Universität Zürich[UZH]

Department of Business Administration - Chair for Entrepreneurship

A Primer in Entrepreneurship

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Chair of Entrepreneurship

Universität Zürich

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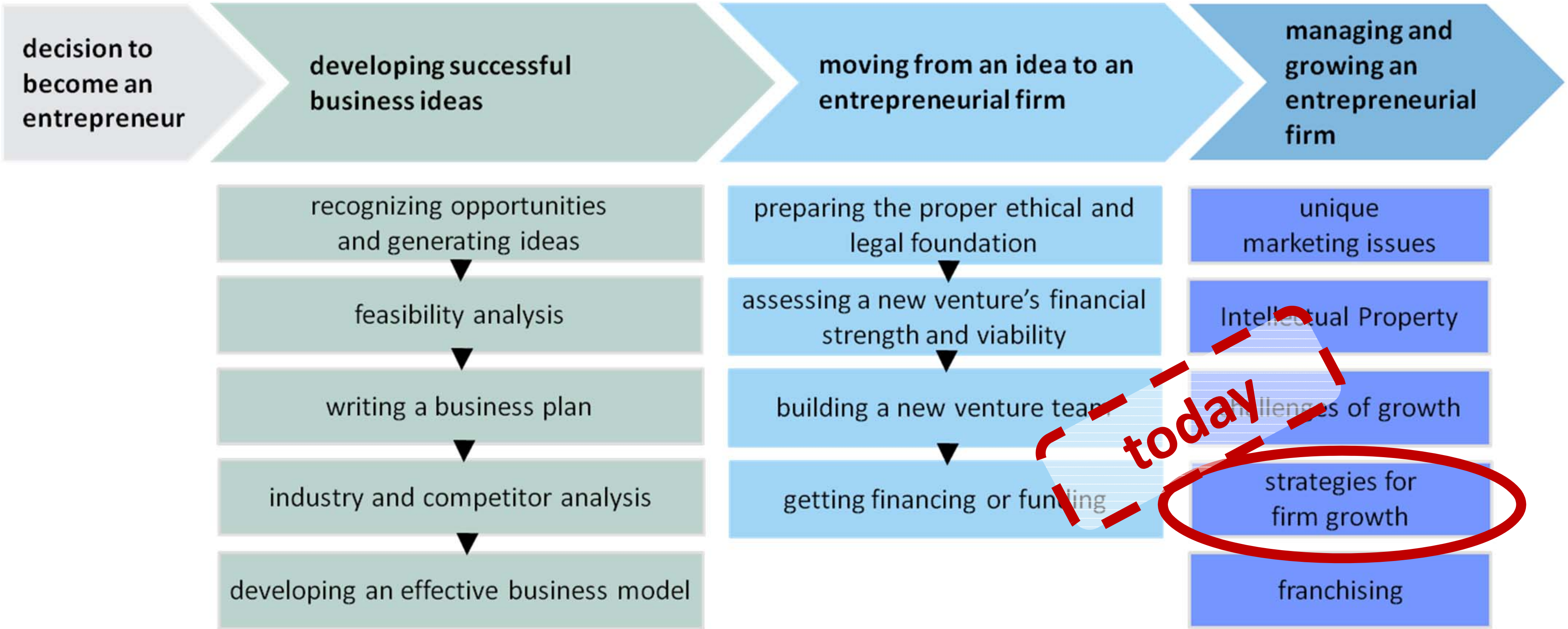
Content



A Primer in Entrepreneurship

Part IV Managing and Growing an Entrepreneurial Firm

Lecture 14
Strategies for Firm Growth

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Agenda

1. Internal Strategies for Growth
1.1 New Product Development
1.2 Other Product-Related Strategies
1.3 International Expansion

2. External Growth Strategies
2.1 Merger and Acquisition
2.2 Licensing
2.3 Strategic Alliances and Joint Ventures

Questions

? Why grow?

? How to grow?

? What defines internal growth, what external growth?

…to be answered in today's lecture.

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1. Internal Strategies for Growth

Internal growth strategies rely on efforts generated within the firm itself, such as new product development, other product-related strategies, and international expansion.

Organic growth: does not rely on outside intervention.

Distinctive attribute: a business relies on its own competencies, expertise, business practices, and employees.

1.1 New Product Development

New product development: the creation and sale of new products (or services) as a means of increasing firm revenues.

Fast-paced industries: new product development = competitive necessity.
Example: average product life cycle in the computer software industry is 14 to 16 months→ to remain competitive, software companies must always have new products in their pipelines.

1.1 New Product Development

The keys to effective new product and service development:

- Find a need and fill it;
- Develop products that add value;
- Get quality right and pricing right;
- Focus on a specific target market;
- Conduct ongoing feasibility analysis.

1.2 Other Product-Related Strategies

1. **Improving an Existing Product or Service:** enhancing quality, making it larger or smaller, making it more convenient to use, improving its durability, or making it more up to date.

2. **Increasing the Market Penetration:** increase sales of a product or service through greater marketing efforts or through increased production capacity and efficiency.

1.2 Other Product-Related Strategies

3. **Extending Product Lines:** involves making additional versions that appeals to a different clientele (low-end vs. high-end version)

4. **Geographic Expansion:** most common in retail sites.

1.3 International Expansion

International new ventures/Born globals: businesses that, from inception, seek to derive significant competitive advantage by using their resources to sell products or services in multiple countries; a fairly complex form of firm growth.

1.3 International Expansion

Issues at stake: management/organization, product and distribution, financial and risk management issues.

Foreign market entry strategies:

- Exporting,
- licensing,
- joint ventures,
- franchising,
- turnkey projects,
- wholly owned subsidiaries.

Common reason: unsolicited inquiry from a foreign buyer.

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2. External Growth Strategies

1. External growth strategies: rely on establishing relationships with third parties, such as:
   - mergers,
   - acquisitions,
   - strategic alliances,
   - joint ventures
   - franchising.

2. More fast-paced, collaborative approach towards growth than the slower-paced internal strategies.

2.1 Mergers and Acquisitions

Merger: pooling of interests to combine two or more firms into one
Acquisition: outright purchase of one firm by another.

Surviving firm is "acquirer"; acquired is "target".

Why acquire?

- expanding product line,
- gaining access to distribution channels,
- achieving competitive economies of scale,
- expanding the company's geographic reach.

2.1 Mergers and Acquisitions

CAUTION! Many firms have found that the process of assimilating another company into their current operation is not easy. Primarily for this reason, 65 to 70 percent of acquisitions fail to deliver anticipated results.

Finding the appropriate acquisition candidate is difficult; exercise extreme care here!

2.2 Licensing

Licensing: granting of permission by one company to another company to use a specific form of its intellectual property under clearly defined conditions.

Licensing agreement: formal contract between a licensor and a licensee.

Licensor: company that owns the intellectual property.

Licensee: company purchasing the right to use it.

2.1 Merges and Acquisitions

Technology licensing: licensing of a proprietary technology that the licensor typically controls by virtue of a utility patent.

Merchandise and Character Licensing:. licensing of a recognized trademark or brand that the licensor controls through a registered trademark or copyright.

2.3 Strategic Alliances and Joint Ventures

Strategic Alliances: partnership between two or more firms developed to achieve a specific goal.

Technological alliances: cooperation in research and development, engineering, and manufacturing.

Marketing alliances: match a company with a distribution system with a company that has a product to sell in order to increase sales of a product or service.

2.3 Strategic Alliances and Joint Ventures

Joint Venture: entity created when two or more firms pool a portion of their resources to create a separate, jointly-owned organization.

Scale joint venture: partners collaborate at a single point in the value chain to gain economies of scale in production or distribution.

Joint venture: position of the parties is not symmetrical, and the objectives of the parties may diverge.

Do you know the answer ?

?! Why grow?

?! How to grow?

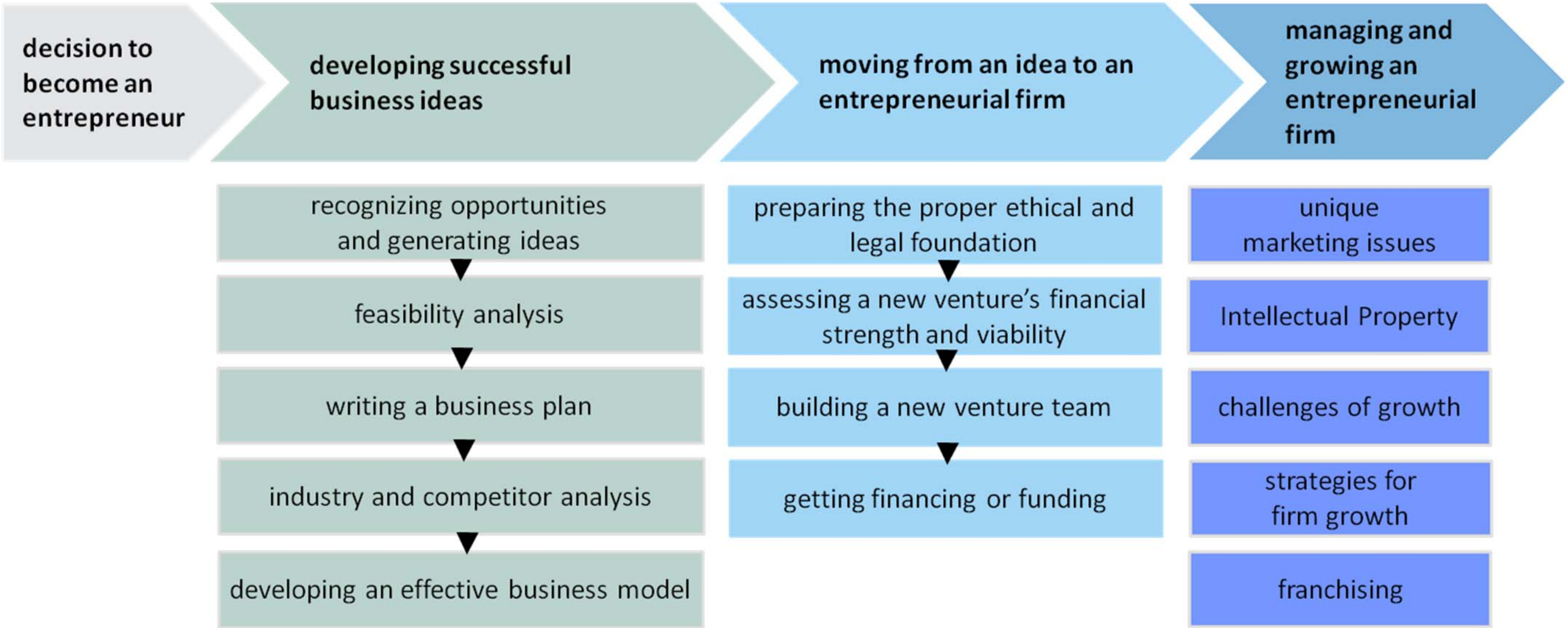
?! What defines internal growth, what external growth?

...test yourself.

References

Barringer, B. and D., Ireland (2008): Entrepreneurship - Successfully Launching New Ventures, Pearsons Prentice-Hall.

Outlook


decision to become an entrepreneur
developing successful business ideas
moving from an idea to an entrepreneurial firm
managing and growing an entrepreneurial firm
recognizing opportunities and generating ideas
feasibility analysis
writing a business plan
industry and competitor analysis
developing an effective business model
preparing the proper ethical and legal foundation
assessing a new venture's financial strength and viability
building a new venture team
getting financing or funding
unique marketing issues
Intellectual Property
challenges of growth
strategies for firm growth
franchising