How Small Startups Can Profit From a Huge Competitor’s Woes

With the right mix of speed, timing and guts, smart founders can profit hugely from their much, much, much larger rivals’ misfortune.

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Daniel Miller is at a disadvantage. As the co-founder of Empowered Staffing, a boutique recruitment firm in Evanston, Ill., he has to go head-to-head with giant rivals who have greater name recognition and a bigger media presence — not to mention resources that his tiny team of seven will never be able to match. To keep his pipeline filled, he has to get creative. When Miller kept seeing the same jobs being posted by one big rival over and over again, he decided to find out why.

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After some sleuthing, he discovered that his rival was having problems. It was assigning inexperienced recruiters, who, Miller says, weren’t getting adequate training, to large client accounts. As a result, the candidate selection was consistently missing the mark, causing the job searches to drag on and on.

Miller smelled an opportunity. To find out who his rival’s client was, he copied the language from the job posting, googled the exact words and found the listing on the client’s in-house career site — verbatim, which was part of the problem. (Good recruiters, Miller says, know how to tweak job

descriptions to attract the right talent.) He reached out directly.

“I said, ‘I know you guys are working with this firm,’ ” recalls Miller. “ ‘I’d love to have a chance to work with you. You don’t pay us until you make the hire. Compare our candidates to theirs, and if you like ours better, let us have a chance to fill more positions.’ ”

The pitch worked, and Empowered won the client’s business. Miller went on to poach a number of large clients this way, including one that boosted his company’s revenue by more than $500,000 in a single year.

Feel like profiting from a competitor’s woes is slightly devious? “That’s capitalism,” says Rita Gunther McGrath, strategy consultant, professor at Columbia Business School, and author of *The End of Competitive Advantage.* “It’s smart. If your competitors aren’t serving — or can’t serve — customers well, you’re on the side of the angels if you can.”

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The key, it seems, is to present yourself as a solution to the problem your competitor created. Companies big and small pull off the trick, and entrepreneurs at all levels can benefit from studying their tactics. Sometimes it’s purely psychological. Last year, for example, as Uber upset consumers with a series of scandals, Lyft got a boost by presenting itself as the nicer company. Other times, it’s by acting as the hero. When a major music label sued wedding videographers for using unlicensed music in videos posted online, the licensing company Musicbed offered free music to anyone who wanted to keep those videos on the web.

In some cases, the most vulnerable companies are the biggest ones; after all, they’re more likely to overlook a particular kind of consumer’s needs. In January, for example, Bank of America announced that it would begin charging some customers

$12 a month for its previously free checking accounts, a move expected to hit low-income customers particularly hard. That set Andrei Cherny, co-founder and CEO of the three-year-old online bank Aspiration, into motion. He launched a Valentine's Day-themed promotion called "Break Up with Bank of America," offering to pay $12 a month to any Bank of America customers who opened one of Aspiration's free online, high-interest checking or savings accounts. The company's flow of former customers to Aspiration jumped 25 percent.

"We're using this moment to capture the public's attention, to say that you don't have to be satisfied with a financial institution that profits the most when you do the worst," says Cherny. "It's less about taking advantage of competitors' stumbles and more just telling people what we're about."

That's also how Marina Miller saw her tactic. She founded the eco-friendly baby-gear seller PeuroBaby and was handed a big opportunity when the high-end baby-gear store Giggle went bankrupt in 2017. She offered to honor Giggle gift cards — which were technically worthless — if the customer opened a registry on her site. (The amount honored, up to $200, would be based on how much merchandise was purchased from the registry.) Her announcement was covered in the *New York Post* and attracted 200 verified registries, worth more than $200,000 in potential sales. Even six months later, Miller still gets more than 100 inquiries a week about the program. In addition, she acquired nearly 300 new customers who were eager to shop but didn't need a registry.

The idea of honoring another brand's gift cards may sound prohibitively expensive, but PeuroBaby's promotion has proven surprisingly cost-effective. "We are out of pocket a total of $1,000," says Miller. "But that has more than been made up by the registry sales." Although the small online store, which launched in January 2017, isn't yet profitable, Miller says this program is going to get her there faster.

Still, while taking advantage of a competitor's missteps seems like an obvious way to boost your revenue, tread carefully, says Mark Chussil, an adjunct instructor at the University of Portland and the founder of consulting firm Advanced Competitive Strategies. "It's tempting to say, 'Obviously, these people are doing a lousy job, or they wouldn't be in trouble,'" he says. "It's also a little dangerous. You can say, 'I would never make those mistakes.' But we should remember that a lot of companies have gone bankrupt – not just small ones, but big ones. They weren't being run by idiots, and they weren't being run by people who wanted to fail."

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He advises that before you jump into the breach and gobble up the business from your stumbling competitor, make sure that the challenges that befell it aren't about to whack you as well. "You need to make sure their problems are not indicative of larger problems in the industry as a whole," he warns.

Founders also need to remember that while it's easy to point out competitors' flaws, as banking startup Aspiration is doing, you also make yourself a target. "A lot of companies think their objective is to kill the competition, that it's the path to profitability," Chussil says. "That is not the objective. Your objective is to succeed. If we think about our rivals as our enemies and we think it's OK if they're suffering, we can help them along with suffering by taking advantage. I think it's corrosive [to the industry]."

It's also important, McGrath echoes, to know the difference between spotting a problem and creating one for your own benefit. "It's one thing if a business gets themselves into trouble," she says, "and quite another if you spark them to get into trouble by poaching key talent, infringing on intellectual property or starting a rumor. That's on the dark side of that line."

For Daniel Miller’s part, he isn’t losing any sleep over his recruiting firm’s continued success. “Most of my competitors are very large corporations that have hundreds, if not thousands, of clients,” he says. “When we acquire one, they usually have not been getting the results they need from another firm, so I do not feel guilty winning over that business.” That’s great for his bottom line: Since Miller started strategically identifying competitors’ weak spots back in 2015, his revenue has grown more than 20 percent each year.

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