

Entrepreneurial Marketing

Guest Lecture Kosice 2011

Prof. Dr. Christine Volkmann

Dipl.-Oec. Holger Berg

Bergische Universität Wuppertal
Fachbereich B - Schumpeter School
of Business and Economics
Bergische Universität Wuppertal
Gaußstraße 20
42119 Wuppertal





- The Meaning of Entrepreneurial Marketing for Start-Ups
- Concepts of Entrepreneurial Marketing Strategies
- Case Studie: Nantucket Nectars



Entrepreneurial Marketing :

THE MEANING OF ENTREPRENEURIAL MARKETING FOR START-UPS



- Marketing is of crucial importance for the success or failure of an enterprise, as its success is ultimately decided in the market, competing for the target customers.
- The degree of market orientation of an enterprise may well impact its overall business performance, both in the context of young and small enterprises and in the process of launching new products.
- Venture capitalists will look at:
 - How the enterprise plans to enter the market
 - Which target groups will be addressed
 - How the firm's product or service offers will be communicated and distributed to potential customers.

- Marketing activities of small companies with limited access to resources:
 - Creativity and simplicity (for example Guerilla Marketing)
- Entrepreneurial Marketing is difficult to calculate and is rather based on the entrepreneur's visionary and creative marketing ideas
- Entrepreneurial Marketing is driven by entrepreneurial opportunities:
 - *"the proactive identification and exploitation of opportunities for acquiring and retaining profitable customers through innovative approaches to risk management, resource leveraging and value creation" (Morris et al. 2002)*



Characteristics of Entrepreneurial Marketing

- Pro-activeness
- Calculated risk-taking
- Innovativeness
- Opportunity focus
- Resource leveraging
- Customer intensity
- Value creation

Quelle: Morris et al. (2002)

Functions of Marketing

- Build up customer trust
- Create customer preferences
- Create sustainable competitive advantages

*Ensure the
company's survival*

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*Ensure the
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Marketing Challenges

- Challenges for a young company 's marketing:
 - Newness of the company
 - Newness of the products and services
 - Low level of familiarity, zero brand awareness
 - Scarcity of resources

- Application of innovative marketing methods
- Authentic and entertaining promotion activities
- Affordable activities
- Creative use of available resources
- Creative use of networks



Customer attention



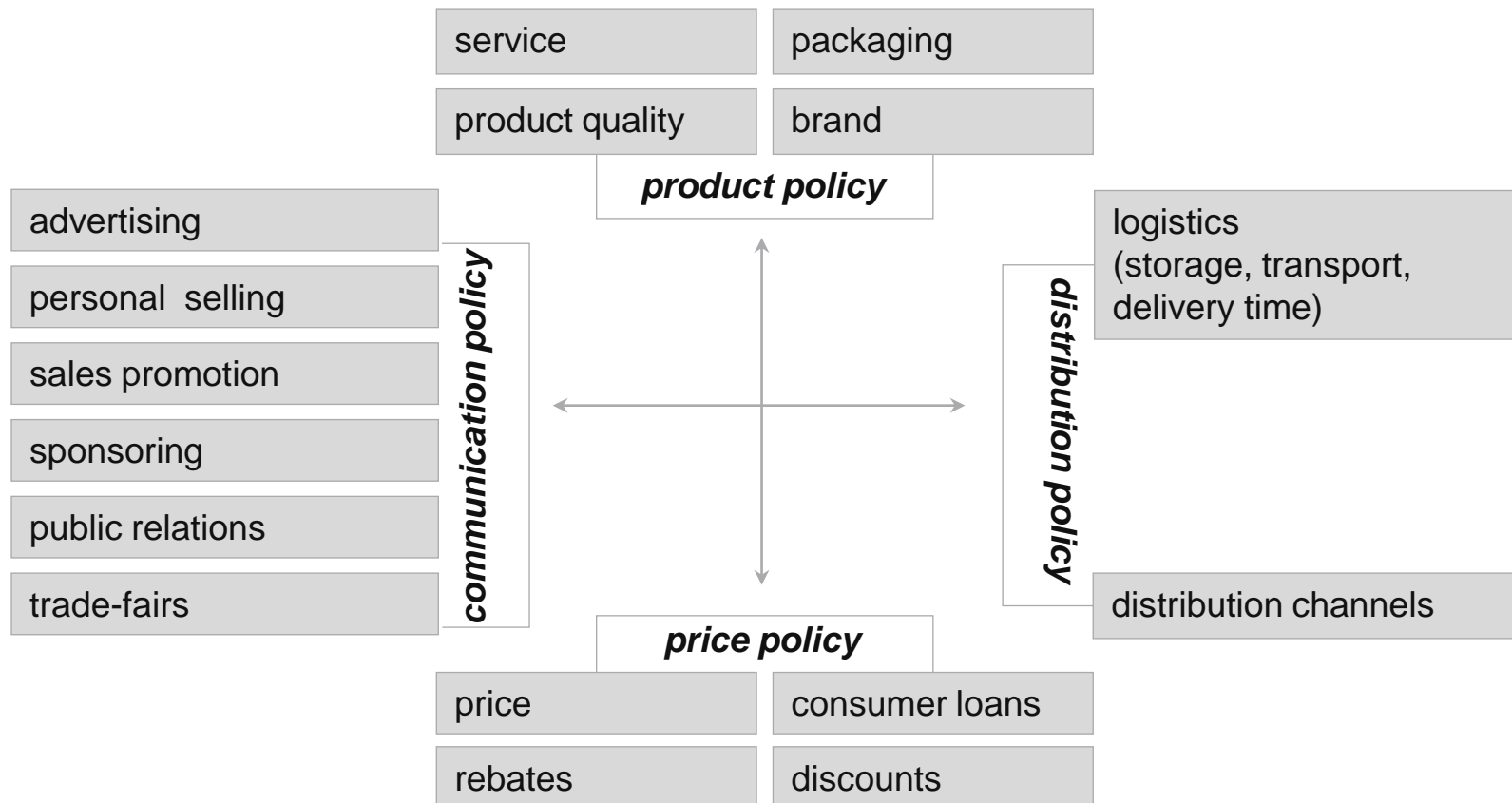
Traditional Marketing :

MARKETING STRATEGIES

The 4 Ps of Marketing



Marketing-Instruments





6 Ps in Marketing

Product - What should or shouldn't you offer? What is your real product?

People - Who uses your product? What do they care about?

Price - Can people afford your product or service? How do they value it?

Place - How do people get to your product? Where is it distributed? How is it delivered?

Production - Can you do what you promise? Can you meet demand? Is your production flexible enough to meet changing needs?

Promotion - How do you let people know what you have? How well does your promotion work?



Entrepreneurial Marketing :

CONCEPTS OF ENTREPRENEURIAL MARKETING STRATEGIES - THE CONCEPT OF GUERRILLA MARKETING



Entrepreneurial Marketing :

THE CONCEPT OF GUERILLA MARKETING

The Concept of Guerilla Marketing

- Also called Low Budget Marketing
- Basic aim: Maximum attention of the target group
 - in spite of a low budget
 - through inventive and fancy ideas
- Execution of Guerilla-Marketing
 - by surprise
 - efficiently
 - in a rebellious and unorthodox manner
 - spectacular



Examples of Guerilla Marketing Strategies

- Word-of-mouth advertising
- Addressing consumers in their everyday work situation, for example via E-Mail
- Sticker and poster campaigns with electrostatic, self-adhesive materials
- „Forehead“-campaigns
- Bluejacking: Sending personal messages via Bluetooth
- Advertisements on cars
- T-Shirts
- Covered advertising
- Advertisements on sales receipts
- Streetbranding: Applications in dirty streets or on walls
- Projection of images, texts or videos in public areas via beamer or laser



What is Guerilla Marketing

- Jay Levinson explains Guerilla Marketing:
- <http://www.youtube.com/watch?v=idGj0FMZHN8>
- Alternatively: The way of Guerilla Marketing
- <http://www.youtube.com/watch?v=RNLAMk6WAcc&feature=related>
- http://www.youtube.com/watch?v=JcuDxT88_Y

Examples of Guerilla Marketing



Coca-Cola:

http://www.youtube.com/watch?v=lqT_dPApj9U

Different Companies:

<http://www.youtube.com/watch?v=5D52OB84Gw&feature=related>

VOLVO:

<http://www.youtube.com/watch?v=L5M4n2qX4yo>



Boundaries of Guerilla Marketing

- Actions are limited in time
- Infringing conventional standards can be counter-productive.
- Aggressive and shocking Guerilla Marketing could act against the moral sentiment of a community
- The boundaries are blurred here.



Secrets According to JayC. Levinson

1. You must have commitment to your marketing program.
2. Think of that program as an investment.
3. See to it that your program is consistent.
4. Make your prospects confident in your firm.
5. You must be patient in order to keep a commitment.
6. You must see that marketing is an assortment of weapons.
7. You must know that profits come subsequent to the sale.
8. You must aim to run your firm in a way that makes it convenient for your customers.
9. Put an element of amazement in your marketing.
10. Use measurement to judge the effectiveness of your weapons.
11. Establish a situation of involvement between you and your customers.
12. Learn to become dependent upon other businesses and they upon you.
13. You must be skilled with the armament of guerrillas, which means technology.



Entrepreneurial Marketing :

THE AMBUSH MARKETING CONCEPT



The Concept of Ambush Marketing

- Also called Freeride-Marketing
- A company uses an event which is sponsored by another company to cause positive effects on their branding without the permission of the sponsoring company
- Both companies are competitors
- Ambush Marketing mostly takes place at big sport events like the FIFA Football Worldcup or the Olympic Games.



Examples of Ambush Marketing

- K-Swiss at the Paris Open :
- <http://www.youtube.com/watch?v=n9g2ZF4a1j4>

Instruments of protection against Ambush-Marketing



- Possibilities arise from:
 - Domiciliary Rights of the sponsor
 - Copyright and related rights
 - Competition Law



Entrepreneurial Marketing : **VIRAL MARKETING**



The Concept of Viral Marketing

- Viral Marketing uses social networks like Facebook etc. to gain brand awareness.
- Information about the product passes virally from human to human
- A low-cost marketing method which is very efficient



Examples of Viral Marketing

Hotmail

When Hotmail launched, much of its early success was due to the virality of the signline that it attached to every outgoing email inviting the recipient to join. This is one of the earliest examples of viral marketing on the internet.



Entrepreneurial Marketing :

CASE: NANTUCKET NECTARS



Questions:

1. Which Marketing strategy did the founders use and why ?
2. Why do you think the founders were so successful?
3. What can you learn about Guerilla Marketing from this case?

Growth and Growth Management

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1. Growth and Growth Management: Basic Principles

1.1. Concept of Enterprise Growth

1.2. Systematization of Different Types of Growth

1.3. Selected Growth Models

2. Growth Objectives

3. Growth Analysis



Overview

4. Growth Strategies

- 4.1. Concept and Forms of Growth Strategies
- 4.2. Internal Growth Strategies
- 4.3. External Growth Strategies
- 4.4. Co-operative Growth Strategies



1. GROWTH AND GROWTH MANAGEMENT:

1.1. CONCEPT OF ENTERPRISE GROWTH

1.1 Concept of Enterprise Growth

Criterion	Forms of Growth		
<i>Type of Growth</i>	Quantitative		Qualitative
<i>Degree of Co-operation</i>	Internal	Co-operative	External
<i>Geography</i>	Ethnocentric	Polycentric	Geocentric
<i>Value Chain</i>	Forward Integration	Diversification	Backward Integration
<i>Customer Group</i>	Regular Customers		New Customers
<i>Distribution Channel</i>	Direct		Indirect
<i>Product Development</i>	Own Development	Co-operation	Licensing

1.1 Concept of Enterprise Growth

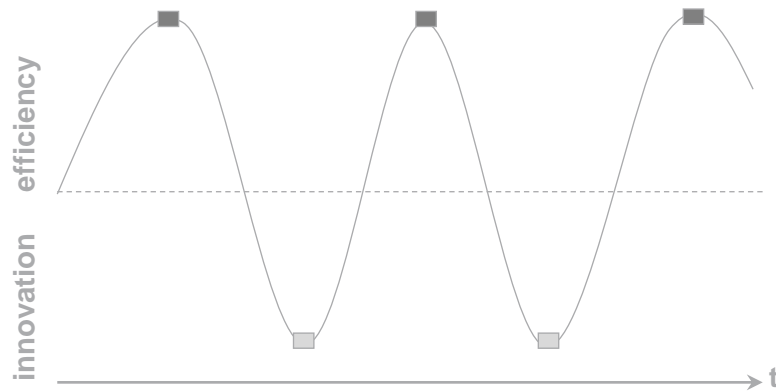
Growth: Flexibility and Efficiency

- **Basic Challenge:**
 - to increase turnover and earnings at the same time
- **Achieve by:**
 - Combining flexibility (innovation) and efficiency within the organization and its strategies and structures (discrepancies exist)
- **Possible Solution according to Gomez/ Raisch/ Rigall (2007)**
 - Cyclic Change
 - Spatial Separation
 - Parallel Organization
 - Integrated Networks

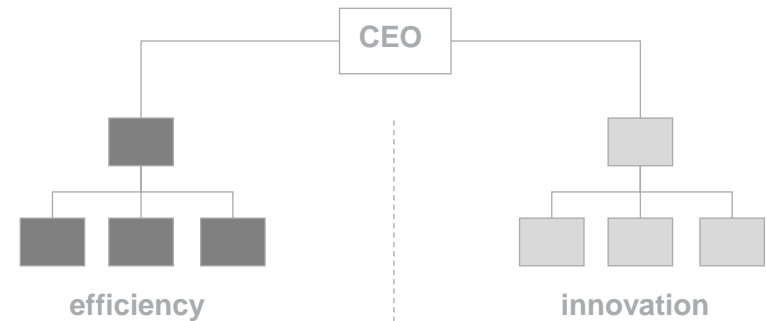
1.1 Concept of Enterprise Growth



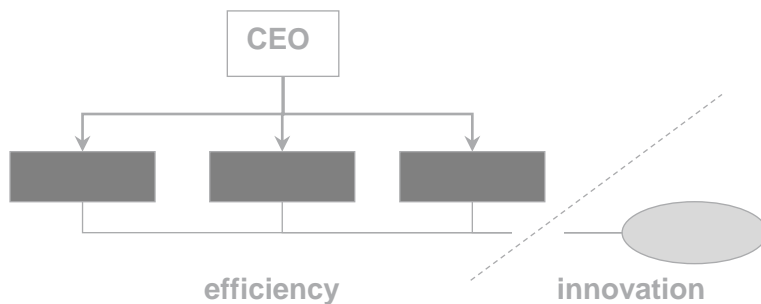
cyclic change



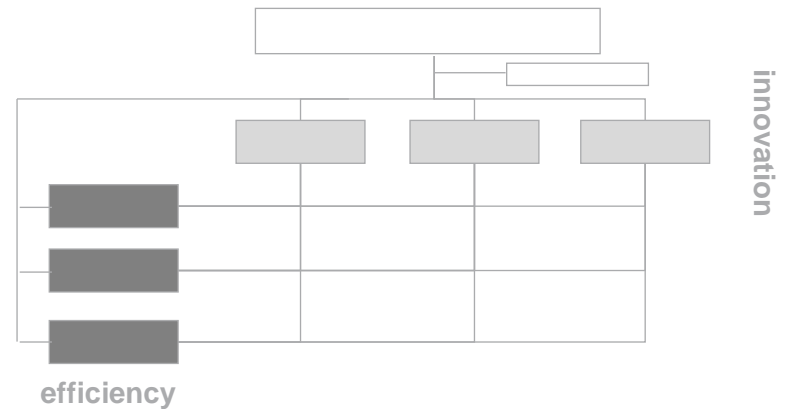
spatial separation



parallel organization



integrated networks



Basic structures of organizational growth

1.1 Concept of Enterprise Growth



Quantitative Growth

- Comprises the increase of measurable variables:
 - Sales, turnover, market share, profit, capital, number of employees, number of patent applications etc.
- Problems of Measuring:
 - Choosing the right variables
 - Identifying the variable which influences future profits and value increase potentials

1.1 Concept of Enterprise Growth

Gazelles and Mice

- Gazelles
 - Rapidly growing young enterprises
 - Generate many new jobs
 - Exploit entrepreneurial opportunities with substantial growth
- Mice
 - SMEs which only employ one or two other persons.



1.1 Concept of Enterprise Growth

Source	Definitions
Eisenhardt/ Schoonhoven (1990)	At least 100 Mio. \$ in annual sales An average annual growth rate of at least 20 % or more
Siegel/Siegel/ MacMillan (1993)	Compound annual sales growth of more than 25 % for at least three consecutive years
Babson College [zitiert nach Timmons (1999)]	Sales of at least 1 Mio. \$ and growing of 30 % per year
National Commission on Entrepreneurship (2001)	High employment growth (at least 15 % for five years, or 100 % in five years)
Kauffman Center [quoted after Dowling/Drumm (2003)]	Increase in sales of at least 30 % p.a. Or Employment growth of at least 20 % in the three preceding years
Barringer/Neubaum/ Jones (2005)	3-year compound annual growth rate of 80 % or higher

Definition of Fast Growth



1.1 Concept of Enterprise Growth

Qualitative Growth

- Increase in the economic vitality of the enterprise with regard to not directly quantifiable criteria or indicators
- The improvement of the outputs of enterprise activity without a change in enterprise size relative to the enterprise inputs
- Examples for qualitative variables:
 - Management competence
 - Innovations
 - Quality of Employees
 - Sustainability in enterprise development
- Qualitative Growth is difficult to measure



1.1 Concept of Enterprise Growth

Gazelles

- The definitions of gazelles in entrepreneurship literature are numerous and varying
- Having analyzed the definitions, we can distinguish **structural, quantitative and performance-oriented criteria**. The ***structural aspects*** can in turn be summarized in four postulations which are not mutually exclusive. These require that gazelles are
 - (1) owner-operated enterprises,
 - (2) Small or medium-sized enterprises (SME),
 - (3) independent enterprises,
 - (4) start-ups or young companies.

1.1 Concept of Enterprise Growth



Eisenhardt & Schoonhoven (1990)	100 Mio. USD annual turnover and an average annual growth rate of at least 20%
Siegel, Siegel & MacMillan (1993)	Annual growth in sales of at least 25 % in three successive years
Birch et al. (1994)	Companies with an annual turnover growth of at least 25%
Malizia & Winders (1999)	At least 20 new jobs within the first 5 years after business formation
Timmons (1999)	At least 1 Mio. USD annual turnover and annual turnover growth rate of 30%
National Commission on Entrepreneurship (2001)	At least 15 % increase in number of employees within 5 successive years or general growth of at least 100 % within 5 years
Storey (2001)	Annual growth rates of at least 25 % over 4 years for companies with an annual turnover of 5-10 million BGP or at least 15 % for companies with a turnover of 10-100 million GBP
Delmar et al. (2003)	Companies which rank among the top 10 % of all companies with regard to at least one of six growth indicators, which are: 1) absolute increase in number of employees (total), 2) absolute increase in number of employees (from organic growth processes), 3) absolute turnover growth, 4) relative increase in number of employees (total), 5) relative increase in number of employees (from organic growth processes) 6) relative turnover growth

1.1 Concept of Enterprise Growth



Kauffman Center (zit. Dowling & Drumm 2003)	At least 30% annual growth and /or annual increase in number of employees of at least 20 % over 3 years
Littunen & Tohmo (2003)	Companies which at least double their size with a 4 year period
Barringer & Jones (2002) Barringer et al. (2005)	Average annual growth rate of at least 80% over 3 years
Nicholls-Nixon (2005)	At least 20 % annual growth over at least 4 successive years
Hoffmann & Junge (2006)	At least 60 % increase in number of employees within three years
EUROSTAT-OECD (2007)	Average annual growth rate of at least 20% in turnover or number of employees, and at least ten employees 3 years after business formation
Lesonsky (2007)	Owner-operated companies which earn an average annual turnover of at least 233.757,00 USD per employee regardless of the company's age or number of employees
Autio (2007) (Global Entrepreneurs. Monitor)	New companies (< 5 years), which are still owner-operated and have reached a number of at least 20 employees



1.1 Concept of Enterprise Growth

Critical Review

- **Qualitative aspects** are mainly defined through explicit requirements concerning growth and size.
- Growth= relative or absolute increase in turnover and number of employees
- Performance-related aspects are hardly ever included in the definitions.



1.1 Concept of Enterprise Growth

Critical Review

- The minimum requirements with regard to quantitative growth or size criteria seem to have been selected rather *randomly* and consequently are quite *different*.
- For example:
 - Turnover ranging from 1 million USD to 100 million USD
 - Number of employees ranging from at least five, ten or 20 – 50 to 100 or even 499
 - The annual turnover growth rate varies from 20% to 100% and is to be achieved within a period of three to five years



1.1 Concept of Enterprise Growth

Critical Review

- With regard to growth rates, the question always is at which level such growth starts.
- Ex post investigations have shown that only very few gazelles had consistently high growth rates over a period of several years.
- Most gazelles do not follow an unbroken or linear growth path. Research has shown that growth rates speed up, slow down or undergo more radical changes.
- Another critical point is that size is not viewed in relation to the respective industry



1. GROWTH AND GROWTH MANAGEMENT:

1.2. SYSTEMATIZATION OF DIFFERENT TYPES OF GROWTH

1.2. Systematization of Different Types of Growth



1.2.1. Internal Growth

1.2.2. External Growth

1.2.3. Co-operative Growth

1.2.1. Internal Growth



- Growth within the enterprise through its own internal process of value creation.
- It is the base of future growth
- Internal growth should be the primary growth because it secures the enterprise 's capability to survive.

1.2.2. External Growth



- Outside the internal value creation process
- Forms of external growth:
 - acquisition
 - merger
 - forming business trusts
- Targets of external growth:
 - increase turnover and profit
 - achieve of synergy effect
 - geographical extension of an enterprise
 - entry in new markets
 - pursuing a diversification strategy

1.2.3. Co-operative Growth



- Hybrid form of strategy between internal and external growth paths which is achieved via the utilization of formal or informal network structures or individual relationships.
- **Primary aim:** acquisition and employment of complementary resources
- Forms of Co-operations:
 - Joint ventures
 - Strategic alliances
- Areas of Co-operations:
 - Licensing, R&D, outsourcing

1.2.3. Co-operative Growth



Growth Motives	Potential Aims
Resource-orientation	<ul style="list-style-type: none">• Technology access• Compensation of limited resources
Time-orientation	<ul style="list-style-type: none">• Shortening of R&D as well as the product introduction cycles• Know-how-transfer
Cost-orientation	<ul style="list-style-type: none">• Reduction of fix costs• Exploitation of economies of scope• Generation of a critical enterprise size
Market-orientation	<ul style="list-style-type: none">• Access to markets• Overcoming market entry barriers• Extension of product range



1. GROWTH AND GROWTH MANAGEMENT:

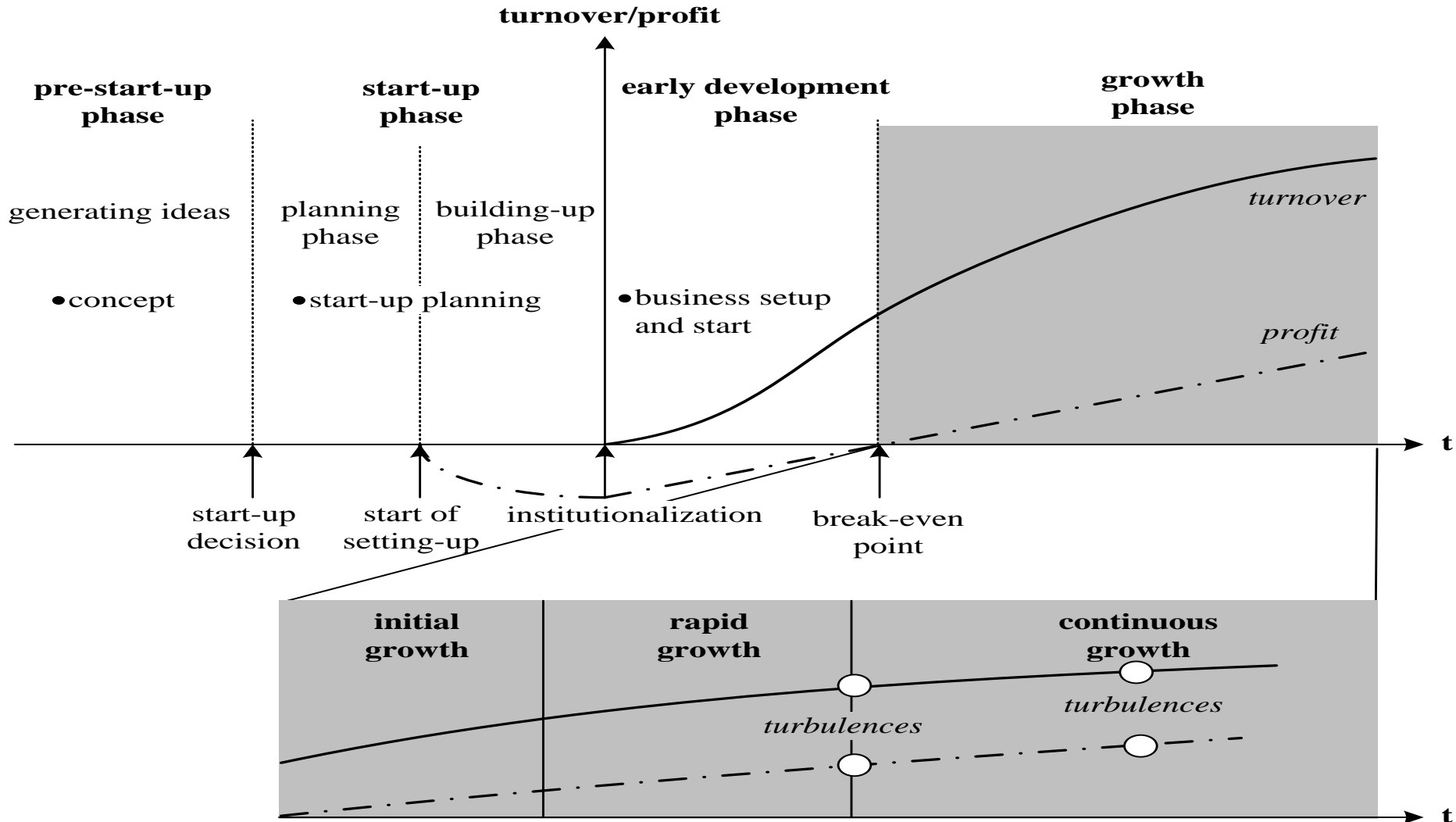
1.3. SELECTED GROWTH MODELS

1.3. Selected Growth Models



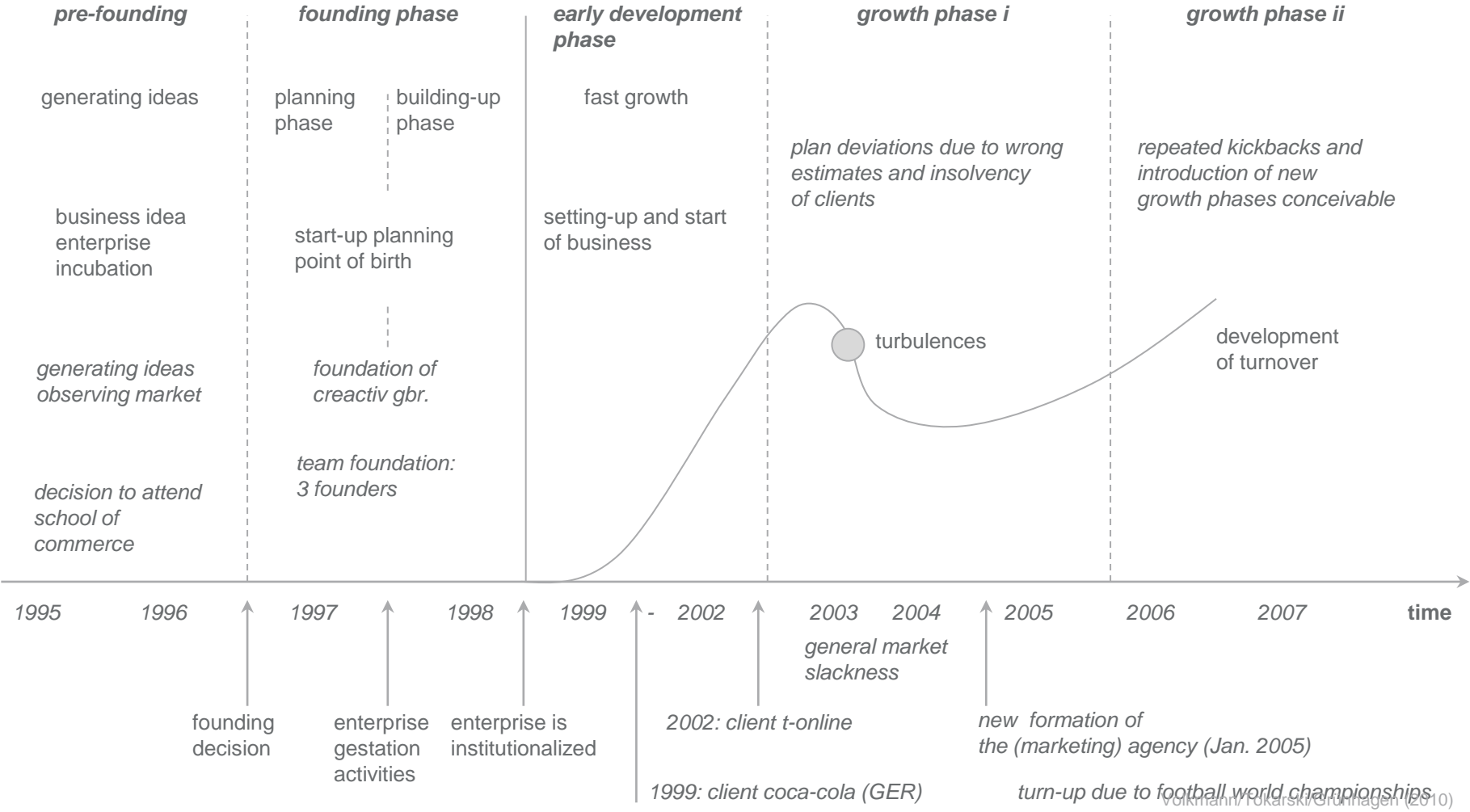
- Growth Models describe and explain the growth of enterprises
- Life-cycle and Phase Model:
 - Integrated life–cycle Model (evolutionary)
 - Greiner ´s Growth Model (revolutionary)
 - Complexity Management Model (process model)

1.3. Selected Growth Models



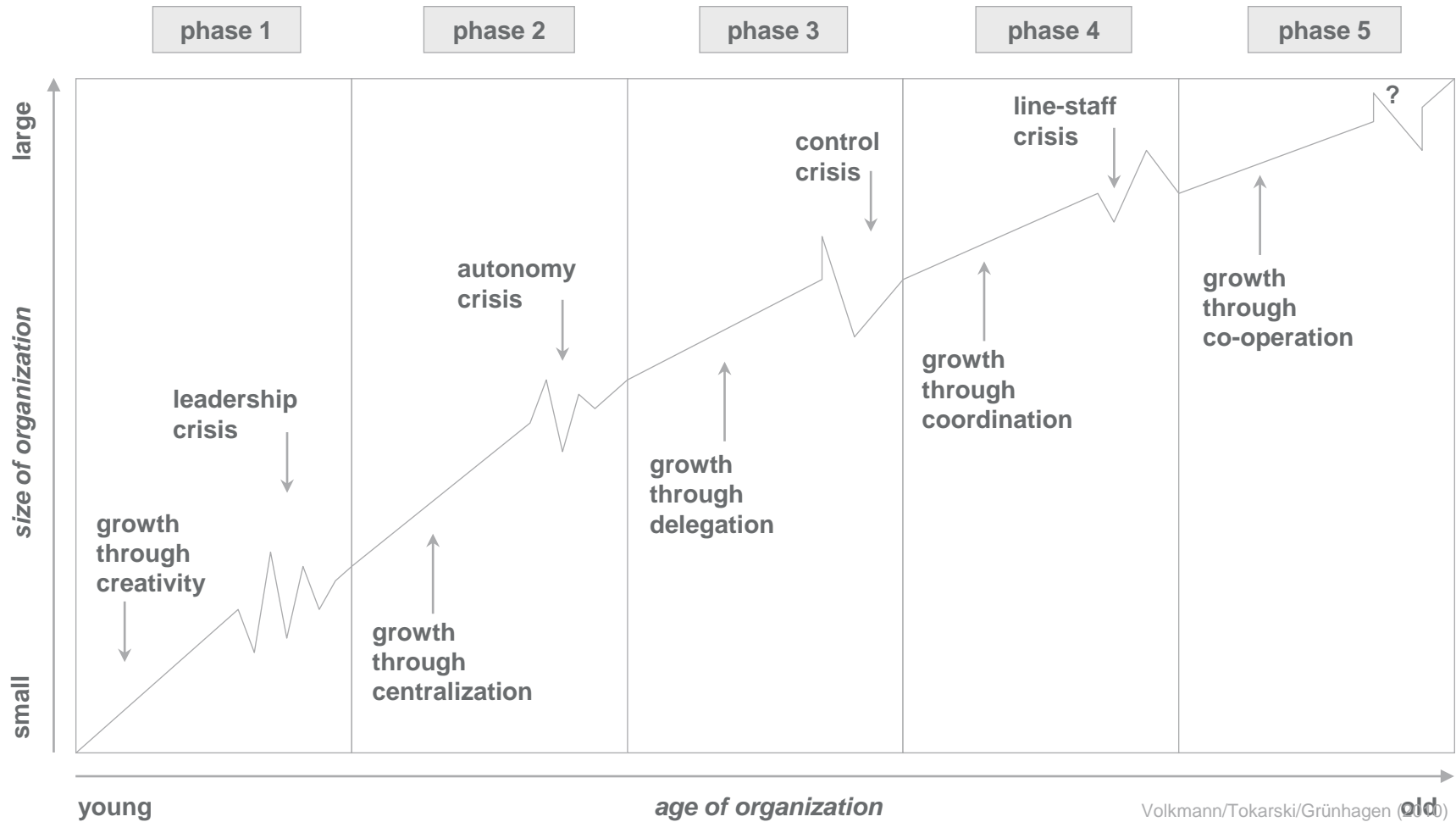


1.3. Selected Growth Models

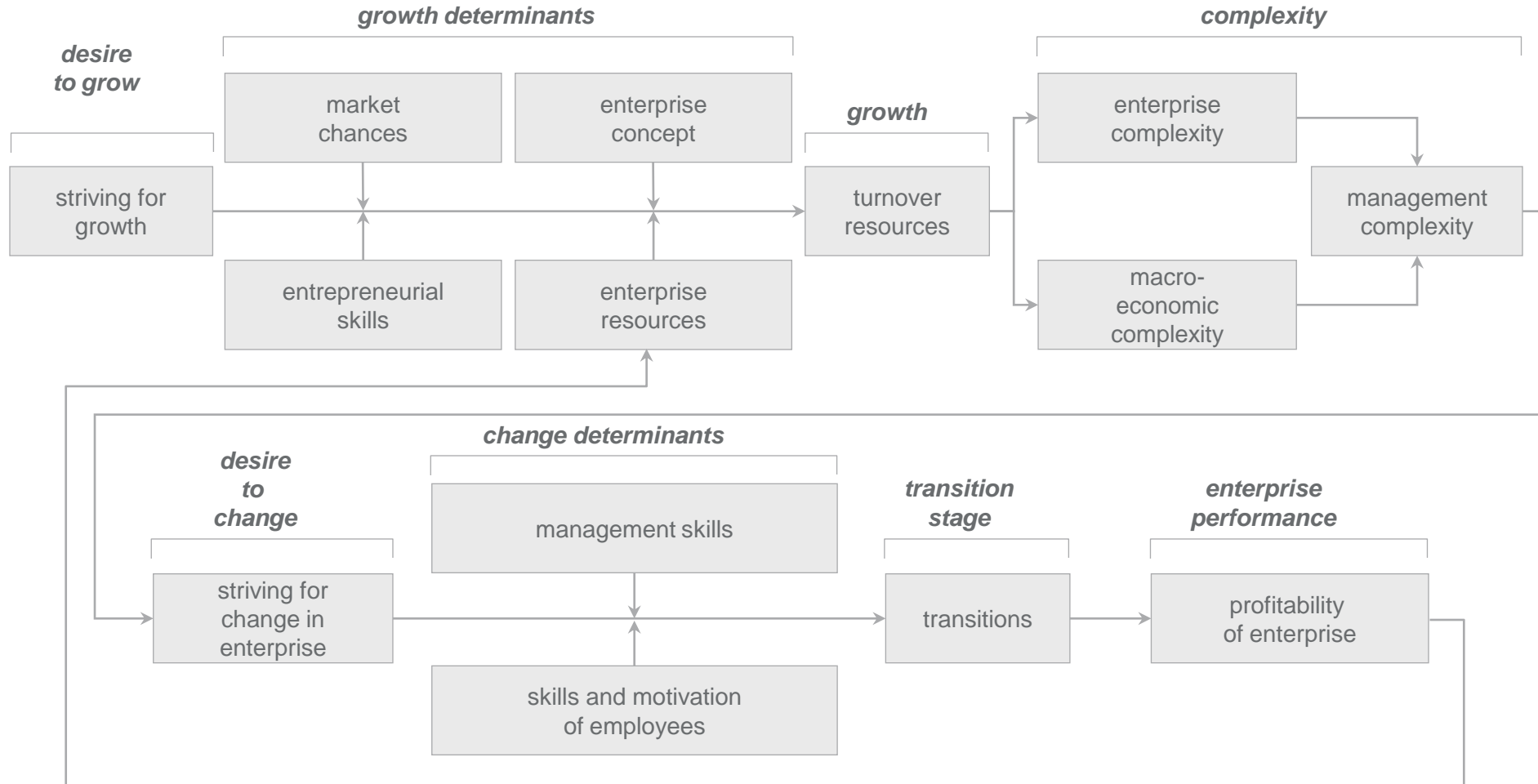


Volkmann, Fokarski, Grünhagen (2010)

1.3. Selected Growth Models



1.3. Selected Growth Models





2. GROWTH OBJECTIVES

2. Growth Objectives

- Operative Targets:
 - Instance targets
 - Production targets
 - Sales targets
- Strategic Targets:
 - Increase of one 's market share by a defined percentage
 - Increase of shareholder value



2. Growth Objectives

- Growth Targets are assigned to the overall goals of the enterprise.
- Quantitative Growth Targets: (all targets for the growth of a measurable variable by an absolute or relative amount)
 - Increase in sales
 - Increase in market share
 - Increase in turnover



2. Growth Objectives

- Qualitative Growth Targets: (refer to not directly quantifiable criteria or indicators)
 - Improvement of the quality of customer relations
 - Increase in the motivation of the employees
 - Improvement of management competences



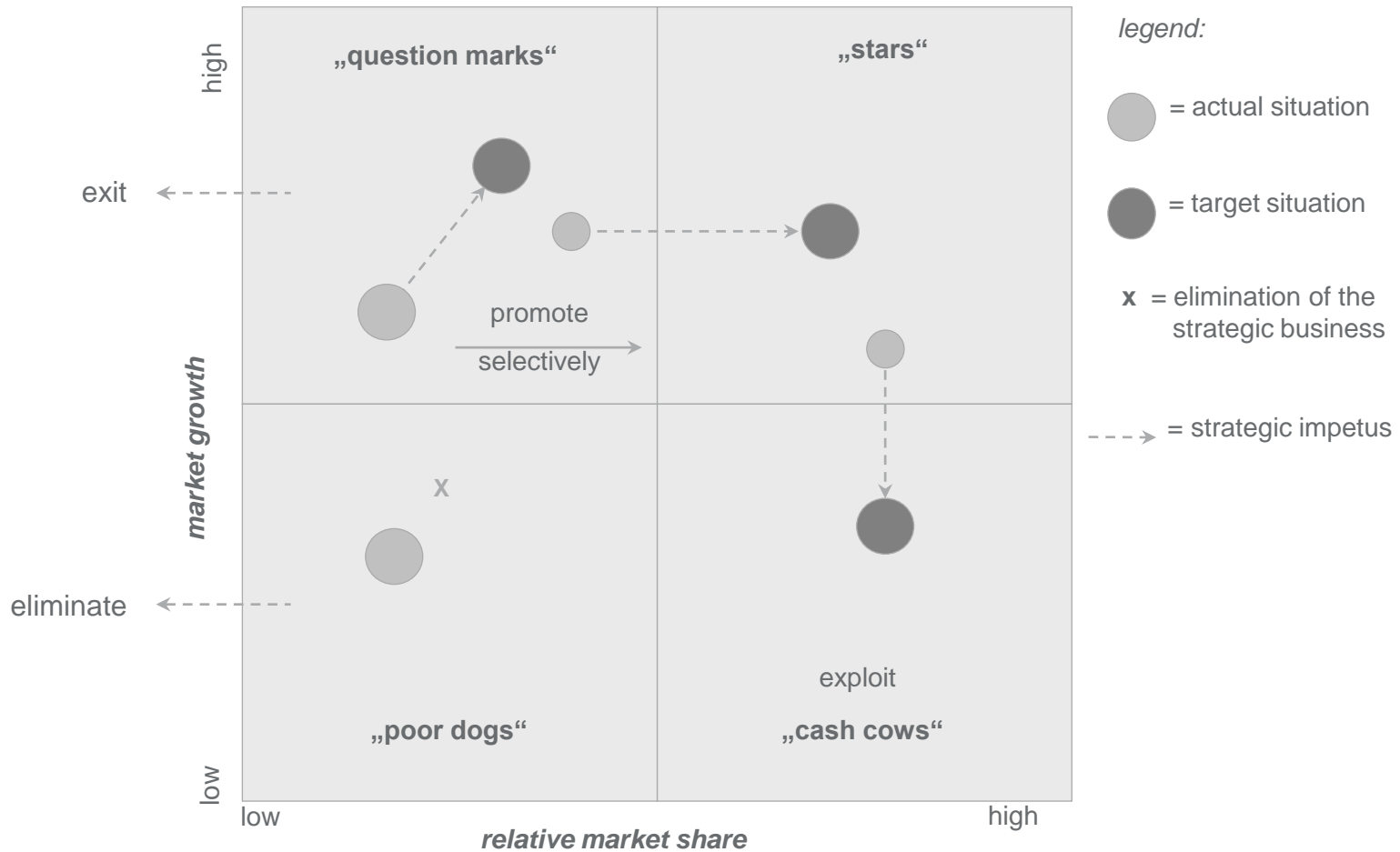
3. GROWTH ANALYSIS



3. Growth Analysis

- Strategic aspects of growth planning are regarded as difficult by the founders
- Often founders see their enterprise as unique and outstanding, transfiguring reality³
- Before suitable strategy alternatives are developed, target orientated analysis of growth possibilities and options are necessary
- Instruments:
 - a) Portfolio Analysis (Market Growth-Market Share Matrix)
 - b) ERRC Grid
 - c) SWOT-Analysis

3. Growth Analysis



Volkmann/Tokarski/Grünhagen (2010)

Market Growth-Market Share Matrix

3. Growth Analysis

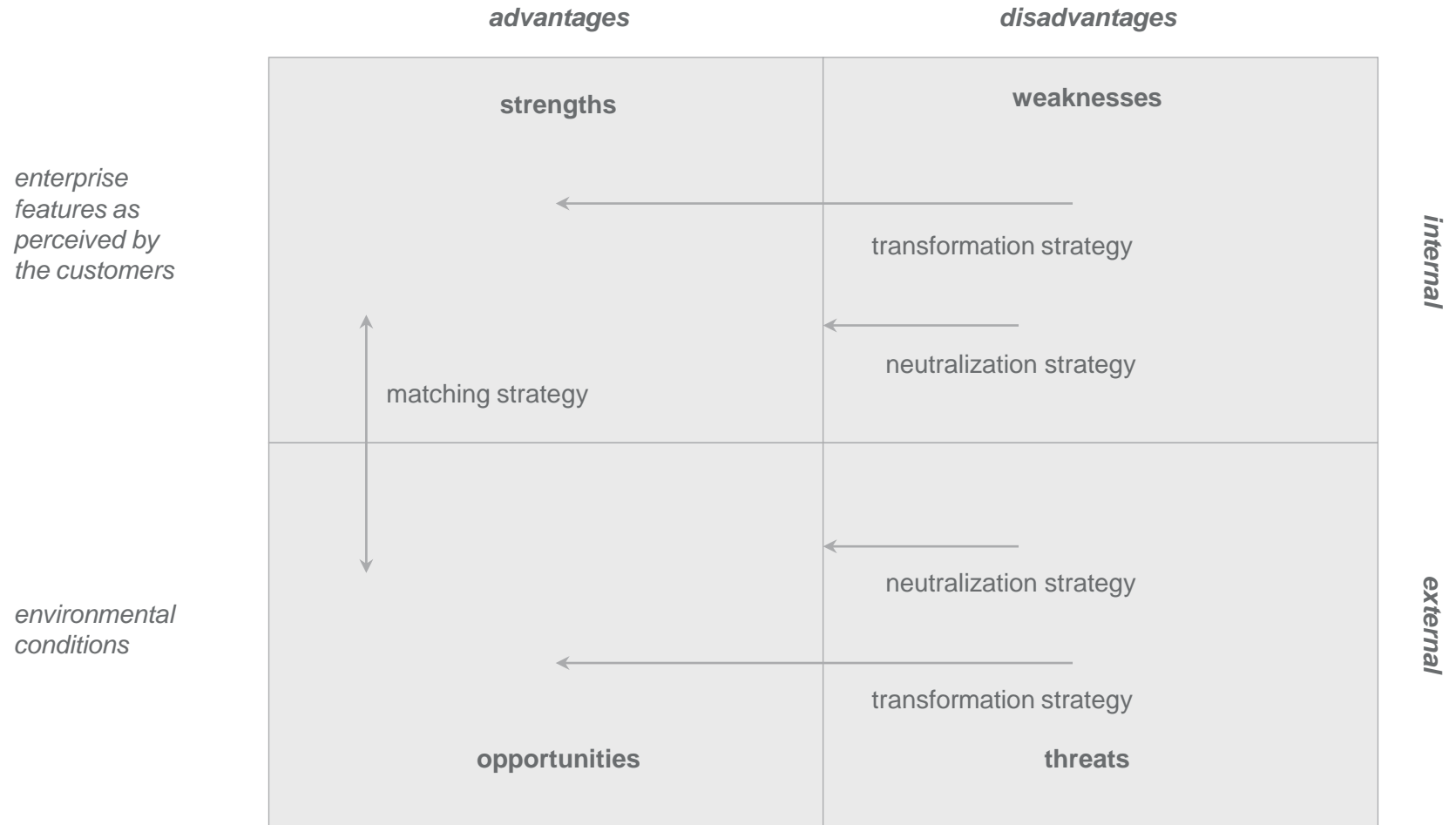


<p><i>Eliminate</i></p> <ul style="list-style-type: none">▪ Star performers▪ Animal shows▪ Aisle concession sales▪ Multiple show arenas	<p><i>Raise</i></p> <ul style="list-style-type: none">▪ Unique venue
<p><i>Reduce</i></p> <ul style="list-style-type: none">▪ Fun and humor▪ Thrill and danger	<p><i>Create</i></p> <ul style="list-style-type: none">▪ Theme▪ Refined environment▪ Multiple productions▪ Artistic music and dance

Volkmann/Tokarski/Grünhagen (2010)

ERRC Grid

3. Growth Analysis



Volkmann/Tokarski/Grünhagen (2010)

Strategy development through SWOT Analysis



4. GROWTH STRATEGIES



4. GROWTH STRATEGIES

4.1. CONCEPT AND FORMS OF GROWTH STRATEGIES



4.1. Concept and Forms of Growth Strategies

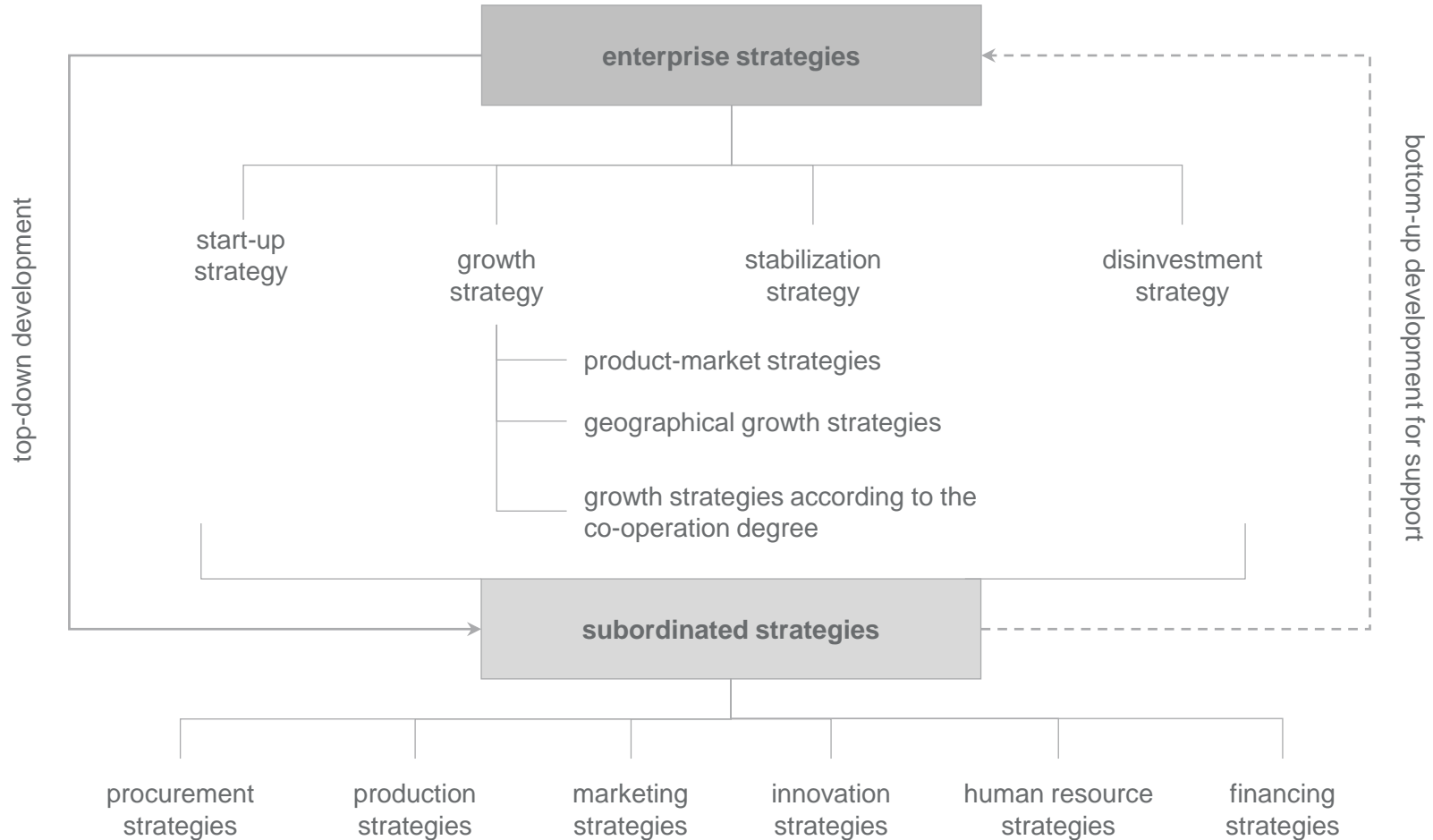
- **Enterprise Strategies:** purposeful and target-oriented procedures and alternatives for achieving objectives
- Enterprise Strategies define the strategic position and direction of an enterprise
- **ATTENTION:** Striving for long-term and sustainable enterprise success takes precedence over short-term profit maximization



4.1. Concept and Forms of Growth Strategies

- Different Forms of Growth Strategies:
 1. Start-up Strategy
 2. Growth Strategy
 - Product-Market Strategies
 - Geographical Growth Strategies
 - Growth Strategies according to the criterion of co-operation (internal, external, co-operative)
 3. Stabilization Strategy
 4. Disinvestment Strategy

4.1. Concept and Forms of Growth Strategies



Development Process of Enterprises and Growth Strategies



4.1. Concept and Forms of Growth Strategies

		markets (target groups)	
		old/present	new
products		old/present	new
old/present	<p>market penetration</p> <ul style="list-style-type: none"> ▪ sales intensification ▪ acquiring new customers ▪ crowding out competition ▪ increase in market share 	<p>market development</p> <ul style="list-style-type: none"> ▪ opening-up of new additional markets ▪ new target groups (new segments, new territories, new uses) 	
new	<p>product development</p> <ul style="list-style-type: none"> ▪ internal development ▪ innovations ▪ contract development ▪ licences ▪ replacement of products 	<p>diversification</p> <ul style="list-style-type: none"> ▪ horizontal (neighbouring products) ▪ vertical (alongside the value chain; downwards/upwards) ▪ lateral (completely new products) 	

Volkman/Tokarski/Grünhagen (2010)

Product-Market-Combination Matrix

4.1. Concept and Forms of Growth Strategies

Geographical Growth Strategies

- Ethnocentric Growth Strategies:
 - local, regional, national
 - primary strategy for young enterprises
 - basis for the realization of further growth strategies
 - Poycentric growth Strategies:
 - international
 - Geocentric Growth Strategies:
 - global
- Take into account formal and informal rules, technical and economic situation into account



4.1. Concept and Forms of Growth Strategies

Growth Strategies according to the Criterion of Co-operation

- Internal Growth Strategies
- External Growth Strategies
- Co-operative Growth Strategies



4. GROWTH STRATEGIES

4.2. INTERNAL GROWTH STRATEGIES

4.2. Internal Growth Strategies

- **Internal (organic) Growth** → a young enterprise grows through its own strength and own resources
- It is the basis of entrepreneurial activities
- Internal Growth Strategies:
 - Increase the production and sales of existing products
 - Product Innovation
 - Opening-up of new markets

4.2. Internal Growth Strategies



Factors influencing Internal Growth

- Young enterprises often must realize growth through focusing on their own strength as well as their own resources
- Influencing factors are:
 - Core Competences
 - Well-founded Business Plan
 - Liquidity



4. GROWTH STRATEGIES

4.3. EXTERNAL GROWTH STRATEGIES

4.3 External Growth Strategies

- Are usually pursued by young enterprises in their later growth phase
 - External Growth Strategies:
 - Merger: voluntary combination of two previously legally independent enterprises
 - Acquisition: purchase of a legally independent enterprise by another enterprise
- The boundaries between Merger and Acquisition may be blurred

4.3 External Growth Strategies

Mergers & Acquisitions

- Motives:
 - Turnover Growth
 - Access to new markets or technologies
 - Utilization of synergy effects
 - Extension of the product and service range
- Advantages:
 - Fixed costs degression effects (economies of scale)
 - Utilization of synergy effects (economies of scope)

4.3 External Growth Strategies



Mergers & Acquisitions

- Disadvantages:
 - Possible acquisition and re-organization costs
 - Incompatibility of different resources
 - Incompatibility of different enterprise culture

4.3 External Growth Strategies



Takeover Process

1. Identify suitable enterprises
2. Initial screening of selected and listed targets (market analysis)
3. First contact with the target
4. Ascertain if the target company is interested in sale
5. Gain information about the target
6. Creation of a first financing concept for the takeover
7. Achievement of a basic agreement about further proceedings
 - Feasibility Study, Identification of Deal Breakers etc.
8. Due Diligence and evaluation of the enterprise
9. Contract Negotiations

4.3 External Growth Strategies

Due Diligence

- Means literally „necessary care“
- Detailed analysis and examination of the potential target
- Aim of the Due Diligence process:
 - Exposure of hidden strength and weaknesses, opportunities and risks
 - A systematic and and comprehensive analysis of the target to get information for further decisions
 - Identification of deficiencies which may reduce the purchase price



4.3 External Growth Strategies

Sub-areas of the Due Diligence process



Volkmann/Tokarski/Grünhagen (2010)

4.3 External Growth Strategies



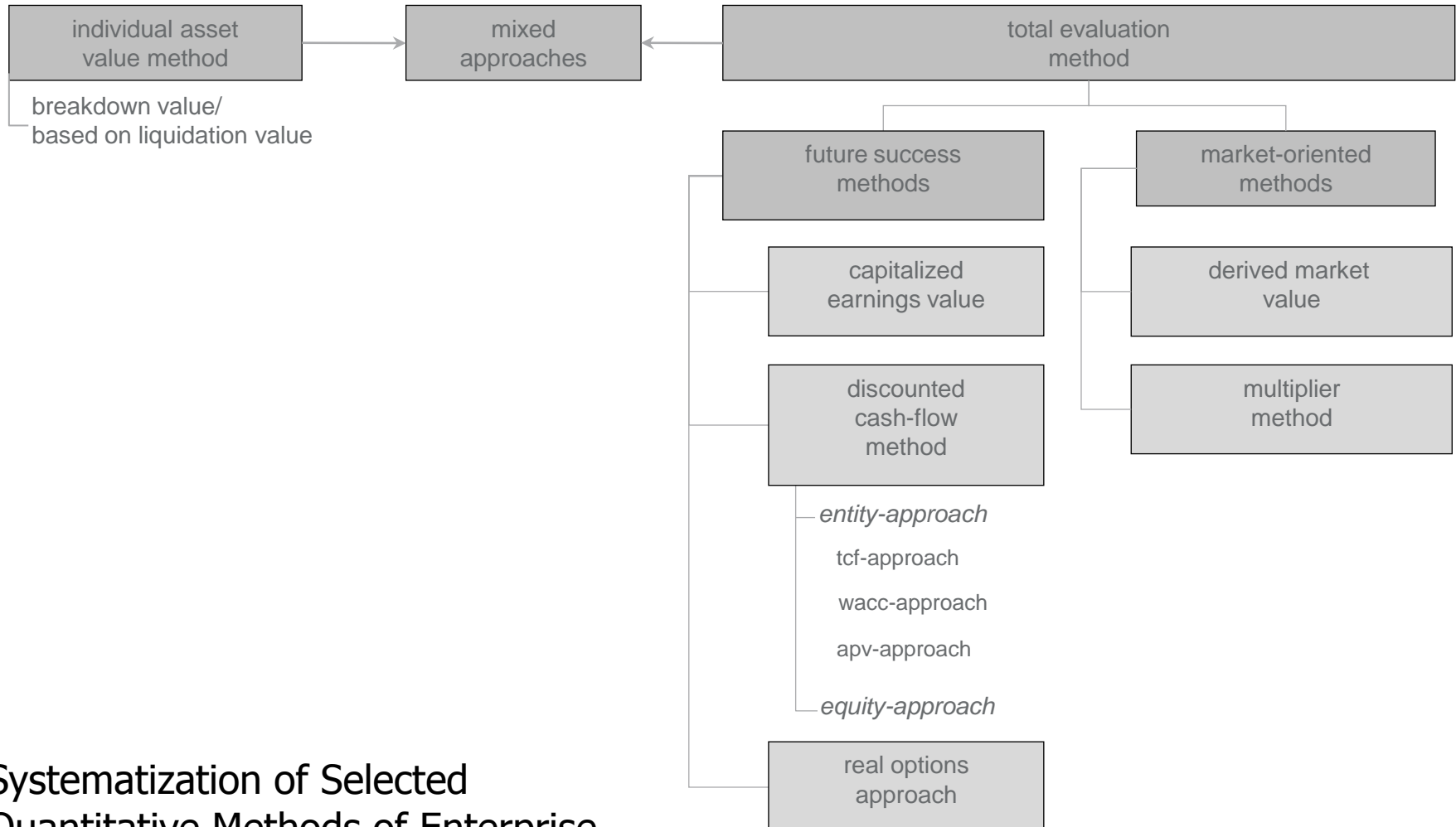
Enterprise Valuation

Price is what you pay, value is what you get

- Enterprise Value:
 - the price expectations of the seller and the buyer's readiness to pay
- However: a systematic and careful enterprise valuation can form a sound basis for the purchasing price negotiations.



4.3 External Growth Strategies



Systematization of Selected
Quantitative Methods of Enterprise
Valuation



4. GROWTH STRATEGIES

4.4 CO-OPERATIVE GROWTH STRATEGIES

4.4 Co-operative Growth Strategies

- **Co-operation** → two economically and legally independent enterprises work together with the purpose of reaching a common goal
- Targets:
 - Increase of market share
 - Improvement of competitive position
 - Risk reduction
- In contrast to “going it alone”, the cooperating enterprises strive to reach a higher level of success
- Labor division according to contractual agreements

4.4 Co-operative Growth Strategies

- Advantages:
 - Improved market or resource access
 - Cost reduction
 - Effective utilization of technologies
 - Better access to capital
 - Time advantage
- Disadvantages:
 - Absorption of know-how through one of the partners
 - Dependence of the young partner



4.4 Co-operative Growth Strategies

1. Networks
2. Strategic Alliances
3. Joint Ventures
4. Franchising and Licensing

4.4 Co-operative Growth Strategies



4.4.1. Networks

- **Networks** → Connections of a multitude of elements or objectives
- Important Forms:
 - Social Networks: the social networks of the founders or employees are prioritized to build up an overall enterprise network
 - Enterprise Networks:
 - Target: optimization or maximization of their usefulness to the network participants
 - Instrument for realizing growth strategies and accessing tangible and intangible resources

4.4 Co-operative Growth Strategies

Strong ties	Weak ties	Contact with strangers	
<ul style="list-style-type: none"> • Strong, close and reliable network connections • Generate solidarity, predictability and trust • Limited 	<ul style="list-style-type: none"> • Loose, weak network connections • Shorter duration of the network tie • Greater insecurity, lower reliability and opportunism • Bridgework for other network members and strong ties 	<ul style="list-style-type: none"> • Detached, uncommitted, pragmatic relationship • Short time 	<i>Characteristics</i>
<ul style="list-style-type: none"> • Indispensable for the survival of a young enterprise 	<ul style="list-style-type: none"> • Important in change, innovation and diffusion processes during enterprise development 	<ul style="list-style-type: none"> • Significance and added-value is difficult to assess for young enterprises 	<i>Importance for young enterprises</i>

4.4 Co-operative Growth Strategies



Network Relationships



4.4 Co-operative Growth Strategies



4.4.1 Networks

- **Meaning for young enterprises:**
- → Through the active utilization of a network the growth of a young enterprise can be promoted and supported



4.4 Co-operative Growth Strategies

4.4.2. Strategic Alliances:

- An agreement of two enterprises about a co-operation or collaboration
- **No** institutionalization of the co-operation relationship
- Target:
 - Regarding the whole enterprise:
 - Increasing synergy effects (economies of scope)
 - Diversification of risks
 - Regarding specific enterprise business areas:
 - R&D
 - Marketing and distribution
 - Procurement

4.4 Co-operative Growth Strategies

4.4.2. Strategic Alliances:

- Targets of the formation of Strategic Alliances:
 - Strengthening their resource base
 - Improvement of their market and competitive position
 - Combination of the core competences of the individual partners
- Risks of forming Strategic Alliances:
 - Dependency of one partner
 - Information asymmetry



4.4 Co-operative Growth Strategies

4.4.3. Joint Venture

- Co-operation of at least two enterprises in which the formation of a new, legally independent company is carried out to realize co-operative aims
- All the co-operation partners participate financially and legally in the new enterprise
 - The capital investment can be distributed at par or asymmetrical distribution
- Risk: Inflexibility with regard to decision making and implementation

4.4 Co-operative Growth Strategies



4.4.3. Advantages of a Joint Venture

- Financial and material resources are brought in as well as non-material resources, in particular the know-how of the partners
- Possible resources:
 - capital, personnel, buildings, machinery and plants
 - patents, licenses, other protection rights, contracts with customers and suppliers, specific know-how etc.
 - reputation of the partner
 - overcoming market entry barriers
- Generation of competitive advantages
- Diversification of risks



4.4 Co-operative Growth Strategies

4.4.4 Franchising and Licensing

- Franchising can be defined as a distribution system organized as vertical co-operation between legally independent enterprises.
- “The franchisor sells to the franchisee the right to do business under a name, the right to a product, a process, or service; training and assistance in setting up the business, as well as ongoing marketing and quality control support once the business is established” [Allen (2003), p. 404].
- Franchising operates according to the principle of “once designed and x-times sold” [Müller (2005)].
- The franchisor offers to the franchisee technical and managerial support and ensures the planning, implementation and control of the business system.

4.4 Co-operative Growth Strategies

4.4.4 Franchising and Licensing

The **primary services of the franchisor** consist in the following points:

- Definition and development of a procurement, distribution and organization concept
- Provision of the privileges to use protection and proprietary rights (patents, licences, brand names)
- Training of the franchisee
- Obligation to support the franchisee actively and continuously with regard to business administration and technology
- Continued further development of the business idea

4.4 Co-operative Growth Strategies



4.4.4 Franchising and Licensing

Primary services of the franchisee:

- Entrepreneurial activity in one's own name and on one's own account
- Obligation to use the franchise package and to pay a franchise fee
- Provision and employment of labour, capital and information

4.4 Co-operative Growth Strategies

4.4.4 Franchising and Licensing

Criteria	Discussion
Preamble	<ul style="list-style-type: none"> • Basic principles, development
Subject of the franchise contract	<ul style="list-style-type: none"> • National and international business figures • Leadership and product/service range • Rights of use and industrial protection rights
Contract territory	<ul style="list-style-type: none"> • Territory and customer protection
Rights and obligations of franchisor	<ul style="list-style-type: none"> • Detailed representation of know-how • Initial training and further training • Marketing, controlling and further development of the concept
Rights and obligations of franchisee	<ul style="list-style-type: none"> • Representation of the creative freedom of the franchisee • Types and conditions of procurement obligations • Payment of franchise fee • Provision of labour, capital and information
Contract duration, cancellation	<ul style="list-style-type: none"> • Mostly 5-10 years (reason: start financing) • Cancellation rules (franchisor and franchisee)
Revocation right	<ul style="list-style-type: none"> • Right of withdrawal and contractual consequences of revocation



4.4 Co-operative Growth Strategies

4.4.4 Franchising and Licensing

The following questions may be of use for business founders considering to start a franchise business:

- Is the franchisee in a position to meet the sometimes restrictive requirements of the franchisor?
- How comprehensive or restrictive are the franchise concept, the franchise hand-book and the contract?
- How detailed and credibly does the franchisor present the growth prospects of the franchise concept?
- Can the system be imitated in an independent form?
- What is the unique selling proposition and competitive advantage of the franchise concept?
- Has the franchise concept already been tested on the market and, if yes, to what extent?
- How successful are individual franchisees?

For further information about franchising please refer to the European Franchise Federation [www.eff-franchise.com].



4.4 Co-operative Growth Strategies

4.4.4 Franchising and Licensing

- “Like franchising, licensing is a way to grow a company without investing large amounts of capital in plant, equipment, and employees” [Allen (2003), p. 407].
- The concepts of franchising and licensing are not always clearly distinguished. In principle, the degree of independence of the entrepreneurial activity can be used as indicator to distinguish between the two concepts.
- In licensing, the licensor gives the licensee a licence, e.g., for the manufacture or distribution of a product or a service [Allen (2003)].
- The entrepreneurial use of a licence is usually controlled less strictly than in franchising.

4.4 Co-operative Growth Strategies



4.4.4 Franchising and Licensing

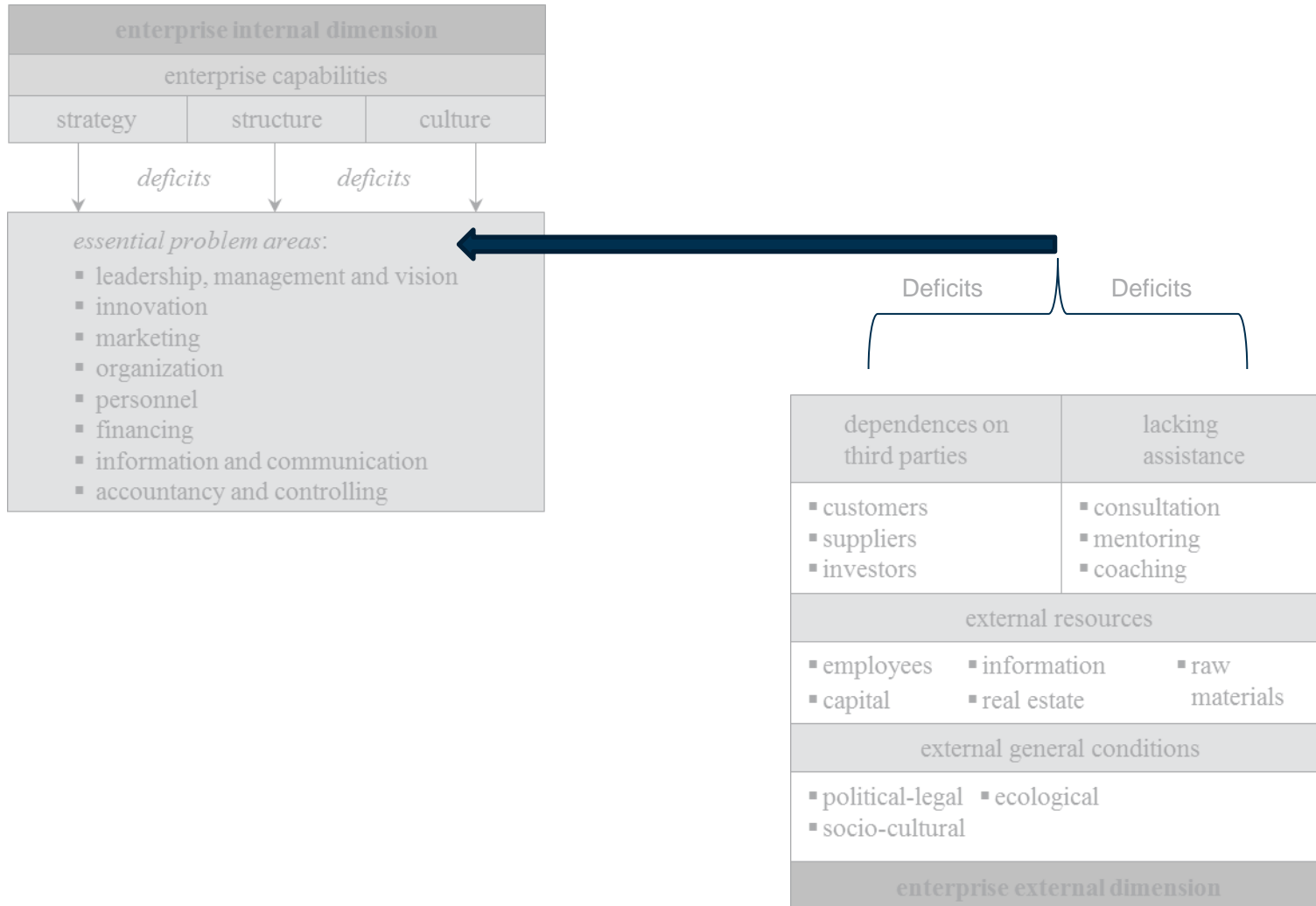
The following questions can help to structure and evaluate licensing:

- Are the technologies to be licensed protected by industrial protection rights?
- Which partners are suitable to contribute to the growth of the enterprise through licensing?
- How strong is the mutual dependence of the contract partners in a licensing agreement?
- Is there a risk for the licensor of losing know-how or technology to the licensee?
- Which strategy for market development will be best and how many licences should be granted to external?



5. Problem Areas and Deficits

5. Problem Areas and Deficits





Case: „The Big Issue“

The managing director of the Big Issue Ltd. is not happy with the present business model and the company's development. He hires you to (further) develop the business model in order to create a company that can support itself almost alone. The aim is to reduce the dependence on donations and to become more economically oriented. In this context, the following tasks and questions will have to be dealt with: (You can make realistic assumptions to support your answers.)

- a. Outline the current business model of The Big Issue in a short survey (use a model you know as basis for your argumentation).
- b. For the further development of the business model you are expected to make suggestions for a growth strategy. Present a short sketch for a growth-oriented (re-)positioning of The Big Issue. Use your entrepreneurship knowledge to find holistic but well-structured arguments on the basis of the (current) business model. (What would you (have) to change in order to reduce the dependence on donations? Sometimes this may involve questions with regard to products and innovations. In general: How do you want to earn your money?)