

NEW VENTURE ENTRY STRATEGY: TO PIONEER OR NOT TO PIONEER

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ABSTRACT

This paper examines the impact of entry strategy on new venture performance. The contradictory nature of a simplistic view on the relationship between timing of entry and new venture performance is demonstrated. Contingent relationships between timing of entry and other entry strategy variables lead to a series of propositions.

INTRODUCTION

To pioneer or follow is a fundamental consideration in new venture entry strategy. If an opportunity exists, is it best to ensure that you are first to market, or is performance sometimes enhanced through waiting and following? What other factors should the entrepreneur consider in deciding when to enter. Prior research indicates that pioneers (relative to late followers) have higher returns if they are successful (DeCastro & Chrisman, 1995), they have long lived market share advantages (Kalyanaram & Urban, 1992) but bear a higher risk of failure (Mitchell, 1991). New venture entry strategy also appears more complex than the above statement depicts. More recent entry strategy research emphasizes stability of key success factors (Golder & Tellis, 1993), ability to overcome market ignorance through education (Slater, 1993), pioneer's lead time (Carpenter & Nakamoto, 1989), scope of entry (McDougall, Covin, Robinson, & Herron, 1994) and mechanisms of entry (Vesper, 1990). These entry strategy variables, for the most part, have been investigated individually. DeCastro & Chrisman (1995) propose that entry strategy research must investigate contingency relationships. A series of propositions are advanced suggesting relationships between timing of entry, each entry strategy variable and new venture performance. New venture performance is referred to in terms of both profitability and survival, where profitability refers to return on sales and survival the probability that a venture continues to participate in the market for a specified period of time (ten years). We define a pioneer as a venture that enters a new industry first, and a late follower as a venture that enters an industry late in the industry's stage of development.

STABILITY OF KEY SUCCESS FACTORS

Requirements for success in a market may change with market evolution. Pioneers commit to a number of key factors they believe will lead to success within the competitive environment (Slater, 1993). If key success factors within an industry remain stable, a pioneer's early commitment to a new technology is likely to provide superior new venture performance. Of course, if the competitive environment changes, so too may the key success factors rendering the venture at a competitive disadvantage (Golder & Tellis, 1993). For example, if a venture commits to a new technology, it faces the risk that as alternate technologies emerge, its technology will not perform as expected, and/or there will be little or no demand. Shifts in consumers' tastes also provide opportunities for late entrants to better satisfy customer demands (Golder & Tellis, 1993). Therefore, pioneers typically face technical and demand uncertainty. Pioneers' problems are also often accelerated by a tendency to counter threats through investing research funds into improving current technology (Aaker & Day, 1986), and/or solving new problems using inappropriate methods (Nelson & Winter, 1982). These responses are often combined with a reluctance to withdraw too quickly from mature technologies that are highly profitable (Yip, 1982). Decisions to persist with outdated technology are often poor investments, due to their diminishing returns and the difficulty associated with transferring links with old customers to new opportunities. This inertia makes change difficult.

Later followers are better able to recognize the attractiveness of a market and its key success factors and are able to minimize the costs of entry through leapfrogging the pioneering technology (Yip, 1982). Reduced strain on resources, coupled with increased certainty, increases the probability of survival of later entrants over pioneers (Mitchell, 1991). Established and successful firms will likely decide not to pioneer with unproven technology, but wait until more information is available about the stability of key success factors so as to provide a product that

better meets customers' needs. In doing so they learn from pioneers' mistakes. These issues suggest the following propositions:

Proposition 1: For high levels of key success factor stability, profitability decreases with later entry but for low levels of key success factor stability profitability increases with later entry.

Proposition 2: Probability of survival increases with later entry at the same rate for both levels of key success factor stability. However, probability of survival is significantly higher for high levels of key success factor stability than for low levels of key success factor stability.

EDUCATIONAL CAPABILITY

There is often considerable uncertainty about the rate at which customers will substitute old technology for new (Robertson & Gatignon, 1986). Pioneer's potential customers often lack a frame of reference for understanding new product concepts (Slater, 1993) and the benefits of a venture's offerings. A frame of reference needs to be constructed in order to attract potential customers. Customers then need to be persuaded that the benefits of purchase are greater than the risks (Slater, 1993). An opportunity for pioneers to achieve a premium price may in part be a response to increased customer familiarity with the product (Schmalensee, 1981). However, customers' frames of reference can be difficult and costly to construct, in terms of time as well as financial and human resources. If a venture already possesses these resources, it has the educational capability that can be directed towards performing original market research and necessary market development (Stinchcombe, 1965). Ventures with high educational capability can hasten customer substitution into the industry (Slater, 1993), thereby increasing industry and firm profitability. This suggests the following proposition:

Proposition 3: For high educational capability levels profitability decreases with later entry but for low educational capability levels profitability increases with later entry. However, profitability is significantly higher for high educational capability levels than for low educational capability levels.

The 'liability of newness' notion proposes that greater risks of failure are faced by those ventures that lack stable links with other stakeholders (Stinchcombe, 1965), and lack customer trust (Hannan & Freeman, 1989). While liability of newness declines with age (Hannan & Freeman 1989), it is proposed that a venture with educational capability can more rapidly develop stable links with key stakeholders and engender customer trust. This would have the effect of reducing risk of failure. Late followers are generally considered to have a higher probability of survival over pioneers (Mitchell, 1991). Even without educational capabilities, late followers are able to benefit from market education performed by pioneers, i.e., the free ride effect. Reduced strain on resources and increased buyer confidence in the market further decreases risk of failure for late followers (Mitchell, 1991). This suggests the following proposition:

Proposition 4: Probability of survival increases with later entry at the same rate for both levels of educational capability. However, probability of survival is significantly higher for high levels of educational capability than for low levels of educational capability.

LEAD TIME

Barriers to entry initially provide pioneers a period of monopoly, that is a lead time, and thereafter minimize competitive rivalry within an industry. Together, lead time and competitive rivalry provide greater understanding of new venture performance, by understanding how an advantage is obtained and the means by which it slowly reduces over time. A long lead time may increase pioneering advantages through helping pioneers establish a stronger brand name (Schmalensee, 1982) and move customers' ideal points close to the pioneer's attribute mix (Carpenter & Nakamoto, 1989). Increasing lead time also helps pioneers further broaden their product line (Robinson & Fornell, 1985), provide superior profits and prepare for new battle grounds. Lead time is believed to be an important means of protecting competitive advantages for new or improved products (Levin, Klevorick, Nelson & Winter, 1987). However, few empirical studies directly link lead time to profitability or probability of survival.

Lead time provides pioneers significant long term market share advantages (Spital, 1983). Pioneers also have an opportunity to charge premium prices and achieve cost advantages through experience effects (Abell & Hammond, 1979). These cost advantages put later followers at a competitive disadvantage. Pioneers may be able to erect barriers that lock out followers, lengthening the lead time. Therefore, market momentum generated during the lead

time may help pioneers maintain a long term advantage. If lead time is short however, little time is available to build up pioneering advantages, decreasing the advantages of being early. There is little research on the affect of lead time on survival. However, it can be assumed that a period of monopoly provides time for a venture to learn new tasks, to invent and overcome conflict in new roles, to develop an informal structure, to create stable links with stakeholders and to develop some organizational inertia and organizational stability that will encourage customer trust. In other words, lead time allows pioneers to minimize the liability of newness (Hannan & Freeman, 1989) in the absence of industry competitors. This increases the probability of survival. These issues suggest the following propositions:

Proposition 5: Profitability decreases with later entry at different rates for different levels of lead time. For pioneers profitability is higher for longer lead time levels. For late entrants profitability is higher for shorter lead time levels.

Proposition 6: Probability of survival increases with later entry but at different rates for different levels of lead time. For pioneers, probability of survival is higher for longer lead time levels. For late entrants probability of survival is higher for shorter lead time levels.

SCOPE OF ENTRY

Questions of scope are central to the development of a venture's strategies. Much of the conventional wisdom of earlier entrepreneurship literature advised ventures to pursue narrow or focused strategies (Hobson & Morrison, 1983). However Biggadike (1976), studied 68 corporate start ups using the PIMS data base, and found new corporate ventures that were both more aggressive and more broad than incumbents, displayed superior performance. There are many studies supporting the positive affect broad scope has on new venture performance including Miller and Camp (1985), and Tsai, MacMillan and Low (1991). Stearns, Carter, Reynolds and Williams (1995) hypothesized broad strategies to be superior to narrow strategies yet were unable to find support for their proposition. Apparently, simplistic over generalization of scope strategies is dangerous (McDougall, et al., 1994). Narrow and broad scope seem to have different benefits and limitations in explaining new venture performance. Other factors would appear to be required to more fully understand scope's relationship with new venture performance. Timing of entry dictates the industry structure faced by the new venture (Miller, Wilson & Gartner, 1987). The pioneer enters a new industry with potential for high growth and the late follower enters a more mature industry with limited growth. Stearns et al. (1995) found significant interactions between scope and industry. McDougall et al. (1994) found new ventures in high growth industries enter the market on a larger, more aggressive scale than new ventures in low growth industries. Lambkin (1988) also found pioneer-generalists (broad scope) to most likely display the highest level of long term performance. These issues suggest the following proposition:

Proposition 7: For broad levels of scope profitability decreases with later entry but for narrow levels of scope profitability increases with later entry.

Cooper (1993) proposes that dependence upon narrow markets leads to unstable performance. Bruderl, Preisdorfer and Ziegler (1992) found no significant differences in chances of survival between ventures pursuing broad or narrow strategies. Cooper's (1993) and Bruderl et al.'s (1992) findings contradict those studies that found a narrow scope strategy avoids direct competition with large firms (Broom, Longenecker & Moore, 1983) and reduces strain on limited resources (Low & MacMillan, 1988) thereby allowing growth to proceed incrementally (Van de Ven, Hudson, & Schroder, 1984) staging some of the risk. Romanelli (1989) found that when industry sales are increasing rapidly, generalist (broad market breadth) firms are more likely to survive than are specialist (narrow market breadth) firms. Rapidly increasing sales are typical of the environment an early entrant faces (Miller, et al., 1987). This suggests the following proposition:

Proposition 8: For broad levels of scope, probability of survival decreases with later entry but for narrow levels of scope probability of survival increases with later entry.

ENTRY WEDGE MIMICRY

Smaller firms tend to 'mimic' more prestigious ones, where mimicry is an attempt by firms to imitate others. This concept of mimicry may help integrate Vesper's (1990) entry wedges into a conceptual framework of entry mechanisms. Entry wedges are competitive weapons that may be used to enter an industry, and comprise one of the few attempts to explain entry mechanisms. A franchisee, an extreme case of high mimicry, buys and/or rents from the franchisor the use of a proven (it is hoped) proprietary entry wedge and competitive shield (Vesper, 1990). The

franchise could provide a low cost of entry, an established market, intellectually protected product/name, financial and managerial advice, and/or increased bargaining power. For example, the first Kentucky Fried Chicken franchise into China pioneered fast food in that market. A low mimicry entry wedge may be achieved through offering an innovative product or service and/or introducing a marketing innovation that allows the entrant to overcome barriers to entry. Innovation need not be a technological breakthrough (Karakaya & Kobu, 1994) or the creation of a new industry with a product's introduction- both developments are extremely rare (Vesper, 1990) but would be considered the extreme case of low mimicry. This concept of low mimicry supports Vesper's (1990) new product entry wedge.

Despite the cost to innovate being typically higher than the cost of mimicry (Spital, 1983), a low mimicry entry wedge has fewer restrictions on competitive behavior than does a venture utilizing a high mimicry entry wedge. An uninhibited choice of strategy appears better suited to an emerging market. Miller, et al. (1987) propose that pioneers typically face an emerging and growing market which is characterized by few competitive rules based on high technological and strategic uncertainty. This environment provides pioneers a window of opportunity to introduce something new and possibly develop industry rules to corporate advantage. Therefore, pioneers are usually more interested in entering with a new technology and then protecting their unique position and first mover advantage, rather than imitating others. High mimicry often imposes a cost for using a 'proven' formulae and typically places restrictions on aspects of operations, marketing and expansion. The added cost and restrictions involved in a high mimicry entry wedge are expected to negatively affect pioneers' profitability. Whereas a proven entry wedge and competitive shield are of greater value to a later entrant as they typically face more intense competition. These issues suggest the following proposition:

Proposition 9: For high levels of mimicry profitability increases with later entry but for low levels of mimicry profitability decreases with later entry.

While the affect of low mimicry may be positive on pioneer profitability, Franquesa and Cooper (1996) found survival rates lower for ventures that used innovative strategies based on relatively unique products or services. Carbone (1989) found a greater likelihood of survival in firms that used high mimicry entry wedges, such as franchising. Ventures using a high mimicry entry wedge seem to benefit from lower cost of entry and use of a proven formula. Shane (1996) found that the more complex the franchise concept, the less likely the franchisee would survive. Added complexity may have retarded mimicry and therefore decreased chances of survival. However, there is no reason to believe that the level of mimicry moderates the relationship between timing of entry and probability of survival. This issue suggests the following proposition:

Proposition 10: Probability of survival increases with later entry at the same rate for both levels of mimicry. However, probability of survival is significantly higher for high levels of mimicry than for low levels of mimicry.

DISCUSSION AND CONCLUSION

The positive impact new ventures have on the economy signals the importance of understanding the factors that increase a new venture's chances of survival and success (Carter, Stearns, Reynolds & Williams, 1992). Timing of entry is emphasized in entry strategy research as a key to increased understanding of new venture performance. However, the relationship between timing of entry and new venture performance appears to be moderated by environmental and other venture capability factors. The contingent nature of these factors with timing is not always clear. This is due, in part, to the small number of studies investigating entry strategy's contingent relationships, research design limitations and a lack of a clear entry strategy theory. The contingency based theory proposed in this paper acknowledges that the relationship between timing of entry and new venture performance is more complex than most studies depict, i.e., whether to pioneer or not to pioneer and the success of entry may be dependent upon key success factor stability, educational capability, lead time, scope, and entry wedge mimicry. This paper's propositions will help increase understanding of entry strategy and thus aid entrepreneurs in choosing an entry strategy that best 'fits' with their internal and external environment providing superior long term performance. It could also aid venture capitalists in assessing likely new venture performance based on the entry strategy proposed, and educators of entrepreneurship and strategic management for discussion on new venture entry strategy. For researchers, this paper provides a contingency based theory of new venture entry strategy with a series of testable propositions. Multivariate empirical entry strategy research needs to be performed, especially directed towards this paper's propositions and, other possible contingent relationships explored.

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