Competitive Strategy: Week 4

Product Life Cycle

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Product Life Cycle

- Questions
  - How does industry structure changes product life?
  - When does entry occur?
  - When are profits made?
- Difficulties:
  - Products are all different.
  - Analyse successful product. Most not successful.
  - What's a new product?

Phase 1: Introduction

- Begins with few firms
  - If successful, rapid entry.
  - Firms make loss.
  - 99% of ideas die.
- Market is small
  - First adopting customers are not typical.
- Heavy promotion
  - Market education. Free samples.
  - Low pricing.
- Insure customers
  - Money back guarantees.
  - Help implementation and servicing.

Who Wants to Lead?

- Advantages of being a leader
  - Develop reputation
  - Learning curve
  - Economies of scale
  - Lock in inputs (e.g. skilled labour)
- Advantages of a follower
  - Free ride on leader's market promotion.
  - Imitate leader's best practices.
  - Less risk.

Case Study: SoftSoap

- In 1977 Robert Taylor invented liquid soap.
- In 1980 went national and made $39 million sales.
- Problem: imitation from majors.
  - They adopted "wait and see" strategy.
  - Didn't want to damage current products if went wrong.
- Taylor ordered entire US supply of plastic pumps
  - Very risky strategy.
  - Provided window before major entered.
- In 1983 Ivory launched liquid soap. Gained 30% of market.
- In 1985 Colgate Parmolive bought SoftSoap.

Phase 2: Growth

- Market
  - Growth keeps competition down
  - Falling costs
  - High cost and poor quality firms will die
  - Others make large profits
- Product
  - Products improve over time
  - Standardisation: handful of major designs
- Strategy
  - Distribution becomes important
  - Cultivate brand name
  - Prepare for shakeout

Phase 3: Maturity

- Market
  - Demand stabilises. Seek growth abroad.
  - Shakeout
- Strategy 1: Cost Strategy
  - Minimise costs. Efficient Distribution
  - Basic model becomes a commodity (e.g. VCRs)
- Strategy 2: Value Strategy
  - Specialise: focus on niche.
- Stuck in the middle
  - CompuAdd knowledgeable helpful staff.
  - When computers mature, Computer City was cheaper.

Phase 4: Decline and Replacement

- Reasons for declines
  - Technological progress (e.g. B&W TVs)
  - Changing tastes and new info (e.g. fashion or CFCs)
- Strategy 1: Focus on profitable segments
  - Market changes (e.g. B&W TVs as security monitors).
- Strategy 2: Harvesting.
  - Don't replace capital. Exit when $p \leq MC$.
- Strategy 3: Industry consolidation
- Importance of coordination
  - Excess capacity leads to ruinous price wars.
  - Strategies 1–3 compliment each other.
  - Moan to government.

Durable Goods

- Market saturation
  - At maturity demand falls.
  - Excess capacity → price war.
  - Hard landing.
- Capacity choice
  - Want capacity to cover replacement sales
  - Higher capacity increase costs
  - Higher capacity means sell to consumers earlier
  - Higher capacity blocks entry

Case Study: EMI and the CT Scanner

- CAT Scan invented by EMI in 1972
  - EMI decided to launch product rather than sell.
- Many competitors immediately entered the market
  - Small entrants launched product by 1974.
  - Big entrants launched products by 1975.
  - Rapid technological progress
- By 1977 EMI made handsome profits
  - Suffered from poor suppliers
  - Demands of EU and US market very different
  - Lost market share in US

Summary

- Four phases
  - Introduction
  - Growth
  - Maturity
  - Decline
- Strategic issues different in each phase
- Strategy should be forward looking