CHAPTER 5

Market Entry

Positioning the Firm for Strategic Advantage

There will come a time when big opportunities will be presented to you, and you've got to be in a position to take advantage of them.

—Sam Walton, founder of Wal-Mart, Inc

A business has to be involving, it has to be fun, and it has to exercise your creative instincts.

—Richard Branson, founder of the Virgin brand

Objectives:

1. Learn how to develop your value solution based on your overall strategy
2. Understand the key drivers that are integral to buyers' demands and expectations within your industry
3. Know how your own value solution is matched and compared against these drivers within your marketplace
4. Learn the value of the perceptual map and how the map is used to maintain and exceed your competition in your industry
5. Learn how to develop and gain an appreciation for a "Go-to-Market" strategy that is based on your value solution, the drivers in the industry, and your competitive positioning

6. Use the strategic plan outline to develop organizational-level strategies, industry-market strategies, management team strategies, and financial strategies for the new venture
7. Conduct a TOWS analysis to consider the new venture's strategic position
8. Explore new approaches that shift the focus of the new venture's strategy from direct competition to the creation of new value

Speaking of Strategy

Travelocity and Innovation—How CEO Michelle Peluso and Her Team Make Decisions

Renee Montagne (host): In our business news today, how one CEO makes tough decisions. Our series on management decisions ends today with a conversation about strategy. Business executives decide every day how to respond to a changing marketplace, where to invest, where to cut back and what direction to take a company. Michelle Peluso launched her own start-up six years ago. Now, just 33 years old, she is CEO of Travelocity. It's one of the biggest on-line travel agencies in a growing industry. This year consumers are expected to spend $63.5 billion on travel through the Internet. *Morning Edition*'s Steve Inskeep spoke with Michelle Peluso about how she and her team make decisions.

Ms. Michelle Peluso: I've always really admired people who have exceptionally talented people around them. I think it says a lot about their confidence that they've put strong people around them and let them act. But at the same time, clearly, you know, it's incumbent on me—I'm the CEO of the company—to understand deeply what's going on in all aspects of our business and to question things where I think, you know, we're off-track.

Steve Inskeep: Do you make decisions quickly or slowly?

Ms. Peluso: Quickly. If I didn't answer that question quickly, it would seem very hypocritical.

Inskeep: If you said, "Um" . . .

Ms. Peluso: Right. I don't know. Uh-huh.

Inskeep: . . . we would know something about you.

Ms. Peluso: Quickly. I trust my instincts. I remember once hearing someone tell me when you're in the 40 to—you know, 60 to 80 percent comfort range, decide to move on.

Inskeep: 60 to 80 percent comfort range. How do you measure that?

Ms. Peluso: You need analytical data behind the big decisions you make, so you need smart people in a room. You need to debate pros and cons, but, you know, in some cases, the last piece of analysis, the last piece of data isn't always necessary. And so, you know, if you're comfortable with what the data is saying and you kind of have a general agreement and your instinct feels right, then you go with it.

Inskeep: You know, I'm thinking you might be in a business where it is better if you decide things quickly because your customers decide quickly whether to stay with that site, wait for it to finish downloading, or move on to the next thing.

Ms. Peluso: Sure. Indecision is paralysis, and taking risks is really critical. At the same time, what's really important culturally is making sure that if we make a decision and it's the wrong decision, that we react really fast and that we don't punish each other for making a bad decision or for taking a risk. It can be paralyzing for the average employee if they feel like the CEO is saying, "Hey, let's take some risks," but what that really means is we only want to hit home runs. That's never the case, so balanced with risk has to be acknowledgment of when you don't succeed, there's great lessons to learn. Learn them, move on.

Inskeep: Granting that you've probably moved on from whatever decisions these were, can you describe a risk you took that didn't pay off and forced you to turn around and go back?

Ms. Peluso: Sure. Well, back in—I mean, so many, of course. Back in the early days of Site59, which is a company I started that Travelocity acquired in March of 2002, you know, right before the Internet bubble kind of burst, we were looking at not just last-minute travel packages, which is what we really focused on in the end, but we were also looking at things like staying in town, last-minute gifts, kind of a broader range, and we really started to invest in some of those business areas, and at the end of the day, it wasn't the right decision. We needed to focus on that which we thought we would do particularly well, last-minute travel packages. But, you know, we recouped really quickly, and we moved on, and it was clearly the right thing to do.

Inskeep: How did you recoup?

Ms. Peluso: We scaled back some of the investments that we were making. We took the team that was focused on those areas and really reinvigorated them and focused them back on the core business, and that we had learned a lot. I mean, that was critical, too, to make sure the employees who were working in those areas understood that we learned an enormous amount from what they had done, and we would really incorporate that into accelerating the core business.

Inskeep: You have recently taken a different approach to your customers. You've redesigned your Web site, right?

Ms. Peluso: Yes, that's absolutely right. We really thought that putting the great images of travel front and center would help kind of inspire consumers as they were purchasing their online travel. One of the things that we found was that our competitors were focusing a lot on discounts and 70 percent off, and frankly, even our own Web site looked a little bit like a Turkish bazaar with kind of all sorts of deals screaming at you. And one of the things we wanted to do was to differentiate ourselves dramatically from our competitive set.

Inskeep: How did it even come to your attention as CEO that there was a problem?

Ms. Peluso: People came to our site and our competitors' sites, and we asked them: Can you really differentiate? What feels different about this Web site versus another? Frankly, a lot of consumers thought we all kind of looked the same. So we really needed to make sure that that first impression stands out, that it's different.

Inskeep: As a CEO, after all this market research was done, did somebody bring the information to you for a final decision?

Ms. Peluso: Sure. The consumer experience team, along with some others from the marketing department and the research team, came forward with their recommendations, a series of options, and their recommendation backed up by analytical data on what consumers said they

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wanted. And we also talked to suppliers. What are the kinds of things that suppliers want us to merchandise about travel?

Inskeep: Probably hard to quantify this, but how much money did you think was riding on that decision?

Ms. Peluso: It is hard to quantify. Certainly, there were millions of dollars of development put into overhauling the entire site, but it's more than that because if you get it wrong, clearly your conversion or your sales can suffer.

Inskeep: Can you give an example in which you had to make a decision where you were balancing the short-term gain of your company against the long-term benefit of the company?

Ms. Peluso: Oh, sure. I mean, all the time. You know, we really work hard on making decisions for the long run. A really recent example is there are some competitors out there—I guess they're competitors—that have come up with—it's called, you know, MetaSearch, and they've come up with this notion of everything's just about price so, you know, we'll screen and scrape Travelocity and put the prices in and put everybody's price in and . . .

Inskeep: Screen and scrape meaning that . . .

Ms. Peluso: They'll just . . .

Inskeep: . . .their site will search your site for the best price . . .

Ms. Peluso: Exactly.

Inskeep: . . .along with a bunch of other sites.

Ms. Peluso: Right. And in the short term, maybe that can produce some incremental business for us because they refer people back to our site to buy, but I actually think strategically, it's a real mistake. I think that travel's about great deals, as I said earlier, for sure, but it's about a lot more than that. And, you know, we certainly don't want people using our brand in a way that we think is not good for us, not good for consumers, not good for suppliers.

Inskeep: Is it also that if you competed only on the question of getting the lowest price, somebody can always match you or even beat you on that. You need to build up a brand and a Web site and a look that people know and trust and respect.

Ms. Peluso: That's absolutely the case. And frankly, sometimes we don't want to be surrounded by competitors who we think don't have as strong of a value proposition as we do, and so we'll show you the total price of a car, including all those hidden taxes and fees, right up front. You know, we don't want to be on a list where some of our competitors don't show all those fees, and we seem more expensive. So that's a great example where maybe in the short run, it would have produced incremental revenue and incremental bookings, but, you know, we've strongly decided not to participate with the Travelocity brand because we think over the long run, it's not the right thing for our business.

Inskeep: Michelle Peluso is the CEO of Travelocity. Thanks very much.

Ms. Peluso: Bye now.

Montagne: This is *Morning Edition* from NPR News. With Steve Inskeep, I'm Renee Montagne.

Table 5.1 Designing Your Value Solution

Benefits of Product/Service	*Value Solution (What Problem(s) Does It Solve?)*	*For Whom? (Target Audience)*
Benefit 1:		
Benefit 2:		
Benefit 3:		
Benefit 4:		

Designing Your Firm's Value Solution(s)

Prior to putting together any type of messaging regarding how the entrepreneur will deliver on the strategy, it is necessary to establish the firm's unique selling point—otherwise known as the value solution. This is directly related to developing the firm's strategy as presented in Chapter 4.

In that chapter, you had the opportunity to learn the benefits that win customers and how to sustain your competitive advantage. Begin defining your value solution along the similar categories of value and cost-benefits of customer convenience, price, productivity, simplicity, convenience, and image. Under these categories, think about how your company, your service, and/or product is different from anyone else's. To further perceive and develop your value solution, begin by considering the following:

- What solution or need does your product/service fill in the eyes of your customers? Why would they want your product/service? How does the solution improve the lives of your potential customers? Go ahead and develop a full list based on these questions and then also consider:

- Would you buy this product? Why or why not? If not, this may give you an insight into potential weaknesses, areas that you need to improve and enhance before placing your product/service in the marketplace. Essentially, you could reverse these weaknesses and turn them into a value solution that makes a difference in how customers perceive and buy your product/service.

From there, you can then start to determine who will most benefit from your product and/or service. All this information can then be mapped out using Table 5.1.

If you are having difficulty in listing the benefits, examine further how the categories of customer convenience, price, productivity, simplicity, and image can then be differentiated from the competition. For example:

- *For customer convenience,* who within your firm's industry is emphasizing customer convenience? Where are there gaps? How does your primary market currently go about buying existing products or services of this type? How can your new venture create a solution or solutions to offer customer convenience?

- *For price*, how does your pricing strategy compare to others in the industry? Is pricing a major buying criterion for your customers? If so, how can you make price a key differentiator (while keeping your viability and business expenses in mind)?

- *For productivity*, how does your product/service improve or enhance the productivity and efficiency of your market? How can you make sure that efficiency is perceived as a key marketing or selling point of what your firm offers or how it conducts business?

- *For simplicity*, how does your product or service meet some of the basic needs and solve the current problems of your customers?

- *For image*, how do your potential or current customers perceive the benefits of your business? What are their sources of information? Word of mouth? Trade publications? The Internet? How can you build or improve the image of your product/service solutions?

By answering these questions, you can then further develop your value solution(s) and refine it to communicate your message directly to where your market would look and find information related to your business.

The Innovator's Toolkit: Market-to-Market Creative Connections

This tool, in which creative connections are forged between the intended market and an unrelated market, will help the entrepreneur to generate ideas for positioning the new venture, for promoting its products and services, and for developing and extending the value solution.

1. Business description

Write the nature of the business in a word or a short phrase.

2. Attribution list

List all the features, (e.g., characteristics, services, products, promotion methods, value offered) that you associate with this business in a column on your paper. If the business is not yet in existence, list your intended features. If it is an already established business, list the features it already provides.

3. Select a different type of business

Pick an industry or business type that is distinctly different from yours or the one you are considering, and write the name of it at the top of the next column on the page.

4. Attribution list for different business

List all the features, (e.g., characteristics, services, products, promotion methods, value offered, etc.) that you associate with this business. Write as much as you know about what this business does or could provide.

5. Make creative connections

- What do the attributes of the "different business or industry" suggest for your business or industry? For your value solution?
- What could you put in place in your business that has been successful or a competitive advantage in the different business? How can information from a different industry partner assist you in developing your value solution(s)?
- What opportunities did you discover for marketing your product/service? How can these opportunities be integrated into how you market your value solution?

Discussion Questions

1. To which different business could you compare your business idea or opportunity?
2. What creative connections can be made? Try to list at least three new connections.

The Key Drivers Integral to Buyers' Demands and Expectations Within Your Industry

Once you have defined your firm's strategy and value solution(s), you will find that you will need to revisit and adapt your strategy based on the conditions and context of your industry and marketplace. As customers' needs and preferences change, your firm will need to take a proactive approach in understanding how these changes influence the overall operations and efficiencies of your business. One of the ways to stay ahead and meet the expectations of your customers is to understand the key drivers of your venture within the industry. The categories above are helpful in considering your firm's value solution(s) at the initial launch of your business. However, over time, you will want to adapt these categories to the needs and expectations that drive your customer buying decisions on a daily basis.

Matching and Refining the Value Solution(s) to Marketplace Drivers Over Time

Once the entrepreneur has determined the industry's key drivers over time, those drivers can be assessed based on how well they meet your firm's strategy and value solution(s) (Lehmann & Winer, 2005). Using the grid in Table 5.2, determine how well the strategy and solutions are matched against the key drivers in the market.

Table 5.2 Matching Strategy, Solutions, and Market Drivers

What the Market Demands	*Considering Your Strategy and Value Solution(s): How Well Are You Doing?*					
	Poor	Needs improvement	Fair	Good	Outstanding	Exceptionally well
Competitive price						
High name recognition						
Superior customer service						
Performance of product						
Knowledge of staff and expertise						

Table 5.2 assists you in benchmarking areas where your firm requires attention or where you lack the internal capabilities and resources to meet the needs of the marketplace. Knowing these weaknesses will help you craft a revised strategy that focuses on those drivers and positions you for the next new innovation (perhaps coming from your organization). While partnering and strategic alliances will be discussed in Chapter 8, the idea of developing a relationship with an outside firm may assist you in finding the key resources to fulfill your strategy and meet or exceed the needs of your customers. In finding a partner to assist with building your resources and capabilities, consider the following three questions:

1. What capabilities do you need to achieve the value solution and key drivers in the industry, and which ones do you lack? (Refer to the second column of Table 5.2.)
2. Which companies have those missing capabilities?
3. Based on cost, quality, and speed, should you acquire those companies or partner with them?

While "how to" partner and build a strategic alliance will be discussed in Chapter 8, discovering what kinds of resources and capabilities you need to implement your value solution and strategy is the first step in the process of building and growing a sustainable, profitable venture. Our next focus will be on how others, including your competition, view your strategy and your operational effectiveness and performance. We will learn the value of the perceptual map and how the map is used to maintain and exceed your competition in your industry

Review Question

1. How do market drivers differ depending on the size of the firm? Across industries?

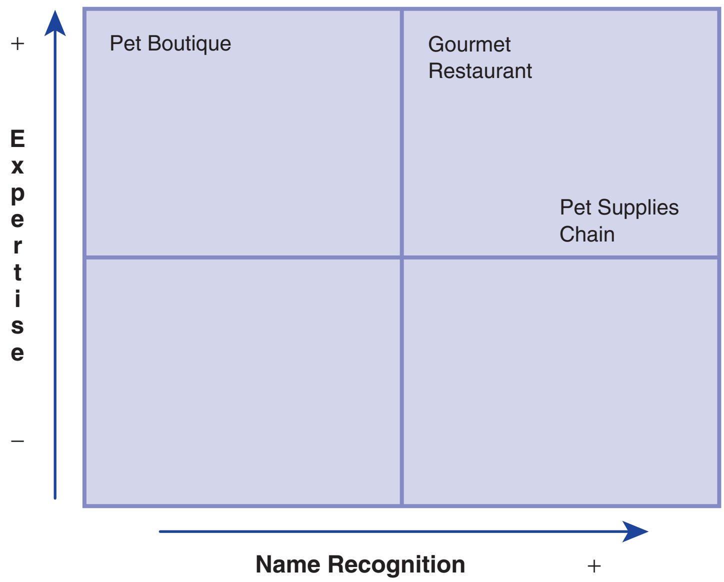
Matrix Comparisons: Further Examining the Framework

Developing your solution and its match with the key drivers in the industry assesses your internal strengths and weaknesses; also, it is important to look outside, in terms of how others in your market space are performing. Competitive positioning reveals where your company stands in the eyes of any given group of people through the use of matrices. By creating a simple 2×2 matrix diagram, you can easily map out the position of your firm in relationship to its competitors, or its relationship to a firm in a different business or industry. Matrices give us a great way to *visualize* many of the different types of comparisons mentioned in this chapter. Simply take two characteristics of a business and align them on the vertical and horizontal axis. In Table 5.3, we compare expertise and name recognition.

Let us consider the example of an entrepreneur who owns a pet accessories boutique. Pet products and services are one of the hottest new ideas: The American Pet Products Manufacturers Association Inc. estimates that $35.9 billion was spent on pets in the United States in 2005, up from $34.4 billion in 2004 (Pennington, 2005). In this case, the boutique is renowned in its neighborhood, with a steady and loyal clientele. If the entrepreneur wants to compare how her business fares against competing national pet supplies chain in these two categories, she would place her business low on the name recognition scale but higher on the expertise scale. The pet boutique owner may choose to look at the techniques the large chain uses to excel in these areas.

Alternatively, an entrepreneur may choose to plot the position of a firm in a completely different business. Our pet boutique owner, for example, may compare her business to that of another local business such as a gourmet restaurant that has received positive reviews and has even received national publicity. Although her pet boutique is in a different industry, our entrepreneur could look at the strategy of the gourmet restaurant to learn how she could increase her name recognition. Matrices are also a useful tool to quickly identify trends in relationships among business drivers. Is there always a correlation between expertise and name recognition? By creating a visual representation in Table 5.3 of the positioning of a firm, an entrepreneur has another tool in which to survey the competitive terrain in a strategic manner.

Table 5.3 Strategic Positioning of the Firm



Strategic Reflection Point

Going Beyond the Map—Assessing a Competitor's Will

Even the strongest competitor can be overcome if it is not committed to the market. Similarly, a weak competitor can cause massive damage if it is fanatically committed. At some point, it is crucial to assess competitors' strength of will or commitment. This requires going beyond objectives (what do they want?) to assess the intensity with which they approach the task (how badly do they want it?). Most competitions involve several key times when each competitor has the choice of backing down or continuing the fight. When assessing the likelihood that a competitor will continue to fight (an act that sometimes is not rational from a profit perspective), one should assess the following factors (Lehmann & Winer, 2005).

1. *How crucial is this product to the firm?* The more crucial the product is in terms of sales and profits, number of employees, or strategic thrust, the more committed most companies will be to it. This helps explain why efforts to unseat a market leader by attacking the heart of the market provoke violent reactions, whereas a strategy that nibbles away at secondary markets is more likely to go unmatched. For example, eBay's key product is its on-line auction. Attempts by Amazon.com and others to develop similar auctions are considered to be a strong threat to eBay's viability and are met with increased promotions and advertising, as well as expansion in the number of auction categories.

2. *How visible is the commitment to the market?* It may be difficult for companies to admit they are wrong once they are publicly committed. A good example of this is Exxon's Office Systems Division, which was clearly in trouble for a long time before it was sold in 1985. Also, Coca-Cola held on to New Coke and repositioned it several times, even though it did not sell well.

3. *How aggressive are the managers?* Personality differences exist, and some individuals are more combative than others. This aspect of management may not be detected in the management analysis. Only by knowing how badly a competitor "wants it" can one successfully approach the next task: predicting future strategies.

Research in Practice: Pioneers and Followers—Competitive Tactics, Environment, and Firm Growth

A form of corporate entrepreneurship called market pioneering occurs when a firm is first to offer a new product/service on the market. The connection between market pioneering and firm performance has received little scholarly attention, and it focused primarily on (1) pioneering as an environment specific phenomenon and (2) firm's performance, as affected by the fit between a firm's pioneer/follower status and its competitive tactics. These phenomena are explored, emphasizing how they are manifested in different industry environments and what pioneers and followers do differently to promote their performance.

A theory that describes how specific competitive tactics relate to firm sales growth rate among market pioneers and market followers is developed in two distinct environmental settings: hostile and benign. To test two proposed hypotheses, data is collected from senior managers of 103 independent, non-diversified manufacturing firms in 75 industries. The main analytical techniques used to assess the data are: cluster analysis, ANOVA, and correlational analysis. The findings suggest that market pioneers grow at the same rate as market followers.

In hostile environments, pioneering may enable firms to break out of the dominant price-based mode of competition and grow despite charging high prices. Pioneers in hostile environments are better served than followers from a wide geographical distribution of their products. It is recommended that followers in hostile environments reduce their cost structures in order to maintain low price strategies. The results also suggest that, in benign environments, offering products with warranties superior to those of competitors may have positive effects on sales growth, more so among pioneers than followers.

SOURCE: J. G. Covin, D. P. Sleven, and M. B. Heeley, "Pioneers and Followers: Competitive Tactics, Environment, and Firm Growth," *Journal of Business Venturing* 15, no. 2 (2000): 175–210.

Developing the Go-to-Market Strategy

It has been said, "If you don't know where you are going, any road can take you there." To eliminate such disorientation and provide direction, an entrepreneur should begin with the vision that was developed in Chapter 4 and create the "Go-to-Market" (GTM) strategy for what will be the firm's launch. A full GTM strategy encompasses the channels that a company uses to connect with its customers and the organizational processes it develops to guide customer interactions from initial contact through fulfillment. The right GTM strategy has a significant impact on a company's ability to cost-effectively deliver its value solution to each of its target segments. Companies are becoming increasingly focused and sophisticated in the way in which they compete to create superior customer value. As companies tailor their value solutions to better address customer needs beyond product specifications and to better align their cost of sales and fulfillment relative to those needs, GTM strategy plays a central role.

As we saw in Chapter 4, a powerful vision should continually stretch the corporation's capabilities. For many companies, therefore, the overarching vision is captured in an ambitious aspiration, the time frame of which may be ill-defined and distant. In the 1920s, Ford wanted to put "a car in every home"; in the 1980s, Apple looked toward the future and saw "a computer in every home." By the 1990s, Bill Gates had gone further yet: "a computer on every desk, and in every home, running on Microsoft software." By the end of that decade, this vision had grown to include the Internet. Each of these simple expressions offers a compelling statement that challenges and motivates employees by providing meaning and fulfillment to their work.

Your Go-to-Market Strategy

As you become operational, and to compensate for less-frequent product launches and a focus on solutions rather than specific products, you can now organize your strategic efforts around annual GTM campaigns. A GTM strategy focuses your business on short-term strategic challenges and provides consistent strategic marketing approaches for your products and services. Strategic partners or allies can align their products or services with your GTM strategies to benefit from these campaigns. However, while GTM strategies are intended to make your message to the marketplace more focused and coherent, their short-term focus and vagueness mean partners should take time to understand their benefits. GTM campaigns can be designed using the matrix in Table 5.4, completing each of the cells and offering solutions for your marketplace.

Table 5.4 Go-to-Market Campaigns

GTM Solutions (Areas of Concentration)	*Target Audience*	*Key Products*
Strategic Initiative 1: Customer Segment ______________________		

And continue on with your second and possibly third strategic initiative, customer segment:

Strategic Initiative 2: Customer Segment ________________________		

Strategic Initiative 3: Customer Segment ________________________		

Strategy in Action

Ciena Corporation—Developing the Go-to-Market Strategy for a Business Venture

Ciena Corporation is a network specialist, focused on expanding the possibilities for its customers' networks while reducing their cost of ownership. The company's systems, software and services target and cure specific network pain points so that telcos, cable operators, governments and enterprises can best exploit the new applications that are driving their businesses forward. . . .

Ciena Corporation (NASDAQ: CIEN), today announced its go-to-market strategy and new identity incorporating the Company's dramatic business transformation and organizational alignments of the past two years. Ciena's positioning as the "network specialist" grows out of its heritage and strength in solving specific issues in transport and optical networks and applies that specialization to today's most critical applications to solve customers' key business problems. The identity underlines Ciena's relationships with customers and reflects a clear differentiation from competitors.

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The Company's repositioning signals a milestone in an evolution resulting from a series of deliberate, strategic acquisitions, the creation of an array of partnerships, and recent moves by the Company to realign its organization and operations. Ciena is building on its heritage as a specialist and its belief that its customers want a close link with a respected partner that has deep experience in supporting customer-driven applications. A strategic specialist must be able to adapt rapidly to a changing environment and embrace its customers' ways of doing business, while bringing to the table innovation, technological expertise and regulatory leadership.

Gary Smith, CEO and president of Ciena, commented, "Ciena has undergone profound change over the last two years during a process where we reexamined the value we bring to customers. We believe that we now have the best of breed products and services to address customers' most critical pain points, and we also have developed the sales and operations infrastructures to support this approach to the market. We believe we now have the breadth of application-specific solutions and supporting customer validation to credibly lay claim to our role as a network specialist; identifying our unique market position and guiding decisions as we go forward."

Ciena's position emphasizes that it will not be all things to all customers, while acknowledging that its efforts might touch many different parts of a network and will evolve as market and customer needs change.

"During their last two years of acquisitions and change, Ciena's aim has not always been crystal clear to the market," said Matt Davis, director of Broadband Access Technology and Service with industry analyst firm Yankee Group. "Articulating this application-driven strategy demonstrates that Ciena is becoming focused on the overall solution—and it may prove to be sustainable in this increasingly changing and diversified communications environment, where content providers try to fit into service networks and service providers seek the best revenue-generation solutions."

The specialist identity places Ciena's core value to the marketplace in its ability to provide customers flexibility and a breadth of offerings, along with the wherewithal and expertise that comes with being an established player in the industry. New channel and sales strategies, competencies gained from its acquisitions, and a broadened portfolio give Ciena the strength to be a valued supplier partner.

The application focus announced today includes five areas of concentration, which will continue to develop as end-user uptake and needs evolve. These include:

- Access infrastructure upgrades for service delivery;
- Storage and Ethernet service value amplification;
- Network scaling for high-bandwidth applications like video and multimedia on demand;
- Core network convergence and automation; and,
- Packet network integration and optimization for enhanced new services.

All four of Ciena's customer segments—service providers, cable operators, government agencies, and large enterprises—are spanned by today's application-focused launch, which is supported by Ciena's demonstrated ability to solve real-world network problems, maximize the business value of enabling services, and boost network economics and improve cost efficiency. This focus builds on the Company's core networking solutions, but specifically targets emerging applications to address new customer demands.

About the Repositioning

To best understand the needs of its customers and how it can better serve the marketplace, Ciena engaged corporate branding leader Hornall Anderson to survey customers, employees, analysts and other industry influencers. The process undertaken by Ciena concluded with testing the positioning among both existing and potential customers. As part of launching its new identity, Ciena also unveiled a new logo, which visually symbolizes a more consultative, adaptable image. The mark features a scripted 'i.e.' within the Ciena name that plays out Ciena's tailored, "as in" application-centric approach to the customer relationship.

In addition, Ciena is supporting the launch with a new customer-facing website (www.ciena.com). Other support will include global trade press advertising targeting all customer segments, focused, integrated marketing campaigns and events, a new digital literature system and sales support collateral. These efforts and ongoing marketing activities throughout the Company will continue to reinforce Ciena's market positioning as the network specialist.

"New services represent an enormous growth area today and in the future. But service providers and enterprises need to know that they can manage their total cost of ownership as they enable enhanced services in their networks," said Smith. "We believe our applications-based approach targeting the critical and high-value network and business issues sets us ahead of the pack in terms of market vision and positioning and we are acting upon that vision in every aspect of our business."

SOURCE: "Ciena Unveils Go-To-Market Strategy and New Identity as Network Specialist" [Press release], October 25, 2004, retrieved from http://www.ciena.com/news/news_3922.htm Reprinted with permission.

Discussion Questions

1. Which industry drivers have affected Ciena Corporation's "Go-to-Market" strategy?
2. In what ways would a GTM strategy differ between a small and large firm?
3. How does the size of the firm influence its strategy?

Failures and Foibles

Not All "Joe" Is Java

Howard Schultz bought Starbucks in 1987 when it was a tiny Seattle roastery and transformed it (and the world of coffee) into one of the world's most successful and innovative companies. Schultz loves talking about the finely tuned "customer experience," and managing that experience is one of the greatest challenges of any business. Starbucks has 8,500 stores and 90,000 employees worldwide. Always on the lookout for opportunities, Schultz puts the customers and their needs first and foremost.

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"One day a high profile cable executive came into my office and said, 'Here's a blank check. What would it take to put monitors in every Starbucks store where you could play just one cable channel for a few hours a day?' Although it was a seductive opportunity because of the profit potential, we recognized early on that our customers want to get away from that kind of noise. Our stores are not only an extension of their home and office, but also a respite."

Schultz admits he doesn't always have the foresight to turn down an idea: "I took Starbucks into the magazine business with *Joe*—my idea (produced for Starbucks by Time Inc. Custom Publishing). Nobody read it. Since *Joe* failed I've kept a rack of issues in my office so everyone can see the magazine and realize we shouldn't hide behind our mistakes and we should have the courage to keep pushing by not embracing the status quo. I keep that there as a memento. It was an embarrassing defeat, and we lost a fair amount of money, but sometimes you have to have the courage to fail."

SOURCE: www.starbucks.com; Howard Schultz and Dori Jones Yang, *Pour Your Heart Into It: How Starbucks Built a Company One Cup at a Time* (New York: Hyperion, 1997).

The Strategic Plan Outline

The next section of this chapter presents an outline for the strategic plan. The components of the plan describe in detail how the new venture will carry out its vision. The outline below contains the sections that should be covered in your team's strategic plan. The plan should be tailored to your business needs, and your section headings do not have to be exactly as shown here. The content of your plan should cover these areas, however.

Executive Summary

- Overview of your concept (business and its mission), customers (your market/markets), and your capital requirements (financial strategies)

Concept Description: Organizational-Level Strategies

- What business are you *really* in?
- What is the *mission* of your business (your reason for existence)?
- List your key objectives: What activities will you perform? Where and how will you perform them? What will your business offer, and how will it be special/competitive?
- What are the *key values* of your business? What will its relationships be with stakeholders such as customers, suppliers, employees, and the community?

Analysis of the External Environment: Industry and Market Strategies

- What are the social and economic (and other) trends of your business environment?
- Describe the current climate of your industry (recent trends and performance)
- Who are your key competitors?
- What market(s) do you serve (demographics, psychographics, etc.)? How will you create awareness and sustain your customer base?

Analysis of the Internal Environment: Management Team Strategies

- What are the strengths and experience of each team member?
- What are the knowledge, skills, and abilities you need for your business to perform?
- What do you have? What do you lack (and where can you find it)?
- How will the business be organized (structure and reporting relationships)?

Financial Strategies

- Estimate of start-up costs (investigate similar businesses).
- Investigate financing alternatives (debt/equity financing, listing of possible resources).
- Develop one year minimum (three to five years recommended) of *pro forma* statements. Financial statements include cash flow, income statements, and balance sheet.

Critical Risks and Exit Strategy

- The plan should contain an analysis of critical risks and how the entrepreneur intends to reduce these risks, including financial, organizational, and psychological risks related to the business, the entrepreneur, and the management team, as appropriate.
- Some entrepreneurs include an exit strategy for the business. This is optional, but if you intend to seek external investors, it is recommended to include these for consideration.

References

- Full citations of all sources cited in your strategic plan must be listed here.

Appendices (if appropriate)

- Surveys, copies of supplementary research materials, maps, and so on.

The strategies you develop for your business should build on your perceived strengths, exploit opportunities you identify, and avoid threats. Later, you will learn how to conduct a TOWS analysis of your business to help you develop your strategies. You can also include “must do” and “should do” strategies for the sections above to help you develop short-range and long-range goals for the business.

Strategic Reflection Point

Strategic Direction for ABC Company

The Strategic Direction Sheet for ABC Company (Kerns, 2002) found in Table 5.5 is an illustration of one way that data and information from your visioning work and the components of the strategic plan can be organized. As you begin the strategy development process, constructing this sheet may be very helpful to you.

Table 5.5 Strategic Direction Sheet for ABC Company

Vision *"Where are we going?*	***Mission*** *"Current Purpose"*	***Key Results*** *"Our Focus"*	***Strategies*** *"Taking Action"*	***Structure*** *"Lining up for results"*
• We will become a $21 million business built on quality, innovation, and trust. We meet the needs of our targeted customers for high-quality soft goods. • Our associations are with people who honor commitments, focus on goals and results, and get things done. • Our product offerings are driven by customer needs, the highest industry standards, and our ability to make a fair profit.	We sell high-quality soft goods to our targeted customers. Our commitment to fit, function, and durability sets industry standards and ensures total confidence. All of our company resources are directed, focused, and linked to this purpose.	1. Profitability 2. Average sale per customer 3. Product sales mix targeting 4. Employee satisfaction 5. Customer satisfaction 6. Sales volume 7. Strategic project excellence and action learning	Our strategy for implementing our vision, mission and achieving agreed-upon key results is to involve people in focused performance action plans. These plans call on us to work with a clear purpose, remain focused, and coordinate our efforts. We all need to talk and act in ways that promote performance as we pursue our plans. While we will remain flexible and use strategic projects and learning teams, our energy will be focused on implementing 7 key performance action plans over the next 12 months. Appendix A outlines these plans.	To operate effectively and efficiently, a performance-oriented pyramid of success is reflected in the organizational chart. All personnel are expected to drive our success by achieving agreed-upon goals.

SOURCE: Reprinted from *Business Horizons, 45*(4), Kerns, C. D., An Entrepreneurial Approach to Strategic Direction Setting, pp. 2–5, Copyright 2002, with permission from Elsevier.

Strategic Positioning: From SWOT to TOWS

In stable industries, the Strengths Weaknesses Opportunities Threats (SWOT) analysis remains one of the best ways to think about strategy and selecting a strategic position for the new venture. The goal is to find a sustainable strategic position in which the firm can use its strengths to take advantage of the opportunities available in its industry and markets—while defending itself from threats and masking or correcting its weaknesses. The challenge in identifying weaknesses and developing ways to overcome them can in itself become a strategy. Turning the SWOT into TOWS is about doing the external analysis first—an important distinction when thinking about strategy. When doing such an analysis, it's best to work from the outside in, to do a TOWS analysis (Weihrich, 1982).

Begin by defining the markets in which your firm will sell, the competition that you will face, and the larger industry structure (power relations, business norms, etc) in which your firm will function. For this portion of the analysis, you can use the data you collected in the Knowledge of Industry Checklist (KIC) you completed in Chapter 2. Then turn your attention to the trends and shifts in the external environment: Consider the following factors as you work through the TOWS Analysis.

- Economic factors: The general state of the economy, including inflation, labor market conditions, interest rates, and so on
- Sociocultural factors: Preferences, values, and shifts in consumer trends
- Technological factors: New technologies, technical processes, and the rate of technological change
- Political-legal factors: Regulatory environment, including laws, statutes, and changes in government policies that affect the business

These factors change frequently, so it is necessary to review this analysis at least annually, and more often as appropriate to your industry and the community in which the business resides. Finally, summarize your analysis in a list of opportunities and a list of threats. This is the context in which you must operate. Once you know what the external environment offers you (and the challenges it presents), look inside to inventory your strengths and weaknesses. What skill sets, resources, networks, and so on do you have at your disposal? What are you lacking? Summarize these into a list of strengths and a list of weaknesses. This is what you have to work with.

Finally, map out your TO and WS in a matrix such as the one shown in Table 5.6 and study it to develop a strategy that uses your strengths to take advantage of opportunities, reduce or avoid threats, and overcome weaknesses. It is also highly recommended that you develop a set of strategies and run each through the matrix in Table 5.6, looking for flaws (e.g., lack of management skills in a particular area, low levels of financial resources).

Review Question

1. What questions should you ask to evaluate the external and internal environment of your business?

Table 5.6 TOWS: The Strategic Audit

1. List your perceived strengths (S), weaknesses (W), opportunities (O), and threats (T) inside the matrix.
2. Develop a tactical package around your SO, WO, ST, WT Strategies (your tactical package).

Internal Factors / **External Factors**	**Strengths (S)** S1 **List internal** S2 **strengths** S3 S4 S5	**Weaknesses (W)** W1 **List internal** W2 **weaknesses** W3 W4 W5
Opportunities O1 **List external** O2 **opportunities** O3 O4 O5	**SO STRATEGIES** How can you use your strengths to take advantage of the opportunities?	**WO STRATEGIES** How can you reduce your weaknesses to take advantage of the opportunities?
Threats T1 **List external** T2 **threats** T3 T4 T5	**ST STRATEGIES** How can you use your strengths to avoid threats?	**WT STRATEGIES** How can you reduce your weaknesses to avoid threats?

SOURCE: Reprinted from *Long Range Planning, 15*(2), Weihrich, H., The TOWS Matrix: A Tool for Situational Analysis, pp. 54–66, copyright 1982, with permission from Elsevier.

When you complete this analysis, you can consider some of the strategic positions for the new venture:

- The *low-cost* firm that churns out good enough services or products at the lowest possible cost
- The *highly differentiated* firm that creates the highest-quality, best-designed, best-supported, most attractive products or services in its area
- The *narrowly focused* firm that ties itself to a very specific market and serves its needs assiduously, typically with segmented products and services or niche, often customized, products or services
- The *broadly focused* firm that serves a wider market, either with a standardized product or through mass customization

- The firm that *elaborates* a previously chosen position, by penetrating deeper, developing new markets or niches, developing new products, carving out space at the edge of a niche, or raising barriers to competitors wanting to do what your firm does
- The firm that *collaborates* to learn—by licensing your products or services to other, more established organizations in the industry, by outsourcing, or by entering into joint ventures as a way of gaining entry into the marketplace

Review Questions

1. What is the difference between a SWOT analysis and a TOWS analysis?
2. Explain how to complete a TOWS analysis and how to create a tactical package.

Shifting the Focus of Strategy: Creating New Markets Versus Competing Directly

Kim and Mauborgne (1999) spent 10 years researching organizations that have developed fundamentally new and superior value, creating new markets and re-creating existing ones. The researchers found six approaches that enable companies to create new market space. Interestingly, those companies managed to do this by examining familiar information in a new light; accomplishing their goal did not require unique vision or foresight about the future.

The research showed that innovative companies break free from the competitive pack by staking out fundamentally new market space—that is, by creating products or services for which there are no direct competitors. This path to value innovation requires a different competitive mind-set and a systematic way of looking for opportunities, as we have seen in our previous chapters on opportunity recognition and evaluation. Instead of looking within the conventional boundaries that define how an industry competes, managers can look methodically across them. By so doing, they can find unoccupied territory that represents real value innovation. Similar insights can be gleaned by looking across strategic groups within an industry; across buyer groups; across complementary product and service offerings, and across the functional-emotional orientation of an industry.

The change in strategic thinking is described in this way: “Instead of looking within the accepted boundaries that define how we compete, managers can look systematically across them. By doing so, they can find unoccupied territory that represents a real breakthrough in value” (Kim & Mauborgne, 1999, p. 1). This carries valuable and transferable learning for entrepreneurs as they formulate strategy for their new ventures. Table 5.7 presents the six approaches entrepreneurs and managers can use to create new market space.

Table 5.7 Six Approaches to Creating New Market Space

The Conventional Boundaries of Competition	*Head-to-Head Competition*	→ *Creating New Market Space*
Industry	focuses on rivals within its industry	→ looks across substitute industries
Strategic group	focuses on competitive position within strategic group	→ looks across strategic groups within its industry
Buyer group	focuses on better serving the buyer group	→ redefines the buyer group of the industry
Scope of product and service offerings	focuses on maximizing the value of product and service offerings within the bounds of its industry	→ looks across to complementary product and service offerings that go beyond the bounds of its industry
Functional-emotional orientation of an industry	focuses on improving price-performance in line with the functional-emotional orientation of its industry	→ rethinks the functional-emotional orientation of its industry
Time	focuses on adapting to external trends as they occur	→ participates in shaping external trends over time

SOURCE: Reprinted by permission of *Harvard Business Review.* From "Creating new market space" by Kim, W. C., & Mauborgne, R., Issue 77(1), 83–93.

Summary of Chapter Objectives

1. Learn how to develop your value solution based on your overall strategy
   - Consider defining your value solution along the similar categories of value and cost-benefits of customer productivity, simplicity, convenience, price, and image.
   - You can then further develop your value solution and identify ways you can locate and communicate with your customers, as well as where your market would look to find information related to your business.

2. Understand the key drivers that are integral to buyers' demands and expectations within your industry
   - As customers' needs and preferences change, your firm will need to take a proactive approach in understanding how these changes influence the overall operations and efficiencies of your business.

- To uncover and reveal the most important drivers within your industry, you need to engage in questioning and research that not only reveals the important key drivers but also identifies how well your product or service responds to these key drivers over a period of time.

3. Know how your own value solution is matched and compared against these drivers within your marketplace
   - Once the entrepreneur has determined the industry's key drivers, those driver can be assessed based on how well they meet the strategy and unique value solution.
   - Table 5.2 assists you in benchmarking areas where your firm requires attention or where you lack the internal capabilities and resources to meet the needs of the marketplace.
   - Knowing these weaknesses will help you craft a revised strategy that focuses on those drivers and that positions you for the next new innovation (perhaps coming from your organization).

4. Learn the value of the perceptual map and how the map is used to maintain and exceed your competition in your industry
   - Competitive positioning reveals where your company stands in the eyes of any given group of people through the use of perceptual maps.
   - Perceptual maps are useful whenever a business decision requires knowledge of how people perceive issues and when the success of company policy or action requires a desired response.

5. Learn how to develop and gain an appreciation for a "go-to-market" strategy that is based on your value solution, the drivers in the industry, and your competitive positioning
   - A full "go-to-market" strategy encompasses the channels that a company uses to connect with its customers and the organizational processes it develops to guide customer interactions from initial contact through fulfillment.
   - The right go-to-market strategy has a significant impact on a company's ability to cost-effectively deliver its value solution to each of its target segments.
   - As companies tailor their value solutions to better address customer needs beyond product specifications and to better align their cost of sales and fulfillment relative to those needs, go-to-market strategy plays a central role.

6. Use the strategic plan outline to develop organizational-level strategies, industry-market strategies, management team strategies, and financial strategies for the new venture
   - Organizational-level strategies articulate the mission and key values.
   - Industry and market strategies explore the social and economic trends, the industry climate, key competitors, the markets the new venture serves, and the methods to create awareness by the customer base.

- Management team strategies explain how the new venture will capitalize on the strengths of its members and how it will compensate for what it lacks.
- Financial strategies define the start-up costs, explore financing alternatives and how they will be used, and present at least one year of projections.

7. Conduct a TOWS analysis to consider the new venture's strategic position.
   - The Threats-Opportunities-Weaknesses-Strengths analysis is an innovative approach to analyzing the external environment and applying the new venture's strengths and weaknesses in ways that capitalize on the opportunities and minimize the threats facing the new venture.

8. Explore new approaches that shift the focus of the new venture's strategy from direct competition to the creation of new value
   - Research has shown that the most innovative organizations are moving from competing directly with others in their industry to creating new value that enables them to establish new market space.

CASE 5.1 RentABook.com: A Strategic Analysis

Table of Contents

Executive Summary

RentABook.com is an on-line textbook rental service intent on helping college students keep more of *their* money in *their* pockets. Students simply login to RentABook.com, borrow their textbooks for the term, and return the books after the term is over. A portion of the rental fee is used as a security deposit and is given back to the student once the books are returned. Or, students can choose to keep the book, and RentABook.com keeps their security deposit. Initially, RentABook.com will focus on DePaul University students, with plans to expand to serve college students throughout the Chicago-land area in the near future.

College textbook prices are rising. Right now, DePaul students spend an average of $400 per quarter—$1,200 per year—on books. RentABook.com's unique service helps students save up to 51 percent. RentABook.com also knows how important delivery is to students. Students need their books to arrive on time. That's why RentABook.com guarantees on-time delivery. Or if they choose, students can elect to pick up their order at our main location. Customers include the college population who are Internet savvy and have limited disposable income.

Our management team consists of current DePaul students with backgrounds in different aspects of business—accounting, finance management, and marketing. Our team members' student status gives us personal insight into our customers' needs and interests as well as first-hand experience with the current book-buying experience. We saw an opportunity to provide more affordable books to students who value affordable prices.

Financial analysis projects that with start-up costs of $31,500, RentABook.com can generate net profits of $5,215 in year one, $19,514 in year two, and $25,000 by the third year. Such growth potential makes RentABook.com an attractive investment. Our management team is seeking $15,000 in initial bank loans. The rest of the funding will be secured using personal investments and credit.

Organizational-Level Strategies

What Business Are We Really In?

RentABook.com is in the textbook rental *service.* But RentABook.com is really in the business of saving students money. That puts RentA Book.com in indirect competition with other money-saving services targeting students—student rates for phone service, gym membership, parking, and so on.

Mission Statement

Our service is for students who want quality, affordable textbooks available for delivery or pick-up. Our domain name is RentABook.com, and our mission is to provide competitive prices and on-time delivery so that students can avoid the hassles of bookstores and other on-line retailers. We stand apart from others because of our unique services for a student community that values affordable prices

Students can log on to www.RentABook .com and borrow the books they need for a nominal fee and a security deposit (Visa, Master Card, AmEx, Check, Money Order, PayPal). If books are ordered no later than a certain date, they will be delivered before the first day of the semester. Students can choose to waive shipping costs by electing to pick up their books at 245 N. Southport Ave. in Chicago. At the end of the quarter, students will receive their security deposits back after books are returned. If students decide to keep their books, they can e-mail RentABook.com, and we will retain their security deposit.

Key Values

Our key values include:

- Dependability—Our customers trust us to deliver their books on time. We must do what we can to uphold their trust.
- Service—Our customers deserve impeccable customer service. We must fulfill their requests to the best of our ability.
- Affordable price—Our company is built on the foundation of providing students with the most affordable textbooks available.

To provide the most affordable books for our customers, we must establish a good rapport with our suppliers. A good rapport includes paying our suppliers on time and taking advantage of price discounts as much as possible. Because we rent our books to students, we do not need to purchase a large quantity of books every semester; we purchase only enough books to maintain a steady inventory each semester.

Industry and Market Strategies

Advertising

Price is the most important factor students take into account when deciding where to purchase their books. We must show how incredibly affordable it is to borrow books at RentABook .com. Instead of simply telling students how affordable RentABook.com is, show students the difference in cost between purchasing books at our competitors versus renting books at RentABook.com.

We need to show students the benefits of choosing RentABook.com. A side-by-side comparison shows what students can afford to buy when they shop with competitors versus how much more they can purchase with the savings they get with RentABook.com. What would college students buy with the money they saved using RentABook.com? The way we are planning to execute our advertising strategy is to post 8½ × 11-inch, four-color posters on bulletin boards throughout DePaul University. Leaflets will also be passed out in the front foyer of dormitories and student-populated apartments. We are also considering half-page ads in the *DePaulia,* the weekly university newspaper.

Social Trends

The most recent trend is that more and more college students are shopping on-line. College students are one of the populations that are most dependent on the Internet. About 86 percent of college students use the Internet, and 81 percent report having made a purchase on-line (Pastore, 2000b) "Internet has become an integral element of college life" (Pastore, 2000b). In 1999, e-commerce purchases done by college students totaled $2.2 billon, an increase of 18 percent from the previous year (Mack, 2000). Textbooks are one of the main things that college students buy on-line; they ranked sixth among products purchased on the Internet. Of the college students that purchase items on-line, 42 percent purchased textbooks (Ebenkamp, 2000). College students aren't the only ones purchasing school supplies on-line; 26 percent of parents doing back-to-school shopping plan to do so via the Internet, and of these, 20 percent plan to purchase textbooks on-line (Pastore, 2000a).

Economic Trends

One of the major concerns of college students is the high-priced textbooks in the bookstores. All U.S. college students together spend an average of $105 billion per year on their texts. On average, most full-time college students who purchase their books from a bookstore spend $500 per quarter (Freemna, 1999). The average cost of a textbook is about $62, according to the National Association of College Bookstores (Hardin, 2000). Many bookstores claim to offer used books to save students money, but 59 percent of students who searched for used textbooks in the fall 2003 quarter/semester didn't find any available for their classes (Calpirg, 2004).

Climate of Industry

The textbook industry is successful because of high demand. The battle for the textbook market exists between brick-and-mortar college bookstores and on-line bookstores. They compete for the $2.7 billion textbook market (Csar, 1999). More and more students are turning to the Internet to purchase their textbooks because of the lower prices and other things such as convenience. Gross sales of textbooks, in the month of August 2003, totaled about $668 million ("As Fall Buying," 2003). Although 20 percent of college students don't purchase any textbooks at all because of the high prices, the majority of students do. Some of the factors that influence students to purchase the textbooks are the difficulty of the classes, the amount of assignments from the textbooks, and also the extent that the instructor uses lectures based on the textbooks.

Key Competitors

The textbook industry is one of the most successful industries. That is why there are so many competitors. RentABook.com's key competitors are: Barnes & Noble, Amazon.com, e-campus.com, varsitybooks.com, and the library.

Barnes & Noble is one of the most successful bookstores in the industry. It operates many stores nationwide. Barnes & Noble is also affiliated with textbooks.com, which is an on-line retailer (Freemna, 1999). For that reason, and also because of the current stores the company is opening on DePaul University's campus, we consider Barnes & Noble our top competitor. The company's total revenue for 2004 was $6.55 billion, with a 12.9 percent annual growth (*Barnes & Noble: Key statistics,* 2004). Barnes & Noble has the competitive advantage of being both an on-line retailer and bricks-and-mortar bookstore. It is a nationwide, successful, and well-known company.

Amazon.com, the on-line e-tailer, is also successful. Part of its success is due to the fact that Amazon has first mover advantage of being an on-line bookstore. Amazon.com has a well-known, trusted global brand name and reputation (which contribute to the company's success), knowledge of customer buying habits, and a high rate of continuing customers. This company sells more than just textbooks. Other things include apparel and accessories, electronics, toys and games, music, and things for the home and garden. Amazon's 2004 total revenue was $6.92 billion with a 33.8 percent annual growth *(Amazon.com Inc.: Key statistics,* 2004).

E-campus.com is an on-line retailer of discounted textbooks, both new and used. Besides textbooks, e-campus.com sells college logo merchandise, electronics, computers, office and general supplies, music and gifts. Dave Thomas, Wendy's founder, backs up this company, which opened for business on July 2, 1999. A major drawback for this company is the fact that it filed for bankruptcy in June 2001. After filing for bankruptcy, the company was bought by George Valassis, who was an investor (Tatge, 2001).

Varsitybooks.com, an on-line retailer, focuses on selling textbooks. Also known as Varsity Group, the company gets its books from Baker & Taylor, which is a leading U.S. book distributor (*Varsity Group Inc.: Profile,* 2005). This company began in 1998 and calls itself a college marketing company. It has both on-line and off-line advertising (Mack, 2000). One of the company's strategies, which it considers a competitive advantage, is to hire student campus reps to spread the word. The marketing strategy also includes radio spots, campus newspapers, and sponsorships (Csar, 1999). Varsitybooks.com spends in the $5 million to $10 million range on advertising campaigns. This company also supplies its books to more than 240 educational institutions. Total revenue for 2004 was $37.7 million, up 49 percent from 2003 *(Varsity Group Inc.: Profile,* 2005). The library is also one of our competitors because some students rent their books from the library. DePaul University's library offers students the opportunity to rent some of the books that are required for classes. Although this is good option for students because they don't have to purchase their books, the library offers only a limited selection, and only two or three books are in stock for each class. Another pitfall for the library is that these books are gone fast and can be checked out for only four weeks. There is an option to renew the book, but only if no one is on a waiting list, which is uncommon because most students want to save some money by renting the books available. There is also the disadvantage of not being able to keep the book. Many students keep textbooks that are related to their majors for future reference, and renting them from the library doesn't give them that option. Students also have to pay a fee if the book is overdue, lost, or damaged.

One of the ways that RentABook.com will compete with the other competitors is by offering the students more options. We will give students the option to rent or buy their textbooks. From the survey, we saw that many students use the bookstore's buy-back program, which shows that they are not interested in keeping their textbooks; therefore, we are giving these students the option to rent their textbooks for a cheaper price. As students, we also know that many students like to keep their textbooks, especially those related to their majors, so we are giving these students the option to purchase textbooks that they would like to keep. We are aware that although our prices will be cheaper than most college bookstores and Barnes & Noble, they might not be cheaper than Amazon, e-campus, or Varsity Books, but we will compete with these textbook retailers by offering students the option to pick up their textbooks from our location.

This option will save them the shipping charges, and it will guarantee them that they will get the correct book on time, which is the major reason some students don't buy their textbooks on-line; it is also the biggest concern for those who do shop on-line, according to our perceptions and those of students to whom we have talked. We will also focus on other student concerns to improve our service and differentiate ourselves from other competitors. Other concerns include availability of textbooks and convenience. We will have a variety of textbooks on all DePaul courses, and if we run out, we will order from our suppliers as orders come in to have them available to students. We will also make our service convenient by making our Web site easy to use and by having the books ready to be picked up at our location (which will be near by the Lincoln Park Campus of DePaul).

Target Market

RentABook.com's target market is college students, who are Internet savvy and have limited disposable income. RentABook.com is concerned with the buying behavior and trends of all college students, but it focuses on DePaul University's college students. Sales from other students will be welcomed and appreciated, but our first-year plan is to focus on DePaul University's college students and do most of our advertisement at DePaul University. Small advertisements, such as handing out flyers, will be done at other nearby universities to gain awareness, but not a lot of money will go toward advertisement at those universities. We chose to focus on DePaul students because of the easy accessibility; because we are all students at this university, it will be easy to advertise our business and reach our target market there.

One of the ways that we will maintain a customer base is by sending e-mails to our continuing customers, which will be done weeks before their school quarter begins. The e-mails will remind them of our business, and sending these notes a couple of weeks before a new quarter starts is a good idea because that is when most students purchase their textbooks. We will also offer them promotions, such as saving 15 percent, to encourage them to shop with us instead of our competitors.

There are different ways that RentABook .com can create awareness. One of the ways that we will do so is by starting an advertising campaign in the spring quarter to let people know we are opening open in the fall quarter. Because we will be focusing on DePaul University students, it will be easier for us to reach the majority of this population in the spring quarter. We will also create awareness by word of mouth. As RentABook.com's owners, we have the advantage of being DePaul University's students; therefore, we will be able to talk about our business to our friends and faculty, hoping they will mention our business to their friends, relatives, and anyone else that will benefit from our business.

Student Survey Results

Our management team decided to create a survey (Appendix 1) and test our target market's book-buying behavior. The survey was handed out to more than 100 students from various backgrounds, ages, and majors. What our team was attempting to do was to determine how our target market was going to respond to a new and unique product. An entrepreneur can be more confident about the product with the approval of the consumer ahead of time.

When students were asked where they buy their textbooks, 60 percent said they used the DePaul bookstore. The Internet was a close second, coming in at 30 percent. The rest of the students bought their books from their friends and other peers. We find these results to be in our favor because even if we only have 30 percent of our target market, that would be enough to start our company. However, we also hope to shift those numbers, so more and more students shop on-line at RentABook.com.

Also, when students were asked whether they ever purchased books on-line, 64 percent answered yes. We find that these results are in our favor as well because the majority of students have already used an on-line service at some point and are familiar with the process. The only potential drawback is that some of the students may have been dissatisfied with their on-line experience and may have decided not to purchase books on-line anymore.

Although most students purchase their books at the bookstore, more than 79 percent were willing to give our service a try. Because students are so comfortable using the Internet, they are not opposed to shopping on our Web site. When students were asked whether they would consider purchasing their books from an on-line service, an overwhelming 79 percent answered yes and 10.5 percent answered maybe.

These results made us ecstatic because we realized how comfortable our target market was with using new products and shopping on-line.

Our team also wanted to know how much, on average, a student spends on books every quarter. We found out that the average amount was about $400. Because most students take about four classes per quarter, we figured that a single textbook costs about $100. This comes out to about $1,200 a year spent on textbooks alone, whether the university is on the quarter system or the semester system. Our service was created especially to alleviate the problem of students paying too much for textbooks.

When we asked students to rate the most important factor they consider when purchasing textbooks, not to anyone's surprise, the most important factor was price. Convenience and availability came second and third. We think that price was the most important factor because demand for textbooks is inelastic. No matter how much textbooks go up in price, students will still purchase them for their classes. Also, students do not have a lot of disposable income, so every penny counts. That is why price is by far the most important factor, and that is exactly what our company will provide.

TOWS Analysis

To help us develop strategies for the start-up and launch of Rentabook.com, we have conducted a TOWS analysis. In the analysis (Table 5.8), we identified the threats and opportunities facing our business, as well as our internal strengths and weaknesses that we can use to leverage the opportunities in the industry and marketplace and reduce or avoid the threats.

Management Team Strategies

As a group, the participants in RentABook .com have agreed on making the business relationship a general partnership. It was agreed that all the founding members would divide money shares into equal portions, and most decisions would be made as a team. The reason this is done is to ensure that no decision impact's just one team member's future. If a decision is made, it is made as a team, and because the company is a general partnership, all assume equal liability for the company. There is no future consequence to a specific person for the team's error or. As a disadvantage to this partnership, although most decisions are made as a team, some decisions will be made individually when it come to the different sectors of the business, and if the decision is a wrong one, it will reflect on the whole team and company as the general partnership assumes a team liability instead of an individual one.

Location

RentABook.com is a company that does not possess large amounts of capital, so the team has decided that the location of the warehouse and operations would be in one of the team member's household. The consequence of this decision is that a lot of money is saved. The expenses of rent and most utility bills are saved in this decision. All that is needed for the company at first is a location to store books and a place to have your systems ready to run. Although a warehouse is being considered for our future projections, to start up we would like to have a secured location. As an advantage to using a team member's apartment, we have the fact that it is located in the heart of the target market, which in this case would be Lincoln Park. This location gives RentABook.com the opportunity to reach out further to the customer and create a better relationship. The major disadvantage at the start will be the available storage space of the household. Although the inventory will not be as big to start as it will be in the future, some space will be needed to store the inventory that is at hand.

Strengths and Experience of Team

Although the team members and founders of RentABook.com are students, they have a lot of strengths that are beneficial to the company and the strategies that will be enacted. First, all the team members have knowledge and practice in

Table 5.8 TOWS Analysis for RentABook.com

Internal Factors / External Factors	Strengths (S)	Weaknesses (W)
	S1 Access to market S2 Understanding of market S3 Diverse management team S4 Resources to advertise to market S5 Strong business skills	W1 Little available capital W2 No experience W3 No storage facility for inventory W4 No competitors to learn from W5 Full-time students, little time to dedicate
Opportunities O1 First entrant to market O2 No competitors O3 Price important to market O4 Large market O5 Students need books	**SO STRATEGIES** How can we use our strengths to take advantage of the opportunities?	**WO STRATEGIES** How can we reduce our weaknesses to take advantage of the opportunities?
Threats T1 Books & editions change often T2 Competitors can enter market T3 Inventory wear and tear T4 Large players in industry T5 On-line only courses	**ST STRATEGIES** How can we use our strengths to avoid threats?	**WT STRATEGIES** How can we reduce our weaknesses to avoid threats?

SOURCE: Adapted from *Long Range Planning, 15*(2), Weihrich, H., The TOWS Matrix: A Tool for Situational Analysis, pp. 54–66, copyright 1982, with permission from Elsevier.

all the fields that are required to run the business, and these are finance, accounting, marketing, and management. We all have experience in most of these courses and also possess working experience in all of these fields. Second, as RentABook.com is a company created for students, we are students, and we are aware of the needs that students have wanting to purchase a textbook, and that is price. In other words, we are a part of our target market, and as a result, we know the needs of our customer. Third, because we are students and know the key factors involved in a student's decision, we will know how to reach and catch the attention of our potential customers. Finally, our competition is well known by the team because we used to be customers of these companies. With all these strengths put together, RentABook.com could be a great asset and benefit for the student population.

Structure of RentABook.com

One of the major advantages in the management of RentABook.com is that we will have no employees to start. This will give the company no worries on an hourly pay or salary for others apart from the team. As a consequence of this, the team members of RentABook.com will be their own employees. As stated before, most decisions within the company will be made as a team, but some members will focus more on a certain department. The team members assigned to each department are the ones who are most knowledgeable and experienced in the field. As a consequence of this analysis, the team has been structured as follows:

Andres Ayala and Maria Mendoza: Management

Arby Gonzales: Accounting and marketing

Staci Oliyar: Finance

With the experience of each member in his or her assigned area, RentABook.com will have a major strength in each department, and as a consequence of this structure, the ideas provided to the team as a whole will be more efficient and organized, and with all this in mind, the whole team will give advice and agree on a certain decision as a whole.

What Does RentABook.com Need From the Team?

The main concern before opening a business is money, but once the money is there, the individual or team has to analyze many other things if their business is to be successful. Our team needs to know how to reach out to the student market and let them know that RentABook.com has opened. In other words, a well-thought-out marketing strategy needs to be created so our market o knows that we provide an affordable service. Because our main goal and mission is to provide students with an affordable price that beats out our competition and saves money, we need to make sure that this is what happens. Without providing an affordable and low price, the company is lying to the market and will not be successful. Finally, we need to create a customer-company relationship within RentABook.com. For our service to survive throughout the years, we need to prove that we are a company that cares about the customer. By doing all this, our customers will give good words of trust and advice about our company to other incoming or current students. Furthermore, the good reputation of RentABook.com would create a good following of loyal customers.

What Does RentABook.com Have and Lack?

As a team, we have decided that to create a bigger inventory, the team members will donate their own books to the company. Although this will not create a big inventory, it will augment the inventory that we purchase. We also have the advantage of technology on our side. Because our business is basically run from the Internet, the fact that we have a Web site gives us a way to reach our customers in the comfort of their own homes. On our advertisements, we will post our Web site for the customer to visit and rent books, and this also creates a way of advertisement for RentABook.com. By students visiting the Web site alone, they will know that this company exists, and they will tell their friends about it, and with this, our Web site creates a word of mouth around our target market population. Our team possesses the skills needed to run the business. Without the skills and strategies of every one of the members, RentABook.com would not have been created. All of these strengths will be essential and beneficial in the running of RentABook.com.

Although we do possess major strengths and abilities that will benefit us when the business is in progress, our company does lack some items that could be beneficial. There is a lack of inventory within our reach because our start-up capital is not as high as other companies. As students, we do not posses a lot of money, and as a solution to our lack of capital and inventory, we have decided to apply the strategy of just-in-time inventory. Although we will have a good enough stock of books to start up, when someone requests a book that is unavailable in the inventory, RentABook.com will order it the minute the order is received. This will create a bigger inventory for us throughout the future and also allow us to save some money on inventory. As an effect of not having a big inventory, we lack the ability of having a warehouse or storage area. Although this could be beneficial to us, it also creates the advantage of saving us money. Finally, we do not have any employees but ourselves. Because the company provides its service mostly through our Web site, we do not need to have employees at the start. This also saves us money and gives us the opportunity to invest the cash into other beneficial assets for the company. Although we do lack these things at first, in the future, they are essential to the running of our business, and they are things that will be examined in detail after the success of our business.

Financial Strategies

Start-Up Costs

The following is a list of the start-up costs that our company is anticipating to incur in the first year of our existence. These costs include our domain name, which we will have to purchase for at least five years, as well as a server and the appropriate software to host and run our Web site to the best of its ability. We will also need a fast Internet connection to be able to manage the traffic on our Web site. The T-1 connection is one of the fastest, and we chose it because we do not want students to get frustrated at our slow connection and go to another Web site. We will also have Microsoft Commerce Manager® and PayPal® on our Web site for further convenience. Microsoft Commerce Manager will help us build our storefront, including shopping carts, inventory searches, shipment tracking, and the ability to use any major credit card securely on our Web site. We will also need our initial inventory, and the fees for the partnership agreement and legal fees. The partnership agreement will ensure that we are all protected from a legal perspective.

Start-Up Costs

• Five-year domain name:	$350 for initial cost $7.25 per year thereafter
• Intel Xeon processor and server: (Includes all the proper Web software and disaster recovery)	$5,000 purchase price
• T-1 Internet connection 1.54 MBps	$3,348 per year
• Microsoft Commerce Manager	$300 per year
• Fees for using PayPal	$0–$3,000 2.9% + $0.30 $3,000–$10,000 2.5% + $0.30
• Initial textbook Inventory	$20,000
• Shipping supplies	$500
• Legal fees	$300
• Partnership agreement	$99
• Advertising campaign	$1,200 per year
• Licensing	$400
Total Start-Up Cost:	**$31,497**

Our total start-up costs came out to $31,497. In our opinion, these figures are very feasible for a team of four, and we will easily be able to raise the above amount to start our company. We realize that this list may be incomplete, due to the fact that many companies incur unanticipated costs along the way. We are prepared for the fact that there may be additional costs involved with starting our business, and we are willing to be flexible enough to adjust our figures where necessary.

Financing

Our company will have a debt/equity structure for the financing of our company. The equity financing will come from team members themselves as well as our friends and family. The team will come up with $6,000 in personal savings as well as another $6,000 collected from family and friends for a total of $12,000. The rest will be debt financing. Our team will apply for a small business loan from a bank for $15,000. We think that we will be able to get such a loan because the loan amount is not very large, and we can provide the collateral. Our suppliers will also provide some of the debt financing with a $5,000 credit for our inventory for a total of $20,000. This brings our total to $32,000, which is a little bit above our initial start-up costs. Finally, our team is prepared to use credit cards in the event that we incur unanticipated costs. We will use the credit cards as a last resort.

Pricing Strategy

Our pricing strategy was designed to save our customers money. We can keep our price so low because we can get up to six turnovers on a textbook before it becomes obsolete. Usually, the publisher will release a new edition every two years or so. This will give our company a chance to turn over the book six times before a new edition comes out. (Three quarters per year times two years.) This analysis does not include the December session or summer school classes. In that case, our turnover would be even greater. When a book does become outdated, we will either ship it back to the publisher or sell it on our Web site at a deep discount. We will not be renting old editions of textbooks.

Our company's strategy is to save students 30 percent on every book they buy compared to the price a bookstore charges. For example, if a book is sold for $100 at the bookstore, then we will be offering the book for $70. The security deposit will be 30 percent of the $70 purchase price. In this case, the security deposit will be $21 ($70 × .30). The rest of the purchase price will be the rental charge (only $49). If a student decides to keep the book, we will keep the security deposit, and the student still gets the book for $70. If a student does decide to return the book, we refund the security deposit and the student only pays $49 to rent the book. Overall, each student saves 51 percent on every textbook rental versus if they bought the book at the bookstore.

The Numbers

RentABook.com's strategy for making extra profit is to use the deposit money to invest in 30-day Treasury bills. Because every month we will have a surplus of cash from deposits, we can increase our profits by using that money to invest in low-risk bonds. At the end of the 30-day period, the deposit will either be refunded to the customer, or in case the customer chooses to keep the book, the money will go back into the company.

In the first fiscal year of our company's existence, we project that we will end up with a net profit of $5,215 (Appendix 2). Taking into account all of our expenses, the first two quarters we will experience a loss of ($17,334) and ($5,945), respectively. However, by the time spring quarter ends, our company will be making a profit of $11,160. Our net profit for the year will be $5,215.

By year two, we project a net profit of $19,514. Overall, our company will grow at a steady rate as we gain recognition among the student population. The reason for our company's rapid growth of 274 percent from year 1 to year 2 is the fact that we will not be taking into account any more start-up costs. Our expenses from the first year onward will all be minimal, such as the upkeep of the Web site, Microsoft Commerce Manager fees, and fees for using PayPal. We predict a steady growth of our company as students begin to use our services across universities in the Chicagoland area. If our company keeps growing, within the next couple of years, we will be adding extra expenses such as renting a warehouse and hiring new employees.

SOURCE: This strategic plan analysis was written by students Anastasiya Oliyar, Maria Mendoza, Arby Gonzalez, and Andres Ayala of DePaul University. Reprinted with permission.

Discussion Questions

1. What is your perception of the concept of RentABook.com? Does it seem to you to have potential for market success?
2. Sh166ould additional research be conducted for the plan? Are there other factors the team should consider?
3. How can RentABook.com use its strengths to leverage some of the opportunities and to avoid the threats in its industry and market?
4. How can the company reduce its weaknesses to more effectively embrace the opportunities and avoid the threats?
5. What specific strategy do you recommend RentABook.com develop?

Appendix 5.1
Student Book-Buying Behavior Survey

Thank you for taking the time to participate in this survey. This survey will be used to gauge students' book-buying behavior.

Please answer the following to the best of your ability.

1. On average, how much money do you spend on textbooks per quarter?

2. Where are you most likely to get your textbooks?

   [ ] School Book Store

   [ ] Internet

   [ ] Borrow from Friends

   [ ] Purchase Used Books from Other Students (via bulletin boards)

   [ ] Other ______________________ Why?

3. Have you ever purchased books online?

   [ ] Yes

   [ ] No (continue to #6)

4. If yes, please rank the most important factors for your purchases with 1 being the most important and 3 being the least.

   [ ] Price [ ] Convenience [ ] Availability

5. Please rank your biggest concerns when purchasing books online.

   [ ] Security [ ] Receiving books on time

   [ ] Service [ ] Receiving the correct book

6. Do you utilize the School Book Store's book buy-back system?

   [ ] Yes Why/why not?

   [ ] No

7. Would you consider borrowing your textbooks through a textbook rental system? Why/why not?

Thank you for your time.

Appendix 5.2
RentABook.com Financial Statements

YEAR x1

Winter Q		
	Revenues	$18,690
	Pub. Exp.	$20,025
	Sec. Liab	$4,494
	Loss	($5,829)
Spring Q		
	Revenues	$18,690
	Pub. Exp.	$3,975
	Sec. Liab	$4,494
	Profit	$10,221
Autumn Q		
	Revenues	$18,690
	Rev. from old ed.	$9,345
	Pub. Exp.	$3,975
	Sec. Liab	$4,494
	Profit	$19,566
	OPERATING PROFITS	$23,958

INCOME STATEMENT x1

REVENUES		
WQ	$14,196	
SQ	$14,196	
AQ	$14,196	
Sale of Old Ed.	$9,345	
Total Revenues		$51,933
EXPENSES		
Inventory	$27,975	
Domain Name	$358	
Server	$5,000	
Internet Connection	$3,348	
Mgt Software	$300	
Shipping Supplies	$500	
Ad & Promo	$1,200	
Legal	$300	
Licensing	$400	
Partnership Agreement	$99	
Total Operating Expenses		$39,480
NET PROFIT		$12,454

YEAR x2

Winter Q		
	Revenues	$22,361
	Pub. Exp.	$23,958
	Sec. Liab	$5,367
	Loss	($6,964)
Spring Q		
	Revenues	$22,361
	Pub. Exp.	$4,792
	Sec. Liab	$5,367
	Profit	$12,203
Autumn Q		
	Revenues	$22,361
	Rev. from old ed.	$11,180
	Pub. Exp.	$3,975
	Sec. Liab	$5,367
	Profit	$24,200
	OPERATING PROFITS	$29,438

INCOME STATEMENT x2

REVENUES		
WQ	$16,994	
SQ	$16,994	
AQ	$16,994	
Sale of Old Ed.	$11,180	
Total Revenues		$62,163
EXPENSES		
Inventory	$32,725	
Domain Name	$7	
Internet Connection	$3,348	
Mgt Software	$300	
Shipping Supplies	$500	
Ad & Promo	$1,200	
Total Operating Expenses		$38,080
NET PROFIT		$24,083

YEAR x3

Winter Q		
	Revenues	$27,476
	Pub. Exp.	$29,438
	Sec. Liab	$6,594
	Loss	($8,557)
Spring Q		
	Revenues	$27,476
	Pub. Exp.	$5,888
	Sec. Liab	$6,594
	Profit	$14,994
Autumn Q		
	Revenues	$27,476
	Rev. from old ed.	$13,738
	Pub. Exp.	$3,975
	Sec. Liab	$6,594
	Profit	$30,645
	OPERATING PROFITS	$37,082

INCOME STATEMENT x3

REVENUES		
WQ	$20,882	
SQ	$20,882	
AQ	$20,882	
Sale of Old Ed.	$13,738	
Total Revenues		$76,383
EXPENSES		
Inventory	$39,301	
Domain Name	$7	
Internet Connection	$3,348	
Mgt Software	$300	
Shipping Supplies	$500	
Ad & Promo	$1,200	
Total Operating Expenses		$44,656
NET PROFIT		$31,727

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