Basic Analysis of Commercial Strategies for Start-ups

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Abstract: In regard to business tactics and strategies, a profusion of pratfalls and triumphant experiences, full disclosure, have been summarized and exemplified to date. Some worth browsing or even perusing, though, are few and far between. Simplicity of Steve jobs is rife with unviable maneuvers and era-ushering tenors and Amoeba operation method, proposed by Inamori Kazuo, necessitates complexity. Other so-alleged hindsight, save the both, all take something out of context plus some even count the victory in the commercial domain idiot-proof. These simple rules of thumbs, consequentially, could not be drawn on by some start-up businesses. Despite the post-mortem being shelved, however, those start-up business founders have been intending to trawl through some tacks more valid and pragmatic than some used to be, in a bid to crystalize their trajectories. The paper, therefore, is pitched at the demographics owning their small ventures or prepared for starting their own businesses and confers some feasible commercial logic on them.

1. Introduction

Start-up companies, in the inception, all request an explicit strategy to navigate an infallible direction, as the book *"Your Strategy Needs a Strategy* authored" by Martin Reeve et.al. presented that 'When the path is unclear and the resources are limited, it is necessary to have insight and analysis of the external environment, examine their own capabilities, and finally make strategic decisions based on the judgment of the general trend and the balance of advantages and disadvantages.' Those stat-up practitioners, although some commercial strategies authored by luminaries in the realm are read by them, still suffer their Waterloo. In China, the start-up called 3Vbike that only operated its products for almost 4 months went into liquidation in June 2017, since it, after founders of the firm self-righteously had acquired knowledge of bike-sharing commercial modes by some professional channels, started copying indiscriminately and mechanically the commercial models of the company OFO. The case is mere a tip of the iceberg. Myriad start-ups, in spite of amply accessible expertise in existence, remain failed, because the majority of them at the outset do not have a clear-cut business strategies and do not know how to analyse multiple strategies. Is there, be that as it may, any commercial logic to experiment? The answer, of course, is yes. Everything has its own course and what we should do is to go alongside the momentum.

2. Commercial Strategic Orchestration

2.1 What is Business Strategy?

The modern strategy, in a nutshell, is a combination of two schools, one featured by Michael Porter and another pioneered by Mintzberg. That is, the conception of business strategy incorporates not only three variables previously epitomized (i.e. planing, comprehensiveness, long perspective), but, more importantly, other three dimensions proposed currently (i.e. resilience, competitiveness, risk management).

2.2 Corporate Proposition

A corporate strategy should embrace its well-established proposition. The proposition, or rather,

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is a compass of all strategies to orient those decision-makers in companies.

An aim, tenet and operational philosophy, as for corporate propositions, should be reckoned with. An aim is to rear a value metric for individual staff and, in general, encompasses fortune of shareholders and social responsibility. A tenet is to shed light on operational scope and determine what products, services, customer image, markets and techniques, etc. should be penned (e.g. the tenet of P&G (Procter & Gamble) is to 'provide high quality and value branded products and services for present and future generations, in more places around the world, in a more comprehensive way, close to and beautify the lives of more consumers.'). The philosophy of operation for some inceptive companies is arcane and these companies, more often than not, neglect worth of the philosophy, namely cultural value of a corporation. Numerous conglomerates, however, all underscore importance of the regard. Operational philosophy of the enterprise Panasonic is 'to improve social life and make things the mass demands as cheap as running water', which can be served as a template of corporate cultures.

2.3 Three Layers of Strategy

Company strategy, from a bird's eye view, can be divided into three levels, namely an overall strategy to a business unit strategic plan, then reaching a functional strategy.

Overall strategies, with respect to a nascent company, are indispensable since the strategic formulation can help companies clarify not solely what business they ought to do, but how they should allot and manage resources among different business units.

Business unit strategic plan for some start-up or small-sized companies, moreover, is a food for thought because purposes of the plans is to allow those corporate decision-makers to straighten their thread regarding correlation among the three variables (i.e. customer demands, rivaling products and own ones), and then, correspondingly, to augment their own competitive grooves.

The rest one, conversely, is eclipsed. Laid-down strategies of a company in the initial stage, in brief, should also be simplified, thereby concentrating on dissolving premiere issues. Provided a start-up company paid much heed on allocation of finite resources (e.g. the number of employees less than five in total or the use of wherewithal under 3000 dollars) for ages, in other words, it might not seize on ephemeral dividends of markets. Functional strategy, hence, can be solely tabled.

2.4 Process of Formulating a Strategy

Procedures of designing a strategy can be considered from three facets (i.e. analysis, selection and implementation of strategy).

Strategical analysis of a company tends to research external environment in which the company attempt to dive into a market and to make a self-anatomy to allocate corresponding resources. Strategic selection, after a squeal of researches, requires an attentiveness on two stages, namely genres and process of selective strategies and ties in with the three layers of strategy aforementioned. The process of strategic formulation, aside from that, touches on three contents as well. First things first, a company, whereby multi-pronged considerations, needs to figure out what organizational structures(i.e. top-to-bottom or the reverse) suit it, owing to the uniformity of corporate structures and strategies claimed by the book *"Strategy & Structure"* written by Chandler .The company, subsequently, assesses criteria of these selected strategies from three points. Suitability, primarily, is to evaluate extent to which previously-set propositions is compatible with these back-up strategies. Acceptability, next, is to negotiate these ideas with the corporate stakeholders for the sake of a consensus. Feasibility, last but not least, is to comprehend what resources must be used, whether the company has commanded these resources and whether matched revenues and risk is adventure-worthy. When all above completed, ultimately, selected strategies of the company are unambiguous.

Strategic implementation, nevertheless, is still a complex process, which concerns five dominant questions, whereas only the one among the five, as for a start-up company, should be addressed, that is, how to assure efficacious management of number-limited personnel for maximization of interdepartmental efficiency.

3. Methods for External Strategy Analysis

3.1 Macro-environmental Analysis of an Industry

Strategic analysis, at broad terms, covers internal and external analysis of a company.

Frequency with which PESTEL (i.e. P-Policy, E-Economy, S-Society, T-Technology, E-Environment, L-Legitimacy), when it comes to external analysis, is utilized is the highest. The analytical method is to fathom correlation between the four macro-environmental factors and a company itself and to determine on if the company, after pondering on the relationship, could brandish its merits. PepsiCo puts much attention on social factors, as it is a non-alcoholic beverage it has to remain in line with the strict and stark differences of cultures the world over. PepsiCo, in addition, has to spread its image as a global brand so that people can associate it with themselves and the world. The social impact, usually, is seen in marketing campaigns. Certain countries, for example, have religious festivals, so PepsiCo has to align with all these festivals to understand their market psychology and how they can cash in on the opportunity. Another instance of leveraging the PESTEL analysis is IKEA. IKWA, from the dimension of technology, adopts quality technology and systems to facilitate shorter queues, appropriate scheduling, tracking and transaction patterns, and staffing. It aims to increase productivity and build employee preferences. The system puts IKWA in a position where each IKWA store can ensure the right number of people in the right place, matching unique trading patterns at the right time. The company's approach to supply chain optimization is to also optimize and manage employees to create an efficient storage environment and keep customers happy. A start-up company, however, could not think over all variables comprised by the 4 factors because of timing, so unique considerations for different companies is requisite.

3.2 Industrial Environment Analysis

3.2.1 Usability of Industrial life cycle for a start-up

Industry life cycle, in addition, is a silver bullet for a start-up company to grasp timing. The industry life cycle refers to the evolution of an industry or business through four stages (i.e. introduction, growth, maturity, and decline stages) based on the business characteristics commonly displayed in each phase and single phase involves seven different variables in accordance with the change of the four phase, as the Table 1 displayed below.

Table 1: Four stages displayed in Industrial life cycle

Comparative factors	Introductory stage	Growth stage	Mature stage	Decline stage
Customer Behavior	• Low customer maturity • Most customers are the well-offs	• Customer pool enlarges • Customer acceptance of the products increases	• New customers decrease • Regular customers are dominant sources of income	Cost performance figures among customers
Techniques and Quality of products	• Novel design of procucts • Inferior quality and unreliable techniques	• Product’s differences between technology capability emerge • The stability of technology will appear	• Products are formallized • Techniques and quality are mature	• Substitutes penetrate into the market • Cost competition with substitutes appears
Demand and Supply	Demands grow slowly	Demands exceed supply	• The market is saturated • Regional productive force is superfluous	• The demands decline • Productive force superfluity aggravates

Price	High price	The highest price	• The cost competition starts • The price declines	• Some enterprises withdraw from the market • The price would rise
Purpose of Strategy	• Enlarge the market share • Rank the first in the market	Strive for the largest share of the market	• Reinforce the market share • Lift ROI	• Defensive strategy • Ensure cash reserves
Trajectories of Strategy	The largest amount of funds are invested into research and development of products	Implementation of marketing strategies to raise corporate profile	• Ameliorate efficiency • Reduce costs	• Cost control • Remain cash flow surplus
Operation risk	The highest	Fall a little, but still	Mid-level	The lowest

Limitations on the method, nevertheless, is evident. The industrial life cycle, on the one hand, can not completely and exactly interpret which stages some industries reside in, as the industrial life cycle curve is subject to being abstracted. It, on the on the other hand, differs from industry to industry (e.g. some industries evolve from dispersion to concentration, but some is totally converse.) and industrial life cycle, on the most occasions, only suits the industries evolving from dispersion to concentration. Provided in an attempt to adopt and employ the strategic method, a strategy deciders enters some potential industries, thus, the all-round considerations for making it into effect are prerequisite and the accord between competitive attributes and strategic modes, more significantly, is a pivotal factor which holds sway on if the analytical method could tap its tremendous potentiality.

3.2.2 Proper use of six forces template for a start-up

The priority of a start-up is to burgeon. A start-up thus can combine four forces analysis out of Porter' five forces analysis (i.e. Competition in the industry, Potential of new entrants into the industry, Power of suppliers and customers, Threat of substitute products), an industrial analysis mean originally created by Harvard Business School professor, Michael E. Porter and the synergy effect of Andrew S. Grove to extrapolate some obstacles the start-up could confront into and preplan how to surmount these bars. The five forces combined above consist of Competition in the industry, Power of suppliers and customers, Threat of substitute products and Synergic force respectively. Noticeably, Apart from that, Potential of new entrants into the industry, can be irrespective, because only when a start-up business has taken its shape and generated pertinent competitiveness, the force could just start analyzing from the perspective of resource availability. A start-up, otherwise, could lay waste to limited resources in existence to contrive some so-called barriers against those potential enters and put much attention on the backburners.

3.3 Competitive environment analysis

Market structure is a parameter for different-scaled enterprises. Many enterprises, with the exception of oligopoly and monopoly blocs, struggle in the fully-competitive market. The struggle is mainly ascribed to disparities in competitive attributes from the markets. Some, for example, prioritize production, research and development of commodities, yet some need to focus on the marketing end so as to exhibit strength. The difference in competitive attributes spawns formulation of various strategy plans for enterprises. Thanks to the diverse competition, however, a start-up could hunt for opportunities to circumvent via utilization of strategic group analysis or, in other words, strategic blocs analysis.

Strategic group analysis, as a whole, refers to analyzing one industry where enterprises in the same industry posses similar features, thereby gaining some insights into competitive conditions, transfer barriers, emphasizing respects on competitions and projecting changes of the market trend of these enterprises with some resemblances. A start-up, hence, can benefits from the analysis.

4. Methods for Internal Strategy Analysis

4.1 The Combination of RBV Model and Value Chain Analysis

A multitude of start-ups are resource-starved, so the paramount matter for them is to consider how they can maximize potentials of these limited resources. The resource-based view (RBV), originally appeared in Jay Barney's 1991 article, is a managerial framework used to determine the strategic resources a firm can exploit to achieve sustainable competitive advantage and the resource-based view can also offer some start-up strategy deciders a means of evaluating potential factors that can be deployed to confer a competitive edge. A key insight arising from the resource-based view, moreover, is that not all resources are of equal importance, nor do they possess the same potentials to become a source of sustainable competitive advantage. Besides, resources in a firm, according to Barney's 1991 book "enterprise Resources and Sustainable Competitive Advantage", can be compartmentalized into four types, namely valuable ones, rare ones, strategically non-substitutable ones and non-imitable ones, so a start up entails figuring out which resources can be characterized by the four types above and then integrates the resources and pumps them into crucial links of their value chains.

A thorough value chain encompasses two activities composed of basic and supportive activities (i.e. inbound and outbound logistics, productions, marketing and sales, service for basic ones, and procurement, technological development, HR management, infrastructure for supportive ones) as the Table 2 shown below.

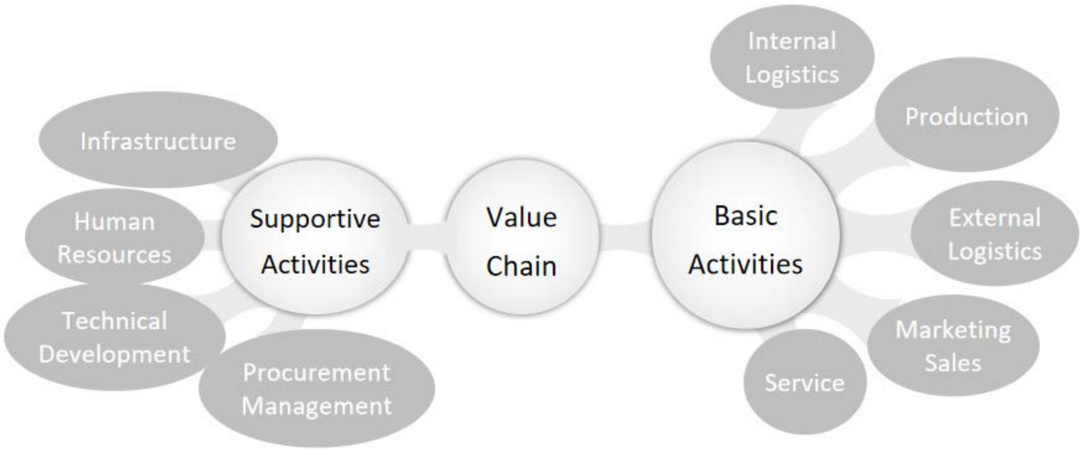

Fig. 1 Basic and supportive activities of value chain

A start-up, for a start, ought to pinpoint which links of value chain are attention-worthy and then the start-up must evaluate plus quantify how many resources can be invented into the links. Honda in the initial stage, because of relevant expertise inadequacies, did not commence manufacturing automobiles. It leveraged its limited yet worthy capabilities and expertise to start building small clip-on engines for bicycles on a small scale and combined almost all resources to bolster its production and technology links of value chain for the sake of optimal quality of products. Given superlative products quality, Honda, consequently, attained massive favor form the industrial downstream (e.g. wholesale and retailing ends) to develop itself.

4.2 Application Building on SWOT Analysis

SWOT analysis is broadly adopted and exploited across the field of commercial analysis, yet applicable respects of the analysis is not comprehensively discoursed and illustrated in some literature. Application of SWOT analysis, based on the SWOT principles, is a ramification which can assist start-ups in teasing process of strategic analysis and defining developing directions of the firms by means of holistic thought of internal and external variables. The overall framework is shown by Table 3 underneath.

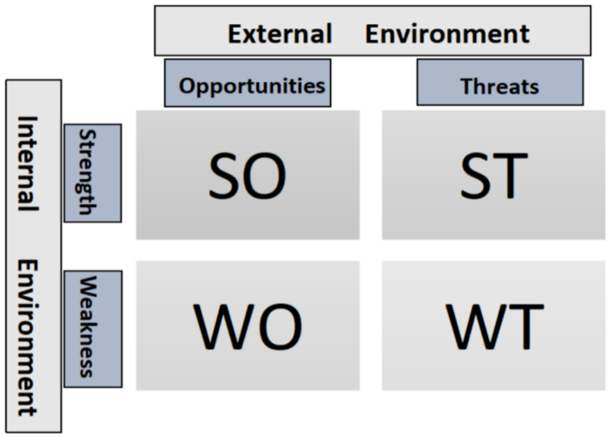

Fig. 2 Different strategies in light of SWOT principles

SO strategy (Strength & Opportunities) is a kind of growth strategy, indicating that a business or project prospects is ideal or rosy and a start-up should prioritize executive effectiveness rather than excessive concerns.

ST strategy (Strength & Threats) is a diverse operation strategy that can offset outward weakness whereby self-advantages. A start-up, prior to entering an industry, can give full considerations to incongruity between self-edges and external disadvantages and rapidly adjust, while it is in the initial state, self-owned resources to process strategic transfer.

WO (Weakness & Opportunities), also called Defensive strategy, can help start-ups countervail against self-drawbacks under the cover of timing bonus, so the firms do not need to feel sorry for a shortage of their resources. They, in stead, must enter the sanguine markets at a breakneck rate.

WT (Weakness & Threats), for an inceptive firm, can be filtered, because it indicates, once a start-up determined on entry strategy into a market, that the market witnessed an upward trend.

5. Summary

The paper provides some basic knowledge regarding the process and analysis of business strategy for start-up practitioners and illustrates, from the lens of start-ups, which procedures are immobilized and which strategies can be left out or drilled down. Some examples presented in the paper, moreover, can be drawn on by some commercial strategists, thereby intensifying and expanding their own insights into the commercial realm. Some geared up to initiate their own businesses, last but vitally important, can attain some epiphanies and logic on how to prepare their business plans.

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