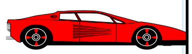
Market Entry Strategies



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Managing World-Class Organizations

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SORCS: Components of Strategy Statement

- Scope
  - Breadth of *strategic domain*: number and types of industries, product lines, market segments. Reflects company mission and *strategic intent* (vs. *Strategic fit*)
- Objectives and Goals
  - Desired level of accomplishment on one or more performance dimensions and the *growth vector*
- Resources & their deployment
  - Allocation of human, financial and other resources across businesses, markets, etc.
- Competitive advantage
  - What are the distinctive competencies or strengths relative to competitors?
- Synergy
  - Improving overall efficiency and effectiveness by exploiting synergies across businesses and product markets

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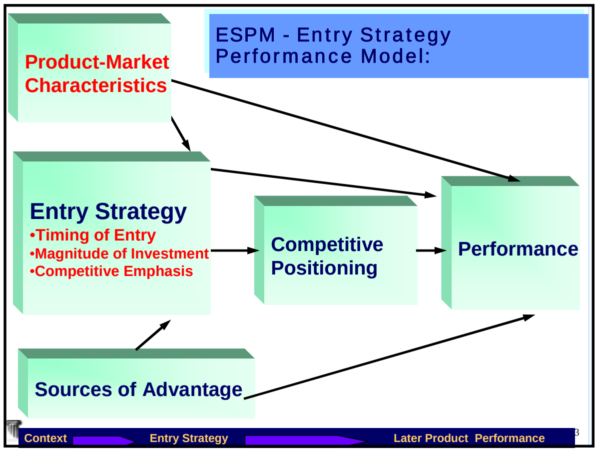

ESPM: Entry Strategy Performance Model (Detail)

Product-Market Characteristics

e.g.,
- Concentration
- Growth Rate
- Market Potential
- Entry Barriers
- Number of Competitors

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Intensity of Competition

- Classical economical thinking argues that if there are many players in a market, then there is a lot of competition.
- It is about intensity of competition, not about the number of players.
  - One measure is whether the aggregate share of the top players is increasing: I.e., instead of being a multi-polar market, it is becoming bi- or tri- polar.
  - Another measure is whether price increases to the consumer are lower, or at best, equal to inflation.
  - A third measure is whether the consumer gets a disproportionate amount of innovation and consumer news.

Intensity of Competition

- **Japanese became world-class because they competed very fiercely in the domestic market.**
- **Unilever and P & G compete head-to-head in detergents and the global market share of these two players together in the world detergent market is increasing.**
- **Unilever and Nestle compete fiercely in ice-cream and together, their global marketshare is inching up.**

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Entry Strategy

Timing of Entry
e.g., - Time since 1st Entrant
- Number of Previous Entrants
- Product Life Cycle Stage

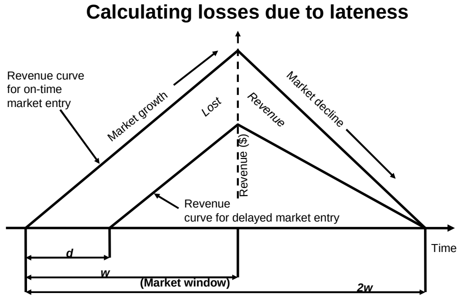
Magnitude of Investment
e.g., - Advertising
- Distribution
- Sales Force
- Promotional Expenses
- If Foreign Entry, Mode of Entry

Competitive Emphasis
e.g., - Relative Customer Value
- Relative Costs

First-Mover Strategy

Advantages:
- preemption of locations in geographic and product characteristic space.
- Order-of-entry may influence the formation of consumer preferences
- May be able to obtain benefits of:
  - Experience curve
  - Patent protection

Calculating losses due to lateness



Lost revenue = Total expected revenue x $\left[\frac{D(3w - d)}{2w^2}\right]$

Exhibit 2.4 Source: B. C. Cole, "Getting to Market on Time," *Electronics*, April 1989, 62-67.
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First-Mover Disadvantages

Pioneering don't pay!
(Andrew Carnegie)
- learning-based advantages in real world may be less than believed
- In most industries, imitation was rapid.
- Imitators for 48 chemical and electrical products could duplicate patented innovations for about 65% of innovators costs.

- Free-rider effect
  - Imitation costs are lower
  - Cost of educating consumers
- Potential shifts in technology or customer needs
- High risk

Timing: Empirical

Success of Pioneers across 50 products
» *Golder and Tellis (1993, JMR)*
- Historical Data to locate "true" pioneers
- Pioneering success rate was significantly smaller than previously thought
- Mean Share for Pioneers
  - = 10% rather than 30%.
- One in nine of pioneers were market leaders
  - (as opposed to 50% as previously held).

Entry Strategies

Decide whether to be:

1 **Reactive**- strategy is based on dealing with initiating pressures as they occur
- Wait and then Copy the competition

2 **Proactive**- strategy would explicitly allocate resources to preempt undesirable future events and to achieve goals
- Be first to the market

New Product Entry Strategies

Reactive
- Defensive
- Imitative
- Second but Better
- Responsive

Proactive
- R&D
- Marketing
- Entrepreneurial
- Acquisition

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Reactive Strategy

- Defensive
  - Guards against competitive new products after they have been successful by making changes in existing products.

  Ex.:
  - Zenith operated less modern facilities, and defended its existing business. Reacted to new IC color TV sets by promoting "hand crafted." Time to develop new poduction facilities.
  - Datril entered as: "Same ingredients as Tylenol but less Expensive".
  - Pre-emptive Defense: Tylenol's offensive reaction to Nuprin (Ibuprofen). Tylenol responded with more aggressive promotion; reduced price; and use of flanker brands.

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Reactive Strategy

- Imitative
  - Copy a new product quickly before its maker is assured of being successful.
  - "Me-too"

  Ex.:
  - Microsoft with Excel, PowerPoint, …
  - Cuisinart: Food processor industry after introduction.
  - Kirin introduced Ichiban…A-B responded with Michelob Dry and Bud Dry.
  - "me-too" Fashion Designers - the 24hr response!

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Reactive Strategy

- Second but Better
  - Wait until the competition's product is revealed. Then, copy and improve it.
  - Object is to be flexible and efficient in producing a superior product, and avoid incurring the heavy developmental costs.
    - Lotus 1-2-3 (integrated some graphical and database capabilities) over Visicalc. 1982 Comdex unveiling!
    - Borland with QuattroPro, . . .
    - WordPerfect over Multimate by improving ease-of-use, power and compatibility.
  - You may choose to not attack head-on but identify a niche where it can provide unique benefits

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Reactive Strategy

- Responsive
  - Purposely reacting to consumers' requests with an emphasis on applications engineering, and manufacturing.

  Ex.:

  DuPont
  - developing Teflon cookware in response to consumer requests which were further encouraged by DuPont.
  - Customized Software Applications

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Proactive Strategy

- R & D
  - Ex.- Aerospace industry
    - Do NOT wait for government proposal request. Instead, estimate government needs to preemptive R&D.
  - E.g.,
    - Consulting firms, Academic researchers,
    - Ex.- IBM > $X billion on R&D
    - Ex.- Xerox > $250 million on R&D

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Proactive Strategy

- Marketing
  - Consumer oriented approach
    - I.e., someone must buy a product if it is to be successful
      - the consumer comes first
    - Find out the consumer needs and fill them
      - e.g., Proctor & Gamble, General Foods
    - Wide variety of techniques are now available:
      - Conjoint Analysis, MDS, etc...

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Proactive Strategy

- Entrepreneurial
  - Ex.- 3M
    - has established a separate venture division wherein entrepreneurs can take leave from their regular job to work on their ventures
    - Venture Capital Firms:
      - Kleiner, Perkins, Caufield and Byers

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Proactive Strategy

- Acquisitions
  - Buy firms with new products to:
    - Market place
    - The firm
  - Ex:
    - Vivendi acquires Seagrams, …
    - Amazon.com acquires auction sites, Junglee.com, …
    - Microsoft acquires DOS; Vermeer Technologies, Great Plains;…

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Acquisitions – A key strategic action

- Over $1.95 Trillion spent worldwide in 2004
- Over 30,000 worldwide

Love's labor lost

"Acquisitions are, like second marriages, a triumph of hope over experience…with even higher failure rates than the liaisons of Hollywood stars"

Economist (2000)

Acquisitions – Bad for the wallet, on average

- Acquisitions "do not create superior post-acquisition performance for acquiring firms" *(King et al. 2004)*
- If returns to acquisitions are so poor, why do managers acquire in the first place?
- Explanations include:
  - Agency theory
  - Hubris *(Roll 1986)*

Hubris

Many managers were, apparently, overexposed in impressionable childhood years to the story in which the imprisoned, handsome prince is released from the toad's body by a kiss from the beautiful princess. Consequently, they are certain that the managerial kiss will do wonders for the profitability of the target company.

Hubris

- *…We've observed many kisses, but very few miracles. Nevertheless, many managerial princesses remain serenely confident about the future potency of their kisses even after their corporate backyards are knee-deep in unresponsive toads.*

  Warren Buffet,
  Berkshire Hathaway Annual Report, 1981
- However, Some are smart business actions
- *What are the differences between winners and losers in the acquisitions game?*

Empire Building

This research

- Measures acquisition success using ***long-term*** financial returns
  - We find great variance in acquisition success
- Introduces a *firm specific*, marketing-based determinant of acquisition success: ***product capital***
  - Firms with high product capital make smarter acquisitions
- Highlights, in the acquisitions context, the importance of a variable that is central to business strategy: *Innovation*

Innovation and Acquisition: Product Capital

- Marketing-based determinant of acquisition success: ***product capital***
  - Firms with high product capital make smarter acquisitions
  - Highlights, in the acquisitions context, the importance of a variable that is central to business strategy: *Innovation*

Def: Product development and product support assets created by current and past investments by a firm.

- *Product support assets:* devoted to the promotion of consumer adoption of new products.
- *Product development assets:* devoted to the creation, development, and improvement of new products.

Data overview

- 238 acquisitions
- Panel of 56 acquirers in the pharmaceutical industry (US and European)
- 10 year period: 1992-2002
- Pharmaceuticals is an ideal empirical context:
  - Acquisitions are frequent
  - Product development and product support investments vary considerably

Measuring performance

1. LCAR: long-term cumulative abnormal returns during the [*1*, *T*] post-event horizon

$$\mathbf{LCAR_{pT}} = \sum_{\mathbf{t=1}}^{\mathbf{t=T}} (\mathbf{R_{i,t}} - \mathbf{R_{p,t}})$$

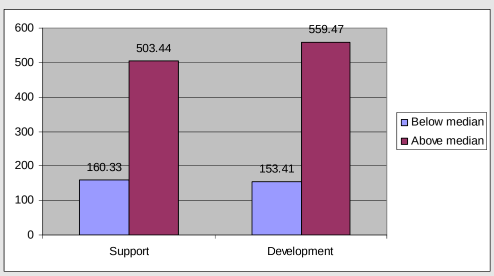
2. BHAR: buy-and-hold long-term abnormal returns during the [*1*, *T*] post-event horizon

$$\mathbf{BHAR_{pT}} = \prod_{\mathbf{t=1}}^{\mathbf{t=T}} (1 + \mathbf{R_{i,t}}) - \prod_{\mathbf{t=1}}^{\mathbf{t=T}} (1 + \mathbf{R_{p,t}})$$

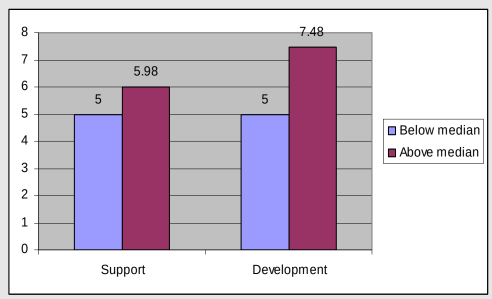
Descriptive Statistics

Measure of firm performance	N. Obs.	Overall Mean (%) [*p-value*]	Std.Dev. (%)	Mean: Bottom Quartile (%)	Mean: Top Quartile (%)
Long-term cumulative abnormal returns: One year following acquisition **[$LCAR_{12}$]**	238	5.09 *[0.06]*	40.94	-35.56	50.50
Long-term cumulative abnormal returns: Two years following acquisition **[$LCAR_{24}$]**	226	4.70 *[0.18]*	52.88	-53.54	65.32
Long-term buy-and-hold abnormal returns: One year following acquisition **[$BHAR_{12}$]**	238	4.65 *[0.15]*	49.17	-42.07	59.69
Long-term buy-and-hold abnormal returns: Two years following acquisition **[$BHAR_{24}$]**	226	-0.75 *[0.85]*	63.30	-71.19	75.77

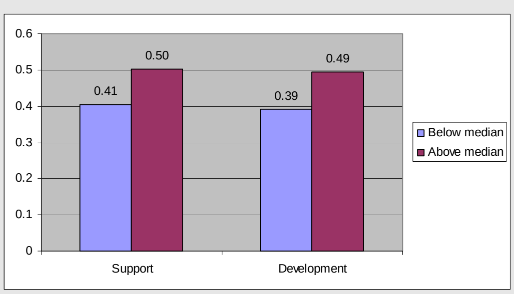
Selection: Average citation-weighted patent counts per target's top 5 scientists



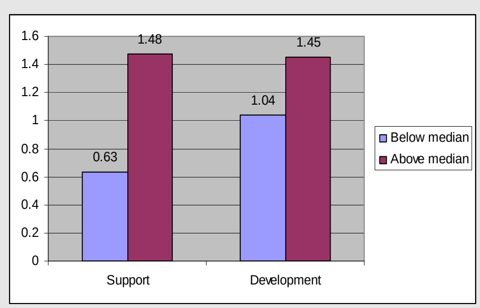
Selection: Average number of products in the target's pipeline at the time of acquisition



Deployment: Average percentage of target's top 5 scientists retained



Deployment: Average number of target products deployed after the acquisition



Why do some acquisitions do better than others?

- An Answer: Product Capital
- Successful firms emphasize innovation in
  - Selection
  - Deployment

Reactive vs. Proactive
Selection of Appropriate Strategy

Need to examine:

A Growth opportunities
B Protection for the innovation
C Scale of the market
D Strengths of competitors
E Position in product/distribution system

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A. Ansoff's Opportunity Matrix

Alternative Corporate *Growth Strategies*

Markets		Products: Existing	Products: New
Markets	Existing	1. Market Penetration	3. Product Development
	New	2. Market Development	4. Diversification

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Alternative Corporate *Growth Strategies*
Product-Market Expansion Grid

	Current products	New products
Current markets	Market Penetration Strategies • Increase market share • Increase product usage • Increase frequency of use • Increase quantity used • New applications	Product Development Strategies • Product improvements • Product-line extensions • New products for same market
New markets	Market Development Strategies • Expand markets for existing products • Geographic expansion • Target new segments	Diversification Strategies • Vertical integration Forward/backward integration • Diversification into related bus (concentric diversification) • Diversification into unrelated businesses (conglomerate diversification)

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Opportunity Matrix

- 1. Market Penetration
  - Opportunity to growth is through existing products and markets. (I.e., Market penetration)
  - As market share increases in E_M -E_P
    - I.e., get greater repeat purchase
    - ex.: find new uses for the same products

Strategy not based on innovation as it is on selling and promotions, I.e., Market Focus & Total Quality Programs.

Ex.

– Royal Crown Cola, also KFC:
  – devoted its attention to its leading brands RC Cola and Diet Rite Cola with less efforts spent on other new products.

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Opportunity Matrix

- 2. Market Development
  - Example: Exports to international markets can represent attractive growth opportunities
    - Coca Cola had success.
    - Microsoft to China
    - Heinz Vinegar for cleaning coffee makers
    - Radio Shack Failed at this.
  - Cross-Cultural Nuances and understanding become useful.
    - Different Ethnic groups' differing uses of a product might generate insights.

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Opportunity Matrix

- 3. Product Development (E_m-N_p)
  This strategy is consistent with the notion of :
- “building on our strength” and
- expanding in the areas of our skill and knowledge in distribution and production.
  - Netscape Communicator
  - McDonald’s McNuggets
- Go into a market get sales from the innovators, and then get out before the big players move in!

Opportunity Matrix

- 4. Diversification
  Some choose to diversify into N_m - N_p
  - **although diversification can be successful, it is not without problems.**
    - **E.g., a major firm moved from the aerospace market to transit vehicles and suffered. They lost $40 * 10^6$ on a contract to supply the Washington, DC metro with railcars!**
    - **Flow Technology has moved from pressure pumps for cutting to using pumps for food safety!**

Opportunities Matrix Summary

If E_p-E_m are to be the primary growth vehicles (cell 1),
- the organization is best at distribution and production
- (and growth rate aspirations are not high)

===> Reactive Product Strategy may be most successful.
Here product development is used only to defend exisiting products!

If the organization wants growth and has skill in R & D and Marketing, a Proactive Strategy would have the potential to help meet its overall organizational needs (cells 2,3,4).

B. Protection for the Innovation

- Types of innovation protection
  - **Patents**
    - **ex.- Polaroid**
  - **Protection may also be granted by markets, to first to enter products that are good and achieve a predominant position.**
    - **Software; Ethical Drugs**
  - **patent protection is weak in most industries. Imitation was rapid, 60% of patented innovations within 4 years.**
  - **If you cannot achieve good protection, you may be better off in a Reactive mode.**

C. Scale of the Market

Market size and margin are important
Easier to be proactive in:
- large markets with economies of scale in production and distribution or marketing.
  - **Each Cookware maker faced a small market and did not expend efforts in developing non-stick material. Waited for a materials supplier (DuPont).**

D. Strength of the Competition

- This may make the reactive strategy of Imitation feasible especially if:
    - **Time to copy product is short**
    - **Entry costs are low**
    - **No patent protection for innovations**
    - **Can achieve economies of scale easily**
  - **Relative size of the firms are also important**
    - **A small firm may be particularly vulnerable and must thus preempt competition with innovative plans.**
    - **Get some sales and go on to something else before Microsoft gets in! Need to be nimble.**

Jerry Yang
Co-founder of Yahoo!

"You never, ever want to compete with Microsoft. And even if they want to compete with you, you run away and do something else."

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Judo Strategy

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E. Position in Production/Distribution Matrix

- **Best strategy depends on position and relative power, etc. within the product/distribution systems.**
- **Usually producers are the innovators in consumer goods.**
- **The Internet may be changing the whole equation!**

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Sources of Advantage

e.g., Skills: **R & D, Marketing, Production-Prior Work Experience**

Resources: **Capital, Production Facilities, Brand Name, Distribution Access**

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Competitive Positioning

e.g., -General all Markets: Price, Quality

e.g., -Specific: Product Market Dimensions, i.e., Service

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Market Segmentation

- Customers differ in their *needs* for a given product. They will therefore *react* differently to different product offerings.
- It follows that a firm can achieve greater profits by developing products and marketing programs for specific segments rather than for a mass market.

•Some times even the best firms do not know who we are reaching or even who are purchasing our product!
Examples:
•Campbell Soup & Curtis Publishing Co.
•Oracle with DBMS!
•Do you Know who Your Customers are?

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Brand Name: But Will It Sell in Another Market?

- Krapp: Danish toilet paper
- Alu-Fanny: French foil wrap
- Atum Bom: Portugese tuna
- Black-Black: Japanese Chewing Gum
- Bull: French computer firm
- Craspy Fruit: French cereal
- Happy End: German toilet paper
- Mukk: Italian yogurt
- Poo: Argentine curry powder
- Zit: German Lemonade
- Skinless; Wrinkle Zero-0: Japanese condoms

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Performance

e.g.,
- Profitability
- Market Share
- Customer Satisfaction
- Return to Investment
- Return on Sales
- Unit Sales
- Customer Loyalty
- Market Acceptance
- Market Share Growth

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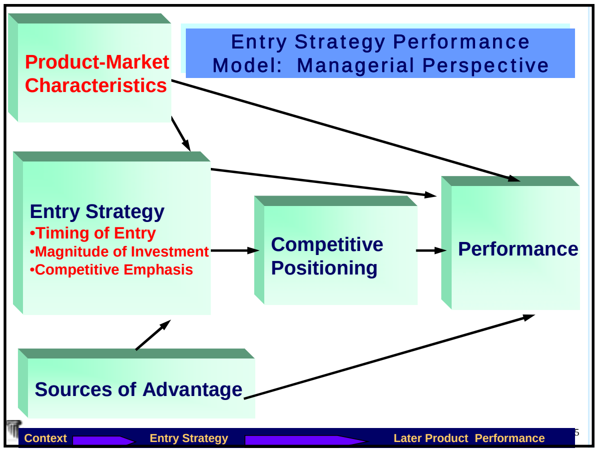

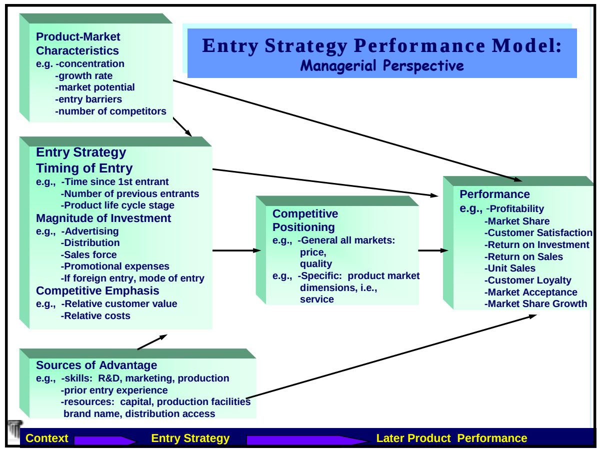

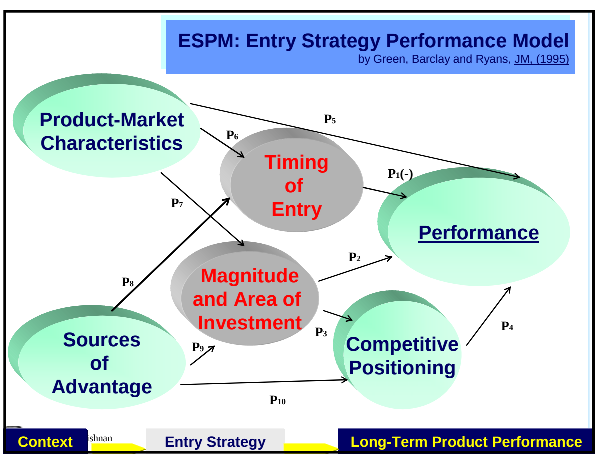

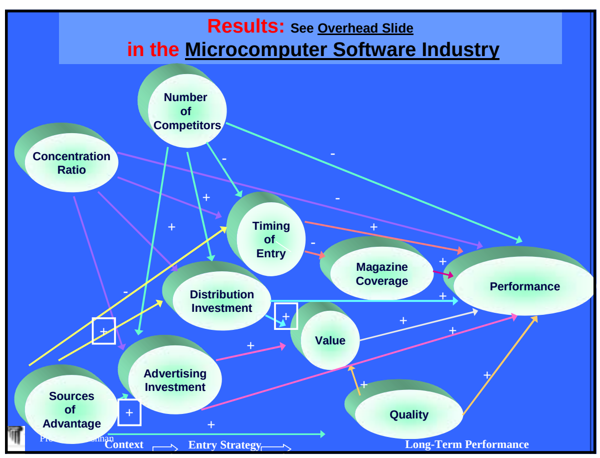

Microcomputer Software Industry

- **Product Markets Examined:**
  - Business Word Processors (for IBM or DOS)
    - 39 entrants
    - Not a niche market
  - Business Graphics
    - 44 entrants used to replicate their study.
    - caters to a specialized market.
    - implies testing under different conditions to assess generalizability of findings.
  - Archival Data employed

Key Results in the PC Software Industry

The major effects on long-term performance come from:
- **Magazine Coverage gained; and**
- **Competitive Position (value and quality) achieved during entry period)!**
- **Timing though significant and important (in both markets) was not as strong a predictor!**
- **Magazine Coverage is affected by early entry (however differently for the two product categories!).**

Other Results in the Software Industry

- **Competitive Position**
  - Higher the perceived value; and
  - Higher quality at entry lead to better long-term performance

  Findings show that:
  - Product that is simultaneously available at a high MSRP and a lower price in other channels has better long term performance!

Entry Timing

- Has Direct as well as Indirect effects:

In Word Processors Market:
- It was the Indirect effect of Early Entry on Magazine Coverage that led to better performance.

Business Graphics Market:
- Indirect effect of early entry was of the same but opposite impact!
- I.e., Later entry generated more favorable coverage!
- However, offsetting this, was a direct positive effect of early entry.

(Very Interesting!) Reasons ?:
- Perhaps consensus on good products develops quickly
- In Graphics, it took several years before products with similar features were produced

Investment Magnitude

Distribution Investment
- **Negative Impact on Performance:**
  - Perhaps, it is possible to invest too much in distribution
  - and there may be a non-linear relationship

Advertising Investment

Perhaps?
- When the Market and Consumer Preferences are still evolving;
- the number of firms entering the market are large;
- important dimensions for consideration are not yet fully formed;
  - consumers seem hesitant to purchase.

Under these conditions, Advertising in the early stages may not have been as effective.

Sources of Advantage

- Negative impact on Quality
- Results are Contrary to expectations!

Reasons?
- Smaller Firms are better able to tailor their products to state-of-the-art hardware;
- Larger firms have substantial investments in software making them reluctant to adapt;
- large bureaucracies slowing down innovation

Other Key Lessons

- In Software markets where basic features and evaluative criteria are quickly established high levels of Market Exposure (Magazines; Adv.) during entry leads to better long-term performance.
  - –Ex: WordPerfect, MS Word had 100,000 sample disks in PC World
- Heavy Exposure alone is not enough.
  - –Need to pay attention to competitive positioning (quality & value)
  - –Ex: WordStar had most citations at entry; but had average q&v.
- Large Established Firms need to worry about
  - –**Their ability to develop and maintain high quality products**
  - –**Also, they usually enter later**
  - –**They have old products that they do not wish to cannibalize**

  Ex: IBM and WANG with Word Processors; IBM with DBMS;

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