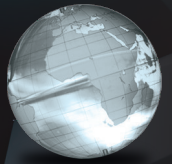GLOBAL
EDITION

ENTREPRENEURSHIP
Successfully Launching New Ventures

Updated 6e

Bruce R. Barringer | R. Duane Ireland

Entrepreneurship

SUCCESSFULLY LAUNCHING NEW VENTURES

UPDATED SIXTH EDITION
GLOBAL EDITION

Bruce R. Barringer
Oklahoma State University

R. Duane Ireland
Texas A & M University

Pearson

31. S. S. Holloway and A. Parmigiani, "Friends and Profits Don't Mix: The Performance Implications of Repeated Partnerships," *Academy of Management Journal* 59, no. 2 (2016): 460–478; H. Yang, Y. Zheng, and X. Zhao, "Exploration or Exploitation: Small Firms' Alliance Strategies with Large Firms," *Strategic Management Journal* 35, no. 1 (2014): 146–157.

32. G. L. Nigro, "The Effect of Early or Late R&D Inbound Alliance on Innovation," *Journal of Business Research* 69, no. 5 (2016): 1791–1795; B. Barringer and J. S. Harrison, "Walking a Tightrope: Creating Value Through Interorganizational Relationships," *Journal of Management* 26, no. 3 (2000): 367–403.

Getting Personal *with* Writelab
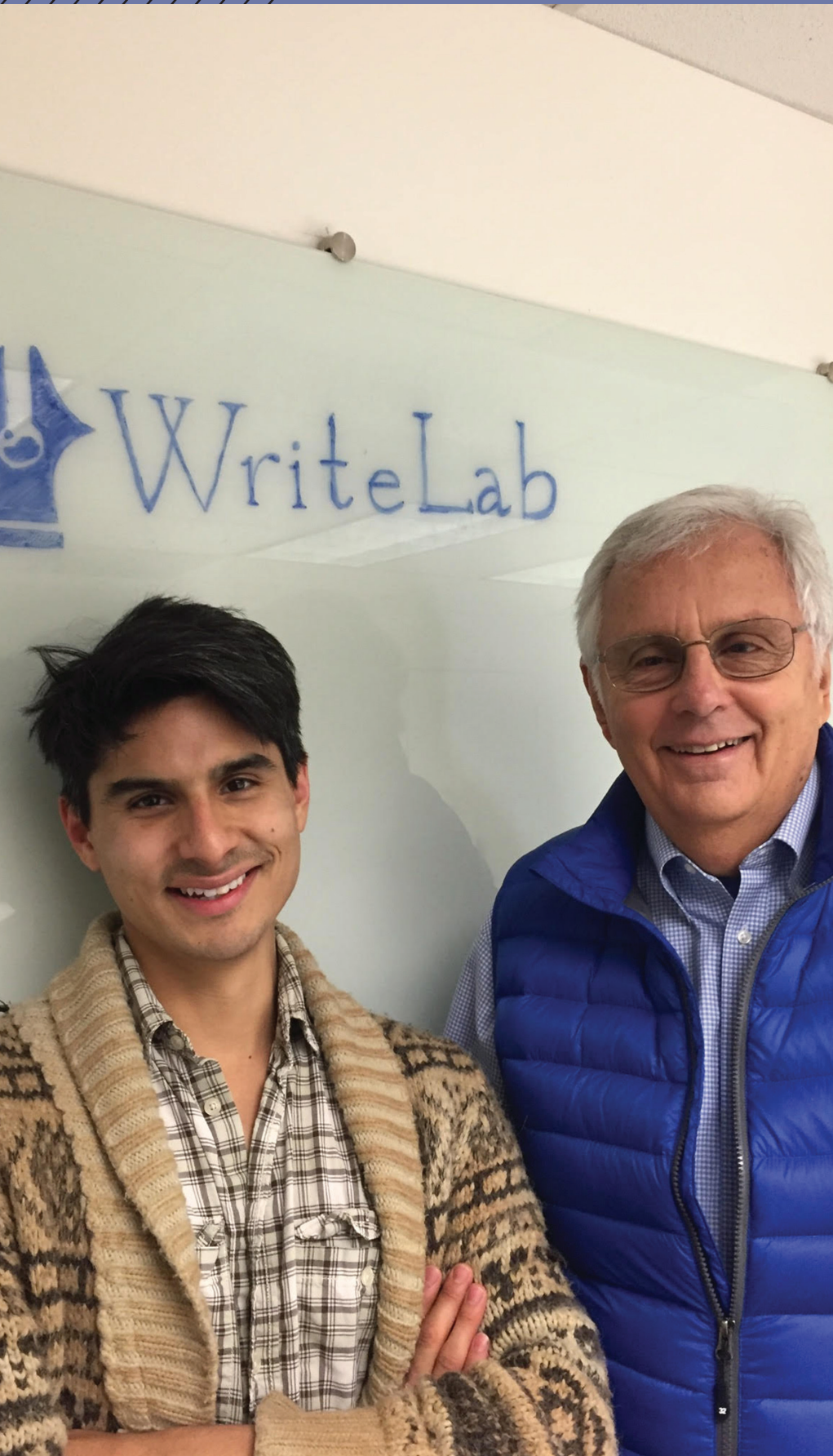
Cofounders

MATTHEW RAMIREZ
PhD, University of California, Berkeley, undecided

DONALD MCQUADE
Professor, English, University of California, Berkeley

Dialogue *with* Matthew Ramirez

FAVORITE PERSON I FOLLOW ON INSTRAGRAM
gatesfoundation

MY BIGGEST SURPRISE AS AN ENTREPRENEUR
That virality is something you can carefully engineer

BEST PART OF BEING A STUDENT
That you can spend time learning diverse subjects and fuse them together in projects

MY BIGGEST WORRY AS AN ENTREPRENEUR
That we won't be able to innovate as quickly as the world needs solutions

FIRST ENTREPRENEURIAL EXPERIENCE
Taking food from my fridge as a toddler and reselling it to my parents

MY FAVORITE SMARTPHONE APP
Google Analytics

WriteLab/Photo Credit: Matthew Ramirez

Industry and Competitor *Analysis*

OPENING PROFILE

WRITELAB

Occupying a Unique Position in a Challenging Industry—and Thriving

• Web: https://home.writelab.com • Facebook: WriteLab • Twitter: @WriteLab

It was one of those moments in time when a business idea begins to take shape. Matthew Ramirez, a PhD student in English at the University of California, Berkeley, was grading a stack of papers. As part of his PhD program, he taught undergraduate English classes. He noticed that he was giving the same feedback to his students again and again. Grading papers frustrated Ramirez. It took time to work through a stack of papers, and he knew that by the time he returned papers to his students, they would have moved on to other projects. What they needed was to receive their graded papers back more quickly, so they could learn from the feedback.

This conundrum got Ramirez thinking. At the time, he was also doing work in the School of Information at Berkeley. What if he could write computer algorithms that would automatically generate the routine feedback he was giving his students? That would free his time to provide feedback in more substantive areas, and it would speed up the entire process. Ramirez took his idea to Donald McQuade, one of his English professors. McQuade is the author of several books on writing composition and is very active in the writing community. McQuade agreed to work with Ramirez on the project, and WriteLab was born.

WriteLab, which began in late 2013, went through several iterations before settling on the format it features today. It rolled out in 2015. On the backend, WriteLab uses probability and statistics to identify patterns and choices in language. On the front end, this is how it works. A student accesses WriteLab, which is either provided by their school or purchased on their own. The student loads his or her paper into WriteLab, and WriteLab returns it immediately with feedback. The feedback focuses on four areas that are important for good quality writing—clarity, concision (the quality or state of being concise), grammar, and logic. The feedback is not framed in a negative manner—it never tells a student a sentence or thought is wrong. The reason for this is that negative feedback causes students to become defensive. Instead, the color-coded feedback is in the form of suggestions, comments, and questions. A student can respond to an individual piece of feedback or mark it "not helpful" and move on. The feedback is designed to be "actionable"—in other words, a student can use it to strengthen a sentence or thought. If a student doesn't understand a comment or suggestion, the student can click the "?" icon in the corner of the comment bar and

LEARNING OBJECTIVES

After studying this chapter you should be ready to:

1. Explain the purpose of an industry analysis.

2. Identify and discuss the five competitive forces that determine industry profitability.

3. Explain the value that entrepreneurial firms create by successfully using the five forces model.

4. Identify the five primary industry types and the opportunities they offer.

5. Explain the purpose of a competitor analysis and a competitive analysis grid.

be taken to the corresponding section of the user guide. An individual paper can be submitted multiple times. WriteLab uses machine learning to remember how a specific student writes. Over time, WriteLab adapts to a particular student's writing preferences and adjusts its comments and suggestions accordingly. For the instructor, WriteLab's analytics provide comprehensive information about the progress each student is making. Grading goes faster for instructors who utilize WriteLab in their classrooms. Consistent with Ramirez's original vision, WriteLab has already taken care of routine feedback, which is normally addressed by the student. Teachers who use WriteLab also see their students engage in writing on a deeper level. Good quality feedback tends to make a student feel more valued as a writer.

WriteLab participates in the EdTech, or educational technology, industry. This is a challenging industry for several reasons including the fact that K–12 schools and colleges and universities operate within constrained budgets and long buying cycles. For many schools, the decision to adopt a product such as WriteLab must go through multiple levels of analysis before it happens. Many teachers are also resistant to change. There is a lot of inertia in education with traditional methods of instruction. WriteLab has fought through these challenges and is now being used by more than 30,000 students at 500 schools. Its primary users are high school AP English students and college freshmen and sophomore composition students. An advantage WriteLab has, which is a barrier to entry for potential competitors, is that Donald McQuade, one of its cofounders, is well established in the writing community. He is the past chairman of the National Writing Project, a network that supports writing teachers with research and professional development. This factor has opened doors for WriteLab that might not have opened otherwise and that may be closed to potential competitors.

In terms of competitors, no one has a product quite like WriteLab, but other players in WriteLab's space include Microsoft Word's grammar checker and Grammarly, which is an online proofreading tool that checks for grammar, punctuation, and style. It also checks for plagiarism. Additionally, there is an entire generation of "robo-readers," which are software platforms that scan student essays and assign a grade. These programs provide coarse-grained assessments based on proxies like word count, the number of complex sentences, and the frequency of esoteric vocabulary. WriteLab does not assign a grade—it leaves that to the teacher. Instead, it provides feedback to spur review and revision. WriteLab is careful to say that its goal is not to replace the teacher. Its goal is to be a tool that can help teachers save time and give more meaningful feedback to students.

WriteLab has raised over $2.1 million in funding. The firm plans to increase its penetration in U.S. markets and is working to make its platform available in multiple languages. It also has several partnerships in the education space and is working with a Japanese company that provides Test of English as a Foreign Language (TOEFL) services. WriteLab also sees a future beyond writing. Its founders are interested in how their technology can help people improve speaking. If WriteLab moves in that direction, it will enter an adjacent industry with new opportunities and challenges.

WriteLab is a success in part because of Matthew Ramirez's ability to analyze the educational technology (EdTech) industry and precisely position WriteLab within it. In this chapter, we'll look at industry analysis and competitor analysis. The first section considers **industry analysis**, which is business research that focuses on the potential of an industry. An **industry** is a group of firms producing a similar product or service, such as music, Pilates and Yoga studios, and solar panels. Once it is determined that a new venture is

feasible in regard to the industry and the target market in which it intends to compete, a more in-depth analysis is needed to learn the operational realities associated with the chosen industry. The in-depth analysis helps a firm determine if the niche or target markets it identified during its feasibility analysis are accessible and the ones that represent the best point of entry for the new firm.

We focus on competitor analysis in the second section. A **competitor analysis** is a detailed evaluation of a firm's competitors. Once a firm decides to enter an industry and chooses a market in which to compete, it must gain an understanding of its competitive environment. We will look at how a firm identifies its competition and the importance of completing a competitive analysis grid.

Industry Analysis

When studying an industry, an entrepreneur must answer three questions before pursuing the idea of starting a firm. First, is the industry accessible—in other words, is it a realistic place for a new venture to enter? Second, does the industry contain markets that are ripe for innovation or are underserved? Third, are there positions in the industry that will avoid some of the negative attributes of the industry as a whole? It is useful for a new venture to think about its **position** at both the company level and the product or service level. At the company level, a firm's position determines how the company is situated relative to its competitors, as discussed in Chapter 4. For example, Fresh Healthy Vending has positioned itself as a vending machine provider that specializes in healthy alternatives to traditional vending machine snack foods and beverages. The company's climate-controlled machines offer carrots, yogurt, smoothies, granola bars, and beverages such as milk, juice, and teas. This is a much different position than the vending machine providers that offer the standard fare such as chips, pretzels, salted peanuts, candy bars, sports drinks, and sodas.[1]

LEARNING OBJECTIVE

1. Explain the purpose of an industry analysis.

The importance of knowing the competitive landscape, which is what an industry is, may have been first recognized in the fourth century BC by Sun Tzu, a Chinese philosopher. Reputedly he wrote *The Art of War* to help generals prepare for battle. However, the ideas in the book are still used today to help managers prepare their firms for the competitive wars of the marketplace. The following quote from Sun Tzu's work points out the importance of industry analysis:

> We are not fit to lead an army on the march unless we are familiar with the face of the country—its pitfalls and precipices, its marshes and swamps.[2]

These words serve as a reminder to entrepreneurs that regardless of how eager they are to start a business, they are not adequately prepared until they are "familiar with the face of the country"—that is, until they understand the industry or industries they plan to enter and in which they intend to compete.

It is also important to know that some industries are simply more attractive than others in terms of their annual growth rate and other factors. For example, according to IBISWorld the industry for e-book publishing is expected to grow at an annual rate of 3.7 percent over the next five years.[3] For the same period, the industry for traditional book publishing is expected to decline at an annual rate of −0.8 percent per year.[4] What this means is that the conditions for growing a company are significantly more favorable in the e-book industry than in the traditional book publishing industry.[5] These types of differences exist for comparisons across other types of industries. The differences can be mitigated some by firm-level factors, including a company's products, culture, reputation, and other resources.[6] Still, in various studies researchers have found that from 8 to 30 percent of the variation in firm profitability is directly attributable to the industry in which a firm competes.[7] As a result, the overall attractiveness of an industry should be part of the equation when an entrepreneur decides whether to pursue a particular opportunity.

Studying industry trends and using the five forces model are two techniques entrepreneurs have available for assessing industry attractiveness.

Studying Industry Trends

The first technique an entrepreneur has available to discern the attractiveness of an industry is to study industry trends. Environmental and business trends are the two most important trends for entrepreneurs to evaluate.

Environmental Trends   As discussed in Chapter 2, environmental forces or trends are very important. The strength of an industry often surges or wanes not so much because of the management skills of those leading firms in a particular industry, but because environmental trends shift in favor or against the products or services sold by firms in the industry.

Economic trends, social trends, technological advances, and political and regulatory changes are the most important environmental trends for entrepreneurs to study. For example, companies in industries selling products to seniors, such as the eyeglasses industry and the hearing aid industry, benefit from the social trend of the aging of the population. In contrast, industries selling food products that are high in sugar, such as the candy industry and the sugared soft-drink industry, suffer as the result of a renewed emphasis on health and fitness. Sometimes there are multiple environmental changes at work that set the stage for an industry's future. This point is illustrated in the following statement from IBISWorld's assessment of the future of the gym, health, and fitness clubs industry in the United States. After first reporting that gym, health, and fitness club sales are anticipated to increase at an annualized rate of 2.6 percent between 2016 and 2021 to reach a sales volume of $34.4 billion, the report goes on to say that:

> The Gym, Health and Fitness Clubs industry has benefited from recent marketing campaigns aimed at fighting obesity, as well as consumer trends towards improved health. Further driving demand for industry services, many health-conscious individuals have incorporated fitness into their daily regimen. Additionally, the number of people aged 20 to 64, the largest gym-going demographic, has grown, spurring demand for gym memberships over the period.[8]

This short assessment about sales in the gym, health, and fitness clubs industry illustrates the degree to which environmental trends affect an industry's prospects. In other parts of the report, the industry is credited with offering its members more targeted experiences (like yoga and Pilates), lower-cost memberships, and more convenient operating hours. Still, the somewhat positive assessment of the gym, health, and fitness clubs industry's future is largely tied to environmental trends—an increased emphasis on health and fitness and the growth in the demographic group of people who are the biggest gym-goers. Similar environmental forces are at work in all industries.

Business Trends   Other trends affect industries that aren't environmental trends per se but are important to mention. For example, the firms in some industries benefit from an increasing ability to outsource manufacturing or service functions to lower-cost foreign labor markets, while firms in other industries don't share this advantage. In a similar fashion, the firms in some industries are able to move customer procurement and service functions online, at considerable cost savings, while the firms in other industries aren't able to capture this advantage. Trends such as these favor some industries over others.

It's important that start-ups stay on top of both environmental and business trends in their industries. One way to do this is via participation in industry trade associations, trade shows, and trade journals, as illustrated in the nearby "Partnering for Success" feature.