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Strategies for entrepreneurial success



Whether you delve into business school research or scan the press, you will find a consistent picture of what defines entrepreneurship. Entrepreneurs exploit new opportunities and in order to do so they challenge the norm, they are innovative and they take risks. They often revolutionise industries overturning long established technologies, business models and dominant firms. So in terms of entrepreneurial performance, there is a widely held view that the objective is to be more entrepreneurial than anyone else.

Successful entrepreneurs solve the last 10% rather than the first 90% of the innovation problem.

As a result, budding entrepreneurs feel compelled to look for a breakthrough 'big idea'. Images of light bulbs and figures shrieking 'Eureka' frequently appear on marketing material aimed at entrepreneurs. Among the plethora of management texts and 'I did it my way, so can you' books for entrepreneurs, they are encouraged to be highly innovative and to do things differently – after all, doesn't competitive advantage require differentiation from competitors? They are told to be ambitious and to have the courage to take on the associated financial and career risks. One government quango for entrepreneurship even argued that British entrepreneurs do not take enough risks.

While this picture gives a reasonably accurate account of the actions of a typical entrepreneur, it is misleading if you are interested in the ingredients of successful entrepreneurial strategy. As we know, most entrepreneurs are unsuccessful. Typically, more than half of business start-ups fail between four to five years after start-up. Of those that survive, only a small minority, around 4%, become successful (whereby the owner is demonstrably more affluent than they would have been in employment). One of the aspects that distinguish these entrepreneurs from the rest is their approach to strategy.

So what makes a successful entrepreneur's approach to strategy different? There are two distinct features. Firstly, usually unknowingly, entrepreneurs embrace rather than reject corporate strategy. Successful entrepreneurs alter archetypal entrepreneurial strategies in a manner that is akin to a conscious attempt to accommodate some of the winning ingredients of corporate strategy. Secondly, successful entrepreneurs will often trade off or tone down the archetypal brash entrepreneurial behaviour for a more civilised version. The outcome is an entrepreneurial strategy that is a winning formula for entrepreneurs and entrepreneurial corporations alike.

So what are the lessons for owner and corporate managers who are intent on pursuing an entrepreneurial strategy? We have identified four common approaches shared by successful entrepreneurs.

1

Solve the last 10% of the innovation problem

Being the best innovator is not the objective. Successful entrepreneurs solve the last 10% rather than the first 90% of the innovation problem. The timing or order of an entrepreneur's innovation is important. Successful entrepreneurs are rarely the first to introduce an innovation to the market. Their contribution is usually marginal compared to the totality of the final innovation. So why then are they successful? The answer is because their marginal contribution to innovation solves the last remaining part of the consumer problem and as a result has a dramatic commercial impact.

For example, in innovation terms Apple is mainly responsible for developing the mouse/click and icon driven computer operating system. However, the snag for consumers was that this system was only available on Macintosh computers while most computers were based on DOS (Disk Operating System). Microsoft solved the last 10% of this problem by adapting Apple's innovation so that it could work on DOS. As a result, Microsoft and not Apple went on to become the dominant supplier of icon/click driven computer software operating systems.

While Apple co-founder Steve Jobs used to dismiss Microsoft's innovative contribution as marginal, it wasn't long before he went on to adopt Bill Gates' winning 'last 10%' strategy. When Apple launched iTunes it was able to learn from entrepreneurial companies such as Rio Player that had already launched a digital portable music player with content available from a website (RioPort).

Apple solved the last 10% of the player problem by providing a more slick operating and cool looking handheld device (iPod). Likewise, it was able to convince record companies to support its music content website iTunes, simply because 90% of that battle had already been won by earlier web content innovators. Companies such as MP3.com had already – at considerable cost – overcome the legal, regulatory, technological and marketing costs associated with the emergence of an online music market.

2

Reform rather than revolutionise

Revolutionising business rarely requires revolutionary innovative steps. Most successful entrepreneurs are reformers not revolutionaries. Instead of light bulb flashes and shrieks of Eureka, most successful entrepreneurial ventures make modest innovation contributions. If you take a look at the dominant firms in entrepreneurial markets such as the Virgin Group, Innocent, Ryanair and Facebook, you will typically find that successful entrepreneurial ventures did not introduce massive innovation steps. Their innovation is more continuous and built on an existing innovation platform provided by other firms.

For example, healthy natural smoothies were around for decades before Innocent encapsulated these qualities in a quirky branded retail product that captured the consumers' imagination. Low-cost airlines and internet travel sales preceded Ryanair, but their combination and application in Europe has transformed the airline landscape. It also benefited from the failure of Europe's first low-cost airline, Laker Airways which was subjected to predatory pricing. Learning from this lesson governments and regulators offered more support and protection to Ryanair in order to make sure that history did not repeat itself.



Likewise, blog software and self-managed personalised websites were not brought to market by Facebook, but this venture customised these technologies to meet the social networking desires of a primarily student market. The key to success in all of these ventures is not consistent with the archetypal revolutionary entrepreneurs who break the rules of business. Instead, here are entrepreneurs who reform rather than revolutionise.

3

Agility – being able to change strategy and tactics

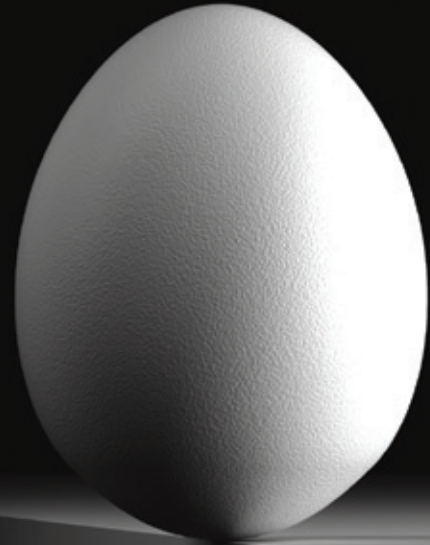
Successful entrepreneurial creativity is an ongoing process which enables entrepreneurs to change their mind. Business ideas come from having an idea to solve a consumer problem and/or a new application for a technology/innovation.

In both cases many other people will have been in the same situation and have had the same thoughts, so entrepreneurs can usually bank on similar ventures launching at the same time. Sadly, many promising entrepreneurs waste their time trying to keep their 'unique idea' secret when what they should be doing is putting it into action. The reality is that many other ventures will be doing just that with the same idea. Furthermore, successful innovation develops and improves as part of an iterative process that requires putting the idea into practice. In essence, the development and refinement of the basic idea into a fully fledged entrepreneurial strategy emerges through an 'into action trial and adapt or proceed' approach.

Did you know that the original name for Cobra Beer was Panther? The name change resulted from a negative customer reaction to the pilot launch of Panther in Indian restaurants. Later as the business developed,

Cobra Beer discovered that one of their supposed unique selling points – the fact the beer was made in India – was not important to customers. This customer insight led the company to decide to brew closer to their European customer base.

Entrepreneurs also learn from other ventures. Customised greeting card business Moonpig.com decided to use TV advertising only after observing how this advertising medium had been successful in raising sales of a smaller rival venture. In this sense entrepreneurial strategy is similar to corporate market-driven innovation strategies, whereby innovation occurs more continuously in smaller customer-driven innovative steps. Likewise, it is agile and allows entrepreneurs to change their mind and strategy. Successful innovation is not typically a Eureka event, it is a process.



4

De-risk before taking risk

Successful entrepreneurs neither embrace risk nor rely exclusively on courage to take risk. Instead they minimise risk to acceptable levels by using corporate finance strategy. That is not to say that entrepreneurs are experts or even understand corporate finance but they do understand its underlying logic or intuition. They adopt strategies that allow them to hedge and spread risk.

Successful entrepreneurs rarely throw all of their financial resources at the first mention of the business idea. Instead, they will use just enough finance to achieve the nearest performance milestone and then adapt the business idea based on that experience.

If performance is poor then the entrepreneur still has resources to try something different, perhaps even another new venture, hence why they can spread risk across a portfolio of ventures. Likewise, it allows entrepreneurs to hedge their strategy, only committing to a strategy after getting market feedback while at the same time holding back finances for a plan B. The same approach enables entrepreneurs to 'create their own luck' and 'be opportunistic' as it holds finances back for the unforeseen. Therefore, these strategies not only de-risk the venture but they enhance innovation performance.

Approaches such as these are the reasons why companies like Organic Apoteke who initially targeted the UK market were able to change their approach when US retailers Wholefoods and Macy's showed an interest in selling their skin care products in America.

The same approach was used by the Virgin Group to spread risk and build a portfolio of businesses across diverse markets. In fact, successful entrepreneurs will have a close relationship between their risk management and innovation strategies as each enhance the other; whilst boosting the overall performance of the venture.

What all these case studies show is that successful entrepreneurs adopt more corporate strategy and corporate finance principles than commonly assumed. It is not what entrepreneurs do that distinguishes success from failure but how they do it. Entrepreneurship inevitably involves innovation and risk taking but how these are managed and executed is the difference between entrepreneurial strategies that fail and those that succeed. MF

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