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Researching the Competition

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Why should you research the competition?

It's better to know what you're up against

Experienced runners try to avoid looking back so they won't see the competition gaining on them. As a prospective business owner, however, it's better to know what you're up against. You must understand the competition if you want to compete effectively.

If you think you have no competition, think again

One of the worst statements you can make in a business plan is that you have no competition. This raises a red flag to investors and lenders and indicates that either you don't have a realistic view of your business, or no market exists for your concept. Every business has competition. If you think you have no competition, ask yourself why. Perhaps there's no profit to be reaped from your endeavor. Even if your idea is new to the market, expect competition to appear if you show there are profits to be made.

Consider the example of the introduction of the first photocopier. When it first appeared on the market, there was, of course, no direct competition from other photocopier makers. However, competition did exist, coming from the manufacturers of mimeograph machines and carbon paper. If the photocopier succeeded, other manufacturers could be expected to enter the market in the future. If competition truly did not exist, this would have meant there was no market for duplicating documents. If no one needed to duplicate documents, the photocopier would have failed.

Research can uncover new market opportunities and hidden threats

An examination of your competition can uncover new market opportunities and identify ways to distinguish your company. Your competitor's approach to the market can provide clues to what customers want, or what they are not getting. Your analysis can also uncover your weaknesses, or the hidden market threats that your business plan must address. Make it a practice to update your analysis periodically.

Use the following questions as a guide

In researching your competition, ask yourself the following questions:

- Who are your major competitors?
- On what basis do you compete?
- How do you measure up to your competition?
- What industry factors are important to consider?
- How important is your competitors' market share?
- Where is future competition likely to come from?
- What barriers to entry do potential competitors face?

Who are your major competitors?

Identify the business you're in

Give thought to correctly identifying the business you're in. Take a broad view of the market, assessing not only your direct competitors but also any company that seeks to serve the same market need. The railroads present a classic example of the problem created by taking a narrow view of a particular business. By defining themselves as being in the railroad business and focusing on building more and better rail lines, they failed to recognize the competitive threat that long-haul trucking presented. Only too late did the railroads realize they were actually in the transportation business.

Identify your target market

Take care to identify your market correctly. You may produce the same product as other companies and yet be in totally different markets. For example, three manufacturers of athletic wear may not be competitors, although they all make the same type of product. One company sells practical sportswear for active athletes, another markets a sporty athletic look to the young urban fashion crowd, and a third makes casual outdoor clothing for middle-aged suburban boomers. Because of the differing demographics of their markets, these companies may not compete with one another at all. Each company's competition may come from other companies who target casual clothing to the same demographic group. As another example, a retail clothing store in a mall competes with other stores that serve the same target market. This may include other stores located in the same mall, mail-order catalogs, and perhaps companies located in cyberspace as well.

On what basis do you compete?

Elements of customer preference

You may be tempted to judge your competition strictly on the basis of whether your product or service is superior to theirs. If you've invented a better mousetrap, it's easy to imagine that customers will desire your product. However, simply having a superior product or service won't necessarily lead to success. In fact, all elements of customer preference (such as product/service features or capabilities, price, location, and service) are only part of the equation.

Factors involving internal company strength

You should also consider the internal company strength of your competitors. Perhaps your competition has an established brand name. Perhaps they have the financial resources to undercut your price. Perhaps they can outlast you before they need to turn a profit. Perhaps their distribution channel allows them easier access to the customer base. There are many cases of inferior products gaining market dominance due to effective marketing and deep corporate pockets.

How do you measure up to the competition?

Use the following worksheets

You can use the following worksheets to identify the elements that are important for success in your market and how you compare to the competition. Update your analysis periodically so you can stay on top of changing circumstances.

Components of customer preference

Identify the elements that are important to your customer base. It's more important to understand the needs that drive customer demand rather than simply its characteristics. For example, although business location may initially seem important to you, if customers are driven by convenience, a competitor who offers telephone or on-line service may have an edge, regardless of location.

Rate yourself and your top three competitors in the following areas. Don't expect to compete in every area. Aim to find under served areas or areas where your company is strong and your competition is weak.

Competitive Analysis--Components of Customer Preference					
	Customers Seek	You Offer	Competitor 1 Offers	Competitor 2 Offers	Competitor 3 Offers

Product/Service Features and Capabilities					
Product/Line					
Product Service					
Quality					
Name Recognition					
Lower Price					
Warranty					
Availability					
Delivery					
Location					
Customer Service					
Credit Policy					
Company/Brand Image					
Store/Product Appearance					

Internal company strengths

Weigh the importance of the following internal company factors ranging from 1 to 10. Assign 1 to the least important and 10 to the most important. Rate your company against your competition.

Competitive Analysis--Internal Company Strengths					
	Weight (1-10)	Your Company	Competitor 1	Competitor 2	Competitor 3
Marketing Capability					
Sales Competence					
Production Capability					
Technological Strength					
Financial Resources					
Management Strength					
Distribution Channels					
Supplier Access					
Economies of Scale					
Operational Efficiencies					
Strategic Partnerships					
Patents/Trademarks					

What industry factors are important to consider?

Effects of technological change

Pay close attention to how the rapid pace of technological change could alter the face of your industry. It wasn't long ago, for example, that the rapid development of the personal computer market put many manufacturers of minicomputers out of business.

Questions to ask

Ask yourself the following questions to assess your industry:

- What competition will this industry experience from substitute products in other industries?
- To what extent will trade practices and cooperation among businesses change this industry?
- How will developments in technology affect the industry?

How important is your competitors' market share?

Pay more attention to competitors with large market shares

Competitors that control large shares of the market require more attention than do others. Even if they don't provide the best products or services at the best prices, they generally define the standards for the market. They often influence customers' perceptions of the product or service, and they usually devote considerable resources to maintaining their market share. By understanding the market leaders, you can better distinguish your company from them.

Be prepared to commit resources to gain market share

If you're seeking to enter a market dominated by a few key players, you'll need to have a solid marketing plan and be ready to commit the resources necessary to gain and defend your market share.

Where is future competition likely to come from?

Competitors change; new sources of competition develop

New competitors enter markets all the time, while others drop out. Even if you've created a product or service, expect competition if the market is lucrative. Consider the alternate sources of competition that could develop in the future, especially those created by new technology, such as on-line markets.

What barriers to entry do potential competitors face?

Common barriers to entry

Barriers to entry are those factors that make it difficult for competitors to enter a market. The following list contains some common barriers to entry:

- Patents, which protect new products and processes for 17 years or more
- High start-up costs, such as sizable research and development or manufacturing investments, which effectively prevent small competitors from entering a field
- Technical expertise or "know-how" that would be difficult for competitors to easily gain
- Market saturation, which reduces the likelihood that competitors could gain access to the market or which would require significant expenditures to gain a foothold

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