



## JUMP START

Cheryl's survey results indicated that there is a great deal of customer interest in a day spa in her community. As she prepared to proceed with her plans for the spa, Sergio suggested that Cheryl check out the other spas in the area to see what services they offer. Realizing the importance of competition, Cheryl knew that she would have to offer something different or better than the competition to attract customers to her spa. Also, once she got customers, she would have to do something to keep them coming back. She needed a customer loyalty plan. What could Cheryl do to make sure customers visit her spa instead of competitors' spas? What are some things she could do at her spa to establish customer loyalty?

## GOALS

Explain the importance of understanding your competition

Discuss how to prepare a competitive analysis

Describe strategies for maintaining customer loyalty

## KEY TERMS

direct competition, p. 102

indirect competition, p. 102

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## Impact of Competition

The U.S. economic system is based on private property, freedom of choice, profit, and competition. Because consumers are free to buy whatever they want from whomever they want, companies compete for their business. Most new businesses face *competitors*—companies offering similar or identical products and services to the same group of target customers. As the owner of a new business, you will have to persuade customers to buy from you and not your competition. You must always watch the competition and be sure that you are offering products that are of equal or better quality at the same or lower prices.

Competitors may be categorized as either direct or indirect competition. You will need to find ways to identify and differentiate yourself from both types of competition.

## Direct Competition

**Direct competition** comes from a business that makes most of its money selling the same or similar products or services as another business. The Internet, telephone directory, and your local Chamber of Commerce can help you find direct competitors in your geographic area. Observation methods also can help you learn more about your direct competitors. If you start a retail business, you can visit all retail outlets in your area. Direct competition can be found in international markets as well.

## Indirect Competition

**Indirect competition** comes from a business that makes only a small amount of money selling the same or similar products or services as another business. Many businesses can compete with you indirectly. For example, a large department store may stock some of the same products carried by a small specialty shop. However, because sales of the products may comprise only a small amount of the department store's revenue, it is an indirect competitor.

## Large Retailers

When a large retailer enters a community, it can be a source of direct and indirect competition for many other businesses. Large retailers like Wal-Mart bring lower prices and jobs to a community, but many small businesses find it hard to compete. Some of the smaller, locally owned retailers often are forced out of business. Some of the reasons that it is difficult for entrepreneurs to compete with large retailers include the following.

1. *Large retailers usually are able to keep larger quantities of products in stock.* They can purchase inventory in larger amounts because they have more revenue and larger storage areas. Bigger orders result in volume discounts, and the savings can be passed on to consumers in the form of lower prices.
2. *Large retail chains do not rely on a single product line.* If one product line does poorly, the store does not go out of business because it has other successful product lines. Small businesses have risks associated with having only one product line if it falls out of favor with consumers.
3. *Large companies usually have more resources to devote to advertising.* A larger company makes more revenue and can hire advertising professionals to create effective advertising to attract more customers.

### CheckPOINT

What is the difference between direct and indirect competition?

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## Tech Literacy

### DO YOU NEED A WEBSITE?

In today's global economy, a well-designed website is almost essential for a successful business. Depending on your target market and the product or service you offer, your website will include different information. Basic information that should be available on your website includes the following.

- Information about your business and the products and services you offer
- Graphics, images, and photos that show your product and demonstrate its use
- Pricing information, including shipping costs
- Information on how to order online
- Contact information so that customers can contact you if they have questions about your products or services

### THINK CRITICALLY

What other things do you think a company website should include?

## Competitive Analysis

Identifying and examining the characteristics of a competing firm is called a *competitive analysis*. Analyzing the strengths and weaknesses of your competition will help you determine what you can do to get customers to buy from your business. Follow these steps to begin your competitive analysis.

1. *Make a list of your competitors.* Using the Internet and *The Yellow Pages* and driving through the area in which you plan to locate your business are good ways to identify your competition. You can also talk to potential customers to find out with whom they are currently doing business. Review trade magazines and newspapers to see who is advertising the product or service you plan to offer.
2. *Summarize the products and prices offered by your competitors.* Investigate the products or services your competition offers for sale. How are they different from yours? Examine the price ranges of your competitors and determine how they compare to what you plan to charge. Are your prices higher or lower?
3. *List each competitor's strengths and weaknesses.* What does the competitor do that no one else does, or what does it do better than everyone else? Where are your competitors located? Determine if their location is better, worse, or about the same as the planned location for your business. Compare



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Why should a new business owner visit the competition?

## TEAMWORK

With a partner, choose a successful business in your area. Then choose three competing businesses. Prepare a competitive analysis of the businesses.

the competitors' facilities to the planned facility for your business. Are their facilities better, worse, or about the same as yours? What attracts customers to your competitors' facilities? How will you compete with these strengths? What are some of the weaknesses of your competition? How can you use these weaknesses to your advantage?

4. *Find out the strategies and objectives of your competitors.* A copy of your competitors' annual report would have this information.
5. *Determine the strength of the market.* Is there an increase in demand for the product or service you plan to offer? Will there be enough customers for everyone in the market? What are the industry forecasts?

Interjit Singh wants to start a premier car wash in an expensive suburb of Washington, D.C. He does a competitive analysis as shown below and researches his direct and indirect competition. He finds that Royal Hand Wash is able to charge twice the price of the other competitors even though the location is not the best. Royal Hand Wash guarantees non-scratch car washes and waxes done by people, not machines. Because Interjit's business will also offer car washes, waxes, and detailing done by hand, Royal Hand Wash is the direct competition. All other car wash businesses, including gas stations with automatic car wash machines, are his indirect competition. Royal Hand Wash's location and prices are its biggest weaknesses, so Interjit plans to choose a prime location for his car wash and charge lower prices.

| ANALYSIS OF COMPETITORS |         |           |           |                    |                                |  |
|-------------------------|---------|-----------|-----------|--------------------|--------------------------------|--|
| Competitor              | Price   | Location  | Facility  | Strength           | Weakness                       | Strategy   |
| Standard Gas            | \$6.00  | Excellent | Good      | Excellent location | Car wash not easily accessible | Target a different market                                    |
| Lakeland Car Wash       | \$5.50  | Fair      | Good      | Low price          | Location                       | Target a different market                                    |
| Ray's Car Wash          | \$5.00  | Good      | Fair      | Low price          | Facility                       | Target a different market                                    |
| Royal Hand Wash         | \$11.50 | Fair      | Excellent | Excellent facility | Location, high price           | Offer lower prices, better service, more convenient location |

### CheckPOINT

What is the purpose of a competitive analysis?

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## Maintain Customer Loyalty

Getting customers to buy products or services from you and not your competition is only one step in running a successful business. You must also make sure your customers remain loyal to you. Loyalty develops because of positive experiences with a company or its products or services. Customers may like the prices, the quality of the products, the courteous staff, the location, or the superior customer service. Businesses must look for ways to strengthen customer loyalty because loyal customers are less likely to consider buying from competitors.

### Listen and Respond to Feedback

To keep customers, you will need to continually ask them questions about your company and respond to their feedback. Companies that ignore customer concerns will not stay in business long. Different companies stay in touch with their customers' needs in different ways. A cosmetics manufacturer may call customers the day after they receive a makeover to ask if they are happy with the products they purchased. Other companies have a customer feedback box where customers can put complaints or positive comments about the business. You can also design a survey for your customers to complete.

### Other Strategies for Maintaining Loyalty

To maintain customer loyalty, businesses use many strategies. The main purpose of these strategies is to keep customers happy so they keep coming back to your business. Some of the most basic strategies include

- Superior service
- More convenient hours than other businesses
- Easy return policies
- Store-specific credit cards
- Personal notes or cards for birthdays or a thank-you for their business
- Frequent buyer programs

### CheckPOINT

What are some strategies for maintaining customer loyalty?

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### NETBookmark

Founded in 1981, San Francisco-based Kimpton Hotels & Restaurants are located throughout the United States and Canada. Kimpton InTouch is the chain's guest loyalty program. Access [www.cengage.com/school/business/21biz](http://www.cengage.com/school/business/21biz) and click on the link for Chapter 4 to answer the following questions: How much does it cost to become a Kimpton InTouch member? What are two ways InTouch members can earn complimentary night rewards? What other rewards can members earn?

[www.cengage.com/school/business/21biz](http://www.cengage.com/school/business/21biz)

## Think Critically

1. Why should entrepreneurs identify both direct and indirect competitors?

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2. Why is a competitive analysis important to an entrepreneur?

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3. Why can customer feedback be considered a type of market research? Is this market research more or less valuable than research you conduct? Explain your answer.

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4. Why is it difficult for entrepreneurs to compete with large retailers?

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## Make Academic Connections

5. **Management** Devise a plan to maintain customer loyalty for a hair salon. Create an advertisement to let your customers know about this plan.
6. **Communication** Shontel Washington just opened an art gallery. He would like feedback from the people who visit the gallery. Write a short questionnaire that would help Shontel learn more about his customers' feelings toward his business.
7. **Technology** Using the car wash data shown in the table on page 104, enter the prices into a spreadsheet. Use the spreadsheet to create a bar graph that will help the owner analyze the data.