What Can You Learn from Your Competition?: Crash Course Business Entrepreneurship #4

Crash Course: Business - Entrepreneurship
https://youtube.com/watch?v=5hL66Xl6W6M
https://nerdfighteria.info/v/5hL66Xl6W6M

We're used to competitions with clear winners and losers: baseball games, math Olympiads, pie-eating contests, and games involving thrones.

We crown a victor and everyone else goes home empty-handed [-- or when you play the game of thrones, you win or you die.] In business, though, there isn't just one winner. In today's world, there are very few actual monopolies, or markets with a single seller.

Participation trophies actually mean something! So as entrepreneurs, we have to take stock in the middle of the competition, and ask the question: "how competitive am I?" Our competitors are more than happy to answer this for us -- maybe not with words, but with what they do. So get ready, it's time to study up on the competition.

Are YOU up to the challenge?! I'm Anna Akana and this is Crash Course Business: Entrepreneurship. [Theme Music] I know what you're thinking: time to break out the cat burglar ensemble and do some light corporate espionage! Finally!

Well, let's hold off for a second. Movies like to show a cutthroat business world with lots of men glaring out windows, surveying their vast empires, and scheming to infiltrate and destroy their competition. But in real life, there's way more to learn from the competition than trade secrets.

I know. I'm disappointed too. I have a really piercing businessy glare.

Instead of spies or emperors, entrepreneurs are more like scientists. We come up with a hypothesis -- our business idea -- and observe our environment to help us make informed decisions. A crucial part of our environment is our competition -- the businesses or products that customers might buy instead of ours.

Competitors and customers are both important players in our market -- any structure that allows buyers and sellers to exchange goods, services, or information. Not the same kind of market where you get kale and frozen pizzas. From competitors, we can learn standards for doing business in our market, who our potential customers are, and possible gaps in what's currently being offered where we could provide more value.

But wait. I thought you said this wasn't cutthroat. This sounds a lot like using the competition to get ahead…?

I mean, it sort of is. But we're not being shady or unethical about it. We're NOT trying to destroy everyone who dares to make a product or service similar to ours.

We want to learn all we can so we have the best chance of being profitable -- that's the ultimate goal, right? To make money doing something we love while making the world a better place? And to do that, our business must be competitive, and we have to do this research.

Plus, nemeses are having their cultural moment -- or at least a Twitter moment. Comparing ourselves to other people can definitely make us feel insecure, but these days, people are using their foes as fuel for more innovation. This special kind of competitor can push us to work harder on our ideas, even if they have no idea who we are.

Not to mention, our competitors are just as curious about us. I might be someone's nemesis and not know it! So let's start with the first thing we can learn from our competitors: market standards.

We have to work smart, not just hard, so take note of what they're doing. They've set price points, created marketing campaigns, contracted with suppliers, and already have customers. Straight-up copying is illegal, and sure, not everything will work for your specific business.

But gathering this information can give you an idea of industry standards. Pricing is especially tricky. It's common to under price products when you're starting out, but hey, you need to make enough to keep doing business.

And you don't want to go to market with a $100 pizza when everyone else is charging $10. Unless you've replaced cheese with gold. But what monster would do that?

Or if you notice that someone is wildly overcharging for their service, your calculations may show that you could charge less and still make a tidy profit. Down the road, paying attention to your competition can also tip you off to the winds of economic change. Have they slashed prices or rolled out several new products?

Have they rebranded? Have they merged with a related company? All of this information reflects what customers currently want from your market.

Besides what customers want, our competition can also tell us who potential customers are. We know how important it is to talk to our potential customers. So if you're at a loss for who might buy your product or where to find them, start with your competition.

You might find key demographics from public data, like marketing on their social media channels and website. Or look at reviews on Amazon or Yelp -- customers are telling us all the time who they are and what they like! They're laying out what gains they want and what pains are still frustrating.

If you still can't find what you're looking for, try going straight to the source -- which is about as close to corporate espionage as we'll get. Call a non-competitive, similar business in another state or city so you can ask them slightly deeper questions like "Why did you price your product this way?" and "What is your biggest target market?" Or go visit a physical establishment and pay attention to the other customers and the overall atmosphere. Is the place full of angry old ladies, or mild-mannered Wall Street brokers?

What time is it busiest? What is their customer service like? Once we have a sense of what our competitors are doing, it's just as important to consider what they ARE NOT doing or what problems they're having.

Those are the gaps in the market. There might be 100 burger restaurants in your town, but none of them offer vegetarian options and gluten-free buns. Hello, that's a gap!

I need it! There might be 3 electric scooter rental companies operating downtown, but none on the university campus. That's a gap!

There might be dozens of dog-walker fliers in the community center, but none of them send pictures and walk reports. Gap! Huge one!

Pet owner here, believe me! When we talk to customers to understand their jobs, pains, and gains, we need to understand what they're currently buying to make sure our business isn't more of the same. We want to offer something valuable and unique that meets customer needs.

In other words, we want to differentiate our product. Now to really help our business stand out, we need to understand the two key

forms of competition: direct and indirect. Direct competition is when different businesses offer similar products or services to a wide variety of customers.

Your local bookstore, Barnes and Noble, and Amazon are all in direct competition to sell you the latest fiction gem. Like Hank Green's "An Absolutely Remarkable Thing." Which will someday star me... Customers consider lots of factors, such as price, location, service, and products when deciding where to buy their books.

But people have different preferences, so everyone will probably choose different combinations of those factors. That's why competition exists, and what lets you find gaps! The college kid down the block who shops local may choose the independent bookstore, while the errand-running parent goes to Barnes and Noble, and the price-conscious retiree uses Amazon.

In the end, they all get the same book. On the other hand, indirect competition is when a variety of products and services are offered to the same customer base. Bookstores aren't just selling books, they're also selling enrichment and entertainment.

So indirect competitors of bookstores would be other things people do to enrich their lives or be entertained, like films, television, video games, or board games. Movies as a medium can be considered indirect competition -- it doesn't have to be a particular business like a theater chain or streaming service. So competition is sort of a multi-dimensional tug-of-war between businesses, and it's not easy to be competitive.

In 1979, business academic and author Michael Porter wrote about competition in the Harvard Business Review, and his insights are still referenced today. Porter's 5 Forces is no Pride and Prejudice, but it's considered a business classic. So it is a truth universally acknowledged that there are five key factors you have to balance to be a competitive business.

The lower these are, the better. Like 5-hole mini golf. Number one is supplier power.

How easy is it for your suppliers -- the people who get you the stuff you need to run your business -- to demand higher prices? Supplier power is high if there aren't very many suppliers in the market, the product you need is rare, the supplier is large and you're one of thousands of clients, or switching suppliers is too expensive. In all these cases, you're sort of at the mercy of their whims.

Number two is buyer power. Can you choose your price, or are you constantly trying to lure in buyers with sweet deals? Buyer power is high if there aren't very many buyers in the market, each buyer is very important to your business, or there's a low cost for the buyer to hop between you and your competition.

Number three is threat of substitution. Is anyone doing exactly what you're doing? When there are lots of close alternatives, customers are more tempted to switch what business they support if your prices increase.

So threat of substitution is high if changing loyalties appeals to your customers' wallets. Number four is threat of new entrants. Money attracts competition, so who else could try to do similar things?

More competition means fewer profits for any businesses currently in the market. Barriers like patented technology or other Intellectual Property, governmental red tape, lack of access to distribution channels, or expensive startup costs can prevent this. But the threat of new entrants is high if such barriers don't exist.

And number five is competitive rivalry. How many competitors do you have? Rivalry is high if growth is slow across an industry, getting out is hard, there are high fixed costs (like rent, utilities, or insurance) that drive price cutting, or if you have competitors that don't seem to sleep -- or literally don't need to, like A.

I. More competitors often means lower prices across a market. To see how Porter's 5 Forces can measure how competitive a business is, let's go to the Thought Bubble.

An enterprising young man named Tom was roughly the size of an average, 13-year-old boy. So he created a business called Rent-A-Swag to rent his luxury clothes and accessories -- like truly dope pocket squares -- to actual 13-year-olds. But just how competitive is he?

Tom owns all of the merchandise he rents, so he's his own supplier and doesn't have to negotiate deals and relationships with other distributors. So Supplier Power is low. There are lots of kids interested in cool outfits and there are no direct competitors to Rent-A-Swag in his community.

Indirectly, Tom competes with department stores who sell luxury clothes and accessories, but there's a huge cost for buyers to switch: a low rental fee is much more affordable than the complete cost of these items. So Buyer Power is low. And as long as Tom keeps his rental prices below the retail price of his indirect competitors, customers probably won't change loyalties.

So the Threat of Substitution is low. Tom's entrepreneurial success was because his initial financial risk was relatively low -- he owned all his merchandise and found cheap real estate to rent -- and there were few barriers to entry. But that means there's not much to stop other people either, so the Threat of New Entry is high.

And if a rival entrepreneur, like an OBGYN-slash-business tycoon, starts the same type of business across the street, customers would have no incentive to stay loyal to Tom. So Competitive Rivalry could be high. So even though his business is competitive, Tom isn't sweeping the 5 Forces.

He needs to be aware of his weaknesses and develop a plan to balance competitive rivalry and threat of new entry if he wants to succeed. Thanks Thought Bubble! So basically, with more information, entrepreneurs can make better decisions.

Learn everything you can from the competition, and remember, in business there can be more than one winner. Next time, we'll talk about the ins and outs of making your business legal. Thanks for watching Crash Course Business which is sponsored by Google.

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