Strategies of new innovative companies

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Abstract. *In recent decades, small and medium-sized enterprises (SMEs) have become actively introduced into the innovation process. The main trend in the development of small and medium-sized businesses is an increase in the share of small innovative companies involved in research and development and manufacturing of high-tech products. The success of small innovative companies depends on the right strategy which is based on detailed analysis of the market situation, resources available and the specifics of the field of activity, as well as on a quick response to changes in the market.*

The article considers the main strategies of innovative companies at various stages of the innovation cycle: from idea generation to commercialization and scaling of the finished product.

Keywords: *SMEs, startup, innovations, strategies, competitiveness, intellectual property, market conquest.*

Nowadays, the role of innovation has increased significantly. It is almost impossible to create new competitive products without innovations. These days, competition between companies differentiates a lot compared to many years before. Some of the main market trends are disintermediation (disappearance of channel intermediaries, such as brokers, travel agents, growth in telephone or online purchasing), dematerialization (increasing value of a product in service rather than the physical object, the emergence of e-money), micro-segmentation (designer labels, proliferation of product ranges). All of these accelerates the pace of our lives and makes competition between companies fiercer. Firms are trying to achieve competitive advantage in order to obtain a better and a stable position in the marketplace. Therefore, they need to respond immediately to any changes on the market. There are some ways for companies to develop their strategies.

Harvard Business School has created a model that classifies startup business strategies based on enterprise decisions about customers, technology, identity, and competitive space (Fig. 1).

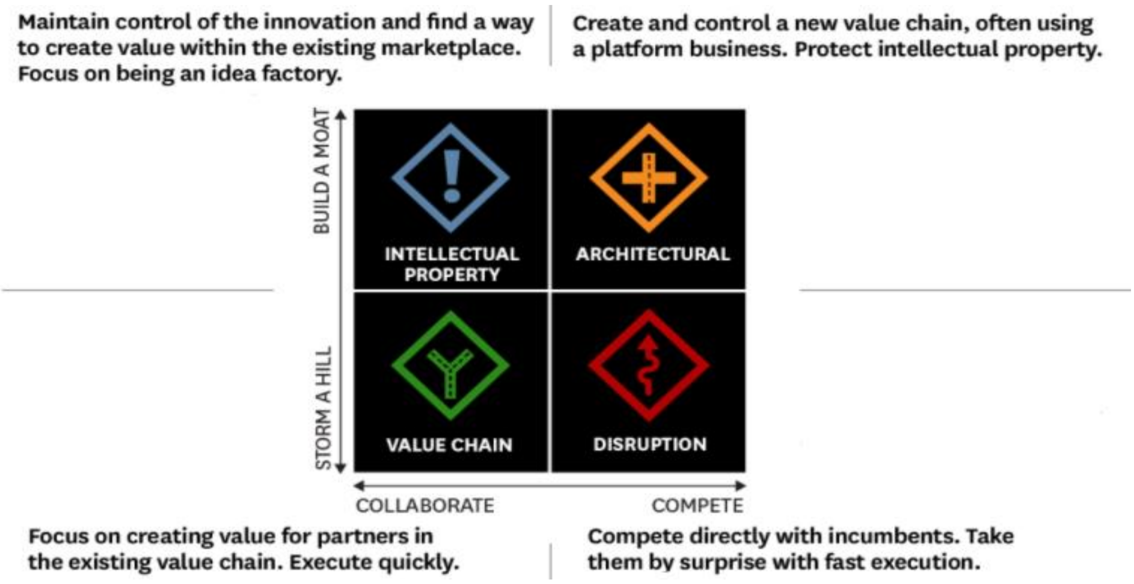

Figure 1 – Business strategy compass

Source: Joshua Gans, Erin L. Scott, and Scott Stern, Strategy for Start-ups, Harvard Business School, Magazine, May-June 2018, Available online: https://hbr.org/2018/05/strategy-for-start-ups (date of the application 12.06.2021).

To select a potential strategy, each new startup has to consider two specific competitive trade-offs:

1. *Collaborate or compete?* Working with established players provides access to resources and supply chains that can enable startups to quickly enter a larger and more established market. On the other hand, an enterprise may face significant delays due to the bureaucratic nature of large organizations, and may also capture a smaller portion of a potentially large benefit (the incumbent is likely to have more bargaining power in the relationship, especially if it can appropriate key elements of the startup idea). There are pros and cons to the alternative too. Competition with established players in the industry means that a startup has more freedom to innovate, to work with customers, to build a value chain, with a chance to supplant existing successful products. However, this means fighting with competitors that have large financial resources and developed business infrastructure.

2. *Build a moat (protect intellectual property) or storm a hill (get to market quickly)*? Some companies believe they can get more out of maintaining tight control over a product or technology, and that copying by others will make them vulnerable. Thus, they invest in intellectual property protection. Formal protection of intellectual property, while costly, could allow a tech startup to exclude others from direct competition or have significant bargaining power with a supply chain

partner. But prioritizing control increases the time, transaction costs, and challenges associated with bringing innovation to market and working with customers and partners.

Conversely, a focus on fast-to-market speeds up commercialization and development, which usually happens in close collaboration with partners and customers. Innovative companies that choose this path prioritize the opportunity to experiment and replicate their ideas directly in the marketplace. Go-to-market startups anticipate competition and use their agility to respond to competitive threats.

An example among French startups is CARMAT, the creator of the world's most advanced complete artificial heart. The sensors built into the heart detect blood pressure and monitor blood flow in real time. It works like a human heart: if the patient walks, blood flow increases, and if the patient is at rest, blood flow remains stable and low.

CARMAT received an award from the French National Institute of Industrial Property (Institut national de la propriété industrielle – INPI)[1] in 2014 in the Patent category. the competition jury considered CARMAT to stand out for its innovative strategy and its ability to assemble a team of engineers, biologists and doctors with complementary areas of expertise. This interdisciplinary approach allowed the first self-regulating bioprosthetic heart to be brought into clinical trials. This French innovation is already protected by 155 already issued national patents and 51 patents pending in Europe and 25 countries [4].

Despite this fact, the company CARMAT, founded in 2008, remains unprofitable - the company's gross loss is USD 24.4 million [7]. Why is the unprofitable CARMAT actively developing, and why do investors continue to regularly invest in it?

Investors continue to invest their money in companies that they see as promising and that can change our lives. CARMAT was the first company to create a fully autonomous human heart that can completely revolutionize the entire healthcare industry and improve the lives of millions of people.

The market capitalization of the company today is 393.7 million euros [7]. The share price tended to grow strongly in 2020, then declined slightly in the first four months of 2021, then the growth began to recover. Five-year beta, reflecting the risks of volatility, is less than one ($\beta = 0.87$), which indicates low volatility of CARMAT shares relative to the market. CARMAT share price is 25.7 euros (Fig. 2).

[1] INPI is a fully self-funded government agency under the authority of the Ministry of Economy, Industry and Digital Technologies. It grants patents, trademarks and industrial design rights, and provides access to all information related to industrial property and businesses.

CARMAT is a leader recognized at the European level: with the support of the European Commission, CARMAT received the largest subsidy ever provided by Bpifrance to small and medium-sized businesses, totaling 33 million euros [4].

Figure 2 – CARMAT share price, 2016-2021, euro.

Source: built by the author based on data Finance Yahoo, Carmat SA (ALCAR.PA), Available online: https://finance.yahoo.com/quote/ALCAR.PA/financials?p=ALCAR.PA (date of the application 12.06.2021).

The Disruption Strategy. This strategy is the complete opposite of the IP strategy. It involves a decision to compete directly with incumbent players with an emphasis on the commercialization of the idea and the rapid growth of market share, rather than control over the development of the idea. The startup seeks to rapidly build capabilities, resources and customer loyalty so the imitators cannot catch up. For this reason, the initial customer choice is usually a niche segment that is poorly served by incumbent operators and is out of their sight. This allows the startup to build trust and explore new technologies that may have initial flaws but have significant potential for significant improvement.

An example of a company that has chosen this strategy is BlaBlaCar, the world's leading online travel companion service. Basically, the service works for intercity trips, and travel costs are divided proportionally among all participants in the trip. Three years ago, BlaBlaLines was launched to organize short-distance ridesharing and daily city or suburban routes. BlaBlaCar raised a totally

$ 563.5 million in 7 rounds. The last funding was received on April 20, 2021 as part of the round of convertible bonds [5]. The company was founded in 2006, entered the international market in 2009, offering its services in Spain. The company's big breakthrough came in 2007 when the French rail network was closed due to a strike and passengers were looking for alternative means of travel. Today BlaBlaCar is represented in 22 countries (Fig. 3), and has 90 million users [3].

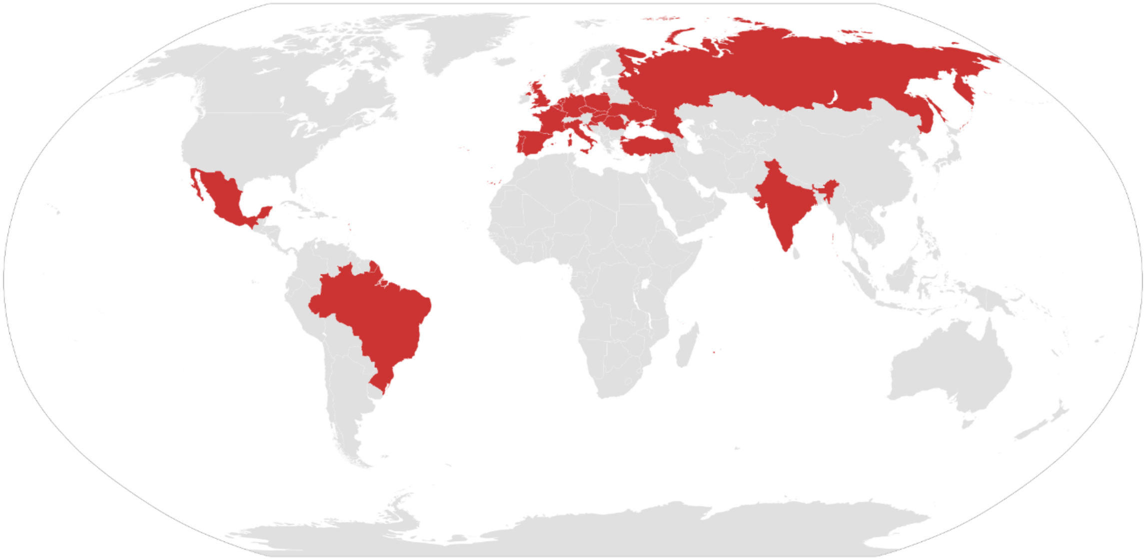

Figure 3 – Geographic representation of BlaBlaCar, 2021 г.

Source: BlaBlaCar, Available online: https://blog.blablacar.com/about-us (date of the application 10.06.2021).

As the company has grown, competitors have emerged. The American transit company Via, established in 2012, and the American company Lyft, established in 2021, is engaged in transportation, connecting passengers with drivers. BlaBlaCar chose this business development strategy, introducing a completely new service for the first time and embarking on a rapid development and international expansion, allowing competitors to try to copy its success. In the innovation market, it is critical to be the first. The BlaBlaCar's idea has something in common with such well-known companies as Airbnb, eBay, Uber. By minimizing transaction costs, these platforms bring together two types of groups, usually «buyers» and «sellers»: Airbnb connects people with vacant rooms and travelers in need of accommodation, Uber connects drivers and passengers, eBay connects buyers and sellers, BlaBlaCar connects drivers with empty seats in their car with passengers traveling to the same destination.

BlaBlaCar announced that its revenue grew 71% in 2019 compared to 2018 [2]. The startup has built a global transportation network that has allowed the firm to become a unicorn company [1] with a market value of US $ 1.6 billion [8].

The Value Chain Strategy. Undoubtedly, competition is exciting. By comparison, the value chain strategy seems a bit simple. However, the identity of such companies stems from competence rather than aggressive competition, in this case, companies focus on developing scarce talent, unique abilities, unique products and services to become preferred partners. The startup invests in commercialization and day-to-day competitiveness rather than control over a new product and creating barriers to entry, but its focus is on fitting into the existing value chain, not reversing it.

Finexkap is a prime example of a French startup that has chosen this strategy. This innovative FinTech company has transformed the way French SMEs do business by providing an online platform through which they can access the required working capital. In France it has been estimated that 25% of corporate bankruptcy happened due to lack of short-term financing [9]. And in the United States, half of SMEs admit that this is a constant obstacle to their operation. More often than not, cash flow depletion is the result of unpaid bills. Traditionally, companies have had to go to the bank to access the funding they need to fill the gaps. Unlike traditional banks in France, which usually do not offer spot financing, Finexkap has developed a flexible way of financing working capital for SMEs, allowing them to choose the invoices they want to issue without having to analyze the underlying assets. With an astronomical 3500% revenue growth in its first year, Finexkap easily outpaced its competitors in the race to become France's fastest growing startup in 2016 [10].

Moreover, Finexkap fulfills a real social function, allowing small businesses to thrive when companies would otherwise face difficult financial choices or inevitable failure.

The Architectural Strategy. This strategy allows startups to both compete and gain control, but it is beyond the reach of many companies and highly risky. A fast-growing company that is also investing heavily in protecting its intellectual property is French startup ContentSquare, which has developed a digital experience analytics platform that allows businesses to track customer behavior online and use that information to better interact.

The company has created unique technologies that track trillions of digital interactions and turn these behaviors into smart recommendations that various companies and their marketing departments, e-commerce departments, digital design, merchandising and many others can use to improve the digital experience, increase revenue and stimulate innovation. These technologies can, for example, create an entire map of how visitors navigate a customer's site from entry to exit, visualize how users interact with each page and how this affects their behavior, reconstruct individual visitor sessions on their website, and much more. In the eight years since its inception, the company has grown enormously, invested multi-million-dollar amount of money in innovation that needed to be protected by patents. In the software start-up market, patent litigation is not always on the agenda, as is the case for, for example, fashion companies. However, in ContentSquare's strategy, protecting its intellectual property is one of the most important points. After developing a patent strategy, the company doubled its investment in research and development [6].

We can conclude that to be innovative means to be different from everyone else. Innovation leaders achieve extraordinary success, revolutionize the market, create new niches in it, and lead everyone else. It is extremely important to choose the right strategy by analyzing the current market conditions, the specifics of the chosen area and the company's capabilities. The key performance indicators of innovative companies are not just the lines of the profit and loss statement, but also the geographical distribution, the number of regular customers, the amount of gross investment made by external investors and the uniqueness that can be provided by patent protection of property rights. All this is included in the strategies of the most successful innovative companies and determines the market capitalization or, in other words, the market value of the company.

In the new economy, when the situation is changing at a very fast pace, there are only two types of firms: fast and dying. Today, «it is not the big one who eats the small, but the fast one eats the slow», so flexible and fast firms, regardless of their size, have a much better chance of survival and success, be in the driver's seat and become a truly market leaders through innovation.

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