Helping You to Develop Your Business with Free Hints and Tips…

… In This Issue

Competing for Business

www.fdoutsource.co.uk
enquiries@fdoutsource.co.uk
T: 01889 343888

No 21, Centrix@keys
Keys Business Village
Keys Park Road
Hednesford
WS12 2HA

Competing for Business

⇨ Thriving and surviving in competitive markets

Overview

Businesses tend either to dwell too much on their competitors' activities or to ignore them, as they are unable to exert any direct control. Certainly, the amount of attention that needs to be paid to competitors varies according to the nature of the industry and market. However, while executives are guided by an overall vision and specific objectives, competitive pressures can also be decisive in determining their decisions.

Professor Michael Porter of Harvard Business School has identified five forces affecting competition in an industry, and these provide an interesting lens through which to view current and potential competitors.

Industry rivalry. Companies in the same industry are the most obvious and prominent source of competition. The cola war fought by Pepsi and Coca-Cola is just one example of this.

Market entry. New entrants to a market pose a competitive threat that firms should never underestimate. Leaders should always consider: who might enter the market; how and when it could happen; who has the resources, technical skills and ingenuity to develop a more attractive product offer. (This level of understanding and insight can be developed with scenario thinking.)

Substitutability. Businesses with a product or service for which customers might choose an alternative face a competitive threat, especially if the alternative is cheaper. For example, a train operator may face competition from airlines. What matters is recognising that a business may only need to redefine their business in slightly broader terms to become a competitor. This was highlighted by Theodore Levitt, a business writer, who warned of the dangers of marketing myopia – seeing one's business in simple, narrow terms, rather than from the perspective of the market. The key is to view one's business in broader market terms, for example: an airline company is a transport company and may, therefore, enter the rail or shipping business; a theatre is in the leisure industry and may start competing with cinemas or restaurants.

Suppliers. Suppliers wield significant power if the item they provide is scarce or unique or if there are only a few suppliers. Suppliers have considerable power to damage a competitive position. One response is to build close relations with important suppliers to secure delivery and to control prices. In the long-term, the solution may be to move into the supplier's industry altogether to safeguard supplies.

Customers. Leaders need to appreciate the power of the customer as a source of competition by assessing the following key issues: how dependent the business is on individual customers; the ease with which customers can move to another supplier; the customer's knowledge of competitors' prices, quality and overall offers. The growth of the Internet as a sales channel has empowered customers, as they can see the differences between competitors. In an increasingly networked, global marketplace, prices become transparent and it is much easier to discover when prices for the same thing are different in separate geographic markets. For example, price transparency became even more of a strategic issue when businesses in the Euro zone adopted a single currency.

Benefits of enhancing competitiveness

The importance to a firm that its products and services are competitive cannot be overstated. At its most basic level, being competitive enables you to sell more goods or services, but is also means that you can gain greater flexibility in the market. Competitiveness is a relative concept: if you are more competitive then it is likely that your flexibility and market strength will be greater than that of your competitors. Competitiveness also enables you to:

- **Develop customer loyalty**. Your customers will be more inclined to remain with you, not simply because of inertia but because they know that you are best.
- **Increase sales to existing customers**, either selling more of an existing product or selling additional products.
- **Enhance the strength and value of your business brand**. The need to compete brings a discipline to your business, for example by forcing you to manage costs, which may also enable you to enhance profitability.
- **Confidently test and develop new products and product extensions**. These will enjoy a good start when introduced into the market because of your competitive reputation, customer base and brand appeal that already exists.
- **Increase market effectiveness**, as competitive businesses are better able to deter new competitors from entering the market, to enter new markets from a position of strength and experience and to withstand challenges and difficulties that may arise.

Action checklist: enhancing competitiveness

Know when competition will intensify

Situations that can increase competition (and increase its significance) include:

- When the market is expanding or new (as with the computer industry over the last twenty years or the mobile industry during the last ten years).
- When the stakes are high and there are major profits to be gained, notably when there are relatively few organisations in a large market (as with Cola).
- When the market is set to change, perhaps as a result of changes affecting patents and intellectual property rights (for example when the patent for a clinical drug expires) or as a result of political or legal developments (such as privatization).

Maintaining keen market awareness will help you to identify the firm's sources of competitive advantage and weakness – enabling you to build on strengths and minimise weaknesses.

- When the market is shrinking and there is over-capacity in the market with companies chasing fewer customers. This situation is apparent in manufacturing industries such as shipbuilding, steel-making, aircraft and car production.

Develop market awareness

Developing a keen sense of market awareness means constantly keeping updated with what your competitors are doing, how they are perceived in the market – and why. When making major decisions, and especially those affecting customers, there are several issues to take into account:

- Pricing policies and product offers.
- Brand reputation, recognition and strength.
- Customers' perceptions and expectations.
- Product quality and service levels.
- Product portfolio.
- Organisational factors such as size, economies of scale, type of employees, training, expenditure on product development and distribution channels.
- Staff loyalty.
- Promotional campaigns, timing, nature and channels used.
- Customer loyalty.
- Financial structure and cash reserves.

Maintaining an awareness of these issues will help to identify where direct competitors are strong and where they are weak and open to competition. It can also help in analysing sources of competitive advantage.

Build and exploit sources of competitive advantage

Staying ahead of the competition means acquiring and developing resources – tangible and intangible – that will make the business competitive. Often, business thinking lacks a clear understanding of resource building – what it is, how it can be achieved and why it matters. Resources that can be tapped include:

- **Cash reserves** to sustain marketing campaigns, to ensure innovative development programmes or to reduce prices.
- **Purchasing power** and the ability to secure reliable supply at relatively low costs develops competitiveness. Costs, quality, prices and delivery can be improved by building close working relations with preferred suppliers.
- **People** are invariably the decisive factor in achieving success – an organisation is only as good as the people who work for it. If there is typically a high degree of staff turnover in the industry, the business needs to be geared to recruiting the best employees. If flexibility and speed of response is valuable (and it usually is), the organisation needs to be able to anticipate major decisions, making the right choices and implementing them. Effective leadership is essential; its absence is a source of competitive disadvantage.
- **Product factors** significantly affect competitiveness. They include pricing and discounts, distribution channels, marketing methods, brand reputation and

appeal, product quality and how the product relates to others (for example, the popularity of film merchandise rests largely on the success of the film).

- **Market awareness** – understanding who the customers are and what they want (and do not want) is decisive in determining competitiveness. Few markets are clearly defined, and whilst a business may be open to any potential customer it is important to know exactly who the core customers are so that their interests can be given priority.

Assess the organisation's competitiveness

The success of any strategy is relative. A strategy may be well conceived and executed, it may even succeed in achieving its aims, but it may still be vulnerable to a competitor's actions. To be robust, decisions need to take account of potential competitive threats, and so it is useful to consider worst-case scenarios to make decisions. Assessing an organisation's competitiveness is a complex, demanding and continuous task. What matters is the ability to build an atmosphere in the organisation that is acutely aware of the market, sensing developments and signals and possessing the ability to act on them.

Choose a market position

First movers can define the product offer, set standards and, most valuably, gain market share and brand awareness. However, the difficulties of being a first mover or pioneer are significant: the danger of spending too much time and energy building market share; the likelihood that achieving the position will be too consuming, either distracting the business leaders or else constraining them. The lack of an existing best practice example is a weakness: there are often no lessons for the first mover to learn and no empirical knowledge of where the pitfalls lie.

There are no easy solutions to these issues, but the first movers that have managed to succeed (such as Dell, eBay and amazon.com) have all demonstrated several features. These include the importance of listening to their customers and building and entrenching market share *swiftly*, while constantly driving innovations so that there is a stream of new products entering the market, ensuring that they do not get left behind or perceived as yesterday's news.

Early adopters can benefit from the luxury of choosing two possible approaches to developing their business: either by selecting the most profitable or promising market segments or product niches or by choosing the basic offering but adding additional features that will defeat the first mover. The advantage is clearly that the early adopter can learn from the first mover's mistakes – or success – and ensure that their approach takes this to the next level for the customer. The problem for the early adopter is that they will, inevitably, be compared to the first mover: every aspect of their offer and its relative strengths and weaknesses will be scrutinised. Also, the early adopter needs to attack an entrenched market position and attract customers that may well be pleased and loyal with their 'first love', the first mover. As if that was not enough, the margins are unlikely to be the same for the early adopter, as new market entrants usually result in price pressures and a squeeze on margins.

The solutions to these issues come from a clear focus on markets, customers and profits. The obvious approach is to target those areas where the first mover is weak – either structurally or in the eyes of the market – or where they are not being responsive to the market. The second approach is to clearly differentiate the early adopter from the first mover: perhaps by delivering a message that attacks the market leader or emphasises a vital source of competitive advantage. The early adopter needs to know their strengths, their sources of competitive advantage – not only against the first mover but also against other potential market entrants – and then emphasise these factors. Often, early adopters can succeed by focusing on *improving quality* and *reducing prices*, both of which start with an understanding of customers, but are frequently delivered by establishing efficient processes, value chains and supplier relations. This is also important when fighting the (almost) inevitable price war.

Followers have the luxury of having the clearest view of the market and are able to analyse trends, best practices and business opportunities. The problems are the most significant, obvious and hardest to overcome: there is often a herd of followers stampeding into a market (if there is not then that is at least as worrying!) and the difficulty is finding a sufficiently distinctive product offering. The most effective approach is to focus on meeting the needs of specific, tightly defined market segments and then not deviating from that market. Also important is the need to exploit cost advantages or economies of scale: this can be done by *growing* the business out of an existing business, effectively leveraging and building current resources.

In addition, once the market has been entered the business becomes the **incumbent**, a position requiring sustained market focus, innovation and a capacity to constantly develop sources of competitive advantage. The best approach clearly depends on a range of factors, but the most significant are the nature of the business, the culture of the organisation and the competitiveness of the market.

Avoiding problems

To avoid becoming uncompetitive or suffering at the hands of a competitor, the first priority is to **understand who your major competitors are** – now and in the future. This may mean taking a view beyond traditional channels and types of competitor to see how the market is developing and where competitors may come from. Having understood who your competitors are, it is valuable to **understand their strategies**: assess how they are competing on price, quality, reputation or any other aspects. It may not help to counter in certain areas – for example, on price, if their cost base is much lower than yours – it may be necessary to find another way to compete. Next, **understand exactly what products or services competitors provide**, not only the product features but also the resulting benefits to customers, and keep this information updated. To do this, regularly review your competitors' web sites for more information, interview their ex-employees and speak to customers.

It is important to focus on your strengths and deter competitors or to start fighting back if they have already arrived. This can be done by **focusing customers on the benefits** of your products and services. Make sure that you **give customers reasons to stay with you** – and reasons to avoid going to your competitors. Finally, **ensure your marketing activities are tightly focused** so that you have a deeper appeal to narrower segments of the market than your competitor, who may have a broader general appeal to more people, but a less compelling offer to specific segments of the market.

Key questions

Assessing competitiveness can be achieved by considering the following questions:

- How effectively does the business sense developments in the market? Market sensing involves more than market research. It can be defined as all actions, formal and informal, systematic and random, active and passive, engaged in by all members of an organisation which determine and refine individual or collective perceptions of the marketplace and its dynamics. Market sensing goes well beyond market research: at its core is a determination to derive unique insights into the needs of customers and the opportunities within markets.
- How well does the business translate market insights into competitive advantage? Understanding customers and their shifting needs is difficult. Employees close to the market should be encouraged to develop their insights by:
    - Emphasising informal rewards.
    - Coordinating the work of different departments.
    - Influencing the views, values and approach of managers in the organisation.
    - Fostering a healthy disregard for industry norms, encouraging experimentation and learning.
    - Promoting trust and openness so that information and ideas are openly shared and discussed in an apolitical manner.
- What are the main sources of competition (for example, is it industry rivalry, substitutability or something else)?
- How effectively are competitors monitored?
- Who decides how and when to respond to competitors, and how effective have those responses been in the past?
- How competitive is your industry, and what is the trend (more competition or less)?
- How competitive is your organisation, and, most importantly, how does it compare to others in the eyes of the customer?

Dos and don’ts

Do:

- Actively communicate brand values.
- Benchmark your business against other organisations.
- Meet with customers and understand their perceptions and needs.
- Understand, strengthen and preserve the causes of success in the business.
- Find out why customers prefer you to your competitors.
- Review competitors’ strengths and weaknesses regularly. Develop an action plan that, over time, will minimise these strengths and exploit weaknesses.

- Develop and adjust products, services and/or tactics, taking into account your understanding of the competition.

Do not:

- Ignore the brand or be inconsistent.
- Ignore ways to support the local community.
- Neglect customer feedback or the communication channels it comes from.
- Unquestioningly follow past practice or industry norms – be prepared to innovate.
- Ignore or pay superficial attention to competitors in developing products and services.
- Act only on your perception of competitors without gathering or analysing information to support your views.

Things you can do

Understand and regularly contact customers

To understand your customers' needs – both internal and external – you need to ensure you have open communication channels with them. Ask yourself:

- How often do I communicate with my customers? Is it enough?
- Do I know my customers' businesses?
- What do my customers want to achieve? Have I asked them? What are my customers' long-term goals, and how can I help them to achieve those goals?
- What do my customers perceive as 'added value'? Have I asked them or am I making assumptions?
- What do I do to add value for customers?
- How to I exceed my customers' expectations?

Customers usually welcome the opportunity to have their voices heard, and this simple measure should inform decisions and ideas.

Involve customers

Involving customers helps to ensure that activities are 'on brand'. In practical terms, it may involve discussing new ideas and initiatives with potential customers. Also, invite customers to comment on what they see: what do they like and value about the brand and what do they want changed? Also, paying attention to those parts of the business where customers 'touch' the business will help to ensure that the brand values are being consistently and practically applied (for example, in the way that telephone calls are handled, statements appear and community work is undertaken).

Champion your business and differentiate it from competitors

Understand your business brand: its essence, values and attributes. Understand similarities with other firms in your industry, as well as points of differentiation. If you work outside marketing or sales, arrange for an attachment to one of these departments.

Work with colleagues such as your manager, peers and team members (if necessary in a special team) to:

- Review communications with customers, checking that the messages and tone are 'on brand'.
- Review products and services against the brand to identify areas that need improvement.
- Decide how the brand will be used – the greatest priorities. For example, is it to provide reassurance, enable a premium price to be charged or create an intention to buy?
- Find at least three methods of gaining continuous feedback from customers. Analyse what these comments are saying about the brand and recommend changes to products and services as appropriate.
- Discuss with executives in other departments, or businesses, the techniques they use to differentiate their brand.

Minimise barriers to employee contributions

Even for those employees that are not directly interacting with customers, their activities may still affect the firm's efficiency and the service it provides. Everyone should be encouraged and helped to share insights and comments from customers. In particular, employees close to the market should be encouraged to develop their insights by:

- Emphasising informal rewards.
- Coordinating the work of different departments.
- Influencing the views, values and overall approach of managers in the organisation.
- Fostering a healthy disregard for industry norms and encouraging experimentation and learning.
- Promoting trust and openness between individuals so that information and ideas are openly shared and discussed in an apolitical manner.

Maintain a clear, practical understanding of competitors

Understanding competitors can be accomplished by developing a system to comprehensively monitor useful information about competitors and to integrate this into routine management activities. Also, develop a clear understanding of similarities, as well as points of differentiation with your key competitors. Regularly (monthly or quarterly):

- Identify the main competitors.
- Assess trends – who is strengthening or emerging and why, who is declining and why?
- Analyse competitor's advertising (quantity and quality) and their brand messages.
- Disseminate information about competitors.
- Measure whether your business is becoming more or less differentiated than its competitors.
- Agree with colleagues whether there are any actions – reactive or proactive – to take resulting from competitors' activities.

- Interview members of staff who may have worked for competitors, finding out their views on the competitor's strengths and weaknesses.
- Talk with customers, suppliers and 'friends of the business' to find out what they are saying about competitors.

Further action

Use the following table to identify areas for further development.

Issue	Response	Further Action
Do you actively compete for business with others by focusing on the needs of customers, rather than internal development?		
Do you capitalize on all your strengths to build competitive advantage? For instance, do all of your people feel empowered to innovate and solve problems?		
Is your business and product offering differentiated from your competitors? If not, what do you offer that others don't? Do you understand how your core values and objectives contribute to customer's perceptions?		
Do you adapt your strategy to the needs of the market – in this case by using the level of competition (determined by such factors as barriers to entry) to determine how you market, advertise, brand and innovate? For instance, is growth best achieved through entering new markets or through strengthening your brand? Is the concept of a 'brand' applicable to your market?		

Do you react to your competitors, adopting their methods (perhaps as part of a strategy of benchmarking) or do you lead the market, by innovating and identifying new customer groups (perhaps as part of a strategy of market segmentation)?		
Do you exploit opportunities in areas that reflect your strengths, do waste opportunities or do you focus on competing on lines decided by others? For example, if quality is the main area you compete in, is this your choice, your competitors or your customers?		

For Further Information or to Arrange a Consultation

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