● STRATEGY FRAMEWORKS FOR SMALL BUSINESS · PART 1 OF 5

Porter's Five Forces

*A five-minute way to size up how tough, and how attractive, **your market really is.***

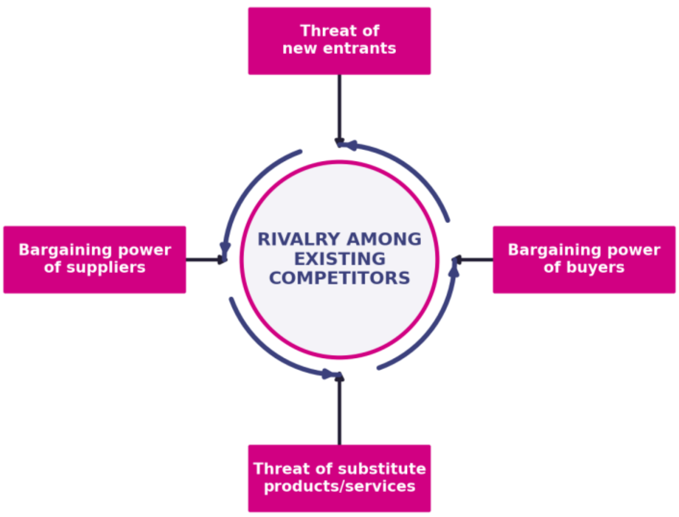
Why this matters

Michael Porter developed the Five Forces model in 1979 to explain why some industries are more profitable than others. For a small business, it works just as well turned inward: it gives you a structured way to ask ‘how much pull do I have in this market and am I being squeezed?’ You don’t need an economics degree to use it, just an honest look at five pressure points around your business.

The five forces

- Bargaining power of suppliers: how easily can the people you buy from push your costs up? This depends on their uniqueness, their size and strength relative to you and how costly it would be for you to switch to someone else.
- Bargaining power of buyers: how easily can your customers push your price down? Look at how many buyers you have and how easy it is for them to switch elsewhere. A business with just a few large, powerful buyers is often forced to accept their terms.
- Competitive rivalry: how many competitors are there and how capable are they? Lots of rivals selling much the same thing usually drags the whole market's attractiveness down.
- Threat of substitution: if a cheaper or easier alternative exists, will customers switch the moment that your price moves? This weakens both supplier power and overall market appeal.
- Threat of new entry: new competitors erode everyone's profitability unless there is a strong barrier keeping them out (barrier to entry) such as a clear unique selling point, patents, economies of scale, high capital requirements or licensing and regulation.

The five forces at a glance



Making it work for a small business

The model was built with whole industries in mind, so a couple of adjustments make it more useful at small business scale. Only run it where you can genuinely name at least three real competitors, otherwise you are guessing rather than analysing. It also adapts well to a narrower slice of a market, such as your local area or your online niche, rather than an entire national industry.

Two extra factors are worth considering for most small businesses today. First, government: regulation, taxation and trade policy increasingly act as something close to a sixth force and public opinion, for example around environmental impact, can shift buyer behaviour quickly. Second, product lifecycle: a market in a volatile, fast-changing market behaves very differently to a stable, mature one, so it is worth asking how prone to change your industry currently is. Pubs are a good example of how easily business is affected by outside forces.

A useful cautionary example is Walmart's experience entering India, where local traders' protests and government restrictions, right down to rules on how it could display its own brand name in stores, changed what looked like a straightforward market entry into a genuinely difficult one. It is a reminder that the ‘threat of new entry’ force cuts both ways. It is exactly what a small, established local business can lean on as a barrier protecting its own position.

KEY TAKEAWAY

Run through the five forces once a year, honestly and specifically, naming real suppliers, real competitors and real customers rather than generic categories. If three or more forces are working against you at once, that is your signal to look for a genuine point of differentiation before margins get squeezed further.

What to do next

- List your three biggest real-world competitors and rate each force from low to high pressure
- Identify which single force is squeezing your margins hardest right now
- Note one realistic barrier that you could strengthen to keep new entrants out

Porter's Value Chain

*Breaking your business down into the activities that actually **create value for the customer.***

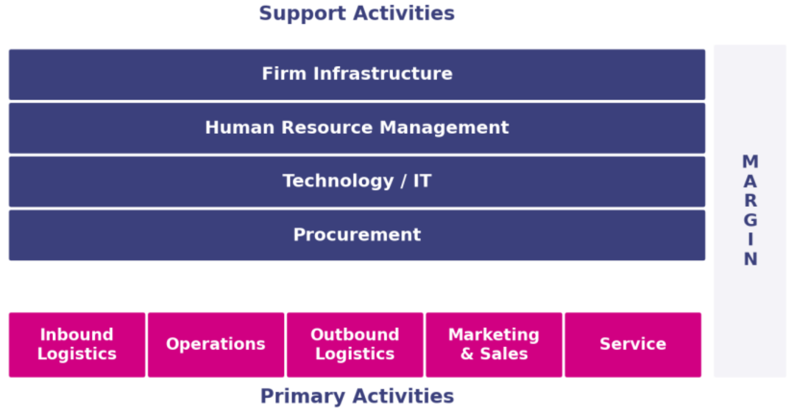
Why this matters

Porter's Value Chain, also published in 1985, splits any business into a set of distinct activities and asks a simple question of each one: does this add value that the customer is willing to pay for or is it just cost? For a small business owner juggling every function at once, laying activities out this way is a quick way to spot where you are strong, where you are quietly leaking money and where a small improvement would be felt by customers rather than only by your accounts.

Primary activities: the ones customers feel directly

- Inbound logistics: receiving, storing and handling whatever you buy in before it is used or sold
- Operations: turning inputs into the finished product or service
- Outbound logistics: getting the finished product or service to the customer
- Marketing and sales: giving customers a reason to buy and making it easy for them to do so
- Service: everything that happens after the sale, from support to returns to follow-up

The value chain at a glance



Support activities run underneath every primary activity; the gap between total cost and price is the margin.

Support activities: what makes the primary activities possible

Underneath those sit the support activities: firm infrastructure (planning, finance, general management), human resource management, technology and IT and procurement. Customers never see these directly, but weak support activities show up indirectly, for example as late deliveries, stressed staff or a website that will not take payments.

In a small business, one person is often doing several of these jobs at once and there is rarely a dedicated department for each box. That does not make the framework less useful. It just means that you are auditing roles and time rather than departments. The value in the exercise is asking, activity by activity: is this something that a customer would notice and value if we improved it or is it purely a cost that we should be minimising/removing?

KEY TAKEAWAY

Go through each of the nine boxes and mark it as either a genuine point of difference that customers value or a necessary cost that is needed in order for the business to run as efficiently as possible. Trying to be excellent at everything spreads a small business too thin; the value chain helps you to choose where to actually invest.

What to do next

- Map your own activities against the nine boxes, even roughly, on one page
- Mark each one as ‘value that the customer sees’ or ‘cost to minimise’
- Pick one weak support activity, such as IT or procurement, to fix this quarter

STRATEGY FRAMEWORKS FOR SMALL BUSINESS · PART 3 OF 5

Porter's Value System

Your business does not create value alone. It sits inside a ***chain of other people's value chains.***

Why this matters

The Value System is the wider view that sits around the Value Chain: your suppliers have their own value chain, so do your distributors or retailers and so, in effect, does your customer. Value flows through the whole system, not just through your own business and a weak link anywhere along it becomes your problem too, whether or not you caused it. Being unable to get packaging to send your product, because a country is at war or there is a trade embargo and they are the only supplier, affects everyone.

The value system at a glance

Value passes through supplier, business, distributor and customer in sequence, and friction anywhere in that chain is felt everywhere else in it.

What each link means for a small business

- Supplier value chain: a supplier's own inefficiency, whether in stock control, quality, or reliability becomes your delay or your quality problem the moment you depend on them
- Your business' value chain: this is the part that you looked at in the previous section and the one part of the system that you fully control
- Distributor or retailer value chain: if you sell through anyone else, their service, their handling and their reputation shape how the customer experiences your product before you ever hear about it for example some local delivery firms have a bad reputation for how they leave the packages (wrong house, left out in the rain) which is then perceived to be the fault of the supplier
- Customer value chain: how the customer actually uses what you sell, and what they need to do to get value from it, often points straight at your next product or service improvement

Making it work for a small business

You will rarely have the size to influence and hence redesign a supplier's or a retailer's own operation. What you can do is choose partners deliberately, based on how well their part of the chain fits with yours and build in checks, such as a supplier delivery record or a simple after-sales check-in with customers, so that a weak link further along the system shows up as data rather than as a surprise complaint.

KEY TAKEAWAY

List every supplier, distributor and partner that your product or service passes through on its way to the customer and rate each one honestly. Can you find a better company? A single weak link anywhere in that chain can undo good work everywhere else in it.

What to do next

- Draw your own version of the four-link chain with real supplier and partner names in it
- Flag the weakest link and decide whether to fix it, replace it or work around it
- Ask a handful of customers how they actually use what you sell, not just whether they like it

The Ansoff Matrix

*Four honest routes to growth, and a clear-eyed view of how **risky each one really is.***

Why this matters

Igor Ansoff's matrix answers a single question: where should growth actually come from? It plots two choices, product (existing or new) against market (existing or new) into four strategies. It is one of the simplest tools available for stopping a growth idea from turning into wishful thinking, because each quadrant carries a different, and increasing, level of risk.

The Ansoff Matrix at a glance

Risk increases moving away from the top-left quadrant: penetration is the safest route, diversification the riskiest.

The four strategies

- Market penetration: sell more of what you already have to the customers you already serve, typically through competitive pricing, advertising or a sales promotion. This is the lowest-risk quadrant because both the product and the market are known to you.
- Product development: create new products or services for your existing, already-understood customer base
- Market development: take your existing, proven product into a new geographical area or a new customer segment
- Diversification: new products into new markets at the same time, whether horizontal, vertical or unrelated to what you do now. Horizontal diversification means offering a new, unrelated product to your existing customers, whilst vertical diversification means moving into a new product at a different stage of your own supply chain, such as a retailer starting to manufacture what it sells. This is the highest-risk quadrant because neither the product nor the market is proven for you yet.

Making it work for a small business

Most sustainable small business growth happens in the top-left quadrant, market penetration, simply because it is the cheapest to test and the fastest to correct if it does not work. Use the matrix before committing budget to any growth idea. Place it honestly on the grid and treat anything sitting in diversification as needing far more evidence and a much smaller first bet than an idea sitting in penetration.

KEY TAKEAWAY

Before you commit real money to a growth idea, place it on the matrix first. If it lands in diversification, test it small and cheap before you test it big and expensive.

What to do next

- Plot your current growth ideas onto the four quadrants
- Check whether your growth plans are too concentrated in the riskiest quadrant
- Pick one low-risk penetration idea that you could test within the next month

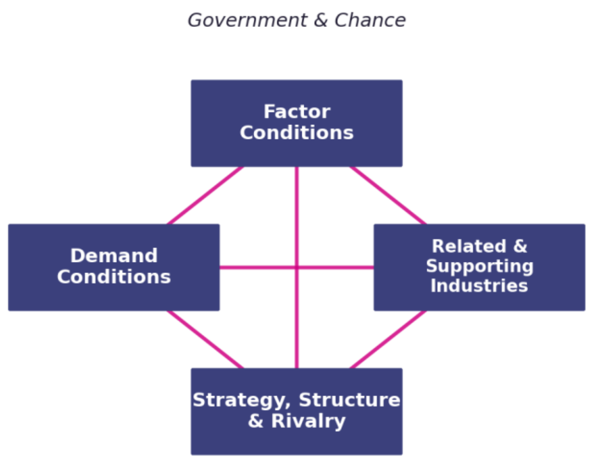
Porter's Diamond Model

*Why some places, and some local clusters, breed stronger **businesses than others.***

Why this matters

Porter's Diamond was built to explain why entire nations, or regions within them, become world-class in a particular industry, from German engineering to Silicon Valley technology. It is the one framework here that is less about your own four walls and more about the environment that your business is sitting inside and whether that environment is helping or holding you back.

The diamond at a glance



Four linked conditions, shaped further by government policy and by chance.

The four conditions

- Factor conditions: the specialised resources available locally, from skilled labour to infrastructure. Porter pointed to Hollywood's concentration of film-trained talent as an example of a ‘home-grown’ resource and noted that scarce raw materials can even force useful innovation, as Japan's lack of raw materials pushed it toward precision, minimal-waste manufacturing (Six Sigma)
- Demand conditions: a demanding local customer base pushes a business to improve faster than a comfortable one ever would. Germany's high-performance domestic car market and its Autobahns are a large part of why German manufacturers lead (or did lead) at the premium end and are comparatively weaker in cheaper, mass-produced cars.

- Related and supporting industries: strength rarely appears in isolation. It tends to cluster, as with the software and semiconductor firms of Silicon Valley, Scotland's own 'Silicon Glen' or Germany's chemicals, dyes and textile machinery cluster. At one time Yorkshire's steel and wool industries were supported by heavy mining industries supplying coal.
- Strategy, structure and rivalry: strong domestic competition sharpens a business faster than foreign competition alone typically does. Japan's eight major domestic car makers competing intensely at home is a large part of why they went on to compete so effectively abroad too. Now China has joined the party.

The role of government, and what this means locally

Porter described government's role as acting like a catalyst and a challenger: pushing businesses to raise their standards, stimulating early demand for higher-quality products, encouraging specialised skills, and keeping domestic rivalry healthy rather than cosy through sensible competition rules.

For a small business, the Diamond is rarely something you can influence directly, but it is well worth reading deliberately. Ask what specialised local skills, suppliers or training are available to you locally, whether your local customer base is demanding enough to sharpen you rather than let you coast, and whether being part of a genuine local cluster, for example other trades or professionals in the same specialism nearby, is helping you rather than just adding competition.

KEY TAKEAWAY

Even a small business benefits from naming its own 'diamond': the local skills, demanding customers, nearby related businesses and competitive pressure that are quietly shaping how good you are forced to be. Where that environment is weak, you may need to build the missing piece yourself, for example, through training or by seeking out more demanding clients.

What to do next

- Name the specialised local skills, suppliers or training that your business actually draws on
- Consider whether your current customers are demanding enough to keep pushing you to improve
- Look for a local cluster or network of related businesses that you could learn from or partner with