Introduction

Every business should have a strategic plan based on previously conducted marketing research. Running a business is actually not that much different that a coaching a football team. A common practice is to study the game file of a previous engagement so they can identify what they did well, where they can improve and how they can exploit their competitor’s weaknesses. In the same way, business would do well to study their “game film” from the previous quarter (or year) to evaluate revenue performance to determine what cause them to see their revenues go up, down or stay about the same from the previous time period.

Competitive advantage refers to what sets the organization apart from others and provides them with a distinctive edge for meeting customer or client needs in the marketplace1. Now the question of how this can be achieved comes into play. There are at least five different ways maintain a competitive advantage over the long term; attract and retain top employees, discover market needs and trends, study the competition, focus on gross and operation profits and compare actual performance to forecasted performance.

Attract and Retain Top Employees

The challenge with hiring top talent is that many of them are already satisfied with where they are. Getting people to the job interview is easy, especially with so many people out of work. Finding people that are outstanding performers can be a challenge. Just because someone has great work experience doesn’t necessarily mean that they are good at what they do; they could be experienced mediocre performers who do just enough to get by. An outstanding performer would also be someone who has learned from experience. For example, a person with a marketing background might have experience working with advertising and knows that print advertising with not do much to increase sales compared to a telesales campaign focused on direct contact to potential clients that has proven to increase sales by 10%, on average.

Hiring top managers who will know how to lead people effectively and keep them motivated over the long term can prove to be a good investment, especially if those managers are good at handling conflict and minimizing turnover.

Discover Market Needs and Trends

One of the easiest ways to see the need for companies to adapt is by looking at the field of technology. Home Internet connectivity, for example, started with dial-up 56K connections. Then DSL was introduced, where you could get 2-3 times that speed. Now, most cable providers can provide Internet connection speeds of 6 Mbps or more. A company that can only provide dial-up or DSL service would eventually be forced to provide this same service at a competitive price or end up going out of business. A company with a smart management team will anticipate the fact that product viability may not last forever and that they will need to either create new products or make improvements to the existing ones.

Study the Competition

The idea of “building a better mousetrap” is clearly evident when you look at some of the things we use and purchase on a daily basis. BMV for example, didn’t invent the automobile, yet they consider their product to be the “ultimate driving machine”. They took the concept of the automobile and customized and marketed it to a specific audience. Companies need to understand that yesterday’s successes do not guarantee success tomorrow. Part of the problem with competition is not just the threat that the can offer a better product but that they can offer the same product at a cheaper price.

Perhaps they found a way to minimize their operating expenses by hiring 10 employees to do the work that would normally require 20. They may be able to buy raw materials through a cooperative buying group at a price 25% below what their competitor can buy it. Sometimes, the fact of the matter is that there is no way to compete and be profitable at the same time. In this case there needs to be an established life cycle for the product or service with an exit strategy already planned out, rather that continuing on a plan that is ultimately doomed to failure. “What is the competition doing that we can do better?” This is ultimately the question that needs to be answered.

Focus on Gross and Operation Profits

A company that does not know where it stands as it relates to its profit margins won’t have the information they need to make critical decisions about purchasing and controlling operational expenses. For example, a restaurant can offer their product a number of different ways, including take-out, dine-in or catering. Which delivery method will have the highest profit margin? Catering in many cases would be more profitable, particularly if it is for a wedding, birthday or graduation. On the other hand a pizza restaurant would arguably have to compete on price because of the large number of other pizza restaurants they would have to compete with. You can see from this example that even a
 higher sale price will lower sales volume can earn can be more profitable. When looking at operational profit organizations should think about opportunities to reduce unnecessary expenses. Hiring contract employees is a good way to keep costs under control because it is an operating expense that can be incurred on an as-needed basis. This is particularly useful of the business has a peak season during specific times of the year.

Comparing Actual Performance to Forecasted Performance

Every business that is involved in selling a product or service should have revenue goals in the form of a financial forecast. Those goals should be compared to actual performance, which can be seen in the form of an income statement. From there, the comparison should be stated in the form of a dollar amount difference or a variance percentage. This can help organizations make decisions about advertising, hiring new employees, introducing new product lines and a number of other critically important decisions. The frequency in which comparative analysis is performed will most likely depend on the type of business. A retail or restaurant business that processes hundreds of transactions a week or in some cases, a day, may want to create a comparative analysis report daily or weekly. A large service business, such as a law firm may only find it necessary to perform the analysis on a quarterly basis. From a competitive standpoint, a business should always ask the question, “why”? Why did sales increase this month? Was it because of the new ad campaign or our recent trade show participation? On the other hand, if sales dropped, was it because a new competitor offered a steep discount on their services? Are they getting media attention or executing an aggressive ad campaign? The financial forecast dollar amounts should always have some kind of justification behind them.

Summary

Retaining a competitive advantage requires companies to be quick to adapt to changing market conditions by always knowing what the competition can or might do in the future. As companies grow and expand into emerging markets, there will be varying degrees of competition but it will be there nonetheless. The cost of being competitive must be taken into consideration as well because there are times when being competitive is not worth the loss of operating or gross margin will cause the company to risk losing too much money. This is especially important if the company is public and they need to be conscious of shareholder perception and demand for return on their investment. Having documents, systems and protocols in place where actual performance can be compared to forecasted performance will allow companies to make decisions and do everything possible to remain competitive.