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Sizing up the Competition

By Betsy Gillette, Director of Market Research and Planning, Technology Ventures Corporation

The first step for an aspiring entrepreneur is to determine who the competition is. There are several categories to consider: companies with similar technology, companies with different technology and companies that represent indirect competition because they solve problems in a novel way. Companies in each of these categories have products that promise to solve or address the same customer problem. Another form of competition comes from the customer, who can decide to live without a product or service.

After collecting the names of competitors, an entrepreneur needs to investigate each and consider how his or her company compares with these rivals in the following ways:

Product features: How similar are products offered by these competitors? Does the competition offer some features and benefits that are better than the prospective newcomer's?

Competitor size: Who's the biggest competitor and how does its size impact its market position? If it's a big company, is it focused solely on one industry, or has it branched out into others as well? Who are the smaller rivals? What is the mix of large vs. small companies? How can the new company position itself against big and small rivals?

Market share and perceptions: Who has what shares of the market and why? Are these companies considered leaders and innovators or followers? Do customers perceive the competition's products and services to be good or adequate? How can the aspiring entrepreneur take advantage of these perceptions to win customers?

Financials: Are the dominant players achieving healthy margins in the industry? Why or why not? How have they grown or shrunk in the past several years? Are they involved in any expensive litigation? Are they content with the status quo or tightening their belts in response to the recession, thus making them vulnerable to an aggressive competitor? Knowing the answers to these questions provides clues about how these companies will react to new competition.

Research and development: What kind of R&D budgets do competitors have? How many patents do they have, and do any cover technologies related to the entrepreneur's proposed products? A new business might need to anticipate a competitor's innovations and consider partnering with someone to get to market faster.

Sales and distribution: How do competitors sell and distribute their products? Some distributors restrict the number of competing products they sell, which is something a newcomer should know in advance.

Once this information has been gathered, it should be analyzed. Some businesses use a "SWOT" analysis to determine the strengths, weaknesses, opportunities and threats associated with a business venture. Others use simple product or positioning matrixes that allow them to rank key attributes.

Whatever method is used, the aim is the same: to note any areas in which the new business is stronger and weaker than the competition in order to find its way to the top.

You can learn more by attending TVC entrepreneurial workshops. Go to www.techventures.org for more information.

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