

Entrepreneurship 10



Strategy: Planning for
Competitive Advantage

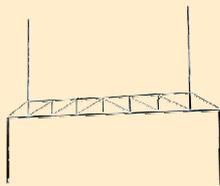
"In preparing for battle I have always
found that plans are useless, but
planning is indispensable."

--Dwight D. Eisenhower

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Strategy

A carefully devised plan of action to
achieve a goal or the art of developing
or carrying out such a plan



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Competitive Advantage

- Precludes others from imitating the
business idea perfectly
- Allows the entrepreneur to capture
the profits from exploiting the
opportunity

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Barriers to Competition

- Maintain secrecy
- Control resources
- Establish legal barriers to imitation
- Exploit the idea on a large scale
- Establish a reputation
- Innovate

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It's a Secret

- Trade secret—knowledge that confers an advantage and is protected
- Causal ambiguity—knowing how to exploit the opportunity
- Tacit knowledge—knowledge that isn't written down



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Legal Monopolies

- Patents
- Government permits



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Developing Effective Strategies

- Use proven methods for making strategic decisions
- Develop a clear and comprehensive business plan
- Build trust with an effective structure

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Exploiting Opportunities

- Vertical integration
 - Own successive stages of value chain
- Market-based mode
 - Licensing
 - Franchising
- Hierarchical mode
 - Own all parts of the operation

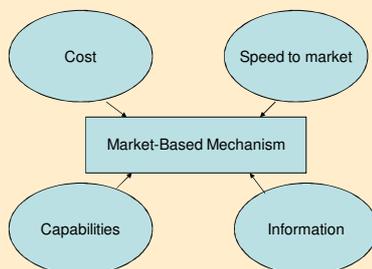
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Opportunity Exploitation

- Licensing—contract to use a business idea in return for a fee
- Franchising—right to provide an existing firm's product or service to end customers

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Factors in Selecting a Market-Based Mechanism



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Minimizing Cost

- A market-based mode allows an entrepreneur to
- Invest less capital in comparison to hierarchical modes
 - Tap franchisees as a source of capital
 - License ideas to finance development

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Getting to Market

A market-based mode allows an entrepreneur to

- Assemble the entire value chain in time to exploit it
- Be the first mover
- Leverage network externalities



10-T3

Leveraging Capabilities

A market-based mode allows an entrepreneur to

- Compensate for areas of weakness
- Increase performance by contracting with partners who have stronger capabilities



10-T4

Managing Information

A market-based mode allows an entrepreneur to

- Use patents to mitigate the disclosure problem
- Codify a business idea in a contract

10-T5

Benefits of Market-Based Methods

Contractual modes of opportunity exploitation can protect entrepreneurs from

- Adverse selection
- Shirking



10-T6

Hazards of Market-Based Methods

- Free riding—attempt to benefit from the work of another franchisee
- Hold-up—attempt to opportunistically renegotiate the terms of a contract

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Information Problems and Modes of Exploitation

PROBLEM	EXPLOITATION
Adverse selection of employees	Market-based
Shirking by employees	Market-based
Free riding by outlet operators	Hierarchical
Hold-up of outlet operators	Hierarchical
Disclosure of knowledge	Hierarchical
Tacit business idea	Hierarchical

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Managing Uncertainty and Information Asymmetry

- Growth from small scale
- Forming alliances and partnerships with established firms
- Creating legitimacy for the opportunity and the new venture



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Starting Small

- Uncertainty and information asymmetry make it necessary for entrepreneurs to start small because
- Entrepreneurs must self-finance
 - Investors don't give large sums all at once
 - Entrepreneurs must minimize risk

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Finding Allies

Alliances and partnerships can provide:

- The assets needed to pursue short-lived opportunities
- The capital required to purchase needed resources
- A brand name to give the business idea value

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It's Legit

Entrepreneurs demonstrate the legitimacy of their ideas by

- Showing conformity to existing rules and norms
- Imitating the routines and procedures of existing firms
- Engaging in collective actions
- Obtaining certification

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