Branding Entrepreneurial Start up Disruptive Innovation Ventures

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Abstract

The purpose of this paper is to develop a theoretical framework and evaluation strategy for branding entrepreneurial startup disruptive innovation ventures. The theory of disruptive innovation stipulates that innovative startup ventures develop new business models, create new markets, or introduce innovative, low-cost products. Branding is a business strategy to capture the attention and interest of a population segment for a product, place, corporation, or new venture to achieve desired goals. Venture branding will enable entrepreneurs to entice investors, secure funding, and attain venture growth. The paper begins with brief discussions of relevant prior research in the areas of entrepreneurship, branding in general and the relationship between venture branding and venture capital formation, that is, the critical need for effective brand strategies in all startup ventures. Discussions of research on disruptive innovation and venture capital funding follow. The paper concludes with a theoretical framework and guide for evaluating successful disruptive startup brand strategies.

Keywords: Branding, entrepreneurship, venture capital, disruptive innovation, startups

1. Introduction

Published research has addressed many aspects of entrepreneurship such as disruptive innovation and venture capitalists’ financing of new ventures. (Bachher 2000, Christensen 2006, Christensen 2015, Chung and Maxell 2012). There is, however, less published research on branding startups in general and, more specifically, startups based on disruptive innovation to enhance funding opportunities. Published research has, however, clearly established the critical need for effective branding strategies for all successful startups including those based on disruptive innovation. (Balen 2018, Kanze 2017, Otubanjo 2018, Sherman 2018, Carter 2014) The purpose of this paper is to develop a theoretical framework for branding disruptive innovation startup ventures and, based on this framework, suggest tools venture capitalists can use to evaluate branding strategies employed by startups of this type. The high failure rate of startups, particularly those claiming to be disruptive innovators, makes it necessary for venture capitalists to employ the most effective evaluation tools available for making investment decisions. This paper provides additional insight into how these tools can be developed and used.

The need for these tools becomes clearer when the historic and diverse role of entrepreneurship in economic progress in the United States is considered. To a significant extent, economic development in America has been driven by the establishment and accomplishments of entrepreneurial business ventures. The ventures are found in a variety of sectors including financial, information, transportation, medical, and social media. For example, according to the Bureau of Labor, entrepreneurs founded 963,000 establishments in the United States in 2017 with more than 3.3 million jobs created. Entrepreneurs are renowned for risk-taking, innovation, and internal locus of control³. Many entrepreneurs are also well-known for novel ideas to introduce new products and services that seek to change the rules of doing business in the marketplace⁴.

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³The subject of personality characteristics of entrepreneurs has been an important area of research in entrepreneurship literatures. See, for example, Cromie (2000); Little (2005); Kozubiková et al (2015).
⁴ CNBC has in recent years been publishing an annual list of disruptive innovation entrepreneurial firms. See, for example, 2018 CNBC Disruptor 50 Companies.
Entrepreneurs are of different educational background, social environment, cultural value system, gender, and vision. The common attribute among entrepreneurs is the pursuit of opportunities.

2. Components of the Theoretical Model

2.1 Entrepreneurship

Entrepreneurship, viewed in this paper as the establishment and development of business ventures, is imperative for the United States’ economic growth and technological advancement, because entrepreneurial firms have become a major source of employment, investment, and innovation in the country. Many firms that were in their early entrepreneurial development in the 1990’s, 2000’s, and 2010’s have become dominant in their sector of operation. Examples include Microsoft, Intel, Starbucks, Amazon, Facebook, Twitter, Uber and Airbnb.

Entrepreneurial success is contingent on several factors such as the entrepreneur's vision, motivation, ingenuity, strategic thinking, and opportunity exploitation. Entrepreneurs, especially nascent entrepreneurs, face enormous obstacles particularly during the early developmental stage of their ventures. The obstacles include (i) absence of recognized business networking, (ii) insufficient knowledge of industry environment, and (iii) lack of marketing and managerial skills.

Entrepreneurs are also confronted with the dilemma of scarcity of necessary capital. In the United States, however, there are a number of external sources that entrepreneurs can explore to generate the desired amount of funds to finance their ventures. In a study conducted by the Kauffman foundation (Wiens, 2015), the following sources of finances were listed:

- Venture capitalists (6.5 percent);
- Angel investors (7.7 percent);
- Government grants (3.8 percent);
- Bank loans (51.8 percent);
- Personal savings (67.2 percent);
- Family (20.9 percent);
- Business acquaintances (11.9 percent);
- Credit card (34.0 percent); and
- Have not used finance (13.6 percent).

The data shows that the largest percentage of funding comes from personal savings (67.2%) and the lowest percentage of funding comes from venture capitalists (6.5%). More effective entrepreneurial branding of startups, particularly disruptive innovators, is an important strategy for reducing dependence on personal savings and increasing the probability of successful venture capital funding. Better branding helps the entrepreneur present and promote his/her venture. It also helps the venture capitalists better understand the startup and how it can become a successful disruptive innovator. This will materially reduce real and perceived investment risk for the venture capitalists.

2.2 Branding

Branding strategies for product, nation, region, country, and city are extensively discussed in the literature (e.g., Zeineddine and Nicolescu, 2018; Sasikumar, 2017; Ranasinghe, Thaichon, and Ranasinghe, 2017; Kaneti and Assis, 2016; Katja, 2016; Merkelsen and Rasmussen, 2016; Gobe, 2010; Power, 2018; de Jong et al, 2018; Chan and Marafa, 2017; Crewe and Martin, 2017; Hultman, Yeboah-Banin, and Formaniuk, 2016). In reference to marketable products, for instance, de Chernatony, McDonald, and Wallace (2011) defined a brand as a cluster of functional and emotional values that enable firms to promise customers a unique and welcomed experience. Rooney (1995) asserted that branding is a marketing strategy that could be used with success and effectiveness. Caldwell and Freire (2004) pointed out that branding strategy has in recent years become the most powerful tool in marketing activities throughout the world.

What has not been adequately developed is a theoretical construct of branding which can be applied to evaluate branding of startups based on disruptive innovation. This paper addresses this gap in the literature. It is proposed in this paper that startup ventures based on disruptive innovation should be branded in such a manner as to enhance the likelihood of securing the necessary funding.
Venture branding is a branding strategy which can be used to achieve this goal. As a differentiation business strategy, it underscores the uniqueness of the venture, such as being a disruptive innovator, its features, and its qualities. Venture branding is also valuable for creating the startup’s identity and its image in the eyes of prospective investors and financiers. A compelling venture brand will help achieve the following:

- Attract seed money and subsequent financing;
- Contribute to a wider customers’ acceptance of its products;
- Force the entrepreneur to attain the venture’s long-term goals including growth and competitive advantage; and
- Induce the entrepreneur to seek geographic expansion in opening new markets.

The entrepreneur must be ready to present the venture proposal that helps him/her secure the necessary funds. Entrepreneurs seeking funding for startups based on disruptive innovation must satisfy at least two conditions in order to increase the likelihood of obtaining venture capitalists’ financing. The conditions are:

- A viable disruptive innovation venture (i.e., a venture that satisfies the definition of disruptive innovation with expected growing market demand); and
- A unique branding strategy that clearly and persuasively demonstrates the firm’s viability and attractiveness as a disruptive innovator. This strategy should focus on and highlight the components of successful disruptive innovation discussed in the next section.

### 2.3 Disruptive Innovation

Innovation is the engine of growth for business firms (Denning, 2005). The theory of disruptive innovation addresses innovative actions initiated primarily by startup ventures. The theory encompasses the following strategic initiatives (Christensen, 1997; Christensen (2002), Christensen and Raynor, 2003; Christensen, Raynor, and McDonald, 2015, Christensen and Bower, 2018):

- Introduction of innovative, low-cost products primarily intended to satisfy consumers’ unmet needs;
- Creation of new markets; or
- Deployment of new business models.

The theory also addresses the question: What makes well-managed and successful firms vulnerable to disruptive innovation by other firms? Christensen and his associates state that the incumbents might be vulnerable because they overshoot their customers’ needs via sustaining innovation. As a result, some customers— who constitute a market niche worth targeting— either cannot afford to purchase the product or they don’t need its extra features or functionalities.

The theory stipulates that continuous product improvement designed to satisfy the high-end of the market will pave the way for disruptors to enter the market by offering initially cheaper, simpler, and inferior substitutes for the low-end market. Disruptors bring to the marketplace different value propositions than have been available. The theory emphasizes that disruptors can force the larger, more powerful incumbent companies out of the marketplace. Christensen and his colleagues make a distinction between disruptive innovation and sustaining innovation. Initially, disruptive innovations originate in low-end or new-markets, while sustaining innovations are directed toward making good products better as viewed by a firm’s existing customers.

The authors refined and improved the theory since its inception in 1977. It has emerged in recent years to address both disruptive business models as well as disruptive product innovation.

Many scholars and professionals have voiced their support for the theory of disruptive innovation. For example, Markides (2012) pointed out that disruptive innovation has been the strategy that led to Japan’s impressive economic progress after World War II. Govindarajan and Kopalle (2006) believed that disruptive innovations are effective means for developing new markets which, in turn, disrupt existing market linkages.

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5Although there are many sources of financing in the United States, the emphasis in this paper is on venture capitalists’ financing of startup entrepreneurial disruptive innovation ventures.
To exploit the opportunities disruptive innovation represents, Raynor (2011) believed that firms need to utilize low-cost models in combination with enabling technologies. Norton and Pine (2009) recommended that companies should invest in more time and efforts to understand the emotional and social jobs customers want to accomplish. Similarly, Reinhardt and Gurtner (2011) emphasized that the process required to develop disruptive innovation is to gather the right information about customers’ needs.

However, disruptive innovation theory has been challenged by some scholars. For instance, Danneels (2004) suggested that Christenson does not make a clear distinction between disruptive technology and sustaining technology. Lepore (2014) asserted that Christensen’s theory is about why business firms fail; it’s not more than this. The author added that Christenson’s sources of information are dubious and that the theory rests on his arbitrary definition of success. King and Baljir (2015) declared that many of the theory’s exemplary cases do not fit well with some of its conditions because the theory is based on the hard drive industry in the 1970’s and 1980’s limiting its relevance. Moazed and Johnson (2016) stated that Christensen was wrong about Uber being a disruptive startup because the classification depends on what stakeholder viewpoint is assumed.

Sharzynski and Rowan (2008), in their analysis of successful and unsuccessful industry disruptors, observed that three issues are of importance: (i) the ability of companies to anticipate and act on market discontinuities and unmet customer needs, (ii) the ability to link incremental and breakthrough innovation, and (iii) the recognition that disruptive innovation can inform strategy as strategy can inform disruptive innovation. Finally, Petrick and Martinelli (2012) recommended a road map that includes the following steps for business firms planning to engage in disruptive innovation:

- Scan the environment for major events and trends;
- Distinguish between key trends and minor ones;
- Identify problems from the end users’ viewpoint;
- Prioritize solutions and assess them;
- Recognize needs on the bases of existing capabilities and end-user’s needs;
- Find partners needed and their roles; and
- Pinpoint activities needed to implement the desired strategy.

2.4 Venture Capitalists (VCs) Financing

Non-disruptive innovation ventures face harsh competitive environments as evidenced by the exceptionally high failure rates of small business firms. The failure rate of business firms in the United States is quite high. For example, according the U.S. Department of Labor, 848,000 business establishments disappeared in 2016, a failure rate of 88.6 percent for young firms. A number of reasons have been cited for business failure including the following (e.g., Knotts, Jones, and Udell, 2003; Perry, 2001; Kambwale et al, 2015; Williams, 2017):

- Lack of funding;
- Intensive competition;
- Absence of strategic planning;
- Unfavorable economic environment;
- Inexperienced management;
- Inadequate marketing;
- Unfitting product for the market; and
- Poorly designed business models.

These factors make the risk venture capitalists take when funding startups significant. Chung and Maxwell (2012), for instance, indicated that VCs had offered large sums of funds to finance risky projects. Gage and O’Connell (2012) reported research conducted by Shikhar Ghosh of Harvard Business School that shows 75 percent of VC financed firms fail the test of survival.

Despite high failure rates, the role of VCs in the establishment and subsequent growth of entrepreneurial firms is critical, and rapidly expanding. For instance, according to the National Venture Capital Association 2017 Yearbook, VCs provided $6.6 billion in first-time financing in 2016 and $62.5 billion in follow-on deal flow. Moreover, according to CBInsights, venture capitalists invested $74.2 billion in 2017.
In a broader perspective, the amount of VCs venture financing during the year in question was more than the combined gross domestic product (GDP) of several developing countries such as Tunisia, Iceland and Burundi.

Because of their role as financiers, venture capitalists participate actively in the advancement of innovation. For example, Florida and Kenney (1998) said that venture capitalists act as technological gatekeepers who accelerate the pace of technological change. Dutta and Fota (2016) asserted that VCs contribute to innovation and the ventures they fund experience fast commercialization. Venckuviene (2014) asserted that venture capitalists help ventures they finance to create innovations through improvements in the management of human resources, building technical capability, strengthening marketing capacity, establishing networking activities, and developing viable business strategies. Hua, Wang, and Wang (2016), in studying the impact of venture capital financing on Chinese firms' innovation, concluded that venture capital funding spurs innovation in China and exhibits significant impact on the financial performance of the VC-backed firms. Finally, Zhou et al (2016) suggested that start-ups ventures that demonstrate their technology and marketing capability would do best in getting funded.

VCs offer funds, expertise, networks, and other value-added resources to entrepreneurs (e.g., Bouresli, Davidson, Abdulsalam, 2002; Jeppsson, 2016; Lantz and Sahut, 2009; Leece et al, 2012). As shrewd investors who seek to achieve a maximum return on their investment, they attempt to minimize the risks they encounter. Zider (1998) pointed out that venture capitalists are more like conservative bankers than risk takers, that they must earn a consistently superior return on investment in risky businesses, that they typically invest in good industries, and that they structure their deals that minimize risk and maximize return. In terms of kinds of risks, MacMillan, Siegel, and Narasimha (1985) mentioned that VCs face six categories of risks in financing new ventures, as indicated below:

- Loss of entire investment;
- Inability to bail out;
- The entrepreneur failure to implement the venture’s idea;
- Competitive risk;
- Management failure; and
- Leadership failure.

More to the point, Kryzanowski and Giraleanu (2001) considered the following as the risks often encountered by VCs:

- Management;
- Product;
- Market;
- Track record of the entrepreneur or entrepreneurial team;
- Physical security;
- Variance in profitability;
- Years of existence as a company; and
- Number of years of commitment.

### 2.5 VCs Funding Criteria

Scholars have discussed VCs funding criteria for financing entrepreneurial ventures based on the risks discussed in the prior section (Wood (2016), Bylund (2017), Simoudis (2014), Callahan (2010)). For example, Tyebjee and Bruno (1984) mentioned the following criteria:

- Management skills.
- Market size/growth.
- Rate of return on investment.
- Market niche.
- Growth potential;
Barriers to entry.
Market/industry experience.

Hall and Hofer (1993) found out that venture capitalists typically screen and evaluate venture proposals very rapidly, and that the go/no-go decision was reached within an average of less than 6 minutes on initiation screening and less than 21 minutes on proposal assessment. Key criteria utilized in the initial screening process included (i) fit with the venture firm’s lending guidelines and (ii) the industry long-term growth and profitability. Buchner, Mohamed, and Schwienbacher (2017) contended that venture capitalists’ decisions to finance business ventures are influenced by strategic portfolio considerations. Mason and Stark (2004) pointed out that venture capitalists emphasize market and finance aspects of proposed ventures. Davis, Blakley et al (2017) believe that venture capitalists’ perception of the venture’s product creativity as well as the entrepreneur’s passion are two most influential factors in venture financing decisions.

Miloud, Aspelund, and Cabrol (2012) determined that, in financing new entrepreneurial ventures, the question of how to value individual ventures is highly critical. The authors also indicated that VCs take into consideration in their financing decisions the following factors: (i) attractiveness of the industry, (ii) the quality of the founder and the management team. Simić(2015) summarized research findings of 22 published studies about the investment criteria deployed by venture capitalists. The criteria are classified into four major categories, (i) entrepreneur/management team characteristics, (ii) product/service characteristics, (iii) market characteristics and (iv) financial characteristics. Dhochak and Sharma (2016) indicated that seven factors influence the investment decisions of venture capitalists. They are:

- Entrepreneur’s characteristics;
- Market (or industry) characteristics for the product or service;
- Management skills;
- Financial consideration of the venture;
- The economic environment;
- Institutional environment; and
- Regulatory environment.

Finally, in a survey about venture capitalists’ investment criteria for technology-based ventures, Bachher (2000) concluded that the following are emphasized:

- Management team (e.g., team’s ability, personality characteristics of the entrepreneur);
- Target market (e.g., target customer, market characteristics);
- Competitive positioning within the environment. (e.g., competition, the industry);
- Venture offering (e.g., product or service, technology);
- Capital payback projections (e.g., exit strategy, risks); and
- The quality of the business plan.

In summary, research findings indicate that, in general, VCs underscore the factors indicated below in their assessment of the viability of entrepreneurial startups venture proposals:

- Personality attributes of the entrepreneur and/or his/her management team;
- Skills and experience of the entrepreneur and/or his/her team;
- Funding requirement;
- Expected rate of return on investment;
- Potential market size and anticipated growth rate;
- Product/service characteristics; and
- Competitive advantage of the venture

A Theoretical/Conceptual Framework for Venture Branding

Lynham (2002) indicated that the primary aim of theory building is to explain the meaning, nature, and challenges of a phenomenon. The author added that theory building involves the following phases:

- Conceptual development;
Operationalization;
Application;
Confirmation or disconfirmation; and
Continuous refinement and development.

In light of Lynham’s (2002) discussion of theory development (i.e., conceptual phase) referred to above, and on the basis of: (i) disruptive innovation theory, (ii) standard criteria for financing startup entrepreneurial business ventures, the following six **Conceptual Dimensions for Venture Branding Strategies** are proposed:

1. Human dimension (e.g., managerial skills, experience, market knowledge, strategic vision).
2. Market dimension (e.g., market size, marketing skills, market growth).
3. Technological dimension (e.g., patents, cutting-edge technology, user-friendly technology).
4. Industry dimension (e.g., new industry, growing industry, competitive industry).
5. Financial dimension (e.g., profit prospect, profit growth, income stream).
6. Complementary dimension (e.g., company productivity, company core value, employee commitment, customer relationship/loyalty).

### 2.7 Venture Capitalists’ Evaluation of Brand Identity

The Conceptual Dimensions, research and expert opinion cited above can be used to develop a strategy for enhancing venture capitalists’ ability to identify and invest in startups based on disruptive innovation. A strong brand identity is one of the most important and effective ways for a startup to stand out from other businesses seeking venture capital. It greatly increases the chances that a venture capitalist will quickly see potential in the startup and be willing to invest in it. The **“Venture Capitalist’s Brand Identification and Analysis Checklist”** can be used to evaluate and analyze three aspects of disruptive innovators’ brand identity strategy.

**Part 1: Components of a Strong Brand Identity** - Are the components of a strong brand identity easily identified in the investment proposal. They are:

- Clearly Stated Marketing Objectives;
- An Accurate Complete Audience Definition;
- Clearly Identified Purchase Drivers – does the entrepreneur know why customers will buy his/her product or service? Are the reasons persuasive and compelling?
- Sales Cycle;
- Channel or Distribution Strategy;
- Partnership strategy;
- Creative Expression; and

**Part II: Objectives** - Will the following objectives of a strong brand identity be achieved:

- Encourages development of a strong value proposition for the startup;
- Focuses attention on how customer loyalty will be established;
- Leads to detailed evaluation of infrastructure necessary for success;
- Encourages development of promotional strategies for the startup consistent with strong brand identity; and
- Enhances the appeal for venture financing.

**Part III: Brand Identity and Disruptive Innovation:**

- Does the brand identity enhance describing why and how this venture has been designed to successfully disrupt some aspect of the marketplace? In other words, does strong brand identity improve the holistic evaluation of the startup as a disruptive innovator so the entrepreneur can make his/her case quickly?
• Has a strong brand identity properly incorporated and highlighted the management team and their ability to be successful disruptive innovators?
• Finally did the entrepreneur(s) create a strong brand identity that enhanced the venture capitalist’s belief that they are the right people with the right idea at the right time to successfully disrupt a market segment?

This multi-part brand identity strategy should be incorporated into the evaluation and analysis of all startups labeling themselves as potential disruptors. There are sixteen items in the three-part evaluation. This can be the basis for a Likert scale evaluation tool used by venture capitalists to “score” all startups seeking funding from them. These “venture branding strategy scores” will then become part of the decision-making process for each potential investment. Furthermore, statistical analysis of overall scores and scores for individual questions can be done to identify trends and/or characteristics of brand strategies that appear consistently. This evaluation document can be shared with entrepreneurs seeking funding as part of the information required for further consideration. They must clearly identify themselves as such and back that up with persuasive comprehensive responses and data consistent with the “Venture Capitalist’s Brand Identity and Analysis Checklist”.

2.8 Conclusion

This paper proposes a theoretical/conceptual framework for branding and evaluating entrepreneurial startup ventures based on disruptive innovation. This subject has generally been under represented in scholarly discussions in academic journals despite its importance for would-be entrepreneurs, venture capitalists, and other interested parties. Innovation, in general, and disruptive innovation, in particular, seeks to introduce new products (goods and services), open new markets and create wealth. Disruptive innovations (e.g., Twitter, Airbnb, Netflix) are mainly initiated by entrepreneurs who often pursue funding for their creative ideas from venture capitalists. Branding as utilized for products and cities, for example, has proven its benefits in revenue generation for business firms and cities concerned. Entrepreneurs with viable ideas for new products or markets with promising growth potential, and who need funding should adopt branding strategy as a tool for their ventures to increase their chances of securing necessary capital for seed money as well as for venture expansion and growth. Venture capitalists should employ the Venture Capitalist’s Brand Identity and Analysis Checklist to properly evaluate how well entrepreneurs seeking funding have done this.

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