FACTORS INFLUENCING OPTIMAL TIMING OF ENTRY In very early market stages, a technology may be underdeveloped and its fit with customer needs unknown. In late market stages, a technology may be well understood, but competitors may have already captured controlling shares of the market. How does a firm decide whether to attempt to pioneer a technology category or to wait while others do so? The answer will depend on several factors, including customer certainty, the margin of improvement offered by the new technology, the state of enabling technologies and complementary goods, the threat of competitive entry, the degree to which the industry exhibits increasing returns, and the firm’s resources. 1. How certain are customer preferences? When new-to-the-world technologies are first developed, customers may have difficulty understanding the technology and its role in their life. Both producers and customers may face considerable ambiguity about the importance of various features of the technology. As producers and customers gain experience with the technology, features that initially seemed compelling may turn out to be unnecessary, and features that had seemed unimportant may turn out to be crucial. For example, many of the companies that raced to establish an online presence in the e-commerce frenzy of the late 1990s believed that their Web sites needed exciting graphics and sounds to be competitive. Graphics and sound, however, turned out to be the downfall of many early Web sites. Many customers did not have high-speed Internet access or computers with enough processing power to quickly download the Web sites, making multimedia Web sites an annoyance rather than an attraction. The reverse scenario is demonstrated in Sony’s introduction of the Play-Station2. When Sony introduced its multifeatured PlayStation2, many industry analysts believed that Sony had overestimated consumer interest in having a game console that would play music CDs or DVD movies. It turned out, however, that Sony may have underestimated the desirability of these features. Video game consoles are typically sold at cost (or at a loss) in order to rapidly build an installed base. Profits are then made on game royalties. However, when consumers realized that the Play-Station2 was a very affordable combination of game console and high-quality DVD player, many consumers bought the system for its DVD capabilities first and game capabilities second. Many of these consumers bought very few games, causing Sony’s strategy of subsidizing the console with the intention of making money on the games to backfire. Observing this, Microsoft disabled DVD playback on its Xbox unless consumers purchased an add-on DVD playback kit. Not all pioneers face customer uncertainty—some innovations are developed in response to well-understood customer needs. Customer requirements may have been long known even if the method of meeting them was not. For example, the developers of Tagamet (a medication for patients with chronic heartburn or ulcers) faced very little customer uncertainty. Customers wanted an affordable, easy-to-use solution to their stomach discomfort. Once a method of achieving this objective had been developed, tested, and approved, its developers raced the product to market in hopes of patenting it and securing market share ahead of competing products. Other things being equal, less customer uncertainty favors earlier timing of entry. 2. How much improvement does the innovation provide over previous solutions? page 100 The degree to which the technology represents an improvement over previous technologies increases a firm’s likelihood of successful early entry. That is, when a technology makes a dramatic improvement over previous generations or different technologies that serve similar functions, it will more rapidly gain customer acceptance. There will be less ambiguity about the value of the technology and more early adoptions (as well as more support by complementary goods providers); as a consequence, customer expectations should become known sooner, and adoptions should be more rapid.17. 3. Does the innovation require enabling technologies, and are these technologies sufficiently mature? As mentioned earlier, many innovations rely on crucial enabling technologies to ensure their performance. A high-definition television set is of little value if networks are incapable of broadcasting in high definition; cellular phones or portable stereos would have little value if small and long-lasting batteries were unavailable. A developer must identify which enabling technologies will affect the performance of the new innovation and assess the degree to which those technologies are mature enough (or will be mature enough) to deliver the desired performance. More mature enabling technologies allow earlier entry; less mature enabling technologies may favor waiting for enabling technologies to be further developed. 4. Do complementary goods influence the value of the innovation, and are they sufficiently available? If the value of an innovation hinges critically on the availability and quality of complementary goods, then the state of complementary goods determines the likelihood of successful entry. Not all innovations require complementary goods, and many more innovations can utilize existing complementary goods. For example, though numerous innovations in 35-mm cameras have been introduced in the last few decades, almost all have remained compatible with standard rolls of 35-mm film; thus availability of that complementary good was ensured. If, on the other hand, the innovation requires the development of new complementary goods, then a pioneer must find a way to ensure their availability. Some firms have the resources and capabilities to develop both a good and its complements, while others do not. If the firm’s innovation requires complementary goods that are not available on the market, and the firm is unable to develop those complements, successful early entry is unlikely. 5. How high is the threat of competitive entry? If there are significant entry barriers or few potential competitors with the resources and capabilities to enter the market, the firm may be able to wait while customer requirements and the technology evolve. Over time, one would expect customer expectations to become more certain, enabling technologies to improve, and support goods and services to be developed, thus increasing the likelihood that sponsored technologies will possess a set of attributes that meet consumer demands. However, if the technology proves to be valuable, other firms are also likely to be attracted to the market. Thus, if entry barriers are low, the market could quickly become quite competitive, and entering a market that has already become highly competitive can be much more challenging than entering an emerging market.18 Margins may already have been driven down to levels that require competitors to be highly efficient, and access to distribution channels may be limited. If the threat of competitive entry is high, the firm may need to enter earlier to establish brand image, capture market share, and secure relationships with suppliers and distributors. This is discussed further in the Research Brief “Whether and When to Enter?”

Reference

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