

Entrepreneurial Leadership & Organizational Behaviour

ENT 612

Master of Entrepreneurship Program

Lecture 4



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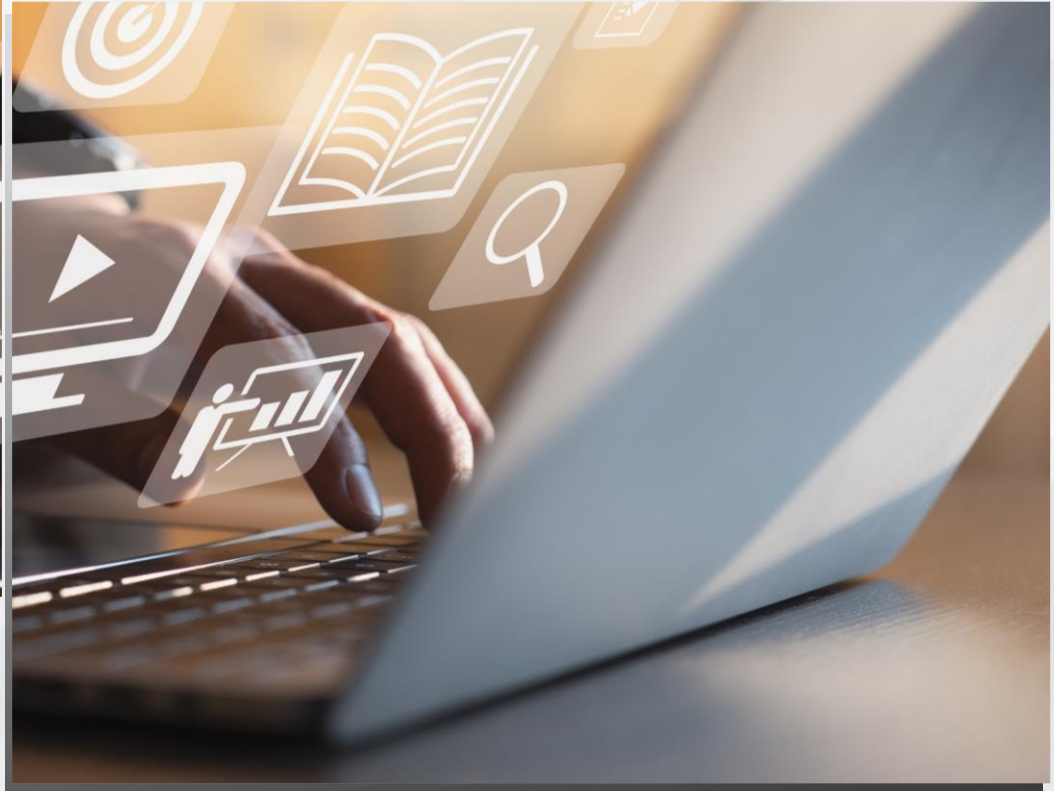
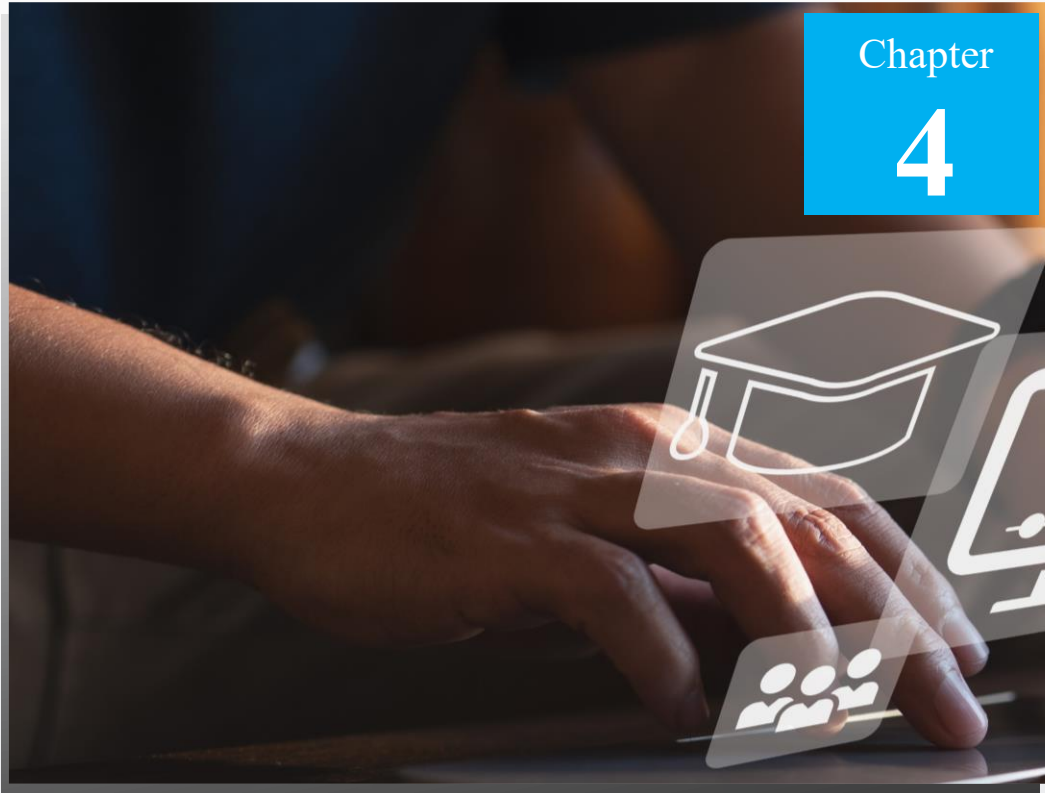
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Chapter

4

Establishing a Comparative and Competitive Advantage



The previous lecture has covered the following topic

Identify a Commercially Viable Problem

- Understanding Primary Demand
- Is it possible to create primary demand?
- The Value of Being Prepared
- Understanding Human Behaviour
- Local Needs and Wants
- General Needs
- Customer Service
- Timing and Strategy
- The Best-Case Scenario: When Strategy Meets Technology
- Changes = Opportunity
- Demographic Changes

The previous lecture has covered the following topics

- Changes in Perception
- Changes Resulting from National and Worldwide Instability
- Solving Problems That Don't Exist
- Disruption
- Never Buy a Business You Don't Understand
- How Much Do I Need to Know?
- Making Something Out of Nothing Is "Special"
- Closing Thoughts: Ideas versus Opportunities
- Funding
- What is crowdfunding and how it works?
- Types of crowdfunding
- What are the disadvantages of crowdfunding?

Establishing a Comparative and Competitive Advantage

This lecture covers the following topics

- **Comparative Advantage: From Ordinary to Extraordinary**
- **Planning a Prototype**
- **Positioning a Product or Service**
- **Selecting a Distribution System**
- **Creating Awareness**
- **Competing on Value, Not Price**



Comparative Advantage: From Ordinary to Extraordinary

Comparative Advantage: From Ordinary to Extraordinary

What makes your business special

what's your 'hook'?

In other words, what do you compete on?

If the person can't answer this question, then he isn't on top of his business.

Now that you know what business you're in, you must research the market you're entering, which includes the *competitors and their products and services*. Working to develop a comparative advantage forces you to do your homework. When you're doing your research, it's essential that you learn *what features your competitors' products or services have*, and how to *make your own product or service unique and better*. Investors demand a strong competitive advantage—that is, proof that you can offer a better or more unique product than your competitors—before parting with their funds.

The difference between a **comparative advantage** and a **competitive advantage**. The latter term is always used, which is much more popular, this term forces the entrepreneurial leader to highlight the uniqueness of the strived-for advantage. In the end, however, they are both the same concept and what attracts investors and is demanded by them for just cause. The stronger the competitive advantage, the larger premium a company can charge for its product or service.

Apple, BMW, Mercedes, and Starbucks are all examples of companies that have a strong competitive advantage, which in turn affords them the opportunity to charge more for their products.

Bob Plath is a terrific example of how a comparative advantage resulted in a strong competitive advantage. He didn't come up with the original idea; he merely improved on it.

Generally speaking, successful new products and services are improvements to existing technology, products, and services. For example, new environmentally friendly lightbulbs last much longer than standard lightbulbs. Hybrid cars are more energy efficient than “traditional” cars. Shatterproof windows are more durable than standard glass windows and also offer a better value, due to their high quality. The iPod has many more features than Walkman did, and it is considered “cool” looking. All these examples include products that were already available to the consumer, just in a different form

Remember that although new successful products are generally improvements on existing ones, to create a strong comparative and competitive advantage, you always need to create a “wow” with the consumer. Cases in point: the iPod, the iPhone, and the Tesla Model S. Generally speaking, when customers recognize a “wow,” that “wow” becomes a powerful marketing tool for your company



Planning a Prototype

Once you've established both a comparative and a competitive advantage, developing a prototype, or "proof of concept," is a must. Your solution isn't real unless you have a prototype! Without proof that you've developed your concept, your idea is just that—an idea.

Your prototype doesn't have to be the finished product. In the auto industry, for example, a "concept car" is usually an advanced example of what the car will eventually look like. Most often, it's changed slightly before being introduced to the market. If your entrepreneurial opportunity is a service, your prototype can simply be an outline of the structure of the service, along with a management and personnel chart.

In the beverage industry, prototypes are fairly simple to produce and far less costly than in other industries. Oftentimes we'd manufacture a small batch of a product, handwrite labels, and have the customer perform a taste test. Packaging the sample was somewhat more difficult but would always produce a "wow." Several times we had a plastic bottle produced for us that would be an exact replica of the new and unique bottle we'd designed.



Positioning a Product or Service

Just as crucial as planning a prototype is positioning a product or service. The term “**positioning**” was coined by Al Ries and Jack Trout in 1972 and refers to how a prospect holds your product or service in his or her mind. It ***is what you want your customers to think of when they hear your product or service’s name.*** Most people think of a “**market**” as being where you sell your product—whether it is local, regional, national, or international. But the real market, as Ries informs us, is **the six inches between potential customers’ ears.**

An important part of positioning is creating awareness; at the time, TV and radio were the best vehicles to achieve this. TV was required for “authorization” of the products, or for the grocer to agree to sell them. So there is no choice even if you have a very limited budget

Creating awareness using advertising is always a challenge for new and start-up companies and brands, even though it appears to be easier today with social media.

Certain options available to us worked then and still do. The first is using the media: stories are more valuable and more effective than paid advertising. If your company is on the news and they’re touting your product, the viewer knows that it is a “real” story and not a paid-for message. The best news of all is that this kind of advertising is free.



Selecting a Distribution System

After positioning a product or service, the next most important task for the entrepreneurial leader is selecting a distribution system. A unique distribution system can provide cost benefits and further enhance a company's competitive advantage.

Companies with large budgets can access traditional systems, including retail outlets, distributors, and franchises. Other companies, however—including your own venture—will often find themselves coming up with their own distribution system.





Creating awareness

Once an entrepreneurial leader has established a sound distribution system, creating awareness—whether by TV, newspapers, magazines, the Internet, or other avenues such as word of mouth—is the next logical step.

Changes in Perception

Closely related to demographic shifts are changes in perception. One only has to watch the morning TV news shows to see how a change in perception has impacted a whole industry. Until recently, women weren't seen as credible hosts of morning shows or network nightly news programs.

There also weren't a heck of lot of women entrepreneurs, and now we have a host of them, including the incredible Oprah.

Changes Resulting from National and Worldwide Instability

On a macro level, unexpected change that's causing a serious problem for the general public can be an excellent way to capitalize on an entrepreneurial opportunity. Ideally, this should be a change that's receiving a great deal of publicity.



Competing on Value, Not Price

Should you wish to undercut your competitors, keep in mind that the market leader can always lower its price. Companies in this position are usually financially very sound.

However, there are ways to compete on value, which is not the same as competing on price. Value is an assessment of the worth of a good or service. Consumers rely on “perceived value,” an internal feeling about how much certain products are worth to them. For the most part, consumers are unaware of the true cost of production for the products they buy.

Competing on price is strictly being the cheapest.

Competing on value is the foundation of sustaining a brand and company.



Making Your Product or Service Sustainable

- **Two Definitions of Sustainability**
- **A trademark**
- **First-mover advantage**
- **Constant and Continuous Improvement**
- **Generating New Business Utilizing Continuous Improvement**



Making Your Product or Service Sustainable

Two Definitions of Sustainability

To most entrepreneurs, sustainability means building a company that will prosper and survive.

Much of corporate tends to complement—or at least mimic—the (United States Environmental Protection Agency) **EPA's**:

Sustainability is based on a simple principle: Everything that we need for our survival and well-being depends, either directly or indirectly, on our natural environment. Sustainability creates and maintains the conditions under which humans and nature can exist in productive harmony.

Based on the “entrepreneurial” definition of sustainability, entrepreneurial leaders should be asking themselves, “***How do I grow and sustain my business in the long term?***”

There are three ways to ensure that your product or service remains sustainable in the entrepreneurial sense



Trademarks

A trademark not only distinguishes a product or service from its competitors, it provides legal protection against others using a company's name or logo. Trademarks make it possible for companies to invest energy, effort, resources, and time in building a brand without the fear of others taking advantage of the goodwill created by their efforts.



First-Mover advantage

Establishing first-mover advantage is another way for your company to ensure sustainability. **First-mover advantage** *can be defined as a form of competitive advantage that a company earns by being the first to enter a specific market or industry.* Being the first allows a company to acquire superior brand recognition and customer loyalty.

The company also has more time to perfect its product or service. Being first and special creates a great deal of free awareness, often due to publicity generated by the news media and word of mouth.

However, first-mover advantage isn't always sustainable, especially when a competitor introduces a product or service that's perceived to be better. Often, a competitor will introduce a "better" product or service quite awhile later and still be recognized as the "first mover." Google, for example, came three years after Yahoo.



Constant and Continuous Improvement

How do you keep the benefits earned by first-mover advantage? One answer is constant and continuous improvement in every area of doing business, including marketing, operations, and finance. The companies that fail to do this lose their first-mover advantage and damage their sustainability.

An excellent example of constant and continuous improvement, particularly in the area of customer service, by watching the CEO of Crown Cork & Seal. I thought I'd seen it all until I met Mr. Connelly. For years he answered his own phone calls, so as not to have people be "filtered" by anyone. Any customer could call him directly, and he would pick up the phone and carry on a conversation.

Generating New Business Utilizing Continuous Improvement

Creating products and services is an ideal way of generating new business, but we should never neglect our existing products and services as fertile ground to generate new business. The best and easiest way to accomplish this is through continuous improvement of our existing line of products and services. We only have to look at the examples of Microsoft, with the continuous upgrades of their software products, and Apple, with their new and better iPhones and iPad models. This strategy has worked so well for Apple that they recently became the first company to be worth more than

\$700 billion.

Continuous Improvement and the Wow Factor

All changes are governed by the rule that “**change is not justified unless it can create a ‘wow,’** or **something dramatically better than that of our competitors.**” Generally speaking, when customers recognize a “wow,” that “wow” is a *powerful marketing tool for your company.*

Creating a “wow” with your internal customers (employees) is also important.

The total quality management (TQM) program created a wow by empowering our people, benchmarking the production efficiencies against world-class standards, elevating the service levels to those of world-class companies, and attempting to reduce consumer complaint letters.

Most people and companies settle for “good enough,” and not excellence. In today’s ultra-competitive marketplace, however, “good enough” doesn’t cut it, especially with the presence of the Internet and our worldwide communications explosion.

Excellence also won't cut it unless it can be sustained. Protecting intellectual property with patents and trademarks is helpful. Being first can be an advantage; however, it isn't everything, as companies like Google have shown us. Continuous improvement is essential in generating new business from existing products, and it is the one element that will protect and maintain a comparative and competitive advantage. This advantage is essential to sustaining excellence in the highly competitive world we live in.

Closing Thoughts: A Big “Wow” in a Small Way

Mother Teresa once said, “Not all of us can do great things. But we can do small things with great love.” Often when talk about “wows,” people think that it has to be an “iPad wow” or something equally spectacular. It doesn’t—it can be something as simple as a three-day service guarantee.

Luca Cassani and Antonio Pariano, who own and operate Cassariano's Italian Eatery in Venice, Florida, are great examples. Antonio is the chef and an outstanding one.

The clincher is that Luca greets everyone when they come in, and he also tends to them when they're sitting down. He's very pleasant, knows everyone's name, and never forgets to greet you in a personal manner. Luca makes sure all the staff provide prompt and courteous service.

We're not accustomed to being greeted by the owner of a business, let alone one who is pleasant and knows and remembers your name.

Keeping Your Product or Service Profitable

- Three Ways to Avoid Liquidity Problems
- Guarding Your Cash
- Avoid Unnecessary Debt
- Negotiating Terms with Suppliers
- Guarding Against Customers' Debt
- Banking on an Important Relationship

Three Ways to Avoid Liquidity Problems

One of the most common and difficult problems for new companies is liquidity or having enough cash to operate. Liquidity problems often surfaced in companies that are in serious trouble; however, they also can occur in profitable companies profitable on paper, that is. A company can show a profit when the comptroller produces a financial statement, yet still, be out of cash.

Three ways to keep this from happening:

1. **Guarding your cash,**
2. **Negotiating beneficial terms from suppliers.**
3. **Diligently policing your accounts payable to guard against bad debt**

Guarding Your Cash

Guarding your cash means making sure you have enough in reserve to pay your bills, including meeting payroll and covering the mortgage. Failure to make payroll not only may drive away employees but will also destroy your credibility with those who decided to stick with you. And the easiest and surest way for your company to be out on the street is by missing mortgage payments. Also, keep in mind that a failure to pay suppliers will result in not being able to obtain the materials necessary to produce your products and make delivery.

Guarding your cash is also a good barometer of how well you are doing: if you have a surplus of cash, it's a good indicator that you are fiscally on the right track. Always be sure to keep a close eye on your books.

Negotiating Terms with Suppliers

When negotiating terms with suppliers, you should always ask for the longest payment periods possible.

Avoid Unnecessary Debt

Another thing you should do is be careful not to make unnecessary debt and obligations.

This principle is just as important when a business is doing well. Often when things are really good and the cash is rolling in, we are tempted to buy things that we don't really need. Before deciding if you can afford something, it is important to ask, "Do we really need this?" If the answer is yes and the item is essential, then the next questions should be, "Does this fit in our budget? What do we have to gain if we buy this item? What do we have to lose if we don't?" In other words, "Can we afford the payments based on current profits, and can we sustain the payments if we have a drop in our business?" The final question to ask is, "How long will it take us to pay for it?" In other words, how long will you have to deal with this additional payout? In assessing your liquidity, it's good to remember the saying, "Always keep enough in reserve for a rainy day."

Guarding Against Customers' Debt

Guarding against customers' bad debt often means enacting several measures. conducting a thorough credit screening, as well as reviewing customers' payment histories and credit ratings.

Banking on an Important Relationship

This a critical point for entrepreneurial leaders when it comes to dealing with bankers, accountants, lawyers, and all other professionals. These people most often are very influential and have powerful contacts. If they like you and your company, they will pass this on, and it will help tremendously to build your credibility and reputation and those of your company. Finding and hiring the right professionals can be challenging. It requires the same knowledge, skill set, and process as building a team that will help you generate new business

Eight Tips for Effective Team Building

1. Attitude and Character Are More Than 50 Percent; Skills Can Be Taught
2. Know Yourself and What Help You Need
3. Pick People Who Are Better Than You at What You Do
4. Be a Team Player—Leave Your Ego at the Door
5. Experience Matters
6. Mix Experience with Youth
7. Remember: Partnerships Are Easy to Get Into and Difficult to Get Out Of
8. Control Matters Bylaws The Shareholder Agreement

In a new venture or any venture, for that matter having an effective team is the most critical factor in determining if the first four steps of my model can be successfully implemented. Good people will recognise a commercially viable problem, help to develop a unique solution, and assure sustainability and profitability.

1. Attitude and Character Are More Than 50 Percent; Skills Can Be Taught

Character is even more important than attitude. “character is what a person does when no one is looking.” Good character is a must, because no company has enough time and money to monitor every employee all the time. If a candidate had the right attitude and character, we found that we could teach him or her the skills necessary for the job.

2. Know Yourself and What Help You Need

Probably the most difficult person to be honest with is one’s self. Most entrepreneurial leaders know their strengths, but they also need to learn their faults, painful as the process can be. Team building has to start with an assessment of both our strengths and weaknesses. Only then can we build a team that fills in the gaps with people who have skills we don’t have, and that we need.

3. Pick People Who Are Better Than You at What You Do

This should be a matter of common sense, but in the words of Mark Twain, “Common sense is not so common.” If there are skills you don’t have and you pick people no better than you, the team can never improve in these areas, which isn’t very good.

4. Be a Team Player—Leave Your Ego at the Door

Life, leadership, and entrepreneurship are all team sports. willing cooperation from subordinates is what leaders need most to be successful. In other words, an organization should be built around teamwork and team players, not superstars. Working together as a team, with each person pulling his own weight and then some, is the ideal form of cooperation. And the more people you lead, the more you need your people to cooperate willingly with you and each other.

5. Experience Matters

Young people are terrific to have, because they have great energy and enthusiasm. They lack one thing, though: experience. I have often heard people say that experience is the best teacher, but I believe this just isn’t so. Bad experiences can leave scars that are difficult to overcome. One of the worst things we can do as leaders is pushing people too far too fast.

6. Mix Experience with Youth

When assembling a team, it's always important to make sure that each department has both young and experienced people. All of one without the other can be fatal. Packing a department with only experienced people who are winding down their careers can make for tired, risk-averse employees. Often these employees are very much set in their ways. All inexperienced people, regardless of their age, become a total learning experience with little guidance. Mixing the two is an excellent formula: the new people give energy to the more experienced ones, and the experienced ones return the favour by providing wisdom.

7. Remember: Partnerships Are Easy to Get Into and Difficult to Get Out Of

Business partnerships are like marriage: easy to get into, and very hard to get out of. Some simple rules in choosing a partner: First, the “fit” principles and values have to be the same. A partner should bring into the organization something that you otherwise could not obtain from an employee. Also, your partner's skill levels should be different from and complementary to yours.

8. Control Matters

As you move forward with choosing your partners, keep in mind one critical factor: control. Maintaining control of the ownership in your company should be a major factor. As an entrepreneur, the last thing you need is for partners to have control over you and your company. Approaching your affairs this way doesn't mean you don't want your partners' participation and cooperation, just that you won't relinquish your authority. Two considerations are very important: the first is control of the operations of a company, and the second is the right to sell without consent from minority partners.

The advice is to focus on your company's **bylaws** and **shareholder agreement**.

Bylaws

Bylaws are an important tool for all organizations. They are a legal document that outlines the rules that govern an organization while providing guidelines for running the company.

The Shareholder Agreement

The shareholder agreement is a more general agreement outlining how a company should be operated, in addition to the rights and obligations of shareholders. It also regulates the shareholder arrangements (how shareholders shall interact), the management structure, the breakdown of ownership of shares, and the privileges and protection they provide.

This lecture covered the following topics:

**Establishing a Comparative and
Competitive Advantage**

**Making Your Product or Service
Sustainable**

**Keeping Your Product or Service
Profitable**

Effective Team Building



Chapter

02

Conclusion

- Entrepreneurial Leadership: A practical Guide to Generating
New Business by Angelo Mastrangelo 1st Edition.

Chapter
03

Text book & References





Thank You