

Every company has competition because your potential customer always has choices. Putting too much attention on competing with similar products can make you late to market and miss important opportunities. Changing your perspective to understanding your target customers' alternatives can give you profound insights into the market and keep you ahead of the competition.

My first job out of business school was as a Product Specialist for a well-known high-tech company. Like any ambitious, new graduate, I was anxious to put my newly developed business and marketing skills to good use and produce exceptional results for my employer. Concepts like segmentation, market research, developing high-value, differentiated products, strong brands and loyal customers were ready to be applied.

Unfortunately, the company had a different set of priorities for me and at the top of the list was competitive analysis. We had a family of products that competed directly with a family from Hewlett Packard. We spent a great deal of time learning everything we could about their products. We bought them in order to conduct numerous tests and comparisons first hand. We ran benchmarks to compare performance and created tables comparing our features to their features. Who had the bigger screen and who had more memory? At trade shows, we even looked at the serial numbers of the competitor's products to determine how many they had manufactured.

Then we took all this information and wrote competitive reports for the sales force so they were better prepared to defeat the dark side in the sales arena. We tried to anticipate every possible objection, highlighted every advantage we had over the other company's product and provided counter arguments to weaknesses their salesmen may try to raise about our products. Video tapes were produced showing head-to-head comparisons between the two products to give our salesmen confidence they could win the order. The attitude was "if I can beat the competition, I'll get the order".

We also used the competitive information for planning and development. We tried to leapfrog their products by making sure our next generation product would turn our deficiencies into superior features. We'd build a larger screen, use a faster processor and add more memory. The goal was to have all the plus signs in our column of a product comparison.

There was only one problem. We forgot about our customers. I had learned the marketing concept in school and thought our job was to apply it in the real world. The

marketing concept states that firms should analyze the needs of their customers and then make decision to satisfy those needs, better than the competition. At this company, we focused on the competition, not the customer.

I'm not claiming we ignored our customers completely. We did capture anecdotal stories about some of the interesting things customers were doing with our products for our newsletter. But there was far more effort put into implementing technology and outdoing the competition than in making customers in selected markets successful.

I learned a great deal about competitive analysis from this experience. First, I concluded that you can put too much emphasis on the competition at the cost of other important perspectives. Second, there are different types of competitive analysis, with direct feature-to-feature comparisons being only one type. The rest of this paper will explain inside-out and outside-in approaches to competitive analysis.

Inside-Out

An inside-out perspective begins with your company and your products. In the example above, we compared our products to similar products in order to determine how we could sell more of our product. An extension of that same ego-centric view is to broaden the scope to compare your company to similar companies. Now instead of limiting yourselves to product feature comparisons, you can compare company size, distribution, product breadth, service, brand and numerous other attributes. Your salesman is now better positioned to win the order by arguing your size or your service is the factor that should tip the purchase decision in your favor.

Many argue that it isn't sufficient to understand the current product or company advantages. Numerous books and articles claim you have to look beyond those facts and understand the objectives, strategies, strengths, weaknesses and response patterns of your major competitors in order to extrapolate into the future to anticipate how you'll beat them.

The big problem is this competitor-centered focus blocks your view of the market and blinds your vision to new competitors. Because the way you define your competition is products that are similar to your products and companies that make products that are similar to your products, you have limited yourself to the narrowest possible playing field and there's a good chance you're going to get blind-sided.

In Michael Porter's Five Forces Analysis, he tries to broaden the perspective. He would categorize what we have been describing as competitive rivalry within an industry. He also identifies the threat of new entrants and the threat of substitute products. With this expanded view, we are now starting to look beyond our company's walls and consider the environment from the outside-in.

Outside-In

Instead of using your product or your company as the starting point to understand the competition, let's start with the market. This means one of your first jobs is to decide who you are trying to serve. Simply stating your market consists of anyone who will buy your product and benefit from it is not very productive. Most companies err on the side of broad sweeping generalizations that provide a huge potential market but this does little to define constraints that would help with focusing research, communications and sales efforts.

Let's assume your company has done a reasonable job of segmenting the market and selecting the targets with some degree of specificity. The next step is to assume the perspective of the targeted customer. What outcomes are they trying to achieve? What results are they trying to generate? And you have to dig deep. Using CRM software as an example, it's not enough to say they want keep track of customer contacts. The level of detail you need to get to includes but is not limited to; I want to be able to synch my contact updates from my smartphone to the CRM system automatically, I want to be able to print out an organization chart for any subset of any company, or I want to restrict who can make changes to which companies in our database. You get the point. It takes a lot of research and effort to gather and prioritize what the targeted customer needs. Notice we did not say what features they ask for because studies show that customers are poor at doing that.

With enough research into the explicit, latent and incipient needs of the targeted customers, you're now in the position to understand the alternatives the target customer has to deliver the experience that will be superior. This is very different than choosing between a product from company A and product from company B. One alternative may be to do nothing. In this case the cost outweighs the perceived benefits. Or the superior alternative may be to develop the product in-house.

This is a much different and broader competitive landscape than the simple product comparison described earlier. In many situations, companies fail not because they lost

the feature war but because they ignored a change in business models and value propositions. Blockbuster did not fail because Hollywood Video did a better job of renting VHS tapes. They failed because consumers had the alternatives of receiving DVDs in the mail or streaming movies over the Internet. The Sony Walkman did not become obsolete because Panasonic introduced a better tape cassette player. MP3 players, the iPod with iTunes in particular, provided a superior music purchasing and listening experience.

Compare this outside-in perspective with the inside-out one. In that continual state of feature leap-frogging, two risks are introduced. First, you're probably going to be behind the competitor on some features half the time, and second risk you risk being pulled in directions that have little value to your market.

Therefore, competitive analysis should focus on the targeted customers' competing alternatives. The combination of market sensing and understanding the desired user experiences will give you the ability to sense events and trends in your market ahead of all competing alternatives.

Tomorrow's Shoes

First put yourself in your target customers' shoes. What are you trying to accomplish and what alternatives do you have? Now put yourself in your customers' shoes two years into the future. How have your problems and desired outcomes changed? What alternatives do you have you didn't have two years ago? That's the environment you'll be competing in.

If you can't extrapolate into the future with some clarity and certainty, you have more research to do. How else can you be sure you'll be offering the superior alternative?

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