Growth and strategic planning for entrepreneurship

Business, Strategic Management

\n[toc title="Table of Contents"]\n

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1. ABSTRACT \n \t
2. INTRODUCTION \n \t
3. Growth Strategy \n \t
4. Market Penetration \n \t
5. Market Development \n \t
6. Product Development \n \t
7. Diversification \n \t
8. CONCLUSION & RECOMMENDATIONS \n \t
9. REFERENCES \n

\n[/toc]\n \n

ABSTRACT

Entrepreneurship does not take place in isolation, it depends on several factors. The growth of entrepreneurship results from some economic factors input & certain environmental conditions. In fact, for the development & growth of Entrepreneurship, a number of micro and macro factors must be considered, such as financial and economic factors-limited liability and greater mobility of capital, low taxes and tax incentives, good chance to make high profit, good banking with easily available credit, free trade with limited tariffs, lower labor cost, political factors like a stable and chaos free political system, political biasness, legal factors- uniform commercial law and regulations, strong legal support for private property, infrastructural factors like strong educational and training facilities, good transportation system,

strong telecommunication and distribution networks, state factors including support from large corporations, research and development, public-private partnership, innovation, socio-cultural factors like encouragement and support from family & society, social status, social integration, social security, & last but not the least personal factors like optimistic, hard workers, accept responsibility, desire to achieve, risk oriented, opportunity seekers. (Khan, 2005) Moreover if an entrepreneur plans to grow his business he must understand the growth strategy he will adopt depending on the nature of his business.

INTRODUCTION

Strategy

In order to understand strategic planning we need know about strategy. Strategy is grounded in the array of competitive moves and business approaches that the management/entrepreneur depends on to produce successful performance. Strategy is management’s game plan for strengthening the organization’s position, pleasing customers, and achieving performance targets.

Without a strategy, managers have no thought-out course to follow, no road map to manage by & no action program to produce the intended result. Strategy is management’s plan and actions for organizing resources and skills taking into consideration the threats & opportunities in the environment to achieve the mission, vision and objectives of the business to

establish a sustainable competitive position. (Chell, Haworth & Brearley 1991)

Strategy involves a series of related decisions & actions with respect to organization’s goals, takes into account internal strengths & weaknesses and external opportunities threats.

Good strategy and good strategy execution are the most trustworthy signs of good management.

A company’s strategy consists of the following concerns how to satisfy customers, that is, either to broaden or narrow down the product line & deciding on the amount of customer service provided, how to grow the business, that is, whether to concentrate on a single business strategy, diversify into related or unrelated industries or expand globally, how to respond to changing industry and market conditions, how best to capitalize on new opportunities, how to manage each functional piece of the business & how to achieve strategic and financial objectives. (Cunningham, J R & Lischeron, J 1991)

And before making a strategy, especially a growth strategy, an entrepreneur must ask himself the three fundamental strategic questions as to where we are currently, where do we want to be in the future & how will we get there?

Strategic Planning & Management

Dwight D. Eisenhower once quoted, “ Plans are nothing; planning is everything!”

Strategic planning is a “ disciplined effort to produce fundamental decisions and actions that shape and guide what an organization is, what it does, and why it does it.”

Strategic Planning helps an entrepreneur to increase effectiveness & efficiency, improve understanding and better learning & better decision making, enhance organizational capabilities, improve communications and public relations & increase political support.

Strategic Management focuses on how an entrepreneur implements & formulates and evaluates strategies that are aimed at developing a sustainable competitive advantage which is the reason behind some firms enjoying greater levels of performance than their competitors.

Strategic management is therefore concerned with overall Product Life Cycle. Four aspects that set strategic management apart: its interdisciplinary nature, external focus, internal focus & future directions.

The importance of strategic management lies in the fact that it gives every employee gets an opportunity to play a role in making the firm successful. (Frederick, Kuratko & Hodgetts, 2010)

Strategic management brings about a huge difference in performance of an organization. Research in this area has suggested that successful companies use strategic management concepts & techniques. And their success evolves from the clarity of their vision of what they want which is achieved by a strategic plan.

Strategic management provides the entrepreneur with a systematic approach to deal with the uncertainties of the dynamic competitive & global environment, as irrespective the magnitude of change; it must be recognized and analyzed, & dealt with. Strategic management helps the entrepreneurs to analyze the changes in the situation (identifying the sources of change in environment).

With strategic management imbibed into the business the entrepreneur can coordinate and focus better to achieve organization's goals. Moreover strategic management allows for development of a plan, communication, coordination, & cooperation among diverse aspects & functions of the business. (Lessem, 1983)

Strategic Competitiveness can be achieved when a firm successfully formulates and implements a value-creating strategy. A sustained competitive advantage occurs when a firm develops a strategy that competitors are not simultaneously implementing & provides benefits which current and potential competitors are unable to duplicate.

A strategic management process comprises of the following steps starting by establishing a mission, vision and objectives of the business, conducting an internal analysis to understand the strengths & weaknesses of our business, performing an environmental analysis to get a better understanding of the external environment in which the business operates, followed by strategy formulation, strategy implementation & an ongoing strategic control and performance evaluation.

Growth Strategy

For an entrepreneur to pursue a growth strategy he must understand the ways in which a business can grow.

Market Penetration

Market penetration occurs when a company enters/penetrates a market with current products. The best way to achieve this is by gaining competitors' customers (part of their market share). Other ways include attracting non-users of your product or convincing current clients to use more of your product/service (by advertising etc).

Market penetration is a vital issue in analyzing the growth prospects for an industry. It is a simple methodology to assess the potential market of a product, which is defined by the amount of sales made.

If you are an existing business and your competitor is following a market penetration strategy, do a thorough market research assessment of your capabilities: Can you drive your costs down?, Can you produce high volume? & Do you want to sell your product at a low price (and hope volume sales will get you both the market share and the profitability you want)?

If you answer no to any of these questions, don't follow this penetration strategy (or at least, consider this strategy very carefully). However, if you are a new business considering this strategy in a new, or scarcely populated, market, focus on how to drive your costs down and your efficiencies up.

Market Development

Market development is the name given to a growth strategy where the business seeks to sell its existing products into new markets.

There are many possible ways of approaching this strategy, including:

- New geographical markets

- New product dimensions or packaging

- New distribution channels

- Different pricing policies to attract different customers or create new market segments

A market development strategy targets non-buying customers in currently targeted segments. It also targets new customers in new segments. (Deakins 1996)

An entrepreneur must think about the following aspects before implementing a market development strategy: the profitability of the strategy, will it require the introduction of modified or new products, the research to understand the customer and channel of distribution.

The entrepreneur could use four groups to focus to the market segment decision: already existing customers, the competitor customers, the non-buying customers in current segments, & altogether new segments.

Market development can be broken into three phases:

Targeting your customers.

Assessing their needs.

Communicating with them and,

Ideally building a community.

For e. g.: Wine Australia is the leading player in the strategic marketing of Australian wine overseas, which works on identifying new markets and the implementing growth strategies and activities in each of these markets.

Their wide ranging Market development Programs include consumer and trade tasting seminars, participation in trade fairs, and arranging sponsored visits to Australia by journalists and trade personnel through an International Visits Program.

Product Development

Product development is the name given to a growth strategy where a business aims to introduce new products into existing markets. This strategy may require the development of new competencies and requires the business to develop modified products which can appeal to existing markets.

Product development strategy aims at achieving growth through introducing new products in existing markets. The new products could not essentially be new products but could be improved versions of an existing product or substitutes serving the same need catering to the same market as at present.

Product development strategy is usually carried out through quality improvement such as better, stronger, bigger, vastly improved product, bringing improvements in features such as expanding product's convenience, changing size of products, versatility, safety, change in its weight, materials and accessories etc, style improvement increasing the product's aesthetic appeal such as new scooter or motor cycle models, new packaging etc.

This strategy is often adopted to attract satisfied customers to lengthen the life cycle of current products or to take advantage of a favourite reputation or brand name. McDonalds is one of the best examples of companies strategising on product development.

If your company doesn't have the time or money for this process, then probably you can't afford not to target your customer, really listen to their needs, and communicate with a select panel of them.

The Chicken Treat story & Boost Juice are classic Western Australian success story adopting a product development strategy to grow.

Diversification

Diversification is the name given to the growth strategy where a business markets new products in new markets. This is an inherently more risk strategy because the business is moving into markets in which it has little or no experience.

For a business to adopt a diversification strategy, therefore, it must have a clear idea about what it expects to gain from the strategy and an honest assessment of the risks.

Diversification is part of the four main growth strategies defined by the Product/Market Ansoff matrix: in which he highlighted that a diversification strategy is very different from the other three strategies, discussed above. The first three strategies are usually pursued with the same technical, merchandising & financial resources used for the original product line, whereas diversification requires a company to acquire new skills, new techniques and new facilities. (Timmons & Spinelli, 2007)

The strategies of diversification can include various strategies like internally developing new products or markets, alliance with a complementary company, acquisition of a firm, and distributing or importing a products line manufactured by another firm, licensing of new technologies. Usually, the final strategy of diversification involves a combination of almost these options. This combination is determined depending on available opportunities and consistency with the objectives and the resources of the company.

Diversification is the riskiest of the four strategies and requires the most careful investigation. Going into an unknown market with an unfamiliar product offering implies a lack of expertise in the new skills and techniques required. Therefore, the company faces great uncertainty. Moreover, diversification might necessarily demand significant expanding of financial &

human resources, which may distract the entrepreneur from focus, commitment, and sustained investments in the core industries. (Hindle & Gillin 1991)

Therefore, a firm should opt for diversification only when the current product or current market orientation does not offer further growth opportunities. Different tests can be done, to measure the chances of success of diversification strategy:

The attractiveness test: the industry has to be either attractive or capable of being made attractive.

The cost-of-entry test: the cost of entry must not be too expensive which may affect future profits.

The better-off test: the new unit must either gain competitive advantage from its link with the corporation or vice versa.

Because of the high risks involved in this strategy, many companies attempt to diversify have failed. However, there have been a few companies who have been successful in implementing the diversification strategy:

Walt Disney diversified to theme parks & vacation properties from producing animated movies

Virgin Media expand from music producing to travels and mobile phones

Canon company broaden their horizons from a camera-making company into producing an entirely new range of office equipment.

CONCLUSION & RECOMMENDATIONS

When considering growth of a company, one should consider the business model of the organization and how it lends itself to growth. Three areas that an entrepreneur should concentrate on are the revenue model, the operational model, and the cash flow model.

Since diversification is the riskiest of all the strategies available for growth, it would be advisable for the entrepreneur to focus on Product development strategy through new products in existing markets.

Moreover, since it is a new business it is difficult for the entrepreneur to drive down costs & selling the product at a low price would not be advisable.

The best way how the entrepreneur can grow the business is looking for new geographical markets, new product dimensions or packaging, new distribution channels or different pricing policies to attract different customers or create new market segments.

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