Te Tohu Atawhai Kaipakihi

Certificate in Applied Small Business Growth and Development

Wāhanga Tuatahi: Tātari Whakawhanake Umanga

Module 1:

Business Development Analysis

Programme Developers and Authors

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Module Outline

Introduction

The concepts of growth and expansion can be seen as both opportunities and as threats and are something that all successful small businesses must face. One of the biggest obstacles to growth for New Zealand small businesses is that the owners spend too much time working *in* their businesses rather than *on* them. On one hand, growth brings increased profits, challenge and prestige while, on the other hand, it brings risk, uncertainty and unexpected headaches.

Andrew J. Sherman (1997) suggested that the need of the business to grow *"must be tempered by the need to understand that meaningful, long-term, profitable growth is a by-product of effective management and planning".*[1]

The purpose of this Module is, therefore, to guide you in establishing a foundation for 'effective management and planning'. This involves helping you analyse your current position, including the achievements of the business to date, and your desired business position. It also involves introducing you to a range of tools that you can use to identify the key problems, issues, challenges and opportunities that your business faces in regards to business development. This is important as, throughout the remainder of this programme, you will be implementing projects within your business that will help you overcome challenges and maximise opportunities, in your pursuit of your business's vision and mission.

The final section of this Module looks at some of the broad strategic approaches that your business can take to reach its goals. It also highlights some of the factors that you will need to consider in selecting which strategic approach you will take and in determining what projects you will be implementing in your business in Module 2 of this programme. These factors include, for example, the product life cycle, innovation in your business, limiting factors such as finance and human resources, and market research requirements.

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[1] Sherman, A. (1997). *The Complete Guide to Running and Growing Your Business.* New York: Times Business.

Learning Outcomes

By the end of this Module tauira will be able to:

1. Analyse the current position of a business
2. Identify the desired future position of a business
3. Identify internal and external problems, issues, challenges and opportunities for business development
4. Develop and analyse strategies and goals to reach the desired position of a business
5. Identify projects and write project briefs to address business development needs
6. Analyse a case study business by identifying, and suggesting solutions for, internal and external problems, issues and challenges
7. Identify and evaluate opportunities for business development for a case study business
8. Present an analysis of a case study business and facilitate a discussion relating to the analysis with peers

Section 1

Your Business Path

1.0 Your Business Path

1.1 Understanding your Beginnings

Understanding what drives you in your business is one of the first steps on the road to increased business profitability and growth. Perhaps the best way of gaining this understanding is to think back to when you first started your business and recall your reasons for doing so. This is what you will be doing throughout this section of the Module. In particular, you will be reviewing the early components of your business plan, including the vision and goals you set when starting your business.

1.1.1 What is Your Story?

Why did you start a business?

There are many reasons for starting a business – what were yours? What got you started in business? Are you in business because you had a great idea you wanted to commercialise? Or were you simply looking for a change in lifestyle and considered that being your own boss would allow the flexibility that you wanted to achieve? Some people seem to 'fall' into business, whereas others take a more planned approach. Consider the following examples:

Example 1: One Smile MAGAZINE[2]

Nelson business, One Smile MAGAZINE, is a paper-based and internet-based magazine at www.onesmile.co, combining stories designed to inspire and educate today's intelligent reader. Owner, Catrin Jacksties, explains how the business came about:

> *"When my marriage ended, I was left caring for three young children surviving on the Domestic Purposes Benefit. I completed a graphics and multi-media course and wondered what my next step would be. In the shower one day, I thought about the negative effects media has on people. Then it came to me,*

[2] Information supplied by Catrin Jacksties, owner of One Smile MAGAZINE.

what about a magazine that focuses on the positive? And so, One Smile MAGAZINE was born."

"Everyone involved with One Smile MAGAZINE – our readers, our contributors, and our sponsors – are the raindrops for positive change, causing ripples small and large that will impact others. If every person chose to make a difference through small positive actions each day, our world would be flooded with optimism, hope, joy, and peace."

Catrin's magazine "One Smile" is building a reputation for stunning photography and interesting articles in a full colour, high quality magazine format. With four issues now available, Catrin is confident the business will continue to grow globally and inspire the world.

Example 2: The Mudcastle

Six weeks after meeting each other, Kevin and Glenys Johnston bought a piece of land in Nelson and proceeded to use the clay from it to build an adobe brick home on it. Whilst the couple had no intention of the home becoming a function venue, this is exactly what happened. With its castle-like appearance, the house attracted the attention of a group of local farmers' wives, who asked if they could have a look through the home. This visit acted as a catalyst for a range of functions and referrals and The Mudcastle business was created!

To begin with, the couple accommodated for functions by regularly removing their furniture from their living and dining room, only to have to put everything back in place once their guests had left. However, eventually (after approximately 15 years!), Kevin and Glenys made the decision to extend their home to fully cater to the demand for their premises. Amongst other things, this involved the construction of a very large turret in front of the main part of their home which, in turn, enhanced the property's castle image.

The Mudcastle now provides private and corporate function facilities for up to 100 guests, overnight accommodation for up to 16 and has featured on the television series 'My House, My Castle' as well as 'The World's Most Extreme Homes'. The couple are keen for their home to be enjoyed as a venue in years to come, and for their surprise business to live on. As such, they are looking into bequeathing The Mudcastle to the region on their deaths.

For more information about The Mudcastle, visit www.TheMudcastle.co.nz.

Screen Print: The Mudcastle Website[3]

Example 3: Punk Baby Clothing

Katie Bennett, the owner of Punk Baby Clothing (www.punkbaby.co.nz), talks about how she unexpectedly started her business:

> *"I found it very frustrating when I had my first son that there was nothing funky and different to dress him in. I found that boys are catered for very little in the 'fashion stakes'. I started making clothes for him and would constantly get stopped and asked where I got them from. One day, I posted a picture of him on Facebook wearing one of the outfits I had made him and five minutes later orders started flooding in. I was really surprised because I had only put the picture up showing off how cute he was, and all of a sudden I had a business!*
>
> *After my second son was born I thought I would 'retire' from what I considered was a hobby business. But after being made redundant from my job of 15 years, and the outcry from my customers, I realised I had been given the gift of a real chance to take my hobby turned business to the next level. It's been onward and upwards ever since and I have just hired my first employee!*

[3] Retrieved 26 September, 2012, from http://www.themudcastle.co.nz

Example 4: Around Twelve Ltd

Around Twelve Ltd is an online business which specialises in footwear for both men and women who have large feet (refer www.aroundtwelve.com). Company director, Kimberley Cody, had struggled to find shoes since she was twelve years old, at which time her feet had grown to size 12. Her sister and business partner, Naomi, describes the reason for establishing the business.

> *"Kimberley was so frustrated by her limited options for footwear that she took me on a shopping trip to demonstrate the problem. We went from shop to shop without much luck. Some shop assistants would just look at the size of her feet and then avoid serving us! Others would either apologise that they had nothing available, or ask us to wait in the shop while they searched out the back for the one pair of large shoes that the shop had on hand."*
>
> *"It was this shopping experience which inspired us to research large shoes as a business opportunity. Through talking with shop owners, we learnt that many shops did not stock large sizes as they felt there was little or no demand for them. On the other hand, our discussions with numerous people with large feet revealed that they did not even bother going into normal shoe shops because they assumed they would not have any shoes that would fit. We saw that there was clearly a gap in the market for a business which would purely cater to people with large or wide feet."*

Was the decision to become self-employed influenced by anyone?

Often, the decision to go into business is influenced by the people we associate with and by the environment in which we were brought up. Some people may have a great business idea, but lack the confidence to pursue it simply because they do not know people in business and the idea of being self-employed is therefore too scary or foreign to them. Others who grow up surrounded by family members in business may view self-employment as 'normal' – whilst they may not necessarily have always known what type of business they would operate, they expect they will begin a business at some point.

Try answering the following questions:

- Are / Were there any self-employed people within your extended family?
- How well do / did they do financially?
- What is / was good, bad or unique about those businesses?

- Who were your first business-owning role models?
- Who are the business owners and entrepreneurs you admire?
- Why these people?
- What have you learned from them that has value for you?
- What local businesses inspire you?
- Which businesses make you think, "I want to be like them"?

What were your original goals and aspirations?

Think back to when you first started your business – can you recall what it was that you first set out to achieve? What was your dream for business? Did you develop a business plan (or have you done so at any time since then) in which you outlined your vision and goals for the business? If so, review this now.

Sometimes you can get so caught up in the day to day running of a business that you lose track of your original goals and aspirations. However, it is important to keep these in mind so as to benchmark your current business position – that is, are you really doing what you set out to do, or has your business taken a different path?

A different path is not necessarily a bad thing. After all, sometimes it is not until you really get into business that wonderful opportunities can be presented to you. On the other hand, it may be the case that it is not until you get into business that you fully understand the realities of the particular industry and find that certain business activities might not be as easy, enjoyable or as prosperous as originally believed. If this is the case, consider your responses to the following two questions:

1. Are the original goals and aspirations you had for your business still what you want?
2. Are the original goals and aspirations you had for your business feasible?

1.1.2 Your Experience to Date

A business plan or business strategy has to be a 'living' document that continues to progress and build as the business grows and develops. That is, once you write one, you should not simply file it on the shelf and 'tick' it off as something you have done and finished – you need to keep working on it. Regardless of how careful your original planning was, you would not have been able to foresee every future event, opportunity or influence on your business. Because of this, goals and strategies can change. In fact, in many cases, they *should* change – for example, you should not stick with goals and strategies you set in the past if exciting, unexpected opportunities are presented to you.

Sometimes we also need to revise goals due to adverse impacts on a business or lower than expected performance. Before getting into business, it is very easy to overestimate the number of sales you will be making and underestimate just how difficult it is to establish a market presence and grow your business. As such, you may find that the goals you set before starting your business were unrealistic given the personal, time and financial constraints you now face.

In other cases, it is not the goals that need to be revised – instead it is the current position and operations of the business that need to be reviewed. If you have not met goals in the past or think that goals may now be unfeasible, you need to think carefully about why that is.

For instance, you may have had a goal when you started your business of doubling your production every two years. You may now be in Year 6 of your business and when you analyse you current production rates you may realise that this goal has not been reached in any of the two-year periods since starting your business. You may then ask, "If the business cannot meet the production targets currently, how can I expect to double the production in another two years?"

However, before lowering your goals, what needs to take place is a review and analysis of why the current production targets are not being met. There could be a variety of reasons for this. For example, it could be because the machinery is in need of a service, it could be due to a high turnover of staff, or it could be that just one part of the production process is putting everything else in the production process behind time.

By analysing the current position of a business, we can write new strategies or revise goals that then form part of the evolving business plan. Thus, before you can go forward in your business you need to analyse your current position and ask yourself how you feel your business is doing and how it compares with your original vision.

Consider the following questions:

- How does what you have achieved so far in your business stack up against the dreams and aspirations you had when you started your business?
- Does the thought of where you are now with your business fill you with pride, satisfaction and enthusiasm?
- Are you embarrassed by how little has changed in the six months, or even the three years, since the launch of your business?
- How has the business performed relative to its competitors?
- How do you think your business is perceived in the marketplace? What do customers and potential customers think of your business? Why is this? Is this what you want?
- What major successes and setbacks has the business had?
- What do you feel you should have achieved to date in your business?
- What has hindered you from reaching business goals?
- Do you feel that business goals need to be revised, or do you feel that it is instead your strategy that needs improving?

1.1.3 What Keeps you Going?

Each of us has our own set of personal values, beliefs and / or principles – those things which matter to us in life. We may place value on virtues such as trust, honesty and friendship. For others, the importance of family, achieving financial security or making a contribution to their local community is what guides them in life. Such values, beliefs and principles will influence us not only in our personal realm but also in the way in which we choose to run our business. As such, they may have an impact on the desired future position of the business and on the strategies we take to achieve it.

For example, a business owner who wants to contribute to their local community may have an employment strategy where they pay students from the local college for work experience and for school holiday work. As such, they may schedule in extra production runs at this time and develop a marketing strategy to move the resulting excess stock. Now it may be that this is not a cost efficient way of getting staff (as they are untrained and take a while to pick up how the production process works), but to this business owner their primary focus is more on the value they are adding to their community than (arguably!) necessarily wanting to ensure the monthly wages bill is kept to a minimum.

In the following example of Phil Hall (Safe-Eyes) you can see how the business owner's personal values have influenced the way he has chosen to run his businesses. The second example is of Wanaka Wastebusters – a business that was set up by the Wanaka community in an effort to reduce the amount of waste that is deposited in landfills.

Example One: Safe-Eyes[4]

Safe-Eyes are a special type of patented safety goggles with mesh design features which have advantages over regular safety goggles in that they do not fog up and are not prone to scratching and durability issues. Phil Hall, director of Kiwi Ideas Company (based in Masterton), designed the safe-eyes goggles as a result of his concern for the wellbeing of his workers in the forestry industry:

> *"The Safe-Eyes un-fog-able safety glasses were developed from our direct involvement in the Forestry sector where we have seen the impact on people's lives from not wearing safety eye wear. We have a real concern for the safety and health of the workforce – we care."*
>
> *"We have a commitment to a continuous understanding of workplace challenges with regard to eye safety, and to developing products that overcome these challenges."*

It is this concern which drives Phil to distribute his eyewear as widely as possible and to educate employers and workers about the risks of un-safe and uncomfortable 'safety' goggles.

In New Zealand, Safe-Eyes are available for purchase via the website www.safe-eyes.co.nz, as well as through approximately 60 safety, chainsaw and engineering retailers throughout New Zealand, including major retailers such as Wesfarmers and Farmlands. Phil has also begun exporting Safe-Eyes in small quantities to Australia, the EU, Chile and Canada.

[4] Information supplied by Phil Hall, director of Kiwi Ideas Company.

Example Two: Wanaka Wastebusters

Wanaka Wastebusters is a community-owned enterprise which was set up by volunteers in 1999 to start recycling in Wanaka and reduce the amount of waste going to landfill. Although the entity is an incorporated society, it operates as a business. Any profits that the business makes are used to provide extra services for their community[5].

Since its inception, the business has grown to where it now employs 11 full-time and 13 part-time staff who provide a wide range of services. These fall under three business segments: Reduction of waste; Re-use; and Recycling. Examples of their services include:

- a recycling centre,
- a re-used goods shop and yard,
- an education team which (amongst other things) facilitates Education for Sustainability in the district's schools, and
- the 'Unpackit Awards' which aims to help people choose smart packaging (refer to www.unpackit.org.nz).

Matt Smith, the 'Re-use Manager' at Wanaka Wastebusters, describes what motivates their team to keep growing the business:

> *"Seeing first-hand the amount of packaging that gets recycled rings alarm bells for us in regards to the sheer amount of waste that people produce. It motivates us all to continually seek ways to attack this problem from all angles, from educating people through to recycling and re-using waste."*

[5] Wanaka Wastebusters. *Our Story*. Retrieved 12 November, 2012 from http://www.wanakawastebusters.co.nz/about/history/

Applying your values to your business

Think now about your own set of personal values by responding to the three following questions:

1. What are the most important things in your life?
2. Of those important things, which do you value the most and why?
3. Which of these things can impact on the way you do business?

Some examples of personal values are quality of life, education and learning, independence, being in control, a sense of achievement, friendship and work satisfaction. Once you have answered the above questions, review the extent to which your daily life, on both a personal and a business level, currently reflects the principles and beliefs you consider important.

To help apply your personal values to your business, write down some positive statements about your business. Some of these statements may be goals you have already achieved, while others may be items that you are progressing towards.

For example, you may write statements such as:

- My business contributes strongly to the local community.
- I am an employer of choice by current and prospective employees.
- I contribute to staff development and training.
- My business enjoys strong cashflow and multiple income streams.
- I am increasing my understanding of small business funding.

You can then work out the underlying values and principles from these statements and goals. For example, based on the previous statements, you may identify that community development, being a good employer and financial stability are important to you. From this, you can identify further ways in which you can apply your values to your business.

For example, you may identify that you can:

- Become involved in community development groups so that you can increase your awareness of the needs of the community and identify ways in which these can be met through your business.
- Include your staff in business decisions and responsibilities.

- Become up to date and aware of employment legislation and inform your staff about such legislation pertaining to them.
- Develop a policy to provide learning opportunities to staff in order to grow their career potential.
- Regularly review product lines and services to see what else can be added to the business's income stream.
- Be in regular contact with your accountant and business banker to ensure your cashflow is on track for current and future business requirements – such as being able to pay the weekly wages bill through to the need to purchase new office equipment.

It will take time for you to identify and develop your guiding principles and values by using the suggestions outlined above – but what this does is it forces you to think deeply about priorities. This will help you to align your present and proposed future business behaviour and strategies with your underlying beliefs and values and will help you develop / review your business mission statement, as illustrated by the following example:

Example: Skin Alive

'SLIP SLOP SLAP or DIE' is a very clear, honest and hard-hitting message that the team at Skin Alive is determined to drum into all active, sun-loving, water sports consumers.

Skin Alive was borne out of tragedy in 2005 after a group of friends in Muriwai lost their friend, Craig, to melanoma at the very young age of 31 after a 3-year battle to beat the deadly disease. The Muriwai community and Craig's hometown of Dargaville were hit hard by the loss, which in turn prompted a lot of discussion about how this incident could be avoided in the future.

Three heads collaborated and a sunscreen was created, especially designed for use by surfers (as surfing was a pastime that Craig, himself, enjoyed). This sunscreen, called 'surfersskin', both works well and, just as importantly, educates surfers on the risk they're taking if they do not protect themselves from the sun. The company, Skin Alive, was established with the following mission statement:

> *"Skin Alive is focussed on delivering a quality product providing protection against the elements and on educating the customer on sun protection".*

Company co-founder, Charlotte Kearns Lawrie, discusses how the mission statement and values of the team have continued to drive the activities of the business's actions and product offerings:

> *"At Skin Alive we feel morally obligated to ensure people have access to quality sun protection when out in full view of the sun's harmful rays. Here in NZ we now have the highest rate of skin cancer per capita in the world, which will come as a shock to many people.*
>
> *The team here at Skin Alive are driven to educate this generation and more to some of the dangers of unprotected sun exposure, and how better to protect one's self, friends and family.*
>
> *As part of our commitment to serious sun protection we also offer sun safety advice right down to how to apply sunscreen correctly and how much product is required per application.*
>
> *Since the development of Surfersskin sunscreen we have added to our brand and ranges within each brand. Snowskin and Golfersskin and our generic Skin Alive Brand have been established both in New Zealand and Internationally. The aim being to give people less excuses for not having any sun protection."*

All products offered by Skin Alive have 'come up trumps' when stringent testing was carried out. They all hold the AUS/NZ Standard, FDA Standard and COLIPA (European Standard). Products are available via the website www.skinalive.co.nz and are sold in numerous retail outlets throughout New Zealand (see online for a list of retailers for each product line).

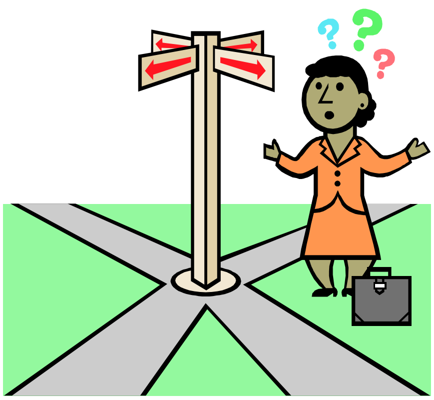
Your values and principles will also guide you in your business when times are stressful and uncertain. Simply put, if you know where you need to head, this will assist you in decision making and keeping your business on track, even in difficult times such as a recession or downturn.

1.2 Strategic Planning

"Think of your business plan or strategy as a map.
Your vision defines the ultimate destination, 10 or 20 years out.
If it is not clear to everyone in your business, then their decisions and actions are probably leading you off-track.
So clarify your long-term vision and then set goals 1, 2 and 5 years out that ensure everyone is heading in the same direction."

- David Wild, Business Strategist[6]

1.2.1 What is Strategic Planning?



If you want to achieve great things in your business, a clearly defined strategy is a must. This is because if you do not know where you are going, then any road will do – but not all roads will take you to the same destination.

Furthermore, if you want a particular destination, there may be several roads that you could take, but some will take much longer than others to travel. In addition, if you do not know where you are going, then how do you know how well you are progressing?

Strategy is about planning where you want to go while being aware of the business environment. That is, it is about making your own plans while taking into consideration outside factors. Strategy involves deciding where you want your business to be at a certain time in the future (e.g. in 10 years' time), and then working out what you need to do now to get there. In essence, strategic planning involves both the means and the end. The end is your goal, your vision for your business. The means is your plan or strategy, the action you will take to make your vision a reality.

[6] Wild, D. (August 2008). Seeing the BIG picture. *NZ Business Magazine*, pp. 18-19. Auckland, New Zealand: Adrenalin Publishing Ltd.

As succinctly stated by business mentor Brian Tracy:[7]

> *"More often than not, the one factor that leads to unbeatable business success is the business's business strategy. With a great strategy, a business thrives; without a great strategy, the business suffers. A business strategy is a process of deciding what you want to accomplish at the end of the road, looking at all the different ways you might get there, picking the very best route to follow, and making a plan to achieve what you want."*

1.2.2 Why is Strategic Planning So Important?

"Even if you are on the right track, you will get run over if you just stand there."

- Will Rogers

Once you have identified clearly where you are now and what motivates you, you have laid the foundation for the next step – thinking about strategy: where do you go from here?

Strategic planning is vital, whether you are a big national organisation or a small local business. Take the example of Tourism New Zealand (www.tourismnewzealand.com) which, in 2008, was looking for new strategies to attract visitors. A TV3 Campbell Live clip called 'Rebranding Godzone'[8] discussed the need for the New Zealand tourism industry to be up to date as to why people choose to travel New Zealand. In times past, New Zealand has been advertised as a nation where the young at heart can enjoy fun and adventure. However, globally there is now an aging population so the strategic direction of tourism needs to focus more on what a mature traveller appreciates and enjoys.

You may be asking yourself: "How does Tourism New Zealand's rebranding strategy relate to my small private business?" What, in effect, Tourism New Zealand did was envisage what the tourism industry may look like in three, five or even 10 years. This approach is one that you can, and should, apply to your small business: what will the industry in which your business operates look like in three, five or even 10 years' time? Are there global / international trends (such as an aging population) you have observed

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[7] Eggen, John Robert (complied by). (2004). *Create the Business Breakthrough You Want: Secrets and Strategies from the World's Greatest Mentors,* p. 21. California: Mission Publishing.
[8] TV3. (2008). *Rebranding Godzone.* Retrieved 10 July, 2008, from http://www.scoop.co.nz/multimedia/tv/business/10254.html.

recently that may affect your business? A strategic plan will help you determine the best action / the best road to take now in light of any trends in the industry.

When you plan ahead, you can also foresee any internal issues that may limit your growth. Consider the following (fictitious) example of a small business that specialises in 'all things cooking', from recipe books to cooking utensils, and is therefore named 'All Things Cooking'.

Example: All Things Cooking

All Things Cooking is experiencing growth but customers are complaining about how long it takes to get served – a number of customers actually leave the store without making a purchase simply due to this reason. One solution would be to employ more staff to serve customers. But what happens next?

More stock might be needed to cater for the additional customers. This might bring about financial limitations, or more space could be required for the stock. If finance will become the limiting resource, a working partner could be sought. A suitable person could be found now who would bring both labour and capital into the business. Such an action would both solve the current problem and avert the next one.

However, if space is the next likely problem, it may be better to look at relocation now, rather than employ more staff locally and then move. Yet another possibility is to change the procedures or systems. In the example, self-service facilities could be introduced. This could reduce customer waiting time by allowing sales staff to spend less time with each customer.

What this example shows is that concentrating on short-term solutions can cause long-term problems. The challenge, as a small business owner, is not to lurch from crisis to crisis. You can do this by planning the long-term growth of your business. This requires that you look several years ahead so that growth proceeds the way that you want it to.

Thus, business strategic planning is important because:

1. Your business will not grow, or go to the next level, unless you have a strategy to get there. Without direction, your business will flounder – think of the analogy of a ship without a rudder!

2. If you know where your business is going, and the path you want to take to get there, you will have more time to spend on the issues and activities that will lead to increasing your profitability and growing your business to the size that you have envisioned. In having a clear business strategy, you will find less time is wasted in discussions, making decisions or being distracted by side issues.

3. It helps reduce mistakes! As well as keeping the business 'on course', this means saving time that would normally be spent on rectifying mistakes. Strategy will enable you to make well-considered decisions – it will be less likely that you will just jump at every opportunity, thinking to yourself "if I do not get involved in this business deal then my business may not thrive". You do not want your decision making to be sporadic or 'on the hoof' – this type of decision making leads to mistakes.

4. Strategy will help you shape your business so that you can keep abreast of market trends. For example, you may consider your staff training as a differentiating point to your competitors. However is that going to be a sustainable point of difference given the trend of the increasingly fluid nature of the employment market? In particular, think about Generation Y (the offspring of baby boomers) who are not necessarily focused on how much staff training a business can offer, but are instead more focused on how the responsibilities they are delegated can increase their management capabilities.

1.2.3 Limitations and Resistance to Strategic Planning

Despite the benefits of strategic planning, there are, however, some limitations worth noting:

- The future is uncertain and might differ quite significantly from expectations on how the business is going to grow.

- There can be internal resistance to formal planning due to multiple factors such as current operating problems, risks and fears of failure and concern that new demands will be placed on managers and staff.

- Planning is difficult, messy and hard work. It can also be costly, particularly in terms of time – but the time will be worth it for the future of your business ('no pain, no gain', as the saying goes).

- The completed strategic plan can limit choices and activities for the business in the future if strictly adhered to. However, this is why it is important that the plan remains 'living' and adjustments and additions are made as particular circumstances arise and / or new opportunities and threats face the business.

Why do business owners resist strategic planning?

Three of the most common reasons for business owners to resist strategic planning, and some counter-arguments for these reasons, are outlined below.

1. "I do not have enough time"

Too often businesses focus on the 'here and now'; on the dealings and activities of every day. That is, often business owners will say "I am too busy to work on strategy, I have staff to hire, stock to unpack, bills to pay, customers to serve, tax calculations to work out", and so on.

The reality is, though, if you cannot find the time to work on the strategy of your business, then you will not have a business you will have a job! Remember, it is okay to work in your business, but you just need to know why you are doing that and to work that out, you need to get out of it (so that you can plan and understand what you and your business will look like when you are done!).

You would have heard the familiar saying of 'it is not about working *in* your business, but it is about working *on* your business'. Working *in* the business is doing everything that needs to get done. For example, if you own a dry cleaning business, working *in* the business means bundling customers' clothes, printing a pickup slip, cleaning clothes, pressing pants, paying the suppliers, locking the door at night.

Many small business owners, at the start of their business, spend 100% of their time working in the business. Working in the business is what must be done to learn the business and to get the business to where it can grow. However if you spend too much time working *in* your business relative to working *on* your business, it is quite possible that you will end up taking your eye off your goals and off the vision of what your business could become.

In contrast, working *on* the business involves planning for the future, planning management succession, selecting great employees, training employees, assigning and delegating tasks to employees, introducing and trying new products and services, arranging financing, looking for new markets, meeting with potential clients, building larger facilities, and so on. Each of these tasks requires time to be spent on planning. However, bear in mind that in thinking about where you want your business to go, it is more than just setting targets for growth.

Let's continue with the example of the dry cleaning business. If you focus on working *in* the business, you may work very hard and have a successful business now, but the problem may arise that you struggle to actually meet customer demand. You might get so busy pressing trousers, paying suppliers, writing advertisements, etc. that you do not have any time left to get someone in to help you. If you let this happen, it means your business can only grow as large as your personal capacity.

If you were to instead hire a store manager, whilst you may initially struggle to delegate and give up everyday tasks (especially considering you'd be sure that no one else could do them as well as you!), in time, your business would be able to undertake a greater volume of work. Furthermore, customer service may also improve due to having more time to spend physically serving each customer, whilst being able to process their requests much faster. You may then choose to devote your time to opening a second dry cleaning store – in which case the first task you would be likely to complete would be that of hiring a store manager.

2. "It is different for me"

So often, small business owners can think things are different for them and that general recommendations made by business mentors, including those relating to strategic planning, will not relate to them. Perhaps this is due to their area, the industry in which they operate or their type of clients. But of note is that customers / clients, the world over, all want the same things, and if you do not plan on how you are going to give these to them, your competitors will.

These include:[9]

- **Quality**: give customers a good quality product or service.
- **Customer / Client Service**: this is not a unique selling point for your business anymore, it is a given.
- **Relationship**: they want to trust you and know you.
- **Ease**: do not make it hard for them, they do not have time.
- **Value**: if you have the other attributes in your transaction, then they will have the perception of value. It is not about the money, it is about positioning.

3. "I am not a leader"

Growing your business requires 'stepping up to the plate'. It requires taking your team, your staff, to the next level. Not all small business owners are good leaders and this is an area you may need to do some training in so that your lack of leadership ability does not hinder your business potential. The traits you need as a business leader are to be:[10]

- **A visionary**: someone who shares a vision of the future of the business, a vision for everyone to become a part of.
- **A mentor**: in order for your staff to follow, you need to train them and encourage them to believe they can become part of the strategic vision, and how they can do this.
- **A manager**: once inspired, there still needs to be an element of process and system management in order to execute the vision.
- **A mate**: you need to have compassion and show that you can be a mate when asked, or when you feel it's appropriate.

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[9] Carlton, Maria (complied by). (2006). Corinna Jones: Basic Business Rules. In *The Power of More Than One – Success Strategies from Australasia's Leading Business and Motivational Speakers,* p.78. New Zealand: Phantom Publishing (a division of Compass Development Group Limited).
[10] Carlton, Maria (complied by). (2006). Corinna Jones: Basic Business Rules. In *The Power of More Than One – Success Strategies from Australasia's Leading Business and Motivational Speakers,* p.78. New Zealand: Phantom Publishing (a division of Compass Development Group Limited).

1.3 The Desired Future Position of Your Business

Strategic planning involves finding your answers to four questions:

1. Where am I starting from?
2. Where do I want to go?
3. What is my journey plan to get there?
4. How do I stay on course and track my progress?

Whilst these may seem like simple questions, answering them fully requires considerable thought. Already in this Module we have looked at ways to answer the first of these questions. This sub-section focuses on the second question – Where do you want to go? In other words, what is the desired future position of your business?

Part of answering this question involves formulating (or reviewing) your vision and mission statements. *Vision* is the statement of your ultimate big dreams for the business or for the world that you can impact through your business. *Mission* is the way in which you achieve your vision – that is, what products and services you provide, for whom, where and how. Both your vision and your mission will be affected by your *values* (as discussed in Section 1.1) – these being your convictions on how business is to be conducted and people treated, both inside and outside the business.

As you define your thoughts of where you want your business to be, make sure you do not restrict yourself too much. The following quotes, when read today in hindsight, show why it is important to never 'give in' and think your business has gone as far as is possible and that no further growth or opportunities are available:

"Heavier-than-air flying machines are impossible."

- Lord Kelvin, 1895, President, British Royal Society

"Everything that can be invented has been invented."

- Charles H Duell, 1899, Commissioner, US Office of Patents

"There is no reason for any individual to have a computer in his home."

- Ken Olson, 1977, President, Digital Equipment Corp

However, whilst you should not limit yourself, this does not necessarily mean you should aim for your business to be 'the biggest' or 'the best'. It is quite possible that you do *not* want to grow your business much further. There is little point in expanding your business if you prefer working in a small operation. A key question is: "are you prepared to deal with the challenges of increased responsibility?" You can fall into the trap of thinking that growing the business will not take up that much of your time or energy – but in reality it will!

Expanding the business will mean that you will most likely have to learn how to develop and manage a large working team or employ a manager to help. Be absolutely honest with yourself – conduct a detailed breakdown of how you spend your day. How much time are you prepared to spare from the day-to-day running of the business to manage growth?

Instead, it may be your desire to simply maintain the current level of operations, but perhaps just improve efficiency and profitability. This is a completely valid option which may not necessarily be as easy or complacent as it appears. In an ever-changing world, with increasing competition, external influences on the industry and changes in consumer demand and buying habits, maintaining levels of sales, profit and market share can be difficult. Thus, before moving on to develop your vision and mission statement, decide once and for all if you really are committed to grow your business further.

1.3.1 Vision

"The single biggest barrier to growing a business
is the barrier you create in your own mind.
Start with your vision and then build the business backwards."

- Heather Douglas, Co-Founder, Home Business New Zealand, www.homebizbuzz.co.nz

"Planning is all about vision.
It is the eyes of your company.
Execution is the feet."

- John Pepper, Former President, Procter & Gamble

A vision statement is a broad 'big picture' statement that specifies where an organisation aspires to be in the future. It is the long-term dream of the business which the organisation works towards. You can think of your business's vision statement as the 'blue skies' picture of what the success of your business would look, smell, feel and taste like.

When writing your business's vision statement, make it as big and bold as the dream you have for your business. If you secretly dream of being 'the best' or as being known for something in particular, include words to this effect in your statement.

For example, your statement could contain phrases such as:

- 'to be perceived as the best .....';
- 'to be known as .....';
- 'to be the best place to .....';
- 'to be the first...';
- 'to be the favourite...';
- 'to be the leader in ....'; or
- 'to be the only…'.

Consider the example of the well-known New Zealand business, 42 Below (refer to www.42below.com) who started out with the vision of 'becoming world-renowned for vodka'. Whilst this seemed a highly unrealistic vision statement, they achieved it and made millions in the process!

Another example of a New Zealand business which set out with a large vision and achieved it is M-Com – an Auckland company which develops mobile banking and payment solutions.

> *The business began with a target to be the best mobile banking product in the world, and [CEO Adam] Clark says M-Com achieved that to a large extent a couple of years ago. The goals have been reset: to be the world's No 1 provider in two measures – the number of banks or financial institutions using M-Com's software, and the number of transactions flowing across that software.*[11]

[11] M-Com impresses judges, (December 2010/January 2011). *NZ Business Magazine*, p 8. Auckland, New Zealand: Adrenalin Publishing Ltd.

David Wild, Business Strategist, advises not to limit your thinking:[12]

> *"For example, 'in the year 2018 we will be a word in the English language' might seem virtually impossible to a two-person business starting out in a garage. But that didn't stop Google. And don't let powerful competitors deter you. While eBay seemed destined to dominate the world of internet auctions, a small start-up called Trade Me went on to become a multi-million dollar business."*

You need to have a powerful vision of the future for your business that will inspire you and your staff into action and will make current and prospective customers want to be a part of it. Furthermore, the vision for your business should reflect your passion – what is it that consumes you?

Formulating a vision statement is not always as easy as it seems. Whilst it is only a short one-line statement, developing a statement that communicates all that you want for your business, in an inspiring and memorable way, is likely to take time.

It can help to start by writing a paragraph or two which 'paints' a description of what the future will look like. In other words, write out your aspirations for the business:

- What will your business look like?
- Who will your customers be?
- Where will your customers be?
- What customer needs / desires will your business be fulfilling?
- What people will be on your staff?
- What will you, as the business owner, be doing?
- Where will the business be located?
- What kinds of things will customers and other people in the community say about your business?

After doing this, review what you have written to find what is most important. Highlight the words and phrases with particular meaning to you and then try writing a clear, concise statement that encapsulates this all.

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[12] Wild, David. (August, 2008). Seeing the BIG Picture. *NZ Business Magazine*, pp 18-19. Auckland, New Zealand: Adrenalin Publishing Ltd.

Consider the following examples:

Example 1: CatzDesign[13]

CatzDesign, a graphic design business based in Wellington, has a focus on environmentally friendly and sustainable business practices (refer to www.catzdesign.co.nz). Their vision statement is as follows:

> *"Year after year, CatzDesign will be widely recognised as the premier provider of innovative, eco-friendly sustainable graphic design services for New Zealand businesses."*

Example 2: Aotahi Limited

Aotahi Limited works together with Te Wānanga o Aotearoa to develop and provide several business education programmes and resources. This includes the resources for this particular programme and the text book 'Taking Care of Business: Indigenous Business Case Studies'. The vision statement of Aotahi Limited is:

> *"To ignite the entrepreneurial mind"*

> *"Write a one-page crystal clear description of why your business will succeed.*
> *You must read the description to people aged fifteen to eighty-five*
> *and if they get it, you've got it!"*
>
> \- Jeffrey J Fox

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[13] CatzDesign. *Vision and Mission Statements*. Retrieved 20 August, 2012, from http://www.catzdesign.co.nz/vision-and-mission.htm.

1.3.2 Mission

The mission statement communicates *how* you are going to achieve the vision for your business and defines the fundamental purpose of the business, why it exists. Your business's mission statement should clarify what you do and should be used to guide your everyday efforts and decision making.

A good way to create, or review your mission statement (if you already have one), is to start by answering the following series of questions[14]:

- What business(es) are you in?
- What business(es) could you be in?
- What business(es) should you be in?
- What business(es) should you not be in?
- Why do you exist – what is your basic purpose? What are some of the other purposes, in addition to the financial ones, for which your business was established? They could, for example, relate to service to a particular customer base, service to humanity or to a particular community, contribution to technology, and so on.
- What is unique or distinctive about you?
- Who should your principal customers, clients, or users be?
- Where should your principal customers, clients, or users be?
- What should your principal market segments be?
- What should your principal products and services be?
- What should your principal outlets or distribution channels be? In what way will you reach the end user? Is it, for example, by internet sales, direct sales, retail stores or marketing representatives?
- What are your principal economic concerns and how are they measured? That is, what is your commitment to profitability and / or growth?
- What philosophical issues, values and priorities are important to the business?
- What special considerations do you have in regard to stakeholders such as owners / investors, employees, customers, strategic partners, and so on?

[14] Adapted from: Morrisey, G.L. (n.d.). *Creating or Revieiwing your Mission – Questions You Need to Ask.* Retrieved 26 December, 2008, from http://www.morrisey.com/create.html.

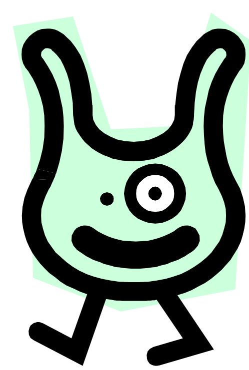
Look for the common themes in your answers to the previous questions and then draft a statement or paragraph which captures the 'what', 'for whom', 'where', and 'how' of your thoughts. For example:

> *Wow! Ltd is a spunky, imaginative food products and services business aimed at offering high-quality, moderately priced, occasionally unusual foods using only natural ingredients. We view ourselves as partners with our customers, our employees, our community and our environment. We aim to become a regionally recognised brand name capitalising on the sustained interest in Southwestern and Mexican food. Our goal is moderate growth, annual profitability and maintaining our sense of humour.*
> (Note this is a fictitious business for the purpose of this example)

You may then work on shortening the paragraph to a concise, one-line statement that is easier to remember. You may write several sentences if you wish, however, remember, the longer the statement, the more difficult it will be to remember.

Consider the following examples:

Example 1: Mum 2 Mum



> *Mum 2 Mum was created in 2004 by two Mums, Jo Bond and Jo Keall. The two of us met at Parent Centre antenatal classes. After having our first children and experiencing all the joys of parenthood, we were inspired to create products that would help new parents ease into life with their new baby. Our motivation came from the overwhelming, tiring and frustrating experiences we had finding good quality baby products in our local baby market.*
>
> *So we decided to pool our 10 years' experience in the corporate world to create our own company, Mum 2 Mum, and design our own products. Our aim and passion is 'to produce quality baby products that make life easier for parents everywhere.'*[15]
>
> Mum 2 Mum products, such as their 'Wonder Bib' range and 'DreamSwaddle', are now available in stores throughout New Zealand and numerous other countries.

[15] Mum 2 Mum. *Our Story*. Retrieved 3 January, 2011, from www.mum2mum.com/M2M-Info/Our-Story.

The previous example of a mission statement reflects several of the questions previously listed:

- Why do you exist – what is your basic purpose? *Answer: To provide products which make parents' lives easier.*
- Who should your principal customers be? *Answer: Parents*
- Where should your principal customers, clients, or users be? *Answer: Everywhere*
- What should your principal products and services be? *Answer: Quality baby products*

Example 2: CatzDesign[16]

You may recall the vision statement of CatzDesign which was given as an example in Section 1.3.1. The mission statement for this business is as follows:

- To help clients achieve their graphic design requirements, specialising in the most advanced high quality, eco-friendly and sustainable solutions available today.
- To maintain existing environmental performance, and actively seek additional certification achievements.
- To apply continuous improvement throughout our business.
- To produce results that directly and positively impact on our clients' business objectives.

Note that as the marketplace changes over time, you may have to redefine your mission statement as part of your growth strategy. For example, as the marketplace diversified, Amazon.com changed its mission from 'the world's largest online bookstore' to simply 'the world's largest online store'.

[16] CatzDesign. *Vision and Mission Statements*. Retrieved 12 December, 2011, from http://www.catzdesign.co.nz/vision-and-mission.htm.

Another point to consider is that you have a *brand focus* and that you **do not define your product / service in a restrictive way**. Some examples are as follows:[17]

- Kodak defines itself as a provider of images rather than a film company.
- IBM defines itself as a builder of networks rather than a hardware / software manufacturer.
- Encyclopaedia Britannica went from selling encyclopaedias to information distribution.
- Coca-Cola evolved from being a seller of colas to a marketer of soft drinks, to a provider of products to anyone needing to quench their thirst – as people's tastes changed, Coca-Cola decided to sell other beverages whose growth potential appeared to be more promising.

1.3.2.1 Driving Forces

Another approach to developing a mission statement is to identify the **driving force** for your business. Your driving force in your business is the dominant factor which most influences the making of major decisions.

The strategies that you follow in your business to reach your vision should flow from your driving force. Thus, given that your mission statement should outline *how* you are going to achieve your vision, it should closely reflect your driving force also.

Listed below are some examples of driving forces:[18]

1. **Products offered** – producing specific products (things).
2. **Services offered** – delivering specific services (human efforts).
3. **Market needs** – focusing on meeting the needs of specific markets.
4. **Customer needs** – focusing on meeting the needs of a specific set of customers.
5. **Return / profit** – focusing on the achievement of predetermined returns or profits.
6. **Size / growth** – focusing on the achievement of a specific size or growth rate.
7. **Technology** – applying technological capabilities to innovative products or services.
8. **Human resources** – leveraging employees' specific qualities, skills or training.

[17] Grede, Robert. (2006). *5 Kick-Ass Strategies Every Business Needs,* p 16. Illinois: Sourcebooks Inc, Illinois.
[18] van der Werff, T. *Strategic Planning for Fun and Profit – Session 7.* Retrieved 1 September, 2008, from http://www.globalfuture.com/planning.htm.

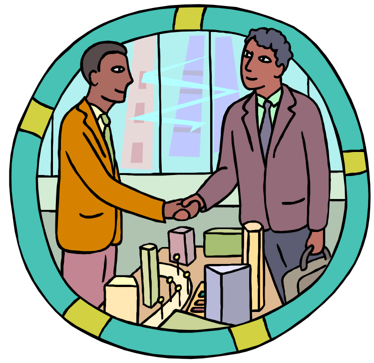
9. **Service capability** – leveraging the depth or uniqueness of employees.
10. **Production capacity** – leveraging investment in a physical plant.
11. **Sale / distribution method** – using a unique or distinctive way of marketing.
12. **Natural resources** – owns or controls significant natural resources and has the capability to process these into usable forms.
13. **Land** – owning or controlling land and the uses to which it can be put by itself or by others.
14. **Assets** – owning or controlling assets whose preservation is paramount.
15. **Image** – seeking to maintain a specific organisational image within the business's markets and the products or services it produces.

Follow these steps to determine your primary driving force:

1. Add any other forces that apply to your business which are not covered by the 15 forces listed previously.
2. Cross out all those forces that simply do not apply to your business. Try to end up with a list of no more than six to eight driving forces to consider.
3. Rank the remaining list in order of priority by comparing them one with another
4. You should then be able to identify one driving force that is the dominant factor in making major decisions.
5. The secondary (2^{nd}) or tertiary (3^{rd}) driving forces can be considered as 'decision influencers'.

When you know what your driving force is, you can write a mission statement that reflects this.

Consider the following statements which have been developed from driving forces. Whilst the developer of these statements developed them as 'strategy' statements, they could be used as the basis for mission statements (or possibly even as mission statements, as is): [19]



- An architectural and engineering firm, whose driving force is human resources, with image and return / profit as decision influencers:

  Meet our clients' needs through continued staff development, while enhancing a positive reputation and maintaining profitability.

- An inspection services company whose driving forces are technology and human resources:

  Grow by focusing our staff's talents on innovative, high technology solutions to client needs.

- An environmental company whose driving force is technology:

  Leverage our proprietary technology through sales, licensing, and operational facilities with waste management companies.

- A fabricator for the oil production industry whose driving force is production capacity, with customer and market needs as decision influencers:

  Develop world-class service capabilities in anticipation of market and client needs.

- A hotel and tour company in an isolated region whose driving force is image, with land as a decision influencer:

  Work with travel agencies and tour companies worldwide to promote tourism and travel to our town and the nearby communities.

[19] van der Werff, T. *Strategic Planning for Fun and Profit – Session 8.* Retrieved 1 September, 2008, from http://www.globalfuture.com/planning.htm.

Section 2

Internal Business Analysis Tools

2.0 Internal Business Analysis Tools

"I wouldn't call myself a marketing expert or finance professional, however, nor am I the best person to do each and every job in the company – that's what I employ great staff for. And on a day-to-day basis, whatever the size of your company, you'll probably have advisers for all aspects of your business – from planning your next move, to marketing and PR; from finance to problem solving and how to look after your customers – and these advisers are essential.

At Virgin I do believe it is my job though, to make the best possible decisions and that is only feasible if I know enough about each aspect of my business to make informed decisions."

- Sir Richard Branson[20]

Sir Richard Branson founded Virgin in 1970 at the age of 20. Virgin has since created more than 200 branded companies worldwide, employing approximately 50,000 people, in 34 countries. Revenues around the world in 2011 were about £15 billion (approx. US$24 billion)[21].

Before you talk about what you wish your business to become, you need to have a clear idea of where you are now, what your business's potential is to grow and what your capability is like. That is, like Richard Branson, you need to know enough about each aspect of your business so that you can make informed decisions on how you are going to grow your business and take it forward. One way in which you can learn about your business is through the application of business analysis tools.

Both this section of the Module and the following section (Section 3), look at a range of tools (often also referred to as 'frameworks' or 'models'), that can be used to help analyse the current position of a business and identify internal factors that may impact on the future development of a business. This section focuses on tools used to analyse the internal performance and position of a business, whereas Section 3 concentrates on those used to analyse the external environment. However, some of these tools have

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[20] Craven, R. (2001). Kick-Start your Business: 100 Days to a Leaner, Fitter Organisation, p xi. *Virgin Business Guides.* London: Virgin Publishing Ltd.

[21] Virgin. About Us. Retrieved 11 October, 2013, from http://www.virgin.com/about-us/.

both internal and external elements to them, particularly, SWOT analysis, which is covered in this section.

You may already be familiar with a number of the tools introduced in these sections of the Module, including, for example, SWOT analysis, STEPP analysis and Porter's Five Forces. However, in this programme, the focus is on **understanding the implications** on your business of the outcomes / findings of these models, as opposed to simply using the tool.

For example, in lower level programmes you may have completed, you might have concentrated on learning how these tools work. In contrast, in this programme the focus is on using a range of tools to identify the key internal and external problems, issues, challenges and opportunities for your business's development. Although you are required to complete the tools correctly, the real emphasis is on understanding the results. It is for this reason that you are only to show any models that you use for the Assessment for this Module in the appendix to the Assessment, as opposed to in the main body of the Assessment.

Note that, at any one time in your business, you would not necessarily use all the analysis tools available. Furthermore, as you work through this section, you will see that, to some extent, some of the tools overlap each other. Hence, throughout this section, it is important to **keep in mind the core purpose of using the analysis tools**. This is to provide you with a set of results that you can use to help grow and develop your business to its optimum potential. The focus is NOT on the academic process of conducting analyses using multiple tools (in which case you may end up repeating details over and over again).

The tools that will be covered in this section are outlined below. Note that this is not an exhaustive list of the analysis tools available.

Internal Analysis Tools:

1. SWOT Analysis
2. GEL Factor Analysis
3. FiMO/RECoIL Analysis
4. Internal Problems and their Causes Analysis
5. Benchmarking Analysis

2.1 SWOT Analysis

A SWOT analysis is one of the most basic and commonly used analysis tools. The term 'SWOT' stands for:

- **S**trengths
- **W**eaknesses
- **O**pportunities
- **T**hreats.

A SWOT Analysis is also sometimes referred to as an **Internal-External (IE) Analysis**. This is because the strengths and weaknesses you identify are *internal* to your business (they are factors over which you have some measure of control) and the opportunities and threats you identify are *external* to your business (they are factors over which you essentially have no control). As such, when used in a matrix (as shown below), SWOT is sometimes referred to as an **IE Matrix Analysis Tool.**

IE Matrix Analysis Tool

	Helpful / Beneficial	Harmful / Not-beneficial
Internal	**S**trengths	**W**eaknesses
External	**O**pportunities	**T**hreats

One of the advantages of SWOT is that it is easy to use: you identify the strengths and weaknesses of your business and the opportunities and threats facing your business.

However, one of the disadvantages is that it does not provide any guidance as to what these SWOT factors may be – so, in order for you to get maximum benefit out of the model, you need to spend considerable time thinking of every aspect of your business to try to identify strengths, weaknesses, opportunities and threats. If you do not do this in a systematic and thorough way, it is very easy to overlook important factors that can impact on the growth and development of your business.

When used properly, SWOT can be a powerful business tool, particularly because it can help you uncover opportunities that you are well placed to exploit. Further, by understanding the strengths of your business, you can manage weaknesses and eliminate threats that would otherwise possibly catch you off guard. Another technique for using SWOT is to apply the tool to your competitors. This will help you to develop an understanding of your competitors which, in turn, will aid you in formulating business strategies that will distinguish you from other players in the market, enabling you to compete more successfully.

2.1.1 Know your Strengths

Take some time to consider what you believe are the strengths of your business. Focus in on evaluating what your business does well – this could be your marketing expertise, your environmentally friendly packaging, or your excellent customer service. Other examples of strength could be your extensive product line, your deep financial resources, your quality control processes or your committed long-term employees.

Generally, most strengths fall into four broad categories:

1. **Human competencies**.

   These could be seen in terms of your staff as well as yourself. When identifying strengths in this area, you can include some personal strengths and characteristics of you, your staff and the management team as individuals, as well as strengths as a group.

   Think about the experience, skills, qualifications and personal attributes such as character and values that you and your team have. How do these compare to what you need? What skills and experience have you acquired since you have been in business? What training have you attended to grow your capability as a business owner?

   If you were to take on more employees so that you can grow your business, would you have the necessary leadership and management skills to manage them?

2. **Products and services**.

   These are the strengths that your products and services have relative to those of your competitors.

3. **Process capabilities**.

   This relates to the efficiencies and capabilities that result from the systems you use.

4. **Resources**.

   These include financial resources, as well as both tangible and intangible assets.

   In regards to financial resources, do you have access to finance (for example, to fund the expansion of your business)? Is both your business and your personal financial status strong? Do you have a good credit rating (a poor credit rating may hinder you in being able to raise a loan to buy additional equipment which you need to grow your business)?

   What assets does your business have? The most valuable are those that your competitors do not have access to, yet provide value to your customers. Think of both tangible and intangible assets. Examples of tangible assets are land, buildings and equipment, whereas examples of intangible assets include licences, patents and trade marks.

However, you may think of other strengths that do not clearly fall into one of these categories, such as customer loyalty or location. Answering the following questions may help you to identify strengths:

- What advantages does your business have over your competitors?
- What do you do better than anyone else?
- What unique or lowest-cost resources do you have access to?
- What do people in your market see as your strengths?
- What factors mean that you "get the sale"?
- Why do people buy from you?
- Why would your customers recommend you to other potential customers?
- Are you open to opportunities?

It is important to think about your strengths in relation to your competitors. For example, if all of your competitors provide high quality products, then a high quality production process is not a strength in the market, it is a necessity.

2.1.2 Recognise your Weaknesses and Limitations

Weaknesses are those activities, services or other parts of your business that do not meet the standards you feel should be met by your business or things that are not at the same level as that of your competitors. Weaknesses are internal, which means that, to some extent, they are controllable. Therefore, what you need to do is try to eliminate or minimise the impact of them.

Generally weaknesses or limitations fall into the same four broad categories as strengths do. That is, you may have weaknesses in the areas of:

1. Human competencies,
2. Products and services,
3. Process capabilities, and
4. Resources.

Examples of weaknesses and limitations could be a high employee turnover, inadequate servicing of accounts, substantial waste of raw materials, cumbersome decision making processes or high product return percentages.

When identifying weaknesses, try your best to **be objective** – especially when comparing your own business to your competitors. It is not always easy to admit that a competitor has, for example, a higher quality product or better customer service than you, but the sooner you do, the sooner you can do something about fixing this problem. It is best to **be realistic now**, and face any unpleasant truths as soon as possible – your main objective during this exercise is to be as honest as you can in listing weaknesses. Just remember, the longer you deny or overlook any weaknesses, the longer your business is restricted from reaching its potential.

Try answering the following questions to help you to identify weaknesses:

- What advantages do your competitors have over you?
- What things could you improve?
- What are people in your market likely to see as your weaknesses?

- What factors lose you sales?
- Why do potential customers choose your competitors over you?
- Can you pay your bills on time?
- Are some of your strengths not sustainable?
- How well would your business run if you, or one of your key staff, were not around for several months?
- How well does your business adapt to change?

Ask yourself whether your products and services could be improved. Think about how reliable your customer service is, or whether your supplier always delivers exactly what you want, when you want it. Try to identify any area of expertise that is lacking in the business. You may find, on consideration, that you need some more sales staff, or financial help and guidance. Do not forget to include location as an aspect to consider – think about whether your location is right for your type of business, whether there is enough parking or sufficient opportunity to catch passing trade.

When identifying weaknesses, do not just make a list of the mistakes that have been made, such as an occasion when a customer was not called back promptly. Instead, try to **see the broader picture**. The weakness might be that your systems or processes do not ensure that customers are contacted exactly when they need to be.

Consider your weaknesses from an internal and external basis: **do other people seem to perceive weaknesses that you do not see?** For example, you may strongly believe that your years of experience in a sector reflect your business's thorough grounding and knowledge of all of your customers' needs. A customer, however, may view this wealth of experience as portraying an old-fashioned approach, and unwillingness to change and work with new ideas.

2.1.3 Spot the Opportunities

Opportunities are presented by the environment in which your business operates. Whilst there may be many opportunities available, selecting those that can best serve your customers, while bringing you the results you desire, is not an easy task. Evaluating opportunities and developing plans to maximise those of most benefit to your business, begins with making a list of those available to you.

Opportunities generally fall into four broad areas:

1. **Market / Customers**

   Examples include:

   - Overseas markets opening up.
   - Key customers deciding to use a preferred supplier instead of spreading their business across numerous suppliers (although this could also be a threat).
   - Changes in consumer lifestyles or social patterns creating a need for a new type of product.
   - Changes in market trends.
   - Local or global events.
   - Changes in population profiles.

2. **Competition**

   Examples include:

   - Competitors choosing to specialise in one area of product supply and competitors changing location.
   - Identifying the weaknesses of your direct competitors and then making these areas your strengths.
   - Key competitors trying to grow too fast and as a result, overextending themselves. This may mean that they do not have the finance available to take advantage of particular opportunities or are not currently able to provide the level of customer service that your business may be able to.
   - Owners of competitors looking to sell the business – perhaps because they are nearing retirement or move elsewhere.

3. **Industry / Government**

   Examples include:

   - The introduction of new legislation that creates a demand for a particular product or service (e.g. the banning of answering a cellphone while driving increased the demand for hands-free devices).
   - Changes to legislation and regulations that make particular activities possible.
   - An increase in funding for training for your industry.

- The development of an industry body that can promote your particular product or service.
- The decision to switch off analogue television in 2013 created opportunities for digital television providers.
- The introduction of grants or tax credits for research in your industry.

4. **Technology**

   Examples include:

   - The availability of new technology that can improve your production processes.
   - The availability of new technology that can improve your actual products or services.
   - The opportunity to develop new technology that could improve either your processes or your actual product.

When trying to identify the opportunities available to your business, look at market trends – not only in your industry, but those that affect general consumer lifestyles. From this, you may identify an opportunity for your particular industry. Another approach to identifying opportunities is to **look at your strengths** and ask yourself whether these open up any opportunities.

Alternatively, **look at your weaknesses** and ask yourself whether you could create opportunities by eliminating them. Here are two examples:

- If one of your weaknesses is that you have a supplier who continually lets you down, you could extend your business so as to remove the need for the supplier (perhaps by buying out that supplier or by simply starting up a division of your business that competes with that supplier).

- If a weakness is that a member of staff intends to leave the business, this could provide the opportunity to re-evaluate duties and processes so as to find a way of structuring the business more efficiently, potentially removing the need to replace that staff member.

2.1.4 Watch out for Threats

Threats are external to your business. They are factors that are not controllable, but can have a negative impact on your business. Your business is particularly vulnerable when threats relate to an area of your business in which you have weaknesses or limitations. For example, if an area of weaknesses in your business is reliance on a couple of major customers, a customer's plan to move out of your area will impact you much more than if you had numerous customers.

Threats fall into the same four broad areas that were listed for opportunities. Examples are as follows:

1. **Market / Customers**

   Examples include:

   - Access to particular markets becoming restricted.
   - Key customers deciding to use one preferred supplier instead of spreading their business across numerous suppliers (although this could also be an opportunity).
   - Changes in consumer lifestyles or social patterns reducing the need for your product or service.
   - Local or global disasters negatively impacting on your business.
   - Changes in population profiles.

2. **Competition**

   Examples include:

   - A well-known national competitor opening a store in your area.
   - A major competitor choosing to specialise in the same area of product supply as you do.
   - A competitor buying out other competitors and gaining more control over suppliers in the industry.
   - A key competitor securing highly sought after employees with specialised skills.
   - A well-known business in the industry which is based in a different region opening up an online store that directly competes with you.

3. **Industry / Government**

   Examples include:

   - Changes to legislation that make particular business activities illegal (e.g. the banning of 'party pills').
   - A reduction in funding for training for your industry.
   - The introduction of grants or tax credits for research in a competing industry.

4. **Technology**

   Examples include:

   - Technology changing so fast that it is costly for you to keep up with it.
   - The availability of new technology that reduces demand for your product.
   - The introduction of new technology that is so expensive that only large businesses in your industry can afford to purchase it, but which would be of substantial benefit to those who do buy it.

When identifying threats, think about the worst thing that could realistically happen to your business. This could include losing your main client to another competitor, or the development of a new product far superior to your own. Being aware of threats will mean that if a potential threat becomes real, you can react much quicker, having already considered your options and perhaps put some contingency plans into place.

2.1.5 Applying a SWOT Analysis

After completing the SWOT analysis it is **vital that you learn from the information** you have gathered.

- Identify how you can **build on the strengths** of your business, using them to their full potential.

- Make plans as to how you will **reduce your weaknesses**. This could either be by minimising the risk they represent, or making changes to overcome them.

- **Evaluate opportunities** so as to identify those that fit best with your vision and mission. Then, develop strategies so as to capitalise on these, making use of your strengths in the process. For example, if you see an external opportunity of a new market growing and one of your strengths is excellent processes, work on the expansion of these processes so that you will be able to adapt quickly to the extra production and demand that will come about once you enter the new market.

- Try to **turn threats into opportunities** and / or try to be proactive and put plans into place to **counter any threats** as they arise.

Prioritise the results!

Your analysis may have resulted in quite a list of issues that need addressing. If so, it is advisable that you reduce those issues to a smaller list of critical issues in order to tighten the focus of your strategic plan. If you instead select too many issues to deal with at once, your focus will be diluted and your actions will not necessarily have the effect that you have proposed.

2.1.5.1 Example SWOT Analysis

A small consultancy business specialising in graphic design services might identify the following SWOT factors:

Strengths:

- We can make decisions and respond to changes in market demands faster than our competitors, due to the fact that there is no need for higher management approval (there are only two consultants, who happen to be the owners, in the business).
- We can give very good customer care, as the current small amount of work means we have plenty of time to devote to customers.
- The two consultants are highly qualified and produce a very high quality of work.
- Overhead expenses are low as we work from one of the consultant's home. These cost savings can be passed on to our customers in the form of lower prices.

Weaknesses:

- Our company has only had market presence / reputation since its launch two years ago.

- Both of our two casual support staff prefer not to have to work in the school holidays and are often not available as they have other part-time work.
- Our cashflow is small as a lot of the start-up capital was invested into computers and graphic design computer software and income is still relatively low. We have yet to build a strong awareness in the marketplace as to the quality of work we provide.
- As we are based at the home of one of the consultants, we do not have a visible presence in the town, whereas a couple of our competitors do have offices in town.
- We are a small business relative to our competitors.

Opportunities:

- The demand for services provided by our business sector is expanding, which reduces the amount of competition amongst existing businesses in the industry.
- The increase in demand for services creates opportunities to specialise in niche areas of the market.
- Our local council wants to provide local businesses with work where possible.
- Our competitors may be slow to adopt new technologies.

Threats:

- The development in technology is very rapid and the business may not be able to keep up with these changes (from a cost and time perspective).
- A small change in focus of a large competitor might wipe out any market position we achieve.

Application of Analysis

From this analysis, the owners may identify the key strength as being the value that the business is able to provide to customers, particularly given the quality of work provided relative to the cost.

The lack of market presence may then be considered as the critical internal issue / challenge, particularly when competing against a number of large well-known players in the industry which provide a wide range of services.

The main opportunity may be the option of specialising in a niche segment of the growing market, most likely one that requires particularly technical skills, so as to create a strong reputation and presence in this area. This would overcome the business's main weakness and would capitalise on its strength, as they would be utilising the expertise of the consultants.

The challenge for the business, however, would be to devise a strategy which would enable it to pursue the opportunity whilst managing the risk that it faces from the two major threats to the business.

2.2 GEL Factor Analysis

GEL Factor Analysis, a tool designed by Don Debelak[22], is a method of evaluating your business and then determining how it can be improved for a better chance of success. The analysis is based on a set of 18 criteria which relate to the three factors that 'gel' business ideas into profitable businesses:

1. **G**reat customers,
2. **E**asy sales, and
3. **L**ong life.

Whilst the GEL Factor criterion is used to evaluate the strength of a business model, it is not a 'pass-fail' test. Instead, it is used to determine what is wrong with your business approach so that you can fix it. After completing a GEL Factor Analysis, the idea is to then fine-tune your business so that it delivers all GEL factors.

A GEL Factor Analysis can be conducted by completing a table such as the one given on the following page.

[22] Debelak, D. (2003). *Successful Business Models: Surefire Ways to Build a Profitable Business.* Madison, Wisconsin: Entrepreneur Press.

GEL Factor Analysis Table

GEL Factor		Criteria	*Desired Position*	*Excellent*	*Average*	*Poor*
GREAT CUSTOMERS	*Customer/Client Characteristics*	▪ Number ▪ Ease of Finding ▪ Spending Patterns	High Easy Prolific			
	Value to you – your business	▪ $ Value of Sale ▪ Repeat Sales ▪ Ongoing Sales Support	High Many Low			
EASY SALES	*Value to Customer*	▪ How Important ▪ Competitive Advantage ▪ Price / Value Relationship	Important High Low			
	Customer Acquisition Cost	▪ Entry Points ▪ Sales Support Required ▪ Promotional Activities	Many Little Low			
LONG LIFE	*Profit per Sale*	▪ Margins ▪ Up-Selling and Cross-Selling ▪ Ongoing Product Costs per sale	High Much Low			
	Investment Required	▪ To Enter Business ▪ To Keep Market Share ▪ To Stay on the Cutting Edge	Low Low Low			

When you complete a GEL Factor Analysis, for each of the 18 criteria, you need to consider:

- *why it is important,*
- *if it is a key concern,* and
- *how to compensate.*

For example if your product or service is relatively inexpensive, such as products at 2n'5 (the $2 Shop), then you need lots of customers (volume) to make money. You could compensate for this by being in a location where lots of customers shop, such as a mall.

Another example is if there are few opportunities for follow-up sales (for instance, people will put up new wallpaper once every 10 years or so), you could compensate for this by adding complementary product / service lines so that you have more items to sell and thus make more sales to the same customer.

In evaluating the outcome of the analysis, it can help to prepare a second table (a GEL Factor Analysis Final Evaluation Form) in which you specify the critical factors for your business to be a success. These can be categorised as either 'Must Have' factors or 'Must Not be a Concern' factors.

For example, this table could look as follows and contain these critical factors:

GEL Factor Analysis Final Evaluation Form[23]

MUST HAVE WINNERS	**Tick**	**Notes**
Customers – Ease of Finding	Yes __	All must be ticked YES (have a rating of 'excellent') for business model to be successful
Value to Customer – Price-Value Relationship	Yes __	
Profit per Sale – Margins	Yes __	
MUST NOT BE A CONCERN		
Customers - Spending Patterns	No __	All must be ticked NO (have a rating of 'excellent') for business model to be successful
Customer Value to Business – Ongoing Sales Support	No __	
Investment Required – to Keep Market Share	No __	

[23] Adapted from SMI Ventures. *Characteristics of High Potential Investors,* p.18. Retrieved 28 December, 2008, from http://www.smiventures.com.my/articles/ebo.pdf.

Example: Starbucks

Starbucks is a great example of a business with all the success points. Its customers are upper income people who like to drink the best!

The G-Factor

There are a large number of these customers and they provide plenty of value to the business because the dollar value of their sale is higher than at traditional coffee shops, repeat business is great (typically two to five times a week), and the ongoing support costs are very low as people consume the product. Therefore in terms of the 'G' Factor (Great Customers), yes, it meets the criteria! **G = Yes**

The E- Factor

Starbucks also scores high in regards to the 'E' Factor (Easy Sales), starting with its value to the customers. The Starbucks 'premium quality' image is important to its customers, its products (arguably!) are better than a coffee cart or a fast-food restaurant, and its prices, though higher than its competitors, are still good given the image they create for the consumer.

Starbucks started in Seattle (and is now franchised worldwide) where it could afford the number of stores and the promotion it needed, and its name recognition now means minimal ongoing sales support. **E = Yes**

The L-Factor

As for the 'L' Factor (Long Life), Starbucks meets all the profitability tests. It utilises up-selling techniques and cross-selling, and once it had gained brand recognition, ongoing investment has been relatively low. **L = Yes**

2.2.1 Example GEL Factor Analysis

To see how the GEL Factor Analysis can be applied, consider the following case study.[24]

Case Study Retail Business: AutoFun

AutoFun was a small chain of auto accessories stores, in the USA, that stayed in business for about three years. The business offered fun items for cars, including neon licence plate holders, car stereos, seat covers, bike racks and funny gizmos for the top of the aerial.

The business's founders felt that their competitive advantage was that no other store concentrated just on fun auto accessories. There were many auto parts stores, but they carried only a limited selection of accessories. Mass merchandisers, such as Wal-Mart, also carried auto accessories and there were several auto parts catalogues that carried accessories, but none that carried as many products as AutoFun.

The store also had stiff competition from stereo retailers that offered a wide range of car stereo equipment. AutoFun's founders felt that the market would like to have a store which people could visit often to see what was new in the market.

The following GEL Factor Analysis was carried out for AutoFun (refer table on next page):

[24] Adapted from Debelak, D. (2003). *Successful Business Models: Surefire Ways to Build a Profitable Business*, pp. 77-80. Madison, Wisconsin: Entrepreneur Press.

Gel Factor Analysis for AutoFun

GEL Factor		**Criteria**	*Desired Position*	*Excellent*	*Average*	*Poor*
GREAT CUSTOMERS	*Customer/Client Characteristics*	▪ Number	High		✓	
		▪ Ease of Finding	Easy			✓
		▪ Spending Patterns	Prolific	✓		
	Value to you – your business	▪ $ Value of Sale	High		✓	
		▪ Repeat Sales	Many			✓
		▪ Ongoing Sales Support	Low	✓		
EASY SALES	*Value to Customer*	▪ How Important	Important		✓	
		▪ Competitive Advantage	High		✓	
		▪ Price / Value Relationship	Low		✓	
	Customer Acquisition Cost	▪ Entry Points	Many			✓
		▪ Sales Support Required	Little		✓	
		▪ Promotional Activities	Low			✓
LONG LIFE	*Profit per Sale*	▪ Margins	High	✓		
		▪ Up-Selling and Cross-Selling	Much			✓
		▪ Ongoing Product Costs per sale	Low		✓	
	Investment Required	▪ To Enter Business	Low		✓	
		▪ To Keep Market Share	Low		✓	
		▪ To Stay on the Cutting Edge	Low		✓	

Strong points

- *Prolific spending.* AutoFun's target customers were people who love their cars. It was not uncommon for AutoFun's target customers to spend several thousand dollars 'pin-striping' their cars right after they bought them. They bought things for their cars all the time and, theoretically, they would be willing to come back to the store repeatedly to purchase more products.

- *High margins*. Retailers do not have to discount specialty products that cannot be found anywhere else. High-end products with high margins are typically a winning formula. One of AutoFun's problems was that it just could not find enough high-end specialty products that were not carried by other stores.

Weak points

- *Ease of finding the right customer.* AutoFun sold a broad range of products, including neon lights for licence plates, car stereos, bike carriers, and fancy car seat covers. The problem was that different customers bought each of these products. For example, someone who wanted neon lights for his or her licence plate probably would not also be interested in buying a bike rack.

- *Too few entry points.* Although there was a demand for AutoFun's products, the fact that only a small percentage of people purchased its products, and they purchased them infrequently, meant that AutoFun could have only a limited number of stores in any metropolitan area. Its competitors – which included, on some products, mass merchandisers like Wal-Mart and, on other products, auto part stores – have far more entry points.

- *AutoFun could not discover any low-cost promotional activities.* Promotional costs are typically high whenever you do not have a tightly focused target customer group. You cannot develop a reliable mailing list and you cannot partner up with other businesses that target the same customers. The result is that you have to market to a large group to find the small group of customers who want to buy your product.

- *Repeat sales happen infrequently.* AutoFun's products – whether a rear-mounted bike rack, a neon licence plate light, or a car stereo – were purchases that people make only very occasionally. The result was that AutoFun could not count on a certain level of sales each month from repeat customers, but instead had to go out and get new customers all the time.

- *Up-selling and cross-selling opportunities were limited.* Customers who bought neon licence plates might also buy a car stereo, but probably not a bike rack or an office-in-the-car product. Any one customer would likely find only one or two items in the store that they would consider purchasing.

When you complete a GEL Factor Analysis, you need to evaluate how you stack up against your competition as you score each point. AutoFun's number of entry points was low in comparison with the number of entry points for auto parts and car stereo stores, which were its major competitors. AutoFun's number of entry points might have been acceptable if its competitors also had a limited number of entry points.

Business owners typically love their ideas and feel they have the ability to deal with the adversity that may lie ahead. The people who started AutoFun had just too many obstacles, no matter how smart or dedicated or hard working they may have been. The GEL Factor evaluation process is not meant to discourage you from taking your business to the next level; it is meant to help you figure out how to produce a better business concept – a better strategy.

AutoFun's biggest problem was that it did not appeal to just one target customer group. If they had used the GEL Factor Analysis, the owners might have seen the problems with their concept and decided to concentrate their growth strategy on just one target market.

Here are some key tips to remember if you conduct a GEL analysis for your own business:

1. After completing the GEL analysis table, look at the results and decide how well you think your business performs against each of the three areas (G, E and L).

2. Put together a GEL Factor analysis final evaluation form (like the example given earlier). To do this, go through the factors in the GEL analysis table and identify which ones are 'Must have winners' for your particular business, and which factors 'Must not be a concern' for your business. These may be different from the factors shown in the example.

3. If your business does not rate well in relation to one (or more) of the factors on the final evaluation form that you have put together, this is a critical issue for your business. Try to identify the reason why your business does not evaluate well against this factor. Ask yourself - can your business strategy be changed in a way that will overcome this issue?

2.3 FiMO / RECoIL Analysis

FiMO/RECoIL is a framework you can use to evaluate the strengths, the neutrals and the weaknesses in your business, as well as to assess the business's capability to grow. This business analysis model, designed by business mentor and consultant, Robert Craven, is divided into two sections:

1. The business's performance to date (FiMO), and
2. The business's capability to grow (RECoIL).

2.3.1 FiMO

In order to assess the business's performance to date, a business needs to look at **FiMO**:

1. Finance (**Fi**)
2. Marketing (**M**)
3. Operations and Production (**O**)

Craven believes that a more accurate understanding of the business's performance to date is to recognise that finance reflects the marketing and operations performance – that is, **finance is a consequence** of marketing and operations performance:

- Marketing is all about getting customers and selling to them, and
- operations is all about producing the service or product.
- Without the ability to find customers and sell to them (the marketing), and the actual production or delivery of the service or product (the operations), there would be very little to measure! [25]

[25] Craven, R. (2001). Kick-Start your Business: 100 Days to a Leaner, Fitter Organisation, p 14. *Virgin Business Guides.* London: Virgin Publishing Ltd.

To use the FiMO model

To use the FiMO model, you usually take each heading (Finance, Marketing and Operations), and give your business a score out of 10 (where 0 is a very low score and 10 is a very high score).

Scores of:

- 2 or 3 suggest that there is something seriously wrong.
- 4, 5 or 6 suggest mediocrity.
- 8 or 9 suggest that you are pretty good.

Any score that sits outside the average of the rest must be examined carefully. For example, a score of 7 for 'Fi', 7 for 'M' and 2 for 'O' indicates something is at odds here – unless you are the only business of your type (a monopoly situation), then the finance score should really be an average of the marketing and operations scores, given that finance is a consequence of marketing and operations performance.

Deciding what scores to give your business

It is important that you can justify your scores. What is your evidence? For example, does the business's turnover in the last six months justify giving a score of '8' for 'Finance'. Examples of data and information you should be looking at when determining your score for each of the three headings are given below:

1. Finance (Fi):

- Turnover (sales value, number of units sold).
- Gross profit margin (after covering the cost of making / providing your products or services, how much money do you have left over from sales to cover other business expenses and provide a profit? Is this improving or getting worse?).
- Net profit margin.
- Liquidity ratios and cashflow (are you easily able to pay your debts as they fall due, or do you not always have the cash available?).
- Are there any single expenses that are a very high percentage of sales? If so, this can be very risky and / or unprofitable. For instance if your rent expense is 25% of your annual sales, and you only have a net profit margin of 5%, will you be able to pay rent and keep operating if you have a drop in sales of 10%?
- The number of days it takes for debtors to pay you.

- Gearing / interest cover ratio (your earnings divided by your interest expense).
- Debt to total assets ratio (what proportion is debt of the total value of your business? Is it too high?).

2. Marketing (M):

- selling effectiveness
- response to new promotions
- customer retention rates
- new accounts won
- repeat business
- new products
- brand perception (by competition)
- brand perception (by customers)
- market position

3. Operations:

- output per worker
- output per machine
- age of equipment
- set-up times
- down time
- absenteeism
- staff turnover
- staff training
- performance advantages

These lists are not exhaustive, but they give you an indication of the sorts of things that you can measure to address the business's performance to date. After identifying the weak area(s) in your business you can then turn to assessing whether your business has the potential to grow based on enhancing its strengths and rectifying / minimising its weaknesses.

As with other analyses, remember to compare your businesses to other businesses in the industry when deciding what rating to give your business. For example, think about where your new customers come from. That is, are they brand new customers of the product, or have they come from your competitor? Compare the number of customers you gain off your key competitor to the number that you lose to that competitor.

2.3.2 RECoIL

FiMO, discussed on the previous pages, uses relatively objective measures to evaluate a business's performance to date. The second part of the framework, RECoIL, examines a business's potential to grow by looking at more subjective measures. **RECoIL** stands for:

1. Resources (**R**)
2. Experience (**E**)
3. Controls and Systems (**Co**)
4. Ideas and Innovation (**I**)
5. Leadership (**L**)

As with FiMO, you need to give each of the RECoIL factors a **score out of 10**. Remember, scores of:

- 2 or 3 suggest that there is something seriously wrong.
- 4, 5 or 6 suggest mediocrity.
- 8 or 9 suggest that you are pretty good.

We will now look at each of the RECoIL factors separately.

1. Resources (R)

These can be divided into:

- Financial resources. These include assets, liabilities, sources of finance, creditworthiness for borrowing, and so on.
- Physical resources such as land, factories, offices and machinery. Consider how appropriate these resources are for the type of operations, the scale of production and, very importantly, for the potential growth in the business.
- Human resources – your people, your staff and management team. What training needs do you have, what gaps are there in your 'skills inventory'? How much extra capacity do you have within your current labour force for growth?
- Intellectual resources such as patents, inventions and databases.
- Technology, flexibility and capability.

2. Experience (E)

This relates to your experience in running and growing a business of your business's current (and potential) size in the particular market that you operate in (or intend to operate in).

It also relates to experience in areas such as:

- Employing suitable staff to grow your business.
- Securing finance (e.g. borrowing) to support the growth of your business.
- Gaining new customers.
- Selling to your customers.
- Managing a business in various stages of the economic cycle.

Remember that the focus in this part of the framework is on what is required for the **future growth** of the business. For example, have you, as a business owner, got experience in going into new markets, employing more staff, using external advisers and introducing new products / services to the market?

3. Controls and Systems (Co)

This refers to:

- Financial management, hardware and software systems, as well as
- Quality control and production monitoring systems.

  Does the business collect the right information in order to make properly informed decisions? Does the business know what the right information is? How appropriate is the business's organisational structure? Does invoicing and payment occur on a timely basis? Are there systems in place to ensure that quality remains high as production levels increase?

  Again, the emphasis is on the appropriateness of the controls and systems to the requirements of a business for future growth.

4. Ideas and Innovation (I)

- Does the business have profitable ideas that can be taken to the market?
- How feasible are those ideas?
- How good has the business been, in the past, at actually turning ideas into a product or service?

  Innovation is about a business's ability to actually use innovation to its advantage, to put innovative ideas into practice. Note that innovation does not necessarily need to relate to new products – it could relate to innovative marketing, systems, processes, or any way in which a business tries to get ahead in a new way.

5. Leadership (L)

Leadership refers to the capabilities of the leader(s) of the business as well as to the direction that the business might have with respect to its vision, mission and overall focus on achieving these and its goals.

When rating 'leadership', analyse how well the messages about the business's vision, mission and goals have been communicated throughout the business – are all the staff on the 'same page' when it comes to the direction of the business?

Be Objective – just how good are you really?

As with FiMO, when you give your RECoIL factors a score out of 10, try to be as objective as possible. Also, be critical of lots of high scores.

Ask yourself the following questions:

- Have you got evidence to support the way that you would score your business?
- How would you score your competitors? How do your scores compare with these?
- How would your customers score your business?
- What is the trend – are you improving, staying the same or getting worse? Always check for the trend of each score. Is it '6 and rising' or '6 and falling'?

2.3.3 Example FiMO / RECoIL Analyses

Two fictitious (made up) examples of how to apply these analyses are provided below and on the following pages.

2.3.3.1 Example FiMO Analysis

The Ride-On Domestic Mower Company manufactured and sold ride-on lawnmowers with small motors that were suitable for small residential properties.

After three years in business, things were going badly. The business could, if needed, make hundreds of mowers per week; the costings suggested that profit margins would substantially increase as production increased.

Murray, the owner, filled in the FiMO score sheet with the following explanations:

- ***Finance: 3***

  The business has not ever performed well in regards to its financials. Although the overall sales turnover has grown, it is less than a third of what was expected when I started a business. As a result, the business has not always covered its expenses, and the net profit margin has only been 2% at its maximum.

However, the financial model can work if enough sales are made. Gross profit per unit after the first 25 produced and sold per week is $80 a unit. If sales of 50 per week were made, this would increase to $140 per unit, in which case gross profit would be about $7,000 per week. The average weekly expenses are approximately $4,500 per week.

- ***Marketing: 2***

  We have professional promotional material, but at the end of the day, we are starting to think that not many people actually want this product. It seems that more and more people are outsourcing the mowing of their residential lawns to lawn mowing businesses which use larger, more heavy-duty mowers than we produce, rather than mowing their lawns themselves.

- ***Operations: 5***

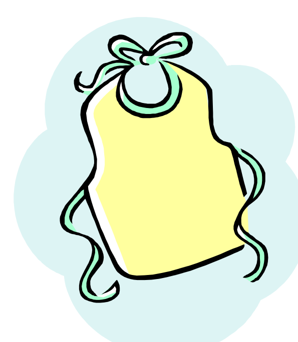
  Our processes and systems are perfect: we could make 100 or even 200 units per week and employ no additional staff. But on the whole, to date, because sales are low, our production staff has not been kept very busy.

On reflection, Murray realised that basically his marketing had failed – no one actually wanted his product! (Remember marketing is about seeing the product through the customers' eyes). So despite the fact that Murray had the financial model sorted and an efficient production factory, the reality was he had not made a product the market wanted.

Using the FiMO tool to analyse his current performance, Murray was able to see this fundamental weakness in his business. He can now come to terms with the fact that, unless he can use the same financial and operations systems to make a different product (that the market actually wants), business closure will be inevitable.

2.3.3.2 Example FiMO and RECoIL Analysis

Thea set up ABC Ltd 7 years ago. ABC currently has an annual turnover of $2 million, and employs 30 workers, making baby bibs and rugs for markets in New Zealand and Australia. ABC currently manufactures 35% of the baby bibs and rugs sold in New Zealand. Thea is scoping opportunities to grow the business further by selling ABC's products in other countries.



Despite having a large market share and good turnover, the business has made very little profit! In fact, Thea's father has put about $60,000 into the business each year for the last three years to keep things going. With respect to marketing, the 35% share suggests that ABC Ltd must be doing something right, although they may have bought market share at the cost of profit. In other words, they may have attracted customers by having a low price, but that price may be too low to support the business.

Another problem is that Thea does not really trust her team. Her marketing director is not allowed to do much of the marketing as Thea insists on doing all the selling herself. Thea's workshop manager is Natalie. Natalie is described by the production staff as being a 'control freak': she is incapable of taking criticism and, unable to accept that the products were pretty standard to make, has set up production processes that are far too complicated. As a result, increasingly, there have been a number of customer complaints and a number of orders which have needed to be redone. Furthermore, Natalie was threatening to leave ABC Ltd to instead join the competition. Thea reacted to this in a panic and paid her more to try to retain her (instead of letting her go, as perhaps she should have!).

In analysing the business's potential to grow, the following RECoIL factors apply:

R: In terms of financial resources, ABC Ltd has Thea's Dad (and his bank account!). Physical resources, which include the factory and sewing machines, are fairly basic. Increased production would require more sewing machines, but this could be accommodated within the existing factory. Human resources include the team of 30 staff who are not highly skilled, much like the management team.

E: Thea recognises that she and her team have learned very little from their experience of running the business. Thea is not confident in leading a management team and prefers to shirk her formal responsibilities where possible. She is often heard saying she could earn more money by going somewhere like Canada, with considerably less stress.

Co: Controls and systems are an absolute disaster. The business does not like to send invoices because, more often than not, this requires additional work. Also, Thea has created a working environment in which money is a bit of a 'taboo' subject. As a result, invoices are posted late, meaning that payments arrive late, which, in turn, means that Thea is slow in paying her suppliers. It has got to the stage where some suppliers will only take cash-on-delivery jobs from Thea because some of her cheques have bounced. As a consequence of suppliers being 'tight', ABC is finding it harder and harder to make and deliver products to their customers on time.

I: Thea has many ideas for creative products and services, from special baby cot mobiles to a safety rug for baby car seats. However, how many of these are workable is an entirely different matter! The current product range is very basic to make so Thea does not have individuals on her team who know how to develop her creative product ideas. Thea would, however, love to work further on these concepts.

L: As a leader, Thea admits that she is pretty hopeless. She feels that everyone is 'getting at her' and that no one really respects her.

So should Thea close up her business altogether or is there some way to turn it around? If you were to mark ABC Ltd, you might give this business scores such as these:

Performance to date (FiMO)

- Finance 3
- Marketing 6
- Operations 2

Capability to grow (RECoIL)

- Resources 5

  (financial 5; physical 7; human 4; intellectual 4; technology 3)
- Experience 3
- Controls and systems 2
- Ideas and innovation 5
- Leadership 1

The framework shows us where ABC Ltd is weak and helps identify possible solutions. If Thea was to employ an effective General Manager, she could be freed up to do what she loves, which is product invention and creation.

A good General Manager would instigate a clear focus, vision and mission, as well as tight controls and systems. They would bring with them the experience to drive the business and gain respect from the employees. With the resources that exist, the operations function would be able to get sorted out and, as a result of all of this, the financial situation could be turned around.

2.4 Internal Problems and Causes

If a business is to grow, then something that needs to be investigated is whether there are internal problems and issues that are hindering the progress of the business. There is a range of problem-solving processes which can be used to help identify what these internal problems and issues may be and to determine the causes of them.

2.4.1 Group Brainstorming

Group brainstorming is a structured problem-solving process which can be used to identify and rank the issues and challenges that need addressing in a business. Unless such challenges and issues are identified then an action plan cannot be put in place to resolve them.

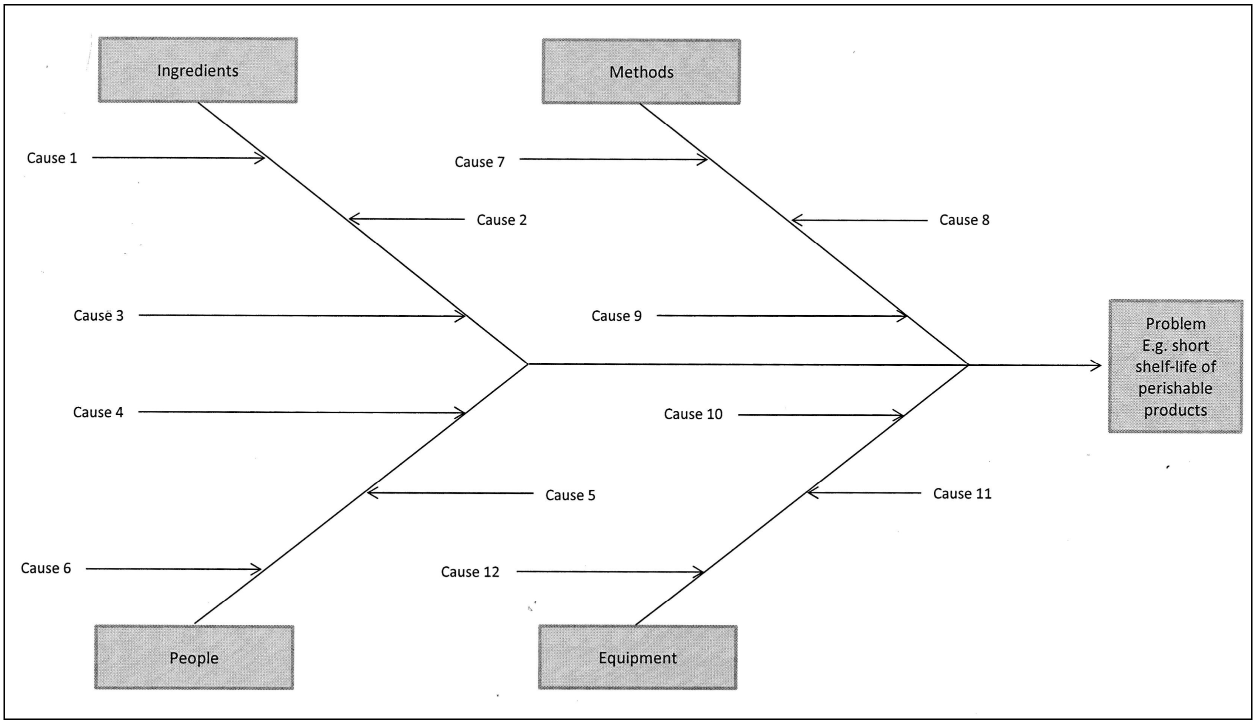
There are various ways in which a brainstorming session can be conducted. The method outlined below is quite effective in providing each participant with an 'equal voice'. That is, it will overcome problems associated with, for example, a domineering staff member controlling the discussion or an influential member of management having an effect on what other participants might feel comfortable saying.

Steps for Conducting a Group Brainstorming Session:

1. Request that all participants (usually 5-10 persons is the ideal for this problem-solving process) write or say the challenges or issues they feel are most important. It is beneficial to allow the participants to write down the issues in case they do not feel confident or comfortable voicing them.
2. Develop a master list of the problems / challenges or issues.
3. Generate and distribute a form to each participant on which the challenges or issues are listed in no particular order.
4. Request that each participant rank the top five challenges or issues by assigning a #5 ranking to their most important perceived challenge / issue and a #1 ranking to the least important of their top five.
5. Tally the results by adding the points for each challenge or issue. The challenge or issue with the highest number is the most important one for the total team.
6. Discuss the results and generate a final ranked list for action planning.

2.4.2 Cause and Effect Diagrams

A Cause and Effect diagram, also known as a 'Fishbone' diagram or an 'Ishikawa' diagram (named after the developer of the model), is a tool commonly used to identify the cause or causes of problems in a business. A basic example of what a Cause and Effect diagram looks like is as follows:



Features of the Cause and Effect diagram are as follows:

- The problem is given in the box at the far right-hand side of the diagram (this is the 'fish head'). In the above example, the problem is that there is a short shelf-life of perishable products.
- The horizontal line connected to the problem (the 'spine') represents the process that leads to the problem.
- All aspects of the business that could possibly contribute to the problem, regardless of whether they actually do or not, are identified as nodes off the main horizontal line (and are shown in the other boxes).
- For each aspect of the business, it is identified whether there are any causes that have contributed to the problem. Whilst this diagram only shows these causes as 'Cause 1', 'Cause 2' and so on, in practice, these causes would be specified.

Steps to successfully build a Cause and Effect diagram are as follows:

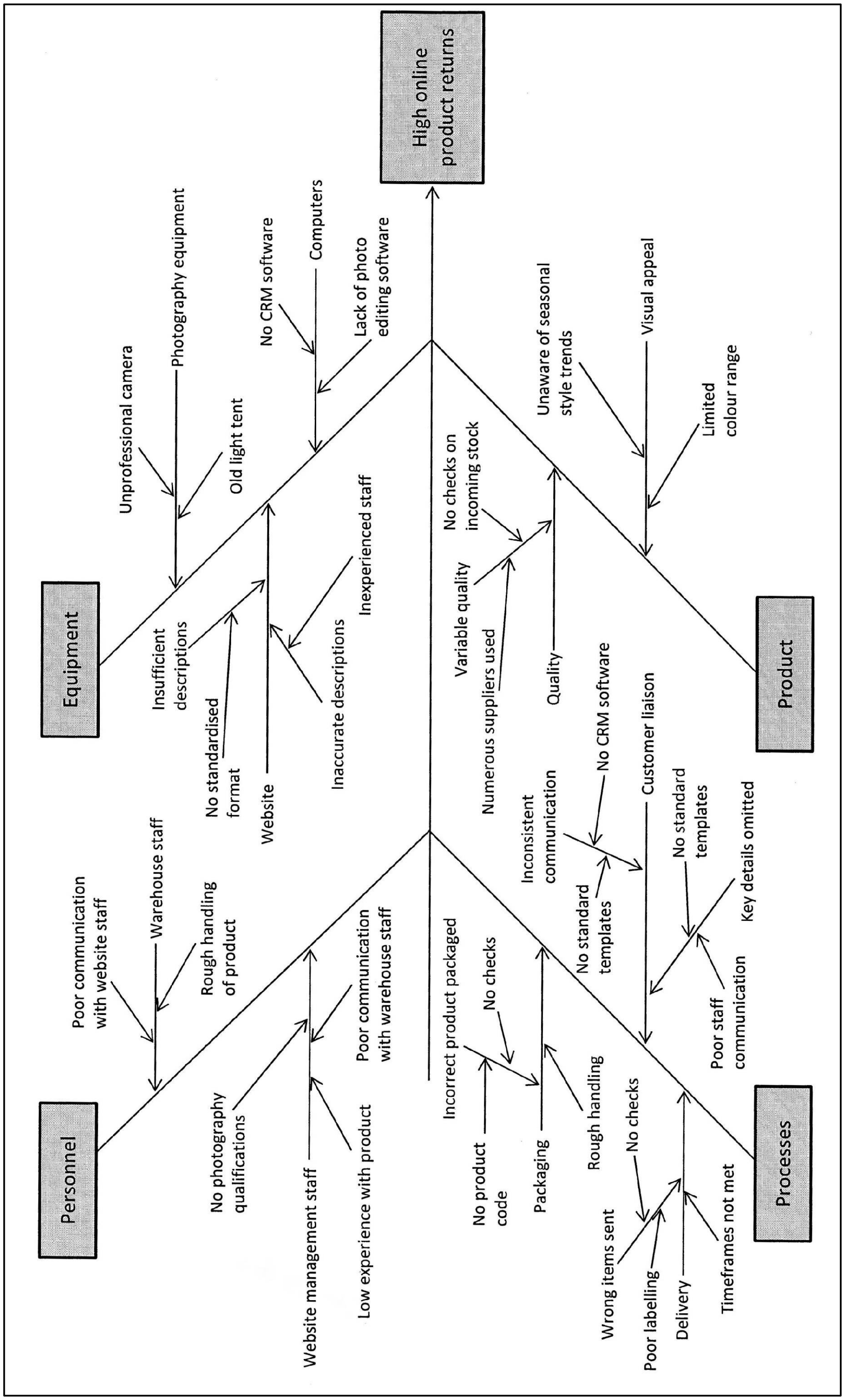
1. Be sure everyone agrees on the effect or problem statement before beginning (this could be done through the group brainstorming process discussed earlier in this section).
2. Be succinct.
3. For each node (aspect of the business), brainstorm possible causes. Add these to the tree.
4. Pursue every possible cause to find the 'root' cause by drawing further branches where necessary.
5. If a node / branch gets too crowded, consider splitting it up.
6. Identify which causes merit further investigation.

2.4.2.1 Example Cause and Effect Diagram

An example of a Cause and Effect Diagram, in which the causes are identified and traced back to their source(s), is given on the following page. In this example, the problem is a high rate of returns of products sold online.

One of the areas of the business that could contribute towards this problem is identified as being the equipment used. This includes the website, computers and photography equipment. When considered further, it was determined that the quality of the camera used to take the photos, together with the state of the light tent and the fact that they do not have suitable photo editing software was resulting in photos that do not accurately portray the product. Furthermore, personnel involved do not have any photography qualifications. If the business was to arrange photography training for key members of staff, these staff members would be able to identify what equipment they need in order to take and edit photos which accurately represent their products. This is likely to reduce the number of returns.

Example Cause and Effect Diagram for a High Level of Returns of Online Sales



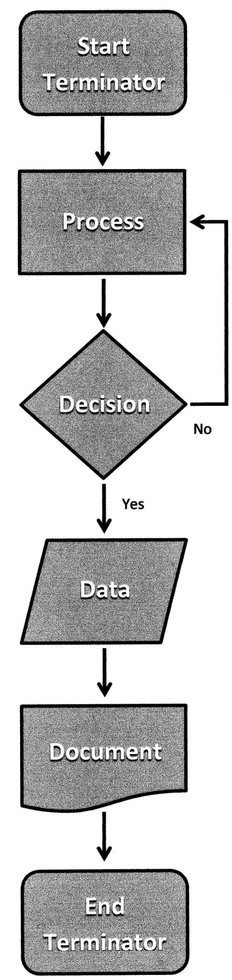
2.4.3 Flowcharting

Flowcharts are maps or graphical representations of a process. Flowcharting can be used as a problem-solving tool to help:

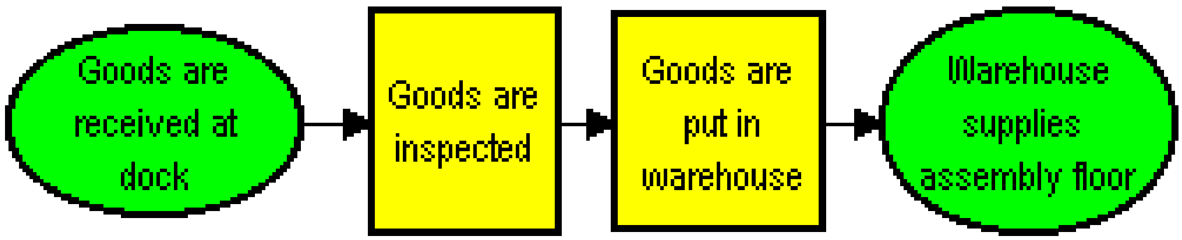
- identify whether the steps of a process are logical,
- uncover problems or miscommunications,
- define the boundaries of a process, and
- develop a common base of knowledge about a process.

Steps in a process are shown with symbolic shapes, and the flow of the process is indicated with arrows connecting the symbols. Different flowchart symbols have different meanings. Perhaps the most common symbols are outlined below and graphically shown to the right:

- **Terminator:** An oval shape indicating the start or end of the process.
- **Process:** A rectangular shape indicating a normal process.
- **Decision:** A diamond shape indicating a branch in the process flow.
- **Data:** A parallelogram indicating data input or output for a process.
- **Document:** used to indicate a document or report.



High-level flowcharts map only the major steps in a process for a good overview (as shown in the figure below), while detailed flowcharts show a step-by-step mapping of all events and decisions in a process.

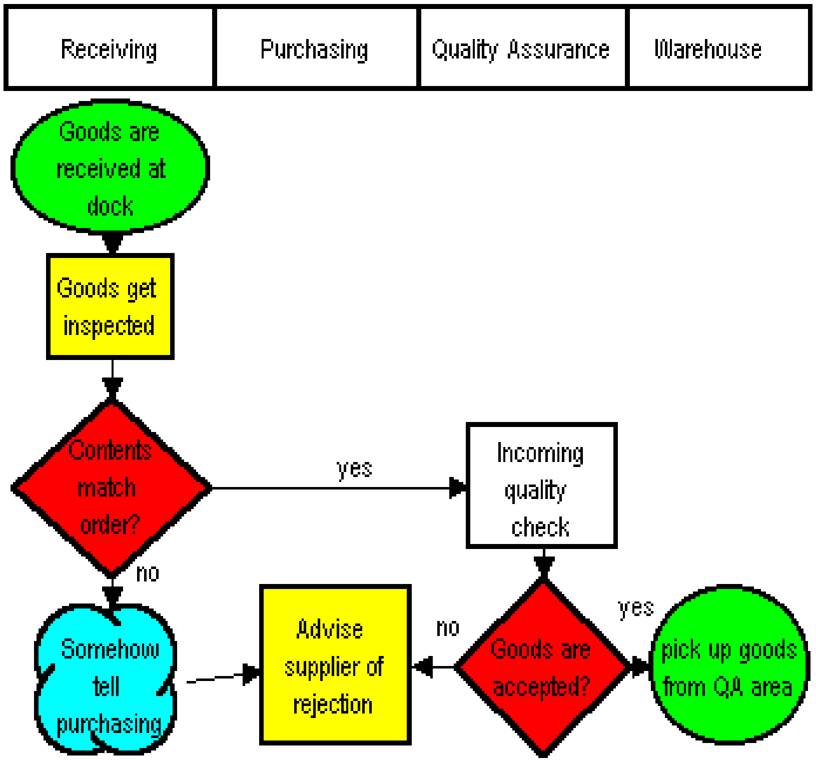


2.4.3.1 Example Flowchart

By flowcharting a process, you can identify whether or not a solid, agreed upon process actually exists. In the following example, flowcharting has shown there is a lack of process between 'if the contents do not match the order' and the 'supplier being advised of rejection', which can cause problems in many aspects of the business including, customer satisfaction, supplier relationships, finance and inventory control.

For example, the flow on effect of there not being a process may be that the supplier may charge the business for goods it returned, due to the fact that the business did not advise them of the return. This, in turn, will inflate the purchasing expense which will reduce the gross profit margin. Furthermore, if the correct goods are not subsequently obtained, the customer will not be very happy! By identifying this problem through flowcharting, the business can now rectify the situation which, in the long term will help the business to grow.

Example Flowchart of the Process Involved in Handling Incoming Supplies



2.5 Benchmarking

Performance benchmarking involves collecting (generally numerical) performance information and making comparisons with other similar businesses. It is concerned with answering the following questions:[26]

> *What are the most important performance yardsticks, and where do we rank, compared with others in our industry and other similar industries?*

[26] Benchmarking Plus. *Performance Benchmarking.* Retrieved 29 December, 2008, from http://www.benchmarkingplus.com.au/performancebmarking.htm.

Examples of performance data which a business may collect and compare against other businesses include:

- market share,
- net profit,
- assets,
- number of major clients,
- number of locations,
- number of new products introduced,
- labour costs, as well as
- growth in any of the above areas.

For small businesses, the main disadvantage of using benchmark analysis is that of obtaining accurate data relating to competitors. If a competitor is a publicly-traded company (listed on the stock exchange), it is relatively easy to get a copy of their annual report – you can usually get one via the 'investor relations' segment of their company website.

Even if your small business does compete against a large publicly traded company, it can be hard to make meaningful comparisons. It is likely to be more relevant to compare margins and percentages than actual amounts.

For example, on comparing your gross profit margin to that of a large competitor, you may find that, with an 87% gross profit margin, the costs involved in producing your product are relatively low compared to those of the competitor (who may have an 83% margin). However, if you were to simply compare gross profit amounts, it is likely you would simply be confirming the fact that the business is much larger than yours – for instance, you may have a gross profit of $100,000, whereas the competitor may have one of $10 million!

Other disadvantages of benchmarking analysis are that there is no set agreement on which measures are most relevant to your particular business and thus which measures you should be most concerned about improving (e.g. should you be more concerned about the number of outlets you have or your net profit margin?). Also, there are very few clues given as to how to improve the business's situation.

In terms of advantages, benchmarking forces you to think about your business relative to your competitors. You may find that an aspect of your business that you considered to be acceptable, or even to be a strength, is not, in fact, all that good when compared to your competitors.

2.5.1 IRD Benchmarking Information

The Inland Revenue Department (IRD) has added industry benchmark information for New Zealand businesses to its website (refer to the page http://www.ird.govt.nz/industry-benchmarks/). This information is based on data from the financial statements and tax returns of New Zealand businesses.

There are three sets of benchmarks given for each industry (for which data is available). These benchmarks are based on the size of the business:

- Small businesses: Annual turnover of between $60,000 and $300,000.
- Medium-sized businesses: Annual turnover of between $300,000 and $800,000.
- Large businesses: Annual turnover exceeding $800,000.

The analysis also identifies what the 'key industry benchmark ratio' for each industry is. For example, the key ratio for the Real Estate Services industry is 'salaries and wages turnover', whereas the key ratio for the Fruit and Vegetable retailing industry is 'gross profit ratio'. This is very useful information to know when benchmarking your business as it indicates where you should focus your attention. Note that definitions are available for each of the ratios identified.

At the time of writing, benchmark information was available for 16 industries in New Zealand. The IRD is planning on updating the information each July and on making data available for a larger number of industries in the future.

The list of industries for which data is currently available is shown in the screen print on the following page, and an example of benchmarking data is given on the subsequent page.

Screen Print: Industry Benchmarks[27]

Accommodation & food services

Cafes and restaurants (H4511)

Pubs, taverns and bars (H4520)

Takeaway food services (H4512)

Administration & support services

Gardening services (N7313)

Agriculture, forestry & fishing

Nursery production (outdoors) (A0112)

Construction services

Landscape construction services (E3291)

Painting and decorating services (E3244)

Education & training

Preschool education (P8010)

Electricity, gas, water & waste services

Electrical services (E3232)

Electrical and electronic goods wholesaling (other) (F3494)

Electrical, electronic and gas appliance retailing (G4221)

Other services

Hairdressing and beauty services (S9511)

Rental, hiring & real estate services

Passenger car rental and hiring (L6611)

Real estate services (L6720)

Retail trade

Fruit and vegetable retailing (G4122)

Supermarket and grocery stores (dairy, superettes) (G4110)

[27] Sourced from Inland Revenue Department. Crown copyright reserved. Retrieved 11 October, 2013, from http://www.ird.govt.nz/industry-benchmarks/bm-find-your-benchmark/benchmarks-find-your-benchmark.html

Screen Print: Performance Benchmarks for the Takeaway Food Industry [28]

The key industry benchmark ratio for this industry is the gross profit ratio.

Financial ratio	Business size		
	Small $60,000 - $200,000 annual turnover	Medium $200,000 - $600,000 annual turnover	Large $600,000+ annual turnover
Gross profit ratio	**38 to 55% Median 46%**	**38 to 58% Median 49%**	**50 to 64% Median 61%**
Stock turnover per annum	16 to 50 times Median 28 times	20 to 53 times Median 33 times	27 to 58 times Median 40 times
Salaries and wages/turnover ratio	0 to 15% Median 3%	6 to 26% Median 16%	21 to 31% Median 26%
Balance sheet ratios			
Return on total assets	-5 to 39% Median 8%	0 to 30% Median 4%	-3 to 11% Median 0%
Return on equity	-2 to 60% Median 16%	-1 to 55% Median 11%	-6 to 48% Median 4%
Current ratio	45 to 481% Median 170%	40 to 341% Median 133%	21 to 175% Median 66%
Quick ratio	15 to 327% Median 96%	15 to 224% Median 77%	9 to 128% Median 44%
Liability structure	24 to 97% Median 85%	2 to 92% Median 59%	0 to 57% Median 17%

[28] Sourced from Inland Revenue Department. Crown copyright reserved. Retrieved 11 October, 2013, from http://www.ird.govt.nz/industry-benchmarks/bm-find-your-benchmark/benchmarks-h4512-takeaway.html

If the IRD does not yet have data available online for your industry, try asking your accountant for guidance. They may be able to tell you what is 'normal' for businesses of your size in your local region.

Here are a couple of key tips to remember if you conduct a benchmarking analysis for your own business:

- If the businesses you are comparing your business to are much larger in size, focus on ratios instead of actual figures.

- If you find an area of concern, try to figure out the core problem. What is the critical issue that has caused your business to perform poorly in regards to this particular measure? If you can figure this out, you may be able to devise a strategy that will overcome it.

  For example, if the gross profit margin is comparable to other businesses, but the net profit margin is much lower, this indicates that your fixed expenses are high relative to your sales. Why is this? Is it because you need to increase sales, or is it because you need to reduce costs, or both?

Section 3

A Business Environment Audit

3.0 A Business Environment Audit

The previous section of this Module looked at a number of tools that can be used to analyse the *internal* status and performance of your business, as well as its capacity to grow. This section of the Module presents a range of tools that can be used to analyse your business in relation to the *external* environment in which it operates. Using tools such as these is sometimes referred to as conducting a 'business environment audit'.

The tools that will be covered in this section are outlined below. As per the range of internal analysis tools covered in the previous section, note that this is not an exhaustive list of the business analysis tools available. Moreover, you may know some of these tools by other names. For example, you may know STEPP analysis as 'PEST' analysis.

External Analysis Tools:

1. STEPP Analysis
2. Competitor Analysis – Competitor Profiles and Strategic Group Maps
3. Porter's Five Forces
4. Customer Profiles
5. Industry Success Factors and Trends
6. Industry Profile

It is important that you have a comprehensive knowledge and understanding of the market in which you sell your products and services. Having this knowledge and understanding will enable you to better your chance of predicting how the market will develop. Thus, when conducting a business environment audit, give thought to the following question: 'What drives the market?' This can be done by asking questions such as:

- Who are the key players in the market, both now and in the future? (Answering this will help you complete your Competitor Analysis and Porter's Five Forces analysis).
- What are the trends and benchmarks of performance within the market?
- What are the key influences on the market? These could, for example, include substitute products, marketing spend, pricing policy, the number of competitors, new technology or the availability of complementary products.

3.1 STEPP Analysis

Carrying out a STEPP analysis can help determine what drives the industry, as well as to identify threats and opportunities that your business may encounter. The term 'STEPP' represents five types of factors:

1. **S**ocio-cultural / Demographic Factors
2. **T**echnological Factors
3. **E**conomic Factors
4. **P**olitical / Legal Factors
5. **P**hysical / Environmental Factors

Examples of factors for each of the STEPP categories are outlined on the following pages. To conduct a STEPP analysis, focus on each category of factors, one at a time, identifying individual external factors from within the category that may have an impact on your business. This could be either a positive or negative impact.

As you consider each type of STEPP factor, it is important that you do not limit yourself to just New Zealand – start thinking globally. The reality is that consumer buying patterns and technology used in another country can have a direct impact on your business. Just think about how user-friendly the websites of some overseas businesses are and how efficient these businesses have become at servicing international orders. For example, in some cases, it is now just as easy and cost-effective for an individual to buy their label clothing online direct from the supplier in the USA, than it is for them to try to find the item they want here in New Zealand stores.

Also think of the opportunities that global markets present. For instance, the signing of the New Zealand-China Free Trade Agreement (FTA) in 2008 opened up a number of key opportunities for New Zealand business owners. Negotiations for an agreement with India commenced in 2007. If an agreement is negotiated with India, will that provide any opportunities for your business? Despite its relatively small land area, India is the second most populated country in the world and is predicted to be the third largest economy in the world by 2025.[29]

[29] New Zealand Ministry of Foreign Affairs and Trade. *New Zealand – India Free Trade Agreement (FTA).* Retrieved 11 October, 2013, from http://www.mfat.govt.nz/Trade-and-Economic-Relations/2-Trade-Relationships-and-Agreements/India/

3.1.1 STEPP Factors

Socio-Cultural / Demographic Factors

Socio-cultural factors reflect trends and attitudes. Examples include:

- Need for convenience.
- Increasing desire to achieve a good work-life balance.
- Preference towards organic products.
- Increased cultural diversity.
- Retirement trends.
- Attitudes towards different industries or businesses.
- Pressure to have the 'latest' or 'best' product available.

Demographic factors relate to changes in the population – particularly in regards to the market your business serves. In identifying demographic factors, think about the following aspects of the population:

- Age
- Gender
- Ethnicity
- Birth rate
- Death rate
- Household capacity
- Marital status
- Religion
- Levels of education, and so on.

Technological Factors

Technological issues may include, for instance, changes in information technology, online shopping and the increasing use of tablet computers. Technology can provide many opportunities for businesses, but can threaten others.

Think, for example, of how the high rate of ownership of mobile phones has reduced the demand for wrist watches – nowadays, many people do not consider it necessary to own or wear a watch as they always have their mobile phone (or another device which contains a clock function, such as an iPod) on them. On the other hand, the use of mobile phones and easy access to the internet means that a lot of businesses no longer need to have a physical office / site for their business – instead business can be carried out in a virtual location, thus reducing costs and increasing flexibility for the owner.

Technology also provides opportunities for businesses, both directly and indirectly. The direct opportunities are often relatively easy to identify. However, sometimes technology has a 'spin off' effect on other businesses. Consider these two examples:

Example: Technology Providing Direct Opportunities

A number of banks now offer apps and other forms of technology which allow businesses to accept credit card payments with their smartphones. This provides an opportunity for businesses to make more sales away from their premises, without the expense of hiring a mobile eftpos terminal. For example, small business owners who sell goods at market days may now choose to promote higher priced items at markets as they are able to offer customers payment facilities.

Example: Technology Providing Indirect Opportunities

The rise in popularity of online shopping applications and 'deal' websites (such as 1-day.co.nz and GrabOne) has indirectly provided large opportunities for businesses in the courier and packaging industries. The more convenient it becomes for us to buy online and use our phones and other mobile devices to do so, the more business opportunities there are for courier companies.

Make a list of technological factors that are affecting, and could affect, your business. For example: what technology do customers expect from you (such as being able to pay in real time for their purchases from your website)? What technological advancements are occurring in other industries that could pose a threat to your business? What technology is now available that will benefit your business?

Economic Factors

Economic factors can affect your business, your customers / clients and your competitors. Examples include changes in currency exchange rates, trade barriers, international trade agreements, inflation, unemployment and interest rates.

Also of note is the economic cycle. The stages of the economic cycle include prosperity, recession and recovery. 'Prosperity', also referred to as a 'boom', is the most favourable period for most businesses, whereas a recession, which involves a significant reduction in economic growth, is the least favourable. 'Recovery' is when confidence in the economy is slowly being restored within the industry sectors and economic growth is starting to rise again.

When considering the economic cycle, do not just think about the current stage, also think about economic forecasts – for example, we are coming out of the global financial crises – what impact does that have on your customers? Are they likely to increase spending on your products, or are they likely to be cautious for some time yet?

Also note that, although people generally cut spending during a recession, and increase spending during a boom, this does not mean this pattern applies to YOUR business. Consider, for example, if your business provides a basic, yet quality, alternative to a more popular expensive product. In times of financial hardship, more people may be willing to buy the cheaper product that your business supplies, but – during a boom, fewer people may want your product now as they can afford the more expensive model.

Remember that it is also important to realise how the global economy has become increasingly relevant to New Zealand businesses – that is, what happens in overseas economies may affect your business here in New Zealand.

Political / Legal Factors

Political and legal factors may include national changes in government and legislation (e.g. taxes, resource management legislation, health and safety legislation, employment legislation), as well as local political influences such as council bylaws.

Consider the following examples:

Example 1: An Increase in the Mandatory Car Seat Age

A new land transport road user rule came into force in 2013 that requires children to use car seat restraints until they are seven. The previous mandatory age was five. This provided an opportunity for baby stores and department stores to promote the sale of their car seats to parents who no longer owned suitable car seats for their five and six year old children.

Example 2: The Chinese 'One-Child' Policy

China has had a 'one-child' policy since 1979. This policy restricts married couples who live in urban areas to only having one child (although there are some exemptions available). An impact of this policy is that the Chinese place a very high value on doing 'the best' for their one child. This creates good opportunities for businesses to market high quality safety products, amongst other things, to parents in China.

Physical / Environment Factors

Think about some of the environmental issues at present, such as carbon footprints, global warming, recycling, depletion of natural resources, organic foods, conservation, animal welfare and pollution – do any of these present a threat or an opportunity for your business?

Also consider how the physical environment (local and global), can impact on your business. For example, think of how the presence of a prolific weed can impact on a farming business.

As another example, consider a fishing charter business based in a remote, but popular, small town. Obviously, a fishing business would be highly affected by weather, tides and the fishing season. However, in addition, the environment may affect access to the business: The fact that the town is remote may, in itself, deter some potential customers, but furthermore, it could be that there is only one road to the small town – a windy one through a gully which is often affected by slips! The business would need to be prepared for situations in which none of their customers could get to the town due to road closure.

3.1.2 Using a STEPP Analysis Effectively

In order for your STEPP analysis to be meaningful, you need to ask specific questions in regards to each factor identified, such as:

- Does this factor identified pose a threat or an opportunity (or both) to the business?
- In what way may it affect the business?
- How large could the impact potentially be?
- How likely is it to occur?

For example, if your business provides services to health organisations that rely on government funding, you may identify that a political factor such as a change in government could severely affect your business as health funding may be reduced, thus potentially reducing your customers' demand for your services. However, you may also consider that the likelihood of this occurring to be very low for the particular part of the health sector that you service.

As STEPP factors are external, generally, they are out of your control. However, by identifying and analysing these factors, you can plan how your business will react to them if they do occur. Better still, in the case of severe threats, you can develop a strategy that will either reduce or eliminate the impact on your business or a strategy that can turn the threat into an opportunity.

For example, assume that your business produces a particular type of security surveillance equipment, and you have heard that a new, superior option for security surveillance is being created and likely to be released into the market soon. You could reduce the impact of this technological factor on your business by diversifying or changing your product range, or, you could turn this into an opportunity by developing complementary products for this new technology.

3.1.3 Example STEPP Analysis

Some examples of STEPP factors that may have an impact on a business are outlined below and on the following pages.

Example Socio-Cultural / Demographic Factors

An example of a socio-cultural issue is the increase in awareness of the health benefits of excluding gluten from diets. In addition to there being a segment of the population who are gluten-intolerant, increasingly, other people are becoming educated about, and have experienced benefits from, not eating gluten. As gluten is in many of the foods people eat nowadays, this has created a demand for an increase in the variety of gluten-free foods available. Uncle Joes is an example of a business which has seen the opportunity to meet this market need.

Uncle Joe's

Uncle Joe's, a Marlborough-based business, has been producing fresh raw nut products since 1997. Their product range includes nut kernels and nut meal (a product designed to add flavour and texture in foods such as muesli and baked goods), as well as award-winning oils and spreads. The business's products are naturally gluten free and are all 100% pure and natural, not containing any additives.

While promoting their products at a Gluten-Free Expo in 2010, owners Jenny and Malcolm Horwell, realised the potential for marketing their products specifically to people who do not eat gluten. Through talking with expo attendees, they learnt that gluten-free foods often lack flavour and that there is a need for products such as theirs which would add more taste and texture to foods.

Uncle Joe's has since altered their marketing strategy to pursue this opportunity. Products are now labelled as being 'gluten free' and are sold to speciality stores as well as New World supermarkets. Furthermore, the couple expanded their gluten-free product range by working together with another local business that presses seeds to market a range of nut oils and seed oils. With a new gluten-free flour also being released, the potential growth for this market segment is highly promising!

An example of a demographic trend is the increase in people in the over-50 age group. This, coupled with a trend for this demographic to use the internet, gave rise to an opportunity to develop the 'GrownUps' website:

> ***GrownUps***
>
> *Richard Poole first started thinking about a website dedicated to the over-50s market when he observed his own father struggling with his online experience. He could see the frustration and realised that there was an opportunity for a 'lifestyle magazine' site specifically for this age group – a site that was simple to use and a 'safe haven' for people to connect.*
>
> *Backing up this was the fact that people aged over 50 will make up almost 40 percent of the population in the next 12 years or so, commanding 70 percent of the nation's disposable income. There was a clear need for an online magazine tailored specifically to their needs and interests.*[30]
>
> *GrownUps.co.nz now has almost 80,000 members.*[31]

Example Technological Factors

The second example given in relation to socio-cultural factors also demonstrates the 'T' factor in a STEPP analysis – technology. The developer of GrownUps has used the trend amongst people in the 50 plus age group to start using the internet as an opportunity to develop a website specifically for this market. However, like all of the STEPP factors, technology can lead to business threats as well as provide opportunities. Consider the following example of Kiwa Media.

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[30] Baker, G. (February 2010). One for the Grown Ups. *NZ Business Magazine,* pp 12-13. Auckland, New Zealand: Adrenalin Publishing Ltd.

[31] GrownUps.co.nz. *About Grown Ups*. Retrieved 12 October, 2013, from http://www.grownups.co.nz/read/105/about-grown-ups.

Kiwa Media

Kiwa Media Group is an award winning media company developing iPhone/iPod Touch and iPad applications, digital content for books, producing film and television programs, and digital content for the mobile music industry[32].

So how did a company that started out 18 years ago as a film and television post-production business end up a market leader in the worldwide e-book revolution? Kiwa Media has evolved through various stages – from post-production to VoiceQ (dubbing software), and on to the QBook [digital books specifically for children which are designed to run on Apple iPhones, iPod Touches and iPads].

[Founder and CEO, Rhonda] Kite explains that throughout this process they've never really strayed from their core competencies. "Even the QBook requires a large degree of synchronisation. So we're still in the business of sync."

Kite has always had the knack for identifying technology needs in the market. Kite says the QBook's development and launch has sparked many challenges. The R&D incubation time can be frustrating because "the digital world changes under your feet".[33]

The example of Kiwa Media shows how the 'T' factor of the STEPP analysis is so important in some industries. On one hand, by looking ahead and identifying technology trends, the business was able to identify product opportunities that utilised their core skills in the area of digital synchronisation. This has allowed the business to evolve over a period of 18 years from film and television post-production work through to developing children's books that make use of the new technology available – tablets. However, the pace of technological change also poses a threat. Because technology changes so fast, new products in development may need to change before they are even ready for the market.

In addition to opportunities in the area of new product development, technology factors can also give rise to opportunities in regards to increasing productivity and cutting costs. The following example is of a New Zealand business, Precision Tracking (NZ)

[32] Kiwa Media. *About.* Retrieved 6 January, 2011, from http://www.kiwamedia.com/en/about.
[33] Baker, G. (April 2010). In Sync with the Digital World. *NZ Business Magazine,* pp 14-15. Auckland, New Zealand: Adrenalin Publishing Ltd.

Limited, which has developed technology which can substantially reduce a farmer's fertiliser bill:

> ***Precision Tracking NZ Limited (PTNZ)***
>
> *With PTNZ you could save thousands on your fertiliser bill and still get the same results. Here at Precision Tracking (NZ) Ltd we have created the world's first online system for ordering, monitoring, measuring and recording a farmer's use of fertiliser. We can also provide farmers with online live spreader tracking, a fertiliser calculator and a permanent spreading record, paddock-by-paddock and kilogram-by-kilogram.*
>
> *Improved spreading efficiency can save our customers hundreds of kilos of fertiliser and thousands of dollars a year. And, with exact hectares and spread rates known, your total fertiliser needs are calculated to the nearest kilogram for you, saving you even more. PTNZ helps you and your spreader eliminate accidental spreading inefficiencies that could save you thousands.*
>
> *For you to use our system we need to have a GPS map of your farm loaded in our database. If you already have one, you simply email it to us. If you don't, don't worry, we will send you the software you need to do it. Once you are registered with PTNZ, and your farm is loaded on our database, any spreader, sprayer or seed sowing truck with a PTNZ unit on board can be mapped and all their activity recorded for you.*
>
> *We can then provide you with a permanent historical file for your farm that is your proof that you have spread or sprayed responsibly and that you have looked after the land when it is time to sell up. That information alone can add thousands to the value of the property.*[34]

In fact, given the increased popularity of smartphones, iPads and online technology in general, it is easy to find examples of technological factors offering opportunities and threats to business owners. Here are just a few:

- Social media websites such as Facebook which offer an opportunity for effective and free promotion. Businesses can set up a Facebook page and communicate with their customers and potential customers at no cost to them (other than the small amount of time it takes to manage their page). Given the popularity of Facebook, it is relatively likely that a high proportion of your 'posts' will be read!

[34] Precision Tracking (NZ) Limited. Farm Management. Retrieved 19 December, 2011, from http://www.precisiontracking.co.nz/farm-management.htm

- Scanner applications for smartphones. For example, if you have an iPhone, you can download an application called 'Scanner Pro', for less than $10, which enables your phone to make quality scanned copies of documents, edit them and then email them. This means that you can scan documents quickly, wherever you are.

- Employees using their smartphones for both personal and business use, and potentially putting confidential business information at risk. Phones are easily misplaced and lost, so if employees do not put a password on their phones, sensitive information could easily end up in the wrong hands. In addition, smartphones can be subject to cyber-criminal activity. Thus, if employee phones are not properly protected with passwords and security software, this can be a threat to a business.

- QR Codes (Quick Response Codes). These are the square images made up of black and white dots that you may see on products and promotional materials. When you scan them with a QR Reader on your smartphone (which you can download for free), you are typically directed to a website with more information about the product or advert. The potential for businesses to use this technology to promote their products is huge.

Example Economic Issue

The economic conditions of the past seven years provide a good example of how the global economy has become increasingly relevant to New Zealand businesses: following the failure of some large financial institutions in the United States, a global financial crisis occurred. This crises affected businesses and individuals throughout the world, including here in New Zealand. With the economy in a recession, consumers had less money to spend on non-essential items, particularly given that food prices had faced a substantial increase.

One country that was found to be particularly vulnerable to the financial crises was Greece, as a result of the country's high debt levels and history of deficits. However, the impact of the Greek debt crisis was not contained to Greece alone. Consider the following excerpts from online articles:

Euro crisis triggers export fear[35]

Europe will still fall into recession and pull down New Zealand export commodity prices, economists say, despite a deal struck to resolve the Eurozone financial crisis.

Early yesterday, the Reserve Bank held official interest rates steady at 2.5 per cent, saying the risk remained that the European sovereign debt crisis could see the global economy slow down and New Zealand export prices fall…. A weak Europe would affect New Zealand's ability to export.

New Zealand and Australian banks were now having to pay more to borrow internationally than a couple of months ago. If that continued for long enough, then mortgage rates in New Zealand could rise independent of what the Reserve Bank does.

NZ dollar falls as euro hits 11-month low[36]

The New Zealand dollar is down against the greenback after the euro fell to an 11 month low as investors turned increasingly bearish on the European Union and its ability to tackle the sovereign debt crisis.

The above two articles show that an overseas financial crisis can impact New Zealand through our interest rates, demand for our exports and the value of the New Zealand dollar. These factors, in turn, can impact on small businesses throughout New Zealand. For instance, if the value of the NZ dollar decreases, it will become more expensive for a business to import products to sell to customers here.

[35] Weir, J. (28 October, 2011). *Euro crisis triggers export fear*. Retrieved 19 December, 2011, from http://www.stuff.co.nz/business/5866013/Euro-crisis-triggers-export-fear

[36] Krupp, J. (15 December, 2011). *NZ dollar falls as euro hits 11-month low*. Retrieved 19 December, 2011, from http://www.stuff.co.nz/business/market-data/currencies/6143223/NZ-dollar-falls-as-euro-hits-11-month-low

Example Political / Legal Factors

It is particularly important to be aware of the main political parties' policies and intentions. The effect such intentions could have on your business is of particular importance when there is an election year, as a change in the political party in power will most likely result in shifts in policy and legislation.

Other major changes, especially regarding taxation, are commonly announced with the release of the annual budget. Consider the tax reforms in 2010, which included an increase in the GST rate from 12.5% to 15%. For businesses based on fixed prices (inclusive of GST), this GST rise meant an extra cost to the business that could not be passed on to the consumer.

Consider the example of the well-known $2 Shop which, in response to increases in costs, had to revise its business strategy. Two excerpts, (one from the $2 Shop website) and one from a news article, are presented below:

> ***The $2 Shop (now known as 2n'5)***[37]
>
> *The $2 Shop is now called 2n'5. That's right – The $2 Shop has launched an exciting new $5 product range, and rebranded the stores to accommodate both price-points...*
>
> *In determining the future of The $2 Shop franchise, Brian [Salmon] and his management team were faced with several options including a complete overhaul of The $2 Shop. However, The $2 Shop continues to provide excellent value for money on a wide range of items, and is an iconic New Zealand identity that many Kiwis have grown up with. So rather than replace the existing brand, Brian decided to extend it, whilst maintaining the single-price-point structure that made The $2 Shop so successful from the beginning.*
>
> *The new $5 price-point will provide New Zealanders with a fresh perspective on value, and even though $5 is by today's standards "loose change", it will still buy a lot at The $5 Shop!*

[37] The $2 Shop Limited. *About.* Retrieved 7 January, 2011, from http://www.2n5.co.nz/#/about/.

Rising Costs Put Paid to $2 Shop

> *Nelson's $2 Shop will close tomorrow, with the rise in GST a factor in the decision. Owner and operator Kate Elliott is giving up the franchise, saying increasing overheads have forced her to rethink how to best market low-cost goods to consumers...*
>
> *She said that with GST set to increase from 12.5 to 15 per cent in October, the margins were not there for a fixed-price business, and she had decided not to renew her five-year franchise.*
>
> *"It's fine for everybody else, but when you are in fixed-price retail, you are stuffed. Other people will put up prices, but you are stuck."*
>
> *However, in two weeks the shop will open as a newly refitted and rebranded store, Piggy Bank Busters. Mrs Elliott said the brand was new and would offer high-quality, low-cost goods.*

Note that the above example of The $2 Shop demonstrates both an economic factor (inflation) and a political / legal factor (new GST legislation).

Another example is that of Arneg New Zealand, which has created refrigeration technology that will save businesses money – particularly under the new Emission Trading Scheme.

***Arneg New Zealand*[38]**

> *Kiwi ingenuity creates first state-of-the-art 'green' refrigeration technology, set to revolutionise the supermarket industry. Arneg New Zealand, the country's only 100% owned and operated supermarket refrigeration business, has created history by installing the first state-of-the art 'green' refrigeration technology into a New Zealand supermarket.*
>
> *"New World in Devonport on Auckland's North Shore has become the first supermarket in the country to have one of our completely environmentally friendly refrigeration systems installed and running only on carbon dioxide," said Mr Darby [Arneg NZ Managing Director].*

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[38] Arneg New Zealand. (3 July 2012). *First state-of-the-art "green" refrigeration technology*. Retrieved 12 November, 2012, from http://www.scoop.co.nz/stories/BU1207/S00077/first-state-of-the-art-green-refrigeration-technology.htm

> *The system, which is called a Transcritical System, is truly green. It cools purely using carbon dioxide, a natural refrigerant, instead of the more common commercial synthetic refrigerants that emit several thousand times stronger gases than carbon dioxide. …. The system also negates the 'ETS effect' with the new Emission Trading Scheme that comes into law in 2013 making synthetic refrigerants significantly more costly.*
>
> *"When the law comes into effect it means New World Devonport will avoid the impact of having to report on using synthetic refrigerants…" [said Mr Darby], "The store is now energy efficient, whilst increasing refrigeration in the supermarket, it is also reducing the power required to run the system. Plus the new system provides the store with free hot water and free store heating in winter."*

The above article is both an example of a political factor (due to the introduction of the Emission Trading Scheme) and an example of a physical / environmental factor (due to the general push towards environmentally-friendly products and processes throughout New Zealand and numerous other countries).

Example Physical / Environment Factors

There are many aspects of this particular type of factor that can, and should, be considered. Several very different examples are provided on the following pages.

The first example relates to the issue of recycling waste into quality products. The fact that consumers are very aware of environmental issues provides support for entrepreneurs who are concerned about the environment to develop businesses and implement strategies which are aligned with their personal values. As a result, many consumer products are being marketed as 'environmentally friendly' and some products even carry 'green labels' indicating that they will not pollute the environment.

***The Formary*[39]**

Bernadette Casey, founder of The Formary, is an entrepreneur who left her career in foreign exchange trading to pursue her passion for textile design. In 2001, she established her own line of homewares, using contemporary pacific designs and quality craftsmanship to produce a range including bedroom linen, cushions, lampshades and bags.

(Later) Bernadette decided to re-focus her business to finding workable solutions for the vast amounts of industrial waste generated each year. The Formary's first client was global coffee giant Starbucks, who were looking to re-use their coffee sacks within the refurbishment of their new stores. They faced a challenge of how to overcome the shedding of small fibres from the jute coffee sacks.

The solution came while Bernadette was walking through the snow in Central Park after attending a felt exhibition in New York. Wool was an obvious carrier, the problem was finding a weaver who was open to putting used jute down their pristine wool lines. With the help of New Zealand Trade and Enterprise, The Formary identified partners near Starbucks' European distribution centre willing to test the viability of the recycled jute / wool concept and WoJo™ was born.

Made from 30% recycled coffee sacks and 70% New Zealand Wool, WoJo™ is a high performing commercial upholstery fabric that is being rolled out in Starbucks stores globally.

A significant part of the product development has been measuring and verifying WoJo's environmental impact, in the sustainable market customers demand carbon footprinting and lifecycle analysis. On testing, WoJo™ out-performed its synthetic competitors, not only in environmental impact, but also in durability and performance, earning The Formary the Sustainable Product Innovation Award 2010 from Prince Charles Campaign For Wool.

The above example demonstrates how businesses can be pro-active in creating environmentally-friendly technologies, and also highlights opportunities for other businesses to make use of this technology.

[39] Waikato Chamber of Commerce and Industry Inc. The Chamber Voice (March-May 2011). The Formary: Resource recovery – spinning straw into gold. *The Chamber Voice,* Issue 66, p.14. Hamilton: Author.

Another example is that there is increasingly a move to make products not only sustainable, but traceable. For instance, consider Wellington-based outdoor apparel company, Icebreaker, who launched the 'Baacode' initiative. A unique 'Baacode' number (which can be entered on Icebreaker's website) found on each garment ensures that customers who are interested can learn how their new piece of clothing came to be.

> ***Icebreaker***
>
> *"We have a deep commitment to animal welfare, the welfare of the people who work with us, and the environment. And we have nothing to hide.*
>
> *Your unique Baacode will let you see the living conditions of the high country sheep that produced the merino fibre in your Icebreaker garment, meet the farmers who are custodians of this astonishing landscape, and follow every step of the supply chain. We're sure you'll find the experience as inspiring as we do. Enjoy your journey back to the source."*[40]

As another example, Dunedin company, Oritain Global, has developed technology which actually scientifically verifies the origin of food products. This is an example of both a technological STEPP factor opportunity and a physical / environmental STEPP factor opportunity.

> ***Oritain Global***
>
> *"Consumers make food purchase decisions based on price, quality and origin. Most consumers associate quality with origin. Food origin labelling, the norm in almost all Western countries, is only as accurate as the traceability systems used to back it up. Regular and widespread food scares have led to the highest levels of consumer scepticism ever recorded. Time and time again, traceability systems alone have failed to reliably demonstrate food origin.*
>
> *Products whose origin can be scientifically verified are worth more. Oritain certified products earn a premium price, and they are helping our customers gain market share. Manufacturers who scientifically demonstrate origin of their supply reduce downstream risks and save money. Producers who can scientifically demonstrate origin protect their businesses in times of food scares."*[41]

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[40] Icebreaker website. Retrieved 30 December, 2008, from http://www.icebreaker.com/site/baacode/index.html.
[41] Oritain Global. *Why We Do It.* Retrieved 8 May, 2013, from http://www.oritain.com/value.html

Also consider the effect that nature can have on your business. The 2010 and 2011 earthquakes in Christchurch provide an example of this. Whilst earthquakes are not a frequent occurrence, we do need to bear in mind that New Zealand is situated on multiple fault lines and the occasional major earthquake is to be expected. At the very least, you should review your business continuity insurance to ensure you would be able to continue operating should a disaster such as this occur.

Another, more common example of the effect of nature is changing weather patterns. If you are operating in an industry affected by weather and seasons, you probably already have a business strategy that enables you to survive (and hopefully prosper) in a typical year of business. But, what you also need to have is a strategy for *changing* weather patterns and unusual weather events. Consider the following two excerpts from news articles:

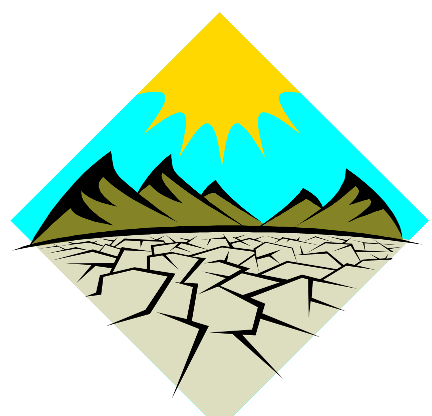
North Island Drought Worst in History[42]

Drought gripping the North Island is the most severe in history, with the crisis far from over both for now and in years to come, scientists say.

Long, dry spells are forecast to double by 2040 as temperatures continue to rise and New Zealand heads towards a more Mediterranean climate. Experts warn it could spell the end for farming as we know it and may cost the country billions of dollars in drought relief each year before practices are adjusted.

What can farmers do?

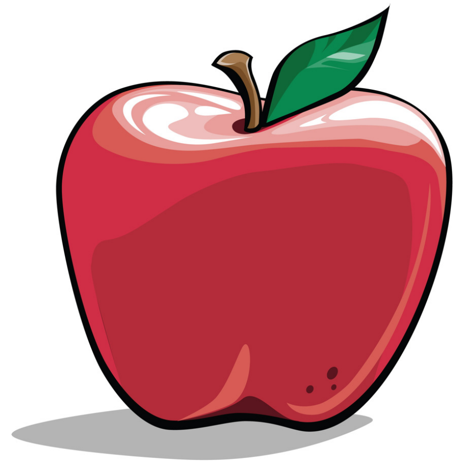
- *Build more dams*
- *Plant trees as feed*
- *Change stock mix*
- *Improve irrigation*
- *Leave grass longer*



[42] Johnston, K. (10 March, 2013). *North Island drought worst in history*. Retrieved 8 May, 2013, from http://www.stuff.co.nz/business/farming/8405004/North-Island-drought-worst-in-history

Fruit Growers Grateful for Drought[43]

Despite hardship in other areas, Hawke's Bay fruit growers are enjoying the dry weather. Apple grower Carl Fairey's looking forward to his best season in years. "In general, the fruit quality is really high. The tonnage is really good. We're looking forward to a cracker." His apples are bigger, juicier and sweeter than previous seasons because of the same conditions that are plaguing pastoral farmers.



The increased sunlight hours mean there's more sugar in the fruit, making it sweeter, and the hot dry conditions mean there's less disease among crops. Mr Fairey feels for suffering farmers, but his wish is their nightmare.

[43] 3 News. (6 March, 2013). *Fruit growers grateful for drought*. Retrieved 8 May, 2013, from http://www.3news.co.nz/fruit-growers-grateful-for-drought/tabid/421/articleID/289238/Default.aspx

3.2 Competitor Analysis

"The essence of strategy lies in creating tomorrow's competitive advantages faster than competitors mimic the ones you possess today."

- Gary Hamel & C K Prahalad

3.2.1 Competitor Profiles

Just as you need to be aware of the strengths, weaknesses, opportunities and threats of your own business, it is also important to be clear about whom you are competing with and what their strengths, weaknesses, opportunities and threats (SWOT) are. However, if you are constantly reacting to the moves of your competitors, it will grind you down. It is usually better to be at the front, in the lead, than at the back of the pack - as the saying goes, 'in a team of huskies, it is only the dogs at the front that have a good view!'

Often when we are in business we do not want to think about who our competitors are – there can be a tendency to be somewhat casual about competitors because of our belief that our product and / or service will be 'bigger and better' than the competitor anyway. This may be true, but we should never become so sure of ourselves as business owners that we throw caution to the wind and end up being tripped up from behind when our competitors 'race' past us. If you intend to be in business for the long haul, you need to establish exactly whom you will be competing against and what exactly is their profile.

You should develop a competitor profile for each of your competitors. One point to note is that, because the internet has allowed virtually any business to sell globally, your competitors may no longer be limited to those in your immediate neighbourhood. Instead, your business may be competing with businesses in other cities, or even with companies in Argentina, China, India, or Zambia! As such, you need to consider your global competitors as part of your competitor analysis.

If you have many competitors, then at least prepare a profile for each of your close competitors. The purpose of developing these profiles is to gain some understanding of the desired market position of your competitors, of their strategies and of what they are trying to achieve. Armed with this information, you can take measures to counteract and / or pre-empt any moves that they may make – rather similar to a game of chess.

3.2.1.1 Competitor Profile Questions

To develop a competitor profile, prepare a list of questions that you seek to answer for each competitor. Ideally the same questions need to be asked time and time again (not just once when you start your business) so that you are aware of any changing strategies and can continue to build an insight into exactly how your competitors might behave.

Here are some questions that you may seek to answer in each of your competitor profiles:

- What is the name of the competitor and who are the owners / directors?
- Where is this competitor located and what geographical regions do they serve?
- What products and services do they sell, and how does this differ to those that you sell?
- Do you consider this competitor to be directly or indirectly competing with your business? Why?
- Who are their customers?
- Why have they got those particular customers / clients?
- How do their customers / clients perceive them?
- What are they trying to achieve in the short run? In the long run?
- What are their strengths?
- What is their unique selling proposition (USP)? That is, what is their point of difference?
- What are they competing on (quality, quantity, pricing etc)?
- When is this competitor likely to make its next move and what will this move be?
- How do other competitors perceive them?
- How does this competitor provide value to customers / clients?
- What advantages do you have over this competitor?
- What advantages does this competitor have over you?
- What can you learn from this competitor?
- Generally, how well does this competitor appear to be doing?

Gaining information about a competitor does require some detective work, but it can be gleaned for instance, from a business's marketing material, an annual report of the business (if publicly available), or the business's website. Getting someone to do some shopping for the product or the service can also enable information to be picked up – what is the layout of the business, the range of products, how many customers are there at various times, how helpful and knowledgeable are the staff? Not that the focus should be a 'snooping' mentality! What is fundamental, however, is that that you know who your competitors are today and who your competitors will be tomorrow.

Start a file on your competitors – gather copies of their promotional and advertising material, look at their website, gather newspaper / magazine articles in which they are profiled, access a copy of their price list. You need to gather as much relevant information about the competitor as you can. Your aim should be to exceed your rivals (as in the following fictitious example) in all aspects of activities such as quality, design, price, speed of delivery and servicing. Try and be one step ahead of your competitors – but appreciate your competitors because they are your stimulus for change.

Example of Competitive Advantage for the Computing Industry

A computer sales business, which commenced as a very small business, now sells more computers than many of its competitors who operate from high profile, high rent CBD premises, even though they sell the same computers as their competitors. The difference in sales can be attributed to their strategy of selling and providing their customers with more than a computer.

The business provides and sells what computer buyers really want: they assist with implementing information technology, they provide and sell training and consulting services, they operate a help desk, provide software upgrades, and sell many other services required by computer users which are considered to be an important part of the transaction by computer buyers. They will even trade-in old computers.

3.2.1.2 Who are your Key Direct Competitors?

You can develop your competition audit further by considering who your key direct competitors are (those that offer a similar product / service and operate in the same target market). Ask yourself:

1. Which are the four best performers in the industry and why?
2. Which of these four competitors does your business fear most and why?

Try to complete a more comprehensive profile of each of your key direct competitors. Information you should aim to obtain could include:

- Revenue and profit trends.
- The number of employees.
- Details about their debt / borrowing situation.
- Estimates of how much the competitor spends on, for example, marketing materials, staff wages and training.

It is also important to have an awareness of the activities of your indirect competitors – that is, those that operate in the same industry, but target a different market. For example, Domino's Pizza would be a direct competitor for Pizza Hut, whereas the The Noodle Shop would be an indirect competitor.

3.2.2 Competitor Strategic Group Maps

A strategic group map, a two-dimensional map that shows attributes of competitor strategies, can help you determine who your closest competitors are. In essence, a strategic group map is a great way of 'picturing' the competitive playing field. There are no set two dimensions to use on a map – you can use whatever factors you think are most relevant to your business. However, commonly used factors include price, quality, range of products and services, proximity to town, etc.

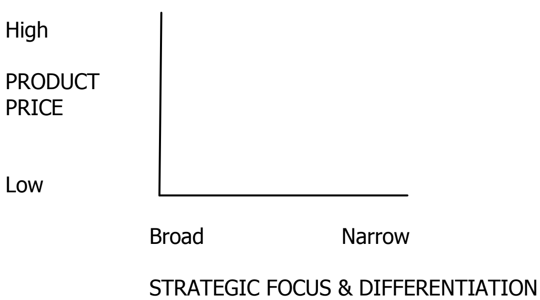
3.2.2.1 Steps to Use a Strategic Group Map

The steps involved in developing a strategic group map are as follows:[44]

1. **List your competitors.** These can include both indirect and direct competitors, but should include all businesses that you think compete closely with your product or service.

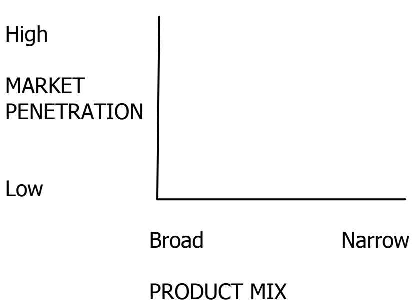
2. **Identify the two top competitive factors in your market.** One competitive factor should be expressed in a 'low to high' range. This could include, for example, price (i.e. prices can range from low to high). The other variable is more flexible, but should still reflect the most important competitive factor in your market. Put these factors on the X axis and Y axis of the map. Three examples of possible axes for your strategic map are given below.

Example 1:



Example 2:

Example 3:



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[44] Adapted from: Bluewater International. *Competitive Analysis*. Retrieved 30 December, 2008, from http://www.bluewaterinternational.net/bluewater/CompetitiveAnalysis.pdf.

3. **Plot competitors on the map.** Looking at the list from Step 1 and the criteria you decided on in Step 2, assess each competitor's position and plot it on the map. Also plot your own business on the map.

4. **Identify strategic groups.** Where there are clusters of competitors located close together on the map, draw a circle around these businesses to indicate a strategic group map. It is likely that you will have two to four groups. Those businesses in the same strategic group as you are your closest competitors.

Note: If there are more than two important competitive factors in your industry, then you could draw additional maps to get a more complete analysis of your competitive environment. For example, if product range, brand image and proximity to the CBD of a city are all important, you could develop three group maps (one showing product range and brand image, one showing brand image and proximity, and the other showing proximity and product range).

After developing the strategic group map(s), you need to actually use the information you have learnt. This can be done by reviewing the map(s) and asking the following questions:

- Are there any 'empty' areas on the map that you, or one of your competitors, could move into, perhaps by revising an existing product or launching something new?
- Could you improve your strategic position by moving to a different strategic group? For example, do you think the number and size of the competitors in your strategic group is relatively large compared to the size of the customer base?
- What advantages do your competitors have that you lack? Are they significant to your position on the map or not?

If there are more than two important competitive factors in your industry, then you could draw additional maps to get a more complete analysis of your competitive environment.

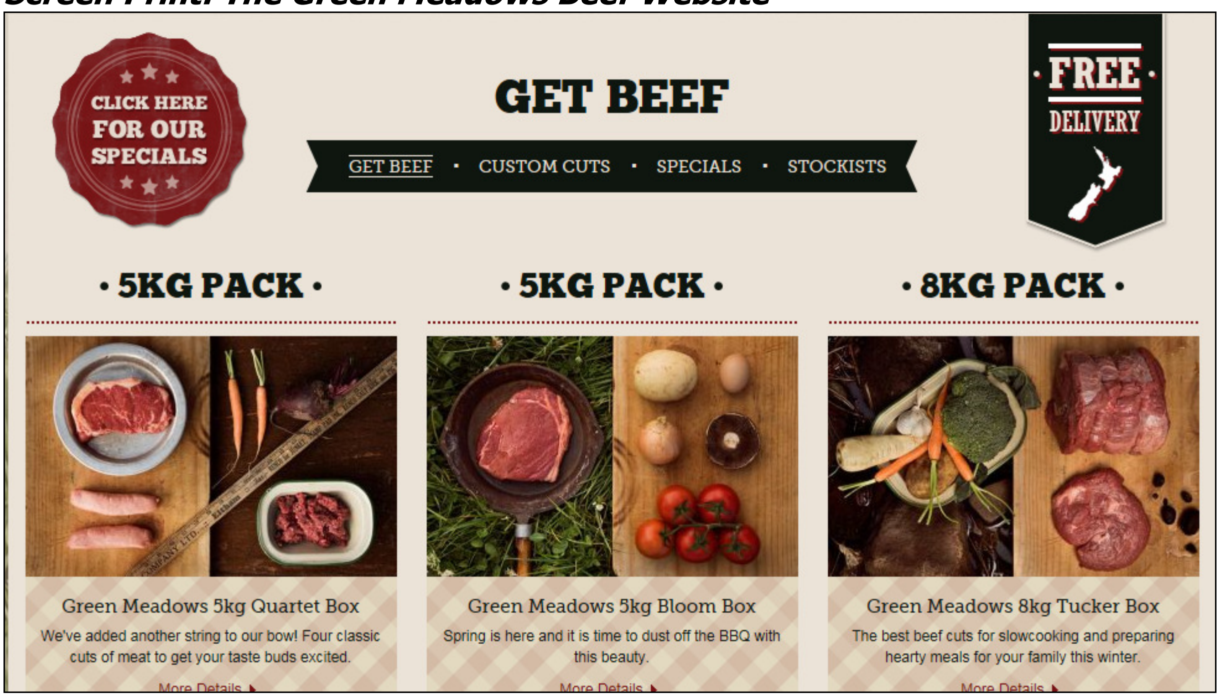
The business, Green Meadows Beef, provides an example of what a strategic group map may reveal (see the following page). In this case, if a strategic group map had been drawn with 'Quality' on one axis and 'Proximity of Availability to New Zealanders' on the other axis, a gap for quality beef readily available for all New Zealanders, nationwide, is likely to have resulted in a gap in the market for high quality meat readily available to all New Zealanders.

Green Meadows Beef[45]

Green Meadows Beef is a family-based business located south of Opunake in Taranaki. The business was founded after the family realised that the best New Zealand beef is exported and never made available locally. Green Meadows Beef carefully select and farm beef animals from cattle farmers who pride themselves on breeding and rearing the best. The cattle are grazed on cool climate grass, which the family believes helps gives their meat outstanding flavour, colour and texture.

The meat is sold via their website (www.greenmeadowsbeef.co.nz) and is available in a select number of stockists around the country. Customers are able to go online and either choose a pack of meat, containing a number of pre-determined cuts, or custom choose their cuts. Customers can also specify how they want their meat packed so it is delivered in meal portions appropriate for the size of the family. The purchase is then delivered free within New Zealand.

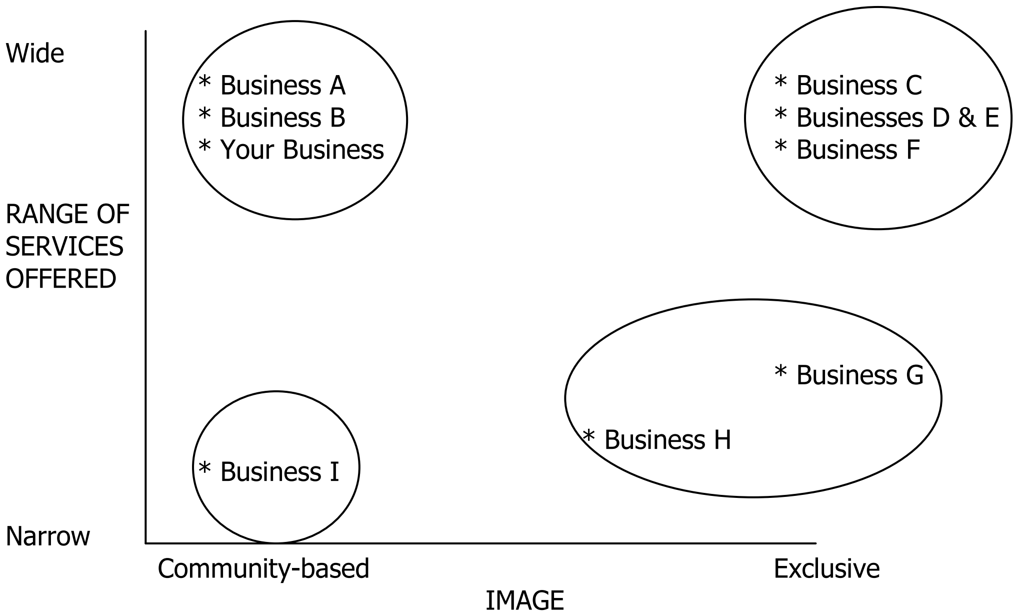
Screen Print: The Green Meadows Beef Website[46]



[45] Example adapted from information available on the Green Meadows Beef website (as at 9 October 2013) and the NZ Business Magazine (April 2013).
[46] Retrieved 9 October, 2013, from http://www.greenmeadowsbeef.co.nz/Get-Beef

3.2.2.2 Example Strategic Group Map

A strategic group map for a gym / health club could look as follows:



In this example, your business is closely competing with two other businesses – Business A & Business B, in the area of community-based gyms offering a wide range of services. However, based on this map, it can be seen that you offer a slightly narrower range of services, yet have the same community-based image. This may make your business appear a less favourable option to customers than Business A and Business B. As such, you may decide to increase the range of services you offer so as to move yourself higher up in this circle. Alternatively, you may consider moving to another position on the map.

There are a number of businesses in the strategic group to the top right of the map (Businesses C, D, E and F), indicating competition might be quite strong in this area. However, before discarding this as a possible position to move to, you should consider whether the level of demand justifies this many, or more, businesses. For example, perhaps 90% of the market actually wants to attend an 'exclusive' gym that offers a wide range of services.

Another option could be to further reduce the number of services offered and perhaps move towards the strategic group comprising Businesses G and H. It could be that these two businesses have each found niche markets within the industry and may not face a high level of competition from one another. For example, Business G may solely provide vibration training services, whilst Business H may solely provide customised weight training packages. There may be an opportunity for you to narrow your focus, specialising in an area of the industry that no other competitor does.

Alternatively, you may consider it best to move to an empty space on the map. For example, with the exception of Business H that has a narrow product range, no one else seems to be catering to the 'in-between' group of customers – that is, those who want something a bit more upmarket than the community gym, but do not want to pay the price for going to an 'exclusive' gym (or be associated with going to one!). However, once again, you would need to make sure there is demand for this type of gym before you change your focus – the very reason that no other business is operating in this position may simply be because there are insufficient customers for that part of the market.

Here are some key tips to remember if you conduct a competitor analysis for your own business:

1. Create a strategic group map to identify your closest competitors.

2. Write competitor profiles for each of your competitors, but make sure you write more in-depth profiles for your closest competitors (as identified by your strategic group map).

3. Analyse the information from these two tools together. Think about what moves your closest competitors are likely to make, and where this will lead them to on the strategic group map. Then also think about if any of your other competitors are likely to make moves that are going to bring them closer to you on the strategic group map.

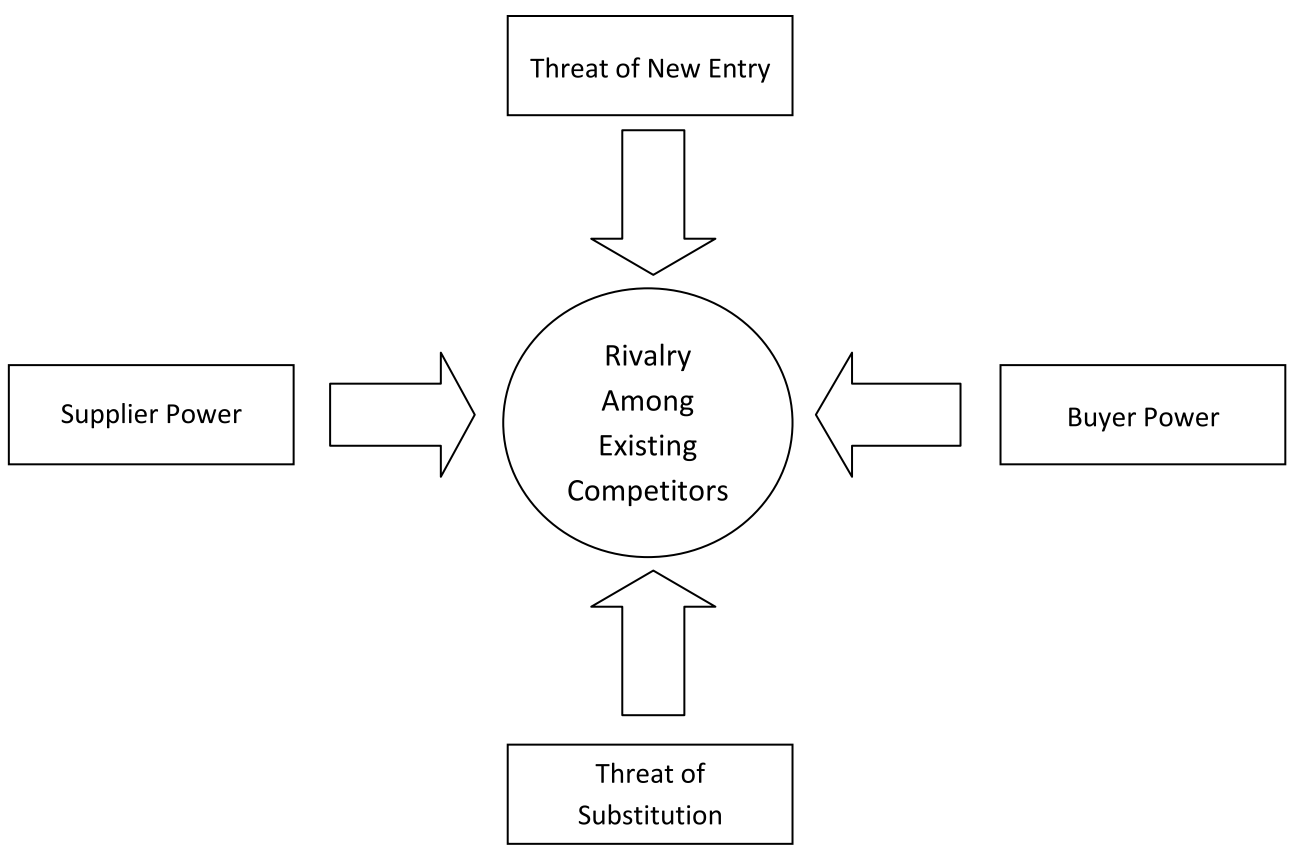
4. With all this information in mind, consider where you think it is best for your business to be placed on the strategic group map. Where you currently are? Or do you think you should at least *consider* changing your position?

3.3 Porter's Five Forces

Professor Michael Porter (Harvard Business School) developed the 'Porter's Five Forces' model, a tool that can be used to assess the attractiveness of an industry and identify any issues or challenges that you may face when operating in that particular industry. The tool identifies five forces affecting competition in an industry. To assess the attractiveness of an industry, you consider a number of factors that indicate whether the strength of each of these five forces is high or low. The most attractive industries are those in which the competitive forces are low.

These five forces, and the factors to consider for each of these forces, are shown in the following diagram and are then explained further on the following pages:

Porter's Five Forces



3.3.1 The Forces

Supplier Power

This force is concerned with determining the impact that suppliers can have on your business and, in particular, how easy it is for them to increase the prices you pay.

This is driven by factors such as:

- the number of suppliers,
- the costs associated with moving your business from one supplier to another,
- the extent to which the particular supplier's products are essential to your business,
- the extent to which the supplier relies on *you* as a customer (for example, if you are their only customer, and you can go to another supplier, the supplier will not want to risk losing your business!).

Buyer Power

This force is concerned with determining the impact that buyers can have on your business and, in particular, how easy it is for them to bargain your prices down.

This force is driven by factors such as:

- the number of customers you have,
- the extent to which your business is reliant on a particular customer,
- the availability of other options for customers (do they have to buy from you?),
- the uniqueness / quality of your particular product relative to that of competitors,
- whether there is a cost involved for customers to move their business from you.

Rivalry among Existing Competitors

How strong is the level of competition amongst existing businesses in the industry?

A couple of the factors affecting rivalry include:

- the number of competitors, and
- the level of differentiation in terms of products and services that the various competitors provide.

If you have many competitors, and they offer equally attractive products and services, then rivalry is strong – if suppliers and buyers do not get a good deal from you, they will go elsewhere.

Rivalry can also intensify if 'the stakes are high', in that there are major profits to be gained or losses to be suffered, or if the growth rate of the market is reducing (or the market is actually shrinking).

Threat of Substitution

The threat of substitution refers to the threat posed by customers using alternative products or services. This *does not* mean a customer, for example, using a competitor's car wash instead of your own.

Instead it refers to a customer choosing to, for example, buy cleaning products so that they can wash their car themselves instead of using a car wash. That is, the threat of substitution is affected by the ability of your customers to find a different way of meeting the need that your product or service fulfils.

Some of the factors that affect the strength of this force include:

- the prices of substitute products,
- the number of substitute products available, and
- the benefits offered by these products.

Threat of New Entry

This force relates to the likelihood of new businesses entering the industry and becoming your competitors.

This is affected by factors such as:

- the cost of establishing a business in your industry,
- the amount (and complexity) of regulations involved,
- how easy it is for a new competitor to entice customers away from existing businesses such as your own (i.e. the amount of customer loyalty), and
- the general attractiveness of the industry, as determined by the strength of the other forces. For example, if the level of rivalry amongst existing competitors is very low and the costs of entering the industry are also low, it is quite likely that more businesses will enter the industry.

3.3.2 Conducting an Analysis

As outlined previously, to conduct an analysis using the Porter's Five Forces model, you give consideration to factors that indicate the strength of each of the five forces. One way in which you can do this is to develop and complete a table, such as the one given on the following pages.[47]

After completing a table such as this, it should be relatively easy to identify whether the strength of each force is high or low. For example, if you tick 'disagree' for each of the statements relating to the threat of new competition, the strength of this force is low. This is in your favour, as it means it is unlikely that a new competitor will enter the market and compete head to head with you.

If, however, you strongly agree with a number of the statements listed in this table, this provides some cause for concern. It could be that these are key issues and challenges that you need to address in the business growth strategies that you are going to develop throughout the remainder of this programme.

[47] Aotahi Ltd, (2008). *Taking Care of Business: A Guide to Entrepreneurship in Aotearoa (2nd Edition).* Te Kuiti, New Zealand: Aotahi Limited.

Porter's Five Forces Analysis Table

Porter's Five Forces	Extent of Agreement with Statements		
	Disagree	**Somewhat Agree**	**Strongly Agree**
Threat of New Competitors			
It is easy for a new business to start with very little capital available.			
High customer loyalty is not a feature of this industry.			
There is limited opportunity for large businesses to buy in bulk and sell at lower prices than smaller businesses.			
Access to distribution channels is not limited.			
There is a low amount of Government regulation within the industry.			
Existing competitors are not able to effectively retaliate against new competitors.			
Rivalry among Existing Competitors			
The growth rate of the industry is low.			
There are many businesses currently in the industry.			
There is very little difference between products and services offered by businesses in the industry.			
There are high costs involved for businesses exiting the industry.			
There is a low level of brand identity in the industry.			
There is a high level of fixed costs involved in operating within the industry.			
Supplier Bargaining Power			
There are very few suppliers in the industry.			

Porter's Five Forces	**Extent of Agreement with Statements**		
	Disagree	**Somewhat Agree**	**Strongly Agree**
The costs associated with changing suppliers are high for businesses within the industry.			
Suppliers tend to have many customers. That is, they do not rely on a small number of businesses in the industry.			
There is very little opportunity for backward integration for businesses within the industry. That is, it is unlikely that a business in the industry will be able to become its own supplier.			
The threat of forward integration by suppliers is high. That is, it is easy for suppliers to enter the industry.			
Products provided by suppliers are essential to businesses within the industry.			
Customer Bargaining Power			
It is common for customers to buy in large volumes.			
Customers do not face any costs when changing the businesses they buy from.			
Products within the industry are similar.			
There are little or no costs incurred by customers who switch from using products within the industry to using substitute products.			
Customers have a large amount of information about their options on where they can buy from.			
Customers can produce the products and services of the industry themselves (i.e. there is a high threat of backward integration by customers).			
The ratio of customers to businesses in the industry is low. In other words, there are relatively few customers in comparison with the number of businesses.			
Brand identity is not important to customers.			

Porter's Five Forces	**Extent of Agreement with Statements**		
	Disagree	**Somewhat Agree**	**Strongly Agree**
It is common for customers to negotiate collectively with businesses as opposed to individually negotiating.			
Threat of Substitute Products and Services			
There are a large number of substitute products available to customers.			
The benefits provided by substitute products and services are very similar to those provided by products and services within the industry.			
There are little or no costs incurred by customers who switch from using products within the industry to using substitute products.			
The prices of substitute products are relatively low.			

3.4 Customer Profiles

Who are your target customers (or clients) and how do they behave? Customers can be fickle and you need to try to understand how, why and when they buy. The better you are able to understand their buying habits, the better you are able to satisfy their needs.

3.4.1 Using Customer Information

When you look at who your customers are, just as when you analyse your competition, you will need to discover not only who they are today, but who they might be tomorrow. This will help you identify opportunities, and possibly even challenges, that your business may face.

Consider the example of Kim Crawford Wines (www.kimcrawfordwines.co.nz), a business started by husband and wife team, Kim and Erica Crawford in 1996 from a spare room of their Auckland home, and later sold to the Canadian company, Vincor International. Erica analysed the gaps in the New Zealand wine scene and believed their wine would appeal to the taste buds of youthful, urban wine drinkers across the globe. Erica said:[48]

> *"Our decision to become the first New Zealand wine label to use screw cap bottles was primarily dictated by quality considerations. But we knew that our market of young sophisticates were ready for this step and was free of the misconceptions spawned by previous less-successful attempts to introduce screw caps back in the 1970s."*

Kim Crawford Wines demonstrates how understanding your customer base can provide opportunities in the market – whereas screw cap bottles may not have been suitable for other businesses, using them was a good strategy for this particular business given their customer base.

Thus, once you have identified who your customers are, start thinking about how their views and ideas relating to your products and services may change over time. It may be that these changes produce challenges or threats to your business.

[48] Who's Who. (July 2008). Erica Crawford. *Showcasing New Zealand's Leading Entrepreneurial Women,* pp. 43-49. Morrinsville, New Zealand: Stretton Publishing Co Ltd.

Take the example of the gym / fitness industry again. You may be a small exclusive women's only gym that offers state of the art equipment for workouts, but does not offer any group fitness classes. Five years ago, your clients may have appreciated the benefits of the exclusivity of a women's only gym, but five years on, the discerning gym member is not only wanting the exclusivity, but also the benefits that can be found at larger gyms. These benefits include a variety of services, including group fitness classes. This example illustrates that you need to keep up with the reasons why people are your customers, (or are **not** your customers anymore!).

3.4.2 Identifying your Customers

As illustrated in the previous sub-section, there are clear benefits to understanding your customers. However, to get these benefits, you first need to know who they are.

One way to learn about your customers is to construct a customer / client profile for **each group of products and / or services** that your business offers. It is possible that there may be several separate customer profiles for one single product.

For example, if you own a retail business that sells label streetwear most commonly worn by people aged 13 to 30, one customer / client profile may be developed for those who buy the clothing to wear themselves, whereas another profile may be developed for those who buy the clothing for others (e.g. parents buying for their children).

When developing profiles, consider the following sets of characteristics and common interests that your customers may share:[49]

- Gender, age and relationship or parental status.
- Education and skills.
- Ethnic group, culture and religious or political beliefs.
- Profession, occupation, self-employed.
- Financial situation.
- Social status.
- Geographical location.
- Habits, hobbies and pastimes.

[49] Adapted from: Hedges, Roy. (2002). *Running Your Own Business Made Easy,* p.22. London: Law Pack Publishing Limited.

- Height and weight.
- Industry, number of employees, turnover exceeding a specific figure (for customers that are businesses).
- Special events, sports or clubs.
- Ownership of things such as cars, pets and houses.

In regards to identifying the social status of your customers, you may choose to use the following 'grades':[50]

Social Grade	**Occupational Group**
A	Top management, administrative and professional
B	Intermediate managerial
C1	Supervisory, clerical and junior management
C2	Skilled manual workers, pensioners
D	Semi-skilled and unskilled manual workers
E	Unemployed, casual labourers

Try to identify as many common characteristics that your client base shares within your customer profile(s) as possible. For example, a travel agent specialising in winter sunshine holidays may identify the following characteristics within their customer profile:

- Ages 60 and over,
- In a relationship, but without any dependent children,
- Nationally (throughout New Zealand), but not internationally,
- Social grades B, C1 and C2,
- Interested in walking, and
- Average to good level of health and fitness.

[50] Hedges, R. (2002). *Running Your Own Business Made Easy,* p.22. London: Law Pack Publishing Limited.

In contrast, a wallpaper manufacturer might target wholesalers and trade outlets instead of individuals. The manufacturer may therefore identify the following characteristics in their customer profile:

- Retail businesses,
- Having a 'quality' as opposed to a 'low price' positioning in the market,
- Selling a range of home maintenance and renovation products,
- Operating from more than one location (having multiple stores),
- In New Zealand and Australia, and
- Being likely to order at least $30,000 worth of products per year.

It may be the case that you currently have several types of customers shopping with you. If this is the case, have a think about whether you would like to focus on one or two of these customer groups. This will be a good idea if any of the following factors apply:

- Your business has limited capacity and can therefore only service a certain number of customers.

- Servicing one type of customer reduces demand for your products / services by another customer group.

- You enjoy working with some types of products and services more than others.

- You enjoy liaising with some groups of customers more than others.

In deciding which group(s) of customers you want to focus on, think about factors such as which group is most profitable, which has the most potential for growth and which provides the most reliable, consistent sales.

3.4.3 What do your Customers Want?

You may decide to take a different approach: Instead of trying to first group customers according to their characteristics and then identify the wants of those groups, you may develop your customer profiles based on wants first. That is, what are the characteristics of members of your customer base who primarily want innovative products? What about the characteristics of your customer base who are mainly concerned with competitive prices?

Knowing what the various groups of your customers want, and are likely to want (and not to want) in the future, should guide your business strategies and identify any potential problems / issues in what you are currently providing.

Additionally, it can help you determine whether or not you want to change your customer base. That is, once you know who your customers are and have analysed what they want in relation to what your business can provide, you also need to determine **who you actually want** your customers to be.

Examples of customers' needs can fall into the following four categories:

1. product / service reliability, after sales service and support.
2. right product / service, right quality, flexible, delivery and competitive price.
3. honesty, fulfilment / satisfaction, pleasing service and environment.
4. confidence in your expertise, status, generous terms of trade.

Some further questions you can consider in regards to the analysis of your customers / clients are:

- Why do they buy the product and / or service?
- Why do they buy from us?
- Why do they leave us?
- What stops them from buying more?
- When do they buy?

- How do they use the product and / or service?
- How do they buy?
- How often do they buy?
- Where do they buy?
- Who does the buying?
- Who uses the product and / or service?
- Who are our target customers / clients?
- How do we target the market segment that our product / service attracts?

3.5 Industry Success Factors and Trends

This section of the external analysis is about succinctly identifying exactly what it takes for businesses in the industry in which your business operates to be successful and it is about looking at what the future of the industry holds.

3.5.1 Industry Success Factors

Begin first with identifying the key factors required for success within your industry: the list of factors should not be long and should be specific. Try to focus on approximately three to five factors. That is, what are the five most important factors within your industry? For instance, are they cost efficiency, cost leadership, customer service, product differentiation and product innovation, and what about size of product range and level of technology used?

For example, key success factors for the hairdressing industry may be:

1. Awareness of the latest fashion in haircuts, colours and products.
2. An ability to relate to the needs of, and communicate well with, clients.
3. Flexible opening hours to cater for professional clients who generally cannot attend appointments between 9am and 5pm.

Consider the following example of ‘Real Special Ltd’, a Nelson-based business specialising in educational software for people with dyslexia.

Example: Real Special

Real Special Ltd is an online company, based in Nelson, which offers educational products for people with special needs. The business’s key product range is software to help those with dyslexia. Owners Carole and Tony Bennett identified the following factors to be critical to success in the New Zealand market.

1. *Having a point of difference*

   New Zealand is a relatively small market and it is easy for international businesses which specialise in products for people with dyslexia to enter the market. As such, the market can potentially become crowded very quickly. Any business wanting to remain in this industry long term therefore needs to create a point of difference which has value to consumers.

   Real Special Ltd has created a point of difference by not aligning itself to any one particular software provider, allowing the business to give independent advice. This point of difference is enhanced by the fact that one of the owners, Carole, is a qualified teacher with experience in working in special needs settings. This gives the business credibility, in terms of both the products it offers and the advice it gives. Carole uses her skills and experience to test the various ranges of products available, with a view to only stocking those products that she would personally recommend. She then gives independent advice to customers who need help identifying the right product for their particular needs.

2. *Maintaining a low cost structure to keep prices low*

   Pricing is critical in this particular industry in New Zealand. Parents of children with special educational needs are often faced with a number of expenses that other parents do not typically incur such as, for instance, private tutoring fees. Furthermore, schools work within tight budgets to provide educational products to teachers of special needs children. Therefore, price is a large barrier to purchasing for the two main customer segments (parents and schools).

   Real Special Ltd has a number of ways by which it maintains a low cost structure. Firstly, it does not have a physical retail shop and therefore does not incur any lease costs. All sales are done online at www.realspecial.co.nz or over the phone. The business's strategy of being a 'boutique' provider of quality specialised products also plays an important role in keeping costs low. As only the best products are stocked, capital is not tied up in stock. Real Special Ltd is therefore able to provide products that can suit all budgets and consumer types, from home-users through to large colleges.

3. *Accessibility*

There are several aspects of 'accessibility' which are important to customers within this industry. Not only do customers need to be able to make purchases at any time, from anywhere in New Zealand, they need to have access to product trials which they can use to help make purchasing decisions. Different learners have different learning needs, as well as preferences. Whilst a product may suit a learner's needs, it may not necessarily suit their age group or preferred style of learning. Given that software cannot be returned once purchased, product trials and demonstrations are very important.

Carole and Tony have made accessibility a priority in their business. Right from the time of establishment (in 2004), the decision was made that the business would need to be online so it could be accessed by customers throughout New Zealand at any time. Carole and Tony also give preference to working with suppliers who offer product trials and demonstrations via (for example) their website.

Furthermore, Real Special ensures that their customer service is accessible and friendly. Although enquiries are usually answered by email, the couple personally answer all phone calls to take customer orders or give product advice. This is supported by an online monthly newsletter, further helping the business to engage with customers. The newsletter is deliberately friendly rather than corporate in feel, and features special offers on products, free useful websites, easy recipes, and a column 'written' by their dog Edith, the Real Special mascot! This personal touch has helped the business build relationships with their customers and overcome some of the barriers posed by not meeting customers personally.

This example demonstrates how, by being aware of the key success factors for their industry, business owners can build a strategy focussed on performing well in these areas.

3.5.2 Industry Foresight and Trends

"Those businesses that can ride the wave of popularity, based on current trends, are those that make the most money.
What are you doing to keep yourself informed about the future trends in your industry?"

- Glen Senior, Business Consultant

A key to being successful in business is to find out what everyone wants tomorrow and start planning for it today! What does the future hold for your industry? That is: What sort of work will businesses in your industry be doing in the future? What opportunities may evolve? What threats will face the industry? Obviously, the more you are aware of trends in your industry, the better you can plan for the future.

Industry foresight is about looking through the crystal ball – which can be difficult to do. However, there are many trends that are apparent in the way we live our lives and in our demographics which we can look to for ideas for what the future holds for the industry in which a business operates. A few of these are as follows:

- *Mobility of information:* Technology has advanced, and is continuing to advance, in a way that allows people to access information wherever they are. This includes access to information on the web, as well as to files that were previously only stored in a physical office or on one particular computer.

- *An ageing population:* In 2010, 13 per cent of the New Zealand population was over 65[51]. By 2031, this figure is expected to rise to 20%. Businesses should therefore think about how they cater to this demographic.

- *Natural and Organic Products:* There is an increasing awareness of the detrimental effects that the chemicals and ingredients in a lot of our food and household products have on our bodies and the environment. There is demand for alternative, natural and organic products globally. Given New Zealand's 'clean green image', we are in a good position to be satisfying that demand.

- *Busy, stressful lives and a need for convenience:* People find it very hard to maintain a good 'work / life' balance. The expectations that are placed on our time have increased, partly due to a need for both adult members of households to be working

[51] The Commission for Financial Literacy and Retirement Income. (7 December, 2010). *Review of Retirement Income Policy*, p.19. Retrieved 10 November, 2011, from http://www.retirement.org.nz/files/file/RIR-FULLREPORT-2010.pdf

full-time in order to be able to financially afford a reasonable standard of living. Consumers therefore look for convenience when making purchasing decisions.

In 2012, the accounting firm KPMG released a report identifying 10 'sustainability megaforces' that businesses will face over the next 20 years. These trends / factors are identified below[52]. Which ones will affect your business, and how?

1. *Climate Change:* Predictions of annual losses due to climate change range from 1 per cent to 5 per cent per year, depending on the action taken by policymakers.

2. *Energy & Fuel:* Fossil fuel markets are likely to become more volatile and unpredictable because of higher global energy demand, supply and production uncertainties, etc.

3. *Material Resource Scarcity:* Global demand for material resources is predicted to increase dramatically as developing countries industrialise. Scarcity also creates opportunities to develop substitute materials or to recover materials from waste.

4. *Water Scarcity:* It is predicted that, by 2030, the global demand for fresh water will exceed supply by 40%. Businesses may be vulnerable to water shortages, declines in water quality, water price volatility, etc.

5. *Population Growth:* The global population is predicted to number 8.4 billion by 2032. This growth will place intense pressures on ecosystems and the supply of natural resources. Businesses can expect supply challenges and price volatility as a result.

6. *Wealth:* The global middle class (individuals with disposable income of between US$10 and US$100 per capita per day) is predicted to grow 172% between 2010 and 2030. The challenge for businesses is to serve this new middle class market at a time when resources are likely to be scarcer and more price-volatile.

[52] KPMG International Cooperative. (2012). *Expect the Unexpected: Building Business Value in a Changing World*. Retrieved 23 August, 2012, from http://www.kpmg.com/dutchcaribbean/en/Documents/KPMG%20Expect_the_Unexpected_ExctveSmmry_FINAL_WebAccessible.pdf

7. *Urbanisation:* In 2009, for the first time ever, more people lived in cities than in the countryside. By 2030, all developing regions including Asia and Africa are expected to have the majority of their inhabitants living in urban areas. Cities will require extensive improvements in infrastructure.

8. *Food Security:* Global food prices are predicted to rise 70%-90% by 2030, due to population growth, water scarcity and deforestation.

9. *Ecosystem Decline:* The decline in ecosystems is making natural resources scarcer, more expensive and less diverse. This particularly affects the agriculture, fishing, food and beverages, pharmaceuticals and tourism sectors.

10. *Deforestation:* Forest areas are predicted to decline by 13% from 2005 to 2030, mostly in Southeast Asia and Africa. The timber industry and sectors such as pulp and paper are vulnerable to potential regulation to slow or reverse deforestation. Companies may also find themselves under increasing pressure from customers to prove that their products are derived from sustainable origins.

Tip for conducting an Industry Foresight and Trends Analysis for your business:

The challenge for you, in your business, is not just to identify the trends that will impact on your industry. Rather, it is to also identify how **you** can evolve products and services in your industry to meet these needs.

Thus, instead of simply developing a strategy as to how you will deal with industry changes, **aim to develop a strategy which LEADS industry changes**.

3.6 Industry Profile Analysis

As the name suggests, this business tool involves creating a profile of the industry in which your business operates. This profile can then be used to guide strategy development and to identify challenges and threats your business may face, as well as opportunities that may be presented.

Like the other tools, this analysis is not static – the industry will change over time. It is therefore important that you revisit each of the questions periodically to note changes / shifts that may have taken place and to identify what the subsequent flow-on effect to your business is.

It is important to find evidence which backs up the profile that you create. Helpful information can be obtained from the following sources (amongst others):

- The Statistics New Zealand website (www.statistics.govt.nz). This includes Census data (note that the most recent Census was held on 5th March 2013).
- Local councils.
- Industry websites (such as Master Builders Association, www.masterbuilder.org.nz).
- Local Chambers of Commerce.
- Local business development centres and on their websites (e.g. www.opportunityhamilton.co.nz and http://www.waitakereenterprise.co.nz).
- The New Zealand Trade and Enterprise website (www.nzte.govt.nz).
- The Ministry of Economic Development website (www.med.govt.nz).
- The New Zealand Government business website (www.business.govt.nz).

The benefit of finding this evidence is that it reduces the risk of you making decisions based on information that you *think* you know. For example, you may think that there are very few individuals skilled in a particular area of expertise, and therefore think you have a competitive advantage if you happen to have these skills. However, what you may not have realised is that there may now be a specific course available in your area of expertise which is producing dozens of graduates each year!

3.6.1 Industry Profile Questions

- What is the **market size**?

  For example, do the products / services offered by the industry focus within a specialised, niche, boutique market or is the product / service one which applies to a wide cross section of people? For instance, the market size for bathroom French doors would be a lot smaller than the market for bathroom towel rails.

- What is the **growth rate** of the industry?

  What stage in the growth cycle is the industry? (Introduction/Growth/Maturity/Decline). Looking at the length of time that the industry has been selling the particular products / services will help you determine the stage of the product lifestyle.

  Is the demand for such products and services of the industry still increasing? If so, at an increasing or decreasing rate? Do you think that demand for the product / service is beginning to reach saturation point?

- How fast is the **pace of technological change** in the industry?

  Do most businesses within the industry keep up with the technological changes – how necessary is it? How expensive is it to do this? Can keeping up with technological changes, and ensuring that staff are well trained to use this technology, become a source of competitive advantage?

- What are the product / service **similarities** and the product / service **differences** within the industry?

  For example in the printed tee-shirt (tees) industry, the product is similar in that most tees are made from lightweight cotton of the same style (such as round neck with short sleeves), but the differences come in the style and type of printing / images that are put on the tees – which 9 times out of 10 is why a customer chooses one tee over another.

- Can **economies of scale** be utilised by businesses in the industry?

  That is, does production in large quantities lower costs? How many businesses within the industry take advantage of the large quantities? Is the focus of the production of a product on its quality or on the speed / turnaround time for a production run?

- What levels of **capital utilisation** are required for success in the industry?

  In order for your business to cover costs and break-even, how much use do you need to make out of equipment? Higher utilisation levels are likely to be required if your business is in an industry where machinery and equipment have to be constantly updated, as you would need to recover costs from one piece of equipment before you updated to the next. Is there an expectation within the industry, and from customers, that businesses constantly upgrade to new machinery and equipment even when the older versions can do, arguably much the same job as the new ones?

- Do you think the industry is **dominated** by a few large businesses, or is it **fragmented** with many small businesses?

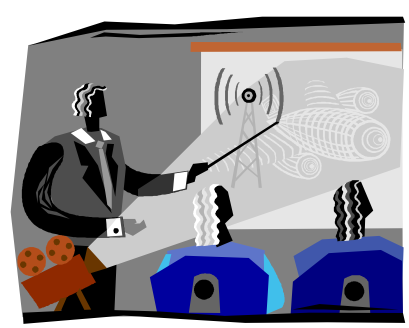
  That is, do one or two big businesses hold a large part of the market share?

- Does **forward and backward integration** occur in the industry?

  For example, is it common for businesses in the industry to be involved in the production of the goods as well as retailing? An example of backward integration for a butcher would be having their own farm on which the cattle, chicken, pigs, etc. are raised for the meat, whereas an example of forward integration would be owning a restaurant or producing microwave meals using the meat they sell.

- Is appropriately **skilled labour** readily available?

  That is, for your particular industry and the type of workers it requires, how easy or how difficult is it for businesses in the industry to get skilled and / or experienced staff? Perhaps rate this on a scale of 1 (easy) to 5 (hard).



- What **level of training** is available for this particular industry?

  Is there access to workshop and seminars to upskill in the industry? Are there industry-specific qualifications? What are the costs involved and where is the training offered?

- What are the **trends in costs** within the industry?

  For example, is the increase in petrol prices increasing delivery charges? Do rises in the minimum wage affect employment costs (or do businesses in the industry typically not employ people on low wages?).

- How **profitable is the industry** in which your business operates?

  Do businesses tend to make an average profit or a below average profit? Is profit seasonal? For example, motels in a beach location would tend to make more profit in the summer months when families want to get away to the beach, as opposed to in the winter time.

3.6.2 Industry Profile Examples

An example of how each of the industry profile questions may be answered for a variety of different business types is given below. Note that these are **examples only** and the statements made may not be representative of the current status of these particular industries.

- What is the market size?

  Fish and Chips Shop (Retail): The market size is decreasing. As people become more health conscious they are choosing alternative healthy takeaway options such as sushi. Fish and Chips shops are still quite popular in smaller town locations but not necessarily in larger city locations where there are many eat-out options available for consumers to choose from.

- What is the growth rate of the industry?

  Dairy Farm: Farming is in the recovery stage of the growth cycle, having been hit in the last two to five years by rising fuel costs, the increasing dollar, droughts and floods, and the trend of people farming on smaller, rather than larger, blocks of land.

- How fast is the pace of technological change in the industry?

  Home Security Service: Alarm and monitoring systems for homes are rapidly changing and become more sophisticated. Customers want to feel secure and thus they want a home security system that can guarantee them that security. This demand encourages further developments in this area and also requires businesses providing home security services and equipment to be aware of, and able to provide, the 'latest and best' system available.

- What are the products / services similarities and the products / services differences within the industry?

  Massage Therapy: The essence of a massage is to create relaxation and relief for the client. There are different types of massages, from a sports massage to a deep tissue massage, to reflexology. Each of these types would appeal to different clients and a business could differentiate itself by specialising in a type of massage that is not used by competitors – for instance, an Indian Head (Cranium) massage.

- Can economies of scale be utilised by businesses in the industry?

  Velco-strapped Baby Bibs: The machinery used to make baby bibs has a large capacity – thus, the more bibs that are manufactured, the lower the production cost per unit (per bib). Businesses in this industry should therefore aim to expand the sales of the product so that economies of scale can be utilised which could, in turn, lead to a price reduction per unit being able to be passed on to buyers.

  Consultancy Services: The provision of consultancy services relies on human capacity. It does not take long to fill an individual's workload and, once this occurs, further staff is required in order to provide further services to clients. Whilst there are some economies of scale that can be achieved by servicing a number of clients with similar needs, in most cases, increased sales requires a reasonably proportionate increase in consultancy staff (and thus employment costs).

- What levels of capital utilisation are required for success in the industry?

  Hydraulic Service Specialists: A high level of capital utilisation is critical in the engineering field as equipment is expensive and it is important to keep up with the latest developments in equipment (as these can get results faster, with those results being of a higher quality).

- Do you think the industry is dominated by a few large businesses, or is it fragmented with many small businesses?

  Backpackers in a city location: In a city location, tourists have many accommodation choices, from bed and breakfast providers, to hotels, motels, homestays, and so on. Backpackers appeal to the 'budget traveller' – but there can also be budget motels and hotels available, or discount deals available through websites such as www.wotif.com. Thus, the budget accommodation industry tends to be fragmented with many small players, rather than by a few large players.

- Does forward and backward integration occur in the industry?

  Visual Teaching Aids for ESOL Students: If the business was involved in the printing of the teaching aids, this would be an example of backward integration and if they were also involved in the retailing of the teaching aids this would be an example of forward integration.

- Is appropriately skilled labour readily available?

  Wedding Photography Studio: Photography is often a hobby that people develop into a business idea. There is not a lot of formal training available, so a studio wanting to take on an employee would need to decide whether they want someone with a photography qualification (such as a Media Arts degree majoring in Photography), someone who only has industry experience, or perhaps someone with a combination of both. Thus, the availability of 'skilled' labour would depend on what a business defines as 'skilled'.

- What level of training is available for this particular industry?

  Restaurant – Chefs: There is a lot of training available in the cooking and hospitality industry. These range from basic cooking through to elite chef courses – such as an overseas cooking course. The money and time involved in these courses does vary (refer to sites such as http://www.cooking-school-search.com/web-resources.php).

- What are the trends in costs within the industry?

  Courier Service: Trend is increasing costs within this industry due to rising fuel prices and increases in wage costs.

- How profitable is the industry in which your business operates?

  Gardening Centre: In general, if a business obtains good turnover, above average profits are obtainable – particularly when also selling value-added items / services such as plant accessories (e.g. bird baths, garden sculptures, landscaping services and gardening advice).

Section 4

Strategy Development

4.0 Strategy Development

Strategy connects the present to the future. **Strategy is the way by which you seek to fulfil the mission of your business and to move toward your vision, within the context of your values.** Your strategy flows from your driving force (refer Section 1.3.2). So, as you turn now in the rest of this Module to identifying growth and development strategies for your business, remember that the strategies you choose must be consistent with your vision, values and mission.

4.1 Growth Strategies

Igor Ansoff devised the Ansoff Matrix in 1957. Since this time, it has been widely used as a tool for determining growth strategies, and is sometimes called the 'product / market expansion matrix'. Strategies are based on whether a business focuses on new or existing products, and / or new or existing markets. The matrix offers four options: market penetration, market development, product development and diversification. In today's competitive business environment, businesses often pursue multiple strategies.

PRODUCTS

MARKETS	**Existing**	**New**
Existing	**MARKET PENETRATION**	**PRODUCT DEVELOPMENT**
New	**MARKET DEVELOPMENT**	**DIVERSIFICATION**

(Ansoff, 1957)

The matrix is useful for identifying the risk associated with a particular strategy as the level of risk increases as you move from market penetration to diversification. The reason for this is that market penetration is a strategy based on products and markets that you know, hence it is low risk. Market development, product development and diversification all expose your business to an element of the unknown in the form of new markets, new products or both. Cheverton (2000) puts the success rates of each strategy at 65% for market penetration, 45% for market extension, 30% for product development and 15% for diversification.

4.1.1 Market Penetration

Market penetration occurs when a business focuses its strategy on its existing products and markets. It is the lowest risk of the four strategies as you are focusing on your core business and on what you already know.

This strategy is particularly suited to small and medium sized businesses in their first stage of growth or expansion. Focusing on 'business as usual', or things you already know, is a safe option which requires less experience and expertise. It is also suited to businesses that do not already have a large market share. Market penetration works best in a growing market as sales can be increased without actually having to increase market share.

Example: PC-Soft

PC-Soft, an IT technician business based in Te Kuiti, saw an opportunity to grow when the owner of a lead competitor decided to move to live in Australia.

PC-Soft purchased the competitor, gaining access to its customer base, thus well-penetrating the local IT support market.

4.1.1.1 Advantages and Disadvantages

A summary of the main advantages and disadvantages of market penetration as a growth strategy are given in the following table.

Market Penetration Strategy	
Advantages	***Disadvantages***
▪ Lowest risk and cheapest of the four strategies	▪ Difficult to succeed with this strategy if the market is not growing
▪ Already know your products and your market	▪ If the strategy results in lower pricing, it could be detrimental to the brand
▪ Cheaper to retain existing customers and encourage them to buy more than to attract new ones	▪ May lead to a price war with competitors pursuing the same strategy
▪ Less investment in market research	▪ Limited growth from this strategy

4.1.1.2 Ways to Pursue a Market Penetration Strategy

1. **Improve the quality** of the product or level of your service. An investment in new packaging or a minor modification may produce surprising results.

2. **Acquire your competitor's customers**. This can be achieved by increasing your market share using some of the following strategies or can involve a takeover or acquisition of a competitor or key members of its staff. Account Managers can be particularly valuable. If a business is successful in securing an Account Manager from a competitor, they may possibly acquire the person's existing client portfolio as well as acquire an experienced manager. This strategy is not possible if there is a 'restraint of trade' clause in the person's employment contract though.

   When you buy a competitor, you have the option of operating the business as a separate branch of your business or closing it down. If you are thinking of closing it down, the customers will then go to all of the remaining businesses – which will include your competitors as well as you. Just remember, given that customers can buy most types of products or services online, buying and closing down (what you consider to be) your only direct competitor in a particular region will not guarantee that all those customers will come to you – they may instead buy online.

3. **Expand your existing premises**. Expand your production facilities so you can produce more goods or make your sales outlet more desirable so that you can increase sales through better layout and displays. However, before you re-locate or build on to your existing premises, see if you can find ways to improve your utilisation of the existing space.

   If you do need to move, this will cost time and money – not only for the move itself, but also before and after the move. Costs include, for example, renovation of the new premises, establishing phone connections, new business cards, letterheads. with the new address details, website update, extra promotion to inform customers of the move and reduced sales during the period of the move (customers may not be able to buy, or you may not be able to produce products, while you are moving). Furthermore, even after the move the business is likely to face higher costs as larger premises generally involve higher rent, heating and maintenance expenses.

4. **Improve your selling techniques**. Sales can be readily increased by better selling techniques. Ensure that you and your staff are trained to maximise sales. Understand how to close a deal, build networks and up-sell.

5. **Encourage existing customers to buy more**. Usually the most cost-effective and efficient way of increasing sales is to focus on your existing customers. Your current customers already know you – you do not need to spend a lot of money creating awareness and establishing credibility with them. Therefore, why not turn them into regular buyers? Robert Crede suggests the following ways of increasing sales from existing customers: [53]

   - *Rotation farming:* This involves encouraging a customer to buy periodically, at regular intervals. For example, a florist might maintain a database of his customers' important dates (e.g. their wedding anniversary and partner's birthday). Shortly before each date, the florist could contact the customer to suggest a floral arrangement appropriate for the occasion.
   - *Suggestive selling:* This is the "you want fries with that?" strategy. Your customers are already in a buying mood – you are simply suggesting they spend a little extra to enhance the quality of their purchase.
   - *Selling accessories:* If you sell a piece of equipment, suggest the customer purchases the special machine lubricant to make it work better.
   - *Incentive selling:* Free gifts, premiums and discounts are all effective ways to build more sales from your existing customer base. For instance, 'buy these new cosmetics and get a free tote bag'. You can make your existing customers feel

[53] Grede, R. (2006). *5 Kick-Ass Strategies Every Business Needs,* p 95. Illinois, U.S.A.: Sourcebooks Inc.

valued by only offering some of these specials to 'members'. For example, you may have a facility on your website where customers can sign up to be 'members' of your email distribution list. You could then email these customers special offers available only to them.

- *Trade up customers:* Last year, your customer bought the standard model from you. This year, sell him the deluxe model... and sell him an extended service warranty too!

Other techniques for encouraging sales from existing customers are as follows:

- *Encourage bulk buying:* Coffee franchise 'Coffee Culture' allows coffee drinkers to pre-load coffee cards with credit to secure discounted coffees. As a result, customers buy a number of coffees in advance so Coffee Culture can be assured of their custom for further visits. And if they do not visit again, at least the business has already received the income for this.

- *Utilise a new promotional strategy:* Think of new and creative ways to encourage your existing customers to purchase more.

- *Encourage regular use:* Promote the message that regular use will have long-term benefits. Also, discourage infrequent use by making products more desirable. For example, offer low-fat versions of a particular dish if this is an obstacle to frequent use.

- *Offer loyalty schemes:* Many retail shops, cafés and airlines utilise frequent use cards to reward return customers.

- *Make the product easier to buy or use:* For example, it is becoming popular for women's clothing stores to have an area set aside with DVDs and Playstations so children, or partners, can be kept occupied thus allowing the shopper to enjoy their shopping experience and spend more time in the store (increasing the likelihood of a sale).

- *Invent new ways to use your product or service:* Wattie's 'Food in a Minute' website encourages visitors to use their existing products in different ways. For example, a tinned soup may be used as a casserole base or frozen potato balls may be used as a pie topping. This will encourage customers to buy items more frequently or buy larger quantities.

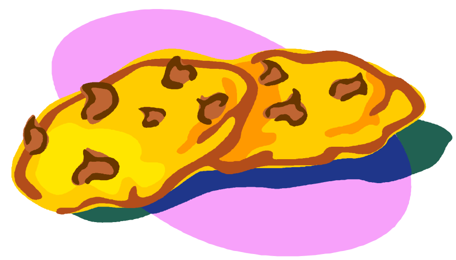
4.1.2 Market Development

Market development is the strategy businesses select if they are looking to sell their existing products or services into new markets. It's all about selling the same things to different people. New markets may be new geographical locations or may be a new segment of the market. New geographical markets may be within New Zealand, or may involve exporting. New segments of the market may focus on a different target market or may focus on a different type of customer such as a business customer.

For example, beauty salons are increasingly recognising that beauty treatments are no longer the exclusive domain of women. Progressive salons are offering special packages for men and targeting their promotions at this new target market. This strategy is best suited when your business is financially stable and can withstand possible losses in establishing a new market.

Example: Cookie Time[54]

Cookie Time pursued a market development strategy when they opened their first retail store outside of Christchurch in 2010. Previously, products were predominately sold to retailers (supermarkets, dairies, service stations, etc.) and then onsold to the final customer, or were sold direct to customers via the factory store in Christchurch. Opening another retail store in Queenstown was seen as a way of accessing a new client base.



> *Cookie Time general manager, Lincoln Booth, said the company chose Queenstown for the first store because of the number of international visitors in the resort.*
>
> *While the company had a large presence throughout New Zealand, the global market remained untapped and it was hoped the store could be replicated worldwide, he said. "The ultimate dream is to get into a successful franchise model and franchise throughout the world".*

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[54] BusinessDay.co.nz (18 May 2010). *Cookie Time opens Queenstown Store*. Retrieved 16 January, 2011, from http://www.stuff.co.nz/business/3707722/Cookie-Time-opens-Queenstown-store.

Also consider the following example, this time of a business which pursues a combination of market penetration and market development strategies.

Example: Out of the Rut

Jane Butler is a life coach and business facilitator. Throughout her career, she has helped people clarify what it is that they want in their personal life and / or business and has motivated them to achieve their goals. Since 2002, she has been doing this through her own business. Out of the Rut Ltd provides one-on-one life coaching and business mentoring services, as well as coaching for couples and group workshops. The group workshops cater to a wide range of needs in the community including, for example, mothers with young children looking to return to the workforce and address life / work balance issues, through to people needing time management and study skills.

Over the years, Out of the Rut has needed to evolve to meet the needs of changing markets and market conditions. It has done this by pursuing a combination of growth strategies, including (amongst others) market penetration and market development.

Whilst Jane was originally based in Auckland, predominately servicing a corporate market, she later relocated to Blenheim, where the segments of her market were quite different. The economic downturn which started in 2007 brought new challenges to the business, to which Jane responded by repackaging the delivery of the core services that she offers to better meet the time-constraints and financial-constraints of her market. Whilst she offered the same core service (i.e. helping people get their life or business back on track), she made it more accessible to her current target market and thus increased customer numbers and sales. This was one way in which she pursued a market penetration strategy.

In 2010, Jane enrolled in the CABG programme to further the growth of her business. Throughout the programme, she revamped her website and set up an online coaching facility. Although this was largely designed to cater to the needs of her existing local customer base (i.e. market penetration), it opened the doors for market development. Jane has since experienced considerable success in marketing her services, largely via Google Adwords, to potential clients in Wellington, Christchurch and beyond.

For more information on Out of the Rut and the services it offers, visit www.out-of-the-rut.co.nz.

4.1.2.1 Advantages and Disadvantages

A summary of the main advantages and disadvantages of market development as a growth strategy are given in the following table.

Market Development Strategy	
Advantages	***Disadvantages***
▪ Moderate risk	▪ Moderate / Large amount of market research required
▪ May result in high levels of growth	▪ Removes focus from existing core customers
▪ Focus is still on core product or service	▪ Promotional expenses to inform and persuade new customers
▪ Economies of scale may result for business operations	▪ May be taking on competitors in their traditional markets
	▪ New market may be more difficult than expected
	▪ If the market is in a different geographical region, it can be quite difficult to manage existing operations while setting up operations elsewhere

Selling more of your products or services to different markets can be expensive. This is because you are 'hunting' for new customers and, to do this, you need to create awareness and credibility for your business and your products in the new market.

For instance, if you currently offer your services in the North Island but want to start selling in the South Island too, you will need to let South Islanders know who you are, what you stand for and what the features and benefits of your products and services are – you will need to educate your prospective customers about the myriad of reasons as to why all your North Island customers have made you the leading brand in the North Island!

4.1.2.2 Ways to Pursue a Market Development Strategy

1. **Identify other groups of people to target**. Consider different ages, gender, and demographic profiles from your existing customers as well as different geographical regions (see next point). Use market research to help identify other market segments.

2. Open additional **branches**. Establishing a branch of your business in a new geographical location means you will have to increase your stock and your staff. Record keeping and management will also become more complex as you need to plan and control two separate businesses. You may, however, be able to take advantage of greater quantity discounts on your purchases and there could also be cost savings on some expense items. Nevertheless, some businesses have found that customers in different locations are so different that the products at each location need to be stocked in different quantities, which may affect the ability to qualify for bulk purchase discounts.

   If you pursue this type of market development strategy, it is likely that your role as a business owner may become more managerial and administrative in nature. Thus, if you get your work satisfaction from the 'hands-on' side of your business (interfacing with customers, making the product, etc.), operating multiple branches might not be an appropriate strategy for you.

3. Develop a **promotional strategy aimed at new target markets**. Reaching a new market may require you to rethink your current promotional strategy. Identify promotional avenues that will reach your new target. Your promotional message may also need to change. For example, a café owner may decide to expand their customer base by targeting students. The promotional message may no longer be the quality of the coffee or the homemade food but instead may need to change to 'value for money' or larger portions. If you do change the message, make sure it does not negatively impact on your current customer base.

4. **Utilise a new distribution strategy**. An excellent way to access a new market is to introduce new channels of distribution. Several distribution channels can be used concurrently to increase your chances of reaching different markets. This is what Cookie Time did when they opened their Queenstown retail store (refer to previous example). Distribution is covered in one of the seminars for Module 2 of this programme. Distribution channels include:
   a. Online selling: This allows you to access a global market

b. Selling on consignment at outlets you do not usually target
c. Direct selling
d. Markets and Events
e. Opening a retail outlet
f. Selling to a retailer
g. Selling to an agent or distributor

5. **Buy another business that has a different segment of the market**. While this can be an expensive option, it is an excellent way to gain access to a new market. This can reduce the risk of entering a new geographical region as you are acquiring a local customer base and you may also keep the staff who are experienced in operating within that environment.

6. **Franchising**. This is a popular way of reaching new markets and achieving rapid growth if your existing business is capable of being franchised. In fact, with around 450 franchise systems and about 23,600 individual franchise outlets (which is one for every 186.5 New Zealanders, a figure 17% higher than the Australian figure), New Zealand can claim the title of 'most franchised country' in the world[55].

   By selling the rights to use your trading name and business operation methods, you can recoup your initial establishment costs and fund your business growth. Another advantage of franchising is that you are able to enter a new market with a motivated franchisee overseeing the operations at the new location on your behalf.

   Pearson and Lord (2002) outline a number of factors which must be present before you can consider franchising your business:
   - An established, profitable business
   - Recognised image and strong branding
   - Consistency of supply
   - Developed operating systems and standards
   - An ability to manage the franchisor / franchisee relationship
   - A portable concept that does not rely on the existing owner to succeed

[55] Trans-Tasman Franchising: The Same but Different. (July 2011). *NZ Business Magazine,* p.57. Auckland, New Zealand: Adrenalin Publishing Ltd.

Nevertheless, if franchising is something you want to consider in the future for your business, plans to franchise are best put in place when the business commences operation, despite the fact that this could be many years before franchising becomes a reality. In this way, you can ensure that every aspect of your business is designed with franchising in mind, including the business name, product, equipment, décor and colour schemes, layout, staff, operating procedures.

Having effective systems that can be replicated at multiple locations is an important part of franchising. Systems and procedures must be written up as series of steps which can easily be understood and followed by someone who does not have your knowledge or experience.

Further information on franchising can be obtained from the Franchise Association of New Zealand. Refer to: http://www.franchise.co.nz/.

7. **Introduce different pricing policies to attract different customers**. The 'No Frills' and own label supermarket brands are targeted at the budget-conscious shopper. However, quite often, they are a branded product that has been repackaged under the supermarket's own label. The result is increased sales of the repackaged original product to a new market.

8. **Exporting** is a high growth, yet high risk, strategy to follow. It is covered further in the following sub-section.

9. **Find new uses for existing products** which could attract a different segment of the market. Products that have been developed for babies could be remarketed as products for allergy sufferers who require gentler preparations.

10. Consider **licensing** your product to another business. Licensing is an agreement whereby you are paid for the use of your brand or product. Elle McPherson licenses her name to Bendon. She is paid only for the use of her brand on a range of lingerie which bears her name. Bendon is responsible for designing the range (Preston, 2006).

4.1.2.3 Exporting

One of the most common mistakes made under the market development strategy occurs when businesses begin to export. The assumption is frequently made that if something works well in one market then it will be a success in other markets.

However, successful ideas do not always translate well into other cultures and businesses often underestimate the research and money required to enter an overseas market. For example, when McDonald's took their existing products worldwide, they quickly realised that ingredients and names had to be changed to cater for specific markets.

Conducting a STEPP analysis of the market you plan to enter can help ensure that you appreciate all the important factors that will impact on you exporting there. Consider the following types of questions:[56]

- *Socio-cultural factors:* What is the dominant religion, what are the attitudes to foreign products and services, does language affect which products make it into the market, how much time do consumers have for leisure, what are the respective roles of men and women within society, what is the average life span, are the older generations wealthy, does the population have a strong opinion on green issues, etc?

- *Technological factors:* Do the technologies offer consumers and businesses more innovative products and services than what you provide? Does the country have access to the technology required in order to utilise your product or service? How is distribution changed by technology available (or not available) in those countries?

- *Economic factors:* What is the state of the economy you are planning to enter? What are interest rates, the inflation rate, employment levels per capita, etc. like and how are these factors going to impact on demand for your product?

- *Political & Legal factors:* How stable is the political environment? What is the government's overall economic policy? Is the government likely to change tax

[56] Adapted from: Bloomsbury Reference Book. (2004). *Good Small Business Guide: How to start and grow your own business,* p.334. London, England: Bloomsbury Publishing Plc.

regulations soon? What is the government's position on marketing ethics? Does the government have a view of culture and religion? Is the government involved in regional trade agreements?

Every country has its own legal structure and legislation. You need to make sure your products or services will not be infringing any legislation and that your exporting processes fully comply with customs regulations. Other issues to consider could include legislation relating to packaging, waste and the environment and marketing. For example, some countries have advertising constraints (e.g. you may not be able to have any advertising directly aimed at children).

- *Physical factors:* How will the weather impact on demand for your product? Will physical factors affect your preferred distribution method – will you be able to even access your market? Will your product need to be altered to fit with physical / natural factors in the market? For example, if your product is a winter boot, will it need to be altered for a market in which it snows a lot?

In your export development plan, give yourself time to test your product in the market and to make any modifications that might be necessary. Remember the size of the market does not necessarily guarantee the willingness of the market to let in new entrants and there may be factors peculiar to the market that you need to consider when timing your entry. For instance, if you intend to export fruit when it is in season at home (supply side) does that match the demand side – if not, would you want to enter the new market at a time when those fruits are in short supply?

You will also need to learn about the way in which business relationships are built in the market you are contemplating entering. Consider the following excerpt from an article in Franchise New Zealand magazine in which Stuart Deeks, of Esquires Coffee Houses, is interviewed[57]:

> *Relationships take time to develop. "In China, you need to go there at least ten times and build up a relationship over lots of visits," Stuart says. "We took on consultants in China to help us; I read all the books and learned the Chinese way and we invested a huge amount of money and time in travel and visits, dinners and gifts, because if you don't make an effort to understand their way of doing business and respect it, you won't get the respect back and the partnership just will not work. You hear things like 'the signing of the contract is the beginning of the negotiation,' but it doesn't really hit you till you're out there doing it."*

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[57] Lord, S. (Summer 2010/2011). Overseas Experience. *Franchise New Zealand,* Volume 19 Issue 4, p.30. Albany, New Zealand: Franchise NZ Marketing Limited.

When doing your due diligence in researching proposed markets, talk to other businesses who export to the country you intend to export to and use the services of New Zealand Trade and Enterprise (NZTE) and the various Export Associations (an example being the NZ Flowers Export Association – www.nzflowers.com). NZTE has a lot of useful information on exporting on their website (www.nzte.govt.nz) and also runs a number of seminars which provide information on how to get started with exporting.

One resource that you may consider purchasing is the New Zealand Export and Trade Handbook. This book, published annually, is a reference guide for New Zealand exporters and importers. It is available for purchase online (usually for $40) at www.exportandtrade.co.nz.

ExportNZ, a division of BusinessNZ, also offers assistance to potential and existing exporters. This includes (but is not limited to) seminars on a large range of topics, available via their regional offices nationwide. See http://www.exportnz.org.nz/ for information about regional events, conferences, training and trade shows.

Also consider using the services of an export agent or trying to sign deals with distributors - as referred to in the following example of Marisco Vineyards.

Example: Marisco Vineyards[58]

In 2010, Marisco Vineyards, a Marlborough winery, secured a distribution deal in the United States which the company saw as an excellent step into the US market.

> *Marisco Vineyards has secured a deal with United States liquor distributor Pelican Brands. Marisco Vineyards' owner and chief winemaker, Auckland-based Brent Marris, said the deal cements the company's move into North America. Marisco wines will go on the shelves of fine-dining establishments and specialist off-licence wine retailers throughout the US from the beginning of next year.*

> *Having a single distributor with the ability to take wine into all the US states was a great advantage, he [Brent Marris] said.*

[58] Berry, M. (4 November, 2010). *Marisco Scores Major US Distribution Deal.* The Marlborough Express. Retrieved 16 January, 2011, from http://www.stuff.co.nz/marlborough-express/news/4307615/Marisco-scores-major-US-distribution-deal.

"Our international business is booming with an aggressive approach into Australia and Europe, but to build a true export wine business you need to secure North America and this deal is the first step for us," Mr Marris said.

Marisco aims to export 10,000 cases to the US in the first year and hoped to increase that to 40,000 cases within four years, he said. The company had been waiting for the right distributor to make its entry into the US.

"New Zealand wine brands can't just export as some sort of sideline to their core business," Mr Marris said. "If you are going to export you have to do it wholeheartedly. That means securing unique opportunities, having great on-the-ground representation and spending plenty of face time in new markets."

In 2011, Marisco also signed a distribution agreement with the Tianjin Dynasty International Wine Company, making China a major sales destination. The business was then successful in being awarded five gold medals (of which three where 'double gold) at the China Wine Awards in 2012[59].

4.1.3 Product Development

Product development is a strategy which focuses on selling new products to your existing market, or, more simply, 'new things to the same people'. This strategy is often a natural progression as businesses need to revise their product range to keep in touch with trends, their consumers' needs and their competitors.

Product development is not just minor modifications or repackaging of an existing product. It is the introduction of something new. It is a moderate to high risk strategy as there is never any certainty that a new product will succeed. However, the risk is reduced by the business targeting existing markets that they already understand, and conducting thorough research.

One of the most famous examples of a new product development which did not succeed was the introduction of 'New Coke' by Coca Cola in 1984. They tested the new product and found that consumers liked it better than their existing soft drink. However, they failed to account for the consumer's attachment to the existing brand and the original soft drink was reintroduced within three months[60].

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[59] Marisco Vineyards. (1 October 2012). *Press Release: China dawns gold for Marisco*. Retrieved 9 May, 2013, from http://www.scoop.co.nz/stories/BU1210/S00009/china-dawns-gold-for-marisco.htm.

[60] Kotler, P., Brown, L., Adam, S. and Armstrong, G. (2004). *Marketing.* (6th Ed). French's Forest, NSW: Pearson Education.

For a product development strategy to succeed, market knowledge and the ability to introduce new products which successfully meet consumers' needs are necessary. This strategy is suited to established businesses that need to protect their market share. It is also useful to counter competitors' strategies and for utilising excess production capacity.

Kotler et al[61] outline a number of reasons for new product failure:

- Market segment too small
- Poor match with business capabilities
- Product not unique, or competitors copy and / or improve it rapidly
- Lacks superior quality
- Poor positioning
- Forecasting error
- Changes in consumer tastes or changes in environment
- Ineffective launch
- Organisational problems
- Insufficient profitability

[61] Kotler, P., Brown, L., Adam, S. and Armstrong, G. (2004). *Marketing.* (6th Ed), p442. French's Forest, NSW: Pearson Education.

4.1.3.1 Advantages and Disadvantages

A summary of the main advantages and disadvantages of product development as a growth strategy are given in the following table.

Product Development Strategy	
Advantages	***Disadvantages***
▪ Increases your product range	▪ Moderate to high risk
▪ Product range spread over the product life cycle	▪ May be teething problems with new products
▪ Still focuses on core customers, who you know well (and on whom you do not have to spend much to promote the new product)	▪ Extensive market research required
▪ May utilise excess production capacity	▪ Product development can be expensive
▪ May encourage existing customers to purchase more from you	▪ May be time pressures to develop new product
▪ Often involves using the same premises / location. Time, attention and financial resources are therefore not split between two locations	▪ If new products are an alternative to current products then the overall impact may be that customers simply switch from using one product to the other, instead of purchasing more

4.1.3.2 Ways to Pursue a Product Development Strategy

1. **Develop related products or services**. Utilise the 'brand halo' effect. Brand halo is when you use your existing brand to encourage consumers to try new product offerings. Large companies such as Wattie's use this approach. Wattie's is an established brand that New Zealand consumers trust so it just has to encourage consumers to try the new product rather than having to establish a relationship with the consumer first.

2. **Get ideas from existing customers and suppliers**. Customers can be one of your best sources of new ideas as they are your target market. Suppliers can keep you informed of what your competitors are purchasing or new raw ingredients on

the market. However, beware of taking the approach of providing anything your customers want. You need to make sure that you do not spread your products and services so wide that you lose focus on your core products and customers. Instead of having a 'scattergun' approach, focus on your 'best' customers – those who are likely to use your products or services on an ongoing basis and who will refer others to you.

3. **Research what your competitors are doing**. To retain your existing customers and market share, you need to follow your competitors' lead. Kiwibank increased its range of products / services by moving from simply offering personal banking to include business banking and mortgages. In order to discourage its existing customers from going elsewhere for these services, they needed to offer them as part of their banking package.

4. **Encourage a culture of innovation**. Reward your staff for introducing new ideas. Train them to ask your customers the right questions about what new products they would like to see. Allow your staff time during work hours to develop new ideas.

5. Consider **other sources of ideas** such as trade magazines and websites, attend industry events and trade shows.

6. Consider the **development process**. The process of product development is also important. The success of some products is dependent on the speed with which they can be brought to the market. Similarly other products are dependent on being brought to the market for the lowest possible cost. Factors such as time, cost, quality and service must be considered as part of this strategy. Protection of your intellectual property for original ideas is also an important consideration.

7. Try to **introduce products that complement each other**. This will encourage customers to buy both the new product and the existing product. For example, if you sell jewellery, consider selling jewellery boxes and cleaning products. If products are a complete substitute for one another, overall profits may not increase (unless promoted to different segments of the market, etc.). Consider the following fictitious (made up) example:

Example: Water Challenges Ltd

Water Challenges Ltd (WCL) is a water engineering business which has both national and international clients. Jack Buggles and his two engineer friends started the business five years ago. WCL now has 11 contracted consultants and four employed support staff. WCL provides crisis management solutions to cities, towns or regions experiencing pollution and contamination of their water supplies.

WCL's owners recognised that their business depended upon being contracted for a service in a crisis, and thus revenue was highly irregular. They therefore brainstormed product development strategies to overcome this problem. Ideas identified included:

- the provision of various fee-earning consulting services to help clients develop systems to cope with crises in advance of them occurring,
- the creation of DVD material that could be sold to potential clients that provided beneficial crisis management information and also promoted the services that WCL could provide in the event of a crisis, and
- the development of risk-management products and services that did not involve water issues, but could be sold to their existing clients.

4.1.4 Diversification

Diversification is the strategy that businesses pursue when they sell new products to new markets. It is the highest risk of the four growth strategies as businesses face risk on two fronts: new products and new markets. Furthermore, there is little opportunity to use existing expertise.

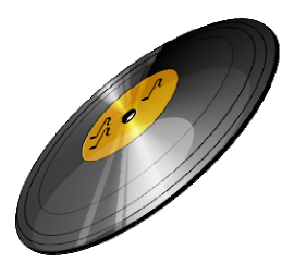
Diversification may be divided into two types: related and unrelated diversification.

- ***Related diversification*** occurs when the business stays in the same industry but introduces a new, yet related, product into a new market. For example, a children's clothing business such as Pumpkin Patch may decide that they would have more success in the North American market if they focused on clothing for teens rather than babies and children.
- ***Unrelated diversification*** involves a business developing new products in a totally different industry and then taking these to a new market. This is a very high risk strategy as the business will have no experience with the product, industry or market.

Diversification is best suited to businesses that have a strong brand name which they can exploit. It is also best for businesses that can afford to sustain a loss in a new project without it affecting existing operations. It is most often used when a gap is seen in a market or when a unique opportunity arises. It may also be used when existing sales or markets are diminishing and a business sees little option but to pursue a different strategy. Careful and thorough research and assessment are needed before pursuing diversification. Consider the example of Virgin:

Example: Virgin

Virgin is an example of a company that has specialised in a strategy of diversification. Virgin began as a record label and utilised a related diversification strategy with their move into CD stores. They then switched to an unrelated diversification strategy with their entry into airlines, soft drinks and vodka. Virgin's success with this risky strategy is largely due to the strength of its brand which encouraged new markets to embrace its new products.



4.1.4.1 Advantages and Disadvantages

A summary of the main advantages and disadvantages of diversification as a growth strategy are given in the following table:

Diversification Strategy	
Advantages	***Disadvantages***
▪ If one area of the business is affected by adverse circumstances, it is unlikely that other areas will be directly affected	▪ Usually requires more financial outlay as, essentially, an entirely new business operation is being developed
▪ Often very profitable	▪ May be loss of brand focus or credibility
▪ If successful, growth can be rapid	▪ May require new skills, techniques and facilities
▪ Product range spread over life cycle	▪ High risk strategy
▪ Allows an entrepreneur to pursue a number of different business interests	▪ May be insufficient management experience available

Over time, a business can start to lose its focus if it begins to offer too many products or services or too many diverse markets at too many different price points. This can lead to a spiral effect – management cannot pay enough attention to all its products / services offered, customers lose interest, margins begin to shrink and profitability declines. In such cases, generally the best way to save the business is to refocus – to find the business's core competencies and drive the business forward by specialising in the things that it does best. To illustrate this, consider the example of Toys "R" Us.

Example: Toys "R" Us[62]

In the 1970s, Charles Lazarus stated a children's toy and furniture store called 'Childrens' Supermart'. As the store grew, Lazarus was tempted to broaden his product line, to add children's clothing, nappies, baby food and bicycles. But that is not what he did. Instead Lazarus decided to specialise. He threw out the furniture line and

[62] Grede, R. (2006). *5 Kick-Ass Strategies Every Business Needs,* pp 11-12. Illinois, U.S.A.: Sourcebooks Inc.

concentrated on toys only. He changed the name of his store to Toys "R" Us and the rest, as they say, is history. Or is it?

By the late 1990s, Toys "R" Us (www.toysrus.com) faced declining sales and eroding profit margins. Why? Because while warehouse clubs like Costco and Sam's began selling similar products at even lower prices, Toys "R" Us was busy expanding in new areas. Corporate growth came from building new stores rather than from individual store growth. And, Toys "R" Us left its *core competency* and expanded in new areas: Kids "R" Us, Babies "R" Us and Geoffrey's. By 1999, losses were over $132 million on $11 billion in sales.

Since then, the business has regrouped and it began by concentrating on what they do best: toys. The business has now returned to profitability and remains the market share leader, selling nearly one in every four toys in the United States.

4.1.4.2 Ways to Pursue a Diversification Strategy

1. ***Buy an existing business*** with different products / services and markets.

2. Create / acquire ***rights to a new product / service*** and ***introduce it to a new market***.

3. ***Vertical integration*** (either backward or forward integration). This is a related diversification strategy which businesses pursue when they focus on controlling their inputs or supplies (backward integration) or moving into the same business as its customers (forward integration).

   An example of *backward integration* is when a manufacturer buys one of its suppliers or becomes a competitor for one of its suppliers. In this situation, they would have control over its own supplies but, in addition, would have a new product that they would sell to a new market – that market being other manufacturers. These other manufacturers would not necessarily only need to be competitors of the existing business.

   For example, if the manufacturer made furniture and backward integrated by getting into the business of producing paints and varnishes, it could sell these products to a range of customers that use paints and varnishes – not just other furniture manufacturers. However, if the manufacturer actually acquired an existing business which mainly sold products to furniture manufacturers, the business would need to carefully consider whether its competitors would continue to buy from them. That is, it is quite possible that another furniture manufacturer would not want to buy supplies from its competitor!

An example of *forward integration* can be seen in the airline industry. Airlines have achieved forward integration by taking on the traditional role played by travel agents and selling their own flights. Another example of forward integration would be a company that develops maps and fishing guides getting into the printing business.

4.2 Growth and Development Considerations

4.2.1 Am I Ready to Expand my Business?

Expansion is a natural progression for many small businesses. As discussed in the previous sub-section, expansion can occur in a number of ways – it may, for example, be in the form of introducing a new range of products or services or opening at a new location. Whichever strategy you are considering, the first question should be: *Is expansion right for me?*

Expanding your business will more than likely change the nature and dynamics of your business. If you are happy with the status quo: the hours you work, your staffing levels, your profit levels, then it is possible that expansion is not the right option for you.

To assist in answering this question, write down your personal and business goals. What things are important to you? Are you considering expansion for the wrong reasons? If your goal is to spend less time working, expansion, at least in the short to medium term, is not the answer to this. Some business goals can be met without expansion. If you want to spend less time working in your business, consider hiring a manager. If you are unhappy with current profit levels, invest time in improving your processes and try to improve profit through increased efficiency.

Sharon Nelton (1998) suggests that expanding a business is not just about dealing with the same problems on a larger scale; it is about dealing with a whole new set of challenges and, essentially, a different business. One of the main challenges with expansion is the human resources (HR) or people management issues. This not only includes hiring and managing new staff and managers, but also includes the small business owner having to step back and watch someone else take over the day to day operations of their business. We consider HR issues later in this Section.

4.2.1.1 Risks to Consider

Senior and McBride[63] provide a useful list of the dangers of business growth:

- Growing beyond your capabilities
- Growing beyond your staff's capabilities
- Growing beyond your suppliers' capabilities
- Exposing yourself or your staff to excessive stress
- Experiencing a cost "blow-out"
- Trading for turnover not profit
- Suffering a cashflow crisis
- Over-exposing your business to one major customer

There are many risks associated with expansion. Below are some important factors to be aware of before embarking on any expansion project.

- **Carefully cost out all aspects of the expansion**.

  Do not just include financial costs. Remember to include your time and other resources you require. Cost the expansion out as a stand-alone project to see if it is viable without your existing business supporting its operations.

- **Carefully monitor your cashflow**.

  Cashflow is considered in more detail in the 'Applying for Finance' seminar. Be wary of putting your core business at risk.

- **Do not spread yourself too thin**.

  Expansion often requires you to be in two places at one time. Ensure you do not take on too many tasks at the risk of doing none of them well. It is likely you will need to hire a manager or will need to promote an existing staff member. Delegating your regular tasks to them will only be successful if you train them to do

[63] Senior, G. and McBride, I. (2004). *Marketing for Success*, p 308. Christchurch: Enterprise Publications Limited.

the tasks effectively and then leave them to do the tasks with minimum intervention and maximum support.

- **Be wary of growing too fast**.

  Rapid growth can sometimes overwhelm a small business. The most common risks are usually the inability to meet demand due to operational capacity and financial over-commitment. Expanding businesses sometimes sign contracts to provide orders when they have not accurately estimated their production capacity. As a result, they are unable to deliver on their promises and they face disappointed customers who will not reorder or may even take legal action.

- **Do not neglect your core business**.

  Your existing operations could be jeopardised if your new project diverts resources or fails to contribute to the running of the business. Ensure that your investment in stock, marketing, and staff for the existing business are maintained. Ensure your key customers are not neglected if they do not feature in your growth strategy.

- **Ensure all owners of the business are involved in the expansion**.

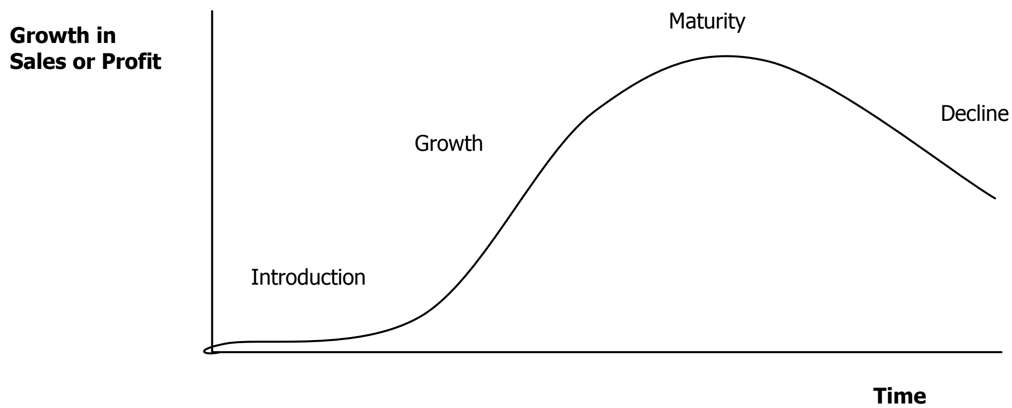
  Small businesses may have more than one owner and, as a consequence, there will be different opinions on the need for expansion and the strategy to pursue. It is important to deal with any difficulties before the expansion is embarked on, especially if a substantial financial commitment is required. Discuss possible exit strategies if no resolution is reached.

4.2.2 The Product Life Cycle

A thriving business is one that grows. Most products have a life cycle, that is, the life of a product tends to follow a certain pattern of growth. This pattern starts with a period of slow growth (the 'introduction' period), followed by a period of in which sales rapidly increase (the 'growth' period). The volume of sales during the growth period are dependent on how well you have researched your market, provided a product that meets the market's needs and then effectively promoted your product to your target market.

Following this period, growth in product sales tends to slow, but volumes remain high. There may still be some increase in sales, but at a slower rate. This period is referred to as 'maturity'. Finally, when product sales actually start to decrease, the product is in the 'decline' period. The product life cycle is represented graphically in the below diagram:

The Product Life Cycle



For your business you can look at the product life cycle from a few angles. For example say you sell Apple Computers: you can look at the product life cycle of the computer industry in general; you can also look at the product life cycle of the type of product (e.g. laptops); and you can also look at the product life cycle of a particular model of laptops.

Also note the product life cycle can apply to services. For instance, consider a training consultant offering workshops for employers on how to retain staff. If the training consultant does not keep up to date with the latest techniques available, their workshop is likely to go into the decline stage. This is because it is not the type of workshop that is now wanted by clients – clients will want to know the up to date information on employee retention. Furthermore, the consultant cannot continually deliver the same workshops to the same group of customers.

4.2.2.1 The Impact of the Product Life Cycle on a Business Life Cycle

If no action is taken to introduce new products or improve existing products, a business will follow the same life cycle as its products. To avoid the situation where the business goes into decline (and the owners are forced to consider closure), and to instead continue to increase sales and profit, business owners must introduce new products. This would ideally be done just before the current product(s) reach maturity, so that the new products will be going through the growth period when the old products are in decline.

Thus, when you develop growth and development strategies for your business, you need to work out how you will take the product life cycle into consideration. Ask yourself questions such as:

- Over what timeframes do you think your products will go through each stage in the cycle?
- What type of new products do you think you will introduce to stop your business from going into decline? Will you focus on the same type of products – just introduce later and better models (you would do this if you decided to follow a market penetration or market development strategy), or will you introduce entirely new types of products (as you would if you were to follow a product development or diversification strategy)?
- Alternatively, do you think you could simply improve your existing products to stop (or delay them) from going into decline?
- At what times do you think you will need to start working on the introduction of these new products? That is, will you be doing your market research for them as soon as your current products are introduced or will you start this once they reach the 'growth' period?

You need to constantly look at the bigger picture within your market – look for the technological advances and keep up to date with the market.

Consider the example of how roller skates have evolved over the years. They started as roller skates, then roller boots were offered. This was followed by the introduction of inline skates and now, from New Zealand, you have what are called 'quad skates':

Example: Skorpion Sports Ltd[64]

What started as a Waikato grandfather's wish to help his grandkids to rollerskate has snowballed into a multimillion dollar company [Skorpion Sports Ltd] whose product has taken off down an international fashion catwalk.

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[64] Ling, J. (15 April, 2008). *Grandfather's all-terrain skates big with Armani.* Waikato Times, p 10. Refer further to www.skorpion.com.

Reg Reid was 69 years old when he came up with the idea of quad skates, a pair of sturdy four-wheeled skates that could be strapped on and ridden over most types of terrain. It took three years to design the Skorpion Multi Terrain skates which have a structure similar to the old style strap-on roller skates, but can be worn on grass, BMX tracks, cobblestones and sand. They hit the shelves in late 2005, initially at The Warehouse, before being launched on the international market a year later. They are now sold in 28 countries including the USA, Europe, Asia, Africa, the Middle East and Australia.

4.2.2.2 The Impact of the Product Life Cycle on Marketing Strategies

In addition to affecting the broad strategies that your business will pursue (such as market penetration, product development), the product life cycle needs to be taken into consideration when developing marketing strategies for your business. In Module 2 of this programme, you will be implementing a number of 'business implementation projects' in your business. Some of these projects may relate to the marketing of your business and products and, as such, you need to think about how your marketing strategies will reflect the stages in the product life cycle. Remember, 'marketing' relates to the actual product offered, pricing, place / distribution, as well as promotion.

- The *introduction phase* of the product life cycle is about creating new product awareness and possibly even trialling the product as well. A strategy may therefore be to simply offer the basic product, without any accessories, and to focus promotion on informing people about the availability of the product and of the benefits it can offer them. The aim is to get people to try the product. Depending on your preferred positioning in the market and factors such as the technology involved in your product or the uniqueness of it, pricing may be high. You may consider offering a low introductory price to encourage people to trial the product, but beware that customers may then resist a price rise later.

- The *growth phase* is where you will be looking to maximise your market share. Strategies will include offering product extensions (features and benefits such as accessories, servicing and warranties). Sales promotion should mean the market will be aware of your product and its benefits. If competitors have introduced similar products, your promotion will need to be focused on highlighting the unique advantages of buying from you.

- In the *maturity phase* of the product life cycle, you will be looking at defending your market share and also maximising your profits. With regards to pricing, you will want to match or beat your competitors, thus, it is likely that prices will reduce and you will need to offer special deals. Promotion will still be focused on the differences and benefits of your products / services, as opposed to those of your competitors, but will also relate to creating awareness about your special deals.

- In the *decline stage* you will need to weigh up the costs and benefits of spending money on promoting the product so that you can get as much profit as possible out of the declining market. You will likely begin to phase out this product / service and substantially cut the pricing to get rid of any excess stock.

4.2.3 Innovation

"The key to success is to drive innovation as an integral part of a business – not to sideline it off into its own team or department. Being innovative is not an annual event and is of little value until it becomes an enduring company culture."

- Ross Brown, CEO, Brown Brothers Wine Company (Australia) (www.brownbrothers.com)[65]

The Innovation Model – designed by Ron Kubinski – shows that whether your business is large, small, profit or not for profit, it must innovate or else risk becoming obsolete; this model focuses on how businesses can create long-term, sustainable development and growth.[66]

Kubinski's model involves evaluating innovation by the use of a two dimensional framework: the degree to which innovation is planned (horizontal axis) and the uniqueness of the innovative product or service (vertical axis).

[65] New Zealand Institute of Management. (March 2008). *Integral Innovation*, pp 7-8. NZIM Management Magazine.
[66] Kubinski, R. (2003). *Building a Breakthrough Business – Through Significant New Business Growth and Profitability*. Houston, Texas: American Productivity and Quality Center.

Breakthrough

III		IV
Serendipitous Breakthroughs Quantum change Medium / High revenue potential Accidental / Uncontrolled		**Planned Breakthroughs** Quantum change Medium / High revenue potential Initiated by business
Serendipitous ←		→ **Intentional**
Unplanned Improvements Incremental change Low / Medium revenue potential Accidental / Uncontrolled		**Incremental Innovation** Incremental change Low / Medium revenue potential Initiated by business
I		II

Incremental

4.2.3.1 Quadrants in the Model

According to this model, in order to accelerate innovation into breakthrough new business opportunities, the innovation must be strategically planned.

1. A business that creates a new product or service that is unplanned and not unique in nature would fall into the first quadrant (Quadrant I) of the model. Often such a business is one that provides a narrow selection of products or services and is satisfied with their sales. However, history has shown such a business is an easy target for competition.

2. A business that creates a new product or service that is planned and not unique in nature would fall into the second quadrant (Quadrant II) of the model. New product or service revenues for Quadrant II businesses tend to be small. They have a strong focus on their customers and competition. They use a variety of customer survey techniques to obtain the voice of the customer / client. Approaches used may include customer surveys, sales input and customer complaints.

The primary focus of a business in this quadrant is to increase customer satisfaction and build strong customer relationships. Overall, they are focused on customer / client articulated needs and changes, or opportunities that can be put into place relatively soon. Consequently, the end results are positive, but mostly incremental – regular small changes / additions.

3. Businesses that operate in the third quadrant (Quadrant III) of the model have established a culture of innovation. Numerous new opportunities are bubbling up through the business. Because innovation is serendipitous (this means the effect by which one accidentally discovers something fortunate, especially while looking for something else entirely!) it is impossible to predict when a breakthrough idea will occur, but the probability for success in these businesses is high. However, if the infrastructure is not in place (planning and processes) to commercialise these breakthrough ideas, most will remain dormant and eventually die.

4. Businesses that operate in the fourth quadrant (Quadrant IV) of the model follow a planned approach to produce breakthrough new products or services that yield significant revenues. They have learned to bridge strategy with innovation. The process that they use is referred to as *customer-inspired strategic innovation (CISI).* At the heart of innovation for new business growth is understanding the needs of your customers. These include their basic needs, performance needs and excitement needs. Depending on the depth of understanding, the end result may be incremental or breakthrough.

Consider the following example of innovation from a New Zealand business:

Example: Easi-Yo Products[67]

Easi-Yo Products (refer www.easiyo.com) began from a garage in Devonport, Auckland, in 1993. The founder, Len Light (an electronics engineer), invented the Easi-Yo yoghurt making when he was "fooling around in the garage" trying to make an electronic yoghurt maker. Light discovered, by accident, through the study of dried foodstuffs, that an electric yoghurt maker was unnecessary to the process of making yoghurt. This is an example of serendipitous innovation.

Light patented the yoghurt maker, which he considered to be a "minor move", because the real breakthrough for Easi-Yo was its foodstuffs sachets.

[67] Bland, Vikki. (July, 2008). Big Dreamers in Small Garages. *NZ Business Magazine*, pp 30-31. Auckland, New Zealand: Adrenalin Publishing Ltd.

"People have made yoghurt in different ways throughout the centuries, but using freeze dried cultures in sachets hadn't been done before."

Easi-Yo now has offices in Auckland, Australia and the UK; exports internationally, sells online and dominates the local homemade yoghurt market. With more than $30 million sales by 2009 (75% of which is export based), the business took the Supreme Business Excellence Award in the Westpac Enterprise North Shore Business Excellence Awards 2010[68].

What about your business?

When it comes to innovation, what quadrant do you think your business currently sits in? Is this where you want it to be? What needs to change so that your business sits in Quadrant IV? Work through the following key questions:[69]

1. Does your business have a vision for innovation that includes breakthrough new business growth?
2. Does everyone on your team (staff, etc.) understand this vision and his / her contribution?
3. Are a portion of your resources (time, money, effort) committed to breakthrough products / services that will change the basis of competition?
4. Do your practices / processes for understanding customer / client needs (e.g. customer surveys, response to complaints, etc.) identify unarticulated as well as articulated needs?
5. Does your business foster risk-taking and the exploration of significant new opportunities?
6. Does your business have a blueprint for how to achieve dominance in your industry?
7. Does your business have short-term (one to two years), mid-term (two to four years), and long-term (more than five years) goals for new business growth – innovative products and services? Is the business aligned with these goals?

People are resistant to change; building an innovative culture within a business takes time – but such a culture can lead to significant new business growth, opportunities and profitability.

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[68] Enterprise North Shore. (2010). *Home Grown Yoghurt Maker Tops Business Awards.* Retrieved 17 January, 2011, from http://www.ens.org.nz/News/2010/.

[69] Kubinski, R. (2003). *Building a Breakthrough Business – Through Significant New Business Growth and Profitability,* p 15. Houston, Texas: American Productivity and Quality Centre.

4.2.3.2 The Doblin Ten Types of Innovation

Innovation does not necessarily involve creating new products or services. Innovation can also relate to other areas of your business. The Doblin model of innovation identifies ten aspects of a business in which innovation can take place and, more interestingly, identifies those areas of innovation which tend to provide the biggest financial payoffs for a business.

The ten types of innovation are grouped into the following four categories:

Finance	Process	Offerings	Delivery

Only the 'offerings' category relates to the actual product or service offering.

The types of innovation within these categories are as follows[70]:

Finance

1. **The Business Model**: How the business makes money. Example: Dell revolutionised the personal computer business model by collecting money before the consumer's PC was even assembled and shipped (resulting in positive working capital of seven to eight days).

2. **Networks and Alliances**: How you join forces with other companies for mutual benefit.

Process

3. **Enabling Process**: How you support the company's core processes and workers. For example, by offering good salaries and employment benefits to attract and keep valuable staff.

4. **Core Processes**: How you create and add value to your offerings. For example, inventory management systems, production processes, systems which give managers the ability to quickly identify changing buyer behaviours so they can respond rapidly with new pricing options.

[70] Doblin, J. *Doblin Ten Types of Innovation.* Retrieved 17 January, 2011, from http://www.slideshare.net/markoh/doblin-ten-types-of-innovation-presentation.

Offerings

5. **Product Performance**: How you design your core offerings. That is, the features, design, functionality and quality of the actual product.

6. **Product System**: How you link and / or provide a platform for multiple products. For example, Microsoft Office bundles a variety of products (Word, Excel, PowerPoint, etc.) into a system designed to deliver productivity in the workplace.

7. **Service**: How you provide value to customers and consumers beyond and around your products. That is, the type and quality of the service you provide to customers.

Delivery

8. **Channel**: How you get your offerings to market.

9. **Brand**: How you communicate your offerings.

10. **Customer Experience**: How your customers feel when they interact with your company and its offerings. That is,how you create an overall experience for customers.

The reason why this model is so interesting is twofold:

- Firstly, it highlights the different areas of your business in which you can focus on being innovative; and
- Secondly, research has shown that the **biggest payoffs come from the finance and delivery** ends of the range, as opposed to the actual product or service offering.

This means that, for example, focussing on being innovative in the way that you brand your product may pay off more than having a better product! This is certainly true in many cases. Take the examples of fast food outlets such as KFC and McDonald's. Although many people like their products, do they actually make the best? Or is their real success in other areas such as the way their products are branded and the processes they use to get the products to you that is so convenient?

4.2.3.3 Types of Needs

As noted previously, an understanding of your customers' needs is essential to strategic innovation. Needs can be classified into three groups: basic needs; performance needs; and excitement needs.

- When a customer buys a product / service from your business, you are fulfilling a *basic need.* For example a customer may have Googled your online floral store and ordered carnations to be sent to a friend who is having a 50th birthday. Fulfilling basic needs never leads to customer satisfaction – but failing to deliver basic needs, always leads to dissatisfaction. For example, if your customer's friend received irises instead of carnations, your customer would be dissatisfied as they specifically requested carnations.

- *Performance needs* are those needs that customers recognise and are able to articulate. The better a business responds to those needs, the more satisfied customers become. For example, let's say Kathy runs a business tutoring maths and English to primary school children. She has recently conducted a survey with clients new to her business in the last 12 months. One of the results from the survey was that clients wanted to be informed of quality additional resources (particularly computer programs) that they could buy for their children to complement their maths and English tutoring.

  Kathy now provides a booklet to parents at the end of their child's 4th lesson which has a list of additional resources. As this example shows, the primary focus in fulfilling is on immediate needs and current product or service performance. As such, most of the responses are incremental in innovation rather than breakthrough and more often than not, can be easily duplicated by your competition.

- *Excitement needs* are often not articulated by customers. This area, if mastered, represents the greatest opportunity for substantial new business growth. It is the ability to go beyond the basic and performance customer needs and create solutions that amaze customers. It involves creating new product(s) or service(s) that will be leaders in the marketplace.

4.2.3.4 Innovation Example

Consider the below example of Hoyts Cinemas in relation to the growth and innovation strategies covered within this Section. Then, think about answers to the discussion questions provided:

Example: Hoyts Cinemas

Hoyts opened a new cinema complex at The Base in Hamilton in 2011, and has plans to open more of its kind throughout New Zealand. Plans for these new cinemas were described as follows[71]:

> *This will be "a new level" of cinema experience, he [General Manager, Brian Eldridge] promises, and he's not just talking about the six digital movie screens and 'xtremescreen'. Say goodbye to the old-style integrated candy bar / ticket box. Movie goers will be greeted by an expansive lounge area with automatic kiosks where they can book and buy tickets and learn more about upcoming movies, before entering a large full service 'food emporium' where there's everything from traditional movie fare, including self-serve popcorn, an ice-cream parlour to quality deli-lines and a well-stocked wine cellar.*
>
> *As Eldridge explains, Hoyts is no longer just a cinema operator – "as of August 2011 we'll also be seen as a restaurateur." ... Back to the importance of the pre-movie experience again. The 'VIP' concept of wide seats, big screens and sound and extra leg-room was introduced to New Zealand by Eldridge – but now he's taking movie-going to a whole new level with his 'food emporium' concept.*

> *Market growth for a mature cinema industry will have to come from other initiatives too, he says. "It's about broadening our offering and diversification. Traditionally 70% of our business gets generated in the evenings and weekends, which means we have huge facilities being marginalised between 9 and 5 Mondays to Fridays. So we're marketing our venues as an attractive place to hold corporate events – with full catering for several hundred people." He says the Te Rapa venue will include an auditorium for large screen shows, conferences, private functions and sports entertainment, with a fully licensed bar close by.*

[71] Baker, G. (November 2010). Meet the cinematic fanatic. *NZ Business Magazine.* Auckland, New Zealand: Adrenalin Publishing Ltd.

Discussion Questions

- Which of the four growth strategies is Hoyts pursuing? Market penetration? Product development? Market development? Diversification?
- How did the product life cycle affect management's plans?
- Where do these plans fit in regards to Kubinski's Innovation Model?
- Using Doblin's Ten Types of Innovation model, in which areas of the business is innovation occurring?

4.2.4 Exploring Opportunities

Many businesses will be able to say that there are many new opportunities for them. However, the difficulty is identifying those opportunities that have realistic potential. You can use the process of brainstorming to explore opportunities that could be used to grow and develop your business (brainstorming was discussed in Section 2.4.1).

The brainstorming process will work best if you can gather a core team together. This may be made up, for example, of you and your business partner, your five staff members and a business adviser. Request each member of the team to provide five or more new business opportunities around the following three specific categories:

1. ***Today's opportunities.*** These are new business opportunities that are closely aligned to the business as it currently operates (e.g. similar markets or products) and could be introduced relatively soon.

2. ***Tomorrow's opportunities.*** These opportunities are also closely aligned to the business in its current form, but are longer term. They may require substantial time, money, effort, additional staff and / or acquisition of assets in order to be accomplished.

3. ***Wildcard opportunities.*** These opportunities are not related to the current business activities. These can be completely new products / services or new markets. They may build on current core capabilities, or they may require developments or acquisitions. This opportunity must be one that will yield significant revenue.

Each individual should write their opportunities out in complete sentences and hand them in to be considered by the group. You could adapt the brainstorming process described in Section 2.4.1 as follows:

1. Request that all participants write down (in full sentences so they can easily be understood) the opportunities they identify. It is beneficial to allow participants to write these down in case they do not feel confident or comfortable voicing them.

2. Discuss each of the opportunities as a group so that everyone understands what each opportunity involves, and cluster together those that are similar.

3. Develop master lists of each of the three types of opportunities, with those opportunities that are similar or essentially the same being combined instead of listed separately.

4. Generate and distribute a form to each participant on which the three lists of opportunities are provided, with the opportunities being listed in no particular order.

5. Request that each participant rank which they consider to be the top three opportunities on each of the three master lists and assign a #3 ranking to the most valuable and realistic perceived opportunity and a #1 ranking to the least valuable and realistic perceived opportunity of the three they selected.

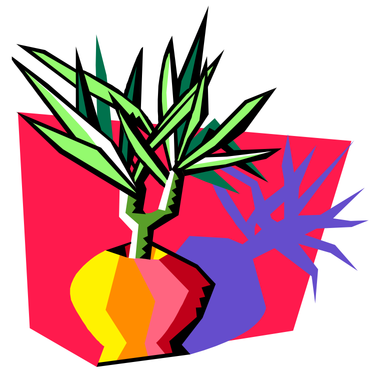
6. Tally the results by adding the points for each opportunity. The opportunity in each list that has the highest number is perceived as being the most promising opportunity.

7. The opportunities with the highest rankings should be delegated to members of the team (or just to management) to explore further by giving consideration to questions such as:

   - What internal resources (people, machinery etc.) does the business already have that could be used to bring these opportunities to fruition?
   - What external resources can the business access (such as potential customers, current clients, consultants, academics)?
   - What are industry drivers / issues that could / will impact on the proposed opportunities now or in the future, including governmental regulations, standards and emerging technology? Conduct a STEPP analysis.

- What is already known about how this proposed opportunity may impact on the market share the business has and / or on the business's competition?
- What are the knowledge gaps – key areas in regard to the opportunity where more information is needed? These should be written in the form of specific questions.

Example: Long-Lasting Indoor Pot Plants



Consider the fictitious (made-up) example of Jerome and Sons Plants. Jerome's team wants to explore the brainstormed opportunity of a long-lasting indoor pot plant. Further exploration of this idea may identify the following facts, issues and considerations:

Internal resources

- The business has a specialist plant scientist on its advisory team who could be asked questions on the viability of the plant.
- The business has set aside $10,000 in an investment account for the purpose of developing new plant varieties which could be used for this opportunity.

External resources

- Jerome (Managing Director) has access to a nursery / plant specialist at Lincoln University in Canterbury.
- There is a local 'Plant Lovers' community group that the business is aware of (in fact, the business already offers members of this group a 10% discount on their plant purchases); a customer survey on the proposed plant could be done with this group.

Industry Drivers

- Find out more information on the Government's Research and Development (R&D) Tax Credit that has recently been introduced to see whether the new plant would fit in to the R&D's tax credit criteria.

Current knowledge

- The business has already done some research on the plant market. This research includes information about the plant varieties offered by competitors as well as the most popular domestic plant varieties purchased by consumers in the last five years.

Knowledge gaps

- Need to know how long it would take to develop a new plant variety.
- What else does the business have going on in the developmental phase – are there enough resources to add another 'project' such as this?
- Does the development of a new plant variety align with the business's vision and mission statements?

What you must be careful to avoid is a scattergun approach to pursuing the opportunities you are facing. That is, do not spread your ideas so thinly, that you end up being ineffective in everything you try to achieve in growing your business. If you are not selective enough, and have insufficiently considered the full impact of your ability to develop or deliver a new product or service, or carry out a marketing campaign to a new target audience, you will not make the most of opportunities that exist.

Nowadays you can even purchase software that can help you through the innovation process. Consider the following excerpts from an article about how the New Zealand business, King Salmon, has used Accolade software (refer to www.sopheon.com) to help develop its product range:

Example: King Salmon[72]

> *Under the inspired leadership of its senior management, King Salmon has been steadily growing its new product development programme, adding $5 million in new revenue in the past two years...*
>
> *To manage innovation at this scale, King Salmon relies on Accolade, an innovation management system developed by international consulting firm Sopheon. The system is a formal software-based program for implementing the Stage-Gate process, which provides managers with a series of hurdles (or gates) through which ideas must pass before making it to the next stage...*
>
> *King Salmon has used Accolade since mid-2007, with outstanding success, adding three new major product ranges and quadrupling its new product development. A good example of Accolade at work is the newly launched "Party Platter", a combination of different types of cold-smoked and hot-smoked salmon as one ready-to-eat dish.*

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[72] Big Fish, Bigger Ambition: King Salmon Turns Ideas Into Action, Thanks to Accolade. (January/February 2010). *Idealog,* pp 42-43, Auckland, New Zealand: AUT Media

4.2.5 Identifying Limiting Resources

If you want to grow your business then this is dependent on accurately identifying the limiting resource/s in your business. Examples of what these limiting resources may be include:

- Finance
- Human resources
- Owner's attitude, time, knowledge and skills
- Space
- Equipment
- Market size
- Product / Service

For example, let's say a menswear shop becomes very crowded with stock. The owner assumes that sales are not good due to the fact that the store looks overcrowded (it discourages potential customers from even entering the store). Thinking that the limiting resource in his business is space, the owner decides to move the business to larger, more expensive premises.

Subsequent to the move, sales do not improve. The owner conducts some research and finds that there is more of a demand for formal menswear than the casual menswear lines that he currently stocks. However, after replacing his stock with formal menswear, he finds that the market is not large enough to warrant carrying that much stock. In the end, the owner figured out that the initial decision to move premises proved very costly because the limiting resource was, in fact, product and not space.

The above example illustrates that you must know what is preventing growth before you can take appropriate action. Strategic planning serves as a tool to analyse and collate the massive amount of information associated with any challenge or opportunity your business faces. It allows you to synthesise and prioritise a wide range of possible projects / tasks for implementation (this will be your focus in Module 2).

The point is, until you consider all aspects of a strategy and then commit the resulting plan to paper, you may not be aware of vital issues that pose serious threats to your business's long term success. Remember that an effective strategic plan is a 'living' document which, with ongoing monitoring and revision, serves as a compass to guide the business through inevitable change. In other words, a strategic plan charts a business's direction, shapes its future and secures its long-term growth and profitability. In the following sub-sections, we consider three of the possible limiting resources in more detail.

4.2.5.1 Finance

Your Current Financial Position

The strategy you pursue needs to take into account your current financial position.

A period of good profitability and cashflow is an excellent time to develop products and services, improve existing products and services or broaden the scope of your line of products and services.

Temporary periods of high profitability are good times to use the excess cashflow to help reduce future cash costs. However, such periods of growth are not good times to increase costs that are relatively fixed or increase the cash requirements for future periods.

Examples of what you could do to grow your business during such periods include:

- Pursue product / service development projects.
- Prepay some of your long-term debt.
- Avoid excessive staff pay increases.
- Add key equipment or productive facilities – but try to avoid heavy increases in debt to accomplish this.
- Improve office or storefront facilities – but these costs should not be significant and you should be able to fund them with the increase in cashflow from current operations.
- Avoid major additions to your debt obligations – added debt should result from good long-term planning, not from temporary business highs.

If your business is experiencing a period of financial difficulty, you need to be particularly careful about the type of strategy you pursue. You do not want to over commit yourself by embarking on a major (for example) product development strategy and put the entire business at risk. On the other hand, taking no action or taking panic action are not strategies that will work either. Examples of what you could do during periods of slow growth or progress are:

- Revise / review your strategic plan – what changes can be made?
- Avoid sale price reductions. Instead, try introducing strategies to encourage additional purchases. For example, offer discounts for ordering additional items. Remember customers always forget price reductions but always remember price increases, which may be needed later! If prices must be reduced, select those products or services that are slow moving, are overstocked, or are unlikely to be stocked by the business again in the future.
- Continue advertising or promotional efforts. A downtime is exactly the time when advertising is needed most, to keep the name of your business and its image in the marketplace. A slow period is a good time for an inexpensive direct mail effort; send out a new brochure or a special offer to your current customers / clients.
- Consider outsourcing services. It may be more cost-effective to outsource some parts of the business, including maintenance and cleaning, than it is to employ new staff.
- Double your efforts to collect the accounts receivable. For example, get your 'past-due' customers on some kind of regular payment plan if they are unable to pay their entire balance, because improving cashflow is vital. Start chasing your more recent debtors earlier.
- Seek more favourable terms from suppliers. Your suppliers want your continued business and during slow times may consider granting your business longer credit terms, easing the demand on cashflow.

Seeking Finance

If you are going to invest further in your business and require finance to do so, there are many options available to businesses to fund growth or expansion. They can be categorised under the headings of self-financing, debt financing, equity financing and other sources of financing. Each type is covered in detail in one of the seminar topics for Module 2 of this programme (the seminar titled 'Applying for Finance'). A summary of sources of funding that can be used to finance growth is as follows:

1. ***Self-financing or Personal Equity.*** This is funding that is provided by the business owner and may come from personal savings, sale of a personal asset such as a home or from a loan against the equity in a home. There are numerous stories of business owners who have sold their family home to take their business to the next level.

2. ***Debt Financing.*** This is finance which is borrowed and which must be repaid, usually with interest. It includes bank or finance company loans, overdrafts, credit cards and loans from family and friends.

3. ***Equity Financing.*** This involves giving a portion of your business to an investor in return for capital. Partnerships, angel investment and venture capital are all forms of equity investment. Angel investors are generally wealthy individuals or groups of individuals who use their own money to invest in high risk entrepreneurial firms. Venture capital can be defined as a high risk investment in a high potential opportunity. Listing your company on the stock exchange, also known as a public share offering, is another type of equity finance.

4. ***Other Sources of Funding:***

    a. Grants and Non-Monetary Assistance are available from the New Zealand Government and other organisations. Non-monetary support may be in the form of mentoring, training and business incubators. If your planned growth is through exporting, the New Zealand Government has a variety of measures in place to assist.

    b. Financing through current operations:

        i. Cashflow planning. By carefully monitoring your cashflow and knowing exactly when money is entering and leaving your bank account, you may be able to finance certain aspects of your expansion just by careful money management.

        ii. Arrangements with suppliers. Payments for goods could be negotiated with suppliers to give better credit terms or delayed payment dates. If your business is expanding, you may be able to negotiate better deals from suppliers based on bulk purchases.

        iii. Advance payments from customers. This could be in the form of offering a discount if they pay in advance or requesting assistance to cover the production costs.

        iv. Sell rights to overseas markets or sell products for private labelling to raise cash.

v. Other creative options are also available such as optimising the use of your facilities by leasing them to other businesses during your down times, centralising the operations of your business to reduce costs, considering a joint venture or alliance with another business to share the costs of a new venture.

4.2.5.2 Human Resources

Kiwibank began as a start-up business in 2001 and by 2006 had approximately 600 employees, a profit which doubled between 2005 and 2006, as well as 200 new customers per week. However it was not just the physical challenges of rapid growth that Kiwibank faced. The organisation's cultural growth had to keep up with its physical and financial growth. Managers had to grow to match the pace of change but not all managers and employees grew with the organisation.[73] (Revington, 2006).

There are many personnel issues that can arise as a business expands. Below we consider some possible issues and look at ways to avoid or mitigate these:

- ***Delegation and change in roles***

  Small businesses are generally very much 'hands-on', with the owners involved in all aspects of running the business. However, when a business expands, the owners often have to move into a more managerial role, particularly when the business needs to take on more staff to handle the increase in workload. There is more administration – wages, staff records, work and holiday rosters, arranging replacements for absent employees, and so on. In addition, owners / managers need to spend time overseeing other aspects of the growth strategy, whether this be new product development, opening new outlets or even investigating overseas markets.

  Thus, it is very likely that if you want your business to expand, you are going to have to relinquish some of your existing responsibilities to a member of your staff. These responsibilities are likely to include the contact you have had with customers. Delegation is a very effective management tool if it is used correctly, but owners sometimes find it difficult to hand over tasks that they are responsible for. The key to successful delegation is training the person taking over the task and then

[73] Revington. (2006). Deloitte/Unlimited Fast 50. Retrieved 12 July, 2007, from http://unlimited.co.nz.

monitoring and supporting them to ensure it is done effectively. An empowered employee is the result of effective delegation.

- ***New staff***

  Recognise your own, and others', abilities, strengths and weaknesses and hire according to your needs. However, ensure good recruitment policies are followed. During times of expansion shortcuts may be taken if you are short staffed. Always follow procedures and ensure reference checks are made, training is completed and new employees are well inducted into the organisation.

- ***Existing staff***

  Expansion periods provide opportunities for existing staff to move into more challenging roles. The key to managing this well is to interview the staff member for the new position and treat the move to the new role formally. By following procedure, having a detailed job description and by providing training and support for the new role, the transition can be smooth and successful.

  If an existing employee is expected to take on additional duties relating to the expansion without proper consultation about a new role, problems such as job dissatisfaction and poor performance are likely to result. Staff members may also feel insecure and may be resistant to change. If existing staff remain in their existing roles when new staff members are employed, they may feel threatened or not valued. It is therefore important to ensure roles are clearly defined and that existing staff are recognised for the contribution they have made to the business in the past. Nelton (1997) suggests that not all existing employees, no matter how hardworking or loyal, will grow with the business.

- ***Business culture***

  Expansion, particularly if it is through acquisition or merger, may bring about a change in your business culture. The change in staff numbers alone probably means that you are no longer working directly with each employee, so other influences will begin to affect your culture. When an acquisition is completed, uncertainty remains over people's responsibilities and job certainty. It is important that the owner communicates and lives by the values of the business if they are to remain as the basis for the culture.

- ***Processes and procedures***

  A written manual is invaluable at times of change in a business. Key staff may leave or be relocated and business knowledge may move with them. Business manuals also help with consistency in processes and procedures if the business operates at more than one location and will help the business owner to delegate their 'hands-on' tasks to staff members (allowing the owner more time to manage the expansion).

- ***Managing stress and resistance to growth and change.***

  Change can be a stressful and unsettling process for staff and managers. One of the contributing factors to resistance to change is people's fear of uncertainty.

  Managing change in a sensitive and considered manner is the key to reducing stress for employees. Truthful, face to face communication is one of the keys to effective change management. Employees' concerns are reduced if they feel that management is keeping them informed of the changes.

4.2.5.3 Owner's Time, Knowledge and Skills

When the limiting resource is the business owner's skills and knowledge, one possible solution is to employ more staff. However, another, often less considered strategy, is an expansion of the ownership of the business.

Bringing on more partners and / or shareholders (depending on your present business structure) can increase the management strength of the business, provided that these additional owners have the required skills and that you are able to work well with them. However, as a business owner, perhaps the most difficult part of bringing on additional owners will be that you will need to give some of your control over to these other part-owners.

Deciding whether the expansion of ownership is an appropriate strategy for you will require a thorough review of your personal goals, and of the business's objectives. If achieving your personal goals depends on owning and running your own business, then this option might not work for you. However, if playing a major role in the management of a bigger business fits in with your aspirations, it may be appropriate. Before sharing the ownership you will need to be very sure about the other owners, how well you will work together and the way in which management activities will be divided.

Like other growth strategies, finding possible co-owners, getting to know them and discussing ownership and management sharing is a long process. Because it takes so long, planning for the expansion of ownership should ideally begin at least two or three years ahead. Strategies to achieve it could include identifying prospects, researching their background and credentials, meeting with them, and negotiating mutually suitable details. You do not want your business to fail due to constant arguments between owners.

4.2.6 Partnerships, Mergers and Strategic Alliances

Another option for expanding a business, whether it be with the idea of reaching new customer groups in other geographic areas or increasing management skills, is to combine with an existing business in another area. There are a number of ways of doing this, including partnerships / mergers and strategic alliances.

4.2.6.1 Partnerships / Mergers

In a partnership / merger, the two (or more) businesses actually join to become one business. If the two businesses operate as sole traders, they could simply join together to become a partnership. If one or more of the businesses operate(s) as a company, they can merge to become one company by, for example, one business buying shares in the other or by establishing a new entity.

The advantages of partnering with another business include:

- Businesses that would otherwise only be able to reach a new market by spending a lot of money and time can do so without over committing themselves and risking the rest of the business.
- By pooling resources, small businesses have more chance of winning a large contract, as they will be seen as being more secure and reliable.
- Partnerships allow small businesses access to technology, knowhow, and customers that they could not have reached on their own.
- Partnerships can increase your databases of customers and contacts.

- Partnerships can increase the range of management skills in the business.
- Cost savings may be available through bulk purchasing.

On the other hand, some of the disadvantages and risks include:

- Personality clashes may develop between the owners. These are especially common if one or more of the businesses is a small business, as the business owner is likely to have 'imprinted' his or her style on the business, working methods and staff.
- One party feels it is contributing more, and effectively carrying the other.
- Disagreements regarding the share of the profits / share of ownership of the business that each partner should have.
- A mismatch between the two partners in terms of goals.
- Disputes arise over legal issues such as ownership of copyright material or other intellectual property which has been produced / developed by the partnership.

You would need to be sure that the other business is not only successful now, but is managed in a way that ensures future success. The other owner's goals and objectives must not conflict with yours; they need not be identical, but both must be achievable. One way you could anticipate agreement or conflict is to compare the business plans of the two businesses. If partnering / merging with another business is something you want to consider, start planning at least three years in advance. It takes time to research prospective partners, get to know these businesses and negotiate an agreement.

4.2.6.2 Strategic Alliances

A strategic alliance is a formal relationship between two or more businesses. The businesses remain separate entities, but work together to achieve a common goal. Strategic alliances may be formed for a number of reasons. Consider the follow examples[74]:

- You could offer your customers a larger variety of products or services.
- It could allow you to spend less time and money developing new products or services to sell.
- Your number of salespeople could increase because you are combining with another business.
- You could share your advertising and marketing costs.
- You can now offer your existing customers more back-end and up-sell products which will therefore increase your sales and profits.
- Your business could have a larger number of skilled people working on the same project – you will gain the knowledge of the other business's employees.
- You will be able to beat your competition by selling to a larger target audience.
- You can exchange endorsements with your alliance partners. You will add more credibility to your business and thus gain your potential customers' trust to buy.

The key with a strategic alliance is that the relationship must be nurtured and there must be benefits for both parties for it to continue successfully. For example, you may be able to utilise the extensive resources or distribution range of a larger business while your business may be able to provide a special personalised service or have a unique skill or product or service that the other business can use.

The businesses, usually, are not in direct competition, but have similar products or services that are directed toward the same target market. For example, a hairdresser may form an alliance with a beautician, whereby they share the same premises. The benefits of this type of alliance could include:

[74] Overton, R. (2002). *Small Business Management: Manage to Win.* p 82. Australia: Sydney Business Centre.

- Offering a wider range of services could attract more customers than what each of the businesses would attract if operating separately.
- Sharing of existing customers.
- Sharing of overhead costs such as rent, electricity and phones.
- Joint advertising.
- Ability to offer a new package of services. For example, they may offer 'hair and make-up parties' whereby they offer free demonstrations and educate people about various products, thus encouraging them to buy from them and book their services.

4.2.7 Acquisition or Divestment of a Business

4.2.7.1 Acquisition

Acquisition of another business, be it a competitor, supplier, customer, or even a business outside your existing field of operation, can bring advantages in terms of sales, customers, profitability, enhanced product range, and so on. So when, for instance, you want to extend your product range but are having difficulty sourcing or developing suitable complementary products, you might look at buying a business that offers these products.

Acquisition can be a way of pursuing any of the **four main growth strategies**. You can, for example:

- Buy a close competitor in order to increase your market share (*market penetration*).
- Buy a business that provides the same types of products or services as you do, but which targets a different type of customer or is located in a different geographical region (*market development*).
- Buy a business that operates in your industry and has the same target market as you, but which has a different range of products (*product development*).
- Buy a business that has a different target market and a different range of products (*diversification*).

Using acquisition to pursue a market penetration or product development strategy has an advantage in that you can apply your existing knowledge of your *customer base* to the new business. Whereas, using acquisition to pursue a market penetration or market development strategy has an advantage in that you can apply your existing knowledge of your *products* to the new business.

Using acquisition for diversification purposes is the most risky option, however, if you are able to retain key staff members of the new business, you would be able to learn a lot from them. This makes it a less risky option than diversifying by starting a new business from scratch.

It is also important to remember that some businesses are just not good buys. Glen Senior, business consultant, states:[75]

> *"[If] there's either too much competition or demand in a particular industry area is on the decline then don't just jump on the 'bandwagon'. Mussel farming in the Marlborough Sounds and Coromandel has been a good example of this. Once a few people made good money, everyone wanted it.*
>
> *The kiwifruit industry has experienced similar problems of overkill as has the horticultural industry. Suddenly everyone imagines that they can grow flowers or vegetables for the Japanese market! But the truth is that horticulture is very capital intensive because you need a lot of equipment and you also have to wait a long time to see a return – also you really need to know what you are doing!"*

4.2.7.2 Divestment

Divestment involves selling off a business or part of a business. This can be a particularly good strategic move for a business if it is having problems and decides it needs to downsize by perhaps getting rid of some of its non-core activities. This can be good for a business in terms of (for example) reducing its debt burden, but it could become problematic if a competitor acquires the business and your business still needs the divested business's products – you might find prices or delivery times increase to your detriment!

Regardless of your motives for selling, it is crucial that you think through the process carefully. The success of a divestment can easily be placed in jeopardy simply by failing to maximise the opportunities for the sale. Key pointers when divesting are:

- Making sure the reason why you are selling is clear.
- Do not make your intention to sell known until you are ready.

[75] Senior, G. and McBride, I. (2000). *Small Business Survival Tactics – Managing your small business in New Zealand for success and profit in the new century,* p 316. New Zealand: Enterprise Publications Limited.

- Get the timing right – when would someone else be willing to pay most for the business? When do you need the cash? Create a timetable for the sale.
- Work out your sales price parameters, including the minimum price you'd be prepared to accept, before you put the business on the market.
- Involve staff and keep them informed.
- Consider putting non-competition agreements in place with the buyer.

4.2.8 Market Research

The risks associated with each of Ansoff's growth strategies can be reduced by market research and market testing. Market research is the process of gathering information to ascertain whether or not your business expansion will succeed.

The types of questions that market research answers include:

- Is there room in the market for one more business or product? Who is the customer base?
- Is there actually a demand for your product or service?
- What are your competitors offering, and can you do it better?
- Can you reach your target market?

There are several sources of data and information for you to consider. They are categorised as ***primary*** or ***secondary*** sources. A primary source is original data that you collect or is collected on your behalf. An example of this is a questionnaire which you give to existing customers to complete. Secondary sources of data are those that already exist because someone else has required the information. A commonly used secondary source of data is the Census which collects information on many aspects of New Zealand's population every five years.

Some of the secondary sources you may like to consider include:

- **Internet search engines.** Search engines such as 'Google' identify a wealth of sources of information on many topics and the information is often free.
- **Trade / Industry Associations.** These organisations often conduct their own research and many of their findings could be relevant to your business. For example, MANZ (the Motel Association of New Zealand) collects information on occupancy rates, sources of guests and types of advertising that are effective.

- **Government Departments.** Statistics New Zealand, The Ministry of Business, Innovation and Employment and New Zealand Trade and Enterprise are all sources of useful information. NZTE has guides available on how to do market research on specific overseas markets if you are looking at exporting.

- **Commercial data.** Market research companies such as ACNielsen conduct research and sell the results to interested parties. Customer purchasing patterns are a commonly purchased report.

If there is no secondary data available that meets your requirements, you will need to consider conducting your own research. Market research companies can be hired to do this or you could consider approaching a tertiary institute and engaging statistics or business students to conduct your market research. It is also possible to gather a lot of market intelligence yourself for very little cost.

Some options for gathering primary data are as follows:

- Study your competitors. Visit their outlets and their website. Talk to their suppliers.

- Use your staff to gather information when they talk with customers and receive deliveries. Train them to ask the right questions.

- Survey your existing customers and suppliers.

- Hold a focus group involving key customers or suppliers. A focus group is a research tool used to gather in depth information from a small group of people.

- Observe. You can evaluate a new location by observing customer and traffic movement. You can gather information on competitors by observing their staff, customers and operations.

- Experiment. In some cases it may be possible to conduct small-scale, low-cost trials. For example, you may be able to sell a new product on consignment before committing to it by purchasing it.

Some businesses use market research to confirm that their preconceived ideas are correct rather than approaching their research with an open mind. If the right questions are not asked, you will not get valid, useful information. There are many ways of conducting research and many things to know about gathering unbiased, accurate data. Market research will be covered in detail in a seminar in Module 2.

4.3 Strategy Selection & Goal Setting

4.3.1 Strategy Evaluation and Selection

In Module 2 of this programme you will be implementing projects in your own business. These projects will be designed to meet these two objectives:

1. Help you achieve the desired future position of your business (as discussed in Section 1 of this Module), and
2. Help overcome key internal and external issues, problems and challenges facing your business, as well as take advantage of the opportunities available (as discussed in Sections 2 and 3 of this Module).

In order to determine what these projects may be, you first need to determine what broad business growth and development strategy (or strategies) you want to implement in your business. The projects you implement will then be action steps required for this strategy. As the projects need to achieve the two objectives listed above, the strategy (or strategies) you select must provide for this.

Therefore, in determining what broad strategies you want your business to pursue, and ultimately, what type of projects you will be implementing in your business, you need to evaluate alternative strategies against these two objectives. When making your decision, also take into consideration the factors discussed in Section 4.2 of this Module, such as the market research required, the current financial position of your business and the product life cycle.

For example, it may be your vision to be known as the 'leader in customer-friendly solutions' within your market. Two of the possible broad strategies you may consider pursuing for your business may be new product development and expansion of your product / service range (both of which happen to be product development strategies). After evaluating these two strategies against the aspirations of the business, and in regards to their potential to overcome the challenges facing your business and their ability to maximise the opportunities available, you may decide to pursue the new product development option.

Examples of projects you may then implement in your business in following this strategy could include:

- Recruitment and training of a product development team.
- Market research into new product development.
- A revamp of business processes to ensure the business is operating efficiently enough to be able to manage the addition of a new business segment, etc.

4.3.2 Goal Setting

Once you have determined what strategy (or strategies) you want to follow in your business, it is time to set some goals. Setting goals will help you to monitor your progress in carrying out strategies, and will help you determine what projects you need to implement in your business in Module 2.

4.3.2.1 SMART Goals

Goal development ties strategic planning with implementation, which is the action necessary to produce change. Therefore, each of the goals needs to have established measures. A tool that is commonly used to help develop effective goals which include such measures (and which you may already be familiar with) is the 'SMART' criteria.

According to the SMART criteria, goals need to be:

- **S –** pecific,
- **M –** easurable,
- **A –** ttainable,
- **R –** elevant to the overall vision and mission of the business, and include a
- **T –** imeframe for completion.

Consider the example of a new business that manufactures drink bottles and which has a vision relating to quality products. A goal for this business that does NOT meet the SMART criteria would be "to be the favourite supplier of drink bottles".

Reasons why this is not a SMART goal are as follows:

- It is not specific. That is, what type of drink bottle? Favourite amongst whom – sportspeople in New Zealand?
- It is not measurable. That is, what is meant by favourite? The highest quantity sold – if so, how will you get this information?
- In its current form, it does not appear to be attainable, particularly given the fact that there are no limits specified in terms of who the business will be the favourite supplier for. That is, for the whole world? Is this really attainable for a new business?
- Depending on what is meant by 'favourite', the goal does not appear to relate to the overall vision of the business. Whereas the business's vision focuses on quality, this goal seems to focus on volume sold and size of the business.
- There is no timeframe for achievement of the goal. That is, by when would the business need to be 'the favourite'? December 2025? March 2020? Within the current financial year?

This goal could be turned into a SMART goal as follows:

"For a drink bottle product designed by the company to be identified as the 'customer favourite' for 'new sports products' in the 2016 Top Sports Products list published by Doing it Right Sports Magazine."

To further define how you will achieve each goal, define each task / action required to reach the goal. These actions are the essence and culmination of the whole planning process. Each action must have a start and completion date, identify the responsible person(s) and estimate the cost of the completion.

By defining actions this way, you as the business owner can ensure each task is easily implemented. Your business implementation projects that you will complete in Module 2 will involve implementing some, if not all, of these actions.

Example: Kumfs / Ziera[76]

The New Zealand footwear company, Kumfs, rebranded in 2010 to become 'Ziera'. A press release issued by the company quotes the managing director, Andrew Robertson, as saying that the move to a new name reflected a new direction and focus for the company.

> *Andrew said the company was planning, over the next five years, to more than triple global sales to over NZD$200 million and expand the number of Ziera-owned and franchised stores from 43 to 125.*
>
> *To achieve that goal, Andrew said the company would be focussing on further expansion in the United States and the development of new markets in China.*
>
> *"We're also developing our footwear range to appeal to a broader group of women. Our design team has received international design input and is working to enhance and develop our current range to include new and more innovative designs that further meet customer expectations."*

4.3.2.2 SMARTER Goals

A variation of the SMART criteria that you can use to produce even more effective goals is called 'SMARTER'. The 'E' and the 'R' of SMART**ER** stands for 'Exciting' and 'Recorded'. It can also stand for Emotional Resistance (or Emotionally Rewarding).[77] That is, how do you *feel* about the business goal? Goals should have a WOW factor. Many people, especially in business, do not feel any emotional commitment to their goals. What this leads to is that a task or project ahead looks like a chore rather than something that really resonates with you as the business owner.

Note that the other letters of SMART are also sometimes taken to stand for other factors. For example, 'R' is sometimes considered to stand for 'Realistic' (which is similar to the 'A' for attainable) and 'A' is sometimes considered to stand for 'Accountability', as shown in the following account of what the term 'SMARTER' stands for:

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[76] Kumfs. (2 September, 2010). *Kumfs Rebrands With Ambitious Growth Plans.* Retrieved 17 January, 2011, from http://www.scoop.co.nz/stories/print.html?path=BU1009/S00055/kumfs-rebrands-with-ambitious-growth-plans.htm

[77] First Principles Leadership. *Guide to Setting Smarter Goals*. Retrieved 9 January, 2009, from http://www.theleadershiphub.com/files/smarter.pdf.

SMARTER Goal Setting[78]

S

Goals must be **specific** and the more specific the better. State your goal in as exact terms as possible.

M

Targets should be **measurable**. That which you measure will be treasured, so think about what will be the measurement of your achievement of your goal.

A

Goals should have **accountability**. Who or what are you accountable to for the goal?

R

Goals must be **realistic**. Unrealistic goals will lead to discouragement.

T

Targets should be **time based**. Decide your timetable for completion, and stick to it.

E

Goals should be **exciting**. Exciting goals will be met far sooner than boring, bland goals.

R

Goals should be **recorded**, in a place where you can look at it every day.

[78] Gerbyshak, P. *Smarter Goal Setting – A Key to Making it Great.* Retrieved 9 January, 2009, from http://ezinearticles.com/?SMARTER-Goal-Setting---A-Key-to-Making-It-Great!&id=92418.

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