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AN ANALYSIS OF MARKET CANNIBALIZATION

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ABSTRACT

Today, the market has been witnessing short shelf lives of products, whimsical consumer tastes that have resulted in a competitive scenario which is complex and contingent. The companies are under the pressure of continuous radical innovation and cannibalize their products and services to overcome the volatile situation. Cannibalization is the term used when one product or services competes with another within the same company. The need for studying cannibalization and its impact has already been established. In this paper, I have explored the theoretical concepts of cannibalization, its types and the essential difference between product and service cannibalization.

Keywords: cannibalization; product;radical innovation; service; willingness

I.INTRODUCTION

Market cannibalization had been defined in many ways and there is no standard definition. [1]have defined it as the process by which a new product incurs sales by diluting attention from an existing product. [2] have also defined cannibalization as the degree to which the customers of a particular product are at the expense of other products offered by the same company. The company focuses more on a comprehensive approach of sales volumes and profitability instead of the purchasing behavior of the consumer.

However one cannot fully blame the management of the company as radical innovations are being witnessed and are considered to be of paramount importance for the growth of the company as well as the economic pattern of the country [3]. The potential of radical markets are immense as they can create or destroy prevailing markets. Hence such innovations are really significant for the survival of the firm in the long-term [4]. Previous research has demonstrated that an effective way to innovate radically is to cannibalize products and services.

The readiness to cannibalize can be defined as the degree to which a company is prepared to minimize the real or the potential value its investments for creating and introducing new product and service innovations [5]. This definition further implies that a firm understands that following new opportunities may consist of moving the focus from current resources to tracing new resources, even at the cost of the existing sources of profits [6]. This strategy was found to be an indicator of radical product innovation since it emphasizes on the firm's ability to capture the competitive edge of innovation. The willingness to cannibalize proved to be an important predictor of radical product innovation ([5]; [3]). The original concept of the willingness to cannibalize was developed by [5]. There have been other attitudinal factors like future market focus and risk tolerance has been proven to have a positive relationship with the willingness to cannibalize in a new product innovation.

Future market focus supports the firm to analyze its drawbacks of the current technology resources and gain insights on future trends. Again, risk tolerance refers to the compromise done by the firm in giving up some portion of profits from present products and services. Additionally, the introduction of a new product or new service innovation is also imbued with risk [7]. However there are constraints in the form of current customer orientation towards the old product or service. Also the knowledge from different technological domains (external collaboration) has more chance of becoming a radical (breakthrough) innovation [8].

[5]developed this concept in order to produce a unifying framework that explains how organizational factors affect radical product innovation. Moreover, the preparedness to cannibalize is according to [3]an intricate part of the corporate culture of a firm. The willingness to cannibalize also consists of the willingness to cannibalize assets, willingness to cannibalize the systems, procedures of the organization and the willingness to cannibalize sales too. This concept was further explained in another research ([9]; [10]). They reaffirmed that the willingness to cannibalize is a multi-dimensional construct, consisting of the willingness to cannibalize sales, the willingness to cannibalize investments and the willingness to cannibalize organizational routines .

[11] and others had suggested that new product entering a market will take share from all the existing players in proportion to their size.

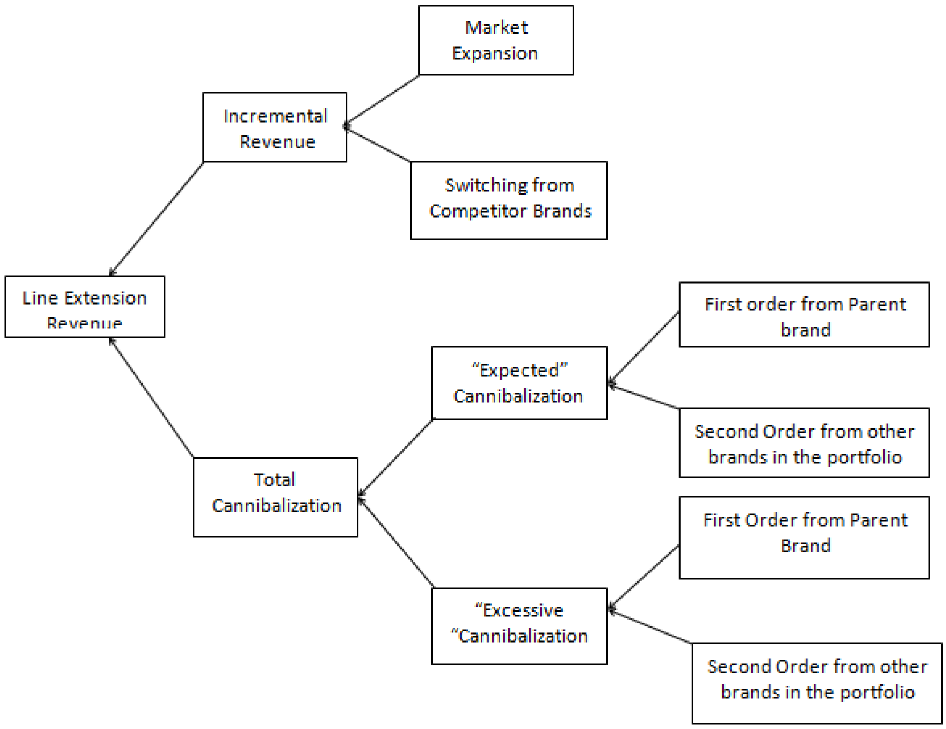

Figure 1: Levels of Abstraction of Cannibalization

Source:[12]

This approach highlights that new products that enter the market will take the share from all the current players in proportion to their respective sizes. Expected cannibalization refers to taking higher profits from larger brands and lowers for smaller ones. No cannibalization is a perfect situation that a few companies can accomplish.

The smart company should make efforts to prevent excessive cannibalization (acute share loss by either the parent brand or others within the company's business portfolio). Any kind of cannibalization of the parent brand's revenue is termed as first order cannibalization. Second order cannibalization refers to share loss by other brands in the portfolio and may be at the expected or excessive level.

Even in the field of measurement of cannibalization there is virtually no agreed standard measure of the concept. [13]define it as a percentage of total category sales. A working measure might be that percentage of the new product's sales which derives from the sales of an existing product within the company's portfolio (i.e. both first and second order cannibalization at both the expected and excessive levels). A more precise definition can investigate the sales loss faced by the corporate parent (first order). Both allow for a range of 0 percent to 100 percent [12].

Market cannibalization however cannot generate immediate results when it has an impact on the total sales and profits of the company or the product line. Creating a new product for the sake of a new product without proper market testing can lead to disastrous results, especially if the existing product has a loyal fan base. Infact a product should cannibalize another product when it can increase profits even more for the entire product line or company.

Product innovators are termed as specialized investments that are prone to lose value if they are not implemented with specific technology [5]. Product innovators that are proved to be successful with their present products, have certain unique investments for that specific product. These investments are gathered from years of labor from the research and development wing. The management then becomes prepared to give up the current successful product. [14]had stated that the research and development are not much effective statistically with the introduction of a new service as the latter is associated with the production sector. Service innovators have a different way of doing the innovation activities. The innovative activities are not much standardized or systematic and perform less standard research and development activities as compared to the innovators [15].

[16]and[17] confirmed this assertion that new service development often happens by informal and ad hoc committees, rather than formal R&D business units. Consequently, service innovators produce their innovation activities with the help of project teams which consists of employees from different departments. Product innovators develop their innovation activities often within R&D teams on a systematic basis, like cross-functional teams [15].

Experts have categorized cannibalism as planned and unplanned types. Planned cannibalism is an expected loss in the expected sales of the existing product in the new line. In the unplanned type there is a similar loss of sales, but that is unexpected.

Historically, firms have found it hard to cannibalize their own products. They have instead stuck to the declining market shares for a long time before deciding to launch a new product. Kodak is an apt example, for many years it did not launch the 35mm camera because it had the insecurity of cannibalizing its older products. Even years later, it was late to introduce the market for digital imagery. The same was the case with Bausch & Lomb that had invented the soft contact lens but failed to launch it because the firm did not want to lose the hard lens market share. Johnson & Johnson had entered the soft lens market with foresight. With the invasion of the internet it has become difficult to make decisions related to cannibalization; this has also been aggravated by government rules, regulations and de-regulations. Nevertheless, really innovative firms are ready enough to cannibalize their products and services without prior investments. Some experts argue that organizations should encourage cannibalization. By encouraging competition among their stand-alone business units, companies could create a climate in which risk taking and new ideas were both rewarded and valued.

Having a future market focus and abandoning an old product as soon as a new one comes along can benefit overall profits.Some firms currently encourage the act of cannibalization and forced obsolescence.One has to realize that there are some particular products especially new ones and improved versions that are not bad. The management of Apple knew quite well that the iPhone would cut into the market share of the iPod but that would not make Apple stop the release of the iPhone. The CEO had rightly remarked: “if we don't cannibalize, someone else will”. Cannibalization is also extensively practiced in retail sales where a product is discounted as compared to the competing products at higher prices which naturally attract the consumers. Even in e-commerce, some companies purposefully cannibalize their retail sales through lower prices in their online offers. This may be at the cost of the store sales of the company but the company looks for overall profits.

II. CONCLUSION

Thus, if the company wants to avoid cannibalization, the new product should not be associated too closely with already established products of the company. It can be targeted with unique positioning to different market segments. Cannibalization is hence the preferred option when the expected margins on the new products and services are higher than the established, mature products. One has to understand that cannibalization is an extremely challenging and difficult thing to do. As mentioned before, companies are always in an incessant struggle to combat innovation by introducing new products over the time. The drive to cannibalize enhances product innovation, which implies that it helps in promoting transformation, new product introductions and chart out the strategic course of the company. The ultimate cannibalization master stroke lies in understanding the appropriate time to adopt or avoid cannibalization.

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