

principles of Entrepreneurship

>>>> 7. Entry Strategies for New Ventures

It is easy to be captivated by the promise of entrepreneurship and the lure of becoming one's own boss. It can be difficult, however, for a prospective entrepreneur to determine what product or service to provide. Many factors need to be considered, including: an idea's market potential, the competition, financial resources, and one's skills and interests. Then it is important to ask: Why would a consumer choose to buy goods or services from this new firm?

One important factor is the uniqueness of the idea. By making a venture stand out from its competitors, uniqueness can help facilitate the entry of a new product or service into the market.

It is best to avoid an entry strategy based on low cost alone. New ventures tend to be small. Large firms usually have the advantage of lowering costs by producing large quantities.

Successful entrepreneurs often distinguish their ventures through differentiation, niche specification, and innovation.

- Differentiation is an attempt to separate the new company's product or service from that of its competitors. When differentiation is successful, the new product or service is relatively less sensitive to price fluctuations because customers value the quality that makes the product unique.

A product can be functionally similar to its competitors' product but have features that improve its operation, for example. It may be smaller, lighter, easier to use or install, etc. In 1982, Compaq Computer began competing with Apple and IBM. Its first product was a single-unit personal computer with a handle. The concept of a portable computer was new and extremely successful.

- Niche specification is an attempt to provide a product or service that fulfills the needs of a specific subset of consumers. By focusing on a fairly narrow market sector, a new venture

may satisfy customer needs better than larger competitors can.

Changes in population characteristics may create opportunities to serve niche markets. One growing market segment in developed countries comprises people over 65 years old. Other niches include groups defined by interests or lifestyle, such as fitness enthusiasts, adventure-travel buffs, and working parents. In fact, some entrepreneurs specialize in making "homemade" dinners for working parents to heat and serve.

- Innovation is perhaps the defining characteristic of entrepreneurship. Visionary business expert Peter F. Drucker explained innovation as "change that creates a new dimension of performance." There are two main types of product innovation. Pioneering or radical innovation embodies a technological breakthrough or new-to-the-world product. Incremental innovations are modifications of existing products.

But innovation occurs in all aspects of businesses, from manufacturing processes to pricing policy. Tom Monaghan's decision in the late 1960s to create Domino's Pizza based on home delivery and Jeff Bezos' decision in 1995 to launch Amazon.com as a totally online bookstore are examples of innovative distribution strategies that revolutionized the marketplace.

Entrepreneurs in less-developed countries often innovate by imitating and adapting products created in developed countries. Drucker called this process "creative imitation." Creative imitation takes place whenever the imitators understand how an innovation can be applied, used, or sold in their particular market better than the original creators do.

Innovation, differentiation, and/or market specification are effective strategies to help a new venture to attract customers and start making sales.