The essence of entrepreneurial success

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What are the essential elements of entrepreneurial success?

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Large company or small. Start-up or existing firm. The essence of entrepreneurial success is found in the strategies that link the company and its environment. New and/or different links between the firm and its environment are usually the product of an inclination to test – and sometimes ignore – conventional wisdom about how things are done, as well as an entrepreneurial mindset that empowers the execution of untried ideas.

Dell Computer grew to $1.7 billion of revenues in just ten years by defying the conventional wisdom that personal computers must be seen (and explained) to be sold. Dell substituted a new paradigm: if the price is dramatically lower, customers will purchase personal computers through a catalogue sight unseen and, moreover, will take responsibility for learning to operate them without the face-to-face instruction offered by competitors’ store-based distribution method. This entrepreneurial strategy achieved competitive advantage by linking customer and products by means of a new application of an existing channel of marketing/distribution.

Similarly, Calyx and Corolla Flower Company was started to sell flowers through a paradigm-shattering use of catalogues mailed directly to customers. The founding entrepreneur, Ruth Owades, negotiated arrangements with growers to package flowers at the point of harvest and ship them by way of Federal Express directly to customer residences or businesses. This novel strategy challenged the entrenched belief that customers would only purchase flowers through the established channel of local florist shops. The company demonstrated not only that flowers could be delivered undamaged but also that the average time between harvest and customer delivery (thus freshness) could be reduced by seven to ten days through the new direct order mail delivery method.

Entrepreneurial strategies are not a twentieth-century phenomenon. When Marco Polo established trade routes to the Far East, he was demonstrating the risk-taking behaviour we associate with entrepreneurship. The match he found between his skills and the environmental opportunity (demand for goods by consumers previously separated by geography and culture) is a perfect illustration of an entrepreneurial strategy. The example of Marco Polo is particularly apt to the contemporary understanding of entrepreneurship, with its increasingly global scope.

A key condition of entrepreneurial strategies is the capacity to assume risk by the person or persons who have the prerogative to take action – either the owner or a manager or group of managers whose emotional investment and delegated authority enable them to place the firm’s resources at risk. Dell, Owades and even Polo did just that when they launched their new businesses.

How to devise an entrepreneurial strategy for the start-up venture

For the determined entrepreneur, successful start-up strategies emerge from a process made up of the following, often overlapping, steps:

- Studying the environment to identify unmet marketplace needs.
- Developing a product or service to respond to needs and marketplace trends.
- Creating a marketing and financial plan to animate the selected product/service concept.
- Sorting out the suitable level of personal and business risk that corresponds to the entrepreneur’s capacity and potential marketplace rewards.
- Marshalling the requisite resources to launch the business.

Identify unmet marketplace needs

Unmet marketplace needs are the principal inspiration of entrepreneurial strategy. While novel, breakthrough ideas sometimes lead to huge rewards, the majority of entrepreneurs launch businesses that modify an existing...
product or service in a way that satisfies a previously unmet need.

The identification of unmet marketplace needs depends on a thorough understanding of the economic, social, demographic, technological and political trends that reshape the environment. A new business concept that responds to emerging demographic and social trends enhances the likelihood of success. The growing number of elderly people creates the potential for entrepreneurial strategies that serve their particular needs. The focus on personal health and fitness gives rise to a range of strategic initiatives, from personal exercise trainers to weight loss clinics. Anti-smoking laws and related public policy information campaigns have spawned products and services to help people abandon cigarettes. The rapid computerization of the international workplace created the need to train workers to operate continuously enhanced information systems.

Select the product or service
The selection of the product or service which is to be the basis of the entrepreneurial strategy is a matter of integrating the unmet need opportunity discovered in the environmental scan and the entrepreneur's preparation.

A classic entrepreneurial strategy
Innovatively linking the firm's products or services to its environment is a classic entrepreneurial strategy. Microsoft, the computer software giant, was created by the entrepreneurial impulse of its founder, Bill Gates. His signal innovation was to build products that were designed into the new products of its customers (notably IBM), thereby erecting huge barriers to the entry of would-be competitors. The computer software business was then and is now savagely competitive. By reinterpreting product innovation to include the emerging needs of his target customers' product development cycles, Gates created a powerful, difficult to defeat linkage with his firm's customers, leaving behind many of his competitors whose focus was exclusively geared to product novelty.

Federal Express, the private postal service invented by Fred Smith, who was 28 years old at the time, further demonstrates the power of entrepreneurial strategy. The customer need he identified was speed, a need not satisfied by the bureaucratic performance of many government-managed postal services. Fred Smith's daring entrepreneurial response was to create a private air force to deliver packages twice to ten times faster than governmental competitors. Federal Express, at considerable risk, created a service capability that anticipated the vast number of customers willing to pay premium prices to achieve speed and reliability of communication.

The customer is not the only party whose needs can be met by an innovative strategy. Take the case of two companies - a major oil company and a provider of underground water remediation services - which started a joint venture to provide a mutually desired service. The international oil company was incurring substantial expenditures to clean up the contamination of ground water caused by leaks from underground tanks at its local petrol stations. The water remediation firm was a minor supplier of this service to the oil company. A joint venture was created between the two to perform all of the oil firm's remediation at substantially reduced cost and to provide remediation service to other oil companies located in regions previously unserved by the groundwater clean-up firm. The oil company invested the capital required for geographic expansion and benefited from both lower remediation costs and a share of the joint venture profits created by the dramatic expansion of the environmental clean-up firm's geographic penetration. Each joint venture partner maintained its separate ownership and operations. However, they were able to create new wealth by combining resources for purposes of the joint venture.

A similar example is the alliance of two regional dairies to achieve the economies of scale needed to contend with the lower manufacturing costs of large national competitors. Such large-scale companies are able to devote entire processing plants to single or similar products, resulting in very high equipment utilization rates and lower unit production costs. These lower costs enable the national dairy to price products below those of the typical regional dairy. To counter this competitive advantage, the two regional dairies established a co-operative production scheme. One dairy produced all the fluid milk products and the other all the ice-cream products. Utilization rates increased and unit costs declined. Both dairies maintained their separate product identity and distribution; however, their lower product costs enabled them to match their larger competitors' pricing. The result was a service to both firms - increased sales and competitive vitality demonstrating, in this instance, the potential of entrepreneurial strategy to maintain a competitive parity. As some of these examples suggest, start-up entrepreneurs must know, in considerable depth, not only how their industries work but also what their capabilities are.

The case of an industrial sealant start-up company exemplifies this. The company subcontracts the sealant manufacturing, employs a telemarketing firm to reach potential customers and utilizes a packaging company to warehouse and ship its products. A accounting and billing are also outsourced to another firm. This entrepreneur, based on an assessment of the limits of his/her personal capabilities, has created a virtual corporation that performs all the needed business functions without the substantial capital investment that would be required to manufacture and distribute his/her products within the
start-up company. The entrepreneur's contribution is product formulation, orchestrating the linkages between the various vendors that perform the essential functions, and the strategic cunning to appropriate the resources and expertise of other firms to achieve the goals of his/her own.

Many entrepreneurial strategies are identified while the eventual entrepreneur is working in a firm owned by others. The product design engineer imagines a product that more fully serves a customer need, drawing on his/her knowledge of the technology and marketplace of his employer's business. The fast-food restaurant manager plans to establish home delivery service based on a central telephone ordering despatch that will arrange, pick up and deliver food from any of the customer's favourite area restaurants. Whether the concept is a grand innovation or an adaptive idea to serve a customer need, the entrepreneur's likelihood of success is enhanced if he/she has been trained in businesses with technologies that are relevant to the intended entrepreneurial strategy. Start-ups are risky business. In the USA, 1,000 companies each day close their doors, often after existing for fewer than five years. In pursuing an entrepreneurial strategy, the entrepreneur's skills, training and relevant prior experience are determinative influences on the viability of the new venture.

Create a marketing and financial plan
Once the opportunity has been identified, the entrepreneur must create a marketing and financial plan to capitalize on the idea, gain control over the requisite resources, and establish a structure that is appropriate. While, according to studies, only about one third of start-up entrepreneurs create a comprehensive marketing and financial plan, those who do increase the probability of venture success. The planning process can refine the creative concept and strengthen the entrepreneur's capacity to execute. The plan should include the following elements:

- Resolve - the desired outcomes and objectives to be achieved in the marketplace during the initial years, focusing on year one; this section describes the firm's implementing strategy - what is to be done and how it is to be achieved.
- Resources - the human, financial, production and other capabilities needed to launch and sustain the business.
- Response - elements of the strategy that deflect competitor reactions (e.g. Microsoft's penetration of customer product design).
- Results - a quantitative financial measurement of the start-up strategy's viability: a projection of revenues, cost structure, and cash flow.

The former fast-food manager who starts a small multi-restaurant delivery service faces many of the same issues as Fred Smith of Federal Express, except as they relate to scale. Both will be served by a simple but disciplined start-up planning process. But the dimensions of the plan will be geared to the complexity of the venture concept. The most useful start-up plan will focus on a few key success factors rather than a comprehensive discussion of all the variables that may affect the firm. In the last analysis, the planning process should facilitate rather than delay the entrepreneurial impulse.

Select suitable level of risk
Successful entrepreneurs, contrary to the popular notion, generally select risks that avoid huge gambles. They are adept at calibrating the level of risk that matches potential reward and their personal capacity to manage uncertainty. Start-up entrepreneurs must honestly assess their level of training and preparation, appetite for risk-taking behaviour, and then realistically compare these calculations with both the rewards and the risks represented by the chosen entrepreneurial strategy. Sorting out the suitable level of personal and business risk is a key, often neglected, step in the new venture process.

Marshal financial resources
The requisite financial resources will depend, of course, on the nature of the proposed enterprise. The industrial sealant entrepreneur who outsourced the business's major functions avoided the necessity of major initial capital investment. Fred Smith, on the other hand, had to raise $91 million (at age 28) to fund his revolutionary idea. Finding sources of capital - whether they be personal savings, loans or gifts from relatives, or banks, venture capitalists, or governmental agencies - may require considerable ingenuity and persistence. The entrepreneur will need to weigh the options in terms of the cost of money and pressures to share control and ownership. One sobering fact stands out: the direct cause of most start-up failures is inadequate capital (although underlying flaws in the business concept and execution often contribute to capital dissipation). In any event, the entrepreneurial strategy can succeed only if initial and subsequently generated capital is sufficient.

The quality of the original business concept, especially its congruence with environmental opportunity, is what distinguishes a start-up entrepreneurial strategy. However, the entrepreneur's capacity to assemble needed resources and execute the venture plan is what ultimately determines the success or failure of the venture.

Profile of an entrepreneur
While there are notable exceptions, entrepreneurs who succeed often exhibit a characteristic profile. They
entrepreneurial units successful risk taking is rewarded, that value everyone’s ideas, regardless of rank. In these permitting the development of management structures to isolate units chartered to seek entrepreneurial strategies, foster and reward entrepreneurial behaviour. Some companies that have escaped the bureaucratic morass of large-scale commitments narrows the range of opportunity. The increasing susceptibility of managers in large-scale companies to job loss creates an aversion to risk taking that is incompatible with new, environmentally driven businesses. Start-up businesses like these, unburdened by past practice and entrenched paradigms about what works, are often the source of distinctive entrepreneurial strategies.

How to foster entrepreneurial strategies in established businesses
Most of the cases related above are start-up firms driven by their entrepreneurs’ conceptualization of an evolutionary or revolutionary linkage to his or her business environment. Start-up businesses like these, administrators in large-scale organizations in which there is a tendency towards hierarchical decision processes and centralized control systems face particular challenges in spawning entrepreneurial strategies. Instead of focusing on opportunities external to the firm, such managers are often mired in internal issues of structural, managerial, and resource limits that are barriers to opportunistic action. The perceived need for compatibility with existing strategic and operational commitments narrows the range of opportunity. The increasing susceptibility of managers in large-scale companies to job loss creates an aversion to risk taking that is incompatible with new, environmentally driven strategies.

Companies that have escaped the bureaucratic morass of organizational maturity tend to create conditions that foster and reward entrepreneurial behaviour. Some isolate units chartered to seek entrepreneurial strategies, permitting the development of management structures that value everyone’s ideas, regardless of rank. In these entrepreneurial units successful risk taking is rewarded, mistakes are accepted as inevitable in creative processes, and unit members control or are able to acquire the resources essential to the pursuit of opportunities discovered in the marketplace. Other companies attempt to facilitate entrepreneurial behaviour by reinventing the firm’s culture. Layers of management are collapsed company-wide. Inter-disciplinary teams are created linking market-focused employees with technical product- or process-oriented staff. Teams are empowered to appropriate resources. Managers not only leverage existing enterprise strengths and skills, they look also to acquiring talents or training employees to develop capabilities that are necessary to create and pursue entrepreneurial strategies. Such reinvented cultures reward action and rely less on bloated staffs. Data-driven analyses and fact-based decision making are honoured; however, these practices are joined by intuitive judgements. Sears Roebuck, the retailing giant, shifted prerogative from corporate staff to line managers in an effort to encourage action versus analysis. Japanese automakers taught the world to value the ideas of entry-level employees.

Reinvented cultures attempt to remove boundaries between firm and environment. Customer attitudes and ideas are regarded as extensions of the research and development function. 3M, a diversified international manufacturer of over 60,000 products, is a notable example of a culture that links its technological expertise with unmet customer needs, notwithstanding the large scale of its operations. “Post-it”, the enormously successful note paper that sticks, but does not permanently adhere to almost all surfaces, was discovered by listening to a company secretary’s unmet need. 3M conceptualized its own employee need as a proxy for the thousands of marketplace applications of the new product, insightfully blurring the boundary between organization and its external environment. Finally, the corporate entrepreneur, like his/her start-up venture counterpart, values ideas no matter where invented, focusing resources to their exploitation regardless of source.

International opportunity
The rapid collapse of nationally grounded economic boundaries and emergence of market-driven economies around the world are catalyst to new and extended entrepreneurial strategies. As old paradigms of conducting business between and within countries change, new environmental opportunities proliferate. Surging technology, advanced communication and information systems are engines of global linkage between entrepreneur and unmet customer needs. Never before in history has the chance of adding economic value to customer lives and organizations been so great.

Nevertheless, obstacles to the actualization of entrepreneurial strategies must be overcome, particularly in
The short term. Would-be entrepreneurs who have been nurtured in formerly centralized economic systems must learn to cope with and select appropriate business and personal risks. They will be aided by studying the profile of successful entrepreneurs (see profile of an entrepreneur above). They will learn from and adapt the methodologies of entrepreneurial strategy. In the longer term, they are likely to improve on the models which they initially imitate. Regional and worldwide trade treaties notwithstanding, the global entrepreneur will have to contend with unevenly hospitable legal, governmental and cultural practice.

The Asian entrepreneur who enters European or American markets must adapt entrepreneurial strategies to the local culture. His or her business plan must respect differing environmental, public policy and private citizen values if it is to succeed. The local stage of technological development must be compatible with the firm's concept. Standardization of product and component sizes, an assumption in many advanced economies, may represent a formidable obstacle to entrepreneurs in emerging market economies. Marketing strategies and product standards must consider the differences in the hundreds of legal systems and thousands of national laws.

International entrepreneurial strategies may be implemented through start-up companies or existing firms. Bernard Tapie, the French entrepreneur who created a billion dollar multinational enterprise by acquiring underperforming companies, is an example of the latter. Tapie looks for maturing businesses whose original concept is no longer fully aligned with its environmental opportunity, then attempts to revitalize them (with sometimes uneven results) by adjusting or reinventing the firm's strategies to make them compatible with changing marketplace trends and customer needs.

Essential elements
While the richness of opportunity will lead the resourceful entrepreneur in diverse directions, the essential elements of entrepreneurial strategies remain the same. The entrepreneur must have the prerogative and resources to initiate risk-bearing actions. The focus must be on innovatively linking the firm's business concept with opportunities discovered in the environment:

- customers, whose lifestyles and capacity to perform productively are enhanced;
- employees of job-creating new and/or expanded venture firms;
- entrepreneurs, who create and reinvest wealth for themselves and others;
- economies that prosper;
- even displaced competitors, who realign their approach and redeploy resources in response to the dynamism unleashed by entrepreneurial strategies.

Further reading

Bird, B., Entrepreneurial Behaviour, Scott Foresman, Glenview, IL, 1989. Comprehensive analysis of the various factors which motivate the actions of entrepreneurs and influence the strategies they employ.


Ostgaard, T. and Birley, S., “Personal networks and firm competitive strategy – a strategic or coincidental match?”, Journal of Business Venturing, Vol. 9 No. 4, July 1994, pp. 281-303. Identifies the network of the entrepreneur as his or her most valuable resource and the determining factor in selecting a new venture strategy.


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Application questions

(1) Are entrepreneurs strategists or opportunists?

(2) Can entrepreneurship be taught?

(3) Should entrepreneurial behaviour be encouraged in organizations? What is the good and bad news about "intrapreneurs"?