Preface

- This book represents innovation and entrepreneurship as purposeful tasks that can be organized – need being organized – and as systemic work
- It treats innovation and entrepreneurship, in fact, as part of the executive's job

Introduction: The Entrepreneurial Economy

- Since the late 1960s, job creation and job growth in the United States have shifted to a new sector
- Most new jobs during this period were created by small and medium-sized institutions, most of them small and medium-sized businesses
- High-tech usually gets all the credit for innovation and entrepreneurship
 - High tech also probably stimulated the astonishing transformation of the American capital market from the near absence of venture capital as recently as the mid-sixties to a near-surplus in the mid-eighties
 - But the stats will show that most of the job creation in the United States is in non-hightech industries
- Something in the United States offsets the Kondratieff "long wave of technology"
 - Something has already happened that is incompatible with the theory of long-term stagnation \rightarrow That something is the "Entrepreneurial Economy"
- So far, the entrepreneurial economy is purely an American phenomenon driven by a shift in demographics
- While high tech is fashionable, other new ventures, as a rule, can go public only after long years of seasoning, and showing profits for a good deal more than five years
 - The Entrepreneurial Economy is powered by profitable, growing low-tech businesses!
- America has defied Kondratieff stagnation by applying the "new technology" of entrepreneurial management
 - New industry growth must offset the stagnation in old industries in order to beat the Kondratieff curve
 - o America has been able to do this because of the entrepreneur
- Management is the new technology (rather than any specific new science or invention) that is making the American economy into an entrepreneurial economy.

PART ONE: THE PRACTICE OF INNOVATION



Chapter 1: Systemic Entrepreneurship

- Remember: not every new small business is entrepreneurial or represents entrepreneurship
- To be entrepreneurial, an enterprise must have special characteristics over and above being new and small
- Entrepreneurs create something new, something different; they change or transmute value.
 - To be sure, people who need certainty are unlikely to make good entrepreneurs
- At the essence of economic activity is the commitment of present resources to future expectations
- The entrepreneur always searches for change, responds to it, and exploits it as an opportunity
- Entrepreneurs, by definition, shift resources from areas of low productivity and yield to areas of higher productivity and yield.
- Entrepreneurship is "risky" mainly because so few of the so-called entrepreneurs know what they are doing
 - Therefore, we need to establish purposeful innovation which innovates at low risk
- Systematic innovation, therefore, consists in the purposeful and organized search for changes, and in the systematic analysis of the opportunities such changes might offer for economic or social innovation

Chapter 2: Purposeful Innovation and the Seven Sources for Innovative Opportunity

- Entrepreneurs innovate and innovation is the specific instrument of entrepreneurship
- Innovation does not have to be technical and does not have to be a thing altogether
 - Whatever changes the wealth-producing potential of already existing resources constitutes innovation
- Management, that is, the "useful knowledge" that enables man for the first time to render productive people of different skills and knowledge working together in an "organization" is an innovation of this century
- There is also the aspect of "social innovation"
 - The Japanese made a deliberate decision a hundred years ago to concentrate their resources on social innovations, and to imitate, import, and adapt technical innovations with amazing success
 - The basic aim of the Japanese approach was Judo
 - They used the weapons of the West to hold the West at bay and remain truly Japanese in their approach
- Innovation, then is an economic or social rather than a technical term that changes the yield of
 resources
- Specifically, systematic innovation means monitoring seven sources for innovative opportunities:

- 1. *The unexpected* the unexpected success, the unexpected failure, the unexpected outside event
- 2. The incongruity between reality as it actually is and reality as it is assumed to be or as it "ought to be"
- 3. Innovation based on process need
- 4. Changes in industry structure or market structure that catch everyone unawares
- 5. Demographics (population changes)
- 6. Changes in perception, mood, and meaning
- 7. *New knowledge*, both scientific and nonscientific

Chapter 3: Source: The Unexpected

The Unexpected Success

- It is never easy for management to accept the unexpected success
- It takes determination, specific policies, a willingness to look at reality, and the humility to say, "We were wrong!"
- One reason why it is difficult for management to accept unexpected success is that all of us tend to believe that anything that has lasted a fair amount of time must be "normal" and go on "forever"
- Anything that contradicts what we have come to consider as the law of nature is then rejected as unsound, unhealthy, and obviously abnormal
- Examples of winners using this strategy: Bloomingdales over Macys in the 1950s
 - They realized that something unexpected was happening and analyzed it
 - They then built a new position in the marketplace around its Housewares Department
- It takes an effort to perceive in the "enemy" one's own best opportunity because unexpected success is a challenge to management's judgment
- Managements are paid for their judgment, but they are not being paid to be infallible
 - In fact, they are being paid to realize and admit that they have been wrong especially when their admission opens up an opportunity
 - This perspective is uncommon
- Far more often, unexpected success is simply not seen at all
 - One reason for this blindness to the unexpected success is that our existing reporting systems do not as a rule report it, let alone clamor for management's attention
 - Thus the unexpected success is not just an opportunity for innovation; it demands innovation
- Managements must look at every unexpected success with the questions:
 - 1. What would it mean to us if we exploited it?
 - 2. Where could it lead us?
 - 3. What would we have to do to convert it into an opportunity?
 - 4. How do we go about it?



• The unexpected success is an opportunity, but it makes demands. It demands to be taken seriously

The Unexpected Failure

- Faced with unexpected failure, executives, especially in large organizations, tend to call for more study and more analysis
 - But as both the padlock story and the "basic house" story show, this is the wrong response
- The unexpected failure demands that you go out, look around, and listen

The Unexpected Outside Event

- Example: IBM
- It is a condition of success in exploiting the unexpected outside event that it must fit the knowledge and expertise of one's own business
- Unexpected outside events often lead to extensions rather than diversifications

Chapter 4: Source: Incongruities

- An incongruity is a discrepancy, a dissonance, between what is and what "ought" to be, or between what is and what everybody assumes is to be
- They are qualitative rather than quantitative
- There are several kinds of incongruity:
 - An incongruity between the economic realities of an industry (or of a public-service area)
 - An incongruity between the reality of an industry (or of a public-service area) and the assumptions about it
 - An incongruity between the efforts of an industry (or a public-service area) and the values and expectations of its customers
 - \circ $\;$ An internal incongruity within the rhythm or the logic of a process

Incongruous Economic Realities

• But these innovations which, as in Britain, are embodied primarily in profit-making "businesses", convert the incongruity between the economic reality of rising healthcare demand and the economic reality of falling healthcare performance into an opportunity for innovation

The Incongruity Between Perceived and Actual Customer Values and Expectations

- Example: small businessmen and managing money/investments
 - Small business owners are much too busy earning their money to have time to manage it
 - o Lean into the mindset of the "intelligent investor"

- It wants customers who earn more money than they spend, which is typical for the successful professional, the substantial farmer, or the small-town businessman, less because their incomes are high than because their spending habits are modest
- And then it appeals to their psychological need to protect their money
- What this firm sell is a chance to maintain one's savings through investment in bonds and stocks, to be sure, but also in deferred annuities, tax-sheltered partnerships, real estate trusts, and so on
- The "product" the firm delivers is a different one and one that no Wall Street house has ever sold before: peace of mind
- And this is what really represents "value" for the "intelligent investor"
- The reaction of the typical producer and supplier is then to complain that customers are "irrational" or "unwilling to pay for quality"
 - Whenever such a complaint is heard, there is reason to assume that the values and expectations the producer or supplier holds to be real are incongruous with the actual values and expectations of customers and clients
 - Then there is a reason to look for an opportunity for innovation that is highly specific and carries a good chance of success

Incongruity Within the Rhythm or Logic of a Process

- And without such a tool, there was an internal incongruity in the logic of the process that upset and frustrated customers
- The incongruity is usually available only to people within a given industry or service
- It is not something that somebody from the outside is likely to spot, to understand, and hence is able to exploit

Chapter 5: Source: Process Need

- Incongruities and demographics may be the most common causes of a process need
- Successful innovations based on process needs require five basic criteria:
 - A self-contained process
 - One 'weak" or "missing" link
 - A clear definition of the objective
 - That the specification for the solution can be defined clearly
 - Widespread realization that "there ought to be a better way," that is, high receptivity
- Do we understand what is needed?
- Is the knowledge available or can it be procured within the "state of the art?"
- And does the solution fit, or does it violate the mores and values of the intended users?

Chapter 6: Source: Industry and Market Structures

• But a change in market or industry structure is also a major opportunity for innovation

- When industry structure changes:
 - 1. The most reliable and the most easily spotted of these indicators is a rapid growth of an industry
 - If an industry grows significantly faster than the economy or population, it can be predicted with a high probability that its structure will change drastically
 - 2. By the time an industry growing rapidly has doubled in volume, the way it perceives and services it market is likely to have become inappropriate
 - 3. Another development that will predictably lead to sudden changes in industry structure is the convergence of technologies that hitherto were seen as distinctly separate
 - 4. An industry is ripe for basic structural change if the way in which it does business is changing rapidly
- Innovations that exploit changes in industry structure are particularly effective if the industry and its markets are dominated by one very large manufacturer or supplier, or by a very few
- Again and again when market or industry structure changes, the producers or suppliers who are today's industry leaders will be found neglecting the fastest-growing market segments
- The moral of the story is that a "clever" innovative strategy always fails, particularly if it is aimed at exploiting an opportunity created by a change in industry structure. Then only the very simple, specific strategy has a chance of succeeding

Chapter 7: Source: Demographics

- Of all external changes, demographics defined as changes in population, size, age structure, composition, employment, educational status, and income are the clearest
- They are unambiguous
- They have the most predictable consequences
- People with extensive schooling are also available primarily for employment as knowledge workers
- Demographics alone, the combined effects of the sharp drop-in birth rates and of the "educational explosion" – makes it near-certain that traditional manual blue-collar employment in manufacturing in developed countries, by the year 2010, cannot be more than 1/3 or less than what it was in 1970
 - Though manufacturing production, as a result of automation, maybe three to four times what it was then
- Example: House of Rothschild vs. J.P. Morgan
 - Until 1860, for instance, the House of Rothschild was the world's dominant financial power
 - The Rothschilds failed, however, to recognize the meaning of the transatlantic migration because they thought that only riff-raff would leave Europe
 - \circ $\;$ As a result, they ceased to be important around 1870 $\;$
 - J.P. Morgan's secret was to spot the transatlantic migration at its very onset, to understand immediately its significance, and to exploit it as an opportunity by

establishing a worldwide bank in New York rather than in Europe, and as the medium for financing American industries that immigrant labor was making possible

- It took only 30 years, from 1830 to 1860, to transform both western Europe and the eastern United States from rural and farm-based societies into industry-dominated big-city civilizations
- To massive demographic shifts occurring globally now:
 - The aging of the population in the developed countries
 - \circ $\;$ The tidal wave of young adults in the Third World on the other hand
- These shifts are not only dazzlingly sudden. They are often mysterious and defy explanation
- What makes demographics such a rewarding opportunity for the entrepreneur is precisely its neglect by decision-makers, whether businessmen, public-service staff, or governmental policymakers
- Age distribution is far more important than most other demographic information followed by changes in the center of population gravity

Chapter 8: Source: Changes in Perception

- If general perception changes from seeing the grass as "half full" to see it as "half empty", there are major innovative opportunities
- If there is any real deterioration in American health during the last twenty years it lies precisely in the extreme concern with health and fitness, and the obsession with getting old, with losing fitness, with degenerating into long-term illness or senility
- Example: American Blacks seeing the glass as half empty:
 - They do not see the achievements of 2/3 of the blacks who have moved into the middle class, economically and socially, but the failure of the remaining 1/3 to advance.
 - What determines whether the glass if "half-full" or "half-empty" has as much to do with unhealed wounds of past centuries as with anything in present American society

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- In terms of the income distribution, Great Britain is a more egalitarian country than the United States.
 - And yet almost 70% of the British population still consider themselves "working-class"
 - Timing is the biggest problem in perception-based innovation
 - There is nothing more dangerous than to be premature in exploiting a change in perception
- In exploiting changes in perception, "creative imitation" does not work. One has to be first
- But precisely because it is so uncertain whether a change in perception is a fad or permanent, and what the consequences really are, perception-based innovation has to start small and be very specific

Chapter 9: Source: New Knowledge

• Knowledge-based innovation is the "super-star" of entrepreneurship

- Knowledge-based innovation differs from all other innovations in its basic characteristics: time span, casualty rate, predictability, and in challenges it poses to the entrepreneur
- Example: the first computer
 - By 1918, all the knowledge needed to develop the computer was available
 - The first computer became operational in 1946
- Simply having the requisite knowledge does not mean an innovation is ready to come to market
 - Only major external crises can shorten this lead time
 - Example: The radio came on the market early in the 1920s only 15 years after the emergence of the knowledge on which it was based due to World War I
- The long lead time for knowledge-based innovation is by no means confined to science or technology
 - It applies equally to innovations that are based on nonscientific and nontechnical knowledge
- The lead time for knowledge to become applicable technology and begin to be accepted on the market is between 25 and 35 years
- The lead time for knowledge to become knowledge-based innovation seems to be inherent in knowledge
- The second characteristic of knowledge-based innovation and a truly unique one is that they are almost never based on one factor but on a convergence of several different kinds of knowledge, not all of them scientific or technological
- The computer required the convergence of no less than five different pieces of knowledge:
 - A scientific invention
 - o The audio tubes
 - Design concept of the punch card
 - The concepts of the program
 - The concepts of feedback
- Until all the needed knowledge can be provided, knowledge-based innovation is premature and will fail
- What Knowledge-based Innovation Requires:
 - 1. In the first place, knowledge-based innovation requires careful analysis of all the necessary factors, whether knowledge itself, or social, economic, or perceptual factors
 - 2. The second requirement of knowledge-based innovation is a clear focus on the strategic position
- The window for knowledge-based innovation is never wide open very long
 - Knowledge converges \rightarrow everyone comes in \rightarrow window shuts \rightarrow fight to survive
- Science-based and technology-based innovators alike find time working against them
 - In all innovation based on any other source the unexpected, incongruities, process need, changes in industry structure, demographics, or changes in perception – time is on the side of the innovator.
 - \circ $\;$ In any other kind of innovation innovators can reasonably expect to be left alone

- Because the window is much more crowded, anyone knowledge-based innovator has far less chance of survival
 - The shakeout sets in as soon as the window closes
 - Most ventures started during the window period do not survive
 - It is difficult to predict which ones will survive
- High tech is a "high-low game" in which a middle hand is considered worthless
 - This makes high-tech innovation inherently risky
 - High tech is not profitable for a very long time
 - Computer industry took 30 years to break even as a whole
 - One major reason for this is the need to plow more and more money back into research, technical development, and technical services to stay in the race
 - High tech does indeed have to run faster and faster in order to stand still
- There is only one prescription for survival during the shakeout: entrepreneurial management
- Entrepreneurial management is thus probably a precondition of survival
- In knowledge-based innovation, the innovation brings about the change
 - $\circ \quad \text{It aims at creating a want} \\$
 - No one can tell in advance whether the user is going to be receptive
 - In most knowledge-based innovations, receptivity is a gamble
- Only hindsight can tell us whether the experts are right or wrong in their assessment of the receptivity for this or that knowledge-based innovation
- If we want knowledge-based innovation, we must gamble on receptivity to it

Chapter 10: The Bright Idea

- Innovations based on a bright idea probably outnumber all other categories taken together
- Seven or eight out of every ten patents belong here to bright ideas
- Yet bright ideas are the riskiest and least successful source of innovative opportunities
- Bright ideas have a high casualty rate
- This belief that you will win if only you keep on trying out bright ideas is no more rational than the popular fallacy that to win the jackpot at Las Vegas one only has to keep pulling the lever
- There is actually no empirical evidence at all for the belief that persistence pays off in pursuing the brilliant idea because bright ideas are vague and elusive
- The entrepreneur is therefore well advised to forgo innovations based on bright ideas
- Systematic, purposeful entrepreneurs analyze the systematic areas, the seven sources discussed thus far
- In the theory and practice of innovation and entrepreneurship, the bright-idea innovation belongs in the appendix



Chapter 11: Principles of Innovation

- There are some innovations that do not proceed from the sources described in the preceding chapters, innovations that are not developed in any organized, purposeful, systemic manner
- Such innovations cannot be replicated as "flashes of genius" are uncommonly rare

The Do's

- Purposeful, systematic innovation begins with an analysis of the opportunities
- All sources of innovative opportunity should be systematically analyzed and systematically studied
- Innovation is both conceptual and perceptual
- An innovation, to be effective, has to be simple and it has to be focused
 - It should do only one thing, otherwise, it confuses
 - All effective innovations are breathtakingly simple
- Effective innovations start small
 - Grandiose ideas, and plans that aim at "revolutionizing an industry" are unlikely to work
- Innovation aims at leadership from the beginning or else it is unlikely to work

The Don'ts

- Anything too clever, whether in design or execution is almost bound to fail
- Take an unnecessary risk
 - Successful innovators and entrepreneurs are not "risk-takers"
 - They try to define the risks they have to take and to minimize them as much as possible
- Successful innovators are conservative because they must be
- They are not "risk-focused;" they are opportunity-focused

PART TWO: THE PRACTICE OF ENTREPRENEURSHIP

Chapter 12: Entrepreneurial Management

- The entrepreneurial requires different management from the existing
- Today's businesses, especially the large ones, simply will not survive in this period of rapid change and innovation unless they acquire entrepreneurial competence





Chapter 13: The Entrepreneurial Business

- Plenty of large companies in the US have done well as entrepreneurs and innovators:
 - Johnson & Johnson in hygiene and health care
 - \circ 3M in highly engineered products for both industrial and consumer markets
 - Citibank largest non-governmental financial institution
- It is not the size that is an impediment to entrepreneurship and innovation; it is the existing operation itself, and especially the existing successful operation
 - It is easier for a big or a least a fair-sized company to surmount this obstacle than it is for a small one
- Operating anything a manufacturing plant, a technology, a product line, a distribution system requires constant effort and unremitting attention
- The one thing that can be guaranteed in any kind of operation is the daily crisis
 - The daily crisis cannot be postponed, it has to be dealt with right away
- And the existing operation demands high priority and deserves it
- Modifications of an existing product, yes; variations, yes; even extensions of existing products into new markets and new uses
- It thus takes special effort for the existing business to become entrepreneurial and innovative
 - The normal reaction is to allocate productive resources to the existing business, to the daily crisis, and to get a little more out of what we already have
 - The temptation is the existing business is always to feed yesterday and to starve tomorrow
- Entrepreneurship is work and specifically entrepreneurial management requires policies and practices in four major cases:
 - 1. First, the organization must be made receptive to innovation and willing to perceive change as an opportunity rather than a threat
 - 2. Second, systematic measurement or at least appraisal of a company's performance as an entrepreneur and innovator is mandatory, as well as built-in learning to improve performance
 - 3. Third, entrepreneurial management requires specific practices pertaining to organizational structure, to staffing, and managing, and to compensation, incentives, and rewards
 - 4. Fourth, there are some don'ts: things not to do in entrepreneurial management
- Question needed to solve: How can we make the organization receptive to innovation, want innovation, reach for it, work for it?
- The foundation for this is to make the existing business "greedy for new things"
- A company should have underway at least three times the innovative efforts which if successful will fil the gap
- For the existing business to be capable of innovation, it has to create a structure that allows people to be entrepreneurial



- Existing units have been found to be capable mainly by extending, modifying, and adapting what already is in existence. **The new belongs elsewhere!**
- Somebody in top management must have the specific assignment to work on tomorrow as an entrepreneur and innovator
- The best, and perhaps the only, way to avoid killing off the new by sheer neglect is to set up the innovative project from the start as a separate business
- The best proof that entrepreneurship is a question of behavior, policies, and practices rather than personality is the growing number of older large-company people in the US who make entrepreneurship their second career.
- What is needed is willingness to learn, willingness to work hard and persistently, willingness to exercise self-discipline, willingness to adapt and to apply the right policies and practices
- A business that wants to be able to innovate, wants to have a chance to succeed and prosper in a time of rapid change, has to build entrepreneurial management into its own system!

Chapter 14: Entrepreneurship in the Service Institution

- To be sure, every service institution likes to get bigger
- In the absence of a profit test, size is the one criterion of success for a service institution, and growth is a goal in itself
- The forces that impede entrepreneurship and innovation in a public-service institution are inherent in it, integral to it, inseparable from it
- The public-service institution is based on a budget rather than being paid out of its results
 - It is paid for its efforts and out of funds somebody else has earned, whether the taxpayer, the donors of a charitable organization or the company for which a personnel department or the marketing services staff work
 - Success in the public-service institution is defined by getting a larger budget rather than obtaining results
- A public-service institution has to satisfy everyone; certainly, it cannot afford to alienate anyone
- Public-service institutions exist after all to "do good"
 - This means that they tend to see their mission as a morale absolute rather than as economic and subject to a cost/benefit calculus
 - This means that public-service institutions are out to maximize rather than to optimize
- Example: The public schools in the United States exemplifies both the opportunity and the dangers
 - Unless it takes the lead in innovation it is unlikely to survive this century, except as a school for minorities in the slums
 - For the first time in its history, the US faces the threat of a class structure in education in which all but the very poor remain outside of the public school system – at least in the cities and suburbs where most of the population lives



Chapter 15: The New Venture

- For the new venture it is management
- What it does not have is a business, a viable, operating, organized present in which people know where they are going, what they are supposed to do, and what the results are or should be
- But unless a new venture develops into a new business and makes sure of being managed, it will not survive no matter how brilliant the entrepreneurial idea
- Example: Thomas Edison's failed ventures:
 - Edison remained an entrepreneur; or rather, he thought that managing meant being the boss
 - He refused to build a management team
 - And so every one of his four or five companies collapsed ignominiously once it got to middle size, and was saved only by booting Edison himself out and replacing him with professional management
- Entrepreneurial management in the new venture has four requirements:
 - 1. It requires, first, a focus on the market
 - 2. It requires, second, financial foresight, and especially planning for cash flow and capital needs ahead
 - 3. It requires, third, building a top management team long before the new venture actually needs one and long before it can actually afford one
 - 4. Finally, it requires the founding entrepreneur a decision with respect to his or her own role, area of work, and relationships
- The innovator has limited tunnel vision
- Entrepreneurs know what their innovation is meant to be and do
- There is no market research for something that is genuinely new
- The new venture, therefore, needs to start out with the assumption that its product or service may find customers in markets no one thought of
- The more successful a new venture is, the more dangerous the lack of financial foresight
- The causes of bankruptcy are always the same: lack of cash, inability to raise the capital needed for expansion; and loss of control, with expenses, inventories, and receivables in disarray
- Once the financial crisis has erupted, it can be cured only with great difficulty and considerable suffering. But it is eminently preventable
- Cash flow, capital, and controls come much earlier. Without them, the profit figures are fiction good for 12 to 18 months, perhaps, after which they evaporate
- Growth must be fed. In financial terms this means that growth in a new venture demand adding financial resources rather than taking them out. Growth needs more cash and more capital. If the growing new venture shows a profit, it is fiction
- The new venture needs cash flow analysis, cash flow forecasts, and cash management



- A growing new venture should know 12 months ahead of time how much cash it will need, when and for what purposes
- For the new venture, almost by definition, is under cash pressure when the opportunities are greatest
- A rule of thumb with a good deal of empirical evidence to support it says that a new venture outgrows its capital base with every increase in sales of the order of 40 to 50%. After such growth, a new venture also needs a new and different capital structure as a rule.
 - As the venture grows, the existing capital structure always becomes the wrong structure and an obstacle
- For new ventures other than those capable of being financed as separate units, capital planning is a survival necessity
- Fast growth always makes obsolete the existing controls. Again, a growth of 40 to 50% in volume seems to be the critical figure
 - Suddenly everything goes out of control: receivables, inventory, manufacturing costs, administrative costs, service, distribution, everything.
- Building a top management team before the venture reaches the point where it must have one is the key to keeping the new venture moving forward
 - Teams are based on mutual trust and mutual understanding, and this takes years to build up.
 - o Three years is about the minimum required time
 - If one or two people at the top believe that they, and they alone, must do everything, then a management crisis a few months, or at the latest, a few years down the road becomes inevitable
- As a new venture develops and grows, the roles and relationships of the original entrepreneurs change
 - What will the venture need objectively by way of management for here on out?
- Key: All members are given a major, clearly defined responsibility, for which they are expected to take full accountability and leadership for
- The new venture that builds such entrepreneurial management into its policies and practices will become a flourishing large business.

PART THREE: ENTREPRENEURIAL STRATEGIES

Chapter 16: "Fustest with the Mostest"

• Being the "fustest with the mostest" is all about placing big bets



- It aims from the start at a permanent leadership position
- The aim is to create a business that dominates the market
- Being "fustest with the mostest" requires an ambitious aim otherwise it is bound to fail
- It always aims at creating a new industry or a new market
- He does not know what everyone within the field knows, therefore does not know what cannot be done
- The strategy of being "Fustest with the Mostest" has to hit right on target or it misses altogether
- The innovator has to run even harder now that he has leadership than he ran before and to continue his innovative efforts on a very large scale
- "Fustest with the Mostest", creative imitation, and entrepreneurial judo, all aim at market or industry leadership, if not at dominance

Chapter 17: "Hit Them Where They Ain't"

- They might be called creative imitation and entrepreneurial judo
- What the entrepreneur does is something somebody else has already done
- This is the strategy of "creative imitation"
 - \circ It waits until somebody else has established the new, but only approximately
- The creative imitation has then set the standard and takes over the market
- By the time the creative imitator moves, the market has been established and the new venture has been accepted
- Creative imitation does not exploit the failure of the pioneers as failure is commonly understood
 On the contrary, the pioneer must be successful
- The creative imitator does not invent a product or service; he perfects and positions it
- All told, creative imitation starts with markets rather than with products, and with customers rather than with producers
 - It is both market-focused and market-driven
- Creative imitation satisfies a demand that already exists rather than creating one
- Example: Sony
 - But Sony's success is not the real story
 - How do we explain that the Japanese repeated the same strategy again and again, and always with success, always surprising the Americans?
 - They repeated it with television sets and digital watches and hand-held calculators
 - The Japanese in other words, have been successful again and again in practicing "entrepreneurial judo" against the Americans
- Entrepreneurial judo is by all odds the least risky and the most likely to succeed
- The American manufacturers persisted in the habits that enabled the Japanese to take over their market again and again
- No business ever gets paid for what it did in the past. Future projections, future cash flow
 - Creaming attempts to get paid for past contributions



- Once a business gets into that habit, it is likely to continue in it and thus continue to be vulnerable to entrepreneurial judo
- Quality in a product or service is not what the supplier puts in
 - It is what the customer gets out and is willing to pay for
- Premium price is a delusion a premium price is always an invitation to the competitor
 - The attempt to achieve a higher profit margin through a higher price is always selfdefeating
 - Premium pricing is always threatened by competition eventually
- Entrepreneurial judo aims first a securing a beachhead, and one which the established leaders either do not defend at all or defend only halfheartedly
 - Once that beachhead has been secured, that ism once the newcomers have an adequate market and an adequate revenue stream, they the move on to the rest of the beach
 - They design a product or a service which is specific to a given market segment and optimal for it
 - And the established leaders hardly ever beat them to this game
- Entrepreneurial judo is always market-focused and market-driven
- "Fustest with the Mostest", creative imitation, and entrepreneurial judo, all aim at market or industry leadership, if not at dominance

Chapter 18: Ecological Niches

- The ecological niche strategy aims to control
- The ecological niche strategy aims at obtaining a practical monopoly in a small area
- The ecological niche strategy aims at making its successful practitioners immune to competition and unlikely to be challenged
- Successful practitioners of ecological niche take the cash and let the credit go. They do not aim to become household names
- Three distinct niche strategies:
 - The toll-gate strategy
 - The specialty skill strategy
 - The specialty market strategy
- The toll-gate position is thus in many ways the most desirable position a company can occupy
 - The product must be essential to a process
 - The risk of not using it the risk of losing an eye, losing an oil well or spoilage in a tin can must be infinitely greater than the cost of the product
 - o Normally they occur only in an incongruity situation
 - \circ This is basically a static position
 - Once the toll-gate strategy has attained its objective, the company is mature and can only grow as fast as its end users grow



- The Specialty Skill is all about obtaining and developing high skills at a very early time. You in essence become the standard
 - Timing is of the essence in establishing a specialty skill niche
 - To attain a specialty niche always requires something new, something added, something that is genuine innovation
 - o The specialty skill niche does require a skill that is both unique and different
 - A business occupying a specialty skill niche must constantly work on improving its own skill
 - It has to stay ahead and indeed; it has to make itself constantly obsolete
 - o The specialty skill niche does inflict tunnel vision on its occupants
 - In order to maintain themselves in their controlling position, they have to learn to look neither right nor left, but directly ahead at their narrow area, their specialized field
- The specialty market niche has the same requirements as the specialty skill niche
 - Systematic analysis of a new trend, industry, or market
 - A specific innovative contribution, if only a "twist" like the one that converted the traditional letter of credit into the modern traveler check;
 - And continuous work to improve the product and especially the service, so that leadership, once obtained will be retained

Chapter 19: Changing Values and Characteristics

- The strategy of changing values and characteristics itself is the innovation
- It changes a product's utility, its value, and its economic characteristics in four different ways:
 - 1. By creating utility
 - 2. By pricing
 - 3. By adaptation to the customer's social and economic reality
 - 4. By delivering what represents true value to the customer
- Entrepreneurs ask: What do the customers need for a product to truly serve them
 - Postal service example
 - The main effect was to make using the mail convenient for everybody and available to everybody
 - Entrepreneurs asked what do customers need for a postal service to be truly a service to them
- Price is usually almost irrelevant in the strategy of creating utility
- What is truly a service and truly a utility to the customer is the only question to continue to ask under this strategy
- You focus on nothing but the needs of the customer
- Creating utility enables people to satisfy their wants and their needs in their own way
- Example: Gillette's pricing strategy
 - They had customers paying for what they bought, that is, for a shave, rather than for a thing (razor)



- Example: Pricing the Xerox machine at \$0.05 a copy was the true innovation
- Yet pricing enables the customers to pay for what he buys a shave, a copy of a document rather than for what the supplier makes
- Profits are not made by differential cleverness, but by differential stupidity
 - What the customer pays for each piece of the product has to work out as Y dollars for us
- We know that an entrepreneurial strategy has more chance of success the more it starts out with the users their utilities, their values, their realities.

Chapter 20: Conclusion: The Entrepreneurial Society

- Innovation and entrepreneurship are thus needed in society as much as in the economy, in public-service institutions as much as in businesses
- This requires executives in all institutions that they make innovation and entrepreneurship a normal, ongoing, everyday activity, a practice in their own work and in that of their organization
- The purpose of this book is to provide concepts and tools for this task
- All the additional jobs in the American economy during that period a total of 35 million were created by new ventures that were not "high-tech" but "middle-tech," "low-tech," or "no-tech"
- Above all, to have "high-tech" entrepreneurship alone without its being embedded in a broad entrepreneurial economy of "no-tech," "low-tech," and "middle-tech," is like having a mountaintop without the mountain
- And during this long gestation period, non-high-tech ventures have to produce the profits to offset the losses of high tech and provide the needed capital
- There must be an economy full of innovators and entrepreneurs, with entrepreneurial vision and entrepreneurial values, with access to venture capital, and filled with entrepreneurial vigor
- Unless we can make innovation an opportunity for redundant workers in the "smokestack" industries their feeling of impotence, their fears, their sense of being caught will lead them to resist all innovation as is already the case in Great Britain (or in the U.S. Postal Service)
- The other social innovation needed is both more radical and more difficult and unprecedented: to organize the systematic abandonment of outworn social policies and obsolete public-service institutions
- As a result, there is no political mechanism so far to slough off the old, the outworn, the nolonger productive in government
- What is needed in an entrepreneurial society is a tax system that encourages moving the capital from yesterday into tomorrow rather than one that, like our present one, prevents and penalizes it
- By the way, exempting the new venture from taxation until it has grown up would almost certainly in the end produce a substantially higher tax yield
- Altogether, an entrepreneurial society and economy require tax policies that encourage the formation of capital



- Actually Japan has five times as many such accounts (tax-exempt) as there are people in the country, children, and minors included
 - This is, of course, a scandal against which newspapers and politicians' rail regularly
 - But the Japanese are very careful not to do anything to stop the abuse
 - As a result, they have the world's highest rate of capital formation
- One way or another any country that wants to remain competitive in an entrepreneurial era will have to develop tax policies that do what the Japanese do by means of semi-official hypocrisy and encourage capital formation
- Such a policy, by the way, would be the best perhaps the only remedy for the dangerous and insidious disease of developed countries: the steady growth in the invisible cost of government
 - In every developed country, government mandates misallocation of a steadily growing proportion of our scarcest resource, able, diligent, trained people, to such essentially sterile pursuits as compliance, tax regulation, etc.
- Without a "master plan," without "educational philosophy," and, indeed, without much support from the educational establishment, the continuing education and professional development of already highly educated and highly achieving adults has become the true "growth industry" in the United States in the last twenty years
 - The greatest challenge but also the greatest opportunity for the school is the continuing relearning of already high schooled adults

