Competitive Strategy: Week 5

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?
- Four phases: Introduction, Growth, Maturity and Decline.

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 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.

Strategy Summary: ADL Matrix 1

	Introduction	Growth
Dominant	All out push for share	Hold position
Strong	All out push for share	Push for share
Favourable	Selective push for share	Selective push for share
Tenable	Selective push for share	Find niche
Weak	Up of Out	Turnaround or abandon

Strategy Summary: ADL Matrix 2

	Mature	Decline
Dominant	Hold position	Hold position
Strong	Hold position	Hold or harvest
Favourable	Find niche	Harvest or phased withdrawal
Tenable	Find niche or phased withdraw	Phased withdrawal
Weak	Withdraw	Abandon

Customers Change Over Time

- Roger's Innovation Adoption Curve
  - Innovators: the brave
  - Early adopters: try out new ideas in careful way.
  - Early majority: thoughtful but accepting of change.
  - Late majority: skeptics.
  - Laggards: traditional folk.
- Example: AOL
  - As start of internet people liked pre–packaged internet.
  - Customers become more sophisticated.
  - Lesson: recognise how customers change over time.

Durable Goods

- Market saturation
  - At maturity demand falls.
  - Excess capacity $\rightarrow$ 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

Assignment

- Read "Cars in China", The Economist, 4th June 2005.
- What factors are driving current growth in the Chines car market?
- How will the market play develop over the next 25 years?
- What are the competitors to the car? Should firms worry about these?
- What compliments will car companies need to succeed? How can these be encouraged?