

Setting Up Businesses

Topic 2. Economic viability



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2.1. Need to have a competitive advantage.

2.2. Key elements: adaptation to the type of transaction and environment.

2.3. Conclusion.

2.1. Need to have a competitive advantage

- **Competitive advantage** is a key determinant of success.
- Definition: ability, resource, knowledge, attribute, feature or aspect that differs from other competitors and places the business in a superior position to compete and obtain greater results.
- Three strong points:



Efficiency: flexibility, innovation.



Differentiation: competition not based on price but on other attributes.



Domain of a market share: eliminate or reduce competition in a segment.

**Competitive
Strategies**

**COST
LEADERSHIP**

DIFFERENTIATION

**FOCUS OR MARKET
SEGMENTATION**

2.1. Need to have a competitive advantage

- **Competitive strategy** allows capturing a portion of demand and keeping it long enough so that the investments required to carry out the idea are profitable (**sustainable** competitive advantage).
- The attribute must represent a key factor in the market, differ from other competitors and be sustainable for some time in a changing environment.
- What determines a competitive advantage?:
 - *Type of product*: attributes or distinguishing features.
 - *Type of transaction*: strategy appropriate to type of transaction.
 - *Environment*: rivalry and negotiating/bargaining power.

2.2. Key elements: adaptation to the type of transaction and environment

I. ADAPTATION OF COMPETITIVE ADVANTAGE TO TYPE OF TRANSACTION:




The strategy is conditioned by the type of transaction.

II. ADAPTATION OF COMPETITIVE ADVANTAGE TO ENVIRONMENT:

The company interacts with the environment (source of problems and opportunities for the company).

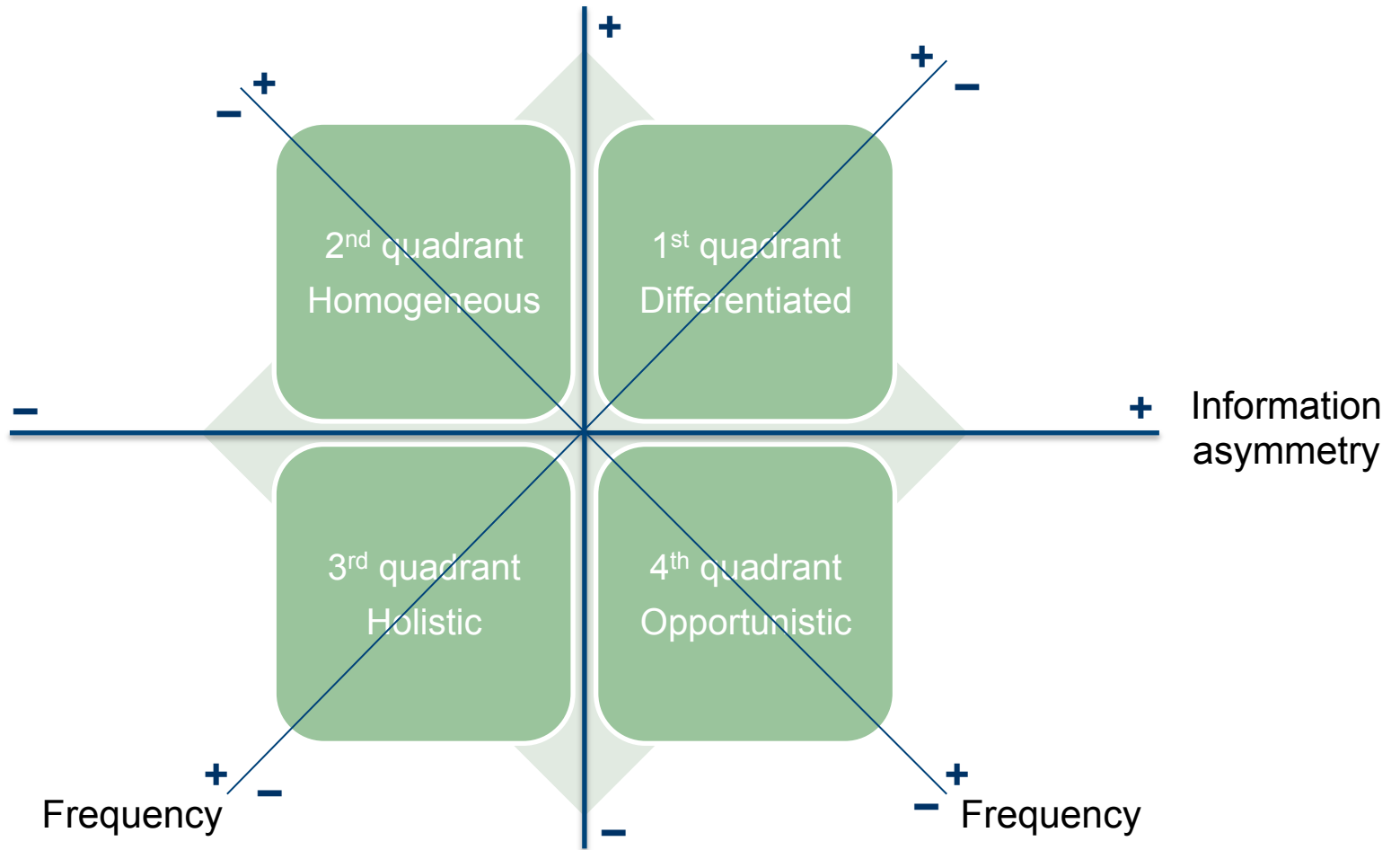
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I. ADAPTATION OF COMPETITIVE ADVANTAGE TO THE TYPE OF TRANSACTION

- Three variables:
 - Information asymmetry – It depends on the ATTRIBUTES. 
 - Frequency of transactions. 
 - Information search habit. 

- Four types:
 - **Homogeneous**: low information asymmetry and high information search habit.
 - **Differentiated**: high asymmetry and high searching habit.
 - **Holistic**: low asymmetry and low searching habit.
 - **Opportunist**: high asymmetry and low searching habit.

Information search habit



Type of transaction. Examples. RETAILING

Supermarkets/hypermarkets

Small foodstore

Specialty / Designer store

Convenience store

- **Differentiated:** high asymmetry and high search habit.
- **Homogeneous:** low asymmetry and high information search habit.
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Examples. Type of transaction: RETAILING

Here you have different types of retail premises with some examples. You have to identify what type of transaction corresponds to each type of retail premises.



Specialty / Designer store

Supermarkets/hypermarkets



Convenience store

Small foodstore



Examples. Type of transaction: RESTAURANTS

Here you have different types of restaurants with some examples. You have to identify what type of transaction corresponds to each type of restaurant.



Differentiated fast food

Generalistic fast food



Café in an airport



Traditional restaurant or inn



Examples. Type of transaction: INSURANCE

Here you have different types of insurance with some examples. You have to identify what type of transaction corresponds to each type of insurance.



General car insurance



Holiday insurance



Custom car/housing insurance



Credit card insurance

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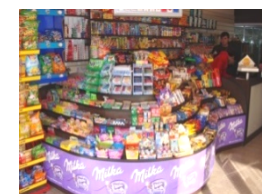
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telepizza®

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Type of transaction. Examples. RESTAURANTS

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Type of transaction. Examples. INSURANCE

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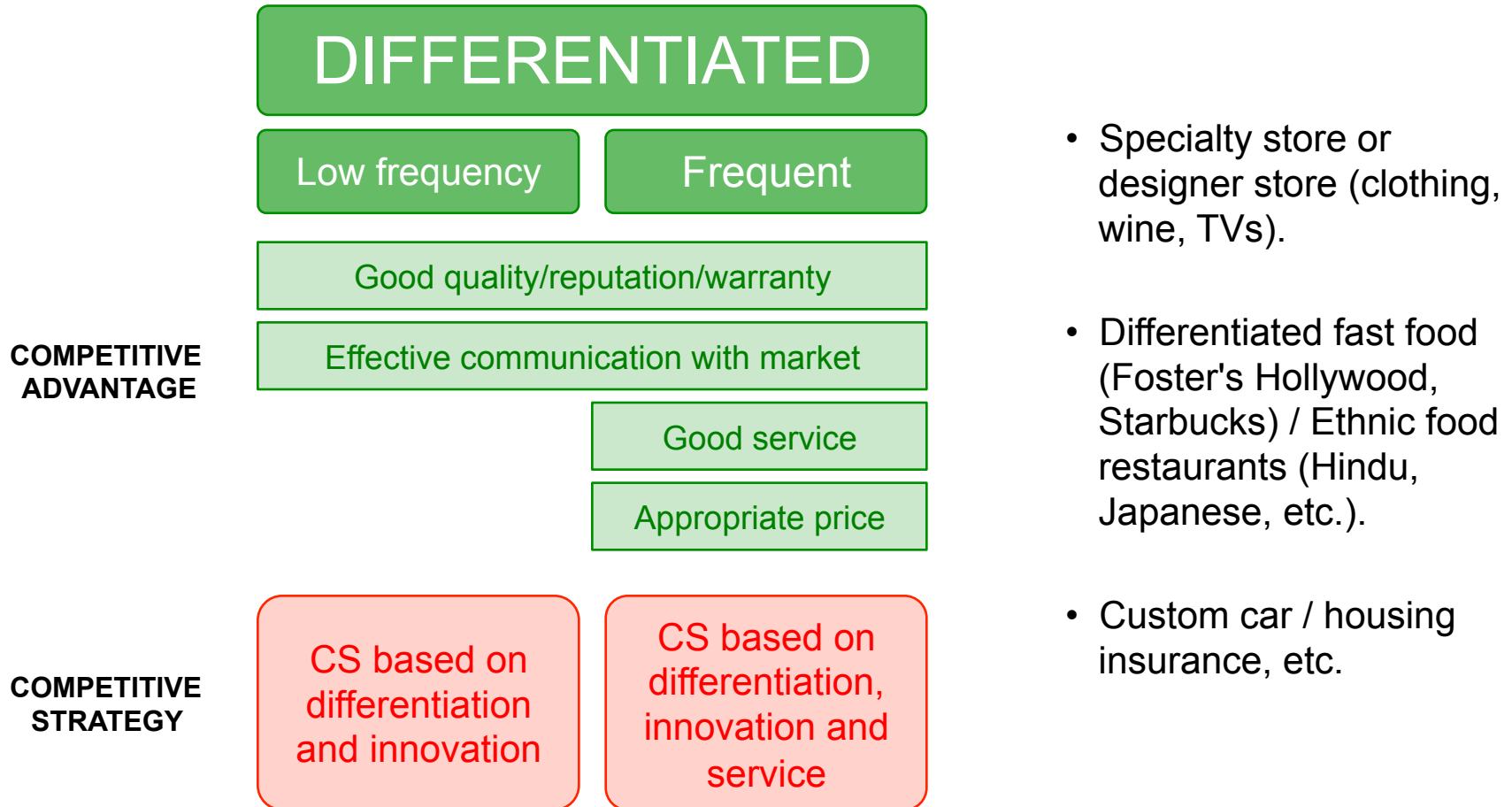
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Credit card insurance

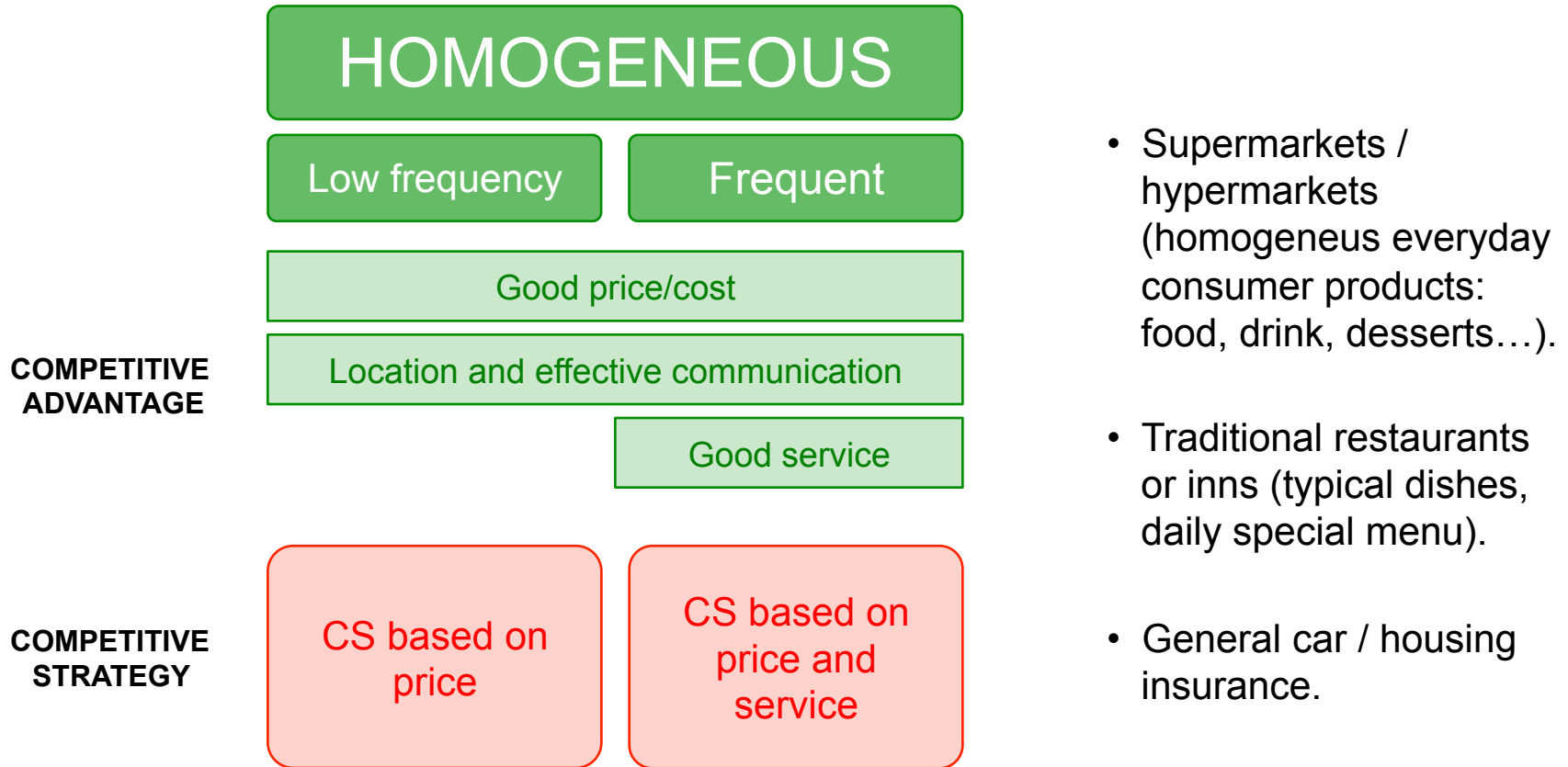
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- **Holiday or business trip insurance.**

2.2. Key elements: adaptation to the type of transaction and environment

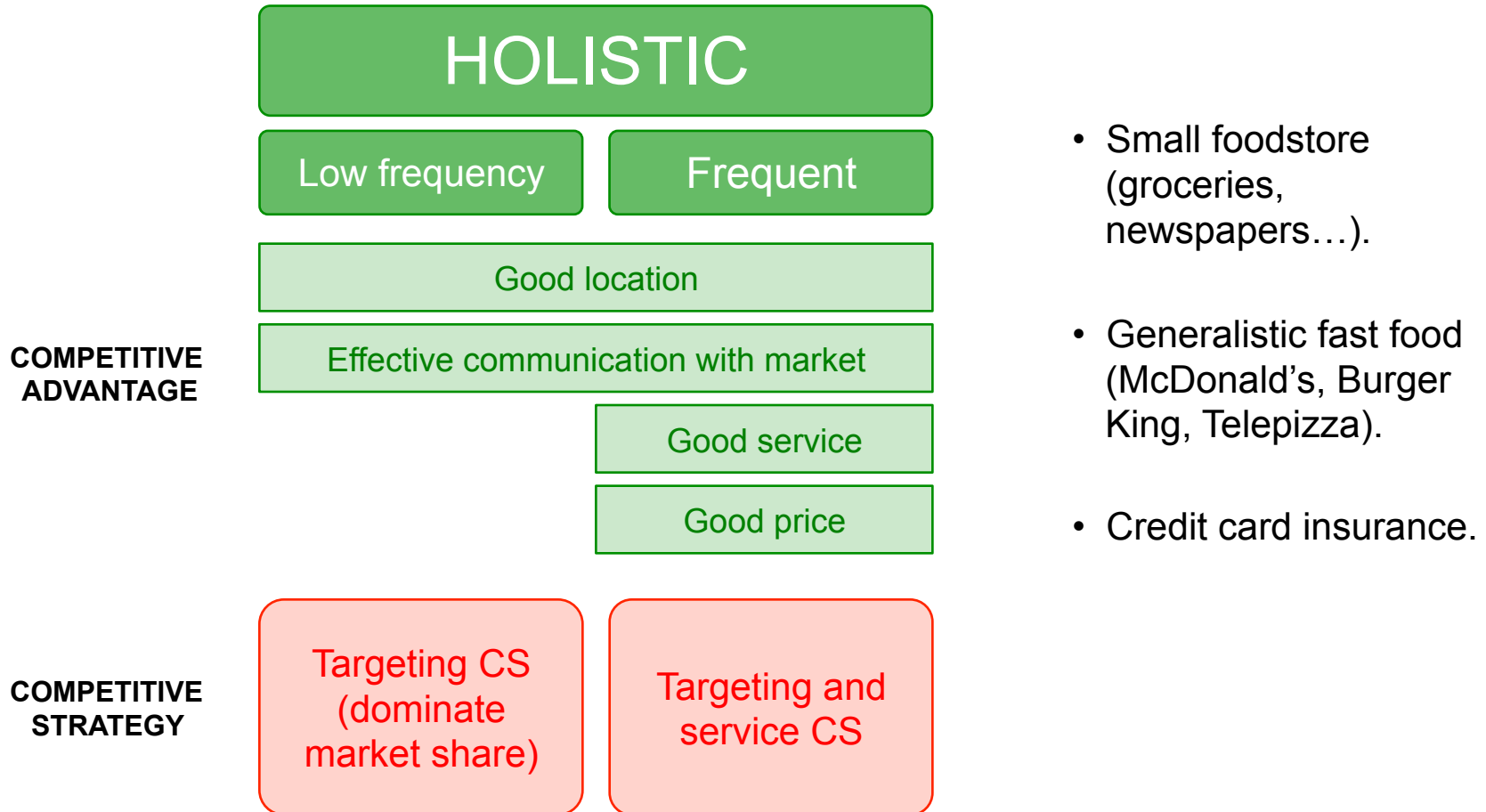


- Specialty store or designer store (clothing, wine, TVs).
- Differentiated fast food (Foster's Hollywood, Starbucks) / Ethnic food restaurants (Hindu, Japanese, etc.).
- Custom car / housing insurance, etc.

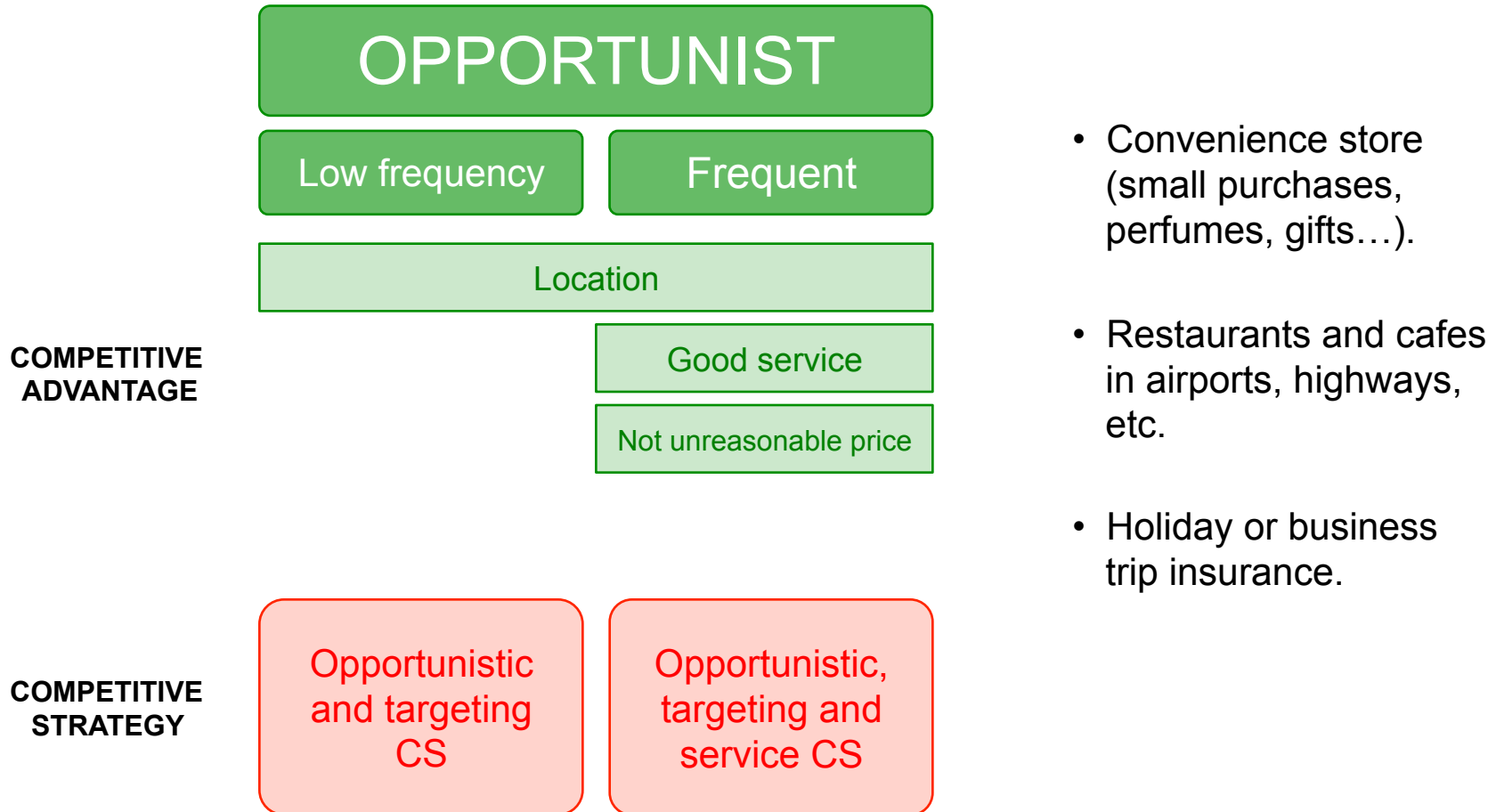
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2.2. Key elements: adaptation to the type of transaction and environment

II. ADAPTATION OF COMPETITIVE ADVANTAGE TO ENVIRONMENT

- Current time:
 - Increased pressure from competitors.
 - Reduced time to adapt to changing environment.
 - Gradual increase in uncertainty.

- Business success: being aware of and anticipating changes in environment.

- Two types of environment:
 - **Generic environment**: this includes sociological, political and macroeconomic aspects, similarly affecting all companies.
 - **Specific environment**: this includes technology, competition, legal constraints and negotiating power with suppliers and customers, which differently affect each company.

Types of environment (Mintzberg)

- **STABILITY:** stable vs dynamic. Unpredictable changes.
- **COMPLEXITY:** simple vs complex. Easy or difficult to understand.
- **MARKET DIVERSITY:** integrated vs. diversified. Number of variables.
- **HOSTILITY:** munificent (friendly) vs. hostile. Speed and effect of impacts.



FAVOURABLE - UNFAVOURABLE environment: difficulty in succeeding.

Environment influence on the success of the new company: generic environment

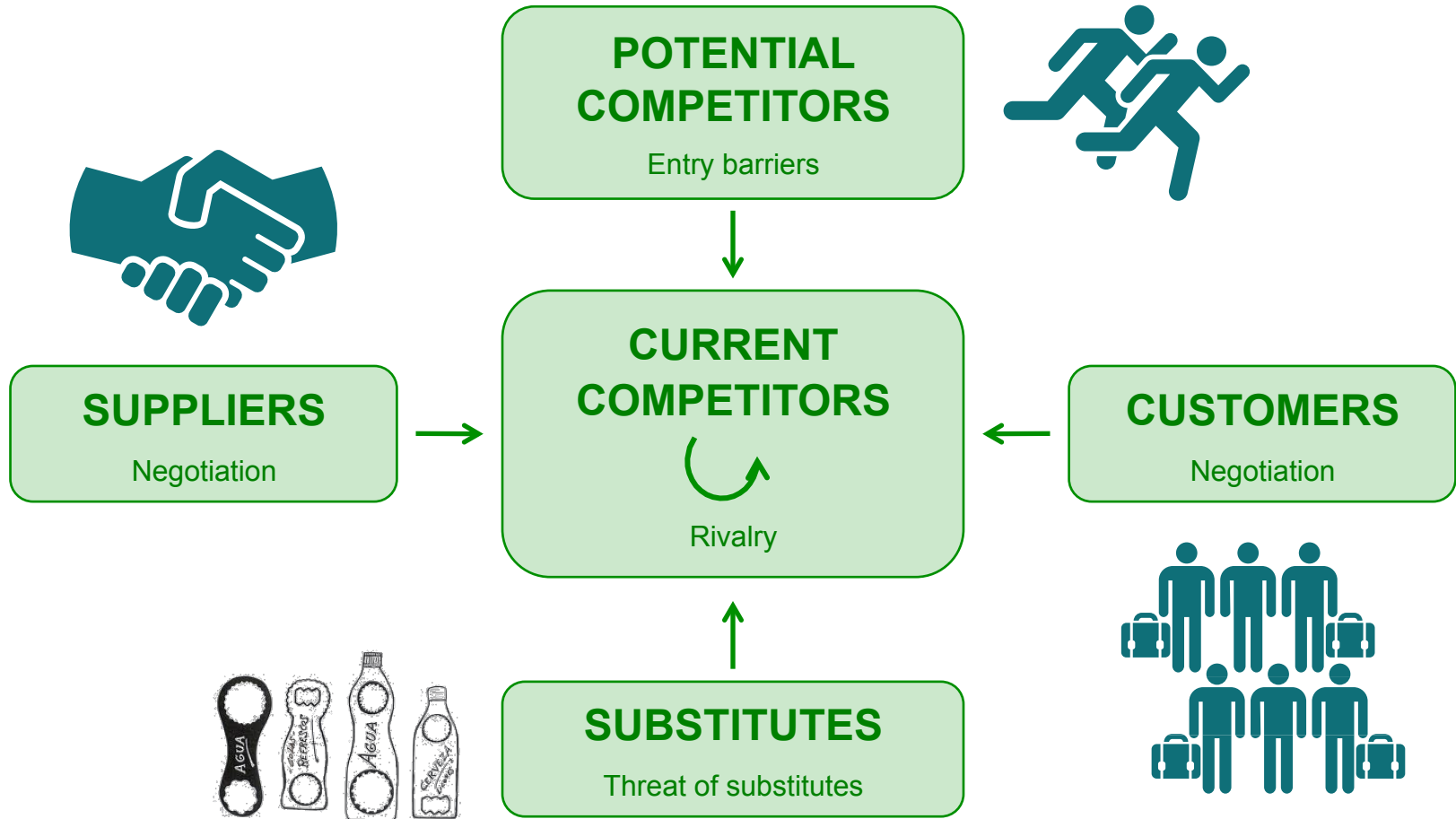
- **SOCIOLOGICAL ASPECTS.** Structure of household expenditure, women's incorporation into the workforce, family, cultural traditions, labor market situation, etc.
- **ECONOMICS.** Economic development in the region, availability of adequate labor, general level of taxes, wage levels, inflation, productivity, interest rates, exchange rates, deficit, trade balance, etc.
- **POLITICAL ASPECTS.** Political stability, economic policy, employment policy, lobbying, economic policy of EU, etc.

Environment influence on the success of the new company: generic environment

DO THESE FACTORS INFLUENCE THE DEVELOPMENT OF THE PRODUCT OR SERVICE?

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Environment influence on the success of the new company: specific environment



Environment influence on the success of the new company: specific environment



**POTENTIAL
COMPETITORS**
Entry barriers



**CURRENT
COMPETITORS**
Rivalry



Environment influence on the success of the new company: specific environment

When is bargaining power higher for suppliers?



SUPPLIERS

Negotiation

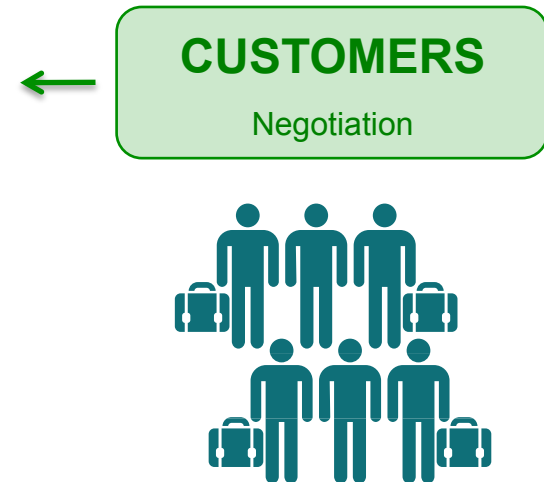


- No existence of substitutes.
- Key factor in production.
- Little importance of the customer.
- Highly differentiated product.
- There is a threat of forward integration.

Environment influence on the success of the new company: specific environment

When is bargaining power higher for customers?

- When they purchase large amounts.
- The customer is important to the supplier.
- Poorly differentiated products.
- Low switching costs.
- Threat of backward integration.



2.3. Conclusion

- Defining the type of transaction with which I will make my offer to the market.
- Definition of the competitive advantage that I am going to use.
- Assessment of the appropriateness of competitive strategy to the type of transaction.
- Observation and evaluation of the environment.

Economic viability test

What to do:

- Answer the questions (Yes = 1 / No = 0).
- Calculate the equation.
- Understand the result (identify improvements).

ECONOMIC VIABILITY TEST		YES	NO
C1: I have defined the transaction with which I will launch the product/service into the market		10	0
C2: I have clearly defined the competitive advantage		10	0
C3: I have clearly defined the characteristics of the products/services I offer		10	0
C4: I know the information search habit of customers		1	0
C5: I know how often customers do this transaction (frequency)		1	0
C6: I know how customers perceive the characteristics of the product/service (how easy it is to perceive its benefits)		1	0
C7: I know the product/service offered by my competitors		1	0
C8: I can protect the competitive advantage of my product/service		1	0
C9: I know the technology used by my competitors		1	0
C10: I know the response of competitors to my product/service		1	0
C11: I know the conditions of suppliers		1	0
C12: Knowledge of potential customers is good		1	0
C13: I have some kind of prior relationship with potential customers in order to facilitate completion of the transaction		1	0
C14: I have some prior advantages to facilitate the creation of the company (Information, financing or privileged relations)		1	0
C15: I can obtain facilities/aids to start the activity		1	0
C16: I think that in the context of the economic climate, it's a good time to start		1	0

$$EVT = \frac{\sum_1^3 C_i \cdot 10 + \sum_4^{16} C_i}{43} = \frac{Sum}{43}$$

RESULT	IDEA	VIABILITY
0-50%	Undeveloped idea	More development
50-80%	Idea with prospects	Some aspects should be concretized
80-100%	Well-defined idea	It could be viable (economic viability)

Keywords

**Competitive
advantage**

Viability

Idea

Environment

Entrepreneur

«Whether you think you can or whether you think you can not, in both cases you're right».

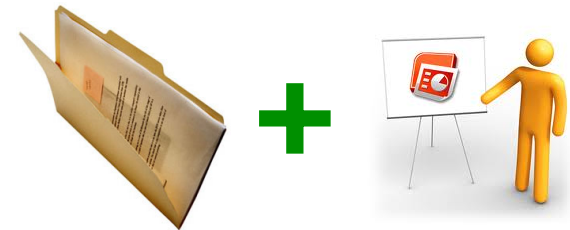
Henry Ford

Project guiding notes – Basic outline

1. General description of the idea. *How did I come up with the idea (opportunity, failure, inefficiency)?*

2. Economic viability.

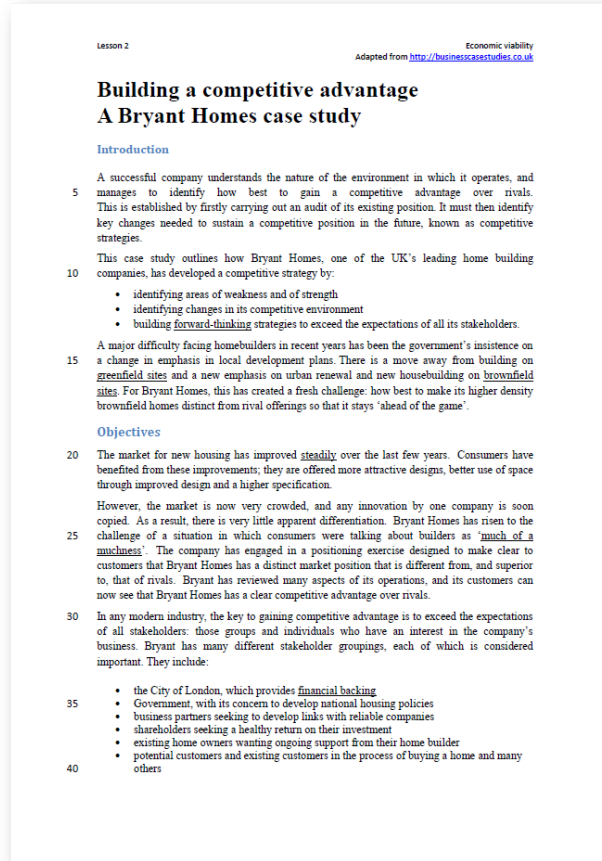
- A. Description of type of transaction.
- B. Description of competitive advantage.
- C. Description of generic environment.
- D. Description of specific environment.
- E. Is it economically viable (economic viability test)? Identify improvements.



«I hear and I forget, I see and I remember, I do and I understand».

Confucius

Case studies (Topic 2)



Topic 2 – Economic viability.
Case Study 1 (PDF).