

# 5 Steps to Outpace the Competition

A down market tends to create fierce competition for clients. Even in a battleground playing field, you can find opportunities to grow your business if you hone your company's competitive skills. Here are five steps to improve your competitive advantage and grow your business in today's challenging marketplace:

## 1) Know your industry

Do you understand the future of your industry? Where will it be in five years? Estimate what percentage of the revenues in your industry will be represented by the product lines or services currently being delivered in your industry and if there will be shifts to new product lines in the future. Chart out your figures using the example below:

Product Line	% 2010 Industry Revenues	% of 2011 Industry Revenues	% of 2012 Industry Revenues	% of 2013 Industry Revenues	% of 2014 Industry Revenues
Product/Service A	80%	70%	60%	50%	40%
Product/Service B	10%	20%	20%	20%	20%
New Product/Service C	0%	5%	15%	25%	35%
Product/Service D	10%	5%	5%	5%	5%

Note: If you belong to a trade association they may already have this information. Check with them and compare your own estimates to those made by your trade association.

## 2) Know your competitors

Make a list your top five competitors. Identify what they do better than your company and what your company does better than them. Compile the data in a table like the example below. Rate your company and your competitors on a scale of 1-10 with 10 being highly competitive and 1 being non-competitive for each of the focus areas of your industry. Example:

Competitive focus	Your Company	Competitor #1	Competitor #2	Competitor #3	Competitor #4
Price	8	7	5	6	10
Quality	10	6	8	7	5
Customer Service and Support	7	6	9	6	6
Proprietary Products	10	1	1	5	7

This information will help you see how your company differentiates itself from its competitors. In the example above “your company” clearly differentiates itself from its competitors in two areas: Quality and Proprietary Products. The goal of a competitive analysis is to define your competitive advantage--what you do better than your competitors.

Once you understand where your industry is going and how you differentiate yourself from your competitors, you’re ready to formulate a plan to better compete in your marketplace.

### **3) Exploit your differentiation**

If your industry estimate reflects a stable industry with little change over the next five years, then you’ll most likely be competing on price, quality and service. That means that all of your competitors will also be focused on the same elements. Formulate a plan on how you can present a value proposition to your customers that mitigates their risk and increases the value they place on your products and services. Here are a few examples:

**Price /Quality/Reliability–** If you compete on price and you know your products are more reliable than your competitors, you may exploit the risk a customer takes if your competitor’s poorer quality product/service fails at a critical time. Identify the additional costs that could be incurred by a customer with your competitor’s product failure and explain how your product or service minimizes that risk/cost for the customer. Present that value/risk proposition in the form of estimated profits or revenues that could be lost by the customer due to a competitor’s product failure.

If your service level is rated higher than your competitors, then emphasize the skill of your service technicians, your speed of response and ability to get the client up and running in a shorter period of time; therefore, less downtime-expense for the customer. Present that value/risk proposition in the form of estimated profits or revenues that could be lost by the customer due to a competitor’s failure to provide fast skilled service.

In both of the examples above, the company differentiates its products and/or services to its customers by calculating the monetary value of its high-quality, low-risk products and services.

### **4) Innovate**

What new services or products can your company offer to help you dominate that new marketplace? One form of innovation involves extending your current product line or services. Are there new services/products that you can offer your customers surrounding their utilization of your current products or services?

Another form of innovation involves creating new products or services that will meet the demand created by changes in your industry. Encourage your creative team to brainstorm on your potential responses to a changing industry. Bold thinking may reward you with ideas for new products or services that can influence the direction of your industry. Once you’ve developed new concepts, test your innovation in the market. Ask your select customers what they think of your innovations and if they would utilize your new product or service. Complete financial models that calculate the economics of your innovation at various levels of revenue and over various periods of time of acceptance in the market place.

A great example of an innovative strategy is Apple and its entry into the MP3 market with iPod. Apple looked beyond the MP3 player and saw that the real power would be to make downloading music, podcasts, books and other media extremely convenient for the end user. They developed iTunes, clearly differentiating themselves in a crowded MP3 player market.

## 5) Deploy Predatory Tactics

Most companies competing in a down market follow one of these three strategies:

- Hang on. Do the same things on a repeating cycle.
- Wait to see what your competitors are doing, then respond when they make changes.
- Attack the marketplace to gain market share and eliminate or absorb competitors.

Companies that adopt a strategy of attacking the marketplace can use predatory tactics as part of their plan to gain market share. Here are examples of those tactics:

- **Exploit competitive weakness:** Once you've completed your competitive analysis, you'll know your competitors' strengths and weaknesses. Go after your competitors' customers by exploiting their weaknesses and emphasizing your competitive differentiation.
- **Exploit financial position:** One tactic involves finding out from your industry sources how your competitors are doing financially. If your competitors are financially unstable, what does that mean to their customers? Exploit the fact that your company is financially stronger than your competitors and that you can offer your their customers a more reliable and sustainable resource in their supply chain.
- **Merge with or buy weakened competitor:** Identify a weakened competitor that has customers, product lines or geographic presence that could strengthen your company. Open discussions with them about merging their business into your company. This could solve the financial problems of the competitor's owners and add market share to your company, thereby making your company a bigger competitor in your marketplace.
- **Lower your prices?** A dangerous predatory tactic involves lowering prices. Be very thoughtful before you engage the price-cutting tactic. If your competitors are financially weakened it may be tempting to try to "buy" their customers by lowering your prices.

The danger in that approach is that your competitors may engage in a price war with you. Even if you win the price war and drive your competitor out of the marketplace, you may do damage to your business in two ways: (1) Your customers will expect you to maintain lower prices and (2) lowering your price may also lower the quality perception of your product.

Before lowering your price, create a financial model that foresees your revenues at several price levels. Recognize that your competitors may make a "last ditch" effort and respond to your price cuts with their own price cuts. Additionally, create financial projections using several different timelines to estimate how long it might take you to return to your normal pricing and profit level. If your company is financially strong enough you may be able to utilize this predatory tactic to eliminate your competition.

## Conclusion

A down market offers many opportunities for a company that designs an aggressive business strategy. A well-considered plan based on a clear understanding of your industry, your competitors and your company's competitive advantage can turn a down market into an opportunity for you to grow your company.

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