Session 5b

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

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

Year

Beta's Share of Annual Prodn.
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

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Indicators of Maturity:

- Saturation of theoretical market
- Repeat buyers (more informed)
- Industry over-capacity
- Commodityization -- 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