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The Importance of Competitive Analysis. Competitive Strategies

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Abstract: *Competitive analysis is a fundamental aspect of strategic planning in the financial-banking sector. Understanding competitors, their objectives, strategies, strengths, and weaknesses enables financial institutions to position themselves effectively in the market. This paper examines the significance of competitive analysis and the various competitive strategies financial institutions employ. The study highlights the importance of monitoring competitors, estimating market parameters, and implementing SWOT analysis for informed decision-making. Furthermore, it explores different competitive strategies, including those for market leaders, challengers, followers, specialized financial institutions, and passive market participants.*

Keywords: *competitive analysis; banking sector; financial institutions; competitive strategies; SWOT analysis; market monitoring; strategic planning.*

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Introduction

In the dynamic and competitive financial-banking industry, institutions must conduct thorough competitive analyses to sustain growth and profitability. Understanding the market landscape helps financial institutions identify their direct and indirect competitors, assess their strategies, and develop a strategic advantage.

Competitive analysis involves recognizing financial institutions that offer similar services, monitoring their market behaviour, and estimating key market parameters such as market share and brand awareness (Paina & Pop, 1998). Financial institutions use these insights to differentiate themselves and enhance their strategic positioning. (Kotler, 2003) Additionally, implementing a competitive strategy tailored to an institution’s market role—whether as a leader, challenger, follower, or specialized financial entity—ensures sustained competitiveness and business success.

Competitive Analysis

Any financial-banking institution operating in the market must be aware of the following aspects regarding competitors:

- Who are the competitors?
- What are their objectives?
- What are their strategies?
- What are their strengths and weaknesses?
- How do they typically react to market changes?

Identifying competitors (Paina & Pop, 1998) involves recognizing the main institutions that offer financial products and services similar to one’s own. It is not enough to merely identify them; they must be classified as competitors based on the similarity of their services and products. For example, financial institutions offering the "Auto Loan" product will be considered direct competitors since they provide the same service—credit for purchasing a vehicle. Additionally, institutions offering personal loans may also be considered competitors. Indirect competitors are also present in the market, such as leasing companies, which provide a financial product that meets the same financing needs.

Monitoring competitors’ behaviour (Plăiaş, 1997) involves analysing their objectives, strategies, strengths, weaknesses, and reactions to market changes. The objectives of competitors are determined by several factors, including:

- Company size
- Company history
- Current management
- Financial and economic data

After identifying these factors, a financial-banking institution must gather further details regarding sales volume, market actions, profit margins, interest rates, and other relevant metrics. Some of this data is confidential and challenging to obtain, making the annual report of a competitor one of the most important data sources.

To obtain a comprehensive understanding of the market, financial institutions must estimate the following parameters:

- Market share
- Brand awareness share – The percentage of respondents who answer the question, "Name the first bank that comes to mind," with the institution’s name.

- Preference share – The percentage of respondents who answer the question, "Which bank would you like to collaborate with?" by naming the institution.

All the data collected must be converted into useful information. This is achieved by analysing the differences between the financial institution and its competitors, with the goal of defining a loyal competitive strategy. Since market dynamics change, this analysis is conducted periodically by marketing professionals in financial institutions. Competitors frequently adjust their strategies and utilize various techniques for different financial services.

Every financial-banking institution must understand its strengths and weaknesses compared to its competitors. This is commonly done through a SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats).

The competitive monitoring process concludes with an analysis of competitors' typical reactions to market conditions and their responses to the institution's own strategies.

Competitive Strategies

A marketing strategy defines the approach used by a financial-banking institution to achieve its business objectives. Since there is no universal strategy, each institution must develop its own strategic formula. The ultimate goal of a competitive strategy is to gain a strategic advantage, which translates into selling banking products more effectively and faster than competitors.

Competitive strategies are classified based on the type of financial institution, including:

- Market leaders
- Challengers
- Followers
- Specialized financial institutions
- Passive market participants

Market Leader Strategy

A market leader aims to protect and expand its existing market share.

To maintain its market dominance, a leader may adopt various defensive strategies, including:

- Defensive positioning
- Flank defence
- Preventive defence
- Counteroffensive
- Mobile defence
- Strategic withdrawal

When a market leader seeks to expand its share, it must identify the needs of existing clients and introduce additional services. Banks looking to expand can employ one of the following strategies:

- Market penetration
- Entry into new markets
- Geographical expansion

Challenger Strategy

A market challenger aims to attack the leader and competitors in an effort to increase its market share.

Common attack strategies include:

- Frontal attack
- Lateral attack
- Encirclement attack
- Bypass attack
- Guerrilla warfare tactics

Follower Strategy

A follower strategy does not directly compete with the market leader, as doing so is often challenging. Instead, this strategy focuses on retaining existing clients and increasing activity volume rather than engaging in aggressive competition.

Common follower strategies include:

- Copying competitor offerings
- Imitating offerings (with slight differentiation)
- Adapting and improving offerings

Specialized Financial Institutions Strategy

This strategy is adopted by niche financial institutions that focus entirely on a specific market segment.

For a specialized financial institution to succeed, it must meet the following criteria:

- Sufficient market size to satisfy its target segment
- Steady growth potential
- Minimal interest from large competitors
- Ability to defend itself from competitors

Passive Market Strategy

Financial institutions that follow a passive strategy do not engage in strategic marketing planning. Instead, they take survival-oriented actions with minimal competitive ambition.

Conclusion

Competitive analysis and strategic planning are essential for financial institutions to maintain and enhance their market positions. Identifying competitors, evaluating their objectives and strategies, and implementing a well-structured competitive approach enable banks to gain an advantage in a rapidly evolving market.

Financial institutions must continuously monitor market trends and competitor behaviours, adapting their strategies accordingly. Whether adopting a leadership, challenger, follower, or niche strategy, financial institutions must align their actions with market conditions to maximize growth and profitability. (Porter, 1980) By integrating SWOT analysis and market intelligence, banks can make informed decisions that contribute to long-term success in the financial-banking sector.

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