

7

Small Business Strategies: Imitation with a Twist

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

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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

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The Small Business Strategy Process

Prestrategy Product/service - Industry - Imitation/ Innovation Markets - Scale - Scope TOOL Industry Analysis	Benefits Value benefits Cost benefits Entry wedges	Strategy Generic strategies - Differentiation - Cost - Focus Fragmented industry strategies Supra-strategies TOOL Value Chain Analysis	Competitive Advantage Resources - Tangible - Intangible Organizational capabilities TOOL VRIO Analysis
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7-3

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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

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- **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

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- **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

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- **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

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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/marketingcolumnists/mtgordon/article49608.html>

7-8

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- **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

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- **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

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- **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

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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

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- **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

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- 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

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Value

- Benefits**
- Technology
 - Quality
 - Style
 - Delivery
 - Service
 - Credit
 - Shopping Ease
 - Personalization
 - Assurance
 - Place
 - Brand/reputation
 - Belonging
 - Altruism

Cost Benefits

- Lower costs
- Scale savings
- Learning
- Scope savings
- Organizational practices

7-15

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Leveraging Opportunities During Entry

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

7-16

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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

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- **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

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- **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

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- **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

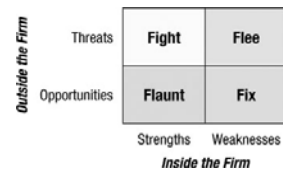
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- **SWOT: Threats**
 - Economic downturn
 - Oversupply
 - Competitive pressures
 - Supplier/customer pressures
 - Major supplier/customer loss
 - Missed window of opportunity
 - Negative government regulations or actions

7-21

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Inside the Firm



7-22

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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

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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)

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

7-25

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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)

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- **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

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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

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Table 7.2		Industry Life Cycle Approach to Small Business Strategy				
	Introduction	Growth	Maturity	Decline	Retrenchment	
Market Scope	Niche	Mass	Mass	Niche	Mass via consolidation	
Optimal Strategy	Differentiation	Differentiation	Cost	Cost, focus	Cost	
Imitation/Innovation	Innovation	Innovation	Imitation	Imitation	Innovation	
Customer Segment	Pioneers and early adopters	Early majority	Late majority	Laggards	Late adopters and laggards	
Organizational Goal	Master technology	Product and service leadership (being "the one")	Market share	Serve remaining markets	New efficiencies	
Supra-Strategy	Single-mindedness; super-support	Craftsmanship; customization; elite	Single-mindedness (cost); comprehensiveness	Serving the underserved; customization		

7-29

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Summary

3-30