Introduction

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The intersection between competitive dynamics, market entry, and entrepreneurship is an important area of research. Entrepreneurship scholars have focused their early efforts on understanding entrepreneurs and their decisions. Nowhere is this more evident than the decision to enter a new market. However, we are still way off from a thorough understanding of the marketplace dynamics triggered by such a decision. The purpose of this book is to bring the research on competitive dynamics to bear on the problem of market entry by entrepreneurial entities so that we can better understand its antecedents and effects.

Over 80 years ago, Harold Hotelling noted that because of “an undue tendency for competitors to imitate each other in quality of goods, in location, and in other essential ways” (1929: 41), firms tend to self-organize into homogeneous clusters where they offer similar products to similar consumers. Others, however, noted that de novo entrants tend to introduce competing offerings and shift buyers’ preferences, thus eroding incumbents’ performance and stirring market heterogeneity (Kirzner, 1997; Schumpeter, 1934, 1942). Also, competitive dynamics theory explains that equilibrium is threatened and industry logic is disrupted once incumbents retaliate against entrants. Indeed, when entrants displace underperforming players, they bring about an industry change, thus motivating the remaining incumbents to fight, retreat, or collaborate (Carmeli and Markman, 2010; Gruca et al., 1992).

Our book, about the intersection between competitive dynamics, market entry, and entrepreneurship, aims to shed light on and bring additional attention to several lacunae. First, many small firms and resource-constrained startups lack the well-honed resource–capability mix and commercial legitimacy that characterize mature, large, and resource-rich incumbents. These asymmetries in resources, capabilities, business models, and even legitimacy suggest that (1) small startups and large incumbents operate very differently; and (2) these differences are most critical when small and large firms compete against each other. Put more simply, earlier research focused on the usual suspects—entrants and
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incumbents of symmetrical profiles (similar size, assets, and offerings). Our book, however, evinces that competitive dynamics is altered when competition involves players with unequal resource endowments.

Second, the extant research offers valuable insights on new venture development, growth, and mode of organizing. Lost in translation, however, is how small firms and startups pass one of their most critical survival tests—how they enter markets without stirring up too much hostility and how they fend off incumbents’ retaliation upon entry. Third, traditionally, research assumed that markets maintain equilibrium thanks to large, homogeneous incumbents who protect their territories with quasi-insurmountable barriers to entry. Useful as they were, the assumptions of incumbent homogeneity and intractable isolating mechanisms hinder theory from recognizing the creative-disruptive role that entrants play. Large, resource-rich incumbents are certainly stronger than small firms and bootstrapped startups, but retaliations are rarely imprecise in impact and scope (Markman, Gianiodis, and Buchholtz, 2009 in Chapter 6 this volume), which explains why counter-entrant reprisals tend to stir up additional hostility thus destabilizing markets and spoiling the party for everyone (Jensen, 2003, 2008). Hence, our book suggests that small entrants may play a bigger role than the extant theory of competitive dynamics suggests.

Finally, when a new company enters a market, the profitability of adjacent markets is affected. For example, direct and indirect flights in small and large airline markets are not perfect substitutes, but entry affects rivalry and prices in both types of markets (Reiss and Spiller, 1989). Some of such price decline might be explained by the knock-on effect of derived demand for complementary products and services, but complementary entry may also be associated with greater business volume and thus more vibrant economies. We suspect that synergies arise when entrants combine, complement, and synergize their offerings with those of incumbents: vehicle chassis, engines, tires, gas stations, roadside assistance, and auto insurance, for instance, are useful in combination but mostly worthless in total isolation. Of course, the idea of complementarity is not new, but our book hopes to motivate additional attention to the view that when entrants extend and expand markets, their disruption might be better tolerated by incumbents.

ORGANIZATION OF THE VOLUME

The book features some of the seminal research on the intersection of competitive dynamics, and entrepreneurial market entry. The book showcases published research—with updates from the authors—as well
as original contributions and theories on the role of non-market players, defensive strategies, and the impact of disruptive (as opposed to gradual) entry into markets. In order to make the volume useful to contemporary readers, we asked the authors to comment on and update their original contributions. Some of these took the form of retrospectives while others were more prospective in their discussion of the works. They were asked to focus on what they believe were the most enduring influences and the directions they believe their work should be taken by future scholars, taking into consideration what has already been done.

The book is organized into three parts. In the first, we offer a general perspective on competitive dynamics as it pertains to the entrepreneurial problem. This part contains seven chapters that demonstrate the breadth of theorizing and empirical work in this area. It includes a new contribution (Chapter 7), demonstrating that theorizing in this rich domain continues unabated.

The first part sets up the theoretical framework for the second part, which examines the issues related to entrepreneurial market entry with a focus on innovation and small-scale entries. We did not cover the usual literature on game-theoretic models of entrant behaviors since these are already well known (and tend to focus on entrant-incumbents of similar profile) but instead looked at the industrial and organizational structure antecedents to the entrepreneurial entry decision.

In the concluding part, we highlight a seminal paper that summarizes the paradigm (the business model) that entrepreneurship scholars should employ in furthering the research. At the time it was written, the paper provided direction for researchers focused on product market strategies. Today, it suggests new directions, as the commentary suggests, for entrepreneurial entry research.

To be more specific, the first part begins with a chapter by Chen (1996). The chapter explores competitive dynamics (a term used to describe Chen’s body of work only after his seminal piece), and highlights the significance of market commonality and resource similarity as predictors for analyzing direct and indirect competitors. It is interesting to note that MacMillan and Day (1987) in Chapter 8 also stress the importance of strategic similarity and multipoint competition, but their chapter is featured in the second part of the book because they focus on corporate venturing.

In the second chapter, Lenox, Rockart, and Lewin (2007) develop a model of industry dynamics in which managers have to make strategic choices in the face of complex interdependent elements in the objective function. Using a standard NK complexity framework, they demonstrate that variation in the interdependencies among activities in an industry can account for the heterogeneity in patterns of entry and exit. The paper
introduces the notion that even when firms are identical in terms of their resource configuration, entry and exit patterns can still vary because of the configuration of relationships among industry participants.

The third chapter is by Gimeno and Woo (1996), in which they directly address two dimensions of industrial heterogeneity: strategic similarity and multipoint competition. The authors find that multipoint competition attenuates rivalry, because of signaling and managerial sensitivity to the entire value network affected by other competitive encounters by rival, and that strategic similarity increases rivalry because of the competition for overlapping resource bundles.

In Chapter 4, Carroll and Swaminathan (2000) document the emergence and rise of new organizational forms that triggered the creation of an industry by studying the process of entrepreneurial and organizational renewal in the beer market in the 1970s and 80s. This chapter provides a concrete example of the temporal relationship between market entry and the creation of new industrial arrangements. It adds another layer of depth to the theory of market entry, wherein entry impacts the configuration of firm resources and the institutional arrangements among these configurations.

The fifth chapter in the section is by Peteraf and Barney (2003). Their propositions harken back to Hotelling (1929) and subsequent research on the second-order tendency for firms to differentiate and accumulate unique resource configurations. Here, the authors answer criticisms of the resource-based view, and do so by linking the notion of resource configurations to the observed heterogeneity in competitive dynamics.

Till now, competitive dynamics research classified organizations as adversaries only when they sold similar offerings in overlapping product markets, but the last two chapters of this part of the book expand this framework by focusing on firms’ blind spots and unexpected hostility. The sixth chapter, by Markman, Gianiodis, and Buckholtz (2009), shows that competition erupts even under conditions of either product uncommonality or resource dissimilarity. Also, the theory of factor-market rivalry explains why conflicts over versatile, mobile, and even generic resources can be more difficult to anticipate and manage than attacks on valuable, rare, inimitable, and non-substitutable resources. The final chapter in this section—a new contribution from Waldron (2011)—points out that because competitive dynamics research focuses on commercial firms, it overlooks attackers who may not be competitors. For example, non-market players (e.g., non-profit firms) are not competitors but their attacks on firms can reshape industry-wide logic and bring creative destruction to markets.

The second part of the book brings into sharper focus the research on entrepreneurial market entry. Market entry has had a long history of
research; for example, there is a rich tradition in game theory that models the interactions between entrants and incumbents in conditions of uncertainty and information asymmetry. Given such robust understanding of “general” market entry, the works in this book redirect attention to entrepreneurial entry and the impact of their entry on incumbents.

The first contribution in this part of the book is a seminal work by MacMillan and Day (1987), in which they explain how corporate entrepreneurs anticipate the shifting conditions they are likely to face, including beliefs about those conditions, and entry strategies to exploit such conditions. They posit a “self-fulfilling prophesy” in which entrepreneurs that perceive high growth opportunities choose to aggressively enter by setting risky high market-share objectives, and support these with the requisite investments that eventually lead to high market shares.

Chapter 9 is a contribution from Greve (2000), who contrasts organizational learning with strategic motives for market entry. He finds that market entry decisions are influenced by learning from the organization’s own experience as well as imitation of its competitors, and these effects are stronger for small firms. However, establishment of multimarket contract is also a motive for market entry for both large and small firms. The tenth chapter is a new contribution by Sargut and McGrath (2011) in which they offer a theory of market disruption that parses the different types of disruption in product markets. Here, they explore disruptions caused by newcomers in incumbents’ markets, which they argue are entrepreneurial by definition, and offer predictions on the market responses that follow.

Chapter 11 is by Haveman and Nonnemaker (2000) who sought to compare how single-market firms and multimarket firms might interact to influence geographic entry patterns in an industry. They find that mutual forbearance among multimarket firms also impact the decisions of single-market firms, in such a way that the latter attempts to mimic the positive spillovers enjoyed by multimarket firms by embedding themselves in industry networks and by entering markets characterized by high levels of multipoint contact.

Chapter 12 comes from Aharonson, Baum, and Feldman (2007). Taking a cue from Hotelling (1929), they examine the location decisions of biotechnology startups to determine the patterns of entry within geographic regions, and the role of knowledge spillovers in shaping entrants’ location choices. Their model typifies the application of agglomeration theory, which explains the phenomenon of competitive clustering. They show, for example, that the spillover benefits between rivals exceed the pressure on margins from having to compete for similar customers. In Chapter 13, the last in this part, Gianiodis (2011) offers a new contribution that links the process of entrepreneurial discovery to entry decisions.
Gianiodis develops a theory of defense, which explains that the process of entrepreneurial opportunity recognition is incomplete unless it also considers incumbents’ reaction to entry. In this light, pre-emption by choosing to exploit or, more importantly, not exploit certain opportunities can be a way to mitigate incumbent retaliation.

In the concluding part of the book, Amit and Zott (2008) offer a comprehensive summary of the work on resource and business model configurations. In the context of entrepreneurship and entry decisions, the gestalt presented in their commentary and paper is probably a better conclusion than we could have written because they provide both an excellent summary of the key points we are trying to convey in the book and a way forward for future research.

As a final word, the chapters in each part should be read together, so the reader can gain a rounded understanding of the antecedents and consequences of the constructs being discussed. The conclusions that one can draw will depend on one’s theoretical orientation. For example, resource-partitioning theory divides market players into a few large generalists and numerous smaller specialists. Given the homogeneity and symmetry in firm characteristics, it is quite justifiable to classify a few, large players into a single strategic group (generalists). Less useful, however, is to aggregate the rest of the population into a single strategic group called specialists, precisely because specialists are too heterogeneous and clustering them into a single group overlooks distinct differences. The focus of this book on micro-entry suggests that small firms and startups are niche players and are likely to form their own distinct groups depending on similarities in size, history, resource endowments, and capabilities.

Finally, as a number of the chapters have shown, the phenomenon of micro-entry suggests that a theory of competitive interactions must include the notion of mutual forbearance or even cooperation to account for the simultaneous existence of small entrants that survive the action of large incumbents (Aharonson, Baum, and Feldman, 2007—Chapter 12 this volume). This extends traditional notions of competition that relies on munificent markets and the action of homogeneous incumbents to protect their territories with barriers to entry to arrive at equilibrium. As we noted earlier, the assumptions of strategic homogeneity (i.e., incumbents of similar size that employ comparable assets and sell similar offerings to the same customers) and the presence of isolating mechanisms advanced our understanding of competitive dynamics, but the theory has overlooked smaller entrants and startups. We believe that this volume can make a useful contribution to those who are seeking to contextualize their work in a larger conversation or who are looking for new directions to guide their work.
NOTE

1. This is also referred to as the principle of minimum differentiation or Hotelling’s linear city model.

REFERENCES


