
Environmental assessment of entrepreneurial ventures

Overview

- Define sustainable competitive advantage
 - Explore environmental scanning
 - Discuss how to analyze competitive forces within an industry
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Sustainable Competitive Advantage

- Achieved when a venture has implemented a strategy that other companies do not duplicate
 - Can only be maintained until competitors are able to duplicate or develop a substitute
 - Pursuit of a sustainable competitive advantage requires a full complement of commitments, decisions, and actions by the entrepreneur
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Environmental scanning involves examining the external and internal environments before making a decision.

- General environment
 - Demographic, economic, political/legal, sociocultural, technological, and global segments
 - Industry environment
 - New entrants, suppliers, buyers, product substitutes, intensity of rivalry among competitors
 - Competitor environment
 - Position of the venture within the industry
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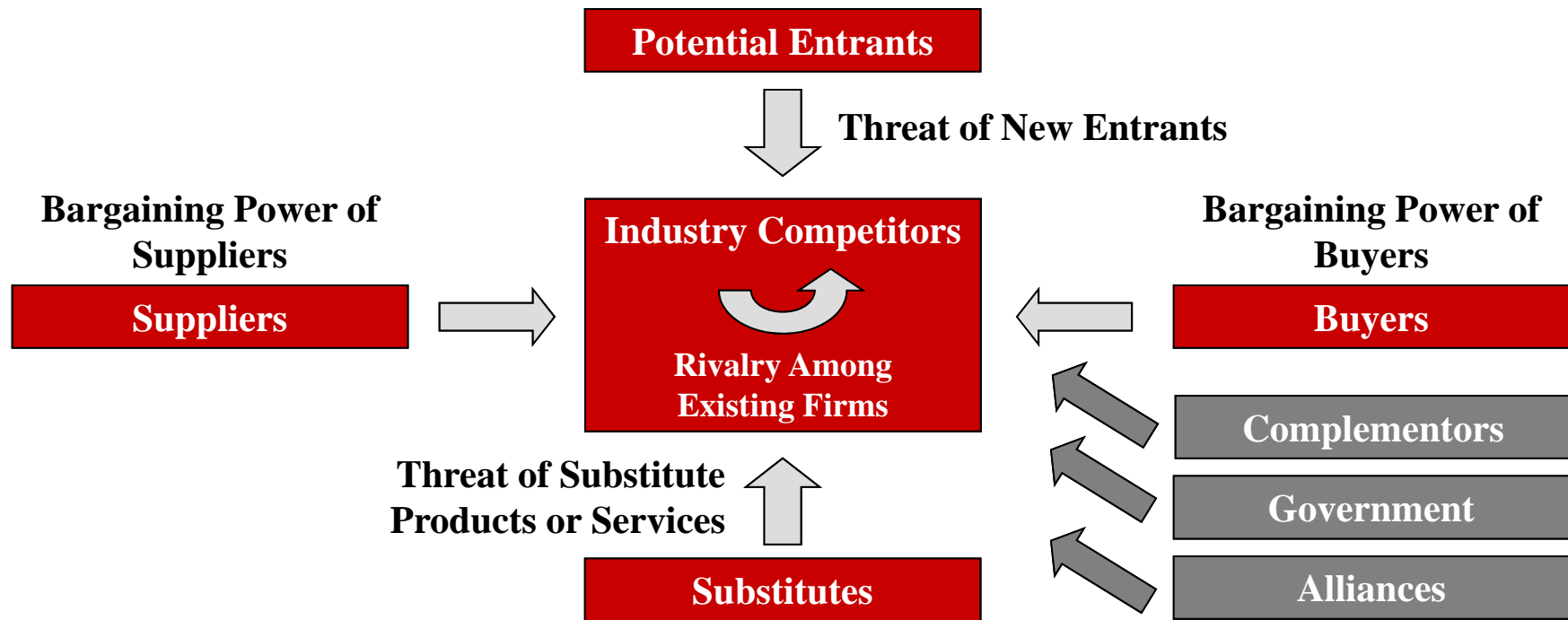
The Regulatory Environment

- Governmental regulations affect smaller ventures in a variety of ways:
 - Managerial regulations
 - Technology regulations
 - Price regulations
 - Competitive regulations
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Examining the Environment

- Environmental Assessment
 - What is the structure of the industry?
 - How is it likely to evolve over time?
 - Industry Characteristics
 - Technological uncertainty
 - Strategic uncertainty
 - First-time buyers
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The Five Competitive Forces that Determine Industry Profitability



(1) Rivalry Determinants

- Industry growth
 - Fixed costs
 - Product differences
 - Brand identity
 - Switching costs
 - Concentration and balance
 - Diversity of competitors
 - Exit barriers
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(2) Determinants of Buyer Power

Bargaining Leverage

- Buyer concentration
- Buyer volume
- Buyer switching costs relative to firm switching costs
- Buyer information
- Ability to backward integrate
- Substitute products

Price Sensitivity

- Price/total purchases
 - Product differences
 - Brand identity
 - Impact on quality and performance
 - Buyer profits
 - Decision makers' incentives
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(3) Determinants of Supplier Power

- Differentiation of inputs
 - Switching costs of suppliers and firms in the industry
 - Presence of substitute inputs
 - Supplier concentration
 - Importance of volume to supplier
 - Cost relative to total purchases in the industry
 - Impact of inputs on cost or differentiation
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(4) Entry Barriers

- Economies of scale
 - Proprietary product differences
 - Brand identity
 - Switching costs
 - Capital requirements
 - Access to distribution
 - Absolute cost advantages
 - Learning curve
 - Access to necessary inputs
 - Proprietary processes
 - Government policies
 - Expected retaliation
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(5) Determinants of Substitution Threat

- Relative price performance of substitutes
 - Switching costs
 - Buyer propensity to substitute
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Summary

- Developing a sustainable competitive advantage is a key success factor for new ventures
 - Environmental scanning provides valuable insights into the industry and the market
 - Analyzing competitive forces within an industry is fundamental to positioning the new venture successfully
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