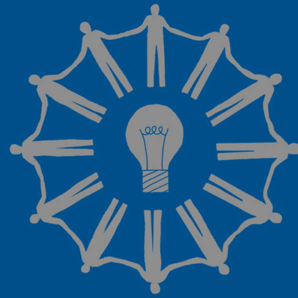
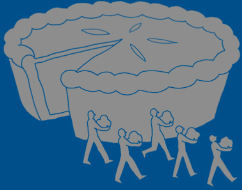
ELIMINATE UNNECESSARY STEPS



NONE OF US IS AS SMART AS ALL OF US

IF THE PIE'S NOT BIG ENOUGH, MAKE A BIGGER PIE



THE STRONGEST COMPETITIVE FORCES DETERMINE THE PROFITABILITY OF AN INDUSTRY

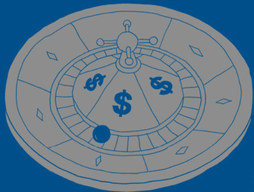
THERE'S A GAP IN THE MARKET, BUT IS THERE A MARKET IN THE GAP?

THE BUSINESS BOOK

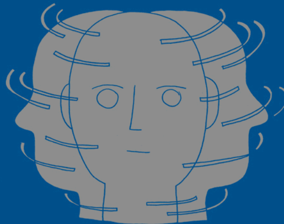
BIG IDEAS SIMPLY EXPLAINED

NO GREAT MANAGER OR LEADER EVER FELL FROM HEAVEN

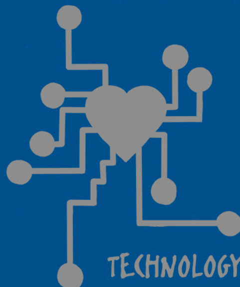
TEAMWORK IS THE FUEL THAT ALLOWS COMMON PEOPLE TO ATTAIN UNCOMMON RESULTS



BORROW SHORT, LEND LONG

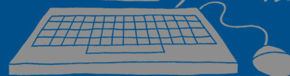


BE FIRST OR BE BETTER



ONLY THE PARANOID SURVIVE

YOU DON'T NEED A HUGE COMPANY, JUST A COMPUTER AND A PART-TIME PERSON



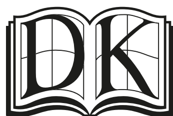
BE AN ENZYME— A CATALYST FOR CHANGE

IF YOU'RE DIFFERENT, YOU WILL STAND OUT

TECHNOLOGY IS THE GREAT GROWLING ENGINE OF CHANGE

THE BUSINESS BOOK

THE BUSINESS BOOK



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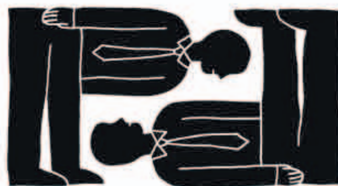

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INTRODU

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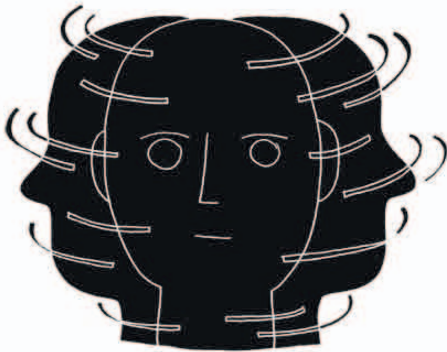


From the time that goods and services began to be traded in early civilizations, people have been thinking about business. The emergence of specialized producers and the use of money as a means of exchange were methods by which individuals and societies could, in modern terms, gain a "business edge." The ancient Egyptians, the Mayans, the Greeks, and the Romans all knew that wealth creation through the mechanism of commerce was fundamental to the acquisition of power, and formed the base on which civilization could prosper.

The lessons of the early traders resonate even today. Specialism revealed the benefits of economies of scale—that production costs fall as more items are produced. Money gave rise to the concept of "value added"—selling an item for more than it cost to produce. Even when barter was the norm, producers still knew it was advantageous to lower costs and raise the value of goods. Today's companies may use different technologies and trade on a global scale, but the essence of business has changed little in millennia.

> The art of administration is as old as the human race.
> **Edward D. Jones**
> **US investment banker**
> **(1893–1982)**

An era of change

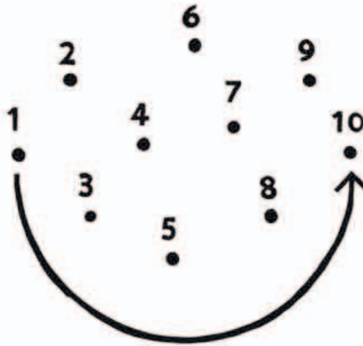
However, the study of business as an activity in its own right emerged relatively recently. The terms "manager" and "management" did not appear in the English language until the late 16th century. In his 1977 text *The Visible Hand*, Dr. Alfred Chandler divided business history into two periods: pre-1850 and post-1850. Before 1850 local, family-owned firms dominated the business environment. With commerce operating on a relatively small scale, little thought was given to the wider disciplines of business.

The growth of the railroads in the mid-1800s, followed by the Industrial Revolution, enabled businesses to grow beyond the immediate gaze of friends or family, and outside the immediate locale. To prosper in this new—and increasingly international—environment businesses needed different, and more rigorous, processes and structures. The geographic scope and ever-growing size of these evolving businesses required new levels of coordination and communication—in short, businesses needed management.

Managing production

The initial focus of the new breed of manager was on production. As manufacturing moved from individual craftsmen to machinery, and as ever-greater scale was required, theorists such as Henri Fayol examined ever-more-efficient ways of operating. The theories of Scientific Management, chiefly formulated by Frederick Taylor, suggested that there was "one best way" to perform a task. Businesses were organized by precise routines, and the role of the worker was simply to supervise and "feed" machinery, as though they were part of it. With the advent of production lines in the early 1900s, business was characterized by standardization and mass production.

While Henry Ford's Model T car is seen as a major accomplishment of industrialization, Ford also remarked "why is it every time I ask for a pair of hands, they come with



a brain attached?" Output may have increased, but so too did conflict between management and staff. Working conditions were poor and businesses ignored the sociological context of work—productivity mattered more than people.

Studying people

In the 1920s a new influence on business thinking emerged—the Human Relations Movement of behavioral studies. Through the work of psychologists Elton Mayo and Abraham Maslow, businesses began to recognize the value of human relations. Workers were no longer seen as simply "cogs in the machine," but as individuals with unique needs. Managers still focused on efficiency, but realized that workers were more productive when their social and emotional needs were taken care of. For the first time, job design, workplace environments, teamwork, remuneration, and nonfinancial benefits were all considered important to staff motivation.

In the period following World War II, business practice shifted again. Wartime innovation had yielded significant technological advances that could be applied to commerce. Managers began to utilize quantitative analysis, and were able to make use of computers to help solve operational problems. Human relations were not forgotten, but in management thinking, measurability returned to the fore.

Global brands

The postwar period saw the growth of multinationals and conglomerates—businesses with multiple and diverse interests across the globe. The war had made the world seem smaller, and had paved the way for the global brand. These newly emerging global brands grew as a result of a media revolution—television, magazines, and newspapers gave businesses the means to reach a mass audience. Businesses had always used advertising to inform customers about products and to persuade them to buy, but mass media provided the platform for a new, and much broader, field—marketing. In the 1940s US advertising executive Rosser Reeves promoted the value of a Unique Selling Proposition. By the 1960s, marketing methods had shifted from simply telling customers about products to listening to what customers wanted, and adapting products and services to suit that.

Initially, marketing had its critics. In the early 1960s hype about the product became more important than quality, and customers grew dissatisfied with empty claims. This, and competition from Japanese manufacturers, had Western companies embracing a new form of business thinking: Total Quality Management (TQM) and Zero Defects management. Guided by management theorists, such as W. Edwards Demming and Philip B. Crosby, quality was seen as the responsibility of the entire company, not just those on the production line. Combining Human Relations thinking and the customer-focused approach of marketing, many companies »

Entrepreneurship is about survival, which nurtures creative thinking. Business is not financial science, it's about trading—buying and selling.

Anita Roddick

UK entrepreneur (1942–2007)

adopted the Japanese philosophy of *kaizen*: "continuous improvement of everything, by everyone." Staff at all levels was tasked with improving processes and products through "quality circles." While TQM is no longer the buzzword it once was, quality remains important. The modern iteration of TQM is Six Sigma, an approach to process improvement that was developed by Motorola in 1986 and adapted by Jack Welch during his time as CEO of General Electric.

Gurus and thinkers

Business history itself emerged as a topic of study in the 1970s. Dr. Alfred Chandler progressed the study of business history from the purely descriptive to the analytical—his course at Harvard Business School stressed the importance of organizational capabilities, technological innovation, and continuous learning. Taking their cue from Chandler, in the 1980s and 1990s management experts—such as Michael Porter, Igor Ansoff, Rosabeth Moss Kanter, Henry Mintzberg, and Peter Drucker—encouraged businesses to consider their environments, to consider the needs of people, and to remain adaptable to change. Maintaining the conditions for business growth, and the correct positioning of products within their market, were considered key to business strategy. Moreover, what distinguished these gurus from their predecessors—who had tended to focus on operational issues—was a focus on leadership itself. For example, Charles Handy's *The Empty Raincoat* revealed the paradoxes of leadership, and acknowledged the vulnerabilities and fragilities of the managers themselves. Leadership in the context of business, these writers recognized, is no easy undertaking.

Digital pioneering

Just as television and mass media had done before, the growth of the Internet in the 1990s and early 2000s heralded a new era for business. While early hype led to the failure of many online start-ups in the dot-com bubble of 1997 to 2000, the successful e-commerce pioneers laid the foundations for a business landscape that would be dominated by innovation. From high-tech garage start-ups—such as Hewlett-Packard and Apple—to the websites, mobile apps, and social-media forums of the modern business environment, technology is increasingly vital for business.

The explosion of new businesses thanks to technology also helped to expand the availability of finance. During the 1980s and 1990s finance had grown into a distinct discipline. Corporate mergers and high-profile takeovers became a way for businesses to grow beyond their operational limits; leverage joined marketing and strategy as part of the management lexicon. In the late 1990s this expanded to venture capital: the funding of small companies by profit-seeking investors. The risk of starting and running a business remains, but the opportunities afforded by technology and easier access to finance have made taking the first step a little easier. With micro-finance, and the support of online

Business can be a source of progressive change.

Jerry Greenfield

US businessman, co-founder of Ben and Jerry's ice cream (1951–)

networks and communities of like-minded people dispensing business advice, enterprise has never been more entrepreneurial.

Recent business thinking has brought diversity and social responsibility to the fore. Businesses are encouraged, and increasingly required by law, to employ people from diverse backgrounds and to act in an ethical manner, wherever they operate in the world. Businesses such Nike and Adidas require suppliers to prove that labor conditions in their factories meet required standards. Sustainability, recycling, diversity, and environmentalism have entered business thinking alongside strategic management and risk.

New horizons

If business thinking has shifted, so too has the nature of business itself. Where once a company was constrained by its locality, today the opportunities are truly global. Globalization does, however, mean that business is more competitive than ever. Emerging markets are creating new opportunities and new threats. They may be able to outsource production to low-cost countries, but as their economies grow, these emerging nations are breeding new competition. China, for example, may be "the world's factory," but its home-grown companies are also starting to represent a threat to Western businesses. As the global recession of 2007–08 and ongoing economic uncertainty have proven, business in the 21st century is increasingly more interdependent and more challenging than ever before. Starting a business might be easier, but to survive entrepreneurs need the tenacity to take an idea to market, the business acumen to turn a good plan into a profitable enterprise, and the financial skill to maintain success.

Continual change

For centuries social, political, and technological factors have forced companies and individuals to create new ways of generating profits. Whether bartering goods with a neighboring village or seeking ways to make profits from social networking, business thinking has changed, shifted, and evolved to mirror the wants and needs of the societies whose wealth it creates. Sometimes, as in the 2008 financial crisis, business failed in its efforts. In other examples—the legacy of Apple's game-changing products, for example—companies have been spectacularly successful.

Business is a fascinating subject. It surrounds us and affects us daily. A walk down the street, a wander around a supermarket, an Internet search on almost any topic will reveal commerce in its many and varied forms. At its core business is, and always has been, about survival and surplus—about the advancement of self and of society. As the world continues to open up, and as opportunities for enterprise multiply, an interest in business has never been more relevant, or more exciting. Moreover, for those with entrepreneurial spirit, business has never been more rewarding. ■

Business, more than any other occupation, is a continual dealing with the future; it is a continual calculation, an instinctive exercise in foresight.

Henry R. Luce

US magazine publisher (1898–1967)

START S
THINK B

STARTING AND GROWING THE BUSINESS

MALL, IG

All businesses start from the same point: an idea. It is what happens to that idea that determines business success.

According to *Entrepreneur* magazine, nearly half of all new start-ups fail within the first three years. Beating the odds at start-up is tough. First and foremost an idea, no matter how good, must be combined with entrepreneurial spirit, defined as the willingness to take risk. Without entrepreneurial spirit a great idea might never be pursued. Not all ideas are good ones though; it would be a foolish entrepreneur who rushed a product to market without careful thought, research, and detailed planning. Risk might be inherent in business enterprise, but successful entrepreneurs are those who are not only willing to take risks, but are also able to manage risk.

Realistic propositions

Having an idea is the first step—the next hurdle is finance. Some start-ups require very little capital, and a few require none at all. However, many require significant backing, and most will need to seek funding at some stage in the growth process. An entrepreneur must be able to convince financial backers that the concept is valid and that they have the skills and knowledge to turn the original concept into a successful business.

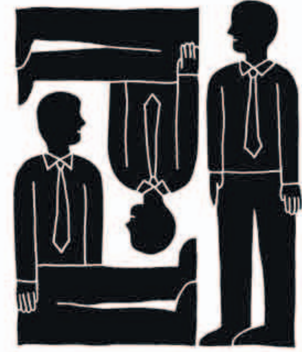
It follows that the idea must be profitable. Sometimes, an idea may look great on paper, but turn out to be uncommercial when put into practice. Determining whether an idea has potential requires a study of the competition and the relevant market. Who is competing for customers' time and money? Are these competitors selling directly competitive products or possible substitutes? How are competitors perceived in the market? How big is the market?

Most markets are increasingly global, crowded, and competitive. Few companies are lucky enough to find a profitable niche—to succeed, companies need to do something different in order to stand out in the market. The strategy for most companies is to differentiate; this means demonstrating to customers that they offer something that is not available from competitors—a Unique or Emotional Selling Proposition (USP or ESP).

Such attempts to stand out are everywhere. Every business, and at every stage of production, from raw-material extraction to after-sales service, tries to distinguish its products or services from all others. Walk into any bookstore, for example, and you will see countless examples of books, often on the same topic, using design, style, and even size (large or small) to stand out from the competition.

Gaining an edge often depends on one of two things: being first into a new market niche, or being different from the competition. For example, in 1995 eBay was first into the online auction market, and has dominated it ever since. Similarly, Volvo was first to identify the opportunity for luxury bus sales in India, and has enjoyed healthy sales. In contrast, Facebook was by no means the first social network, but it is the most successful; its edge was having a better product.

> The only thing worse than starting something and failing … is not starting something.
>
> **Seth Godin**
> **US entrepreneur (1960–)**



Once a company is established, the challenge shifts: the objective now is to maintain sales and grow in the short- and long-term.

Adapting to survive

Long-term business survival depends upon the company constantly reinventing and adapting itself in order to remain ahead of the competition. In dynamic markets, which are growing and evolving all the time, the idea on which the company was founded may become irrelevant over time, and rivals will almost certainly copy it. The ecosystem in which a business operates is rarely, if ever, static. Corporations exist in these ecosystems as living organisms that must adapt to survive. In their 2013 book, *Reinventing Giants*, Bill Fischer, Umberto Lago, and Fang Liu noted that the Chinese home appliances company Haier had reinvented itself at least three times in the past 30 years. In contrast, Kodak, a US giant of the 20th century, was slow to react to the rise of digital photography, and went bankrupt.

Moreover, just as the enterprise must adapt, so too must the owner. Most businesses start small, and remain small. Few entrepreneurs are willing or know how to take the second step of employing people who are neither family nor previously known friends. This is the start of a move from entrepreneur to leader, and it requires a new set of skills, as new demands are placed on the business founders. Where once energy, ideas, and passion were enough, evolving businesses require the development of formal systems, procedures, and processes. In short, they require management. Founders must develop delegation, communication, and coordination skills, or they must employ people who have them.

As Larry Greiner described in his 1972 paper, "Evolution and Revolution as Organizations Grow", as a business grows, the demands on it change. The Greiner Curve is a graphic that shows how the initial stages of growth rely on individual initiative, and that evolving ad-hoc business practice into sustainable and successful growth can only be achieved by experienced people and rigorous systems. Professional management, as opposed to entrepreneurial spirit, becomes essential to business evolution.

Some leaders, such as Bill Gates and Steve Jobs, for example, are able to make the transition from entrepreneurial founder to corporate leader. Many others, however, struggle to make the necessary changes; some try and fail, while others decide to remain small.

Finding a balance

Determining how fast to grow is, therefore, a balance of the founder's skills and desires. But in order to survive, the idea must be unique enough to define its own niche, and the individual or group behind it must demonstrate entrepreneurial spirit. They need the flexibility to adapt the idea—and themselves—as business and market pressures demand. Luck will play a part, but it is the balance of these factors that determines whether a small start-up becomes a giant. ■

> When you have to prove the value of your ideas by persuading other people to pay for them, it clears out an awful lot of woolly thinking.
>
> **Tim O'Reilly**
> **Irish entrepreneur (1954–)**

IF YOU CAN DREAM IT, YOU CAN DO IT

BEATING THE ODDS AT START-UP

IN CONTEXT

FOCUS
Business start-ups

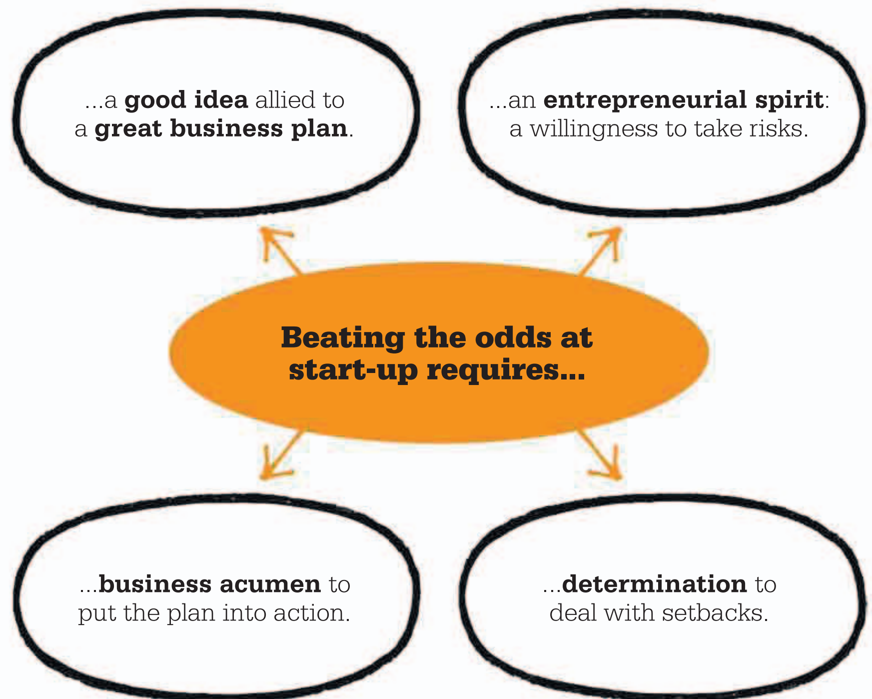
KEY DATES
18th century The term "entrepreneur" is used to describe someone who is willing to risk buying at certain prices and selling at uncertain prices.

1946 Professor Arthur Cole writes *An Approach to Entrepreneurship*, sparking interest in the phenomenon.

2005 The micro-finance, nonprofit site Kiva.com launches to make small loans to very small businesses.

2009 Crowdfunding websites, such as Kickstarter.com, allow individuals to provide funding for businesses.

2013 A study by Ross Levine and Yona Rubinstein finds that as teenagers, many successful entrepreneurs exhibited aggressive behavior, broke the rules, and got into trouble.



The reasons for starting a business are many. Some people dream of being their own boss—of turning their hobby into a profitable enterprise, of expressing their creativity, or of being richly rewarded for their hard work. Although Walt Disney's maxim "if you can dream it, you can do it" holds true for some, pursuing the dream is risky. Those who attempt it must have the entrepreneurial spirit to fearlessly quit a well-paid job, go it alone, and face a future filled with uncertainty. Others might need a push; often being laid off (and its associated lump-sum payment) can be a springboard.

See also: Finding a profitable niche 22–23 ▪ Managing risk 40–41 ▪ Luck (and how to get lucky) 42 ▪ Take the second step 43 ▪ From entrepreneur to leader 46–47 ▪ Learning from failure 164–65 ▪ Small is beautiful 172–77

Younger entrepreneurs are increasingly a part of the start-up scenario. They may have gained the necessary skills for business by their early twenties, and enjoy the excitement and freedom of running their own venture.

Keeping the faith

While the reasons for start-up may vary, what all entrepreneurs have in common is the willingness to take risks. Few entrepreneurs get it right first time—it takes resilience and tenacity to keep going in the face of failure, and it takes perseverance to remain positive when customers, banks, and financial backers repeatedly say "no." Faith in the idea is essential. While some start-ups require very little capital, most require funding during their early growth phases. A business owner must be able to convince banks, or other financial backers, that their concept is valid and that they have the skills to turn the idea into a profitable venture, even though this may take some time. It took Amazon six years to make a profit.

In recent years, securing finance for start-ups has become a little easier. Many governments offer loan plans or grants. Entrepreneurs with big ideas can access large funds of money and managerial support from venture capitalists, whose sole purpose is to incubate start-ups. For smaller start-ups, and for people with very little of their own capital, micro-loans and crowdfunding finance—such as that offered by Kickstarter.com—are increasingly popular.

The business plan

The key to securing financing is a business plan. A good plan will outline the idea itself, detail any supporting market research, describe operational and marketing activities, and give financial predictions. The plan should also outline a strategy for long-term growth and identify contingencies (alternative ideas or markets) if things do not go as planned.

Most importantly, a good business plan will acknowledge that the biggest reason for business failure is a lack of cash. While loan capital can help for a while, eventually a business must fund its operations from revenue. A good business plan will analyze future cash flows and identify any potential shortfalls.

Beating the odds at start-up is defined by the tenacity to take an idea to market, the ability to secure sufficient finance, and the business acumen to turn a good plan into a long-term, profitable enterprise. ■

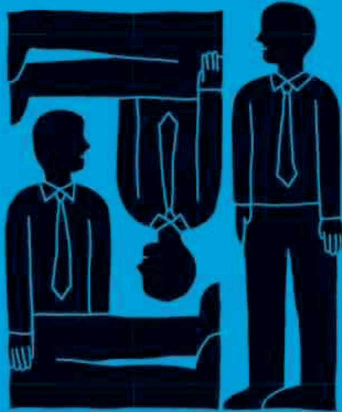
Sustaining a business is a hell of a lot of hard work, and staying hungry is half the battle.

Wendy Tan White
UK business executive (1970–)

"Tony" Fernandes

Tan Sri Anthony "Tony" Fernandes was born in Kuala Lumpur in 1964 to an Indian father and Malaysian mother. He went to school in England and graduated from the London School of Economics (LSE) in 1987. He worked briefly for Richard Branson at Virgin Records as a financial controller before becoming Southeast Asia Vice President for Warner Music Group in 1992. In 2001, Fernandes left Warner to go it alone. He mortgaged his home to raise the finance needed to buy the struggling young airline, AirAsia. His low-cost strategy was clear in the company's tagline: "Now everyone can fly." One year after his takeover, the airline had cleared its debts of $11 million and had broken even. Fernandes estimates that around 50 percent of its travelers are first-time flyers. The company is now widely regarded as the world's best low-cost airline.

In 2007 Fernandes founded Tune Hotels, a low-cost hotel chain that promises "Five-star beds at one-star prices." He advises potential entrepreneurs to "dream the impossible. Never take no for an answer."



THERE'S A GAP IN THE MARKET, BUT IS THERE A MARKET IN THE GAP?

FINDING A PROFITABLE NICHE

IN CONTEXT

FOCUS
Positioning strategy

KEY DATES
1950s and 60s Markets are dominated by large companies offering mass-produced items, such as Coca-Cola. Choice is limited, but the scope for products targeted at new sectors of the market is high.

1970s and 80s Markets become more segmented as companys generate new products and market them toward narrower groups.

1990s and 2000s Companies and brands position themselves ever-more aggressively and distinctively in the overcrowded marketplace.

2010s Finding and sustaining market niches is assisted by the promotional capabilities of the Internet, which allow "one-to-one" marketing and customization of products.

Many markets are crowded, with multiple sellers chasing the same customers.

↓

For these sellers, **competition lowers profitability**.

↓

Market gaps—a new product or sector of the market—offer the enticing prospect of **healthy profitability**.

↓

But does the gap contain enough business to **generate a profit**?

↓

There's a gap in the market, but is there a market in the gap?

Finding a space in the market that is unchallenged by competition is the Holy Grail of positioning strategy. Unfortunately these spaces—known as market gaps—are often illusive, and the benefits of finding one are often equally illusory.

Although competition is a fact of life, it makes business difficult, contributing to an ever-downward pressure on prices, ever-rising costs (such as the funding of new product development and marketing), and an incessant need to outmaneuver and outsmart rivals. In contrast, the benefits of finding a market gap—a small niche segment of a market that is unfettered by competition—are obvious: greater control over prices, lower costs, and improved profits.

The identification of a market gap, combined with a dose of entrepreneurial spirit, is often all that is needed to launch a new business. In 2006, Twitter founder Jack Dorsey combined short-form communication with social media, providing a service that no one else had spotted. Free to most users, revenue comes from companies who pay for promotional tweets and profiles: Twitter earned advertising revenues of $582 million in 2013.

See also: Stand out in the market 28–31 ▪ Gaining an edge 32–39 ▪ Reinventing and adapting 52–57 ▪ Porter's generic strategies 178–83 ▪ Good and bad strategy 184–85 ▪ The value chain 216–17 ▪ Marketing mix 280–83

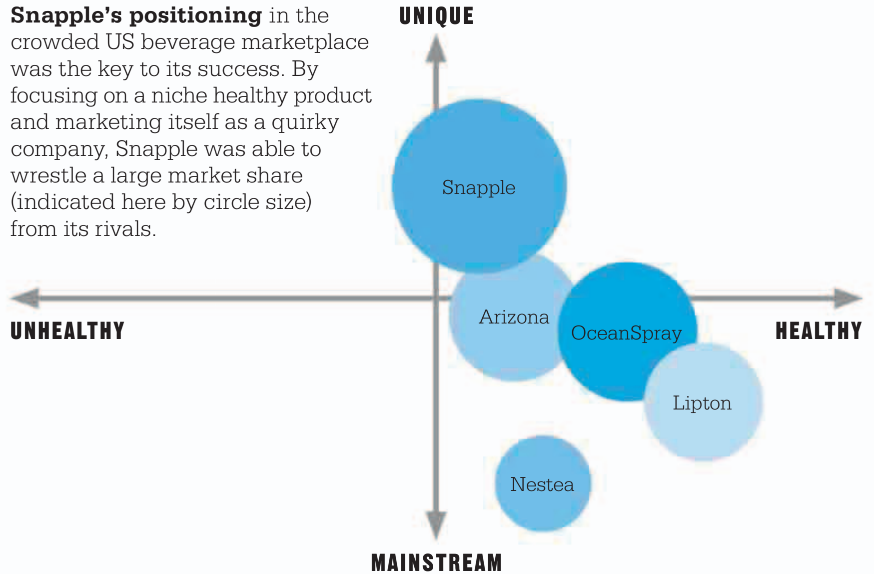
Not all gaps are lucrative, however. The Amphicar, for instance, was an amphibious car produced in the 1960s for US consumers who wanted to drive on roads and rivers. It was a quirky novelty, but the market was too small to be profitable. This was also true for bottled water for pets—launched in the US in 1994, Thirsty Cat! and Thirsty Dog! failed to entice pet owners.

A sustainable niche

Snapple, the manufacturer of healthy tea and juice drinks, is a company that has successfully found a sustainable and profitable niche. A glance at the beverage counter of any supermarket reveals that dozens of brands compete for sales. Many companies have failed in this ultra-competitive market: for example, Pepsi tried to capture a nonexistent market for morning cola with its short-lived, high-caffeine drink, AM.

Success for Snapple came from positioning the product as a unique brand—Snapple was one of the first companies to manufacture juices and drinks made completely from natural ingredients. Its founders ran a health store in Manhattan, and the company used the slogan: "100% Natural." Snapple targeted students, commuters, and lunch-time office workers with a new healthy "snack" drink, combining its Unique Selling Proposition (USP) with irreverent marketing and small bottles that were designed to be consumed in one sitting. Distribution was through small, inner-city stores where customers could "grab-and-go." These tactics helped to secure a profitable and sustainable niche, distinguishing Snapple from its rivals in the 1980s and 1990s. In 1994 sales peaked at $674 million.

Unoccupied market territory can present major opportunities for companies, but the challenge lies in identifying which gaps are profitable and which are traps. During the 1990s, many companies became excited about the potential of the "green" market, across a whole range of goods. But this market has failed to materialize in any profitable way. This marks one of the potential pitfalls in identifying market gaps based on market research: sometimes consumers have strong attitudes or opinions on trends or issues—such as ecology—that they are disinclined to consider when purchasing products, especially if they affect cost. Many market gaps, it seems, are tempting, but illusory. ■



Snapple's positioning in the crowded US beverage marketplace was the key to its success. By focusing on a niche healthy product and marketing itself as a quirky company, Snapple was able to wrestle a large market share (indicated here by circle size) from its rivals.

Snapple

A contraction of the words "snappy" and "apple," Snapple was launched in 1978 by Unadulterated Food Products Inc. The company was founded in 1972 by Arnold Greenberg, Leonard Marsh, and Hyman Golden in New York, US.

Such was the popularity of Snapple that the company has been subject to numerous buyouts. Unadulterated was purchased by Quaker Oats for $1.7 billion in 1994 but, following differences in strategic vision that led to falling sales, was sold to Triarc in 1997 for $300 million. Triarc then sold the Snapple brand to Cadbury Schweppes for $1.45 billion in September 2000, with a further deal in May 2008 seeing Snapple become part of what is now the Dr Pepper Snapple Group.

Marketed as "Made From the Best Stuff on Earth," Snapple's unusual blends of ready-to-drink teas, juice drinks, and waters are sold in more than 80 countries around the world.

YOU CAN LEARN ALL YOU NEED TO KNOW ABOUT THE COMPETITION'S OPERATION BY LOOKING IN HIS GARBAGE CANS

STUDY THE COMPETITION

IN CONTEXT

FOCUS
Analytical tools

KEY DATES
1950s Harvard academics George Smith and C. Roland Christensen develop tools to analyze companies and competition.

1960s US management consultant Albert Humphrey leads a research project that yields SOFT analysis, the forerunner to his later SWOT analysis.

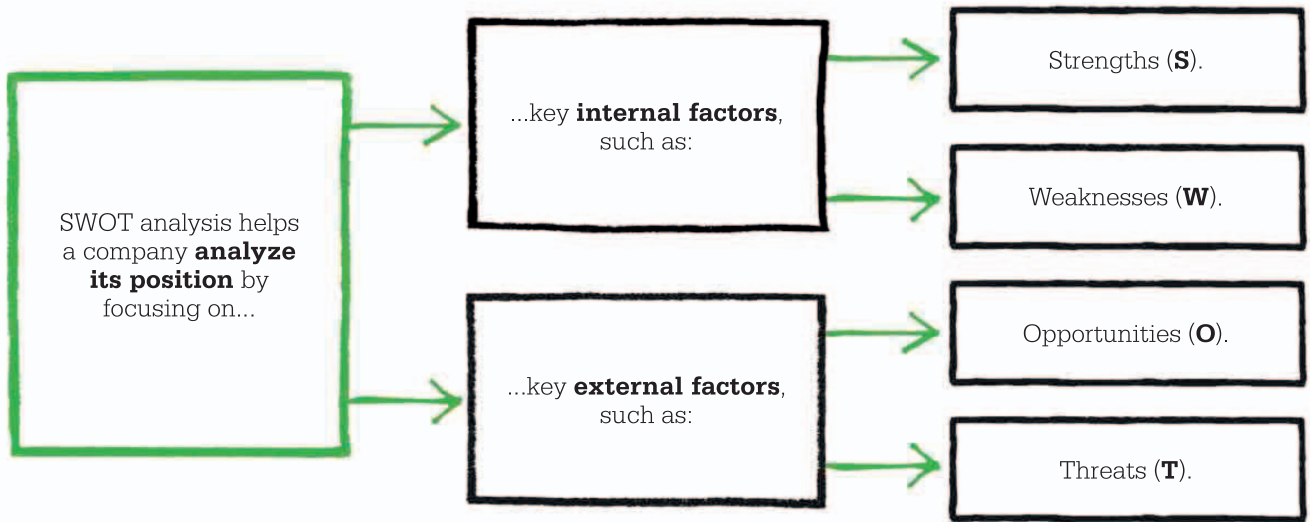
1982 US professor Heinz Weihrich develops the TOWS matrix which uses the threats to a company as the starting point for formulating strategy.

2006 Japanese academics Shinno, Yoshioka, Marpaung, and Hachiga develop computer software that combines SWOT analysis with AHP (Analytic Hierarchy Process).

Whether a company is long established or in its start-up phase, a key strategic issue is its competitive advantage—the factor that gives it an edge over its competitors. The only way to establish, understand, and protect competitive advantage is to study the competition. Who is competing with the company for its customers' time and money? Do they sell competitive products or potential substitutes? What are their strengths and weaknesses? How are they perceived in the market?

For Ray Kroc, the US entrepreneur behind the success of fast-food chain McDonalds, this reportedly involved inspecting competitors'

See also: Stand out in the market 28–31 ▪ Gaining an edge 32–39 ▪ Thinking outside the box 88–89 ▪ Leading the market 166–69 ▪ Porter's generic strategies 178–83 ▪ The MABA matrix 192–93 ▪ Porter's five forces 212–15



trash. But there is a range of more conventional tools to help companies to understand themselves, their markets, and their competition.

SWOT analysis

The most popular such tool is SWOT analysis. Created by US management consultant Albert Humphrey in 1966, it is used to identify internal strengths (S) and weaknesses (W), and to analyze external opportunities (O) and threats (T). Internal factors that can be considered as either strengths or weaknesses include: the experience and expertise of management; the skill of a work force; product quality; the company's financial health; and the strength of its brand. External factors that might be opportunities or threats include market growth; new technologies; barriers to entering markets; overseas sales potential; and changing customer demographics and preferences.

SWOT analysis is widely used by businesses of all types, and it is a staple of business management courses. It is a creative tool that allows managers to assess a company's current position, and to imagine possible future positions.

A practical tool

When well-executed, a SWOT analysis should inform strategic planning and decision-making. It allows a company to identify what it does better than rivals (or vice versa), what changes it may need to make to minimize threats, and what opportunities may give the company competitive advantage. The key to strategic fit is to make sure that the company's internal and external environments match: its internal strengths must be aligned with the external opportunities. Any internal weaknesses should be addressed so as to minimize the extent of external threat.

When undertaking a SWOT analysis, the views of staff and even customers can be included—it should provide an opportunity to solicit views from all stakeholders. The greater the number of views included, the deeper the analysis and the more useful the findings. However, there are limitations. While a company may be able to judge its internal weaknesses and strengths accurately, projections about future events and trends (which will affect opportunities and threats) are always subject to error. Different stakeholders will also be privy to different levels of information about a company's activities, and therefore its current position. Balance is key; »

If you go exactly where your competitors are, you're dead.

Thorsten Heins

German-Canadian former CEO of Blackberry (1957–)

senior managers may have a full view of the company, but their perspective needs to be informed by alternative views from all levels of the organization.

As with all business tools, the factor that governs the success of SWOT analysis is whether or not it leads to action. Even the most comprehensive analysis is useless unless its findings are translated into well-conceived plans, new processes, and better performance.

Market mapping

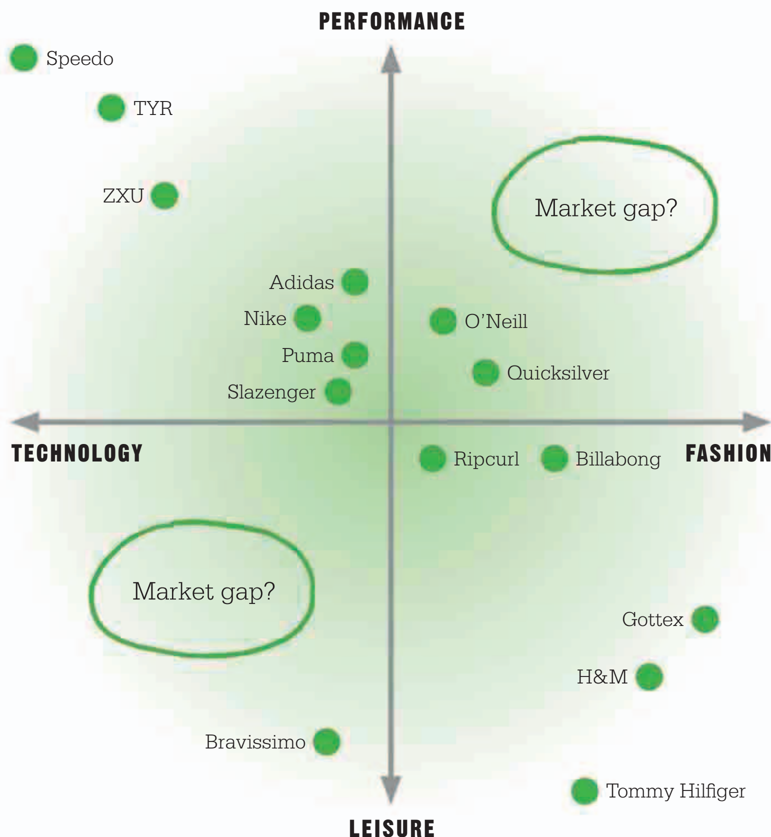
A slightly narrower but more sophisticated tool for analyzing a company's position and competition is "market mapping" (also known as "perceptual mapping"). Market maps are diagrams that represent a market and the placement of products within that market, providing a visual means of studying the competition. The process is useful both internally (to help an organization understand its own products) and externally (to chart how consumers perceive the brand in relation to the competition).

To draw up a market map, a company identifies several consumer purchase-decision factors that stand in opposition to one another. In the fashion market, an example might include "technology" *vs.* "fashion," and "performance" *vs.* "leisure." Additional factors could include the item's price (high *vs.* low), quality of production (high *vs.* low), stylish *vs.* conservative, or durable *vs.* disposable. Two of these dimensions, or opposing pairs, are then plotted onto a horizontal or vertical axis.

Based on market research or the knowledge of managers, all of the products within a particular market can be plotted onto the map. The market share of each product can be represented by the size of its corresponding image on the map, but more often, analysts choose to simply make a rough sketch of the market, ignoring market size.

A company may choose to compile several market maps, each of which depicts a different set of variables, and then analyze them—individually and in combination—to gain an overall view of the company's position in the market.

Market mapping plots opposing qualities of products along two axes. By identifying the two main oppositional factors for any product, it is easy to see gaps in the market.



Finding the gap

The goal of market mapping is to identify opportunities where a company can differentiate itself from its competitors. These are areas where the company offers unique value, and they can be used to inform marketing messages. The map will also reveal overcrowded segments, which signify heightened competitive threat.

For a new start-up, a market map can be used to identify a viable gap in the market—a good place to position a company when it is struggling to establish itself. Established businesses can use market mapping combined with SWOT analysis to discover opportunities and decide whether the company has the strengths to exploit one of those opportunities. The market map helps to inform the strategy (the need to reposition a product away from competitors'

The apparel market is a competitive sector with a host of finely delineated fashion brands. Speedo's market positioning is built around producing high-performance, technical products.

offerings, for example) and the tactics (moving from conservative to sporty, for example) that will help the company to achieve that strategic goal.

Market analysis such as this may, for example, have helped luxury Singaporean tea shop TWG Tea to identify an opportunity in the market. Launched in 2008, TWG targets a slightly older, wealthier customer base than coffee shops and other "lifestyle" cafés. TWG has opened new locations across the world, based on studying the competition, identifying a market gap, and designing its products and services to fill that gap.

Internal focus

As a company grows it might choose to draw up a map including just its own products. Analysis of the results can help identify any overlap between different products (informing decisions about which products to drop, and which to concentrate research and development and marketing spend, for example). It can also be used to ensure that the company's marketing message stays on track, helping to avoid strategic drift. Perceived as a technical performance product, Speedo, for example, needs to ensure that its marketing reflects that view; a campaign that promotes Speedo as a fashionable label would risk confusing customers and could damage the brand.

The key to successful market mapping is market research. While it can be useful to compare internal and external perceptions of a product, and the products of the competition, it is the customers' views that matter most. When based on such data, even though managers may disagree, the market map cannot be "wrong"—it simply represents, for better or worse, how the brand is perceived. The challenge for management is to use the map, and knowledge of internal strengths and weaknesses, to plan the appropriate strategic response.

Both SWOT analysis and market mapping allow a company to better understand itself, its market, and, most importantly, the competition. Equally, being aware of weaknesses can help avoid costly strategic mistakes, such as producing overly ambitious products or making an entry into a crowded market position. An appreciation of the opportunities and threats of the market, and the relative and shifting positions of competing products, is essential to long-term successful strategic planning. To plan where you are going, it helps to know where you are—and where your competitors are too. ■

Albert Humphrey

Born in 1926, Albert Humphrey was educated at the University of Illinois, US, and at the Massachusetts Institute of Technology (MIT), where he gained a master's degree in Chemical Engineering. He later went on to earn an MBA from Harvard University. While working with the Stanford Research Institute (now SRI International) between 1960 and 1970, Humphrey came up with the Stakeholder Concept, which has since been used by business leaders and politicians. He also undertook research to identify why corporate planning failed, by holding interviews with more than 5,000 executives at over 1,100 companies. As a result of the findings, he invented SOFT analysis: "what is good in the present is Satisfactory, good in the future is an Opportunity; bad in the present is a Fault, and bad in the future is a Threat." Fault was later softened to the more acceptable Weaknesses, and Satisfactory became Strengths. The now-ubiquitous acronym SWOT was born.

THE SECRET OF BUSINESS IS TO KNOW SOMETHING THAT NOBODY ELSE KNOWS

STAND OUT IN THE MARKET

IN CONTEXT

FOCUS
Differentiation

KEY DATES
1933 US economist Edward Chamberlin's *Theory of Monopolistic Competition* describes differentiation as a means for a company to charge more for its products or services by distinguishing them from the competition.

1940s The concept of the Unique Selling Proposition (USP) is put forward by Rosser Reeves, advertising executive at New York advertising agency Ted Bates, Inc.

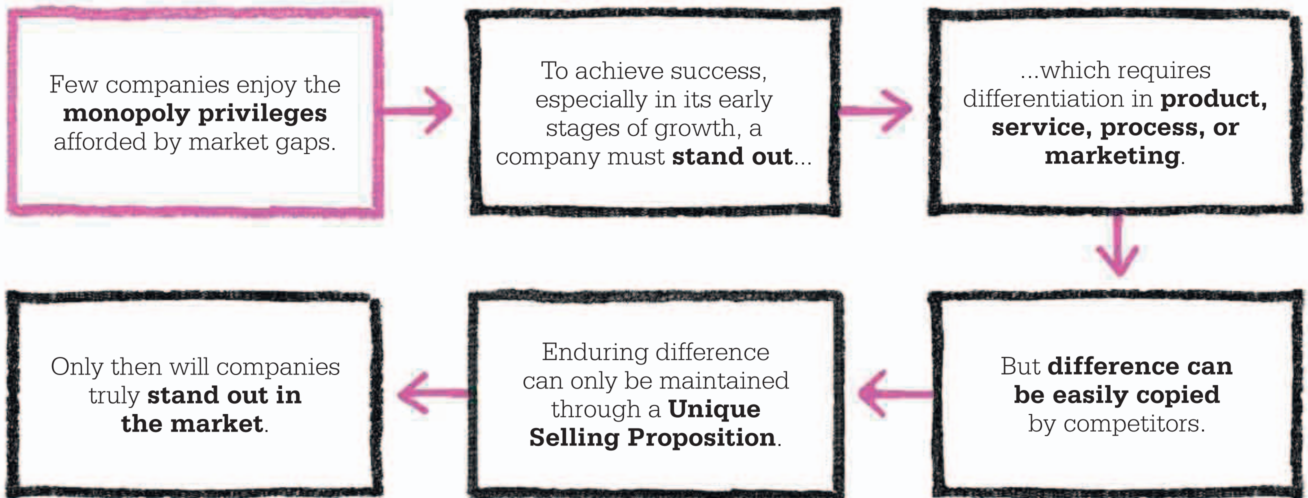
2003 US marketing professor Philip Kotler outlines the need for USPs to be superseded by Emotional Selling Propositions (ESPs) in his book *Marketing Insights from A to Z*.

Few businesses enjoy the privileges of monopoly power in their chosen fields of operation. Most markets are increasingly global, increasingly crowded and, therefore, increasingly competitive. In order to achieve commercial success companies need to do something different—as Greek shipping magnate Aristotle Onassis recommended, they need to "know something that nobody else knows" in order to stand out from the competition.

Unique Selling Propositions

Faced with competition, the strategy for most companies is to differentiate. This involves offering

See also: Finding a profitable niche 22–23 ▪ Gaining an edge 32–39 ▪ Reinventing and adapting 52–57 ▪ Porter's generic strategies 178–83 ▪ Good and bad strategy 184–85 ▪ The value chain 216–17



customers something that the competition cannot or does not offer—a Unique Selling Proposition (USP). The concept was developed by US advertising executive Rosser Reeves in the 1940s to represent the key point of dramatic difference that makes a product salable at a price higher than rival products. Tangible USPs are hard to acquire and hard to copy, which is what makes them unique.

Companies must distinguish their product or service from the competition at every stage of production—from raw material extraction to after-sales service. Products such as Nespresso coffee-makers and Crocs footwear, and service providers such as majority Asian-owned hotel group Tune Hotels, are all heavily differentiated, each having a strong USP.

The primary benefit of uniqueness, however it is achieved, is greater customer loyalty and increased flexibility in pricing. Differentiation guards products and services from low-priced competition; it justifies higher prices and protects profitability; and it can give businesses the competitive advantage needed to stand out in the market.

The challenge of difference

By definition, not all products can be unique. Differentiation is costly, time consuming, and difficult to achieve, and functional differences are quickly copied—"me-too" strategies are commonplace. Touchscreen technology was introduced to the cell-phone market as a point of differentiation for Apple's iPhone, but is now a feature of most smartphones. Differentiation often does not remain a point of difference for long.

With functional uniqueness being so elusive, marketing guru Philip Kotler suggested that companies focus instead on an Emotional Selling Proposition (ESP). In other words, that the task of marketing is to generate an emotional connection to the brand that is so strong that customers perceive difference from the competition. For example, while the design and functionality of Nike and Adidas sneakers are distinct, the differences are so small that they amount to only a marginal difference in performance. The products' differences are, however, magnified in the perception of the consumer through marketing and the power of branding—uniqueness is achieved through brand imagery, promotion, and sponsorship.

Apple achieved differentiation in the fledgling digital-music market by combining easy-to-use software »

There is no such thing as a commodity. All goods and services are differentiable.
Theodore Levitt
US economist (1925–2006)

with well-designed hardware and a user interface that integrated the two. The product itself—the iPod portable music device—was functionally little different than existing MP3 players, but combined with the iTunes software to create a unique customer experience. This experience is Apple's ESP, which the company promoted with its "Think Different" advertising campaign.

Standing out

One company that has achieved uniqueness is the British fashion label Superdry, which has grown to include more than 300 stores in Europe, Asia, North and South America, and South Africa. Drawing a novel, international influence from Japanese graphics and vintage Americana, combined with the values of British tailoring, Superdry quickly established a strong position in the hypercompetitive clothing market from its launch in 2004. The business started life in university towns across the UK, a positioning that gave the brand a youthful appeal. Despite limited advertising and abstaining from celebrity endorsements, Superdry's popularity rapidly grew. The company's distinctive look quickly caught the eye of celebrities (a jacket worn by soccer player David Beckham became one of its best-selling products, and Beckham himself became an unoffical talisman of the brand), providing free publicity.

Superdry focused on offering clothing with a fashionably tailored fit and attention to detail (even down to garment stitching). Worn by off-duty office workers, students, sports stars, and celebrities alike, the brand was able to appeal to a broad customer base. Most differentiation strategies involve targeting one segment of the market; Superdry chose to target them all. The brand's unique blend of fashion with ease of wear, comfort with style, and the presence of mysterious but meaningless Japanese writing, has proved a difficult mix for competitors to replicate.

Maintaining uniqueness

As many companies discover, popularity can be the enemy of difference. While Superdry clothing has become increasingly ubiquitous around the world, its uniqueness and difference have declined. The challenge for Superdry, like all companies, is to protect its uniqueness while also expanding its reach—to stand out from the crowd, while welcoming those crowds into its stores.

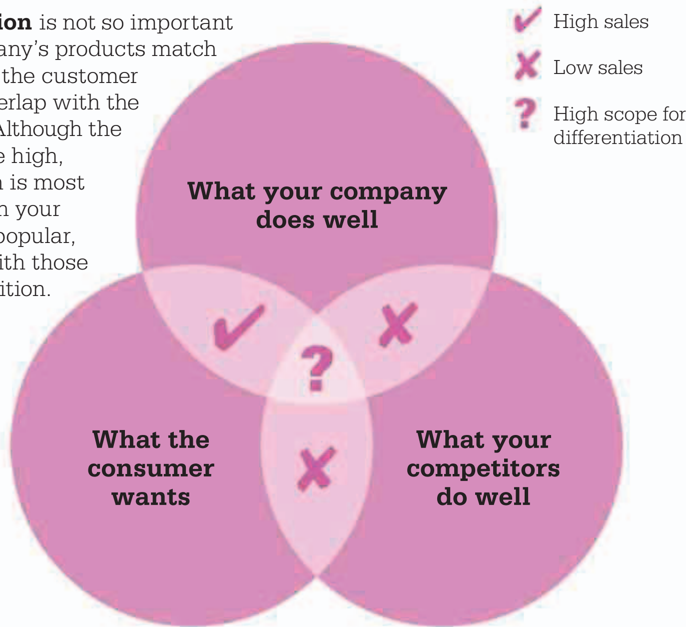
Differentiation can occur at any point in the value chain. Standing out is not limited to products or services—it can occur in any number of internal processes that translate into an improved customer experience. Swedish furniture retailer IKEA, for example, differentiates itself not only through contemporary design and low prices, but through the entire customer retail experience. The company's low prices are achieved, in part, through its self-picking and self-assembly retail model—the customer experience involves picking products from the company's vast showrooms and warehouses and then, once they have transported the goods home, assembling the furniture.

Even the way IKEA "guides" shoppers on a one-way, defined route through its showrooms is unique. While this tactic encourages spontaneous purchases, it also helps to reinforce IKEA's points of difference—customers are exposed to predesigned rooms and furniture layouts that emphasize the brand's contemporary style. Price is kept low since fewer store assistants are required to direct customers around the store.

Different but the same

Paradoxically, familiarity can also be a source of differentiation. The entire McDonald's organization revolves around providing almost identical fast-food products, with the same service, in identical

Fashion label Superdry is a young company that has successfully carved out market share. Rapid growth since its founding in 2004 is thanks in part to a highly differentiated, faux-vintage look.



Differentiation is not so important when a company's products match the desires of the customer and do not overlap with the competition. Although the risks might be high, differentiation is most effective when your products are popular, but overlap with those of the competition.

restaurants the world over. This familiarity differentiates McDonald's from unknown local offerings, and from other global competitors who cannot maintain the same degree of consistency across their operating territories.

In a market in which rival companies promote the uniqueness of their products in ever-louder and more complex ways, consumers have become increasingly savvy when it comes to distinguishing reality from rhetoric. While differences do not have to be tangible—the evidence shows that an Emotional Selling Proposition (ESP) is often enough—the challenge for businesses is that points of differentiation do have to be genuine and believable. Developing an emotional connection with the customer requires that the differentiation is understood and consistently delivered throughout the organization. Well-defined core principles that celebrate a company's uniqueness should inform the customer experience at every point of contact—difference has to be believable, and it is only believable if it is dependable.

Sustaining differentiation

Once established, uniqueness—whether functional or emotional—requires nurturing and protecting. Standing out from the crowd is a constant battle that is fought in the hearts and minds of the company's staff, as well as customers. As legal clashes between rivals—such as Apple and Samsung—demonstrate, uniqueness might also have to be contested in the courtroom.

Every industry has leaders and followers—what separates them is that the leaders are usually those with the most defensible points of differentiation. Whether in features and functionality, brand image, service, process, speed, or convenience, uniqueness must be established and communicated for a company and its offerings to stand out in the market. The key to long-lasting success is making that differentiation sustainable. ■

Rosser Reeves

US advertising executive Rosser Reeves (1910–84) held the maxim that an advertisement should show off the value of a product, not the cleverness of the copywriter. After a brief spell at the University of Virginia, from where he was expelled for drunken misconduct, Reeves worked as a journalist and then copywriter before joining advertising agency Ted Bates, Inc. in New York in 1940. His exceptional talent saw him rise to become Chairman of the company in 1955. He is credited with redefining television advertising and, among many others, for formulating slogans such as "It melts in your mouth, not in your hand" for chocolate confectionary brand M&Ms. Reeves's Unique Selling Proposition, first outlined in the 1940s, was described in his 1961 book *Reality of Advertising*. Such was his impact on the advertising industry that his legacy lives on long after his death—his pioneering style of leadership was the inspiration for the lead character in US television series *Mad Men*.

> In order to be irreplaceable one must always be different.
>
> **Coco Chanel**
> **French fashion designer** (1881–1971)

BE FIRST OR BE BETTER

GAINING AN EDGE

IN CONTEXT

FOCUS
Competitive advantage

KEY DATES
1988 US scholars David Montgomery and Marvin Lieberman write "First-Mover Advantage," outlining the competitive advantages of being first to market.

1995 Amazon.com launches, the first of a new breed of online retailers.

1997–2000 Adopting the "be first" mantra, dot-com companies race to market; many fail when the promised advantages do not materialize.

1998 Montgomery and Lieberman question their original findings in their paper, "First-Mover (Dis)Advantages."

2001 Amazon.com returns its first profit. The company's first-mover advantages were significant, but a good business model mattered more.

If you need to buy a book online, which website do you visit first? If you want to research the author of the book, which search engine do you use? The answers, most probably, are Amazon and Google, respectively. Such is the dominance of these two Internet giants that their names define their respective markets.

Both organizations have a significant edge in the markets they lead, but they achieved that dominance by different means. Amazon, launched in 1995, gained its advantage by being the first business to enter the online retail market, establishing its brand name, and building a loyal customer base. Google, by contrast, was by no means first. When Google launched in 1998, the market was already dominated by several large players; Google's edge came from offering a superior product—not only was it faster, but it produced more accurate search results than any of its competitors.

Getting into a market first has significant advantages, but there are also benefits to being second. The key is that in order to gain a competitive edge in the market, a business needs either to be first, or it needs to be better.

Market pioneers

The benefits of being first into a market are known as "first-mover advantage," a term popularized in 1988 by Stanford Business School professor David Montgomery and his co-author, Marvin Lieberman. Although introduced a decade previously, Montgomery and Lieberman's idea took particular hold during the dot-com bubble between 1997 and 2000. Spurred

See also: Beating the odds at start-up 20–21 ▪ Stand out in the market 28–31 ▪ How fast to grow 44–45 ▪ The Greiner curve 58–61 ▪ Creativity and invention 72–73 ▪ Changing the game 92–99 ▪ Balancing long- versus short-termism 190–91

Amazon.com was a first-mover in the online retail market. It has dominated the industry since its launch in 1995, creating strong brand recognition and a loyal customer base.

on by the example of Amazon, businesses spent millions pitching themselves headlong into new online markets. Conventional wisdom was that being first ensured that the company's brand name became synonymous with that segment, and that early market dominance would create barriers to entry for subsequent competition.

In the end, however, overspending, overhype, and overreaching into markets where little demand existed was the downfall of many fledgling dot-coms. With notable exceptions, businesses found that promised returns were not being realized and funds quickly ran short—and for many of these first-movers, failure followed.

First-mover advantage

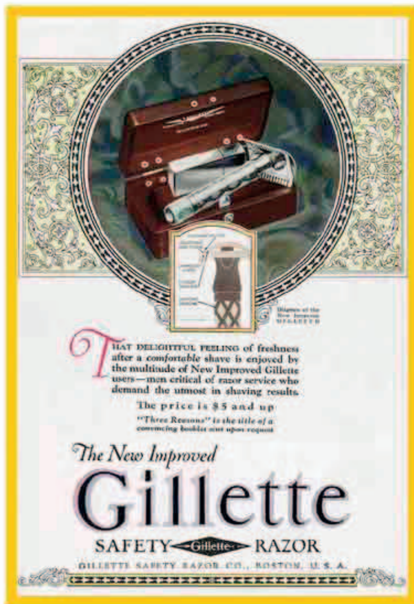
Being first out of the block undoubtedly has its advantages, and in the case of the dot-coms, those advantages were exaggerated to the extreme. First-movers often enjoy premium prices, capture significant market share, and have a brand name strongly linked to the market itself. First-movers also have more time than later entrants to perfect processes and systems, and to accumulate market knowledge. They can also secure advantageous physical locations (a prime location on a main street of a city, for example), secure the employment of talented staff, or access beneficial terms with key suppliers (who may also be eager to enter the new market). Additionally, first-movers may be able to build switching costs into their product, making it expensive or inconvenient for customers to switch to a rival offering once an initial purchase has been made. Gillette, for example, having invented the safety razor in 1901, has consistently leveraged its first-mover advantage to create new products, such as a "shaving system" that combines cheap handles with expensive razor blades.

First-mover advantages accrue when a company gains a first-mover opportunity (through proficiency or luck) and is able to maintain an edge despite subsequent entry.
David Montgomery and Marvin Lieberman

Market strategies

In the case of Amazon.com, first-mover advantage consisted of a combination of factors. In the newly emerging e-commerce market, customers were eager to try online purchasing, and Amazon was well placed to exploit this growing curiosity. Books represented a small and safe initial purchase, and Amazon's simple web design made buying easy and enjoyable. Early sales enabled the organization to adapt and perfect its systems, and to adjust its website to match customer needs—adding, for example, its OneClick ordering system to enable purchases without entering payment details.

Amazon was also able to build distribution systems that ensured quick and reliable delivery of its products. Although competitors could replicate these systems, customers already trusted Amazon, and the brand loyalty »



Gillette invented the safety razor in 1901 and later consolidated its first-mover advantage by developing a "shaving system" that made it difficult for customers to switch brands.

the organization enjoyed created significant emotional switching costs; even today, Amazon enjoys the benefits of this trust and loyalty, and almost a third of all US book sales are made via Amazon.com.

A recent example of how important first-mover advantage remains are the "patent wars" contested between most of the leading smartphone makers (including Apple, Samsung, and HTC). Patents help a company to defend technological advantage. In the hypercompetitive smartphone industry, being first to market with a new technological feature offers critical, albeit short-term, advantage. In an industry in which consumers' switching costs are high, even short-term advantages can have a significant impact on revenue.

Since the publication of Montgomery and Lieberman's original paper in 1988, academic research has indicated that significant advantages accrue to market pioneers, which can be directly attributable to the timing of entry. The irony is that in a retrospective paper that appeared in 1998, "First-Mover (Dis) Advantages," Montgomery and Lieberman themselves backed off their original claims concerning the benefits of being the first to enter a market.

Building on the work of, among others, US academics Peter Golder and Gerard Tellis in 1993, Montgomery and Lieberman's 1998 paper questioned the entire notion of first-mover advantage. In their research, Golder and Tellis had found that almost half the first-movers in their sample of 500 brands, in 50 product categories, failed. Moreover, they found that there were few cases where later entrants had not become profitable or even dominant players—in fact, their research identified that the failure rate for first-movers was 47 percent, compared to only 8 percent for fast followers.

Learning from mistakes

The challenge for first-movers is that the market is often unproven; industry pioneers leap into the dark without fully understanding customer needs or market dynamics. First-movers often launch untried products onto unsuspecting customers; and it is rare that they get it right first time. Large companies may be able to take the losses of such early-market entry mistakes; small companies, on the other hand, may soon find that their cash is running out and their tenuous business models are collapsing.

Later entrants have the advantage of learning from the mistakes of the first-movers, and from entering a proven market. They are also able to avoid costly investment in risky and potentially flawed processes or technologies; first-movers, by contrast, may have accrued significant "sunk costs" (past investment) in old, less-efficient technologies, and may be less able to adapt as the industry matures. Followers can enter at the point at which technology and processes are relatively well established, with both cost and risks being lower.

Followers may have to fight to overcome the first-movers' brand loyalty, but simply offering a superior product that better addresses customer needs is often sufficient to secure a market. Brand recognition is one thing, but technical and product superiority can give that all-important competitive edge. Moreover, with investment costs being much lower, followers often have surplus cash to use on marketing, thereby offsetting the branding advantages of the first-mover.

When Google, for example, entered the Internet search business in 1998, the market was dominated by the likes of Yahoo, Lycos, and AltaVista, all of whom had established customer bases and brand recognition. However, Google was able to learn from the

> Good artists copy; great artists steal.
>
> **Steve Jobs**
>
> **US former CEO of Apple (1955–2011)**

If later entrants can leapfrog pioneers, companies could be better off entering late.
Peter Golder and Gerard Tellis

mistakes of these earlier entrants and, quite simply, build a better product. The organization realized that with so much information on the Internet people wanted search results that were comprehensive and relevant; the various market incumbents offered a variety of systems for filtering search results, but Google was able to take the best of these systems and build its own unique algorithm that led to market dominance.

First-mover failures

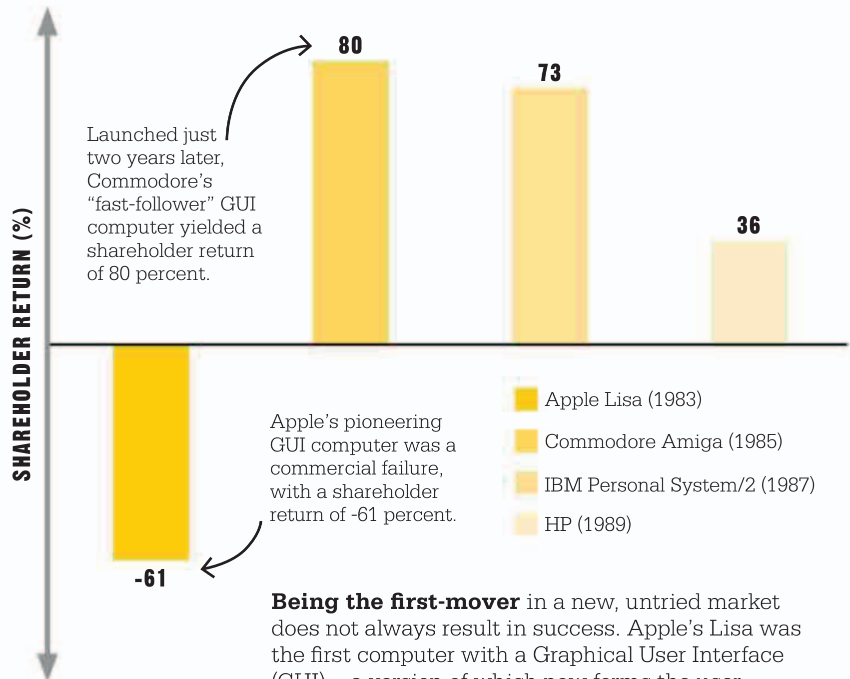
There are numerous examples in corporate history of first-movers that were unable to achieve or maintain a competitive advantage. Famous failures in the online sphere include Friends Reunited and MySpace. Although both companies still exist, their first-mover advantage was not sufficient to offset the might (and product superiority) of Facebook. Similarly, eToys.com, launched in 1999, was one of a new breed of online retailers, but first-mover advantage was not enough to sustain the business and the company declared bankruptcy in 2001—by coincidence, the same year that Amazon started to sell toys. (Resurrected some years later, etoys.com is now owned by Toys R Us.) The online clothing retailer boo.com is an example of a first-mover that had technological superiority, but was ahead of its time—the site was too resource-heavy for most consumers' slow Internet connections. Launched in 1999, boo.com went into receivership the following year—being first is not a guarantee of success if the basic business model is flawed.

Despite the evidence presented by Golder and Tellis, and examples such as Google, it remains the case that first-mover advantage has captured corporate imagination. Mirroring the earlier dot-com gold rush, the recent boom in the market for web-based smartphone- and tablet-accessed applications (the "app" market) is fueled by a desire to be first. Thousands of apps have launched in the hope of staking their claims on lucrative segments of this new market. But success is not guaranteed—a 2012 study revealed that on average, 65 percent of users delete apps within 90 days of installing them.

Timing is everything

The reason a first-mover does not always yield its promised advantages is that much depends on timing, and therefore luck. In their 2005 paper, "The Half-Truth of First-Mover Advantage," US business scholars Fernando Suarez and Gianvito Lanzolla identified technological innovation and the speed at which the market is developing as crucial in determining whether or not being a first-mover is advantageous.

Their findings suggest that when a market is slow-moving and technological evolution is limited, first-mover advantage can be »



Being the first-mover in a new, untried market does not always result in success. Apple's Lisa was the first computer with a Graphical User Interface (GUI)—a version of which now forms the user interface of every computer, smartphone, and digital device—yet sales were far exceeded by later offerings from Commodore, IBM, and HP.

significant. They give the example of the market for vacuum cleaners, and, in particular, of the long-term market leader, Hoover. Until the relatively recent introduction of Dyson cleaners, the market was benign and technological advancement slow. Having been first to market in 1908, Hoover enjoyed several decades of advantage—an advantage that was (and, in some places, still is) reflected in the widespread use of the company's brand name as the verb "to hoover."

In other industries, however, where technological change or market evolution is rapid, first-movers are often at a disadvantage. The first search engines are examples of businesses that had too much invested in early iterations of a technology to keep up with the rapid pace of change.

Early advantage quickly becomes obsolete in changeable markets. As the market evolves, later entrants are those that seem to be cutting edge, offering innovative features that build on the market-knowledge as well as learning from the mistakes of the first-mover. The first-mover may have enjoyed short-lived advantage but in dynamic markets such an advantage is rarely durable. Even Apple, who enjoyed significant early-entrant advantage in the smartphone market with the iPhone, is not immune from first-mover disadvantage. Competitors, Samsung in particular, were able to listen to customer complaints about iPhones, analyze customer needs, and produce products with features and functionality welcomed by the market. Apple, locked into previous technology iterations, took time to react and iPhone sales suffered as a result.

Customer needs

To gain an edge, therefore, you do not always need to be first. Indeed, US multinational Procter & Gamble, for example, prefers only to enter those markets in which it can establish a strong number one or number two position over the long-term—rarely is this achieved in a blind rush to be first.

Procter & Gamble seeks markets that are demographically and structurally attractive, with lower capital requirements, and higher margins. But most importantly, the organization insists on a deep understanding of customer needs in any market they enter. In other words, they would rather enter mature markets than be first into new ones.

The company values long-term relationships with its customers and suppliers; its view of innovation is different from small companies who, in attempting to capture market share, strive to gain an edge through the introduction of disruptive technology—innovative technology that seeks to destabilize the existing market. Procter & Gamble, perhaps heeding the research, considers such strategies to be short-lived. They realize that overly rapid innovation runs the risk of cannibalizing their own sales and reducing the returns on new product investment. In the market for disposable baby diapers, for example, Procter & Gamble was more than ten years behind the first mover. The company's now famous Pampers brand was launched in 1961, following some way behind Johnson & Johnson's Chux brand,

> If you do things well, do them better.
>
> **Anita Roddick**
>
> **UK entrepreneur (1942–2007)**

The PalmPilot, launched in 1997, was a successful fast-follower product. It followed Apple's unsuccessful Newton, which was the first personal digital assistant (PDA) to enter the market.

which was launched in 1949. At the time, disposable diapers were a new innovation, and customers were wary of their use. Procter & Gamble waited until customers had come to accept the product before entering the market. Moreover, they spent nearly five years researching and addressing each of the major problems with Chux and developed a product that was more absorbent, had lower leakage, was more comfortable for the baby, offered two sizes, and could be produced at a significantly lower cost. Today, *Forbes* magazine lists Pampers as one of the world's most powerful brands, valued at over $8.5 billion, with the diapers being purchased by 25 million consumers in over 100 countries. By contrast, Chux was phased out by Johnson & Johnson in the 1970s due to shrinking sales.

Securing a foothold

In reality, then, while it is readily assumed that speed is good when entering a market, gaining an edge might depend less on timing than it does on appropriateness. Whether a company is first, second, or last to market is important; but it is less important than the suitability of a company's products or services to that market, and its ability to deliver on brand promises. Both these factors can have a profound impact on long-term viability and business success.

Amazon may have enjoyed lasting first-mover advantage, but that alone is insufficient to account for its phenomenal success. Amazon leverages its first-mover advantage into a sustainable competitive edge; its website is continually made easier to use, it offers a range of complimentary products, and it continues to drive down costs, enabling it to offer market-beating prices. Most notably, Amazon did not return a profit until 2001—the company spent its earlier years building a better product. The foundations of success may have been laid by first-mover advantage, but Amazon's edge has been built on long-term good business practice.

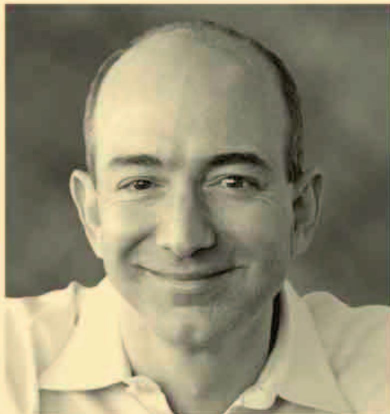
First-movers undoubtedly have a natural competitive edge. Whether it is a lasting impression on customers, strong brand recognition, high switching costs, control of scarce resources, or the advantages of experience, that edge can help to secure a strong, and long-term, foothold in the market. But as research shows, second-movers, and their followers, may sometimes be in an advantageous position. Learning from the mistakes of early entrants, they frequently offer superior products at lower prices. With the aid of skillful marketing, these benefits can be leveraged to offset the advantages enjoyed by first-movers. To become a market leader, a business needs either to be first, and impressive, or it needs to be better. The companies we remember, the Amazons and the Googles, are those that were either first or better—the ones we forget are those that had no edge at all. ■

To suffer the penalty of too much haste, which is too little speed.

Plato

Greek philosopher (429–347 BCE)

Jeff Bezos



Born on January 12, 1964 in Albuquerque, New Mexico, US, Jeff Bezos had an early love of science and computers. He studied computer science and electrical engineering at Princeton University, and graduated *summa cum laude* in 1986.

Bezos started his career on Wall Street, and by 1990 had become the youngest senior vice-president at the investment company D. E. Shaw. Four years later, in 1994, he quit his lucrative job to open Amazon.com, the online book retailer—he was barely 30 years old at the time.

As with many Internet start-ups, Bezos, with just a handful of employees, created the new business in his garage; but as operations grew, they moved into a small house. The Amazon.com site was launched officially on July 16, 1995. Amazon became a public limited company in 1997; the company's first year of profit was 2001. Today, Bezos is listed by *Forbes* magazine as one of the wealthiest people in the US; and Amazon stands as one of the biggest global success stories in the history of the Internet.

PUT ALL YOUR EGGS IN ONE BASKET, AND THEN WATCH THAT BASKET

MANAGING RISK

IN CONTEXT

FOCUS
Risk management

KEY DATES
1932 The American Risk and Insurance Association is established.

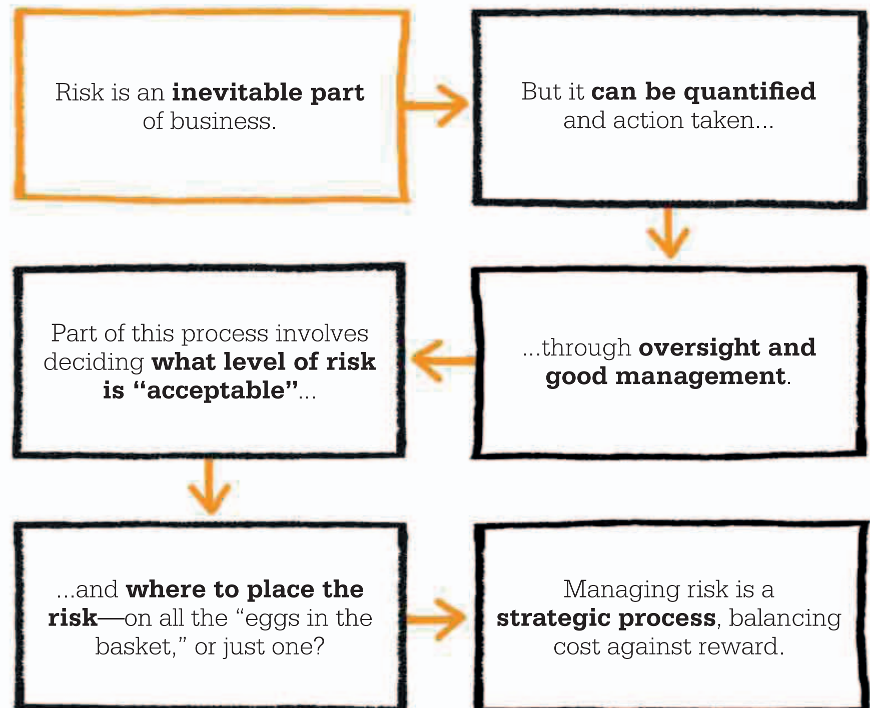
1963 Robert Mehr and Bob Hedges publish *Risk Management in the Business Enterprise*, claiming that the objective of risk management is to maximize a company's productive efficiency.

1970s Inflation and changes to the international monetary system (the ending of the Bretton Woods agreement) increase commercial risks.

1987 Merrill Lynch becomes the first bank to open a risk-management department.

2011 The US Financial Crisis Inquiry Commission says that the 2008 financial crisis was caused partly by financial companies "taking on too much risk."

Entrepreneurs are defined by their willingness to bear risk—particularly the risk of business failure. This is especially true for those starting new companies, because more than half of start-ups fail within the first five years. Lesser risks in established businesses include the possible failure of new products, or damage to the brand or a manager's reputation. Whatever the level or type, however, risk is something that all businesses need to be aware of and manage carefully. US businessman Andrew Carnegie was pondering these issues when he suggested that in terms of



See also: How fast to grow 44–45 ▪ Hubris and nemesis 100–103 ▪ Who bears the risk? 138–45 ▪ Leverage and excess risk 150–51 ▪ Off-balance-sheet risk 154 ▪ Avoiding complacency 194–201 ▪ Contingency planning 210 ▪ Scenario planning 211

managing risk, it might be best to put all your eggs in one basket, then watch that basket.

From the collapse of Lehman Brothers (2008), to BP's Deepwater Horizon disaster (2010), events of the early 21st century fundamentally changed how organizations perceive risk. Companies now think in terms of two factors: oversight and management. "Risk oversight" is how a company's owners govern the processes for identifying, prioritizing, and managing critical risks, and for ensuring that these processes are continually reviewed. "Risk management" refers to the detailed procedures and policies for avoiding or reducing risks.

Inherent risks

Risk is inherent in all business activity. Start-ups, for example, face the risk of too few customers, and therefore insufficient revenue to cover costs. There is also the risk that a competitor will copy the company's idea, and perhaps offer a better alternative. When a company has borrowed money from a bank there is a risk that interest rates will rise, and repayments will become too burdensome to afford. Start-ups that rely on overseas trade are also exposed to exchange-rate risk.

Moreover, new businesses in particular may be exposed to the risk of operating in only one market. Whereas large companies often diversify their operations to spread risk, the success of small companies is often linked to the success of one idea (the original genesis for the start-up) or one geographic region, such as the local area. A decline in that market or area can lead to failure. It is essential that new businesses are mindful of market changes, and position themselves to adapt to those changes.

The Instagram image-sharing social-media application, for example, started life as a location-based service called Burbn. Faced with competition, the business changed track into image-sharing. Had Instagram not reacted to the risks, and been savvy enough to diversify its offering (regularly adding new features), it may not have survived.

It's impossible that the improbable will never happen.

Emil Gumbel

German statistician (1891–1966)

At its heart, risk is a strategic issue. Business owners must carefully weigh the operational risk of start-up, or the risks of a new product or new project, against potential profits or losses—in other words, the strategic consequences of action *vs.* inaction. Risk must be quantified and managed; and it poses a constant strategic challenge. Fortune favors the brave, but with people's lives and the success of the business at stake, caution cannot simply be thrown to the wind. ■

BP's Deepwater Horizon incident led to huge fines and US government monitoring of its safety practices and ethics for four years.

In deep water

Even large and diverse organizations can find it hard to successfully balance risk against potential financial reward. On April 20, 2010, Deepwater Horizon, an offshore oil rig chartered by British Petroleum (BP), exploded, killing 11 workers and spilling tens of thousands of barrels of crude oil into the Gulf of Mexico.

The incident was blamed on management failure to adequately quantify and manage risk; the official hearing cited a culture of "every dollar counts." Analysts who examined the disaster claimed that BP had prioritized financial return over operational risk. Chief executive Tony Hayward, who took the post in 2007, had suggested that the organization's poor performance at the time was due to excessive caution. Coupled with increasing pressure from shareholders for better returns, the bullish approach that followed led to significant cost cutting and, eventually, risk-management failures.

LUCK IS A DIVIDEND OF SWEAT. THE MORE YOU SWEAT, THE LUCKIER YOU GET

LUCK (AND HOW TO GET LUCKY)

IN CONTEXT

FOCUS
Maximizing opportunity

KEY DATES
1974 3M employee Art Fry uses the adhesive developed—and rejected as defective—by a colleague six years earlier to attach a bookmark in his hymnbook. This chance usage leads to the Post-it Note.

2009 A *Harvard Business Review* article "Are 'Great' Companies Just Lucky?" reports that in only half of the 287 high-performing companies surveyed could success be attributed to distinguishable practices or features of the organizations themselves.

2013 Five years' hard work yields music group Daft Punk's aptly titled song "Get Lucky". A result of industry collaboration, market research, and strong marketing and publicity, the song's commercial success demonstrates the value of business planning.

Luck is usually regarded as something over which businesses have no control. Yet, as McDonald's CEO Ray Kroc said, "the more you sweat, the luckier you get," suggesting that luck can be created. The reality is that both are true. As global markets become more volatile and less predictable, luck plays an inevitable part in business success. Launch a start-up at the same time as a rival and it may be luck that determines who succeeds, and who fails.

Making your own luck

A well-considered business plan is designed to dispense with reliance on luck. A good idea, underpinned by detailed market research and solid financial planning, may help a start-up to ride the whims of the market. A good plan charts a course of action in turbulent markets, protects against the unknown, and prepares the company for contingencies.

In addition, a well-conceived plan can ensure that a company is in a position to benefit from favorable market conditions. In other words, what might seem like luck is often the result of planning. Take the famous example of 3M Post-it Notes. The invention of a reusable glue was accidental, but it was business insight that turned the lucky discovery into a commercial success.

With so many variables, luck is likely to play a part in the survival of a start-up. But a good plan reduces how much luck a company needs. ■

> The first rule of luck in business is that you should persevere in doing the right thing. Opportunities will come your way if you do.
>
> **Ronald Cohen**
> **UK venture capitalist (1945–)**

See also: Beating the odds at start-up 20–21 ▪ Gaining an edge 32–39 ▪ Understanding the market 234–41 ▪ Forecasting 278–79

BROADEN YOUR VISION, AND MAINTAIN STABILITY WHILE ADVANCING FORWARD

TAKE THE SECOND STEP

IN CONTEXT

FOCUS
Expanding the business

KEY DATES
1800 French cotton manufacturer Jean-Baptiste Say popularizes the term "entrepreneur," which is taken from the French for the verb "to undertake."

1999 Chinese business magnate Li Ka-shing underlines the importance of vision for business growth, stating "Broaden your vision, and maintain stability whilst advancing forward."

2011 *The Lean Startup* by US technology entrepreneur Eric Ries encourages new businesses to utilize resources as efficiently as possible to encourage growth.

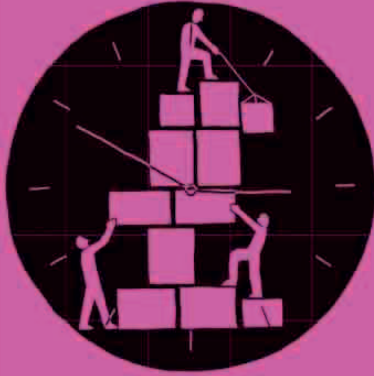
2011 The number of active entrepreneurs in mature countries grows by about 20 percent, reflecting job losses due to the economic downturn.

The business landscape may appear to be dominated by corporate goliaths, but the reality is that small businesses outnumber large companies by a significant margin. In fact, most businesses never grow beyond the scope of the owner—they start small and stay small. In the US, more than 99 percent of companies employ fewer than 500 people. In 2012, there were almost 5 million small businesses (with fewer than 49 employees), but only 6,000 companies employing more than 250 people.

Aspiration, or its lack, is a key factor for small-scale companies. Many small-business owners are content with the lifestyle the business allows them, and have no desire for growth. But he biggest reason for a lack of growth is finance. Growth requires access to capital, which is difficult and expensive to access for small companies. Moreover, unlimited liability means that an owner's personal assets (such as the family home) are at risk if the business fails—a risk that many are unwilling to take. Entrepreneurial spirit is defined as the willingness to take risks. Business owners who do aspire to growth must be willing to take the risky but important second step. For most small-business owners, this means employing the first nonfamily member and beginning to acquire the necessary leadership and management skills to scale the business and manage the people, systems, and processes. ■

Large businesses might appear to be towering oaks, but most have acornlike beginnings. A common difference between them and companies that stay small is the willingness to take risks.

See also: Beating the odds at start-up 20–21 ▪ Managing risk 40–41 ▪ The Greiner curve 58–61 ▪ Who bears the risk? 138–45 ▪ Small is beautiful 172–77



NOTHING GREAT IS CREATED SUDDENLY

HOW FAST TO GROW

IN CONTEXT

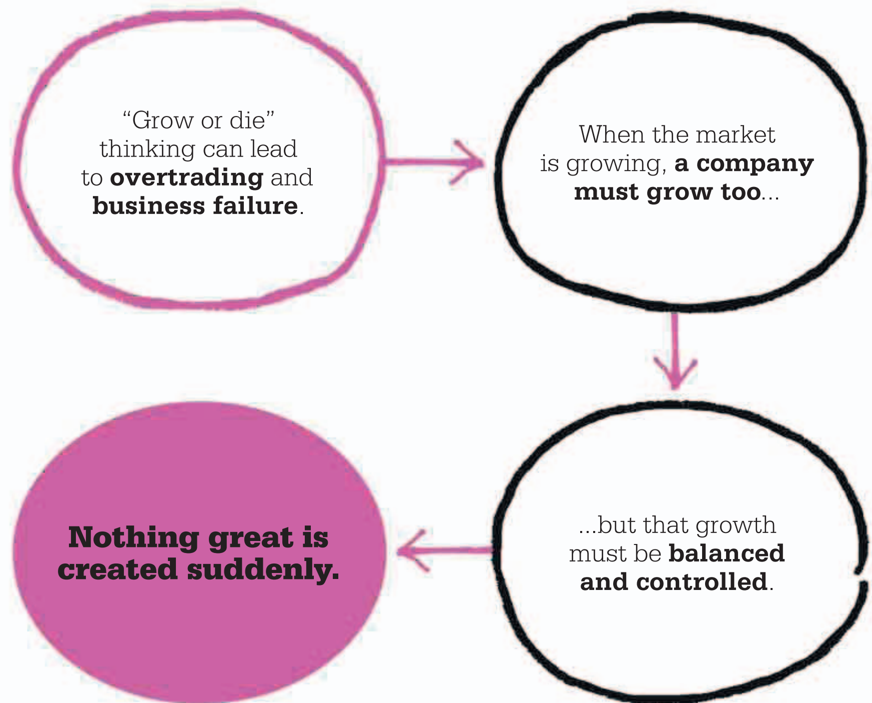
FOCUS
Business growth

KEY DATES
1970s McKinsey & Company consultants develop the MABA matrix to help conglomerates decide which divisions to grow, and how quickly.

2001 Neil Churchill—professor at INSEAD business school, France and John Mullins—professor at London Business School, UK—write *How Fast Can Your Company Afford to Grow*, introducing the self-financeable growth rate (SFG).

2002 Toyota announces plans to be the world's largest car producer. Eight years later, after recalling more than 8 million cars due to quality issues, it admits to growing too fast.

2012 Edward Hess writes *Grow to Greatness: Smart Growth for Entrepreneurial Businesses*, describing growth as recurring change.



One reason many new businesses fail is, perhaps surprisingly, because they grow too fast. Excessively rapid growth can cause companies to overreach their ability to fund growth: they simply run out of cash to pay for day-to-day operations. A major challenge for any manager is to balance income with expenditure, ensuring that there is sufficient cash to meet the rising costs of the business.

In 2001, business professors Neil Churchill and John Mullins created a formula for calculating the pace at which a company can expand from internal financing alone. Known

See also: Managing risk 40–41 ▪ Luck (and how to get lucky) 42 ▪ The Greiner curve 58–61 ▪ Hubris and nemesis 100–03 ▪ Profit versus cash flow 152–53 ▪ Small is beautiful 172–77 ▪ The MABA matrix 192–93

as the self-financeable growth rate (SFG), it helps managers to strike the right balance between consuming and generating cash. It does this by measuring three things: the amount of time a company's money is tied up in inventory before the company has paid for its goods or services; the amount of money needed to finance each dollar of sales; and the amount of cash that is generated by each dollar of sales.

Sustainable growth

When accurately applied, the SFG formula determines the rate at which a company can sustain growth through only the revenues it generates—without needing to approach external funding agencies for more cash. Essentially, it predicts a sustainable growth rate and helps to avoid overtrading. When a market is growing faster than a company's SFG, Churchill and Mullins identified three ways for managers to exploit the growth opportunity: speed up cash flow; reduce costs; or raise prices. Each of these "levers" helps to generate the cash needed to fuel faster growth.

As a young start-up business, the fashion brand Superdry enjoyed phenomenal growth. From its inception in the UK in 2004, the company rapidly added new stores throughout the world. In 2012, however, after several profit warnings, it became clear that Superdry had become a victim of its own success. Critics suggested that the brand was so focused on growth that it had forgotten its fashion roots, failing to update products on a seasonal basis. Other reasons for the decline included supply issues, accounting mistakes, and an inability to react quickly enough to fierce competition. In a tacit acknowledgement that excessive growth was to blame, the company announced plans to review its new store openings.

Business-growth expert Edward Hess suggests that growth can add value to a company, but if it is not properly managed, it can "stress a business's culture, controls, processes and people, eventually destroying its value and even leading the company to grow and die." Growth is not a strategy, he claims, but a complex change process, which requires the right mindset, the right procedures, experimentation, and an enabling environment. ■

The fate of the exploding Helix Nebula resembles the decline of a company that has expanded too rapidly: after using up all its energy resources, the star collapses on itself and dies.

A profitable company that tries to grow too fast can run out of cash—even if its products are great successes.
Neil Churchill and John Mullins

Edward Hess

A graduate of the universities of Florida, Virginia, and New York, Edward Hess has been teaching and working in the world of business for more than 30 years. He began his career at the oil company Atlantic Richfield Company, and later became a senior executive at several other leading US organizations, including Arthur Andersen.

Hess specializes in business growth, and especially in debunking the "myths" that growth is always good and always linear. Contrary to the dictum that companies must "grow or die," he suggests that they are likely to "grow and die."

Hess is the author of ten books and more than 100 practitioner articles and case studies. He is currently professor of business administration at the University of Virginia, US.

Key works

2006 *The Search for Organic Growth*
2010 *Smart Growth*
2012 *Grow to Greatness*

THE ROLE OF THE CEO IS TO ENABLE PEOPLE TO EXCEL

FROM ENTREPRENEUR TO LEADER

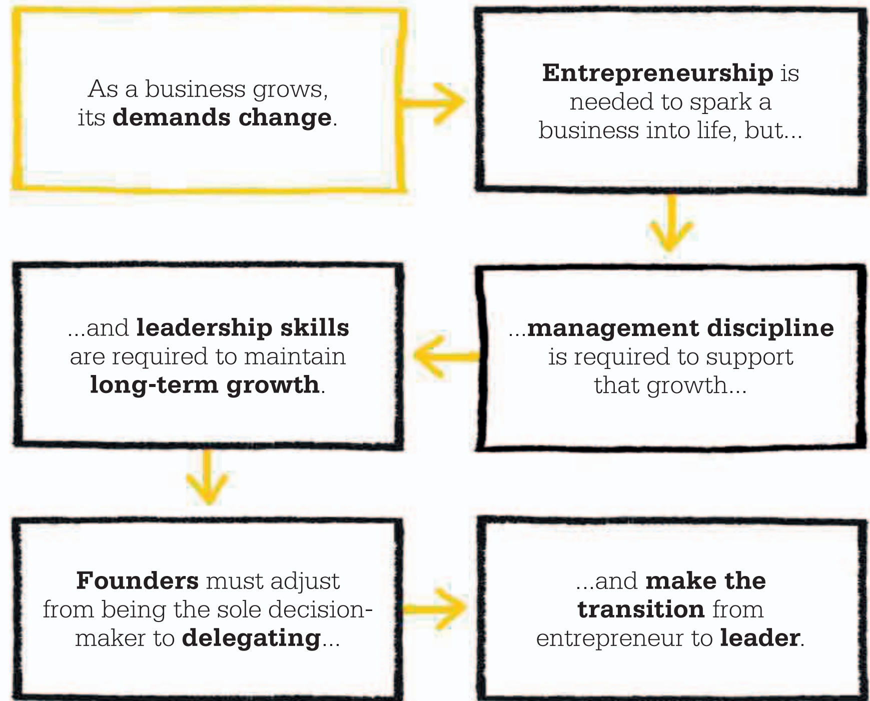
IN CONTEXT

FOCUS
Business growth

KEY DATES
1972 Professor Larry Greiner suggests the various stages of business growth are preceded by crisis, the first being a crisis of leadership.

2001 Leadership and change expert John Kotter writes the paper "What Leaders Really Do." Published in *Harvard Business Review*, it draws a distinction between the roles of manager and leader.

2008 Indian business scholar Bala Chakravarthy and Norwegian economist Peter Lorange's paper "Driving Renewal: The Entrepreneur-Manager" is published in *Journal of Business Strategy*. In it, the authors calls for a new breed of entrepreneurship in management, in order to manage business renewal.



In the early days of a new business the most valuable skill a founder can have is entrepreneurship—the vision to identify opportunities, and the willingness to take risks. But as the business grows, demands change. Disciplined management skills and corporate expertise are required to co-ordinate a growing enterprise. Some entrepreneurs are able to make the transition to leadership successfully, while others struggle.

An Ernst & Young report in 2011 identified entrepreneurs as people who are nonconformist, driven and tenacious, passionate and focused, with an opportunist mind-set.

See also: Take the second step 43 ▪ The Greiner curve 58–61 ▪ Leading well 68–69 ▪ Effective leadership 78–79 ▪ Develop emotional intelligence 110–11 ▪ Mintzberg's management roles 112–13 ▪ The value chain 216–17

Other studies report entrepreneurs as mavericks, unafraid of failure and driven by a passion for success. While there is some overlap, absent from these findings are the traits that define good leaders and managers: organization, an eye for detail, communication, emotional intelligence, and the ability to delegate. And as Indian executive Vineet Nayar advised, effective leadership involves encouraging others within the company to realize their potential, and excel.

Making the transition

Canadian business guru Professor Henry Mintzberg proposed that management can be broken down into three categories: managing by information, through people, and through action. Many entrepreneurs have difficulty managing through information—they often lack the skills to build the systems and communication networks on which large businesses are built.

Cyprus-born Stelios Haji-Ioannou, entrepreneur and founder of easyGroup, is known for rarely staying still. His company launched in 1998 with a low-cost airline, easyJet, and now includes more than 20 "easy" businesses that operate on a similar low-cost model. Haji-Ioannou has shown an aptitude for strategy, and an eye for detail; but he has also been criticized for lacking leadership skills, for micromanaging, and, common to entrepreneurs, for an inability to delegate and let managers manage.

US professor Larry Greiner identified leadership—the ability of a start-up founder to transition from entrepreneur to leader—as one of the major crises that businesses face as they grow. Greiner suggests that successful growth often requires the employment of professional managers who bring to the business an understanding of the requirements of financial markets, banks, and—most importantly—have the leadership skills needed to manage complex organizations. Entrepreneurs may possess bountiful ideas, but it takes management discipline to turn those ideas into successful ventures, and leadership skills to move the start-up beyond its entrepreneurial roots.

> The function of leadership is to produce more leaders, not more followers.
> **Ralph Nader**
> **US political activist (1934–)**

Start-ups require the spark of entrepreneurship; but growth requires a different set of skills: a founder must transition from being sole decision maker to being a disciplined manager and a successful leader. Those who are unable to make this transition often need to step aside and let the professionals take over. But this is often easier said than done. ■

Zhang Yin

Chinese entrepreneur and paper-recycling tycoon Zhang Yin was born in Guangdong in 1957. Recognizing that the Chinese export sector faced a shortage of paper-packaging materials, Zhang (her Cantonese name is Cheung Yan) opened a paper-trading business in Hong Kong in 1985.

Quickly moving from entrepreneur to established business leader, Zhang moved to Los Angeles, US, where she co-founded the paper-exporting company America Chung Nam in 1990. The business quickly became the leading paper exporter in the USA, and the largest overall exporter to China. In 1995, after returning to Hong Kong, Zhang cofounded Nine Dragons Paper with her husband and her brother. The company went on to become the world's largest maker of packaging paper.

In 2006, at the age of 49, Zhang became the first woman to top the list of richest people in China, according to the magazine *Hurun Report*. The following year, Ernst & Young awarded her "Entrepreneur of the Year in China 2007."

CHAINS OF HABIT ARE TOO LIGHT TO BE FELT UNTIL THEY ARE TOO HEAVY TO BE BROKEN

KEEP EVOLVING BUSINESS PRACTICE

IN CONTEXT

FOCUS
Middle management

KEY DATES
Pre-1850 The business landscape is dominated by small, family-run firms.

1850s and 60s A rapid expansion of the railroad systems and new industrial technology in Europe and America create greater possibilities for entrepreneurial businesses.

From 1880s As family businesses grow ever larger, administration becomes important and they begin to employ professional managers.

1982 UK economist Norman Macrae predicts a future trend of "intrapreneurs": managers with entrepreneurial thinking.

People are important in organizational life. Whether it is the initiative of a single entrepreneur or the combined energy of thousands of employees, it is people who get things done. However, that energy and initiative would count for little without managers to foster it. The creation, implementation, and management of organizational processes is what molds individual energies into a coherent whole—and as a company evolves, it is the experience of management that is essential in redefining those processes.

While management experience can liberate a business, it can also enslave it. Experience quickly gives