CHAPTER FOURTEEN

# GAINING AND DEFENDING MARKET POSITION

*In football, everything is complicated by the presence of the other team.*
—Jean-Paul Sartre, French philosopher

The constantly evolving nature of the competitive landscape calls for developing dynamic strategies to manage a company's market position. Managing market position presents companies with two perennial questions: how to gain market position and how to defend their current market position. These two questions and strategies to address them are the focus of this chapter.

## Gaining Market Position

From a competitive standpoint, a company can gain share by using three core strategies: (1) stealing share from competitors already serving this market, (2) growing the market by attracting new customers to the category, and (3) creating new markets.

### Steal-Share Strategy

The steal-share strategy refers to a company's activities aimed at attracting customers from its competitors rather than trying to attract customers who are new to the product category. Apple targeting Windows users (rather than aiming at customers who have never had a computer) is an example of a steal-share strategy. A company's steal-share strategy can vary in breadth: It can narrowly target customers of a specific competitor (e.g., Pepsi targeting Coke customers), or it can broadly focus on the competitor's market as a whole (e.g., RC Cola trying to steal share from all competitors, including Coke and Pepsi). The steal-share strategy is illustrated in Figure 1 where the dark-shaded segment represents the company's current market share and the light-shaded segment represents the share it aims to gain from the competition. Because of its focus on attracting only competitors' customers, the steal-share focus is also referred to as *selective demand* strategy.

**Figure 1. Steal-Share Strategy**

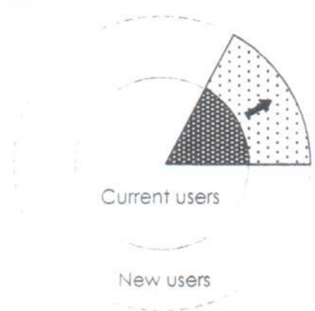

To succeed in attracting competitors' customers, a company needs to present these customers with a compelling value proposition. In this context, there are two basic steal-share strategies: a differentiation strategy and a similarity strategy.

- **Differentiation strategy** aims to steal share from the competition by demonstrating the superiority of the company's offering. The differentiation might involve superior benefits, such as better performance and/or lower costs.
- **Similarity strategy**, also referred to as a "me-too" strategy, aims to establish multiple points of parity and steal share from a competitor, typically the market leader, by showing that a company's and a competitor's offerings are, in fact, identical. One particular form of the "me-too" strategy is cloning, which involves emulating the incumbent's offering, usually with slight variations to avoid patent and trademark infringement liability.

### Market-Growth Strategy

Unlike the steal-share strategy, which targets customers who are using competitors' offerings, the market-growth strategy aims to attract customers who are new to the category (Figure 2). For example, an advertising campaign promoting the consumption of milk (the *Got Milk?* campaign) builds the entire category, whereby switching occurs between substitute products (milk vs. non-milk) rather than among different milk producers. Because of its focus on increasing the overall category demand, the market-growth strategy is sometimes referred to as *primary demand* stimulation.

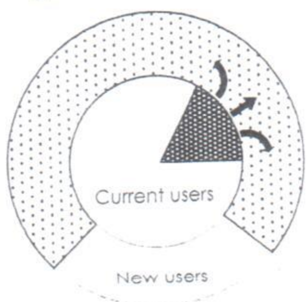
**Figure 2. Market-Growth Strategy**



Because the market-growth strategy is aimed at growing the entire category, it typically benefits all companies competing in that category. Therefore, this strategy is usually adopted in the early stages of an offering's life cycle when the overall market growth is high and competition is not yet a primary issue. Moreover, because offerings tend to gain share proportionately to their current market position, in the case of relatively mature products the market-growth strategy is likely to benefit the market leader.

A notable exception to the scenario illustrated in Figure 2 involves a case in which a company's offering has a superior value proposition relative to the competition (because of a technological breakthrough, the addition of unique product benefits, or a price advantage), making it likely to gain a disproportionately large share (relatively to its current share) of new customers. In this case, a small-share offering can be more successful in growing the market than the leader (Figure 3).

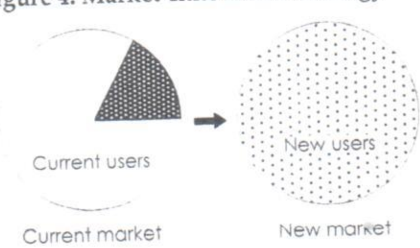
**Figure 3. Market-Growth Strategy for an Offering with a Superior Value Proposition**




## Market-Innovation Strategy

The market-innovation strategy is similar to the market-growth strategy in that a company gains market position by attracting customers who are not using any products and services in a given category (Figure 4). The key difference is that instead of converting new customers to the existing category in which the company faces its current rivals, it defines an entirely new category in which direct competitors are absent. Because of its focus on uncontested markets, the market-innovation strategy, also referred to as the Blue Ocean Strategy, often leads to high profit margins and rapid growth—a scenario that almost inevitably attracts new market entrants.

**Figure 4. Market-Innovation Strategy**



Because it targets customers who are new to the particular product category, the market-innovation strategy typically involves pioneering new markets. The key aspects of creating new markets are discussed in the following sections.

## Pioneering New Markets

The term *pioneer* or *first mover* refers to the first company to establish its presence in a particular domain. Based on the domain in which the company is the first mover, there are four common types of pioneers.

- **Technology pioneer:** the company that first introduces a new technology to a category
- **Product pioneer:** the company that is first to commercially introduce an entirely new ("new-to-the-world") product
- **Business model pioneer**: the company that is first to introduce a new business model
- **Market pioneer:** the company that first introduces a given offering to a particular target market

For the purposes of marketing analysis, the term *pioneer* is used in reference to the first company to introduce its offering to a given market defined by a particular customer need. Thus, a pioneer in a market is the company that first reached a given customer segment with its offering. Even though, from a chronological standpoint, another company might have pioneered a product by introducing it to a different customer segment, the company that first introduced it to target customers is considered the pioneer for these customers. For example, Apple's iPod, which was introduced in the United States in 2001, is typically thought of as the pioneer of portable hard drive MP3 players, even though MPMan, which used similar technology, was introduced in Asia in 1998 by the Korean company Saehan.

### *The Benefits of Pioneering*

Pioneering a market offers the incumbent a number of advantages that are not available to later entrants. These advantages include shaping consumer preferences, creating switching costs, gaining access to scarce resources, creating barriers to competitive entry, and taking advantage of the learning curve.

- **Preference formation**. A pioneering company has the unique opportunity to shape customer preferences, creating a close association between its brand and the underlying customer need. For example, Jeep, Google, Amazon.com, eBay, Twitter, and Xerox not only helped shape customer preferences but also became synonymous with the entire category.
- **Switching costs.** As a pioneer, a company has the opportunity to build loyalty by creating switching costs for its customers. These switching costs could be functional (loss of the unique features of the pioneer's offering), monetary (the cost of replacing proprietary equipment or a penalty for

breaking a contract), or psychological (the cost of learning the functionality of a competitor's offering).

- **Resource advantage**. The pioneer can benefit from preempting scarce resources such as raw materials, human resources, geographical locations, and collaborator networks. For example, the pioneer might be able to lock out the competition by securing exclusive access to strategically important mineral resources. Similarly, the pioneer might preempt competitors' access to a particular human resource in short supply, such as engineers, designers, and managers. The pioneer may also preempt strategically important geographic locations in both real space (Starbucks, McDonald's, and Walmart) and cyberspace (flowers.com, drugstore.com, and cars.com). The pioneer can also preempt the competition by forging collaborator alliances with strategically important partners such as distributors or advertisers. For example, sporting goods manufacturers offer exclusive long-term contracts to promising athletes early in their careers, thus precluding competitors from collaborating with these athletes when their careers take off.
- **Barriers to entry**. The pioneer can create technological barriers to prevent competitors from entering the market. For example, the pioneer might secure the exclusive rights to use a particular invention or design that is essential for developing offerings that will successfully address a specific customer need. Being the pioneer also enables a company to establish a proprietary technological standard (e.g., operating system, communication protocol, and video compression) that ensures the sustainability of its technological advantage in the marketplace.
- **Learning curve**. The pioneer often benefits from learning curve advantages, allowing it to heighten production effectiveness and efficiency as its cumulative output increases over time. Simply put, being in business longer than its competitors often gives the pioneer a competitive edge in technological know-how, level of workforce experience, and productivity.

### *The Drawbacks of Being a Pioneer*

Being a pioneer does not always benefit the company. Pioneers face a distinct set of disadvantages that might impede rather than facilitate their market success. The three most common disadvantages include free riding, incumbent inertia, and market uncertainty.

- **Free riding**. A later entrant might be able to free ride on the pioneer's resources, including its investments in technology, product design, customer education, regulatory approval, infrastructure development, and human resource development. To illustrate, after spending millions of dollars to develop the technology and educate the American audience about the advantages of a personal digital recorder, the pioneer TiVo found itself in competition with cable and satellite operators selling similar services to its already educated target customers. Alternatively, a follower could reverse-engineer the pioneer's product and improve on it, while investing only a fraction of the resources required to develop the original product. Federal Express built on DHL's idea to start overnight deliveries in the United States. IBM launched its personal computer by building on the earlier product introductions from Apple and Atari. Best Buy launched a rapid expansion of superstores based on the success of the business model introduced by Circuit City.

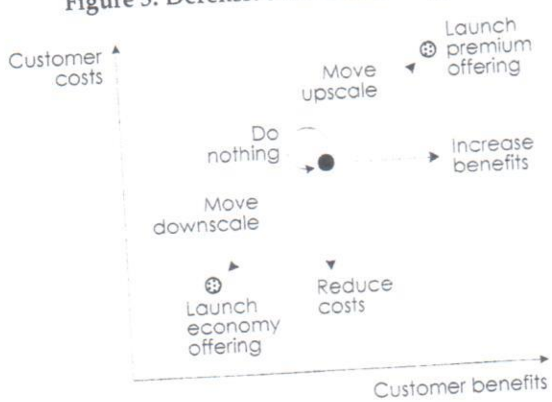
- **Incumbent inertia**. Being a market leader often leads to complacency, thus leaving technological and market opportunities open to competitors. To illustrate, IBM's reliance on mainframes, even when mainframes were being replaced by networked computers, enabled competitors such as Dell and Hewlett-Packard to gain a foothold in IBM's markets and steal some of its most valuable clients. Incumbent inertia might also be driven by a reluctance to cannibalize existing product lines by adopting a new technology or a new business model. For example, brick-and-mortar booksellers such as Barnes & Noble and Borders failed to recognize the importance of e-commerce, allowing Amazon.com to establish a dominant presence in online book retailing. Incumbent inertia might also result from a "sunk-cost mentality," whereby managers feel compelled to utilize their large investments in extant technology or markets even when technological advancements and market forces make these investments unfeasible. For example, one of the reasons Ford lost its leading market position to General Motors in the 1930s was its reluctance to make the necessary investments to modify existing manufacturing facilities to diversify its product line.
- **Market uncertainty**. Another potential disadvantage in being a pioneer is the uncertainty associated with the offering. Indeed, whereas the pioneer has to deal with the uncertainty surrounding the technology and market demand, a follower can learn from the pioneer's successes and failures and design a superior offering. Because of the uncertainty associated with the introduction of a new offering, companies with strong brands and distribution capabilities often choose to be late-market entrants, which enables them to learn from the pioneer's experience and develop an effective and cost-efficient market-entry strategy. These companies use their brand and channel power to manage the risk associated with new product development and new market entry, allowing them to be successful late entrants into a given market. To illustrate, the first sugar-free soft drink was introduced in the United States by Cott in 1947, and the first sugar-free cola was introduced by Royal Crown in 1962, only to be overtaken by Coca-Cola and PepsiCo, which used their branding and distribution power to dominate the consumer soft drink market.

The numerous drawbacks of being a market pioneer suggest that when entering new markets, a company should strive not only to gain share but also to create a business model that cannot be easily copied by its current and future competitors. Because market success inevitably attracts competition, creating a sustainable competitive advantage is the key to a successful pioneering strategy.

## Defending Market Position

Because business success inevitably attracts competition, in addition to strategizing how to expand its offerings, a company needs to develop strategies to defend its market position. In this context, there are three basic ways in which a company can react to a competitor's activities: not taking action, repositioning the existing offerings (reducing costs, moving downscale, increasing benefits, moving upscale by launching new, more exclusive offerings), and adding new (premium or economy) offerings. These strategies are illustrated in Figure 5 and discussed in more detail below.

**Figure 5. Defensive Market Strategies**[1]




### *Not Taking Action*

The decision to ignore a competitor's action(s) reflects a company's belief that these actions either will have no material impact on the company's market position or that the competitive threat is not sustainable and will dissipate by itself. For example, a company might decide that its upscale offering will not be affected by the entry of a low-price, low-quality competitor and, therefore, not consider this action a direct threat. In the same vein, a company might not react to a competitor's price reduction if it believes that this low-priced position is not sustainable in the longer term.

### *Repositioning the Existing Offering*

A company might choose to reposition its offering in one of two ways: It might change the offering's value proposition to increase its appeal to current customers or, alternatively, it might reposition the offering to appeal to a different customer segment.

- **Repositioning to increase the offering's value for current customers**. Because value is a function of benefits and costs, enhancing the value of an offering might be achieved in two ways: by increasing benefits and by decreasing costs.

- *Increasing an offering's benefits.* To increase the attractiveness of its offering, a company might choose to (1) enhance the functional benefits of the offering (by improving the offering's performance), (2) increase the monetary benefits (by adding monetary rewards), and (3) increase the psychological benefits (by enhancing the offering's image). For each of these strategies to succeed, the increase in benefits must actually be perceived as such by customers; improving the offering's performance on attributes that are unobservable by customers is not likely to enhance its customer value.
- *Decreasing an offering's costs.* As in the case of increasing benefits, decreasing an offering's costs can be achieved by decreasing its functional, monetary, and psychological costs. Because the price of an offering is typically the most important component of customers' costs, price reduction and adding monetary incentives are the most common forms of cost decreases.

- **Repositioning to attract new customers**. In addition to increasing an offering's value for existing customers, a company might decide to reposition its offering to better address the needs of different target customers. Repositioning implies a change in the value proposition of a given offering in one of two ways: vertical or horizontal.
  - *Vertical repositioning* refers to a scenario in which a company modifies the value proposition of an offering by moving it into a different price tier, either upscale or downscale. In the case of upscale repositioning, the company increases the price of an offering while augmenting its benefits. In contrast, downscale repositioning involves a decrease in an offering's price and a corresponding decrease in benefits.
  - *Horizontal repositioning* refers to a scenario in which a company modifies the value proposition of an offering by altering its benefits without necessarily moving it to a different price tier. To illustrate, in an attempt to break away from the traditional association of prunes as a means to regularity for the elderly and make them appealing to younger customers, California prune manufacturers began marketing prunes as "dried plums," highlighting their high level of antioxidants.

*Extending the Product Line*

In addition to repositioning its existing offerings, a company can respond to competitive actions by adding new offerings to its product line. Product-line extension is similar to repositioning, with the key distinction that instead of modifying the value proposition of an existing offering, the company launches a new offering with a different value proposition. There are two common product-line extension strategies: vertical and horizontal.

- **Vertical extensions** are new offerings differentiated by both benefits and price (e.g., an economy car vs. a luxury car). A company can use both upscale and downscale extensions to defend its market position. One popular strategy to fight low-priced rivals involves launching a *fighting brand*—a downscale offering introduced to shield the core offering from low-priced competitors. A slightly more complex approach to dealing with low-priced competitors is the *sandwich strategy*, which involves both the introduction of a downscale offering and upscale repositioning of the core brand. A third commonly used approach to deal with low-priced rivals is the *good-better-best strategy*, which involves introducing both an upscale and a downscale offering, resulting in a three-tier product line.

- **Horizontal extensions** are new offerings that are differentiated primarily by functionality and not necessarily by price (e.g., a sedan vs. a minivan). As product categories mature, their user base becomes more diverse, calling for specialized offerings customized to the needs of different customer segments. Consequently, the pioneer might preempt the competition by extending its product line with offerings tailored to each strategically important customer segment.

A more detailed discussion on managing product lines is offered in Chapter 17.

## Core Competencies as a Source of Competitive Advantage

To gain and defend market position, a firm needs to develop core competencies that will give it a competitive advantage. Core competencies involve expertise in an area essential to the company's business model, allowing the company to create market value. From a marketing standpoint, there are six key areas in which a company can develop a core competency: business innovation, operations management, technology development, product development, service management, and brand building.

- **Business innovation**. Competency in business management refers to proficiency in managing business processes, such as identifying business goals, designing strategies and tactics to achieve these goals, and implementing a company's business plan. Business innovation competency also involves the company's ability to build the collaborator network required for efficient functioning of the business. This competency typically leads to strategic benefits such as *business model leadership*. Examples of companies with demonstrated competency in business innovation include McDonald's, Amazon.com, IKEA, PayPal, Netflix, and Starbucks.

- **Operations management**. Competency in operations management refers to expertise in manufacturing and supply-chain management. Companies with this competency are proficient at optimizing the effectiveness and cost efficiency of their business processes. This can lead to two strategic benefits: *logistics leadership* and *cost leadership*. Logistics leadership involves proficiency in supply-chain management that enables a company to provide unsurpassed levels of integration and effectiveness in manufacturing and/or distribution. For example, Foxconn—arguably the world's largest electronics contract manufacturer and the supplier of BlackBerry, iPad, iPhone, iPod, Kindle, Xbox, PlayStation, and Wii—stands out for its dynamic, high-volume production of complex electronics products. Other examples of companies with demonstrated competency in logistics include UPS, FedEx, and Amazon.com. Cost leadership reflects the company's position as the lowest cost (although not necessarily the lowest price) producer in the market. For example, Walmart's competency in operations management is reflected in its dominant position as the low-cost player in the market. Other examples of companies with demonstrated cost leadership include Costco, Carrefour, H&M, and Zara.

- **Technology development**. Competency in technology development refers to a company's ability to devise new technological solutions. This competency typically leads to the strategic benefit of *technological leadership*. Examples of companies that have demonstrated this competency include Motorola, BASF, Google, and Intel. Competency in developing new technologies does not necessarily imply competency in developing commercially successful products. To illustrate, Xerox and its Palo Alto Research Center (PARC) have invented numerous new technologies including photocopying, laser printing, graphical user interface, client/server architecture, and the Ethernet but have been slow in converting these technologies into commercial products.

- **Product development**. Competency in product development describes a company's ability to develop products that deliver superior customer value. This competency typically leads to the strategic benefit of *product leadership*. Examples of companies with demonstrated competency in this area include Apple, Microsoft, and Merck. Note that the competency in product management is not contingent on the company's competency in technology management; technologically inferior products delivering need-based functionality are often more successful than technologically superior products that fail to meet customer needs.

- **Service management**. Competency in service management reflects a company's ability to develop services that deliver superior customer value in the context of a service encounter. This competency typically leads to the strategic benefit of *service leadership*. Examples of companies with demonstrated competency in this area include Ritz-Carlton, American Express, Amazon.com, Zappos.com, and Nordstrom. The competency in service management does not necessarily stem from a competency in product development. Indeed, unlike products that can be physically separated from the manufacturer and inventoried, services are delivered and consumed at the same time, and hence require a different set of skills and resources.

- **Brand building**. Competency in brand building describes a company's ability to build strong brands that deliver superior customer value. This competency typically leads to the strategic benefit of *brand leadership,* which reflects a company's ability to build and sustain strong brands. Examples of companies with demonstrated competency in this area include Harley-Davidson, Nike, Nestlé, and Unilever.

Note that the above core competencies are not mutually exclusive; achieving excellence in one area does not prevent the company from excelling in another. To stay competitive, a company must develop competencies in multiple areas. For example, the success of Amazon.com stems from building core competencies in all of the above domains—from business model development to brand building.

The concept of core competencies is related to that of strategic assets (discussed in more detail in Chapter 4). Thus, while core competencies reflect the company's expertise in specific functional areas and result from a focused utilization of strategic assets, a company's assets often stem from its competencies. For example, competency in database software development is likely to enhance competency-specific assets such as business infrastructure, collaborator network, human capital, and intellectual property.

## SUMMARY

The constantly evolving nature of the competitive landscape calls for developing dynamic strategies to manage a company's market position. There are three basic strategies to gain market position: stealing share from competitors serving this market (steal-share strategy), growing the market by attracting new customers to the category (market-growth strategy), and creating new markets (market-innovation strategy).

Gaining market position often involves pioneering new markets. The key benefits of market pioneering include the opportunity to shape customer preferences, create switching costs, preempt scarce resources, create technological barriers to entry, and reap learning curve benefits. The key drawbacks of being a pioneer include free riding by competitors, incumbent inertia, and uncertainty associated with the offering's technology and with customer demand.

Because business success inevitably attracts competition, a company needs to develop strategies to defend its market position. There are three basic ways in which a company can react to a competitor's actions: by not taking an action, by repositioning its existing offerings (increasing benefits, decreasing costs, and moving upscale or downscale), and by adding a new offering to its product line.

To gain and defend market position, a firm needs to develop core competencies that will give it a competitive advantage over the competition. Core competencies involve expertise in one or more of six key areas essential to the company's business model: business innovation, operations management, technology development, product development, service management, and brand building.

## RELEVANT CONCEPTS

**Blue Ocean Strategy**: Term coined by Chan Kim and Renée Mauborgne suggesting that instead of competing in overcrowded existing markets (red oceans), a company should focus its efforts on uncovering new, uncontested markets (blue oceans). Consistent with the concept of product life cycle, the Blue Ocean Strategy argues that mature markets are red oceans that should be avoided and priority given to the search for the blue oceans—new markets that a company can shape and in which it can be the dominant player. According to this strategy, technological innovation is most often not the key driver in discovering uncontested markets; instead, it is the company's ability to find an innovative way of creating value for target customers that determines its success in discovering blue oceans.

**Strategic Group:** Competitors that target the same customers and follow similar strategies to serve the needs of these customers. Competitors in the same strategic group often have similar products and services, similar branding strategies, similar pricing and incentive strategies, similar communication campaigns, and similar distribution channels. As a result, competition among companies within the same strategic group tends to be more intense than competition among companies from different strategic groups.

## RELEVANT FRAMEWORKS: PRODUCT–MARKET GROWTH FRAMEWORK

The product–market growth framework (also referred to as the Ansoff matrix) offers a practical approach to evaluating market opportunities by linking customer segments to product development opportunities.[2] This framework is often presented as a $2 \times 2$ matrix in which one of the factors is the type of offering (current vs. new) and the other factor is the type of customers (current vs. new). The resulting four product–market strategies are commonly referred to as market penetration, market development, product development, and diversification (Figure 6).

**Figure 6. Product–Market Growth Matrix**

| | Current customers | New customers |
|---|---|---|
| Current products | Market penetration | Market development |
| New products | Product development | Diversification |

- *Market-penetration* strategies aim to increase sales of an existing offering to a company's current customers. A common market-penetration strategy involves increasing usage rate. To illustrate, airlines stimulate demand from current customers by adopting frequent-flyer programs, cereal manufacturers enclose repurchase coupons in their offerings, and orange-juice producers promote drinking orange juice throughout the day rather than only for breakfast.
- *Market-development* strategies aim to grow sales by promoting an existing offering to new customers. Popular market-development strategies include price promotions (e.g., price reductions, coupons, and rebates), new distribution channels, and communication strategies focused on new customer segment(s).

- *Product-development* strategies endeavor to grow sales by developing new (to the company) offerings for existing customers. The two most common product-development strategies include developing entirely new offerings or extending the current product line by modifying existing offerings.
- *Diversification strategies* aim to grow sales by introducing new offerings to new customers. Because both the offering and the customers are new to the company, this strategy tends to be riskier than the other product-market strategies. The primary rationale for diversification is to take advantage of growth opportunities in areas in which the company has no presence.

The four strategies identified above are not mutually exclusive: A company can pursue multiple sales-growth strategies. However, the company needs to prioritize these strategies and focus on those that will enable it to achieve its strategic goals.

## RELEVANT FRAMEWORKS: SWOT

The SWOT framework is a relatively simple, extremely flexible, and intuitive approach for evaluating a company's overall business condition. As implied by its name, the SWOT framework entails analyzing four key factors: the company's *strengths* and *weaknesses*, and the *opportunities* and *threats* presented to the company by the environment in which it operates. These four factors are typically organized in a 2 × 2 matrix based on whether they are internal or external to the company, and whether they are favorable or unfavorable from the company's standpoint. Analysis of the internal factors (strengths and weaknesses) focuses on the company, whereas analysis of the external factors (opportunities and threats) focuses on the market in which the company operates (Figure 7).

**Figure 7. The SWOT Framework**

| | Favorable factors | Unfavorable factors | |
|---|---|---|---|
| Internal factors | Strengths | Weaknesses | Company analysis |
| External factors | Opportunities | Threats | Market analysis |

To illustrate, factors such as loyal customers, strong brand name(s), strategically important patents and trademarks, know-how, experienced personnel, and access to scarce resources are typically classified as strengths, whereas factors such as disloyal customers, diluted brand name(s), and lack of technological expertise are classified as weaknesses. Similarly, factors such as emergence of a new, underserved customer segment and a favorable economic environment are typically classified as opportunities, whereas a new competitive entry into the category, increased product commoditization, and increased buyer and supplier power are classified as threats.

## ADDITIONAL READINGS

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## NOTES

[1] Adapted from Hoch, Stephen J. (1996), "How Should National Brands Think about Private Labels?" *Sloan Management Review*, 37 (2), 89-102.

[2] Ansoff, H. Igor (1979), *Strategic Management*. New York, NY: John Wiley & Sons.