

A 10-Year Stretch: Strategies for Early Growth

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Early-stage companies play a vital role in developing the world's latest innovations, as shown in a study presented at the 2011 World Economic Forum.

Entrepreneurs are essential drivers of social and economic progress. In their first 10 years, many entrepreneurial companies launch products and ideas that transform the way people live, work and play. What's more, these companies are now springing up in all corners of the globe.

In "[Global Entrepreneurship and the Successful Growth Strategies of Early-Stage Companies](#)," Stanford University's George Foster and IESE's Antonio Dávila, among others, examined the strategies adopted by a diverse range of companies. They talked to senior executives about the high points and dark moments they experienced.

The authors pinpoint eight growth strategies for new ventures, which they characterize as: wave; new product in a new category; new product in an existing category; redesign of business value chain; research or discovery of knowledge; roll up (aggregation) of existing players; governmental, regulatory or political change; and idea transfer or transplant.

Riding your own wave

When it comes to waves, few companies manage to pull off what the authors dub the "triple play," whereby they help to create a new business wave, play a major role in building the wave and continue to ride its crest.

One such company is Microsoft, whose founder, Bill Gates, says that they had a "focus on helping to build an entire industry around personal computing. We worked with a lot of software and PC companies to help them get off the ground."

Needless to say, few companies have ridden the PC wave as long and as far as Microsoft.

Other tech start-ups have not been so fortunate. Take, for example, social networking pioneer SixDegrees.com, which did not survive long enough to ride the wave it helped create.

Meanwhile, companies seeking to develop a new product in a new category should be mindful of the obstacles posed by regulatory risks or adoption constraints — a lesson that the U.K.-based online gaming giant, Betfair, learned the hard way when it was barred from entering the U.S. market. Fantasy sports are viewed in the United States as a form of gambling.

New products can, however, exploit shortcomings in existing markets, as the U.K. drinks firm, Innocent, did by profiting from consumers' doubts about fruit-drink quality by marketing drinks made with 100 percent fruit and no additives.

Value chain opportunities

Value chain restructuring can take many forms and may be based on outsourcing of processes or research, IT expertise, or restructuring, to reduce activities that add no value.

In the case of Net-a-Porter, its founder, Natalie Massenet, saw an opportunity in the Internet to sell high fashion direct to customers.

"I wasn't trying to transform the store, I was trying to transform the magazine. I thought it would be amazing if you could tell readers what to buy and also to give it to them with one click," Massenet says. In the space of 10 years, Net-a-Porter's revenues have grown to over \$100 million.

Research and knowledge ventures are most active in the field of life sciences or the extractive industries. New ventures that start at the very early stages of the discovery process face a long period before revenues come in.

The authors point out that the key risks in roll-up (aggregation) ventures are overpaying for the company and the assets acquired, as well as a heavy reliance on debt financing.

Government incentives

The global telecommunications industry has seen many start-ups that have benefited from government incentives or changes in regulatory systems.

Suntech Power, which makes photovoltaic cells, took advantage of government incentives in Spain and Germany to grow the company. However, a change in Spanish government policy in 2008 dented its profitability.

Great ideas can arise anywhere and often do so simultaneously, but alert entrepreneurs who use an idea-transfer approach can be early movers in taking already-proven ideas to other parts of the world.

For example, Robin Li observed the early success of Google and then replicated it in China in the form of Baidu.

"We recognized that Internet search in Chinese was an under-served market," says Li. "During my time on Wall Street and in Silicon Valley, I had thought deeply about how searches could be vastly improved for the Chinese."

The authors say that, in the first five years, an early-stage business will almost certainly experience one year of losses. And it is these dark moments that put the firm's strategy to the test.

By laying out a clear theoretical framework for their arguments, and then augmenting each strand with specific cases and interviews with executives who have traveled the various roads to growth, this report serves as a clear and valuable guide to the opportunities and obstacles that early-stage companies face.

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