COMPETITIVE PROFILE MATRIX (CPM) AS A COMPETITORS’ ANALYSIS TOOL: A THEORETICAL PERSPECTIVE

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ABSTRACT

This paper aims to critically appraise the importance of CPM in providing information for a company’s competitive advantage and its role in formulating company’s strategy. In addition, this paper also pinpoints some other popular techniques for competitors’ analysis and their merits. It’s an exploratory and conceptual analysis based on literature review emphasizing the emergence of strategic analysis tools for engendering factors of achieving competitiveness in the fierce competitive market. The study extensively reviews published materials from different sources to explain the relevant concepts on the issue. In this connection, different concepts, ideas, approaches, areas, contemporary practices and issues either from books or journals on CPM and other competitors’ analysis tool-kits have been addressed to explain the topic. Finally, conclusions and future directions have been attached therewith.

KEY WORDS

CPM, KEY SUCCESS FACTORS (KSFS), STRATEGIC TOOL, COMPETITIVENESS

1. INTRODUCTION

Competition is one of the most inevitable issues in today’s business world. No matter a firm is big or small; it has competitors in the industry and the strategies of these competitors affect the process of formulating strategic plan for the company. Competitors represent a major determinant of corporate success, and failure of a company to analyze its competitors’ strengths, weaknesses, strategies, and areas of vulnerability may lead to suboptimal performance in the business (Wilson, 1994). So, analyzing the competitors is crucial for firm’s strategy formulation and implementation as well as competitive preparation (Ho & Lee, 2008; Bloodgood & Bauerschmidt, 2002). As most of the managers acknowledge the importance of understanding their industry and competitors, there is a growing interest to use various competitive analysis techniques to help formulate and implement strategy (Prescott & Grant, 1988). Some of these popular techniques include: SWOT analy-
sis, Boston Consulting Group (BCG) approach, General Electric Stolplight Strategy, McKinsey’s Industry Strength Matrix, Porter’s Five Forces model & Value Chain Analysis, SPACE matrix, External Factor Evaluation Matrix (EFE), Internal Factor Evaluation Matrix (IFE), PESTEL analysis, and Competitive Profile Matrix (CPM) (Hill & Westbrook, 1997; Radder & Louw, 1998; Porter, 2000; Bygrave & Zacharakis, 2011). As strategic analysis and planning tools, these conventional matrices provide valuable insight about competitive scenario to help managers plan an organization’s future competitive position (Capps III & Glissmeyer, 2012). Among these techniques, “CPM not only creates a powerful visual catch-point but also conveys information about your competitive advantage and is the basis for your company’s strategy (Bygrave & Zacharakis, 2011, p. 244).”

2. LITERATURE REVIEW ON ESSENCE OF COMPETITORS’ ANALYSIS TOOLS

Researchers have proposed some strategic techniques which are useful for analyzing the competitive scenario of the industry. Coman & Ronen (2009) mention that SWOT (Strengths-Weaknesses-Opportunities-Threats) analysis is one of the most useful tools for defining a company’s strategic action by analyzing company’s internal capabilities and external environment to identify appropriate opportunities and threats. However, the problem of SWOT analysis is that it does not prioritize or weight the internal or external factors identified (Hill & Westbrook, 1997) whereas the CPM method includes the weight of all identified CSF for analyzing the competitive advantages. Porter (2000) identifies another popular tool known as five forces model to analyze the industry attractiveness of a firm. This model focuses on five forces that shape the competition within an industry: a) the threat of new entry, b) the threat of substitutes, c) the bargaining power of buyers, d) the bargaining power of suppliers, and e) the extent of rivalry between competitors within an industry (Hill & Jones, 2001). “On the basis of analyzing these factors, Porter argues that an organization can develop a generic competitive strategy of differentiation or cost leadership, capable of delivering superior performance through an appropriate configuration and coordination of its value chain activities” (Stonehouse & Snowdon, 2007; p. 257). This model offers not only a valuable starting point for strategic analysis (Johnson, et. al., 2011), but it also has some limitations. According to Porter (2000), this model helps a company assess the potential profitability of a particular industry but Rumelt (1991) argues that the profitability does not depend on industry-wide factors; firm-specific factors such as unique endowment, individual competence, and strategies are more important to the profitability of the business. The Porter model also indicates that five forces apply equally to all firms in an industry but in reality the strength of those forces may vary from business to business in terms of size or strength of brand name (Stonehouse & Snowdon, 2007, p. 258). In addition, Porter’s five forces model
assumes that the relationships with competitors, suppliers, and buyers are adversarial but in reality buyers and suppliers may have long lasting relationships as partners which is more soften and less aggressive than that implied in the Porter’s model (Campbell, Stonehouse, & Houston, 2002; p. 142). Another competitive analysis tool SPACE (Strategic Position and Action Evaluation) matrix is proposed by Rowe, Mason, Dickel, Mann, & Mockler (as cited in Radder & Louw, 1998) which analyzes the industry competition based on two dimension; first, internal dimension includes financial strength and competitive advantage which are the major determinants of company’s strategic position and second, external dimension includes environment stability and industry strength that indicate the strategic position of entire industry. Radder and Louw (1998) indicate that the different dimensions in the matrix result in different strategic postures (aggressive, competitive, conservative, and defensive) which can be translated into generic competitive strategy to help manager develop appropriate competitive strategy for the company. However, this matrix suffers from some limitations. There are no scientific procedure to select the factors in the dimensions and each individual factor carry equal weight analyzing the competition (Radder & Louw, 1998). But in CPM, the KSFs carry different weights according to their importance to the firm and, and in their industry environment.

3. COMPETITIVE PROFILE MATRIX: CONCEPTUAL FRAMEWORK

Zimmerer, Scarborough, & Wilson (2008) define Competitor Profile Matrix (CPM) as a tool which helps the companies assess themselves against their major competitors using the critical success factors for that industry. Zimmerer et al. (2008) state three steps to construct a CPM for a company. The first step is to find the KSFs for the company and attach weight to those factors according to their relative importance. In the next step, company need to identify its major competitors and rate each competitors including company itself on each of the KSFs. KSFs include both internal and external issues and different ratings have been given from 1 to 4 considering their relative importance to the organization where 1 stands for major weakness, 2 stands for minor weakness, 3 stands for minor strength, and 4 stands for major strength. Same method has been applied when rating to the KSFs of competitors. Lastly, company has to multiply the weight by the rating for each factor to get a weighted score and then adds up each competitor’s weighted scores to get a total weighted score. A hypothetical example of a CPM is given below:
Table 1: Competitive Profile Matrix of Company A

<table>
<thead>
<tr>
<th>Key Success Factors</th>
<th>Weight</th>
<th>Score</th>
<th>Weighted Score</th>
<th>Score</th>
<th>Weighted Score</th>
<th>Score</th>
<th>Weighted Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation</td>
<td>0.25</td>
<td>4</td>
<td>1.00</td>
<td>4</td>
<td>1.00</td>
<td>3</td>
<td>0.75</td>
</tr>
<tr>
<td>Advertising</td>
<td>0.20</td>
<td>2</td>
<td>0.40</td>
<td>3</td>
<td>0.60</td>
<td>4</td>
<td>0.80</td>
</tr>
<tr>
<td>Brand Name</td>
<td>0.20</td>
<td>1</td>
<td>0.20</td>
<td>4</td>
<td>0.80</td>
<td>2</td>
<td>0.40</td>
</tr>
<tr>
<td>Product Quality</td>
<td>0.15</td>
<td>4</td>
<td>0.60</td>
<td>2</td>
<td>0.30</td>
<td>2</td>
<td>0.30</td>
</tr>
<tr>
<td>Customer Service</td>
<td>0.10</td>
<td>3</td>
<td>0.30</td>
<td>2</td>
<td>0.20</td>
<td>1</td>
<td>0.10</td>
</tr>
<tr>
<td>Price Competitiveness</td>
<td>0.05</td>
<td>3</td>
<td>0.15</td>
<td>3</td>
<td>0.15</td>
<td>4</td>
<td>0.20</td>
</tr>
<tr>
<td>Technological Competence</td>
<td>0.05</td>
<td>3</td>
<td>0.15</td>
<td>1</td>
<td>0.05</td>
<td>2</td>
<td>0.10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1.00</strong></td>
<td><strong>2.80</strong></td>
<td><strong>3.10</strong></td>
<td><strong>2.65</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

This table portrays the competitive scenarios of the company and its competitors in the industry. From this table, it is found that the company A scores better (strengths) in innovation and product quality, and assumes minor strength in customer service, price competitiveness, and in technological competence. Albeit, company has minor weakness in advertising and major weakness is in brand name. As a whole, its total score is 2.80 and on the other hand, its competitor A’s and competitor B’s total scores are 3.10, and 2.65 respectively. From this competitive profile matrix, it is revealed that competitor 1 enjoys more competitive advantages by 0.30 than the company itself while competitor 2 is lagging behind by 0.15.

4. STRENGTHS OF CPM AS A COMPETITOR ANALYSIS TOOL

As a strategic analysis tool, CPM provides several benefits to the company. Capps III and Glissmeyer (2012) argue that CPM includes company’s KSFs which help the company identify strengths and deficiencies in those significant areas. “Analyzing organizations in this manner is an effective way to evaluate many competitors in one framework to support an effective strategic plan” (Fleisher & Bensoussan, 2003, 2007; as cited in Capps III & Glissmeyer, 2012, p. 1060). CPM enables a company to evaluate the strengths and weaknesses of its major competitors which is matter to develop an effective competitive strategy. Wilson (1994) argues that in competitor analysis, detail attention is given to each competitor’s apparent objectives, resources and competitive moves which lead a company to readily identify the area of strengths and weaknesses of the competitors and this can be used in the process of developing effective strategy. Johnson, Whittington, and Scholes (2011) also state that one of the key elements of a strategic plan is to analyze the capabilities of an organization which should include a clear identification of the key strength and weaknesses of the organization relative to its competitors. Through a comparative analysis of KSFs between a company and its major competitors CPM provides important internal strategic information to managers.
and help them develop effective strategy for the company (David, 2011). In addition, to construct CPM, a company needs to identify the KSFs of the industry where it operates. Identifying these KSFs are also crucial for developing effective strategy. Because KSFs can be used to direct a company’s effort for developing strategies, it can also be used to identify critical issues associated with implementation of strategy, and it might also assist managers to establish a guideline for monitoring company’s activities (Munro & Wheeler, 1980; Ferguson & Dickinson, 1982; as cited in Boynton & Zmud, 1984). Zimmerer et al. (2008) also state that identifying the KSFs in an industry helps managers decide where they should focus their company’s resources strategically. Moreover, Capps III and Glissmeyer, (2012) state that while IFE matrix for competitors analysis summarizes only company’s major strength and weaknesses and EFE matrix provides a synopsis of company’s opportunities and threats from external environments but CPM includes both internal and external factors that most impact on organization and provide information about company’s potential competitive advantages.

5. WEAKNESSES OF CPM AS A COMPETITOR ANALYSIS TOOL

Though CPM is a sensible tool for managers to use for competitors analysis but it suffers from some limitations (Capps III & Glissmeyer, 2012). Chang and Huang (2006) identifies two major drawbacks of CPM; 1) the ratings of KSFs are subjectively assigned between 1 and 4, so objective and quantified data (such as business volume) is missing, 2) non-uniformity may occur because of weights of CSFs being assigned subjectively by the evaluators without any consistency test. In CPM, managers assigned the weight to different key success factors based on their assumptions. No scientific method is used to evaluate the relative importance of each KSF for the company. Moreover, Boynton and Zmud, (1984) argue that the procedure of identifying the KSFs may be biased by manager’s belief, values or availability of information. Beside this, Though CPM provides information about company’s performance relative to its competitors based on some key success factors but it is difficult to measure the effectiveness of the company in terms of those key factors because Rangone (1997) states that competitive advantage of a company does not depend on specific factors and disadvantage in one factor may be paid off by an advantage in another factor. To avoid this problem, in CPM, managers assess the overall effectiveness of the company with respect to competitors by calculating some total scores based on the company’s performance in all KSFs but it is also difficult because of the heterogeneity of the KSFs which may be financial, non-financial, quantitative or qualitative (Rangone, 1997). Managers also faces problem in interpreting the scores derived from CPM to compare the performance of the company against their competitors. For example, “Just because one firm receives a 3.20 rating and another receives a 2.80 rating in a Competitive Profile Matrix, it does not mean that the first firm is 20 percent better than the...
second” (David, 2011; p. 82). He also argue that total score in CPM just reveal the relative strength of a firm but their accuracy as tool for relative measurement of two companies performance may not be appropriate. Beside this, managers may face problems collecting information about their competitors while preparing the CPM. It is easy for the managers to collect information about a competitor if it is a public company but very difficult if it is a private company or operating in stealth mode. (Bygrave & Zacharakis, 2011).

6. IMPLICATIONS

Competitive Profile Matrix is a simple but powerful tool to provide information of the competitive scenario of an industry and help manager develop appropriate strategy for the company. Managers need competitive information to understand the industry and its competitors and to identify areas in which the competitors are weak and to evaluate the impact of strategic action on competitors (David, 2011). Using this model enables them to outperform the competitors by the effective design and implementation of strategic plans. Academics have miles to go with this model in this field. They can push this model down from the theoretical frame to the practical arena and encourage the industrial corporate to use this in the competitive analysis of their own firm and its competitors. Students in business discipline will also be benefited as to the assessment of the firm and their industry’s competitive environment.

7. CONCLUSION & FUTURE DIRECTIONS

By identifying the KSFs of the industry and evaluating the company against its major competitors based on the ratings of the KSFs, CPM provides a clear synopsis of strengths and weaknesses of the company and its competitors which might assists managers to develop effective competitive strategy for the business. However, the major problem using this technique is that KSFs are not identified scientifically and the weights are not assigned subjectively and lack the consistency test. Moreover, the overall effectiveness of the company cannot be measured by using KSFs because Ketelhohn (1998) argues that mastering on industry KSFs does not ensure profits for the company, they prepare the company for competition. However, despite of some limitations, CPM is a powerful tool that helps manager or entrepreneur explains why the business is weak in some areas and why it is better in others. By carefully interpreting the results of CPM, an entrepreneur can start defining the ideal competitive strategy for his company (Zimmerer et al., 2008). This research suggests that CPM is useful to unlock the key drivers of competitiveness based on firm’s internal and external environment. Empirical research might be more accurate for figuring out the right tool of competitive analysis. In addition, an empirical research on comparative analysis of different tools like, SWOT analysis, PESTEL analysis, VCA model, Five Forces Model, BCG matrix, EFE matrix, IFE matrix, General Electric Stoplight Strategy, Company Strength Matrix, and CPM
might be useful for a group of firms to explore the superiority of the specific model over others for an effective competitor analysis.

REFERENCES:


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