Session 10

Strategy in a Dynamic Setting

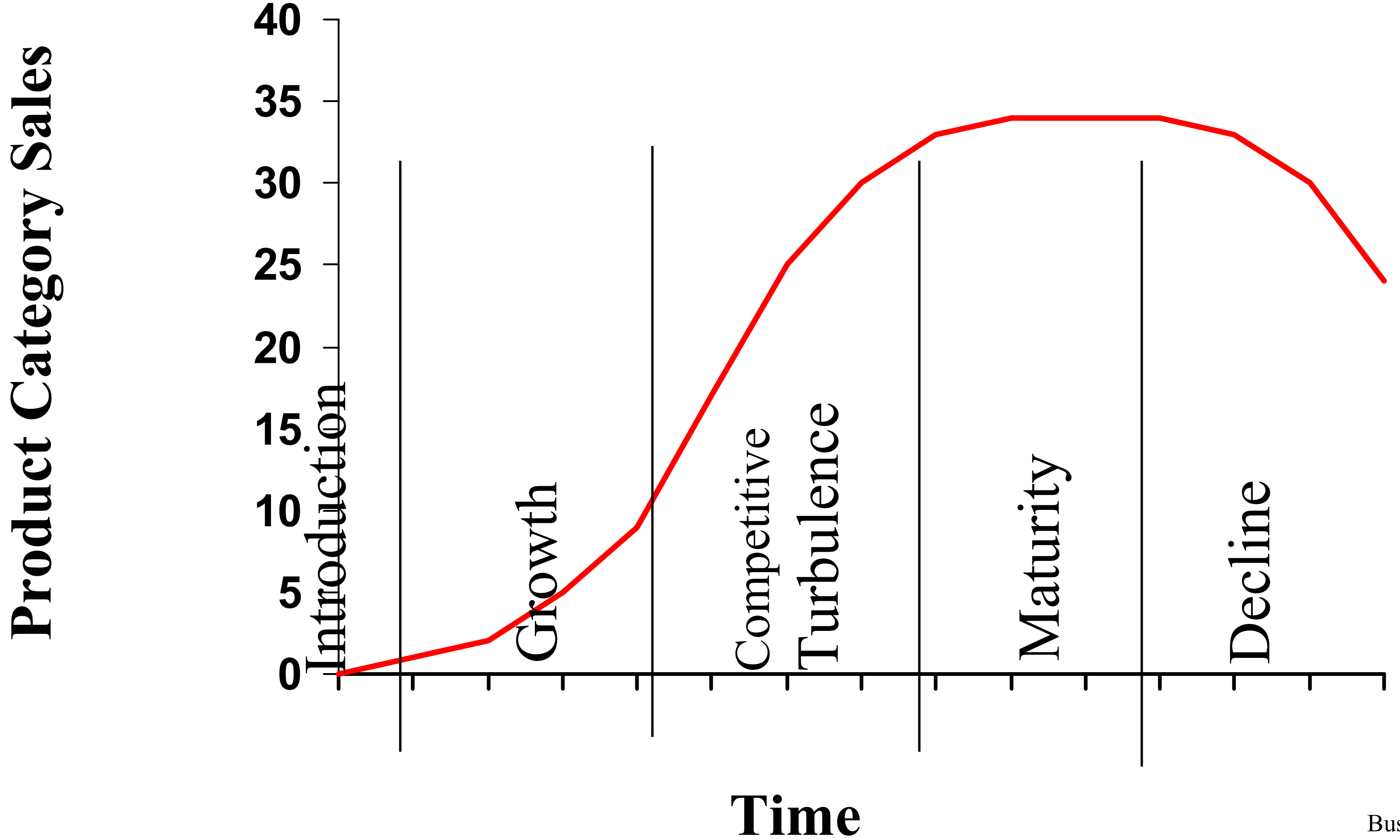
In this session you will learn:

1. How to use an understanding of industry dynamics to create business strategy

2. How to use the product life cycle, the product evolution cycle, the population ecology model, and the competitive entry cycle to assess the future evolution of an industry and the strategy of the firm

3. How to identify the transition points in an industry's evolution to identify the strategic windows during which a firm can successfully change its strategy and the dynamics of an industry

The Product Life Cycle: An Early Theory of Market Dynamics



The Message of the PLC was Simplistic

•Products have limited life

•Sales follow pattern of adoption until ultimate penetration

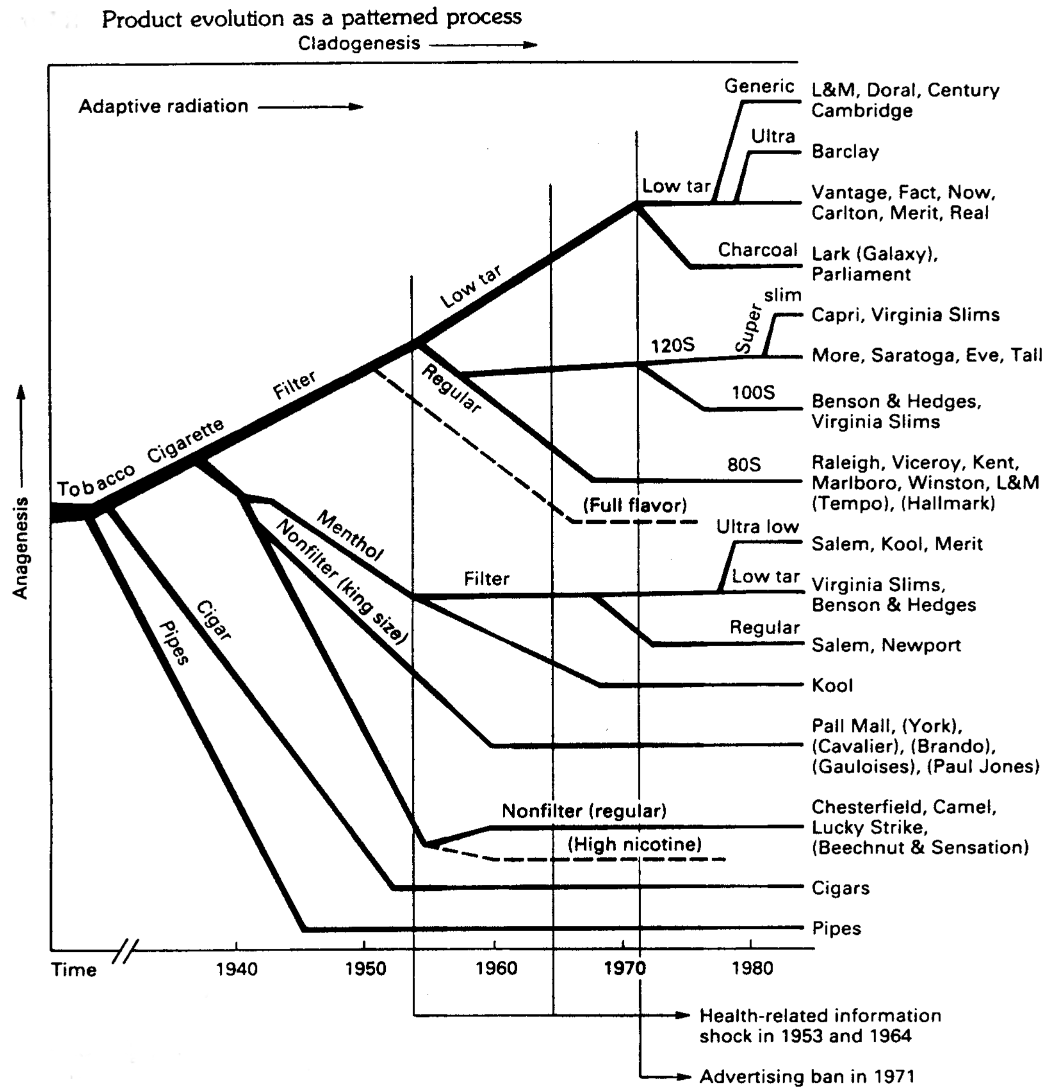
•Profits follows sales patterns

•Simple prescriptions for each stage of the life cycle

The Evolutionary Approach Provides Greater Insights to Strategists

Life Cycle: Specimen	Growth/Death of Individual
Evolution:	Growth of Species
Evolution Theory: Change	Designates Gradual, Continuous
Cumulative:	Builds on Prior
Motivated:	Generative (Creates Variety) Selective (Only “Fits” Survive) Mediative (Intervenes Above)
Directional, Increasing:	Diversity Efficiency Complexity

Same Theory Seems to Explain Evolution of Product Markets



If You Can Identify Causal Variables You Can Predict Evolutionary pattern

- Change and improvements in technology
- Demographic changes
- Change in needs/tastes
- Change in economics of use, complementary products
- Change in investments
- Change in competitive effort
- Change in positioning

Marketers Need To Know

- How competitive environment changes as markets evolve
- The shifts in user behavior underlying evolutionary patterns
- How competitive entry and competitive strategy affects evolution
- How to create and maintain competitive position through market evolution

Competitive Environments Changes as Markets Evolve (1)

Early Entry

- New technology displaces old
- Innovator is sole supplier (100% share)
- Price is determined by value in use compared to old technology
- Rate of growth determined by suppliers willingness to share value with customer

Competitive Penetration

- Growth invites new entrants
- Later entrants bring price competition
- Lower price attracts new customers
- Price determined by value in use compared to pioneer (pioneer gets premium)

Competitive Environments Changes as Markets Evolve (2)

Maturity

- Little perceived value differentiation
- Commodity competition
- Shares stabilize
- Slow growth favors efficiency
- Mergers and acquisitions

Decline

- Over capacity puts pressure on price
- Number of competitors decline
- Exit barriers shape industry dynamics

Market Evolution Shifts Requirements for Success

- Early phase favors R&D, applications engineering, marketing (--product effectiveness)
- Later phase favors process engineering, production capability, experience (cost efficiency)
- Transition periods provide opportunity, success goes to first to adopt to future environment
- Early entrants must protect advantage by creating barriers

Arguments for Early Entry are Persuasive

- Share gains are easier in early stage of evolution
- The value of a share point grows with market growth
- Less price pressures in growth markets
- Early entrants ride down the experience curve faster
- Early entrants gain preferential access to high valued customer segments
- Early entry may be good financial option

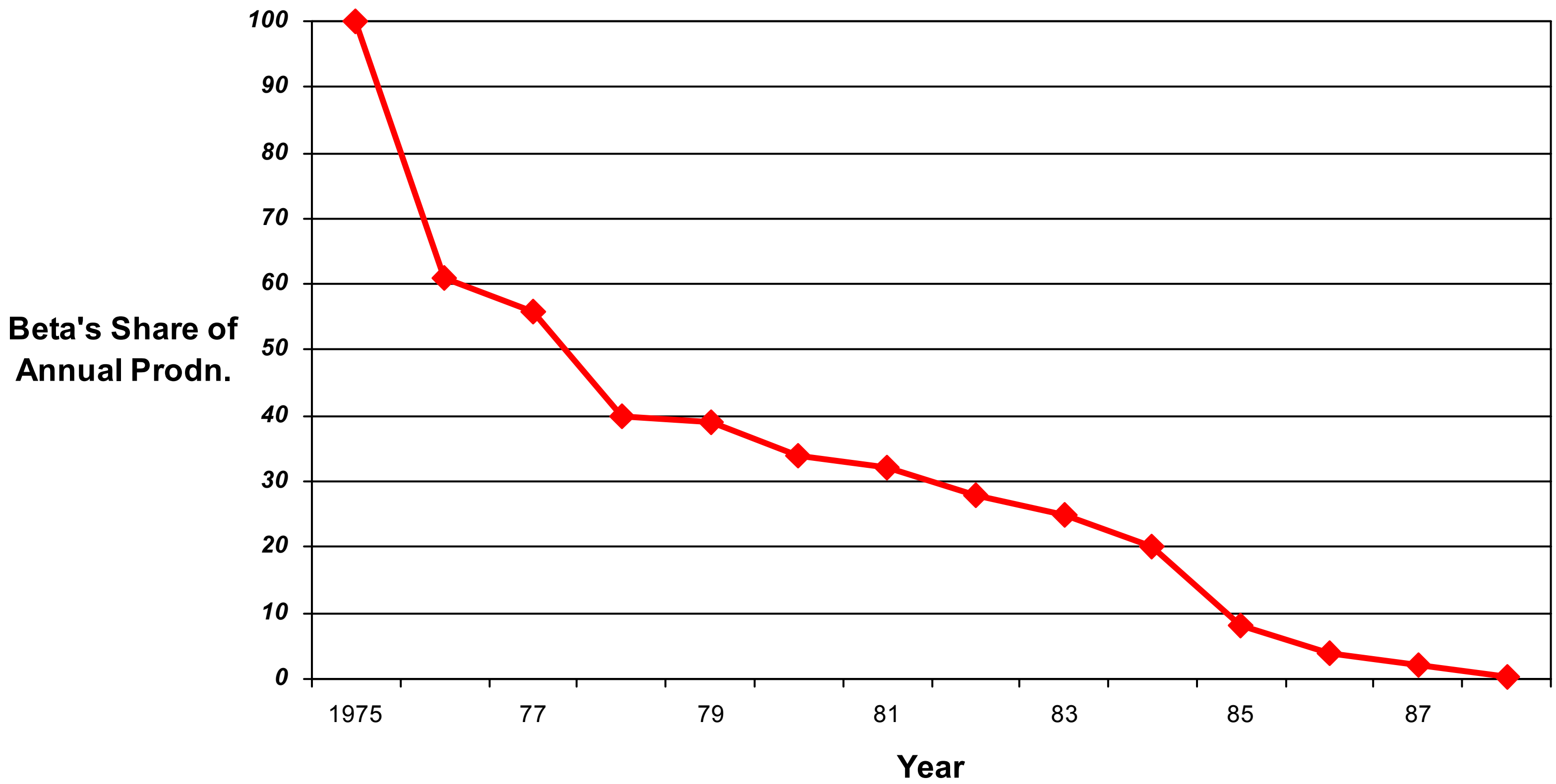
Pioneers Can Gain Lasting Competitive Advantage

- Choose best product position and market segment
- Consumer tastes/preferences shaped by pioneer’s offer
- Switching cost reduces follower’s value
- Pioneer can play defense (later entrants must offer more than pioneer)

But Pioneers Have Risks

- Demand is uncertain
- Technology may change (new dominant design may evolve)
- Resource needs escalate
- Key success factors may change
- Too many competitors may enter

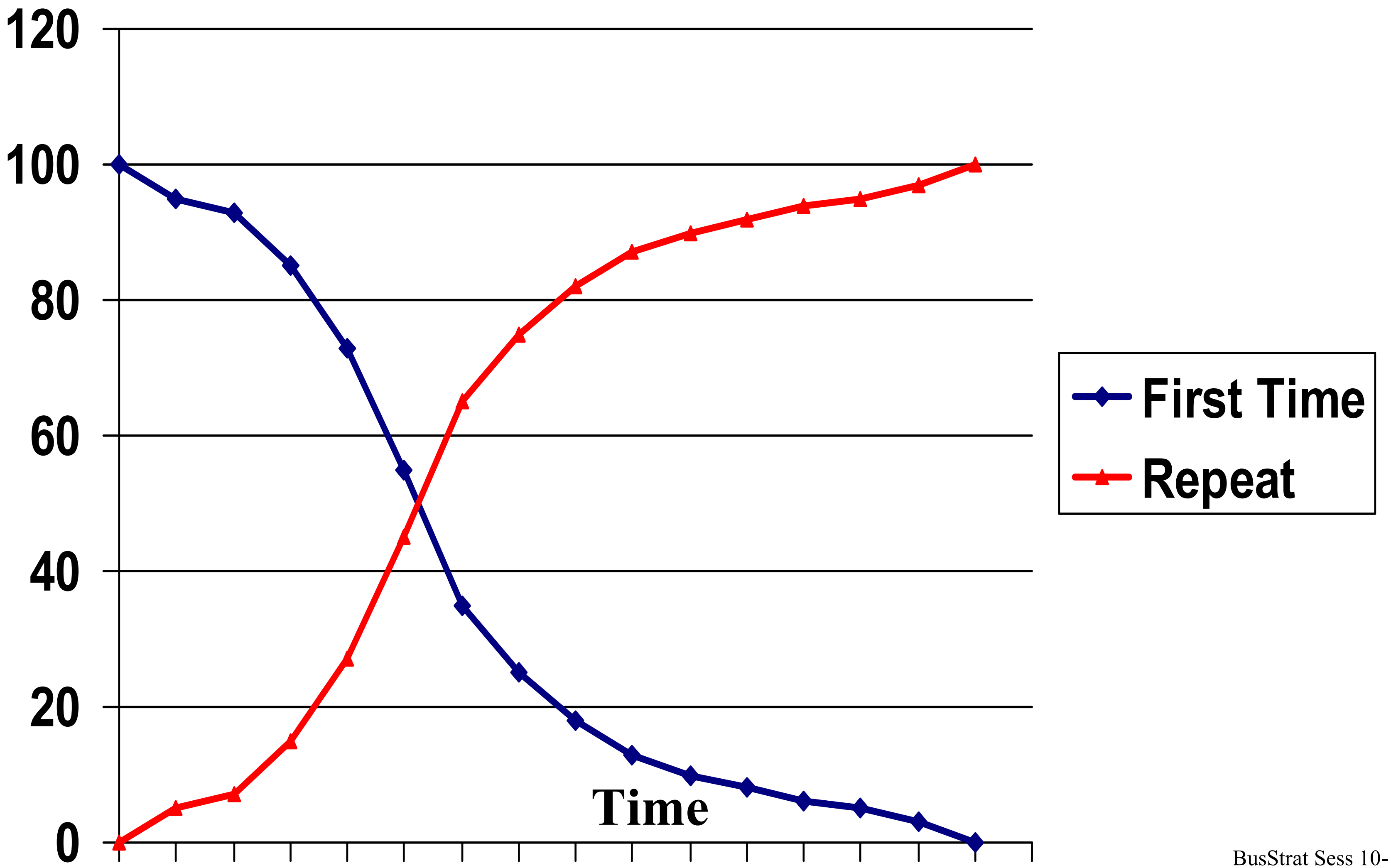
The Demise of the Beta



Successful Entry Requires

- Ability to deliver superior performance or low cost with parity performance
- Ability to broaden market base by product development and distribution (capture unserved segments and niches)
- Ability to respond to technological evolution
- Ability to obtain resources to fund investment and growth

Customers Change With Market Evolution



Indicators of Maturity:

- Saturation of theoretical market
- Repeat buyers (more informed)
- Industry over-capacity
- Commoditization -- price competition
- Lowered Profitability

Transition to Maturity is Challenging

- Market share competition intensifies
- Buyers gain more leverage
- Channels demand more support
- Pressures for profit squeeze R&D, market development
- Performance improvements slow

Strategies for Transition

- Defend position vigorously (attack to defend)
- Leave no flanks open (reach every segment)
- Focus on strategy: performance or price
- Reposition to expand market if possible
- Improve process technology

Why Markets Decline

- Technological Obsolescence
- Change in Demographics
- Change in Tastes and Preferences

Uncertainties Result From:

- Rate of Decline
- Perceptions of Rate
- Demand Pockets
- Exit Barriers

Strategies for Declining Markets

- Quick Divestment
- Niche
- Harvesting
- Market Leadership