

***Master of Science
in Innovation and Entrepreneurship***

2009

ENT 4000

2nd meeting



**UNIVERSITETET
I OSLO**

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Overview

The slide features a decorative background consisting of three large circles arranged horizontally. The leftmost and rightmost circles are white with a light purple outline, while the middle circle is solid light purple. A horizontal bar with a light purple fill and a thin black border spans across the middle of the slide, partially overlapping the circles.

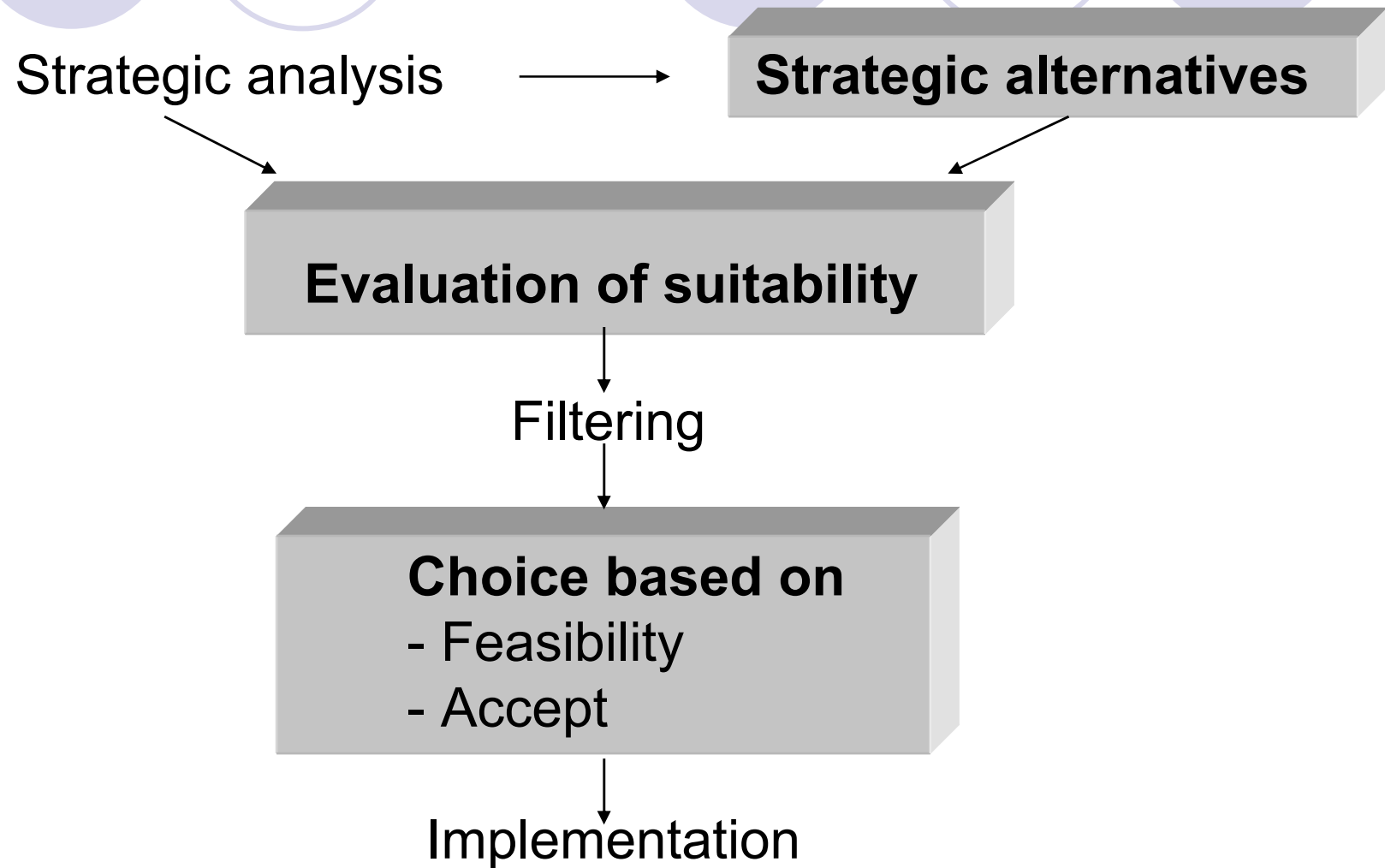
- 1st meeting:
strategy – fundamentals and competition
- 2nd meeting:
strategic choices – content and process
- 3rd meeting:
extreme strategic choices – the rise and fall of businesses via M&A



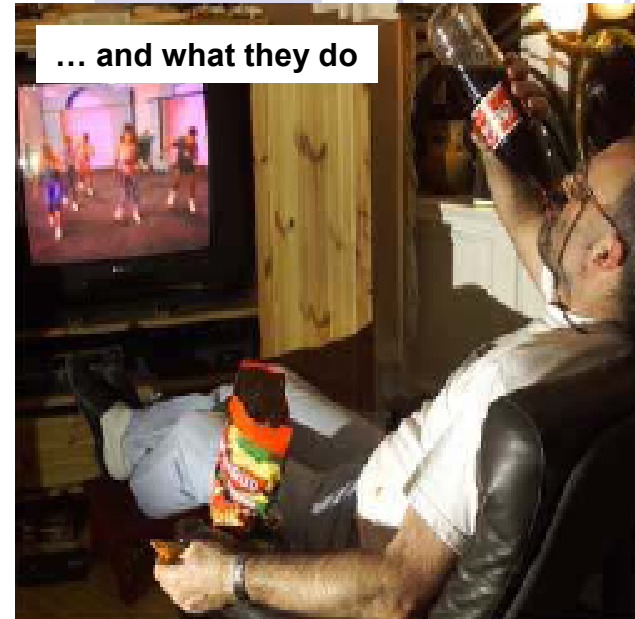
Agenda for 2nd meeting

- **Strategic choices: the process**
- **Evaluation of strategic alternatives**
 - Suitability
 - Feasibility
 - Accept
- **Recommended reading:**
 - Technology Ventures ch. 15,20

Framework for strategic choice

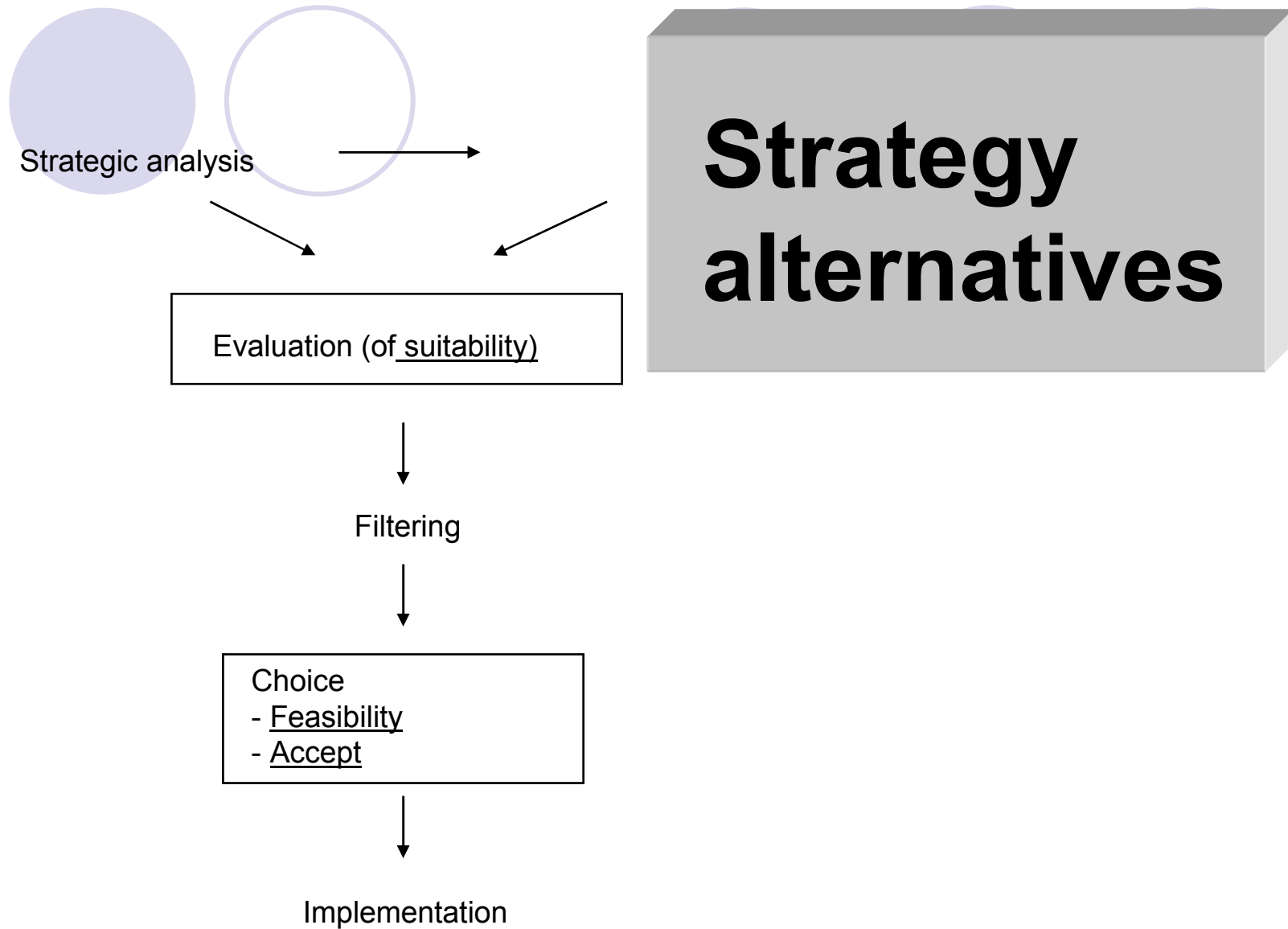


Strategy development calls for analysis

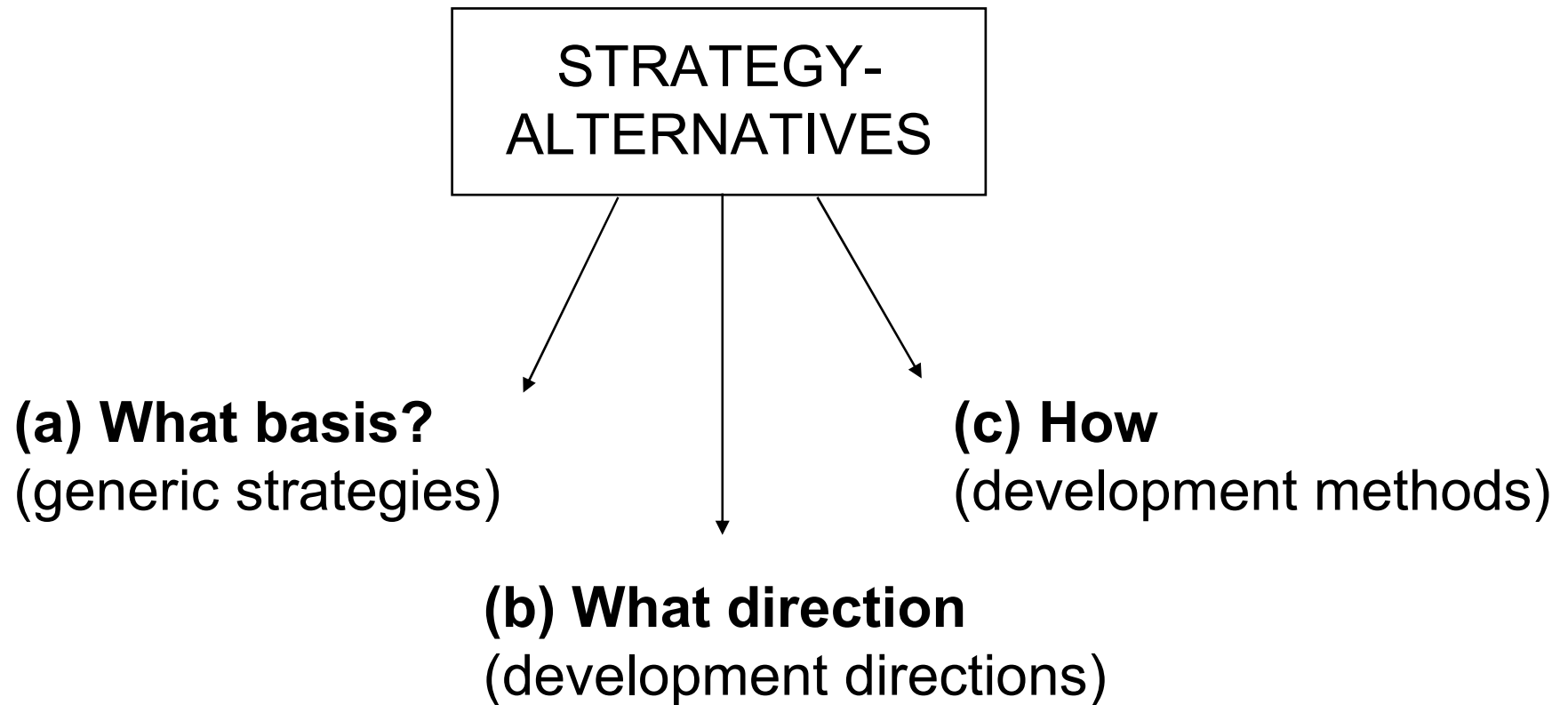


...when competition for the customers' attention is intense





STRATEGY ALTERNATIVES





IDENTIFICATION OF ALTERNATIVES

- Creativity vs. structure
- Time vs. completeness

Identification (ctd.).

- **Basis**

- Open minds
- Internal evaluation
- Ability to play with ideas and concepts

- **Hard stoppers**

- Experience
- Motivation
- Culture

Hard stoppers in practise

- "We have tried this before"
- "This is too new"
- "NIH-syndrome"
- "You are five years too early"
- "It's too late"
- "We have managed well without"
- "It's impossible in practical life"
- "We haven't got the time"

(a) *Basis* for strategy alternatives

- Starting point:

To achieve a sustainable competitive position on the competitive arena

- Generic strategies (according to Porter)

- *Cost leadership*

(lowest cost)

- *Differentiation*

(uniqueness to defend a higher price)

- *Focus*

(niches based on low cost/differentiation)

- ...and «stuck in the middle» is for losers

(b) *Development directions*

Ansoff's (1968) product-/market matrix

		PRODUCT	
		Current	New
MARKET	Current	<ul style="list-style-type: none">- Withdrawal- Consolidation- Market penetration	Product development
	New	Market development	Diversification (related/unrelated)

Market development



- In new segments (branches)
- New applications of the same product
- New geographical areas
 - export
 - production/distribution/sales organisation abroad

Market development (ctd.)



- In capital intensive businesses with heavy investments in product and technology
(e.g. from Fiat via Polski Fiat to Lada)
- In R&D-intensive businesses
(e.g. IT and telecommunication)
- In service industries where customers are abroad
(e.g. insurance and banking)

Product development



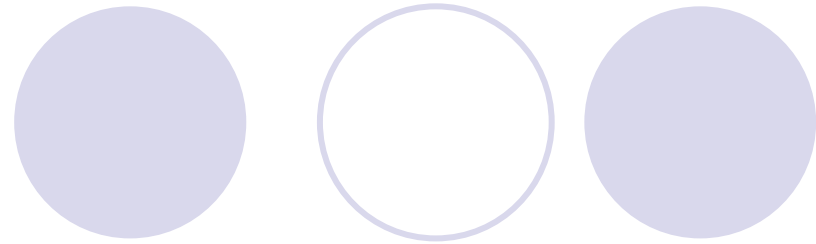
- Takes several forms
 - Inventions (such as the first car)
 - New categories (like P&G's 1st shampoo)
 - Additions to product lines (e.g. light beer)
 - Product improvements (as Windows 2003→XP)
- Demands both innovation and market orientation



(c) *Development methods*

- Organic growth (internal development)
- Mergers and acquisitions (M&A)
- Alliances

Organic growth



Typically preferred by:

- Players in a market that is characterised by high uncertainty and need for standards
- Strong players who can choose between partners that can help him harvesting scale, synergy, and competence advantages
- Small players that do not have the resources to do acquisitions or are not attractive for alliances (“beggars can’t choose”)



Mergers and acquisitions, M&A

- Tend to vary in "popularity"
 - Over time
 - Between branches
- Preferred because of the potential to achieve
 - Speed
 - Competitive advantages
 - Financial profit



Alliances

- Increased «popularity» because of
 - Scarcity of internal resources
 - More and more complex business environment
- Vulnerable method
 - How real is the need to share resources
 - Whether or not resources can be shared
 - Protection of resources from exploitation

Strategic choices related to innovation

- radical change

- ***Characteristics***

Collapse, break trough – or disruption in a development process
– related to market, technology and/or regulations

- Sustaining innovations: improve the existing and addresses today's (profitable) customers
- Disruptive innovations: improve performance along some dimensions and reduce performance along other, and give cheaper and simpler products that are initially adopted by others than today's (profitable) customers

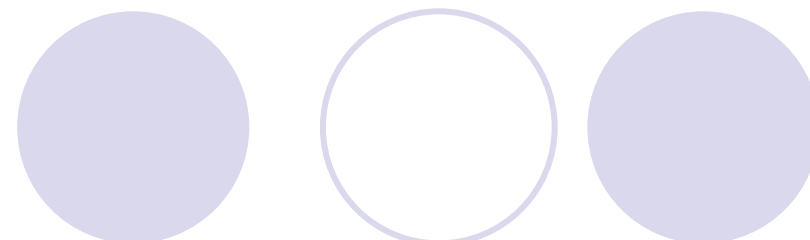
- ***Follow-up question***

"Why do established players fail in situations with radical change despite abundance of competence and resources?"

- ***Answer***

They typically focus on sustaining innovations

Network effects - speed matters



Growth per year

4.0%

3.0%

2.0%

1.0%

0%



Growth: no of years to achieve 25 % of the US population

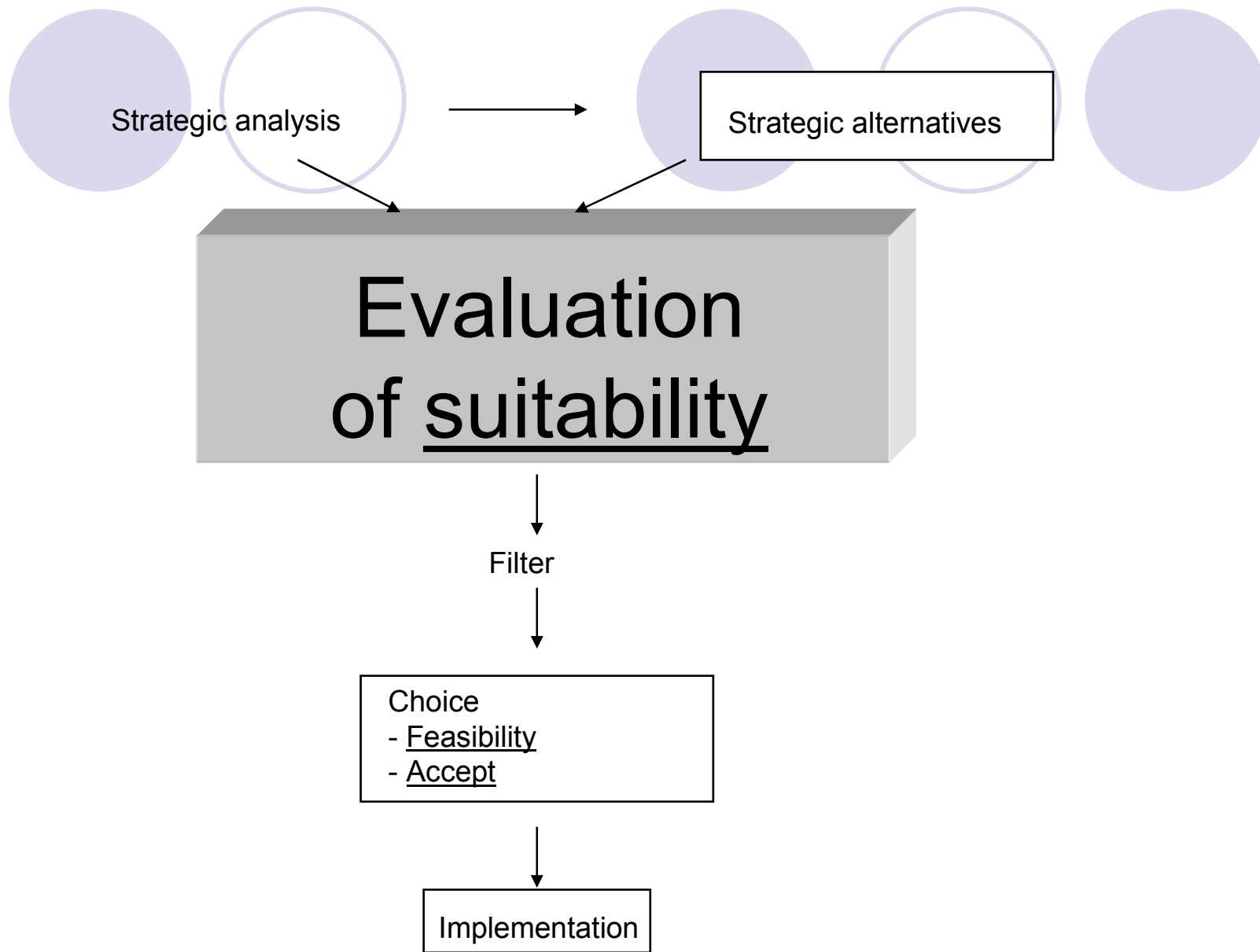
”But after all...”

- **The established players have a lot of advantages:**
 - Ownership of infrastructure
 - Knowledge of how to work with regulators
 - Resources
 - Have historically survived disruptive threats
 - Unchanged and un-challenged vertically integrated business model with centralised control and coordination
- **Even if they in principle can meet any change**, they will meet competitive threats in niches- that in sum can represent a major threat
- **Worst scenario:** sudden change where the established player remains king in an old world that will be more and more irrelevant
- **Winners and losers**
 - The winners will be those who take the opportunities early and seek to exploit opportunities for new growth
 - The losers will be those who sit and wait too long

To see what is next...



- Prepare along three dimensions
 1. *Signals of change*
 - Are there any signs that current or new players exploit new opportunities related to over/under served customers or “non-consumers”?
 2. *Competitive battles*
 - How do new entrants penetrate the market (based on asymmetrical motivation and skills) without reaction from established players, and how will they manage in direct competition?
 3. *Strategic choices*
 - Do the players make decisions related to resources, competence and network that influence their chances of success?
- Organise for separate units
 - Small enough to celebrate small victories, but with enough resources to survive
 - Do not expect to succeed at once



Evaluation of alternatives



- "Suitability" defines if a strategic alternative is realistic and matches the situation the business is in, and contributes to improve its competitive position
- Approach
 - (a) Strategic logic
 - (b) Cultural match
 - (c) "Empirical support"

(a) Strategic logic



- Portfolio analysis
- Relation to product life cycle
- Potential synergies
related to value creation logic

(b) Cultural match

- Head vs. heart
- Matures over time

(c) "Empirical support"

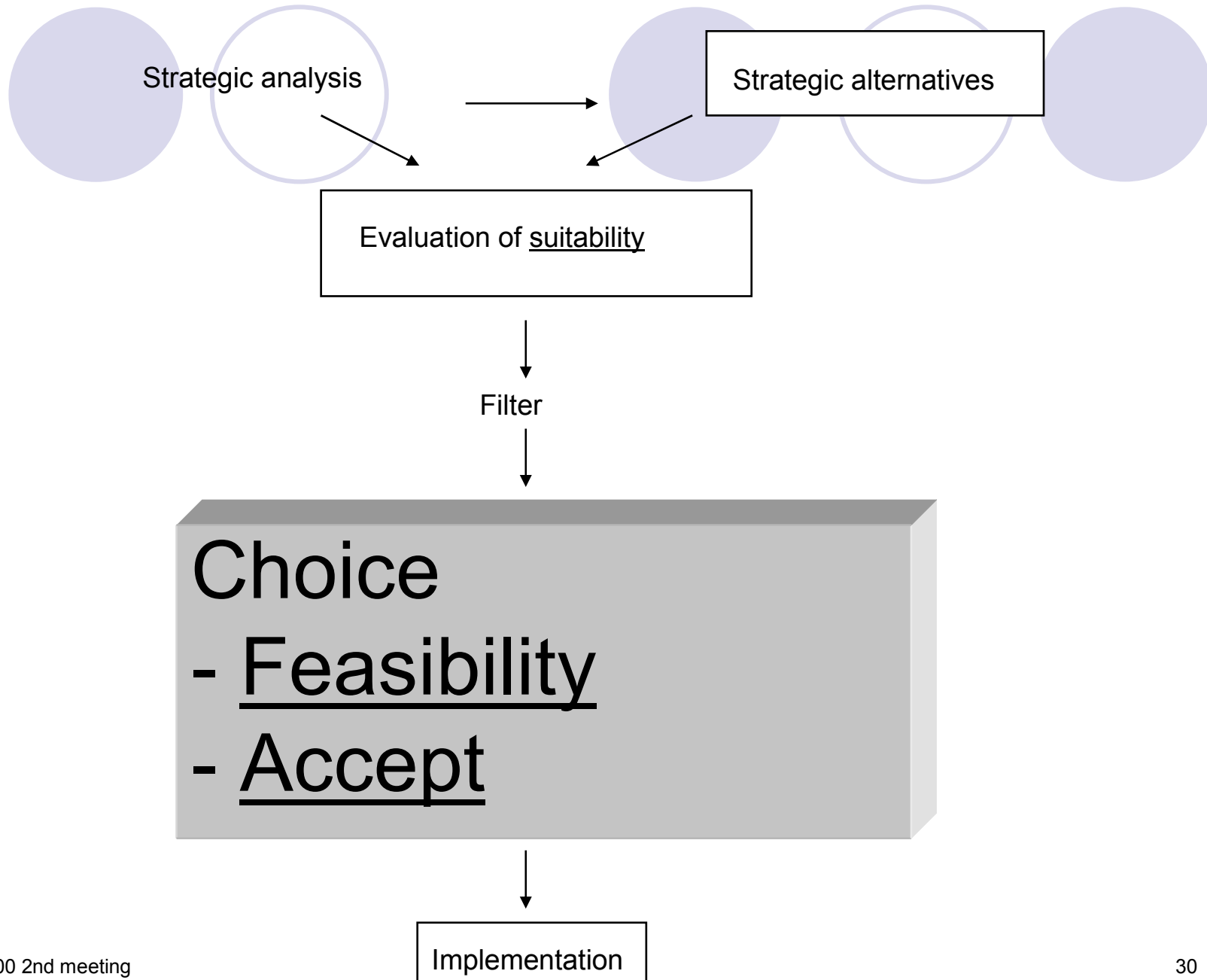


- Companies in the same industry
- Other industries
- Other regions

Filter – from “long list” to “short list”

Short listing

- Prioritisation
- Decision trees
- Scenarios



Key criteria

Given the evaluation of the logic in the strategic alternatives and the potential for suitability and match with current strategy

(a) Feasibility

- Funding
- Break-even
- Resources

(b) Accept

- Return on investments
- Risk
- Key stake holders' expectations



(a) Feasibility as criteria

- Is the strategy realistic to fund?
- Is the organisation capable of perform?
- Can necessary competence and resources be secured?
- Can necessary market position be achieved?
- How can response from competitors be handled?
- Is necessary technology available?

Analysis of feasibility



- Funding

- Necessary capital investment
- Accumulated profit
- Increase in working capital

- Break-even

- Alternative ways of utilising resources

(b) Accept as criteria

- *Owners* will consider
 - Return on investment (cost/benefit)
 - Financial risk
 - Effects on capital structure
- Influence the *organisation's* (individuals and groups) expectations
- Effects on other *stake holders*
 - Creditors
 - Suppliers
 - Customers
 - Government

Evaluation of return on investments

- Analysis of profitability
 - Pay-back time
 - Discounted cash-flow
 - Market valuations

- Analyses of cost/benefit
 - Qualitative
 - Quantitative (if possible)

Evaluation of risk



○ **Financially**

- Influence on capital structure
- Time to break-even
- Influence on liquidity

○ **Sensibility analyses**

“What if” critical assumptions are changed

○ **Scenarios**

Situation in pessimistic, optimistic, and realistic cases

○ **Heuristic models**

«Good enough»

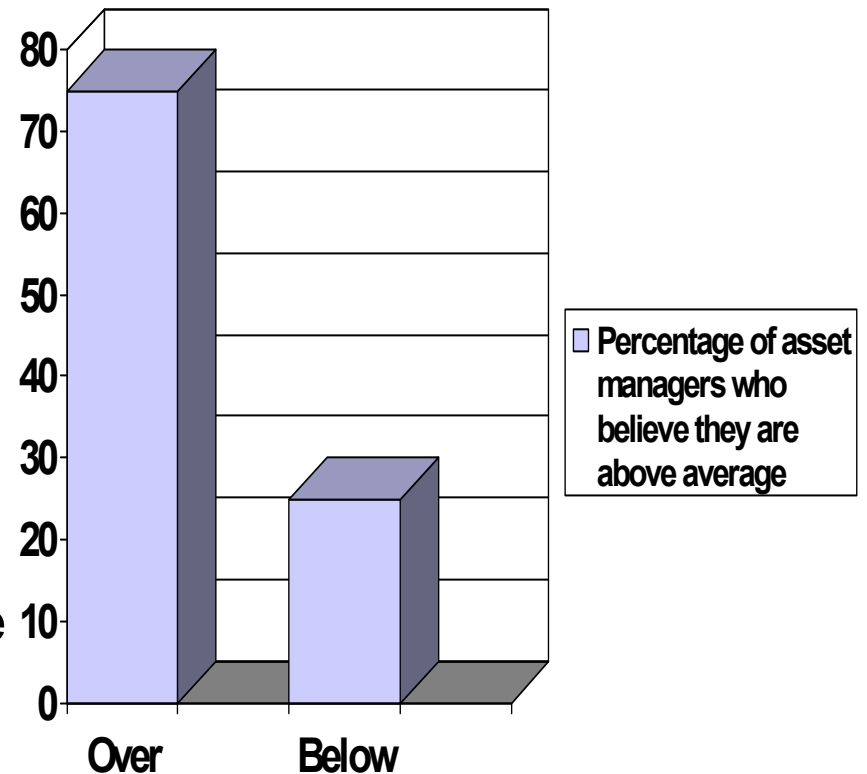


The practical choice

- Criteria are not always established
-and they are not always used
- Higher authorities play a more or less visible role
- Implementation is more or less intense
- External conditions often play a role...

Why do estimates often fail?

- Momentum driven
 - Over-optimistic in bull times
 - Over-pessimistic in bear times
- Too self-confident
 - "I know that everyone believe that they are above average, but i know that I AM."
 - Experts (especially in finance!) over-estimate their knowledge more than others



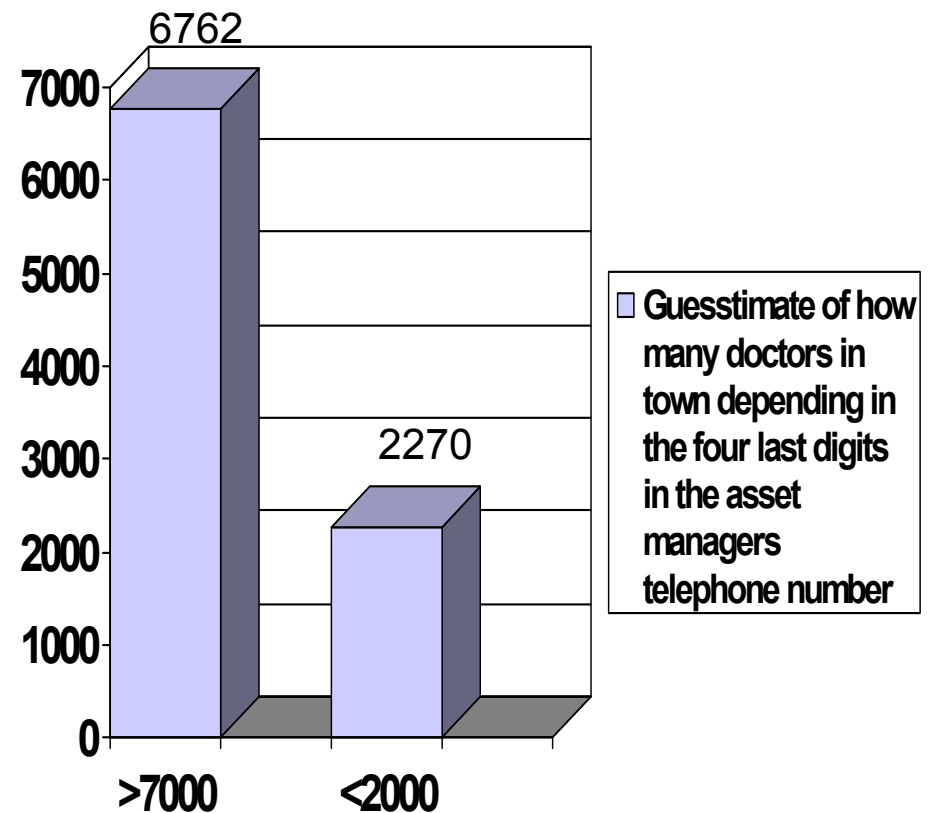
Kilde: DrKW/Macro Research/Finansavisen

Why are estimates followed anyway?

- Lack of skills
 - The ability to produce the right answers are practically the same as those to evaluate the answers
 - If people lack the ability to give the right answers, they are also cursed with a lack of ability to know if answers are right or wrong
- Pride and bad excuses
 - If only ("...Norges Bank had increased the interest rate earlier")
 - Everything else equal ("but imports from China made clothes cheaper")
 - I was almost right ("But the market was up just before it closed")
 - It has not happened yet ("But the market will crash soon")

So why are estimates used after all?

- The hope of beating efficient markets through information others don't have
- Anchoring: with uncertainty you will stick to what is known, although irrelevant
- What else can we do?



Kilde: DrKW/Macro Research/Finansavisen

Task to 2nd meeting



Go together in groups of five. Find a technology company that is listed on the Oslo Stock Exchange to concentrate on in your group. Use available information from open, secondary sources to analyse the company.

To our 2nd meeting you will prepare a 10 minutes presentation from the group to the rest of us based on the following structure:

- Introduction: presentation of the company's history, current turnover, management, customers etc.
- The role of technology and the entrepreneur(s): what kind of technology, developed by who, and with what strategy
- Current challenges: growth strategy, including further technology development, marketing, partnerships etc.

After each presentation there will be app. five minutes Q & A per group.