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**Focus**

While we are learning about competition in this module, stop and think. Is there any way you can turn your competition into a partner or resource? If so, include your thoughts on your business model canvas.

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**Warm Up Activity**

Stop and think about a business you personally patronize.

What that business in mind, how many competitors of theirs can you list?

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## Vocabulary

Here is the **vocabulary** for this module.

competition-based pricing	foreign exchange rate	serviceable available market
competitor	global economy	serviceable obtainable market
competitive advantage	importing	strong direct competitor
competitive intelligence	indirect competitor	tariff
competitive matrix	market	total available market
differentiator	market share	trade barrier
direct competitor	overhead	weak direct competitor
economics of one unit	profit	
exporting	profit motive	
fair trade	quota	

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## Key Learning Objectives

In this module, we're going to focus on different types of competition and discuss how competition impacts pricing.

- Identify different types of competitors
- Discuss market share and identify two ways it can be determined for a business
- Discuss some of the things business owners must consider when pricing to stay competitive and manage their expenses then match four of these things to their definition
- Explain how to gather competitive intelligence
- Choose which tools and tactics you can employ to find your company's competitive advantages



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## Defining Competition



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## TAM, SAM, and SOM



When you're considering the total available market (TAM) for your goods or services, there are a couple of things you will want to keep in mind.



**Serviceable Available Market (SAM)**

Based on geography



**Service Obtainable Market (SOM)**

The portion of SAM you can capture

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## Competition



There are different kinds of competition in a market, direct and indirect.

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## Direct Competition



**Direct competition** occurs when there are products that perform the same function, are interchangeable, and compete against each other.

You can get more information on the differences between Starbucks and Dunkin' [here](#).

Starbucks and Dunkin' are **strong direct competitors**.

Other companies, like nearby restaurants also sell coffee. They are **weak direct competitors** because while they service coffee, they don't specialize in it.

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## Indirect Competition



**Indirect competitors** are businesses that are offering products and services that can be used to substitute another.

Along with the fierce battle that rages with a number of market giants for the top position in the world retail coffee industry, our coffee houses have to compete with other choices their customers may have.

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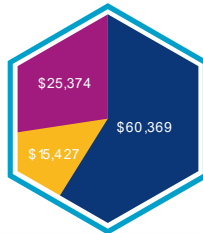
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## Market Share

**Market share** is the portion ('share') of a targeted customer base ('market') that a company reaches.

Can be shown as the amount of money (revenue) or with the number of products/services sold ('unit sales volume').

Increasing your market share will probably be one of your most important business objectives.



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## Food for Thought

As new businesses launch, they can expect to struggle with establishing and growing their market share.

It's important to take into consideration that it may take time to establish your business and gain a foothold in the market; you may not earn much profit in the beginning.



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### Importing and Exporting

**Exporting** is when a product made here is sold to people outside of the country.

An export's counterpart is an **import**. An import is raw material or finished product that is brought into the country.

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### Trade Barriers

In order to limit the amount of international trade that takes place, governments may put restrictions, or **trade barriers**, in place.

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## Tariffs



**Tariff** barriers are taxes that are placed on certain imports

By placing tariffs on imported goods, the cost goes up making the product less competitive

The US Government can apply this tactic to encourage businesses to buy products made in the USA

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## Non-Tariffs Barriers



Non-Tariff Barriers involve rules and regulations that make trade more difficult. For example, if foreign companies must meet safety regulations or other manufacturing laws, it can make it difficult to engage in trade.

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## Quotas



**Quotas** are a limit placed on the number of imports that can be brought into the country. For example, the US may limit the number of Japanese car imports to prevent the market from being flooded with foreign-built cars, help domestic suppliers get a larger market share, as well as encourage the car companies to open manufacturing facilities in the US to help provide more jobs for Americans.

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### Foreign Exchange Rate



The **foreign exchange rate** represents how much one currency (or money) is worth compared to a different one, and the rate at which one currency can be exchanged for another.

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### Fair Trade



**Fair Trade** is a social movement that tries to help people work in better conditions in foreign countries.

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### Competition Discussion



Talk about the type of product or service you plan to offer once your business launches. List one example of each: strong direct competitor, weak direct competitor, indirect competitor.

Also, do you plan to provide goods and services locally, or could you be doing business on a global scale? If you're operating on a global scale, how will participating in the global economy impact your business and the ways you run your business?

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## Profits and Profit Motive

**Profit** is how much money a business earns.

**Profit motive** – you're taking a risk and investing your time and money into your venture, making money is the incentive for doing so.



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## Profits and Expenditures



1. Will you earn sufficient profit after paying expenditures?
2. If the price of your goods or services can be competitive?
3. If consumers will be willing to pay the amount you're asking for your product or service?



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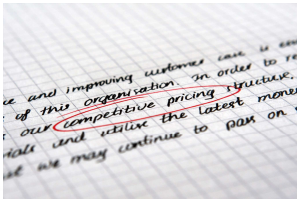
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## Competition-based Pricing



**Competition-based pricing** is used when suppliers compete for a share of the market.

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## Other Pricing Tactics

### Complementary Pricing



Drawing consumers in with the initial low price while you plan to earn more

### Gift Packs and Other Perks



Offer gift packs or other perks to provide customers with a sense of value

### Psychological Pricing



There's evidence that consumers tend to associate spending with the first digit in the price

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## The Economics of One Unit



### Economics of One Unit

The EOU represents the profit (or loss) for each unit of sale made by a business.

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## Calculating One Unit of Sale



**Selling Price – Expenses = Profit (or Loss)**

or

**Profit/Sales Price x 100 = Profit %**

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## Calculating Expenses

### Fixed Expenses

The things that you will have to pay regularly to run your business that remain consistent. Examples of fixed expenses include things like rent, electric and phone bills, and business insurance.

### Variable Expenses

Represent the spending decisions you make in supplying a specific product, it will change according to your production output. Variable costs include things like the cost of materials and packaging; they rise as you supply more product.

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### Custom T-Shirt Variable Expenses

<b>Cost of Goods Sold</b>			
Cost per shirt	\$3.00		
Labor & Materials	\$3.00		
<b>Total Cost of Goods Sold</b>		<b>\$6.00</b>	
<b>Other Variable Expenses</b>			
Product shipping	\$2.50		
Handling	\$0.25		
<b>Total Other Variable Expenses</b>		<b>\$2.75</b>	
<b>Total Variable Expenses</b>			<b>\$8.75</b>
<b>Sale Price</b>			<b>\$10.00</b>
<b>Contribution Margin</b>			<b>\$1.25</b>

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## Calculating EOU in Dollars

**Selling Price – Expenses = Profit  
(or Loss)**

OR

**Profit/Sales Price x 100 = Profit %**

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### Custom T-Shirt Variable Expenses

<b>Cost of Goods Sold</b>			
Cost per shirt	\$3.00		
Labor & Materials	\$3.00		
<b>Total Cost of Goods Sold</b>		<b>\$6.00</b>	
<b>Other Variable Expenses</b>			
Product shipping	\$2.50		
Handling	\$0.25		
<b>Total Other Var. Expenses</b>		<b>\$2.75</b>	
<b>Total Variable Expenses</b>			<b>\$8.75</b>
<b>Sale Price</b>			<b>\$10.00</b>
<b>Contribution Margin</b>			<b>\$1.25</b>

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## Competitive Advantage



A **competitive advantage** occurs when a company can make something at a lower cost or provide better services more cheaply than its rivals.



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## Identifying Your Competitive Advantage

**Competitive intelligence** focuses on understanding and learning what's happening in your market so you can be as competitive as possible.



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## Competitive Matrix

A **competitive matrix** is used to organize key competitors and measure them against critical success factors.

CRITICAL SUCCESS FACTORS	COMPANY A	COMPANY B	COMPANY C
Innovation	4	4	3
Advertising	2	3	4
Brand Name	1	4	2
Product Quality	4	2	2
Customer Service	3	2	1
Price Competitiveness	3	3	4
Technological Competence	3	4	2
<b>TOTAL</b>	<b>26</b>	<b>22</b>	<b>18</b>



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## Differentiators

**Differentiators** are any strategies and tactics that separate your company from the competition.

We'll discuss this further as we learn about value propositions.



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## Knowledge Check

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### Match the term with the correct definition:

Businesses that sell products and services that are similar to the things you sell.

Businesses that sell products and services that are different from what you sell, but are targeting the same customer wants and needs.

#### Terms:

Indirect Competitors

Direct Competitors

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### Multiple Response Question



What are **two** ways you can find the market share of a business?

- ☐ Divide the revenue a business brings in by the total amount of money customers paid for that product or service.
- ☐ Multiply the revenue a business brings in by the number of products sold to all consumers in the market.
- ☐ Divide the number of products or services sold (unit sales volume) by the total number of products sold to all consumers in that market.

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### Match the term with the correct definition:

Represents the profit (or loss) for each unit of sale made by a business

Strategies and tactics that separate your company from the competition

A condition or circumstance that puts a company in a favorable or superior business position

What is used to determine prices when suppliers compete for a share of the market

#### Terms:

Economics of One Unit (EOU)

Competitive advantage

Competition-based pricing

Differentiators

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### Multiple Choice Question



Explain how to gather competitive intelligence. Choose the best option below:

- ☐ All you need to do to gather competitive intelligence is to identify your biggest competitor and conduct a Google search
- ☐ Research through various sources to create a detailed portrait of the marketplace
- ☐ Steal your competitors' information and new ideas so you can go to market first

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### Multiple Response Question



Choose the tools and tactics that can be used to identify your company's competitive advantages:

- ☐ Fair Trade
- ☐ Differentiators
- ☐ Profit
- ☐ Competitive Matrix

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### Explore

On this site, you will find a useful and free competitive matrix tool along with instructions and helpful support information. Use the information on the site to create a simple draft CPM Table that covers your area of focus. Use Google sheets to create your table and post a link to your work in the CPM Table forum. If you need help with using Google Sheets, select the "Google Sheets Tutorial" button.

[Strategic Management Insight](#)
[Google Sheets Tutorial](#)

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### Reflection

At the beginning of the module we asked you to stop and think about a business and list as many of their competitors as you could.

Now we'd like you to think about your business.

Who will you be in competition with?

How will you compete?

Why would people choose your business over theirs?


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## Compare and Contrast

Take a moment to reflect on your learning and comparing and contrasting your answers.

What we learned about:

Competition	Differentiators	Economics of one unit
International trade	Markets and market share	Profits and profit motive

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We learned about different types of competition and talked about how competition can impact the price of your products and services through competition-based pricing.

We covered market share, and how as an entrepreneur it will be vital for you to establish, then grow your market share to ensure the success of your venture.

We discussed different types of expenses (fixed and variable) and provided a number of tools to help you plan your business cash flow. We also learned how to apply that information to determine EOU.

We touched on gathering competitor intelligence and provided some ways you can find information, and we discussed using a competitive matrix to identify the strengths and weaknesses of competitors. We're following up on this module by using an online CPM tool to develop our own draft competitive matrix.

Finally, we discussed how you can use differentiators to set your business apart from others in your market.

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**Competition-Based Pricing**

Using what your competition charges as a guide to determine the price of your goods or services



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**Competitor**

Businesses that provide the same or similar products or services that are focusing on the same market as your business



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**Competitive Advantage**

Something that puts your business ahead of the competition



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**Competitive Intelligence**

Data and information collected about the competition



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**Competitive Matrix**

A tool used to compare your business to others



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**Differentiator**

Something about your business that is different, distinguishes your business from others



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**Direct Competitor**

A business that offers a product or service that is the same or similar to yours and is competing with you for market share



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**Economics of One Unit**

Profit or loss for each unit or item sold



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**Exporting**

Selling goods and services to customers in other countries



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**Fair Trade**

An effort to ensure that developing nations have the ability to compete on the world market and earn profits on their exported goods to improve their conditions



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**Foreign Exchange Rate**

The value of the dollar in different countries



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**Global Economy**

How goods and services are provided as we interact around the world



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**Importing**

Buying or bringing goods and services in from other countries



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**Indirect Competitor**

Businesses that sell products or services that are different from your own, but can be used in place of what you offer



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**Market**

People and businesses that are willing and able to purchase your goods or services



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**Market Share**

The percentage of the market, or percentage of sales in a market that is captured by a business



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**Overhead**

Also called operating expenses; the expenses that have to be paid to stay in business



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**Profit**

The difference between the amount earned and the amount spent in buying, operating, or producing something



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**Profit Motive**

An incentive for businesses; they take risks and go into business for the potential to earn profits



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**Quota**

A limit on the number of a product or service that can be imported



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**Serviceable Available Market (SAM)**

The portion of the total available market (TAM) that you can provide your products or services to based on geography.



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**Serviceable Obtainable Market (SOM)**

The part of the market that you are able to capture



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**Strong Direct Competitor**

A business whose main product or service is similar to your own



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**Tariff**

A fee that has to be paid on imported goods



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**Total Available Market (TAM)**

Also called total addressable market; the revenue opportunity available for a product or service



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**Trade Barrier**

Obstacles that governments create to limit international trade



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**Weak Direct Competitor**

A business that offers a similar product or service to your own, although this isn't their main product



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