

CHAPTER

The Competition

It is not enough just to build a better mousetrap; you have to build a better mousetrap company.

Know What You're Up Against

Famed baseball player Satchel Paige used to say, "Don't look back; someone may be gaining on you." But in business it is imperative to see who's gaining on you. It is far better to know what you're up against than to be surprised when your sales suddenly disappear to an unexpected competitor.

Every business has competition. Those currently operating a company are all too aware of the many competitors for a customer's dollar. But many people new to business—excited about their concept and motivated by a perceived opening in the market—tend to underestimate the actual extent of competition and fail to properly assess the impact of that competition on their business.

One of the very worst statements you can make in a business plan is, "We have no competition." A knowledgeable investor will immediately disregard a plan with such a statement because it indicates that either: 1) you have not fully examined the realities of your business; or 2) there is no market for your concept.

You can see this by looking at the example of the photocopier. When the first one was invented, no competition existed from other makers of photocopiers, of course. But competition still came from many sources, including suppliers of carbon paper and mimeograph machines. And if the copier worked and the market was receptive, future competition could realistically be projected. If no competition truly existed at the time it was invented—if people weren't duplicating documents by some means—it would have meant no market for photocopiers existed.

☞ *Don't allow yourself to be awed by an opponent, or, on the other hand, to have contempt for them. Don't allow the extremes of your emotions to dictate your assessment of the competition. Never over-react to a great deal of success or failure, either your own or the competition's.* ☞

Bill Walsh

**Former Coach and President,
S.F. 49ers**

“Visit and observe successful stores. Analyze their strengths and weaknesses. Shop your competition.”

Nancy Glaser
Business Strategies
Consultant

“You can’t be 5% or 10% better than the competition. You have to be ten times better. There’s a huge lethargy factor—you don’t get people to change their bank account, or whatever you’re trying to get them to change, if you’re 10% better; you’ve got to be ten times better.”

Andrew Anker
Venture Capitalist

Honestly evaluating your competition will help you better understand your own product or service and give investors a reassuring sense of your company’s strengths. It enables you to know how best to distinguish your company in the customer’s eyes, and it points to opportunities in the market.

Learn from your competition. The basic concept of competition is responsiveness to customers, and watching your competitors can help you understand what customers want.

As you begin your competitive assessment, keep in mind that you need to evaluate only those competitors aiming for the same target market. If you own a fine French restaurant in midtown Manhattan, you don’t have to include the McDonald’s next door in your competitive evaluation: You’re not aiming for the same customer at the same time. On the other hand, if you are thinking of opening the first sports memorabilia shop in Alaska, you have to look far afield, at any such retail stores in Seattle or Vancouver, mail-order dealers from all over the country, and Internet dealers from around the world, as that is where your potential customers shop now.

When preparing the competitive analysis portion of your business plan, focus on identifying:

- Who your major competitors are;
- On what basis you compete;
- How you compare;
- Potential future competitors; and
- Barriers to entry for new competitors.

Competitive Position

It is tempting to want to judge your competition solely on the basis of whether your product or service is better than theirs. If you have invented a clearly superior widget, it is comforting to imagine that widget customers will naturally buy your product instead of the competitors’ and the money will roll in.

Unfortunately, many other factors will determine your success in comparison to other manufacturers of widgets. Perhaps their brand name is already well-known. Perhaps their widgets are much cheaper. Perhaps their distribution system makes it easier for them to get placement in stores. Or maybe customers just like the color of your competitors’ packages better.

The objective features of your product or service may be a relatively small part of the competitive picture. In fact, all the components of customer preference, including price, service, and location, are only half of the competitive analysis.

The other half of the equation is examining the internal strength of your competitors’ companies. In the long run, companies with significant financial resources, highly motivated or creative personnel, and other operational assets will prove to be tough, enduring competition.

Thoroughly Evaluate Your Competition

Two Competitive Analysis worksheets on the following pages help you evaluate your competitive position in terms of both customer preference and internal operational strengths.

The worksheets enable you to give greater or lesser importance to each competitive factor, depending on the significance of those particular aspects. To complete each worksheet, give each factor listed a maximum possible number of points, ranging from 1 to 10, with 1 being least important to your overall target market and 10 being the most important. Place the maximum number for each factor in the Maximum Points column.

For instance, on the Competitive Analysis: Customer Perception Factors worksheet, let's say your target market is extremely price sensitive but willing to travel a long way to get a bargain. The purchase price factor might be given a maximum of 10 points and the location factor a maximum of 2.

Once you have finished numbering the factors for your company and competitors, you will see how this weighting system gives you a better picture of the actual strength of your competitors as opposed to your own.

Keep in mind that you can also allot negative numbers. If, for example, your target market is interested only in items perceived as luxuries, having too low a price may be a liability. If your market is particularly socially conscious, the fact that your competitor conducts tests on animals may be a negative for the social image factor in their evaluation, giving you a competitive edge.

In your analyses, look at both specific competitors—particular companies you compete against—and at the overall type of competition. In the example of the Alaskan sports memorabilia store, for instance, the Competitive Analysis might have four competitors listed: each of the two specific retail stores in Seattle and Vancouver, mail-order dealers, and Internet dealers as categories.

If desired, you can include these completed worksheets in the Appendix of your plan, as well as use them for internal planning purposes.

Customer Perception Factors

When doing your analysis, consider these customer perception factors:

- **Product/Service Features.** Specific inherent attributes of the product or service itself; if key features are particularly important, list separately.
- **Indirect/Peripheral Costs.** Costs other than the actual purchase price, such as installation or additional equipment required.
- **Quality.** Inherent merit of the product or service at the time it is provided.
- **Durability/Maintenance.** Quality of the product/service over time; ease of maintenance and service.
- **Image/Style/Perceived Value.** Added values derived from design features, attractive packaging or presentation, and other intangibles.

“It's always easier to have an enemy. 'We try harder' is a very good business plan. They're the old guys, we're the new guys. Our job is to beat them—that's a very clear message. You can raid the best people from your competitors, you can look at their business plan and see how they developed, and you can follow the good parts and throw out the bad parts. It's straightforward.”

Andrew Anker
Venture Capitalist

Competitive Analysis: Customer Perception Factors

Following the directions on page 117, allocate points for each of the factors listed below for both your company and your competitors.

Factor	Maximum Points (1–10)	Your Company	Competitor	Competitor	Competitor	Competitor
Product/Service Features						
Purchase Price						
Indirect/Peripheral Costs						
Quality						
Durability/Maintenance						
Image/Style/Design						
Perceived Value						
Brand Recognition						
Customer Relationships						
Location						
Delivery Time						
Convenience of Use						
Credit Policies						
Customer Service						
Social Consciousness						
Other:						
Other:						
Total Points						
Comments:						

Competitive Analysis: Internal Operational Factors

Following the directions on page 117, allocate points for each of the factors listed below for both your company and your competitors.

Factor	Maximum Points (1–10)	Your Company	Competitor	Competitor	Competitor	Competitor
Financial Resources						
Marketing Budget/Program						
Technological Competence						
Access to Distribution						
Access to Suppliers						
Economies of Scale						
Operational Efficiencies						
Sales Structure/Competence						
Product Line Breadth						
Strategic Partnerships						
Company Morale/Personnel						
Certification/Regulation						
Patents/Trademarks						
Ability to Innovate						
Other:						
Other:						
Other:						
Total Points						
Comments:						

“Get to know your competition over time; continually evaluate them as to approach, style, strategy, and personnel. You need a ‘book’ on your competition. While you maintain your own standards of performance, you look for voids in their game plan. Ask yourself how they would respond to different situations. While your own standards should dominate your performance, within those confines, you adapt to what is necessary to take on the competition.”

Bill Walsh
Former Coach and
President, S.F. 49ers

“We have to view our product through the eyes of a consumer and see what we look like to them in comparison to our competitors. It’s easy to get involved in the manufacturing process and lose sight of what the consumer sees on the shelf. But if you do, the rest of the process is immaterial.”

Larry Leigon
Founder, Ariel Vineyards

- **Customer Relationships.** Established customer base and customer loyalty; relationships of sales personnel to customers.
- **Social Consciousness.** Perception of the company, product, or service relative to issues such as environment, civic involvement, and the like.

Internal Operational Factors

Internal operational factors that increase competitiveness include:

- **Financial Resources.** Ability of the company to withstand financial setbacks, and to fund product development and improvements.
- **Marketing Program/Budget.** Amount and effectiveness of advertising and other promotional activities.
- **Economies of Scale.** Ability to reduce per-unit costs due to large volume.
- **Operational Efficiencies.** Production or delivery methods that reduce costs and time.
- **Product Line Breadth.** Ability to increase revenues by selling related products; ability for customers to purchase needed items from one provider.
- **Strategic Partnerships.** Relationships with other companies for purposes of development, promotion, or add-on sales.
- **Company Morale/Personnel.** Motivation, commitment, and productivity of the employees.

Other Factors Affecting Your Ability to Compete

First Mover Advantage

In new industries or new market segments, the first company to gain a reasonable foothold in the market can often leverage being early into a significant competitive advantage. Having a market to oneself for even a brief period may enable a company to define the product, set standards, establish key strategic partnerships, capture customer attention, or in other ways gain dominance. This rush to market, however, does not guarantee success, and many industries have instances of early market leaders being overtaken by later-stage competitors.

Installed User Base

If a sizable portion of the market currently uses a product that performs a similar function or is incompatible with your new product or service, customers may resist the cost and inconvenience of making the transition. This is particularly true for products involving technology or electronics.

Often even superior products have a difficult time getting a foothold in such markets. One of the most cited examples is the familiar “QWERTY” keyboard. Keys on early typewriters were arranged to intentionally slow down typing to prevent the mechanical keys from sticking. Although later keyboards improved on this arrangement, typists were already comfortable with the “QWERTY” keyboard, and it remains to this day.

The Web

Using the Web substantially lowers barriers to entry in many industries, and in some cases it allows competitors to operate at very narrow profit margins. The Internet also arms customers with substantially more purchase information, sometimes even wholesale prices. Companies that previously may have been able to compete effectively in a particular geographic area may now face worldwide competition.

Inertia

Customers don’t do what they should do; they do what they have to or want to do. In almost every case, customers have the option not to buy at all. It’s not enough for you to know the customer needs your product or service; the customer must truly believe they need or want to buy from you.

Global Competition

Your competition may not just come from across town or even across your country, it may now come from around the world. If you sell a common product, even something as mundane as hardware, you’ll find many international companies selling the same product to your potential customers online. If you’re offering a unique product, you may still face worldwide competition. These international competitors can often sell at prices below yours, even when shipping and fulfillment is added to the final price. This can be a difficult challenge, and you must be aware of this global competition so that you can find ways to distinguish yourself from them and compete successfully.

Not only are products sold internationally, but services are as well. It is typical for many service providers to find themselves competing online with sources from other countries where labor costs are far lower. Once again, your challenge is to find ways to make your competitive advantages clear so your value to your customers is apparent even when your price may be substantially higher.

In the worksheet on the following page, identify your global competitive threats.

“When it comes to competition for a technology-based company, in the early stages, I’m more worried about the small operator than the large company. With the large well-known companies, you generally know what they’re working on. Also, they have large overhead. But the small competitor can come in and compete against you head on, especially if the technology is low enough to allow easy entry to the market.”

Eugene Kleiner
Venture Capitalist

Globalization: Competition

Are there many international competitors currently offering your product/service to your target market? _____

How difficult is it for international competitors to enter your market? What barriers to entry, if any, exist? _____

If known, list the specific international companies competing with you. _____

Is the amount of international competition increasing, decreasing, or remaining the same? _____

What makes your international competition attractive to your customers (price, quality, selection, convenience, etc.)? _____

What advantages do you have over your international competitors (price, quality, selection, convenience, etc.)? _____

Market Share Distribution

Some competitors are more important than others, due entirely to the fact that they command a large percentage of the market sales. Although these companies may not necessarily provide the best product or service at the best price, they nevertheless represent a crucial component in evaluating your competitive position.

Companies that generate a significant portion of all sales to the target market must be carefully considered because they:

- Generally define the standard features of the product or service;
- Substantially influence the perception of the product or service by customers; and
- Usually devote considerable resources to maintaining their market share.

Take time to understand the companies that dominate the market, if only to better distinguish yourself from them. Of course, if your company is fortunate enough to control a major share of the market, then you gain the advantage of defining the product or service in the marketplace; you are the proverbial “800-pound gorilla.” Even so, you cannot be complacent but must plan on committing the resources necessary to preserve or expand your share.

How Will You Obtain Sufficient Market Share?

If yours is a new business, it is generally easier and less expensive to enter a market with many diverse competitors than one dominated by a few major players. If you are preparing a business plan for financing purposes, you will have to demonstrate to potential funding sources through your marketing plan how your company plans to gain and maintain a reasonable market share.

Complete the Market Share Distribution worksheet on page 125 to outline how sales are distributed among the competition, both by total sales revenues and by unit volume. (Some companies make fewer but higher-priced sales by targeting the most lucrative customers; others sell greater volume at lower per-unit prices.) Once again, look at competitors both by individual companies and by categories of competition, as they apply to your situation.

You will probably have to estimate the figures required by the worksheet, based on information gleaned from trade associations, annual reports, business publications, and independent industry research firms. Definitive information on sales is notoriously difficult to locate.

Future Competition

Finally, in your competitive analysis you have to do a little fortune-telling. You must make a few reasonable predictions of what the competition will look like in the future. New competitors enter markets all the time, and sometimes current competitors drop out. Don't take comfort in the fact that other companies have overlooked a particular product or service. Once you

“As a barrier to entry, it should take significant money and significant skill to enter the business. Patents, while desirable, are not sufficient to protect against new competition, although they help the entrepreneur in raising money because they show the product is unique. Service businesses have a harder time securing venture capital funds because competitors can enter the field easily, and investors are wary. You need barriers to entry to protect your market.”

Eugene Kleiner
Venture Capitalist

“I don't want to hear the words 'No one has ever done this before,' or 'There's no competition.'”

Damon Doe
Managing partner,
Montage Capital

show you can be successful, someone will want to take a piece of that market from you. Who are your new competitors likely to be? How long will you have the field to yourself before other competitors jump in?

Forecasting the competitive situation over the next five years or so, based on logical conclusions from concrete evidence such as current product lines, gives you and potential investors a better sense of the long-term viability of your business.

One of the most important factors to examine is barriers to entry: those conditions that make it difficult or impossible for new competitors to enter the market. Every company can gain a sense of how best to prepare for future competition by examining the barriers to entry.

If your company's competitive position depends on new technology, new manufacturing techniques, or access to new markets, outlining the barriers to entry is essential. This will be one of the first areas judged by potential funding sources.

Barriers to Entry

Some common barriers to entry for new competition are:

- Patents, which provide a measure of protection for new products or processes.
- High start-up costs, which effectively protect against small competitors entering the field.
- Substantial expertise required, or manufacturing and engineering complexities, making it less likely for competitors to have the knowledge to compete.
- Market saturation, which reduces the possibility of competitors gaining a meaningful foothold.

Few barriers to entry last very long, particularly in newer industries. Even patents do not provide nearly as much protection as is generally assumed. Thus, you need to realistically project the period of time by which new competitors will breach these barriers.

Complete the worksheet on page 127 indicating future competition and barriers to entry.

Preparing the Competition Segment of Your Plan

To prepare the Competition portion of your business plan document, synthesize the information from the worksheets in this chapter into a brief synopsis. In particular, you want to provide:

- Description of Competition
- Market Share Distribution
- Competitive Positions
- Barriers to Entry
- Strategic Opportunities

Market Share Distribution

List below the current market leaders and the approximate percentage of the market each one commands.

Competitor	% of Total Revenues	% of Total Units Sold	Trend of Market Share (increasing or decreasing?)
1.			
2.			
3.			
4.			
5.			

Which competitor(s), if any, have historically been the market leader(s)? _____

Which competitors have increased market share substantially in the last three years? _____

Is overall competition increasing, stable, or decreasing? _____

Briefly describe the most important characteristics of the market leader(s):

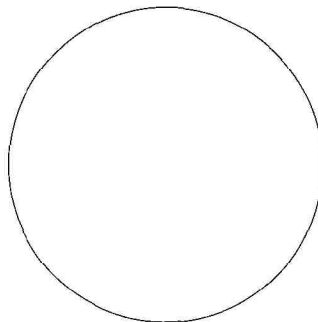
Competitor #1: _____

Competitor #2: _____

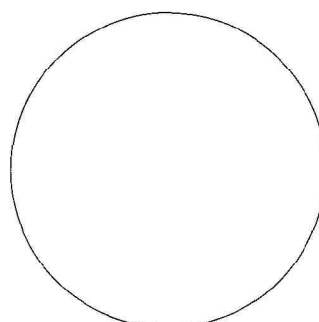
Competitor #3: _____

Divide the pie charts below to indicate market distribution.
(These charts can be included in your written plan for visual interest.)

Market Share by Revenues
(estimate)



Market Share by Volume
(estimate)



Use the Plan Preparation Form on page 128 to outline the Competition section of your business plan. Don't be afraid to use bullet-point lists and charts (see Chapter 3 for suggestions) in this section. Also, include pertinent information from market research, particularly customer surveys.

Chapter Summary

You have to understand your competition if you're going to be an effective competitor yourself. Develop a strong sense of your competitive position—your strengths and weaknesses in terms of customer perception and your internal company resources; this will be vital when preparing your marketing strategy. Always assume competition will get more intense, and be prepared for new competitors to enter the market.

Future Competition and Barriers to Entry

Potential future competitors include: _____

Current competitors likely to expand efforts: _____

Current competitors potentially leaving the field: _____

Indicate below how strong the following barriers to entry are and how much time (check the How Long Effective column) it will take before new competition overcomes each barrier.

Type of Barrier to Entry	Extent of Effectiveness Factor				How Long Effective
	High	Medium	Low	None	
Patents					
High Start-up Costs					
Substantial Expertise Required					
Engineering, Manufacturing Problems					
Lack of Suppliers or Distributors					
Restrictive Licensing, Regulation					
Market Saturation					
Trademarks					
Other:					

Competition Plan Preparation Form

Using this form as a guide, summarize the main points you wish to make in the Competition section of your business plan.

Description of Competition: _____

Market Share Distribution: _____

Competitive Positions: _____

Barriers to Entry: _____

Strategic Opportunities: _____

Use this information as the basis of your plan's Competition section.

SAMPLE PLAN: THE COMPETITION

THE COMPETITION

Competing with ComputerEase to supply software training services to the target market (businesses making substantial use of computers and having more than 50 employees) are these categories of software training providers:

- Online training/distance learning programs
- Individual independent training consultants
- Local software training companies
- National training companies
- Software developers
- Community college classes
- Trainers from within the targeted companies themselves

*Lists categories
of competitors*

ComputerEase hopes to build its business of developing custom training for corporations that have developed their own software applications for in-house use, as this represents a very high-margin business. Community college classes are generally not suitable for the corporate market, since classes are typically held in the evenings for at least 10 weeks—conditions that do not meet business customers' needs.

Online Competitors

The number of online computer software training firms has exploded in recent years. A Google search on "online software training" returned more than 16 million results. But this is a heavily fragmented market, with many small players and no one vendor dominating. The most serious single competitor is from a major online university, but it primarily targets individuals rather than corporate clients.

Local Competitors

Eight local businesses and four individuals in the Vespucci area actively market their software training services. An unknown number of additional individual consultants provide such training on a less visible level.

Only one local company has developed a substantial presence with the target market: JMT Training. JMT has operated for more than six years and is the largest local software training company.

The individual independent consultants in this market generally provide training for just one or two software programs.

*Indicates specific
competitors*

Other Competition

Three major national software training companies periodically conduct classes in the Vespucci area. Lesser-known national companies also occasionally provide such services, generally targeting recent purchasers of particular software. Online training is gaining popularity rapidly, opening markets—including our local market—to both international and local competition. The three national software training companies

SAMPLE PLAN: THE COMPETITION (continued)

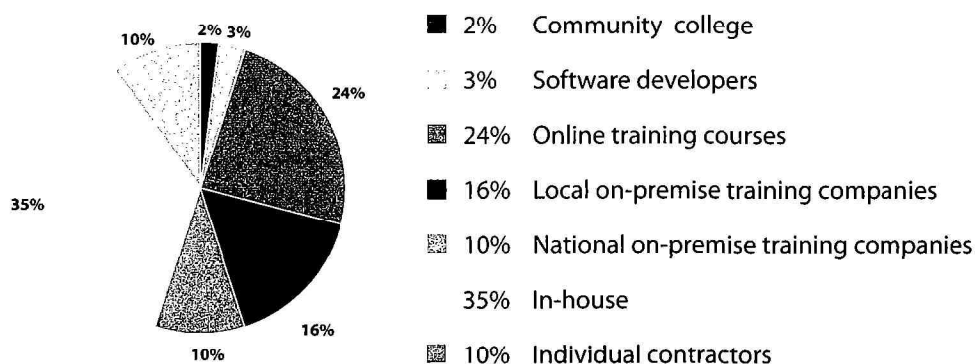
all have fairly robust online training programs. Since our target market is principally English-speaking countries, we view our international competition as coming mostly from other English-speaking countries. Presently, there are two international companies—one based in the U.K. and one based in Australia—that are potential future competitors.

In-house training by employees of the targeted companies varies widely in content, form, and quality. Very few companies have “trainers”; most training is provided on an ad hoc basis from supervisors and fellow workers. A conservative interpretation of a survey conducted by ComputerEase indicates that at least 20% of such training would be contracted out if satisfactory training could be obtained.

Market Share Distribution

The responses to the ComputerEase survey indicate that target companies currently conducting software training utilize providers as follows:

**Current Total Market-Share Distribution
for Business Software Training in Vespucci, Indiana**



Advantages Over Competition

A chart outlining ComputerEase's competitive position is included in the Appendix. Generally, the advantages ComputerEase has in relation to its competitors are:

- Its status as an “Authorized Training Center” for major software publishers gives it credibility through joint programs, and the availability of pre-release and steeply discounted software.
- Its management team is business-oriented, rather than computer-oriented, and is completely focused on the needs of corporate trainers.
- Its course developers are certified in the software for which they are developing courseware.
- It has a proven instructional design methodology for creating, testing, and supporting high-quality courseware.

SAMPLE PLAN: THE COMPETITION (continued)

- It is a local, rather than national, provider of on-premise training.
- It has a sterling reputation for delivering high-quality service.
- It offers ongoing technical support for corporate clients at low cost.

Competitive Positions

This is how ComputerEase ranks the strengths of its competitors:

1. In-house trainers
2. Online training courses
3. JMT Training
4. National training companies
5. Other local companies
6. Independent contractors

By far the biggest competitor for the dollars spent on business software training is the in-house training department. After that, other online competitors are the highest hurdle to winning business, as there are other, cheaper alternatives to the ComputerEase products on the market. However, ComputerEase is garnering a growing reputation for delivering high-quality and highly effective training in this crowded field.

JMT is considered the strongest competitor due to its current client base, the personality and sales skills of its owner, Janice Tuffrey, and its potential to associate with national franchise training operations. However, JMT's current training staff and materials are of inconsistent quality, and current clients have expressed dissatisfaction with the lack of quality control. Moreover, JMT lacks skilled management of its financial affairs, resulting in insufficient capital for marketing and updating equipment. No other local companies have either the financial or personnel resources to adequately respond to a well-organized, sufficiently funded competitor.

National training companies market their services through direct mail or telemarketers and have no local sales force. Their customer base is neither loyal nor particularly satisfied with the service.

The quality of in-house trainers varies widely. However, since these trainers are already on staff, there is little or no additional cost to the customer for using them.

Independent contractors lack a substantial client base and adequate resources to respond to new competition.

Barriers to Entry

It is not easy for new competitors to enter the on-premises training market, which requires a substantial overhead due to rent/leasing expenses, equipment, trainers, and printed materials. Moreover, software providers are becoming increasingly selective about which companies they will allow to serve as "Authorized Training Companies." These relationships are crucial in terms of receiving pre-release, below-cost copies of

*Ranks
competitors
and describes
strengths and
weaknesses*

*Indicates limits to
new competition*

SAMPLE PLAN: THE COMPETITION (continued)

software to prepare new courses, and for co-sponsoring product introduction events, as well as bolstering customer perception.

The barriers to entry of online training are much lower, however. All it takes is a single individual designing interactive courseware for the Web using one of the many authoring programs that exist. Even if the content developer is not technically inclined, he or she can easily find someone to do the coding that makes the content accessible via a standard browser. There are no printing costs, as all the documentation and course materials exist online for the student to download. Of course, there are marketing expenses—to address the challenge of getting noticed in such a crowded field—as well as credibility issues, but simply getting a product to market is relatively cheap and easy to do. Although online competitors can come from anywhere, they will need to understand domestic markets.

Strategic Opportunities

The market for computer training services is highly dissatisfied at present as shown by a survey of human resource directors of target companies. Their level of satisfaction with current training arrangements is shown below:

Highly satisfied—8%

Somewhat satisfied—18%

Somewhat unsatisfied—43%

Highly unsatisfied—31%

This unusually high dissatisfaction level with current providers represents a unique opportunity for ComputerEase in a rapidly expanding market.