



Entrepreneurship & Innovation

Prepared by Dr. Amany
Ramadan

ENT 611

Entrepreneurship & Innovation

Lecture 2

CHAPTER 2

Designing a Competitive Business Model and Building a Solid Strategic Plan



Learning Objectives

1. Understand the importance of strategic management to a small business.
2. Explain why and how a small business must create a competitive advantage in the market.
3. Develop a strategic plan for a business using the nine steps in the strategic planning process.
4. Discuss the characteristics of three basic strategies: low cost, differentiation, and focus and know when to employ them.
5. Understand the importance of controls such as the balanced scorecard in the planning process.



Idea Generation



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Ideas?

- Coming up with an innovative idea on which to base a business start-up or project is not easy
- Most ideas come to us through experience – often negative experiences
- Problem solving and idea generation often go hand in hand
- Change is a catalyst in much the same way – change creates new ‘problems’ requiring new ‘solutions’

The Business Idea: Ideation

- Opportunity identification
- Creativity - idea generation
- Idea development
- Continual refinement

Examples:Change

- What were the main business opportunities associated with the drink-driving laws?
- What were the main opportunities associated with the smoking ban?



Innovation in the wider sense

- Just as opportunities can be created by changes in the environment, the environment can be changed by ideas that have been developed into opportunities.
 - Low cost airlines
 - Internet



New Industries: Low Cost Airlines

- The Airlines
 - Entrepreneurial idea – revolutionised the industry. E.g.,
 - Use of remote airports – reduces cost
 - On board catering sales – income
 - Seat allocation sales – income
- Other opportunities created by this change, e.g.,
 - Bus services from remote airports
 - Retail expansion at formerly low-use airports
 - Accommodation
- LOOK FOR CHANGE TO GAIN IDEAS

Developing Creativity

- **Brainstorming – alone or in a group**
- **E-brainstorming**
- **Templates – A problem,**
- **Templates - An interest**

Templates from an Ideas Generation Workbook, produced by Pat Richardson & Laurence Clark, the Scottish Enterprise Foundation for the Training Agency, 1990



Brainstorming

- Brainstorming – non judgemental
- All ideas count
- Do not try and evaluate as you go on



A Major Shift . . .

From financial capital to intellectual capital

- Human
- Structural
- Customer



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Intellectual Capital

- Intellectual capital is considered an asset and a key source of a company's competitive advantage.
- It can be defined as the collection of all informational resources a company has at its disposal that can be used to drive profits, gain new customers, create new products or otherwise improve the business.
- **Intellectual capital is comprised of three components: Human capital, Structural capital, and Customer capital.**



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1. Human Capital

- The talents, creativity, skills, and abilities of a company's workforce.
- The value that the employees of a business provide through the application of skills, know-how and expertise.



2. Structural Capital

- Is the accumulated knowledge and experience that a company possesses.
- It can take many forms including processes, techniques, information systems, software, and databases, patents, copyrights, as well as the organization's image, experience of the people in a company.



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3. Customer Capital

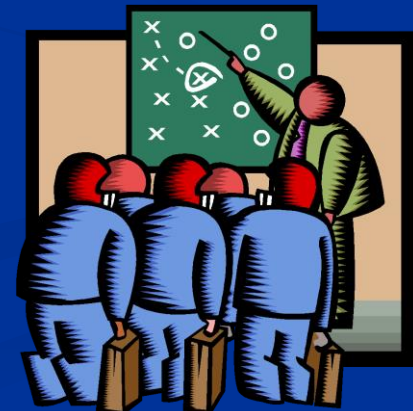
- Includes the established customer base, positive reputation, ongoing relationships, and goodwill a company builds up over time with its customers.



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Strategic Management

- Is 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.



Strategic Management and Competitive Advantage

- Developing a strategic plan is crucial to creating a sustainable **competitive advantage**, the aggregation of factors that sets a company apart from its competitors and gives it a unique position in the market that is superior to its competition.

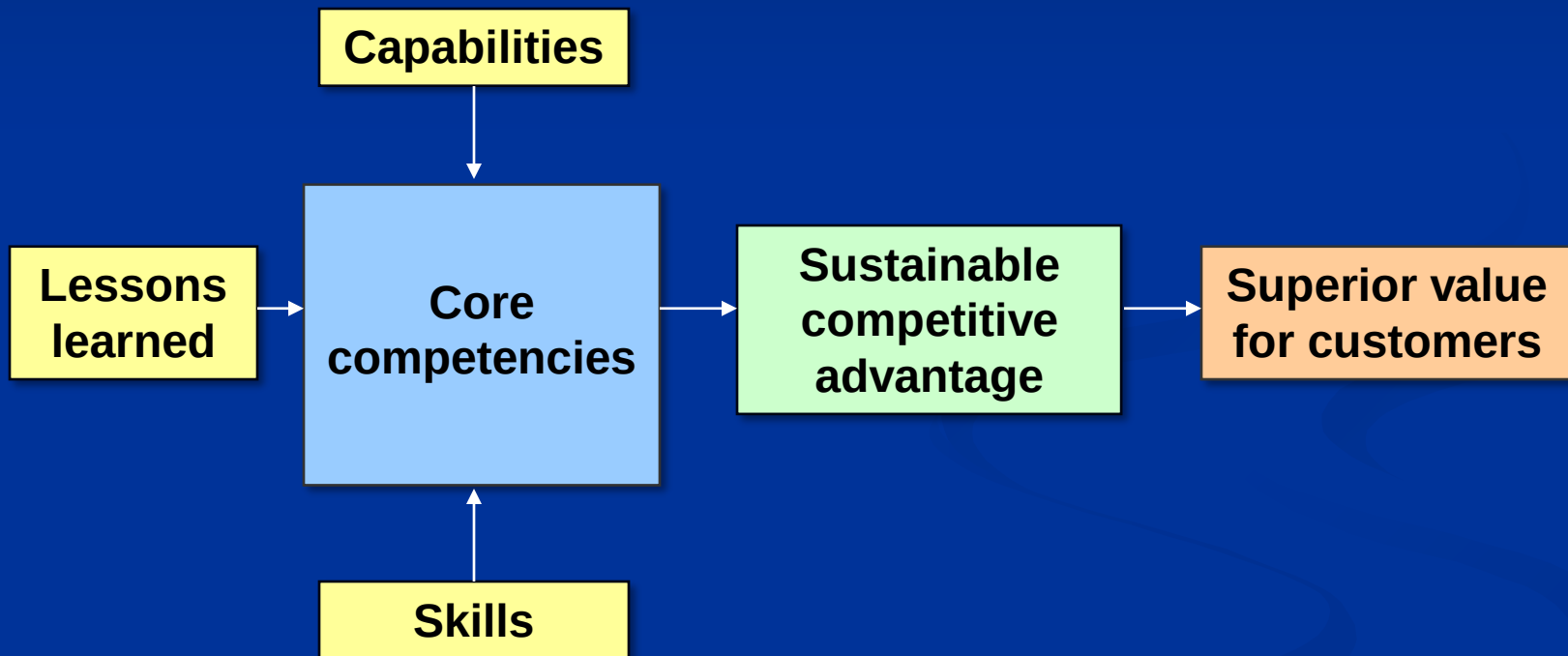


Key: Core Competencies

- Unique set of capabilities 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 (outperform its competitors).
 - They are **what a company does best**.



Building a Sustainable Competitive Advantage



Strategic Management Process

- Step 1** Develop a vision and translate it into a mission statement
- Step 2** Assess strengths and weaknesses
- Step 3** Scan environment for opportunities and threats
- Step 4** Identify key success factors



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Strategic Management Process

(continued)

- Step 5 Analyze competition**
- Step 6 Create goals & objectives**
- Step 7 Formulate strategies**
- Step 8 Translate plans into actions**
- Step 9 Establish accurate controls**



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Step 1: *Develop a Vision* and Create a Mission Statement

- Vision – the result of an entrepreneur's dream of something that does not exist yet and the ability to paint a compelling picture of that dream for everyone to see.
- A clearly defined vision:
 - Provides direction
 - Determines decisions
 - Motivates people
 - Allows for perseverance in the face of adversity



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 an entrepreneur’s values, beliefs, and vision – more than just “making money.”
- Serves as a “strategic compass.”



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Step 1: Develop a Vision and *Create a Mission Statement*

- **Elements of a mission statement:**
 - ***Purpose* of the company: What are we in business to accomplish?**
 - ***Business* we are in: How are we going to accomplish that purpose?**
 - ***Values* of the company: What principles and beliefs form the foundation of the way we do business?**

Step 2: Assess Company Strengths and Weaknesses

■ Strengths

- Positive internal factors a company can draw on to accomplish its mission, goals, and objectives.

■ Weaknesses

- Negative internal factors that inhibit a company's ability to accomplish its mission, goals, and objectives.



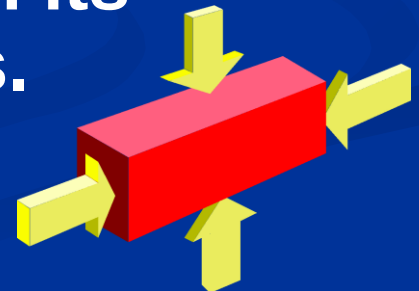
Step 3: Scan for Opportunities and Threats

- Opportunities

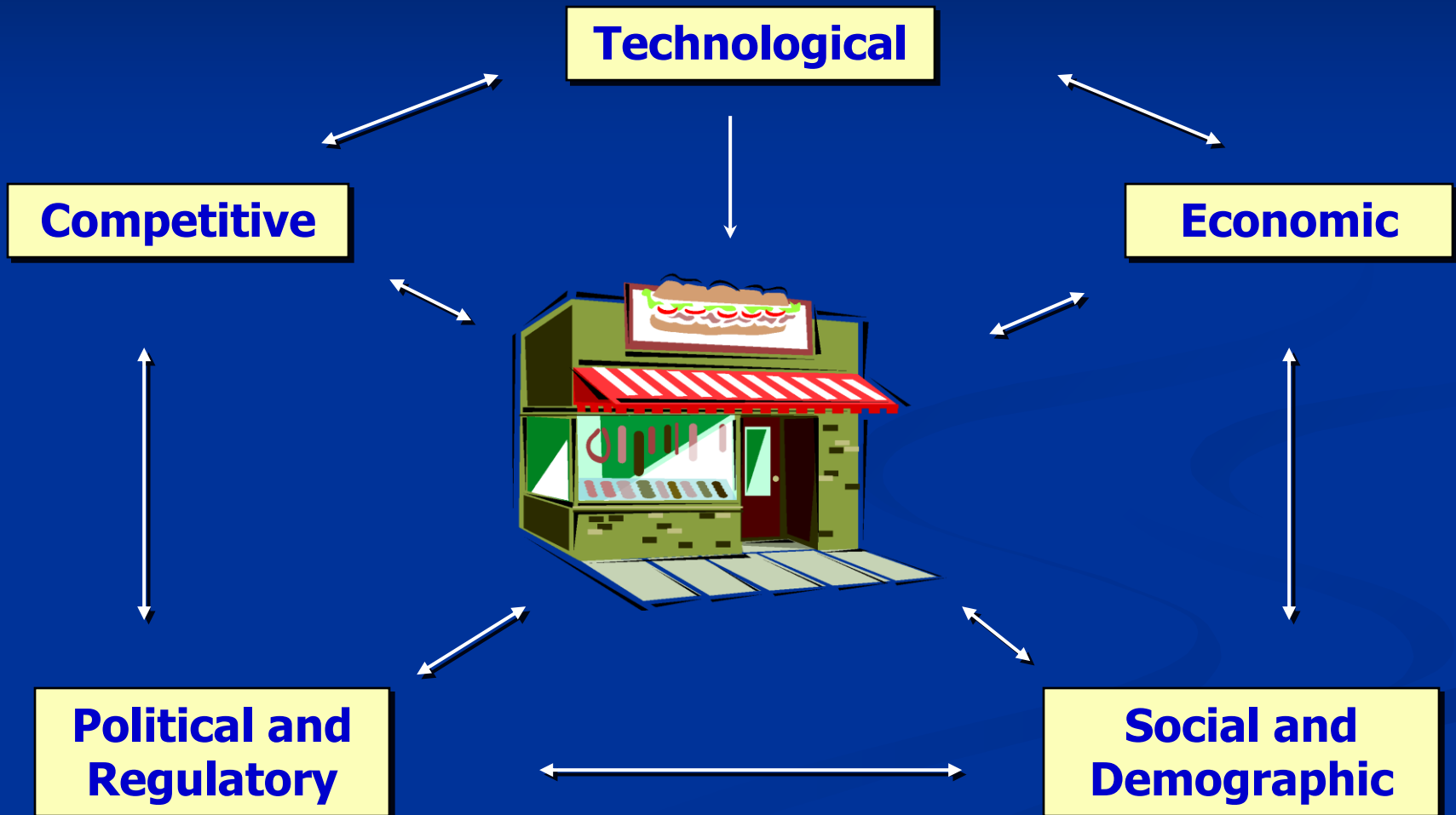
- Positive external factors the company can exploit to accomplish its mission, goals, and objectives.

- Threats

- Negative external factors that inhibit the firm's ability to accomplish its mission, goals, and objectives.



The Power of External Market Forces



Step 4: Identify Key Success Factors

- **Key success factors (KSFs):** factors that determine the relative success of market participants.
- **The keys to unlocking the secrets of competing successfully in a particular market segment.**



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Identifying Key Success Factors

List the skills, characteristics, and core competencies that your business must possess to be successful in its market segment.

Key Success Factor	How Your Company Rates
1.	Low 1 2 3 4 5 6 7 8 9 10 High
2.	Low 1 2 3 4 5 6 7 8 9 10 High
3.	Low 1 2 3 4 5 6 7 8 9 10 High
4.	Low 1 2 3 4 5 6 7 8 9 10 High
5.	Low 1 2 3 4 5 6 7 8 9 10 High

Conclusions:



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Step 5: 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.



Competitive Profile Matrix

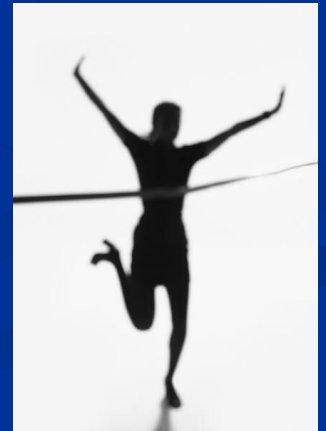
Sample Competitive Profile Matrix							
Key Success Factors				Your Business		Competitor 1	
(from Step 4)	Weight	Rating	Weighted Score	Rating	Weighted Score	Rating	Weighted Score
Quality	0.25	4	1.00	2	0.50	2	0.50
Customer Retention	0.20	3	0.60	3	0.60	3	0.60
Location	0.15	4	0.60	3	0.45	4	0.60
Perception of Value	0.20	4	0.80	2	0.40	3	0.60
Cost Control	0.20	3	0.60	1	0.20	4	0.80
Total	1.00		3.60		2.15		3.10



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Step 6: Create Company Goals and Objectives

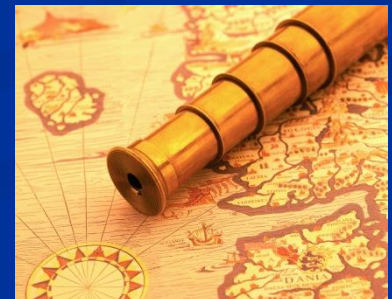
- **Goals:** Broad, long-range attributes to be accomplished.
 - “BHAGs”
- **Objectives:** More detailed, specific targets of performance that are S.M.A.R.T.
 - Specific
 - Measurable
 - Assignable
 - Realistic (yet challenging)
 - Timely



Step 7: Formulate Strategies

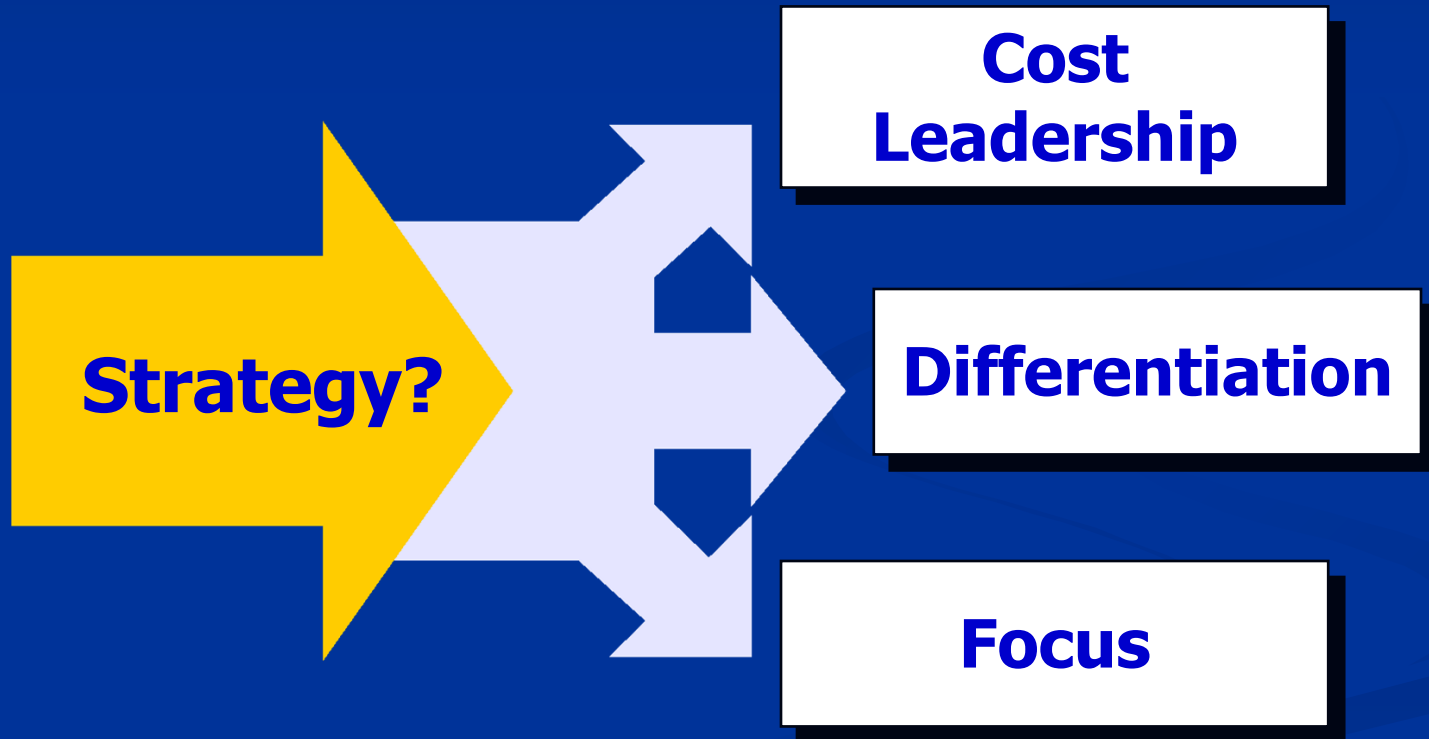
Strategy - a road map of the actions an entrepreneur draws up to achieve a company's mission, goals, and objectives.

It is the company's game plan for gaining a competitive advantage.



Step 7: Formulate Strategies

Three basic strategies:



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Cost Leadership

- Goal: to be *the* low-cost producer in the industry (or market segment).
- Low-cost leaders have advantages:
 - Reaching buyers who buy on the basis of price
 - The power to set the industry's price floor.



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 the *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.



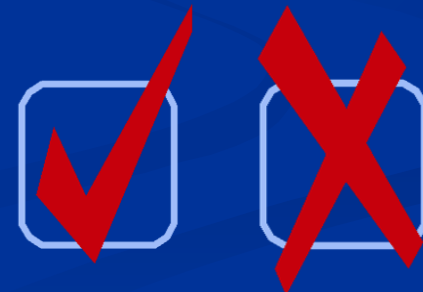
Step 8: Translate Strategies into Action Plans

- Survey of senior executives:
Companies achieved only 63% of the results in their strategic plans.
- Create projects by defining:
 - Purpose
 - Scope
 - Contribution
 - Resource requirements
 - Timing



Step 9: Establish Accurate Controls

- 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

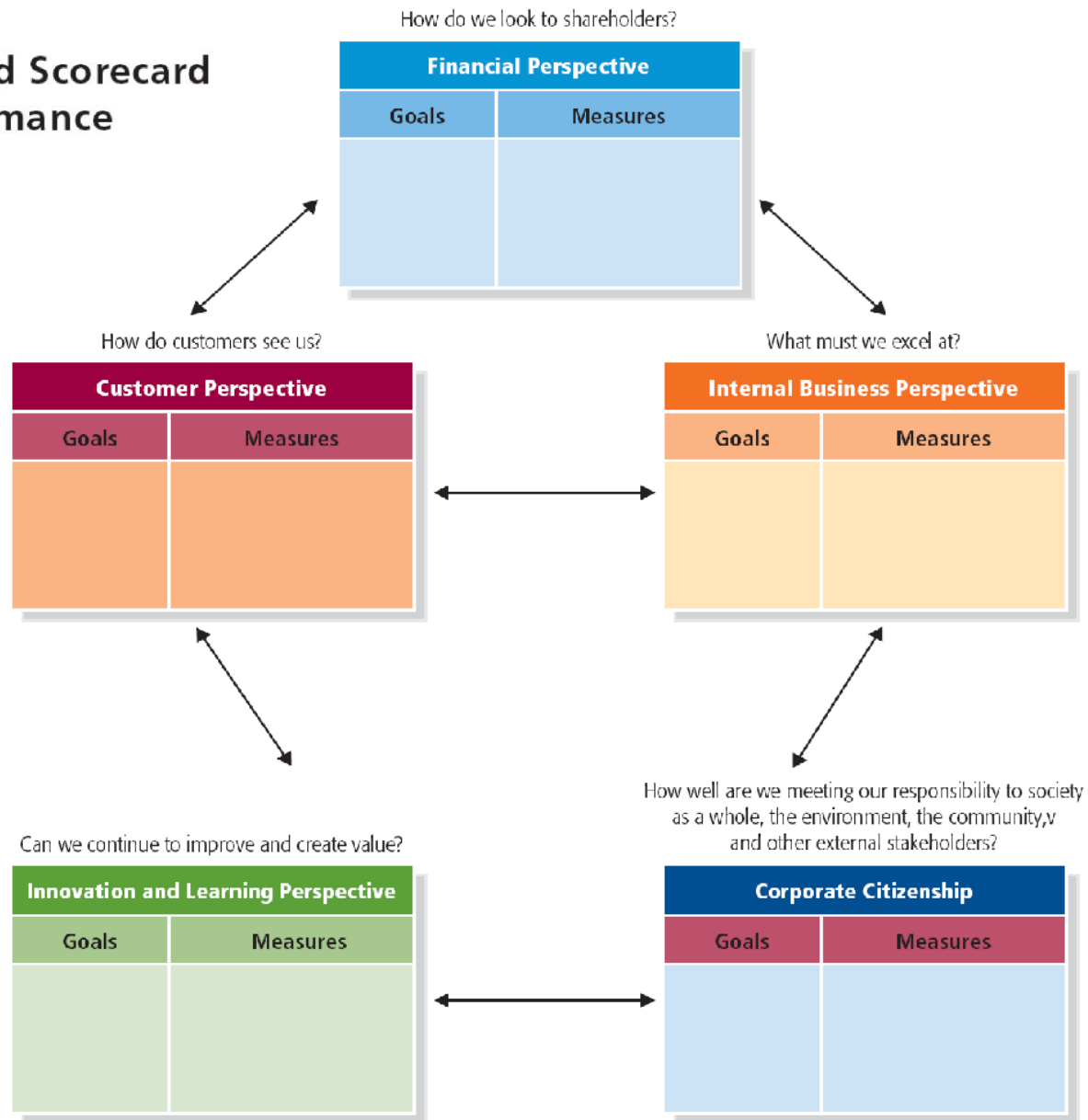
Five Perspectives:

1. **Customer:** How do customers see us?
2. **Internal Business:** At what must we excel?
3. **Innovation and Learning:** Can we continue to improve and create value?
4. **Financial:** How do we look to shareholders?
5. **Corporate Citizenship:** Do we meet our responsibility to society as a whole, the environment, the community, and other external stakeholders?



FIGURE 3.5

The Balanced Scorecard Links Performance Measures



Conclusion

The strategic planning process:

- *Begins* with the nine steps.
- *Teaches* entrepreneurial discipline for a higher chance of survival.



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