Four keys to warding off challengers

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All companies, regardless of resources or size, can employ straightforward strategies to keep their competitors from overtaking them.

Competition is a fact of life in business. But that doesn't mean you have to make it easy for other companies to take what's yours. In fact, you should make it as difficult as possible for them to do so. Some industries have high barriers to entry tied to fixed costs or other unique dimensions that make them naturally hard to scale. You don't just run out and start a supermarket chain, become an auto manufacturer, or launch an airline (although daring entrepreneurs keep trying). In other industries—from restaurants to nail salons to just about anything online—barriers to entry tend to be lower.

When barriers to entry are high, companies tend to have fewer competitors to drain away their market share. They're also more likely to maintain pricing power, protecting the margins they need to enhance their competitive position. When barriers to entry are low, however, you never know what kind of new competitor may be lurking in the next alley. All you can know is that someone will be.

To be sure, barriers to entry are most clearly related to fixed costs. If you have to invest in a million dollar printing press, a multimillion dollar inventory, or a billion dollar fleet of airplanes, you either have access to the necessary capital or you don't. But fixed costs aren't the only barriers preventing new competitors from invading your turf. Any company looking to raise its barriers to entry should understand the "Four Rs": regulation, reputation, regeneration, and real estate.

Regulation. If free markets are the grease that keeps an economy humming, regulation is the gum that slows it down. Still, some regulations are necessary. Nobody complains about physicians, attorneys, and pilots having to prove they know their vocation in order to get a license. Similarly, intellectual property laws protect those who invest in ideas from having them stolen before they can pay off. And liquor licenses ensure that nightclubs and liquor stores don't pop up on every residential corner.

Sometimes regulation is used as a competitive weapon, however. In 1979, legacy airlines and the DFW Airport were among the proponents of the Wright Amendment, passed in part to keep Southwest Airlines (LUV) in its place. The regulation essentially limited Southwest from providing nonstop service to cities outside of Texas and its four neighboring states. That limited the upstart airline's options until 2006, when a strong, stable, and profitable Southwest led a movement that ultimately led to a compromise repeal of the amendment.

Regulation can be a tool in raising barriers to entry, and it may be legitimate if the issues involve public safety or unfair competition. But be careful. Anytime you invite the government into your industry—whether at the municipal, state, or federal level—you're striking a match that could result in a fire beyond your control.

Reputation. Your company's reputation is one of the strongest barriers to entry you can build, and it's largely within your control. The extent to which you create satisfied, loyal customers is the same extent to which your potential competitors will have a hard time shaking them loose. Of course, it may not be easy for competitors who are licking their chops to understand exactly how loyal your customers are, but one thing they can see is your branding and marketing efforts. The more visible you are, the more prospective market entrants will be discouraged from taking you on.

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Even though marketing is technically a variable cost, if you remain consistent with your spending your competitors may view it as essentially a fixed cost of entering the category. They'll either have to keep up with your marketing pace or talk themselves into believing they don't have to. Either way, it strengthens your position.

Regeneration. This is more than just a fancy word for research and development. Most small businesses aren't driven by scientific advances the same way the big medical and pharmaceutical corporations are. But the state-of-the-art continually changes in every industry, and the faster your company can speed down the innovation curve the more difficult (and expensive) it will be for competitors to catch you.

Whether it's a new staff scheduling model, a faster shipping process, a new product, a new service, or some combination of the above, you should invest as much as you can in change. Somebody's going to make the next industry advance, and with a running start you have the momentum to make sure it's you. If you don't, someone else will.

Real Estate. It has been wisely noted that McDonald's (MCD) isn't a hamburger company so much as it's a real estate concern. What Ray Kroc and the founders of the chain figured out was that finding—and controlling—the best real estate was the key to long-term stability. Big-box retailers such as Home Depot (HD), Best Buy (BBY), and Wal-Mart (WMT) also know the truth of the old saw about "location, location, location."

If you're not in the retail business, you may be tempted to dismiss this fourth strategy to raising barriers to entry. Don't. In the Internet age, "real estate" might be interpreted as bookmarks, e-mail lists, and customer databases. Online leaders such as Google (GOOG), Amazon (AMZN), and Zappos place as much value in their digital assets as bricks-and-mortar companies do in their physical ones. Today almost every company has at least some kind of online presence that can be leveraged to make it stronger.

No matter what business you're in, the last thing you need is more competitors—especially in this no-growth environment. While competition is great for the consumer, so is the innovation born of healthy companies' attempts to raise barriers to entry. Take some time to think about the Four Rs as they relate to your business. You may be able to add another row of bricks to your wall.

BusinessWeek, New York, 13 mar. 2009, Small Biz, online. Disponível em <www.businessweek.com>. Acesso em: 30 mar. 2009.

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