Growth of New Ventures

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Gazelles: Fast growing firms.

- In our Introductory chapter and in Chapter 14 on New Ventures, we introduced the concept of very fast growing new ventures which are often called *gazelles*.
  - http://www.jackmwilson.net/Entrepreneurship/Principles/JMW-Principles-Syllabus-F2016-Doc.pdf
  - http://www.jackmwilson.net/Entrepreneurship/Principles/14-NewVentures.pdf
- Gazelles represent only 15% of new firms but accounted for an astounding 94% of job creation in the U.S.
- For that reason there has been a lot of focus on understanding why such firms grow rapidly and on implementing governmental policies to encourage and nurture the growth of gazelles.
- Some of these firms grow so rapidly and attract such investor attention, that they reach a valuation of over $1 Billion.
- We call these firms "*Unicorns*."
  - While the mythological beast, the unicorn, does not exist, the financial new venture creature that we call unicorns do exist –although they are very rare!
- In this Chapter we will recap our earlier exposition of gazelles and unicorns and work to understand what research has taught us about how and why firms grow successfully.

Unicorns

- Unicorns are very rare and very desirable.
- The term **Unicorn** refers to a startup company that achieves a valuation of $1 Billion dollars.
  - http://www.jackmwilson.net/Entrepreneurship/Cases/Glossary-Terms-Entrepreneurship.htm
  - https://www.cbinsights.com/research-unicorn-companies
- In late 2015 there were over 140 Unicorns.
- Like the "**Superstars**" of old these Unicorns might continue to be successful or flame out and become "**Uni-corpses**."
- While Unicorns often have very high market valuations, they often do not have much or any profit.
- Many are burning though investor's money in a desperate chase for profitability. Not all will succeed.
- Compare Quest Diagnostics, an established medical testing company to Theranos, a new Unicorn. Quest has an annual revenue stream of over $ 7 billion and a profit of $600 million, and Theranos has negligible revenues and mammoth losses. But in 2015, they had about the same market valuation!
- I have several case studies of Unicorns that are available:
  - Theranos (became a Unicorpse)
    - http://www.jackmwilson.net/Entrepreneurship/Cases/Case-Theranos-ElizabethHolmes.pdf
  - Uber
    - http://www.jackmwilson.net/Entrepreneurship/Cases/Case-Uber.pdf

Unicorns in 2016 (Top 25)

	Company	Valuation ($B)	Date Joined	Country	Industry
1	Uber	$62.50	8/23/2013	United States	On-Demand
2	Xiaomi	$46	12/21/2011	China	Hardware
3	Didi Chuxing	$28	12/31/2014	China	On-Demand
4	Airbnb	$25.50	7/26/2011	United States	eCommerce/Marketplace
5	Palantir Technologies	$20	5/5/2011	United States	Big Data
6	Lufax	$18.50	12/26/2014	China	Fintech
7	China Internet Plus Holding	$18	12/22/2015	China	eCommerce/Marketplace
8	Snapchat	$18	12/11/2013	United States	Social
9	WeWork	$16	2/3/2014	United States	Facilities
10	Flipkart	$15	8/6/2012	India	eCommerce/Marketplace
11	SpaceX	$12	12/1/2012	United States	Other Transportation
12	Pinterest	$11	5/19/2012	United States	Social
13	Dropbox	$10	10/5/2011	United States	Internet Software & Services
14	DJI Innovations	$10	5/6/2015	China	Hardware
15	Spotify	$8.53	6/17/2011	Sweden	Internet Software & Services
16	Zhong An Insurance	$8	6/11/2015	China	Fintech
17	Snapdeal	$6.50	5/21/2014	India	eCommerce/Marketplace
18	Lianjia	$6.20	4/8/2016	China	eCommerce/Marketplace
19	Lyft	$5.50	3/12/2015	United States	On-Demand
20	Intarcia Therapeutics	$5.50	4/1/2014	United States	Healthcare
21	Stripe	$5	1/23/2014	United States	Fintech
22	Olacabs	$5	10/27/2014	India	On-Demand
23	Coupang	$5	5/28/2014	South Korea	eCommerce/Marketplace
24	Ele.me	$4.50	8/28/2015	China	On-Demand
25	Magic Leap	$4.50	10/21/2014	United States	VR/AR

https://www.cbinsights.com/research-unicorn-companies
http://fortune.com/unicorns/

Where do unicorns exist?

- As you can see in the list of the top 25,
  - the United States has 12
  - China has 8
  - India has 3
  - South Korea has 1
  - All of Europe has 1
- Bessant and Tidd note that since 2000 30 European Internet ventures have grown to become unicorns and 39 in the US, based upon a GP Bullhound report. In 2016, they upped the total to 47 European Unicorns.
  - http://www.gpbullhound.com/wp-content/uploads/2016/06/GP-Bullhound-Research-European-Unicorns-2016-Survival-of-the-fittest.pdf
- Fortune Magazine ridicules this report in an analysis entitled " *No Europe does NOT have 47 Unicorns*."
  - http://fortune.com/2016/06/20/europe-unicorns-gp-bullhound/

Characteristics of successful new venture growth.

- Success Factors in New Ventures, Song, M. et al.; Jrnl of Product Innovation Management 25:7-27; (2008).
  - A meta-analysis of 31 studies which identified 24 success factors.
- "*Technology entrepreneurship is key to economic development. New technology ventures (NTVs) can have positive effects on employment and could rejuvenate industries with disruptive technologies (Christensen and Bower, 1996). Unfortunately, the survival rate of NTVs is the lowest among new ventures in general. To examine the survival rates of new ventures, we conducted a longitudinal analysis of 11,259 new technology ventures established between 1991 and 2000 in the United States. Our empirical results reveal that after four years only* ***36 percent*** *(or 4,062) of companies with more than five full-time employees had survived. After five years, the survival rate fell to* ***21.9 percent****, leaving only 2,471 firms with more than five full-time employees still in operation.*"

Success Factors -Song et al.

- They found that only 8 were significant (the first 3 are the MOST significant):
  - **(1) supply chain integration;**
  - **(2) market scope;**
  - **(3) firm age;**
  - (4) size of founding team;
  - (5) financial resources;
  - (6) founders' marketing experience;
  - (7) founders' industry experience;
  - (8) existence of patent protection
- They found five to be **not significant**
  - (1) founders' research and development (R&D) experience;
  - (2) founders' experience with start-ups;
  - (3) environmental dynamism;
  - (4) environmental heterogeneity;
  - (5) competition intensity
- The last 11 gave mixed and more complicated results.

Ageism is alive and well in entrepreneurship.

- There is a strong correlation between founders age and success.
  - Founders between 35 and 50 are seen as having the greatest chance of success.
  - Younger founders may not have the experience and older founders may have too much too lose or lack persistence and energy.
- Educational level of the founders
  - This contrasts with the many popular stories of college dropouts, like Bill Gates, creating major companies.
  - For new tech firms 85% have a college degree and nearly 50% have a PhD.
- Number of founders,
  - More is better up to a point. Larger teams bring a more diverse and complete set of skills and experience. However, too large a team can reduce agility.
- Availability of start-up capital.
  - Failure to obtain sufficient start-up capital will doom almost any new venture.

Teams with **complementary capability**.

- Apple –Steve Jobs, Steve Wozniak, and Ronald Wayne
  - Graphic design, promotion, computer science, industrial design, administration.
- Microsoft –Bill Gates and Paul Allen
  - Comp.Sci. for both and Intellectual property
- Google –Larry Page and Sergy Brin
  - Comp.Sci, PhD and Math and Comp. Sci. PhD
- Facebook –Mark Zuckerberg and Eduardo Saverin
  - Comp Sci and Psychology and Finance and Business
- Netflix –Reed Hastings and Marc Randolph
  - Mathematics (Bowdoin) Engineering and Marketing.
- Uber - Travis Kalanick and Garrett Camp
  - CompEng and serial entrepreneur (U. Calgary)

Funding

- Initial financing for launch.
- Second-round financing for initial development and growth.
- Third-round financing for consolidation and growth.
- Maturity or exit.

Characteristics of high growth ventures

- The high growers had significantly ($p < 0.001$) younger CEOs than the low growers, but the average of 47 years for the high growers clearly indicates that several of their CEOs were over 50 years of age.
- The high growers had a significantly higher portion of new products as part of the turnover.
- The high growers perceived themselves as better than their competitors at understanding customer needs, offering better products, being agile but also at keeping costs low.
- The high growers prioritized growth rather than profitability ($p < 0.001$), market share rather than profitability ($p < 0.001$) and on reinvesting rather than showing profit ($p < 0.001$).

Innovative Ventures

- are more likely to involve product innovation than process innovation
- are focused on products for niche markets, rather than mass markets
- will be more common amongst producers of final products, rather than producers of components
- will frequently involve some form of external linkage
- tend to be associated with growth in output and employment, but not necessarily profit.

Helpful characteristics of the eco-system

- **Excludability**. To what extent can the venture prevent or limit competition from incumbents who develop similar technology?
  - Patents?
  - Trade Secrets
  - Speed of Innovation
- **Complementary assets**. To what extent do the complementary assets – production, distribution, reputation, support, etc. – contribute to the value proposition of the technology?

Strategies

- Attacker's advantage
  - The new venture can often obtain competitive advantage when it enters a market in which the incumbents complementary assets are not important. However that advantage can be temporary as attackers can be attacked.
- Ideas factory
  - Technology leadership, but eventually partnering with incumbents
  - Biotech is an example
- Reputation-based
  - Incumbents control complementary assets and new ventures need to take care to partner with those (like Cisco or Intel) who have established records of being good partners and not crushing thier smaller partners.
- Greenfield or sometimes called a "blue ocean strategy."
  - The venture is entering an area where they control the complementary assets and can preclude effective immitation.

Contribute to failure

- poor financial control
- lack of managerial ability or experience
- no strategy for transition, growth or exit.

Paths to growth and exit

- organic growth through additional sales and diversification
- acquisition of, or merger with, another company
- sale of the business to another company, or private equity firm
- an initial public offering (IPO) on a stock market.

The End