



## Competitive Position

As investors, determining the competitive position of a business can be one of the most important variables to get right because a company's ability to generate economic profits. Insight into a company's potential to protect and grow profits into the future. The key is to distinguish companies with overlooked competitive advantages that look to be trading at discounted valuations. Unlike future cash flows, the current competitive position can be discerned and, in conjunction with a good understanding of the corporate strategy, can be more forecastable. Some of the factors that we analyze, generate a competitive advantage include:

**Market share:** Businesses with large market share often have better bargaining power over suppliers and pricing power with customers. It can also be an indication of cost leadership and/or quality differentiation.

**Product quality:** Companies that sell higher quality products generally can command a premium price, which can give them a competitive advantage. This is also described as product differentiation.

**Cost leadership:** A more efficient cost structure can be more competitive by offering lower prices than their rivals. For cyclical industries, being the low cost producer also offers protection on the downside.

**Brand recognition:** Customers are often loyal to brands, and thus companies with strong brand recognition can charge higher prices.

**Niche dominance:** Some industries simply are not large enough to accommodate multiple competitors. Once sufficient scale is established, it is very difficult for competitors to enter profitably.

**Innovation:** Companies that invest heavily in research and development are often able to out innovate competitors, and bring new products to market more quickly.

Notably, competitive position is not static – it can change with market conditions, shifts in consumer behavior, or the actions of competitors. Businesses need to be regularly evaluated to ensure tastes and preferences, technology, management's strategy or other external forces do not undermine their competitive position.

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