

UCLA Anderson School of Management

Management 298D

STRATEGIES FOR MARKET ENTRY

Fall 2006

Professor

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Class Sessions

Tuesday and Thursday, 3:00 – 4:30 pm
Room: D-313

Professor Office Hours

Tuesdays, 2:00 – 2:45 pm (and by appointment)

NOTE: This is a preliminary syllabus. Please download an updated syllabus from the course website, and check periodically for further updates.

INTRODUCTION

This new course is designed to help you, as an entrepreneur or business manager, make better decisions relating to market entry. Market entry is the most common—and arguably the most important—type of strategic decision made in the business world. Entrepreneurs by definition are engaged in market entry. Established firms enter markets in various ways: when they develop new products or services, when they make acquisitions, when they move into new geographic regions, and when they integrate within the value chain. This course considers entry decisions by both entrepreneurial and established companies.

The course draws from the academic and practical business literature to address a wealth of managerial questions relating to market entry: Where do ideas about entry opportunities come from? How can we develop and nurture these ideas? Faced with a set of opportunities, which markets should we enter? In a new industry or market, should we enter early, or is it better to wait to learn from the mistakes of others, thereby entering as a follower? Do we have the capabilities needed to enter? If not, can we develop these capabilities, and if so, how? If we are an established firm, should we enter the market through internal development, acquisition, joint venture, or strategic alliance? Once we have established a foothold in the market, how fast should we grow our business? And if we are fortunate to become a dominant player, can we take action to influence the evolution of the industry in our favor? Can we deter potential rivals? Moreover, how can we best avoid being blindsided by technological discontinuities and disruptive change? (Or, if we are a new entrant, how can we exploit such changes to overcome the advantages held by established firms?)

To address these questions, the class sessions will include case analyses, student discussion, and lectures. Strong student involvement during the class sessions is an integral part of the course. Toward the end of the quarter, outside speakers will visit the class to describe more directly the challenges faced by entrepreneurial startups and by established firms that attempt to enter new market domains.

COURSE ORGANIZATION

The course is organized in several modules. Following an introductory session, our early classes will focus on issues related to entrepreneurship. These will be followed by several sessions on industry and firm dynamics. The focus then shifts to consider entry by established firms. Finally, we will have a number of outside speakers commenting on topics in the course.

The anticipated sequence of classes is as follows:

I. INTRODUCTION AND OVERVIEW

1. Basic facts, issues and perspectives regarding market entry

II. ENTREPRENEURSHIP

2. Where Do Entry Ideas Come From?
3. Tapping the Power of Analogy
4. What Do We Know about Entrepreneurs?

III. DYNAMICS

5. Industry Evolution

6. Optimal Timing of Entry: First Mover Advantages and Disadvantages
7. Rate of Growth: Get Big Fast or Slow?
8. Replication Strategies and Geographic Expansion
9. Technological Discontinuities and Disruptions

IV. ENTRY BY ESTABLISHED FIRMS

10. Entry into Related Businesses
11. Mode of Entry
12. Vertical Integration: Entry in the Value Chain
13. Real Options and Entry

V. OUTSIDE SPEAKERS

14-18. Entrepreneurs and managers will speak to the class about their experiences relating to market entry.

19. Wrap-up

Some of the outside speakers may be scheduled for dates prior to class 14. Hence, the sessions are numbered in this syllabus, but specific dates are not shown. The schedule will be updated as required.

CASES AND READINGS

For most class sessions, you are assigned one or more readings and a case. (On days without a case assignment, you will be asked to post a brief example on the course discussion board.) Guidelines for case preparation are similar to those in Management 420 and your other case courses from the first year. On most days, I will assign student groups to give a short presentation relating to the case.

The readings have been divided into required and optional categories. The required readings and cases are included in the course reader, available for purchase in the bookstore. (To reduce the cost of the reader, a few required readings may be made available online.) Many of the optional readings can be accessed through web links incorporated in the electronic version of this syllabus. My expectation is that you will read the optional readings in selected topic areas as needed to complete your final paper (see below).

ASSIGNMENTS AND GRADING

Your final grade in this course will be made up of the following components:

- 30% class participation
- 10% group case presentation
- 10% short paper linking class speakers to course material
- 10% short paper on course omissions
- 40% final paper applying course concepts to a specific market entrant

Class Participation

The value of this class lies in learning to apply the course concepts to real world companies. Therefore, this course is largely case-based and its success depends heavily on the quality of class discussion. To prepare for class, you must read the materials *and* think about the case preparation questions in advance. In addition, on several days you will be asked to post information on the web discussion board describing a market entrant of your own choosing. Toward the end of the course we will have several outside speakers; your role is to come to class prepared to ask each speaker questions based on our earlier discussions in our course.

In assigning grades to class discussion I will focus primarily on the *quality* of your input; however, it takes some quantity of participation for me to make that evaluation. You are welcome to come to my office hours to discuss your class participation.

Group Case Presentation

I will ask each study group to give a presentation on one case during the quarter. This assignment will generally include one or more of the study questions listed in the syllabus. Given that the group presentations will begin in session two, I encourage you to form study groups on the first day of class.

Short Papers

There are two short paper assignments. Both can be done individually or with another student (i.e., in pairs). If you choose to work with a partner, I ask that you change partners for each assignment. The short papers should be only a few pages in length.

The first short paper is designed to help you draw links between the early sessions of the course and the class visitors. Did the visitors' presentations confirm your hypotheses based on the earlier material in the course? Did their presentations change your assessment of the importance of the issues discussed in the earlier part of the course? (More detail on this assignment will be provided later in the course.)

The second short paper is intended to help me improve this course in the future. Did the course omit any topics or issues that seem critical for understanding market entry? Are there topics that were included but deserve much greater emphasis? Why are these topics important in the context of entry? (More detail on this assignment will be provided later in the course.)

Final Paper

The final paper gives you an opportunity to apply ideas from the course to the case of a specific market entrant of your own choosing. Your entrant of choice can be any firm that interests you—an established firm or entrepreneurial startup. If the firm or business unit has a significant history, your job is to critique its entry decisions, based on the materials assigned in this course. If the focal business is still in its startup phase, your job is to lay out a plan of what it should do, based on the materials assigned in this course. In grading the final paper, I will give much weight to the quality of your insights in linking our class discussions and course readings (including optional readings, as relevant) to the specific market entrant you have selected. Your paper should include a bibliography and a discussion of the literature that you found insightful in the context of your entrant.

To give you scope in dealing with issues relevant to the entrant of your choice, the final paper assignment is intentionally open ended. If you have questions about whether your approach to the assignment is on track, please come and discuss it with me.

The final paper can be done with another student or individually. If you choose to work with a partner, I ask that you work with someone different from your partners on the short papers. The length of the final paper should be approximately 12 to 15 pages of text.

NOTE: There will be no final exam in this course.

SCHEDULE OF CLASS SESSIONS

I. INTRODUCTION AND OVERVIEW

Class 1. Basic Facts, Issues and Perspectives Regarding Market Entry

Required Readings:

Helfat & Lieberman, “The Birth of Capabilities: Market Entry and the Importance of Pre-History,” [*Industrial and Corporate Change*, 11\(4\), August 2002](#)

Kim and Mauborgne, “Blue Ocean Strategy,” [HBR, October 2004](#). #R0410D

Optional Readings:

Biggadike, E. R., *Corporate Diversification : Entry, Strategy, and Performance*, Boston: Division of Research, Graduate School of Business Administration, Harvard University, 1979.

Dunne, T., M. J. Roberts and L. Samuelson (1988). “Patterns of Firm Entry and Exit in U.S. Manufacturing Industries.” [*Rand Journal of Economics* 19\(4\): 495-515.](#)

Geroski, P. A., “What do we know about entry?” [*International Journal of Industrial Organization*, 13 \(1995\) 421-440.](#)

Horn, J. T. Lovallo, D. P. Viguerie, S. P., “Beating the odds in market entry: How to avoid the cognitive biases that undermine market entry decisions,” [*McKinsey Quarterly*, 2005, Number 4, pp. 34-45.](#)

Case: HONDA (A) and (B) (HBS# 9-384-049 and 9-384-050)

Study Questions:

1. Compare and contrast the two descriptions of Honda Corporation’s start up, early growth, and entry into the U.S. motorcycle market. How does each case explain Honda’s success?
2. What concept of strategy is implied in each case? What lessons do the cases offer for managers contemplating a market entry decision?

II. ENTREPRENEURSHIP

Class 2. Where Do Entry Ideas Come From?

Required Readings:

Alvarez, S. A. and Barney, J. B. "Discovery and Creation: Alternative Theories of Entrepreneurial Action." [Working paper, Ohio State University.](#)

Amar Bhide, How Entrepreneurs Craft Strategies That Work, [HBR, March 1994, reprint #94202.](#)

Optional Readings:

Bhide, Amar, 2000, *The Origin and Evolution of New Business*, New York: Oxford University Press.

Gompers, P., J. Lerner and D. Scharfstein, 2005, "Entrepreneurial Spawning," [Journal of Finance 60, 577-614.](#)

Hellmann, T., "When do employees become entrepreneurs?" [NBER working paper, August 2003.](#)

Cases: AMAZON.COM 2002. (HBS# 9-803-098)

GOOGLE, INC. 2006. (HBS# 9-806-105)

Study Questions:

Think about Amazon and Google in the context of discovery and creation. Be prepared to discuss how the two alternative theories of entrepreneurship apply to these successful Internet companies.

Class 3. Tapping the Power of Analogy

Required Readings:

Gavetti and Rivkin, "How Strategists Really Think: Tapping the Power of Analogy," [HBR, April 2005, HBR OnPoint Enhanced Edition, #9661](#)

Case: PERFORMANCE INDICATOR (HBS# 9-702-480)

Study Questions:

1. Why is it been so difficult for Osinski and Winskowicz to get a golf ball manufacturer to sign a contract for their new technology?

2. How much do you think a potential customer (that is, a golf ball manufacturer such as Bridgestone or Acushnet) should be willing to pay for Performance Indicator's technology?
3. In light of your analysis, what should Osinski and Winskowicz do?

Class 4. What Do We Know about Entrepreneurs?

Required Readings:

Busenitz, L. W., & Barney, J. B. "Biases and Heuristics in Strategic Decision Making: Differences between Entrepreneurs and Managers in Large Organizations," [*Journal of Business Venturing*, 12\(1\), 1997, pages 9-30.](#)

Optional Readings:

Camerer, C. and D. Lovallo, "Overconfidence and Excess Entry: An Experimental Approach," [*American Economic Review*, Vol. 89, No. 1 \(Mar., 1999\), pp. 306-318.](#)

Klepper, S., "Agglomeration through Spinoffs: How Detroit Became the Capital of the US Automobile Industry," Manuscript, Carnegie Mellon University, 2004.

Lovallo, C. and D. Kahneman, "Delusions of Success," [HBR, July 2003.](#)

Sahlman, W. A., "How to Write a Great Business Plan," [HBR, July 1997.](#)

Assignment:

Post on the course's web discussion board a brief message with the following information on a market entrant (startup venture or new business within an established firm) with which you are familiar: (1) What is/was the entrant's strategy? (2) Was the entrant successful? Did it survive? Why or why not? (3) Why is this entrant of interest to you?

Please post your message prior to 10:00 am on the day of class. Note that you can always follow up later with more information. I may draw upon your example in this session or at some point later in the quarter.

III. DYNAMICS

Class 5. Industry Evolution

Required Readings:

Agarwal, R. and B. L. Bayus, "The Market Evolution and Sales Takeoff of Product Innovations," [*Management Science*, 48\(8\), August 2002, pp. 1024-1041.](#)

Optional Readings:

Agarwal, R. "Evolutionary Trends of Industry Variables," [*International Journal of Industrial Organization*, volume 16, 1998, pages 511-525.](#)

Baum, J. A. C, and A. McGahan (eds) (2004) "Business Strategy over the Industry Life Cycle" *Advances in Strategic Management*, Vol 21: 107-132

Gort, M. and S. Klepper, "Time Paths in the Diffusion of Product Innovations," [*Economic Journal*, Vol. 92, No. 367 \(Sep., 1982\), pp. 630-653](#)

Klepper, S. & Graddy, E. (1990). "The evolution of new industries and the determinants of market structure." [*Rand Journal of Economics*.](#)

Moore, G. A., "Darwin and the Demon – Innovating Within Established Enterprises," [HBR July-August 2004.](#)

Case: THE DISPOSABLE DIAPER INDUSTRY IN 1974 (HBS# 9-380-175)

Study Questions:

1. What are the barriers to entry facing firms such as Union Carbide and Johnson and Johnson (J&J) in achieving national brand status? What is the magnitude of P&G's cost advantage?
2. How can P&G best defend itself against entry? How might it deter entry or "persuade" firms that have entered to modify their plans?
3. What should Carbide and J&J do? How should they go about entering this industry?
4. How do you expect this industry to evolve? What do you think the industry will look like in 10 years? How many players are likely to coexist in the North American market? Why? Can P&G do anything to shape the evolution of the industry in its own favor?
5. What similarities do you see between P&G in the diaper industry and Microsoft in the software industry? What are the major differences?

Class 6. Optimal Timing of Entry: First Mover Advantages and Disadvantages

Required Readings:

M. Lieberman and D. Montgomery, "First-Mover Advantages." [*Strategic Management Journal*, Vol. 9, Summer 1988.](#)

M. Lieberman and D. Montgomery, "First-Mover (Dis)Advantages: Retrospective and Link with Resource-Based View," [*Strategic Management Journal*, Vol. 19, No. 12, December 1998, pp. 1111-1125.](#)

Optional Readings:

Adner, R., "Match Your Innovation Strategy to Your Innovation Ecosystem," [*HBR*, April 2006.](#)

Agarwal, R. and M. Gort (2001). "First-Mover Advantage and the Speed of Competitive Entry, 1887–1986." [*The Journal of Law & Economics XLIV.*](#)

Boulding B. and M. Christen, "First Mover Disadvantage," [*HBR*, Oct. 2001.](#)

Markides, C.C. and P. Geroski (2005). *Fast Second: How Smart Companies Bypass Radical Innovation to Enter and Dominate New Markets*, Wiley, San Francisco.

Suarez and Lanzolla, "The Half-Truth of First-Mover Advantage," [*HBR*, April 2005.](#)

Assignment:

TBA

Class 7. Rate of Growth: Get Big Fast or Slow?

Required Readings:

T. Eisenmann, "A Note on Racing to Acquire Customers" HBS Note 9-803-103

Case: FACEBOOK. Stanford University Case #E220

Assignment Questions:

1. Why is the speed of growth important to Facebook's success?

2. Do you think that Facebook and MySpace can co-exist in equilibrium in the same community (such as a university)? Why or why not? What are the implications of your answer for Facebook's strategy?
3. What should Zuckerberg do in the next six months to develop Facebook's organization? Why? Be specific, elaborating on how you would manage each function in the company (marketing, sales, product development) if you were Zuckerberg.
4. Would growth in other countries make sense for Facebook?

Class 8. Replication Strategies and Entry into New Geographic Markets

Reading: G. Szulanski and S. Winter, "Getting it Right the Second Time," [*Harvard Business Review*, January 2002, 62-69.](#) (HBR Reprint R0201E)

Case: HOWARD SCHULTZ AND STARBUCKS COFFEE COMPANY
(HBS# 9-801-361)

Assignment Questions:

1. Why has Starbucks been so successful? What is the key source of Starbucks' competitive advantage? (The presentation teams should be prepared to engage in a lively debate on these issues.)
2. Come prepared to discuss other examples of replication strategies with which you are familiar.

Class 9. Discontinuities and Disruptive Technology

Required Readings:

Christensen, Clayton M. and Michael Overdorf (2000) "Meeting the Challenge of Disruptive Change." [*Harvard Business Review*, \(Mar.-Apr.\) OnPoint # 3456](#)

Tushman, Michael and Charles O'Reilly, III. (1996) "Ambidextrous Organizations: Managing Evolutionary and Revolutionary Change," [*California Management Review*, vol. 38, no. 4: 8-30](#)

Optional Readings:

M.L. Tushman and P. Anderson, “Technological Discontinuities and Organizational Environments.” [*Administrative Science Quarterly*, 1986.](#)

M.L. Tushman and P. Anderson, “Technological Discontinuities and Dominant Designs: A Cyclical Model of Technological Change.” [*Administrative Science Quarterly*, 1990.](#)

Hill and Rothaermel, AMR

Assignment:

Post a brief message on the discussion board describing a case of “disruptive technology” that you find of interest. Did the incumbent firm(s) prevail, or were they overtaken by new entrants?

IV. ENTRY BY ESTABLISHED FIRMS

Class 10. Entry into Related Businesses

Required Readings:

B. Anand, “Strategies of Related Diversification.” (HBS #9-705-481)

Optional Readings:

Teece, Pisano, and Shuen, 1997, “Dynamic Capabilities and Strategic Management,” [*Strategic Management Journal*.](#)

Case: PRUDENTIAL SECURITIES (HBS #9-104-008)

Class Preparation Questions:

1. Should Prudential have entered the investment banking industry? Why or why not?
2. Could the problems that emerged following entry have been avoided and if so, how?
3. Should Prudential have exited its investment banking business?

Class 11. Mode of Entry by Established Firms

Required Readings:

Robert J. Aiello and Michael D. Watkins, "The Fine Art of Friendly Acquisition," [*Harvard Business Review*, 2000 \(HBR Reprint R00602\)](#).

Dyer, J. H., Kale, P., and Singh, H. 2001. "How to Make Strategic Alliances Work," [*Sloan Management Review*, 42 \(4\): 37-43](#).

Garvin, 2002, "A Note on Corporate Venturing and New Business Creation." (HBS #9-302-091)

Optional Readings:

Ronald N. Ashkenas and Suzanne C. Francis, "Integration Managers: Special Leaders for Special Times," [*HBR*, November 2000](#).

Chesbrough, H.W. and Teece, D.J.. "When is Virtual Virtuous?" *HBR*, 1996.

Case: STT AEROSPACE (HBS #9-399-056)

Study Questions:

1. Evaluate the pros and cons of STT Aerospace's strategy of diversified market entry through acquisition.
2. To what extent are the company's problems at the end of the case a result of industry factors beyond their control and to what extent are the problems a result of the company's diversification strategy?
3. What would you recommend that STT Aerospace do and why?

Class 12. Vertical Integration Decisions: Entry in the Value Chain

Required Reading:

Robert M. Grant, *Contemporary Strategy Analysis* (Fifth Edition), pp. 389-401.

Case: SHARP CORPORATION: TECHNOLOGY STRATEGY (HBS #9-793-064)

Study Questions:

1. What are Sharp's key capabilities?
2. Based on the framework in the reading, does it make sense for Sharp to be vertically integrated? Why or why not?

Class 13. Real Options in the Context of Entry

Optional Readings:

Amram and Kulatilaka, *Real Options: Management Strategic Investment in an Uncertain World*

V. OUTSIDE SPEAKERS

Classes 14-18. Class Visitors

Visitor on Venture Capital

Hatch and Lo: Note on Venture Capital. (Ivey # 9B04N005)

Roberts and Barley: How Venture Capitalists Evaluate Potential Venture Opportunities. (HBS #9-805-019)

Class 19. Wrap up.