Six traps that will lose you market share

By Sid Peimer

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In physics, the Law of Conservation of Energy states that energy can neither be created nor destroyed - it can just change from one form to another. However, we are not constrained by this law in commerce when it comes to demand - new demand can be created.

With market power moving from the producer to the consumer, and global competition intensifying, we can't afford to chase market share in the same old way.

We need to create, what the authors W Chan Kim and Renée Mauborgne refer to as Blue Oceans, and stay away from Red Oceans. A Blue Ocean is uncontested market space where demand is created, as opposed to a Red Ocean, which is a zero sum game - one company's gain is another company's loss.

So the whole idea is to go for Blue Oceans, where industry structure and market boundaries exist only in your mind - you don't have to chase customers by just delivering more for less - you can actually create demand.

Here are six traps that will keep you in Red Oceans (adapted from W Chan Kim and Renée Mauborgne. *Red Ocean Traps*. HBR, March 2015).

Trap 1: Seeing it from the customer's perspective

The customer might be right, but the customer does not always know. We tend to keep our focus on existing customers and how to make them happy. When Sony launched the PRS e-reader, they aimed to open up a whole new market space. Existing e-reader customers were unhappy with the size and poor display quality of e-readers on the market, so Sony came out with a thin lightweight device with an easy-to-read screen. The problem was that most people stayed away from these devices, not because of the physical features of the product, but because of the shortage of available books. Amazon got it right when they launched the Kindle in 2007 with more than four times the number of titles than the PRS and also making them easily downloadable over Wi-Fi. Sony has since departed the e-reader market, whereas Kindle now offers more than 2.5 million titles.

Trap 2: Going for a niche market

There is a difference between uncovering a niche in an existing market space versus identifying a new market space. In 2003 Delta Airlines decided to focus on stylish professional women travellers, and came up with a plan (after numerous focus groups) to cater to them with organic food, custom cocktails and free exercise bands amongst other things. The brand was called Song, but sadly the segment was just too small and Song closed down in 2006. There was certainly a gap in the market but sadly no market in the gap.

The British food chain Pret a Manger approached it a little differently. They looked at three sets of consumers: restaurant-going professionals, fast-food customers and those who brought their own lunch (the brown bag set). There were lots of differences between these groups, so at first glance they appear to be three separate niches. However, they also had three things in common: they want fresh and healthful lunch, want it quickly and at a reasonable price. So what Pret a Manger did was to offer restaurant-quality sandwiches made fresh every day with quality ingredients, prepared even faster than fast food. All delivered at a reasonable price. They created a new market space by unlocking this aggregate untapped demand, as opposed to just going for one segment.

Trap 3: Confusing innovation with creating new markets

Innovating with value, not technology is what creates commercially compelling markets. The Segway launched in 2001 as the world's first self-balancing human transporter. It was an amazing invention - lean forward and you go forward; lean back and you go back. It was one of the most talked-about innovations of its time. However, it wasn't cheap and came with some unresolved issues. For instance, where would you park it? Could you use it on pavements or roads? Could you take it on a bus or a train? Sales fell way short of projections and the company was sold in 2009. An article in *Time* magazine phrased it nicely: "One of the hardest truths for any technologist to hear is that success or failure in business is rarely determined by the quality of the technology".

Granted Uber's technology works, but it is not the sole reason for its success. It has succeeded because it is simple to use, fun and productive - people fall in love with the value offering, not with the technology.

Trap 4: Equating creative destruction with market creation

Creative destruction occurs when a new innovation displaces an existing technology. Digital photography 'destroying' the photographic film market would be an example.

Creating new markets does not always have to lead to destruction. Viagra, for example, introduced a whole new class of drug, not displacing any before it. It unlocked new demand by offering a solution to a real problem that men experienced in their personal relationships. Market-creating moves are non-destructive when they offer solutions where none existed previously.

Trap 5: Relying on differentiation

Market creation is not synonymous with differentiation. In 2000, BMW launched the C1 - a solution to traffic congestion. It was a two-wheeled scooter going for the high-end market. Unlike regular scooters, it had a roof, windshield (with wipers), an aluminium roll cage and a crumple zone around the front wheel. If you had fears of safety on two wheels, they could be put to rest. Unfortunately, the C1 was expensive, coming in at substantially more than what a regular scooter cost. Although we have a clear example of the C1 differentiating itself in the scooter industry, it did not create the new market space in everyday transportation. In 2003, production of the C1 ceased.

Trap 6: Providing more for less

Trying to create a new market by just driving down costs is the flipside of the BMW example above. When we rely on low cost as a strategy, we tend to ignore what we should improve or even create to increase the value of our offering. It is, however, still possible to differentiate and reduce cost. Swatch for example does that with its stylish, fun and fashionable designs - here we have an elegant example of both differentiation and low cost which resulted in creating new demand. A new market does not however have to be created at the low end - Starbucks took a simple cup of coffee and gave an experience that demands a price premium - and coffee has never been the same since.

These Red Ocean traps are not necessarily bad strategies - sometimes breakthrough ideas do come from customers. However, they leave you in contested market space where one person's gain is another's loss. So sometimes to experience market growth it pays to actually grow the market itself.

ABOUT SID PEIMER

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