

Substitutes: Your Next Marketing Headache

The big picture includes competitive threats from unanticipated sources.

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As if you don't have enough to do staying one step ahead. Well, better break out the aspirin. There's a whole new twist on staying competitive.

In virtually every research project we've undertaken over the last twenty years, we have uncovered threats from unlikely sources, or from businesses not previously considered competitors – companies from outside the industry who are offering substitute products or services. This means that businesses are now competing with direct, as well as indirect competitors – thus enlarging the competitive playing field.

Recently, we investigated the market for campus cards. These are smart cards used on college campuses for a wide variety of services, ranging from identity cards, class registration, access cards (dorms, libraries, computer labs), meal plans, college store purchases, etc. Competition for these services emanated from six different *industries*, including telecom, hardware and software providers, and financial institutions. Further complicating strategic planning was the fact that there were numerous competing companies within each industry, as well as alliances between industries. This is the new reality!

In my talks I am adamant in driving home the fact that competitive intelligence is NOT about your competitors. Rather, it's information about the entire business environment, of which direct competitors are merely one component. Boundaries are enlarging and disappearing; enlarging to include different competitors, and disappearing to accept the unexpected.

Blockbuster's chairman stated it succinctly, when he noted that he's not competing against other video rental stores; he's competing against any other place where customers can spend their entertainment dollar.

Similarly, America Online considers Jerry Seinfeld as its biggest nemesis. When Seinfeld airs, the number of AOL users significantly declines (meaning that NBC's misfortune at Seinfeld's decision to call it quits is AOL's gain).

As traditional industry boundaries erode, companies unexpectedly find themselves in fierce competition with some unlikely rivals. Who are Intel's competitors? Are they Microsoft and Compaq, or chipmakers Texas Instruments and NEC? Who are Wal-Mart's competitors? Retailers? Wholesalers? Distributors?

Change rarely happens without warning signs - and substitutes provide indications of shifts and emerging competitors.

Companies of every size and from every industry should be concerned with this development, as substitutes are an increasingly important part of that business environment. Do not assume you know all your rivals as unexpected alternatives can, do, and will woo your customers away. That's where competitive intelligence pays off.

Customers, be they consumer or industrial, are looking for solutions, and they are far less concerned about who provides them. Substitutes win customers because existing established companies grow complacent and either ignore or fail to recognize the newcomers' potential. Their typical response is "They don't know anything about our business."

The reality is that "they" are viewing the industry from the same perspective as the customer – from

the outside – and are in a better position to recognize the reality of changing needs and demands. Even if the substitutes don't know the industry as well as the established companies do, substitutes have the advantage of viewing it from the customer's point. The very fact that substitutes are successful is sufficient proof of their ability to satisfy a segment of the market which is actually "ceded" to them by the existing industry leaders:

- While 75% of banks view other banks as their primary competition, traditional banking services and products are available also from brokerage houses, credit unions, financial planners, insurance companies, and accountants. Loans, for a multiplicity of products or services, can be secured from lending companies, credit cards, retail stores with their own financing arrangements, and mortgage brokers.
- For years customers have loudly complained about the used-car buying process, which the industry ignored. The recent entrance of competitors from outside the auto industry is causing a major shift. The largest used-car superstores were started by Circuit City (CarMax), Wayne Huizenga, founder of Blockbuster stores (AutoNation), and a shopping center magnate (CarChoice).
- Southwest Airlines built its business by understanding that its competition didn't come from other airlines. Its customers came from the ranks of those who used short-haul transportation options such as cars, trains or buses.
- Physicians are competing for patients with holistic healers, chiropractors, home self-testing kits, walk-in clinics, Internet information, and audio tapes.
- Steel is increasingly threatened by improvements in plastic, carbon fibers and other materials.

- Apple focused on IBM as its main competitor, while Microsoft was grabbing the market. Similarly, Xerox focused their attention on IBM, failing to recognize the import of Canon's entry.
- "Hangin' out" type places used to be malls and nightclubs. Increasingly, they are being replaced by coffee houses (Starbucks) and giant bookstores (Borders, Barnes & Noble), that offer a place to sit, listen to music, and eat.
- Freshly baked bread is no longer the province of your local bake shop. Customers can choose from grocery chains, warehouse clubs, mail order gourmet catalogs, and their own bread machines.
- Polaroid wasted 14 years in a lawsuit against Kodak, accusing it of patent infringement in the area of instant photography, while Polaroid's market was being eroded by one-hour processing shops and video recorders, and most recently by digital cameras.

Today, competition increasingly comes from companies that offer products and services that are a reasonable alternative. So, while you may know your direct competitors:

- Do you know who else is getting your customers' and prospects' dollar?
- How can you preempt substitute products and services early on?
- How can your company turn your product into a substitute for another industry, thus leveraging your offerings?

Ask your customers/prospects to list the first four or five places that come to mind when shopping for your product/service.

Change rarely happens without warning signs, and substitutes provide indications of shifts and emerging competitors. The key is to stay alert, stay paranoid, and don't dismiss the outsiders.

Seena Sharp is principal of Sharp Market Intelligence, which she founded in Los Angeles in 1979. SMI's clients include Fortune 500 firms as well as emerging companies and consultants who seek input for market entry and expansion, business development, strategic planning and business plans.

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