travel-related sites, and 30 health and beauty sites that were competing for attention. Dot-com business-to-business (B2B) exchanges were created for the buying and selling of goods and services, information exchanges, logistics services, sourcing industry data and forecasts, and a host of other services. The number of these B2B companies grew from under 250 to over 1,500 during the year 2000 and then fell to under 250 again in 2003. At the peak, there were estimated to be more than 140 such exchanges in the industrial supplies industry alone.[8]

The following conditions are found in markets in which a surplus of competitors is likely to be attracted and a subsequent shakeout is highly probable. These factors were all present in the B2B dot-com experience:

1. The market and its growth rate have high visibility. As a result, strategists in related firms are encouraged to consider the market seriously and may even fear the consequences of turning their backs on an obvious growth direction.
2. Very high forecast and actual growth in the early stages are seen as evidence confirming high market growth as a proven phenomenon.
3. Threats to the growth rate are not considered or are discounted and little exists to dampen the enthusiasm surrounding the market. The enthusiasm may be contagious when venture capitalists and stock analysts become advocates.
4. Few initial barriers exist to prevent firms from entering the market. There may be barriers to eventual success (such as limited retail space); however, that may not be evident at the outset.
5. Some potential entrants have low visibility and their intentions are unknown or uncertain. As a result, the quantity and commitment of the competitors are likely to be underestimated.

Superior Competitive Entry

The ultimate risk is that a position will be established in a healthy growth market and a competitor will enter late with a product that is demonstrably superior or that has an inherent cost advantage.

Thus, Honda was first to the U.S. market in 1999 with a hybrid car, but its offering struggled in part because it was a two-seater with a frumpy design and technological limitations. Toyota's Prius, introduced two years later, was a bigger car with better styling and technology and took over market leadership. The success of late-entry, low-cost products from Asia has occurred in countless industries, from automobiles to clothing to TVs.

Changing Key Success Factors

A firm may successfully establish a strong position during the early stages of market development, only to lose ground later when key success factors change. One forecast is that the surviving personal computer makers will be those able to achieve low-cost production through sourcing in low-cost countries, exploitation of the experience curve, and obtaining efficient, low-cost distribution—capabilities not necessarily critical during the early stages of market evolution. Many product markets have experienced a shift over time from a focus on product technology to a focus on process technology, operational excellence, and the customer experience. A firm that might be capable of achieving product technology-based advantages may not have the resources, competencies, and orientation/culture needed to respond to the demands of the evolving market.

Changing Technology

Developing first-generation technology can involve a commitment to a product line and production facilities that may become obsolete and to a technology that may not survive. A safe strategy is to wait until it is clear which technology will dominate and then attempt to improve it with a compatible entry. When the principal competitors have committed themselves, the most promising avenues for the development of a sustainable competitive advantage become more visible. In contrast, the early entry has to navigate with a great deal of uncertainty.

Disappointing Market Growth

Many shakeouts and price wars occur when market growth falls below expectations. Sometimes the market was an illusion to begin with. Internet-based B2B exchanges did not provide value to firms that already had supplier relationships that were, on balance, superior to the B2B exchanges. There was an absence of a compelling value proposition to overcome marketplace inertia. Sometimes the need is so apparent that potential growth seems assured. However, this potential may not be realized for many reasons. For example, the demand for computers exists in many underdeveloped countries, but a lack of funds and the absence of suitable technology inhibit buying.

The demand might be real but might simply take longer to materialize because the technology is not ready or because customers are slow to change. Demand for electronic banking, for example, took many years longer than expected to materialize.

Forecasting demand is difficult, especially when the market is new, dynamic, and glamorized. This difficulty is illustrated by an analysis of more than 90 forecasts of significant new products, markets, and technologies that appeared in *Business Week*, *Fortune*, and the *Wall Street Journal* from 1960 to 1979.[9] Forecast growth failed to materialize in about 55 percent of the cases cited. Among the reasons were overvaluation of technologies (e.g., three-dimensional color TV and tooth-decay vaccines), consumer demand (e.g., two-way cable TV, quadraphonic stereo, and dehydrated foods), a failure to consider the cost barrier (e.g., the SST and moving sidewalks), or political problems (e.g., marine mining). The forecasts for roll-your-own cigarettes, small cigars, Scotch whiskey, and CB radios suffered from shifts in consumer needs and preferences.

Price Instability

When the creation of excess capacity results in price pressures, industry profitability may be short-lived, especially in an industry such as airlines or steel, in which fixed costs are high and economies of scale are crucial. However, profitability can be hurt if an influential competitor uses a visible, popular product as a loss leader to attract customers. CDs, a hot growth area in the late 1980s, fueled the overexpansion of retailers that were very profitable when they sold CDs for about $15. However, Best Buy, a home-electronics chain, decided to sell CDs for under $10 to attract customers to their off-mall locations. The result was a dramatic erosion in margins and volume and the ultimate bankruptcy of a substantial number of the major CD retailers. A hot