MARKETING STRATEGY FOR SMALL BUSINESS: THE FOUNDATION OF MARKETING STRATEGY - INDUSTRY AND COMPETITION

The foundation of any marketing strategy is information and the analysis of this information. The information encompasses both the internal environment of the organization and the external environment facing the organization. The systematic gathering and analysis of information is a major task, but it will enable the organization to determine its direction with much more precision and understanding, and it becomes the foundation supporting the marketing strategy. Trends, influences, business conditions, resources, and capabilities must be explored for the present, past, and future. The intelligence phase tries to document the environment in which the organization operates.

There are four building blocks for this analysis:

1. The industry
2. The competition
3. The market
4. The organization

A thorough analysis of these four cornerstones will lead to a strategic balance sheet with the acronym SWOT: that is, the Strengths of the organization, the Weaknesses of the organization, the Opportunities facing the organization, and the Threats facing the organization. Figure 7-1 shows a typical SWOT analysis for an organization.

Figure 7-1

SWOT Analysis - ABC Company

Strengths
- No debt
- Strong industry brand name
- Modern plant
- Excellent sales force
- Good reputation for service

Weaknesses
- Weak product line gaps
- Senior management weak
- Poor profit history
- Distribution network not pushing product
- Low technology
- High costs

Opportunities
- Market increasing by 10% p/a
- NAFTA/FTA

Threats
- Technology changing demand
- Japanese competitor entering market
- Canadian dollar strengthening
- Demographics

The situation that an organization finds itself in must be understood. An analysis of the situation is rooted in four areas: Understanding the industry you are operating in; understanding the competitors that surround you; understanding the market and the customers you wish to appeal to; and finally, understanding yourself, your organization, and its performance. The framework for analysis is both internal and external, and also historical, for the present and the future. The essence of good marketing strategy is to develop a fit between the internal and the external, sometimes labelled “managing from the outside-in”.

The four foundations explore the details of each environment, thus laying the groundwork for a good fit. Another label for this analysis is a situation analysis. Marketing strategy must be driven by facts and analysis. Judgement should be rooted in fact and in the proper assessment of the situation facing the organization. This analysis will eventually direct the strategy, and this knowledge will be the lens through which all other activities are viewed.

Industry Profile

An industry profile is a list of some of the basic characteristics of an industry. It is meant only as an overview. An industry is defined as a group of companies with similar products. An industry profile is a good starting point for understanding. A typical profile may cover the following:

- Market size
- Geographical distribution
• Market growth rate
• Number and size of companies in the industry
• Number of customers
• Variety of products/services
• Economies of scale
• Profitability
• Number of companies entering/leaving the industry in the last five years
• Channels of distribution
• Intensity of sales and advertising effort

**Industry Analysis**

There are several questions that this analysis tries to answer:

1. How does the industry compete
2. How attractive is the industry?
3. What is the structure of the industry?
4. What are the strengths of the key forces in the industry?
5. What are the long term prospects for the industry?

By answering these questions, the organization will have an idea of its own prospects for the future, and how to position itself and its products to take advantage of the growth or lack of it. The most widely used technique to answer these questions is by using the Five Forces analysis developed by Michael Porter. Porter sees five competitive forces as the principal determinants of the state of an industry. The forces are:

1. The rivalry in the industry
2. The substitutes available for the organization’s products or services
3. The potential for new organizations entering the market in order to compete
4. The bargaining power of customers
5. The bargaining power of suppliers

**Competitive Rivalry**

Rivalry is the battle in the marketplace. Sometimes it is intense: for example, with non-differentiated products such as a small service organization; at other times it is gentle and follows the rules of non combat, such as in the early days of the banking industry. The heavier the competition, usually the lower the chance for high profit and high growth, unless you are in possession of a highly developed competitive advantage. Heavy price competition tends to diminish profits, whereas competition on service delivery or advertising seems to raise profits.

Rivalry is traditionally increased if the products are similar. Compete on price, and when it is easy for the customer to switch to another brand. Brand loyalty impedes and slows rivalry. If there are numerous players of similar size in the industry and the industry is slowly growing, rivalry intensifies. The retail food industry is an example of this.

**Substitutes**

Whether they are other brands or slightly different products that will satisfy the consumer, substitutes are always a major concern for marketers. The corner store competes with the supermarket. The brick manufacturer competes with the vinyl siding manufacturer. There are many different products and services that can satisfy the same need. The more substitutes, the more difficult it is to market. Substitutes limit pricing strategies and invite comparison by customers.

**New Entries**

There are many small service businesses where there are virtually no barriers for anyone to start up. This lowers the profit generally. Newcomers add to the capacity and rivalry intensifies. Higher barriers usually mean better profits.

**Customer Power**

Supermarkets put a lot of pressure on smaller suppliers, reducing the supplier’s profit margin. As a customer, the supermarkets have power. The higher the power of the customer, the less the pricing and service flexibility.

**Power of Suppliers**

Like buyers, suppliers with clout may increase the cost of raw material. Smaller organizations can rarely purchase in large volume, unless they join together, and therefore may not get the same service or price as larger buyers. This may change the cost structure of the smaller organization.

The attractiveness of an industry for marketers is determined by these five forces. The long run profits in an industry is also determined by the five forces. The issue for marketers is how to fit with the five forces and how to change them to work to their advantage. Raising switching costs changes the power dimension. For example, electronic ordering ties a supplier and a manufacturer together, exclusive dealings may bind a retailer and a manufacturer. Marketing may try to insulate the firm from the forces by focussing on developing a competitive
advantage, such as service. The marketing strategist develops a good perspective by analyzing the five forces that determine how attractive an industry is to operate in

**Key Success Factors (KSFs)**
Knowing the industry characteristics is important, but in order to place industry characteristics and competitors in a proper perspective, it is important to pinpoint the characteristics within the industry or market that lead to success. The Key Success Factors (KSFs) are the factors that determine success. KSFs vary from industry to industry and from time to time. KSFs are a reference point for marketing strategy. KSFs must be important and significant, and ideally identify sources of advantages and disadvantages for the organization. KSFs are variables to be managed and linked to the firm’s competitive advantage. A KSF may be unique to a segment of the market. KSFs come in many shapes. Some of the more common KSFs are:

- Technology and innovation oriented
- Manufacturing oriented
- Channel oriented
- Product oriented
- Marketing skill related
- Financially oriented
- Organizational oriented

**Key Issues and Options**
Key issues surface during the intelligence phase, as well as the strategic options available to the organization. The four A’s framework discussed earlier is a good one to use as a template for options to be dealt with. The issues are evaluated and the options resolved to form a decision about strategy, along with a set of objectives against which to measure performance.

![Figure 7-2]
**A Basic Outline of Data Needed for an Industry Analysis**

1. Market Data for Industry
   a) Definition of industry by product/market and geography
   b) Sales history (aggregate and by significant product groupings). Analysis of sales trends and growth patterns.
   Future growth?
   c) Major players’ market share (current and historical). Analysis of data
2. A general discussion of the industry and an identification of the principal issues within the industry.
3. How attractive is the industry. Profitability, growth, etc.? (Porter’s Five Forces analysis as a foundation for this analysis).
4. The key success factors in the industry. What are the competitive advantages needed to be successful?
5. Key segments analysis.
6. An analysis of the financial dimensions of the industry (cost, learning experience curve, profitability, investments, cost/price patterns).
7. Product/service aspects within the industry.
8. Technological implications for the industry.
9. Key opportunities within the industry.
10. Marketing practice in the industry. A description of how products or services are marketed: for example, type of channels, type and level of promotion.

**Competitive Analysis**
Marketing has traditionally been light on competitive aspects. Paying attention to the competitors may be as important, and sometimes more important, as paying attention to the customers. Obviously, you need to balance your marketing strategy between a customer and a competition orientation. Some marketers have argued for a complete shift to stressing the competition, along with strategies based on exploring the vulnerabilities of competitors.

Competitive analysis is the second step in the intelligence gathering process. Again one is looking for insight that will help develop a better marketing strategy, one that recognizes the role of competitors. As with the industry analysis, a SWOT analysis is a good summary of the competitors, especially the strengths and weaknesses. You need both an identification of the competitors, as well as an understanding of their marketing strategies. The competitive analysis asks the basic questions: Who are the competitors and how do we evaluate the competition?

There are many levels of competition. For example, Arctic Spring competes in the “new age drink” segment with a mineral water fruit drink. It com-
petes directly with other mineral water fruit drinks such as Clearly Canadian and Everfresh. Arctic Spring also competes with bottled water such as Evian, and with traditional soft drinks and juices. The circle of competition can be widened to include all non-alcoholic drinks as competitors.

There are two distinct levels of competitors; the primary or direct, and the secondary or indirect. The consumer’s view determines what are acceptable substitutes and thus primary competitors. Also to be considered are future competitors. A major soft drink manufacturer may not be a direct competitor, but as the market grows, it may move in with a product of its own.

**Strategic Clusters**

A more focussed approach is to identify competitors that have similar marketing strategies and have developed similar positions in the market. This grouping will have similar products, channels, and communications and will serve similar markets.

Some groups can be graphed on a map very much like a product map, except now we have clusters of similar organizations on the map. The axes of the map will be characteristics that differentiate a group; that is, strategic marketing variables such as the level of service, range of products, and geographic scope. The map helps to sort out various clusters of competitors and the relative space that they occupy. Maps help to illustrate pictorially the competitive relationship. There are exit and entry barriers for clusters. Clustering helps reduce the numbers where there are numerous competitors.

**Future Competitors**

In addition to current competitors, new and potential competitors should be identified. Signs of new competitors are:

- Mergers or acquisitions. What was previously a weak competitor may be acquired by a strong company.
- Distribution change. A smaller organization may acquire the rights to distribute a product from another country in your market.
- Technology. A breakthrough may provide a new product in your market.
- Backward or forward integration may lead to new entries. Your customer may become your competitor.
- Imports or foreign manufacturers may seek expansion in your local market.

**Information for Competitive Analysis**

In order to understand the competition, a large amount of data and information must be collected. Figure 7-3 outlines some of the data that will form the basis for an in-depth analysis. Many of the sources of information are public or semi-public. Sources may include the following:

- Customers
- Company sales literature
- Financial and other filings with government agencies
- Financial and market data collected by private organizations
- Newspapers
- News releases, announcements, recruitment advertising
- Journals, magazines, especially the financial and trade press
- Court cases
- Former employees
- Industry experts
- Government experts and studies
- Patent records

One of the many objectives of a competitive analysis is to try to predict what a competitor will be doing in the future. For example, a small pharmaceutical company analyzed the credit data on competitors secured from a credit agency. On the basis of this information, it was forecasted that a key competitor would not be able to survive and approximately $5 million worth of business would be up for grabs. Two months later the competing company folded, and the pharmaceutical company was ready to take advantage of the change in the marketplace.

Many organizations undertake formal studies to understand the competition. For example, a manufacturer of specialized trucks recently asked a consultant to study their six major competitors via literature searches and personal interviews. An incubator centre in Toronto commissioned a consultant to study and evaluate the activities of other centres in order to develop a viable strategy for the future. Retailers hire mystery shoppers to evaluate the competition.
A Basic Outline of Data Needed for a Competitive Analysis

1. Who are the current competitors in the industry? Market shares?
2. Map the competitors on several dimensions - key positions within the industry.
3. Analyze the financial dimensions of the key competitors.
4. Look at the management structure and qualities of the key competitors.
5. Identify the competitive advantages of the key competitors.
6. Perform a strengths and weaknesses analysis on the key competitors.
7. How does each competitor differentiate the company’s product(s)?
8. Analyze briefly the indirect and potential competitors, if any.
9. Identify the goals of the key competitors.
10. What are the market share strategies of the key players?
11. Compare segmentation strategies, if discernible.
12. Analyze failures or withdrawals.
13. What is the geographic scope of the competitors?
14. Marketing practice of the key competitors
15. Manufacturing/service and technology capabilities
16. Outline market strategies of key competitors.

There are several key elements that have to be looked at when analyzing competitors.

Competitor Profile
Like the industry profile, this is a brief snapshot of each competitor. The headings are very similar:
- History, size
- Products, markets served
- Growth
- Profitability, financial condition
- Channels
- Communications
- Technological capability
- Cost structure
- Competitive advantage

The profile is the first cut at putting some information on paper.

Competitors' Marketing Strategy
This is the most difficult part since this is unlikely to be in the public domain. A large number of inferences made from observing the marketplace and talking to customers form the basis of this analysis. New product announcements and new sales offices provide good insight into competitors’ patterns of behaviour.

Competitors' Organizational Behaviour
This is a little easier to obtain. Insight into a manager’s background is easy to glean, especially in smaller industries where everyone knows everyone else.

Ownership and Investment
The ownership of smaller firms is traditionally in private hands. The type of ownership (widely held by employees, by senior management, or by the president) will often signal the type of strategy the firm pursues. Innovation, for example, may reflect the owner’s attitude towards newness and long term commitment.

Strengths and Weaknesses
Knowing and understanding the competitors’ strengths and weaknesses is of great value and provides further insight. Strategies usually try not to go up against strengths, but rather seek to exploit and take advantage of weaknesses. A strengths and weaknesses analysis is a summary of the larger competitive analysis and it tries to fit the conclusions into a strategically helpful format. Aaker proposed a competitive strengths grid where the competitor’s chief assets and skills are listed, along with whether it is weak or strong.

Another way of developing a competitive grid would be to list the key success factors in the market and grade each competitor on these variables.

Competitive Research and Ethics
Competitive research is not spying, nor is it industrial espionage. Competitive analysis is good business and one of the foundations on which to build a successful marketing strategy. Much of the research on competitors is of a secondary nature (existing data and information). However, primary information may be valuable. Focus groups, where a group of a competitor’s product or service users get together to discuss why and how they choose their products, may be very helpful and may provide direct information not otherwise available. Telephone surveys and
face-to-face interviews, both common market research tools, may also provide good insight.

With the low cost of software and hardware, competitive information should be set up in a data base format. This provides easy access and ensures that updating takes place.

There is an ethical dimension to competitive analysis. Use the test of reasonableness and ask the question: Would I like this type of inquiry directed towards my organization? Do not engage in illegal activity in order to secure information, and do not use or obtain confidential documents that belong to a competing firm. Do not seek information pretending to be someone else or pretending to belong to another organization. The local professional market research organization can provide a guide to ethical market research should there be doubts, or a legal opinion may be of value.

Endnotes