ENTREPRENEURIAL STRATEGY

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Why does strategy matter for entrepreneurs?

- Popular press focuses on hustle and execution
- With limited resources, strategizing is perhaps more important for entrepreneurial ventures
- Strategizing helps entrepreneurs prioritize

An illustration

Two entrepreneurial companies seeking
to exploit the same opportunity at the same time…

With fundamentally different **<u>strategies</u>**

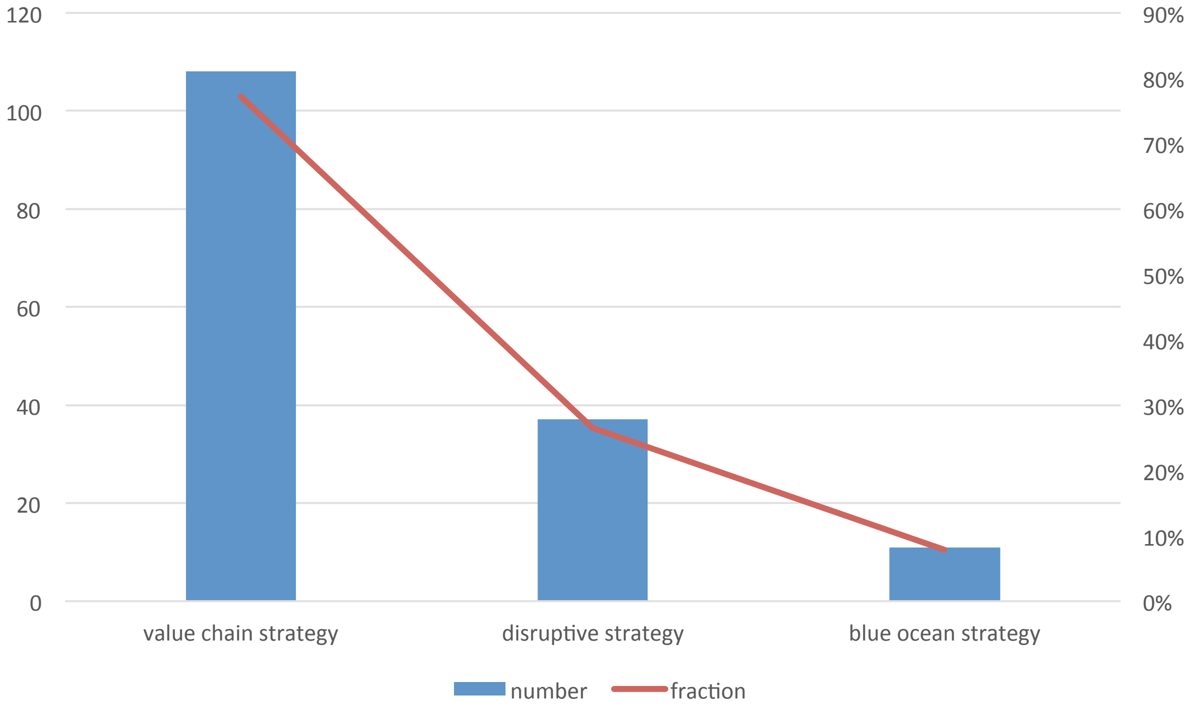
What are different types of entrepreneurial strategies?

- Value chain: working with others (cooperating) in a value chain to bring a product or service to market

- Disruptive: working to undermine the industry's existing value chain, usually via a competition strategy (see work by Christensen)

- Blue ocean: creating new market spaces (see work by Kim & Mauborgne)

How frequently did "unicorns" utilize each strategy?



Note: based on 140 unicorns (privately-held firms valued at $1B or above) identified and classified in October 2015; "blue ocean" strategy designation is not a mutually exclusive category. Classifications by the instructor's research team at Wharton.

What are the entrepreneurial benefits to “cooperating” with others?

- Division of labor according to comparative advantage
  - Entrepreneurial firms may be better at upstream innovation
  - Established industry incumbents may have a more established supply chain
- Avoid duplicative investments
  - Societal perspective

Why doesn’t cooperation always occur?

- Transaction costs
  - Frictions in identifying partners & in contracting
- One party (often the would-be partner) is not interested
  - Different perceptions
  - Value proposition unverified
- Startup disclosure dilemma
  - Negotiating terms of exchange (including price) may undermine startup value

Another consideration in a value chain strategy

- Ability to "learn" production skills may not be as efficient under arm's length contracting
  - May decide to incur the learning costs if you expect in the long term to engage in a given production activity

Disruption: The typical pattern

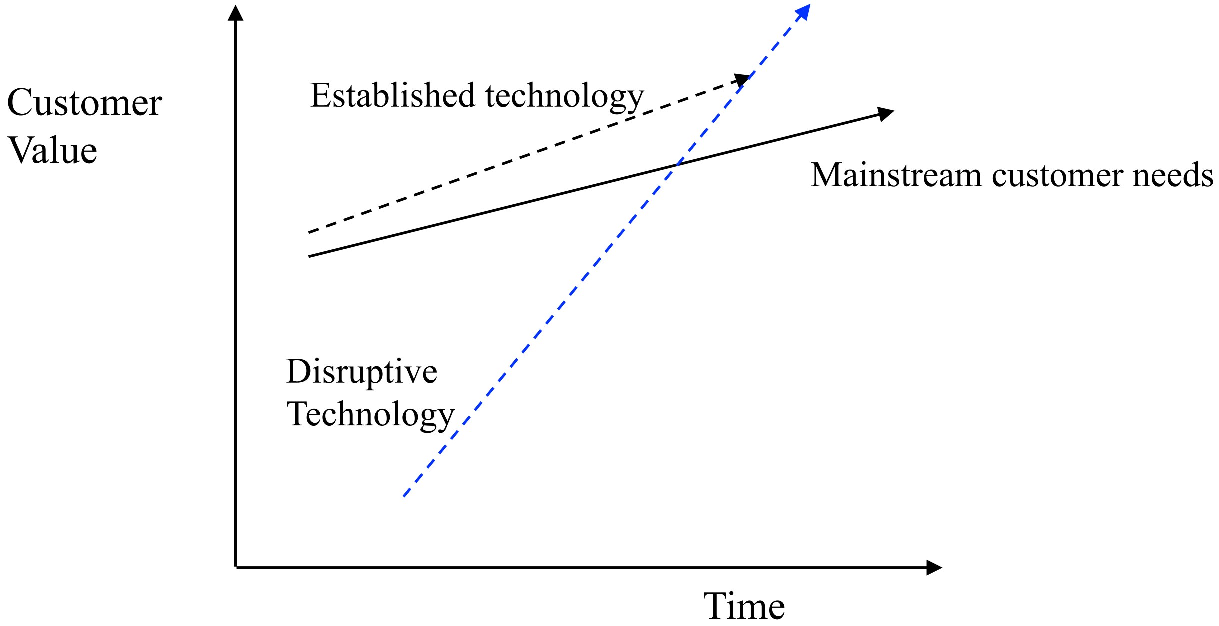
Table 1.1 A Disruptive Technology Change: The 5.25-inch Winchester Disk Drive (1981)

Attribute	8-Inch Drives (Minicomputer Market)	5.25-Inch Drives (Desktop Computer Market)
Capacity (megabytes)	60	10
Physical volume (cubic inches)	566	150
Weight (pounds)	21	6
Access time (milliseconds)	30	160
Cost per megabyte	$50	$200
Unit cost	$3000	$2000

Source: Data are from various issues of *Disk/Trend Report*.

excerpted from: C. Christensen (1997), The Innovator's Dilemma, Harvard Business School Press.

The impact of disruptive innovation



Adapted from: C. Christensen (1997), The Innovator's Dilemma, Harvard Business School Press.

Comparison of entry strategies

	Value chain	Disruptive	Blue ocean
Incumbent behavior – key question(s)	What unique value does the startup offer such that the incumbent wants to partner?	At what point will the incumbent recognize and respond to the new market opportunity?	Why has the incumbent and others missed a new market space? What happens if there is quick imitation?
Startup behavior and challenges – key question(s)	How to mitigate expropriation challenges and convince partners of chain superiority?	How to out-execute incumbents once they recognize/respond in the new customer/product segment? How to build an activity system for competitive insulation? Balance operating under and over the radar?	

Entrepreneurial switchback strategies

Source: https://commons.wikimedia.org/wiki/File:Col_de_Braus-small.jpg

Entrepreneurial switchback strategies

- Temporary competition switchback
  - Partnership/value chain strategy as an end goal, but is initially not feasible because entrepreneur lacks track record and uncertainty (technical & commercial) vis-à-vis potential cooperation partners

- Temporary cooperation switchback
  - Product market entry as an end goal (but this strategy is initially constrained)
  - Used to address entrepreneurial problem of developing specialized complementary assets

For more, see: M. Marx and D.H. Hsu (2015), "Strategic 'Switchbacks': Dynamic Commercialization Strategies for Technology Entrepreneurs," *Research Policy*, 44 (10): 1815-1826.

Temporary competition switchback

- Qualcomm co-founder Andrew Viterbi (2012)
  - *"[F]or this large and complex opportunity it was essential to produce the infrastructure as well as the handsets...it was necessary to convince the carriers that CDMA was indeed a workable technology which had a major advantage over alternates: GSM, U.S. and Japanese TDMA standards…there were many skeptics."*
- If cooperation is desirable but initially infeasible, innovators may compete at first but subsequently switch to a cooperative strategy with incumbents
- The Qualcomm example
  - Instead of licensing, (reluctantly) integrated CDMA into Qualcomm-branded cell phones and cell-phone towers
  - Ultimately divested (to Kyocera/Ericsson), switched to licensing-only model

Temporary cooperation switchback

- Motivation: developing specialized complementary assets
  - Compared to own development: steeper learning costs
  - Compared to arm's length contracting: smaller potential for learning downstream capabilities

- Co-founder of Genentech:
  - *"It was a goal from the very beginning to make and market products as soon as we could. The first products we licensed to others. We tried to keep some manufacturing rights but let other people market. That was the case of interferon with [Hoffman-La] Roche, but eventually we decided it was better to put our energy into the products we could make and sell ourselves…Over the long run...in order to capture all the value …you have to be able to make and sell that drug yourself, in part to control the distribution of it..."* (Swanson, 2000. An oral history conducted in 1996 and 1997 by Sally Smith Hughes. In: Regional Oral History Office, The Bancroft Library. University of California, Berkeley, pp. 78-79).

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