



# 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.

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## 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,

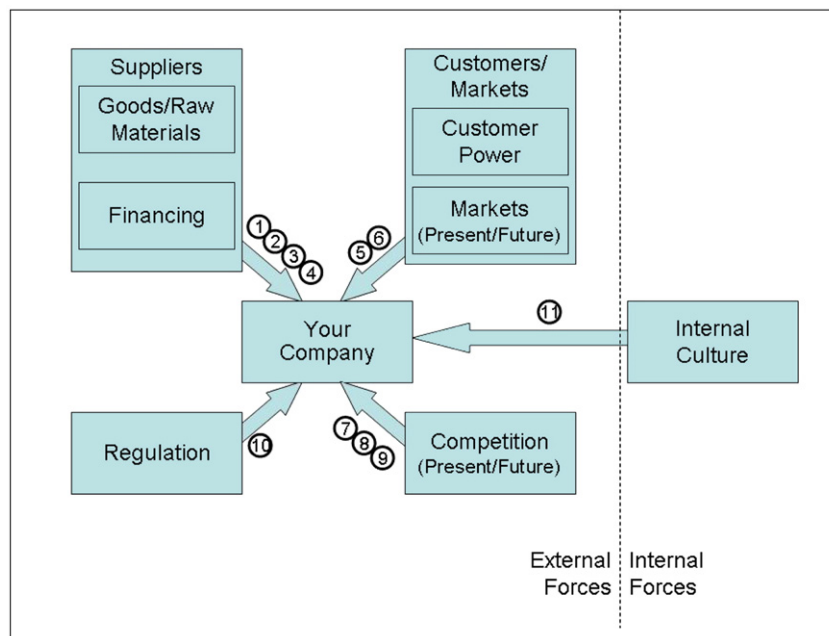


Figure 1 Our five competitive forces model

we could assert that taking the time to do so destroys the startup's precise competitive advantage; that is, the ability to be fast to market. As stated so adeptly by Bhide (1994, p.150):

However popular it may be in the corporate world, a comprehensive analytical approach to planning doesn't suit most startups. Entrepreneurs typically lack the time and money to interview... potential customers, let alone analyze substitutes, reconstruct competitors' cost structures, or project alternative technology scenarios. In fact, too much analysis can be harmful; by the time an opportunity is investigated fully, it may no longer exist.... [A] study of 2,994 startups showed that founders who spent a long time in study, reflection, and planning were no more likely to survive their first three years than people who seized opportunities without planning.

Nonetheless, it is important to understand the differences between established companies and startups so entrepreneurs can better understand which strategy ideas from large corporations are applicable to them, and which are not. We have organized the 11 differences into five general categories, as shown in Figure 1. The 11 differences identified here are intended to provide entrepreneurs with an efficient checklist to help them understand the aspects of strategy that are critical to consider in the early stages of a business' life.

- *Suppliers*
  1. Relationship to resources
  2. Investor expectations
  3. Shareholder/Investor risk tolerance
  4. Time horizon for results
- *Customers/Markets*
  5. Building on market strengths
  6. Size of market
- *Competition*
  7. Visibility by (and of) competitors
  8. Portfolio management
  9. Triage
- *Regulation*
  10. Constraints
- *Internal Culture*
  11. Process

### 3. Supplier-related strategic differences

The academic literature recognizes that suppliers of raw materials and/or basic labor have a major influence on a company's competitive strategy. For

example, the presence of exclusive relationships with unique suppliers can enable a company to successfully pursue either a unique differentiation strategy or a low-cost strategy. However, a 2002 survey conducted by *Industry Week* reported that only 18% of respondents perceived suppliers as fundamental contributors to strategy success (Osborne, 2002). We believe that such suppliers provide identical benefits to both large corporations and startups. However, the unique role played by financial suppliers has additional strategic implications for startups, as seen in the following sections. Specifically, these sections elaborate on the different mindsets necessary to lead a startup with respect to how the strategy drives resource availability, and how the strategy must satisfy investors' expectations for financial return, risk, and liquidity.

#### 3.1. Relationship to resources

Execution of a strategy usually demands the presence of resources. However, established companies and startups have very different perspectives on resources while they are crafting strategy.

*Advice to the entrepreneur: Your strategy must consider the degree to which it can attract investment capital as much as considering whether it will work effectively to generate revenue and profit.*

##### 3.1.1. The established company perspective

General Managers (GM) of separate divisions within a larger corporation compete with each other for resources. Ultimately they must convince top management that their division's opportunities and corresponding strategies hold the promise of greater opportunity for growth and return on investment than the opportunities and corresponding strategies identified in other divisions. In addition, because divisions are saleable assets, GMs may also need to convince top management regarding the critical fit of the division's offerings to the strategic focus of the corporation. For example, when Hewlett-Packard was divided into two companies, it was determined by top management that computers and printers would become the focus of the new Hewlett-Packard, while divisions such as Test and Measurement were inconsistent with this vision, and were consequently relegated to what would become Agilent.

At the CEO level, successful companies usually have cash reserves from operations and can apply these to new strategies. Established companies without sufficient cash can often make secondary offerings of stock to generate the necessary cash. However, for the most part, the availability of resources drives the feasibility of implementing a new strategy. In contrast, as we will see in the following

paragraphs, the effectiveness of the conceived strategy in startups often dictates whether resources become available.

### 3.1.2. The startup perspective

The CEO of a new startup must think as much, or more, about attracting investors as about attracting customers and creating products and services. On one hand, this could be considered a diversion from the basic business goal of increasing revenue and profit, and providing a satisfactory return for the investors. On the other hand, a startup without resources will not survive long enough to achieve its business goals. As a result, one of the primary factors that make a good strategy work for a startup is its ability to attract resources, and thus investors. So, unlike the large corporation, where the feasibility of a strategy will be assessed by whether existing resources are sufficient to support it, the startup's strategy will be assessed by whether it can attract sufficient resources.

A startup company proceeds through a series of stages: seed, early stage, growth stage, mezzanine, and public. In the *seed* stage, strategy is relatively unimportant. The initial investors are often fairly unsophisticated, including friends, family, and fools (the three Fs). Often, the founders will write a small check to purchase founders' shares, make a small loan to the company, or agree to work without a salary. Such loans, stock purchases, and sweat equity are often driven by a shared vision or "cool idea" as opposed to a well-crafted strategy. During the *early stage*, private equity in the form of angels is usually solicited. Angels are a lot more sophisticated than the three Fs, and will always demand to see a strategy. The practicality, excitement, and risk inherent in that strategy will often determine if the angels choose to invest. The same can be said for the *growth stage*, where the even more sophisticated venture capitalists (VC) are usually the source of funding. However, because VCs are investing other people's capital and are investing for their careers (as opposed to angels who generally invest their own capital and generally do not consider investing in startups as their career), they are even more rigorous in the assessment of business strategy and more demanding. By the time the company has evolved to a *mezzanine* level, it has generally become big enough to allow the usual strategy dynamics of a larger, more established company to apply.

## 3.2. Investor expectations

Investors desire returns; strategies deliver returns. Thus the financial return expectations of investors drive the selection of a suitable strategy.

*Advice to the entrepreneur: If your strategy creates a steady flow of income but no increase in corporate valuation (i.e., growth), your strategy will fail.*

### 3.2.1. The established company perspective

Blue Chip and/or value stocks differ from growth stocks in their volatility or beta weights. Stocks with beta weights of 1.0 generally track the overall market's performance. This means a lower upside when the market takes off, but also a lower downside when the market tanks. Mature firms are marked by steady long-term growth, which produces acceptable returns for shareholders who value a stress-free night of sleep. In contrast, growth stocks have higher beta weights, meaning their values fluctuate more dramatically – both up and down – when market conditions change. Fidelity Investments reports that over the life of the stock market, public equity investments have outpaced US Treasuries on average between 6% and 7% per year. This spread covers the risk factor that the majority of investors are willing to live with. Public stocks also vary with respect to whether their yields are returned in the form of growth or income to their shareholders.

### 3.2.2. The startup perspective

Unlike larger companies, investors in startups rarely desire income. Usually they are looking for growth. Internal rate of return (IRR) expectations are also quite a bit higher than in larger, less-risky companies; these expectations typically vary from 15% to 40% over US Treasury yields depending on the type of investor and the stage of the company (Mugrabi, 2007). Because the return expectations are so much higher, business strategies are expected to be more dramatic, more exciting, and more risky as well.

Unlike larger companies, most investors in startups are happy to have no liquidity in the short term. However, investors in startups generally will demand a liquidity event within three to five years. Let's assume that a potential investor is interested in making a \$10 million investment in a startup, and expects a 35% IRR with a liquidity event in 5 years. The investor will first analyze the startup's strategy for feasibility, and assess whether the pro forma financials are believable for that strategy. Then, based on those financials, and the multiples implied by the type of business the company is in (which of course is driven by the strategy), the investor will calculate the expected valuation of the company in five years. If the investor desires a 35% IRR on the \$10 million in 5 years, he/she will expect approximately \$45 million in proceeds. By dividing the corporate valuation in 5 years by the desired return of \$45 million, the investor will be able to determine the percentage of the company to demand for the \$10 million



investment. In this case, let's assume that the strategy is compatible with the pro forma financials, and the industry multiples implied by the strategy together with those financials suggest that the company will be valued at \$100 million in 5 years. The investor will then decide that he/she will need to acquire 45% of the company for their \$10 million investment to achieve the desired return. If this is satisfactory with current shareholders, then a deal is likely. If not, there are many alternatives:

1. Alter the strategy so the company becomes a different kind of company (e.g., perhaps selling high-priced services and giving away its products at cost instead of selling high-priced products and giving away its services at cost). This would cause all parties to use different multiples to determine the company's future valuation. With a higher valuation, the investor's future value (\$45 million) for their \$10 million investment will represent a smaller percentage of the company.
2. Alter the strategy so the company's pro forma financials are better. Of course, this can only work if the new strategy passes the tests that were explained earlier. With higher numbers in the pro forma financials, the company will be valued higher, and as in the previous case, the investor's future value (\$45 million) for their \$10 million investment will be a smaller percentage of the company.
3. Have the investor invest a smaller amount.
4. Find another investor who has lower IRR expectations.
5. The founders can sell more of the company to this investor than the current shareholders desire and accept the resulting dilution.

Notice how the strategy plays a central role in driving the fulfillment of investor expectations in startups. Note that none of this negotiation process exists in more established companies.

### 3.3. Shareholder/investor risk tolerance

Shareholders in publicly traded companies are far less risk tolerant than their counterparts in startups.

*Advice to the entrepreneur: Entrepreneurs do not need to be as wary of high-risk strategies as large companies. However plenty of attention should still be given to risk awareness, risk management, and risk reduction.*

#### 3.3.1. The established company perspective

As a general rule, shareholders in established companies are relatively conservative, and they usually

expect consistent returns quarter-to-quarter, or at least year-to-year. Dramatic changes to strategy often result in less than stellar short-term results in return for much more favorable longer-term results. When a publicly traded company needs to make dramatic changes in strategy, it risks highly unfavorable responses from its shareholders. On occasion, private equity firms step in, acquire the company, eliminate the public shareholders, formulate and execute the dramatic new strategy, and then return the company to the public at a much higher valuation. This happened in November 2006 when private equity firms sold off 27.5% of their shares in Hertz Car Rental after holding it for less than a year (Kim, 2006).

#### 3.3.2. The startup perspective

Generally, investors in startup companies lack the conservatism of their established company counterparts. Because they desire a higher return, they are willing to take larger risks; in fact, some actually thrive on this risk (i.e., the risk is not just tolerable, it is desirable). Therefore startup strategies almost always include larger risks, and almost always include a few years of less-than-favorable returns followed by dramatic growth.

### 3.4. Time horizon for results

Execution of every new strategy implies a short-term loss stemming from the investment in the strategy, followed (hopefully) by a longer-term gain. The expectations for how soon a strategy will result in positive returns are quite different in established companies and startups, and thus must drive the selection of strategy.

*Advice to the entrepreneur: When crafting a strategy for your startup, aim for returns that correspond to expectations of your investors, typically 3-5 years for software-intensive companies and 5-9 years for biotechnology companies.*

#### 3.4.1. The established company perspective

While CEOs and GMs must be concerned with the long-term viability of the company, the fact remains that the market value of a firm is projected continuously. Investors measure performance against an annual ROI standard. Investors often flee from stocks whose market values drop relative to their competitors. While the market value of an individual stock supposedly signifies a firm's infinite profit potential, these assessments are murky at best. The inherent liquidity of publicly traded stocks gives most investors the ability to abandon their investments at any time. Thus, senior managers in established firms must constantly be cognizant of short-term market perceptions, and must plan and implement only

those strategies that offer a relatively short-term result. Actually, most CEOs of large companies are likely to execute many new strategies in various parts of the business simultaneously, thus ensuring the short-term negative effects of longer-term strategies are overshadowed by other more conservative strategies.

### 3.4.2. The startup perspective

In general, investors in startups are more tolerant of short-term losses than shareholders in larger companies. The lack of liquidity of privately held stock of course gives investors few options other than tolerance. As a result, strategies in startups can, and usually do, take advantage of this situation. Typically, it would be acceptable for a startup's strategy to dig deeply into the company's current assets, perhaps even so deeply that the company would become vulnerable to self-destruction. In fact, it is usually expected that a startup will use every resource available to it in order to achieve longer-term results. This contrasts dramatically with more established companies, where strategies that create short-term losses are rarely tolerated, and strategies are expected to produce short-term and long-term beneficial returns.

Investors in startups generally expect to have a liquidity event (such as an initial public offering or an acquisition) within 3 to 5 years of their investment for information technology companies, and within 5 to 9 years of their investment for biotechnology companies (Burkland, Mill, & Truchado, 2005). On the positive side, this expectation drives CEOs to avoid strategies that produce only short-term results. On the negative side, this also can eliminate strategies that will produce very long-term positive results.

## 4. Customer/market-related strategic differences

Ultimately, the success or failure of a business strategy is determined by the response to that strategy by the buyers of the product and/or service. It would seem that this fact would account for few differences between startup and established businesses. However, some distinct differences exist. In the following sections, we elaborate on how the two kinds of companies differ in their approach to selecting new markets, specifically with respect to how these new markets relate to the company's current market presence and how the size of these new markets effects the decision to conquer it.

### 4.1. Building on market strengths

It is easy to claim that companies should craft strategies that leverage current market successes. But

what does that mean for entrepreneurs who have no existing market successes?

*Advice to the entrepreneur: Since you cannot build a strategy that leverages past successes, instead build a strategy in which the market is relatively easy to penetrate. That generally means you should be addressing a major pain of the customer, and fully understand how you are going to find the target customer. The most painful way of doing business is being forced to conduct "missionary sales;" that is, where you first have to convince the customer that he/she has a problem, and then offer a solution.*

#### 4.1.1. The established company perspective

Most new product decisions in established companies tend to be more conservative in nature with an eye towards risk avoidance. Evidence of this was provided by a study by Booz, Allen, and Hamilton (1968), which noted that only 10% of all new products introduced each year by established companies can be truly considered new-to-the-world innovations. Strategies to sell existing products in new markets or new products to existing customers, as shown in Figure 2, allow a firm to capitalize on at least one comfort zone. Strategies that simply modify an existing product (e.g., altering the surface graphics of skis from one year to the next), or re-price an existing product (e.g., Marlboro's price reduction), further reduce overall risk as the firm continues to work with existing customers and existing products.

#### 4.1.2. The startup perspective

Unlike larger companies, startups generally have no existing products or services, and no existing customer base. In fact, if they had existing products or existing customers they would not be startups by definition. Therefore, they have no choice but to craft a higher risk strategy, one that enters the uncharted territory of the upper right quadrant of

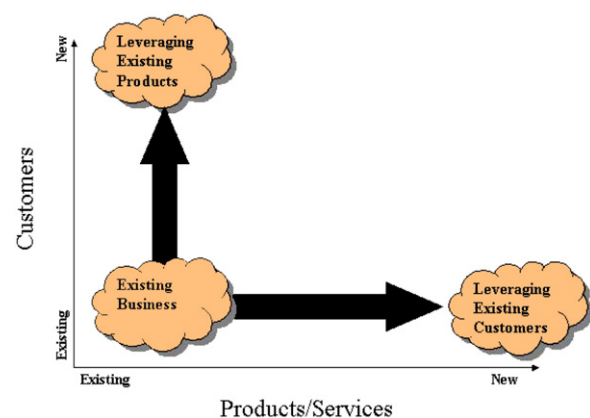


Figure 2 Leveraging existing products or customers

**Figure 2.** Startups are always considered to be higher risk endeavors than their larger counterparts. The techniques that a startup company uses to capture such uncharted territory are inherently different than those used for capturing either horizontally or vertically. These techniques must by their very nature be more dramatic, more extreme, and require more energy per revenue dollar gained.

Typical strategic techniques for such a maneuver include: (a) flanking (Trout & Ries, 1986) the competitor with an attack on an uncontested area as DEC did with IBM in the mini-computer business in the 1970s (Shein, DeLisi, Kampas, & Sonduck, 2003), with a lower-cost product as executed by Days Inn against Holiday Inns in the 1970s, with a higher-cost product as exemplified by Orville Redenbacher's gourmet popcorn in 1975 (Sherman, 1996), with a smaller product as executed by Volkswagen, Toyota, and Datsun against the big three US auto makers, with a funnier product as in the case of Elope's funny hats, or with a superior distribution method as in the case of Entenmann's Bakery against Dunkin Donuts; or (b) using guerrilla tactics (Trout & Ries, 1986) by finding new ways to segment an existing market, and then clearly differentiating products and services to target members of that market sub-segment. Examples of this include Alienware's re-segmentation of the PC space by targeting just game players (Alienware, 2007), and Crain's *Chicago Business's* geographic re-segmentation, which eroded *Business Week's* commanding position as a business news source, at least in the Chicago area. Smaller companies are often successful using guerrilla tactics because they have much less overhead than their large company counterparts. These same techniques can be used by larger companies (or divisions within larger companies) who are having major difficulties; the "turn-around expert" hired to lead the company out of these difficulties often must employ similarly dramatic strategies. However, most larger, more established companies focus their strategic thinking on defending their leadership position, employing offensive strategies to upstage the leader when they are in a #2 or #3 position, and making dramatic supply chain cost reductions. None of these strategies make sense for a startup.

#### 4.2. Size of market

To be visible, large companies need to execute strategies that can succeed on a large scale, and that implies they must conquer large markets. Small companies need to execute strategies that can succeed as well, but that implies that large markets are almost always beyond their consideration.

*Advice to the entrepreneur: Although you want to convince others that your market is potentially huge, your strategy must take into account the necessity to focus during your early years. That means you need to employ the rifle shot, not the shot-gun approach to capturing your customers.*

##### 4.2.1. The established company perspective

Large, multi-divisional firms like Wal-Mart, whose annual sales are in the hundreds of billions of dollars, must pursue some combination of savings or sales increases on the order of billions or tens of billions of dollars in order to meet market performance expectations. Corporate-level projects on the order of \$10 million are simply insufficient to meet these goals. In contrast, a program that promised a \$10 million increase in same-store sales would be significant to a branch manager. Such actions could go a long way towards meeting corporate and market expectations if replicated across all stores. Therefore, a market targeted by an effective corporate level strategy must be large. For Wal-Mart, this translates into a corporate-level decision to push into China with a 20-year goal of expanding to the point where revenues from that country are on par with those generated in the US.

##### 4.2.2. The startup perspective

In marked contrast, an increase in annual revenues of \$10 million when existing revenues are non-existent is quite impressive. Three primary considerations for an early startup are to demonstrate that their products and services will sell, that their process for selling the products and services scales up, and that a larger *potential* market exists for their products and services. When these three have been demonstrated, investor confidence soars. However, initiating such proof by trying to sell to a very large market from the start is usually a prescription for disaster. Brand guru Al Ries (1996) noted that the future of a startup company depends on focusing. In an established company, a primary consideration for a workable strategy is the size (generally, the larger the better) of the target market. In a startup, a primary consideration for a workable strategy is also the size (generally, the narrower the better) of the target market.

## 5. Competition-related strategic differences

Although the fundamental role of competition remains unchanged, there are still some distinct differences between established companies and startups with respect to how competition is treated. The following sections detail the differences with



respect to the degree of visibility between the competition and the company in question, and how the company selects products or services (portfolio management) or the features of those product/services (triage), that will achieve success relative to competition.

## 5.1. Visibility by and of competitors

The larger the company, the more visible it is to its competitors. As a result, strategies executed by large companies are obvious to competitors, who can attempt to copy the strategy or otherwise subvert it. This is not the case for smaller companies.

*Advice to the entrepreneur: You must fully understand your competition: current competition, potential entrants, and substitutes. But once you know where they are, you do not need to spend too much time worrying about them seeing you. In all likelihood, you can proceed without them discovering your startup. Even after they spot you, they frequently will make little or no attempt to defend themselves from an attack by such a small company.*

### 5.1.1. The established company perspective

A sophisticated, mature company spends considerable resources monitoring its competition. This “competition” generally consists of what it considers serious threats; that is, companies of roughly the same size of itself, or companies with significant market share. Rarely do they monitor activities of startups unless they are searching for an acquisition. Their competitors are generally behaving in a similar manner. Thus, large companies must develop strategies that will work in spite of the fact that their competitors will quickly observe their maneuvers. Apple, with very low market share, has traditionally been very secretive about its product offerings. Relying upon their competency as an innovator, Apple keeps projects well under wraps until Steve Jobs is ready for his next media event. However, bigger competitors may actually take the opposite approach. Microsoft may actually signal the market well in advance of their intention to move into new areas (e.g., video games) as a means to discourage potential competitors from pursuing that path.

### 5.1.2. The startup perspective

A startup is usually unknown to its competitors. A strategy that would be foolhardy for an established company might be feasible for a startup due to its inherent ability to proceed “under the radar” of the competition. Blue Ribbon Sports managed to make the jump from startup to industry powerhouse, at least in part, due to Adidas's failure to react quickly to the firm's low-cost overseas production strategy and

the novelty of its Nike branded products (Katz, 1995). Only on occasion do established companies pay enough attention when a small company has found a way to seriously outflank them in a niche market with a large up-side potential. This was the case, for example, in 2006 when Dell “noticed” startup Alienware's amazing success in the gaming PC market, and quickly acquired them to prevent additional damage (Alienware, 2007).

## 5.2. Portfolio management

Portfolio management is that part of strategy that carefully selects the mix of products/services to be offered to a company's customers. This type of planning is far more prevalent in larger companies than smaller companies for the simple reason that larger companies usually have a mix of products or services, rather than just one or two.

*Advice to the entrepreneur: If you are contemplating more than one product or service, pay close attention to how they complement, not compete with, each other.*

### 5.2.1. The established company perspective

Established companies must remain aware at all times of how prospective products and services will affect current products and services. Aside from a few companies like Apple and HP, who pride themselves on constantly developing new technology to outperform their current products, most companies insure that new products either (a) complement other existing products in the portfolio, or (b) serve in a chain of “sell up” strategies where buyers of one of the company's products will naturally buy up to the next best model.

Competing with one's own products is just part of the portfolio management concern. In addition, managers seek to capitalize on fixed assets (e.g., their plant), established distribution channels, and market strengths such as brand equity to expand product offerings and ultimately increase sales and profits. For Porsche, the move to develop an SUV could be seen as a radical departure from their normal business, but the reality is that this new product extended the quality and performance reputation of Porsche to a new market segment. They were therefore able to leverage their existing distribution channels to conquer an entirely new market segment.

### 5.2.2. The startup perspective

In contrast, a startup's strategy is expected to focus on just one business (Ries, 1996), and often on just one product. Thus, a startup will usually select a single narrow vertical market to penetrate successfully, with a longer-term plan to either expand its target



market to other markets, or to expand its product or service offerings to the captured market. Therefore the concept of portfolio management really does not exist in a startup.

### 5.3. Triage

Once portfolio management is completed, and a specific product or service is selected, triage is the process of determining exactly which features the new product or service should exhibit in order to achieve the best return for investment for the company (Davis, 2003). Unlike portfolio management, triage decisions are a focus of strategy implementation for all sizes of companies.

*Advice to the entrepreneur: Stay involved in the product definition process for as long as possible. The greatest strategies can be ruined by poor selection of product features. You have the vision, so make sure that vision gets implemented to your satisfaction.*

#### 5.3.1. The established company perspective

Once executives in large companies declare the company's strategy or participate in portfolio selection, the focus of first-line managers, or even individual contributors, is on selecting specific features of products or services. This is often accomplished without wearing a "strategy" hat. Features are selected based on the narrow view taken by relatively junior employees. This is acceptable; after all, such individuals are hired for their tactical abilities, not their strategic perspective, and in many cases they may know the customers better than executive management does. When triage is performed in large companies, it is often performed using intimidation instead of through a group process that merges the best ideas from multiple strategic and tactical perspectives. This is dangerous because decisions made during triage sessions often determine the success or failure of a product in the market, and these decisions are being made in a manner invisible to the executives, who are often left pondering why the product failed to capture the attention of the intended buyers.

#### 5.3.2. The startup perspective

In contrast to larger companies, startup executives are usually involved in every aspect of corporate strategy from the most abstract to the most specific. Therefore, not only will the corporate executives be involved in determining the businesses, the products, the services, and the target market, but they will also be closely involved in triage and will have a say in precisely what features will be present in the company's offerings. Therefore, startup management does consider feature selection to be strategic, and that might account for why startups are often more

successful at launching new products than larger companies. The point we are making here is that in small companies, strategic thinking goes down to the details, while in larger companies, strategic thinking often stops at the executive level.

## 6. Regulation-related strategic differences

Established companies and startups must both abide by the laws and regulations of their respective industries and government. But some regulations apply only to larger companies, and some apply to only smaller companies, as described below.

### 6.1. Constraints

*Advice to the entrepreneur: If you are new to entrepreneurship, you will quickly discover that few rules will control what you do. Start by making your core values, your vision, and your mission clear, and allow those to be your guide.*

#### 6.1.1. The established company perspective

Established companies live with both regulatory and shareholder constraints, and their strategies must respect this. Predatory pricing, restraint of trade, price collusion, anti-trust, affirmative hiring practices, and pension policies are just a few of the policy concerns that may result in legal actions being taken against established companies whose strategies cross the line. In addition, the industry in which the company is doing business often has its own regulatory requirements. As has been previously addressed, shareholders can place constraints on firms by demanding that annual returns beat the market average. Shareholders may also push personal or social agendas (e.g., boycotting of stores selling adult magazines or periodicals that print cigarette advertisements, or supporting charities that might be associated with controversial programs such as reproductive issues). Reacting to social concerns about the role food companies have played in the controversy over obesity in the US, PepsiCo, Inc. now ties executive bonus programs to strategies that focus on the development of healthier foods (Terhune, 2006).

#### 6.1.2. The startup perspective

Due to the lower public visibility, startups are much less constrained. Of course, their strategies must adhere to the law, but the fact is that fewer laws exist to control them. Typically, the constraints that startups are more concerned about include non-competition agreements between current employees and their former employers, solicitation of a former employer's

customers, and predatory hiring, as opposed to anti-trust or affirmative action. However, industry-specific regulations (e.g., FDA regulations on appropriate testing of drugs) are as applicable to startups as they are to established companies. On the securities side, startups have the legal right to ignore many of the regulations placed on more established companies; for example, startups are not required to conduct annual financial audits, although many strongly advise them to do so.

## 7. Internal culture-related strategic differences

The internal cultures of startups are fundamentally different than that of more established companies (Heffernan, 2007). This fact leads to some distinct differences in the strategies that are viable in the two disparate types of companies, as explained below.

### 7.1. Process

*Advice to the entrepreneur: Learn quickly how to deliver a 20-second elevator pitch that fully explains your company at an abstract level, and a 20-minute presentation that fully explains your company at an abstract level. You will have many opportunities to use these. If these presentations don't excite the listener, then nothing else you can say will.*

#### 7.1.1. The established company perspective

As stocks are typically traded at the corporate rather than the divisional level, and competitive strategies are executed at lower levels, the process of establishing and/or reviewing competitive strategies is multi-stage. In a top-down model, senior management considers current product and/or service offerings and the likelihood that these offerings will allow the parent company to meet investor expectations. The macro view of CEOs and presidents is focused on determining what business or businesses the corporation should be in. These are very big issues because the outcome of such analyses might result in a significant structural change to the corporation. Among the options senior managers have are the purchase of an existing business, the internal start up of a new business line, the merger of existing divisions, and the sale or outright closure of existing divisions. Examples of corporate-level strategic decisions include the division of Hewlett-Packard into two separate companies (HP and Agilent), General Motors' closure of the Oldsmobile division, and United Airlines' formation of low-cost carrier Ted. These decisions were made after lengthy analyses, and with the approval of their respective boards of directors. Once the decision as to what business or businesses the corporation is going

to be in is made, divisional general managers are then responsible for determining how the individual divisions will compete (e.g., low cost vs. differentiation). Typically, these generic strategies are not subject to frequent or dramatic changes. Rather, they are in place to direct the efforts of the division's employees. Generic competitive strategies are implemented at the product level. In firms such as 3 M, new product ideas may spring from formal committees or from creative individuals. New proposals are subjected to a formal set of analyses to test viability. Many projects will receive initial seed money to test technical standards or market reactions to concept products, but ultimately these numbers will be winnowed down to those deemed most likely to succeed. One criticism of this process is that even in companies with a strong reputation for innovation, the recent pull is toward more conservative offerings where risk levels are smaller. The big four recording companies have been criticized for their devotion to formulaic music offerings. While their focus on Billboard's Top 40 produced predictable sales levels for a long time, the advent of the Internet has now created an alternative distribution channel for heretofore overlooked independent bands.

#### 7.1.2. The startup perspective

The process for defining and establishing a strategy in a startup is far simpler. Usually the principals of the company share a common vision; they select a strategy that makes sense given that vision, the corporate goals, and market conditions. They capture it in a business plan, which can either be a formal written document or a PowerPoint briefing. If the company is to be angel-funded, the business plan is presented to potential investors, and private meetings are held between the founders and the angels. If the company is to be VC-funded, the investors will typically invite the company to make a 15 to 20 minute presentation. Entrepreneurs must become effective at capturing the essence of their business model and strategy in such "elevator speeches," or they will not be successful. It is quite rare for a startup's strategy to include short-term acquisitions of other companies or elimination of current businesses.

## 8. Implications on strategy selection

As noted at the outset of this article, there are many equally sound strategies that large firms may pursue. Ikea and Ethan Allen both succeed in selling furniture, although their approaches are very different. It is worth noting, however, that while both companies are in the furniture business, the products they offer are not exact substitutes. Ethan Allen, by design,

pursues a higher price point than Ikea. Still, both of these large companies experience economy of scale savings that could not be replicated by an individual craftsman working alone on a piece. By definition, an established company has managed to make the jump from the small number of customers defined as innovators or early adopters to the much larger segment of the marketplace defined as early or late majority buyers (Moore, 2002).

Startups rarely succeed based on a low-cost, low-price, low-margin strategy. The reason is simple: low costs generally result from economies of scale, and small companies by definition do not enjoy the benefits of economies of scale. Large corporations can maintain such a strategy due to high volume. Almost every successful startup relies on distinct product or service differentiators, rather than low cost, to enable them to capture small market segments. There are a few exceptional cases; these occur when a startup has developed a fundamentally new way to reduce costs (in which they often license the technology to a larger company and make their revenues through licensing fees), or has developed a unique relationship with a supplier who is able to provide materials at lower cost, although sometimes not at a volume commensurate with the needs of a larger company. One such example is Nine Dragons Paper, founded in 1985, which was created based on a low-cost supply of US waste paper imported in unused (and thus low-cost) containers to China, where it was then recycled into new packaging supplies and sold at high margins (Barboza, 2007). Much more common are examples of strongly differentiated strategies for startups. For example, in 1995 eBay provided a unique service differentiator: convenient on-line auctions; not low-cost or low-price (Cohen, 2003). GovWorks.com, in 1998, provided a unique service: access to government bureaucracy (Noujaim & Hegedus, 2001). In 1939, Bill Hewlett and David Packard started their company based on unique test equipment not available from other sources (Packard, 2006).

## 9. Final thoughts and contributions

Whether a company is an established firm or new startup, having a strategic directive is a critical component in increasing the probability of successfully meeting customer and investor demands. The considerations for developing and implementing successful competitive strategies in startup firms, however, differ significantly from those processes in established firms in 11 critical areas. Investors in startups, and customers who purchase initial products or services from startups, tend to view the world differently than mainstream public investors

and customers of large corporations. Understanding why these constituencies view the world so differently is a critical component in understanding how these two types of firms can and should formulate and implement alternative competitive strategies.

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