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# Critical competitive strategy issues every entrepreneur should consider before going into business

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**Abstract**

The topic of formulating and implementing competitive strategy is usually considered from the perspective of a large, well established, and oftentimes multi-divisional corporation. Achieving a sustainable competitive advantage, however, is every bit or even more critical to the survival of smaller startup businesses. Although much research has been performed on how startup companies create value for their constituencies and on how they launch products, few attempts have been made to apply classical large-company strategy ideas to startups. In this paper we consider eleven distinct differences between how large, established firms and their smaller startup counterparts consider strategy initiatives with an eye to guiding entrepreneurs toward higher probabilities of success. The eleven differences are building on market strengths, size of market, relationship to resources, presence of constraints, visibility of and by competitors, investor expectations, shareholder/investor risk tolerance, process, portfolio management, triage, and time horizon for results.


## 1. Management's most valued tool

It is a well-accepted principle that no single competitive strategy is inherently superior to any other in its potential to generate high returns for shareholders. While Hyundai, Dell, Wal-Mart, and Days Inn successfully compete in the United States by pursuing a low cost strategy, counterparts Porsche, Apple, Target, and the Ritz-Carlton succeed by pursuing a premium differentiation strategy. However, these examples all have one thing in common: they are mature firms. Do startups really have the same options? In this article, we examine differences between mature firms and startups, defining a "startup" as a privately held business that has recently begun operation.

Unlike management techniques such as TQM and process reengineering, which have declined in popularity, strategic planning continues to be both the most widely adopted management technique and the technique that managers are most satisfied with by a significant margin (Rigby, 2005). Established firms

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recognize the importance of conducting formal market analyses, portfolio management, cost-benefit analyses, and so on, in order to optimize their allocation of scarce resources and stay ahead of changing market conditions. In contrast, startup firms usually lack the resources to allow for such a formal process. Still, for these firms to survive infancy, they, too, need to understand customers, suppliers, competitors, and issues of market volatility (Slater & Olson, 2002).

We have found that neither Porter's (1980) classic model nor Slater and Olson's (2002) revised model of strategic forces are adequate to surface the differences between how established companies and startup companies formulate and execute strategy. For that reason, we have chosen to create a new underlying model. In much the same way that Slater and Olson based their model on Porter's by combining similar forces and adding new, relevant ones, we have based our five-forces model on Slater and Olson's model by combining similar forces and adding new ones. The resulting model is shown in Figure 1. In this model, we capture four external forces (e) and one internal force (i):

1. *Suppliers* (e): These were represented by both Porter's and Slater/Olson's models, but we have added a new sub-category that captures the suppliers of financial capital. As we will see, financial suppliers have little effect on large company strategy formation but play a major role in startup strategy formation.
2. *Customers/Markets* (e): Here we have combined three of Slater/Olson's forces into one because they are closely related: Customer Power, Market Change Growth, and Market Change Turbulence.
3. *Competition* (e): Following the lead of Slater/Olson, we have combined Porter's original three forces (Competitors, Potential Entrants, and Substitutes) into one.
4. *Regulation* (e): Industry and Government regulations can have a major effect on strategy in both large and small companies. We have therefore added this new category of force to our model.
5. *Internal Culture* (i): The culture within a company can also have a profound effect on the choices of corporate strategy. With this in mind, we have added this new force.

## 2. The differences

Based upon a combination of practical experience and literature review, we have identified 11 critical differences between how senior executives in large established companies and entrepreneurs in smaller startups conceive, define, and implement strategy. The practical reality is that startup firms typically do not have the time and resources to engage in formal strategic planning processes. The question as to whether this is good or bad has no obvious answer. On one hand, we can assert that adopting a sound strategy-development process could be critical to a startup's survival and prosperity. On the other hand,

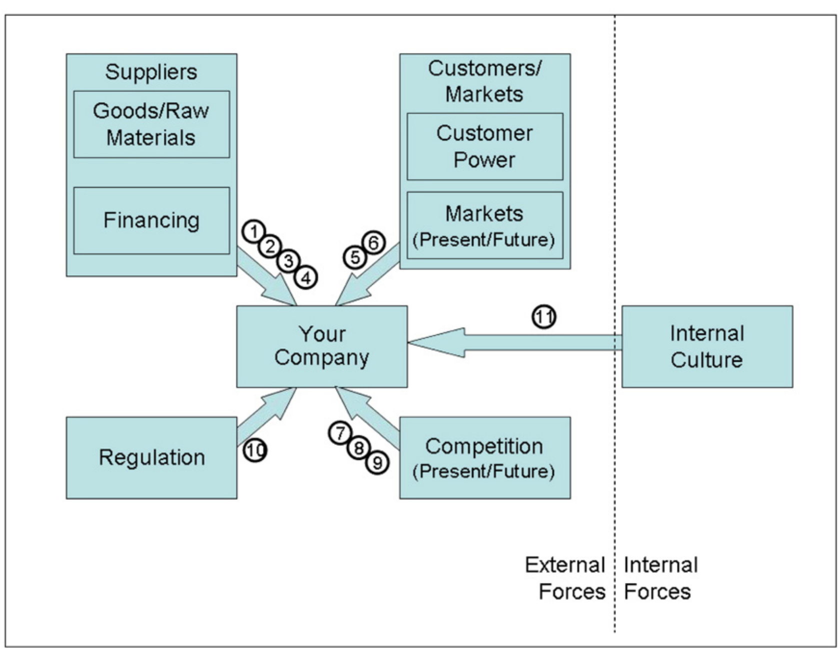


**Figure 1** Our five competitive forces model