face of these emerging submarkets. Businesses that perform these tasks successfully have the organizational skills to detect change, the organizational vitality to respond, and a well-conceived brand strategy. Chapters 9 and 11 examine the threat of brand energy loss to relevance.

The emergence of a new subcategory is also an opportunity for the firm that can dominate that submarket, control its perception, and make competitors less relevant or even irrelevant. IBM did this with e-business. Gillette did it with the Mach III and Fusion brands. Charles Schwab did it with Schwab OneSource. Creating and owning subcategories can only occur when the right firm, armed with the right idea and offering, is ready to act at the right time. But when it happens, it can be a strategic home run and the source of unusual profits over a long time period.[1]

Chapter 13 discusses how innovation can create new submarkets where competitors are less relevant.

ACTUAL AND POTENTIAL MARKET OR SUBMARKET SIZE

A basic starting point for the analysis of a market or submarket is the total sales level. Among the sources that can be helpful are published financial analyses of the relevant firms, customers, government data, and trade magazines and associations. The ultimate source is often a survey of product users in which the usage levels are projected to the population.

Potential Market—The User Gap

In addition to the size of the current, relevant market or submarket, it is often useful to consider the potential size. A new use, new user group, or more frequent usage could dramatically change the size and prospects for the market or submarket.

There is unrealized potential for the cereal market in Europe and among institutional customers in the United States—restaurants and schools/day-care facilities. All these segments have room for dramatic growth. In particular, Europeans buy only about 25 percent as much cereal as their U.S. counterparts. If technology allowed cereals to be used more conveniently away from home by providing shelf-stable milk products, usage could be further expanded. Of course, the key is not only to recognize the potential but also to have the vision and program in place to exploit it. A host of strategists have dismissed investment opportunities in industries because they lacked the insight to see the available potential and take advantage of it.

Small Can Be Beautiful

Some firms have investment criteria that prohibit them from investing in small markets. Chevron, Microsoft, Frito-Lay, and Procter & Gamble, for example, have historically looked to new products that would generate large sales levels within a few years. Yet in an era of micro-marketing, much of the action is in smaller niche segments. If a firm avoids them, it can lock itself out of much of the vitality and profitability of a business area. Furthermore, most substantial business areas were small at the outset, sometimes for many years and, as noted in Chapter 13, some become attractive niche submarkets. Avoiding the small market can thus mean that a firm must later overcome the first-mover advantage of others.

Further, there is evidence recounted in the book *The Long Tail* by Chris Anderson that many markets have changed so that the small niche business is economically viable and should not be automatically ignored.[2] The book, music, entertainment, and broadcasting areas illustrate the fact that the tail—the offerings that are not the large hit products—is extensive and collectively important. Cable networks serve smaller but worthwhile audiences. Companies limited by retailers to a small selection can provide access to a full line from their websites; KitchenAid, for example, offers its products in some 50 colors. With eBay, Amazon, Google, and others, the economics of marketing small niche items has changed. The fact that some 25,000 items are introduced in the grocery stores each year and car makers offer some 250 different models indicates that niche marketing is viable outside the Internet world as well.

There is a downside to having too many niche offerings. First, companies can create debilitating operating and marketing costs when the offerings are too extensive. Second, customers can become overwhelmed by the confusion of too many choices and rebel—looking for the equivalent of Colgate's Total, a product that simplified decision making in a cluttered environment. Thus, many firms are trimming lines that have gotten too large. Nevertheless, the analysis of niche markets needs to reflect the new reality that customers have faster and more extensive access to information than before and that products are accessible in ways not feasible just a few years ago.

MARKET AND SUBMARKET GROWTH

After the size of the market and its important submarkets have been estimated, the focus turns to growth rate. What will be the size of the markets and submarkets in the future? If all else remains constant, growth means more sales and profits even without increasing market share. It can also mean less price pressure when demand increases faster than supply and firms are not engaged in experience curve pricing, anticipating future lower costs. Conversely, declining sales can mean reduced sales and often increased price pressure as firms struggle to hold their shares of a diminishing pie.

It may seem that the strategy of choice would thus be to identify and avoid or disinvest in declining situations and to identify and invest in growth contexts. Of course, the reality is not that simple. In particular, declining product markets can represent a real opportunity for a firm, in part because competitors may be exiting and disinvesting. The firm may attempt to become a profitable survivor by encouraging others to exit and by becoming dominant in the most viable segments.

The other half of the conventional wisdom, that growth contexts are always attractive, can also fail to hold true. Growth situations can involve substantial risks. Because of the importance of correctly assessing growth contexts, a discussion of these risks is presented at the end of this chapter.

Identifying Driving Forces

In many contexts, the most important strategic uncertainty involves the prediction of market sales. A key strategic decision, often an investment decision, can hinge on not only being correct but also understanding the driving forces behind market dynamics.