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THE LIABILITY OF SHRINKING WINDOWS OF OPPORTUNITY: STRATEGIES FOR TECHNOLOGY ENTREPRENEURS (SUMMARY)

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SUMMARY

THE LIABILITY OF SHRINKING WINDOWS OF OPPORTUNITY: STRATEGIES FOR TECHNOLOGY ENTREPRENEURS

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Principal Topic

New technology entrepreneurs face a tough tradeoff while making decisions related to entry timing—when should they stop developing and start selling? Early technology entrants can gain a first mover advantage by being the first to come out with a new technology gaining early customers and capturing significant market share. However, empirical evidence also suggests that later entrants survive longer indicating that they are able to improve their technology and increase the performance advantage thereby offering fitter products. On the other hand, delaying market entry is fraught with the potential risk of being driven out of a profitable market a problem exacerbated in technology driven markets with demand externalities suggesting brief windows of entry for technology entrepreneurs. However, research on entry timing suffers from lack of data on the effect of early or late entry on venture performance. For instance, we can only know the performance of iPhone since its launch in June, 2007 but not how it would have performed say a few years earlier or a few years later. In this study, I attempt to empirically test if new ventures suffer from an incorrect decision related to entry timing.

Method

The Hatch-Waxman Act of 1984 created a unique interplay between the patent and FDA approval process and thus provides a natural setting to tease out the dichotomy between delaying entry and improving technology. A sample of 541 investigational new drug (IND) applications filed with the FDA is used to test if new ventures made optimal choices for technology entry. The duration between the first publications of new drug technology and the IND application proxies the delay in technology entry. I use an event-history model to analyze the date to account for censoring. I generate an agent based model that replicates the tradeoff between delaying entry and improving technology and use it to propose two strategies that can mitigate the effects of non-optimal entry.

Results and Implications

This research represents some of the first attempts to empirically test if entrepreneurs make the correct decisions on entry timing. I contribute to literature in entrepreneurship and strategy by highlighting one of ways in which the liability of newness can act especially in the technology domain.

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