

THE BULLS EYE

NEWSLETTER

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When your biggest competitor drops prices, it signals one of two things: either they're buying market share, or they've figured out a new "secret sauce" that reduces costs. The rational part of your brain says, "They're desperate; they can't cut margins these days and expect to survive". But there are practical questions to answer. "What if they cut off my sales pipeline?" "Can they outlast me if I cut my prices, too?" And then there is the paranoid question, "What if they do have a new 'secret sauce'?" Competitive analysis is the right discipline to answer these questions.

Let's first deal with paranoia: does the competitor have a new process, business model or technology that dramatically alters the cost of doing business? Competitive analysis responds, "It's possible and it's a chance to go farther". Suppose the competitor has developed a new business process or technology. If you have been going head-to-head with the competitor for a while, then it is probable that your own team already knows something about the new technology or process. What the competitor has done is invest enough resources in that idea to bring it to fruition. You could resort to competitive espionage to reverse-engineer what your competitor has developed, but in so doing you say, in essence, "They've got something that we don't have in development already and aren't smart enough to invent." If your company is desperate enough to invest resources to acquire a competitor's proprietary information, then a price cut is not your problem. Your problem is your business itself.

Ultimately, a competitor's secret sauce gives an indirect boost to your business. When you conduct an honest assessment of your organization's inherent

human and technological capital, and of your business's value to its customers, you will come to the conclusion that the former is able to meet the needs of the latter. Therefore, seize the opportunity to leapfrog the competition. Instead of corporate espionage to discover the secret sauce, apply your own critical thinking, and your company's ability to devise critical innovations, to take the idea one or two steps further. Don't focus on acquiring your competitor's secret sauce; focus on beating it.

Now, let's tackle the other questions. To the concern about cutting off the sales pipeline, competitive analysis answers with actionable information for your sales force. Secondary research will tell you the competitor's sales messages and market objectives. Primary research with customers will tell you about the competitor's business and technical weaknesses. You can even find out what the competitor says about you. Then, competitive analysis digests that information into point-by-point details that the sales teams need to counteract competitive gimmicks. That's what a price cut really is: a gimmick by the competition to divert attention and customers away from key problems such as cash flow, profitability, dissatisfied customers, and shareholder unrest. Competitive analysis will show a good sales executive that a temporary price cut as a sign of desperation, a confession that the competitor didn't really believe in the value of its own goods and services at higher price points. Competitive analysis rooted in assessing business value will keep your sales team focused on promoting the long-term value of your solution and worrying less about short-term pricing irregularities.

Can the competitor sustain a price cut? Competitive analysis says, "Look in the mirror. Could you sustain

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a price cut?" In the current economic climate, operating margins are under stress and profit margins are narrowing for you and for your competitor. Perhaps your cash and resource positions are not so different from those of your competitor, even if you are placing your resource bets differently from your competitor. Therefore, interpret your competitor's price cut as a barometer for cash on hand and gauge the duration by your own level of cash on hand.

What do you do with your cash? Your competitor will be using theirs to make up for lost margin. You have other options. You could develop a new capability or service that goes beyond the competitor's secret sauce, you could build a new marketing or sales campaign to refine your message, or both. One company faced this question when a competitor cut his prices 30%. They asked Focal Partners Consulting to talk to their customers to get unbiased feedback on the client's goods and services. We discovered three important facts:

- Customers said that the competitor was more passionate about the industry than our client.
- Customers claimed that our client did not offer certain services.
- Customers believed that the competitor's technology was far more superior to the client's own technology.

The client used this information to make two key adjustments:

- 1) Educate the sales force about specific services that were often overlooked in customer engagements
- 2) Retool the company's messaging to extol more of its ground-breaking capabilities.

In today's economic climate, a competitor's price cut looks like no-win scenario: either match it or lose the deal. But those are dangerous options. Competitive analysis refutes the justification for corporate espionage, and instead gives you tools by which to strengthen customer relationships and thereby maintain and even grow business.

FOCAL PARTNERS CONSULTING has been helping companies with competitive analysis for nine years. We're experts in primary and secondary competitor research; it's our sole focus. Our results give Sales and Marketing teams the information they need to overcome competitive gimmicks like price cuts.



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About Focal Partners Consulting

Focal Partners is a consulting firm with the mission of helping companies improve market position, revenue and profitability by more effectively planning, executing, and evaluating the activities of the product lifecycle. Focal Partners delivers solutions that help clients obtain strategic focus, develop the right products, launch products effectively, increase sales effectiveness, and control costs. Our techniques include market research, competitive analysis, and economic modeling.