Entrepreneurial strategy

TUM School of Management

Entrepreneurship Research Institute

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In this session you will learn:

- Why being new is a threat and an asset
- Why being fast can backfire
- Why entrepreneurship is “permanent crisis management”
- How ventures can grow by doing more of the same, something somewhat different, or something completely new

New entry means managing newness

- Liabilities of newness arise from unique conditions
  - Costs in learning new tasks
  - Conflict arising from overlaps or gaps in responsibilities
  - Unestablished informal structures of communication

- Capitalize on 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

How good is it to be (new and) fast?

First-mover strategy

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- Less competitive rivalry
- Opportunity to secure supplier and distributor channels
- A better position to satisfy customers
- Gaining expertise through participation

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- Technological uncertainty
- Market uncertainty
- Uncertainty in value creation for customers

Late-mover strategy

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- Refining is easier than inventing
- Reduced R&D costs.
- More organizational legitimacy as type for business is known
- Lower levels of uncertainty

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- Customers/ users might be loyal to first mover
- Access to resources more expensive
- Need to catch up with first movers

Imitation strategies

- Franchising - A franchisee acquires the use of a “proven formula” for new entry from a franchisor.
- Copying products that already exist and attempting to build an advantage through minor variations.

Entry 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.

Entry strategies: 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

Your task (10 min):

- Take the following 4 TUM startups

Konux	Babo Blue
Proglove	RideBee

- Use the internet to find out whether they are following a first-mover vs. late follower and a narrow scope vs. broad scope strategy. If you can‘t find out, what entry strategy would you recommend to the startups given their product?

Assessing entry strategies

	Narrow scope	Broad scope
Early mover	KONUX	
Late follower	RideBee	

Firm size and growth categories

Micro firm

- **<10** employees
- annual turnover &/ balance sheet total **≤ €2m**

Small firm

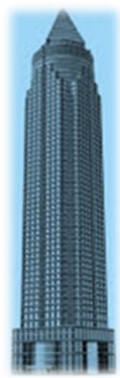
- **<50** employees
- annual turnover &/ balance sheet total **≤ €10m**

Medium-sized firm

- **<250** employees
- annual turnover **≤ €50m** &/ balance sheet total **≤ €43m**

Large firm

- **250+** employees
- annual turnover **> €50m** &/ balance sheet total **> €43m**



High/Rapid growth firm

- **≥ 10 employees** at start of observation period
- **Average annual growth > 20% over 3 years (sales or employees)**

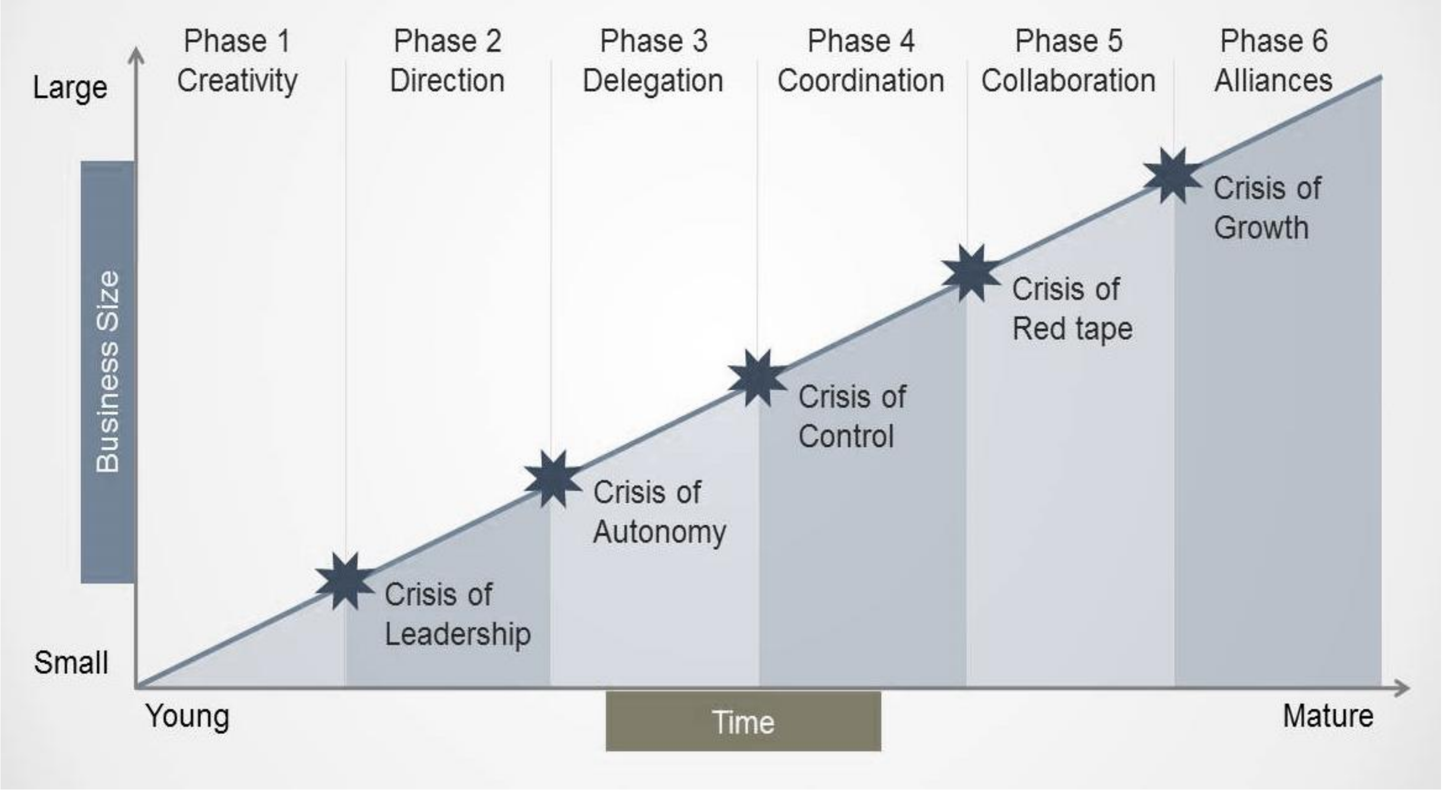
Gazelle

- **≤ 5 years old**
- **≥ 10 employees** at start of observation period
- **Average annual growth > 20% over 3 years (sales or employees)**

Unicorn

- **Startup company valued at over $1 billion**
- 223 in 03/2017 worldwide, e.g. Uber, Airbnb
- TUM unicorns: Celonis, Lilium

A process model of firm growth



Greiner (1972)

How does the entrepreneurial role change over time?

Key activities of start-up entrepreneurs	Key activities of growth stage entrepreneurs

Key activities of start-up entrepreneurs

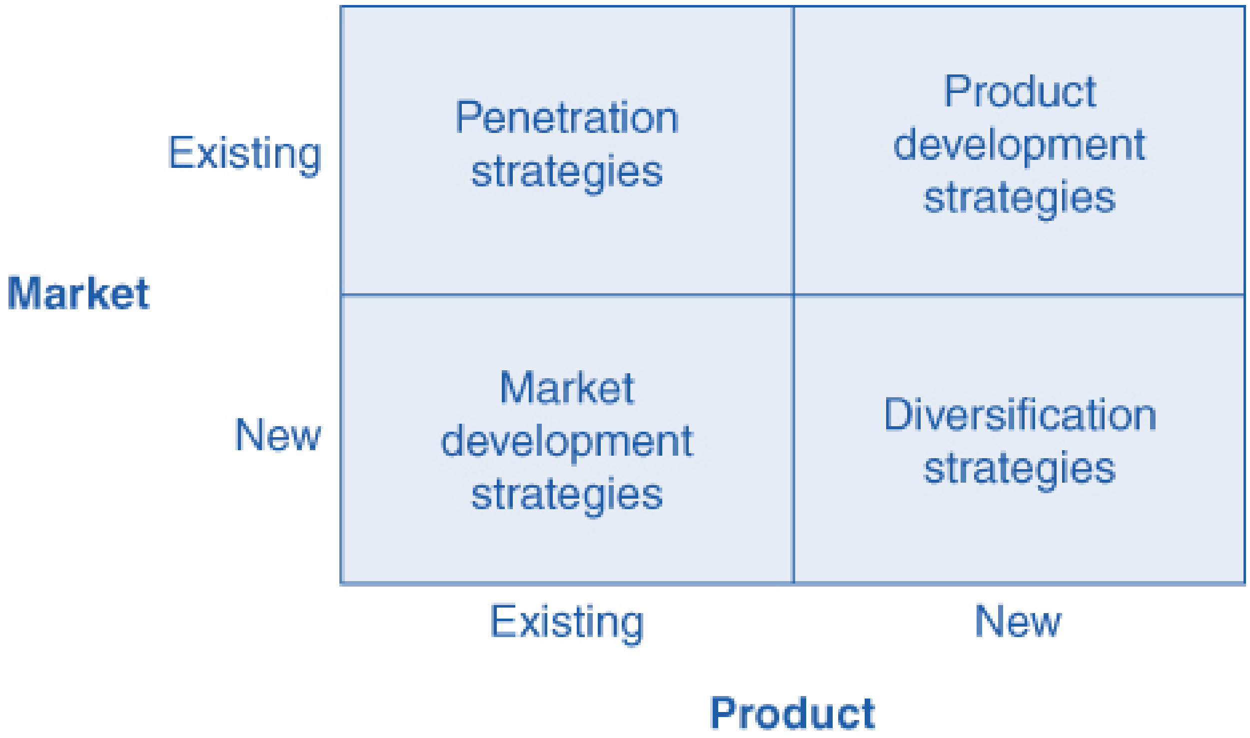
- Entrepreneur as a **spider in its web**
- Broad **overlapping roles**
- Focus on **internal activities**:
  - Resource acquisition
  - Product development /prototyping
  - Purchasing major equipment
  - Analytical / conceptual work
  - Environmental monitoring
- Obtaining and dealing with customers

Key activities of growth stage entrepreneurs

- Recruiting professional staff taking on **suvervisory roles**
- **Spezialized roles**
- Focus on **external & internal activities**:
  - Strategic management
  - Strategic alliances & personal networking
  - Supplier relationships
  - Management of culture and vision
  - Business and organizational development
- Dealing with / empowering employees

Wasserman (2012)

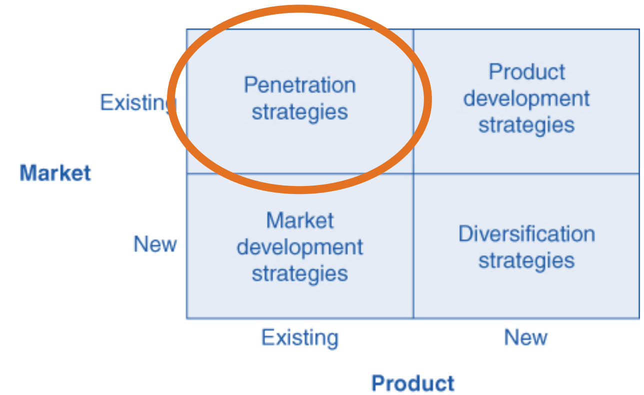
Growth strategies: The Ansoff matrix



Ansoff (1957)

Penetration strategy

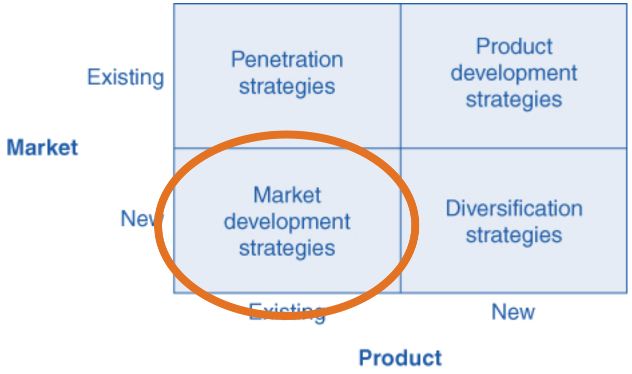
- A strategy to grow by encouraging existing customers to buy more of the firm’s current products.
  - Marketing can be effective in encouraging frequent repeat purchases.
  - Does not involve anything new for the firm.
  - Relies on taking market share from competitors and/or expanding the size of the existing market.



Ansoff (1957)

Market development strategies

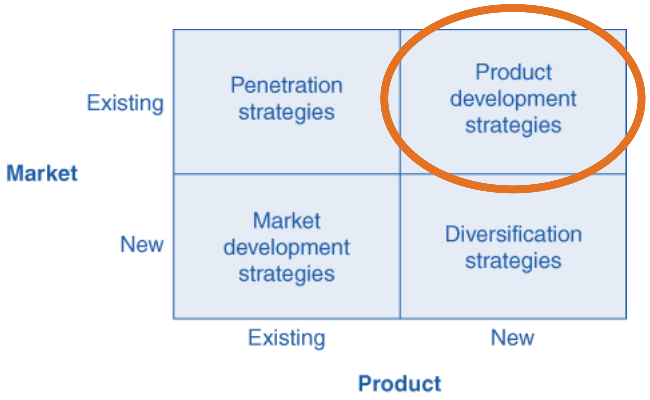
- Strategy to grow by selling the firm's existing products to new groups of customers.
  - New geographical market: selling existing product in new locations.
  - New demographic market: selling to a different demographic group.
  - New product use: selling an existing product, which may have a new use, to new groups of buyers.



Ansoff (1957)

Product development strategies

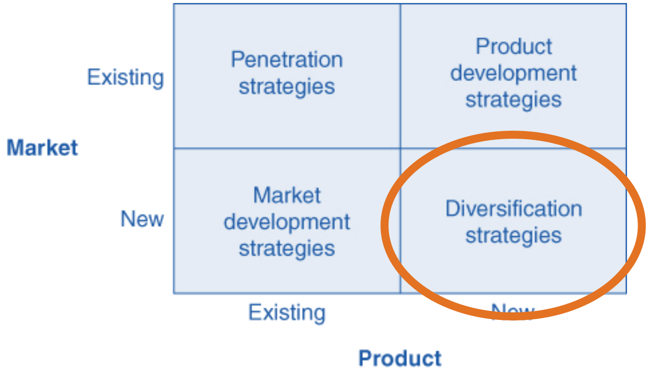
- A strategy to grow by developing and selling new products to people who are already purchasing the firm's existing products.
- Advantages:
  - Chance to capitalize on existing distribution systems.
  - Capitalizing on the corporate reputation the firm has with these customers.



Ansoff (1957)

Diversification strategies

- A strategy to grow by selling a new product to a new market.
  - Backward integration: a step back (up) in the value-added chain toward the raw materials.
  - Forwards integration: a step forward (down) in the value-added chain toward the customers.
  - Horizontal integration: occurs at the same level of the value-added chain but simply involves a different, but complementary, value-added chain.



Ansoff (1957)

Example of growth strategies

Early days of the Head Ski Company; only produced

and sold high-tech skis in the US market.

Market		Product: Existing	Product: New
	Existing	Penetration strategies	Product development strategies
	New	Market development strategies	Diversification strategies

Example of growth strategies

- Case: Early days of the Head Ski Company; only produced and sold high-tech skis in the US market.
- **Penetration strategy:**
  - Increase in marketing budget focused on encouraging existing customers to “upgrade” their skis more often.
- **Market development strategy:**
  - Selling skis in Europe, Argentina, and New Zealand.
- **Product development strategy:**
  - Develop and sell new products (hats, gloves, boots, and other ski accessories).
- **Diversification strategies:**
  - Backward integration: design and manufacture of equipment used to make skis.
  - Forward integration: open of a chain of retail ski shops.
  - Horizontal integration: ownership of ski mountains.

Your task (10 min):

- Take the following 4 TUM startups:

Amsilk	Celonis
Flyla	Kinexon

- Use the internet to find out about their current major growth strategy. Which quadrant of the Ansoff matrix can they be assigned to? If you can‘t find out, try to make a suggestion to the startup given their product or technology.

Assessing growth strategies

	Existing product	New product
Existing market	FLYLA	celonis
New market	AMSilk high performance materials	KINEXON Kinexon (Corona-Warnsystem)

Session summary

- Newness is both a liability and an advantage for young ventures
- Entry strategies include first mover vs. follower, narrow vs. broad scope
- Entrepreneurial growth models describe multiple crises for entrepreneurs and their ventures
- The Ansoff matrix is helpful to assess venture growth strategies

References from the class

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