantities will give a buyer enough leverage to obtain price concessions and other favourable terms. Even if buyers are not able to purchase in large quantities, they may still have a strong bargaining position if (1) it is easy for them to switch brands and buy substitute products; (2) the number of buyers are small and the seller is very reliant on the buyer; (3) buyers are well-informed about the products, prices and costs of sellers; (4) buyers pose a credible threat of being able to produce their own parts and components and by doing so doesn't need the seller anymore and, (5) buyers can decide when to buy if they are unhappy with current price structures (Thompson & Strickland, 2003: 91). Buyers typically will have a weak bargaining position if they buy infrequently, in small quantities and face high costs to switch brands or parts.

2.5.2 How collaborative partnerships between sellers and buyers can create competitive pressures:

The relationships between sellers and buyers are becoming an increasing important element of the competitive environment. This is particularly evident in business-to-business relationships as opposed to business-to-consumer relationships. Sellers that provide components to business customers have found close collaboration with buyers in areas such as just-in-time deliveries, swift order processing, electronic invoice payments and online sales services, to be to their advantage.

The five forces model thoroughly exposes what competition is like in any given market and to contend with these forces, managers must implement strategies that insulate the company as much as possible from these forces, influence competitive pressures to change in directions that favor the company and build a strong, secure position of advantage.

Question 3: What are the drivers of change in the industry and what impact will they have?

Industry and competitive conditions change because there are forces in motion that create incentives or pressures for change. The most common forces are:

- *The Internet and new e-commerce opportunities:* the Internet is unquestionably creating a business revolution that is altering business boundaries, opening new kinds of business and market opportunities and shaping new fundamental business practices. However, it is important to note that these changes are happening differently in every industry and they are evolving continuously as new technologies emerge and new products hit the market. The challenge is to assess how the growing use of the Internet and related technologies will alter the competitive landscape (Thompson, Strickland & Gamble, 2004: 69).
- *Globalization of industries:* globalization has become an important driving force for a number of different reasons: (1) the demand for the product of a specific industry may start to blossom in more and more countries; (2) trade barriers may be reduced in countries that have traditionally been hard to penetrate; (3) the spread of technological know-how may make it easier for smaller organizations to penetrate markets usually dominated by large organizations; (4) economies of scale may force large organizations to produce their products in different geographic locations so as to drive unit costs down; (5) organizations may be forced to enter global markets because of strong moves by their competitors to capture a bigger global market share and (6) where critical natural resources and supplies (e.g. crude oil, minerals and cotton) are scattered all over the globe (Thompson & Strickland, 2003: 94).
- *Changes in the long-term industry growth rate:* up or down shifts in the long-term growth rate affect the balance between industry supply and buyer demand. An upsurge in demand will trigger a race for growth between established organizations and newcomers

seeing a strong business opportunity. A down-turn in demand will see intense battles for market share and organizations will merge to consolidate the industry.

- *Changes in who buys the product and how they use it:* a shift in buyer demographics and new ways to use products will alter the state of competition and force adjustments in service offerings. This opens the way for marketing the product differently, using a new mix of dealers and retail outlets, prompting producers to adapt their product line and bringing a new sales approach into play. For example, the changing demographics caused by longer life expectancies are creating growth in markets for residential golf resorts, retirement planning schemes and health care (Thompson, Strickland & Gamble, 2004: 70).
- *Product innovation:* innovations can shake the existing structures of competition by broadening the customer base, rejuvenating growth rates and changing the scope of product offerings from sellers. Successful innovations will lead to a bigger market share, while companies who are slow to follow will suffer with their outdated products.
- *Technological change:* new technologies can change an industry landscape dramatically, with the production of new and better products at a lower cost and thus enabling a whole new segment of the market to buy it. Technological developments will also have a positive effect on capital requirements, distribution channels and logistics (Thompson & Strickland, 2003: 96).
- *Marketing innovation:* when an organization can introduce a new way of marketing a product, they can open the market to a burst of buyer interest; widen industry demand; increase product differentiation and lower production costs. The influence of the Internet as a marketing tool is a good example, with the availability of a wide array of online shops evident, ranging from music to computers to books to jewelry to automobiles.
- *Entry or exit of major firms:* the entry of any major firm, may that be a foreign one into a domestic market or an established domestic organization from a different industry into a new market, will always upset the current competitive balance. This inevitably leads to a change in the balance of power and redraws the competitive boundaries. Likewise, if an existing organization should withdraw from a market, then there will be a rush to capture the newly available market position (Thompson, Strickland & Gamble, 2004: 71).
- *Diffusion of technical know-how:* as the knowledge about how to perform a particular activity or production process spreads, any technically based competitive advantage will be diminished. Quite often, technological skills are simply acquired by buying an organization that has the necessary skills, patents or manufacturing capabilities. Through

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globalization there has been a huge transfer of technological know-how across international borders and this has enabled organizations worldwide to upgrade their manufacturing capabilities and to compete head-on with existing competitors and in new markets.

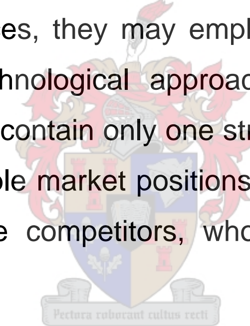
- *Emerging buyer preferences for differentiated products:* a shift to differentiated products is signaled when sellers are able to win a bigger market share by offering made-to-order products, introducing new features and offering different options and accessories. This kind of shift is usually precipitated by a desire among rivals to out differentiate one another. Sellers distinguish themselves by offering added value to their products and creating an “image” that is unique. On the other hand, there might a shift towards product standardization and this usually spawns lively price competitions and forces sellers to lower their costs in an effort to maintain their market share (Thompson & Strickland, 2003: 97).
- *Regulatory influences and changes in government policies:* government regulatory actions can force significant changes in industry practices and strategic approaches. This is mostly evident in foreign markets where host governments can open up their domestic markets to foreign participation or they can close them down in an effort to protect them.
- *Changing social concerns, attitudes and lifestyles:* emerging social issues and changing lifestyles have the potential to be a powerful instigator of industry change. For example, the growing anti-smoking sentiment has impacted heavily on the tobacco industry; health concerns about salt, sugar and chemical additives have created a new “alternative” life style and social concerns about air and water pollution have forced organizations to be more aware of their social responsibilities. Shifting societal concerns will alter competitive patterns and it usually favours organizations who respond the quickest to these new challenges (Thompson, Strickland & Gamble, 2004: 73).
- *Reductions in uncertainty and business risk:* a young, emerging industry is usually the target of risk-taking entrepreneurial organizations. This is because of the unproven cost structures, uncertainty about market size and lack of knowledge about buyer segments associated with it. However, if the industry pioneers can demonstrate that the new industry has moved into a profitable and viable business opportunity, then more conservative organizations will join the competitive arena.

The sound analysis of the driving forces within an industry is very important to ensure that management is aware of all the external factors that will influence the company. It allows management to think ahead and be prepared for any changes.

Question 4: Which companies are in the strongest or weakest competitive position?

The next objective in the analysis process is to study the market positions of rival organizations. For this purpose, Thompson & Strickland (2003: 100) and Hanson, et al (2004: 72) uses a "strategic group mapping". This tool is a combination of looking at the industry as a whole and considering each organization as a separate entity.

A "strategic group" consists of rival organizations with similar competitive approaches and market positions. These organizations may have a comparable breadth of product line, they may offer buyers the same type of services, they may emphasize the same distribution channels, they may depend on identical technological approaches or they may sell in the same quality/price range. An industry could contain only one strategic group if all the sellers pursue an identical strategy and have comparable market positions. On the other hand, there could be as many strategic groups as there are competitors, whom each pursue their own distinctive strategy.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By using this mapping technique, an organization will be able to determine whether there are driving forces and pressures, which favor certain strategic groups or are hurting others; or they will be able to determine if their profit potential is affected by the different competitive strengths and weaknesses of each group's market position. Generally speaking, the closer organizations are within a strategic group, the closer competition tends to be and the stronger the forces of rivalry are.

Question 5: Who is likely to make what competitive move next?

It is very important to pay attention to what competitors are doing otherwise a company may end-up being blindsided by a rival. A company can not expect to outmaneuver its rivals if it doesn't monitor their actions, understand their strategies or anticipate their next move. It is advantageous to know more about your competitors that they know about you.

It is not just important to understand the strategies or predict the moves of current competitors, but also to understand and identify the major players of the future (Thompson, Strickland & Gamble, 2004: 78). The fortunes of long-standing rivals may take a nosedive and this may lead to smaller companies sneaking into the competitive picture without much fuss. Scouting a competitor's next move is a tedious process, but it is essential if you want to stay ahead of the pack.

It is usually pretty obvious who the current major rivals are, but these organizations are not necessarily positioned to be strong in the future. To determine which rivals are in a strong position and which are not, practitioners need to look at the scope of the market place and determine why there is room for certain rivals to do well and for others to fail. Predicting the moves that rivals are likely to make is a very difficult task, but if done successfully, the organization will be in a position to match these moves effectively. Good indicators of potential moves come from studying the rival's strategic intent, monitoring its position in the current market place and determining the amount of pressure on the organization to improve its financial performance (Thompson & Strickland, 2003: 105).

Competitive intelligence is what enables an organization to know what their competitors are doing in the market place. Examining the competitors themselves and what their management is saying about their future intentions, is one of the best sources of competitive information. Good sources for such information include annual reports, recent speeches by management executives, reports done by securities analysts, articles written in the business media, press releases and the company website. Gathering intelligence on rivals does bring the question of ethics into play and in particular the lengths that gatherers will go to, to obtain the information they need.

Question 6: What key factors will determine competitive success or failures?

The key success factors (KSFs) of any given organization are those things that will affect its ability to prosper in the market place the most. KSFs are what every company needs to be competent at doing or concentrate on achieving in order to be financially successful. They are pre-requisites for company success. There are a number of common types of KSFs and they are related to the fields of technology, manufacturing, distribution, marketing, skills and

organizational capability. The answers to three questions can help a company to identify its KSFs (Thompson, Strickland & Gamble, 2004: 80):

- On what basis do customers choose between competing brands of products?
- What must a seller do to be competitively successful – what resources and competitive capabilities does it need?
- What does it take for sellers to achieve a sustainable competitive advantage?

Identifying these factors is the top priority of practitioners. At the very least they should be aware of what factors are more important for competitive success and what are less important. Misdiagnosing competitive factors will lead to organizations having a misdirected strategy and being caught unaware. In contrast, if an organization can correctly perceive the success factors required by the industry, they will be in a position to gain a sustainable competitive advantage over their rivals and enjoy a stronger market position. Key success factors vary from industry to industry and they may even vary within the industry from time to time. That is why it is very important to identify them correctly and successfully and to keep a watchful eye on them (Thompson & Strickland, 2003: 108).

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Question 7: How attractive is the industry in terms of its overall profitability?

The final step is to use the answers to the previous six questions and to draw conclusions about the relative attractiveness or not of the industry. It is very important for practitioners to assess the industry outlook and to decide whether the current competitive conditions are attractive or whether the organization's growth and prospects for profits look gloomy. Factors that managers need to consider include the following (Thompson & Strickland, 2003: 108-9):

- The industry's growth potential.
- Whether the current competition allows adequate profitability.
- Whether industry profitability will be favourably or unfavourably impacted on by the prevailing driving forces.
- What the company's competitive position within the industry is and whether this is likely to grow stronger or weaker.
- The company's ability to capitalize on the vulnerabilities of weaker rivals.
- Whether the company is insulated from factors, which make the industry unattractive.

- How well the company's competitive capabilities match the industry's key success factors.
- The degrees of risk and uncertainty in the industry's future.
- The severity of problems facing the industry as a whole.

As a rule of thumb, if the overall prospects of profitability are good, then the industry can be considered as attractive. However, it is important to remember that the concept of "attractiveness" is relative and not absolute. Industry conditions that seem unattractive to weak rivals may seem attractive to strong rivals. If the current situation in an industry is deemed to be attractive, then organizations will look to strengthen their long-term strategies, expand sales efforts and invest in business infrastructures. However, if the situation is deemed to be unattractive, then organizations will tend to be cautious, they will protect their current market position and profitability and they may even look to diversify their businesses in an effort to maintain current competitive positions (Thompson, Strickland & Gamble, 2004: 82).

4.2 Summary:

There are clear and distinct advantages in having well defined objectives for the process of competitive analysis. Competitive analysis will enable practitioners to gain a better understanding of the current and potential changes that will occur in the external environment of the organization. Change is the dominant characteristic of the macro environment and being prepared will give practitioners a mental advantage. Furthermore the process will provide critical inputs to strategic management. It is not enough just to understand change, but practitioners must also comprehend its impact and influence upon the process of strategy formulation. Finally, clear objectives to the process will help to foster strategic thinking and this enables practitioners to be actively engaged in the process of shaping their organization's future. This will enable practitioners to adopt strategies that will anticipate and leverage environmental change.

Chapter 5:

A discussion on the different types and techniques of competitive analysis:

5.1 Introduction:

Having determined the objectives of the competitive analysis process, as illustrated in the previous chapter, practitioners must now decide which type or technique of analysis they want to employ. From the extant literature I have been able to determine that there are an abundance of techniques available for practitioners to choose from when they need to conduct a competitive analysis. Writers such as Fleisher & Bensoussan (2003: xviii), Hussey (1997: 97), Prescott (1987: 222), Prescott & Grant (1988: 10) and Webster, Reif & Bracker (1989: 6) acknowledge this fact through the research that they have done.

There is a lot of literature available on a wide variety of techniques, but virtually no texts exist that treat the “tools’ of competitive analysis in a detailed, yet concise, manner. The problem lies in the fact that the techniques used for competitive analysis have been taken from other fields of business, such as strategic management, marketing and economics (Prescott, 1987: 232). Karlof (1993: 153-205) and Koch (1995: 152-191) are but two of the authors who have published extensive texts on different business analysis techniques and there are many more. The only complete text that I could find on competitive analysis techniques was *Strategic and competitive analysis*, by Craig Fleisher and Babette Bensoussan. Their book is the only one that attempt to address the specifics associated with competitive analysis, but being the only text available does make it difficult for practitioners to determine just how good and accurate their writing is, because there is nothing else to compare it to.

Subsequently many practitioners are asking, “Where do I start?” It is beyond the scope of this chapter to go into a detailed discussion about the process that practitioners can follow to select the techniques they need, but I will allude to the process because it does serve as a useful back-

drop to the ultimate goal of choosing the relevant technique(s) required for the process of competitive analysis.

5.2. A process for selecting a technique or techniques for competitive analysis:

Prescott & Grant (1988: 10) propose that practitioners follow a three-phase process of "awareness and choice" when they attempt to select their techniques. First, practitioners need to determine what relevant techniques are available and how they relate to one another. Second, practitioners need to determine what the focus and scope of the "competitive arena of interest" is. Third, what constraints in terms of time and other resources will limit the extent of the analyses that are undertaken?

Fleisher & Bensoussan (2003: 22-26) builds on this process with their FAROUT-system. With this system they aim to create an easy-to-use framework that will help analysts to "determine the optimal methods or techniques for managing their particular analytical challenges". By using this framework, the output from the analysis process will be **f**uture oriented, **a**ccurate, **r**esource efficient, **o**bjective, **u**seful and **t**imely. I will briefly discuss each element:

- **Future orientation**: the past can be a dangerous and inaccurate predictor of the future. This is especially important if the present or the future has little in common with the past. The analysis process must be prospective oriented, looking deeply and broadly at an uncertain future. Foresight is not gained by looking into the rearview mirror or by using old analysis information.
- **Accuracy**: the analysis process should develop outputs that aim for high levels of accuracy. Although accuracy is important in theory, it might be less important in practice. If practitioners have to make trade-offs against any other pragmatic considerations or any of the other FAROUT elements, the levels of accuracy will inevitably suffer as a consequence.
- **Resource efficiency**: for the analysis process to be done efficiently, the data used during the process must come from reliable and efficient sources. The data must be timely and not stale; and the cost involved in obtaining the data must be worth the resultant output.
- **Objectivity**: this refers to the biases held by practitioners or the organization. Too many analyses have gone wrong due to clouded judgments or cognitive biases. To minimize

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the impact of these biases, the data used should be analyzed by using a rational and systematic approach.

- **Usefulness**: the resultant output from the analysis process must be able to assist practitioners in their decision-making quest. The output must add value to their quest otherwise the whole exercise will be nothing more than a waste of time. The output must also fit the organizational context in which it is needed and it must enable practitioners to make an informed decision.
- **Timeliness**: the time that it takes an analyst to undertake the analysis will either hinder or assist the practitioner in the decision-making quest. Most business information has a limited shelf life and where decisions are made in dynamic, hyper-competitive or turbulent contexts, timeliness is essential. Information loses its value the longer it is excluded from the decision-making process.

It is very important to note that the elements proposed by Fleisher and Bensoussan, and to a lesser extent by Prescott, for choosing analysis techniques are all aimed at use by dedicated competitive analysts. These analysts are trained to be just that, expert analysts of business intelligence and they are not necessarily the practitioners that will be using the information during the decision-making process. However, practitioners could only benefit if they are aware of these elements and how they could potentially influence the analysis process.

Prescott (1987: 232) has a different approach to classifying techniques and how to choose the relevant ones. He proposes to classify techniques according to the type of questions they seek to answer and at what level of the organization they are to be used. He does admit that his classification is “arbitrary”, but I tend to agree with his statement that it serves as a very useful vehicle to organize all the competitive analysis techniques. He classifies techniques into three levels: (1) techniques that are primarily to be used at the industry-level of the organization, (2) techniques that are to be used at both the industry and business-unit level of the organization and (3) techniques that primarily focus on competitive analysis at the business-unit level.

Fleisher and Bensoussan (2003: v-vi) utilized a different system to classify their techniques. They classified their techniques according to the type of analysis that will be done, i.e. strategic, competitive, customer, environmental, evolutionary and financial. They acknowledge that their classification constitutes a combination of externally and internally oriented techniques, which makes it somewhat difficult to distinguish between the levels at which the techniques are aimed.

However, the types of techniques that they include in their classification give it a more complete and detailed look. Readers can easily discern the complete spectrum of analyses that are available to them.

If practitioners were to couple the elements of the FAROUT-system to the aforementioned classification, then I believe they have a very useful toolkit to select the most appropriate technique or techniques for their analysis quest. They will almost have the better of two worlds, in terms of the depth of analysis, as proposed by Fleisher & Bensoussan, and the scope of the analysis, as proposed by Prescott. There are definite possibilities here to investigate the relationship between these elements further and I will allude to this matter further in my chapter on conclusions and recommendations.

The process of choosing a technique or a set of techniques according to which practitioners will conduct the process of competitive analysis is a very difficult task. There are literally hundreds of techniques available to choose from and the extant literature is vast and substantial. This makes it very difficult for practitioners to identify the enduring techniques who have stood the test of time, so to speak, because not all the techniques that are available are “tried and trusted”.

For the purpose of writing this chapter I had to rely heavily on the extant literature and in particular the writings of Attaway (1998: 32-33); Bergeron & Hiller (2005: 364-65); Cook & Cook (2000: 118); Fleisher & Bensoussan (2003); Frost (2003: 54); Hussey (1997: 99); Prescott (1987: 232); Prescott & Grant (1988: 11) and Webster, Reif & Bracker (1989: 8) to help me to identify the techniques that have proved to have stood the test of time. Their inclusion in this chapter is arbitrary and open to discussion, but I have found them to be very insightful. If one were to look very closely at the way they conducted their research, then one will find that in one way or another they built on the research done by the previous writer and in this process created a pervasive thread throughout their chain of research.

5.3 The techniques for competitive analysis:

For the purpose of this discussion I have attempted to organize the different techniques according to the three levels as proposed by Prescott (1987: 232). During the process I was able to identify 8 techniques and although their inclusion may be highly debatable, they have proven to be most enduring and will form the backbone of my discussion. It is beyond the scope of this

chapter to go into a complete technical discussion on the various techniques, and for this purpose I have thought it prudent to rather try and create a picture of why these techniques have stood the test of time and why they have become "favourites" with practitioners and academics alike.

5.3.1 Industry-level techniques:

5.3.1.1 BCG Growth/Share Portfolio Matrix:

This technique was developed by the Boston Consulting Group (BCG) in the late 1960s and was designed to assist practitioners of diversified multi-product, multi-market and multi-national organizations in the development of corporate-level strategies. The BCG approach views the organization as a portfolio of businesses and it provides an analytical framework to determine the best business or product portfolio; prescribing generic strategies to guide resource allocation within the portfolio; and providing a framework for analyzing the different competitive business portfolios (Fleisher & Bensoussan, 2003: 30).

The BCG approach allows a multi-business organization to compare the merits of its individual business units in order to determine the best market strategies for each unit. It provides practitioners with a practical framework to guide resource allocation among the many business units and it fills the demand for a practical model to simplify corporate-level strategies. The model is helpful in three ways: (1) it offers practitioners a powerful and compact picture of the strengths of the different units within the portfolio; (2) it identifies the capacity of each unit to generate cash and it also reveals any requirements for cash, thus assisting to balance the organization's cash-flow and; (3) it shows the distinct characteristics of each business unit which can be used to set the strategic direction for each unit (Hax & Majluf, 1983: 46-7).

The BCG approach identifies four industry segments that can be used to develop strategies (Prescott, 1987: 234-35):

- **Volume** segments are profitable for low-cost producers, but these segments usually have very low levels of profitability.
- **Specialized** segments offer significant opportunities for product differentiation and allow smaller competitors to come into play.

- **Fragmented** segments differ slightly from specialized segments in that the size of the competitive advantage is not influenced by the size of the business or the strategy that it follows.
- **Stalemate** segments are limited in their opportunities. Profitability is low for everybody and all businesses compete basically in the same way.

The approach plots market attractiveness and competitive position to compare the situation of different products and/or business units. Market attractiveness is measured by the industry's growth rate, and competitive position is determined by the business unit's market share relative to that of its largest competitor.

The fact that the BCG approach gives a very good overall picture of the organization's business portfolio is its main strength (Fleisher & Bensoussan, 2003: 36). It allows practitioners to apply a focused mindset on the future and it places the complexities of their various business units on a single sheet of paper. Any changes in the marketplace are easily detected, the progress of different business units is easily monitored and it is also easy to communicate and apply any changes that need to be made.

Unfortunately there are a number of flaws associated with the approach. The biggest criticism is that the matrix is to simplistic and must be used in conjunction with other types of analysis. Second to this is the large number of assumptions that are underlying the application of the matrix (Coate, 1987: 301). The matrix assumes that (1) all organizations are divided into multi-business units, which places the conglomerate in a odd situation; (2) the cash generating capabilities of each business unit means that only the strong units will be able to generate a profit and that the weaker ones are capital intensive; (3) market dominance is only associated with profitability and does not allow for niche strategies or product differentiation that may create marginal returns and; (4) all organizations will apply general attractiveness measures and thus there is no place for new product introductions and process innovations.

5.3.1.2 GE Business Screen Matrix:

This approach consists of a matrix that combines the internal analysis of business strength with external industry analysis to describe the competitive situation of different business units and to guide resource allocation across these units (Fleisher & Bensoussan, 2003: 47).

This matrix was created in the early 1970's when General Electric (GE) became interested in the BCG Growth/Share Portfolio Matrix. GE recognized the value of the technique, but thought that there were a variety of additional factors that had to be assessed when analyzing the business portfolio (Hax & Majluf; 1983: 54). GE was in need of such a model because it was struggling to allocate resources across its' multi-tiered business units. The external competitive environment was also placing them in a bind and the growing inaccuracy of forecasting in this turbulent environment forced them to think differently. The culmination of these factors led to the development of the business screen matrix.

The matrix requires the identification and assessment of external and internal factors. Critical external factors - which are not controllable by the organization - are identified to determine the overall attractiveness of the industry in which the organization is active. These factors include market size, market growth rate, barriers to entry, technology and social issues. In a similar way, critical internal factors, or critical success factors, - which are largely controllable by the organization - are identified to determine the internal competencies needed by the organization. These include market share, marketing, sales decisions, R&D, financial resources and managerial competence. Once the external and internal factors have been identified and assessed, each business unit is positioned in terms of overall industry attractiveness and business strength (Hax & Majluf, 1983: 55).

This approach is very similar to the BCG approach and subsequently they share, by and large, the same strengths and weaknesses, as discussed in the previous section. The one added strength of the GE approach is that it has a multiplicity of factors to assess every business unit on, but this is also its biggest downfall. This is because the multiple factors introduce the "complexity of multidimensional indicators" (Hax & Majluf, 1983: 69). This means that practitioners have to give each factor a weight and this brings a certain amount of bias into play. Practitioners will tend to give a conservative weight if they don't understand the issues involved and are unsure of which value to allocate. In this way the BCG approach is a lot more precise and a lot less ambiguous.

5.3.1.3 Scenario Analysis:

Industries evolve and as they do they change in their attractiveness. Thus it is often impossible for practitioners to predict the evolution of an industry with confidence (Prescott, 1987: 235). Scenario analysis is a very good way to prepare for the future if there is a considerable amount of uncertainty about the future structure of the industry. “A scenario is a detailed, internally consistent description of what the future may be like and is based on a set of assumptions that are critical for the evolution of the industry” (Fleisher & Bensoussan, 2003: 284; Prescott, 1987: 235). The output of a scenario is one possible way that the industry will evolve in.

Scenario planning and analysis is a structured way in which to compensate for two common decision-making errors —-that of under- and over-predicting change (Schoemaker, 1995: 27). Subsequently, scenarios have primarily been used in analyzing the macro environment or in worldwide planning (Prescott, 1987: 235). Scenarios have the ability to determine the sources of competitive advantage or critical success factors as the industry evolves. The results of each scenario can be used to predict the future offensive and defensive moves of competitors and it has the added advantage of sensitizing practitioners to the importance of adapting to the evolution of the industry. Scenario planning attempts to capture the richness and range of possibilities, while stimulating practitioners to consider changes that they normally would ignore. Thus we can say that scenarios challenge the prevailing mind-set of practitioners (Prescott, 1987: 236).

Schoemaker (1995: 27) state that organizations that will benefit the most are those who are facing the following conditions:

- Uncertainty is high relative to the practitioners’ ability to predict or adjust.
- Many costly mistakes have occurred in the past.
- The organization does not perceive or generate new opportunities.
- The quality of strategic thinking is too bureaucratic and routinized
- The industry has experienced significant change or is about to.
- The organization wants a common language and framework without stifling diversity.
- There are strong differences of opinion among decision-makers, with more than one opinion having merit.
- The competition is using scenario planning.

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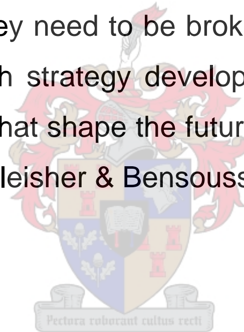
Scenario planning and analysis have tangible strengths associated with the process that makes it invaluable to practitioners. It gives them the ability to determine the sources of competitive advantage as the industry evolves. With this knowledge comes a real sense of organizational flexibility, which enables the organization to adapt quickly to any evolutionary changes. Furthermore, it serves as a "richer" tool for forecasting in that it embraces many more relevant variables that are beyond the reach of traditional forecasting tools (Fleisher & Bensoussan, 2003: 289-90). However, despite the fact that it covers more options, it has an inherent ability to minimize the effect of information overload. It has the unique ability of being able to reduce an overwhelming amount of information into actionable intelligence.

Scenarios are a very powerful tool, but in this power lie the very dangerous assumption that it can be used as the sole process for strategy formulation. It can be used to test a predetermined strategy, but it can not be used to create a new strategy. At the same time it is very important to get the selected scenario to embrace competitive and financial concerns. Scenarios are usually constructed at the macro level, but they need to be broken down so that they embrace more of the functional aspects associated with strategy development. Good scenarios have a deeper appreciation for the myriad of factors that shape the future and therefore they require intellectual courage, as well as strategic insight (Fleisher & Bensoussan, 2003: 291).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5.3.2 Dual-level techniques:

5.3.2.1 Competitor Analysis

This technique provides a comprehensive picture of the strengths and weaknesses of current and potential rivals (Bergen & Peteraf, 2002: 157). It combines all the relevant sources of intelligence into one framework in the support of efficient and effective strategy. Competitor analysis has four major purposes: (1) to identify competitors' future strategies and plans; (2) to predict competitors' likely reactions to any competitive moves; (3) to determine how well matched a competitor's strategy actually is to its capabilities; and (4) to understand a competitor's weaknesses (Fleisher & Bensoussan, 2003: 144; Grant, 2002: 113).

The key requirement for successful competitor analysis is to understand competitors in order to predict their choices of strategy and tactics, and their reactions to any environmental changes and any competitive moves moved aimed against them. To understand them, organizations'

must be informed about them. For this purpose, the corporate sector has borrowed the concept of competitor analysis from the military. Military strategists have used the concept of profiling for many years as an effective technique to manage military intelligence. Michael Porter (Fleisher & Bensoussan, 2003: 145) was one of the first people to argue that organizations do not conduct this type of analysis systematically enough. He stated that too many organizations operated on impressions, conjectures and intuition. This has led to an increasing interest in the concept of "competitor intelligence".

The strategic rationale for competitor intelligence is simple: superior knowledge of competitors offers a legitimate source of competitive advantage. This source of advantage can be used in a number of distinct ways: (1) to determine any weaknesses in the competition that the organization can exploit; (2) to anticipate the strategic response of any competitor to the organization's planned strategies or the strategies of any other competitors; (3) to generate knowledge about the current and future strategic choices of competitors, and (4) to use this proactive knowledge to give the organization "strategic agility", enabling the organization to develop, monitor and implement its own strategic choices better (Fahey, 1999: 66; Fleisher & Bensoussan, 2003: 148). This means that an offensive strategy can not only be implemented more quickly to exploit business opportunities, but also to employ a defensive strategy more deftly, should any competitors threaten the organization.

Subsequently, we can determine that there is a close relationship between competitor analysis and competitive advantage. Analysis enables the organization to be more aggressive, confident and proactive in its stance toward its competitive strategy. Analysis gives the organization knowledge about the competition that allows them to define the parameters of strategy, rather than having to respond to competitive sideswipes (Bergen & Peteraf, 2002: 167). If done well, analysis could become a core competence of the organization. The process of analysis has the added benefit of facilitating the act of sharing insights and experiences across functional boundaries within the organization (Fleisher & Bensoussan, 2003: 149). This means that many a hidden strategy has the opportunity of being "discovered", which would not have happened otherwise. The application of an analysis process also creates an efficient and effective approach to strategy formulation. The analytical product of analysis is an excellent way to communicate the relevant factors of strategy to practitioners.

Analysis may have the potential to greatly influence the process of strategy formulation, but this is also the main criticism leveled against the process. Practitioners think that they have found the proverbial "pot of gold" by making competitor analysis the cornerstone of strategy formulation. In reality this will lead to the organization's eventual downfall (Fleisher & Bensoussan, 2003: 149). Comparisons to customers must always be handled with care. It is good to see what they are doing, but the organization's own response must be in terms of creating new customer value, not copying existing customer value. By not seeking new answers the organization will blind itself to new innovative ways of serving their customers and creating "new value" (Fahey, 1999: 84). Ultimately this will lead to a copycat process, but the only way for the organization to serve its customers is through a process of innovation, not imitation.

5.3.2.2 Customer Segmentation Analysis:

This approach attempts to map a path between the products and services offered by the organization and the customer groups most attracted to this value. These customer groups can be heterogeneous –very different- or homogeneous –very similar- in nature (Fleisher & Bensoussan, 2003: 162). These groups are very important to the organization, because they are the key to the organization's competitive advantage. If the organization can correctly identify its most imminent customer segment, it will be able to serve them better and ultimately improve profitability and its competitive advantage over its rivals (Grant, 2002: 119).

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Segmentation analysis enables practitioners to frame the scope of corporate strategy, that is, the product or service market focus of the organization. The scope is very important for two reasons: (1) it is impossible for the organization to serve all customers and; (2) even if it was possible for the organization to serve all of its customers, it would not be the most profitable strategy to pursue (Fleisher & Bensoussan, 2003: 164). Thus the segmentation process allows the analysis process to identify those assets, capabilities and competencies that drives the organization's customer value proposition.

The main advantage of this type of analysis is that it indicates an efficient and effective route to competitive advantage. By correctly matching the organization's resources with those customer segments that are most attracted to the value produced by them, the organization can serve its customers with the minimum of fuss. They will know who their customers are and what the customers expect in terms of product delivery. This will directly lead to a strong competitive

advantage. Segmentation is also a very good tool to predetermine a market orientation. Instead of first developing and producing a product and then trying to sell it, the organization can first identify customer value and then formulate an optimal marketing and production strategy. While doing this the organization will also be able to determine how its products and services stacks up against the competition (Prescott, 1987: 235).

It will enable the organization to detect any market changes and this provides the impetus for the possible development of new products. If the organization is able to identify any unmet customer needs, it will be able to serve a whole new range of customers, which will once again lead to a greater competitive advantage (Prescott, 1987: 235). Ultimately this will give the organization a very flexible approach to serving its customers, by being able to better evaluate current strategies as well as appraising future strategies more effectively. The greatest weakness of the customer segmentation analysis lies in the very word of "segmentation". The analysis provides insights only into a portion of the customer characteristics and this can mean that certain aspects are overlooked. It is best if segmentation analysis is done in conjunction with other analysis techniques, because it is only one piece of the puzzle and there are factors that must be kept in mind.

5.3.2.3 Strategic Group Analysis:

This approach is a subset of industry analysis that studies different groups of rival organizations clustered together by a similar competitive approach and strategic position (Prescott, 1987: 238). A strategic group consists of rival organizations with similar competitive approaches and positions in an industry. A "strategic group map" displays the different competitive positions that rivals occupy. A group analysis is used to determine: (1) the different competitive positions that rival firms occupy; (2) the intensity of competitive rivalry within and between industry groups; (3) the profit potential of the various strategic groups in the industry and; (4) the strategic implications for the competitive position of each organization within the group. This approach would be well suited if it were to be used to answer Question 4 in chapter 4 of this project (Fleisher & Bensoussan, 2003: 74).

A strategic group can be defined as a group of organizations in an industry that are similar to each other but distinct from other industry groups because their competitive strategies differ in more than one aspect. Different competitive strategies are a result of different factors, such as

the evolution of an industry over time, different resources, unique goals, customer segmentation and varying risk profiles (Fleisher & Bensoussan, 2003: 75). By selecting the most important strategic dimensions and locating each organization along them, it is usually possible to identify one or more groups of organizations that have adopted more or less similar approaches to competing within the industry (Grant, 2002: 127).

This aspect is one of the main strengths of group analysis. Due to the fact that a lot of variables can be included in the process, it does make the process very comprehensive (Bensoussan & Fleisher, 2003: 12). This allows practitioners to analyze several layers of factors and look at a lot of finer detail, which other techniques do not allow. The identification of potential strategic opportunities and risks is very helpful for dealing with change. It allows the organization to move from current strategies to future strategies by either finding the pathways of least resistance or building new pathways through innovation. A second strong advantage is the positive effects of a strong group identity (Fleisher & Bensoussan, 2003: 81). Customers like the reputation effect that strong groups have between them and this increases the value of the group. It has the knock-on effect that organizations within these groups will recognize the value of reputation and this will lead to coordination effects and efficiency effects, as organizations strive to work closer together to save costs and increase profitability.

Despite the fact that strategic groups have huge potential, there are certain drawbacks associated with them. Group analysis does give organizations a lot of ideas, but it gives them no guidance on how to implement these ideas. This means that group analysis must also be used in conjunction with other techniques, which has a stronger emphasis on implementation (Bensoussan & Fleisher, 2003: 14). Group analysis also has a distinct competitive feel about it and this does not allow for non-competitive issues, such as social and political factors, to be incorporated into the process. It is only by making group analysis part of the bigger environmental analysis that this problem will be addressed. There are also negative aspects associated with a strong group identity with the biggest problem being that of reduced flexibility. If cooperation between organizations is too close, then this could lead to a lack of freedom to change and adopt new strategies. This will lead to practitioners having such a strong inward focus that they lose sight of the external environment and, subsequently, any new opportunities that may arise (Fleisher & Bensoussan, 2003: 82).

5.3.3 Business-level techniques:

5.3.3.1 Growth Vector Analysis:

This approach reviews the different product alternatives that are available to an organization in relation to its market options. By undertaking a systematic evaluation of the market, competitive conditions and markets can be identified and understood. This process is necessary so that practitioners can have a complete view of the strategic alternatives that are available to the organization, when formulating strategy. Growth vector analysis describes product alternatives in relation to market options (Daniels, 1983: 5). This approach ensures that practitioners are aware of all the major strategic alternatives before they make strategic decisions. The premise underlying this approach is that corporate growth doesn't just happen by chance, but is an activity that needs explicit attention from practitioners. By coupling customer segmentation analysis to this process, practitioners will be able to determine market and growth opportunities in terms of customer needs and product differentiation. They will be able to develop valid growth strategies through a strong and differentiated product position (Fleisher & Bensoussan, 2003: 336).

Growth vector analysis is a relatively simple tool, but it does encourage practitioners to consider all of the various possibilities before making a decision. It gives practitioners a disciplined approach to frame strategies by. It further aids the analysis process by allowing practitioners to do the analysis on two levels. First, it assists in organizing and comparing all the options available for a particular market and product strategy. Second, once the general direction of the strategy has been set, the analysis can be further adapted to focus on more specific issues within the strategy (Fleisher & Bensoussan, 2003: 337). In this way it not only helps practitioners to adequately address all the options facing the organization, but it also helps to develop multiple strategies. With this process the growth vector analysis helps to simplify the many different market and product strategies.

Unfortunately the relative simplicity of this approach is also its biggest criticism, because it limits the analysis only to market and product strategies. In this way it limits the mindset of the practitioner and this tool must be used in conjunction with other analysis tools. It does not look at issues such as new technologies or social trends that may influence a wider economic agenda. Another weakness is that it only generates new strategies, but it gives no strategic

recommendations on how to implement them. The model is also built on the premise that all firms must grow, but not all firms grow equally and not all forms of growth is of the same profit potential. This does mean that practitioners have to keep a lot of other factors in mind when using this analysis technique (Fleisher & Bensoussan, 2003: 338).

5.3.3.2 Management Profiling:

This approach is an analytical tool that provides practitioners with a better understanding of the backgrounds, goals, personalities and psychological characteristics of rival decision-makers. Profiling allows practitioners to assess the competitors' leadership, managerial and decision-making styles; anticipate competitors' likely reactions to market changes; provide useful insights for understanding players during mergers, acquisitions and strategic alliances; and evaluate the strengths and weaknesses of leadership teams across a range of competitors (Fleisher & Bensoussan, 2003: 225).

Profiling is very useful to determine how decision-makers at competing organizations marshal their resources in pursuit of a competitive advantage. The basic premise of this technique is that organizations don't make strategic decisions, but individuals do. Critical to this insight is the answers to two questions: "what can our competitors do, and what will they do?" (Barndt, 1991: 8) Profiling fills this critical gap, because it provides insights about the goals and motivations of rival decision-makers, once they have been placed within a competitive confrontation. This is of particular importance with regard to the decision-makers approach to handling stress. Strategic decisions are often made under conditions of uncertainty and ambiguity, and this inevitably leads to stress (Fleisher & Bensoussan, 2003: 228). When under stress, individuals will resort to their primary drivers as dictated by their personality traits. It is this distinction that lies at the heart of profiling and it is through this process that practitioners will gain inferences and clues to the types of decisions that will be made.

The primary benefit of this technique is that it will help to create a more complete strategic analysis process. Knowledge of personality profiles offers unique insights into competitor strategy and as a result more effective decisions can be made based on a solid prediction of the competitive response of rivals. Profiling will also complement the organization's existing knowledge about what strategies rivals are capable of pursuing, by indicating which strategies they will pursue (Prescott, 1987: 241). The secondary benefit from profiling allows practitioners

to identify any contingent strategies that rivals will follow and identifying opportunities or threats by knowing where the decision-making priorities of rival decision-makers lie.

The primary weakness of profiling lies in the use and "making" of assumptions about rivals. There is no "hard" evidence to corroborate any of the assumptions (Fleisher & Bensoussan, 2003: 229). It is assumed that practitioners will have stable personalities that remain constant over time. It is assumed that they won't learn from their successes or mistakes. It is assumed that rivals won't be able to control their emotions once placed under stress, but in reality they may be able to do just that. This chameleon capability introduces a number of discontinuities into the process. Finally, the existence of irrational behaviour during the decision-making process is not uncommon in many organizations. To some extent this type is welcomed, because it allows the decision-making process to be robust.

5.4 Summary:

The eight techniques discussed in this chapter represent a very small sample of the total number of analytical techniques that are described in the extant literature. Their inclusion here is arbitrary and as such is the result of a certain amount of subjective bias. However, they have one thing in common and that is my rationale for selecting them. All of these techniques have a bearing on the external factors that will influence the competitive analysis process. That is why some of them have been included instead of other techniques, such as benchmarking or SWOT analysis. These two techniques have a definite internal focus, while I wanted to concentrate on the external focus, because that is what the focus of competitive analysis is. Furthermore, I believe that if these techniques are used correctly, they have the ability to add great value to the process of strategy formulation.

Chapter 6:

A discussion on the pitfalls and blind spots associated with the process of competitive analysis:

6.1 Introduction:

Through my study of the extant literature I have been able to determine that competitive analysis has the potential to make a large and substantial contribution to the process of strategy formulation, but up to now the process has not lived up to expectations (Deshpande & Gatignon, 1994: 278; Fleisher & Bensoussan, 2003: 113; Langley, 1995: 63; Zahra, 1994: 53; Zahra & Chaples, 1993:9 and Zajac & Bazerman, 1991: 40). The question thus arises where the process is falling short? Why hasn't the process delivered on these expectations?

A generous amount of research has been done to try and find some answer to this niggling question. The research varies from organizational information processing to organizational culture to cognitive decision-making (Deshpande & Gatignon, 1994: 281; Zajac & Bazerman, 1991: 38). The various causes that have been identified vary from the ephemeral to the technically detailed, but there is no doubt that they hamper the process in equal measures.

For the purpose of this discussion I have taken my lead from Fleisher and Bensoussan (2003: 115-118) who identified four key areas that influence the quality of analysis: (1) the analyst; (2) the analysis task; (3) the internal organizational environment; and (4) the external environment. I will use their framework as the starting point for my discussion and I will build and elaborate further on their ideas and concepts. In addition, I will refer to the person conducting the analysis process as the "practitioner". The extant literature refers to "analysts" (Fleisher & Bensoussan, 2003: 114); "managers" (Langley, 1995:63); "decision-makers" (Deshpande & Gatignon, 1994: 271; Zajac & Bazerman, 1991: 39) and "executives" (Zahra, 1994: 53), and in order to avoid confusion I will restrict myself to the use of this term. The word "practitioner" will be used to refer to the person who not only conducts the analysis process, but who also uses the results from the process for the purpose of making decisions. In some organizations they are two different people, but in others they are one and the same person.

6.2 The pitfalls and blind spots of competitive analysis:

6.2.1 The Practitioner:

It is important to understand what it is about the individual conducting and using the outcomes from the analysis process that inhibits the analysis:

- People are born with different abilities to perform analysis. Not everybody assigned to perform analytical tasks have the ability to consistently produce positive results. It is therefore critical to hire people with desirable characteristics.
- The brain and mental capacity of any given individual can only perform so well. They rely on a limited set of mental models, they have preconceptions on issues and they exhibit a wide range of cognitive biases when reviewing information. This will lead to faulty assumptions about the competition, which usually is the result of a dogmatic belief system (Zahra & Chaples, 1993: 18). Practitioners will base their decisions on previous experiences and knowledge, and not on current information.
- A truly analytical capability requires innate capabilities, training, development and experience. Everybody might think that they can do effective analysis, but unfortunately this is not true. The real basis of analysis is thinking, but the concept of taking a course in thinking is somewhat surreal and unbelievable. This is where good analysts can use their experience to give them more time to complete the task.
- The “dominant leader” is not ideally suited for the analysis process (Langley, 1995: 69). If he goes unchallenged during the decision-making process, the process will inevitably fail. Practitioners need to encourage a participative process when conducting analyses; otherwise they run the risk of making mistakes. Employees must not become “yes” people otherwise groupthink will take over. Employees must be able to make a positive contribution to the process, without fearing the boss.
- Analysis is hard work and people often take the path of least resistance. This could mean that they will use the same “model” to analyze different scenarios or that they will only collect the “easy-to-find” information and use that for “convenience shopping” (Fleisher & Bensoussan, 2003: 114).
- Practitioners don’t always work in the front office, but tend to work behind the scenes. It is very important for them to interact and network with others, so that they can fully grasp the subtle nuances of the process.

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6.2.2 The Analysis Task:

It is important to understand what is difficult about the basic work process of converting data or information into analytical outputs of value:

- It is difficult to separate analysis from the larger intelligence process of planning, collecting and decision-making, in that it's difficult to determine where does it start and finish? The danger is that it might get lost between everything else.
- Coupled to this problem is the "breadth of participation" that is required from all the relevant participants (Langley, 1995: 64). Analysis is often used in interactions with others and the more participation that is required of people at different levels within the organization, the more emphasis and pressure is placed on the coordination of all the relevant parties.
- Analysis is not a repetitive process! What works for one scenario, often does not work the next time. Key intelligence topics and the environment often changes very quickly. Every new situation requires practitioners to look at it from a new and different perspective (Zajac & Bazerman, 1991: 43).
- Practitioners rely on data-collection from both hard (Internet) and soft (human) "targets". If only one or the other is collected then the analytical task will be biased and so will the results.
- "Paralysis of analysis" is caused by obsessive data collection. This is usually manifested in "paper fights" (Langley, 1995: 66) between two or more practitioners. They can't decide whose analysis is the most accurate and therefore they enter into prolonged analysis battles trying to out prove each other. One of the main inhibitions to competitive analysis is that there's far too much information and it's hard to separate the essential from the inessential.
- Where practitioners only give advice or recommendations to the decision-makers, they are often blamed for decision failures and very rarely praised for successes.
- The analysis task requires a delicate balance of art (creativity, insightfulness, resourcefulness) and science (methods, techniques, processes), which very few people can manage effectively (Fleisher & Bensoussan, 2003: 116).

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6.2.3 The Internal (Organizational) Context:

It is important to understand the factors that exist in an organization that can prevent practitioners and their analysis from creating value:

- Practitioners do not appreciate analysis, because they think they can make good decisions without it.
- According to Deshpande & Gatignon (1994: 281) there are two unique characteristics of organizational environments that are useful to understand organizational decision-making better: firstly, they indicate that organizations rarely solve problems, but are more interested in scanning the environment for surprises and solutions. They rather want to copy situations, than solve it themselves. Secondly, they refer to "office gossip" as having a profound influence on how practitioners obtain their information. So-called "idle talk" in the office tearoom or office corridors will strongly influence their frames of reference when making decisions. This phenomenon has now manifested itself in the creation and use of "communities of practice" in an attempt to formalize these "chat" sessions (Deshpande & Gatignon, 1994: 282).
- Practitioners, decision-makers or managers often have trouble in specifying key intelligence topics (KITs) and critical intelligence needs (CINs) in terms of organizational requirements. If the intelligence need is ill defined, then it will be very difficult to deliver relevant information.
- Practitioners can make the mistake of either over- or underemphasizing the competition. They can over-emphasize the competition by being to hasty in their decision-making efforts and implementing decisions that have not been well thought through; or they can underemphasize the competition by showing an overconfidence in their judgments, by merely repeating decisions or by basing new ones on old ones (Deshpande & Gatignon, 1994: 279).
- The analysis function is always under-resourced by way of time, people, technology and applications. Added to this is the poor placement of the function within the organization's formal structures. There is agreement within the literature that the analysis function should belong to the group that is responsible for strategy making, but this was found in less than 50% of the organizations that were reviewed (Zahra & Chaples, 1993: 21).

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- Usually there is very little time available for analysis, but more than enough for quick and poor decision-making. "Thinking time" is a no-no as it is seen as the unproductive use of time.
- Practitioners are expected to deliver their insights objectively, but more often than not they are perceived as the conveyers of "bad" news. Most often they have to tell a decision-maker that their pet project is hopeless or that their bright idea was not so bright after all.
- Within the organizational context it is important to have good relationships and these are built on trust. Therefore sufficient time has to be allocated to cultivate these corporate relations (Fleisher & Bensoussan, 2993: 117).

6.2.4 The External (Environmental) Context:

It is important to understand the factors that exist in the external environment that can prevent practitioners and their analysis from creating value:

- The scope of the analytical effort has been enlarged and complicated with the advent of new technologies, global competitors, new market entrants and new market opportunities. This inevitably will lead to the misidentification of competitors (Zahra & Chaples, 1993: 12). Practitioners will concentrate on well-known organizations while ignoring other potential competitors, or they will concentrate on the visible resources or known competences of their competitors while ignoring new resources or emerging competences.
- With the ever-increasing information overload, there is the risk that the analytical process can be overwhelmed by the mass of available information.
- Misjudging industry boundaries is a serious threat to the analysis process. The boundaries that practitioners "allocate" to their industry are influenced by "environmental enactment" (Zahra & Chaples, 1993: 10). This refers to the way that practitioners choose the sectors of their external environment that they aim to emphasize. They will choose sectors where they believe that they have a suitable product to serve their customers. In the process they will ignore and overlook sectors where there are significant change happening and thus creating a shift in the industry's boundaries.

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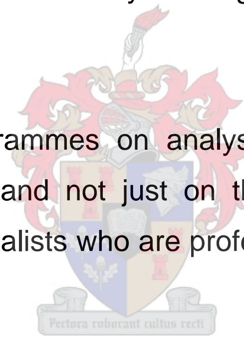
- Globalization creates new problems, such as the blurring of markets, industries and geographic boundaries; new competitive principles and values; and new forms of competition.
- IT systems for data collection are a dime a dozen, but there is a serious need for good systems developed for the analytical task.
- Education today is focused on skill building and not thinking. Analysis is not being taught as a skill in its own right (Fleisher & Bensoussan, 2003: 118).

6.3 What can be done to improve analysis?

6.3.1 Practitioners must come to understand the value of analysis and the empowerment that it gives them. The better practitioners are provided with insight, the better they and their organizations will perform. Good analysis is good for the bottom line (Fleisher & Bensoussan, 2003: 119).

6.3.2 Dedicated courses and programmes on analysis must be developed by educators, employers and practitioners, and not just on the broader CI process. Analysis is a discipline of its own, with specialists who are professionals with unique knowledge, skills, training and abilities.



6.3.3 The analytical capabilities of practitioners must be measured, because if it can be measured then it can be managed and improved upon. The same goes for the analytical practices of the organization. They need to be benchmarked to determine whether they are on par with the rest of the analytical environment.

6.3.4 Even the most effective analyst can fail at some time and therefore they need to be given the freedom to apply their skills and learn through their failures if need be.

6.3.5 Careful consideration must be give to the staffing, organization and mission of the competitive analysis unit. Very often too much is expected of an understaffed, poorly placed and ill-defined analysis unit. Practitioners must be placed in organizational positions where they can exert the most influence and be the most effective. They also need to be provided with the right tools. Without access to rich sources of data, enabling

technologies, the support of their colleagues and clearly defined goals or targets, they are doomed to fail (Zahra & Chaples, 1993: 22).

6.3.6 The main goal of the practitioner must be to create insight and not just impart data or facts. These insights must be presented in a way that is so compelling and convenient, that decision-makers can do nothing but use them.

6.3.7 Organizations need to change their view of the competition. The organization that understands it competitors is well placed to succeed. As mentioned before, the reason for weak analysis lies in the perceptions that practitioners have of their competition. Practitioners need to acknowledge that “competition is good” (Zahra & Chaples, 1993: 23). They need to see the presence of competitors as an opportunity to enhance the status of the industry, strive for technological innovation and progress and meeting customer needs.

6.3.8 A final, but very important point is that organizations must study the competition intensively. There is much to learn from the response patterns and blind spots of competitors. Practitioners can gain vital insights into the thinking patterns of competitors by studying their responses to moves within the industry. Their response will be based on how they see themselves and what they define as their strengths. Their blind spots will be revealed by the decisions they fail to take and by the actions they fail to make.

6.4 Summary:

Competitive analysis is a critical component of strategy formulation and implementation. It helps practitioners to identify their competitors and to understand, interpret and predict their actions. Analysis done well will help an organization to reduce its risk level in dealing with its external environment. Understanding and addressing the root causes behind flaws in the analysis process is a positive step toward building an effective system for competitive analysis. This system should form an integral part of the organization’s decision-making processes, stimulating creative thinking about the industry and the competition. Without analysis there is little insight and without insight there is only darkness.

Chapter 7

Summary, conclusions and recommendations:

7.1 Summary and conclusions:

The objective of this assignment was to investigate the relationship between competitive analysis and strategic management, and its subsequent use during the process of strategy formulation. A comprehensive understanding of the process of strategy formulation lies at the heart of the investigation and a complete understanding of all the various factors that influence the process underpins the investigation.

The modern organization is active in such a competitive environment, that a lot more emphasis is placed on the process of strategy formulation, than in the past. Mintzberg's metaphor of likening the process to that of a "beast" is very apt, because it describes the process both from a practical and theoretical perspective. From a practical perspective there is a vast array of factors that need to be kept in mind when implementing a strategy, but more importantly, from a theoretical perspective there is a vast amount of information that must to be considered when developing and drafting a strategy. No wonder then that writers such as Mintzberg (1987a: 66) and Thompson, Strickland & Gamble (2004: 9), likens the process to that of a "craft".

At the heart of this craft lies a fundamental understanding of "what a strategy" is. Through my study of the extant literature, I was able to determine that there are a large number of different definitions of strategy and from this I could deduct that there is little or no consensus amongst practitioners and academics about the true nature of strategy. Everybody acknowledges the importance of strategy, but nobody can pin it down, so to speak. At least, practitioners and academics alike do recognize what a strategy should consist of and what it should have as its goal, but to achieve this is a rather large conundrum. The different perspectives of strategy, the different types of strategy and the different approaches to strategy formulation may have been developed to assist practitioners in their quest for the "perfect" strategy, but unfortunately it has only led to create more confusion and discontent with the final product.

If it is difficult to grasp the concept of what a strategy is, then grasping the process that is to be used to develop and craft a strategy, does indeed make it a "beast" of vast proportions. A vast amount of literature has been written about the processes of strategic planning and strategic management, and despite the fact that there is a large amount of consensus about what the process should look like, there is also a large amount of discontent about the process. The importance of the process has been identified and discussed, but despite this critics are still lamenting about the negative aspects of the process.

At the heart of the problem lies the belief -and hope- that effective strategic planning is the "be all and end all" of strategy formulation. Unfortunately this is not true, because the process does not stop at mere planning. For strategy formulation to be pervasive and true, the actions of awareness, formulation and implementation must be embedded within the management processes of any organization. Only then will the organization be able to avoid what Gary Hamel (2000: 49) calls "strategic convergence". With this he wants to warn organizations against the imitation of strategies, by using existing strategies in new situations without looking at the specifics of each new situation.

This realization brought me to the point of asking how practitioners can avoid these problems. The literature enabled me to identify a very important factor in the process of strategy formulation. The underlying secret lies in understanding the environment within which the organization is operating, and it is only through "strategic thinking" that practitioners will be able to identify the key variables within their environment. The term "strategic thinking" refers to the process of identifying those aspects within the competitive environment of the organization that will influence its competitive position. Abraham (2006: 12) defines strategic thinking as being "creative, conceptual and visionary, yet knowledgeable about practical matters concerning the competitive environment".

This means that strategic thinking is the action that drives the process of strategic management and, yet, the "jury is still out" about the proper place for strategic thinking within the strategic management process, despite the attention that it has been receiving from a theoretical perspective. Theoretically speaking the concept of strategic thinking should enable practitioners to "foresee" the future and "read" the business environment that they are active in, but there are distinct problems from a practical perspective.

For one, the competitive environment is ever changing and there is always “movement” within the environment. This movement may be slow and incremental or it could be quick and profound, and it is these movements that catch practitioners unaware, and then they blame the process. I believe this to be a direct result of “management myopia” where practitioners are continuously looking for short-term “quick fixes” to their problems without considering the long-term effects and consequences of their decisions.

These practical matters are a direct reference to the internal and external environment that confronts the organization. This assignment is focused on the process of competitive analysis and as such it is only concerned with competitive forces to be found in the external environment of the organization. These forces can be close to home, i.e. the narrower or microenvironment, or further a field, i.e. the broader or macro environment. Knowledge about these forces will enable practitioners to be in control of their environment and to pre-empt any changes that may occur. This will enable them to be proactive in their actions and decision-making processes, and furthermore, it will allow them to proactively shape the future of their organization. However, practitioners must be aware that the forces in the external environment are largely out of their control and that this could lead to immense frustration and discontent with the process of strategic management. History has shown us that practitioners have lost their belief in the process because of this fact.

It is at this point that I believe that the process of competitive analysis can add great value to the decision-making and strategy development efforts of practitioners. If the process of competitive analysis has been competently done, it will enable practitioners to identify the important forces within their environment and focus their mental efforts on how to approach and overcome these forces to the benefit of the organization. Knowledge about these competitive forces will determine the purpose of the strategy that is to be employed and this determines the type of strategy that need to be developed. The use of different cognitive approaches will assist the development of the different types of strategy and this will help to determine where, and at what level, the intended strategy will be employed within the organization.

There are a vast number of tools and techniques to aid and assist practitioners in this quest. Through the literature I have been able to identify those that have stood the test of time and that have proven to be most beneficial to practitioners. Most of these have been “borrowed” from other management disciplines and have been adapted to suit specific circumstances.

Some of them have failed, but others have succeeded, and it is from these successes that the academia has been able to contribute profoundly to the rich nature of information that is available. Academics have been able to pinpoint the good and the bad associated with every technique, and through this process they have been able to guide practitioners in their quest to find and select the technique best suited to their circumstances. There is vast amount of literature available on all the various tools and techniques, but here-in lies a big problem. There seems to be a lack of coherent sources available for practitioners to consult.

Everybody who has “discovered” a new idea climbs on the bandwagon and claim they have found the “new” answer to whatever it is they are trying to find. I perceive that there is a distinctive lack of scientifically proven tools and techniques that have stood the test of time. Yes, there are techniques that have been around for a long time and they have proven to be pervasive, but practitioners and academics have to create a sound theoretical base from which these techniques can be effectively tested and evaluated. It would seem that the distinct absence of scientifically embedded techniques is one of the major reasons why practitioners are struggling to cope with their changing environment.

On the other hand there are those who believe that the absence of proven techniques is a good thing. They base their belief on the fact that the use of recipe techniques is a hindrance to quick, flexible and entrepreneurial decision-making. They believe that for strategy formulation to be truly effective there must be a strong element of discontinuity associated with the process. Decision-making and, ultimately, strategy formulation must be a continuous and spontaneous process, without the hindrance of a formal process attached to it.

The tools and techniques of competitive analysis have been developed to give practitioners more control over the conditions under which they are supposed to make strategic decisions, although it must be remembered that these tools and techniques cannot be the “be all and end all” of competitive analysis. They can be of great assistance to practitioners, but practitioners must be careful not to fall in the traps associated with the process. The blind spots associated with the process have the potential to undermine the best of intentions that practitioners may have had at the beginning of the process. Part of the problem lies with the practitioner and the cognitive perceptions and processes that are bought into the process, i.e. an over-reliance on the analysis process or a lack of true analytical skills.

The other part of the problem lies with the environmental context in which the analysis process is suppose to take place, i.e. problems within the internal organizational context or problems within the external environmental context. It does not matter where the potential problem or problems may come from, but what is important is to understand that they will affect the process negatively and they will undermine the end result.

Competitive analysis has the potential to add great value to the strategy formulation process within any given organization, but for this to happen practitioners must embrace the process and associate themselves with it, without making it the “be all and end all” of strategy formulation.

6.2 Recommendations:

The following recommendations are based on my conclusions and they are presented here in an effort to enhance the understanding of competitive analysis as a concept, as well as its use in the business environment. The recommendations include the following: (1) an enhanced understanding of all related concepts; (2) suggestions for further research and theory development; (3) the advancement of competitive analysis as a business application; (4) organizational culture and change and, (5) the future management of the process of strategy formulation.

6.2.1 An enhanced understanding of all the related concepts:

The outcomes of the study clearly indicate that a better understanding is needed not only of the process of competitive analysis, but also the various tools and techniques. Also included is an enhanced understanding of strategy, strategy formulation and strategic management, as well as the relationship between these concepts. I have been able to determine that there is consensus amongst practitioners and academics about the different concepts, but understanding about the relationship between competitive analysis and strategy formulation needs further enhancement.

Part of the enhanced understanding will be determined by the level of application of the process during strategy formulation. This will be determined by the complexities and unique properties encountered during strategy formulation, and once these issues have been understood better, it can be more readily applied within the organization.

6.2.2 Further research and theory development:

Once the different processes are better understood and the subsequent relationships are enhanced, further research into their practical application is needed. The reasons behind the limited success of competitive analysis as a tool for strategy formulation need to be investigated in order to make a better case for the use of the process. One of the reasons that have been put forward to explain this is the concept of "competitive reasoning" (Montgomery, Moore & Urbany, 2005: 138). The authors contend that practitioners do not reason adequately enough about the likely actions that competitors are bound to make or about competitors' likely reactions to their own competitive moves. This concept is enhanced further by the application of "strategic thinking" or the subsequent lack thereof (Abraham, 2006: 12). From this I can deduct that there is a distinct need for validated empirical research on the competitive reasoning of practitioners.

Second to this is a need for research on which tools or techniques practitioners are using, if they are not using competitive analysis to assist them. It would seem probable that there are some valuable lessons to be learned from the "results" of such a study. The reasons why practitioners are more prone to use other tools and techniques might just enable practitioners and academics to identify the shortcomings of the competitive analysis process, and this will enable them to "solve" some of these burning issues. This will not just be of great theoretical importance, but will also enable practitioners from a practical perspective to make a much more informed choice when choosing a technique to assist them when formulating strategy.

Thirdly, there is also a need to investigate the use and application of the existing tools and techniques of competitive analysis. By testing and validating the practical application of the various tools and techniques practitioners will be able to determine which the successful ones are and which the failures are. In this way they will be able to trust the tools and techniques more and this will enable them to concentrate their efforts on other aspects of the process that require more mental energy from their side.

Fourthly, there is also a definite need to investigate the competitive environment that practitioners are likely to face in the future. The competitive conditions of the 21st century are completely different to those of the past and they are most definitely going to change even more in the future. These changes will have a profound influence on the conditions under which these tools and techniques are to be used and practitioners will have to understand their competitive situation, if they are to stay in control. A lot of research concerning the future is being done in the fields of marketing, economics, sociology and anthropology, but these applications need to be applied to the process of strategy formulation.

Lastly, there is a definite need to better understand the dynamic relationship between competitive analysis and strategic management. Practitioners and academics, alike, understand what competitive analysis is, but from the extant literature I have been able to deduct that practitioners are very unsure of just what exactly the process can mean to them. They read and theorize about the process, but when it comes to practical applications they just do not see the results in their bottom line. Subsequently, they lose confidence in the process and ultimately they lose their confidence in the process of strategic management. If competitive analysis is to be advocated as an integral part of the strategic management process, then the relationship between them must be completely investigated and understood.

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6.2.3 The advancement of business applications:

Once the process of competitive analysis has been understood and its relationship with strategic management identified, the process can be advocated as a core management tool. Areas within the organization that are constantly suffering from competitive pressures can be identified and the process can be used to relieve some of these tensions. These areas can be encouraged to actively implement the process and once it has taken off, the process can be spread to other areas that are also in need of such a management tool. Part of the process is an effective implementation plan, as well as an evaluation plan to keep track of the development of the process and to assess its impact on the process of strategy formulation. This process will need constant supervision and attention in order to stay abreast of competitive and business developments. It is very important to determine and be aware of the added value that the process gives to the organization, because this will ultimately determine if the organization is going to use the process on a continued basis.

6.2.4 Organizational culture and change:

It is important that the organization should be prepared if the process of competitive analysis is to be implemented as a new tool for strategy formulation. Employees may be reluctant to participate in the process if they see it as just another "fad". Their reaction is understandable when one considers that they will most probably have to change their whole way of working. However, it is the responsibility of the senior practitioners to ensure that the other employees are aware of the positive impact that the process will have. If needs be, then strategies must be devised that will convince employees of the important role that the process has to play and illustrate the advantages that the process will give them.

Most of the employees' reluctance will be caused by the risks involved with implementation. They will be unsure of the outcomes of the process and they will also be skeptical of the value of the process. They will most probably feel that they are doing a good job without the new process, and it would be a tremendous help if the employees were actively involved with the process, so that they could see for themselves what the potential benefits are. They will gain first hand experience and once the process has gained general acceptance, the hump of the camel will have been broken. Part of this process will be the need for active training, and a dedicated implementation schedule will have to be devised to coordinate the whole process. Clear communication about the intent of the process will greatly assist acceptance from employees on all organizational levels.

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6.2.5 Future management of the process:

With the strategic context of competitive analysis well understood, management can now concentrate on using the process to maximize its value for the benefit of their customers, shareholders, employees and stakeholders. The purpose of competitive analysis is to add value to the process of strategy formulation and the process should be managed as such. For the process to achieve its full potential, it must be implemented and used at a strategic level within the organization.

However, the process can be applied at a range of different levels within the organization, and management must decide whether they want to use it at a general or specific level within the organization. It can also be restricted to specific business units, or a project-based approach

may be followed (Prescott & Smith, 1987: 411). If competitive analysis is to transform the process of strategy formulation into a pervasive management tool, it would be best if it was implemented across a range of different organizational levels. In this way the process will be seen as an organizational tool and not just as a tool used by senior management. This will enable the process to add a lot more value to the strategic functioning of the organization.

Once the process has been implemented, it must be continually evaluated and adapted. Conditions within the internal or external context of the organization will most certainly change, and these changes have to be managed properly. Employees with essential knowledge of the process may leave the organization and this will result in a loss of tacit knowledge to the organization. The loss of practitioners who have experience about performing the process of competitive analysis will leave a very definite void within the organizational structure. New practitioners have to be identified and trained to minimize the damage caused by this void.

The organizational culture may also change with the introduction of a new CEO, for instance, who usually has very definite ideas of his/her own. The transition from one leader to another is always difficult, but the process must be managed with the minimum of disturbance to the overall functioning of the organization.

A very important motivation for continuous evaluation and adaptation are changes in the external context of the organization. Competitive conditions can change very quickly with the advent of new technologies, new market entrants, new forms of competition and new competitive principles. Practitioners need to display a focused approach to strategic thinking and their levels of competitive reasoning must be of the highest quality. It is they who drive the process of strategy formulation, and it is they who must adapt the process of competitive analysis to serve strategy formulation best.

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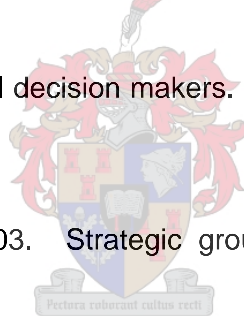

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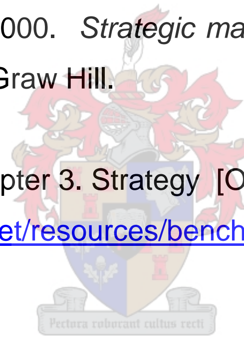

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