Understanding Your Competition

It is crucial for a company to understand their market, A major component of this understanding is answering the question: “Who is my competition?”. Cathedral Consulting Group has found that many small businesses cannot accurately identify their competition and therefore struggle to differentiate their products and services within the market. Knowing who you’re competing with for sales will help you identify your company’s strengths and weaknesses. This knowledge will make it possible to differentiate your company from your competitors in the eyes of customers. This process can also help determine the market size and your market share, and define whether or not your company has a niche.

Types of Competition

Competition is defined in many ways, but for our purposes, competition means companies that are fighting for the same purchase. These are the companies that want your sales, your customers, and your business. Competition is a zero sum game where someone wins and someone loses. Oftentimes, small businesses assume their competition is everyone and define their value proposition in terms of their customers, rather than differentiating from the competition. By identifying the competition, a company can better position themselves in the market and appeal to a maximum amount of customers.

There are different kinds of competition. The first is inertia, which is the propensity of a customer to buy the same goods and services from the same vendor, even if there are better products available. An easier way to define inertia, is the tendency of the market to resist change. Clients, businesses, vendors all tend to resist change, therefore your company is competing against other companies, but also against the inertia of the market. This also means that new companies and new products that appear, but are not widely known, may find it hard to “get in the game.” There may be a clear need for the product or service, but if it is not commonly used or known within the space, it will be hard to convince a customer that they should buy it or even try it. Inertia is the biggest competitor for small businesses and it is often overlooked.

Other kinds of competition includes companies and products that your customers have used in place of your products or services or a company, product or service that is marketed as delivering the same results as your products or services. These are direct competitors that are trying to win your clients by marketing, pricing or adding value or perceived value. Subway is directly competing with Quizno’s and Jimmy John’s for the same clients. These are all submarine sandwich shops that are an alternative to the traditional fast-food. They are competing for the same types of customers within the space. All of them consider their products and services to be superior to that of the other, and can be used in place of one another by a fickle customer. Substitute or alternative competitors should also be identified. These are competitors that offer similar options or exist in a more remote geographical area. In the Subway example, these competitors would be fast-food establishments such as McDonald’s...
and Burger King. These outlets do not make submarine sandwiches, but do offer quick meals at similar price points.

Near competitors should also be identified. These are companies, products or services that have the potential to become a full competitor. It is natural for businesses to expand on their current offerings as the times change. As this happens, companies that were not previously thought of as a threat can become full-blown competition. For example, Walmart started out as a dry goods store. A few years ago, grocery stores may not have thought of Walmart even as a near competitor since they did not offer anything more than a few convenience food items. Walmart expanded into foods, with stores that had full grocery sections in addition to their traditional offerings, and then expanded again to include fresh foods and meats and have taken a significant share within the grocery marketplace.

**Comparative Analysis**

Once the competition has been identified, a small business should compare and contrast each competitor in order to ascertain their place within the market. Cathedral suggests using a Comparative Competitive Capabilities Chart. This chart enables a small business owner to see how their company stacks up in comparison to the main competition within their market. There are many versions of this type of chart in existence, but the purposes of this conversation, the following chart is used:

<table>
<thead>
<tr>
<th>Competition Comparative Capabilities</th>
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<tbody>
<tr>
<td>Location</td>
</tr>
<tr>
<td>Convenience</td>
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<tr>
<td>Brand Image</td>
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<tr>
<td>Product Offering</td>
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<tr>
<td>Quality</td>
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<td>Accessibility/Hours</td>
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<tr>
<td>Level of Customization</td>
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<tr>
<td>Price</td>
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<tr>
<td>Total Estimated Revenue</td>
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<tr>
<td>Financial Strength/Profitability</td>
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- **Key**
  - High
  - Medium
  - Low

The point of the chart is to analyze the relative strengths and weaknesses of your company, as well as the competition in terms of high, medium, and low. These mean different things when talking about each trait. Location is important as many customers will try to find companies, products, and services that are close to them. This helps us understand the competitive effects of logistics and nearness to your customer base. Convenience combines both the location and the capacity to service. This includes the internet, which adds significantly to the ability of customers to interact with and purchase products and services. It also creates a new market and should not be thought of as competition, but as a tool used by competitors. Brand Image is the impression in the customer’s mind of a company and whether or not they perceive a difference in one company’s products and services over your company’s brand. Product Offering includes the entire product lines of a company in relation to yours. Quality is both real and perceived. Perceived quality is based upon the customer’s standards and how well your products and services match what is in their head. Real quality compares products that meet the same need or serve the same purpose, but have specific attributes that address the need.
either better or worse. This may or may not be in the perception. Level of Customization relates to the service level provided – this includes both customer service and the ability to make changes in order to best fit the needs of the business.

Price is based more on the price to value component – how much value is received for the amount of the product or service. This goes back to real and perceived quality as the true value is in the eye of the buyer. Total Estimated Revenue is your best guess as to the annual revenue of each competitor and reflects its perceived size. Size takes into account many factors including: number of customers, employees, and inventory. In essence it is the market share of the competitor and represents its staying power. Financial Strength/Profitability is another measure of the strength of the competition based on their ability to reinvest profits into the business.

**Market Share**
Once the competition has been identified, the size of the market should be obtained. This can be challenging because competitor information is not easily researched. The size of each competitor can be estimated using their website as a starting point to determine the amount of stores, geographic reach, assumed customer base, suppliers, and number of products and services. It should also be determined if the market is growing, declining, or flat. If competition is growing or declining, the market is likely correlated. National level information and reports may also be used to determine the current state of the market. Declining populations or growing industry within a geographic area can help to make this determination. After the market has been sized, the same information can be used to determine each company's market share. Companies with 25% or less of a market share can gain ground more easily than companies in the 40% or more range. If a company has a large market share – 60% or more – it is much more challenging to gain market shares, and the company will move with the market. The larger your market share, the more at risk you are of losing market share to the competition.

**Benefits of Understanding the Competition**
In order to truly understand your own company’s strengths and weaknesses, it is important understand the competition’s strengths and weaknesses in relation to your own. The Competition Comparative Chart is a good tool in determining how your company stacks up with the competition. You can use this chart to see where your company is lacking in comparison with the direct competition and where you are superior. It is a visual tool that can quickly point out where your company is ahead of and behind your main competitors.

The chart is a tool that can start the competitive analysis process. Digging deeper into the market’s perceptions and the competition’s capabilities will help to develop an understanding of each company’s strengths and weaknesses. You can use the tool as a basis for researching qualitative and quantitative attributes of each of the traits. The internet is a great tool for finding information on the competition. Client websites will showcase their products, services, size and sometimes have testimonials and reviews. Other sites are dedicated to customer reviews of different companies. Researching what actual customers are saying about your competitors, and your own company, is a crucial to developing a feel for the market and finding strengths and weaknesses. Publicly traded companies will have a significant amount of information available including financial reporting, whereas privately held companies have limited information available through these channels. In that case, you could take on the role of potential customer in order to gain information from that perspective. In addition, industry publication such as IBIS reports can help gain a feel for the market. Industry associations, marketing materials, and media coverage are also ways to procure more information about the competition.
It is important to know how the competition interacts with its customers and how it truly does business. Finding out how client orders are filled out, what suppliers they use, how quickly they address client issues, and what type of personnel they employ are examples of things you should be aware of in order to determine strengths and weaknesses. It is important to remember, that as a small business, if you are competing with larger companies, they will have more financial capabilities, which tends to lead to more options.

A small businesses cannot necessarily match every offering of a larger corporation, so it needs to decide where the differentiations lie and focus their efforts there. For example, a small print shop cannot match the offerings of a large, nationally branded print shop that offers a multitude of paper, sizes, bindings, and services. Instead, it will need to determine the strengths and weaknesses of the large print shop in order to develop their value proposition. If the large print shop focuses on large volume printing and their multitude of options as their main selling point, the small business should not try to match the volume and options. The small business will not be able to afford to invest in all these new options or the branded marketing strategy that the larger corporation has. Instead, it should focus on customer service and providing the best printing quality for their existing customer-base in order to grow their market share in a narrower segment of the market. This is how small businesses can carve out a niche for themselves and become a leader in one segment of the market, instead of just another option within the market as a whole.

Conclusion
Once you have determined the strengths and weaknesses of each of your competitors, you can begin to pick out areas of relative strength and weakness for your own company. Many business owners tend to develop their own strengths and weaknesses without comparing to the competition. If a business owner thinks they have great customer service, but the market perception is that their service is slower than the larger competitors, then this is actually a weakness, even if it is the real value is there. By looking to your competition, business owners become more aware of the market as a whole and are better equipped to position themselves based on their own strengths in comparison with the competition. Understanding your competition’s strengths and weaknesses will help your company create real and relative differences that matter to customers.

Articles for Further Reading

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