Entering New Businesses: Selecting the Strategies for Success

Charles A. Berry
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+ MIT Program in the Management of Technology,
and Pilkington Brothers Limited

* MIT Sloan School of Management
ABSTRACT

Selection from the alternative strategies available for entering new businesses is a key issue for diversifying corporations. Alternative approaches include internal development, acquisition, licensing, joint ventures, and minority venture capital investments. An intensive literature review is used to devise a matrix of company "familiarity" with relevant market and technological experiences and to demonstrate the conceptual utility of the matrix for entry strategy choice. Performance data on 14 business development episodes by one successful diversified technological firm are used to support the selection concepts embodied in the "familiarity matrix".
Extensive writings have focused on new business development and the various mechanisms by which it may be achieved. Much of this literature concentrates on diversification, the most demanding approach to new business development, in which both the product and market dimensions of the business area may be new to a company.

Rumelt\(^{16}\) has developed a now widely accepted scheme for classifying diversified companies. This scheme combines the extent of diversification with a measure of the relatedness of the various businesses forming the company. Although Rumelt identified nine types of diversified companies, these fell into three basic categories: Dominant Business Companies, Related Business Companies and Unrelated Business Companies. On analysing the performance of companies within these categories, Rumelt concluded that Related Business Companies outperformed the averages on five accounting-based performance measures over the period 1949 to 1969.

Peters\(^{12}\) supports Rumelt's conclusions on the superior performance of related business companies. In his study of 37 "well managed" organizations he found that they had all been able to define their strengths and build upon them. They had not moved into potentially attractive new business areas which required skills that they did not have. In their recent book Peters and Waterman\(^{13}\) classed this as "sticking to the knitting".

Even in small high technology firms similar effects can be noted. Recent research by Meyer and Roberts\(^{10}\) on ten such firms revealed that the most successful firms in terms of growth had concentrated on one key technological area and introduced product enhancements related to that area. In contrast, the poorest performers had tackled "unrelated" new technologies in attempts to enter new product-market areas.
The research work discussed above tends to indicate that in order to ensure highest performance, new business development should be constrained within areas related to a company's base business - a very limiting constraint. However, no account was taken of how new businesses were in fact entered and the effect that the entry mechanism had on subsequent corporate performance. Possible entry mechanisms are now examined.

**Internal Development.** Companies have traditionally approached new business development via two routes: internal development or acquisition. Internal development exploits internal resources as a basis for establishing a business new to the company. Biggadike\(^2\) studied FORTUNE 500 companies that had used this approach in corporate diversification. He found that typically 8 years were needed to generate a positive return on investment, and performance did not match that of a mature business until a period of 10 to 12 years had elapsed. However, Weiss\(^1^9\) asserts that this need not be the case. He compared the performance of internal corporate development with comparable businesses newly started by individuals and found that the new independent businesses reached profitability in half the time of corporate effort - approximately 4 years versus 8 years. Weiss attributes this to the more ambitious targets established by independent operations, and sees no reason why large corporations should not be able to achieve comparable performance levels.

Miller\(^1^1\) indicates that forcing established attitudes and procedures upon a new business may severely handicap it, and suggests that success finally may not come until the technology has been adapted, new facilities have been established, or familiarity with the new markets has developed. This last factor is very important. Gilmore and Coddington\(^4\) believe that lack of familiarity with new markets often leads to major errors.
Acquisition. In contrast to internal development, acquisition can take weeks rather than years to execute. This approach may be attractive not only because of its speed, but it may also offer much lower cost of entry into a new business or industry. Salter and Weinhold\(^{17}\) point out that this is particularly true if the key parameters for success in the new business field are intangibles such as patents, product image or R&D skills which may be difficult to duplicate via internal developments within reasonable costs and timescales.

Miller\(^{11}\) believes that a diversifying company cannot step in immediately after acquisition to manage a business it knows nothing about. It must set up a communication system that will permit it gradually to understand the new business. Before this understanding has developed, incompatibility may exist between the managerial judgment appropriate for the parent and that required for the new subsidiary.

Anti-trust legislation may be yet another complication in acquisition. Shanklin\(^{18}\) discusses potential impacts, stressing that a company in a dominant industry position may have great difficulty extending its base business by acquisition. Indeed such companies may even encounter problems in internal development.

Licensing. Acquiring technology through licensing represents an alternative to acquiring a complete company. Killing\(^{8}\) discusses licensing as a vehicle for product diversification, pointing out that it avoids the risks of product development by exploiting the experience of firms who have already developed and marketed the product.

Roberts\(^{15}\) mentions that many corporations are now adopting new venture strategies in order to meet ambitious plans for diversification and growth.
Internal Ventures. Internal ventures have some similarities to internal development, which has already been discussed. In this venture strategy, a firm attempts to enter different markets or develop substantially different products from those of its existing base business by setting up a separate entity within the existing corporate body. Overall the strategy has had a mixed record, but some companies such as 3M have exploited it with considerable success. This is due to a large extent to their ability to harness and nurture entrepreneurial behavior within the corporation. Fast agrees that internal venturing has had a mixed record, and suggests that major corporations can learn more details of the venture development process by studying venture capitalists. He cites, as examples, 3M and Corning who have invested as limited partners in venture capital partnerships. This involvement in business development financing can keep the company in touch with new technologies and emerging industries as well as providing the guidance and understanding of the venture development process necessary for more effective internal corporate venturing.

Joint Ventures. Despite the great potential for conflict, many companies successfully diversify and grow via joint ventures. Killing points out that as projects get larger, technology more expensive and the cost of failure too large to be borne alone, joint venturing may become increasingly important. Shifts in national policy in the United States are now encouraging the formation of several large research-based joint ventures involving many companies.

Hlavacek et al. and Roberts believe one class of joint venture to be of particular importance - "new style" joint ventures. This refers to situations in which large and small companies join forces to create a new entry in the market place. Primarily the small company provides the technology, the large company provides marketing capability and the venture is synergistic for both parties.
Venture Capital and Nurturing. The venture strategy identified by Roberts, which permits the lowest level of corporate commitment is that associated with external venture capital investment. Major corporations have exploited this approach in order to participate in the growth and development of small companies as investors, participants or even eventual acquirers. Roberts points out that this approach was popular as early as the mid-to-late 1960s with many large corporations such as DuPont, Exxon, Ford, General Electric and Singer. Their motivation was the opportunity to secure entry into new technologies by taking minority investments in young and growing high technology enterprises. However, few companies in the '60s were able to make this approach by itself an important stimulus of corporate growth of profitability. Despite this, ever increasing number of companies today are experimenting with venture capital, many showing important financial and informational benefits.

Studies carried out by Greenthal and Larson show that venture capital investments can indeed provide satisfactory and perhaps highly attractive returns, if they are properly managed. Rind distinguishes between direct venture investments and investment into pooled funds of venture capital partnerships. He points out that although direct venture investments can be carried out from within a corporation by appropriate planning and organization, difficulties are often encountered due to a lack of appropriately skilled people, contradictory rationales between the investee company and parent, legal problems, and an inadequate time horizon. Investment in a partnership may remove some of these problems but if the investor's motives are other than simply maximising financial return, it may be important to select a partnership concentrating investments in areas of interest. Increasingly corporations are trying to use pooled funds to provide "windows" on new technologies and new markets, but these require special linkages with the investment fund managers.
In situations where the investing company provides managerial assistance to the recipient of the venture capital, the strategy is classed as venture nurturing rather than pure venture capital. This seems to be a more sensible approach to diversification than a simple provision of funds, but it needs to be tied to other company diversification efforts.

Summary

Major prior research work on large U.S. corporations has indicated that highest performers had diversified to some extent but had constrained the development of new business within areas related to the company's base business. The range of mechanisms available for entering new businesses and a summary of various advantages and disadvantages of each mechanism is given in EXHIBIT 1.

These various entry mechanisms require different levels of corporate involvement; EXHIBIT 2 therefore extends Roberts' earlier "spectrum" of venture strategies to include internal development and acquisition. The resulting array of entry strategies is divided into three regions, each requiring a different level of corporate involvement and commitment. Note that this spectrum includes an entry mechanism not discussed in the above literature - the "educational" acquisition. The purpose of an acquisition of this type is to provide a more transparent window on a new technology than a venture capital investment. This mechanism will be discussed in more detail in later sections.

No one mechanism is ideal for all new business development. It may therefore be possible that selective use of entry mechanisms can yield substantial benefits over concentration on one particular approach. If this is valid, then perhaps there are ways to reduce the risk associated with new business development in unrelated areas.
<table>
<thead>
<tr>
<th>NEW BUSINESS DEVELOPMENT MECHANISM</th>
<th>MAJOR ADVANTAGES</th>
<th>MAJOR DISADVANTAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTERNAL DEVELOPMENT</td>
<td>Uses existing resources</td>
<td>Time lag to break even tends to be long (on average 8 years)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Unfamiliarity with new markets may lead to errors</td>
</tr>
<tr>
<td>ACQUISITION</td>
<td>Rapid market entry</td>
<td>New business area may be unfamiliar to parent</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Impacts of anti-trust</td>
</tr>
<tr>
<td>LICENSE</td>
<td>Rapid access to proven technology</td>
<td>Not a substitute for internal technical competence</td>
</tr>
<tr>
<td></td>
<td>Reduced financial exposure</td>
<td>Not proprietary technology</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Dependence upon licensor</td>
</tr>
<tr>
<td>INTERNAL VENTURE</td>
<td>Uses existing resources</td>
<td>Mixed record of success</td>
</tr>
<tr>
<td></td>
<td>May enable company to hold a talented entrepreneur</td>
<td>Corporation's internal climate often unsuitable</td>
</tr>
<tr>
<td>JOINT VENTURE</td>
<td>Technological/ marketing unions can exploit small/large company synergies</td>
<td>Potential for conflict between partners</td>
</tr>
<tr>
<td></td>
<td>Distribute risk</td>
<td></td>
</tr>
<tr>
<td>VENTURE CAPITAL</td>
<td>Can provide window on new technology or market</td>
<td>Unlikely alone to be a major stimulus of corporate growth</td>
</tr>
</tbody>
</table>
EXHIBIT 2
SPECTRUM OF ENTRY STRATEGIES

INCREASING CORPORATE INVOLVEMENT

INTERNAL DEVELOPMENT
ACQUISITION
LICENSE
INTERNAL VENTURE
JOINT VENTURE
VENTURE CAPITAL
"EDUCATIONAL" ACQUISITION
ENTRY STRATEGY: A NEW SELECTION FRAMEWORK

New business development may address new markets, new products or both. In addition, these new areas may be ones that are familiar or unfamiliar to a company. Let us first define "newness" and "familiarity":

"NEWNESS OF A TECHNOLOGY OR SERVICE"
- The degree to which that technology or service has not formerly been embodied within the products of the company.

"NEWNESS OF A MARKET"
- The degree to which the products of the company have not formerly been targeted at that particular market.

"FAMILIARITY WITH A TECHNOLOGY"
- The degree to which knowledge of the technology exists within the company, not necessarily embodied in products.

"FAMILIARITY WITH A MARKET"
- The degree to which the characteristics and business patterns of a market are understood within the company, not necessarily as a result of participation in the market.

If the businesses in which a company presently competes are its BASE businesses, then market factors* associated with the new business area may be

* Here, "market factors" refers not only to particular characteristics of the market and the participating competitors, but also includes the appropriate pattern of doing business that may lead to competitive advantage. Some alternative patterns are performance/premium price and lowest cost producer.
characterized as BASE, NEW FAMILIAR, or NEW UNFAMILIAR. Similarly, the technologies or service embodied in the product for the new business area may be characterized on the same basis. EXHIBIT 3 illustrates some tests that may be used to distinguish between "base" and "new" areas. EXHIBIT 4 lists questions that may be used to distinguish between familiar and unfamiliar technologies. (Equivalent tests may be applied to services). Questions to distinguish between familiar and unfamiliar markets are given in EXHIBIT 5.

The application of these tests to any new business development opportunity enables it to be located on a 3x3 technology/market FAMILIARITY MATRIX as illustrated in EXHIBIT 6. The nine sectors of this matrix may be grouped into three regions, with the three sectors comprising any one region having broadly similar levels of familiarity. These three regions are illustrated in EXHIBIT 6.

Which entry strategies are appropriate in the various regions of the familiarity matrix? The literature provides some useful guides.

In his discussion of the management problems of diversification, Miller proposes that acquisitive diversifiers are frequently required to participate in the strategic and operating decisions of the new subsidiary before they are properly oriented towards the new business. In this situation the parent is "unfamiliar" with the new business area. It is logical to conclude that if the new business is unfamiliar after acquisition, it must also have been unfamiliar before acquisition. How then can the parent have carried out comprehensive screening of the new company before executing the acquisition? Most probably preacquisition screening overlooked many factors, turning the acquisition into something of a gamble from a business portfolio standpoint. Similar arguments can be applied to internal development in unfamiliar areas and Gilmore and Coddington specifically stress the dangers associated with entry into unfamiliar markets.
EXHIBIT 3
TESTS OF "NEWNESS"

Is the technology or service embodied within existing products?

- YES -> Base technology or service
- NO -> New technology or service

Are existing products sold within this market?

- YES -> Base market
- NO -> New Market
EXHIBIT 4
TESTS OF TECHNOLOGICAL FAMILIARITY

DECREASING FAMILIARITY

1) Is the technological capability used within the corporation without being embodied in products, e.g., required for component manufacture (incorporated in processes rather than products)?

2) Do the main features of the new technology relate to or overlap with existing corporate technological skills or knowledge, e.g., coating of optical lenses and aluminizing semiconductor substrates?

3) Do the technological skills or knowledge exist within the corporation without being embodied in products or processes, e.g., at a central R&D facility?

4) Has the technology been systematically monitored from within the corporation in anticipation of future utilization, e.g., by a technology assessment group?

5) Is relevant advice available from external consultants?
EXHIBIT 5
TESTS OF MARKET FAMILIARITY

1) Do the main features of the new market relate to or overlap existing product markets, e.g., base and new products are both consumer products?

2) Does the company presently participate in the market as a buyer (relevant to backward integration strategies)?

3) Has the market been monitored systematically from within the corporation with a view to future entry?

4) Does knowledge of the market exist within the corporation without direct participation in the market, e.g., as a result of previous experience of credible staff?

5) Is relevant advice available from external consultants?
**EXHIBIT 6**

**THE FAMILIARITY MATRIX**

<table>
<thead>
<tr>
<th>MARKET FACTORS</th>
<th>NEW UNFAMILIAR</th>
<th>NEW FAMILIAR</th>
<th>BASE</th>
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</table>

**TECHNOLOGIES OR SERVICES EMBODIED IN THE PRODUCT**

**KEY:**

- Increasing corporate familiarity
This leads to the conclusion that entry strategies requiring high corporate involvement should be reserved for new businesses with familiar market and technological characteristics. Similarly, entry mechanisms requiring low corporate input seem best for unfamiliar sectors. In this way it is possible to align the three sections of the entry strategy spectrum of EXHIBIT 2 with the three regions of the FAMILIARITY MATRIX, EXHIBIT 6. Let us now analyse this alignment for each region of the matrix, with particular regard to the main factors identified in the literature.

Region 1: Base/Familiar Sectors

Within the base/familiar sector combinations illustrated in EXHIBIT 7, a corporation is fully equipped to undertake all aspects of new business development. Consequently, the full range of entry strategies may be considered, including internal development, joint venturing, licensing, acquisition or minority investment of venture capital. However, although these are all valid from a corporate familiarity standpoint other factors suggest optimum entry approaches.

The potential of conflict between partners may reduce the appeal of a joint venture, and minority investments offer little benefit since the investee would do nothing that could not be done internally.

The most attractive entry mechanisms in these sectors probably include internal development, licensing and acquisition. Internal development may be appropriate in each of these sectors, since the required expertise already exists within the corporation. Licensing may be a useful alternative in the base market/new familiar technology sector since it offers fast access to proven products. Acquisition may be attractive in each sector but may be infeasible for some companies in the base/base region as a result of anti-trust legislation.
EXHIBIT 7
PREFERRED ENTRY MECHANISMS IN BASE/FAMILIAR SECTORS

MARKET FACTORS

NEW UNFAMILIAR

- Internal Market Development
  - or
  - Acquisition
    - (or Joint Venture)

NEW FAMILIAR

- Internal Base Development
  - or
  - Acquisition
    - (or License)

BASE

- Internal Product Development
  - or
  - Acquisition
    - or
    - License

BASE NEW FAMILAR NEW UNFAMILIAR

TECHNOLOGIES OR SERVICES EMBODIED IN THE PRODUCT

KEY: = TRANSITIONS OVER TIME
It may therefore be concluded that in these base/familiar sectors, the optimum range may be limited to internal development, licensing and acquisition as illustrated in EXHIBIT 7. In all cases a new business developed in each of these sectors is immediately required to fulfill a role within the corporate business portfolio. For this reason, acquisitions in these sectors will be referred to from now on as "portfolio" acquisitions.

Finally, since new businesses within the base market/new familiar technology and new familiar market/base technology sectors immediately enter the corporate business portfolio, they transfer rapidly into the base/base sector. These transitions are illustrated in EXHIBIT 7.

Region 2: Familiar/Unfamiliar Sectors

EXHIBIT 8 illustrates the sectors of lowest familiarity from a corporate standpoint. It has already been proposed that a company is only competent to carry out totally appropriate analyses on new business opportunities which lie within its own sphere of familiarity. Large scale entry decisions outside this sphere are liable to miss important characteristics of the technology or market, reducing the probability of success. Furthermore, if the unfamiliar parent attempts to exert strong influence on the new business, the probability of success will be reduced still further.

These factors suggest that a two stage approach may be best when a company desires to enter unfamiliar new business areas. The first stage should be devoted to building corporate familiarity with the new area. Once this has been achieved, the parent is then in a position to decide whether to allocate more substantial resources to the opportunity and, if appropriate, to select a mechanism for developing the business.

Venture capital provides one vehicle for building corporate familiarity with an unfamiliar area. By nurturing a venture capital minority investment
EXHIBIT 8
PREFERRED ENTRY MECHANISMS
IN FAMILIAR/UNFAMILIAR SECTORS

MARTET
FACTORS

NEW
UNFAMILIAR

NEW
FAMILIAR

BASE

| Venture | Venture |
| Capital | Capital |
| or | or |
| Venture | Venture |
| Nurturing | Nurturing |
| or | or |
| Educational | Educational |
| Acquisition | Acquisition |

BASE
NEW
FAMILIAR
NEW
UNFAMILIAR

TECHNOLOGIES OR SERVICES
EMBODIED IN THE PRODUCT

KEY: = TRANSITION OVER TIME
the corporation can monitor, at first hand, new technologies and markets.*

Over time the new opportunity moves into a familiar market/technology region, as illustrated in EXHIBIT 8, from which the parent can now exercise appropriate judgment on the commitment of more substantial resources.

Targeted small acquisitions can fulfill a similar role to a venture capital minority investment and, in some circumstances, may offer significant advantages. In an acquisition of this type, the acquiring firm immediately obtains people familiar with the new business area, whereas in a minority investment, the parent relies upon its existing staff building familiarity by interacting with the investee. Acquisitions for educational purposes may therefore represent a faster route to familiarity than the venture capital "window" approach. Staff acquired in this manner may even be used by the parent as a basis for redirecting a corporation's primary product-market thrust. Harris Corporation (formerly Harris-Intertype) entered the computer and communication systems industry using precisely this mechanism to acquire internal skills and knowledge through its acquisition of Radiation Dynamics Inc.

One potential drawback in this "educational acquisition" approach is that it usually requires a higher level of financial commitment than minority investment and therefore increases risk. In addition, it is necessary to ensure that key people do not leave soon after the acquisition due to the removal of entrepreneurial incentives. A carefully designed acquisition deal may be necessary to ensure that incentives remain. When Xerox acquired Versatec, for example, the founder and key employees were given the opportunity to double their "sell-out" price by meeting performance targets over the next five years.

* It is clearly essential that if the investment is to be worthwhile, the investee must be totally familiar with the technology/market. These must be his base business.
It is also important that the performance of acquisitions of this type be measured according to criteria different from those used to assess the "portfolio" acquisitions discussed in the previous section. These "educational" acquisitions should be measured on their ability to provide increased corporate familiarity with a new technology or market, and not on their ability to perform immediately a conventional business unit role within the corporate business portfolio.

Region 3: Marginal Sectors

The marginal sectors of the matrix are the base/new familiar combinations plus the new familiar market/new familiar technology area, as illustrated in EXHIBIT 9. In each of the former sectors, the company has a strong familiarity with either markets or technologies, but is totally unfamiliar with the other dimension of the new business. In these situations joint venturing may be very attractive to the company and prospective partners can see that the company may have something to offer. However, in the new familiar technology/market region the company's base business does not advertise familiarity with that technology or market. Hence, prospective partners may not perceive that a joint venture relationship would yield any benefit to them.

In the base market/new unfamiliar technology sector the "new style" joint venture discussed by Roberts and Hlavacek et al. is appropriate. The large firm provides the marketing channels and a small company provides the technological capability in a union that can result in a very powerful team. The complement of this situation may be equally attractive in the new unfamiliar market/base technology sector.

Joint ventures such as these not only provide a means of fast entry into a new business sector, but also offer increased corporate familiarity over time as illustrated in EXHIBIT 9. Consequently, although a joint venture may be the
EXHIBIT 9
PREFERRED ENTRY MECHANISMS
IN MARGINAL SECTORS

MARKET FACTORS

NEW UNFAMILIAR

Joint Venture

NEW FAMILIAR

Internal Venture or Acquisition or License

BASE

"New Style" Joint Venture

BASE NEW FAMILIAR NEW UNFAMILIAR

TECHNOLOGIES OR SERVICES EMBODIED IN THE PRODUCT

KEY: \(\rightarrow\) TRANSITION OVER TIME
optimum entry mechanism into the new business area, future development of that business may be best achieved by internal development or acquisition as discussed in the earlier Base/Familiar Sectors section.

In the new familiar market/new familiar technology sector, the company may be ideally placed to undertake an internal venture. Alternatively, licensing may provide a useful means of obtaining rapid access to a proven product embodying the new technology. Minority investments can also succeed in this sector but, since familiarity exists, a higher level of corporate involvement and control may be justifiable.

Acquisitions may be potentially attractive in all marginal sectors. However, in the base/new unfamiliar areas this is dangerous since the company's lack of familiarity with the technology or market prevents it from carrying out comprehensive screening of candidates. In contrast, the region of new familiar market/new familiar technologies does provide adequate familiarity to ensure that screening of candidates covers most significant factors. In this instance an acquisitive strategy is reasonable.

Sector Integration: Optimum Entry Strategies

The foregoing discussion has proposed optimum entry strategies for attractive new business opportunities based on their position in the FAMILIARITY MATRIX. EXHIBIT 10 integrates these proposals to form a tool for selecting entry strategy based on corporate familiarity.

TESTING THE PROPOSALS

In testing the proposed entry strategies, Berry studied 14 new business development episodes that had been undertaken within one highly successful diversified technological corporation. These episodes were all initiated within the period 1971 to 1977, thus representing relatively recent activity while still ensuring that sufficient time had elapsed for performance to be measurable.
### EXHIBIT 10
### OPTIMUM ENTRY STRATEGIES

<table>
<thead>
<tr>
<th>MARKET FACTORS</th>
<th>BASE</th>
<th>NEW FAMILIAR</th>
<th>NEW UNFAMILIAR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NEW UNFAMILIAR</td>
<td>Joint Venture</td>
<td>Venture Capital or Venture Nurturing or Educational Acquisition</td>
<td>Venture Capital or Venture Nurturing or Educational Acquisition</td>
</tr>
<tr>
<td></td>
<td>Internal Market Development or Acquisition (or Joint Venture)</td>
<td>Internal Venture or Acquisition or License</td>
<td>Venture Capital or Venture Nurturing or Educational Acquisition</td>
</tr>
<tr>
<td>NEW FAMILIAR</td>
<td>Internal Base Development (or Acquisition)</td>
<td>Internal Product Development or Acquisition or License</td>
<td>&quot;New Style&quot; Joint Venture</td>
</tr>
</tbody>
</table>

TECHNOLOGIES OR SERVICES EMBODIED IN THE PRODUCT
The sample comprised 6 internal developments (3 successful, 3 unsuccessful), 6 acquisitions (3 successful, 3 incompatible) and 2 successful minority investments of venture capital. These were analysed in order to identify factors which differentiated successful from unsuccessful episodes. The scatter of these episodes on the familiarity matrix is illustrated in EXHIBIT 11. Internal developments are represented by symbols A to F, acquisitions by G to L, with M and N showing the location of the minority investments.

The distribution of success and failure* on the matrix gives support to the entry strategy proposals that have been made in this article. All high corporate involvement mechanisms (internal development and "portfolio" acquisitions) in familiar sectors were successful. However, in unfamiliar areas, only one of this category of entry mechanism, acquisition G, succeeded. This acquisition was a thirty year old private company with about 1000 employees, producing components for the electronics and computer industries. It was believed to offer opportunities for high growth although it was unrelated to any of the parent's existing business. The deal was completed after a period of two years of candidate evaluation carried out from within the parent. The only constraint imposed upon Company G following acquisition was the parent's planning and control system, and in fact the acquired company was highly receptive to the introduction of this system. This indicated that Company G was not tightly integrated with the parent and that any constraints imposed did not severely disrupt the established operating procedures of the company.

* Success here is defined as fulfilling a satisfactory role within the corporate business portfolio. Failures had not achieved this and had been discontinued or divested.
EXHIBIT 11

EPISODE SCATTER ON THE FAMILIARITY MATRIX

MARKET FACTORS

NEW UNFAMILIAR

NEW FAMILIAR

BASE

BASE

NEW FAMILIAR

NEW UNFAMILIAR

TECHNOLOGIES OR SERVICES EMBODIED IN THE PRODUCT

KEY: ★ = SUCCESS
   ● = FAILURE
All factors surrounding the acquisition of Company G - its size, growth market, low level of constraint and low disruption by the parent - suggest that Company G may have continued to be successful even if it had not been acquired. Representatives of the parent agreed that this might be the case although they pointed out that the levels of performance obtained following acquisition might not have occurred if Company G had remained independent. Hence, if an acquired company is big enough to stand alone and is not tightly integrated with the parent, its degree of success is independently determined by itself.

It is important to point out that despite the success which occurred in this instance; an acquisition of this type in unfamiliar areas must carry risk. The parent is liable to overlook many subtle details while screening candidates. It is also important to point out that when an established company is acquired and continues to operate with a high degree of independence, identification of synergy becomes difficult. Synergy must exist in any acquisitive development if economic value is to be created by the move. Consequently, an acquisition of this type not only carries risk but may also be of questionable benefit to shareholders.

The other success in an unfamiliar area, episode N, is a minority investment of venture capital. By the very nature of minority investments, corporate involvement is limited to a low level. Although some influence may be exerted via participation on the Board of Directors of the investee, again the investee is not tightly bound to the parent. Consequently, the success of the investee tends once again to be determined to a large extent by itself.

Detailed examination of episodes G and N has therefore suggested good reasons for the subject companies' success despite their location in unfamiliar sectors - the companies didn't require a significant input to decision making
from the unfamiliar parent. This suggests that new business development success rate in unfamiliar areas may be increased by limiting corporate input to the decision making process to low levels until corporate familiarity with the new area has developed. These experiences support the entry proposals already outlined in this article.

Some companies have already adopted entry strategies that seem to fit the proposals of this article, and Monsanto represents one of the best examples. Monsanto is now committed to significant corporate venturing in the emerging field of biotechnology. Its first involvement in this field was achieved with the aid of its venture capital partnership Innoven which invested in several small biotechnology firms, including Genentech. During this phase Monsanto interacted with the investees, inviting them in-house to give seminars on their work. Once some internal familiarity with the emerging field had developed, the decision was then taken to commit substantial resources to an internal venture. Monsanto is effectively entering biotechnology by moving from top right to bottom left across the familiarity matrix of EXHIBIT 10. They used venture capital to move from an unfamiliar region to an area of familiar technology and market. Joint ventures with Harvard Medical School and Washington University of St. Louis are further enhancing its familiarity with biotechnology, while producing technologies that Monsanto hopes to market. Contract research leading to licenses from small companies is another strategy Monsanto is employing.

**CONCLUSIONS**

A spectrum of entry strategies was presented in this article, ranging from those requiring corporate involvement, such as internal development or acquisition, to those requiring only low involvement, such as venture capital. This was then incorporated into a new conceptual framework designed to assist in selecting entry strategy into potentially attractive new business areas. The frame-
work concentrates on the concept of the corporation's "familiarity" with the new business area and a matrix was used to relate familiarity to optimum entry strategy.

In this concept, no one strategy is ideal for all new business development situations. Within familiar sectors virtually any strategy may be adopted and internal development or acquisition is probably most appropriate. However, in unfamiliar areas these two approaches are very risky and familiarity should be built before they are attempted. Minority investments and small targeted "educational" acquisitions form ideal vehicles for building familiarity and are therefore the preferred entry strategies in unfamiliar sectors.

Despite recent criticism, venture capital may be the most important of these approaches. By means of a corporate venture program using either direct funding or partnerships of pooled funds, a company has the opportunity to interact with investees and gain insight into a wide range of unfamiliar technologies or markets without large financial commitment. The knowledge that can be developed in this situation increases the likelihood that decisions on subsequent commitment of more substantial resources have addressed all relevant factors.

At the start of this article, research results were outlined which had indicated that in order to ensure highest performance, new business development should be constrained within areas related to a company's base business. However, this research had not accounted for alternative entry mechanisms. This article proposed that a multi-faceted approach, encompassing internal development, acquisitions, joint ventures and venture capital minority investments, can make available a much broader range of business development opportunities at lower risk than would otherwise be possible.
REFERENCES


Basement

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