Fortunately, successful entrepreneurs have at their disposal a powerful weapon to cope with a chaotic environment filled with disarray and constant disruptions: the process of strategic management. **Strategic management** is a process that involves developing a game plan to guide the company as it strives to accomplish its vision, mission, goals, and objectives and to keep it from straying off its desired course. The idea is to give the owner a blueprint for matching the company's strengths and weaknesses to the opportunities and threats in the environment.

Building a Competitive Advantage

2.
Explain why and how a small business must create a competitive advantage in the market.

The goal of developing a strategic plan is to create for a small company a **competitive advantage**—the aggregation of factors that differentiates a small business from its competitors and gives it a unique and superior position in the market. From a strategic perspective, the key to business success is to develop a unique competitive advantage, one that creates value for customers, is sustainable, and is difficult for competitors to duplicate. No business can be everything to everyone. In fact, one of the biggest pitfalls many entrepreneurs stumble into is failing to differentiate their companies from the crowd of competitors. Entrepreneurs faced with the challenge of setting their companies apart from their larger, more powerful competitors (who can easily outspend them) use the creativity, speed, flexibility, and special abilities of their businesses as differentiators. Entrepreneurs should examine five aspects of their businesses to define their companies' competitive advantages:

1. *Products they sell.* What is unique about the products the company sells? Do they save customers time or money? Are they more reliable and more dependable than those that competitors sell? Do they save energy, protect the environment, or provide more convenience for customers? By identifying the unique customer benefits of their companies' products, entrepreneurs can differentiate their businesses.


Mark Highland, founder of Organic Mechanics Soil Company.
Source: Natalie Brasington.

ENTREPRENEURIAL PROFILE: Mark Highland: Organic Mechanics Soil Company Mark Highland, who has a master's degree in public horticulture, transformed his specialized knowledge of compost into a successful business, Organic Mechanics Soil Company. Highland uses fertile compost rather than the peat moss mixture that other companies rely on to create an environmentally friendly potting soil that requires less watering and produces bigger flower blooms, fruit, and vegetable crops. Founded in 2006, Organic Mechanics Soil Company has expanded its product line to include nine items, which together generate more than $1 million in annual revenue. Despite competing in an industry dominated by several giant companies, Organic Mechanics Soil Company's unique line of products is profitable and growing fast.[11]

2. *Service they provide.* Many entrepreneurs find that the service they provide their customers is an excellent way to differentiate their companies. Because they are small, friendly, and close to their customers, small businesses are able to provide customer service that is superior to that which their larger competitors can provide. What services does the company provide (or which ones can it provide) to deliver added value and a superior shopping experience for customers?

3. *Pricing they offer.* As we will see later in this chapter, some small businesses differentiate themselves using price. Low prices can be a powerful point of differentiation but only if a business has the low-cost structure to drive them. However, offering the lowest prices is not always the best way to create a unique image. Small companies that do not offer the lowest prices must emphasize the value that their products offer.

4. *Way they sell.* Customers today want convenience when they shop, and companies that provide it (perhaps via the Internet) have a foundation for an important competitive advantage. Companies also can add value to customers' buying experience by creating fun, engaging places to shop that offer more than just products and services.

ENTREPRENEURIAL PROFILE: Richard Howorth: Square Books At Square Books, an independent bookstore started in 1979 in Oxford, Mississippi, owner Richard Howorth wants to create in his customers' eyes the image that his business is more than a bookstore by hosting a unique, live radio show, Thacker Mountain Radio, every week and sponsoring frequent author appearances. Howorth records the authors' readings and offers them as podcasts on the store's Web site. Square Books also offers a Signed Firsts Club that sells signed first-edition copies of books.

Howorth maximizes customers' convenience and sets his company apart from its competition by providing a free delivery service to any customer who lives within one mile of the city limits. "Amazon brags about how fast they can get books to you, but we can get ours out faster," he says.[12]

5. *Values to which they are committed.* The most successful companies exist for reasons that involve far more than merely making money. The entrepreneurs behind these companies understand that one way to connect with customers and establish a competitive edge is to manage their companies from a values-based perspective and operate them in an ethical and socially responsible fashion. In other words, they recognize that there is no inherent conflict between earning a profit and creating good for society and the environment.

Building a competitive advantage alone is not enough; the key to success over time is building a *sustainable* competitive advantage. In the long run, a company gains a sustainable competitive advantage through its ability to develop a set of core competencies that enable it to create value for its selected target customers better than its rivals. **Core competencies** are a unique set of capabilities that a company develops in key areas, such as superior quality, customer service, innovation, team building, flexibility, responsiveness, and others that allow it to vault past competitors. As the phrase suggests, they are central to a company's ability to compete successfully and are usually the result of important knowledge, skills, and lessons a business has learned over time (see Figure 4.1).

Typically, a company is likely to build core competencies in no more than three to five (sometimes fewer) areas. These core competencies form the nucleus of a company's competitive advantage and are usually quite enduring over time. Markets, customers, and competitors may change, but a company's core competencies are more durable, forming the building blocks for *everything* a company does. In fact, to be effective, these competencies must be sustainable over time. They also should be difficult for competitors to duplicate and must provide customers with a valuable perceived benefit. Small companies' core competencies often have to do with the advantages of their size—agility, speed, closeness to their customers, superior service, or ability to innovate. In short, they use their "smallness" to their advantage, doing things that their larger rivals cannot. The key to success is to build core competencies (or to identify the ones a company already has) and concentrate them on providing superior service and value for a company's target customers. Developing core competencies does *not* necessarily require a company to spend a great deal of money. It does, however, require an entrepreneur to use creativity, imagination, experience, and vision to identify or develop those things that the business does best and that are most important to its target customers.

Entrepreneurs should use their companies' core competencies to define a compelling **value proposition**, the value that the combination of goods and services that a business delivers to customers to create a sustainable competitive edge. Gaining a competitive advantage is not solely about outpacing one's rivals; it involves creating a meaningful value proposition for customers. Creating a meaningful value proposition necessitates identifying a company's target customers and understanding customers' needs, wants, behaviors, and buying motives. To be effective, a value proposition must be authentic, which means that a company should be able to identify tangible points of difference that are important to customers. A genuine value proposition should increase convenience, lower costs, or improve performance for customers. Ideally, a company can prove the validity of its value proposition with facts and back it up with customer testimonials.

Companies have three choices for defining their value propositions with an almost infinite number of variations on each one: product or service leadership, customer intimacy, and

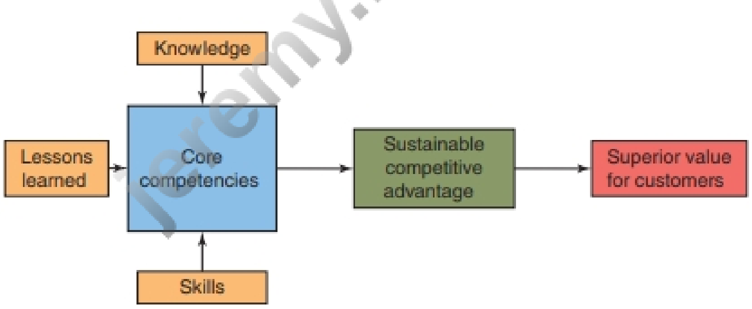

FIGURE 4.1
Building a Sustainable Competitive Advantage

operational excellence.[13] Successful businesses usually excel at one option and maintain acceptable levels of the other two. Companies that choose a product or service leadership value proposition tout their unique products or services as innovative solutions to customers' needs.

ENTREPRENEURIAL PROFILE: Ren Ng: Lytro Inc. Entrepreneur Ren Ng plans to build his company, Lytro, on a product leadership value proposition. Ng spent years studying light fields and optics and developed the Lytro, an easy-to-use camera that instantaneously captures not only the color and intensity of light rays in an image but also their direction. The result is a camera that needs no focusing and creates "living pictures." Photographers simply capture an image and then create an almost infinite number of variations of it by changing the focus and the perspective of any element in the photograph later.[14]

Businesses that use customer intimacy as the foundation of their value propositions develop close relationships with customers and set themselves apart by providing superior customer service and total solutions to customers' problems. Companies that differentiate themselves using operational efficiency excel at speed, selection, quality, availability, price, or some other important product or service characteristic. They set themselves apart by being the best at meeting customers' needs quickly and efficiently. For instance, Southwest Airlines has attracted a loyal following of customers with its low fares; simple check-in process; fast, efficient boarding; and enviable on-time record.

When it comes to developing a strategy for establishing a competitive advantage, small companies have a variety of natural advantages over their larger competitors. The typical small business has fewer product lines, a more clearly defined customer base, and a limited geographic market area. Entrepreneurs usually are in close contact with their customers, giving them valuable knowledge on how to best serve their customers' needs and wants. Because of the simplicity of their organization structures, small business owners are in touch with employees daily, often working side by side with them, allowing them to communicate strategic moves firsthand. Consequently, small businesses find that strategic management comes more naturally to them than to larger companies with their layers of bureaucracy and far-flung operations.

Strategic management can increase a small company's effectiveness, but entrepreneurs first must have a process designed to meet their needs and their business's special characteristics. The strategic management procedure for a small business should include the following features:

- Use a relatively short planning horizon—two years or less for most small companies.
- Be informal and not overly structured; a "shirt-sleeve" approach is ideal.
- Encourage the participation of employees and outside parties to improve the reliability and creativity of the resulting plan.
- Do not begin with setting objectives because extensive objective setting early on may interfere with the creative process of strategic management.
- Maintain flexibility; competitive conditions change too rapidly for any plan to be considered permanent.
- Focus on strategic *thinking*, not just planning, by linking long-range goals to day-to-day operations.

The Strategic Management Process

3.

Develop a strategic plan for a business using the nine steps in the strategic planning process.

One of the most important tasks a business owner must perform is to look ahead—to peer into the future—and then devise a strategy for meeting the challenges and opportunities it presents. Strategic management, the best way to accomplish this vital task, is a continuous process that consists of nine steps:

Step 1. Develop a clear vision and translate it into a meaningful mission statement.
Step 2. Assess the company's strengths and weaknesses.
Step 3. Scan the environment for significant opportunities and threats facing the business.
Step 4. Identify the key factors for success in the business.
Step 5. Analyze the competition.