The downside of dominating the market

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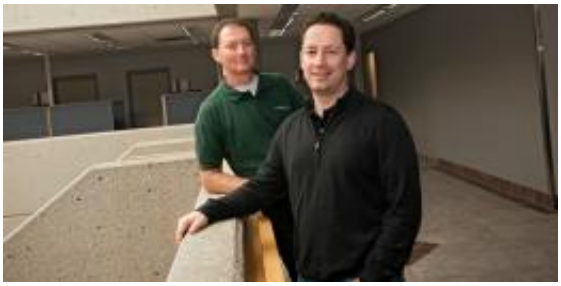

U of A marketing researchers Gerald Häubl (left) and Kyle Murray. Credit: Richard Siemens

We've said farewell to Friendster. Netscape Navigator is nevermore. As an Internet service provider, AOL is AWOL. What happened to these companies that once ruled their individual markets? According to two University of Alberta researchers, their market dominance made them vulnerable.

In a research paper recently published in MIT Sloan Management Review, University of Alberta marketing professors Kyle Murray and Gerald Häubl posit that it may only take an upstart competitor to make the mighty fall in the hearts and minds of consumers. What causes consumers to react negatively, and how the backlash could be potentially mitigated, are lessons that current market leaders (such as Google) and struggling once-dominant companies (such as Research in Motion) should learn from former market leaders.

"One of the lessons that we've seen in our research is that it's better for people if they have a choice," said Murray.

Monopoly: A fun game, but a potentially risky market position

The researchers found that if consumers are in a position where they have only one choice of a product or service, such as an airline or specific software, they will use it—but merely out of resignation. Yet, when a competitor enters the market with a good alternative, consumers will now feel they have a choice and may flood to the new product or service simply for that reason.

It may sound like mere fickleness on the part of the consumer, but the researchers say it is more about exercising freedom.

"Even though we still get really good at shopping at that store or using that interface or website, we never formed that loyalty and we want to assert our freedom to choose," said Häubl. "Eventually, when a new competitor enters the stage, we are inclined to try that and actually switch away from that incumbent."

A Mac/PC parable: It pays to invest—in the competitor?

Though success in the marketplace is generally a good thing, too much success can be the pride before the fall. As Murray notes in the paper, recognizing the need for competition or being satisfied with a cut of the market share can perhaps be a key to maintaining one's place at the top. Back in 1997, he says, Microsoft invested $150 million to keep Apple afloat. And although Windows may have the lion's share of operating system control, Apple has found its own place in the world as well, in

part due to that hand up from a competitor.

“Apple has made this comeback and now they’re the largest company in the world by stock valuation,” he said. “People may think Apple’s going to be dominant forever. [That’s] unlikely. Somebody else will come along and people will start to say, ‘Everybody has an iPhone, I want something different,’ and we’ll see some switching.”

Advice for companies great and small

For the players with a large market share, reminding consumers that they have a choice is a smart strategy to employ, say the researchers. Häubl says using supportive, comparative advertising is one way to prompt customers about their choices—and remind them of why they choose the way they do. “Settle for a large market share as opposed to a dominant market share,” suggests Häubl, because trying to push out a competitor will be costly and largely unsuccessful. The reverse logic applies for smaller companies, says Murray.

“Sometimes you feel like the big competitors are so dominant, there’s nothing you can do to get away from them or compete,” he said. “There’s always a segment out there of people who want an alternative.

“The goal for a smaller company, even in the market with a dominant player, is to be that alternative as opposed to competing head-on for the exact same customers.”

Provided by University of Alberta