dealers from all over the country, and online dealers from around the world, as that is where your potential customers shop now.

ASSESS THE COMPETITION

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

Who

Who are your major competitors?

What

On what basis do you compete?

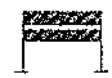
How

How do you compare to the competition?

Future

Who are your potential future competitors?

Barriers



What are the 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, make up only half of the competitive analysis.

The other half of the equation consists of 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.

> "
> **You can't be 5% or 10% better than the competition. You have to be 10 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 10 times better."**
>
> ***Andrew Anker***
> ***Venture Capitalist***

Thoroughly Evaluate Your Competition

Two Competitive Analysis worksheets on pages 124–125 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.

Competitive Analysis: Customer Perception Factors

Following the directions on pages 123 and 126, 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 pages 123 and 126, 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:						

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 both at 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 online dealers as categories.

> "
> **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***

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.
- **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.

> "
> **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***
> ***San Francisco 49ers***

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 Budget/Program.** 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.

> **"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***

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 itself for even a brief period may enable a company to define the product, set standards, establish key strategic partnerships, capture customer attention, and 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.

> **"No competition is a red flag for an investor. If you say, 'there is no competition,' then there's either no market or you just don't understand the competition."**
>
> ***Lauren Flanagan***
> ***Cofounder and Managing***
> ***Director, BELLE Capital USA***

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 extremely 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.

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):

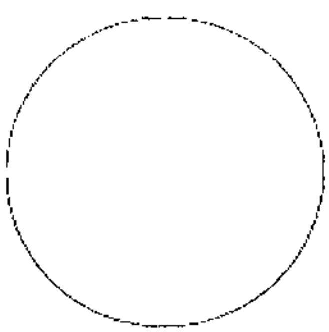
Competitor #1: ____________________

Competitor #2: ____________________

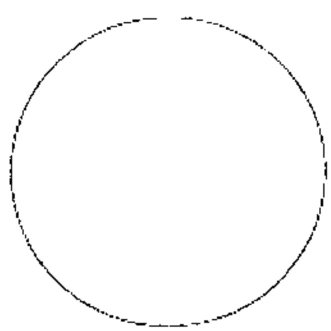
Competitor #3: ____________________

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)

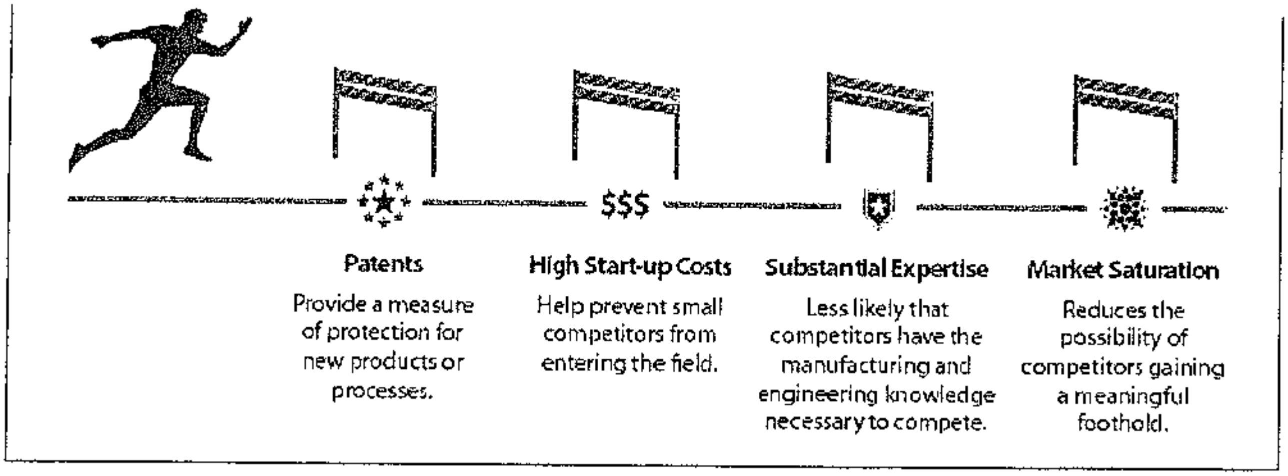


Market Share by Volume (estimate)



BARRIERS TO ENTRY

Some common barriers to entry for new competition are:



Complete the worksheet on page 133 indicating Future Competition and Barriers to Entry.

Preparing the Competition Section of Your Business 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

"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

Use the Competition Plan Preparation Form on page 134 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

The Four Ps of Marketing

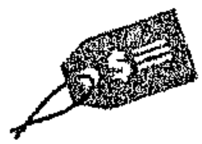
What messages do you give customers to motivate them to purchase your product or service? Traditional marketing experts emphasize the elements in the graphic below, known as "the Four Ps," in influencing customers to buy.

WHY CUSTOMERS BUY: THE FOUR Ps

Product

The tangible aspects of the product or service itself

Price



The cost advantage

Place

The location's convenience and decor

Promotion

The amount and nature of the marketing activities

These elements leave a lot out of the marketing picture, however, especially as customers have become more discriminating over the years and look for products or services not just to fill an immediate need but to enhance their overall sense of well-being.

Most marketing strategists agree that people buy benefits, not features. In other words, customers are more concerned about how a purchase will affect their lives than about how the company achieves those results. So your marketing message must tell customers what they get, such as security or an enhanced self-image, rather than merely the detailed specifics of what your product or service does.

What Customers Want: The Five Fs

"The Five Fs," described below, are a convenient way to sum up what customers want.

1. **Functions.** How does the product or service meet their concrete needs?
2. **Finances.** How will the purchase affect their overall financial situation — not just the price of the product or service, but other savings and increased productivity?
3. **Freedom.** How convenient is it to purchase and use the product or service? How will they gain more time and less worry in other aspects of their lives?
4. **Feelings.** How does the product or service make customers feel about themselves, and how does it affect and relate to their self-image? Do they like and respect the salesperson and the company?
5. **Future.** How will they deal with the product or service and company over time? Will support and service be available? How will the product or service affect their lives in the coming years, and will they have an increased sense of security about the future?

Customers, of course, want to receive benefits in all these areas, and you should be aware of how your product or service fulfills the entire range of their needs. However, your primary message must concentrate on one or two of these benefits that most effectively motivate your customers and that stake out a competitive position for your company.

You communicate these benefits through every interaction you have with your customers, not simply through your advertising. Naturally, your company slogan and any words you use in advertisements deliver an overt statement to the potential customer. Perhaps the name of the business itself is a direct message, for example, "Toys 'R Us" or "Cheap Tickets."

Success key terms

Ecommerce
Conducting sales and transactions on the Internet.

Search Engine Marketing (SEM)
The practice of purchasing ads to increase your website's ranking and visibility on relevant search engine results pages — often called paid search.

Search Engine Optimization (SEO)
Optimizing your website by planning content and design that leads to high rankings on search engine results pages when a user searches for relevant keywords.

Social Media
Content created by individuals and disseminated online through networking sites such as blogs, YouTube, and Facebook. Used for awareness, marketing, and customer communication and retention.

The Five Fs

Keeping the Five Fs in mind, describe the message you want to convey to customers about your product or service.

Functions: ______________________________

Finances: ______________________________

Freedom: ______________________________

Feelings: ______________________________

Future: ______________________________

Which of these messages is the most important in motivating your target market to purchase? ______________________________

____

How will you express this message to your customers in the areas listed below?

Business Name: ______________________________

Slogan: ______________________________

Key Words in Marketing Material: ______________________________

____

Product Design: ______________________________

Logo: ______________________________

Website Design: ______________________________

____

Blog Language and Design: ______________________________

____

Choice of Social Media Sites: ______________________________

____

Other Graphic Images/Design: ______________________________

____

Packaging: ______________________________

____

Decor: ______________________________

Style of Clothing Worn by Employees: ______________________________

Merchandising/Displays/Presentation Materials: ______________________________

____

Other: ______________________________

____

____

Power of the Indirect Message

Indirect messages can leave an even stronger impression with customers. If brochures are cleanly designed and sales representatives conservatively dressed, it conveys the impression that the company is professional and responsible. If the decor features trendy colors and rock music plays in the background, the implication is that the company is youthful and contemporary.