

## Mitigating competition to capture the value of innovation

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The primary goal of product market strategy is to create an offering that meets the needs of a specific customer better than other options. Doing so successfully will allow you to begin winning customers for your new product (or service).

However, one of the fundamental realities of a market economy is that, whenever any new product comes to market and begins to generate sales and profits, competitors will move quickly to offer competing products in an effort to capture some of the value being created.

Specifically, for a given offering, competitors will do their best to match or beat the benefits your product delivers and/or the price you charge for that product. In doing so, competitors will begin to win customers that would have bought your products, and as a result capture some of the value created by your innovation. Left unchecked, this typically very quickly leads to an intensely competitive, commodity market characterized by similar products being offered at similar prices. In such a market, profits are reduced to a minimum, and the innovator ends up capturing little value in return for their ideas, investment and risk.

Given this reality, an important component of your overall product market strategy must be: how to mitigate competitive alternatives to your offering, at least for a while, in order to increase the value you capture from your innovation?

Fundamentally, there are two ways you can mitigate competitive offerings and continue to win customers and realize value from your new product offering:

- Limit competitors' ability to offer a similar product and/or price.
- Encourage customer preference for your product other than through features or price.

### ***Limiting competitors' ability to offer similar product features and pricing***

While certain kinds of anti-competitive activity are illegal in the United States and many other countries, successful companies pursue a number of legal tactics to limit competitive alternatives. These fall into two main categories: tactics to *limit a competitor's ability to design* a very similar product, and tactics to *limit a competitor's ability to produce similar products at a competitive cost*.

- **Tactics to limit competitor's ability to design a similar product**

One of the key components to success is creating barriers to market entry by limiting imitation of the new product. This is accomplished by keeping the information about the new product secret from potential competitors, by creating a legal barrier, or through developing unique product design skills.

- **Secrecy.** Secrecy can be a vital tool used in keeping information away from competitors and can be simple to implement. This is most effective when the following conditions are met:
  - (1) Limited sources have access to the information relating to the product – the fewer people who have access the less likely competitors will be able to obtain the information.
  - (2) The product is complex – the more difficult the product the harder it is to duplicate.
  - (3) The procedures involved in creating the product are poorly understood – the fewer people who understand your product the less likely it will be imitated.
  - (4) Tacit knowledge is involved– knowledge that is “implied” vs. “documented” makes it more difficult to duplicate the product.
- **Legal barriers.** There are a range of legal barriers to imitation, such as copyrights, trademarks, and patents. The most effective legal barrier in deterring imitation of a new product is a patent, especially in the early development of new technology-based industries. It protects a company from duplication while allowing the company to establish the process needed to produce and distribute the new product.

A patent is the exclusive right granted by a government to an inventor to manufacture, use, or sell an invention for typically a period of twenty years in return for disclosure about how the new product works. A product must meet three criteria to be deemed patentable. It must be (1) useful, (2) a novelty, and (3) “non-obvious” (to an expert in the field).

There are also several limitations that should be considered when deciding if a patent is the direction your company should pursue. The most significant are (1) high legal cost, (2) limited effectiveness in some industries (for example, patents are highly effective in the pharmaceutical industry and not quite as effective in highly progressive industries, such as computers and aircraft), and (3) “inventing around” (competitors are capable of developing their own product which does not interfere with the patent but still manages to capture the potential returns of the original product).

- **Unique product design skills.** Another approach to limit a competitor's ability to duplicate a product is to possess unique design or engineering skills within your company. While this is powerful if it can be achieved, generally it is not wise to rely on having unique skills. Few companies truly have unique skills that cannot be duplicated or learned by others.

- *Tactics to limit a competitor's ability to produce at a competitive cost*

The second broad approach to limiting a competitor's ability to offer similar products at similar prices is to mitigate their ability to produce at an efficient cost. These tactics include leveraging the learning curve, gaining control of resources, and leveraging existing manufacturing capacity.

- **Learning curve.** The learning curve concept is the idea that the more experience a company has in producing a product, the better a company becomes with respect to its productivity. The learning curve is based on cumulative experience, which normally is most effective when a company is an early competitor in the industry and has gained extensive proprietary experience.
- **Unique access to resources / inputs.** Another strategy used to capture returns of a newly introduced product is by obtaining control over the resources you need to produce the product. The first step in this strategy is to identify the main resource for producing your product and then produce a “bottleneck” in the production process by obtaining control over this resource and making it essential and rare. This strategy is not useful if your main resource can be easily substituted.
- **Existing manufacturing assets.** A final strategy that is sometimes used by companies is gaining control of complementary assets such as service capability, customer and/or supplier relationships and complementary products. If a company can gain control of these assets then the likelihood of benefiting from the new product is high.

### ***Encouraging customer preference other than through product features or price***

Another approach to mitigating competitive offerings is to encourage customer preference for your product – make them want to choose you over anyone else in the market. The tactics used to achieve this goal are to *create the perception and /or reality of being the market leader* and to *increase customer’s motivation and ability to find, select and retain your products*

- *Tactics to create the perception and /or reality of being the market leader*

Creating the perception and/or reality of being the market leader is accomplished by being the first to market, building your reputation, and evolving into the industry standard.

- ***First to market / network effects.*** *Being the first to market is a tactic where you benefit from being the first company to get your product out in the market. It is a very useful tool for independent entrepreneurs. Being first to market is an advantage when “network externalities” exist. Network externalities are based on the condition that greater value is created when there are more users. A good example of this is eBay. On eBay, as the numbers of people who shop and place items for sale on eBay increase, the value of the electronic auction house increases. By being the first to market and building up customers (buyers and sellers), eBay captured the advantage that makes it hard for other electronic auction houses to compete with them. It is important to point out that being first to market is not always a sufficient condition to capture value. If a product is rushed too quickly into the market it could lead to a reduction in quality and reliability, and a second-mover could gain an advantage by learning from and capitalizing on your missteps.*
- **Branding/reputation.** Building a reputation of providing customers with the best product or providing thought leadership is another method used for being a market leader. Blue Mine Group recommends undertaking reputation building activities such as authoring or contributing to articles for relevant publications,

speaking at industry conferences and events, and engaging in online activities (making your resources available on the web and utilizing search engines and social media). Through these activities, a company is able to garner a powerful and cost-effective mindshare among customers, stakeholders, and industry influencers.

- **Becoming the industry standard.** Another approach to capture value is to have your innovation become the industry standard thereby increasing adoption and market leadership. An effective practice used by emerging technology companies is to create an industry consortium or alliance of influential companies to drive the definition, promotion, and adoption of your innovation. An alliance has several advantages among them the cross-pollination of ideas that are integrated into your innovation and ability to drive adopters' decisions based on the stature and reputation of member companies. A recent example is the Blu-ray Disc Association (BDA), which was founded in 2002 by a large group of companies. The ability of the BDA was instrumental in propelling Blu-ray to become an industry standard over HD DVD, a competing standard.
- ***Tactics to increase customer's motivation and ability to find, select and retain your products***

Methods used to increase your customer's motivation and ability to find, select and then retain your products include having *unique control of distribution channels, unique sales, marketing and service skills and switching cost*. This category deals with your customers' buying process and involves the development of key capabilities that allow your customers to better find, evaluate, select, use, receive support/service, and re-purchase your products.

- **Unique control of distribution channels.** In order for your customers to be able to find and purchase your product, you must make them available through attractive and accessible distribution channels. Through the development of strong vendor relationships, a network of reliable channel partners, and innovative distribution methods, you can influence customer preference. With the ability to utilize web-based distribution channels, this approach can be powerful, but is generally difficult to sustain. The tactics presented below can also be used to influence and solidify control of distribution channels by creating a positive feedback loop with other customer activities.
- **Unique sales, marketing and service skills.** By building up a world-class sales, marketing, and customer service organization, you are able to guide a customer through the challenges of selecting among competing offerings. These skills can be realized through organizational, process, and/or messaging-based initiatives to communicate with, educate, support, and provide value to current and prospective customers through the cycle of buying, integrating, learning, using, and replacing your product.
- **Switching costs.** Switching costs can be an effective method for retaining your customers. By elevating the real and/or perceived costs of switching from your product to a competing or substituting one, a company is able to capture value. Even when switching costs are low, being first to market allows your product to become a benchmark against which later products are evaluated. In many instances, customers are only willing to switch if the later product represents a significant improvement.

*Note that all these tactics relate to mitigating competition for a given offering. While important, this is a time-limited component of your product market strategy. In the long term, competitors will overcome all of these barriers. In the long term, the only true sustainable advantage for most companies is continual innovation of new offerings.*

### **About the Authors**

Michael Lurie is Founder and CEO, Dan Zagursky and Gina Mahmood are Managers with Blue Mine Group, in San Diego, CA. Blue Mine Group is an innovation strategy firm, with extensive experience in market strategy development for new products and services.

### **Additional Reading**

Day, George S. and Paul J. H. Schoemaker with Robert E. Gunther. [Wharton on Managing Emerging Technologies](#)

Based on the research of Wharton's Emerging Technologies Management Research Program this book is a powerful resource for managers of these new technologies. It provides a set of tools and insights that will help you conquer the challenges faced in establishing management skills for the new emerging technologies.

Shane, Scot A., Dr. [Finding Fertile Ground Identifying Extraordinary Opportunities for New Ventures](#)

Dr. Shane is the author of over 50 scholarly articles on entrepreneurship and innovation management. In this book Dr. Shane identifies the key factors associated with long-term success targeted specifically at high tech startups.