Strategies for Small Businesses

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What is "strategy"? Why the business gurus are talking about business strategy so much? Internet provides for the following definitions:

- A high level plan to achieve one or more goals under conditions of uncertainty.
- "Strategy is about shaping the future" and is the human attempt to get to "desirable ends with available means."
- Strategy is "the utilization during both peace and war, of all of the nation's forces, through large scale, long-range planning and development, to ensure security and victory."
- Strategy is about attaining and maintaining a position of advantage over adversaries through the successive exploitation of known or emergent possibilities rather than committing to any specific fixed plan designed at the outset.
- A method or plan chosen to bring about a desired future, such as achievement of a goal or solution to a problem.
- The art and science of planning and marshalling resources for their most efficient and effective use.

So, one can conclude that the business strategy is the secret plan developed before the anticipated events happen; this plan enables the actions that use available means to prepare to the worst case scenario and achieve in the most efficient way the ultimate goal of preservation and continuous growth of the business.

Usually, small businesses take the strategic issue lightly. They are right: why to bother with "boring strategies" if it is not clear if this business would survive to the day after tomorrow. Moreover, the life of start-up is usually so rapidly changing that no strategy can survive for more than a month. Opportunities, troubles, obstacles occur so unpredictably that entrepreneurs sometimes has no time to even think how to react. The entrepreneur has no spare time to think about strategies, he has to "play by ear."

Then, why all the entrepreneurship gurus say unanimously that start-up cannot survive without strategy? Do the entrepreneurs really need these mysterious "strategies"? What for?

True, there are times when entrepreneur does not need any "strategy." Everything he needs is fast reaction and good tactical skills. He can do "as everybody is doing," he can play by ear, he can follow the consultant's recommendation (if he has enough money to hire one), and there is nothing wrong. However, evolution of small business into the big player in the marketplace (and every entrepreneur dreams about such evolution) passes a few turning points where having or not having the "strategy" really makes difference. These points have one common characteristic: at these moments, the basis of competition changes drastically.

One such turning point was discovered and described by Geoffrey A. Moore in *Crossing the Chasm*. If we look at the S-curve of evolution of an innovation, this point is a transition from "infancy" to “rapid growth” stage. He showed that a start-up that achieved this point has to change its approaches, attitudes, behavior, product, categories of target customers – actually, everything “tactical” in the business life.

At this moment, the innovation’s functioning is already developed, and early adopters already used this innovation to satisfy their curiosity and even to use it as a springboard to their careers. It’s time to shift to the market of pragmatists who expect that innovation can demonstrate not only good functioning, but also decent reliability and “wholeness.” If these new characteristics are not delivered, the innovation simply dies, period. But to deliver these new aspects of innovation, the company has to change its mindset. It’s time to forget the fun of discovering the new feature, capability or use and to start the boring job of debugging, testing, quality improvement, etc. The competitors who can deliver on new customers’ expectations win, the others simply disappear from the market.

For this purpose, the company has to have the strategy; otherwise, taking the new “trajectory” becomes a “mission impossible” due to enormous resistance of all stakeholders to such dramatic changes. Only strategic vision of entrepreneur can provide enough energy and stamina to overcome all this resistance.

Another turning point Geoffrey A. Moore discovered and described in *Inside the Tornado*: shift from “individual production, negotiation and individual sales” to “mass production, marketing and sales.” At this moment, the customers change their mind from “We don’t trust it” to “We want it – RIGHT NOW!” So, only the competitors who can produce and sell really fast, win. Others, probably, won’t disappear, but their destiny is already predetermined: to remain the small players on the new big market. Another paradigm shift, again, is impossible without strategic vision, without understanding that painful changes are mandatory in order to move to the better business life.

I believe that I have discovered another turning point in evolution of business. This point is between *the Chasm* and *the Tornado*. This point manifests another change in competition, but it does not depend on customers; it rather depends on competitors. This point manifests the moment when the innovative company appears on the competitors’ radar screens. Usually, it happens when innovator manages to grab a visible market share (approximately 6~9% at the strong market, for example) or attracts competitors’ attention in any other way. For example, when the president and CEO of Netscape Communication Corporation publicly said that in a few years Internet protocol will replace all PC operation systems, Microsoft grew its Internet department from 8 to 4000 people in a month. Before that, Bill Gates had not seen any danger from that side, but he took this announcement as a serious threat.

Why this particular moment is so important? Before it, the company, actually, experienced no real competition. Sporadic fights with other vendors of similar innovation could not be taken as a competition simply because there was no real market. Minor mischief to each other, showering each other with dirt is not a “competition,” it is rather a kids’ romp in a sandbox. But as soon as the company appears on the radar screens of market incumbents, the real fight begins.

What the big players on the well-established market have to do with small innovators? As long as they aren’t grown up enough, nothing: 90% of beginners disappear on their own, due to their internal problems. However, as soon as a newcomer becomes too strong, something has to be done. Big players cannot afford a significant “theft” of their customer base. Otherwise, they would lose the market. Hence, the big players, as soon as they see a really grown up newcomer, they have no choice but eradicate this impertinent. There are many ways the strong, big players can take to do that, and they start shooting to kill. In this case, it’s better to overdo then to let him continue stealing the customers.

The big corporations are desperately destroying any small competitor who shows any significant success not because they are “greedy, heartless reactionaries,” but simply out of the instinct of self-preservation. Literally, “nothing personal, just business.” No company in the free market can afford erosion of its customer base: the stakeholders don’t forgive it.

So, as a result, the entrepreneur who yesterday night went to bed in peaceful world wakes up in the morning to see that the entire world came to kill him. What a terrible awakening! The market is flooded with bad copycats of his main product, dozens law suits are filed against him for patent infringement or other violations, the mass-media is loudly cursing his company for zillions of sins against his beloved customers, his customers are deserting him, his creditors stay in line at his doors, his investors withdraw their money… There is no safe place for him on the Earth. It seems as the end of his business and his life. His business has already grown up, but not that much to withstand the fierce attacks of big corporations. What could be done?

Frankly speaking, at the moment when the attack begins nothing could be done, period. It is way too late. Is there any hope to survive, to rescue the business? Yes, by dodging the fire and reducing the business to the “forever small size.” If living forever below the competitors’ radars is OK to the entrepreneur, this is good escape.

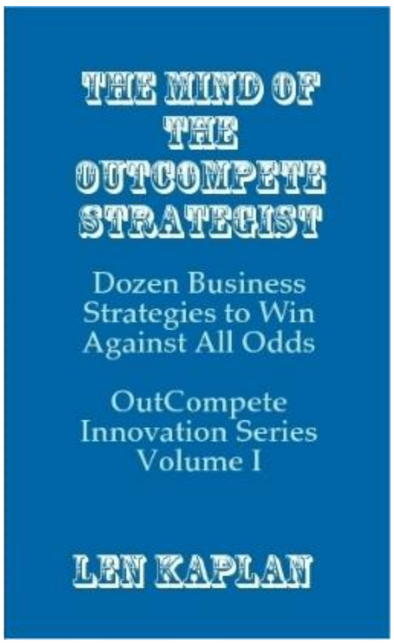
Is this situation so hopeless and desperate? Is “honorable death” is the only way to the start-ups? Of course, not. If it would be so, we would still live in the world where “Fortune 500 companies” would mean that these companies were established 500 years ago, and still are the industry leaders. The fact that some innovative start-ups not only managed to survive, but then grew up into the new leaders of industry, says that there is a hope even under deadly attack. The fact that replacement of industry leaders with grown up newcomers repeats in all industries again and again says that such survival is not a mere luck or “number game,” it is rather the consistent pattern. But if there is a consistent pattern, we can analyze it and reveal the reliable recommendations to the entrepreneurs how to pass this turning point and continue growing the business. Exactly as Altshuller and his followers had done for many times in the area of technology.

As Great Sun Tzu said, “All men can see these tactics whereby I conquer, but what none can see is the strategy out of which victory is evolved.” Hence, discovering the strategy that produced some business successes or failures isn’t an exact science: the strategists usually render their strategies so concealed that nobody who sees the outcomes can figure out how and why they occurred.

So, to start such research we should know first what to look for. Should we consider the features of entrepreneurs? Should we pay attention to the common features of innovations the winners were promoting? Is it important to analyze their relationships with investors or mass-media? Actually, the winners are so different in practically any aspect that finding their “common denominator” seems an enormous task. So, let's use TRIZ for the purpose of focusing of our research on the really relevant features.

Let's start with the key contradiction: at the moment when attack begins nothing could be done. Then, what to do? TRIZ provides for clear answer: if nothing could be done at the moment when the attack begins, then something could be done before that moment. So, the entrepreneur should do something in anticipation of this attack.

So, we need to look for what the winners had done before the attack in order to dodge it, survive and further grow the business. These actions, in their turn, should provide us with patterns that manifest the strategies employed by winners either consciously or intuitively. The job of TRIZ expert is to reveal these strategies, verbalize them and make them available to the entrepreneurs.



The results of my research are described in detail in the book *The Mind of the OutCompete Strategist: Dozen Business Strategies to Win Against All Odds*. This book presents 12 innovative strategic approaches that provide the entrepreneurs with enough strength and flexibility to survive the deadly attack and grow business to the point when competitors find out that there are more benefits in following the innovator than in killing his business. At this moment the war ends, and the "civilized" competition begins.

I coined word "OutCompete" approximately 8 years ago; it is a combination of words "outrun" and "compete," and the meaning is "outrun your competition, compete successfully by using your unfair competitive advantage." And the first "unfair competitive advantage" is the entrepreneur's innovative mind.

What is the biggest difference between strategies of *Crossing the Chasm* and *Inside the Tornado* and strategies of *Winning against All Odds*? The biggest difference is, the former strategies can be performed in time of the turbulence, while the later strategies must be developed and implemented ahead of time. The earlier the entrepreneur starts implementing these strategies, the more efforts he applies to keep them secret from the business world, the better chances are they work properly at the time of turbulence.

What all these strategies have in common? All of them are ***counterintuitive*** to the business world. Hence, the competitors don't expect these moves, don't understand how these moves counteract to the competitive attacks, circumvent the competitive traps, and attract the new customers. On the other hand, counterintuitiveness of these strategies renders them more difficult to implement: people within the company, as well as the stakeholders, don't believe in them. Hence, implementation of these strategies is a very difficult job, and this job is for strong and dedicated people only. Implementation of these strategies does not promise any "easy way" to win the competition. Rather, this way is a hard and dangerous one. But who said that the life is fair and easy? Work hard, and it will pay back a hundredfold. This approach made the capitalist world so great. Those who seek for easy and lazy ways, usually fail miserably. So, what is the benefit of these strategies? They provide an **opportunity** to win against all odds. Any other way provides for **guaranteed** failure.

What are these strategies? The key strategic approach is ***Catch Me If You Can***. This strategy consists of three approaches:

(1) Ahead of time, prepare the new grounds, e.g. next generation products, new markets, new differentiations, etc.;

(2) Accumulate the big success from multiple successes that are small enough to avoid drawing the competitive attention; and

(3) Under competitive attack, never fight back, but move to the new grounds.

This strategy efficiently resolves the otherwise "unsolvable" dilemma of competition:

> "An eye for an eye" fight seems intuitively right…
>
> …but the stronger, larger competitor easily wins such fight, while the smaller, weaker competitor has no chance to win.

Large competitor simply cannot catch and hit the small company that follows this strategy. Waging "guerrilla warfare" against the large regular "army" occupying the territory (in this case, dominating the market or market niche) favors the small competitor. No large "army" has a chance to win against small, irregular guerrilla units, because they are fighting by different rules.

Implementation of this strategy is counterintuitive. It fights the simplistic, short-term understanding of competitive warfare. Moreover, it creates several dilemmas. These dilemmas can be used by opponents as solid arguments against this strategy. However, these dilemmas are successfully addressed by other strategies in the suggested set.

The first strategy supporting the *Catch Me If You Can* strategic approach, ***Fat Product – Lean Process***, efficiently resolves the otherwise "unsolvable" dilemma:

> The company should address multiple diverse customer bases in order to realize the strategy…
>
> …but company cannot launch multiple products and marketing campaigns.

This strategy combines three approaches:

(1) Develop the next generation products, new markets, new differentiations, etc., ahead of time;

(2) Hide the future features from competition via removal of some key elements that later can be easily added; and

(3) Under competitive attack, run to the next-generation product, and don't get involved in the pricing war or other competitive battles.

Implementation of this strategy is counterintuitive, because it fights simplistic, short-term understanding of economics of competitive warfare. Although this strategy prepares company to successfully avoid involvement in the pricing war at a significant disadvantage, this long-term result isn't as "visible" as short-term financial "losses" due to higher costs of product development and product itself. This strategy should be followed persistently. Otherwise, it loses its advantages, while its disadvantages hurt the company.

The ***Icebreaker*** strategy resolves the following dilemma:

The opportunity for innovation is great…

…but the innovation is so simple that “big guys” can easily copy it and steal the market.

It consisting of the following activities:

(1) Design the simple “upgrade” to the existing product; this “upgrade” turns the unsatisfactory existing product into the satisfactory one;

(2) Design the “upgrade” so that it is “plug-and-play” compatible with products of the most popular brands;

(3) Split the process of implementing the “upgrade” into two or more stages;

(4) Implement the “first stage” that covertly prepares for flawless and quick implementation of the “upgrade”;

(5) As soon as the “first stage” implementation gains momentum, start implementing the “upgrade.”

The ***Emulation*** strategy efficiently resolves the tough dilemma:

The small company should provide the same benefits as large companies…

…but small company cannot afford the large-scale capabilities.

The solution to this contradiction combines the following three approaches:

(1) Find out the competitor’s strengths that cannot be reproduced by a small company;

(2) Discover the alternative ways to produce the same benefits; and

(3) Under competitive attack, emulate the competitor’s strengths and exploit the small company’s strengths.

Implementation of this strategy is counterintuitive, because it fights simplistic, tradition-oriented understanding of competitive warfare.

The strategy ***Think Big, Target Small*** consists of the following approaches:

(1) Reveal the core principle of your innovation;

(2) Find out what other target customers can benefit from this core principle, even if these categories are relatively small; and

(3) Under competitive attack, move from one category to another; accumulate significant customer base in multiple small market segments.

This strategy had been designed to efficiently resolve the “unsolvable” dilemma:

The small company should address multiple target customers with multiple products…

…but this approach scatters scarce human resources without focus.

The strategy ***Win the War, Not the Battle*** is intended to resolve the dilemma:

The small company should address multiple target customers with multiple products …

…but this approach scatters scarce human resources without focus.

It consists of the following approaches:

(1) Focus in one small market segment;

(2) Watch carefully when competitive products hit the market; and

(3) Under competitive attack, move from one segment to another, thus accumulating the significant customer base in multiple market segments, while keeping each market share small.

The ***Bowling Alley*** is the third strategy that finalizes the concept of solution to the "unsolvable" dilemma:

> A small company should address multiple target customers with multiple products…
>
> …but this approach scatters scarce human resources without focus.

This strategy unites the following approaches:

(1) Develop multiple generations of product;
(2) Reveal the logical sequence of conquering the market niches, so that current customers can serve as relevant reference to the new ones; and
(3) Under competitive attack, move from one product generation to another, from one market niche to another, thus accumulating the significant customer base in multiple market segments.

This strategy fights simplistic understanding of business success with large customer base in one market segment.

The following strategy, ***Go Where the Puck Will Be***, exploits the following approaches:

(1) "Skate where the money will be": discover which area of expertise in the Value Chain represents "not-yet-good-enough," but performance-defining components and operations; integrate them into the company's business and leverage them.
(2) "Eat your way up the value chain": persistently move to the new areas where the money will be, especially up the Value Chain; integrate appropriate components and operations into the company's business and leverage them.
(3) Support these changes in business model with efficient innovative efforts: ahead of time, address the challenges; keep the "unfair, non-conventional" solution proprietary and hidden from to your competition.

This strategy works only if the changes in business model are supported by commitment from the executive ranks of the company.

Company's ultimate success is in selling its product to the customers. Usually, sales and marketing are the costliest activities. How the small company can afford it? The ***Evangelism Marketing*** strategy suggests the following:

(1) Discover what your customers REALLY need, and develop the product that REALLY solves customers' problems;
(2) Deliver this product to the customers; and
(3) Organize the grassroots movement of customers who are "so happy they freely sell your product for you."

Management instincts resist to trusting the uncontrollable customers, especially when managers are devoted to "conventional," "They will buy anything we shovel down their throats." Not in this case.

If you do believe that you deliver on real needs of customers, if you are honest with your customers, they do the miracle. But if you lie to them, they ditch your company, period.

The goal of any innovative strategy, and especially of ***Avoid Hard Blows***, is to keep the company in business despite all the dangers. Being kicked out of business after the first significant success is the most difficult to withstand. This chapter suggests the following strategy for risk mitigation:

(1) Always prepare for the highly potential risk ahead of time;
(2) Thoroughly watch for early signs of danger; and
(3) Under competitive attack, "slide away" from competitive blow.

Human psychology resists dealing with danger before it occurs; this is why implementation of this strategy is counterintuitive. You need to overcome the "natural" resistance of your co-workers, and address the risks long before they "materialize."

The strategy ***Strategize Your IP***, if properly implemented, protects entrepreneurs from inevitable patent infringement lawsuits in the following steps:

(1) File "patent fence"-type patent applications, describing all the possible and feasible alternatives to all components of your innovation;
(2) Timely file the patent applications, protecting only features that are commercially successful; and
(3) Under competitive attack, "cover your anatomy" with this patent fence.

Rephrasing Al Capone, "You can get much farther with a good business and an airtight patent-fence IP protection than you can with a good business alone." Turn your IP protection in the differentiator of your success, in your "business gun."

The entrepreneurial strategist has to concentrate on the most dangerous competitors. The essence of ***The Bear Hug*** strategy is keeping the "equal" competition under control and using their resources while focusing on dangers from large competitors:

(1) Reveal what unavailable expertise is needed for success;
(2) Find out the potential competitors that possess this expertise;
(3) Share a portion of company's unique expertise;
(4) Temporarily partner with potential competitors to acquire needed expertise; and
(5) When you feel the partnership isn't beneficial anymore, drop and kill the "partner."

This "counterintuitive" strategy contradicts the "conventional" bravery, "We'll kill them all," as well as "conventional" loyalty forever, "They are our partners, let's share every single resource with them." None of these approaches has business merits. This strategy sounds "immoral"? But who said the morality is a business virtue rewarded in this life?

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We have finished the "nodding acquaintance" with system of efficient winning strategies for start-up businesses. As you could see, this is the **<u>system</u>** rather than a collection: the strategies in this system not only pursue the same goal, but also match each other, support each other, and resolve each other's inherent dilemmas. Using some of them is already better than competing in the "conventional" way. Using them together, as multi-dimensional strategic mindset, becomes the recipe of business success.

These strategies are **winning** rather than merely rescuing. The small company that employs these strategies from the very beginning starts benefiting from them only at the moment when company's business becomes really successful. Why only then?

At the moment when small company gains substantial success in the market, it inevitably pops up on the competitors' radar screen and attracts a large sharks' attention. The only reasonable reaction of large companies seeing their customer base eroded is the "killing blow." Small company, fatigued from a long fight for survival and finally seeing the light in the end of the tunnel, happily relaxes and loses guard – and unexpected, but inevitable "killing blow" catches it unprepared. Any "conventional" response to the hostile competitive acts only accelerates the "death" of small business.

The strategies described in this book were designed to prevent this unfortunate sequence of events. If they are employed from the first day of the business's operations, if they are followed persistently and consistently, then the company comes to the "day of success" well-prepared and aware of inevitability of "killing blow." The company leadership's mindset is already formed to employ "counterintuitive" responses to the competitive hostility, avoid being hurt, and finally gain even better success despite all competitive efforts.

These strategies are **efficient** because they provide small company with necessary results, while keeping the competition unaware of company's unexpected responses. These strategies are counterintuitive not only to the small company who employs them, but also to the competitors – hence, they catch competitors unprepared to respond appropriately, while providing the small company with long-term "unfair" competitive advantages.

The fact that these strategies are victory-oriented and counterintuitive to the competitors is the good news. What's the bad news, though?

The bad news is, these strategies involve multiple inherent dilemmas; they are complicated and quite "unnatural"; and they provide company with benefits later, while substantial efforts must be applied immediately, upfront.

People with short-term thinking and people with long-term thinking cannot understand each other. People with both short- and long-term thinking are pretty rare breed. As a result, the discussion between strategic-minded executives and tactical-minded management is the only real-world example of perpetual motion, without any useful outcome. Small business isn't an army; the boss's orders are never executed exactly. It's so easy to execute these orders in the way that provides immediate benefits and hurts only later, when nobody can discover the culprit.

There are many "good" reasons why entrepreneurs, managers and executives consider these strategies counterintuitive and simply reject them:

- "Let's get to the success first, and then we'll implement these strategies. Now we have more urgent troubles at hand";
- "We have more important and urgent things to do," "We don't have resources to waste them for your nightmares that will never happen," or "Don't talk about these risks, or they will realize."

- Implementation of these strategies is more expensive short-term, reduces company profits, and involves a sufficient effort upfront, while the long-term risks and advantages don't seem that realistic;
- "We cannot develop a brand name if we run from one segment to another";
- These strategies involve new dilemmas, aka "subsequent problems," that seem to be a good reason to discard the strategies;
- "If it was so easy, others would already use it";
- "You are simply paranoid," "Your negative attitude will scare off all investors and partners," or "Don't ever raise these issues, even inside the company."

As you could see, this list is very long and incomplete. People easily find the "good," "hard to beat" reasons to stay in their comfort zone. In the end of the battle, when everything is lost due to their laziness, they just lift their hands in dismay and say, "Oh, we were just unlucky" or "Oh, those big bastards!" Worst of all, they start blaming those who proposed this strategy from the very beginning for "not being persistent" and "not doing anything." They never blame themselves – that's human nature.

Why do I list these "reasons" here? I don't want to discourage you – I want to warn. Forewarned is forearmed.

Consistent and persistent implementation of strategies is an enormous Herculean deed. A strategist, to get his strategies implemented properly, has to be prepared to the hard daily job of strategizing, deciding – and controlling the outcomes. Otherwise, the best strategies are nothing but nice exercises of your mind.

Specifically, this book describes the signs of disaster and deep dilemma-based reasons for company failures, but doesn't provide any suggestions how to avoid this disaster. It is the warning to the entrepreneurs that odds for strategic failure are much better than for victory, it shows what to beware of. It's like riding a bicycle: the odds to fail and fall are enormous, while odds to keep bicycle erect are negligible – until you start moving and compensating for every imbalance by your dynamic effort. The faster you move the better balance you keep. "Never let it rest…"