Module

Business Growth Strategy

Strategy Team

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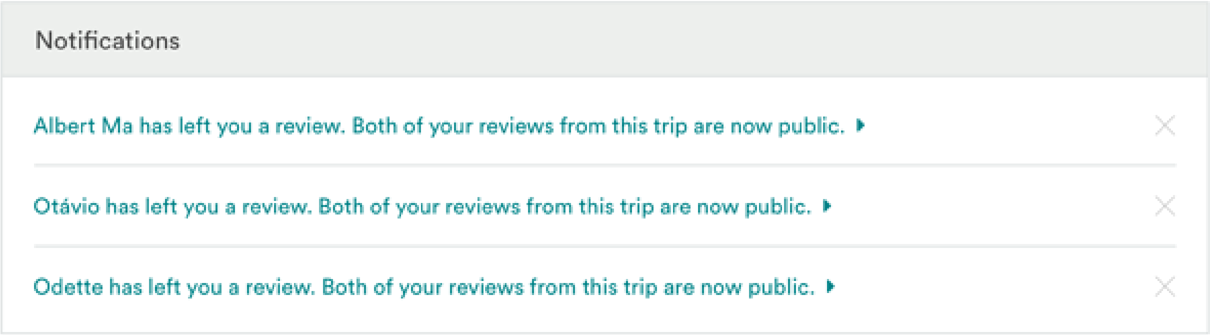
Introduction

Airbnb's founding backstory is one of the most well-known examples of growth hacking. Founders Brian Chesky and Joe Gebbia noticed that their target audience was already using Craigslist, so they created their own integration that allows hosts to submit their advertising to both Airbnb and Craigslist at the same time.

However, it is their review system that has allowed Airbnb to continue growing after this short-term method has worn out its usefulness. The Airbnb platform is enhanced by reviews. Guests visit a host profile at least once before booking a trip for 50% of bookings, and hosts with more than 10 reviews are 10X more likely to earn bookings. Airbnb's rapid expansion exploited their network effect by making reviewing remarkably easy.

They made the evaluation process double-blind, so input won't be available until both the traveller and the host have completed the form. This not only ensures more honest reviews, but also eliminates a major source of friction in the review process.



They also enabled private feedback and shortened the review period to 14 days, making reviewing more spontaneous and authentic.
Airbnb increased the quantity of reviews on the site and, as a result, its authority by making reviews easier and more honest. By identifying challenges to trust and easing out areas of friction along the road, one can increase and hack one's shareability.

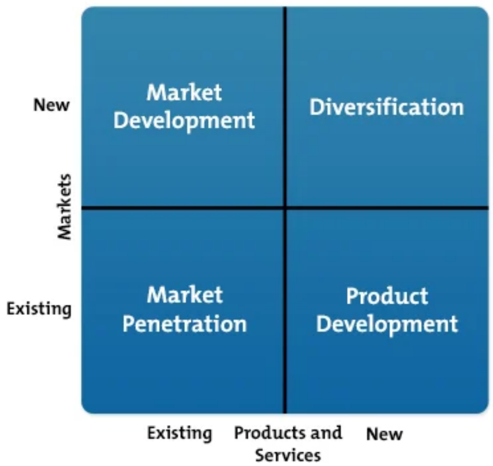
What is a Growth Strategy?

The most commonly employed corporate strategy is growth. It means increased sales, assets, and net profits, as well as the opportunity to use the experience curve to reduce the per unit cost of products supplied, hence increasing profits.

Not every growth strategy is suitable for every company. The key to determining the best growth strategy is to appropriately match it to your company and its specific marketplace

Types of Growth Strategy

Growth plans have been critical to the company's expansion, development, stability, and, ultimately, success. These big plans have enabled firms to expand market share, establish new markets, and create new products and services.Business strategists can employ a variety of growth methods, but four of them are the outcome of product or market changes, or combined product and market changes. These tactics are depicted in the diagram below:



Other growth techniques, in addition to the four depicted in the graphic above, include joint ventures, concentric diversification, conglomerate diversification, horizontal and vertical integrations, and mergers and acquisitions. The role of each of the growth strategies has been outlined in general terms with vivid examples below.

Market Penetration (Existing Products/Existing Markets)

Businesses that find themselves in a scenario where there are no new markets or products to enter are compelled to grow through a market penetration strategy, which is aimed to give the business a larger percentage of market shares. This approach typically aims to acquire a competitive advantage through pricing, marketing, or other measures.Additionally, increasing client usage through loyalty programmes and incentives aimed towards your existing client base might help you gain market penetration. When a firm enters/penetrates a market with current products, this is referred to as market penetration. The greatest method to accomplish this is to acquire clients from competitors.Other methods include acquiring non-users of your product or persuading current clients to utilise more of it (by advertising etc).

Tigo Telecommunication Company market penetration strategy

To understand more about this strategy lets take Tigo Telecommunication Company. The company evolved from Mobitel through Buzz to Tigo, when it was Mobitel and Buzz there was no any significant performance noted and actually had not seriously applied the growth strategies. Then Buzz was changed to Tigo and the Tigo management decided to use market penetration as their growth strategy. They targeted on providing the same service in an existing market. At this time Tigo had about 4% market share. Then they acutely lowered the price and subjected their service to high promotion, this strategy enabled Tigo to penetrate the market by raising their market share to 25% which is equivalent to 19.6 million mobile subscribers in Tanzania currently. Through this strategy the company has managed to attract people who were non users of the mobile communication to join Tigo and also has attracted some customers who were customers of competitor companies to join Tigo. Nowadays Tigo Telecommunication Company is Tanzania's fastest-growing mobile network operator.

Market Development (Existing Products/New Market)

A more usual method is for a company to try to build a new market for their present products and services. The new market could be geographical (for example, foreign export) or a previously unexplored niche of a domestic market. It is even possible to create a new market for current products by modifying their packaging or increasing their distribution channels.In any case, a market development growth plan necessitates a working understanding of existing markets as well as the capacity to discover market gaps that can be exploited to the benefit of the organisation. If the company's marketing capabilities are inadequate, it will require the support of a skilled marketing professional to accomplish growth in the new market.

Mzumbe University market development strategy

To understand this strategy thoroughly, Mzumbe University should be taken into account. Mzumbe University provides both undergraduate and postgraduate studies. Previously Mzumbe provided only full time Masters Programs, its market was only the graduates who wanted to study Masters full time without other binding activities such as jobs, business etc. but then Mzumbe University decided to add new market for its existing product, they established MBA Executive program which targeted a new market of people who wanted to study Masters while at the same time doing other non academic activities.

Product Development (New Products/Existing Market)

A product development-based growth plan is the inverse of a market development approach. Instead of breaking into a new market with existing products, the company tries to launch a new product in a market with which it is already familiar.Many business owners are more at ease working in this type of environment because they are already aware of the current market dynamics. A product development strategy, on the other hand, can be just as difficult as a market development plan because it frequently necessitates the development of new skills and the ongoing adaptation of goods until they attain market success.

Pepsi Cola Company Product development strategy

Take an example of Pepsi Cola Company which is one of the largest beverage producers in the world. The company has employed different growth strategies since its existence, however one of the strategies the company has put into application recently is product development. Pepsi has changed its product strategy by creating new products to follow the industry movement away from mass branding. This new movement was designed to attract a younger, hipper customer segment. Pepsi’s new products include a version of Mountain Dew, called Code Red and new Pepsi brands called Pepsi Twist and Pepsi blue.

Diversification (New Products/New Market)

Businesses diversify for a variety of reasons. It's a survival technique in some circumstances. For example, if the majority of the company's sales occur during a specific period of year, it makes sense to consider diversity. One can ensure a consistent revenue stream from January to December by expanding the company's product or service offering.However, there are numerous more compelling reasons to diversify, not the least of which is that by broadening the company's product or service offering, it can either sell more products to existing consumers or enter new markets. This can significantly boost a company's growth potential.And probably the most important reason for doing so is to expand a brand's reputation into new areas, growing the firm beyond one's wildest dreams.

General Electric Company Diversification strategy

General Electric, the fourth most innovative company in the world is one of the vibrant strong companies in the world which primarily was a manufacturer of electric parts. Then in order to expand and grow their business the company moved into financing and financial services, which in 2005 accounted for about 45% of the company's net earnings. General Electric also owns a majority share of NBC Universal, which owns the NBC television network and several cable networks .

Diversification can put a company on the fast track to growth but if the strategy fails it can also burn up money.

Mergers and Acquisition

"Miss Smith, try and find out who we're working for today."

In the business world, a merger or acquisition is the combining of two or more companies into one new company or organisation.

The primary distinction between a merger and an acquisition is the manner in which the two firms are combined.Prior to the merger, there is generally a period of discussion between the two companies.

Assume that Companies A and B are already established banking companies. Company A is a high-street bank with a sizable commercial client. Company B is a building society or similar organisation that specialises in domestic housing loans.Both companies may believe that a merger would be advantageous because it would make the merged company's commercial and domestic consumer bases available.

There will undoubtedly be some challenges and obstacles, but there are also some clear potential synergies. For example, firm B may be able to use its home loan experience to provide better deals to company A's future and present mortgage customers. The two corporations may decide to merge.If these results are favourable, the two companies will merge to form a new larger whole. The negotiation process does

not always take place during an acquisition. In a merger, company A acquires firm B. Company A acquires complete ownership of Company B.
Company B could be completely absorbed and no longer exist as a separate business, or business A might keep company B in its pre-acquisition form. This limited absorption is frequently used when company A intends to sell off firm B at a profit at a later date. In acquisitions, the dominant corporation is known as the acquirer, while the less powerful company is known as the acquired.The lesser firm is frequently referred to as the target until it is acquired.

In most circumstances, the acquirer purchases the target's stock. The acquirer purchases shares from the target's shareholders until it becomes the only owner. Obtaining ownership may necessitate the purchase of all or a majority of the target shares. Different countries' laws and regulations govern what constitutes target ownership.

So what drives a company to make a merger or acquisition?

- A need for specialised knowledge and/or resources. A company may seek to merge with or purchase another company in order to acquire a specific expertise or resource owned by the other company.
- Stock exchanges on a national and international scale. Share price fluctuations can be major motivators for mergers and acquisitions. A stock market boom tends to increase the appeal of acquisition activity because it becomes easier to use the acquirer's shares as the basis for the transaction rather than cash.
- Drivers of diversification As a means of balancing the risk profile of its portfolio, a corporation may wish to diversify into new regions or sectors. There has recently been a clear shift away from diversification as a risk-management technique.
- Reduced capacity. The overall production in a specific sector may surpass or be close to demand, resulting in a low product value. In some situations, a corporation may wish to combine with or purchase a competitor in order to gain a greater degree of influence over overall sector output. If company A buys out firm B, business A gains greater influence over overall sector output.
- A desire to expand into a new market or consumer base. A merger or acquisition can often provide a quick path to both new and established markets. When a huge high-street bank merges with another, each bank acquires the other bank's customer base.

Types of Mergers and Acquisition

Vertical Integration

Mergers and acquisitions are frequently utilised to achieve vertical integration. Vertical integration, in its most basic form, is the process through which manufacturers merge with suppliers or merchants. Major manufacturers get their goods and raw materials from a variety of different suppliers. Vertical integration is essentially an attempt to mitigate supplier risk.

Forward integration refers to vertical integration that runs towards the customer base, whereas backward integration refers to vertical integration that runs towards the supplier base.

Apple: The King of Vertical Integration

Apple Inc. is well-known for having mastered the art of vertical integration. The firm creates its own A-series semiconductors for iPhones and iPads. It also produces its own proprietary touch ID fingerprint sensor. In 2015, Apple established a laboratory in Taiwan for the development of LCD and OLED panel technology. In addition, it spent $18.2 million for a 70,000-square-foot manufacturing site in North San Jose in 2015. These investments (i.e., mergers) enable Apple to move along the supply chain in a backward integration, giving it flexibility and freedom in its manufacturing capabilities

Horizontal Integration

Horizontal integration can also be accomplished through mergers and acquisitions. Horizontal integration occurs when two organisations that produce or provide essentially the same product or service merge in order to increase their combined value. Horizontal integration has been increasingly common in the global oil production sector in recent years.

Facebook + Instagram = Horizontal Merger

When Facebook paid $1 billion for Instagram in 2012, it was trying to increase its dominance in the social-media and social-sharing arena. Facebook and Instagram were both in the same industry and had similar positions in terms of their photo-sharing services. Facebook clearly saw Instagram as a way to enhance its market share and product line,reduce competition, and access new markets.

Conglomeration

Conglomeration mergers occur when merging companies continue to operate in various industries and areas. Conglomeration can be an effective strategy for distributing corporate risk over multiple areas.However, when conglomerates grow and develop, they risk becoming disorganised because their senior management team may be unfamiliar with the new products, services, and markets offered as unrelated companies are purchased. In effect, the risks rise rather than fall.

Walt Disney Company & American Broadcasting Company merger

This is frequently mentioned as an example of a conglomerate merger. Disney purchased ABC in 1995, acquiring access to ABC's national television network as well as ESPN's enormous sports coverage. Because Disney already owned various cable networks at the time of the merger, this would be a mixed conglomerate merger because it provided Disney with numerous new distribution and content choices.

Some Scenario Of Failures of M&A

- An inability to reach an agreement on terms. In the same instances, the proposed merger may never be implemented because the two firms' senior executives are unable to agree on merger terms. Because of the costs and time squandered, the merger must be classed as a failure in such instances.
- Overestimation of the target's genuine worth. Acquirers frequently pay more for a target than it is worth. In the medium term, this could result from premerger target share price increases, as previously discussed.
- Implementation and integration processes have flaws. Poor implementation is commonly mentioned in the literature as a main cause of failure. Inadequate planning and control are the most typical causes of poor implementation.
- A weak central core in the target- Targets may be unfocused, or there may be issues with the company's central or core aspects. In such instances, the acquisition may turn out to be less useful than expected.

Growth Through Entry

Entry and Rivalry

The growth strategy we'll discuss now is through Entry.

When we think about growth through entry, two things come to our mind

- Firstly offering new products and services to existing markets where you compete. For example, automobile companies, releasing new model versions of their cars every four or five years.
- Secondly, offering existing products and services into markets new to the organisation. This could be new customer segments, new geographic markets, going overseas, opening up international facilities or establishments.

Also, when we think about entry, it's really important to think about this notion of rivalry.

The rivalry is crucial to our knowledge business strategy in general. We can refer to rivalry as the effect of competing firms' actions on each others' competitive positions. A firm that anticipates and addresses the moves and countermoves of its competitors will likely perform better.

But the question is, why is rivalry important.

- The rivalry has the potential to drive down margins. One could imagine price competition, as two firms compete to gain a foothold in a market. It could also mean that costs rise.
- Institutions might end up investing more and more in an attempt to out-compete their rivals. Ultimately, this can be very important because it could selectively eliminate some of the competitors within the industry.
- Not everybody who enters a new market segment is going to be successful. So understanding how rivalry impacts those competitive dynamics are essential for growth through entry.

Let us take an example, Airbus and Boeing, two of the prominent commercial aircraft industry leaders. Back in the late 1980s, early 1990s, both Airbus and Boeing began to explore the possibilities of producing a jumbo-jumbo airliner. Both of the companies started to explore the market potential for such a jumbo-jumbo airliner. It was then clear that the market could support only one of these planes. So for five years, the two corporations have competed for the position to offer such a plane. Ultimately, Boeing decided not to offer a jumbo-jumbo airliner, and Airbus went ahead with what finally became the Airbus A380.

Now, what's interesting about this story is that there was a game being played. There was rivalry, and ultimately, only one was able to enter the market. And, maybe somewhat ironically, Airbus has not turned a profit with the A380. So in some ways, Boeing, maybe by pulling out of that, maybe have done better. And in fact, they put a lot of their effort into what's called their Dreamliner aeroplane, which may have been more profitable than the Airbus's jumbo-jumbo A380.

Rivalry among companies has been common throughout history, and their ultimate goal is to get in a dominant position compared to others and offer products to a larger market segment. Some of the famous rivalries include Coca-Cola vs Pepsi, McDonald's vs Burger King, Nike vs Reebok, etc

We have a number of tools at our disposal for gaining insight into rivalry:

- Porter's five forces analysis. One of the five forces in fact is rivalry. Five forces analysis help us predict the overall intensity of rivalry as a result of structural factors.
- Competitor analysis is a classic strategic analysis that allows us to dive deep into our various competitors, identify who they are, and think about their capabilities. By knowing this and understanding a little bit about our competitors, we might begin to be able to predict their likely action and reactions to other actions based on their characteristic and past behaviour.
- Game-theoretic analysis. And what game theory allows us to do is to begin predicting competitors' likely actions and reactions based first on the options they have available to them and the associated future payoffs.

Using Game Theory to Understand Rivalry

By definition, the Game theory is the analysis of conflict and cooperation among intelligent and rational decision-makers. The game theory really grew out of a study of mathematics and operations research but was appropriated by economists to use in these types of competitive situations that we're interested in.
They are useful in analysing competitive exchanges especially in situations where:

- There are a limited number of competitors and alternatives.
- We know the objectives and payoffs associated with the game being played. They could be probabilistic, there could be uncertainty but we have some expectations to which the firms will be reacting.

We can now think of different types of game situations

- Single-Period simultaneous-move games, think of the Airbus and Boeing example we took, it is an essence of single period simultaneous game, you can also think of mergers and acquisitions, or maybe large investments like setting up new facilities, or manufacturing plants, these all are single period games and have a simultaneous move associated with them because if everyone does so profitability decreases.
- Multi-Period repeated games, ones that have a simultaneity to them when they're played, but then they are repeated over and over again. Think about the auto industry where you have new generations of cars coming out. In the game player industry, we have about a four or five-year cycle in which the big players, Sony and Microsoft, introduce new gaming systems.
- Multi-Period Sequential games, where various competitors' moves could come at any time, and we have kind of the give and take. One takes a move, then another takes a move and so on. For example, think about Apple and Samsung and their smartphone business. One will make a new announcement for a new set of products, the other one might wait a few months and they'll make a new announcement. And this goes back and forth, going forward into the future there.

Game theory is the idea of look forward and reasons backwards. By looking at the potential payoffs, the potential strategic moves of different actors, and then reasoning backwards, we can forecast or predict how a competitive game is likely to play out.

Game 1

Here we have an entry game. We have two firms deciding whether to enter a market or not, like our Boeing versus Airbus example earlier. Here we have a payoff matrix that helps in mapping out the various payoffs associated with various strategic moves by a number of competitors here.

So the interesting dilemma in this particular case is that, while one would like to enter while the other one doesn't if they both enter, you get the worst outcome here, where they both lose $50.

But what happens if one enters and one doesn't? Well, there we see that the one who doesn't enter still loose $30, that they incurred from exploring entering the market, but the one who does enter into the market can do quite well.

However, like our Boeing and Airbus case here, if they both enter the market, they're actually going to lose money, and lose more money than they've invested so far because the market just simply can't support two entrants without driving prices down and eliminating margins. But if it was a true simultaneous game where they didn't know what the other was going to do, one could see the risk of going to the enter-enter scenario and losing money.

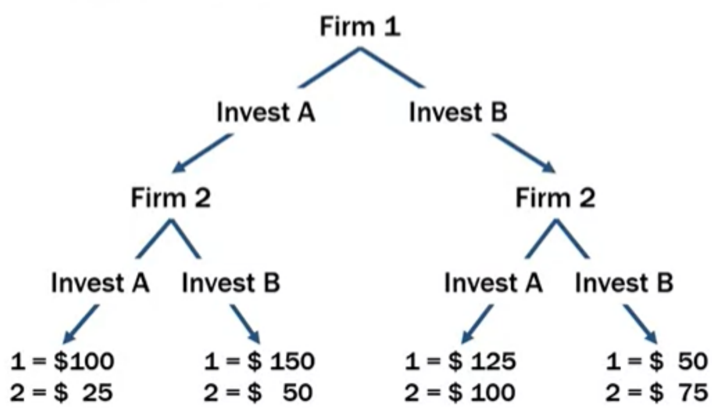
Game 2

Consider another game. Here we have an investment game where you have two firms making a capital investment, let's say build a new factory in one location versus another. Now unlike the previous game, this is an asymmetric game. In the symmetric game the payoffs to one firm versus the other are equivalent. In an asymmetric game, they might be different. We could imagine they have different capabilities and different resources that could cause a difference in the payoffs associated with the strategic action.

Firm 2 \ Firm 1	Invest A	Invest B
Invest A	1 = $100 2 = $25	1 = $125 2 = $100
Invest B	1 = $150 2 = $50	1 = $50 2 = $75

So in our case, if both firms choose to invest A, Firm 1 will actually do better than Firm 2, $100 versus $25. On the flip side, if they both invest B, Firm 2 will do better than Firm 1, $75 versus $50 here. What's interesting about this scenario is there's a strongly preferred outcome for both firms they should be doing different things, However, it's not clear which one will result.

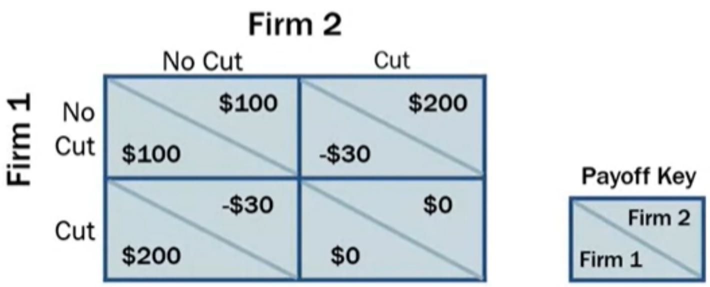
This gives rise to a sequential game, suppose Firm 1 has the advantage by making the first move the sequential game looks like the decision tree given below



So by taking our simultaneous game and making it a sequential game, we can make a prediction here that if Firm 1 has the option to move first, Firm 1 will invest A and Firm 2 will invest B, and we have expected payoffs here of $150 and $50 respectively

Using Game Theory to Understand Cooperation

Consider two firms competing on price. They're debating whether to engage in a price-cutting or not. Now if they engage in a price cut, there's a chance they can gain greater market share and do quite well for themselves. So here we have a payoff matrix between the two firms where the decision is very simple to either cut prices or not cut prices.



If they both decide not to cut prices, they'll actually do very well and make $100 within the market for some foreseeable time period. However, there's an incentive to cut your prices while the other does not. The idea is that if I cut my prices, I'll increase demand. Even though the prices are lower, I'll engage more sales and thus can earn more profit because others are not priced competitively within the marketplace
However, if both engage in a price cut, we end up getting $0 for both players.

So consider the following. Firm 1 says if Firm 2 cuts their prices, I actually prefer to cut mine because I'd rather get $0 than the negative 30 I would get in that situation. And then similarly, if Firm 2 decides not to cut its prices, I would also prefer to cut my prices because $200 is better than $100. So in essence we have a dominant strategy by Firm 1 to cut their prices regardless of what Firm 2 does. Now it's asymmetric game, using the same logic for Firm 2, they'll also cut their prices.

In the real world, these types of scenarios can be avoided. There's lots of experiential evidence that firms and industries and people can support cooperative outcomes, However, it often takes communication and commitment to be able to sustain the cooperative outcome. But how do you actually signal that's truly your intent, and that you're truly committed to that course of action?

Signalling

- It is the selective communication of information to others, either to your rivals or to others that care about what you're doing.
- It can be providing information to encourage coordination and restraint amongst the various players within the industry. It might be through some announcement or some action that you take. This helps in avoiding may be a price war and keep the prices up.
- The selective release of information to influence competitors. An incident that happened in the 1980s with DuPont and the production of CFCs. CFCs are an agent that is used for cleaning electronics and is also used as a refrigerant. Unfortunately, there was a government effort to try to ban CFCs due to ozone hole concerns. What's interesting is they argued with the policies and signalled other players in the industry that they were going to fight for the preservation of CFCs but there were also investing in other alternatives and kept this information private and ultimately changed course once they had a viable alternative and became dominant in the market.

Commitment

- The commitment idea is that you need to have some irreversible elimination of strategic options to make any threat credible here. This can be shown by large specialised investments and maybe foregoing short-term opportunities.
- A recent example, especially around the idea of forgoing short-term opportunities, what we call lock-out, was with Netflix and their attempt to move into online streaming and to get rid of their legacy business, which was using the mail to deliver DVDs to various customers.
- Now what's interesting about that story is there was such a consumer backlash about getting rid of the old line business, they backed off those plans and decided to continue to go forward with both businesses. At the end of the day, they significantly showed their commitment to online and therefore were able to gain customers and support and continued to do quite well in that space.

Identifying Potential Rivals

You might observe many existing competitors in the industry you might want to enter, and they're going to be important once to analyze. But it's also important to analyze potential rivals who could also enter into a market that you're looking to occupy.

- Be aware of what we might call outside firms, especially when they have economic motivations to move into your segment. Honda motor company is one of the best in the world at making small engines. They've entered into a number of different segments that utilize small engines. For example, you're considering moving into the drone market here. And when you think about potential rivals, maybe Honda is a potential entrant into that market to leverage their small engine technology.
- Another thing to consider is whether the value chain between you and another firm overlaps. Because what might happen here is that firms might try to leverage those capabilities they have and economies of scale they might create by being in multiple market segments that share a value chain. Here, we might want to think about Walmart's move into grocery sales. So if you are a grocery store business, it would probably have been useful for you to recognize that Walmart’s many of the same logistical advantages in their general business would also translate into groceries and allow them to enter that market successfully.
- Firms that are in the same vertical industry chain here. This means firms who might vertically integrate into your market who are upstream from you. A classic example of this was Sony's entry into the game player market. Prior to their entry with the PlayStation, they were actually a supplier to the industry. They had worked very closely with Nintendo in developing the underlying chip technology that formed the basis for Nintendo's machines. Finally, they realised that they could move into this market themselves and have their own brand and product that became the Sony Playstation which ultimately dominated the market for a couple of generations.

Another thing you can look for is the actual strategic trajectories of firms. Things that other firms might be doing that signal their intent of getting into your industry.

- Taking a minority ownership stake in an existing rival with you in your industry.
- Maybe they were a recent entrant into a related industry.
- And then maybe entry into the same industry but in other geographic markets.

Pre-entry Strategies

Pre-entry strategies are the strategies that could be used before entry occurs.

Deterrence Strategies

These strategies are ones in which you might increase the cost and risk of entry of your rivals. There's numerous ways that you can do this.

- One would be to erect structural barriers. Many cab companies have been trying to do this with respect to Uber to try to prevent Uber from entering into various geographic markets. This can be done through licenses, regulation. In the cab industry case, it's the use of medallions or a licensing system for cabs.
- You could also try to reduce the quality of information on costs and demand. That means existing competitors, making it unclear what the profitability is within a segment. It could also be ways of hiding what your underlying capabilities are, as a way to deter rivals from entering.
- And finally, you could think about retaliation strategies, ways in which a firm might have a reputation of having aggressive actions that they would take as a way to deter others from trying to compete directly with them.
- You also want to think about ways just simply to reduce the incentive to enter here. One way to do this is to raise factor costs. Basically raise the cost of production necessary to compete in a market. When you look at something like the beer industry, one of the arguments for why there's so much advertising is not because it's informative, but it actually creates such a barrier to entry from other rivals trying to get into that market.
- There's also this idea of limit pricing, which means holding prices low as a deterrent to those coming in. Now, this type of strategy only works if the incumbent holds a true cost advantage has large cash reserves. Thethe like might suggest that you'll be able to outlast rivals.

Accommodation Strategies

You have to accommodate an entry if deterrence is simply too costly or impossible. So there are some ways in which you take a position that will soften competition after entry.

- Maybe you differentiate your products. Maybe you segment the market on high quality and lower quality, mass-market versus specialised market, all of that as a way to mute some of the eventual competition once additional entry occurs.
- You can also make commitments to limit your ability to compete aggressively. Things like best price clauses, where you'll meet the best prices of your rivals, could actually have an effect of keeping prices higher because the rival knows if they lower their prices, it's not gonna accomplish anything, because you'll immediately cut your prices as well.

These mechanisms can be used for those who are entering. Finally, you can organize to facilitate future coordination. Maybe form a trade association and invite in the various players within the industry to create the trust and the communication necessary to avoid the most highly rivalrous outcomes within an industry segment. So together, deterrence and accommodation are two strategies to use before entry occurs.

Post-entry Strategies

You've decided and executed on entering a market segment, now you have to establish a market share.

Fighting Strategies

The first obvious thing you could do is you could fight. You could fight for your market position. Fighting strategy can be counterproductive as it can destroy value as you compete with prices, however, there are some scenarios where a fighting strategy might make sense. Maybe it will raise your market share and it won't dissipate rents because you can make up the lost prices by increased sales. It can work when there are high network externalities.

- Again, this is the idea that the value of a good or service increases as others adopt that. They, tend to lead to what they call these winners take all dynamics in markets.
- Price-cutting can be valuable if it helps build a user base and help you come to dominate the market. If you have a cost advantage, price-cutting can work. If you have an advantage that you can basically outlast the others, that could be advantageous.

- You could find a niche position within the market here. So, you're not provoking a response if you take an aggressive price-cutting strategy.
- Think about a kind of intensive advertising. Again, not all advertising is informative and tells you about the products and the like, but some of it will help with differentiation and help prevent commoditization. It's interesting to note that in the early stages of a product, a new product class, intensive advertising might provide a public good to increase sales within the segment.

Cooperative Strategies

These are the strategies that will help structure the game, such that you now have shared incentives to try to mute some of this competition.

- One way to do this is to create a repeated gain. And by doing so, you create incentives, in which it is not paying to engage in aggressive, rivalrous behaviour. You can make commitments limiting your ability to compete aggressively into the future here.
- You can simply impose costs on your rivals for non-cooperative action. So one of the things that's been studied is these prisoners' dilemma we've discussed before. And the ability to pursue a strategy to penalize malfeasance if you take the competitive outcome versus the cooperative outcome. In particular, there's a strategy referred to as tit-for-tat. The idea is we will cooperate with you until you are aggressive in pricing at which point we will match you for a short period of time and then gradually bring prices back up.

Restructure Strategies

These strategies deal with restructuring the industry. But it could change the nature of the game in a way that is advantageous for you. So here we're thinking about broad strategic actions to initiate changes in the underlying game being played.

- You're should try to capitalize on these transition points in the industry evolution to take advantage of the new competitive environment.
- Focus on recognizing opportunities ahead of rivals, and move quickly to outperform them.
- Taking some irreversible strategic actions to preempt your rivals if you might be the first one to do so. For example, acquiring some of your competitors here may make an investment in some new, innovative technology.

Growth Through Innovation

The final growth strategy we'll discuss now is innovation.
A company's innovation strategy is a plan for encouraging technological or service breakthroughs, typically by investing in research and development efforts. In addition, companies who seek to obtain a competitive advantage over their competitors usually seek some innovation strategy to make unique products that are hard to imitate.

It's hard to find an organization today that isn't looking for ways to develop new products or services, new ways to create and deliver value. But why is innovation important?

- Innovation is important not only to business, but it's important to our broader economy. It's an innovation that helps in new developments and hence drives our economy forward.
- From an individual business standpoint, innovations are not only just an opportunity for growth, but it's also an opportunity to avoid the "creative-destruction process perhaps". Creative destruction refers to the incessant product and process innovation mechanism by which new production units replace outdated ones. This simply suggests that no strategic position is sustainable in the long run as innovation occurs.

Kodak, which revolutionised the photography industry. It enabled the availability of affordable cameras in every household. By 1968, nearly after it had captured about 80% of the global market share in the field of photography, they had enjoyed unmatched success throughout the 20th century, but in 1975 when digital cameras came into the market they simply refused to invest in new innovations in photography as their business of producing films and printing sheets had given them profits and believed digital cameras cannot replace them. They did not adapt to the changing market dynamics which, as we all know now, initiated Kodak's downfall.

But innovation is not easy. For many organisations, R&D is a large capital investment, billions can be spent annually, most of the R&D expenses are made by large established firms. Moreover, even after spending so much on R&D, there is no guarantee of whether that research could be turned into a breakthrough product that can be monetised. It's thus very difficult for the company to calculate the NPV for the investment. Now the question arises, who is more likely to innovate?

Entrepreneurs vs Large Incumbents
When we talk about entrepreneurs, our first thought is two people in their garage or in their dorm room coming up with an innovative product that could be the next big thing to revolutionise society. But there are examples where large incumbents are the ones most likely to come up with innovations. This is true for certain industrial sectors, the obvious explanation is that they have the monetary resources and expertise they can leverage to produce an innovative product.

Demand-Pull vs Technology-Push
Demand-pull is the idea in innovation where products are built to cater to an existing demand in the market. Technology-push is the idea where innovations are made with the advancement of technology, and history is littered with such examples where the technology is pushed forward before the actual need of product or service in the market.

Users vs Producers
It's the users who actually push innovation along. For example, in the pharmaceutical and surgical tools industry, surgeons are often some of the lead innovators in that sector as users of the technology. There are producers as well who drive innovations. For example, Apple's iPhone wasn't really driven by some explicit customer demand, but we realized the scope of the opportunity after its launch.

Breadth vs Depth of Expertise
At a certain depth level, having rich technological expertise is often necessary to be able to innovate. But we also know from a lot of evidence and a lot of research, that innovation often arises when you bring novel information and diverse ideas together. And as a result, sometimes having a breadth of expertise is more important than depth of expertise.

Explorers vs Exploiters
Explorers are generally the ones looking broadly for new ideas and new opportunities wherever they can contribute in innovation, versus exploiters, who are indulged in their own area of interest, own research, constantly working with their technical knowledge and applying it in a very narrow domain.

Innovation Strategies

Innovator (first-mover) strategy:

This is the idea of creating new products and services; going out, capturing some valuable market position, and then using your superior capabilities to defend that position from rivals. Sometimes, it could simply be continually innovating in a way to capture temporary economic profits that might result from a new innovation before imitators dilute profits. For example, Amazon.com was the first major online bookstore, seizing a head start on later entrants. Established book retailers Barnes & Noble and Borders were quick to develop their own websites. Amazon maintained their first-mover advantage in two ways; by partnering with Borders and continuing to extend its product offerings into apparel, electronics, toys, and housewares.

Follower (second-mover) strategy:

This idea suggests that you can avoid some of the costs and risks of being the innovator, instead you can imitate some of the already existing first movers and then leverage other complementary capabilities to out-perform rivals. For example, Southwest Airlines entered the airline industry as a late entrant but was able to expand and become the second-largest airline in the world in terms of the total number of passengers. The company focused on an area that other airlines were not looking at – short-haul flights.

So which strategy is best?

- Firstly, it depends on whether a firm has an innovative capability to begin with. Are they able to come up with these new products and services?
- Secondly, it depends on the firm's ability to appropriate the gains from innovation. This means the ability to maintain some margins after their innovation before others imitate them.

This combination of innovation and appropriability is critical when trying to execute an innovation strategy. If you can't appropriate the gains from that innovation from that initial idea, then you won’t be a true innovator within the industry.

Developing an Innovative Capability

Innovative capability is the firm's ability to develop new products and services and to manage the innovation process. It seems there is some type of linear process like generating ideas, designing, developing those ideas and then eventually commercializing them in the market.

In this type of rational plan model of innovation, we start with many different concepts, investigate and perform research on them,ande then narrow down all the origins of those concepts into one idea that eventually comes out as a product on the back end. But the actual development process is a much more chaotic and uncertain process where organisational politics and luck play a role as every mediating team has to give an idea a green flag thus only some of the ideas turn out to be viable products, whereas others might go all the way but still get thrashed at the end of the day.

What drives innovative capability in organisations?
Environment to generate and pursue novel ideas

- Encouraging free flow of information within the organization as novel ideas come from diverse sources and you never know which ones could be converted into a viable product or service.
- Having a knowledge management team that can help in organising an open house or design gatherings where employees can share their novel ideas so that everyone is made aware of all ongoing activities
- Firms should also think about incentivising their staff and employees to be bold and think about new ideas rather than being reluctant to fail as when employees have some room for error, they are more likely to experiment and eventually, innovate.

Designing an effective development process

- This includes well-defined procedures for selecting the right ideas to invest funds in research and development.
- Formation of teams within the firm to organise and ensure task completions; these teams can comprise engineers and designers working together to innovate a new product.

Assimilation of knowledge from external sources

- This tells us about the capacity of the organisation to absorb knowledge outside its boundaries. It's evident that today because of open sources, important knowledge is distributed throughout the firm and the market.
- Basic research is often done in institutions such as universities and think tanks. Firms with similar expertise can understand these outside developments to invest and collaborate for a potential new product.

Keys to Innovation

Integration of Diverse Knowledge

- Establishing effective lines of communication, perhaps having a flat organizational structure that doesn’t have a lot of hierarchy might be advantageous for being innovative.
- Creating cross-functional teams, bringing people together across units of the organization could be another way of integrating diverse knowledge.
- Senior leadership sets a vision for the organization, allowing employees to think, creating shared values, and ultimately managing the expectations around innovation.

Providing Motivation for Innovation

- Investing in R&D to promote creative search, introducing an incentivising plan to motivate the innovators
- Giving greater ownership to the managers of the innovation process, allowing them to have the flexibility and the freedom to pursue their innovations.
- Encourage risk-taking by sharing responsibility. This means that employees are involved in multiple teams, which helps in increase knowledge in multiple domains and provides security that if one project fails, that's fine, there’s still scope with other projects.

Building Absorptive Capacity

- Investing in basic or applied research and scientific capability helps you to recognize the value of new information, assimilate it, and apply it to commercial ends
- Rewarding individuals not only in terms of financial incentives but non-financial incentives too. Allowing scientists to publish in journals, sponsoring them for conferences to share their ideas can be critical for them in the scientific community.

- Thinking of ways to give away your key ideas in order to become a player in larger knowledge exchanges. Companies like IBM have taken vast parts of their patent portfolio and made them free and accessible to the public. Diversity in all its forms is a great way to increase the innovative capacity of an organization.

Organising for Innovation

Chaotic or Uni-Divisional Organisational structure

This is in essence the idea that there isn't much structure to innovation. You generate an idea, you act, this is the skunkworks idea, characterized by disorder and conflict and lots of things kind of bubbling up within the organization.

- It could be fast in some instances because there's little bureaucracy slowing down innovation. It could also be slow if you never know when the new big idea will emerge.
- For many startups, this is really the only choice because they have just a small team, they get together and figure things out. Though this leads to more creative solutions and maybe a breakthrough product.
- The downside is it's very difficult to control, and at the end of the day can be relatively inefficient and might lead to many conflicts.

Sequential or Functional Organisational Structure

Organisations generally pursue a very sequential process where initial ideas are passed on to an engineering design team, which are then passed on to manufacturing, and eventually distribution and sales, and so forth. At each of these different stages, you could have a go/no-go decision. Now, the pros of such an approach is

- As now some structure could be sequential or maybe have some iterations in some stages, managers must ensure that each step is well executed.
- This structure is helpful when there is uncertainty about the project being successful, which happens a lot in science-based organisations. If things aren't progressing, you can cut them off.
- The downside is, it might be bad for speed and responsiveness if the market is continually in flux, as a sequential process has a lot of stages and checks, it might delay your entry with innovation.

Concurrent Project Organising Structure

So as an improvement on these two types of organisational structures we can think of a concurrent design, where we actually have cross-functional teams that overlap one another. So now we have, say, a manufacturing team working with the design team here.

- This helps with learning, improving the team, and the firm coming together to discuss information as they go. There are classic examples of sequential processes in which a decision made during an early phase has huge implications downstream that weren't considered.
- This type of process, where it's concurrent and cross-functional, tends to be best for the evolving kind of incremental products, where you have products that you're constantly updating.
- It does require a big-time commitment from the team. It's very front-loaded, so it's very resource-intensive since you have everyone working together.

Overlapping Matrix Organisational Structure

Lastly, we can think of another kind of hybrid here which is an overlapping matrix structure. Here organisations still have functions, they're still developing products and services but in a stage-gate process and there is an overlap between them.

- So they don't have a “throw it over the wall" mentality; each division finishes their part and just throws it over the wall to the next division to work upon.
- This can be very motivating to the team, it limits some of the handoff problems, but once again it requires a large amount of effort to implement more management.

There seems to be a natural tendency towards the chaotic, especially if you're a smaller organization and if there are no functional areas. As you grow and become perhaps more bureaucratic, a sequential process often takes over when it comes to innovation. Overlapping and concurrent are basically two solutions that are limits of these other two approaches but recognize they require more management attention and can in some ways be more costly.

In general, the more complex the product is, the more it will cost to fix those downstream mistakes, therefore more emphasis is given on organizing a process to minimize those mistakes by addressing them earlier in the design process.

Appropriating Value from Innovations

We've discussed in quite a detail now how you might develop an innovative capability within your organization. But what’s equally important is the ability to appropriate the gains from innovation. Consider the following: you have an innovation and it creates a certain amount of value, you expect to maintain margins for a reasonable period in the market but at the end of the day, that value is shared with others like your customers, suppliers, and maybe imitators and competitors.

So, what drives a firm's ability to appropriate value?

- The first is the strength of the intellectual property regime. Your ability to protect your intellectual property. Now, this depends on a number of factors which we'll talk more about later. But, also the nature of the technology and the market itself might provide protection beyond even a patent or some other legal protection.
- The second thing we want to think about is complementary assets. These are the things necessary to exploit innovation. This could be marketing, distribution channels, or maybe a complementary technology required to advance with this innovation. Who controls these complementary assets has a very big opportunity to take value from the innovation that's created.

Intellectual Property Protection

One of the key factors for your ability to appropriate value from innovation is whether or not there's strong intellectual property protection. Is there a patent or copyright or trademark that you might get on your intellectual property? Though it's important to recognize that having a patent doesn't necessarily mean that you have strong IP protection.

For example, there are certain industries, like pharmaceuticals and drug discovery, where a patent is somewhat ironclad. It's a recipe for creating that drug and it's very obvious when someone else has appropriated your technology, basically violated your patent. But in other industry sectors like software, you can get a patent on software, however, it's harder to protect as it's easier for others to innovate around the software. And as a result, many software providers, rather than getting a patent on their technology, use trade secrets as a way to try and protect their intellectual property.

In addition to legal protection, we can think about things like first-mover advantages. So if there are substantial first-mover advantages, you can protect that intellectual property.

- One example would be learning curves. This is the idea that you go down a learning curve over time as you produce a product, perhaps lowering your cost or improving the quality from this experience of producing that product. For example, In the microprocessor industry, Intel is a company that's been continually moving down the learning curve on microprocessors. As a result, it has been able to protect their intellectual property and their position through that process.
- When you have a product or a service that maybe gets branded and creates customer loyalty, that might be sufficient to keep competitors at bay. You think about these products that end up taking on the name of the attribute they have themselves, like Xerox for the photographic copying machines.
- The last thing to think about with first-mover advantages is network externalities. This is the idea that the value of a greater service increases as others consume it. For example social media companies, the more people use a social media platform, the more valuable it becomes. Well, if you're able to lock in a user base early on, if there's a substantial first-mover advantage, that can then strongly protect your IP, even if others try to copy exactly what you do.

When is the ability to protect IP strong?

Imitation by competitors

Competitors might be trying to backward engineer what you've produced. But the question is, do you have a trade secret or do you have intellectual property that can't be backwards engineered easily? And that tends to be cases where it's more technologically or socially complex innovation as these capabilities are hard to understand and if you delay imitation by competitors, you can protect your IP and appropriate some of the value, at least in the short run.

For example, Coca-Cola's formula for their Coke is actually a trade secret. One could imagine if they patented it and it was made public once the patent's legal protection gets over anyone could have made Coca-Cola. But using a trade secret and keeping it protected prevented imitation by competitors.

Diffusion Among Customers

Sometimes you have situations where imitation is very easy. However, there is such a large, lucrative early market, it's easy to adopt these products. In other words, there's little or no switching costs or complementary investment needed, you get substantial uptake in the short run. And, though, while there may be quick imitators, you've already obtained value out of the imitation, or the innovation, that you created.

Why is IP difficult to protect?

- Legal protection can be difficult to acquire, it's expensive to go get a patent or other type of legal protection and it's hard to enforce because if someone infringes on that patent, you need a lot of resources to take them to court, to sue them, to enforce their patent.
- When it comes to secrecy, secrecy is often hard to maintain. Employees move from one company to the other. Trade secrets leak out eventually.
- The value might actually be created by a collection of advances. It's not sufficient to just have this one innovation. It actually takes a whole bundle of innovations to create value.

Complementary Assets

Complementary assets are those assets necessary to translate innovation into commercial returns. These could be things like marketing, distribution, supporting technology etc. For example hardware products requiring software products to go along with them.

So, the role of complementary assets depends on two things.

- First of all simply, how important are these complementary assets?
- And then, how tightly held are they?

How important are these complementary assets?
When we think about the importance of a complementary asset, we wanna think about dependence. We can think about it both from the perspective of innovation and from the perspective of the asset.

So let's consider something that might be high on dependence from the innovator standpoint, but low on the dependence from the asset side. Think about a company coming out with a novelty item, basically the main distribution channel is going to be a large retailer like Walmart and innovators are highly dependent on them as the distributors of their product. Now Walmart obviously has thousands of products that they're selling through their stores. So that gives them great bargaining power now with the innovator in that situation. We could imagine when the scenarios are reversed.

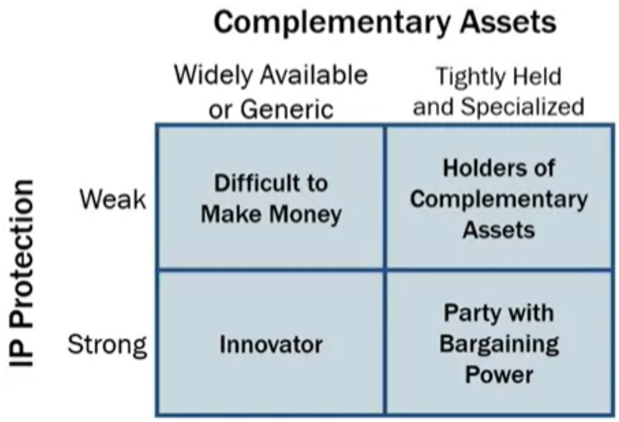
Now, if dependency is low we're really in a world of generic complementary assets, and they just simply aren't that important to our worries and concerns about appropriability. If they're both high, now we're in this kind of symbiotic world where we both need each other, and there's this bi-lateral dependence or mutual dependence between the asset holder and the innovation.

And then, how tightly held are they?
By this we mean, the asset is rare, it's not widely possessed and it's hard for someone to imitate or develop a substitute for it. This suggests there is a monopoly holder of that asset and one has to compete with them to bring their product to market which is itself a barrier to entry.

We might also think of assets that are freely available. They may be purchased on factor markets and easy to manufacture. There should be a vast network of manufactures that can build or manufacture your innovation as you will then have some bargaining power over the suppliers. Else, if your innovation requires a very specialized supplier then it becomes difficult to appropriate value from the innovation, as with only a few suppliers it’s tough to make the product readily available in the market.

Determining an Innovation Strategy

Who profits from innovation?



We talk about weak versus strong intellectual property protection, and we talk about complementary assets that are either widely available or generic or tightly held and specialized.

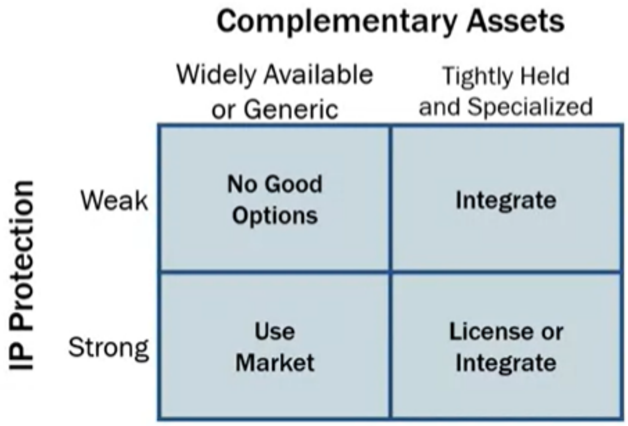
So consider the scenario we have: strong IP protection and complementary assets that are widely available or generic. This will be advantageous for the innovator. The innovator has strong IP protection and they're able to access the complementary assets that they need.

Now, we have a situation where there's weak IP protection and there's a tightly held complementary asset. Then we would expect the complementary asset holder to prevail. Once again, going to my previous example of Walmart having a dominant distribution channel and a new innovator needing to use Walmart as a distributor.

Now, suppose we're in a world where we have weak IP protection and we have widely available or generic complementary assets. In that case, this is actually a world where it's difficult to make money simply because we have a competitive market.

If we have strong IP protection and complementary assets are also tightly held then we have a strong strong situation and it really comes down to bargaining power between those with IP protection and those with complementary assets.

What do you do if you're an innovator and you lack a tightly held asset?



If you have strong intellectual property protection the assets widely available, just simply use the market here. You've got an advantage, you can go ahead and bring that product and service to market.

If you're in the weak generic quadrant, there really are no good options here because we have a competitive market and will be very hard to appropriate value in that case.

If you're in a weak position as the innovator and this tightly held or specialized asset, you might want to consider integration. You might want to consider either being acquired or acquiring the asset provider.

And if you're in the strength situation, it's important to recognize that you have the possibility of integrating together or licensing technology. An example of where you see this quite often is the pharmaceutical industry where we have biotech companies with strong IP protection in the form of patents. As a result, there's a very robust market for licensing drugs and their patents in pharmaceutical companies.