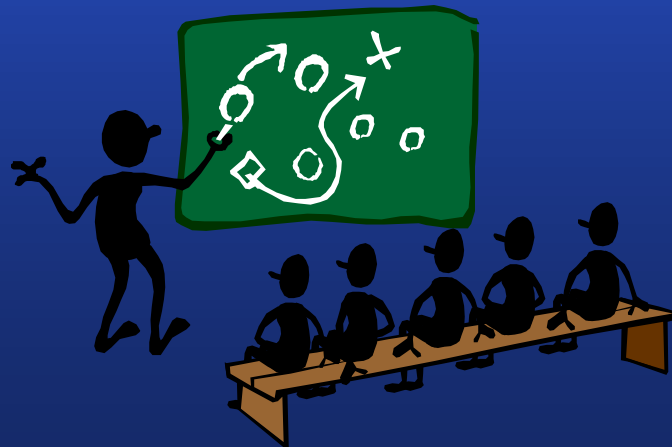


Strategic Management and the Entrepreneur



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.

Strategic Management and Competitive Edge

- 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.



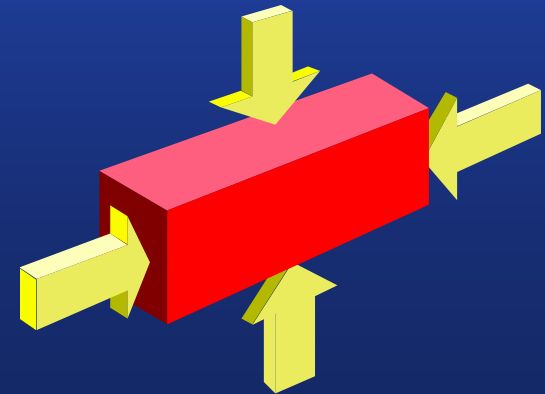
Step 4: Scan for Opportunities and Threats

■ 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:**



Three Strategic Options

Competitive Advantage

		Uniqueness Perceived by the Customer	Low Cost Position
Target Market	Industry	Differentiation	Low Cost
	Niche	Differentiation Focus	Cost Focus

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



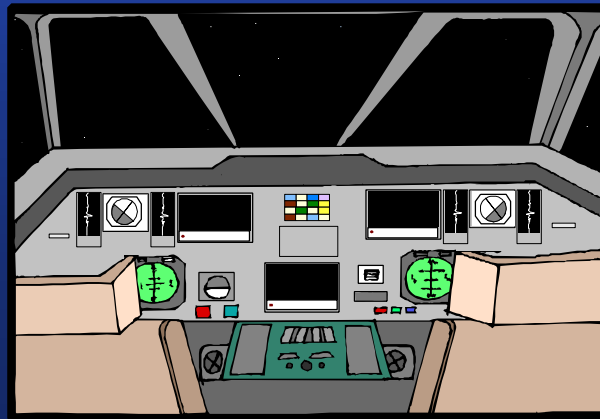
Step 10: Establish Accurate Controls

- 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?