
Competitive Analysis 101: A Guide To Getting Started

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Competitive analysis is a key component to any successful business strategy. Even the smallest company can and should be aware of what competitors are doing. But how do you get started? You can do your own analysis by following the simple techniques listed here. Gathering and analyzing comprehensive information need not be expensive or time consuming. While there are many sophisticated methods, basic research can be done by keeping your eyes and ears open.

Establish boundaries

Even a full-time competitive analyst needs to place boundaries around what will and will not be studied. For someone doing research on the side, it is critical to focus only on the competitors and their product offerings that can have the biggest impact on your company. You will never have time to keep track of all the niches and nuances. Segment the business areas that are most critical and concentrate on your business areas that are most vulnerable to competition.

Get to know a librarian

Having access to a corporate library can provide you invaluable information and save you hours of time. Many librarians can set up a customized monthly online database search of information on the products and companies you are following.

Trade journals, newsletters, government publications such as the US Census Bureau, state statistics, and local regional government reports are some valuable sources. You can find useful information from financial reports such as Standard and Poors, Value Line, Dun and Bradstreet, and corporate annual reports.

Use the library's catalog of sources to save time. Talking to the librarian about your research question can help you focus on the critical questions you want to ask and how to go about your search.

If your company does not have its own library, check out the main branch of your public library. Most should have the publications you need. Many libraries have CD-ROM systems that allow you to do keyword searches. Examples of such systems are Magazine Index, Infotrack, and Disclosure. Other publications

such as *Business Periodical Index* may be available.

Libraries differ in the services they provide, but with a little patience and perseverance you can get what you need. University libraries also have many of the same services and may be open to the public.

If you don't have access to a library, subscribe to a few trade magazines, the *Wall Street Journal*, and a local paper. Reading the *Journal* is an excellent source of competitive information. If you don't have time to read it all, turn to page B2 and look at the index of companies covered in that day's issue.

Use consulting companies

Much of the industry information you are looking for has already been gathered by consulting companies. These companies provide a variety of research services such as:

- newsletters.
- research reports that include information like demand analysis, forecasts, major markets, and suppliers.
- customized research.
- customer inquiry services that allow you to get answers to your questions from their analysts.

The newsletters and reports help reduce your reading time. You should feel free to call the editor if you have questions related to the article. If you are not familiar with what consultant services are available in your industry, look for ads in trade magazines.

Grow your network

Much of public information never reaches the trade magazines. You have to know who to call to get the information. Remember, I am talking about publicly available information. Don't ever put a contact in an awkward position by asking something that could be considered proprietary. On the other hand, companies willingly share a great deal of information. If in doubt, ask, but don't press.

If you are already using a consulting company, check to see if your contract includes talking with their analysts. They can call the company you are researching and get answers

to questions that you cannot get on your own. If you are using your personal network to gather information, here are a few rules to follow:

▪ **Remember the SCIP code of ethics.**

When making contacts, accurately introduce yourself and your organization before interviewing. This is important not only from an ethical standpoint—you want to build trust and respect with your contacts.

▪ **Tell them who referred you and state why you are calling.**

Be prepared—honor their time by knowing what questions you want to ask before you pick up the phone. I usually have written questions in front of me.

▪ **Respect the privacy of your contacts.**

Don't give out their name and number without permission.

▪ **Be a good listener.**

Make sure you understand what the contact is saying. Learn to hear what she is not saying. Ask door-opening questions such as, "I'm interested in what you have to say." Use brief expressions of acknowledgement that encourage continued discussion: "I see," "that's interesting."

▪ **Be patient.**

To find that one nugget of information you need may take countless calls and referrals. Each contact may require leaving messages with secretaries or playing voice mail tag. But the effort is worth it when you finally talk to that person.

Run the numbers

Don't panic. I'm not suggesting advanced calculus. In fact, a common mistake people make is focusing solely on numbers and missing the larger picture. (You may have heard the saying, paralysis through analysis.) But you need to develop and test your hypothesis. For example, all your reading and contacts may say that a major competitor is branching into a new vertical market. But does the company have the cash-generating potential and will the new product offer an acceptable rate of return? You can verify cash-generating potential by analyzing the company's financial statements.

Estimating the potential rate of return is not as straightforward. You will need to make estimates of demand, prices, revenues, and costs. These are broad calculations that help you discern whether the company can afford to enter this market. After you have done these

estimates, make a few financial comparisons. How many years will it take the company to start making a profit? (Net investment divided by average yearly income.)

Another informative number is the Internal Rate of Return (IRR). IRR takes all the revenues and expenses over the period and estimates what the rate of return is. Computer spreadsheets and most business calculators can calculate this. Once you have this number, look in the *Wall Street Journal* in the *Money and Investing* section. Is the IRR less than what you can earn on a T-Bond? If it is, this is not a good investment for your competitor.

There are other ways to analyze an investment and the two I have given you can be more complicated than the example I presented. If you would like to know more, there are several books available. Two suggestions are Erich Helfert's *Techniques of Financial Analysis, Analysis of Financial Statements* by Anthony Bernstein, and *Finance Without Fear* by James Kristy and Susan Diamond. Just remember to keep it simple. This is a guess, not a make-or-break business decision.

Don't limit your scope

While reading industry periodicals and talking to industry contacts provides you with information, you need to widen your scope. Companies don't make strategic decisions based only on competition and technology developments. Before you can effectively examine your competitors, you have to understand and anticipate market needs.

One way to keep abreast of possible market shifts is by reading articles and books written by futurists. Futurists are long-range forecasters of market trends. Some recent examples are Alvin Toffler's *Powershift*, Patricia Aburdene and John Naisbitt's *Megatrends 2000*, and Faith Popcorn's *Popcorn Report*. Think all that psychographic mumbo jumbo is fluff? Your competitors don't. Faith Popcorn's company, BrainReserve, has a client list that includes American Express, AT&T, MCI, Nissan, Phillip Morris, and Proctor and Gamble.

Take the time to daydream

Competitive analysis requires pulling many loose threads of information together into what ultimately is an educated guess. One of the difficult subtleties of competitive analysis is inference. Once you have compiled all of the data, a conclusion must be drawn. You need to allow yourself quiet time to think it through. One of my teachers referred to this as "taking a walk through the competitor's mind."

Trust your intuition. You may subconsciously stumble on to something. Don't make the mistake of underestimating the value of daydreaming.

Articulate your ideas

The best analysis in the world is worthless unless you can convince someone else that it is valuable. Make your presentations clear, concise, and targeted to your audience. Leave the detailed analysis in your backup files. The purpose of a presentation is not to turn the audience into experts, but to present a point of view. That point of view is sold by compelling arguments.

Be flexible in your thinking

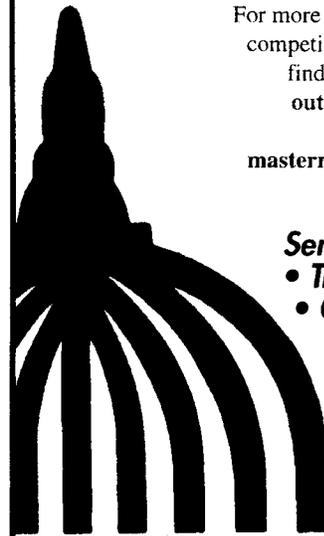
You are analyzing a moving target. Competitive information has a limited shelf life. Economic slumps, management reshuffling, mergers, and buyouts all can make your analysis obsolete overnight.

Doing competitive analysis can be frustrating, but can provide invaluable intelligence. Being able to predict the behavior of your competitors can create a long-term competitive edge for your company. CI

About the Author

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