

How small businesses master the art of competition through superior competitive advantage

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ABSTRACT

Identifying and developing sustainable competitive advantage could be considered one of the most critical activities for a new business venture. The process can often be challenging to the typical small business owner, as the process can often be both difficult and time consuming. Developing competitive advantage can be especially demanding for small and new emerging businesses operating in industries where many other businesses already compete. Unfortunately, some new entrepreneurs lack an understanding of the process and/or fail to recognize the importance of developing sustainable competitive advantage for their business venture.

In some instances, new business ventures neglect securing a market position where the business could have reasonable chance for success. In some cases, a business will struggle to compete with bigger competitors while focusing on price, while other businesses believe that the key to business success is to open their business and customers will rush to purchase their products and services. In this paper, the author examines significant research findings on small business strategy and offers a model approach that could enable business owners to better utilize business resources and strengths to increase their likelihood of success.

Keywords: small business, strategy, competitive advantage

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INTRODUCTION

Developing competitive advantage can be considered a critical success factor for a small or new, emerging business venture. For a competitive advantage to be successful, entrepreneurs need to develop a competitive advantage that can be sustainable over a period of time. By and large, entrepreneurs should not expect the business community to welcome the new business with open arms; instead, savvy competitors will likely defend against the new business venture to prevent their stealing market share from them. This can often be observed in situations where market growth stalls, and prevents new market entrants from entering and gaining market share without opposition. The market entry stage could be the first critical stage for developing effective competitive advantage and continues to be important all the way through the business life cycle.

Successful market penetration requires that new entrants develop a sound strategy that can serve as an entry wedge, allowing the new business venture to successfully penetrate the market and win enough market share to ensure that the business will be earn a profit and become successful. Strategy grounded on generating a sustainable competitive advantage might provide a new business with that entry wedge, therefore helping to establish the new business in the marketplace.

Like the actor James Earl Jones character in the movie “Field of Dreams”, some entrepreneurs seem to have developed an “If we build it, they will come” mindset. Merely putting a sign out in front of your business and opening the doors to the public does not guarantee business success. Rarely, can small business owners effectively compete with larger businesses on price. Instead, entrepreneurs should consider other competitive approaches. Opening a restaurant can be a typical entrepreneurial venture, but when asking the new restaurant owner how his business will compete, the owner responds “we will offer good food at good prices”.

According to Winer (2004), developing competitive advantage centers on three key components. Winer (2004) states first that competitive advantage must be able to generate customer value. Customer value can be defined by the customer in terms of lower price, speedy delivery, convenience, or some other characteristic. Second, the enhanced value of the product or service must be perceived by the customer. Regardless whether your product could be considered superior to competitor’s products might not be as important as whether your customer perceives your product to actually be superior. Intel Corporation recognized this some years ago and began an aggressive marketing campaign utilizing the phrase “Intel inside” printed on labels and placed on the outside of IBM and other computer companies. Finally, effective competitive advantage requires that whatever business tactic used should be difficult for business competitors to copy.

Basic strategy principles state that business tactics more difficult to copy provide more sustainable competitive advantage. For example, American Airlines offered customers a Frequent Flyer program before any other airline, however, that could not be protected by intellectual property. Not long afterwards, virtually every other airline offered a similar frequent flyer program. New, emerging airlines developed their competitive advantage using business creativity. Southwest Airlines managed to find creative ways to control costs by using secondary airports (such as Newark, rather than New York City) and uses only 737 aircraft while providing Southwest customers an affordable, yet quality flying experience.

Certainly, effective strategy should be based on more than the marketing mix variables of product, price, place, and promotion. Box and Miller (2011), found a majority of small

businesses selected differentiation as a basis for their competitive strategy. Likewise, sound decision-making cannot be emphasized enough. This paper focuses on the central role of the marketing mix variables and offers that effective use of personnel can act as the linchpin, effectively forging together the elements of product, price, place, and promotion.

In Figure 1, the author provides a model showing the connection between industry and business conditions, management actions, and leveraging the marketing mix variables to achieve competitive advantage. Achieving superior competitive advantage can often result in customer satisfaction and effective long-term customer relationship management.

DISCUSSION

Although the literature offers many examples of competitive advantage examples, most appear to be based on larger companies. Sometimes, small businesses may be able to employ the same strategies big businesses use. Still, examples can be found where smaller businesses effectively develop a competitive advantage.

Effective application of the various marketing mix elements can help the business develop competitive advantage. McCarthy (1960) proposed the marketing mix to be product, price, place, and promotion. The author proposes that a critical fifth element, people, serves to connect the other elements of product, price, place, and promotion.

Pricing

The Price component can be controlled by the entrepreneur. Although there could be a number of value propositions; small businesses could find the greatest likelihood for business success by competing with high price, offering customers better value. For example, offering customers “more value” could be provided with increased levels of customer service, superior product knowledge, or developing key locations (including going to the customer).

Timmons, (2004) suggests that a common mistake when marketing high value-added products and services typically centers on underpricing---in some cases by up to 20 percent (p.99). As an alternative, an effective market-entry strategy for a new business venture might be pricing at the high end, especially when the customer perceives the product or service to provide greater customer value. That is, value as how the customer defines value. In some instances, a business owner might presume that their customers will always purchase on the basis of lower price. Contrary to that belief however, experience often shows that customers will often pay significantly higher prices for better service, better quality, preferred brand or image, and customer convenience.

Product/service offerings

Small businesses can also leverage the marketing mix with product offerings unavailable through competitors. This can be accomplished by offering a broader selection of products, specialty brands or even closeout products at substantial savings, combining both product and price elements of the marketing mix. Small businesses could also develop a focused merchandising tactic, centered on narrow product categories except with an expansive range of goods. For instance, Wal-Mart may only offer several types of golf clubs at their typical low

prices, however an opportunity also exists for a specialty golf store to provide a variety of brands and models varying in price, as well as an extensive selection of golfing accessories.

Small businesses could also employ a product differentiation strategy. Examples of this type of strategy can be found with Volvo automobiles, Perdue chicken, and Bose electronics equipment. A strategy of product differentiation can be achieved by product appearance. Perdue chicken accomplishes this with chicken with that golden yellow color that customers perceive to be fresher and better tasting. Volvos' differentiation strategy exploits Volvo safety features, vehicle performance, and style. Volvo effectively combines several automobile characteristics to generate a unique combination of benefits to provide to the customer. Bose Corporation can price their speakers higher than their competitors due to their reputation for exceptional sound quality.

Small businesses can also achieve product differentiation may by providing service offerings that other, larger business may not offer or provide effectively. These services could include product delivery and installation, repair or warranty work, and even customer training. At the same time when some larger companies begin to scale back these types of services or begin to charge higher prices for them, smaller businesses could develop competitive advantage by means of offering these services. An example of this can be found when looking back to the 1970's when Americans went back to riding bicycles again; not only for exercise, but also in response to the energy crisis. Although big chain stores began offering whole product lines of bicycles for sale, small, independent bicycle shops could provide services that the big chain stores weren't able to provide, such as assembling and servicing bicycles.

Place

Many businesses effectively leverage the place component of the marketing mix through effective use of location variables. An example of this can be found in Club Med, which chooses exotic locations to market to customers when selecting a place to spend their vacation getaway. In addition, Club Med also offers one of a kind sailing ship that sails the Caribbean while providing Club Med members distinctive feature water sports

Many years ago, ice cream manufacturers recognized an additional way to sell ice cream would be to go directly to the customer (usually kids who could not drive to the store, anyway) by delivering ice cream to the customer in whether in a neighborhood, at the baseball park, or at the beach. Similarly, Amazon practices channel differentiation by selling solely on the Internet and circumvents building retail stores around the country, or around the world. In a similar move, Domino's Pizza outflanked their major competitor Pizza Hut by only building simple storefront facilities offering customers their choice of home delivery or customer pickup as opposed to a traditional restaurant which would require significantly higher building cost. Caterpillar Equipment, Lexus and Saturn automobiles use exceptional dealer networks to differentiate their product lines from the competition.

Small business owners can also leverage the place component by means of superior distribution. In the foodservice industry, with the exception of several large firms such as SYSCO and U.S. Foodservice, smaller firms dominate the industry. Perkins (cited in Bressler, 2005) reports there to be approximately 3,500 foodservice companies and 6,000 warehouses, resulting in a fierce competitive marketplace. Perkins (2004) argues that smaller firms can effectively compete against larger firms in one of three ways. Small foodservice firms can begin working to develop long-term relationships with their customers, start providing exceptional

service, and start creating and exploiting economies of scale. Usually, businesses accomplish these key activities through joining alliances, for example, the Progressive Food Alliance or UniPro Foodservice. *Nation's Restaurant News* (Perkins, 2004) reports that member groups such as these offer member benefits that otherwise, they might not be able to afford. Typically, these benefits might include making available sales training facilities, offering marketing services, providing networking opportunities, and developing stronger procurement systems.

Small businesses can realize competitive advantage through leveraging technology, resulting in cost savings for the business. Sanitation companies typically make capital investments through new truck purchases, but Rumpke Consolidated (Eckhouse, 1998) instead invested in a new management technology system. This system provides greater efficiency for their fleet of trucks. Even though larger firms generally have more funds to invest in business information technology, new business ventures now are funding information technology at 8.9% of sales. Fortune 500 companies on average, only fund information technology at 7.1% of sales.

Starbucks' core product, coffee, can be considered a commodity. But Starbucks took that product and focused on superior quality and service, blended with comfortable relaxed surroundings and a trendy, casual atmosphere.

Promotion

Small businesses can also differentiate their business venture from other, larger businesses through their various promotional programs. This could be accomplished either by offering more promotional programs, or promotions more visible to potential customers. Many sales promotions go unnoticed to the public either through poor timing, poor promotion choices, or not linking the promotion to other marketing activities. Small businesses that understand promotions as part of an integrated marketing campaign recognize the importance of this.

Integrated marketing links public relations, advertising, direct marketing, and other marketing activities in a coordinated fashion. Located in the Toronto area, a small manufacturing company named Inscape produces workstation office furniture. According to Vinas, (2004) Inscape secured a contract with Best Buy worth 17 million dollars. Inscape secured the contract with Best Buy after a concentrated effort by senior management. Although product quality was not an issue, management at Inscape needed to persuade Best Buy of their ability to deliver on an order of that magnitude.

Smart small business owners seek opportunities to partner with other businesses and events. Businesses can coordinate their business promotions with local events which might include a Christmas or other holiday event, the state or county fair, the rodeo, a film festival, or other event. Restaurants that typically compete with one another might even join together to create a "Taste of the Town" dining event, chili cook-off, barbecue, or pastry tasting.

Starbucks, McDonald's, and Ritz Carlton work to develop a distinctive image customers will connect with that particular business. The image could be either formal or informal, based on product quality, atmosphere, lifestyle, or some other characteristic. An example of this would be Starbucks, which developed a superb reputation centered on lifestyle.

People

Although the significance of employees (people) can be found in the literature, most employees as secondary to the role of product, place, price, and promotion. The author argues that the role of your employees (people) serves as the lynchpin for all your other marketing elements. Employees not only produce the products and deliver services, but also often serve as “the representative” of your business. Employees working as salespeople, technicians, delivery personnel, cashiers, and customer service representatives usually come into contact with customers and prospective customers more than any other employee in the company. As these employees come into contact with customers more often, they can have the greatest impact on customer satisfaction.

Your employees play a critical role in the development of, and implementation of your business strategy. Those businesses that can provide superior service through their employees could gain a competitive advantage. Peters (1985), Drucker (), and other authors emphasize the importance of employees in delivering customer value.

In addition to the elements of the marketing mix, employees (people) perform a significant role in achieving competitive advantage. Today, more companies recognize the value of achieving superior customer satisfaction and how that relates to profitability and competitive advantage. Sheth (stated in Whately) found that companies on average spend five times more to acquire a new customer than to keep existing customers. Other research supports this study. Bain and Sasser (cited in Whately) report that as little as a five percent increase in customer loyalty could increase profitability up to one hundred percent. In addition, Bain & Sasser found no correlation between “satisfied” customers and customer retention. However, when customers reported themselves as “highly satisfied”, customer retention increased.

Jones and Sasser (1995) researched customer satisfaction across five different industries and discovered that when satisfaction level increases, customer loyalty also increases. In another study (cited in Kotler, 2004), AT&T reported that 70 percent of self-reported satisfied customers still would consider switching to a competitor. In that same study, Xerox revealed that “totally satisfied” customers would be six times more likely to purchase Xerox products again, compared to customers who only reported “satisfied”. Managers need to recognize that employees throughout the organization should be responsible for customer satisfaction, therefore, managers should leverage employees to be the cornerstone competitive advantage.

Polly’s Gourmet Coffee (Hyatt et al, 2004), a small business in Long Beach, California faced heavy competition from Starbuck’s as well as other local competitors. The owner, Mike Sheldrake, competes with 11 other competitors within 900 yards of his coffee shop. Sheldrake utilizes his employees as an essential part of his marketing strategy. The new strategy began with retraining employees to greet each customer by name. Employees then began providing superior (not just good) service. Sheldrake now gives incentives to employees in order to motivate them to superior levels of service. In addition to in-store promotions, this new strategy helped Sheldrake’s business go from losing money to increased sales and profitability.

Disney employees might be known for possessing superior product knowledge and providing personalized service. This could be because Disney spends more time and money training employees, with the knowledge that the return in customer satisfaction will be far greater than the up-front training costs. The author knows a local Dairy Queen franchisee whose franchise stores consistently rank first and second in sales in their region. Although the franchisee spends at least twice as much time training employees than other fast food chains, this

successful franchise owner focuses on highly selective hiring practices. Those hiring practices, coupled with detailed formalized training and recognizing and rewarding their employees could be central to his franchise success. The franchise success can be measured by increased sales and profitability, while at the same time very low employee turnover in an industry typically known for high employee turnover.

Another example can be found in IBM, which came under attack from several new competitors. IBM responded by focusing efforts on using their highly trained professional employees to provide customer solutions. In this age of poor customer service, small businesses could find “people” to be the key to successfully competing with bigger companies with greater resources. Peters and Austin (1985) consider employees to be critical in converting customers to “raving fans”, who will then help endorse your company by sharing their exceptional customer experiences with friends and family (p. 87). Today, this can be more easily accomplished through Facebook and other forms of social media.

Small businesses might also develop their competitive advantage through a franchised ownership agreement. Although not conclusive, some studies suggest that a franchise agreement might enhance small business competitiveness (Knight, cited in Pilling). Other studies (Bracker and Pearson, (cited in Pilling) found no significant performance improvement among franchised small businesses. However, the studies found failure rates among franchised businesses tend to be less than that of independent small businesses.

Sometimes small companies join together into buying groups in order that collectively they will possess the buying power of bigger firms. Buying groups such as these, can be found among groceries, hardware, appliances, and furniture stores. Hardy & Magrath (1987) found nearly half of all retail hardware sales in the U.S. to be by dealer buying groups, which represent more than 25,000 members. In addition, buying groups can be found among hospitals, dentists, veterinarians, and even law firms.

Key Issues in Competitive Advantage

Cost plays a significant role in competitive advantage and can often be the basis upon which larger companies compete, and for larger companies, that often makes sense. Sometimes, a larger company will be able to become the low cost producer in that industry. Cost rarely functions as an advantage for smaller companies as bigger companies can negotiate lower resource costs. Nevertheless, small businesses should not overlook the possibility of lowering costs through reduced capital equipment, location, or overhead. Although a company might not develop an overall lower cost structure, that company might be able to leverage specific business costs such as distribution cost, labor cost, or lower cost of capital investment.

Control might also be considered an important issue in competitive advantage. Porter, (1985) found that in fragmented markets with market leaders owning less than 20% market share, those businesses had less control over supplier resources than smaller markets where the market leader with a larger share of the market. Both new business ventures and small businesses on general should be mindful of this as these businesses would be more likely to report smaller market shares.

Entry and exit barriers can also provide competitive advantage. Entry barriers that hinder competitors but aid your business might include a beneficial window of opportunity resulting in advantages in location, innovation, response/lead time, people, or resources. Smaller businesses can often possess an advantage in this case, as many larger companies tend to slow to act and

react, as decision making typically slows through corporate bureaucracy. In addition, many corporate managers wanting to avoid making mistakes that could possibly sabotage their own careers means those managers in larger companies would more likely be risk-averse. Barriers to entry barriers might also include intellectual property rights, specialized knowledge, or licensing requirements and permits. Exit barriers create difficulty for a company leaving an industry, sometimes this could be due to high cost of investment in capital equipment or lease agreements.

Management should play a critical role in developing competitive advantage for their business. Can management successfully motivate employees to inspire them to perform at higher levels of performance? Did management assemble the best leadership team with diversity of opinion and complementary strengths? Can management find the future for the business and inspire innovation throughout the organization? Porter (1996) contends that managers sometimes focus too much on financial performance, obtaining assistance from the government, or building alliances and mergers rather than exercising real leadership. Porter (1996) argues that “today’s competitive realities demand leadership. Leaders believe in change; they energize their organizations to innovate continuously” (p. 195).

The culture within an organization signals how receptive leadership will be to innovation and entrepreneurship within the organization. Porter (1985) states “business unit managers can often create the greatest competitive advantage through entrepreneurship that identifies and exploits interrelationships” (p. 391). Companies such as 3M formed a culture of entrepreneurship throughout the organization and as a result, been able to extend or create new product life cycles as well as benefit from the most profitable life cycle stages.

Successful competitive advantage also requires that management possess technical and industry expertise. An important question would be whether the new business venture would be operating in an industry well-known to the management team. If the management team does not have previous experience in that industry, coupled with specific knowledge and expertise, there might be a lesser chance of success.

In order to be perceived favorably by customers, suppliers and others as a company with integrity, new business ventures need to build credibility. Some managers could find this task difficult as business credibility relates not only to industry and technical expertise, but also to honesty and the ability to deliver to the customer as promised. This typically means the ability to meet deadlines and delivery dates, provide superior product quality, and meet or exceed other business terms. Finally, intellectual honesty becomes particularly important when one or more members of the entrepreneurial team left another company to start the new business venture.

Taking advantage of a business opportunity begins first with determining whether a strategic fit exists with the organization and its resources. A typical first question to ask might be “Do the goals and objectives of the new business venture fit with the strategy necessary to be successful in the marketplace?” Evaluating business opportunities risk also requires the organization to consider what risks exist, and the level of exposure to the organization. Usually small companies, despite fewer resources, entrepreneurs tend to be more motivated to seek out resources or create them. Because they have fewer resources, they tend to experiment more, and possess greater incentive for action (Mosakowski, reported in Hitt, p. 5).

The business venture needs to assess whether a balance exists between risks and rewards? Generally speaking, smaller companies tend to tolerate more risk, despite the fact that there is often little room for error. Many entrepreneurs recognize this aspect of innovation, and allow both employees and themselves room for trial and error.

Seizing a good business opportunity also often depends on timing. Although some might call it luck, identifying and exploiting the window of opportunity can be critical to new product development and market introduction. Finding that right window of opportunity might be enhanced with a more thorough assessment and appraisal of technology developments, demographic shifts, and societal and lifestyle changes.

Smaller companies often have an advantage due to being more flexible, which allows them to be able to change direction quickly when necessary. Bigger companies, bogged down with layers of bureaucracy, could need months to make decisions and act upon them. Then again, small companies might not be able to leverage their potential flexibility should management fail to delegate to other employees or slow down reaction times with administrative policies and procedures.

Achieving competitive advantage sometimes requires delivering customers greater value than your competitors. The customer defines the concept of value which in some cases might mean more quantity for less money (such as “value meals”), better, or extra services (such as home delivery or installation), or speed of delivery. Some customers might place greater value on lower prices while other customers might value time or convenience. What the customer values most could depend on the product or the situation. In some cases, customers will seek a combination of these factors, such as speed of delivery *and* lower prices.

Whiteley (1996) suggests developing a special routine for your very best customers and refers to Westin Hotels, which despite operating in a very competitive market, successfully found a way to distinguish their hotel chain in (p.180). Westin’s CEO, Shackleton, researched the competition and discovered that a sizeable percent of Westin’s business resulted from a relatively minor number of important business clients. Shackleton then acted to forge strategic partnerships with those key accounts in order that they would not need to negotiate every year on the basis of price, but instead negotiate on the basis of fundamental shared values.

Research provides us with many examples of how important product offering can be to small businesses. Among others, a study by Ebben and Johnson (2005) examines the role of product offerings and the link to competitive strategy. The authors suggest that even more important than product offering, the firm must be efficient and flexible in the manner in which it operates.

Likewise, effective decision-making can often determine the effectiveness of the strategy management chooses to employ. Various models of decision-making appear in the literature, including “OODA Loop Decision-Making”, developed by John Boyd and described by Byus and Box (2008), as fast-cycle decision making. Entrepreneurs should determine the style and process best suited to their management style and business situation.

Steps in Developing Competitive Advantage

Developing competitive advantage begins with identifying relevant competitors. In some industries, for example in the fast food industry, competitors could be operating in close proximity to your location. You need to consider how far someone might typically travel to buy lunch when they only have an hour to travel there, eat lunch, and get back to their desk on time. On the other hand, in some other industries, the nature of your product or service offering could be such that customers will go out of their way to purchase your product or service. An example of this might be ice skate sharpening. There might be only a few places that sharpen ice skates; therefore customers become accustomed to going out of their way to get their ice skates

sharpened. Generally, the more unique your product or service offering, the more likely customers will be willing to travel some distance for it.

Business owners should next identify their business strengths and resources. These strengths might include business location, carrying specialty product merchandise, or employing better-trained and more knowledgeable employees. In the case of a new business venture, this step requires focusing all resources the business can assemble. Even though these resources might seem inadequate when compared to the resources of your larger competitors, competitive strategy often can be more about leveraging the resources available to you.

Finally, the new business venture must select a market position appropriate with the business resources and capabilities. According to Porter (1996), “strategy can be viewed as building defenses against the competitive forces or as finding positions in the industry where the forces are weakest” (p. 35).

SUMMARY AND CONCLUSION

Figure 1 demonstrates the process with which a business can move toward developing competitive advantage. In the first stage, although management cannot exercise control over economic conditions, management might be able to leverage timing of business activities and more importantly, develop a culture of innovation within the business. In the second stage, management possesses a great deal of control in developing industry knowledge and technical expertise. In addition, developing a strong leadership team would be an area that management where management can exercise good judgment in selecting team members who possess the skills and characteristics that could help accomplish organizational objectives. Stage 3 provides management with an opportunity to demonstrate skill in leveraging the marketing mix variables. This model, however, includes people as a fifth marketing mix variable, which calls for management to recognize the critical role employees play in organizational effectiveness, firm profitability, and the likelihood of achieving competitive advantage. Finally, effective management action during the first three stages can lead to the outcomes listed in stage four. Ideally, these outcomes would include developing customers into “raving fans”, highly satisfied customers, with high re-purchase rates. Sound customer relationship management would then likely result in sustainable competitive advantage.

Earlier research, such as research by Gale (cited in Dean et al) determined that larger companies often enjoyed many advantages compared to their smaller competitors (p. 709). Nevertheless, recent studies including those by Hamermesh and Woo and Cooper (cited in Dean et al) determined that companies with smaller market shares did not necessarily produce poor financial performance (p. 709). Additional studies seem to confirm that even small business ventures can in fact successfully compete with larger firms.

Implications for managers

New small business ventures can replicate competitive practices proven successful by other small businesses. Several studies (Barney, 2001; Sushil, 2000 cited in Ambastha & Momaya) stress the importance of the business to demonstrate flexibility, agility, speed and adaptability, and that these abilities seem to be increasingly important sources of competitiveness in the existing business environment. Small businesses should have an advantage in this regard, but only if the business can leverage the sources of competitiveness in an effective fashion.

In addition, proven techniques in developing competitive advantage for small businesses include developing buying groups, forging strategic partnerships, developing intense marketing promotions, and using people effectively within the small business. The competitive marketplace today, could be considered one of “super competition”, where competition now comes from across the globe and by means of the Internet. Developing superior competitive advantage might never be more important. All businesses, but especially smaller businesses, need to return to the business basics of competitive principles in order to develop sustainable competitive advantage.

Implications for future research

Small business success can be considered critical to economic growth. An on-going challenge to small business owners is the need to develop sustainable advantage. As researchers continue to examine variable economic conditions under which managers might make decisions, new information could possibly emerge that might enable small business owners to be more successful.

Researchers could develop an extensive study to examine the impact of certain variables, for example, the ability to leverage experience curve effects on firm ability to achieve competitive advantage. It would also be interesting to quantify the impact of the role of people (employees) and long-term profitability on the business venture.

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Figure 1-Competitive Advantage Strategic Management Process

