

# **A brief introduction to competitive analysis with an emphasis on intervention options<sup>1</sup>**

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## **Abstract**

*The presented article focuses on the issue of competition and competitive analysis. The article aims to contribute to the knowledge base with a theoretical view of competition and the possibilities of competition analysis, with an emphasis on SW analysis and analysis of driving forces, sometimes referred to as Porter's analysis. In the article, we also focus on a simple demonstration of the application of competitive analysis in the conditions of the chemical industry, namely, detergents. Thus, theoretical and practical contributions can be identified within the article. It can also serve as supporting teaching material for students at the University of Economics.*

## **Key words**

*Competitive, Competitive analysis, Porter's model, microenvironment analysis.*

## **JEL Classification: D40, M31**

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## **Introduction**

The aim of the presented article is to contribute to the knowledge base oriented towards competition in terms of marketing as well as to the issue of competitive analysis.

The article primarily deals with the issue in the context of the theoretical framework. One of the analyses mentioned is subsequently applied to the conditions of the chemical industry, specifically the detergent industry. It is necessary to note that the analysis is not comprehensive and has more of an indicative character.

The presented scientific article aims to systematise and expand knowledge oriented to competition and competitive analysis in marketing. This ambition is identified with the scientific contribution of the article. In addition to the above, the article also has an educational benefit, as it tries to point out a simple application of one of the analyses in

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order to guide students oriented towards business and marketing, as well as management.

It is appropriate to begin with a simple illustration of the process of competitive activity. Strauss (2023) lists six steps in the implementation of competitive analyses.

1. First of all, it is necessary to realise who our competition is and how they compete with us. It can be a small neighbouring retail store or even a large e-shop, so it is advisable to avoid competitive myopia. Subsequently, it is important to choose those competitors that we consider to be the largest and represent the greatest threat to us. As a rule, it is so-called direct competition.

2. When we know our competitors, it is necessary to identify their target markets. For niche brands, the target market is clear, but it's not always that simple. In the context of the market, the identification of market positions is also appropriate (Čvirik, 2022).

3. The analysis of the competitive market also requires the analysis of the marketing mix of the competition, specifically 4P or 5P, and in the case of services, 7P (Kotler and Keller, 2013).

4. Next, we need to know their strategic framework. Keyword analysis in the context of online and offline communication strategies is appropriate. They use keywords, which allows us to gain insight into what works for them and possibly identify new keywords that they may have neglected.

5. By recording the most popular type of online content that our competitors use in their videos, posts, blogs, or podcasts, we can identify the type of content marketing they are using.

6. Finally, a SWOT analysis is performed, or an analysis of only the company's strengths and weaknesses. The external environment is the same for all companies in a given industry, so it makes no sense to analyse it. We will be interested in the internal so that we can identify the position of the competition on the market, how their products differ, and what the company culture and values of the competing company are.

It follows from the above that competitive analyses represent a continuous process that is characterised by a dynamic environment.

## **1 Identification of market competition in the context of market entities**

The intensity of competition is one of the key factors in evaluating the market itself. The concept of competition has an important place in marketing theory, which intersects with many areas of this scientific discipline.

Competition from the point of view of market entities (Porter, 1994; 1998; 2008):

### **A) Competition between businesses**

From the point of view of marketing, this is a classic understanding of competition, when two companies (or even more) compete with each other with the clear goal of being more successful in meeting the needs of customers.

Every business should conduct competitor analyses. The first step in analysing the competition is its identification. From the point of view of market competition, it is necessary to distinguish between direct competition (companies offering a similar product with similar or identical parameters) and indirect competition. Competitive analysis can be understood from an industry perspective and from a market perspective. Industry competition is identified from the point of view of the product and its substitutes (perceived from the point of view of direct competition).

The market aspect is a significantly broader view, while we identify the competition in terms of satisfying needs. If there is a wide base of competitors, it is appropriate to segment them. The second step is determining the competition parameters. In this context, it is necessary to take into consideration not only the goals of the competition but also the strategies and tactics by which they want to achieve these goals. Equally important is the identification of competitors' strengths and weaknesses (S-W analysis) and their subsequent comparison with our strengths and weaknesses. The comparison method is also suitable for all elements of the marketing mix.

The third step is forecasting the competition.

The last step is the implementation of the analysis results into practice.

B) Competition between customers

Every customer wants to satisfy their needs as efficiently as possible, regardless of other customers.

## **2 SW analysis as a basis for competitive analysis**

The key area of strategic analysis is strategic analysis. The starting point in the SWOT analysis is the formulation of the goal. In the presented context, it is a competition analysis.

„SWOT analysis consists of an analysis of the external and internal environment while representing an overall assessment of the company's strengths and weaknesses, opportunities and threats“ (Kotler, 2000). The name of the analysis represents the acronym of four English words on which the analysis is focused. Specifically, we can talk about S, which represents strengths; W, which represents weaknesses; O, which represents opportunities; and T, which represents threats. (Hanuláková and Čvirík, 2021). The mentioned four concepts can be divided into the already mentioned two environments, i.e., internal and external. Strengths are the source of a company's competitive advantage over other businesses in the industry. If the company has certain strengths that are accepted by customers, i.e., the market, it can be the primary impulse to identify a competitive advantage. The company's weaknesses cause it to be disadvantaged in a certain area compared to the competition. For this reason, the company may hold an unsatisfactory position in the market, and customers will prefer the products of a competing company in the industry.

## **3 Porter's model of five competitive forces**

The mentioned model is used to analyse the competitive environment in a given industry or in a specific industry. The model points to five main competitive forces that

act on the industry and the companies in it, with the most dangerous being competition within the industry. According to Porter (1994; 1998; 2008), the model overall includes:

1. Competition in the industry,
2. Potential of new entrants into the industry,
3. Power of suppliers,
4. Power of customers,
5. Threat of substitute products.

It must be noted that the mentioned driving forces are multidimensional.

#### **4 Case study: Application of Porter's model<sup>6</sup>**

Our analysis is focused on the assessment of the chemical environment, specifically detergents.

##### *Competition in the industry*

The competitive struggle between competing businesses can be considered the strongest of competitive forces. Businesses create their competitive strategies to overtake their rivals or at least maintain their advantageous position. Competitive weapons in this sense can be prices, product quality, communication tools, and others.

Among the most important factors influencing the given power we can mention:

- competitive structure of the industry,
- differentiation of competitors' products,
- the size of the barriers to leaving the industry,
- demand conditions,
- competition for scarce resources.

Competitive structure of the industry – Henkel and Procter & Gamble are highly dominant in the washing powder market. We can say that it is an oligopoly. Both companies have several brands that specialise in detergents. Of course, there are also smaller companies on the market, but from the point of view of size and therefore strength in the given sector, they are not that significant.

Differentiation of competitors' products – Laundry products are not significantly different from each other. Thus, we can identify a relatively weak differentiation. You can differentiate yourself with innovations, e.g. the innovation of fragrance or the effectiveness of detergents, but these means of differentiation are easily copied by

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<sup>6</sup> Note: As some of the information required for a detailed analysis was not available, it is not possible to take this analysis as authoritative. However, it can facilitate the decision-making process in the next steps. The mentioned application has an educational rather than an analytical purpose.

competitors. Since the product itself is impossible to differentiate to a large extent, the price and communication can be differentiated.

Magnitude of barriers to exiting the industry – Barriers can be economic, strategic, and emotional. We do not see these obstacles in the given sector, or they are not mentioned in any source available to us.

Demand conditions – This is an evaluation of demand from the point of view of growth, and thus whether demand is increasing or decreasing. Our estimate is that since these are products that are needed in every ordinary household, their demand is still relatively high.

Competition for rare resources – Means competition to obtain the greatest possible amount of rare (strategically important) resources. We can find the struggle to obtain the cheapest possible but, at the same time high-quality resources for our production in every industry.

### Potential of new entrants into the industry

Potential competitors can be understood as companies that do not operate in the given industry but are able and/or interested in entering it. The threat of entry of new businesses into the industry depends on the barriers to entry.

Among the biggest barriers to entry, we can mention:

- the size and strength of established competitors,
- capital requirements,
- product differentiation,
- customer preferences and brand loyalty (already established).

Size and strength of established competitors – This barrier is huge in this sector. As we have already mentioned, there are two large companies (Henkel, Procter & Gamble) operating on the market that have many strong and, from a historical point of view, well-used brands.

Capital requirements – This is also a big barrier to entering this market. It is necessary to establish production halls, specialised production lines, and the like.

Product differentiation – This factor does not represent a big barrier in the given sector. The products are only slightly differentiated from each other. A greater difference can be seen from the point of view of the brand (as a product), which is distinguished by a certain identity.

Customer preferences and brand loyalty (already established) – Brand strength and loyalty is high, but in the detergent sector it is difficult to assess this factor. There are certainly customers who are loyal to their detergent brand, but there are also those who perceive the identity of the brand, but from the point of view of the detergent, it doesn't matter to them = they only expect the basic satisfaction of the need to have clean clothes.

### Threat of substitute products

We can understand a substitute as a product with which we can replace (substitute) another product because it satisfies similar needs.

The threat of substitutes is greater:

- the lower the price of the substitute
- the higher the quality of the substitute
- the lower the costs of switching from a traditional product to a substitute product

Considering the detergent sector, the risk is relatively low. Detergents are intended for direct washing, so it is not possible. Within the scope of detergents, the products are substitutable – washing gels, washing gel, capsules and laundry soaps are substitutable within the scope of basic needs (washing, cleanliness of clothes). We can mention "Soap Nuts" as substitutes for detergents. Soapnut is the fruit of the *Sapindus Mukorossi* tree, which functions as a vegetable detergent (bio substitute).

### Power of suppliers

This competitive force deals with the power of suppliers to win certain advantages. When the supplier is strong, he can raise prices, but if he is weak, he gives the opportunity to reduce the price to the customer.

Suppliers have bargaining power if:

- the provided resource has few substitutes,
- the importance of outputs,
- differentiation of raw materials for the customer.

The provided resource has few substitutes – From the point of view of obtaining resources for the production of detergents, it is about chemical substances. The source can therefore be various chemical compounds that cannot be substituted – one chemical substance cannot be replaced by another.

Importance of inputs – Detergents cannot be manufactured without the necessary chemical additives.

Differentiation of raw materials for the customer – In principle, the supplied raw materials cannot differ greatly from each other without leaving an effect on the final product. The chemical composition must be preserved.

### Power of customers

The bargaining power of buyers depends on their ability to set conditions when purchasing products.

The bargaining power of buyers are determined by:

- number of buyers,
- volume of purchases,
- the meaning of the purchased product,
- awareness of the product,
- costs of moving to another supplier.

Number of buyers – The number of buyers who buy detergents is large.

Volume of purchases – These are usually purchasing of smaller value.

Importance of the purchased product – Detergents are essential in today's society, but they are not a necessity.

Information about the product – Information about detergents comes at the average consumer from all sides – media, advertising, labels and packaging. However, as far as the composition is concerned, the average consumer has no chance to determine the quality of the product based on the information on the chemical composition.

Cost of moving to another supplier – Minimal, given that there are many products of this sector and it is enough to just buy another product.

## **Conclusion**

The presented article summarises the knowledge base oriented towards competition in terms of marketing, with an emphasis on aspects of competitive analysis.

The five forces model, which was proposed by M. Porter, can be considered a proven guide for researching and evaluating competitive forces. We apply this model to the case of the chemical industry, with an emphasis on detergents. From the point of view of existing companies, the intensity of competition is average. The situation is complicated by oligopolies in the industry. However, the industry offers additional profitability for businesses existing in it. The attractiveness of the industry is growing. From the point of view of potential competitors in the industry, the barriers to entering the industry are relatively average; it has its advantages and disadvantages. The attractiveness of the environment decreases rather than increases. The risk of substitution is relatively low. There are certain washing innovations on the market, but they probably won't threaten classic detergents. The attractiveness of the industry is growing. According to our analysis, the bargaining power of suppliers is difficult to determine. The bargaining power of buyers is weak. Businesses are not directly dependent on customers. The attractiveness from the point of view of this force is growing. Overall, we can conclude that the chemical industry, specifically the detergent sector, is an attractive environment.

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