

# 2 Start-Up and the Need for Competitive Advantage

## LECTURE NOTES

---

### 1. Distinguish among the different types and sources of start-up ideas.

---

#### A. The start-up: creating a new business (p. 28)

- *Discuss the typical reasons for developing a start-up rather than pursuing the other alternatives:*
  - Invention or development of a new product or service; major revision of an existing product or service
  - An existing advantage to exploit in the areas of location, employees, equipment, products and services, suppliers, and so on
  - Avoidance of undesirable precedents and commitments—that is, taking advantage of opportunities arising from the inadequacy of competitors

#### B. Finding start-up ideas (pp. 30–32)

##### 1. Kinds of start-up ideas

- *Discuss the three basic types of ideas that shed light on the entrepreneur's search for a start-up opportunity.*
  - New market ideas: providing customers with a product or service that is not in their market but already exists somewhere else
  - New technology ideas: using a technically new process that provides the basis for new product or service ideas
  - New benefit ideas: performing an old function for customers but in a new and improved way

##### 2. Sources of start-up ideas

- *Discuss the circumstances that tend to spawn the kinds of ideas listed above. In other words, where do these ideas come from?*
  - The origin of new product ideas was examined in a study by the National Federation of Independent Business Foundation. Prior job experience accounted for the largest percentage of ideas (45 percent).
  - Even though a new idea can come from virtually anywhere, the text has identified four categories:
    - *Personal experience. Recall the text example of RiNGLEY or any personal experience that you may have (consulting, business ideas you would start if you had more time, etc.).*
    - *Hobbies. Use the story of Ted Catherwood, who used his hobby of motorcycling to form a business. Ask students if they have ever come up with an idea for a new product or service while pursuing their own hobbies.*
    - *Accidental discovery or serendipity. This is the phenomenon of making desirable discoveries by accident (e.g., Matthew Basan from the text).*
    - *Other idea leads. Discuss the two general avenues of deliberate search: (1) a survey of personal needs and (2) a survey of needs in the marketplace. Elaborate on the top*

*10 sectors as covered in Profit magazine or Canadian Business or use the Hootsuite example from Chapter 1.*

---

## **2. Describe external and internal analyses that can be used to identify and assess new venture opportunities and describe the factors that contribute to competitive advantage.**

---

### **C. Using internal and external analysis to identify and assess new business ideas** (pp. 32–37)

#### **1. Outside-in analysis**

- The general environment. *Refer to Exhibit 2-3, Trends in the General Environment (p. 33).*
- The industry environment. *Emphasize the five factors identified by Michael Porter as determining the nature and degree of competition in an industry:*
  - Bargaining power of buyers
  - Threat of substitutes
  - Bargaining power of suppliers
  - Rivalry among existing competitors
  - Threat of new competitors

#### **2. Inside-out analysis**

- Building on internal resources and capabilities
- Core competencies and competitive advantage

#### **3. Factors contributing to competitive advantage**

- *Ask students to identify a small firm that has a competitive advantage.*
- *Discuss how business strategy can identify a competitive advantage and provide direction for a small firm.*
- Price/value
- Unique service features
- Notable product attributes
- Customer service
- Accessibility
- *Discuss strategy and strategic decisions. Ensure that students have a good grasp of business level versus functional level strategies.*

#### **4. Integrating internal and external analyses.** *Refer to Exhibit 2-4, Examples of SWOT Factors (p. 37)*

---

## **3. Identify and compare strategy options for building and sustaining competitive advantage.**

---

### **D. Selecting strategies to gain competitive advantage** (pp. 37–40)

- 1. Cost-advantage strategy** (e.g., Tangerine)
- 2. Differentiation-based strategy** (e.g., Canada Goose)
  - *Discuss use of the Internet to create a competitive advantage.*

**E. Sustaining competitive advantage**

- *Describe the importance of sustainable competitive advantage.*
- Even if a company is successful, this is no guarantee that it will remain so.
- A value-creating industry position that is likely to endure over time only if it sustains competitive advantage
- To sustain competitive advantage, firms must adapt.

**4. Define market segmentation and its related strategies.****H. Market segmentation and its variables** (pp. 40–42)

- *Define market segmentation.*
- *Discuss examples where segmentation has recently emerged, such as the computer industry.*

**1. Types of market segmentation strategies**

- *Discuss the need for market segmentation and the two types of strategies:*
  - a. The multisegmentation strategy** (*see Exhibit 2-5, p. 41*)
  - b. The single-segmentation strategy** (probably the best strategy for small firms). This strategy was followed by I Love Rewards, which became one of Canada's Top 100 Employers and is ranked as one of the 100 Fastest Growing Companies by *Profit* magazine.

**5. Explain the concept of niche marketing and its importance to small business.****I. Niche marketing** (pp. 42–44)**1. Selecting a niche market**

- *Discuss the examples from your experience or the two from the text: Spa At Home and Pacific Coastal Airlines.*

**2. Maintaining niche market potential**

- *Describe the four situations mentioned in Michael Porter's book, Competitive Advantage, in which a segmented market can erode.*

## **ANSWERS TO END-OF-CHAPTER DISCUSSION QUESTIONS**

1. *What are the three basic types of start-up ideas? What are the most common sources of inspiration for start-up ideas? (pp. 28–32)*

Three basic types of start-up ideas are new market ideas, new technology ideas, and new benefit ideas.

Common sources can include personal experience, personal interests and hobbies, and accidental discovery.

2. *List and describe the five approaches outlined in this chapter that can be used to generate creative new business ideas. What are the most important features of each of these? (pp. 32–35)*

Approaches include looking outside-in and inside-out through an examination of the external and internal environment. By looking outside-in, entrepreneurs can examine the needs in the marketplace and then determine how to use their own capabilities to pursue those opportunities. They can also look inside-out by evaluating their capabilities and then identifying new products or services they might be able to offer to the market. In purposeful exploration, both an outside-in analysis and an inside-out analysis can be used. An outside-in analysis features the exploration of the external environment in both the general environment and the industry environment. An inside-out analysis features the resources and capabilities of a firm.

3. *List the six most important trends of the general environment. What are some ways in which each trend might affect a small business? (p. 33–34)*

The six most important trends of the general environment are political/legal, sociocultural, demographic, economic, global, and technological.

Examples of ways in which each trend might affect small business will vary. Certainly included in political/legal examples could be the no smoking bylaws in bars and restaurants in some jurisdictions. Examples on economic trends could include issues on disposable income of the target market.

4. *What are the primary factors that shape competition in an industry, according to Porter's model? In your opinion, which of these factors will have the greatest impact on industry prices and profits? (pp. 37–40)*

Small businesses can create competitive advantage through (1) price/value, (2) unique service features, (3) notable product attributes, (4) customer experience, and (5) accessibility. For the successful implementation of these, answers will vary depending on students' experiences.

5. *What is a SWOT analysis? How can a SWOT analysis help the entrepreneur match opportunities in the external environment with organizational capabilities? (pp. 36–37)*

A SWOT analysis examines a firm's internal strengths and weaknesses and its external opportunities and threats. When two primary components are identified, a strategic direction can be suggested.

In the case where internal strengths are great and good opportunities exist, then the firm takes advantage of its situation. Where internal weaknesses outweigh a firm's strengths and good opportunities exist, then the strategic direction would be to fix the internal weaknesses.

6. *Why is it important to consider sustainability in the development of competitive advantage? What measures can a small business take to ensure sustainability?*

From the beginning, the entrepreneur should plan sustainability into strategy by leveraging the unique capabilities of the firm in a way that competitors will find difficult to imitate. The entrepreneur must recognize that sooner or later rivals will discover a way to duplicate any value-creating strategy. It is important to think of new ways to invest performance outcomes so that the basis of the competitive advantage can be renewed over the long run.

7. *What are the two basic strategy options for creating a competitive advantage? (p. 38)*

One option involves creating a cost advantage by producing a product at the lowest cost within the market. The second option is achieving a marketing advantage by creating a product or service that can be differentiated in the marketplace.

8. *What is meant by the term focus strategy? What are the advantages and disadvantages of a focus strategy? What must an entrepreneur know and do to maintain the potential of a focus strategy? (pp. 40–44)*

Focusing on a specific market niche is a strategy that small firms often use successfully. The advantage of doing this is being able to exploit in a market rather than going head to head with the competition. The disadvantages to this strategy are that the dangers from imitation can materialize; the target segment may erode or disappear; differences with other segments narrow; or new competition further subdivides the target segment.

In order to maintain the potential of a focus strategy, an entrepreneur must do the following:

- a. Restrict focus to a single market segment
  - b. Limit sales to a single geographical region
  - c. Emphasize a single product or service
  - d. Concentrate on the superiority of the product or service
9. *Explain the difference between a multisegmentation strategy and a single-segmentation strategy. Which one is likely to be more appealing to a small firm? Why? (pp. 40–42)*

A multisegmentation strategy involves approaching two or more homogeneous market segments with a tailor-made strategy for each segment. The single-segmentation strategy targets one segment that the firm believes will be most profitable. The single-segmentation strategy usually allows small firms to use their limited resources more efficiently.

10. *What is meant by the term niche marketing? (pp. 42–44)*

Niche marketing is exploiting a target market area in which there is little or no competition.

11. *What are four challenges a firm might face if using a niche marketing strategy? (pp. 42–44)*

1. The focus strategy is imitated.
2. The target segment becomes structurally unattractive because of erosion of the structure or because demand simply disappears.
3. The target segment's differences from other segments narrow.
4. New firms subsegment the industry.

## **COMMENTS ON CHAPTER "YOU MAKE THE CALL" SITUATIONS**

### *Situation 1*

1. *How would you classify Sandler's start-up idea?*

Sandler's idea will make use of a recent technological advance: the computer. Nevertheless, his concept is still a type C idea because students in special education have received lessons from other sources for years; Sandler's idea is to perform the function in a new, improved way.

2. *What was the source of Sandler's new idea?*

This idea was born from a combination of personal experience and deliberate search. Sandler's previous experience with his successful company certainly influenced his perception of his children's education "school." Aboard the train in France, Sandler found inspiration for a new venture and therefore had the "readiness of mind" mentioned in the textbook. Although education was not necessarily Sandler's hobby, his idea identified this potential to teach young children, based on examples of what he saw in Russia and in parts of Europe.

3. *Do you think Sandler might develop his idea with a start-up or a buyout? Why?*

If distribution becomes the key element to the success of the venture, he may consider a buyout of an existing educational business that could provide vital links to ultimate consumers.

Otherwise, Sandler may select the start-up route. It would seem that the creation of specialized knowledge in the children's education field is his main challenge. He might be capable of creating his vision and operating the business out of his home.

#### *Situation 2*

1. *What particular niche market, if any, do you think Singh can successfully reach with this product? Why?*

The suitcase should appeal to frequent flyers if it is modified to be more attractive. Such potential customers would not have so much baggage that they would need to check it. Also, their short trips would make it desirable to have their belongings immediately available and to avoid mistakes in the routing of their bags.

2. *Do you think he will face an immediate challenge from local or global competitors? If so, how should he react?*

Until this product attracts much more attention, the makers of Samsonite and other major brands are likely to ignore or be unaware of it. If and when competition does appear, Singh may emphasize product superiority to differentiate his suitcase from those of competitors. This approach may be preferable as it is typically difficult to compete with large corporations on a cost basis. Quality may also be more important than low cost to Singh's potential customers.

3. *What type of quality concerns should Singh have regarding the product?*

Some of the primary concerns are durability, ease of use (e.g., easy rolling), convenience in handling (e.g., lifting into aircraft storage bins), attractiveness (e.g., colour and shape), and security (e.g., type of lock).

#### *Situation 3*

1. *Will the market for Sanderson's product continue to grow in the years ahead?*

Market growth of Sanderson's product probably will expand as international business continues to expand. The offset of this would be greater use of non-travel communication.

2. *Given the company's success so far, what sources of competition should he expect?*

Competition could come from different quarters. "Me too" companies could appear; hotel chains could start their own products; and indirect competition may be reducing travel using technology such as Skype.

3. *What steps would you recommend that Sanderson take to protect his company from the onslaught of competition that is likely to come?*

In order to protect his company from competition, Sanderson should sign noncompete agreements with hotels, develop copyright procedures connected with treatment, and start developing brand awareness.

## ***CLASS ACTIVITIES***

### **What Is the Advantage?**

Break the class into groups and assign each a local or well-known small business. Have each group discuss and then present the following:

- Identify relevant direct competitors.
- What is the competitive advantage they seem to have?
- Describe how it fits into being either a cost or a market advantage.
- Does it seem like a viable strategy? Why?

### **We Have an Advantage Over You**

This exercise is based on the traditional game of jacks played with a ball and jacks, which are easily available in the party section of most dollar stores (although any small object that is fairly easy to pick up can be substituted for the jacks). To play, bounce the ball off the ground, then pick up jacks, and then catch the ball before it bounces for a second time. Whoever picks up the most jacks wins. The traditional rules can be found at <http://en.wikipedia.org/wiki/Jacks>.

- Divide the class as evenly as possible into teams of four to six members.
- Begin by demonstrating the game. Bounce the ball, pick up some jacks, and catch the ball.
- Give each team some balls and a pile of jacks.
- Instruct students that the object is for the team to pick up as many jacks as possible in one minute. Jacks can be picked up only while the ball is in the air.
- Give groups five to 10 minutes to practise and strategize, ideally away from each other.
- Run a timed round.

### Notes

- Do not over-explain the rules. We are deliberately being vague so that they can find some sort of advantage the others haven't thought of. Examples include having one person bounce the ball while others pick up jacks or bouncing the ball off a high surface, such as a table, and catching it near the floor.
- Keep a pile of jacks and balls at the front in plain view but make no reference to them. Some of the groups may come and take extras to give them an advantage.

### Variation

Run multiple rounds but introduce some sort of barrier. Examples include allowing only one person to talk, insisting everyone must be sitting, and removing a person from the group.

### Discussion

- What advantages were used?
- What barriers to finding or using an advantage did teams experience?