CHAPTER

Strategic Position & Risk Assessment

Strategy is destiny.

In today's highly competitive and constantly changing business environment, it's no longer enough just to know HOW to run a business; you also have to know WHAT business you're really running. While you must, of course, attend to the basics of operating your business, you also have to see exactly where you stand in the marketplace, what makes you compelling to customers, and what advantages you have over the competition. You need a clearly-defined strategic position.

"If there's one thing I've found as an entrepreneur, as an investor, is that there are a lot of different ways to make money. You just have to know which one you're pursuing. The problem comes when you think you're in one market, but you're really in another."

Andrew Anker
Venture Capitalist

Defining a strategic position is as important for the proverbial "mom and pop" family business as for a high-technology company. The old neighborhood hardware store now competes not merely with another hardware store down the street, but also with Home Depot and other "big box" home repair retailers. And the owners of that local hardware store can no longer fall back on the comforting belief that "we're more convenient"—not when they also compete with hardware suppliers that sell over the Internet and deliver directly to customers' doors.

Today's business reality is that customers have easy, convenient access to many of your competitors, some of whom may sell the same or similar products or services for lower prices. In this environment, you have to develop a distinct impetus for your customer to keep doing business with you.

A Strategic Position Defines What You Do

One of the great advantages of outlining a strategic position is it gives you a touchstone when making business decisions. Just as a well-written mission statement guides your company's values and long-term vision, a well-delineated strategic position influences almost every aspect of your business, such as the development of your products or services, marketing, operations, and choice of location.

You can differentiate your company from its competitors in many ways. You have probably started a company with a sense of vision or purpose. You may have felt a lack in the market or wanted to pursue a particular passion. The key is to find the strategy that best aligns your strengths and interests to real opportunities in the competitive environment. Your strategic position should be where you find the following coming together:

- Your strengths and interests
- Industry trends and developments
- Market changes and opportunities
- Competitive changes and opportunities
- Changes and opportunities brought through new technologies

If you're already in business, you may have already evolved a strategic position, whether or not you realized it. You may have innately understood that you needed to carve out a distinct identity for your business to separate you from the competition and to help focus your activities.

Take the example of a flower shop in a large city. Two partners opened their store in a middle-class neighborhood, beginning as just a "bucket shop"—a place where people picked up a dozen flowers on their way home from work or sent a birthday bouquet. Over time, however, their talents and interests led them to start designing floral decorations for high-society events and weddings. While that market was being served by others, demand for high-end florists was growing in their city. Because of their talents, they were able to compete effectively for this business.

To reinforce their new position, the two partners changed their operations and marketing. To gain visibility with their target market, they donated floral arrangements to charity benefits, created new brochures, and worked with different, more exotic and expensive flowers. Eventually, only a small percent of their income and profits came from the local neighborhood. As a result, when the nearby supermarket began selling cut flowers (and later, when customers could order arrangements over the Internet), it had little impact on this florist's business.

Instead of pursuing the obvious business strategy—serving their neighborhood—they instead found an opening in the overall competitive market that fit their abilities. They found their strategic position.

A Strategic Position Also Defines What You Don't Do

Defining a strategic position is particularly important for new companies that must quickly distinguish themselves from the competition. Since your resources are always limited (especially in younger companies), having a clear strategic position assists you in figuring out how to allocate those resources.

As important as helping you determine what to do, a well-defined strategic position is a boon in helping you decide what NOT to do. This not only saves you a lot of time and money, but also makes you more confident of your business decisions, some of which may not be understood by others.

In the case of the florist, for instance, on any given day, a shopper might have walked into their store and not been able to find so much as a dozen roses or daisies. The partners stopped advertising in the Yellow Pages. When their lease was up, they moved to a less-convenient, second-story location, which could hardly be seen from the street.

These all seem like foolish moves if you think of this florist as a typical retail flower shop, but they were all decisions consistent with the partners' strategy: to target the upscale event market. With minimal desire for walk-in traffic, location was less critical, and they had little need to keep flowers on hand. They had carefully chosen their position, which helped them understand what activities were of lower priority. They didn't try to be all things to all people.

Strategic Position Is More than Advertising

Don't be confused: A true strategic position is not the same as an advertising campaign or slogan. Advertising and marketing are means to achieving your strategic position—they help you create the image consistent with your position and get your message to potential customers. Defining a strategic position is about creating a meaningful place for yourself—a position—in the market.

How does Coke differentiate itself from Pepsi? Very little of the difference is based on the qualities of the products or the market segment they are targeting. The two companies may have incorporated some operational differences, but they differentiate themselves primarily on the basis of advertising—not strategic positioning. When Snapple came along, they created a totally different position for themselves in the market. Snapple didn't try to compete head-to-head with Coke and Pepsi; instead, it looked for a different segment of the soft drink market: the non-cola, non-carbonated soft drink.

If a luxury car company that has sold primarily to older consumers decides to market to younger drivers, it won't be enough to take the same kind of car they've been making and devise a clever advertising campaign. The product itself—in this case a car—has to be redesigned to fit the tastes of their target market. It may have to be smaller, sportier, faster, with more electronic gadgets. Not only will the marketing materials need to be geared toward a younger audience, but the salespeople will have to be trained to learn that the 20-something kid in the rock band T-shirt may not be just killing time with a test drive but may actually be an Internet millionaire ready to buy.

What Kinds of Strategic Positions Are There?

What makes a company different? Is it the nature of its products or services? The quality or cost? The geographic area or type of customers served? Perhaps the company has proprietary products customers can't find elsewhere.

There are many ways to distinguish yourself from your competitors, including:

- Customer Perception Factors
- Market Segment
- Market Share
- Operational and/or Technological Advantages
- Proprietary Products, Technology, Abilities, or Relationships
- Sales Channels

Each of these strategic approaches offers opportunities but also poses pitfalls. And they may be related: If you are positioning your company on the basis of low price, you'll also need operational efficiencies to reduce costs or else you won't be able to survive against competitors with higher profit margins.

Customer Perception Factors

"You have to understand the consumer's need. What's their pain? Why do they need to change? Solve that pain, and then get that message out."

Andrew Anker
Venture Capitalist

This is the "better, faster, cheaper" approach based on how customers distinguish your company and its products and services from the competition. Some key customer perception factors are:

- Price
- Quality
- Features
- Customer service
- Societal impact (environmental, animal testing, and so on)
- Convenience

Concentrating on customer perception factors is the most typical method of attempting to differentiate yourself from the competition. They seem the simplest, most straightforward way to compete. Surprisingly, they may be the most difficult to achieve and maintain. For instance, competing on the basis of price is often perilous. While it is easy—in the short run—to attract customers on the basis of low price, highly price-sensitive customers are the most fickle, quickly tempted away by the next company offering a lower price. Once you appear to be attracting a significant portion of the market, well-funded established competitors can lower prices (even if they have to take a loss) to compete temporarily until you are no longer able to sustain your losses.

Other perception factors may be harder to "prove" to the market. You may have to spend a lot of money on marketing and advertising to get customers to realize that you offer additional features, more convenience, or higher quality. Once you do, however, you may be able to build a loyal and committed customer base that appreciates the differences between you and your competition.

Market Segment

This strategy is based on targeting a specific portion of the total market.

Some possible ways of segmenting the market are:

- Geographic location
- Age, income, interests, family size, and so on, of consumer served (in business-to-consumer companies)
- Age, size, and/or industry of business served (in business-to-business companies)
- Customers' specialized need

Deciding to aim at a particular market segment or "niche" offers many competitive advantages, especially for newer and/or smaller companies. While you trade having a larger total market from which to attract customers, you can more easily (and often more inexpensively) gain visibility and credibility with a smaller, more focused market. Targeting a small market also gives you the opportunity to develop special expertise and experience, giving you an edge when competing head-to-head with others. For instance, a human resources consultant who specializes solely in serving hospitals will have a far easier time attracting additional hospitals as clients than a general human resources consultant.

The pitfalls in targeting a market segment are that the market size may not be big enough to sustain or grow your company, the target market may already be saturated with specialists, or, once you've proven that the target market is big enough and rich enough, larger companies will come in and compete with you.

Thinking globally, you may want to target a specific region, perhaps one that is underserved, and in which you can become a market leader. For instance, you may be in a highly competitive environment in the United States, but even though Australia and New Zealand are far smaller markets, there may be far fewer competitors and greater potential to be a market share leader at far lower costs.

Market Share

This strategy is based on establishing and commanding such a dominant portion of the total customer base that it becomes difficult for others to compete. The goal is to become the "800-pound gorilla" of a market.

It's almost impossible—and very expensive—to displace entrenched market leaders in established market segments. In the soft drink market, for instance, it's forbidding to try to compete against Coke and Pepsi. Even well-funded competitors have difficulty gaining a few percentage points of market share. Newcomers in mature markets typically must pursue niche market strategies (or even create new market categories, such as Red Bull did with energy drinks, or VitaminWater did with flavored and fortified water products).

But when factors allow new markets to open—as has happened with the Internet or with falling trade barriers that let foreign competitors enter a nation's market—tremendous opportunities become available. Then, there's a rush to capture customers' awareness—or "mind share"—hoping to translate that to market share. In such instances, entrepreneurs try to get their companies, products, or services established before the competition. In Internet and technology instances, there's typically a particular urgency to gain a "first mover advantage" (see below).

Operational and/or Technological Advantages

Another strategy is to gain significant competitive advantages through instituting better internal procedures, operations, or technology, giving you substantial benefits—such as higher profit margins—over the competition. Because these advantages are often unseen—directly—by customers, their significance is often unrealized. However, many companies have succeeded not by clever market strategies but by running their business better than the competition. For instance, See's Candies' inventory management system results in very fresh candy at its stores with minimal waste; this results in better tasting candy and higher profit margins.

Proprietary Products, Technology, Abilities, or Relationships

"The fact that we were first meant that we had to fight the least to get attention. That gave us a period of five or six months of being one of the very few games in town, and that enabled us to build the customers' sense of habit that you need. By the time we had to market ourselves against the competition, we had built customers' habits."

Andrew Anker
Venture Capitalist

Another strategic position is to develop or secure exclusive assets that will be difficult or impossible for competitors to replicate. For manufacturing and technology companies, these may be patents, processes, or copyrights. For others, proprietary assets might include distribution agreements, licenses, strategic partnerships, even hiring certain employees with exceptional talents. The key to this being an effective strategy is that you have to identify those aspects of your business where proprietary assets make a real difference, and then you must secure those assets in such a way that your competitors can't easily replicate or circumvent them.

Sales Channels

In some instances, you may be able to differentiate your company by the manner in which you reach and sell to customers. For instance, some computer companies, such as Dell, distinguished themselves early on by selling directly to consumers rather than through retail computer outlets. Later, the Internet opened up the opportunity for many other companies to circumvent existing sales channels and sell directly to customers. But using different sales channels as a key strategy doesn't necessarily require a high-tech approach—Tupperware uses house parties instead of retail outlets to compete against Rubbermaid.

First-Mover Advantage?

"No one's ever done anything like this before." Many entrepreneurs believe their key strategic position is that they've developed a new concept—product, service, technology, Internet business—before anyone else. They recognize that there's a big advantage in being first; the fear of others beating them to market keeps many entrepreneurs working around the clock.

If you can get your company, product, service, or website established before the competition, you gain what is called the "first mover advantage." Being first potentially enables you to capture so many customers that it becomes difficult for a significant portion of the market (in technology terms, the "installed user base") to change.

Being first to a market brings many advantages, including the ability to:

- Capture significant market share before competitors enter the market;
- Secure key strategic partners, making fewer opportunities available to later competitors;
- Attract outstanding employees and management;
- Capture media attention;
- Lock in financing sources, such as venture capitalists.

Going after a "first-mover advantage" carries its own risks as well as rewards. In most businesses, there are few truly effective barriers-to-entry. Will you end up merely serving as the research-and-development arm of copy-cat companies? There's also the very real risk that if you're doing something truly new, the market (and financing sources) may not be ready for you. In fact, many second- or third-to-market companies benefit from avoiding the costs of educating the market, conducting extensive research and development, and hiring highly creative people.

If gaining the first-mover advantage is part of your key business strategy, ask yourself, "How defensible is this position? What will I need to make it defensible?" Remember, patents, copyrights, and other proprietary information only go so far. Can you develop strategic alliances or lock in customers, distributors, and financing sources to make it difficult for future competitors to take you on?

With a first-mover strategy, there is also the risk of doing something fast but not well, allowing your inevitable competition to honestly tout itself as a much improved version. So continually work on improving your products, services, marketing, and operations. Look for ways to leverage being first into being best.

Branding

One increasingly important strategy that many companies pursue is intentionally trying to build a brand. By becoming a brand name, customers develop such a strong relationship with your company that it is difficult for others to compete.

"It's all about brand—being in front of the customer. On the Net or in media in general, everything is about brand and creating habits."

Andrew Anker
Venture Capitalist

There are, obviously, many advantages to being a brand name, but it is not easy to achieve. First, it is usually expensive. You must spend a great deal of money on marketing and advertising just to get your name well-known. And, although it seems like some brand names develop over night, especially with Internet businesses, building a brand is hard to achieve quickly.

Building a truly strong brand is more than just a matter of name recognition. A real brand gives customers trust in your products and services because you are consistent in quality, price, service, or convenience—over time. This doesn't mean you have to promise the highest quality or the lowest price—it just means being consistent, so the customer can depend on what they'll get from that brand. McDonald's doesn't have to promise gourmet food to be a reliable brand. McDonald's built its brand by giving customers the same experience, the same type and quality of food, the same cleanliness, at every one of their restaurants.

If your goal is to build a brand name, you have to look at those factors that you are able to offer and deliver to your customers consistently and repeatedly over time, making certain you put sufficient company resources into supporting those factors.

Risk

Every business involves risk. Only the most naive and inexperienced entrepreneurs believe their business "just can't fail." Use this section to sit down and think through the various risks facing your new endeavor.

This task might seem daunting. So why shake your enthusiasm? Because risk assessment helps you prepare for and prevent threats to your success. If, for instance, you identify a major risk as the possibility that a well-funded competitor will enter the market, you will want to take steps to quickly secure key customer contracts or line up significant funding yourself.

Evaluating your risks isn't meant to be an exercise in fear (although if you are intimidated by the risks involved, then perhaps you are not yet ready to start your business). Many entrepreneurs think that if they describe the risks they're likely to encounter, they'll scare off potential investors. Quite the contrary is true. For all but the least sophisticated investors, an evaluation of risks shows them you're willing to take a cool, hard look at the situation facing you, and you understand the scope of the threats to your success. It reassures investors that, because you understand the risks involved, you're more likely to take steps to counter those threats.

What Kinds of Risk?

It's not just a matter of high risk or low risk. It's also what kinds of risk. Some risks are more tolerable or more important to different investors—and to you. The key types of risk facing companies include:

- **Market Risk:** that the market will not respond to your products or services, because either there is no real market need or the market isn't yet ready. Market risks are very difficult to overcome.
- **Competitive Risk:** that the competitive situation will change dramatically, and new competitors will enter the market and/or established competitors will reposition their products or services to more effectively take you on. You should carefully think through how other competitors might respond to your entering the market and not assume that the competitive environment will remain the same.
- **Technology Risk:** that the technology or product design and engineering won't work, or won't work as well as you envision. This may be critically important to your company's success, or it may be totally unimportant, depending on the nature of your company, its products/services, customers, and the like. If your business faces substantial technology risks, what is your ability to quickly and effectively improve the technology?
- **Product Risk:** that the product won't materialize, won't be finished in time, or won't work as promised. This is very similar to the above, only with non-technology products or services.
- **Execution Risk:** that you won't be able to effectively manage the rollout and growth of the company because management isn't sufficiently capable, the time allowed isn't adequate, operations aren't in place, and other reasons. You should be able to demonstrate specific steps you are taking to reduce or eliminate such risks.
- **Capitalization Risk:** that you've badly underestimated costs or overestimated income, and you will run out of money. The best way to avoid these risks is to budget realistically and get enough funding so you do not run out of money prematurely. Look for investors who have the ability and inclination to offer additional funds as your company progresses.
- **Global Risk:** that, when doing business internationally, you may encounter unanticipated situations that will interrupt or stop your ability to do business, reach your market, or receive supplies.

Use the Risk Evaluation worksheets in this chapter to assess the risks your business faces domestically and internationally.

Balancing Risks & Opportunities

Once you've outlined your risks, you may feel overwhelmed. But while there are many risks, there are also substantial rewards—otherwise why are you bothering to start this endeavor?

A typical method to illustrate the balance between risks and opportunities is to develop a "SWOT" chart, delineating your company's strengths, weaknesses, opportunities, and threats (thus "S.W.O.T.") This is a good exercise for quickly sizing up your company's position.

Complete the "SWOT" grid on page 145. Be sure to include both internal and external, as well as current and potential factors.

Chapter Summary

A well-delineated strategic position influences almost every aspect of your business, such as the development of your products or services, marketing, operations, and choice of location. In today's business environment, it is critical for every company to understand the ways it is meaningfully different from its competitors. Defining your strategic position enables you to more clearly and thoroughly answer the question, "What business are you in?" Answering this question is especially important for new companies. When you find excellent opportunities in the market that fit with your strengths and interests, you can carve out a strategic position to distinguish your company from others. There is no one "correct" strategy, and your strategic position will evolve over time. Honestly assessing your risks enables you to better reduce potential threats to your success. It also reassures potential investors that you have a clear-eyed view of what you're getting into.

Risk Evaluation

Specify the major risk(s) facing your company in each area, rate the approximate extent of that risk (high-, medium-, or low-risk), and note steps you can take, or have taken, to lessen that risk:

Competitor	Risk Probability/ Percentage	Steps to Reduce This Risk
Market Risk		
Competitive Risk		
Technology Risk		
Product Risk		
Execution Risk		
Capitalization Risk		

Globalization: Global Risks

Specify the major risk(s) facing your company in each area, rate the approximate extent of that risk (high-, medium-, or low-risk), and note steps you can take, or have taken, to lessen that risk:

Type of Risk	Risk Probability/ Percentage	Steps to Reduce This Risk
Supply Chain Interruptions		
Currency Fluctuations		
Labor/Workforce Problems		
Inadequate/Inconsistent Quality Control		
Political/Climate Risks		
Changes in International Trade Laws		
Other:		

SWOT: Strengths/Weaknesses/Opportunities/Threats

In each appropriate box below, list your company's strengths or weaknesses, and the opportunities or threats facing it.

Strengths	**Weaknesses**
Opportunities	**Threats**

Strategic Position Plan Preparation Form

The information you provide on this form can be used as the basis for the Strategic Position & Risk Analysis section of your business plan.

Industry Trends:

Target Market:

Competitive Environment:

Your Strengths Relative to the Competition:

Risks:

Use this information as the basis of your plan's Strategic Position section.

SAMPLE PLAN: STRATEGIC POSITION & RISK ANALYSIS

STRATEGIC POSITION & RISK ANALYSIS

ComputerEase's objective is to be the premier software training company in the Greater Vespucci, Indiana, area and a major competitor in the online training field for the English-speaking market. To achieve that goal, we have developed a strategic position that emphasizes:

- Highly effective online training utilizing the latest interactive instructional technology.
- In-person, hands-on training.
- Customized training developed for customers' proprietary software or specific needs.
- Training that emphasizes productivity as much as skills.

ComputerEase's Strategic Position is based on evaluating the following factors:

A. Industry Trends

B. Our Target Market

C. The Competitive Environment

D. Our Strengths

E. Risks

Industry Trends

The software training industry is trending toward development of regional or national providers rather than small training companies or individual consultants. Online, distance learning is a major, cost-effective delivery system for training programs, and the number and quality of such programs keeps increasing. Online applications delivered as software-as-a-service (SaaS), as opposed to downloadable software, continue to grow in popularity. Certification from national software developers also continues to be a critical requirement for doing business.

Target Market

Our target is the corporate training market (rather than consumer). This market is strong and growing and is less price-sensitive than the consumer market. They often develop customized software for their specific needs as well as using "off-the-shelf" products.

Competitive Environment

There is no other national or regional software training provider yet in the Vespucci area. This affords us the opportunity to build substantial relationships with our target market—corporations and government entities—before an effective competitor enters the area. However, there are several, extremely well-funded Internet-based training companies, and we anticipate substantial competitive pressure from them.

SAMPLE PLAN: STRATEGIC POSITION & RISK ANALYSIS (continued)

Our Strengths

We excel at in-person training, and select our instructors not only on their computer knowledge but on their ability to translate complex technology issues into understandable language, their patience, and their teaching effectiveness. Another of our strengths is our ability to quickly and effectively develop customized training programs, built around the customer's proprietary software, or to meet other specific customer needs. Our ability to understand the online instructional technology is another major strength.

Risks

One major potential threat is the growth in the consolidation of online software training companies. A number of these companies already offer training at lower fees than ComputerEase can offer, and consolidation may drive prices down further, while increasing the amount and effectiveness of these competitors' marketing efforts. A continuing risk is always the health of the economy: economic downturns lead to fewer new employees being hired, and thus trained, by our target market. A final risk, one that appears minor at this point, is that software developers will make software that is easier to use, thus reducing the need for training.

Strategic Position

Evaluating those factors has led us to conclude that our major threat comes from other online training companies. However, although we generate significant revenues from online training, we are confident there will be a continuing need for outstanding live, in-person training. A significant percentage of customers require or prefer an instructor present to answer questions and demonstrate techniques, often on a one-to-one basis. Customers will also need to have customized training programs developed to meet their particular needs. Further, we believe our target market will be willing to pay more to receive both customized and/or in-person training.

Devising our training programs to achieve increased productivity as well as to train in basic software skills enables us to continue to offer valuable training programs to customers even if they reduce the number of their new hires. Productivity programs are less vulnerable to economic downturns.

To achieve this strategic position, we place particular emphasis on the skills, attitudes, and personalities of our instructors. We recognize that the quality of their instruction, their patience, and their effectiveness must be substantially superior to that of online teachers. We must also retain effective training program developers capable of devising effective training programs, including customized programs.