

Analysing the Competition

Understanding the competition

Almost no business, large or small, operates without any competitors. If there is one thing that gives an entrepreneur sleepless nights, it is the worrying about what competitors are getting up to. Will they copy the good business idea? Will they reduce prices and grab some precious customers? What new products are they planning and how will customers react?

Some businesses think it is best to get on with their own plans and ignore the competition. Others become obsessed with tracking the actions of competitors (often using underhand or illegal methods). Many businesses are happy simply to track the competition, copying their moves and reacting to changes.

There are some good reasons why any business needs to keep a close eye on competitors:

- To help the business understand where they can create an advantage
- To find out about, and respond to, competitor actions
- To see if competitors are investing in new and better products
- To spot changes in the ways that customers buy

There is no excuse for an entrepreneur not to keep an eye on the competition - there is lots of information that is readily available.

Getting this information and putting it together is a bit like doing a jigsaw puzzle. Each individual piece of data does not have much value. The important skill is to collect as many of the pieces as possible and to assemble them into an overall picture of the competitor. This enables the business to identify any missing pieces and to take the necessary steps to collect them.

What do businesses need to know about their competitors? Here are some examples of information that would be very useful – assuming it could be obtained!

- Overall sales and profits, by product and market
- Business costs (usually an estimate)
- Organisation structure
- Methods of promotion and distribution
- Key customers and suppliers
- Product quality and reputation

Does competition benefit customers?

Businesses might prefer to operate with little (if any) competition. However, it is widely accepted that strong competition and rivalry in a market is good news for customers.

The benefits of competition include:

- Greater choice for consumers
- Prices are kept to a sensible level as competitors compete on price to achieve sales
- There is a strong incentive for businesses to invest in new products through innovation and invention
- Successful businesses are those that deliver high product quality and excellent customer service

If competition is a good thing, are there any disadvantages or drawbacks for customers?
There are some:

- Businesses can become too focused on short-term success rather than investing for the long-term
- Cutting business costs to remain competitive might mean a business taking short-cuts on important aspects such as health & safety and product quality. Employees working in the business would also suffer from this
- A business might neglect its social obligations (e.g. not taking care of waste disposal or complying with environmental regulations) or behave unethically (e.g. pressurised selling techniques)

Ways in which a business can compete effectively

With all that competition out there, how does a small business compete effectively?

The starting point has to be – by providing a **great product!** In most markets, customers are looking for the best value for money. This means that a product which is better than the competition, and which sells for the same price, will most likely prove to be a winner.

It is often the case that a business needs to have more than one product in order to succeed in a market. Offering a **product range** enables a business to provide customers with more choice and potentially attract customers who buy for different reasons.

For example, a product range might include a “budget” or “best value” product, a mid-range product, and a higher-price premium product. Walk down the aisle of any large supermarket and look at the own-label ranges to see this in action.

Quality is another great way to compete effectively. **A quality product is one that meets customer needs.** Maybe the customer wants something that is 100% reliable, or which uses high quality materials. A successful business can compete by consistently achieving the required quality level.

By focusing on a high quality product, a successful business is often able to develop its **brand** reputation. In many consumer markets, brands are an important source of advantage. Customers trust good brands, are more loyal to them, and are often prepared to pay a higher price too.

Customer service is an important way of beating the competition. Buying the product is one thing – but what about the level of after-sales service? Is that an area where a small business can gain an advantage? The overall selling experience for a customer can be made to be better than the competition – are staff well-informed and friendly?

Price is the other main method of competing. For many businesses, the price charged is a reflection of two factors:

- (1) What the other competitors are charging
- (2) What the product costs to make or buy

If a business operates efficiently, that gives it a better chance of being able to offer a lower price than competitors and still make a reasonable profit.