

Module 02 : Scanning the business environment

cewas



Week 03:
Analyse your competition



Resource Recovery and Reuse
(RRR) Entrepreneurship

Week 3 module 2: Analyse your competition

“Module 2, week 3: analyse your competition.

Last week we looked at the demand side of the market, so the demand from potential customers. This week we will be looking at the supply side of the market, so the other businesses in the market that are selling a similar product or satisfying the same customer need: your competitors. Your competitors are companies that solve the same problem for the customer that you intend to solve; either with similar products and services or with something completely different. It's important to notice the difference, because this will determine very much how you position yourself in the market.

So we distinguish between direct and indirect competitors. Direct competitors are companies that satisfy a need of a customer or solve a problem of a customer with a very similar product or service. These are competitors that you want to monitor very closely. Indirect competitors are companies that solve the same problem for the customer but with a very different product or service. For example, a take-away pizza shop competes indirectly with a hamburger fast food restaurant. They sell different products (pizza and hamburger), but they both targeting the same customer group (customers who are hungry and want cheap, fast food to take-away). Another example of indirect competitors is an eyeglass manufacturer who is competing with the manufacturer of contact lenses or a clinic for eye laser treatment.

In this graphic you can see the different levels of competition:

- The innermost circle is the need. This is not the actual tangible product but the customer need or the solution that your customer is seeking out of a product. For example, a school buying briquettes from solid waste is seeking a cheaper alternative source of energy for heating that does not produce smoke.
- The product in the second circle is your briquettes or any other product that satisfies the same customer's need of a cheap smoke-free energy source for heating. A product can be differentiated from the competition with different design and features, quality level, packaging, the brand name or anything else that is directly associated with the product. If you sell fertilizer, you can differentiate yourself from the competition by fortifying the fertilizer or by branding the packaging differently.
- The outermost circle are the add-on services, which include any type of services that you provide with your product. This could be doorstep delivery of the product, payment in instalments, a warranty or after-sales service like repairs of a briquettes burning stove or advice on water-efficient irrigation methods. The more commodity-like a product is, the harder it will be to differentiate it from the competition at the level of the product. Differentiating your offer at the level of the add-on services can in this case be a tactic to compete with existing businesses selling similar products and win market share. For example, Productos Bioorganicos (ProBio), a business from Mexico that produces compost, vermicompost and organic fertilizer from livestock

waste differentiates its products from competitors by offering personal advice to farmers and promoting their products via technical workshops, field demonstrations and semi commercial tests. These add-on services allowed them to gain greater market share.

Similarly, you might decide to only compete on the level of the need, so with your indirect competitors satisfying the same need for a customer. This will be the case for many RRR products because the markets for RRR products such as biogas for cooking are often not developed yet, meaning that no other business is selling the exact same product. If you want to get potential customers to switch to your product in this case, you have to convince them that you will be able to satisfy their needs better than the competition by offering added value. For example, ECOSAN, a business from Burkina Faso produces safe organic fertilizer for agricultural production from sanitized urine and feces. Currently, ECOSAN is facing stiff competition from chemical fertilizers, which are easily accessible and are now subsidized in Burkina Faso. Chemical fertilizer producers are indirect competitors of ECOSAN and are satisfying the same need with their product. To get customers to switch to the organic fertilizer of EcoSan, the business has to demonstrate its added value. Field demonstrations allow the company to show the efficiency of its fertilizer and its effectiveness in light of poor soil fertility.

Having said this, you also have to consider that it might not be a business that you are competing with, but a solution that satisfies your customers' needs. Remember the example from module 1: farmers in Ghana frequently use untreated wastewater for irrigating their crops. They get this water for free from open sewage drains. Another typical example is households collecting firewood for cooking. Again, to get these potential customers to switch to your product and pay money for a solution they previously received for free, will need considerable efforts from your side convincing them of the added value of your solution.

Now that you have understood what competition is and on what levels you can compete with similar products or solutions, you need to analyse the structure of the market you wish to penetrate, that is to gain market share. Use the worksheet below to record your findings.

The structure of the market refers to:

- the market concentration, so the number of businesses in the market that you are directly or indirectly competing with and their estimated market shares. Are there a few businesses with big market shares or many small ones? For example, Eco-Fuel Africa (EFA) from Uganda converts farm and municipal waste into briquettes and biochar fertilizer. Market competition is relatively moderate; there are a number of other direct competitors producing briquettes such as Kampala Jellitone Suppliers Ltd. (KJS) and other small informal producers of briquettes.
- the market integration, so the extent to which businesses in the supply chain are managed by few players. The more integrated a market is, the harder it will be for a new business to get access to raw material, funding, staff and other important production factors. For this map out the supply chains relevant for your RRR product (or for an alternative product if there is no

RRR market yet). Are your competitors managing the whole supply chain – so waste collection, transport, sorting, production, packaging, distribution - or are they just producing the competing product and receiving the sorted waste and selling it to wholesale distributors? For example, ProBio is Mexico's largest compost and vermicompost producer and part of the Grupo Viz, which expanded its operations to other sectors of the cattle production value chain and owns five subsidiary companies operating independently. One of them is SuKarne, the largest beef producer and marketer in Mexico whose animal waste goes to ProBio. Close proximity of ProBio to SuKarne's plant eliminates significant transport and labour costs associated with the acquisition of waste. Its three main products, compost, vermicompost and nutrient-rich liquid fertilizer are sold directly to vegetable, fruit and grain crop farmers. In the case of ProBio the whole supply chain from waste supply to direct sales to farmers is in the hands of its holding company Grupo Viz.

- the product differentiation, so the level of differentiation of competing products in the market. Are products differentiated at the level of the need, product or add-on services and in what way? What are the aspects of the product that are important to the customers and to what degree are your competitors differentiating their products to respond to that. For example, ProBio sells compost, vermicompost and nutrient-rich liquid fertilizer to farmers and households. On the level of the need, ProBio is offering a cheaper and sustainable alternative to chemical fertilizers. On the product level ProBio is differentiating its products from other organic fertilizers through third party certification and branding, which conveys a message of assured product quality to consumers. On the level of add-on services, ProBio sales staff advise farmers and promote the products via technical workshops, field demonstrations and semi commercial tests.
- the conditions for entry into the market, so entry barriers like threshold capital requirements, sources of funding or supplier networks. Is it necessary for your business to invest large amounts into infrastructure before starting commercial production? Is it necessary to have a strong partner network with public authorities, suppliers, academia etc. to enter the market? Is it difficult to get access to land and capital as a new market entrant? For example, the implementation of the ProBio business model requires high capital investments, which is among the most cited barriers for business development in developing countries. In ProBio's case, the sister company SuKarne provided the initial investment.

At the end of the day, your chances of gaining and sustaining competitive advantage in the market over time, will depend on the key success factors in the market and how you and your competitors perform on them. These can be factors that are important to the customer – so finding added value regarding the need, product or add-on services. Or factors concerning the operations, so how you assure quality and efficiency in your operations. Needless to say, that the more concentrated and integrated a market is and the higher the differentiation of competing products and the higher the entry barriers, the harder it will be for a new RRR business to do well on the key success factors.

This might still sound very abstract to you, so let us break this down and look at how you can compare your performance to your competitors. To do so, you will do a competitive analysis. You will find the template for the competitive analysis in the worksheet.

Before you start filling in the table you need to decide for which customer segment you do the competitive analysis. Because if you have two very distinct customer segments like households that are paying a fee for your waste collection service and prisons buying briquettes from you, you will have very different competitors for these two segments.

- In the first column of the table, write down the key success factors of your market. Examples of key success factors are: selling price, nutrient/ energy efficiency of the product, reliability of delivery, friendliness of staff, convenient payment options, strong waste supplier network, centrally located sales outlets, innovative technology, etc.
- In the second column, note down in what way this factor is important for the customer or to be able to achieve efficiency and quality in your operations. For example, a strong waste supplier network is important in the market to be able to keep transport costs down and to have a reliable supply of raw material. Or, the energy efficiency of briquettes needs to be 3 times as high as competing products to make customers switch from coal to briquettes burning stoves.
- Then list your most direct competitors in the following columns and rate their performance on the key success factors. One of your competitors might have a long-term contract with one of the sole suppliers of animal manure in the area. But the energy efficiency of their product might only be twice as high as coal.
- Finally in the last column, rate your own performance or how you are planning to perform on the key success factors. Let's imagine that in cooperation with a university you have managed to develop a technology that produces briquettes that are 3 times as efficient as coal, but you do not have a contract yet to secure your waste supply. Your plan is however to enter into a partnership with one of the largest producers of industrial food waste in the country that is currently looking for solutions to its waste management challenges.

Once you have done the competitive analysis, you also need to look into the future and detect any trends and determine to what extent your RRR product will be viable over time in this competitive market. Do so by assessing how the key success factors will develop in the next 5-10 years and also how likely your competitors will be able to adapt to these new market trends. Use the extra rows provided in the table to do so. Examples of future key success factors are the need for sensor-enabled devices and digitized systems to manage sale, delivery and payment of products and services. Looking at the future key success factors is key as the example of Husk Power System Inc. demonstrates, a business in India that produces electricity out of rice husk. They are fully dependent on rice husks as input feedstock. Climate change will have an influence on droughts and floods, which will lead to unavailability of their main waste input. Future sale of carbon credits could improve its business stability, but also here it is key to detect future development since the carbon credit market is volatile. A third factor, that has to be taken into consideration are government electrification programs and the threat of entrants and substitutes, like solar units and cheaper electricity.

Last week, you should have already determined likely changes in market demand for the next 5-10 years; that is increase or decrease in market size. To determine whether your product is in the growth stage of its life cycle and if it pays off to enter the market, also look at factors such as price pressure caused by competition, decrease in brand loyalty, emergence of substitute products, and market saturation.

The questions and competitive analysis should allow you to determine your chances of entering and competing successfully in the market and also serve as information for taking decisions regarding your market positioning in module 3.

I will see you next week.”

List of Reference:

Graph sources:

- Unless otherwise noted, all graphics and case studies from OTOO, M. (Editor), DRECHSEL, P. (Editor) (2018): *Resource Recovery from Waste. Business Models for Energy, Nutrient and Water Reuse in Low- and Middle-Income Countries*. International Water Management Institute (IWMI). Routledge

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