Strategic Management and the Entrepreneur
Strategic Management

- Crucial to building a successful business.
- Involves developing a game plan to guide a company as it strives to accomplish its mission, goals, and objectives, and to keep it on its desired course.
Is Strategic Planning Really That Important?

- Study of 500 small companies:
  - One of the most significant factors in distinguishing growing companies from those in decline: use of a written business plan.

- Another study:
  - Only 12% of small companies had a long-range plan in writing.
Developing a strategic plan is crucial to creating a competitive advantage, the aggregation of factors that sets a company apart from its competitors and gives it a unique position in the market.

Example: Curtis Universal Joint
Strategic Management Process

Step 1: Develop a vision and translate it into a mission statement.

Step 2: Define core competencies and target market and identify desired market position.

Step 3: Assess strengths and weaknesses.

Step 4: Scan environment for opportunities and threats.

Step 5: Identify key success factors.
Strategic Management Process

(continued)

Step 6: Analyze competition.
Step 7: Create goals and objectives.
Step 8: Formulate strategies.
Step 9: Translate plans into actions.
Step 10: Establish accurate controls.
Step 1: *Develop a Vision* and Create a Mission Statement

- **Vision** – an expression of what an entrepreneur stands for and believes in.
- **A clearly defined vision:**
  - Provides direction
  - Determines decisions
  - Motivates people
Step 1: Develop a Vision and Create a Mission Statement

- Addresses question: “What business are we in?”
- The mission is a written expression of how the company will reflect the owner’s values, beliefs, and vision.
- The company’s mission depicts its character, identity, and scope of operation in enough detail to distinguish the company in the marketplace.
Step 2: Define Core Competencies and Market Position

- Company must define its set of core competencies that enable it to serve customers better than rivals.

- Core Competencies – a unique set of capabilities a company develops in key operational areas that allow it to vault past competitors.
  - They are what a company does best.
  - Best to rely on a natural advantage (often linked to the company’s size).
Step 2: Define Core Competencies and *Market Position*

- **Market segmentation** – carving up the mass market into smaller, more homogenous units and then attacking certain segments with a specific marketing strategy.

- **Proper positioning** – creating the desired image for the business in the customer’s mind.
Step 3: Assess Company Strengths and Weaknesses

- **Strengths**
  - Positive internal factors that contribute to accomplishing the mission, goals, and objectives.

- **Weaknesses**
  - Negative internal factors that inhibit the accomplishment of the mission, goals, and objectives.
Step 4: Scan for Opportunities and Threats

- **Opportunities**
  - Positive external factors the company can employ to accomplish its mission, goals, and objectives.

- **Threats**
  - Negative external factors that inhibit the firm’s ability to accomplish its mission, goals, and objectives.
Step 5: Identify Key Success Factors

- Key success factors: relationships between a controllable variable and a critical factor that influence a company’s ability to compete in the market.

- The keys to unlocking the secrets of competing successfully in a particular market segment.
Step 6: Analyze Competitors

Analyzing key competitors allows an entrepreneur to:

- avoid surprises from existing competitors’ new strategies and tactics.
- identify potential new competitors and the threats they pose.
- improve reaction time to competitors’ actions.
- anticipate rivals’ next strategic moves.
Step 6: Analyze Competitors

Techniques that do *not* require unethical behavior:

- Monitor industry and trade publications.
- Talk to customers and suppliers.
- Listen to employees, especially sales representatives and purchasing agents.
- Attend trade shows and conferences.
- Study competitors’ literature and “benchmark” their products and services.
- Get competitors’ credit reports.
- Check out the local library.
- Use the World Wide Web to learn more about competitors.
- Visit competing businesses to observe their operations.
Knowledge Management

- The practice of gathering, organizing, and disseminating the collective wisdom and experience of a company’s employees for the purpose of strengthening its competitive position.

- Knowledge management involves:
  - Taking inventory of the special knowledge the people in the company possess.
  - Organizing that knowledge and disseminating it to those who need it.
Step 7: Create Company Goals and Objectives

- Goals – broad, long-range attributes to be accomplished.

- Objectives – more detailed, specific targets of performance that are S.M.A.R.T.
  - Specific
  - Measurable
  - Attainable
  - Realistic (yet challenging)
  - Timely
Step 8: Formulate Strategies

- **Strategy** – a “road map” to guide the company through a turbulent environment as it seeks to fulfill its mission, goals, and objectives. It is the company’s game plan for winning.

- **Three basic strategies:**
  - Cost leadership
  - Differentiation
  - Focus
Three Strategic Options

Competitive Advantage

Uniqueness Perceived by the Customer

Low Cost Position

Industry

Differentiation

Low Cost

Target Market

Differentiation Focus

Cost Focus

Niche
Cost Leadership

- **Goal:** to be *the* low-cost producer in the industry (or market segment).

- Low-cost leaders have an advantage in reaching buyers who buy on the basis of price, and they have the power to set the industry’s price floor.

- **Works well when:**
  - buyers are sensitive to price changes.
  - competing firms sell the same commodity products.
  - a company can benefit from economies of scale.
Differentiation

- Company seeks to build customer loyalty by positioning its goods or services in a unique or different fashion.
- Idea is to be special at something customers value.
- Key: Build basis for differentiation on a distinctive competence, something that the small company is uniquely good at doing in comparison to its competitors.
Focus

- **Company** selects one or more customer segments in a market, identifies customers’ special needs, wants, or interests, and then targets them with a product or service designed specifically for them.

- **Strategy builds on** differences among market segments.

- Rather than try to serve the total market, the company focuses on serving a niche (or several niches) within that market.
Step 9: Translate Strategies into Action Plans

- Create projects by defining:
  - Purpose
  - Scope
  - Contribution
  - Resource requirements
  - Timing
Step 10: Establish Accurate Controls

- The plan establishes the standards against which actual performance is measured.
- Entrepreneur must:
  - identify and track key performance indicators.
  - Take corrective action.
Balanced Scorecards

- A set of measurements unique to a company that includes both financial and operational measures
- Gives managers a quick, yet comprehensive, picture of a company’s overall performance.
Balanced Scorecards

- **Four Perspectives:**
  - **Customer:** How do customers see us?
  - **Internal Business:** At what must we excel?
  - **Innovation and Learning:** Can we continue to improve and create value?
  - **Financial:** How do we look to shareholders?