Incumbent's Dilemma

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Problem

Observation:

The innovation and organizations literature has focused considerably on the question of, "why large firms fail."

In real world, there are three distinct outcomes possible:
entrants win (i.e., incumbents fail to defend their market);
entrants lose (i.e., incumbents retain or reclaim the market),
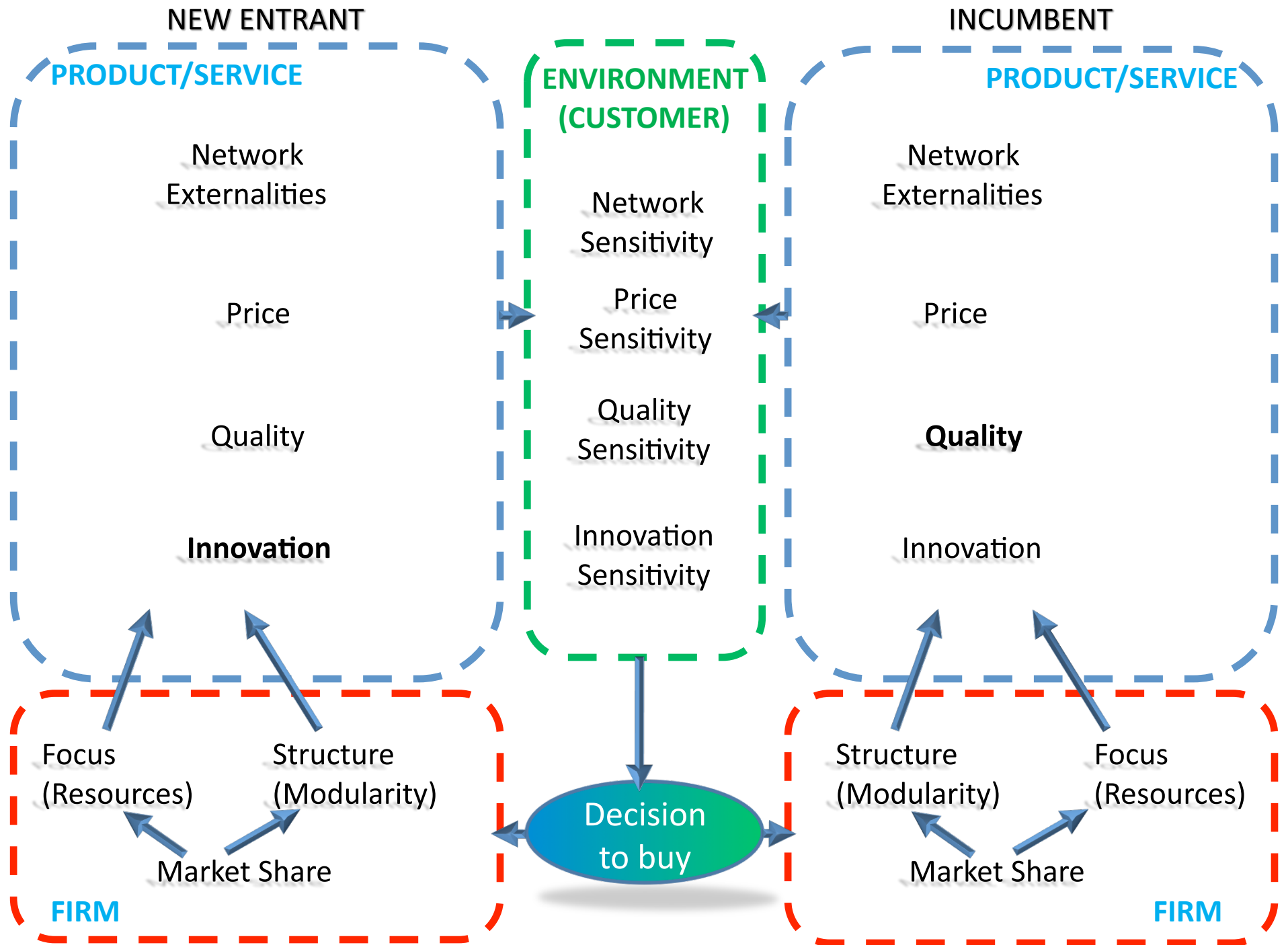both entrants and incumbents share the market.

Question:

How to understand which of the three outcomes is most likely?
(Since the answer to this question is what ought to dictate the appropriate competitive strategies.)

Intended Outcome

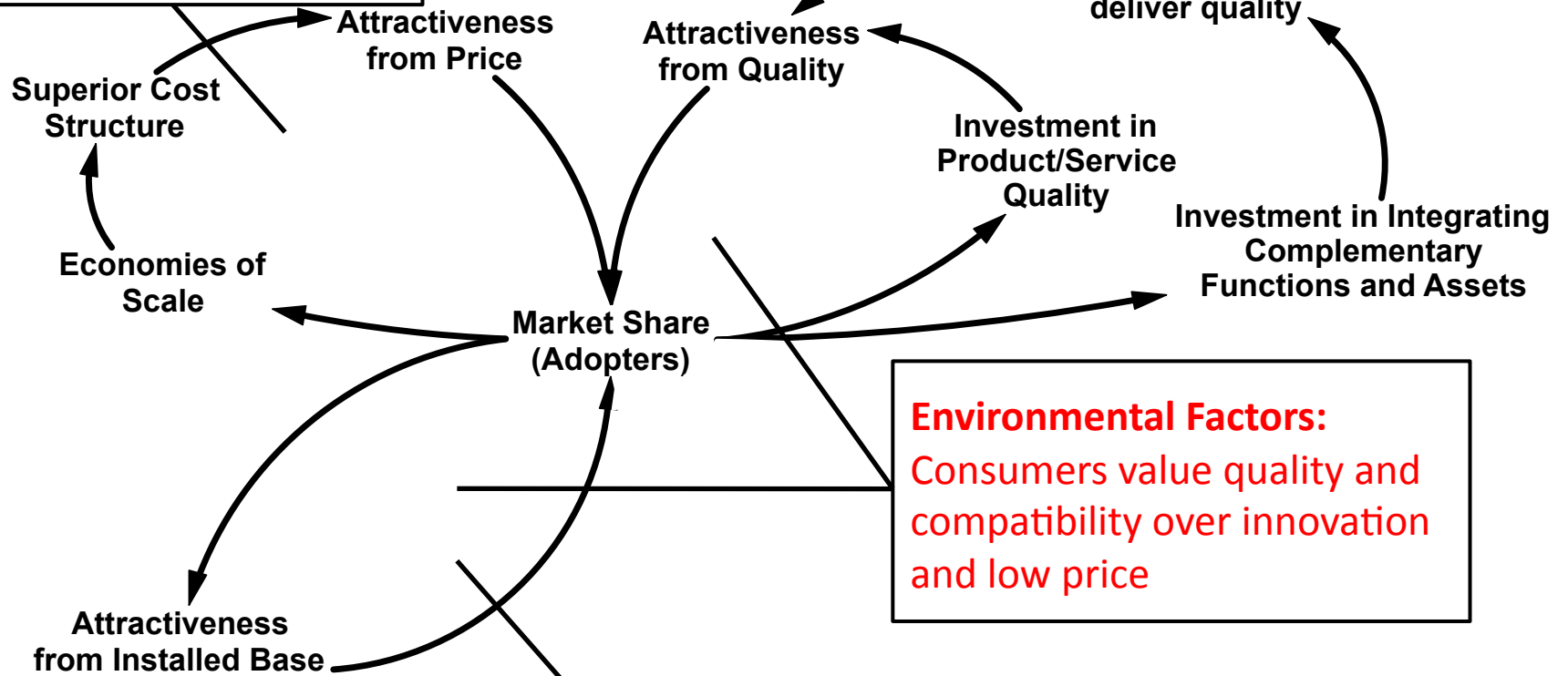|	Disruption	Co-existence	No Disruption
Firm Factors			
Product/ Service Factors			
Environ- ment Factors			

No Disruption

(positive feedbacks to incumbent market share from scale)

Example:
MS Windows for Desktop

Firm-level Factors:
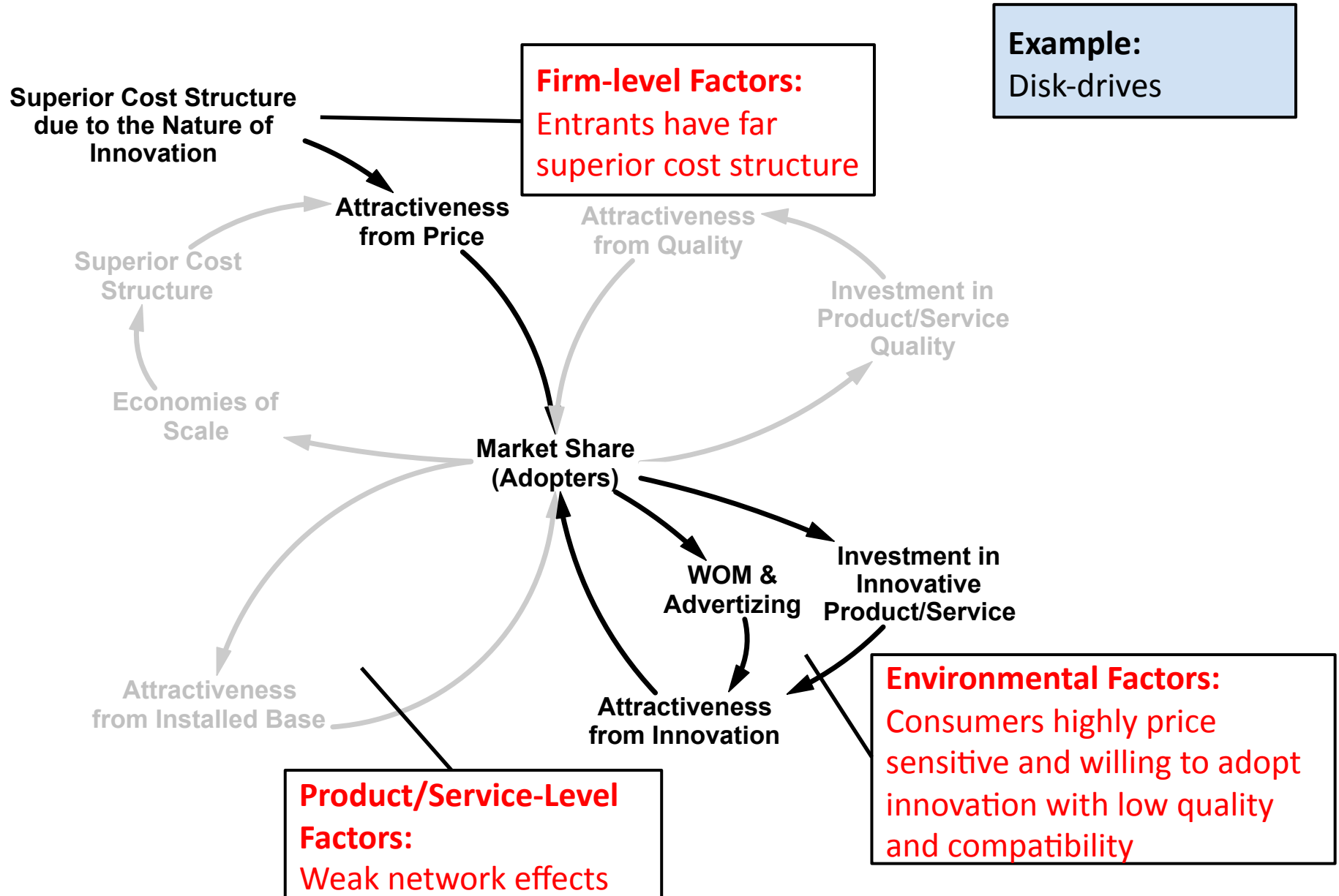Incumbents have far superior cost structure

Ability to deliver quality

Attractiveness from Price

Attractiveness from Quality

Superior Cost Structure

Investment in Product/Service Quality

Investment in Integrating Complementary Functions and Assets

Economies of Scale

Market Share (Adopters)

Environmental Factors:
Consumers value quality and compatibility over innovation and low price

Attractiveness from Installed Base

Product/Service-Level Factors:
Strong network effects

Disruption
(new entrant's market share grows from lower cost innovation)

Example:
Disk-drives

Firm-level Factors:
Entrants have far superior cost structure

Superior Cost Structure due to the Nature of Innovation

Attractiveness from Price

Attractiveness from Quality

Superior Cost Structure

Investment in Product/Service Quality

Economies of Scale

Market Share (Adopters)

WOM & Advertizing

Investment in Innovative Product/Service

Attractiveness from Installed Base

Attractiveness from Innovation

Environmental Factors:
Consumers highly price sensitive and willing to adopt innovation with low quality and compatibility

Product/Service-Level Factors:
Weak network effects

Coexistence
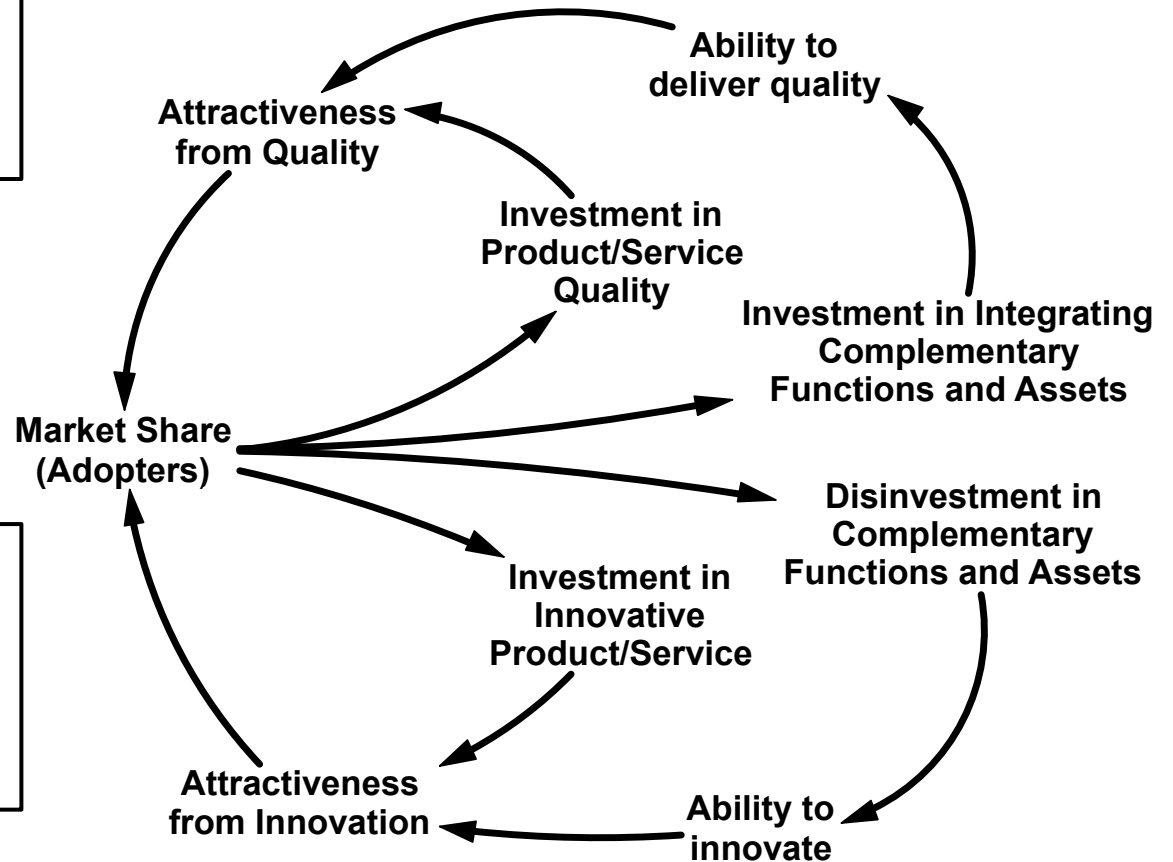## (incumbent successfully responds with rapid innovation)

Environmental Factors:
Consumers value availability over quality/innovation, or are willing to tradeoff quality and innovation

Product/Service-Level Factors:
No Network Effect
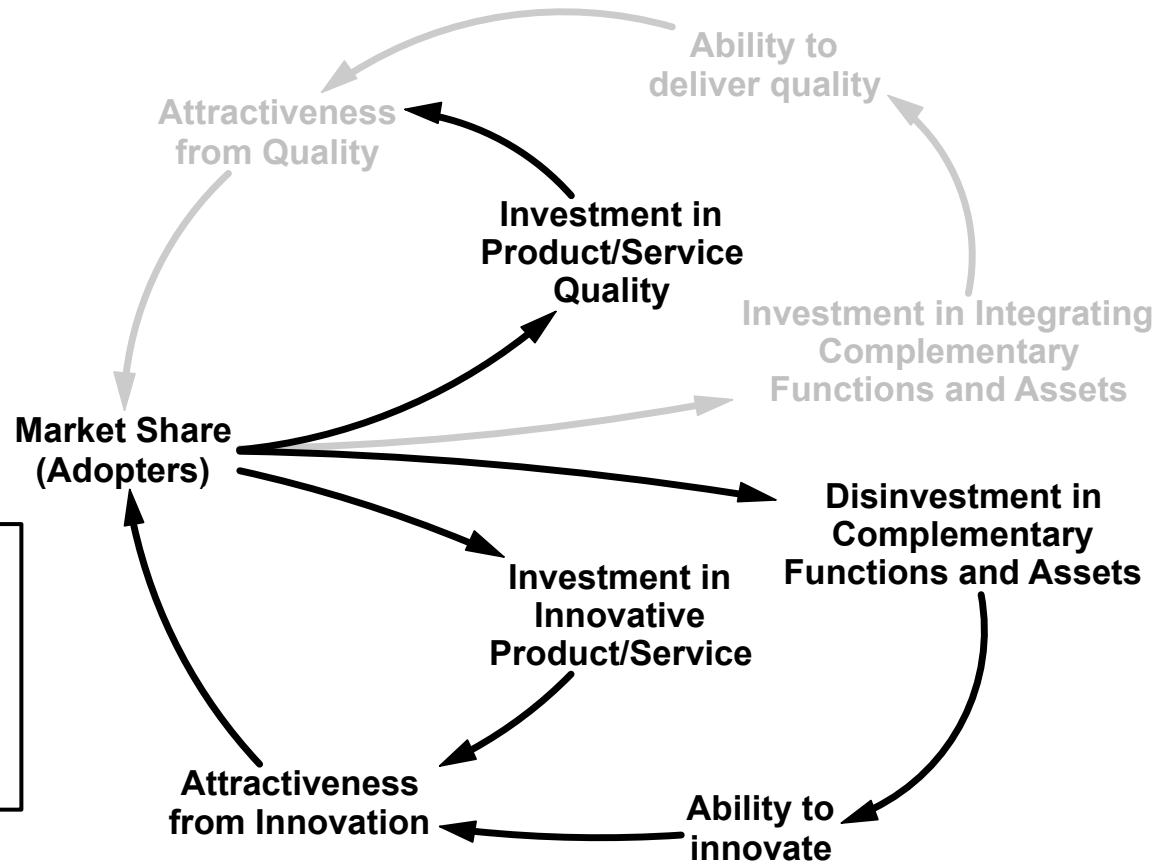Incumbents can affect switching behavior heavily

Firm-Level Factors:
Incumbents innovate, restructure while maintaining quality

Example:
Broadcast TV

Ability to deliver quality

Attractiveness from Quality

Investment in Product/Service Quality

Investment in Integrating Complementary Functions and Assets

Market Share (Adopters)

Disinvestment in Complementary Functions and Assets

Investment in Innovative Product/Service

Attractiveness from Innovation

Ability to innovate

Coexistence (Contd.)
(entrant successfully innovates, but struggles to gain quality)

Example:
Electric Vehicles?

Ability to deliver quality

Attractiveness from Quality

Investment in Product/Service Quality

Investment in Integrating Complementary Functions and Assets

Market Share (Adopters)

Disinvestment in Complementary Functions and Assets

Firm-Level Factors:
Entrants struggle to offer quality due to lack of complementary assets or market power

Investment in Innovative Product/Service

Attractiveness from Innovation

Ability to innovate

Firm
Factors

Theoretical Results

	Disruption	Co-existence	No Disruption
Firm Factors	• Entrants have far superior cost structure	• Incumbents innovate, restructure while maintaining quality • Entrants struggle to offer quality due to lack of complementary assets or market power	• Incumbents have far superior cost structure
Product/ Service Factors	• Weak Network Effect	• No Network Effect • Incumbents can affect switching behavior heavily	• Strong Network Effect
Environ-ment Factors	• Consumers highly price sensitive and willing to adopt innovations with low quality and compatibility • (Alternatively) consumers value quality, but entrants introduce a product with strong network effect	• Consumers value availability over quality/ innovation, or are willing to tradeoff quality and innovation	• Consumers value quality and compatibility over innovation and low price • (Alternatively) consumers value innovation, but incumbent's product has strong network effect

Case Research

- Purpose
  - To validate theoretical insights
  - To understand the predictive power of the model
  - To understand the limitations of the model
- Case Selection
  - Looking back (empirical, where outcomes can be analyzed)
  - Looking forward (predictive, where conditions can be analyzed)
- Data (dimensions discussed later)
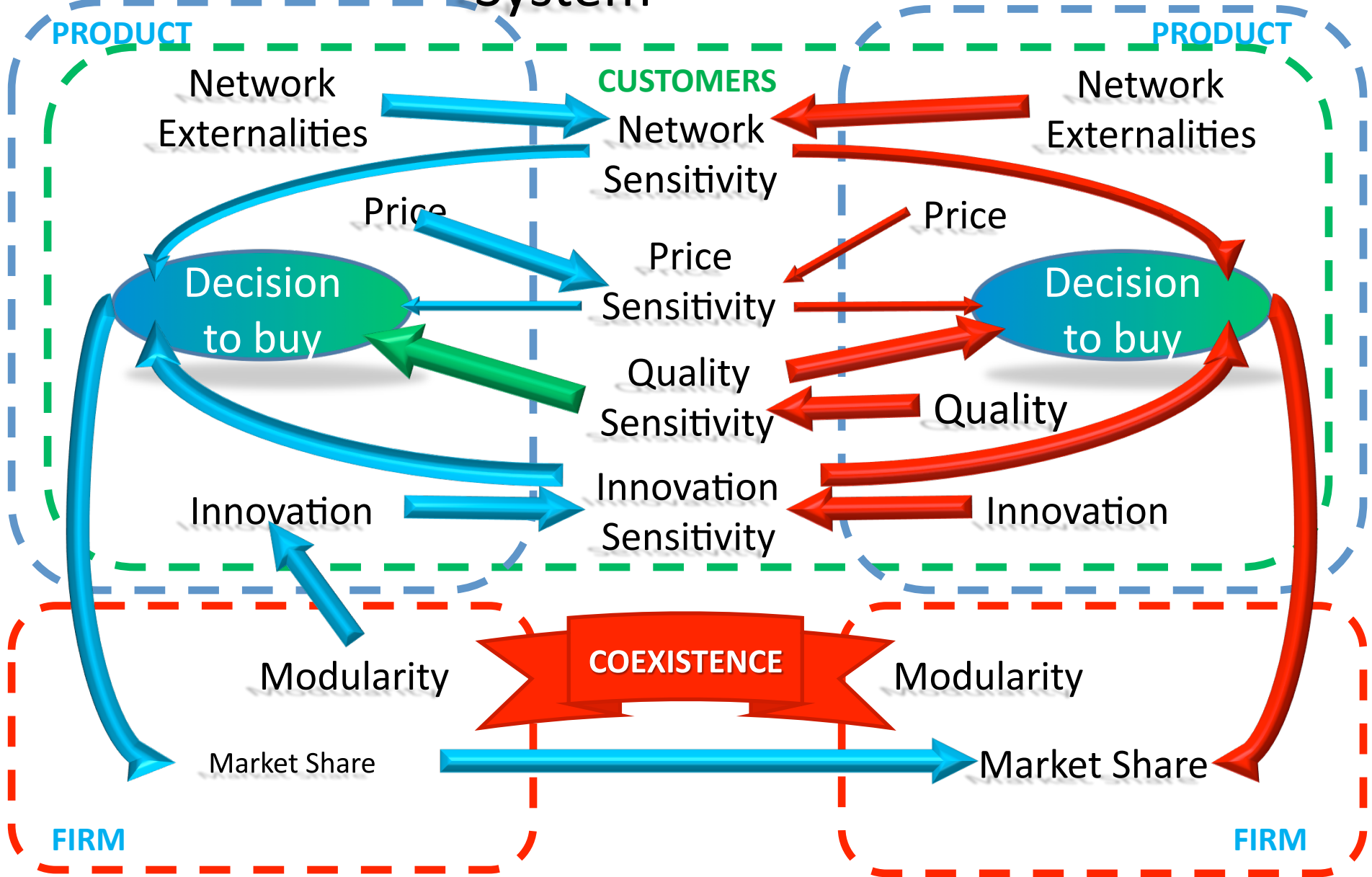 - Quantitative
  - Qualitative

Desktop Operating System

Server Operating System

PRODUCT

PRODUCT

CUSTOMERS

Network Externalities

Network Externalities

Network Sensitivity

Price

Price

Price Sensitivity

Decision to buy

Decision to buy

Quality Sensitivity

Quality

Innovation

Innovation Sensitivity

Innovation

Modularity

COEXISTENCE

Modularity

Market Share

Market Share

FIRM

FIRM
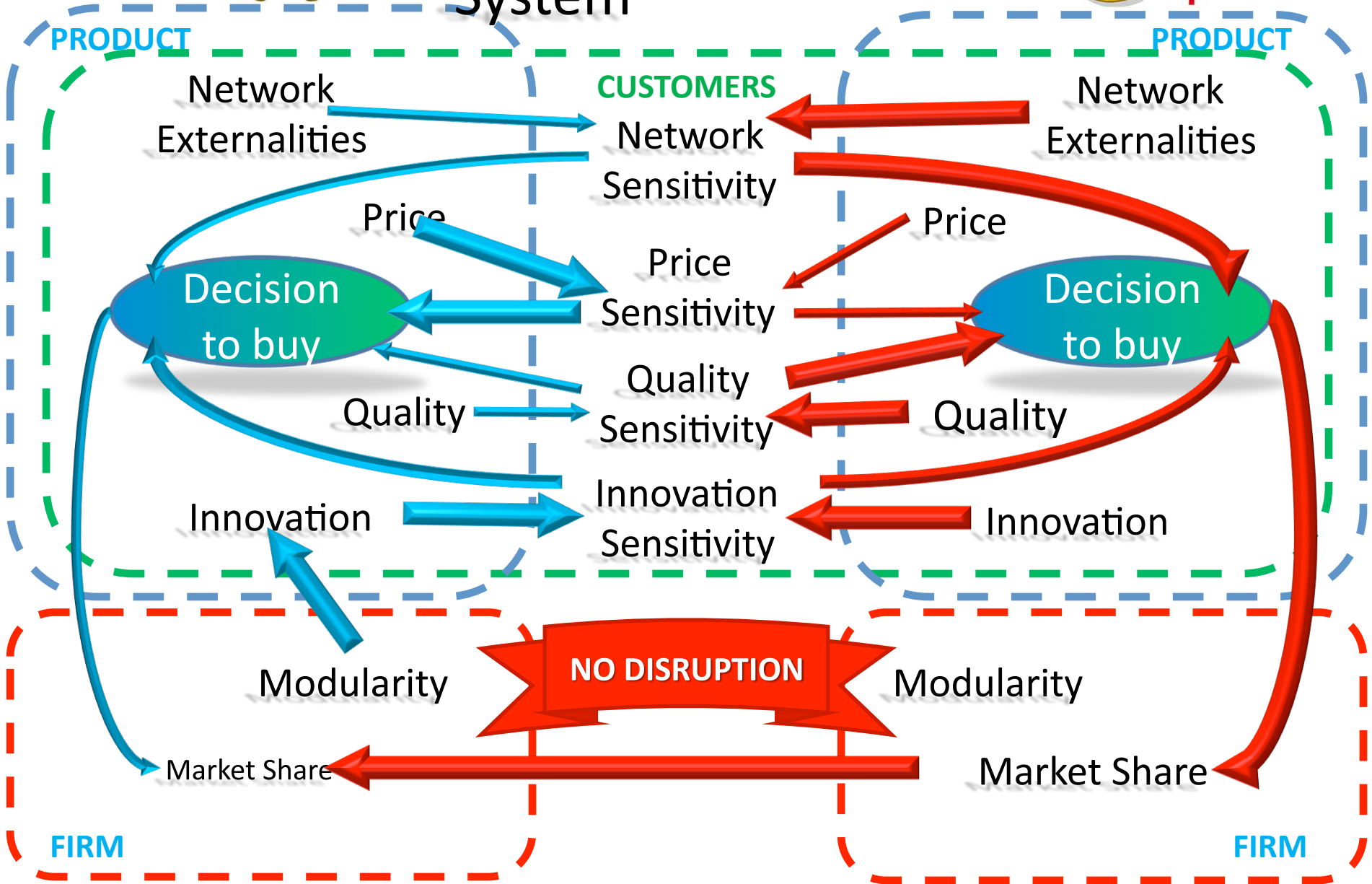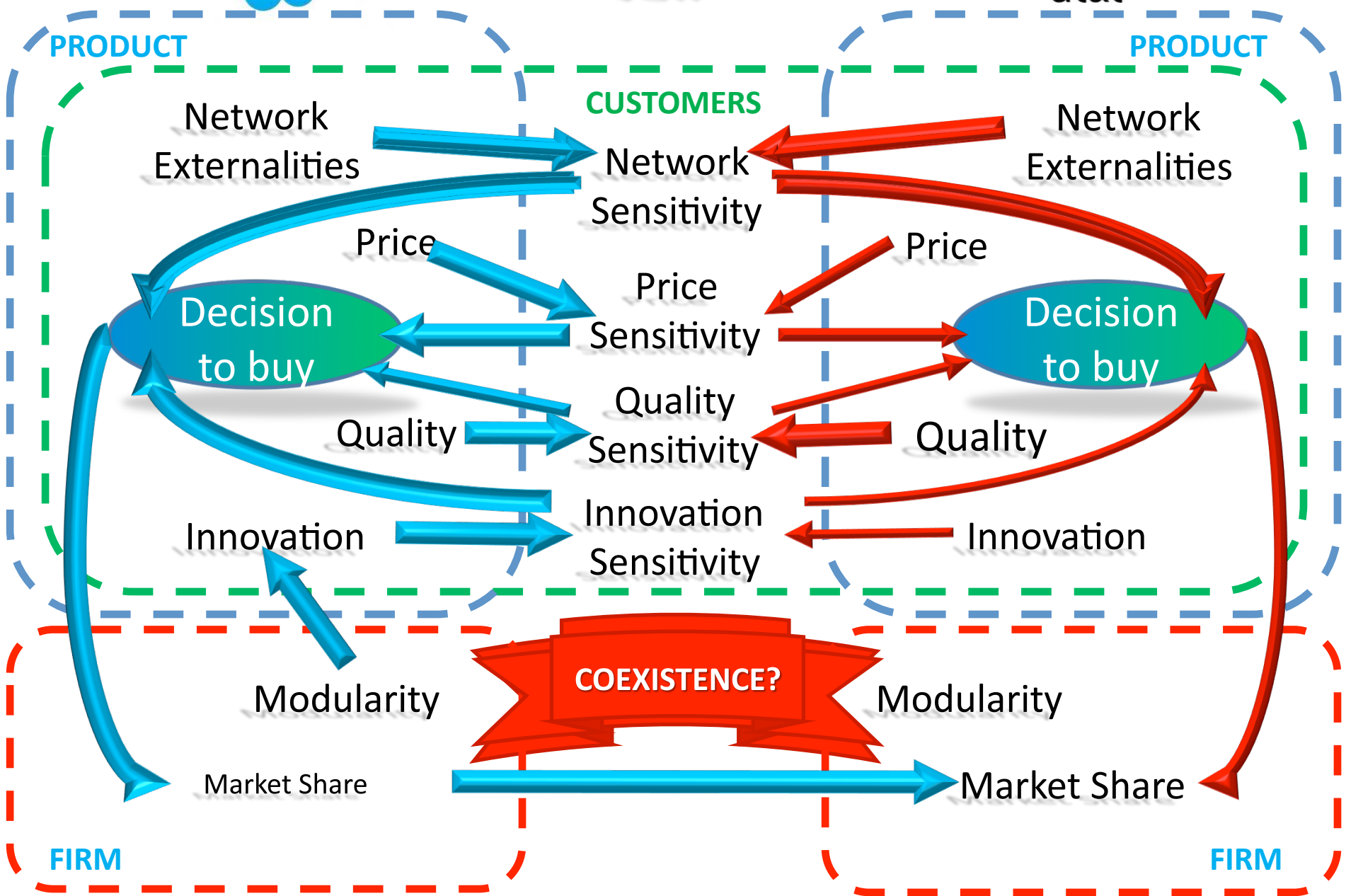
Framework definitions

ENVIRONMENTAL FACTORS
CURRENT POSITIONS
Price Sensitivity (SoA to Price)
11
Quality Sensitivity (SoA to Quality)
12
Innovation Sensitivity (SoA to Innovation)
13
SoA to Installed Base
14
Contact Rate
15
Word of Mouth
16

Business Cases

	Disruption	Co-existence	No Disruption
Firm Factors		OLED Displays	
Product/ Service Factors	Skype VoIP		
Environ- ment Factors		Linux - Windows Server Operating System	Linux - Windows Desktop Operating System

Potential candidates: Netflix, ??

THANK YOU!

OLED Displays

PHILIPS

SAMSUNG

PRODUCT

PRODUCT

CUSTOMERS

Network Externalities

Network Sensitivity

Network Externalities

Price

Price

Decision to buy

Price Sensitivity

Decision to buy

Quality

Quality Sensitivity

Quality

Innovation

Innovation Sensitivity

Innovation

Modularity

COEXISTENCE

Modularity

Market Share

Market Share

FIRM

FIRM