

Turn Market Power Into Profits

Part I: Market Position

David Connell, David J. Connell & Associates

Does your company have market power?

Market power is the ability of your company to influence prices. The more power you have, the higher your profits. Understanding what market power is and how to use it are essential to improve your business' performance.

There are two sources of market power: market position and competitive advantage. This month, I will look at market position.

What, then, is your company's position in your market? You may have answered the top, middle, or bottom. If so, you are only looking at one aspect of the market. Your company's position relative to its competitors is very important. However, there are five players in a competitive market. To improve your business' performance you must assess your company's position against each one. (1) Competitors; (2) Potential entrants; (3) Substitute products; (4) Suppliers; (5) Buyers.

Your company has a different *position* in the market when compared to each of these groups. For example, you may have a hundred potential buyers for your product. Your *position* in this situation is one of strength. That is, you have the ability to pick and choose to whom you want to sell. If you only had a few buyers for your product, then you would see your company in a *position* of weakness. Your ability to influence your customers might be limited.

Power, then, is the influence you have over one or more of the players in your industry. If you have power over your suppliers, you can demand a lower price. If your company is well positioned, you may also have the strength to negotiate favourable prices with your buyers. In this situation your company would be making huge profits. But, we're not going to the bank, yet!

What if it was easy for other companies to expand their product lines to compete directly with your products. Now the threat of new entrants is real. If they see that you are making huge profits, they'll be stealing your customers away from you in a week. This threat of new entrants forces you to keep prices down. Such is the nature of the market.

Most companies rely on instinct and past experience when assessing their company's market power. This is a reasonable place to start, but shouldn't be used to make strategic decisions.

In last month's *Improving Business Performance* article, I referred to a local plastics company I had worked with last year. This company had been operating at a loss for several years when they decided to evaluate the profit potential of each market segment in which they had been working.

I worked with the Director of Sales and Marketing to assess each segment using criteria based on the company's market position. For this company, the key factors were: availability of substitute products; competitive rivalry; and, concentration of buyers. These were considered along with other factors unique to their industry to determine which markets to pursue.

The analysis revealed one market segment that showed tremendous potential. The analysis also indicated which markets to leave. The company re-organized immediately. Within nine months they had turned their market power into a \$500,000 contract. This alone put the company into the black for the first time – ever. The director I worked with is now the President of the company.

Your company's market position is one source of market power. The focus in this article was on the external environment: market position. Competitive advantage is another source of market power. In next month's article, I will look at internal strengths a company can use to improve business performance.

David Connell, B.Econ., B.Comm., M.B.A., is President of David J. Connell & Associates, a market consulting company based in Caledon. David has over ten years experience in marketing and business development.

www.djconnell.on.ca Tel.: 1-800-830-3552