New Market Creation by Young Entrepreneurial Firms

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MAROUANE BOUSFIHA

Department of Technology Management and Economics
Division of Innovation Engineering and Management
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MAROUANE BOUSFIHA

Tutor, Chalmers: HENRIK BERGLUND

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Department of Technology Management and Economics
Division of Innovation Engineering and Management
Chalmers University of Technology
SE-412 96 Göteborg, Sweden
Telephone: + 46 (0)31-772 1000

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Abstract

The present thesis is an attempt to understand how certain young entrepreneurial firms succeed in creating new market spaces in spite of their two daunting liabilities: the lack of resources and the overwhelming uncertainty facing them. A number of theories tried to answer this question from different angles. Three of them will be comparatively reviewed in this thesis: a) effectuation, b) bricolage and c) the market construction framework (referred to in the thesis as the MC framework). To illustrate the theoretical arguments made in the discussion, we use two startup examples that are in the process of reinventing their respective market categories: Homejoy and Uber. The *contribution* of this thesis is two-fold: First, to highlight a chorological complementarity between the insights of the reviewed theories, and second to uncover three interesting shifts in behavior that mark the transition from one market phase to the other. All these elements helped create a narrative that explains new market creation from beginning to end.

Introduction

When you think about it, the mere act of starting a company with so much uncertainty about what to do, how to do it and with whom to do it, is an achievement on its own. Doing that while setting up to create a market space that didn't exist before is truly intriguing. Examples such as Ebay (online auctions), Starbucks and the more recent startup Homejoy provide an undeniable proof that this could be done time and again. Neither the limited access to the necessary resources nor the sheer amount of uncertainty surrounding them seems to deter these companies from persisting and succeeding. This being said and beyond the specificities of each success story, the purpose of the thesis is to answer the following research question:

> *How does a young entrepreneurial firm succeed in creating new market spaces in spite of its two daunting liabilities: the lack of resources and the overwhelming uncertainty facing it?*

To answer this question we need to understand *how does market creation happens over time?* In other words, *what are the phases through which markets gets created? Are there any indicators signaling the transition from one phase to the other? Are there any shifts or significant changes in the behavior and logic of entrepreneurs from one phase to the other?* We believe that by answering these sub-questions, we can finally piece together a tentative answer to the main research question.

However, we insist on clarifying that the ambition of the present thesis is not to build a comprehensive theory about new market creation by new entrepreneurial firms. We are fully aware of the difficulty of such task and therefore have a rather realistic ambition in this regard. The thesis is barely scratching the surface of a thorny question that many theories have grappled with for a long time. Therefore, our "realistic" ambition is to study and comparatively review the ideas brought forward by a sample of three theoretical contributions: a) effectuation, b) bricolage and c) the market construction framework (referred to as the MC framework). Each one of these theories examines the focal research question from a different angel and thus provides valuable insights.

After carefully examining the ideas of all three conceptual contributions, we came to the conclusion that new market creation happens through three distinct phases that we will call: a) pre-market phase, b) nascent market phase and c) established market phase. We also observed that while the ideas proposed by effectuation and bricolage are more relevant during the first phase (pre-market phase), the mechanisms suggested by the MC framework seem to take over neatly during the second phase (nascent market phase). This apparent chronological complementarity inspired us to plot the reviewed theories along a continuum of market creation (figure 2). The continuum's role is to help visualize our ideas in a structured manner and thus facilitate discussing them later on in the report.

To illustrate the theoretical arguments put forward in this thesis, we will use two startup examples that are in the process of redefining their respective market categories: Homejoy, an on-demand home cleaning services startup and Uber, a peer-to-peer app-based transportation network. Both startups are considered to have disrupted an established market and consequently created a wide-open market space where none existed before. These two examples are not used as empirical cases; this means that no interviews were conducted to collect primary data. All the data used in this thesis comes from secondary sources. They serve only the purpose of illustrating the rather abstract theoretical arguments presented in the discussion part of the thesis.

The study revealed that the transition from (1) a pre-market phase to (2) a nascent market phase is characterized by three major shifts in the behavior and the logic of entrepreneurs. The first one consists of shifting from focusing on the local (internal) to focusing on the distant (proximate markets and would-be competitors). The second shift consists of moving from a co-creational and collaborative mindset to a monopolistic tendency, and the third shift consists of moving from dealing with ambiguity as a liability to exploiting it as a rather facilitating and favorable condition. Each one of these theoretical shifts will be confirmed and illustrated by empirical evidence from the two cases of Homejoy and Uber.

The *contribution* of this thesis is rather straight forward: it's an attempt to connect the dots between the different theoretical propositions as to how new market spaces get created by young entrepreneurial firms. Along the way, we were able to first, delineate three distinct phases of new markets creation. Second, highlight a chorological complementarity between the insights of the reviewed theories, and finally uncover interesting shifts that seemed to indicate the transition from one market phase to the other. All these elements helped create a narrative that explains new market creation from beginning to end.

1. Conceptual background

The purpose of this section is to explain and motivate why we chose to review effectuation, bricolage and the MC framework. To answer this question we need first to introduce a famous debate about the concept of opportunity. Do opportunities exist “already”, simply “waiting to be noticed” (Kirzner, 1973, p.74) by alert entrepreneurs? Or are they rather socially constructed as a result of the actions of entrepreneurs? The first side of this debate is known as the discovery perspective, the second one is known as the creative perspective (Alvarez and Barney, 2007)
The discovery perspective advocates the pre-existence of a universe of all possible opportunities, a universe where humans engage in a perfectly rational and optimal decision making process to exhaustively search and select among already existing opportunities. Thus the entrepreneur’s job is to be first at exploring and exploiting those opportunities that yield the highest profit (Sarasvathy and Dew 2005).

The creative perspective comes with a different proposition. It acknowledges uncertainty, humans’ bounded cognition and their partial access to a dispersed knowledge among the rest of their peers (Chiles et al., 2010a,2010b ; Sarasvathy Sarasvathy and Dew 2005). Following this, entrepreneurs, cognitively bounded as they are, prefer to create the opportunity instead of searching and selecting it. It is precisely through a continuous transformation of extant resources that opportunities are born and markets are created.

This brief summary of the different stances on whether opportunities are discovered or created, aims at positioning the paper in it proper context. It is in fact in the spirit of the creative perspective that this thesis is formulated. The aim is to build on the growing interest in studying entrepreneurs as creators of opportunities. By positioning the paper under the creative flag, we could only opt for theories that are compatible with such view. Therefore, and going back to the question of why review these theories and not others, two reasons stand out: First, All three of them can be classified under the opportunity creation paradigm. Second, and although they converge on trying to make sense of the ability of entrepreneurs to create new-to the world opportunities, they clearly diverge when it comes to their unit of analysis, their underlying logic and process. We consider that such diversity of perspectives can only enrich the discussion and the outcome of the thesis.

2. Theory review

In this section, three conceptual contributions will be reviewed: effectuation, bricolage and the market construction framework suggested by Santos and Eisenhardt. All three theories can be classified under the opportunity creation paradigm and therefore share the same meta-theoretical assumptions regarding the nature of opportunities and how they are socially constructed. Furthermore, each one of them contain essential elements of answer to the question of how do entrepreneurs succeed, against all the odds, in creating new markets. Therefore, reviewing and contrasting these theories can help in putting together a more complete answer to the main question of this thesis.

Three dimensions will be used to structure the review: problem space, process and underlying logic. The reason behind choosing these three dimensions is to emphasize the points of divergence between the reviewed theories/frameworks. This would in turn help in contrasting and critically analyzing their core ideas. By problem space, we mean the initial circumstances in which each theory is said to be most relevant. By process we mean how each theory tried to answer the question of market creation. And finally by underlying logic we mean the set of fundamental principles that governs the thought and action of those entrepreneurs attempting to create new markets.

2.1 Effectuation

Effectuation is presented as a set of principles and simple rules aimed at guiding anyone who aspires to become an entrepreneur and create a new venture. It was inductively derived from a study about expert entrepreneurs and the cognitive processes they use in making decisions (Sarasvathy, 1998, 2001). The following is a very brief review outlining some of effectuation's core ideas. Clearly, it is in no way an exhaustive account of a theory that is becoming increasingly influential within entrepreneurship research.

2.1.1 Decision space

Entrepreneurs are usually faced with a lot of uncertainty. Such uncertainty has three sources: First, the complete ignorance about what could possibly happen in the future (Knightian uncertainty), second, the absence of any pre-determined goals (Goal ambiguity) and finally the inability to clearly decide ex ante “which pieces of information are worth paying attention to and which are not” (environmental isotropy) (Sarasvathy et al, 2008, p:). In spite of such overwhelming uncertainty, some entrepreneurs have managed to survive and even prosper by creating new markets. By studying some of these entrepreneurs, Sarasvathy could distill a set of principles that guided their thought and action. The outcome is a method called effectuation (sometimes referred to as effectual logic). Effectuation is presented as a viable method for entrepreneurs to act in spite of uncertainty and sometimes even to leverage it to their advantage.

2.1.2 Process

Faced with the overwhelming uncertainty described above, and not knowing where to start from, entrepreneurs’ only option is to first consider their intrinsic means: who they are (tastes, traits and abilities), what they know (education and experiences) and whom they know (social networks). Given these intrinsic means, the entrepreneur could then start imagining potential activities to engage in. Ideas at this stage are usually vague and their commercial potential is completely unknown. They can, however, be used to start a conversation with potential stakeholders and possibly future partners. Snowballing from one contact to the other, they negotiate how each could contribute to the ongoing venture. Curious and interested ones will be willing to invest time, effort and resources to co-create the artifact in question (be it a product/service, firm or even a market category). Over time, the involved actors will form a dynamic network while contributing both tangible and intangible resources (money, knowledge, expertise etc.). Some might defect along the way and new figures might join. This will allow the network to grow and the available resources to diversify. However, the bigger the network becomes, the harder it will be for new comers to negotiate significant changes of strategy and direction. According to Sarasvathy, this signals that the creation is reaching its end and that whatever is being created is taking its final shape. (Sarasvathy, 2001)

Illustrative example

To illustrate the abstract process described above, we will use Sarasvathy's thought experiment where an imaginary entrepreneur is starting an imaginary Indian restaurant. The conventional wisdom using current textbook marketing and management principles indicates the following: To bring this idea to fruition one has to first analyze the existing market for restaurants (existing competition), second identify segmentation variables (demographics, income level, pattern of eating out…). Based on this, target segments will then be selected (for instance, middle income families who eat out twice a week). The selected customer profiles are then likely to inform practical details such as menu choices and internal decoration. The entrepreneur's next step is to launch a marketing campaign, decide on an inauguration date and hope for the best. (Sarasvathy, 2001).

This logic is very much in line with the current paradigm of new business creation as it is being thought in a number of MBA programs around the world. However, It's not always the most adapted option to the reality of entrepreneurial venture creation. This is where Sarasvathy's theory of effectuation comes into the picture as a valid alternative for aspiring entrepreneurs. The imaginary restaurant example is deliberately oversimplified for the sake of painting a less abstract picture of what effectuation is and how it could be used.

In fact, and going back to the imaginary restaurant example, an effectual way of doing things is very different. It suggests not making any assumptions about a supposedly existing market, and above all, not investing any resources to build a restaurant that is only assumed to serve an unverified customer need to say the least. Instead, the imaginary entrepreneur can start from what is immediately available (prior experience or knowledge in the restaurants business, contacts in the catering service industry, or perhaps friends and acquaintances that are used to eat out quite often…). A possible course of action would be to get in touch with some of these friends and offer to bring them and their work colleagues some of her food to taste. If they like it and ask for more, she might even start a small lunch delivery service and develop it over time into a restaurant concept using the customer base that she would have built by then. Instead of taking out a loan and investing all her money in starting a restaurant, she chooses to only use the means available to her:

She cooks in her kitchen, delivers the meals personally and keeps interacting and seeking people who might co-develop the idea with her (for instance, other customers in nearby offices willing to place orders or even potential partners willing to share their delivery system with her etc.). By following such hypothetical effectual course of action, the entrepreneur can circumvent the initial overwhelming uncertainty of what to do, how to it and with whom. By focusing on the options available to her (through personal knowledge or social networks) the entrepreneur allows for fast experimentation without risking resources that one cannot afford to lose.

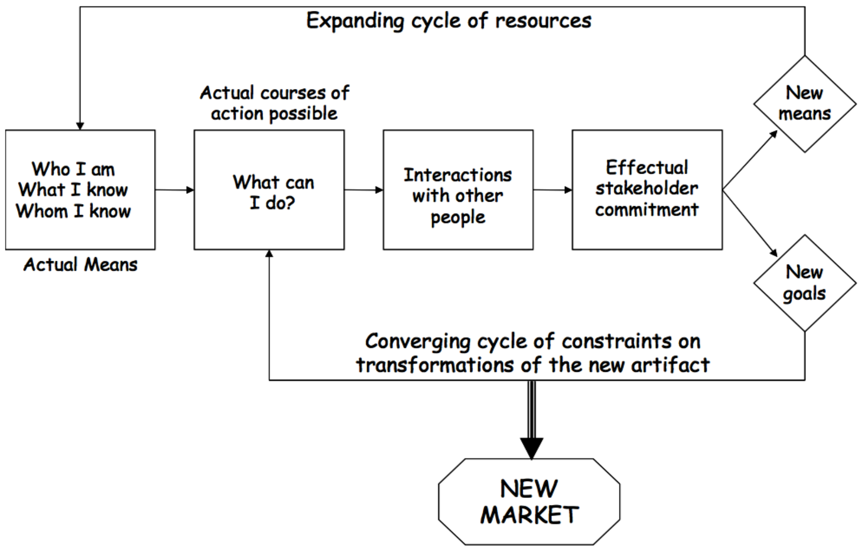

Figure 1: Effectual process (Sarasvathy, 2001)

The restaurant example is only indicative of how an effectual process differs from a traditional “segment, target and position” process. It clearly pales by comparison to the more acute conundrums related to new market creation by high-tech start-ups. In the latter case, the uncertainty is much higher and the complexity is more daunting. However the basic principles guiding the action of entrepreneurs are the same. They form a logic of thought and action that works independently of whether the intension is to start a restaurant or build the next big thing in a high-tech domain.

2.1.3 Underlying logic

The underlying logic in effectuation rests on a set of five principles:

1. Start from existing means: Who you are (tastes, traits and abilities), what you know (education and experiences) and whom you know (social networks).
2. Invest only what you can afford to lose
3. Focus internally by co-creating with the committed stakeholders and ignore external factors such as competitive threats.
4. Leverage contingencies instead of avoiding them.
5. Don't predict the future, control the present.

These principles are designed to guide the action of entrepreneurs throughout the process of venture creation and development. They underscore the non-necessity of starting with a well-identified opportunity. According to effectuation, the entrepreneur can be more than a mere "treasure hunter" whose only job is to relentlessly search for golden business opportunities that others have overlooked or failed to exploit. The entrepreneur's job is to co-create them by interacting and negotiating with a network of interested stakeholders (co-founders, customers, suppliers, external partners etc.). It's a collective effort where each stakeholder brings something different to the table and based on that gets to influence the goals and the direction of the venture. Therefore, the final outcome is highly dependent on who joins the network and what kind of resources they bring onboard. It emerges overtime and therefore is impossible to envision in advance. Alvarez and Barney (2007) capture this insight by stating that **"rarely will entrepreneurs be able to see 'the end from the beginning'… there is no 'end' until the creation process has unfolded".**

During this process, those who can and want to commit to the project under the existent constraints could self-select and join. This seems to somehow invert the traditional thinking about how alliances should be entered and for what end. Clearly, such decision cannot be driven by future payoffs due to the inexistence of an opportunity that could actually yield such payoffs. Thus, the subject matter of the agreement is only about committing to co-create.

2.2 Bricolage

The concept of "bricolage" was first coined by the French anthropologist Levi-Strauss and is usually used to connote the resourcefulness of actors in making do with what is at hand (Baker and Nelson, 2005; Garud and Karnoe, 2003). Probably, one of the most cited contributions in this regard is Baker & Nelson's paper advancing the idea of entrepreneurial bricolage. The following paragraphs will present a review of this model. It is worth mentioning though that the theory of entrepreneurial bricolage does not provide a direct answer to the thesis's main research question. It suggests nevertheless interesting insights that, if combined with other theories, can help construct a more comprehensive answer.

2.2.1 Problem space

The study of Baker and Nelson (2005) was conducted on a set of entrepreneurial firms operating in highly resource-constrained environments. These were characterized by scarcity and tight resource constraints. In fact, based on the premise that most new ventures suffer initially from a very limited access to all kind of resources, Baker and Nelson (2005) made the observation that, surprisingly, some of them could actually survive and even thrive. Prompted by this observation, they embarked on a study to elucidate what appears to be an entrepreneurial persistence in the face of depleted environments. Thus, Bricolage was presented as an attempt to explicate how resource penury does not seem to deter a number of small firms from flourishing and growing.

2.2.2 Process

According to Baker and Nelson's model of entrepreneurial bricolage, small firms striving for growth in a resource-depleted environment can use bricolage to generate new services from their extant pool of resources. In fact, seeking the needed resources from external sources is not always an option, therefore making do by adapting the resources at hand to novel uses could be a cheap and effective way out.

In their definition of bricolage as "making do by applying combinations of the resources at hand to new problems and opportunities", Baker and Nelson (2005) emphasize three fundamental building blocks: First, "Making do" which implies a tendency to immediately start acting on the problem, trying out alternatives, observing and making the needed changes. Second “The resources at hand” which entails the need for being resourceful in using the readily available inputs, and third “Combination of resources for new purposes” which implies the ability to put recombined elements to unexpected uses.

Illustrative example

Bricolage insists on the importance of not underestimating the value of the means entrepreneurs have at their disposal. Repurposing these resources and combining them in unconventional ways can confer unexpected value to previously disregarded inputs. For instance, not being able to hire the most talented developers in town does not mean that creating a software startup is an impossible task. What is critical is the ability to tap into the skills of those willing to work with you and make the most of it. Not having access to the best prototyping tools does not mean that creating smart prototypes is out of reach. One can always use simple, cheap and yet clever technics to build good enough prototypes. This being said, the “making do” mindset can be applied in domains as various as financing, office space, employee hiring, and prototyping tools.

2.2.3 Underlying logic

The underlying logic of entrepreneurial bricolage resets on three main principles:

1. Making do with what is at hand by acting on the available resources even if they were deemed useless or without any value by others.
2. Recombining available resources (new combinations)
3. Putting the recombined resources into unexpected uses (repurposing)

Bricolage underscores a necessary ingredient for creating new markets: the ability to utilize the resources at one’s disposal, regardless of how these are perceived by others, to meet a customer need. Its underlying logic overlaps with that of effectuation. Both advocate the importance of being resourceful in using the available means. Such resourcefulness demonstrates an ability to leverage contingencies such as the lack of resources or their impoverishment. Instead of trying desperately to acquire new and valuable means and thus avoid the resource contingency, bricolage suggests embracing it by rather repurposing and recombining what they already have.

2.3 Market construction framework

The third theoretical lens in this thesis is a framework for market creation developed by Santos and Eisenhardt (2009). It aims at explaining the ability of young entrepreneurial firms to structure and dominate nascent markets. It's also an attempt to distill the tactics used by these firms to promote their own market conception and make sure it prevails. The following section will provide an outline of some of the core ideas put forward by Santos and Eisenhardt (2009) in their framework.

2.3.1 Problem space

The framework is relevant in the context of nascent markets. These are described as business environments in an early stage of formation with ambiguity and loose industry structure as major characteristics (Santos and Eisenhardt, 2009). In nascent markets, the distribution of roles between the different actors (supplier, distributer, competitor, strategic partner) is not clear. Nobody knows who plays what role and everybody, especially established firms from proximate markets, are waiting for the market to stabilize in order to make their moves.

2.3.2 Process

Structuring a nascent market and dominating it happens through the intertwined use of three processes: claiming, demarcating and controlling.

Claiming the market consists of projecting an inflated image of the firm that creates the illusion of dominance over the nascent market. In other words, if the aim of a small startup is to create and dominate a new market, then the first step of forging a strong and unique identity is not enough. Such identity needs to be conveyed to the largest audience possible (e.g., current and would be customers, competitors, partners and financial backers). According to Santos and Eisenhardt, this happens through a rather clever use of the different media outlets. Three mechanisms are used in this case:

a) Borrowing familiar templates from other domains to convey the firm's identity and describe its activities to would-be customers: A case in point is how, back in the days when online shopping was newly introduced, how online retailers borrowed heavily from the traditional in-store shopping templates such as "shopping cart" and "check out" to reduce user confusion and communicate the firm's identity. The use of such familiar templates facilitated the adoption of online shopping and the takeoff of a market that didn't exist before.
b) Signaling leadership: Using the same example, and in order to proclaim that they are the largest online retailers in the US and the leaders of their market, some of these firms exploited the fact of having sometimes only one customer in some US states to claim that they were shipping products to all 50 states. Factually, this was true, but revenue wise it was less than marginal. Yet, it was used to project an image of market leadership that the media outlets could spread.
c) Disseminating stories, fictitious sometimes, yet susceptible to be picked up by the media and repeated every time the firm was featured in a media outlet. The online shoe retailer Zappos is famous for spreading stories that signals the premium they put on offering the best customer service. One such story is when an old leady with a sever condition in her feet ordered six pairs of shoes hoping at least one of them would fit. To her disappointment most of them didn't, so she had to call Zappos' customer service to explain why she was returning so many shoes. Two days latters she received a bouquet of flowers from the salesman she called, whishing her a quick recovery and announcing that she got upgraded to become "VIP Member" and thus benefit from free shipping on all her future orders (Conradt, 2012). For all we know, this story might be total fiction, yet it did create a media buzz and customers become aware of how dedicated Zappos employees were in serving them.

By using all these mechanisms, young entrepreneurial firms can promote an identity that is synonymous to that of a seemingly distinct market.

The second process is **demarcating** the market. It consists of engaging in alliances with strong potential competitors in nearby markets. In fact, these well-established and usually deep-pocketed incumbents are depicted as constantly prospecting for emerging opportunities, especially if they are likely to fall within the reach of an easy expansion of their organization's boundaries (Santos & Eisenhardt, 2005). The study indicates that entrepreneurial firms proactively use a mix of alliance mechanisms and co-opting agreements such as equity investments or revenue sharing agreements to entice large firms and delay their entry into the nascent market.

The third and final process is ***controlling*** the market. It consists of acquiring the threatening entrepreneurial rivals. However, distant threats from adjacent markets are not the only concern for young firms in nascent markets. Small entrepreneurial rivals having the same market conception are to be taken seriously as well. If not capable of out-competing the focal firm, they could still be used as a stepping-stone into the market. In other words, the goal is to simply eliminate a competing business model, or to prevent it from being used as an entry point by established companies.

2.3.3 Underlying logic

The underlying logic of the MC framework rests on one main principle: The smart use of soft power strategies such as exploiting the tendency of others, illusion by exaggerating ones importance and timing (both preemptive and delaying) to control the structure the nascent market. In fact, the use of exaggerated if not fictitious stories to convey the firm identity and signal leadership is an illusion strategy. It has proven to be very effective for a number of startups that succeeded in positioning themselves as the cognitive reference in their nascent market. Their clever exploitation of the tendency of big firms to wait before investing in emerging markets reflects one underlying logic: the use of soft power instead declaring war.

Table 1: Summary of the main insights from the theory review

	Problem space	Underlying logic	Unit of analysis	Process
Effectuation (Sarasvathy)	Three types of uncertainty. Knightian uncertainty Goal ambiguity Environmental Isotropy	Rests on five principles: - Start from existing means: Who you are (tastes, traits and abilities), what you know (education and experiences) and whom you know (social networks). - Invest only what you can afford to lose - Focus internally by co-creating with the committed stakeholders and ignore external factors such as competitive threats. - Leverage contingencies instead of avoiding them - Don't predict the future, control the present	The network of stakeholders	-The non-necessity of starting with a well identified opportunity. -The ex-ante unpredictable and unknowable nature of outcomes. - Nothing to start with but the entrepreneur's inherent means: Who they are, what they know, and whom they know. -The final outcome is dependent on who joins the effectual network, what he/she commits to, and what contingencies occur along the way. - Stakeholder´s inter-subjective assessments of affordable loss as the sole criterion for selection between ends.

Bricolage (Baker & Nelson, 2005)	Conditions of tight resource constraints (Depleted and penurious environment)	Rests on three principles: -Making do with what is at hand -Recombining available resources (new combinations) -Repurposing the recombined resources into unexpected uses (repurposing)	The Individual	-Getting along with the means available and not dismissing them because others did. -Putting undervalued resources to use uses for different applications than those for which they were originally intended (Baker & Nelson, 2005)
Market Construction Framework (Santos & Eisenhardt , 2009)	Nascent markets characterized by : Fleeting industry structure, unclear or missing product definition and lack of a dominant logic to guide actions (Santos & Eisenhardt, 2009)	Rests on the clever use of soft power techniques such as “the exploitation of the tendencies of others”, the “exaggeration of one’s importance” and timing (both preemptive and delaying) to structure the nascent market.	The firm	-Claiming the nascent market by projecting an inflated firm image that creates the illusion of dominance over the nascent market. -Demarcating the nascent market using co-opting alliances with powerful potential competitors in nearby markets. (ex. equity investments and revenue sharing agreements) -Controlling the nascent market through acquiring entrepreneurial rivals (potential stepping stones for others into the focal market). -Exploiting ambiguity as a facilitator for shaping cognitions and constructing a favorable market structure.

3. Study cases

3.1 Homejoy

After a couple of years of joining the YCombinator and brainstorming several startup ideas that didn't take off as they wanted them to, co-founders and siblings Adora and Aaron Cheung, both engineers, started Homejoy, an on-demand home cleaning service.

3.1.1 Beginning

It all began when both co-founders started searching for a cleaner to take care of Aaron's messy apartment. First, the siblings thought getting a professional would save them time and effort and that he or she would probably do a better job cleaning the place anyway. After some time searching, only two options were available, either very expensive cleaning agencies or cheap but untested services listed by random people on Craigslist. Both options did not correspond to what the siblings were looking for: a convenient way to recruit a trusted and cheap professional cleaner.

This sparked the idea of developing a platform that can solve this problem by better connecting professional cleaners and customers in need for their services. However, both Adora and Aaron knew little if nothing about professional cleaning. Therefore, and to learn her ways around mopping and house cleaning, Adora spent a month working at a professional cleaning agency in the Bay Area. During her time there, she not only learned how to clean, but could also understand the many problems that both professional cleaning agencies and customers with messy houses faced. At the end of her immersion period, it became quite clear how ill adapted was the cleaning industry to the reality of how people work today and the technologies available to them.

3.1.2 Disruption

This experience pushed Adora and Aaron to simply use their engineering background and start working on a platform that would facilitate and quicken the search for professional cleaners. By asking a few simple questions (where you live, number of bedrooms and bathrooms, and when you want your cleaner to arrive), the site could estimate the needed cleaning time and matches you with a professional cleaner. The cleaners are background checked, certified and their service is 100% guaranteed. HomeJoy's value proposition is "simple, convenient and you can trust it" Cheung says. It has been described as being the upcoming UBER for cleaning services. By identifying the shortcomings of the slow to change home service industry, both Homejoy and its rivals seem to be well under way to disrupt the good old professional cleaning agencies. Pricing, convenience, quality and rapidity of service are likely the dimensions along which the disruption will take place. By taking advantage of the growing comfort people have with using their mobile phones to search for and book services, on-demand cleaning platforms such as Homejoy are acting as an online match-maker between those who want to clean and those who ask for it.

3.1.3 Competition

Year 2012 mark the inception of platform-based on-demand cleaning services. The current two major players in this market category were created in that year: Homejoy and Handy. Both players are close in terms of their geographical outreach and both have succeeded in convincing venture capitalists to fund their expensive global expansions. However while Homejoy has started by focusing on cleaning, Handy's value proposition consists of both cleaning and repairs (assembling furniture, mounting your TV and pluming). A number of new fast followers such as Helping and "Book a tiger" have recently entered the scene. Both have their home market in Germany and are more or less emulating the business model of their American counterparts.

In 2014 Homejoy announced its first acquisition of the New York based start- up "Get made" (Ha, 2014). Get maid was a small rival of Homejoy completely focused on the city of New York. Their business model was centered on immediate service by promising customers a cleaner within two hours of their order. This is not the case for the Homejoy platform where customers have to schedule cleanings days ahead of time. After the acquisition, Homejoy announced that they are going to simply shut down "Get maid" services. With Homejoy's latest successful funding round, analysts and media reports are anticipating that part of the money will be invested in buying out small rivals with the sole intension of shutting them down.

3.1.4 Expansion

After their Launch in July 2012, Homejoy reported recently that they have more than a thousand cleaners on their platform both in the US and Canada. With the YCombinator, they were able to raise $38 million to fuel their expansion in 2014 and have started very recently experimenting by rolling out other offerings such as the general handyman services. In 2014 and just over six months, Homejoy expanded into over 30 U.S. and Canadian cities, and it just began their international expansion by launching in London and Germany (firstround.com, 2014). The intension is to spread across Europe, and build a critical mass of customers and users that could be leveraged when diversifying their offering into other areas (perhaps repairs and Handyman work).

3.2 Uber

3.2.1 Beginning

For Uber's founders, Garrett Camp and Travis Kalanick, finding a taxi in San Francisco back in 2009 was not a convenient and easy task. In a blog post about the early beginnings of Uber, Travis wrote, "*Garrett's big idea was cracking the horrible taxi problem in San Francisco — getting stranded on the streets of San Francisco is familiar territory for any San Franciscan*." (Travis, 2010). Thus, solving this problem was what led to the creation of Uber. The initial vision was to connect drivers to passengers via a mobile app. Uber's "job to be done" was to answer the question: who do I contact for a ride? Over the next several months, a prototype was developed and run tests were conducted in the San Francisco area. Uber was officially launched in May 2010. In 2012, Uber opened up its community to nonprofessional drivers who can easily register their cars and start giving paid rides. Anyone can become a driver.

3.2.2 Disruption

By playing the matchmaker between drivers and passengers, Uber's two-sided platform is disrupting the established taxi industry. The use of mobile technologies in payment, GPS localization and advanced mapping technics allows Uber to offer a reliable and more convenient service to both sides: drivers and passengers. The disruption happens along several dimensions including booking, payment and dispatch technology. In fact, the match making with nearby drivers is quick and allows real-time estimates for pickup times. Users can track the location of Uber drivers in the area before the ride. They don't even need to manually communicate their current location since the Uber app is location aware thanks to GPS. Uber has a cash free payment system with all transactions executed online.

In a quite revealing article published in Fortune, we discover that "*The San Francisco Cab Drivers Association (SFCDA) […] reports that one-third of the 8,500 or so taxi drivers in San Francisco — over 2,800 — have ditched driving a registered cab in the last 12 months to drive for a private transportation startup like Uber, Lyft, or Sidecar instead.*" (Mangalindan, 2014)This is only one piece of evidence that the taxi industry disruption is well underway. Given its rapid expansion and superior market share, Uber is leading the disruptive wave and opening up untapped market spaces. Uber CEO confirms this when declaring that "*Uber's mission is to turn ground transportation into a seamless service. Basically make car ownership a thing of the past.*" (Rusli, 2014)

3.2.3 Competition

While Uber was the first major actor to offer a mobile on-demand transportation solution, it did not take much time for other players to enter this space. Today, Uber's most notable rivals are Lyft, Sidecar, and Flywheel. However, the real competition comes from outside Uber's newly created market space. The traditional taxicab industry remains the primary competitor to Uber. A raging battle is taking place between Uber and the taxi industry representatives and lobbyist who are fighting tooth and nail to counter Uber's exponential growth in many parts of the world.

Building a critical mass of drivers is essential for ride-sharing P2P platform such as Uber to succeed. If customers can't easily and quickly find a driver then it's an assurance that they will log-off and never come back again. For this reason, the battle for drivers between the different platforms is raging and everybody has been reported to use a combination of monitory and plain-dirty tactics to get them (Kluesener, 2014). Uber is considered by many to be the most aggressive in this regard. In fact, Uber ruthlessness in undermining it competitor has been reported time and again. Uber's recruiters are known to recruit drivers on competing platforms directly by paying for ride-alongs with them and luring them with cash incentives. Uber's rather aggressive approaches include even sabotage- It has been widely reported in the media how employees at Uber admit to calling in and canceling hundreds of pickup-requests. Their intention was to create confusion among drivers on other platforms and potentially steal away disappointed customers and users alike (Kluesener, 2014).

3.2.4 Expansion

Uber's growth potential comes from the fact that it is **expanding the existing car-service market by attracting those who, until recently, were still using public transportation or driving their own cars** (Damodaran, 2014). This means that Uber is tapping into non-consumers to build a brand new market. This strategy seems to be working given the sky-rocketing growth figures the five years old company is reporting. Uber CEO says in a recent interview "*We're at least doubling every six months. It's probably more robust than that, but that's good enough…That's revenue. If you look at [the number of] trips, the growth is like 5, 6x*". In a recent wall street journal article featuring Uber, we can read "*The San Francisco-based company collected $1.2 billion that enables it to expand its workforce, lure new drivers, test a delivery service and subsidize prices in some of the 250 cities around the world where it operates. The closely held company has raised eight times as much as its closest ride-sharing rival, Lyft Inc."(Mcmillan, 2014).* However, such rapid expansion isn't without obstacles. Uber is facing fierce challenges from regulators and Taxi companies. The local dimension of transport regulations and it's variations across countries, states and cities make it even harder. Yet nothing seems to be stopping the ride-sharing company from expanding internationally.

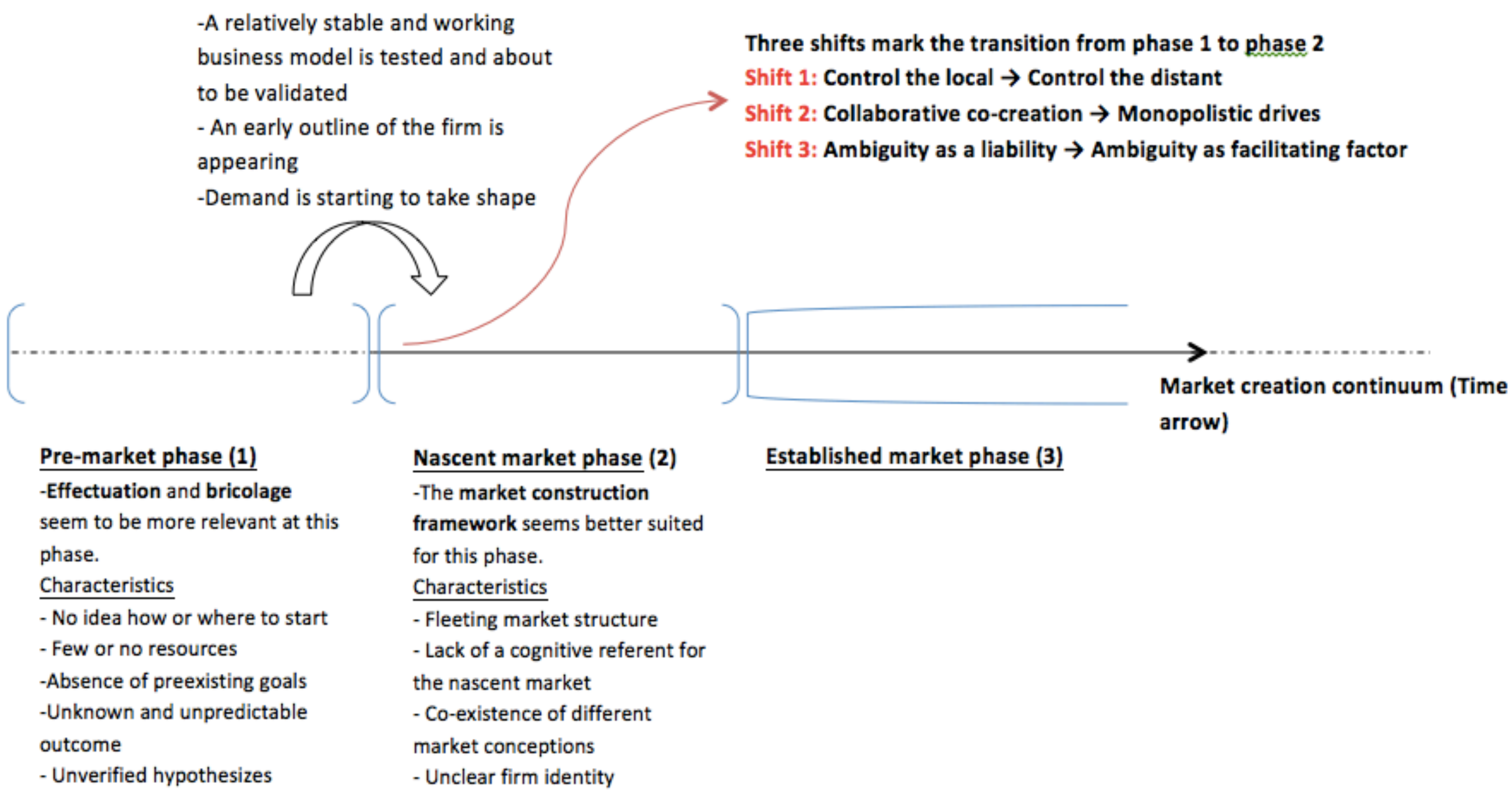

Figure 2: Mapping of focal theories along a continuum of market creation

4. Continuum of market creation

In their attempt to answer the thorny question of how to forge opportunities out of scarce resources in ambiguous settings, the reviewed theories exhibit certain differences pertaining to the targeted audiences and the conditions and timing of their usage. Therefore, and in order to make sense of these discrepancies, we contend that they could occupy different positions along a continuum of market creation (Figure 2). The continuum will serve as a visualization tool to track the construction of new markets over time. It will also help us spot critical shifts in the logic governing the way entrepreneurial act. These shifts, as we sill argue in the discussion part, are the red flags that indicate the transition from one market phase to another.

Depending on where you are on the continuum, the question of what to do next could be answered quite differently. In fact, when a person sets her mind to become an entrepreneur, but has no idea what to do or where to start from, adopting an effectual logic or a bricolage approach seems to be the right thing to do. At the very front end of the continuum, or what could be labeled a pre-market phase, actions are primarily based on hypotheses and unverified guesses (Ries, 2011, Blank & Dorf, 2012). Personal interactions with eventual customers, suppliers and partners are of prime importance to reduce the number of unknown variables and to learn about what kind of product-market conception one will end up creating. At this very early stage, the entrepreneur's resourcefulness in making do with the available and usually impoverished pool of resources seems the only viable option (Sarasvathy, 2008). The entrepreneurial venture is still in its embryonic state and grows in tandem with the network of involved partners.

Once the initial tentative hypotheses start coagulating into a stable and working business model and once the venture's boundaries and customer demand start taking shape, then concerns pertaining to the competitive environment tend to become more relevant. This marks the beginning of the nascent market phase. The question becomes: how do we promote and put into effect our market conception and how do we make sure it prevails. At this stage, Effectuation and bricolage become less relevant in guiding entrepreneurs and the MC framework takes over as more adapted option.

The reason behind comes from the fact the MC framework's aim is not to help would-be-entrepreneurs who are starting from scratch and have no idea what to do next. It is rather targeted towards young entrepreneurial firms who have already crossed that bridge. This means that once they have managed to converge towards a working business model, the logical next step is to make sure that whatever market conception they have been working on is going to be the dominant one. This is why The MC framework seem to be the one that provides the most accurate explanation of entrepreneurs' actions at this phase.

5. Discussion

The continuum of market creation is a very rough approximation to what really happens in the real world. All three theories have overlaps and their underlying logics can be intertwined during all phases of market creation. The principles on which they rest are not completely incompatible, thus cannot be restricted to one and only specific phase. Startups can combine these principles, reject some yet follow others throughout the process. Therefore it was difficult to clearly and accurately map the different theories along the continuum of market creation. Deciding on what theory is used first and then what theory comes afterwards is probably not the best approach to understand how market creation happens through time. Instead we chose to have a closer look at their underlying logics. By tracking how the logic evolved along the timeline of market creation we could identify three major shifts. Combined, these shifts can provide an interesting narrative for how markets get to be created by young entrepreneurial firms.

The discussion will be organized into three themes, each corresponding to one shift in the behavior and logic of entrepreneurs from one phase of market creation to the other. Illustrations from the two study cases of Homejoy and Uber will be used as evidence that these shifts are not a mere theoretical speculation. We argue that both companies are operating in a nascent market phase.

Shift 1: Control the local → Control the distant

During the first phase of market creation (Figure 2), There seems to be a clear tendency to focus internally (resources at hand, one's intrinsic means etc.) Even potential competitive threats are ignored initially. The current (what's happening now) seems to be the only thing entrepreneurs can truly control. Any future plans or predictions are pointless given the state of extreme immaturity the market is till in. Thus, instead of encouraging entrepreneurs to envision the future ahead of time, effectuation and bricolage suggest focusing on what's currently and locally available.

Interestingly, such internal focus shifts completely during the second phase of market creation: the nascent market phase (Figure 2). In fact, Santos and Eisenhardt found that entrepreneurs turn their attention completely towards external factors and possible future turns of events. In other words, during the nascent market phase, startups exhibit a strong proactive behavior to control the future structure of their market and the role of distant would-be competitors in it. Although not being a real threat in the present, distant but powerful companies were constantly enticed through equity investments and revenue sharing agreements. By offering them a piece of the pie, startups attempt to proactively deter them from expanding towards their nascent market. This demonstrates the ability of startups to a) think ahead of time, b) imagine plausible scenarios where incumbents from proximate markets are taking over their newly created market space and c) proactively use all possible tactics to keep these potential threats off their nascent market (for instance equity and revenue sharing agreements)

The Uber case is a good example of "co-opetition" with a would-be competitor from a potentially overlapping market (Issac, 2015). In fact, offering Google equity shares two years ago can be interpreted, retrospectively, as a proactive move from Uber to delay Google's entrance into its market. For a while, such move helped Uber concentrate on constructing its ride-sharing market without having to battle a giant such as Google. Their ability to envision the potential entrance of Google into their market has been recently proved right. In fact, Google is reportedly experimenting with a ride-sharing app compatible with one of Google's driverless cars (Stone, 2015). Uber's approach to preempt early competition with Google illustrates that controlling the distant (future role of potential competitors from neighboring markets) replaces the early bias of only controlling the strictly local environment.

Shift 2: Collaborative co-creation → Monopolistic drives

The transition from the first phase (pre-market) to the second phase (nascent market) is characterized by a second shift in how entrepreneur act and decide. In fact, while the entrepreneurial decisions are almost exclusively motivated by cooperative and co-creational drives during the early days of market creation, aggressive and monopolistic tendencies seem to take over later on in the process.

During the premarket phase, effectuation speaks in favor of intense interaction and collaboration between interested stakeholders. Aggressive and confrontational approaches are deemphasized in favor of collaborative ones. In the same vein, bricolage was depicted as resting on the distributed efforts of many, who, based on their "local knowledge" and through their interactions, gradually co-shape the emerging outcome (Garud & Karanoe, 2003).

Santos and Eisenhardt show on the other hand, that in the second phase of market creation (nascent market phase), young entrepreneurial firms exhibit a rather aggressive and monopolistic style in their efforts to dominate the market they are creating. This becomes clear when certain startups acquire other small companies with the sole intention of wiping out a competitor or prevent it from being used as a stepping-stone into their market. In fact, such acquisitions aren't used to enfold resources or to nurture synergies as the resource based view would suggest. They were instead undertaken to tighten the firm's grip over the emerging market.

This anti-competitive and monopolistic tendency is well documented in the case of both Homejoy and Uber. In fact, Homejoy's recent acquisition of a small rival to shut it down right afterwards translates a clear anti-competitive drive. The intension is to eliminate even the possibility of it growing to be either a direct threat or a tool in the hands of bigger rivals.

The same anti-competitive behavior can be found in the Uber case. Uber's rather aggressive attempts to sabotage competing platforms are a case in point. Malicious practices such as luring drivers on rival platforms with money or distracting and confusing them by massively sending false pick up requests, have been used several times by Uber. Such practices underscore the use of all possible tactics (including dishonest ones) to be first at gaining control of the nascent market. Compared with the collaborative and co-concretive mindset that governs the early days of market creation (as described by effectuation and bricolage), the shift seems to be rather radical and therefore constitutes an easy to spot indicator that the nascent market phase is well under way.

Shift 3: Ambiguity as a liability → Ambiguity as facilitating factor

During the pre-market phase, a lot of emphasis is put on the overwhelming uncertainty facing entrepreneurs when dealing with questions such as what to do, how to do it and with whom. The whole theory of effectuation was formulated as a possible answer to this set of questions. Its five principles (discussed in the theory review) were suggested as a compass to help entrepreneurs navigate their ambiguous environment. In this whole narrative, ambiguity is perceived as an obstacle, a liability that disturbs the action of entrepreneurs. Therefore, ambiguity has to be mitigated. Working hand in hand with other committed people to collaborate and co-create was effectuation's take on how to bound ambiguity and act in spite of it.

However, and during the nascent market phase, the same ambiguity seems to take on a different function. It is not something to avoid and mitigate anymore; on the contrary, it facilitates the moves of young entrepreneurial firms. The confusion that reigns during the nascent market phase and the non-existence of a clear distribution of roles between the different actors seem to play in favor of small startups vying for market dominance. In fact, as long as ambiguity is maintained, big incumbents from nearby markets are more than likely to delay their greedy intensions of taking over the nascent market. One reason could be the usual tendency of big firms to stay on the sidelines and wait for the dust to clear off before making their move. This means more time for young firms to polish their market offering and establish a good grip on the emergent market structure. It also means more flexibility to steer the early market development in their favor without having to worry about some deep-pocked rival countering every single one of their moves.

The Uber case provides a good illustration of how ambiguity can be taken advantage of. In this case, it’s about regulatory ambiguity. Uber is reported to have exploited regulatory ambiguities regarding its ride-sharing technologies. Loopholes in areas such as employee benefits, tipping policies, workplace safety and insurance have been exploited by Uber while expanding its customer base and becoming highly popular in a very short period of time. The same pattern seems to repeat itself in the case of Homejoy. The on-demand cleaning platform is reported to be exploiting ambiguous worker classification laws. In both cases, the mantra seems to be “grow first and ask questions later” even if this means working in grey areas and exploiting ambiguity. This intriguing and rather counterintuitive view of ambiguity illustrates the radical shift in what ambiguity means for entrepreneurs in a nascent market phase.

6. Conclusion and Summary

The present thesis is an attempt to understand how certain young entrepreneurial firms succeed in creating new market spaces in spite of their two daunting liabilities: the lack of resources and the overwhelming uncertainty facing them. The existence of a number of theories and frameworks each trying to answer this question from a different angle prompted us to begin by comparatively reviewing three main ones: a) effectuation, b) bricolage and c) the market construction framework (referred to in the thesis as the MC framework). To illustrate the theoretical arguments made in the discussion, we used two startup examples that are in the process of reinventing their respective market categories: Homejoy and Uber.

During the first phase of market creation, young entrepreneurial firms are faced head on with challenges such scarcity of resources and the absence of clear goals. At this very front end of market creation, actions are primarily based on hypotheses. Personal interactions with eventual customers, suppliers and partners are of prime importance. The entrepreneur’s resourcefulness in making do with the available and usually impoverished pool of resources seems to be the only viable option. Focusing internally and avoiding envisioning the future market structure is what successful startups seem to do. Collaborating and co-creating with others is the mindset that reigns during the early phases. Ambiguity is still considered to be an obstacle to fight against.

However, once a relatively stable business model is tested and about to be validated and once an early outline of the firm is appearing, the logic of young entrepreneurial firms shifts completely. This signals that the nascent market phase has started. During this second phase, startups become keen on establishing themselves as the sole cognitive referent for the market they are creating. By exaggerating their own importance and cleverly using the media to spread inspiring stories about their identity, startups strive to become synonymous to the market they are creating (Giving the impression that they are the only ones in that space). During this second phase, startups seem to replace their collaborative strategies with aggressive and monopolistic drives. They acquire small rivals to completely eradicate them from the picture; they purposefully entice competitors from proximate markets with equity and revenue sharing agreements to keep them from entering their new space, and they even attempt to entertain ambiguity in the market to be the only one to shape cognitions to their advantage. This means that ambiguity moves from being a burden to being a favorable condition to exploit. Such radical shifts provide an insightful description of how entrepreneurs go on about creating and dominating markets.

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