

# 7

## Small Business Strategies: Imitation with a Twist

Source: Entrepreneurial Small Business, Katz & Green, 2e  
McGraw-Hill/Irwin

---

---

---

---

---

---

---

---

## Chapter 7

### Strategy in the Small Business

- **Strategy:** the ideas and actions that explain how a firm will make its profit
  - Good strategy leads to **greater chances** for survival and higher profits for small businesses
  - What makes a strategy "good" is its fit to the particulars of your business and the resources you can bring to it

7-2

---

---

---

---

---

---

---

---

## Chapter 7

### The Small Business Strategy Process

<b>Prestrategy</b> Product/service - Industry - Imitation/ Innovation  Markets - Scale - Scope  <b>TOOL</b> Industry Analysis	Value benefits Cost benefits  Entry wedges  <b>TOOL</b> SWOT Analysis	<b>Strategy</b> Generic strategies - Differentiation - Cost - Focus  Fragmented industry strategies  Supra-strategies  <b>TOOL</b> Value Chain Analysis	<b>Competitive Advantage</b> Resources - Tangible - Intangible  Organizational capabilities  <b>TOOL</b> VRIO Analysis
---	---	---	--

7-3

---

---

---

---

---

---

---

---

## Chapter 7

### 1. Prestrategy: First Step of Strategic Planning

- Goal is deciding on product or service you intend to offer and the general nature of your intended market
- **Industry:** general name for line of product or service being sold, or the firms in that line of business

7-4

---

---

---

---

---

---

---

---

## Chapter 7

- **Industry**
  - Key is selecting an industry that offers good potential for making a profit
  - Also needs to offer attractive opportunities to work with a minimum of risk and competition
  - <http://www.census.gov/epcd/naics02/>
  - **Trade association:** group of people in the same industry who band together to represent the industry to the public and government

7-5

---

---

---

---

---

---

---

---

## Chapter 7

- **Market:** business term for the population of customers for your product or service
- **Scale:** size of the market
  - Mass or Niche
- **Scope:** geographic range covered by the market
  - Local to Global

7-6

---

---

---

---

---

---

---

---

## Chapter 7

- **Scale:** most industries have both **mass** and **niche** markets
  - **Mass market:** large portions of the population
    - Example: all men, all women, all teens, et al
    - Mass market is **broad**
  - **Niche market:** narrowly defined segment of the population that is likely to share interests or concerns
    - Example: Hallmark vs. SimplyShe

7-7

---

---

---

---

---

---

---

---

## Chapter 7

### Example

#### 3 Rules for Niche Marketing

- Niche marketing can be extremely cost-effective
- Niche marketing can be a low risk way to grow your business following 3 rules:
  - Meet their unique needs
  - Say the right thing
  - Always test-market

<http://www.entrepreneur.com/marketing/marketingcolumn/entryid/49608.html>

7-8

---

---

---

---

---

---

---

---

## Chapter 7

- **Scope:** local or global
  - Can be local, regional, national, international, or global
  - Scope is important for two reasons:
    - Knowing your scope helps deciding where to focus sales and advertising efforts
    - Knowing your target market gives you a way to know which **competitors** to worry about most, namely those within your market scope

7-9

---

---

---

---

---

---

---

---

## Chapter 7

- **Imitative strategy:** doing more or less what others are doing
  - Classic small business strategy
  - Almost 2/3 of people starting business use this approach
  - **Advantages:** existing technologies, possibility to buy existing businesses, customers already know what you are offering

7-10

---

---

---

---

---

---

---

---

## Chapter 7

- **Degree of similarity:** extent to which a product or service is like another
  - Imitation is not likely to **match** precision or completeness or copying seen in franchising
  - Imitation **plus one degree** of similarity: copying of existing businesses with the exception of one or two key aspects in hopes of improving them
- **Pure innovation:** new product or service, also with a unique setting

7-11

---

---

---

---

---

---

---

---

## Chapter 7

### Tool: Industry Analysis

- **Industry analysis (IA):** a research process that provides the entrepreneur with key information about the industry, such as current situation and trends
  - Helps to estimate possible financial returns

7-12

---

---

---

---

---

---

---

---

## Chapter 7

- **Basics of Industry Analysis**
  - SIC/NAICS number and description: online
  - Industry size over time: online
  - Profitability
  - How profits are made: interview or articles
  - Target market competitor concentration: directory checking
  - Analysis
  - Sources

7-13

---

---

---

---

---

---

---

---

## Chapter 7

### 2. Benefits: Second Step of Strategic Planning

- **Benefits:** characteristics of a product or service that the target customer would consider worthwhile (low cost or high quality)
  - **Key decision** is deciding what benefits you plan to offer to your customer

7-14

---

---

---

---

---

---

---

---

## Chapter 7

- Value Benefits**
- Technology
  - Credit
  - Quality
  - Shopping Ease
  - Brand/reputation
  - Style
  - Personalization
  - Belonging
  - Delivery
  - Assurance
  - Altruism
  - Service
  - Place
- Cost Benefits**
- Lower costs
  - Scope savings
  - Organizational practices
  - Scale savings
  - Learning

7-15

---

---

---

---

---

---

---

---

## Chapter 7

### Leveraging Opportunities During Entry

- 7 Entry Wedges
  - Supply shortages
  - Unutilized resources
  - Customer contracting
  - Second sourcing
  - Market relinquishment
  - Favored purchasing
  - Government rules

7-16

---

---

---

---

---

---

---

---

## Chapter 7

### Tool: SWOT Analysis

- S: Strength
- W: Weakness
- O: Opportunity
- T: Threat
  - SWOT looks critically at these factors
  - Used to organize and perform an analysis of your company's current and future resources and situations

7-17

---

---

---

---

---

---

---

---

## Chapter 7

### • SWOT: Strengths

- Customers ready to buy
- Specialized knowledge
- Trade secrets
- Patents, trademarks, copyrights
- Brand or personal recognition
- Prior self-employment experience
- Prior sales experience

7-18

---

---

---

---

---

---

---

---

## Chapter 7

- **SWOT: Weaknesses**
  - Customers not ready to buy
  - Inadequate financial backing
  - Easy-to-copy business
  - Undistinctive product, service, or brand
  - Location or facility disadvantages
  - Lack of self-employment experience
  - Lack of managerial experience

7-19

---

---

---

---

---

---

---

---

## Chapter 7

- **SWOT: Opportunities (from entry wedges)**
  - Supply shortages
  - Unutilized resources
  - Customer contracting
  - Second sourcing
  - Favored purchasing
  - Technology creating new products/services
  - New markets opening up

7-20

---

---

---

---

---

---

---

---

## Chapter 7

- **SWOT: Threats**
  - Economic downturn
  - Oversupply
  - Competitive pressures
  - Supplier/customer pressures
  - Major supplier/customer loss
  - Missed window of opportunity
  - Negative government regulations or actions

7-21

---

---

---

---

---

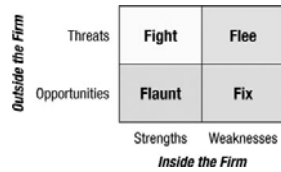
---

---

---

## Chapter 7

### Inside the Firm



7-22

---

---

---

---

---

---

---

---

## Chapter 7

### SWOT Analysis

- Final stage of SWOT analysis is to match it against the benefits sought by your market
- Strengths should match or support the benefits
- Weaknesses should not get in the way of delivering the desired benefits

7-23

---

---

---

---

---

---

---

---

## Chapter 7

### Strategy Suggestion

- 3 Classic Strategies
  - Differentiation strategy: clarifying how one product is unlike another in a mass market
  - Cost strategy: firm offers a combination of cost benefits that appeals to the customer
  - Focus strategy: targets a portion of the market (segment or niche)

7-24

---

---

---

---

---

---

---

---

## Chapter 7

- **7 Small Business Supra-Strategies**
  - Craftsmanship
  - Customization
  - Super-support
  - Serving the underserved/interstices
  - Elite
  - Single-mindedness
  - Comprehensiveness

7-25

---

---

---

---

---

---

---

---

## Chapter 7

### Competitive Advantage

- **Resources:** Any asset, capability, organizational process, information, or knowledge that contributes to the firm's performance
  - **Tangible resources:** easily identified
    - Financial (cash), Physical (land)
  - **Intangible resources:** typically informational and expertise-based practices and routines that are not clearly evident
    - Human (skill), Reputation (trust)

7-26

---

---

---

---

---

---

---

---

## Chapter 7

- **Organizational capabilities:** abilities, skills, and competencies used by the firm to make profits from tangible and intangible resources
- **Transformational competencies:** firm can make its product or service better in value
- **Combinational competencies:** combining tangible and intangible resources
  - Vermont Bear Company's **Bear-Gram**

7-27

---

---

---

---

---

---

---

---

## Chapter 7

- The VRIO Analysis
  - Test 1: **Value** – does the resource help you increase sales or decrease costs
  - Test 2: **Rareness** – is the resource rare enough that you can charge more than competitors without the resource
  - Test 3: **Imitability** – can the competition imitate the resource
  - Test 4: **Organization** – can the firm make use of the resource

7-28

---

---

---

---

---

---

---

---

## Chapter 7

**Table 7.2 Industry Life Cycle Approach to Small Business Strategy**

	Introduction	Growth	Maturity	Decline	Retrenchment
<b>Market Scope</b>	Niche	Mass	Mass	Niche	Mass via consolidation
<b>Optimal Strategy</b>	Differentiation	Differentiation	Cost	Cost; focus	Cost
<b>Imitation/Innovation</b>	Innovation	Innovation	Imitation	Imitation	Innovation
<b>Customer Segment</b>	Pioneers and early adopters	Early majority	Late majority	Laggards	Late adopters and laggards
<b>Organizational Goal</b>	Master technology	Product and service leadership (being "the one")	Market share	Serve remaining markets	New efficiencies
<b>Supra-Strategy</b>	Single-mindedness; super-support	Craftsmanship; customization; elite	Single-mindedness (cost); comprehensiveness	Serving the underserved; customization	

7-29

---

---

---

---

---

---

---

---

## Chapter 7

# Summary

3-30

---

---

---

---

---

---

---

---