

Take Advantage of Your Strengths

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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.

Competitive advantage is an important source of market power. These are the strengths within your company that allow you to charge higher prices or keep costs down.

If your company is doing well, it's easy to take success for granted. What happens, however, when the pressure from competition increases? Do you spend more on marketing? Increase your sales force? Cut prices? Reduce costs? How you respond will depend upon your own company's competitive advantages. Your goal is to work from a position of strength, not weakness.

Here is a brief account of a conversation I had with an established, family-owned company that does technical inspections. The company is a high quality service provider. This is substantiated by industry-leading risk management practices, fully certified inspectors, and a commitment to the professional development of its staff. This approach has served the company well for thirty years. Unfortunately, profit margins have fallen significantly in recent years as a result of fierce price cutting.

The problem is that more of their competition comes from independent operators than in the past. These individuals set up shop by spending a few thousand dollars on the latest equipment. With little overhead, the independent operators undercut the larger, more experienced companies. You might think that the established company is doomed to shut down. It is, but only if they continue to compete head-to-head on price.

During the conversation, the company owner told of a job that they didn't want to take on but submitted an over-priced estimate anyway. To their surprise, they got the contract. This suggests that customers consider more than just price.

The person with whom I spoke knows the industry better than the competition. He fails, however, to understand that the company's strengths are the source of competitive advantage. Conversely, he thinks they are over staffed and over priced and that the over-priced contract was a fluke. Clearly, this response indicates that the owner is operating from a position of weakness.

Quality control is this company's competitive advantage. To turn the company's fortunes around he must figure out what this advantage is worth in the market? Also, can he defend this advantage? In other words, can he turn this advantage into market power? These are the critical questions to ask.

So how do you know what advantages you have? Look at each function of your company. Look at purchasing, sales, marketing, product development, manufacturing processes and equipment, each of your employees, your distribution system, financial management, inventory control, etc. Each of these functions must be reviewed with a critical eye.

Ideally, you would like to compare what you find to industry standards. If the industry benchmarks aren't readily available, trade magazines and newspaper articles are excellent sources of information. A review of these may provide valuable insight and help you to improve your business' performance.

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