Differentiation

(Note that life-cycle material not used in Disney/Dreamworks case, will be relevant to Sky v. BSB, EMI cases.)

Hotelling Line

• Products are viewed as located on a line
• Same line represents preferences of consumers

Target Age of Audience

Customer Age

Analysis of Hotelling Line

• Will tend to split the market
• Absent price competition, advantageous to move toward center
• Political parties

Buy from Disney  Buy from Dreamworks

Disney  Dreamworks
Price Competition

• Close proximity drives prices to marginal cost
• Strong price competition makes distance more valuable
• As with Enterprise Rent-a-car, strong price competition is a deterrence to locating nearby
Equilibrium Pricing

- Pricing equalizes gains and losses
- As products become less substitutable, margins increase
- If one firm increases its price, rivals should also increase price, but by a smaller amount
- Awareness of this reaction leads to higher equilibrium pricing

Examples

- Coors beer
- Delivered rental cars
- Internet purchases
  - Books
  - Brand name electronics
  - Desktop computer
  - Diamond ring

Synergies

- Disney exploits complementaries between theme parks and films
- Makes entry more difficult
Creating Synergies

- Sony memory stick
- DeWalt battery system
- Frequent flyer miles
- BMC Software: “1+1=3”
- Compaq iPaq devices

Synergies

- Goal is to lock-in customers
- Create switching costs
  - Common peripherals, chargers, etc.
- Major role for complementary goods
- Often desirable to avoid low price offers to competitor’s customers
  - Get customers to choose a company and buy all their related products from that company

Product Life Cycle

Figure 7.5: Historical Market Penetration
Four Phases

Introduction
- Customer education and development
  - Total solution
  - Government, regulator education
  - Mom & Pops
  - Free samples
- First-mover advantages and disadvantages
  - Early brand name building
  - Learning curve
  - “Wrong” customer base
  - Obsolete technology

Growth
- High profits
- Brand name creation
- Efficient scale
- Mass market distribution starts
- Exports
- New varieties from outside industry
Maturity
- Non-durables converge upward
- Durables may crash (CB radios)
- Increasing importance of product variety
- Cost minimization
  - Plant size
  - Distribution
- Threat of “caught in the middle”
- Shakeout
- Imports

Decline
- Candy cigarettes, CFCs, lead paint
- Strategies
  - Switch to related products
  - Exit
  - Harvest
  - Consolidation
- First mover advantages in choosing strategy

Durable Goods
- Transition to Maturity
  - Non-durables (pharmaceuticals, bagels) have a “soft landing”
  - Durables (CB radio, Desktop PCs) may crash
- Over-capacity and shakeout for durables
- Exacerbated by technological improvements
- Positioning critical
Major Life Cycle Characteristics

- Customers
- Number of firms
- Profits
- Product varieties
- Distribution
- Foreign trade
- Marketing

Table 7.2: Life Cycle Characteristics

<table>
<thead>
<tr>
<th>Industry Phase</th>
<th>Introduction</th>
<th>Growth</th>
<th>Maturity</th>
<th>Decline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number Of Firms</td>
<td>Small, growing fast</td>
<td>Large</td>
<td>Shakeout, number stabilizes</td>
<td>Small, exit</td>
</tr>
<tr>
<td>Size Market</td>
<td>Small</td>
<td>Large</td>
<td>Large</td>
<td>Declining</td>
</tr>
<tr>
<td>Growth</td>
<td>Fast</td>
<td>Fast</td>
<td>Slow</td>
<td>Negative</td>
</tr>
<tr>
<td>Entry</td>
<td>Large</td>
<td>Medium</td>
<td>Low</td>
<td>Negative</td>
</tr>
<tr>
<td>Market Leader Characteristics</td>
<td>Innovator, Educator, Flexible</td>
<td>Existing Reputation</td>
<td>Marketing, Quality production, Modular</td>
<td>Reputation for quality, Low cost production and distribution, specialization</td>
</tr>
<tr>
<td>Profits</td>
<td>Negative</td>
<td>Positive, then decreasing Profit</td>
<td>High, then declining</td>
<td>Low, then negative</td>
</tr>
<tr>
<td>Product Varieties</td>
<td>Few and Growing</td>
<td>Increases, then declines to few dominant designs</td>
<td>Increasing specialization &amp; segmentation</td>
<td>Declining</td>
</tr>
<tr>
<td>Distribution</td>
<td>One-stop shopping</td>
<td>Various outlets</td>
<td>Superstores, direct sales</td>
<td>Minimum cost</td>
</tr>
<tr>
<td>Investment</td>
<td>High</td>
<td>High</td>
<td>Low</td>
<td>Negative</td>
</tr>
<tr>
<td>Average Costs</td>
<td>High, falling</td>
<td>Medium, falling</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Foreign Trade (US invention)</td>
<td>Low exports</td>
<td>Increasing exports</td>
<td>Initially exports, then imports</td>
<td>Imports</td>
</tr>
<tr>
<td>Customer Name</td>
<td>Innovator/ Early Adopter</td>
<td>Early Majority</td>
<td>Late Majority</td>
<td>Laggard</td>
</tr>
<tr>
<td>Customer Needs</td>
<td>Specialization, Features, Fit</td>
<td>Performance</td>
<td>Price/Performance</td>
<td>Low price</td>
</tr>
<tr>
<td>Customer Knowledge</td>
<td>Low</td>
<td>Medium</td>
<td>High</td>
<td>High, declining</td>
</tr>
<tr>
<td>Product Complexity</td>
<td>High</td>
<td>Product simplified</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Information collection</td>
<td>Demand, Customer awareness and satisfaction, Repeat buying</td>
<td>Marketing, relative performance, product improvement</td>
<td>Cost reduction, new markets, competitive threats</td>
<td>Capacity reduction, low sales, new features, new promotion; bitter attacks</td>
</tr>
<tr>
<td>Marketing Strategy</td>
<td>Promotion of brand and market</td>
<td>Build brand identity</td>
<td>Segment market; deal business</td>
<td></td>
</tr>
</tbody>
</table>


Figure 7.18: Maximum Building Heights

Otis Elevator

- Make or buy best technology
- Stay focused on one industry
- Commitment to be technological leader
- A century of successful innovation