

# Overcoming Barriers to Entry©

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## I. Key Points

- A. Business is both offense and defense.
  - 1. Offense is taking affirmative action to make “good things” happen.
  - 2. Defense is trying to prevent “bad things” from happening.
- B. What are the “bad things”?
  - 1. Competition gets ahead and prospers
  - 2. Competition creates “barriers to entry” that you must overcome.
  - 3. Your company is sued or is being investigated.
    - a. Complying with the law is generally “defense.”
  - 4. Quality problems with your product or service.
  - 5. Untimely delivery of your product or service.
  - 6. Not having the people you need to implement your business strategy.
  - 7. Not having the infrastructure you need (hard assets, technology, capital, etc.) to implement your business strategy.

## II. What are “Barriers to Entry”?

- A. What are specific “barriers to entry”?
  - 1. Competitors’ competitive advantages
  - 2. Laws or regulations discourage or inhibit new competition
  - 3. Large capital requirements (e.g. auto companies)
    - a. Entrenched market position (e.g. Wall Street Journal)
    - b. Trade secrets (technical know-how, customer list, etc.)
  - 4. Patents
    - a. Where are they filed?
    - b. What claims do they cover?
    - c. Can you design around competitor’s patents?
  - 5. Technical know-how
  - 6. The element of time – competition has a head-start and it takes time to catch-up
    - a. It takes time to build a favorable reputation.
    - b. One bad experience can damage a reputation.

- B. There are two aspects to this:
  - 1. Create obstacles for your competition to overcome
  - 2. Overcoming the obstacles your competition have created for you

### **III. How do you overcome the barriers?**

- A. Know your customer!
  - 1. Who exactly is your customer?
  - 2. Who makes the buy decision?
  - 3. What does your customer really want?
  - 4. What drives your customer's "buy decision"?
- B. Market segmentation
  - 1. How do you define the "market"?
  - 2. Consider how the "market" is divided by:
    - a. Geography
    - b. Price
    - c. Market niches
- C. Product differentiation
  - 1. What are the key features of each competitor's product or service?
  - 2. How is your company's product or service different from the competitors?
  - 3. Differentiate your product or service by:
    - a. Functionality
      - i) It works better (faster, more output, etc.)
      - ii) It is easier to use (Don't need long instructions or training, easy to figure it out, etc.)
      - iii) It lasts longer; it is more durable.
      - iv) Less maintenance is required
    - b. Shape, color, design, size
      - i) Smaller and/or lighter; easier to handle
      - ii) Eye-appealing color
      - iii) Distinctive shape or design
      - iv) Product looks "cool"
    - c. Price
      - i) Base price
      - ii) Add-ons
      - iii) Price to use
      - iv) Price to maintain

- d. Service contract/warranty
  - i) What is covered and what is not?
  - ii) Term of the agreement or warranty?
  - iii) Convenient for the customer?
  - iv) Turnaround time?
- e. Intangible factors
  - i) Image
  - ii) Safety record

#### D. Innovation

1. Companies should **constantly** strive to improve **every aspect** of their business.
  - a. When “times are good” companies often get complacent, fat, sloppy, etc.
  - b. The goal is to stay motivated all the time.
2. How do you improve?
  - a. Constantly question or challenge conventional thinking and the status quo.
    - i) Albert Einstein once defined insanity as “doing the same thing and expecting a different result.”
    - ii) Never be satisfied with the status quo.
  - b. Create a culture that encourages debate and educated risk-taking.
    - i) You should not be afraid of failure.
    - ii) The people who have not failed, are the people who have never taken any changes.
    - iii) Vince Lombardi said “The mark of a champion is not in never failing, but in rising again once you have fallen.”
3. Learn what customers **really** want.
  - a. What is most important to them? Any unmet needs?
    - i) Henry Ford once said: “You can have any color you want, so long as it is black.”
  - b. What features of your product or service angers or irritates customers?
  - c. Key: Make it easy for customers to complain.
  - d. Customers’ desires change as the world changes.
4. Watch the competition
  - a. What are your competitors doing?
  - b. What is working for them?
  - c. What can your company do better than what your competitors are doing? Can you exploit their weaknesses?
  - d. Avoid the “not invented here” syndrome.

5. What stops or inhibits innovation?
  - a. Complacency
    - i) “We’re the best” attitude – no need to change.
    - ii) If it ain’t broke, don’t fix it.
  - b. Bureaucracy
    - i) Committees need to consider proposals
    - ii) People make decisions for reasons other than benefiting the business.
  - c. Fear of the unknown
    - i) Many (most?) people find comfort in the status quo
    - ii) Change creates uncertainty and anxiety for many
    - iii) Many people will fight change
  - d. The tone is set at the top.
    - i) Does the CEO encourage innovation?
    - ii) Does the Board of Directors support the CEO?
    - iii) Amount budgeted for research and development?
    - iv) Any compensation incentives to employees who propose new ideas?
    - v) How are new proposals evaluated?
    - vi) How are rejected proposals handled?
    - vii) Is the company’s intellectual property protected?
6. Tips
  - a. Review how the company has innovated in the past
  - b. Consider whether the company’s culture really encourages innovation
  - c. What changes need to be made?
    - i) Get input from management, employees, customers, suppliers
  - d. Management retreat
- E. Design around your competitor’s patents
  1. What are the claims in your competitor’s patents?
  2. Can you obtain an opinion from patent counsel so that you do not infringe the patent claims of other?
    - a. Whether a patent claim is directly infringed depends upon an analysis of both:
      - i) Literal infringement, and
      - ii) Infringement under the doctrine of equivalents.
    - b. claim is found in the infringing device or method exactly.
      - i) If any claim limitation is missing from the accused device or method, there is no literal infringement.

3. Practical Points
  - a. Not every patent lawyer is the same. Level of competency varies.
  - b. Patent counsel often focus on specific fields of technology
    - i) Don't use a bio-tech patent lawyer to obtain a software patent.
  - c. Ask around for references.
  - d. Ask any patent lawyer you engage many questions.
  - e. Don't be 'penny wise and pound foolish.'

F. Effective marketing

1. Build your own customer loyalty
  - a. How do you get repeat business?
  - b. How do you get referrals?

#### **IV. Can't Beat 'Em, Join 'Em**

- A. Honestly evaluate your own company. Do you have all the ingredients for a successful business?
  1. Quality product or service
  2. Effective marketing
  3. Quality personnel
  4. Capital needed to implement the company's business strategy
  5. Time
- B. Consider the company's options, which may include:
  1. Selling either your technology or the company
  2. Licensing your technology to third parties
  3. Entering into an alliance or joint venture
  4. Selling franchises

#### **V. Conclusion**

- A. Building a company is not easy. If it were, everyone would do it.
- B. Einstein said, "Genius is 1% inspiration and 99% perspiration."
- C. It takes many people to build a great company. Great things can happen when people put egos aside, and their heads together.