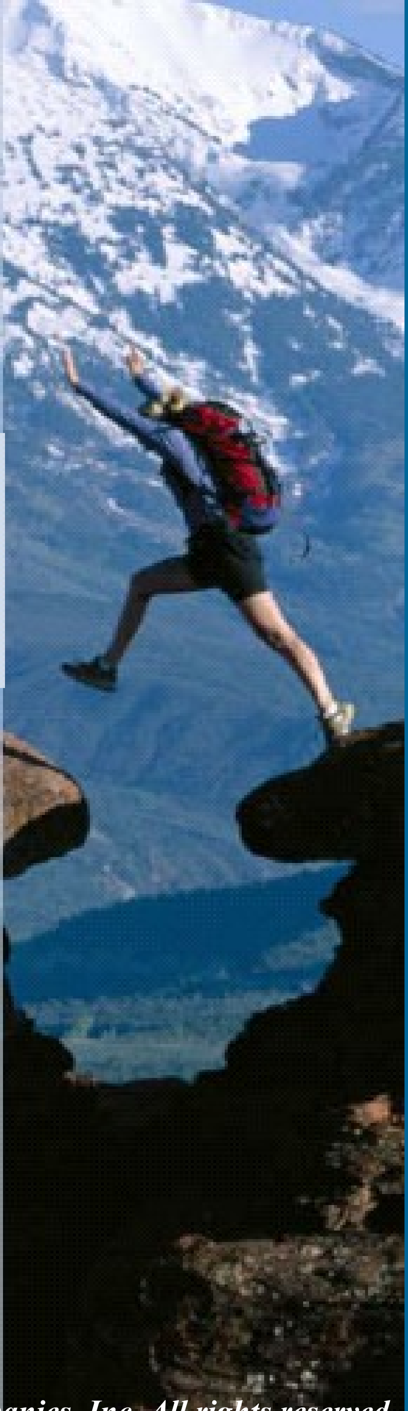
Eighth Edition

Entrepreneurship



Unit-4

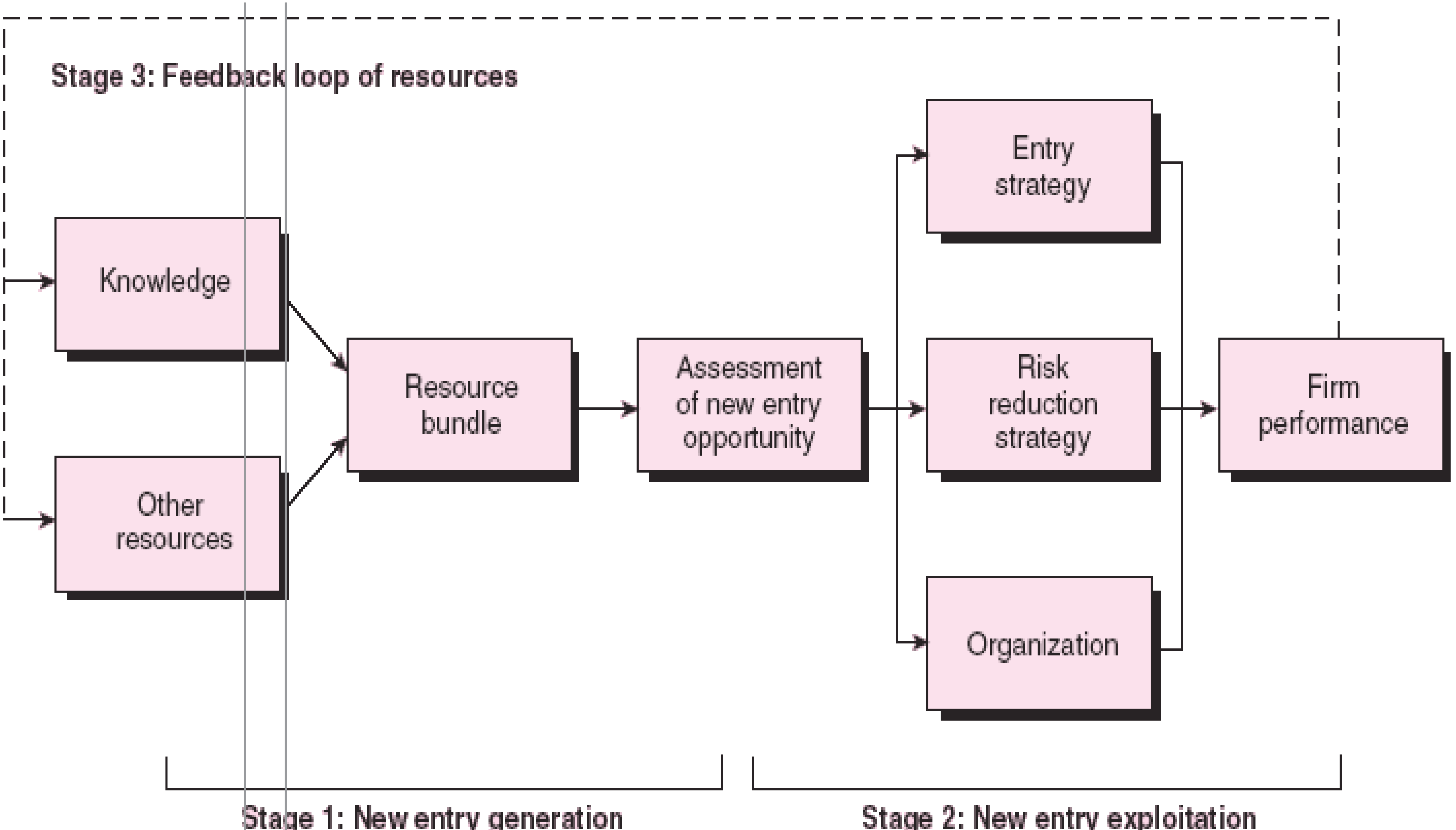
Entrepreneurial Strategy: Generating and Exploiting New Entries

McGraw-Hill/Irwin

New Entry

- New entry refers to:
  - Offering a new product to an established or new market.
  - Offering an established product to a new market.
  - Creating a new organization.
- Entrepreneurial strategy – The set of decisions, actions, and reactions that first generate, and then exploit over time, a new entry.

Figure 3.1 - Entrepreneurial Strategy: The Generation and Exploitation of New Entry Opportunities



Generation of a New Entry Opportunity

- Resources as a Source of Competitive Advantage
  - Resources are the basic building blocks to a firm's functioning and performance; the inputs into the production process.
    - They can be combined in different ways.
    - A bundle of resources provides a firm its capacity to achieve superior performance.
  - Resources must be:
    - Valuable.
    - Rare.
    - Inimitable.

Generation of a New Entry Opportunity (cont.)

- Creating a Resource Bundle That Is Valuable, Rare, and Inimitable
  - Entrepreneurs need to draw from their unique experiences and knowledge.
  - Market knowledge - Information, technology, know-how, and skills that provide insight into a market and its customers.
  - Technological knowledge - Information, technology, know-how, and skills that provide insight into ways to create new knowledge.

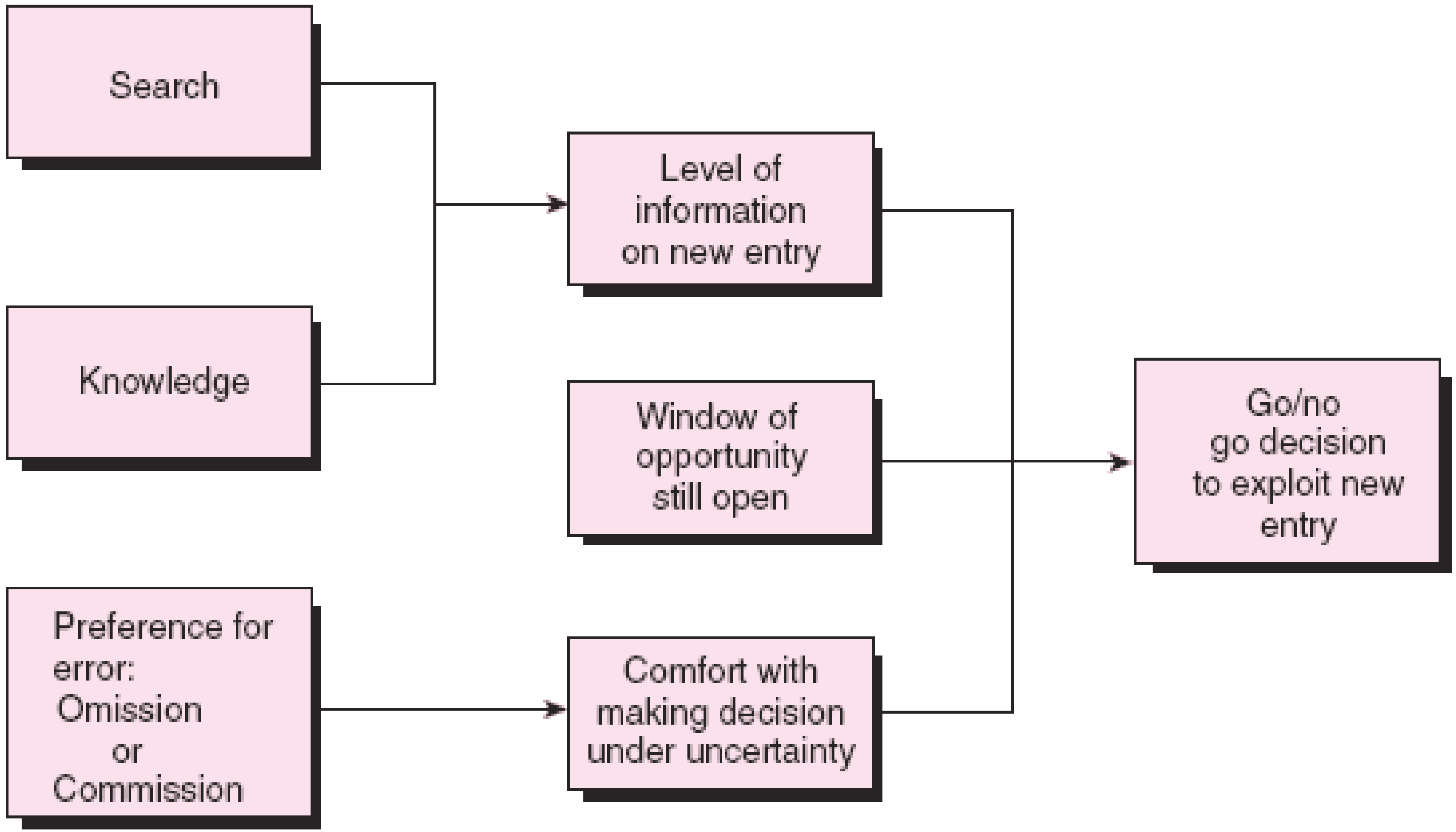
Generation of a New Entry Opportunity (cont.)

- Assessing the Attractiveness of a New Entry Opportunity
  - Depends on the level of information and the willingness to make a decision without perfect information.
- Information on a New Entry
  - Prior knowledge and information search
    - More knowledge ensures a more efficient search process.
    - Search costs include time and money.
  - The viability of a new entry can be described in terms of a window of opportunity.

Generation of a New Entry Opportunity (cont.)

- Comfort with Making a Decision under Uncertainty
  - The trade-off between more information and the likelihood that the window of opportunity will close provides a dilemma for entrepreneurs.
    - Error of commission - Negative outcome from acting on the perceived opportunity.
    - Error of omission - Negative outcome from not acting on the new entry opportunity.

Figure 3.2 - The Decision to Exploit or Not to Exploit the New Entry Opportunity



Entry Strategy for New Entry Exploitation

- Being a first mover can result in a number of advantages that can enhance performance. These include:
  - Cost advantages.
  - Less competitive rivalry.
  - The opportunity to secure important supplier and distributor channels.
  - A better position to satisfy customers.
  - The opportunity to gain expertise through participation.

Entry Strategy for New Entry Exploitation (cont.)

- Environmental Instability and First-Mover (Dis)Advantages
  - The entrepreneur must first determine the key success factors of the industry being targeted for entry; are influenced by environmental changes.
    - Environmental changes are highly likely in emerging industries.
  - Demand uncertainty - Difficulty in estimating the potential size of the market, how fast it will grow, and the key dimensions along which it will grow.

Entry Strategy for New Entry Exploitation (cont.)

- Technological uncertainty - Difficulty in assessing whether the technology will perform and whether alternate technologies will emerge and leapfrog over current technologies.
- Adaptation - Difficulty in adapting to new environmental conditions.
  - Entrepreneurial attributes of persistence and determination can inhibit the ability of the entrepreneur to detect, and implement, change.

Entry Strategy for New Entry Exploitation (cont.)

- Customers’ Uncertainty and First-Mover (Dis)Advantages
  - Uncertainty for customers - Difficulty in accurately assessing whether the new product or service provides value for them.
  - Overcome customer uncertainty by:
    - Informational advertising.
    - Highlighting product benefits over substitutions.
    - Creating a frame of reference for potential customer.
    - Educating customers through demonstration and documentation.

Entry Strategy for New Entry Exploitation (cont.)

- Lead Time and First-Mover (Dis)Advantages
  - Lead time – The grace period in which the first mover operates in the industry under conditions of limited competition.
  - Lead time can be extended if the first mover can erect barriers to entry by:
    - Building customer loyalties.
    - Building switching costs.
    - Protecting product uniqueness.
    - Securing access to important sources of supply and distribution.

Risk Reduction Strategies for New Entry Exploitation

- Risk is derived from uncertainties over market demand, technological development, and actions of competitors.
- Two strategies can be used to reduce these uncertainties:
  - Market scope strategies - Focus on which customer groups to serve and how to serve them.
  - Imitation strategies - Involves copying the practices of others.

Risk Reduction Strategies for New Entry Exploitation (cont.)

- Market Scope Strategies
  - Narrow-scope strategy involves offering a small product range to a small number of customer groups to satisfy a particular need.
    - Focuses on producing customized products, localized business operations, and high levels of craftsmanship.
    - Leads to specialized expertise and knowledge.
    - High-end of the market represents a highly profitable niche.
    - Reduces some competition-related risks but increases the risks associated with market uncertainties.

Risk Reduction Strategies for New Entry Exploitation (cont.)

- Broad-scope strategy involves offering a range of products across many different market segments.
  - Strategy emerges through the information provided by a learning process.
  - Opens the firm up to many different “fronts” of competition.
  - Reduces risks associated with market uncertainties but increases exposure to competition.

Risk Reduction Strategies for New Entry Exploitation (cont.)

- Imitation Strategy
  - Why do it?
    - It is easier to imitate the practices of a successful firm.
    - It can help develop skills necessary to be successful in the industry.
    - It provides organizational legitimacy.
  - Types of imitation strategies
    - Franchising - A franchisee acquires the use of a “proven formula” for new entry from a franchisor.
    - “Me-too” strategy - Copying products that already exist and attempting to build an advantage through minor variations.

Risk Reduction Strategies for New Entry Exploitation (cont.)

- An imitation strategy can potentially:
  - Reduce the entrepreneur’s costs associated with R&D.
  - Reduce customer uncertainty over the firm.
  - Make the new entry look legitimate from day one.

Risk Reduction Strategies for New Entry Exploitation (cont.)

- Managing Newness
  - Liabilities of newness arise from unique conditions:
    - Costs in learning new tasks.
    - Conflict arising from overlap or gaps in responsibilities.
    - Unestablished informal structures of communication.
  - A new firm needs to:
    - Educate and train employees.
    - Facilitate conflict over roles.
    - Promote activities that foster informal relationships and a functional corporate culture.

Risk Reduction Strategies for New Entry Exploitation (cont.)

- Assets of Newness
  - Lack of established routines, systems, and processes provide a learning advantage.
  - A heightened ability to learn new knowledge in a continuously changing environment is an important source of competitive advantage.