**Market Entry Strategies**

Dr. P.V. (Sundar) Balakrishnan  
Email: sundar@u.washington.edu  
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**

- **Product-Market Characteristics**
- **Entry Strategy**
  - Timing of Entry
  - Magnitude of Investment
  - Competitive Emphasis
- **Competitive Positioning**
- **Performance**

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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.

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**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 market share is inching up.
Entry Strategy

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

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

Competitive Emphasis
- 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

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

### 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 production 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 flunker brands.

- **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!

- **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.

  *Ex.:
  - 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.

- **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

### 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
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...

- 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

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*)
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.

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.


However, some are smart business actions.

What are the differences between winners and losers in the acquisitions game?

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
   \[ \text{LCAR}_{PT} = \sum_{t=1}^{T} (R_{t+1} - R_{p,t}) \]

2. **BHAR**: buy-and-hold long-term abnormal returns during the \([1, T]\) post-event horizon
   \[ \text{BHAR}_{PT} = \prod_{t=1}^{T} \left( 1 + R_{t+1} - 1 + R_{p,t} \right) \]

Descriptive Statistics

<table>
<thead>
<tr>
<th>Measure of firm performance</th>
<th>N. Obs</th>
<th>Overall Mean (%) [p-value]</th>
<th>Std. Dev. (%)</th>
<th>Mean: Bottom Quartile (%)</th>
<th>Mean: Top Quartile (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term cumulative abnormal returns: One year following acquisition</td>
<td>238</td>
<td>5.09 [0.06]</td>
<td>40.94</td>
<td>-35.56</td>
<td>50.50</td>
</tr>
<tr>
<td>Long-term cumulative abnormal returns: Two years following acquisition</td>
<td>226</td>
<td>6.70 [0.11]</td>
<td>52.88</td>
<td>-53.54</td>
<td>65.32</td>
</tr>
<tr>
<td>Long-term buy-and-hold abnormal returns: One year following acquisition</td>
<td>238</td>
<td>4.65 [0.15]</td>
<td>49.17</td>
<td>-42.07</td>
<td>59.69</td>
</tr>
<tr>
<td>Long-term buy-and-hold abnormal returns: Two years following acquisition</td>
<td>226</td>
<td>-0.75 [0.85]</td>
<td>65.30</td>
<td>-71.19</td>
<td>75.77</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Support</th>
<th>Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selection: Average number of products in the target's pipeline at the time of acquisition</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Support</td>
<td>Below median</td>
<td>Above median</td>
</tr>
<tr>
<td>Development</td>
<td>Below median</td>
<td>Above median</td>
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Deployment: Average number of target products deployed after the acquisition

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<tbody>
<tr>
<td>Deployment: Average percentage of target's top 5 scientists retained</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Support</td>
<td>Below median</td>
<td>Above median</td>
</tr>
<tr>
<td>Development</td>
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<td>Above median</td>
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</table>
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

A. Ansoff’s Opportunity Matrix

<table>
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<tr>
<th>Products</th>
<th>Existing</th>
<th>New</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing Markets</td>
<td>1. Market Penetration</td>
<td>3. Product Development</td>
</tr>
</tbody>
</table>

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 Ritz Cola with less efforts spent on other new products.

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.
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)

$\Rightarrow$ Reactive Product Strategy may be most
successful.
Here product development is used only to defend
existing 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.
"You never, ever want to compete with Microsoft. And even if they want to compete with you, you run away and do something else."

Jerry Yang
Co-founder of Yahoo!

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!

Sources of Advantage
- e.g., Skills: R & D, Marketing, Production-Prior Work Experience
- Resources: Capital, Production Facilities, Brand Name, Distribution Access

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?
Brand Name: But Will It Sell in Another Market?

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

Performance

- Profitability
- Market Share
- Customer Satisfaction
- Return to Investment
- Return on Sales
- Unit Sales
- Customer Loyalty
- Market Acceptance
- Market Share Growth

Entry Strategy Performance Model: Managerial Perspective

Product-Market Characteristics

- Timing of Entry
- Magnitude of Investment
- Competitive Emphasis

Sources of Advantage

Competitive Positioning

Performance

Sources of Advantage

- Skills: R&D, marketing, production
- Prior entry experience
- Resources: capital, production facilities, brand name, distribution access

Competitive Positioning

- General: all markets: price, quality
- Specific: product market dimensions, i.e., service

Performance

- Profitability
- Market Share
- Customer Satisfaction
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Results: See Overhead Slide in the Microcomputer Software Industry

Number of Competitors

Concentration Ratio

Timing of Entry

Distribution Investment

Magazine Coverage

Performance

Value

Advertising Investment

Sources of Advantage

Profitability: Market Share

Customer Satisfaction: Return on Investment

Return on Sales: Unit Sales

Customer Loyalty: Market Acceptance

Market Share Growth: Customer Loyalty

Context

Entry Strategy

Long-Term Product Performance

ESPM: Entry Strategy Performance Model

by Green, Barclay and Ryans, JM (1995)
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;